

Seminar on Strategic Leadership Issues during Turkey's EU Accession

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The Portuguese Experience

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In the beginning of the 1980s, while Europe was stagnating, Portugal grew at an average annual rate of 3% but the terms of trade deteriorated at an equivalent pace.

Membership in the European Free Trade Association (1960-85) allowed Portugal to develop an export base in manufacturing

In 1983-85, an adjustment programme with the IMF restored the external balance.

Negotiations with the European Community concerning the accession of Portugal were completed during the same period.

By 1985, inflation was reduced by ten percentage points and the current account was again in surplus.

Public sector imbalances were however not tackled (you still see it today): the public debt kept rising until 1988 (to a peak of almost three quarters of GDP).

Joining the European Community at the end of the period of Euro-sclerosis and the beginning of the EC-1992 Single Market programme was very important

as a side effect, Portugal's terms of trade improved by almost 6 per cent a year.

This in turn made it possible to pursue an expansionist policy without any major adverse impact on inflation, despite the introduction of both the Value Added Tax (VAT) and an extra tax on oil products in 1986.

At the same time, domestic fiscal transparency, meaning both greater fiscal discipline and especially a more open reporting of fiscal decisions, was increased.

However, such an automatic convergence came to a halt due to a lack of a clear integration strategy.

In fact, in an initial phase, from 1986 to 1991, the Portuguese administration concentrated mainly on structural funds and on transition periods and derogations.

It was only with the country's first EU presidency in the first semester of 1992 that the government understood the importance of being with the political core of Europe

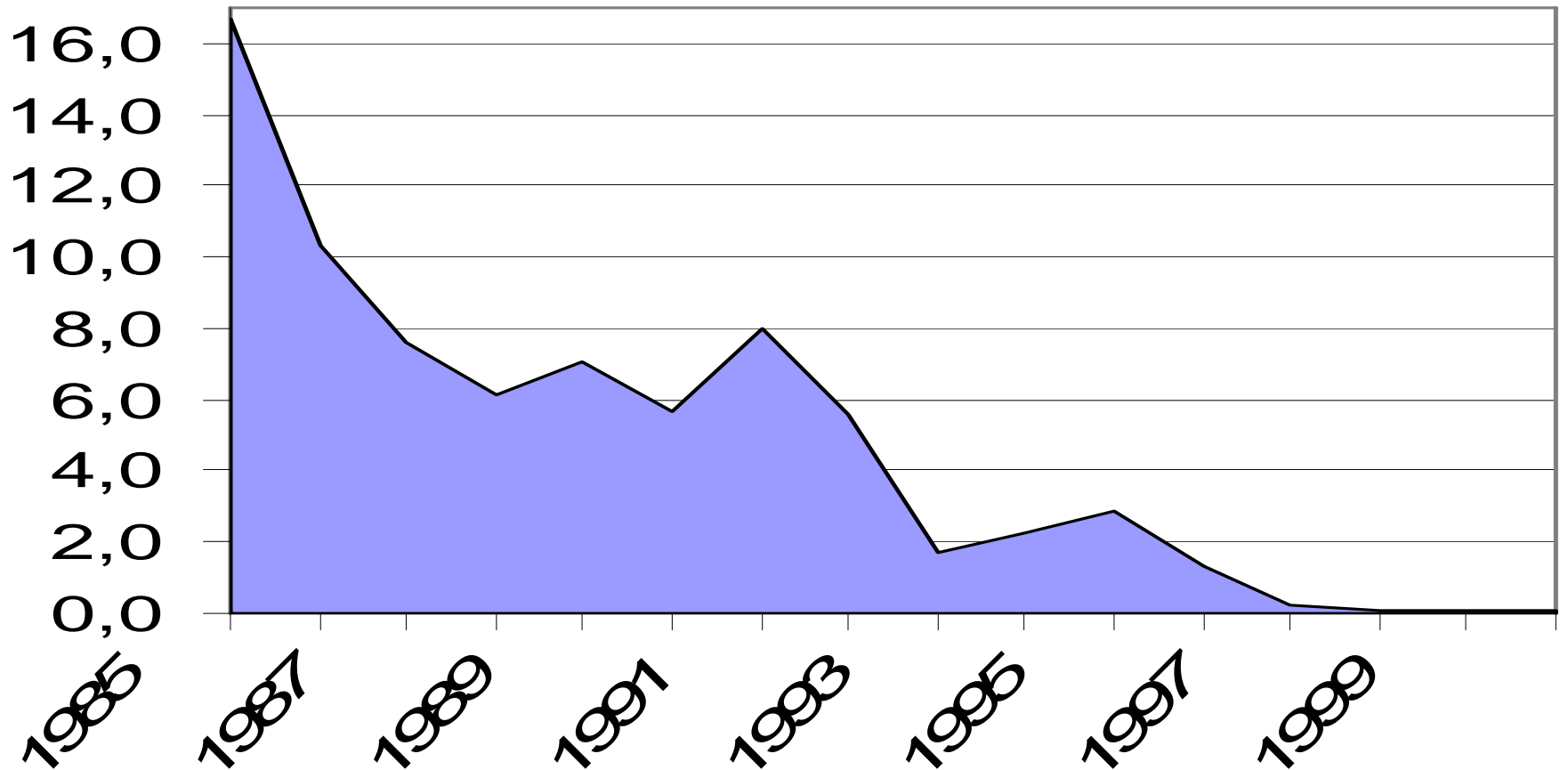
Portugal joined the exchange rate mechanism of the European monetary system (EMS) in April 1992.

Experience suggests that the European integration process – and in particular the need to perform sufficiently well to be part of the inner political core, especially at the time of each country’s presidency – provides member countries with a good incentive to leap forward and embark on a more proactive policy stance (institutional reform).

This is the case for countries, such as Ireland, Poland or Portugal, for which European integration is at the centre of their development strategy.

In this context, the Portuguese EU presidencies (1992 and 2000) are illustrative: ERM membership cum liberalisation of capital controls and convergence programme; and the Lisbon process agreed at the Lisbon summit in March 2000.

Long term interest rate differential relative to Euroland (% p.a.)



As in most other EU countries, the challenge of EMU has worked as a mechanism for economic stabilisation and as a pre-condition for structural reform and long-term development.

It created the necessary consensus to overcome specific interests in the pursuit of social and economic welfare.

The political consensus took however long to build – much longer than in countries such as Ireland or Spain – and it faced a loud opposition but has allowed for the building-up of other solid institutions.

This process has however been too slow and reactive

Generally speaking, Portuguese public opinion is in favour of EU integration.

Not only have the structural funds contributed to the country's economic growth (although to a lesser extent than in Ireland or Greece and with some serious distributional imbalances and sustainability problems) but also because of the idea that Portugal gained a voice in an international framework that gathers bigger and richer European countries.

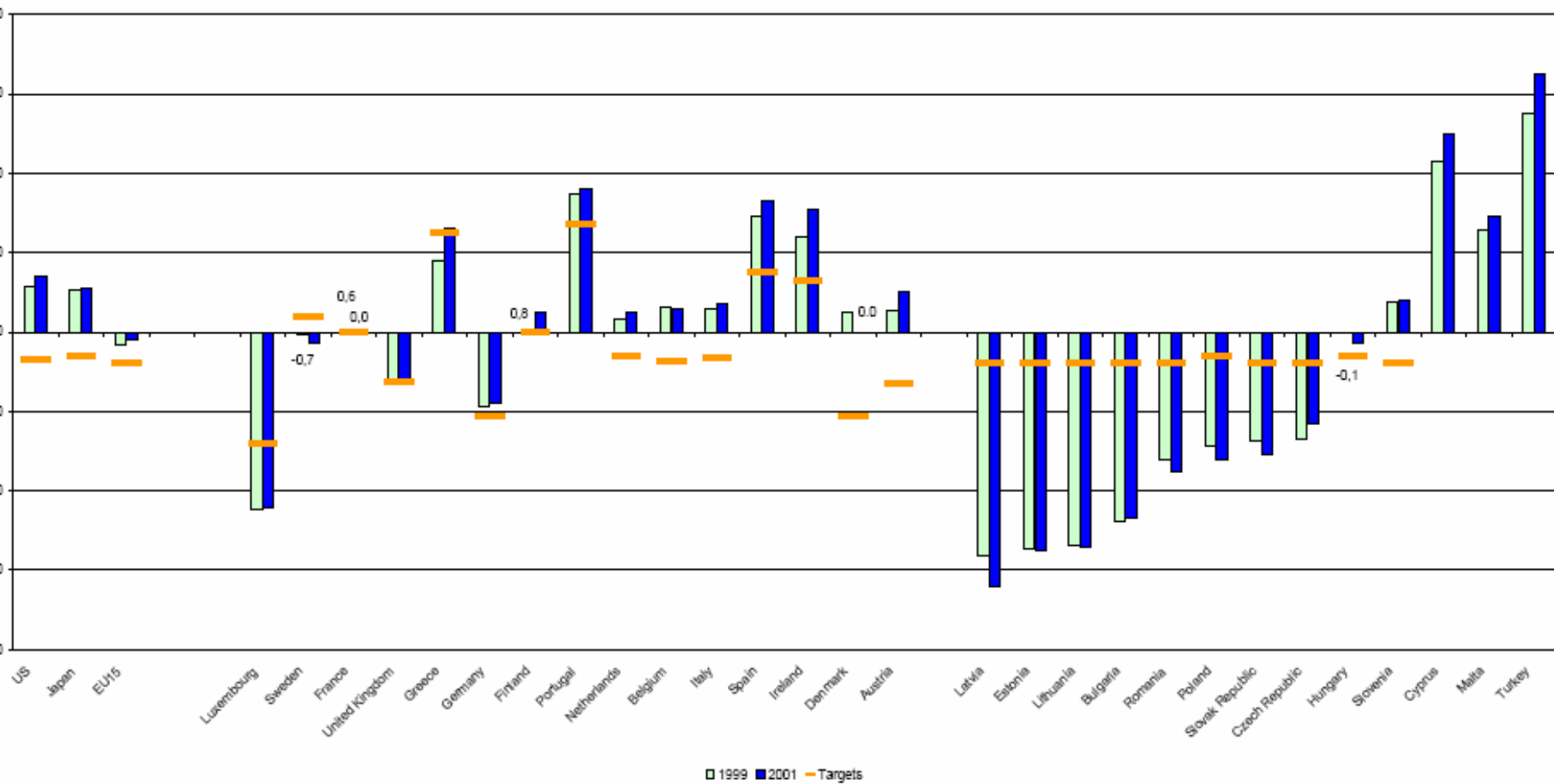
The Portuguese look at European integration positively, accommodating most European integration efforts.

In between presidencies the Portuguese polity seems however to lose interest (and determination) in what the EU, and indeed Portugal, should become.

Even during the entire macroeconomic convergence phase to economic and monetary union (EMU) in the 1990s few politicians presented it as a desirable political reform instead of an external constraint.

While it was obvious that nominal convergence was a necessary condition for sustainable growth it was resisted on the grounds of nominal vs. real convergence trade-off.

Total gas emissions and Kyoto targets for 2008-2012



The same happened with quality standards (environmental quality and consumer protection) vs. real convergence.

European co-decision process (Torres, 2003) and the “national interest”.

Only the prospect of a closer political union for a limited number of countries within the EU, made it politically much less attractive for Portugal to postpone some decisions.

Because of that, Portugal tends to fall in line with the core countries on institutional reform but without much own input nor strategy (a reactive stance).

Without a pro-active stance, however, the capacity (and will) to implement structural reforms disappears.

Joining the ERM in 1992 and convergence towards EMU constituted perhaps the major reform achieved since Portugal joined the EU.

Apart from that, there has been resistance to external pressure due to an opaque fiscal constitution with a shrinking tax base and still rigid public administration. (Macedo, 2003).

No capacity to implement the Lisbon strategy.

In the absence of structural reforms there was no capacity to increase total factor productivity.

The benefits of a stable and common currency do not materialise when fiscal policies are unsustainable and other policies (namely taxation) provide the wrong incentives.

Presently, the macroeconomic situation is unsustainable (current account, credit boom) and structural reforms are on hold.

These weaknesses and wrong-doings also increase the political costs of structural reform.

So there are limits of what “external pressure” can do. However, EU multi-level governance may help a Member State, and indeed the EU as a whole, to overcome many of its weaknesses and wrong-doings

However, multi-level governance (discussed in some of the readings provided below) and how the EU and its Member States are dealing with many of today's pressing issues, such as the reform of the SGP, the implementation of the Lisbon Strategy, etc., constitute a topic on its own to be discussed at some other seminar.

I hope you found these ideas useful.

Thank you for your patience.

Readings:

Macedo, J. B. (2003), Portugal's European Integration: the limits of external pressure” in *Portugal: Strategic Options in a European Context*, in F. Monteiro, J. Tavares, M. Glatzer and A. Cardoso (eds), Landham: Lexington Books, 61-97.

Torres, F. (1994), “The European Periphery: Portugal”, Chapter IV, in John Williamson (ed.), *The Political Economy of Policy Reform*, Institute for International Economics, Washington, DC, 141-152.

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----- (2004) “What Europe? Portugal’s Reactive adaptation to European Institutional Changes”, *South European Society and Politics*, 8, 97-120, (with Ana Fraga).