INTRODUCTION

Portugal adhered to fixed exchange rates for long periods in modern history. The Portuguese currency was pegged to gold from 1854 to 1891. In the twentieth century, the escudo was pegged to sterling from 1931 to 1949 and from 1949 until 1973 the escudo was pegged to the dollar. The monetary authorities exhibited a strong and credible commitment to the maintenance of the fixed rate which is clearly illustrated by the behaviour of the nominal exchange rate throughout the period from 1931 to 1973 (see Figure 8.1). In particular, the escudo–dollar central parity was kept constant from 1949 until 1971, when the dollar was devalued. This commitment is apparent if we compare the behaviour of exchange rates during both wars and immediate post-war years. Thus, the escudo can be considered a hard currency during the 1950s and 1960s, supported by persistent balance of payments surpluses and by large gold and foreign exchange reserves. By the end of the 1960s, the Portuguese monetary gold stock was about 2.25 per cent of the world total monetary stock.

The International Monetary Fund (IMF) and the International Bank for Reconstruction and Development (the World Bank) were established at the end of the Second World War as a result of the international agreement reached at Bretton Woods in 1944. The architects of the new international monetary system recognised the importance of full employment and price stability as main economic goals and advocated a system of fixed exchange rates as a way to promote free trade among countries. The provision of international means of payment through the Fund was envisioned as a means to avoid the need for deflationary policies to cope with temporary balance of payments disequilibria. The adjustment of the exchange rate was envisioned as a means to avoid ‘fundamental disequilibrium’. Portugal did not participate at the
Conference. Nevertheless, interest in the Bretton Woods arrangements and its consequences for the world economy were recognised by some Portuguese economists. In fact, in 1946, the Centre for Economic Studies of the National Statistics Institute supported Ulrich’s (1946) proposal for Portuguese admission to the Fund. However, Portugal only