

## **Institutional Shocks and TFP Growth: Portugal, 1950s-1973**

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In this paper I try to explain a change in the nature of Portugal's process of economic growth in the post-war period. Economic growth in Portugal between 1953 and 1973 is essentially explained by the accumulation of factors of production (in particular physical and human capital). As time went on, however, increased efficiency in their use claimed a growing share in that explanation. The process of growth of the Portuguese economy, therefore, changed in its nature, as, throughout time, the ability of economic agents to fast accumulate factors of production was complemented with their ability to use those factors in a more efficient manner. The general line of my explanation for such a change is as follows: until the 1960s the *Estado Novo* was able to offer the economy an institutional setting that (by providing protection of property rights) fostered agents to invest, although not in a particularly efficient way. Although protective of property rights, the institutional setting of the *Estado Novo* was also marked by a series of interventionist and discretionary mechanisms that hampered the efficiency of the economy. That changed in the 1960s, when Portugal joined EFTA, following which the government had largely to give up the use of those interventionist and discretionary tools. This allowed for increased efficiency of the economy.

My study allowed me to contradict some important conclusions of recent literature (particularly by Dani Rodrik) concerning the role of governments in economic growth. Whilst for that literature governments must not limit their action to getting the fundamentals right, but also fulfil the essential role of identifying and solving market failures, I propose that their role must precisely be limited to the first task. When governments tread beyond that (namely by trying to identify and solve market failures) they introduce distortions in the economy. The Portuguese case, precisely, illustrates this point. In the 1950s the role of market co-ordination was partly fulfilled by government co-ordination, and the result was low efficiency as measured by TFP. In the 1960s, on the contrary, market co-ordination progressively replaced government co-ordination, and that fostered a more efficient behaviour of economic agents in their use of factors of production.

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