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Cartelization and Corporatism: Bureaucratic Rule in Authoritarian Portugal, 1926–45

Amidst the variety of organizations that flourished in the 1920s and 1930s, cartels and large corporations stand out as examples of institutions designed to regulate the free market. Individual freedom, individual capacity and individual initiative seemed at that time to be rather insignificant when compared with structured group activity. The principle of voluntary agreement between legally independent enterprises or between socio-professional groups was converted into compulsory schemes for the subjection of organizational autonomy to government interference and sanctions. Operating beneath the state umbrella, cartels and corporations abolished the liberal code of separation between public business and private interests. The grey area of semi-public institutions developed as part of the drive towards self-sufficiency that swamped liberal democracies, but also as a result of the triumph of authoritarian, nationalist or fascist movements in Europe and Latin America.

With the recognition afforded to cartels, the power of the central administration was extended and ultimately reached down into the micro-economy of enterprises. From the point of view of the government, the setting-up of cartels thus represented a low-cost procedure for creating collective units in which information could be more easily gathered, economic activity regulated, prices controlled, subsidies granted and competition avoided.

Peter Temin stresses the fact that ‘policymakers in the 1930s did not make the distinction that we make today between macroeconomics and microeconomics’.¹ As far as authoritarian regimes are concerned, state-sponsored cartelization can effectively be described as part of a programme to expand regulations and controls throughout the economy, as a microeconomic extension of macroeconomic policies. It was at moments of escalating state interventionism in relation to prices, wages, exchange controls, international trade and state-owned enterprises that compulsory cartelization was decreed in Portugal (1929–33), Germany (1934) and Italy (1936).²

1 Peter Temin, *Lessons from the Great Depression* (Cambridge, MA 1996), 107.

2 Mark Overy, *The Nazi Economic Recovery 1932–38* (London 1982); Giovanni Federico and Renato Gianetti, ‘Italy: Stalling and surpassing’ in J. Foreman-Peck and Giovanni Federico (eds), *European Industrial Policy: The Twentieth Century Experience* (Oxford 1999), 124–51; Emilo Gentile, ‘Fascism in Power: The totalitarian experiment’ in Adrian Lyttelton, *Liberal and Fascist Italy* (Oxford 2002), 139–60.

Corporatist structures tend to be implemented in the phase of consolidation of authoritarian regimes, as was the case with the creation of corporations in Spain (1926) under the civilian government of Primo de Rivera, and in Italy at the time of Mussolini's shift to a more aggressive foreign policy (1934). Despite the rhetoric, these corporations had little or no power in practice.³

This article examines institution building in the course of the transition to the authoritarian regime of the New State (*Estado Novo*) in Portugal. The special interest of the Portuguese experience derives from the fact that cartelization and corporatism were combined under the same policy and governed by the same legal framework: organizations tailored to represent economic interests were regarded as complementary to organizations tailored to represent social interests. What type of system resulted from this arrangement? Was the institutional background biased towards the defence of businessmen, as in Nazi Germany? This article attempts to answer these questions and disentangle the events that served to structure the period after the military coup of 1926. The historical framework is marked largely by uncertainty in the course of action, political and economic distress and interdependent trials of constitutional rupture. In order to capture this dynamic, the article tracks the evolution of micro events and the process by which they come to be consolidated into macro policies and new institutional rules. The emphasis on contingencies will allow the contradictory elements deployed by the political economy of authoritarian regimes to be understood.

When the military seized power on 28 May 1926 and put an end to the parliamentary system of the First Portuguese Republic, the debate about the corporative alternative to liberal capitalism and state socialism was already under way among Catholics, conservative republicans and monarchists.

The most influential movement was the corporatism advocated by organizations like the Portuguese Circle of Catholic Workers and the Centre for Catholic Students (CADC).⁴ Corporative ideas matured in the context of collective resistance to the Republican secular and rationalist offensive, particularly during the harsh period of 1911–18, with special emphasis on the political representation of sectors from traditional society, such as the family or the municipalities. This anti-modernist stance adopted by the Catholics was further rooted in the defence of social collaboration or 'social peace' and in the abhorrence of the industrial striving for profit.

A second perspective stressed the elements of order and discipline that corporatism was able to bring about. Their disappointment with the persistent instability of the First Republic persuaded many conservative republicans to

3 Stanley G. Payne, *Fascism in Spain* (Madison, WI 1999), 23–50; Francisco Comin, 'La economía española en el período entreguerras (1919–1935)' in Jordi Nadal et al. *La Economía Española en el siglo XX* (Barcelona 1994), 105–49; Federico and Gianetti, 'Italy: Stalling and surpassing', op. cit., 124–51; Vera Zamagni, *The Economic History of Italy* (Oxford 1993), 243–71.

4 Manuel Braga da Cruz, *As origens da democracia cristã e do salazarismo* (Lisbon 1980).

regard the corporative model as an alternative to the individualism of the voting system and the resulting party democracy. The corporatist philosophy consequently appeared as the most feasible solution for keeping the Republic free of conflicts, and for including the majority of the people in collective institutions. The emphasis on anti-individualism was corroborated by Italian authors like Ugo Spirito, Guido Bartolotto and Michel Manoilescu, whose work was known in Portugal.

Finally, the radical monarchist movement underlined the natural legitimacy of the corporative model. Under discussion here was the secular form of government led by the king with the support of organized guilds versus all political systems that depended on citizens, votes and political parties. Corporatism was considered to be the expression of the nation state and therefore different from the constitutional monarchy or the Republic. Following in the same vein as the Catholic vision, radical monarchists were also committed to the restoration of the traditional world of agriculture, conventional values, history and racial pedigree.⁵

Tradition, order and legitimacy corresponded to separate critical approaches to the parliamentary–liberal model: the Catholic apology for the representation of the unrepresented, the Republican defence of an anti-individualistic organization of power and the monarchists' defence of organic authority and natural legitimacy. In fact, all these sectors banded together in support of the governments installed in power after the military coup of 1926, sanctioning the collapse of parliamentary democracy. The dictatorship was viewed as a transitional regime. The evolution towards corporatism was to be dictated by the contingencies of the moment rather than by normative political theory: corporatism was construed after the fact, as a justification of or an amendment for what had been accomplished.

The blueprint that guided later developments was the first experiment in the organization of private interests, which took place in the canning industry. Although this sector represented only a small fraction of Portuguese industrial production and of the active industrial workforce at the beginning of the 1930s (between 3.1 and 3.4 per cent of manufacturing output and between 3 and 4 per cent of the industrial workforce),⁶ it had a major impact on national politics. The strategic significance of the canning industry derived from the fact that its convolutions shaped the industrial organization of the Portuguese corporative state. The government's intervention in this sector served as the springboard for the development of a new economic regime and a new model of society. The yardstick of canning regulation was thereafter applied to the flour-milling industry, wine production and marketing, resinous products, rice-processing, clay and wool-manufacturing.

5 Manuel Braga da Cruz, *Monárquicos e Republicanos no Estado Novo* (Lisbon 1986).

6 *Anuário Estatístico* (Lisbon 1930–1934); D. Baptista et al., *New Estimates for Portugal's GDP 1910–1958* (Lisbon 1997); *Censo da População de Portugal no 1º Dezembro de 1930* (Lisbon 1934); A.M.P. Barbosa, *Sobre a indústria de conservas em Portugal* (Lisbon 1941).

After the military coup of 1926, relentless instability and overall uncertainty about the best political course to follow favoured the consolidation of micro-decisions into macroeconomic guidelines. Three other reasons also contributed to this switch in policy: in the first place, the compatibility between the dilemmas faced by the canning industry and the theoretical visions of different streams of corporatism; secondly, the urgency and novelty of applying the corporative programme under the conditions of the economic crisis of the 1930s; thirdly, the convergence of the political experiences of recently established policy-making élites. It is worth examining these three aspects in close detail.

The argument that, when left to pursue their own interests, market forces can lead to disaster and that liberalism is open to elements of irrationality applies exactly to the situation experienced by the canning industry. The point of view adopted by the theoreticians of corporatism highlighted the existence of an export-oriented sector (exports accounted for 78 per cent of total production on average⁷) which had become somewhat overcrowded with the influx of businessmen during the expansion experienced in the years of the first world war, but had proved incapable of rationalizing itself once the golden years had passed. The ‘race for easy profits’⁸ gave rise to a domino effect of excess capacity leading to dumping practices, dumping practices leading to decreasing profits, decreasing profits leading to bankruptcies and — the most important link in the chain — bankruptcies leading to the ruin of workers and company directors.⁹ Throughout this reactive chain, the economic freedom of the individual proved itself to be a socially equivocal concept, ‘something without value, something irrational’, ‘merely the desegregation of social reality’ — to quote Ugo Spirito.¹⁰ An opportunity therefore presented itself for clarifying the anti-individualistic stance of corporatism. Low barriers of entry into business, combined with a high level of exposure to unstable international markets, created a mixture of supply-side incentives and demand-side shortcomings. In such a context, adjustment became more difficult, vulnerability increased and short-term equilibrium turned into uncertainty. All these features can be linked together under the idea of irrationality.

Another important consideration is the labour-intensive nature of the canning industry, and the fact that it generated jobs for women, men and young people in a few urban coastal centres (Setúbal, Matosinhos, Peniche, Olhão, Vila Real de Santo António, Portimão, Lagos, Lisbon), jobs that would be difficult to replace and that formed an integrated cluster with the local fisheries. Although this was a relatively recently established field of activity, the

7 Statistics of the production of canned sardines and similar products in *Anuário Estatístico* (Lisbon 1930–1953). Exports of canned sardines and similar products in IPCP, *Compilação de elementos estatísticos sobre as conservas de peixe* (Lisbon 1954).

8 Augusto da Costa, *A Nação corporativa* (Lisbon 1933), 24.

9 Oliveira Salazar, ‘Notas sobre a indústria de conservas de peixe’, *Boletim dos Organismos Económicos Criados pelo Ministério do Comércio e da Indústria*.

10 Ugo Spirito, *Princípios fundamentais de economia corporativa* (Lisbon 1934), 68.

expansion of which dated back to the influx of French investment in the 1880s, the industry still symbolized the persistence of the traditional ways of life, rather than being identified with the sudden outburst of modern capitalism. Because the production of canned fish represented local interests and the creation of local jobs rooted in the ancestral sea-based economy, even the backward-looking thinking of monarchical and Catholic corporatism understood the need urgently to protect it. The defence of tradition and of genuine Portuguese goods, and the criticism of the 'rationality of individualism' merged in a policy for the organization of private interests, implemented by the military dictatorship and consolidated in the New Corporatist State.

Whilst foreign entrepreneurs had played a very active role in the expansion that took place during the course of the transition from the nineteenth century, investment in the canning industry in the 1920s was mainly made by Portuguese citizens. Throughout this decade, the productive capacity of the canned fish factories increased by 33.4 per cent, while the demand from international markets stabilized at roughly 35,000 metric tonnes.¹¹ Out of a total of 205 manufacturers registered by the administration, 140 were producing less than 50 per cent of their productive potential. The ones in the worst situation belonged to the group of the largest enterprises, those with a large share of their capital stock in service: during 1930–32, a significant correlation of -0.452 was found between the installed capacity and the capacity in use,¹² meaning that scale had an inverse relationship with the level of use.

Overproduction became a matter of public concern when the military seized power and the liberal parliamentary regime of the First Republic was brought to an end. Caught up in the crisis that affected both medium-sized and large factories, industrialists proclaimed the urgent need for organization, firstly through the idea of the creation of a voluntary association (the Portuguese Association of Canned Fish Producers, established in 1927) and then through the idea of compulsory regional cartelization. This latter suggestion was delivered to the Minister of Finance Oliveira Salazar in December 1931, as part of a restructuring programme proposed by a Special Commission formed within the Fisheries and Canning Industry Section of the major federation of employers, the AIP (*Associação Industrial Portuguesa*).¹³

State sponsorship of corporative associations was the main demand of the industrialists. Sheltering under this voluntary mandate given to it by private interests, the government advanced with the creation of the first body to discipline and organize commercial and industrial activities: the Portuguese Consortium of Canned Sardine Producers (1931). Grouping together manufacturers and exporters, this body initially displayed some ambiguity since 'it

11 Araújo Correia, *Portugal Económico e Financeiro* (Lisbon 1938); IPCP, *Compilação de elementos estatísticos sobre as conservas de peixe* (Lisbon 1954); National Archive of Torre do Tombo (ANTT), Ministry of Commerce and Industry, Box 40.

12 National Archive of Torre do Tombo (ANTT), Ministry of Commerce and Industry, Box 40.

13 M.C. Quintas, *Setúbal, Economia, Sociedade e Cultura Operária* (Lisbon 1988), 98–9; 'Indústria Portuguesa', *Revista da Associação Industrial Portuguesa*, 1931–1932.

sometimes appears to be a simple association and sometimes the ideal form of a commercial society' (preamble to Decree No. 21.622). But the most important thing was that such an organization was accompanied by the delegation of powers and duties, in line with the response to the demands of private businessmen. The new Consortium was given the legal authority necessary for the granting of credit, supported by the issue of guarantees in advance for the goods stored in warehouses; the prohibition of sales by consignment; the technical classification of the types and characteristics of canned fish; a ban on the exploitation of winter sardines, and the establishment of compulsory minimum prices for exports.

From an economic point of view, the delegation of these powers to the corporate Consortium was an attempt to restrain decentralized price competition and replace it with centralized mechanisms of co-operation that could be used to adjust the volumes of production. Price control was thus considered to be an inclusive good, supported by an array of incentives for group action, namely credit autonomy, technical supervision and authority over commercial transactions. Using Mancur Olson's terminology, these reassignments of power can be interpreted as 'by-products' of the mandatory inclusion of private businessmen in corporations, 'by-products' that performed the function of stimulating a rational individual in a large group to bear part of the cost of obtaining a 'club good'.¹⁴

In effect, the price controls established through the regulation of minimum prices for exports created a 'club good', which yielded the individual cost of a decrease in production. Situations of 'destructive competition', like the one pointed out, are characterized by an increase in the number of suppliers causing a shift to the right in the supply curve, and the inherent increase in the quantities manufactured from an initial quantity Q_t to Q_{t+1} . Translated into standard economic theory, the idea of the late 1920s of oversupply means that at each price more quantities are delivered in the markets. Through the introduction of minimum price regulations, the government adjusts these quantities indirectly, because with the (higher) regulated price, consumers are only disposed to buy less than Q_{t+1} . It is precisely this decrease in the volume of goods produced that must be distributed amongst all the members of the Consortium in order to achieve and sustain the 'club good' of higher prices for each quantity supplied.

Some laws, such as the legal restrictions on the installation of new manufacturing plants or new machinery (a policy defined in 1931 as industrial licensing — *condicionamento industrial*), helped to turn investment away from overcrowded sectors. However, in the case of the canning industry, the restrictions on production were effectively applied through the rationing of tin plate, which was indispensable for packaging and entirely imported from the USA: tin plates were bought wholesale and distributed to individual factories in proportion to the volume of production recorded by each firm during the years 1930–32.

14 Mancur Olson, *The Logic of Collective Action* (Harvard, MA 1965), 134.

Ingenuity and urgency were the driving forces behind the first experience of Portuguese corporatism. Within the new political élites, there was a utopian vagueness centred on the concept of a 'self-managed economy' combined with a blind faith in the power of organization to curb individual interests; in the case of the companies themselves, their commercial and productive distress also underlined the urgent need for organization, although in this instance in order to promote individual interests. At the crossroads, the idea persisted that the state must bear the cost of establishing collective self-enforcing institutions. Through the precursory experience of the canning industry, the supporters of corporatism had absorbed the great diversity of conjectural claims for cartelization and turned them into a permanent vision of society. Defensive economic behaviour was translated into positive political commitment and government support. In reality, this event not only represented a focal point of convergence in the diagnosis of the Portuguese economy, but also formed the basis for political recruitment and institution building.

It was probably in the second half of 1929 that Oliveira Salazar decided to undertake a complete study of the Portuguese canning industry. By then, the political influence of the Minister of Finance had begun to extend far beyond his official position inside the government and his public image as a representative of Catholic interests within the military dictatorship. Thanks to his fulfilling the longstanding promise to restore public finances and re-establish budget control, Salazar capitalized on his ever-increasing reputation and detached himself from the group of ministers. Given the contradictory ideas being put forward about the most appropriate political path to follow, public recognition of his leadership paved the way for the transition from military rule to a new regime. His study of the canning industry can thus be seen as an experiment which preceded major constitutional change — a controlled experiment of the 'New State' to come.

Since none of the administration's various departments had any data, survey results or updated lists of the companies actually producing, Salazar was obliged to start from scratch. Under these circumstances, an efficient shortcut leading to the deep world of microeconomics emerged from his contacts with the president of the producers' association of the AIP (*Associação Industrial Portuguesa*), the engineer Sebastião Ramires. Each man, the Minister of Finance and the industrial leader, travelled south along the coast in order to carry out his own direct survey, which also turned into a process of co-option and involvement of private interests.¹⁵

Published at the end of 1931, the study reached a considerable audience. Its repercussions were propagated through debates in the press and also in reports delivered to the meetings of the major business associations.¹⁶ Curiosity spread because something was already known of Salazar's political proposal of a gradual evolution towards corporatism, and the reform of the institutional

15 Pedro Theotónio Pereira, *Memórias* (Lisbon 1972), 102–3.

16 'Indústria Portuguesa', *Revista da Associação Industrial Portuguesa*, December 1931.

framework of the canning industry was interpreted as a step in that direction.

With the formation of a new government in May 1932, the fate of the military dictatorship became definitively linked to the legitimacy of a new constitution and to the personal authority of Salazar. Installed in his new position as head of government, the former Minister of Finance was finally free to recruit those who identified most closely with his own position. Sebastião Ramires was one such man. The convergence of their views on industrial policy, which had begun during the process leading to their decision to carry out a survey of the canning industry, together with Ramires' instrumental role in convincing other manufacturers of the advantages of state regulation, resulted in his being appointed Minister of Trade and Industry — the most sensitive government position in the years to come. Sebastião Ramires became the executive face of the plan to create, organize and supervise the new bodies of the Corporative State. The lessons drawn from the canning industry could now be applied and generalized. Yet Salazar's cautious step-by-step programme was turned into a massive collectivistic idea through the interpretation given to it by Sebastião Ramires. Only recently introduced into the political sphere, Ramires put forward a maximalist vision of corporatism based on two goals: 1. the organization of all branches of economic activity in the country, since they were mutually complementary, 'making the prices of all services and products correlative between themselves';¹⁷ 2. the organization of every branch of economic activity according to the logic of products, establishing 'fair prices' for each one, i.e. prices which were a function of cost and not of competition.¹⁸

The ambition to forecast the whole range of economic links between input and output led to the introduction of supervision, planning and central command by the state. While this objective was further shaped by practical constraints and the urgent need for segmented economic intervention, the framework established in the experimental phase of the canning industry determined the genotype for future evolution: the principle of organization by products evolved into the management of the organization of the different economic activities involved in each product (for instance, the *grêmios* [guilds] of exporters were separated from the *grêmios* of producers); the national scope of the corporations was adjusted through the assumption of representation based on regional units (districts and *concelhos*) and their consequent grouping together as federations; the compulsory nature of the corporations was counterbalanced by the legal admission of bodies formed through the voluntary agreement of individuals.

The joint qualities of Salazar the strategic thinker, and Sebastião Ramires the man of action played an important role in the foundation of the new constitutional corporatist regime, particularly through their involvement in the

17 Sebastião Ramires, *Soluções corporativas no comércio e na indústria* (Lisbon 1934), 33, author's translation.

18 Ibid.

structuring of events. These same events then propagated over time. Nonetheless, there were also many other leaders who wrote about, discussed and extrapolated from the experience of the canning industry — e.g. Manuel Pinto Barbosa and José Ferreira Dias, who provided new insights into this subject in the 1940s and were also in the front line of state administration and government. By then, new questions and new debates had arisen. The following section analyses the disappointments and the failures resulting from the corporatist experience in the canning industry.

The premise that individuals can be persuaded to subordinate their own interests to those of groups enveloping an industrial activity and will then be willing to co-operate with one another seems to be a distinct assumption in a period of crisis when people are faced with a struggle for survival. Contrary to expectation, businessmen were able to preserve some freedom of action and retained decision-making powers within the new obligatory guilds (this mediaeval language was adopted with the introduction of the term *grêmios*), so that self-interest persisted beneath the cloak of the corporative rules.

It is important to bear in mind that, even accounting for the low cost of information and supervision, made possible by the introduction of decentralized structures and self-enforcing practices, the regulations could only provide an incomplete guideline for the restraint of competition. Incomplete, because it was difficult to subject all business margins to strict regulation. And when control of both prices and quantities became the core of the industrial intervention of the *grêmios*, the response of individual factory owners was to transfer competition to the other margins of adjustment that were left unspecified by the authorities. Once output had become regulated, there was, for instance, a move towards competition for inputs, leading to downward pressure on the value of production factors. The destructive competition supported by retaliatory dumping practices evolved into a sort of cold war, in which every producer tried to widen the gap between fixed minimum prices and individual average costs. The calm surface of the 'pax corporativa' was broken by this adjustment, bringing about a loss in the quality of products through the use of cheap inputs. Without actually violating the letter of the regulations, individual interests seriously attacked their goals.

Yet the advance of corporatism restricted the freedom of choice of individual businessmen in other areas besides price allocation. A first sign of the extension of corporative regulations into the social field appeared in September 1934, with the agreement signed between the Portuguese Consortium of Canned Sardine Producers and the two largest regional trade unions. Sponsored by the state, this agreement succeeded in introducing a spirit of collaboration between social groups, establishing working conditions, working hours and pay for skilled and non-skilled labour throughout the country. From the manufacturers' point of view, an important factor of production had become fixed and subject to central supervision. Two other production costs,

the price of fresh fish and oil, nevertheless remained unregulated. They represented a significant component in the business of the corporations, amounting respectively to 37 per cent and 13 per cent of total costs and 49 per cent and 18 per cent of the cost of raw materials.¹⁹ And after the decree had been issued establishing minimum commercial prices for canned fish, strategies soon began to be developed for minimizing these costs.

The most common practice was to mix the traditional olive oil with cheap vegetable oils, which were not so well suited to the conservation of the contents of the cans due to the adulteration that they brought to the flavour of the fish. As to the quality of the fish itself, the corporate industry tried to renegotiate the price of the baskets of fish bought directly from the boats on their arrival in harbour, forcing down the price to 50 escudos from the standard market price of 80.²⁰ A second expedient was to continue the production of canned sardines throughout the winter season, in clear defiance of the legal ban on such practices. This ban was supposed to serve two purposes: on the one hand, it was intended to offset the oversupply of markets through the institutionalization of a special period called the *defeso* (close season), in which the manufacture of goods classified as 'sardines' was strictly forbidden; on the other hand, it was intended to defend the brand reputation of Portuguese exports, since the lean and dry nature of the sardines caught during the four coldest months of the year resulted in a product of very low quality.

As the problem persisted and the administration did not control the type of canned fish that was being traded (fish similar to sardines were also packaged and sold as if they were sardines), a different approach was adopted. Instead of imposing a straightforward ban, the government began to tolerate winter production, but distinguished this catch from the original *clupea pilchardus* type. In 1936, new product specifications were introduced with the compulsory mention of the words 'winter fish' and 'Portuguese winter sardines' on each can.

Within a short period of time, the 'club good' of minimum prices had been effectively done away with through the downgrading of production, which, in turn, was made possible through policies of market segmentation. Although exports to France, Belgium and England did not suffer greatly from these developments (because demand was mostly centred on the high-quality products of 'Nantes-type' canning methods), the situation in the export market to the USA deteriorated rapidly, due to the competition of Norwegian canned sprat and the rigorousness of that country's customs inspection and sanitary control procedures. Official reports denounced the vagaries of low-quality exports and called for more radical solutions.²¹ In 1938, the government advanced a step further in its economic interventionism, with the implementa-

19 José Gonçalves Viegas Dias, *Estudo dos aspectos económico-financeiros da indústria de conservas de peixe em Portugal* (Lisbon 1958), 109.

20 Archive of the Ministry of Employment (AME), Information and consultations, Box 238.

21 National Archive of Torre do Tombo (ANTT), Ministry of Commerce and Industry, Box 40.

tion of a state monopoly of the American export trade (for three years) and with its policy of creating a unique brand of Portuguese canned fish in order to bring an end to the 'confusion of multiple brand names'.²²

Throughout this overlapping series of events, the practices of the 'self-managed economy' inadvertently opened the door to a reinforcement of the 'centrally managed economy'. In other words, the decentralized bottom-up dynamics of the organizations had led to a top-down expansion of the role of the central state. With its monopoly of exports to the USA, the government acted as an intermediary wholesaler and introduced quality control into the economic circuit. The manufacturers' margins of adjustment shrank once again, since the quality of inputs was now subject to both scrutiny and sanction.

The idea of incomplete regulation can be rephrased in terms of the concepts normally used to describe property rights, in order to acknowledge that each good comprises certain attributes and that the ambiguity of regulation results directly from the number and variability of the attributes in question. While corporative controls may establish minimum prices for canned sardines, the attributes that correspond to this 'legal good' can vary between sardines in olive oil and other vegetable oils, winter and non-winter sardines, *clupea pilchardus* and other similar types of fish. According to Yoram Barzel, each attribute that is left in the public domain by the regulators represents a possible margin of adjustment for individual producers.²³ Another possible idea is that price controls encourage the emergence of economies of scope and diversification, through the exploitation of the attributes of the goods as a way of securing cost returns or commercial advantages.

Perhaps the most important conclusion is that when idiosyncratic and discriminatory policies of compulsory association are applied to selected economic activities, only a part of the economic circuit is encompassed by the central command and supervision of organizations. In this context, individuals can exploit the margins of business that remain unregulated, either because they are unspecified and/or because they are left open to the action of market forces. Due to the accumulation of spontaneous and discrete individual adjustments, the aggregate outcome is a series of unexpected consequences, i.e. consequences that were not in the initial plans of the regulator. In order to overcome and correct these 'distortions', additional forms of intervention are needed, forcing the command of economic activity to impose even higher levels of centralization.

One final point should be made, namely that the actual historical dynamics described here were dependent on the conjuncture of decreasing returns that characterized the export sector during the 1930s. The breakdown of international trade seriously affected the canned fish industry, first by exerting a deflationary pressure on prices and second (after 1937) as a result of the con-

22 Ibid.

23 Yoram Barzel, *Economic Analysis of Property Rights* (Cambridge 1989), 19–27.

tinuous fall in demand. In the aftermath of the second world war, although prices were now more than double the level of the 1930s (value of exports measured at constant prices), production was still less than 50 per cent of the previous volume.²⁴

The re-establishment of trade routes and the recovery of economic growth in developing countries during the 1950s did not promote a cycle of prosperity in the Portuguese canning industry, because in the meantime Morocco had taken over as the leader of the historical Mediterranean production of canned fish.

Structuring events have major consequences because they set in motion sequences of actions that shape structural outcomes and consequently limit the set of possible alternatives to fixed procedures which persist over time. The greater the uncertainty, interdependence and socio-economic rivalry existing at some initial stage of society, the broader will be the propagation effect of minor events. It is along these three axes — uncertainty, interdependence and rivalry — that micro-historical circumstances can craft facts that endure and persist as rules, norms or standard procedures.

The case of the Portuguese canning industry is an example of such structuring events, in so far as it provided a historical link between the diversity of ex-ante corporative theories and ex-post institution building. The traditional anti-individualistic and orderly currents of political philosophy were turned into practical action as a result of the urgent policies introduced in order to counteract industrial oversupply, dumping practices and bankruptcies. Corporatism was the argument produced in support of controlled change, but it was also the mirror that reflected a certain image of society.

Measures began to harden in 1933 with the approval of a new constitution, together with the publication of the *Estatuto do Trabalho Nacional* (the Charter of National Labour, which was politically inspired by the Italian *Carta del Lavoro* of 1927) and the introduction of the legal framework for corporative organizations. This marked the end of the military dictatorship and the transition to the regime of the New State under Salazar's leadership.

Whether we consider either the system of organization or the specific economic functions, remarkable continuity is to be found between the new institutions and the original pattern of the canning industry: corporatism was biased towards economic assignments and business organizations; its actions were exceptional rather than systematic; it was segmented according to commercial products, justified by the requirements of conjuncture and crisis, compulsory and introduced on the initiative of the minister.

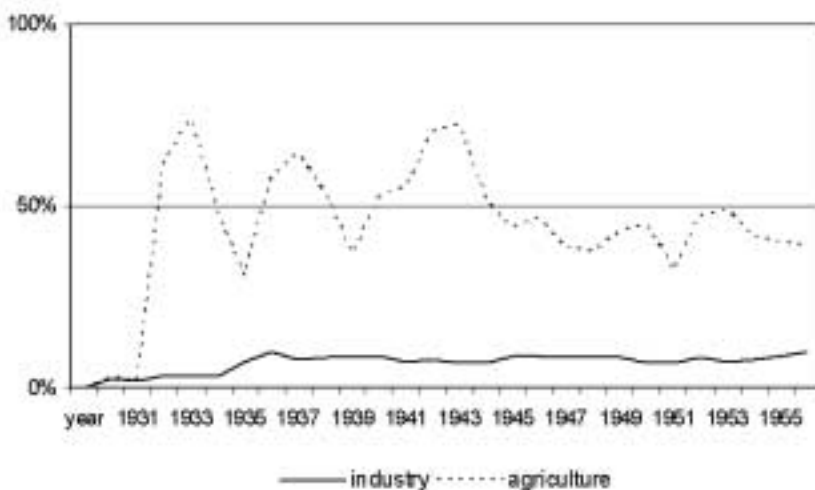
During the following decades, the regime's theoreticians sought to legitimate the gap between ambitious political foresight and instrumental economic

24 *Anuário Estatístico* (Lisbon 1930–1953). Exports of canned sardines and similar products in IPCP, *Compilação de elementos estatísticos sobre as conservas de peixe* (Lisbon 1954).

pragmatism, saying that ‘this is not yet the form of organization that is to be . . . but only the remedy to use in cases of emergency’;²⁵ ‘the true corporations have not yet been set up in Portugal’;²⁶ ‘there is an inequality in the treatment of workers and managers . . . owners’ associations benefit from a transitory regime’.²⁷

Selective state-sponsored guilds adhered closely to the demands made by the associations of propertied groups. Their compulsory nature was therefore based on generalized conformity and they were restricted to industries caught up in the crisis, whether this occurred in the foreign markets (the industries of canned fish, resinous products and port wine) or as a result of the competition within the internal market (the industries of rice, flour-milling, wool, clay manufacture, table wines and wheat production).

GRAPH 1
Contribution of sectors with compulsory guilds to industrial and agricultural output, Portugal 1930–1957*



* Value added of corporative industrial sectors/value added of industrial production; value added of corporative agricultural sectors/value added of agricultural production. Constant 1957 prices. Sources: *Anuário Estatístico* (1933–1957); Dina Batista et al., *New Estimates of Portugal's GDP* (Lisbon 1997); Fernando Rosas, *O Estado Novo nos anos trinta* (Lisbon 1986).

Overall, compulsory guilds attained the highest share of 10 per cent of industrial output, while their scope reached further in agriculture, oscillating around 50 per cent of value added (Graph 1) due to the incorporation of the producers of the most important Mediterranean crops — wheat and wine. The

25 ‘Teoria dos Grémios’ in *Boletim dos organismos e coordenação económica*, (Lisbon 1937), 22.

26 João Pinto da Costa Leite Lumbralles, *A doutrina corporativa em Portugal* (Lisbon 1936), 117.

27 Pedro Teotónio Pereira, *As entidades patronais na organização corporativa* (Lisbon 1935), 11.

government thus created new institutions with the same philosophy that had inspired the canning industry, intervening only in situations of damaging economic circumstances, on a case-by-case basis and in keeping with the previously established grouping of private interests. (For instance, while some of the recently created guilds encompassed legally demarcated wine regions, others included much more extensive wine-producing regions and yet others covered agricultural co-operatives with commercial brand names; at the industrial level, the guilds sprang from the sections established within the Portuguese Industrial Confederation, the AIP.)

Quasi-compliance and the binding of the interests of the guilds to the survival of the regime were the result of this cautious, biased and instrumental policy: 'the State does what it can to conquer the capitalists' — recognized one leading industrialist.²⁸ Furthermore, in this phase, the guilds were given additional economic functions, namely the power to intervene directly with regard to market equilibrium, absorbing the excess supply at fixed minimum prices (table wines, rice production) or acting as monopolistic organizations in commercial transactions (wheat, flour-milling, low grades of canned fish).

Seen from this standpoint, the New State managed to make a real political break with the past. One of the reasons for the collapse of the liberal parliamentary regime of the First Republic had been its incapacity to integrate within the political system the emerging hubs of collective action and the centres of rationality set up by private interests and socio-economic organizations. Particularly after the first world war, the political agenda became increasingly divorced from socio-economic demands, thereby contributing to the radicalization of workers and managers. This state of affairs was denounced by Salazar and the new leaders. What they promised was a fresh understanding of politics and the co-option of socio-economic interests into the exercise of government and administrative functions: politics was to become centred around the 'organized nation' and building the state in 'strict correspondence with the natural constitution of society'.²⁹ However, while this rhetorical armoury heralded the implementation of the corporative model, what was effectively implanted was simply the project for industrial and agricultural cartelization. Cartelization was the genotype transmitted from the experiment of the canning industry, the idea of a self-managed economy operating within a context of economic insecurity. Such a narrow interpretation of earlier political theory was to dominate official policy until 1936, despite the fact that the institutions created in the intervening period were to persist long after that (in reality, some were only truly dismantled with the democratic revolution of April 1974).

Meanwhile, the preferential treatment given to cartels became progressively

28 Xavier Esteves, 'Report of the Fifth Session of the First Industrial Congress of Portugal', *Indústria Portuguesa*, 1 January 1934.

29 Oliveira Salazar, 'Discurso na Sala do Conselho de Estado' in *Discursos Vol. I* (Lisbon 1936), 82–4.

cloaked in an atmosphere of suspicion and criticism. National daily newspapers such as *Jornal de Notícias*, *Comércio do Porto* and *Diário de Lisboa*, but also professional and regional newspapers such as *Notícias Agrícolas*, *A Verdade*, *Jornal da Régua*, *A Cidade* and many others, began to expose the abuses of monopolistic power. As early as 1934, the Secretary of State for the Corporations voiced his perplexity in a letter to Oliveira Salazar, the President of the Council of Ministers:

The guilds will tend to form trusts that are hated by public opinion or, instead, they will transform themselves into new types of commercial associations. . . In my personal opinion, it is a serious mistake to authorize the formation of new guilds without preparing the State for the need to organize their work to the benefit of the general interest.

And the Secretary of State for the Corporations concluded his remarks with an unequivocal observation: 'I do not understand what are we doing.'³⁰

Yet after all the efforts to engage the propertied class in a fresh commitment to the new regime, cartelization could not be overturned in the twinkling of an eye. Furthermore, the government had no other way of reaching down to the micro-level of enterprises and intervening in the markets, so that it was dependent on the information and organization channels provided by the guilds. Yet the spread of dissension and popular uprisings demanded a reply. The deviations from 'fair prices' were felt particularly by small businesses and urban consumers, who identified the guilds with monopolies, cartels or some form of business conspiracy (*chambões*). This view of obscure economic practices did in fact have some justification. The adjustments made to the process of regulation took many forms and resulted in pressure for the down payment of non-regulated production factors (canned fish, flour-milling); the erection of barriers to the entry of new firms into certain sectors (the port wine trade, table wine production); attempts to annihilate small and medium-sized firms through the introduction of scale requirements as a precondition to being able to produce (resinous products, wool) and in price manipulation (the wholesale of codfish and rice). Furthermore, together with the enterprises sponsored by the state, there was also a spontaneous drive towards cartelization. On the fringes of the official guild system, voluntary agreements were signed with the purpose of establishing fixed market quotas for each enterprise (sugar refining, match manufacture, glass bottle production), or imposing commercial prices (the hat industry, glass and soap manufacture) or prices of raw materials (pasta).³¹ All this resulted in situations that discriminated against non-organized producers and provided incentives for rent-seeking. In order not to lose face by retreating from the guiding principles of their political orientation,

30 National Archive of Torre do Tombo, Salazar Archive, Council of the Presidency, 10A, typed letter to the President without any date [1934]. See also Pedro Teotónio Pereira, *A Batalha do Futuro* (Lisbon 1937).

31 N.L. Madureira, 'O Estado, o patronato e a indústria', *Análise Social*, 148, 4 (1998), 777–822.

Salazar and his government decided that the cartels had to continue, but that the cartelization phase had to be brought to an end. Such a contradictory goal was accomplished through an overlapping of institutions and by consistently favouring the development of trade unions and middle-class groups. Three new types of organizations enjoyed a remarkable period of expansion between 1936 and 1945:

- *Corporative unions*. Formed on the basis of the main administrative unit, the *distrito*, and segmented according to professional categories, these trade unions held the monopoly of workers' representation and thereby prevented the emergence of competing political forces. The initial network of 61 National Trade Unions or *Sindicatos Nacionais* (April 1934) was swiftly expanded and reached 191 the following year, an increase that was partly due to the voluntary adherence of independent 'class associations' to the new legal framework. Expansion continued at the same pace thereafter, with a total of 276 registered unions in 1940, and 305 in 1945, a number that changed little in the postwar period.³²
- *Voluntary guilds*. Formed on the basis of the *distrito*, or the smallest feasible unit, the *concelho*, the voluntary *grêmios*, or guilds, represented the middle classes of urban craftsmen, small manufacturing businesses, agriculture and trade, bringing them within the corporative system. The legal status of representation was awarded after 50 per cent of the enterprises in a given sector had agreed to join the guild. But the powers of these associations were quite restricted, as they received no permanent delegation of economic functions from the central state. Only six guilds of this type existed in 1936. By 1940, their number had risen to 128 and by 1943 to 340.³³
- *Co-ordination boards*. Considered part of the corporate structure, co-ordination boards were the most recent institutional innovation of the system and represented direct government intervention in the regulation of prices, quantities, inputs, commercial networks and quality control. Inasmuch as they were organized on the basis of the prevailing products in obligatory guilds (bread, port wine, cork, resinous products, cotton imports, etc.), these boards became supervisory institutions endowed with co-coordinative powers. In other words, they were the regulators of regulators. But co-ordination boards were also created in activities that were deprived of guild representation, where they became the main controlling bodies. A total of three Institutes, ten Boards and ten Regulatory Commissions were established between 1936 and 1945.

32 *As Corporações na Economia Nacional* (Lisbon 1971), 36–9; Fátima Patriarca, *A Questão Social no Salazarismo* (Lisbon 1995), vol. I; Philippe C. Schmitter, *Corporatism and Public Policy in Authoritarian Portugal* (London 1975).

33 INTP, *10 anos de política social* (Lisbon 1943); 'Organização corporativa', in *Contas Gerais do Estado de 1945*, Diário das Sessões da Assembleia Nacional, 1947, 12 de Março, Apêndice III, suplemento.

The new strategy resulted in a patchwork of corporative structures, which were subject to direct state control and indirect state supervision with increasing bureaucratic costs (the deadweight cost of bureaucracy must be seen in the context of a society with an illiteracy rate of 40 per cent in 1950). It was a strategy of all-encompassing corporatism, rather than discriminatory cartelization. While the decision-making powers of guilds had been subjected to restrictions on their autonomy from the very beginning, the government's political intervention now reached its peak with the direct appointment of administrative commissions to rule over guilds and national unions, the granting of the rights of political representation to the bureaucrats of the co-ordination boards, the creation of administrative bodies to inspect and approve the daily activities of collective organizations, and the orchestration of public events on the initiative of ministers.³⁴

With the duplication of structures, various levels of decision-making overlapped, resulting in a series of perverse effects: a process relating to a district guild had to be overseen by the national federation, then by the co-ordination board, and finally by the ministry. Philippe Schmitter pointed out that 'instead of leading to the debureaucratization, deconcentration and "destratification" of the political system, Portuguese Corporatism had the contrary effect'.³⁵

This tremendous bureaucracy, the antithesis of Max Weber's positive valuation of 'decision procedures according to rules', soon became a technique used for domination: bureaucracy emerged as the historical outcome of the overhauling of the policy of cartelization, the correction of the initial bias of the institutions towards the propertied classes, and the unintended effects of economic regulation. If, in an initial 'revolutionary phase', there was an institutional penchant towards the class of manufacturers and landowners, to which the Portuguese New State delegated particular responsibilities through compulsory organization — similar to what happened in Nazi Germany — this tendency was quickly reversed. The drawback involved a switch from discriminatory cartelization to encompassing corporatism, and from the ideal of a 'self-managed economy' to the reality of the bureaucratically managed economy. As much as the outcome of programmatic ambitions, this policy was a practical attempt to overcome the unexpected effects of economic regulation. The strategy of constantly adding new organizations and imposing higher levels of centralization returned control to the central administration through the medium of intermediary structures. The price to pay was a network of complex and time-consuming circuits of information and decision-making. According to estimates made by Carlos Sousa, the corporative bodies employed 11,400 clerks and workers (1945), while the last census of the

34 Manuel Lucena, *A evolução do sistema corporativo português — O Salazarismo* (Lisbon 1976), 387–94.

35 Schmitter, *op. cit.*, 25.

period registered a total of 25,588 civil servants working in central and local administration (1935). The cost of running corporative and semi-corporative bodies amounted to one-fifth of the direct and indirect taxes received by the state and one-seventh of the budget income.³⁶

To sum up, bureaucracy emerged from the contradictory directions followed in the course of government policy and from the need to preserve ever larger mechanisms for the consultation of interests without lessening state control. Seen from a broader perspective, the authoritarian regime of the Portuguese 'New State' was based on the repression of political competition (censorship, political police, the imprisonment of opponents), but also on the preventive occupation of the space available for collective action. Its main weakness lay in the absence of a true political party which could support, publicize and mobilize the population.³⁷ Instead of actively adhering to some organization inspired by the government, the personal dictatorship of Salazar sought to support itself through the progressive co-option of private interests and, afterwards, by besieging the population with trustworthy organizations and dependent clerks. The public administration and semi-public organizations took over the role of the parties in the shaping of collective life, thus making bureaucracy the accepted and institutionalized path for participating in the decision-making process.

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36 Carlos Hermenegildo de Sousa, *O Panorama da Organização Corporativa em Portugal* (Lisbon 1947), 8.

37 For more information about the characteristics of the National Union, see Manuel Braga da Cruz, *O Partido e o Estado no Salazarismo* (Lisbon 1988) and António Costa Pinto, 'Elites, Single Parties and Political Decision-making in Fascist-era Dictatorships', *Contemporary European History*, II, 3 (2002), 425–50.