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State, Market and Community:
The Portuguese Economy in The Networks of Contemporary Governance

Abstract: The Portuguese economy registered several significant transformations in recent decades, after the democratic revolution (1974) and the EEC accession (1986). A deep integration in the EU and an original and unexpected context of Iberian integration are important elements of the new picture. The changes in specialization, the emergence of a public service economy, the centrality of financial external relations, and the new condition of Portugal as a net foreign investor and as a country of immigration are some of the main processes that are relevant for the analysis of Portuguese economic governance in this period. This analysis involves studying the mechanisms of coordination of collective action. The State, as the agent of the 'relational order', the market, as an increasingly narrow place of governance, and the community, as the expression of Portuguese specificities, are considered in this paper as major institutional arrangements and the bases of economic governance.

Keywords: *Governance, Portugal, European Union, and Economic Dynamics*

1. Introduction: governance, contingency and complexity

This text has two main purposes. The first one is to try to draw an analytical framework on economic governance and, at the same time, to achieve an overview of the structural characteristics and dynamics of a national economy: the Portuguese economy. The second objective is to seek to support my judgement that to deal with a particular case in economics is to deal with originalities, contingencies, and unexpected trajectories.

The first purpose – the study of governance – is a wide task, with several dimensions.[1] In this essay I focus on attempting to give an operational meaning to the actions of the *State* and the *market* in real economic outcomes. Furthermore, I will refer to the *community*, but only to stress that it is also a key element of economic performance and balances. By community I mean the internal material structures and the cultural practices of social actors. These are, in fact, the sources for the structural heterogeneity of a society. This is largely due to the fact that Portugal is an example of intermediate capitalism, hardly structured in modern terms, and only articulated within the world economy in a specific, limited, and belated way.

To study the mechanisms of governance in order to give an operative sense to State and market actions implies the study of relational dynamics. Economic phenomenology – where we can find uncertainty and original situations – is, in this perspective, a wealthier field of work than functionalist and determinist visions. It is in this context that the idea of there being several mechanisms governing and coordinating economies and societies and the fact that their action is plural are important. In effect, single and mono-causal explanations are rarely enough. I think, in particular, that the recent hegemony of globalist visions – and the criticism they deserve – emphasise the necessity for methods of analysis that allow for more attention to the complexity of economic relations. This is exactly what is proposed by what I call an institutionalist alternative to globalist functionalism. The idea that economic organization is still based on a tension between mobilities and territorialisations is an element of this alternative.[2] This is an alternative against the globalist assumption of the radical importance of mobility, delocalisation, non-place and the quick access to everything such as markets, production factors, goods and services. In the same sense, *institutions* themselves are the expression of complexity: they are the "thickness" of territory (against the globalist assumption of the self-sufficiency of market regulation). For these reasons, the actual context of economies is frequently formed by complex institutional relations and by a 'jeu des forces' and dynamics of evolution that are the result of the above mentioned tension between mobilities and territorialisations.

[1] Governance is based on a taxonomy of institutional arrangements that includes several forms of coordination of economic actors: markets, firm hierarchies, communities, states, networks and associations (Hollingsworth and Boyer, 1997).

[2] The other two elements of this alternative are: the acknowledgement of bounded rationality and organisation in the sense given by Simon (1986) and Arrow (1974); and the idea of uncertainty and contingency in the sense of the Keynesian message in economics. See Reis (2001a) for more details.

2. The Portuguese economy: trajectories, originalities and unexpectedness

During the last few decades, Portugal, as an economy, has experienced significant and very specific changes. For instance: Portuguese European integration rapidly assumed the form of an Iberian integration; Portugal has become a net foreign investor in the recent years; direct foreign investment, which was never very high, is now quite insignificant; manufactured exports are no longer based exclusively on textiles and clothing; the country, a traditional emigrant society, is now receiving a high number of immigrants; the use of external saving is now crucial in families' new strategies of consumption. It may be said that all this is normal in the globalisation context and within market governance standards. However, it seems that the trajectories concerned are more complex. Let me refer to three examples. Firstly, one might expect that the market role and globalisation influence would lead to the enlargement of exchange relations, on a wider and wider scale. However, in practice we find that the geographic space of Portuguese economy exchanges is increasingly narrow. Secondly, if one considers the new performances of economies as processes determined by the importance of market economic services, we find, instead, a tertiary economy formed by the State and by the services it offers. Thirdly, if one considers European integration to be a key factor in a stronger circulation of capital within a small economy, we will see that the Portuguese economy receives few foreign investments although it tends to take on the role of investor in non-European countries.

How may we make sense of these processes? A single theoretical exercise can help to define these issues better. Portugal is a European intermediate economy. This old hypothesis of work, rooted in Wallerstein's vision of a world-economy (Wallerstein, 1974), presupposed that Portuguese society is influenced both by the characteristics of centre and periphery (which give it its intermediate character). Additionally, it also plays a role of intermediation within the world-system itself, as an active producer of linkages between centre and periphery. Such a hypothesis enabled us to qualify Portugal as a semi-peripheral society and gave space to a wide-ranging research program.[3] This program contained strong critical alternatives, creating productive tensions with the original vision. I stress two of these criticisms. It was doubted that, to get the

[3] The research programme developed by the Centre for Social Studies at the University of Coimbra is an example. The main conclusions are published in Santos, ed. (1993). I gave my contribution in Reis (1993).

specificities of Portuguese economy, the intermediation function was very relevant or, at least, no more relevant than the intermediate structural characteristics. Moreover, it was stated that the deduction of its dynamics from its structural role in the wider world context needed to be confronted seriously with other hypotheses, namely that of the importance of territorial relations of proximity. The first step towards the presence of a society in a network of institutional relations is physical and cultural proximity. This network – which is more than simply narrow market relations – frequently mobilizes the specificities and the unexpected capacities of the society. This gives place to a diversity of modes of economic governance, thus making it comprehensible that structural determination is not the unique factor present.

Let me take a small step back in economic history. At the beginning of the 19th century, around 1830, the Portuguese economy had a level of wealth production per inhabitant (GDP *per capita*), which was very similar to those of other ten developed European countries (both small and large).[4] Until then and since the 15th century, Portugal had held an important position within commercial capitalism and the world-economy. The modern growth process, where the diffusion of the industrial revolution was central, placed the Portuguese economy on a trajectory of relative impoverishment. The informal domination of the United Kingdom, with its very liberal custom duty policy, and the lack of the necessary resources for the first stages of industrialization played a significant role in this process.

Nevertheless, the first signs of industrialization originated in the third and fourth decades of the 20th century, with remarkable growth (in relative terms) and the launching of a policy of import substitution. These were the first steps of a new industry, already involved in exportations. But it was only after the Second World War that an industrialist process was consolidated – it was an intensive process based on hydroelectricity and on basic sectors such as chemicals, iron and steel, and cement. The development of the domestic market and the formation of a modern matrix of industrial relations were the main results of that process. The classical idea that Portugal was until recently a rural and agricultural country is in fact wrong. However, it is also true that this kind of domestic development was based on an autarkic, administrative and non-competitive perspective. The result was the locking up of the economy in a context

[4] I am following the approach and data from Gonçalves (1998).

where the lack of social and political modernization was the main reality (Reis, 2003: 33-35).

All these events occurred in a period of almost half a century (1926-1974), during which a retrograde, colonial, and isolationist dictatorship dominated the country. It was the time when other European economies started their sustained virtuous fordist cycle of intensive modernisation with the "trente glorieuses". In Portugal it was a period when "nation and empire [were] fundamental categories in the political and economic strategy" (Murteira, 1997: 93). Portuguese participation in the foundation of the European Free Trade Association, EFTA (Stockholm Convention, in 1960), and the agreement with the European Economic Community, EEC, in 1972, were relevant. However, they did not represent the norm. The economy always faced a protected and administratively regulated context. It was a context where State intervention was very prominent and where the initiatives that might have given a growing density to the economy were frustrated. This was true in the case of the efforts made to develop activities that could reverse the "excess of specialization" in labour intensive sectors. The openness to external involvement as a "long-term tendency dominant in the Portuguese trajectory" (Murteira, 1997: 94) was not reached without difficulties. Such openness, allowed by economic and political integration in European space, was rather limited. In effect, Portugal was a peripheral economy, submitted to a regulation where growth did not result in an overall improvement of society.

It is for these reasons that emigration is the key factor in understanding the lack of endogenous industrial growth in the 1950s and 60s. The development of domestic labour markets was very slow. Emigration was, indeed, the most intensive form of international insertion of the Portuguese economy. When the economy became more open, the "main export to the European markets was labour" (Reis, 2003: 41). It was an integration "through 'labour economics'", as underlined by Mário Murteira (1997: 96), that indicated correctly the fact that in Portugal 'economic' and 'human' factors have an inverse position to the one they had in the development path of other similar economies. Several aspects may explain these circumstances. Only after the country's accession to the EEC did Portuguese exports grow at a rate above world exports. Until then, Portugal did not take advantage of the development of world trade. In fact, it was just after the mid-1980s that Portuguese exports reached a level equivalent to 20% of the GDP, a level where it still is today.

It is also relevant that, together with emigration, there has always been a structural element flexibly used as a 'free' resource in order to reach a balance on a hard path of development. I am referring to the flexible internal structures: the rural context and the small non-metropolitan urban systems; the territories where several kinds of activities are articulated; the informal sector; the families' flexible strategies. It was through these mechanisms that dynamics or means of compensation for the weakness of the development process originated. Some of those mechanisms were merely defensive. This is so in the case of the articulations of small intensive labour firms with the role of informal agriculture. Its local contribution to compensate low industrial wages was very relevant. Other situations were, however, more innovative. They gave place to local welfare systems or to local industrial systems where competitiveness based on innovation is a considerable issue.[5] In brief, up until the late 1980s we were facing an economy that generated autarkic peripheral industrialisation, which entered international markets of goods in a very hard way. It used the exportation of labour force (emigration) to compensate for the latter difficulty, and its internal specificities to reach an equilibrium in its organisation and dynamics.

3. State, market and community: the economic coordination

Being a peripheral economy in Europe radically differentiates Portugal from the absolute periphery within the world system. Let us look at its internal organisation. Coordination mechanisms do not have the robustness or capacity for self-reliance, i.e. the force and the autonomy, which we may find in other governance systems in Europe. On the contrary, they are strongly dependent on each other and each of them shows remarkable weaknesses. There is a strong dependency of the State on interest groups and firms; nevertheless it is the State that designs the main aspects of economic relations because the capacity of entrepreneurs and civil society to have active, independent and sufficiently structured initiatives is weak. A weak State is, therefore, a central public actor for weaker civil agents. State importance is considerable in what

[5] For an approach based on a territorial perspective see Reis and Négrier (1998) and Reis (2000), published in the collective books edited by Négrier and Jouve (1998), and Benko and Lipietz (2000), respectively.

concerns the creation of consensus, rules of competition, integration in international regimes and conditions influencing labour costs and the well-being of the population. However, the infra-structural conditions of the economy and society, not least due to the contribution of EU Structural Funds, have become very important and have generated external economies in sectors such as engineering and those related to construction.

The community is weak when the point is to express itself autonomously. But it is frequently strong in defensive situations, i.e., when it represents a factor of compensation of the weakness of the other coordination mechanisms (public policies, competitiveness, wage relations). Its role is also significant when, in precise local contexts, a situation occurs where initiative and innovation need synergies from local resources, capacities, and solidarities.

In a society like the Portuguese, the form of urbanization is more diffused than in other countries; rural contexts have changed differently when compared with the so-called "agricultural industrialization" process; productive systems are based on modes of organization and specialization where, for instance, the presence of traditional sectors is relevant.[6]

The exercise that follows is based on the idea that an economy is formed by a set of institutional mechanisms that play the role of coordinating economic actors. Within the analysis that I develop I intend to identify the processes that better represent each of the coordination institutions. At the same time, I will try to show the limits of market governance and the close articulation existing between the several mechanisms.

3.1. The market: an increasingly narrow place of governance?

What is a market? This is, perhaps, the question least answered by economic theory. I will not deal, now, with the theoretical dimensions of the problem. I choose, instead, a very basic and practical question: how may we represent, from an empirical point of view, the market relations that characterize a national economy? There are both the external and the domestic dimensions. The external market relations can be shown by the participation of the country in foreign trade and financial exchanges (including the investment in and from foreign countries) and by people mobility (demand for

[6] This gives them a specific role in the catch up process: in Portugal, in the last two decades, the gap in productivity was particularly reduced because of the good performance of low technological intensity manufacturing sectors.

services such as tourism, or demand for work). Domestic market relations may be represented by industrial relations, that is, productive structure and specialization, firm structure and the labour market.

Sooner or later we will see that a significant part of the aspects that form this empirical reality is beyond market relations. It shows the presence of the State or the community, i.e., market regulation does not exist apart from institutional relations or societal relations, which may be either formal or informal. In fact, almost as difficult as answering the question 'what is market' is to define materially the State. If the objective is to go beyond the delimitation of a State apparatus or the weight of public expenditures in an economy and to try to define the fields of public and institutional governance, then the set of questions becomes very large. There are relational questions and all the issues related to political and social contractuality. What is, for instance, the best way to understand European integration? We know that it is the result of a public and political decision and it is a process of creation of new rules. It is, therefore, a matter of State action, not a single process of market integration or market enlargement.

In the following analysis[7] I will try to show that the international market in which the Portuguese economy acts is geographically narrow; that the transformation of Portuguese manufacturing specialization is a result of limited international relations; that the dynamics of creation of a service economy are those where the State has a direct presence; that the domestic market is not enough to finance a national economy; and that the most impressive presence in international relations was a result of unexpected processes.[8]

3.1.1. *The exchange of external goods: the European and Iberian 'locking up' of the Portuguese economy*

In recent decades the most remarkable feature concerning the articulation of the Portuguese economy with the international market of goods and services was the decrease of its geography. Two clear pictures emerged: in 1970 a scrutiny of the Portuguese external trade market shows that the 15 countries belonging to the European Union up to 2004 were the destination for 52% of the goods exported by Portugal (65%

[7] Data used from the Bank of Portugal.

[8] In Reis (2002), I carried out a more developed analysis of the new dynamics of the Portuguese economy, paying particular attention to Iberian integration and to the role of capital movements.

in 1980). Today, they represent almost 80%, and this figure has been virtually unchanged since Portuguese accession, in 1986. Spain was the market for 1.6% of these exportations in 1970, for 3.6% in 1980 and for 10.8% in the period 1986-1990. In 2003 it was the destination of 22.7% of the goods sent by Portugal to foreign countries. We can conclude that from the point of view of the international exchange of goods the position of Portugal in the world economy is only a place in Europe and the position in Europe is increasingly a place in the Iberian economy.

These figures are not simple arithmetic regarding the Portuguese external trade. As well as the fact that they prove a bounded geography, they also show a strong institutional rather than only an economic reality. It is the European institutional framework that mainly determines and structures the external relationship of the Portuguese economy. The growing importance of infra-European relations based on proximity – creating a kind of sub-regional integration within Europe – is also clear. Additionally, there is the specific condition of two neighbouring countries that have never been economic partners and that reinvented proximity in the context of a common integration in a wider political and institutional space. This means that the abstract idea of a market (as a geonomic space, free, universal and a-territorial) has to be confronted with the reality of territorial relations, networks, and institutional governance.

The Portuguese economy is, therefore, increasingly integrated in one of the intra-European spaces and in one of the European systems of governance, i.e. the Iberian one.[9] Nowadays, the prevailing view of globalisation sees the world as an economy and the economy as the world. However, concrete evidence frequently shows radically different situations such as this: a small economy enters into a wider space of integration, where the market is supposed to be central, and the result is its re-localisation in an institutionally built space of proximity.

3.1.2. *Productive specialization: the end of mono-specialization*

The adjustments in the geography of external trade were followed by changes in domestic productive structure. In manufacturing today the production of ‘metal and electronic goods’ predominates. ‘Textile, clothing and footwear’ are no longer the sector that represents a kind of mono-specialization of the Portuguese manufacturing

[9] I paid attention to territorial governance in Europe in Reis (2004).

sector and exports. In fact, the 'metal and electronic' 'filières' are responsible for 23.4% of the manufacturing value added, while 'textiles' represents only 20.9%. In exports the figures are 24% and 35.8% respectively.

This bi-specialization differentiates the Portuguese economy from others with which it may be compared. For instance, the Spanish economy has a stronger specialization in 'metal and electronic' branches (41.2% of its exportations) and is much less dependent on textiles (which represent only 6.6% of its exports). Additionally, it so happens that Spanish exports include other important sectors like 'food products' (11.9% *vs.* 4.2% in Portugal) or 'chemical products' (10.4% *vs.* 5.7%), which indicate that the Spanish presence in the international market is denser and more sophisticated than the Portuguese one. It is only when compared with Greece that the Portuguese export structure shows itself to be in a more favourable position. Greek exports have a lower volume of 'metal and electronic products'; the amount of textiles is similar to that in Portugal; and there is no evidence of a significant presence of any other important sector. Ireland is a quite different case, as a peripheral country in a distinct and deep process of change. Its 'chemical products' and 'machines and transport materials' represent 3/4 of its exports. The traditional sectors have lost significant ground.

To understand what happens in Portugal in this field it is enough to see the role of a small part of foreign direct investment. In spite of its reduced volume, it introduced a change in an important segment of the Portuguese manufacturing sector and in its role in national specialisation and in the exports structure. In the context of the discussion that I proposed above, it may be said that we are in the presence of the role of the market. A limited role, it is true, because it was a strategy facing the opportunity given by the new institutional conditions offered by EEC accession. The role played by differential wages and the presence of a number of subcontractors in traditional sectors was certainly important. But there was, in any case, a significant change. However, an improvement process similar to those that occurred in Spain or Ireland did not follow.

3.1.3. *The emergence of a service economy: a public service economy*

The emergence of a service economy is generally considered as the main sign of new economic performances. The growth of services dynamises markets in new areas (services to firms, organizational design, innovation processes). It is also an indicator of the presence of non-material and intellectual processes changing the composition of value added.

The Portuguese economy has not been an agricultural economy for a long time. Agriculture provides only about 4% of the GDP, even though it still represents 10% of employment. Also Portugal is a service economy because manufacturing is responsible for only 18% of output and 19% of employment. These are the common features of all mature economies. Labour markets, productive structures and patterns of consumption and social reproduction tend to display a similar evolution, as is well known.

A comparative perspective is very useful here. By considering the Portuguese economy and the EU-15 economies and then observing the product structure, the main results are: the latter have a slightly higher weight of services (71% *vs*. 67%); are similarly industrialised (19% *vs*. 18%) and are less agricultural (2% *vs*. 4%). The main disparities occur in the building sector (5% *vs*. 8%) and are particularly significant within the service sector. Actually, if we consider the share of non-market services (largely equivalent to the services supplied by public administrations) and the share of market services (provided by firms) we perceive that a similar global level of service economy has, nevertheless, a very different meaning. In Portugal the service economy is strongly influenced by the public and social supply of personal collective services. It represents 27% of the GDP in Portugal and 22% in EU-15. In the Union the service sector is clearly organised around a sub-sector of market services; its weight in product is 48% (against 40% in Portugal). In fact, even the growth of the service sector in Portugal since the beginning of the 1980s (23%, against 17% in the EU) very clearly illustrates the effect of collective services growth (it was a growth of 36% in Portugal and of 5% in EU-15). Market services grew only 15% in this period in Portugal (24% in EU-15).

Here is a point in which the State and the market tend to occupy the same field, with different consequences – i.e., if we consider the service economy formation as the process that best exemplifies the emergence of new economic dynamics, then we might expect to find a weak space for market governance. Instead, we find a space where the public presence is relevant.

3.1.4. *External relations and direct investment: old and new issues*

From a quantitative point of view, Portugal has never received high amounts of direct foreign investment (this does not mean that their modernisation effects were not relevant). However, after 1986 (the year of Portugal's accession to the EEC), important capital inputs into the Portuguese economy through foreign direct investment were registered. In 1988-1992, they represented in average about 3% of the GDP each year, which is considerable. It was investment in export sectors, particularly in the automobile and electronic sectors. This was significant for the changes in manufacturing specialisation and in exports as outlined above.

Nevertheless, since the mid-1990s foreign investment has lost its importance in terms of net inflow. At the same time, a radically new phenomenon appeared: the Portuguese economy became a net investor abroad. This happened between 1998 and 2002. Brazil was one of the main destinations for Portuguese investment.

3.1.5. *Financial relations: an external deficit*

Portugal is an economy that shows a permanent deficit. It imports more goods than it exports: in 2001-2003 the negative balance was 10% of the GDP. It has a surplus (about 3% of the GDP) from services (through tourism), but this is not enough to compensate for the deficit of goods. In fact, tourism has a significant role in the Portuguese insertion in the international economy, but its effect is limited. The same is true with emigrant's remittances, which tend to represent between 2% and 3% of the GDP. The capital account shows a balance, but only when EU Structural Fund transfers (also some 3% of the GDP) are included.

In structural terms, therefore, the Portuguese economy is dependent on external financial resources. In 2001-2003, the use of foreign savings by the Portuguese economy was equivalent to 6% of the GDP. The main way of guaranteeing this input is the policy of re-financing by commercial banks, which use these resources to develop an active credit policy to households. It was in this context that household consumption standards changed significantly. In 2003 family debt including mortgages was equivalent to 103% of their annual net revenues.

The balance between wealth creation and expenditure is not, therefore, assured domestically. As a place of production the market is weak. It is, nevertheless, active as a place of consumption. External resources are crucial for reaching equilibrium. Inflowing foreign savings and banking credit policies facilitating household consumption and debt are devices that give space of action to the market economy.

3.1.6. *Labour market and international mobility of workers: immigration as a new phenomenon*

Portugal has an economy that is very labour intensive. Its 10.4 million inhabitants have a high level of participation in the labour market (52%, in total, in 2003). This is true both for males and females. 79% of people between 15 and 64 years of age have an active participation in the labour market. For women the rate is 66%: this is one of the highest in Europe. The unemployment rate was 6% in 2003, but in recent years it has been around 4%. Nevertheless, the efficiency of labour force use is not high.

The very new feature of the national labour market is intensive immigration over the last few years. Almost 500 000 immigrants, mostly from Eastern Europe, Brazil and Africa have been registered since 1990.

3.2. State and institutions: contractuality and externalities

The economy is not only material structures nor is it only production and consumption. Institutions, decision cultures, behaviour of actors and agents, governance and regulation also are central to how an economy functions. A wider economic paradigm than that of market rationality is needed to observe the way in which economic actors are coordinated, how the thickness of market, State and community is formed.

In what follows I try to show the role of the State as a coordinator of collective life and how it is present in the economy. I will insist on a perspective where relations and contractuality are central. It will be demonstrated that the State compensates the weakness of the market and designs the context of its action. For instance, the State's role in the integration into the international regime represented by European economic integration is clear.

3.2.1. *The State's role: relational order and economic externalities*

The State's centrality in the Portuguese economy is essential because of its influence on economic actors' behaviour and on the relations that they build. In fact, partners in 'economic processes', rather than only 'market relations', have a largely dependent relationship with the State and the contexts which its role creates. To give a meaning to economic opportunities, to reach a consensus for action, and to take crucial decisions, in Portugal, frequently requires the presence of the State.

There is, therefore, an implicit contractualism in the relations between the State and the economy. I will call this kind of contractualism *relational order* and this is my main argument in stressing the importance of the State's role. The evidence and importance of this role cannot be found in statistics or be arithmetically deducted. It results from an understanding of relational dynamics.

If we observe the formation of the economic order during the democratisation process (the decade after 1974) we find, in the first phase, a strong stabilization role played by the State. Then it became necessary to guarantee social rights, which had been non-existent until then (labour rights, wage rights, regulation of social security and health services) and to gather the necessary resources to professionally train and educate future generations. Still in that phase, the management of macroeconomic variables was essentially the role of the Sate. The regulation of external monetary relations, the development of capacity in facilitating foreign exchange, the building of a credit policy, the driving of the economy on a path of production and growth – all these objectives were sought in the absence of strong and autonomous social partners.

The relational framework of the Portuguese economy was also strongly influenced by the State in the second phase of the democratisation process: the Portuguese accession to the EEC (1986). This was significant not only in major urbanisation processes and the planning and financing of urban infrastructure, but also in key publicly financed projects such as the up-grading of inter-city rail services, motorway construction, airport facilities and prestige projects with high level engineering such as Expo 1998, as well as a massive expansion of university education in both the public and private sectors, with both subject to public regulation.

The relational context of the Portuguese economy, therefore, was established on new conditions: it became more international and more institutional. In this new period, the State was a decisive agent of externalities, both physical and symbolic. It was the State that symbolized the idea of integration. It was also the State that symbolized the idea of modernization. The production of fixed social capital, and of infrastructures, has been the main domain for the implementation of the State's role. Social policies and the improvement of human skills also have been important, with extensive programmes.

3.2.2. *The European externality: a* quasi-constitutional *option*

This central role of the State in different phases of Portuguese development became centrally relevant when a structural and *quasi-constitutional* option had to be taken: European integration. The State as producer-of-externalities played a crucial role in the production of what can be conceptualised in general as an 'institutional externality', and in particular as *the European externality*, which was both economic and political and institutional. Here, the State and politics were in a more advanced position than society itself.

European externality can be represented in a very wide universe of structural relations: the social and political model taken as reference; the predominant logic of regulation (competition, scientific and technological model…); mobility processes (goods, capital, and people) and especially a context of modernization and cohesion as the one that J. Dellors built in the European Commission. The integration process is, therefore, much more than a process of monetary transfers, within the framework of regional European policy. Beyond the institutional aspects, we have already seen, for instance, how the geography of the Portuguese foreign trade changed significantly after the accession.

There is no doubt, on the other hand, that the modernization process that followed Portuguese integration gave the State a stronger position than before. After 1992 (when the Second *Community Support Framework* was in full development) the weight of the net balance of financial relations with the EU reached amounts of around 3% of the GDP (a figure similar to the emigrants' remittances after 1995). This is a significant volume. But it is more than a number: it was a key element for the centrality of public action and the State in the Portuguese economy and society. The State is, in this context, the manager of a strategy and of its resources and meanings.

In a wider perspective, the 'option for integration' – the definition of the new context for economic and social performances – is a clear illustration of what represents a major role of the State in contemporary societies: the definition of international regimes. In reality, it is enough to acknowledge that the role of the State is not well represented by a simplistic liberal vision to conclude that this point is very important.

3.2.3. *State direct presence in the economy: public expenditures*

The notion that the State is a central partner in the contractuality that shapes the economy – the principal agent of the relational order – does not have to mean that the State also has a concrete material structure. I am not actually referring to State patrimony. The privatisation logic of the public sector is dominant now. I am referring to indicators. The first has been mentioned above: the importance of the social services provided by the State. The second is public expenditures.

Public expenditures in Portugal amount to 50% of the GDP, as in other similar economies. It only reached significant values (above 20% of the GDP) after 1974, when the building of a modern democratic State began. The other relevant steps are those that corresponded to the European integration process. In its initial moment (in the second half of the 1980s) public expenditure reached 40% of the GDP. In a second moment, in the 1990s, when the modernization process accelerated, it reached 50% (Reis, 2001b).

In the context of the European Monetary Union a classical role of the State became renewed: the budgetary policy. We are, again, facing the function of the State as a producer of consensus, signs and options. The relevant point is to know how this may be managed in a context where the private logic has become stronger and challenges the State itself.

4. Conclusion

In this paper I have tried to demonstrate that the Portuguese economy registered several significant transformations in recent decades, the most relevant moments being 1974 (the democratic revolution) and 1986 (EEC accession). I have referred to Iberian integration and to the almost exclusive role of the internal European market as the space in which Portuguese exchanges occur. I have also considered this to be significant for a country whose relational space used to be wider. I referred to the changes in specialization, the emergence of a public services economy, the new condition of Portugal as a net foreign investor and as a country of immigration and its structural condition as a consumer of foreign savings. These are the strategic indicators that I decided to choose in order to obtain a stylised picture of the Portuguese economy.

But, my substantial argument resides in the idea that to capture the essential condition of an economy we have to concentrate our attention on the mechanisms that coordinate collective action and put economics and social actors in convergence. For that, I was interested in the State, the market and the community. I defend an institutionalist approach to the economy. The three mechanisms that I referred to are crucial, indeed, in any economy. But I tried to stress that their particularities give us the particularities of the Portuguese economy. A real analysis of the process of market action brings us rapidly to its limits and weaknesses: its geography, in international terms, is increasingly smaller; it is not a proactive agent (in the service economy, for instance); it acts mainly in institutionally constructed contexts; it obtains some capacities of movement thanks to contributions not assured by it (the availability of foreign savings or the opportunities created by European integration in exports sectors).

The State and the community are necessary complements of the market. The semi-peripheral conditions of Portugal give its community an important role in social governance. This is the case, firstly, because informal processes are still relevant and are devices for social flexibility; and secondly, because internal structures – territory and urban systems, transformed rural contexts, local innovative systems – frequently interfere positively in economic trajectories.

State centrality was one of my repeated arguments: because market and civil society is weak; because institutions and institutional actions have a growing importance in economic processes, and because of European integration I consider the main externality in the Portuguese economy to be a matter of politics and of public management.

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