Reorganizing the Escudo Zone: Portuguese Monetary Policy and Empire-Union in Africa in the 1960s

Maria Eugénia Mata

Abstract: In the 1960s, the escudo zone, comprising Portugal and its African colonies, countered the trend of European decolonization. The Portuguese state reorganized monetary relations in the empire-state with the help of a new legal framework. The aim of this imperial economic reorganization was to establish a balance of payment relations which was expected to facilitate Portugal's economic modernization and the country's association with liberalizing economies in Western Europe that were experiencing rapid economic growth. However, the escudo zone soon became dysfunctional. Mata explains why the designs of economy building in a Portuguese empire-state could not be realized, given the trend toward independent political and economic development in Lusophone Africa.

Résumé : Dans les années 1960, la zone escudo, comprenant le Portugal et ses colonies africaines, a contré la tendance à la décolonisation européenne. L'État portugais a réorganisé les relations monétaires dans l'État-empire à l'aide d'un nouveau cadre juridique. Le but de cette réorganisation économique impériale était d'établir des relations de balance des paiements qui devaient faciliter la modernisation économique du Portugal et l'association du pays aux économies en voie de libéralisation d'Europe occidentale qui connaissaient une croissance économique rapide. Cependant, la zone escudo est rapidement devenue défaillante. Mata explique pourquoi les conceptions de la construction de l'économie dans un État-empire portugais n'ont pas pu être réalisées, étant donné la tendance au développement politique et économique indépendant en Afrique lusophone.

Resumo : Na década de 1960, a zona do escudo, que abrangia Portugal e as suas colónias africanas, ia em contracorrente face ao movimento de descolonização

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europeia. O Estado português reorganizou as relações cambiais no Estado-império com a ajuda de um novo quadro legal. O objetivo desta reorganização económica imperial era criar um equilíbrio nas balanças de pagamentos, que deveria facilitar a modernização económica de Portugal e a aproximação do país às economias liberalizadoras da Europa ocidental, que nesse momento atravessava um rápido crescimento económico. No entanto, a zona do escudo depressa se tornou disfuncional. Mata explica as razões por que os intentos de desenvolvimento económico no Estado-império português não puderem ser concretizados, tendo em conta as tendências rumo a um desenvolvimento económico e político independente na África lusófona.

Key words: Escudo Monetary Zone; Lusophone Africa; Portugal; colonization; economic development

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In the early 1960s, Portugal reorganized the escudo zone in Africa as the Escudo Zone Monetary Union (EZMU), which comprised mainland Portugal and its overseas empire. Bureaucrats in the Portuguese state were attempting to recast their monetary relationships in order to facilitate Portugal's gradual integration with the liberalizing economies of Western Europe. By the mid-1960s, however, the attempt to use earnings from colonial raw material exports to support Portugal's balance of payments had reached its limits. The quest to make colonial currency relations usable for Portugal's economy-building proved irreconcilable with the increasing demands on development to enhance colonial export performance as well as with demands for decolonization. Consequently, the Portuguese state failed to foster an imperial-colonial currency union. At a time of the colonial wars, the colonial financial-credit net positions for balances of payments turned into financial-debt net positions and confidence in the EZMU was on the wane.

The policies of the Portuguese empire-state of the 1960s show considerable historical continuities. As a pioneering maritime power, Portugal had not only established settlements on the Atlantic islands of Madeira and the Azores but had also been an early colonizer of coastal regions in Africa and Asia since the fifteenth century. During the seventeenth century, Portugal established a colony in South America that became known as Brazil. The Brazilian plantation economy operated with African slaves in the triangular trade across the Atlantic, in line with the international division of labor for the production of tropical goods. This trade introduced Portuguese currency into Africa, as was the case with other European powers at that time.

Following the independence of Brazil in 1822, Portugal envisaged the creation of plantation economies in Africa as an alternative. Dreams to rebuild a prosperous Portuguese nation became a prominent feature of parliamentary debates between the 1870s and the early twentieth century. The political blueprints of all Portuguese political parties reflected these ideas (Mata & Valério 2011). In the late nineteenth century, the projects of a

Portuguese empire in Africa imagined Portugal as the center of vast and rich overseas satellite territories whose tropical agrarian production and mineral resources would create the conditions for the mainland's modernization and prosperity. Sanctioned by the Berlin Conference in 1885, this empire in Africa consisted of the three vast territories, Guinea, Angola, and Mozambique, and the two archipelagoes Cape Verde and São Tome and Principe.

In the course of the nineteenth century, land grants to white colonizers geared colonial economies toward export-oriented farming at the expense of local forms of production and social organization. The Portuguese monarchy, until its end in 1910, supported corporate ventures for the development of the empire (Birmingham 2015). Plantations of colonial crops and agribusinesses focused on the production of coffee, cotton, cocoa, tropical vegetable oils such as palm oil and peanut oil, sisal, and sugar for alcohol and rum production. Even the opposition Republican Party was enthusiastic about colonial rule and heralded its role in Portugal's material progress (Laíns 1998a). Pragmatism and a fascination with modernity were hallmarks of the period (Reis 1993:193). After 1926, António Salazar's third colonial empire supported the projects that had been initiated by the Portuguese elite.

Theoretical studies of the economics of currency areas abound. However, historical research assessing policies in currency zones has mainly focused on the sterling area (Schenk 2010). Currency relations in the escudo zone have only recently been more fully investigated (Mata 2020). The escudo zone was one of a number of colonial currency systems that marked the extension of European power in Africa during the first half of the twentieth century (Guyer & Pallaver 2016). For example, Britain standardized monetary relations in West Africa by establishing the West African Currency Board in 1912 (Hopkins 1970; Narsey 2016). Exports from colonies supported the balance of payments of European colonizing countries and the fixed exchange rates of their currencies (Davis & Huttenback 1986; Boxer 1977). Colonial currency management, moreover, assisted the management of the gold standard as a regime which ensured the convertibility of the currencies of this club of rich countries into gold, thus contributing to the economic growth and prosperity of the colonizers (de Cecco 1979; Offer 1993).

The present inquiry focuses on the official policies behind the formation of the EZMU in the 1960s, with a discussion of the objectives of official policymaking and its implications. Such a comprehensive analysis has hitherto not been advanced. However, the article does not claim to be able to capture the predicament of African money users. That story still needs to be told. The analysis will first place the creation of the Portuguese Economic Space and the EZMU within the context of Portugal's imperial economic history. Subsequently, it will be shown how the state reordered monetary policy in the EZMU. The three main sections of the article then elucidate Portugal's aims of economy-building in the African colonies and the crisis that ensued in the management of the monetary union beginning in the mid-1960s.

The Empire's Legacy and the Portuguese Economic Space in the 1960s

Late-nineteenth-century globalization brought new opportunities and challenges to the production and trade of tropical goods (Foreman-Peck 2001). Agribusinesses sought to benefit from geographical locations determined by climatic factors and from the availability of labor, spreading across the world's tropical regions (O'Rourke & Williamson 1999). One can see continuities between Portuguese economic initiatives in the late nineteenth century and the formal creation of the EZMU in 1961–62, which aimed to reinforce the economic integration of Portugal and the empire. Colonial development and human capital formation of Portuguese citizens were the main concerns in the Portuguese strategy for economic growth.

The colonies were also a traditional feature of the nation's culture (Bethencourt & Ramada Curto 2007). The Portuguese people looked back to a golden era—a time when the country's colonial territories had made Portugal a pillar of prosperity. But this era had vanished with the independence of Brazil.[1] In the late nineteenth century, Portugal's colonization of Africa received a new impetus partly because of the rush of European imperial powers into Africa (Clarence Smith 1985). In 1864 the National Overseas Bank BNU (Banco Nacional Ultramarino) was granted the issuing monopoly for currency in the colonial empire. However, as coffee and other African commodity prices suffered a decline after the boom of the first half of the 1920s, relations with Angola resulted in a financial crisis at BNU that culminated in the loss of currency issuing rights. These rights were subsequently awarded to the Banco de Angola (Valério 2021). The monetary unit in all the territories under Portuguese sovereignty was the escudo, but there were different currencies in circulation in each of the colonial territories (Estêvão 1991).

European investors and corporations preferred culturally close settler environments for their business initiatives because of the difficulties faced by entrepreneurship in unfamiliar environments (Edelstein 1982). In some ways the logic of Portugal's engagement with Africa was like that described by D.C.M. Platt for South America: Capital moved "to sparsely peopled areas where conditions for rapid growth along familiar Western lines were exceptionally favourable" (1986:101). As is well-known, capital flowed particularly to free-standing companies in European colonial territories (Wilkins & Schröter 1998). In this manner, risk could be minimized to protect investors and promote the transfer of their knowledge and technology.

Diversified portfolio opportunities in overseas investment also helped to minimize risk (Goetzmann & Ukhov 2006). In this regard, the firms' financial reporting, production performance, and organization considered the mix of local management and obedience to distant boardrooms. Organizational innovations were important to cope with the challenges of distance, climate, and shortages of capital and labor, to improve accountability, and reduce

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risks for shareholders (Grossmann 2015; Austin 2007). By giving concessions to selected joint-stock companies in some areas of Mozambique (the so-called *Companhias Majestáticas*), where the Portuguese administration was sparse, the government transferred the responsibility for establishing a Portuguese presence to those free-standing companies during the period of the concession. Corporations emerged as the institutional framework for promoting Portuguese business in Africa. The administrative seizure of those territories through settlement and effective occupation can explain the rush of corporations to Africa throughout the nineteenth century.[2] The private incentives for them to invest capital depended on the opportunities to finance local expenditures by the central state, on the one hand, and the political support they received from the Portuguese government, on the other, as a reward for such a coalition (Duarte 2000). The government promoted economic relationships by extending to the overseas territories the legal provisions that governed national and foreign direct investment in metropolitan Portugal. Nonetheless, investment hazards and market fluctuations were serious problems, in addition to the costs involved in globalization (Bordo et al 2003).

During the entire period of the Estado Novo state between 1926 and 1974, Salazar's and Caetano's governments pursued policies that sought to preserve the Portuguese empire (Cardoso 2012). The overseas territories offered an outlet for emigration during periods in which the economy of metropolitan Portugal was suffering under cyclical fluctuations or when other destinations for emigrants were not available. Moreover, Portuguese investors continued to benefit from colonial overseas investment (Laíns 1998b). The state facilitated economic activities by providing public goods, namely security, a legal framework, including courts for conflict settlement, and infrastructural facilities. In 1940, statistical yearbooks and annual reports began to publish statistics on Portugal's colonial economies, confirming the government's continued commitment to colonial rule. Quantitative information was crucial for private Portuguese corporations in the colonies.[3] During this whole period, the government defended the notion that Portugal was not a colonizer, but rather a cohesive nation made up of diverse citizens who lived in territories spread across all continents of the world, from Portugal's provinces in mainland Europe to East Timor in Asia.

By the 1960s, however, youths from the overseas territories who came to study at Portuguese universities contested this official philosophy. Subsequently, these students founded political movements seeking independence, which received international support. In Portuguese historiography, the year 1961 is considered to constitute a dramatic turning point for colonization and the Portuguese economy. In reaction to covert actions that preceded the guerrilla war, described in near-contemporary official reports, the Portuguese government dispatched a large military expeditionary force to Angola, Guinea, and Mozambique with the aim of suppressing the uprising and preserving the empire.[4] Nonetheless, Portugal's imperial reorganization of the escudo zone occurred at this time of armed conflict in the colonies.

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The Reorganization of Colonial Economic Policy in the 1960s

Metropolitan Portugal joined the European Free Trade Association (EFTA) in 1959. However, political ties with the empire were stronger than with the EFTA partners in Europe. It is instructive in this connection that Salazar's deputy José Correia de Oliveira wrote a book on the advantages for Portugal of joining EFTA to create a functioning EZMU. The overseas territories in the Portuguese empire, he argued, were an integral part of Portugal's national entity.[5] Portuguese officials emphasized that EFTA was a way to achieve economic integration with Europe, which would come after a long negotiating process. However, imperial economic integration was a necessary and unavoidable national mission to preserve Portuguese sovereignty in its overseas territories. Portugal's participation in the General Agreement on Tariffs and Trade (GATT) required that it extend most-favored nation treatment to all its trading partners.

The existing trade regime in Portugal at the time applied customs tariffs for commodities from the Portuguese Economic Space (comprising metropolitan and overseas Portugal), which were lower than those for similar categories of commodities from foreign countries and their dependencies. Oliveira argued that it would have been possible to negotiate Portugal's objectives in the GATT framework by stipulating that all of Portugal's trading partners should accept its preferential trading arrangements, as a way of overcoming the differences in tariffs that resulted from the origins of the respective commodities. However, such a solution conflicted with the government's political intentions and the aims of the Portuguese constitution, which prescribed the economic integration of "the Nation," and, therefore, the abolition of tariffs in trade within the entire area under Portuguese administration.

In the case of negotiations with the European Economic Community (EEC)—as an alternative to EFTA—and the inclusion of all the different overseas territories, international difficulties would have arisen since the European partners would have had to reconsider conditions of trade with each individual Portuguese colony. Although EEC markets played a major role in the exports of the Portuguese colonies, these were mainly raw materials and agricultural products, for which EFTA also did not impose tariffs. From this perspective, there was, therefore, no advantage to joining the EEC. At the same time, the EEC framework would not have allowed Portugal to retain any privileges for national transport or the "national-flag" in shipping. Under these circumstances Oliveira expected businesses to demand compensation.[6] The reduction of fiscal revenues for the state resulting from the abolition of tariffs, however, was not a concern. Consumption taxes could be introduced to offset any resultant losses.[7]

African producers certainly felt the pressures ensuing from these policies, which increased demands on local production and productivity, though it is unlikely that they were aware of the specific logic of Portugal's colonial monetary strategies. The decision to associate metropolitan Portugal with EFTA was no coincidence. Lengthy deliberations by officials considered the increasing importance of the European market for the empire's exports of tropical crops and raw materials.[8] Joining EFTA would, therefore, be beneficial for the colonies, as Oliveira argued.[9]

For Portugal, there was no contradiction in belonging simultaneously to EFTA and to a free trade zone with the overseas territories. The expectation was that Portugal would benefit from the synergies created by using the same bureaucracy in dealing with economic and financial matters for Portugal and the empire. In line with contemporary development doctrines, commercial and investment banks operating in the African colonies, moreover, were expected to play an important role in financing economic activities and in contributing to modernization and prosperity.[10] Oliveira's plan held that economic integration was in the interest of the entire Portuguese Economic Space and based on the participation of all its members. The aim was ostensibly to enhance investment capacity to solve national problems at the regional level of economic development.[11]

The long-term objective was to abolish all tariffs within the Portuguese Economic Space. This philosophy was widely propagated in the home press and in official political speeches. The national strategy for economic development in the entire Portuguese Economic Space was to diversify economic relations with EFTA countries, setting out from a free trade area of the Portuguese Economic Space. Official arguments conceded that free imports from EFTA members would seriously hamper the process of industrialization in Portugal's overseas territories.[12] This was, however, a desired effect from the viewpoint of policymakers. In this way, a strong market would be created for metropolitan Portugal in the Portuguese Economic Space, through which the effects of the exposure to international competition could be accommodated, accelerating the complementary development of the less modern regions, which provided most of the commodities exported to EFTA. Regional plans for economic development were intended to help solve local difficulties in adapting production to plans for national and international competition.[13]

Infrastructural development was central to the development plans. A two-step strategy envisaged the integration of the Portuguese economy with the EFTA markets. It was expected that these markets would provide positive externalities for local and regional development in the Portuguese Economic Space, by benefiting from the participation of international capital investment from European sources. In this way, economic growth would be promoted for a population of 23 million, through their integration in the much larger international markets of EFTA partners. The ultimate vision was the merger of the free trade zone of EFTA with that of the Portuguese Economic Space. Metropolitan Portugal constituted the intersection between the two free-trade zones.[14]

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Economy-Building in the EZMU in Africa

Oliveira's prospective model for economic growth and development sought to enlarge Portugal's European territory by means of integrating the two largest overseas territories, Angola, and Mozambique. The aim was to benefit from a high degree of specialized production geared toward market comparative advantages resulting from climate and resource-based diversification (Hopkins 2006; Wheeler & Pélissier 1971). The argument was that regions of temperate and tropical climate could combine their efforts in a chain-production cooperation, while also benefitting from a greater geological and mineral diversity. Prominent examples include supplies of cocoa for European industries and the export of minerals from the colonies. The latter provided financially profitable resources for international corporations or for firms in mainland Portugal. Moreover, in the case of coffee—a non-homogenous commodity due to varieties of taste and smell—the different micro-climatic conditions in Angola (and in Timor) gave these regions competitive advantages in European markets. Nonetheless, the objectives of the EZMU were difficult to realize, as time would prove, because the free movement of labor and capital faced increasing difficulties.

Portugal hoped to reap the benefits of a secure free market with other European countries while preserving its national legislative and political identity, as well as benefitting from the advantages of a colonial empire. Portuguese officials were not rushing into full integration with Europe; one reason for this was that such an economic integration would have required political unification in the long term in a process that was incompatible with a colonial empire.[15] Portugal's political authorities opted for a national economy in the consolidated political entity of an empire-state in an attempt to emulate the growth performance of the Western European economies after the Second World War (Cassis 1997).

To support this strategy, the Portuguese government created an inter-territorial system of payments using the same monetary unit, the escudo, but with different currency circulations aimed at promoting financial clearing in commerce. The system was designed as a first step toward the future implementation of a single currency circulation within the Portuguese Economic Space.[16] The immediate adoption of a single currency circulation was impossible. Escudo coins and banknotes differed from colony to colony, because in this way territorial payment imbalances could be better addressed on a case-by-case basis without the risk of financial crises spilling over to the other territories.[17] However, a 1:1 parity of all the escudo currencies was established within the EZMU. As the economic integration between all Portuguese territories would only happen gradually, a transition period was needed to accommodate the abolition of domestic tariffs. The first proposal specified two years for the abolition of tariffs on products from overseas territories entering metropolitan Portugal, and a period of two development plans (ten years total) for the abolition of tariffs on products exported from Portugal to the overseas territories.[18]

The purpose of this arrangement was to avoid a situation in which one or more territories would experience financial-debt net positions within the Portuguese free trade zone. To the extent that debt net positions were due to an excessive consumption of imports, the imposition of austerity policies was intended to help to counter this trend. But if the debt net positions resulted from useful and essential imports of equipment conducive to the territory's economic growth, such imports should be supported by funding regional development.[19] The comprehensive legislation to regulate the EZMU was issued in 1961 and 1962 and took effect on March 1, 1963. The Portuguese Economic Space stipulated the free movement of labor and capital. The abolition of tariffs was envisaged only for national-origin products, not for products coming from EFTA countries. The reason for this was that the Portuguese political authorities feared that such a step would provoke a high level of competition with EFTA countries with regard to industrial production, and that the empire would be in a less favorable economic situation than if it had joined EFTA on the same terms as Portugal. The possibility of EFTA membership for all Portuguese territories was another option, but this idea was postponed for future consideration.

The clearing system for all economic and financial relationships in the EZMU resided with the Portuguese central bank, the Banco de Portugal, the issuing institution of the Portuguese escudo for the Metropole. This meant that the Portuguese central bank was also the central bank in charge of a common monetary policy for Portugal and its empire. Staff was recruited to operate the accounting system for mutual payment relations between each of the territories of the Portuguese Economic Space, while each local Foreign-Exchange Fund concentrated on international means of payment in each territory to settle mutual payments without delays. This model of monetary management was inspired by the international monetary regime of the time, namely by the provisions of the International Monetary Fund (IMF). As was the case with the Bretton Woods system, a country facing difficulties in settling payments could benefit from loans from a funding institution. Similar to the IMF, the Escudo Monetary Fund was established through contributions from all the members of the EZMU; it was authorized to provide automatic loans for small settlement amounts to solve transitory payment difficulties and allocate special loans for larger amounts.

There was free movement of labor between the various entities, and maritime connections were greatly improved and increased in frequency. The guerrilla wars in Angola from 1961, Guinea from 1962, and Mozambique from 1964, resulted in the deployment of Portuguese soldiers to the colonies. However, public servants who had fears about the political future of the territories retired to Portugal. And some university students came to Portugal to study instead of enrolling at universities in Angola and Mozambique, which were only established in the late 1960s. At the same time, several political movements called for the independence of the Portuguese colonial territories and lobbied for political rights for Africans, all of which changed the established mobility patterns.[20] The guerilla movements aimed to disrupt the

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colonial export economy; however, they did not engage with the specifics of Portugal's monetary policy in the empire. Moreover, no military actions occurred in Cape Verde and São Tomé and Príncipe, which supplied considerable quantities of cocoa to the European chocolate industry (Veríssimo 2016).

A strategic plan elaborated by the MPLA (Popular Movement for the Liberation of Angola [Movimento para a Libertação de Angola]) for the "revolutionary war in Angola" quoting the aims of guerilla operations on January 9, 1968, warned of future attacks on Angolan coffee plantations in the districts of Uíge, Zaire, and Quanza Norte and the burning of sisal plantations in Quanza sul, Ucua. The main agricultural export crops were coffee and sisal, and technological methods were used to increase crop efficiency. Other crops, such as maize, coconuts, and bananas, were not aimed at global markets but rather cultivated for local use and for export to Portugal. The MPLA aims also included the disruption of diamond mining at Lunda, petroleum exploration at Cabinda, and oil refining in the outskirts of Luanda, as well as Japanese copper mining at Mavoio. Such attacks were intended to affect major cities, disperse Portuguese troops, and bring about the closure of airports. Colonial farming at the agro-industrial poles of Cela and Vale do Loge were also expected to be disrupted, as was the road network.[21]

As for capital mobility, these developments negatively affected colonial economic performance, even if they proved less damaging in military terms than had been expected. However, the guerrilla war frequently disrupted the Benguela railway line, the cross-border railway link from the Atlantic coast to Katanga (Congo Kinshasa). The prospects of Angola's economic performance for national and foreign investors were also hampered. Public investment in infrastructure, however, continued under the third development plan (*Terceiro Plano de Fomento*) for the period 1968–73. Large infrastructure projects for generating electricity were built, especially in Angola and Mozambique. These projects had military purposes, but the government also hoped they would improve Portugal's international reputation (Ferreira & Soares de Oliveira 2018). Private investors were wary, but overall, production and raw material exports suffered relatively little. Yet requests to transfer savings, dividends, and capital from the colonies to Portugal ultimately had a negative effect on the balance of payments between the African territories and metropolitan Portugal. This problem was to challenge the foundations of the EZMU.

The Economic Space in Crisis

Numerous factors contributed to colonial net negative positions in the balance of payments with metropolitan Portugal, increasing delays in the settling of payments between the colonies and Portugal, especially Angola and Mozambique (Da Costa & Mata 2011). In order to support free trade and competition in the entire Portuguese Economic Space, tariffs had been

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abolished for trade between all Portuguese overseas territories, with the exception of production from the two archipelagoes, Cabo Verde and São Tomé and Príncipe. Cabo Verde had an important seaport for international navigation and Atlantic Ocean carriers, and São Tomé's economy was characterized by the export production of cocoa for international markets.[22] Under the law of January 1, 1962, the process of trade liberalization was to continue.[23] The EZMU faced many difficulties during the period of its existence and was able to overcome some of them. It was necessary to improve fiscal harmonization to ensure the same conditions for competition between national firms that imported equipment or raw materials, and to define rules of origin for foreign goods. As Portugal adhered to the rules followed in EFTA, those were gradually implemented, including a protectionist policy against foreign products that competed with national ones, namely rice, maize, beans, cotton, sugar, and tobacco. Meanwhile, colonial infant industries benefited from free trade, low taxes, credit, and access to efficient transportation facilities for exports.

Despite these measures aimed at promoting economic growth, the EZMU was confronted with the problem of the payment imbalances of Angola and Mozambique. Although the EZMU Fund was designed to provide balance of payment support for all territories, one of the basic conditions of monetary unions could not be realized, namely the free flow of capital. Unlike in the 1950s and early 1960s, from the mid-1960s permanent net debt positions between both Angola and Mozambique and metropolitan Portugal occurred. Consequently, the local Foreign-Exchange Funds of São Paulo de Luanda and Lourenço Marques (now Luanda and Maputo) depended on their earnings from exports to foreign countries converted into metropolitan escudos to clear their debt positions toward mainland Portugal. The only alternative was the provision of escudo loans from Portugal to settle the payments.

In line with the principles that had been defined at the time of the EZMU's creation, austerity policies were instigated to curb the local consumption of imports from Portugal. Such policies were implemented according to legislation issued in 1967.[24] But more fundamental problems were difficult to solve. An important share of imports consisted of equipment for infrastructural development and industrialization. Moreover, attempts to minimize imports from mainland Portugal failed, because certain consumer goods were essential for settlers in isolated tropical regions, such as imports of powdered milk, refrigerators, and vehicles. Such imports were also required for the war effort to sustain Portugal's colonial rule. At the same time, requests for money transfers to metropolitan Portugal resulted in a real hemorrhage of profits, dividends, capital, and local savings. According to the political dreams that underpinned the EZMU, these outflows ought to be compensated by inflows of Portuguese investment into the colonies. This aim, however, could not be accomplished. A good indicator of this imbalance is the number and equity of corporations operating in the colonies (*colonials*) listed in the Lisbon Stock Exchange (see Table 1). Although the number of

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listed colonials increased from 24 to 33 during the EZMU, the weight of their total equity in the listed equity declined from 25.5 percent to 4 percent, a value far below the 34.7 percent in 1950. This means that the equity of listed firms was more and more devoted to businesses with EFTA markets and not to those with the empire. The wars of independence hampered the investment of Portuguese savings in the colonies.

The development plans for the colonies required imports of mining technologies, tools, and equipment from mainland Portugal for the improvement of rail and road networks and other infrastructures, as well as military equipment, which was to be purchased by the colonies using metropolitan escudos. The imports of machinery and cars and other consumer goods for colonialists cancelled out the surpluses in the trade balance. The spread of regional industrial activities was thwarted, however, because policies ensuring similar conditions for the founding of firms in all regions of the colonial territories could not be implemented. The unification of credit policies was difficult or impossible to achieve during the wars of independence. Regional specialization to reinforce economic and financial interdependence to support the balance of payments position vis-à-vis Portugal depended on confidence and expectations regarding the political future of the entire empire. The generalized trend of sending savings and repatriate profits to metropolitan Portugal caused delays in settling payments with Portugal and is indicative of the preference of colonial economic agents to transfer funds to a location that was safer (Mata, Nunes, & Roldão 2021). The problem was that transfers needed to be delayed until the respective colony had a balance of payments capable of clearing these operations. As such delays increased, fears grew regarding the ability of the EZMU to clear the financial flows, prompting people to increasingly ask for rapid transfers. The Escudo Monetary Fund was unable to provide more loans to the debtor territories, and previous loans were routinely rolled over and renewed. The colonial foreign exchange funds did not have the capacity to sustain the current demand for

Table 1. Number and Equity of Corporations Listed on the Lisbon Stock Exchange.

	1950	1955	1960	1965	1970	1973
Total Number of Listed Corporations	110	123	132	137	136	145
Number of Listed Colonial Firms	23	28	24	33	33	34
Equity of Colonial Firms in Total Listed Equity	34.7%	33.2%	25.5%	13.8%	12.9%	4%

Sources: Lisbon Stock Exchange Daily Bulletins, Lisbon EURONEXT Historical Archives (Mata, Rodrigues & Justino, 2017), and the database at http://www.uc.pt/imprensa_uc/Lisbon_Stock_Anexo_Estatistico/.

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transfers, much less to pay for debt servicing, and even less to repay previous loans (Mata & Machado 2017:245).

The agent of the EZMU, the Banco de Portugal, repeatedly alerted overseas political authorities and the Portuguese government to the situation. But the government always postponed any discussion about this fundamental political-financial issue in the hope that the colonial balance of payments with Portugal would improve, arguing that the Portuguese central bank had not proposed any solution. People living in the colonies affected by delays in their requests for payments to Portugal wrote countless letters demanding the settlement of their transfers, invoking business reasons and family or personal needs. Exporters in metropolitan Portugal also asked for a settlement of payments regarding their exports to the colonies. The lack of confidence in the entire monetary system was evident in 1968, following the dismal effects of the 1967 austerity legislation. This happened at a time when all the neighboring countries of Portugal's colonies had gained independence.

In Portugal, meanwhile, controversies about the country's military involvement in the colonies intensified, raising questions about imperial economic cooperation. The colonial war aggravated fears about the future of the empire among entrepreneurs, reducing Angola's appeal as a business location, even if the war ironically also increased mobility between Portugal and its colonies due to the increasing recruitment and deployment of Portuguese soldiers for the war in Africa. In the army, a political movement "inspired by the principles that gave origin to the revolution of 28 May," which brought Salazar to power in 1928, approved a document to warn those politicians who "had deviated from these principles."[25] This Independent Movement of the Army, *Movimento Independente do Exército*, approved a document to ask for a national referendum to define the future of the colonies, defending the social doctrine of the Catholic Church and the fundamental principles of God/Fatherland/Family (*Deus/Pátria/Família)*, and rejecting the policy that was pursued in the African colonies. The document—approved in Guinea, Mozambique, and Angola in August 1967—suggested a political solution to the conflict, to be negotiated with the independence movements in the colonies. Its initiators proposed replacing the current (and incompetent, it was claimed) military authorities. The Portuguese regime remained silent on these issues. However, it found it difficult to suppress the university students' protests against the colonial wars and military recruitment.

At the same time, the regime embarked on new colonial development schemes.

For the purpose of international funding with the help of foreign direct investment, several conglomerates were created for a dam project, headed by Siemens in Germany, General Electric in the USA and Europe, and Associated Electrical Industries International, using American, Canadian, Swedish, Italian, Portuguese, and British capital.[26] This influx of foreign capital increased the available capital for investment within the empire. In 1966,

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the huge hydroelectric project had been proposed in Cahora-Bassa using foreign capital, as part of the Zambezi Plan in Mozambique.[27] The Portuguese Board of Ministers approved the project, the largest in sub-Saharan Africa, on July 2, 1968. Malawi and South Africa were also interested in the energy supply generated by Cahora.[28] The project, however, reflected the imperial-colonial objectives of the Portuguese state rather than "African" decision-making in one form or another. The start of the construction of the Cahora-Bassa dam, with an expected capacity of 50,000 million kWh, was planned for 1973 (Pateguana 1997, 2016). Given the region's proximity to and close economic relations with South Africa, and this country's size and electricity needs, agreements with South Africa needed to be in place by March 1967. This was necessary in order to plan the transfer of the energy in terms of quantity, power, and price.[29] At that time, however, the export of electricity, and exports of produce from many other schemes, were not yet available to achieve an equilibrium in the colonial balances of payments with Portugal.

In 1968, Portugal's 83-year-old head of state Salazar became incapacitated and was replaced by Marcelo Caetano, who inherited the problems of the EZMU. Figure 1 shows the cumulative net positions of each colony with mainland Portugal since the beginning of the operation of the EZMU in 1963. The cumulative negative net positions of Angola and Mozambique explain the cumulative net negative positions of the entire overseas empire with mainland Portugal.

The credit net positions of the Asian colonies (and the balanced positions of Cape Verde, Guinea, and São Tomé and Príncipe) could not compensate for the Angolan and Mozambican financial-debt net positions. In order to remedy the delay of transfers from the colonies to Portugal, Caetano asked for a technical assessment and, in 1971, initiated a reform of the EZMU. The capital of the EZMU Fund, which had financed automatic and special loans, had been exhausted by that time. The reform increased austerity for imports by the colonies from Portugal through a new paradigm of colonial taxation, which included tariffs and quotas.[30] The new framework authorized the local colonial Foreign-Exchange Funds to secure loans and take responsibility for their management and repayment. The implications of this policy—similar to policies that had previously been adopted by most imperial powers to ensure that colonial territories would be self-supporting—proved politically disastrous for the Portuguese regime in the context of the 1970s (Gardner 2012).

Colonial elites soon raised objections to this reform, accusing Portugal of abandoning the very principles that underpinned the monetary union. The Angolan and Mozambican accumulation of debts toward Portugal increased in a self-sustaining process. Waiting times for payments increased dramatically because of a generalized and increasing collective desire to transfer private savings and capital. Outflows through transfers to Portugal led to delays of about a year, increasing the frailty of the EZMU (Mata & Machado 2017). Corporations could not repatriate their profits, Portuguese exporters to the

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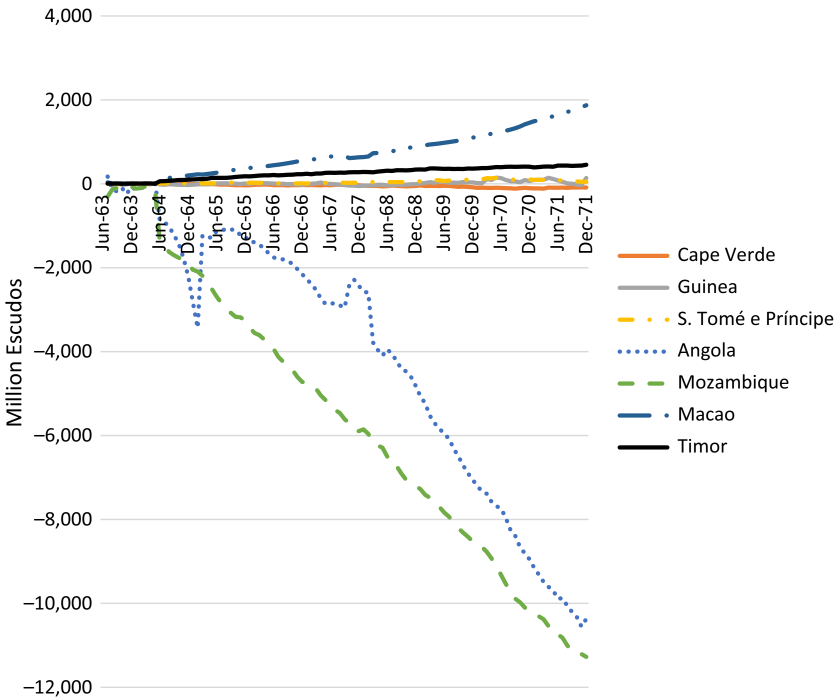
Figure 1. Cumulative Net Positions of Each Colony with Mainland Portugal since the Beginning of the Operation of the EZMU (March 1, 1963).



Source: ***Fundo Monetário da Zona do Escudo, Relatórios Mensais do Agente.*** **Banco de Portugal. Historical Archives. Monthly data at https://www.bportugal.pt/arquivo/details?id=21717&ht=monet%C3%A1rio https://www.bportugal.pt/arquivo/details?id=21686.**

colonies experienced unacceptable impediments to receiving payments, and shareholders in mainland Portugal wanted to receive their dividends.

The reform of 1971 (approved by decree-law 478/71) also authorized the issue of a 3 billion escudos domestic loan to increase the capital of the EZMU Fund to "address all orders of payments that were in arrears" (Mata 2020: 94). Meanwhile, colonial movements fighting for independence advanced due to improved military equipment, which posed increasing problems for Portugal. Guinea unilaterally proclaimed its independence in September 1973.[31] The first oil shock of 1973 aggravated the crisis and affected Portugal's financial capacity to go on funding the EZMU. In Lisbon, the military revolution of April 25 put an end to the old regime. The new leaders immediately announced decolonization, which marked an unprecedented discontinuity in the long history of Portuguese colonial rule, which had been in effect in parts of South America, Africa, and Asia since the fifteenth century (Da Costa & Mata 2011).

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Forming a new post-colonial escudo zone was not feasible, unlike in the cases of France and Britain (Schenk 2010). Suffice it to say that the prolonged military conflict between Portugal and its colonies gave rise to national designs of economy-building which were irreconcilable with the creation of a postcolonial monetary union. In the independence agreements negotiated with Portugal, each of Portugal's African colonies stated that it wished to introduce its own national currency. The Argel accord of August 26, 1974, with PAIGC introduced the *peso* in Guiné-Bissau and a new currency called *escudo* in Cabo Verde. The Lusaka agreement of September 7, 1974 with FRELIMO installed the *metical*, a name derived from a unit of weight in Mozambique. The Argel accord of November 26, 1974 with MLSTP introduced the *dobra*. The use of old Portuguese names for the new monetary units is indicative of the way in which the colonial currency was remembered in different colonies, either positively or negatively. The new monetary units celebrated political independence, national identity, and self-reliant African statehood. Immediately following independence, the old colonial banknotes were stamped to exhibit the respective names of the new national currencies; they were gradually replaced by new notes showing the images of national heroes (Mata 2020). The national banks of the newly independent countries have since that time been assuming central banking functions for regulation and supervision in a more sophisticated financial system that has involved relationships between insurance companies, commercial banks, and national monetary policy.[32]

Conclusion

The EZMU, which between 1961 and 1972 strictly regulated relations between Portugal's African territories and metropolitan Portugal as a monetary union, was designed to constitute an institutional framework for boosting trade, economic growth, and development, thanks to the free movement of labor and capital. The political ambitions of the Portuguese government prompted policies aimed at alleviating barriers to trade in order to reap the advantages of linkages with another free trade zone, namely EFTA. The wider aim was the integration of Portugal with the liberalizing economies of Western Europe. Accounting and organizational routines in the EZMU were focused on clearing the relationships of trade and payments with the colonies while overcoming problems posed by managing their economies from a distance. To accommodate transactions and exports, the EZMU settled payments of all economic and financial relationships. The government made expertise available in all territories regarding techniques of financial reporting, the assessment of production performance, and organization, relying both on local management and metropolitan control.

However, the structural dimension and developmental differences between the economies of the colonial territories of the EZMU and metropolitan Portugal inevitably led to permanent financial-debt net positions for balances of payment between the largest overseas territories and metropolitan Portugal. On the one hand, there was Portugal, whose industries aimed to modernize and liberalize in line with Western Europe. On the other hand, there were overseas primary producers intent on diversifying their economies, including with industrial developments. Impediments to trade, colonial wars in the three largest colonial territories, and the effects of the generalized decolonization in the world order in the aftermath of the Second World War are all factors that can help to explain the rapid flight of savings, dividends, and capital, as the political future of Portugal's colonial empire became tenuous.

In spite of the reform in 1971, the EZMU did not succeed in promoting political cohesion between metropolitan Portugal and the overseas colonies. The war and the financial difficulties due to military recruitment in Portugal, together with the first oil shock of 1973, exacerbated the disarray of the EZMU. The military coup of April 1974 ushered in decolonization and democracy, and Portugal left the EFTA to join the EEC. In Africa, the escudo did not survive decolonization. New national currencies replaced the Portuguese currency, reflecting the ambitions of political independence and national pride.

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Notes

1. See, for instance, Oliveira Martins and Joaquim Pedro, *O Brasil e as colónias portuguesas* (1st edition, 1880. Reprint 1978. Lisbon: Guimarães & C[a]).
2. For a contemporary source, see T. A. Almeida Garrett, *Um governo em África, Inhambane, 1905—06*. (1907, Reprint 2018, Lisbon: Forgotten Books).
3. The first demographic censuses were carried out by the *Instituto Nacional de Estatística* in 1940.
4. For the reports, see Portugal. Arquivo Nacional Torre de Tombo (ANTT), AOS/CO/UL/-50CG, Informações da PIDE-Polícia Política Internacional de Defesa do Estado sobre a situação nas províncias ultramarinas portuguesas, 1968.
5. José Gonçalo da Cunha Sotomaior Correia de Oliveira, *A livre circulação de Mercadorias e o Sistema de Pagamentos Inter-regionais no Espaço Português*. (Lisbon: Presidência do Conselho, 1961: XIII).
6. Ministério do Ultramar, Relatório da Comissão de Estudos sobre a Integração Europeia, ANTT, ASC, cx. 64, nr 458, mat. 1, doc. 1.1., October 7, 1970: 1–2.
7. Custom revenues amounted to 4,337 billion escudos. See 3–4 above.
8. For a discussion on the African "reversal of fortune", see A.G. Hopkins, "The New Economic History of Africa" (*Journal of African History* 50 (2): 155–77, 2009).
9. Oliveira. *A livre circulação*: XXIII–XXIV.
10. For the debate on banking in colonial Portugal, see A. Nunes, C. Bastien, N. Valério, R. Sousa, and S. Costa, "Banking in the Portuguese Colonial Empire" (*Économies et Sociétés* 44 [9]: 1483–1554, 2011); also Nuno Valério, A. Nunes, C. Bastien, R. Sousa, and S. Costa, *O sistema bancário português* (Lisbon: Banco de Portugal, 2011). For comparisons with British colonial Africa, see W.T. Newlyn and D.C. Rowan, *Money and Banking in British Colonial Africa: A Study of the Monetary and Banking Systems of Eight African Territories* (Oxford: Clarendon Press, 1954); also Chibuike Ugochukwu, "Foreign Banks, Africans, and Credit in Colonial Nigeria, c. 1890– 1912" (*Economic History Review* 52 [4):]669–91, 1999).
11. Oliveira. *A livre circulação*: XVI.
12. Oliveira. *A livre circulação*: XXIV.
13. Oliveira. *A livre circulação*: XVII.
14. Oliveira. *A livre circulação*: 122.
15. Oliveira. *A livre circulação*: 13.
16. Oliveira. *A livre circulação*: XXII.

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17. Oliveira. *A livre circulação*: XXIII.
18. Oliveira. *A livre circulação*: XX.
19. Oliveira. *A livre circulação*: XXII.
20. The principal independence movements in Angola were the MPLA (Popular Movement for the Liberation of Angola, Movimento para a Libertação de Angola), FNLA (National Front for the Liberation of Angola, Frente Nacional de Libertação de Angola), and UNITA (National Union for the Total Independence of Angola, União Nacional para a Independência Total de Angola). FRELIMO (Front for the Liberation of Mozambique, Frente de Libertação de Moçambique) fought for the independence of Mozambique. The MLSTP (Movement for the Liberation of São Tomé and Principe, Movimento para a Libertação de São Tomé e Príncipe*)* called for the independence of São Tomé and Principe, and the PAIGC (Party for the Independence of Guinea and Cape Verde, Partido para a Independência da Guiné e Cabo Verde) demanded independence for Guinea and Cape Verde, though no military actions ever occurred in Cape Verde.
21. See the report on the MPLA by Eugénio Jaime António Augusto, in Kinkuzo, Zaire, translated from French. Portugal. ANTT, AOS/CO/UL/-50CG, Informações da PIDE-Polícia Política Internacional de Defesa do Estado sobre a situação nas províncias ultramarinas portuguesas, 1968 (P1, 19ª sub-divisão, 510 a 516 fl). According to this report, the cities affected were Henrique de Carvalho, Teixeira de Sousa, Nova Lisboa, Malanje, Carmona, Salazar, Luso, and Luanda. The airports that ought to be targeted were Luanda, Toto, Carmona, Negage, Luso, and H. de Carvalho. Moreover, the roads to Dondo, Nova Lisboa, Quibala, and Luso ought to be disrupted.
22. The competitiveness of cocoa from the Portuguese islands of São Tomé and Principe on the world market was realized and given special attention with the aim to meet the international demand for cocoa for chocolate production. See Artº 11, Decree 41 026 of 9-3-1957.
23. Oliveira, *A livre circulação*:10, 21.
24. Maria Eugénia Mata, *The Portuguese Escudo Monetary Zone: Its Impact in Colonial and Post-Colonial Africa* (London: Palgrave Macmillan, 2020, pp. 58, 59).
25. For the Portuguese original, see Portugal. ANTT. AOS/CO/UL-56, 3, 477–79, Ago 1967.
26. Portugal. ANTT. AOS/CO/UL-49B, Cahora-Bassa: fls 85–97, fls. 205–30, and fls. 256–80.
27. Concurso público de Agosto 1967 pelo Ministério do Ultramar com caderno de encargos Portugal. ANTT. AOS/CO/UL-49B (Cahora-Bassa, P pasta 3).
28. See above: fls. 455–87.
29. Portugal. ANTT. AOS/CO/UL-49B, Cahora-Bassa: fls. 281–295.
30. For a comparative perspective on taxation in colonial Africa, see Ewout Frankema and Marlous van Waijenburg, "Metropolitan Blueprints of Colonial Taxation? Lessons from Fiscal Capacity Building in British and French Africa, c. 1880–1940" (*Journal of African History* 55 [3]: 371–400, 2014).
31. For the regional connections between Portuguese colonies and developments in Rhodesia/Zimbabwe, see Tinashe Nyamunda, "In Defence of White Rule in Central and Southern Africa: Portuguese–Rhodesian Economic Relations to 1974" (*South African Historical Journal*: 394–422, 2019).
32. For relevant comparisons with British colonial Africa, see Chibuike Ugochukwu Uche, "Bank of England vs the IBRD: Did the Nigerian Colony Deserve a Central Bank?" (*Explorations in Economic History* 34 [2]: 220–42, 1997).