

Recession of 1951-53: the last agricultural recession

PEAK: 1951; TROUGH: 1953.

Portugal entered the post-war period still as an economy dominated by the primary sector. In the agricultural year that goes from the Fall of 1952 to the Summer of 1953, production lows in the wine and olive cycles coincided with adverse weather shocks that reduced the productivity of other crops. These proximate factors are the dominant ones in this recession. At the same time, the slowdown in the global economy in 1952 reduced the exports that had been growing in the previous decade. This is the last Portuguese recession in which agriculture is the main source of contraction. External factors already provide a complementary contribution.

1. CONTEXT

Internal context

In 1951, the Portuguese economy still mostly consisted of agriculture. The primary sector accounted for one-third of GDP and employed about half of the workforce, while the services sector had seen little growth in the previous decade. The “Planos do Fomento” were an interventionist (and protectionist) effort by the Estado Novo to invest in industrialization, which, in the two decades following this recession, continued at an accelerated pace.

In the post-war world order, the country timidly began to open to the outside world as a founding member of the OEEC and NATO, receiving over \$50 million (equivalent to \$600 million at current prices) in direct and indirect aid from the Marshall Plan between 1951 and 1952. Politically, the dictatorial regime was consolidated, and the powers of the government were strengthened after the constitutional revision of 1945.

External context

After the destruction caused by the war, Europe entered a phase of accelerated economic activity focused on reconstruction, with a high GDP growth rate and full capacity utilization: unemployment rates remained historically low for many years. This led to a strong demand for raw materials in the late 1940s and early 1950s. The fear of a new military conflict surrounding the Korean War between 1950 and 1953 further increased the demand for raw materials such as cotton, aluminum, rubber, cocoa, and zinc. The prices of these goods peaked in 1951. High demand and supply constraints caused disruptions in the production process and motivated processes of economic integration aimed at removing trade barriers. In 1947, the GATT was signed to reduce barriers to international trade. The OEEC was established in 1948 (precursor to the

OECD) to assist in the administration of the Marshall Plan. Finally, in 1951, the European Coal and Steel Community created a common market for scarce resources needed for the intense European reconstruction. Portugal participated in these movements, initiating a process of opening an economy that had been highly closed until then. However, between 1952 and 1953, international trade slowed down due to restrictive fiscal and monetary policies in several countries, aimed at dealing with external imbalances in the balance of payments, and the depletion of raw material stocks with the end of the Korean War.

2. MAIN INDICATORS AND PROXIMATE FACTORS

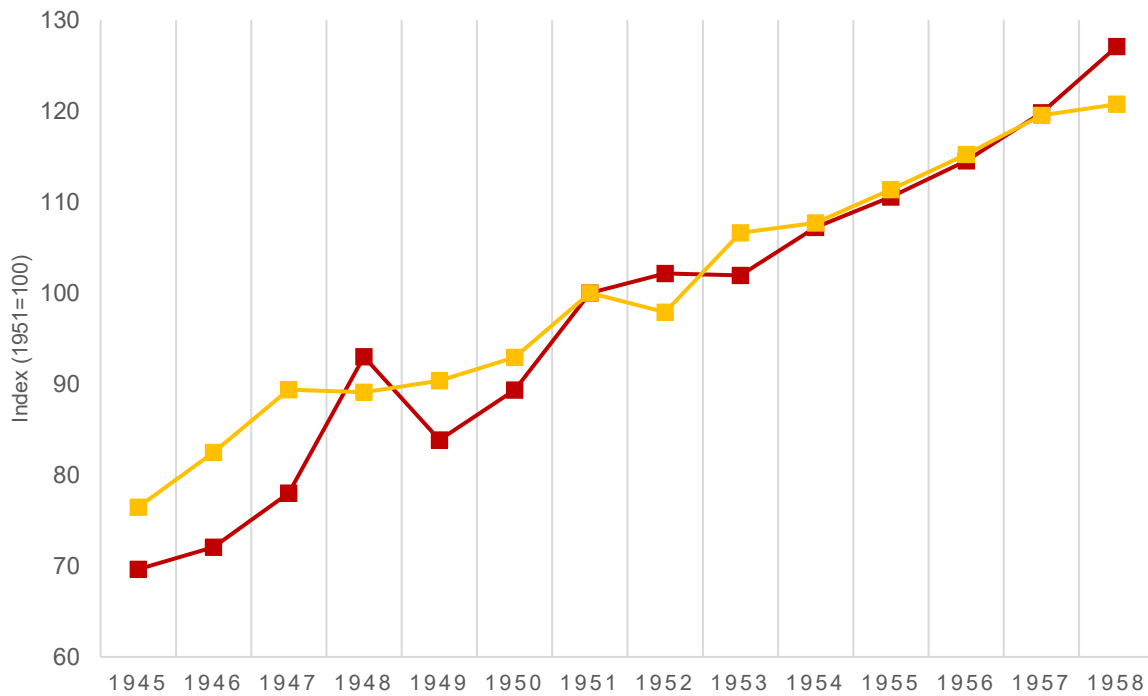
General indicators

There are two main GDP measures available for this period, as described in the methodological notes, which are shown in [Figure 1](#). In one of them, there is a decline in economic activity between 1951 and 1952; in the other, there is a prolonged stagnation that extends until 1953. Although this indicator points to 1952 as a candidate for a recession, it does not provide decisive dating of its peak and trough.

Considering agriculture's weight in the economy during this decade—between 28% and 31% of GDP and 49% of employment — indicators of this sector are particularly relevant. In [Figure 2](#), the estimate for agricultural sector output shows a decline of about 20% in 1952. This decline was not accompanied by the other sectors, with only stagnation in services in 1952 and in industry in 1953.

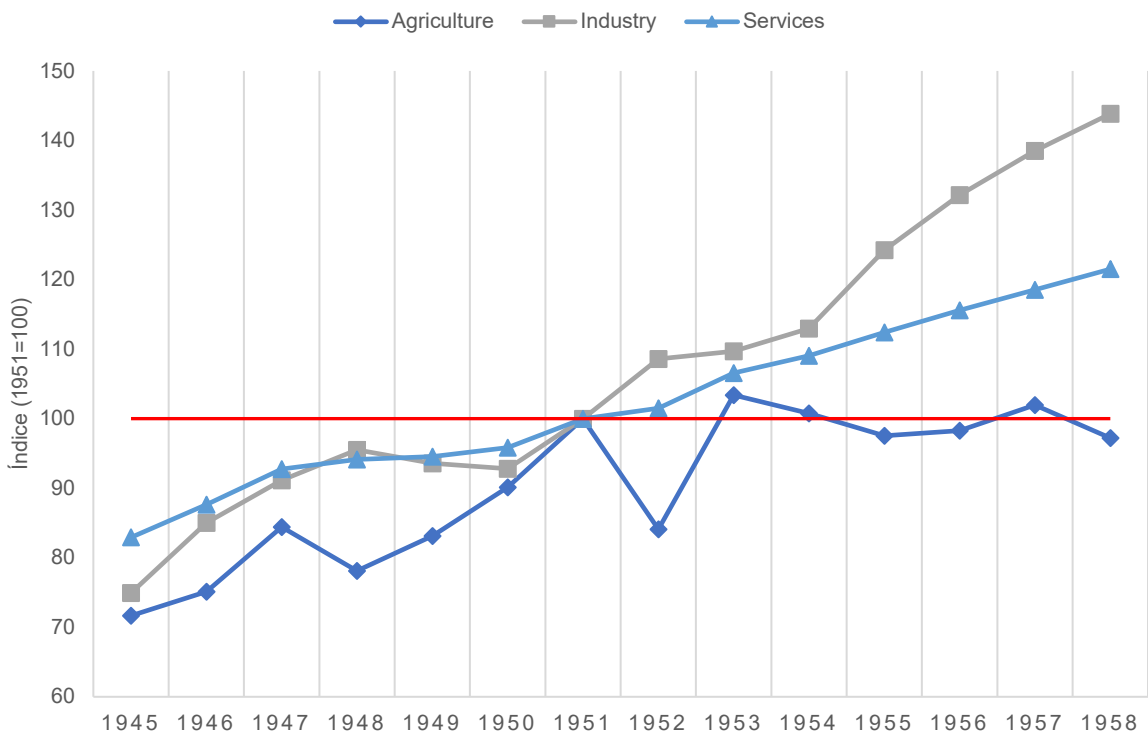
Reliable indicators for employment or unemployment are not available, but the deterioration in the living standards of rural populations can be detected through emigration data (although it is also an imperfect measure). The year of 1952 witnessed a significant jump in emigration, the largest in the 1945-1960 period, as revealed in [Figure 3](#). This increase is consistent with reduced demand for workers in labor-intensive activities in the agricultural sector at that time, such as olive harvesting, grape harvesting, and fruit campaigns. Emigration serves as an alternative for residents of rural areas who cannot find employment.

Fig. 1 - REAL (AGGREGATE) GDP ACCORDING TO TWO SERIES



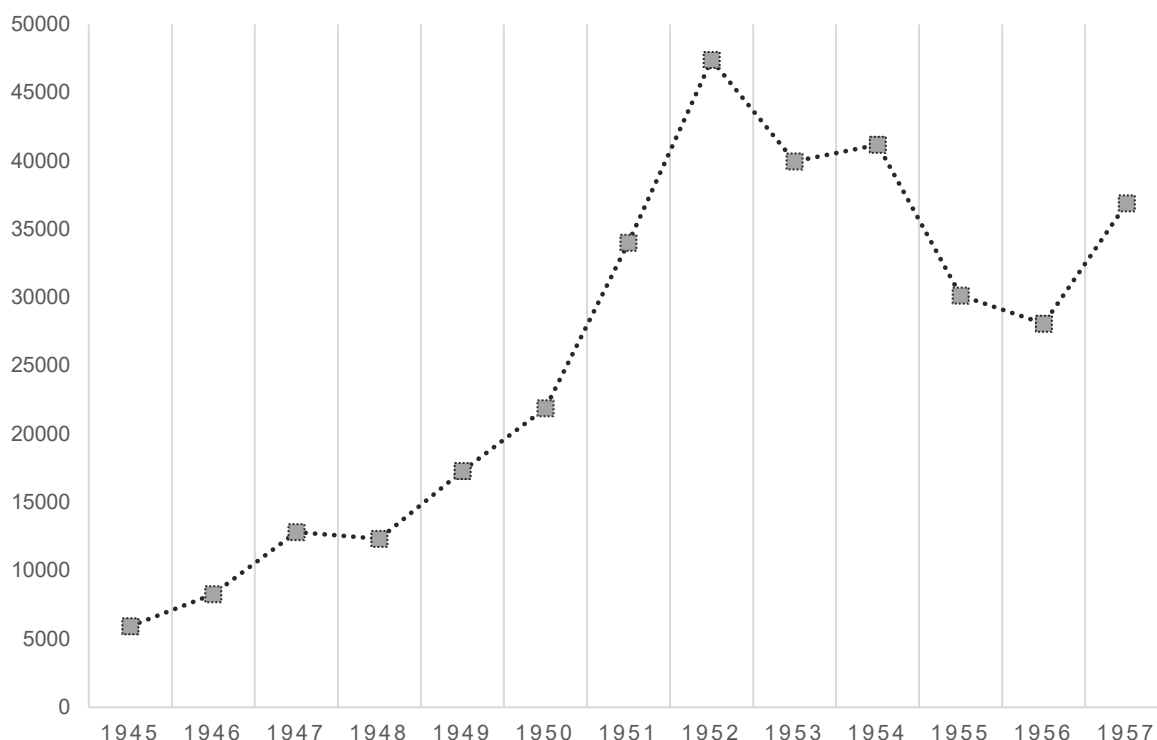
Sources: Batista et al. (1997): *nominal GDP in Batista et al. (1997)*. Valério (2001): *nominal GDP in Valério (2001)*, retrieved from Valério (1998). The implicit deflator of the respective source is applied to each series.

Fig. 2 - EVOLUTION OF SECTORAL (REAL) OUTPUT



Source: Lains (2003), based on Batista et al. (1997).

Fig. 3 - TOTAL ESTIMATED EMIGRATION



Source: Valério (2001), based on Baganha (1994).

Figure 4 shows that, from the expenditure approach, the decline in economic activity in 1952 was reflected primarily in exports, which fell by 13%, and in private consumption, which dropped by 5%. Imports increased by 3%, consistent with a shortage of domestically produced food due to the poor agricultural year. In the other direction, investment grew during the recession, potentially due to the country's growing industrialization. With half of the workforce employed in agriculture, the decline in consumption is also consistent with a poor agricultural year that reduced the income of large segments of the population. (Imperfect) data on rural wages show a nominal increase of less than 1% between 1951 and 1953.

Specific indicators

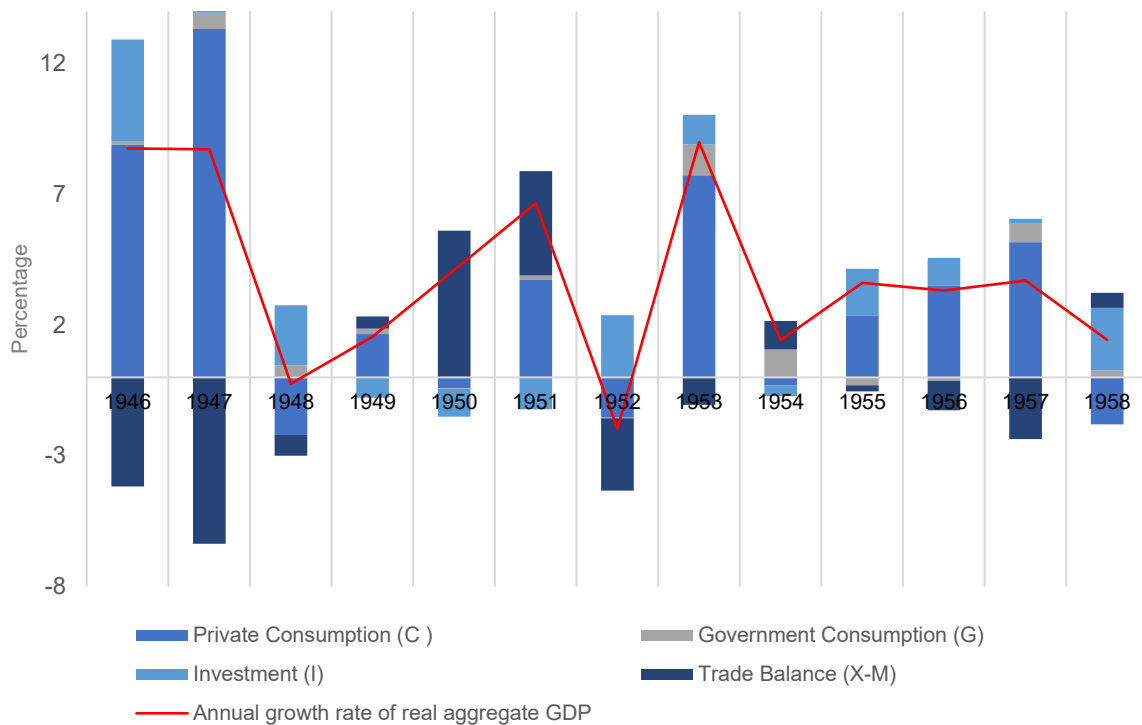
With imperfect general indicators, data on specific sectors that are relevant or particularly reliable play an important role in dating the cycle. The data on certain crops, which have a significant impact on production and exports, are particularly relevant. However, a difficulty arises from the dissociation between the calendar year that ends in December, for which all official statistics are presented, and the agricultural year, which not only does not coincide with the calendar year, but also varies from product to product. The data show a very poor agricultural campaign between the autumn of 1952 and the autumn of 1953, which partially affects the output

of two distinct years but has less visible effects in annual data because the crops in the previous and subsequent agricultural years were much better.

Agricultural harvests. Two of the main crops in the Portuguese economy during this time are wine and olive oil. Wine production experienced a historic decline in the autumn harvest of 1952, halving compared to the previous year and returning to levels seen in 1940. The last quarter of 1952 marked the beginning of a year of poor olive production, with a 60% drop compared to 1951, which had recorded the highest quantity ever registered in Portugal. **Figure 5** shows that the negative correlation between the production cycles of wine and olive oil, which occurred in 1952, was a rare event.

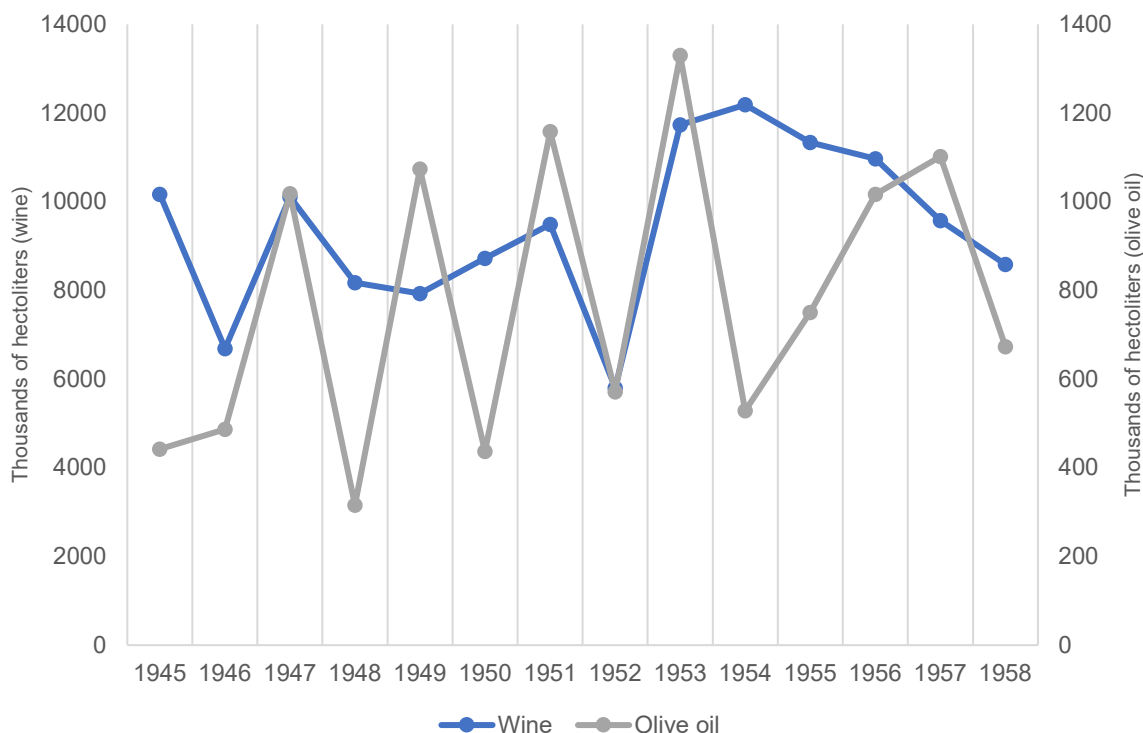
Although the negative correlation between the natural cycles of wine and olive oil alone could justify a poor agricultural year (as was the case, for example, in 1948), the magnitude of these declines was amplified by the weather conditions that also affected other crops. In most of the mainland territory, the autumn-winter of 1951-52 and the spring of 1952 were warmer than the historical average, which had an impact on the summer and autumn harvests of that year. Precipitation was also irregularly distributed, with heavy rains in October and March but relatively dry conditions in the period between these months. Even the agricultural year of 1953, which saw record olive oil production in its last quarter and some recovery in wine production, was marked by relatively dry and warm autumn and spring seasons in the previous quarters, which affected other crops.

Fig. 4 - COMPOSITION OF REAL AGGREGATE GDP (EXPENDITURE APPROACH)



Source: Batista et al. (1997).

Fig. 5 - WINE AND OLIVE OIL CYCLES

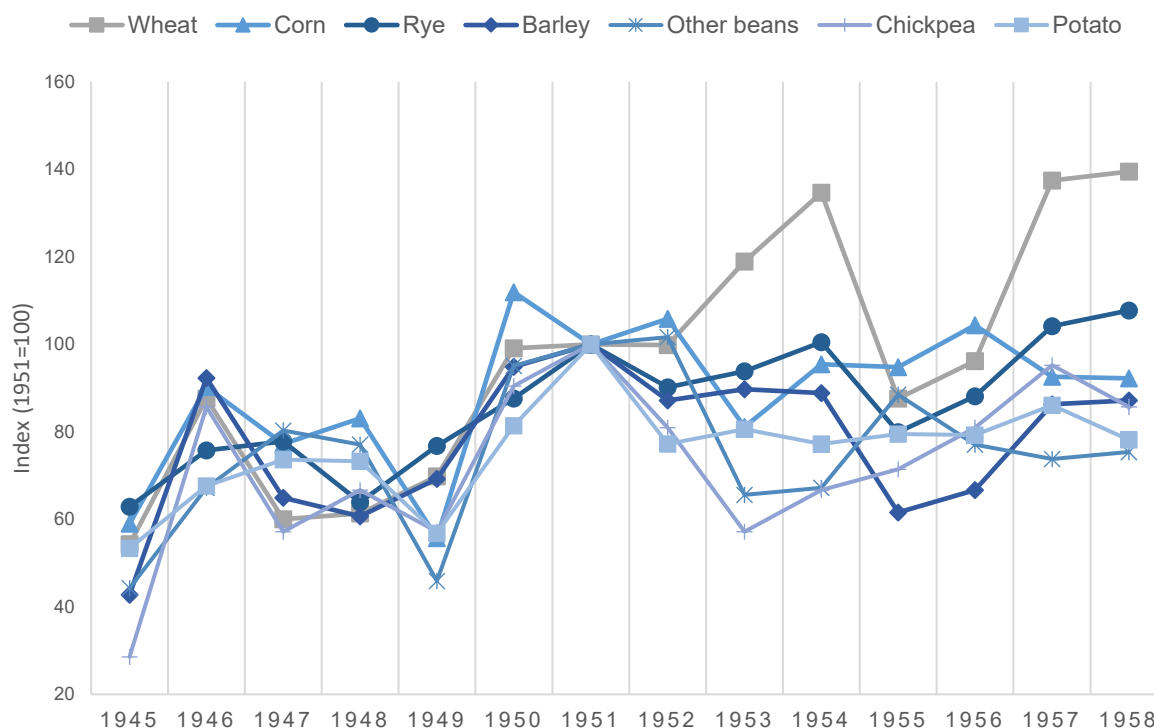


Source: Valério (2001).

The various cereal crops decreased in the 1952-53 agricultural year, with reductions in rye and oat production of about 10% and stagnant wheat harvests. Only corn production, as shown in **Figure 6**, recorded an increase of about 6%. Weather conditions deepened the crop declines in the summer of 1953, affecting rye, oats, and, particularly, corn and beans, which decreased by 23% and 43%, respectively, compared to 1952. Indeed, wheat is the only significant crop that showed substantial growth in 1953 (20%).

Almost all irrigated crops experienced reductions, including potatoes (20%) and fruit production. The same happened to almond, carob, and chestnut harvests. Additionally, livestock farming and the livestock trade were affected by some epidemics, leading, for example, to the prohibition of free movement of livestock on public roads for part of 1952. In summary, cereal, legume, and fruit harvests experienced slight to moderate declines in the 1952 harvest, which were further deepened in 1953 due to the weather conditions.

Fig. 6 - AGRICULTURAL HARVESTS

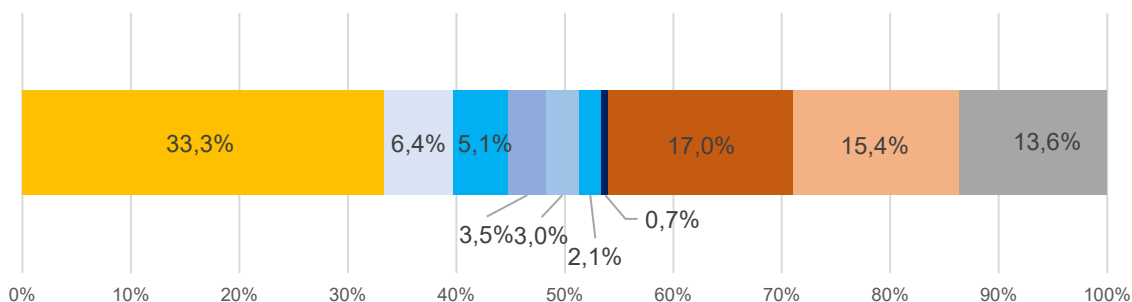


Source: Valério (2001).

Industrial production. In 1951, the industry sector accounted for nearly one-third of GDP, as shown in [Figure 7](#) (and 24% of employment). The industry sector has better-quality data for some subsectors. Together with its typically more volatile and pro-cyclical nature, this sector is useful for more accurately dating periods of recession.

Extractive industries saw their output expand between 1951 and 1953, with emphasis on tungsten, which experienced a slight increase in extraction, associated with high prices in international markets during a period of increased international demand due to the formation of NATO and the UN's involvement in the Korean War. As a result, its exports increased by 6% in quantity between 1951 and 1952 but decreased in the following year. Although the weight of the extractive industry in GDP was small in 1951 (0.7%), the export of tungsten extracted in the national territory alone represented 7% of the value of exports in that same year. In fact, the beginning of the 1950s was the last (small) boom of Portuguese tungsten, which from then on became less relevant to national exports.

FIG. 7 - SECTORAL DECOMPOSITION OF GDP - MAIN SECTORS (1951)



PRIMARY SETOR

SECONDARY SETOR

TERTIARY SETOR

LEGEND

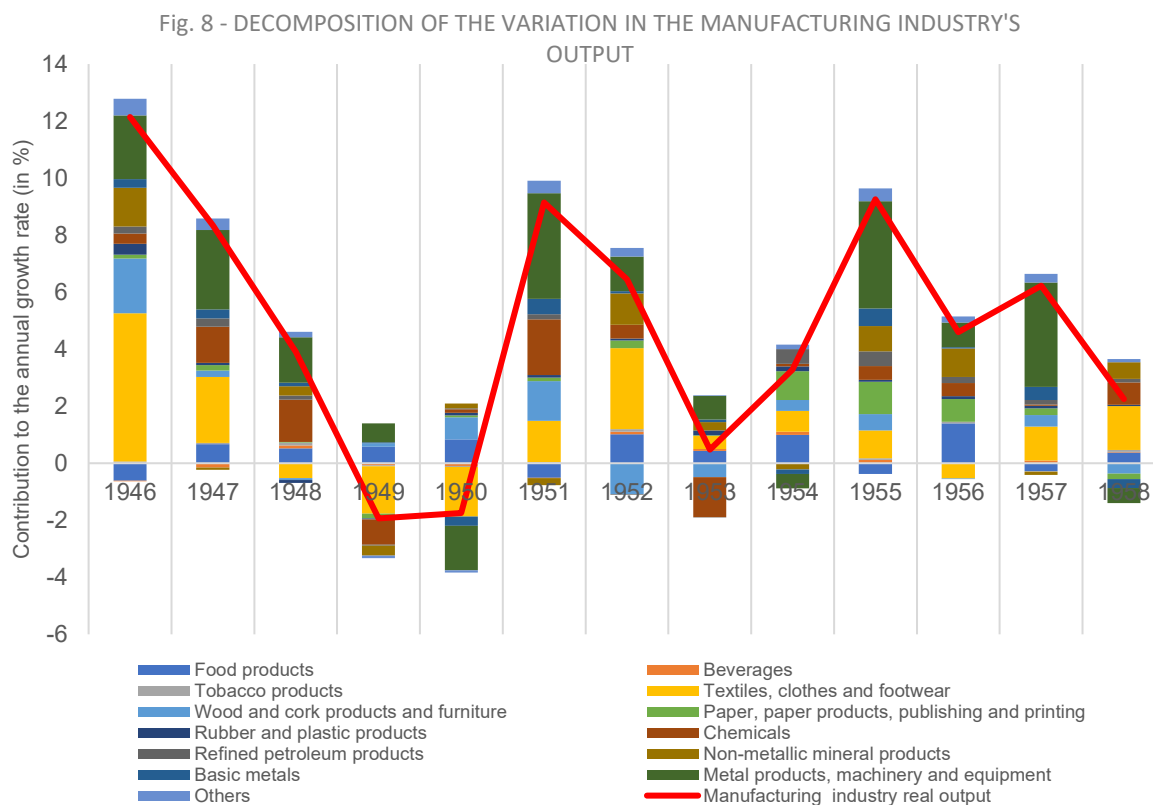
(by order of presentation on the graph)

Primary	Agriculture	
	Textile Industry	
Secondary	Machinery and Transportation Equipment Industry	
	Wood, Cork, and Furniture Industry	
	Food Industry	
	Chemical Industry	
	Extractive Industry (including Tungsten)	
	Commerce and Financial Sector	
Tertiary	Services	
	Others	

Source: Batista et al. (1997).

At the same time, the manufacturing industries, which accounted for about a quarter of GDP, contracted during this period. As seen in **Figure 8**, the sector slowed down slightly in 1952 and more significantly in 1953. The production of food products stagnated. Canned food production decreased slightly, although its exports increased by 22% in 1952. The decline in production was associated with difficulties in importing metal for can manufacturing, while the Korean War brought the usual external demand for this national industry. Nonetheless, exports remained far below the peaks associated with other conflicts in the first half of the century when this industry accounted for 22% of the value of national exports.

The growth of the textile and clothing industry slowed down significantly in 1953, putting a halt to the expansion observed in the previous four years. Again, according to the news reports of the time, both production and exports were affected by adverse international conditions, including difficulties in importing raw materials and a reduction in external demand following the end of the Korean War. For several traditional industries, the period from 1951 to 1953 represented a phase of increased disruption in terms of raw material imports and the export of finished products.



Source: Batista et al. (1997).

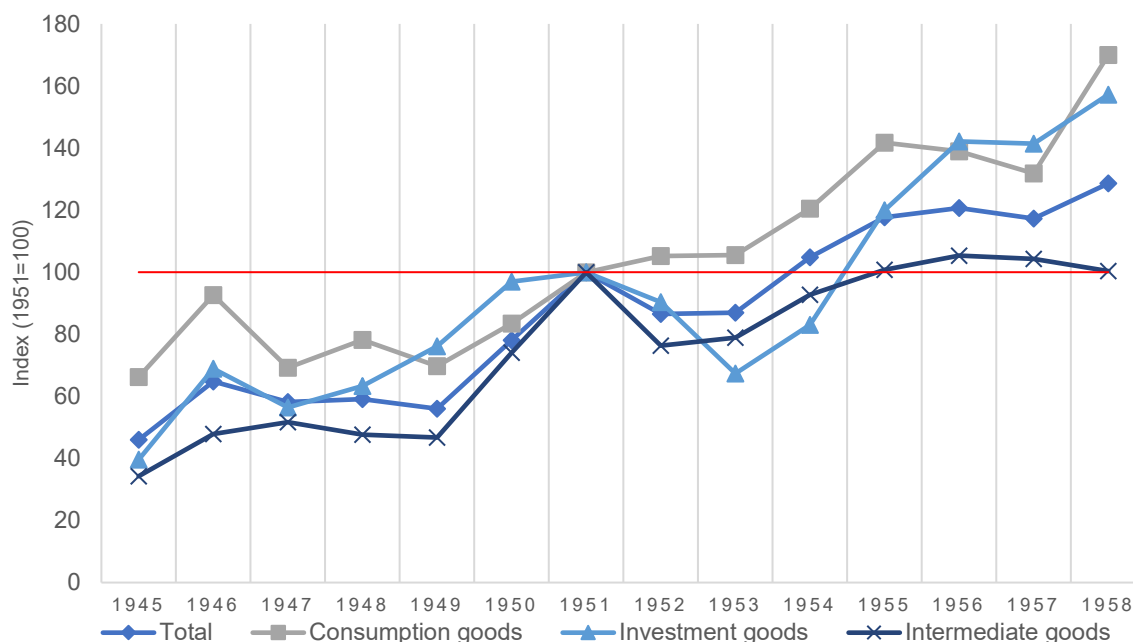
International trade. Customs data is the most accurate at this time. Therefore, records of imports and exports allow us to discern the trends of the Portuguese economy. At the same time, the economy's limited openness makes these data less significant for a large part of the economy. Portugal was not part of the major international agreements signed in the immediate post-war period and, as such, did not directly benefit from them but rather indirectly through the expansion of trade, especially within Europe. National exports (and production) were growing at a high rate, with an emphasis on cork, textiles, and food products.

Figure 9 shows a significant decrease in exports in 1952, which continues in 1953, contradicting the overall growth trend of the surrounding decade (different data series vary in attributing this decline primarily to either 1952 or 1953). Looking at another classification of exports, intermediate and investment goods initially experienced the largest declines in 1952, followed by a general stagnation in 1953, which also affected consumer goods.

Looking at specific products, in 1951, wine and cork accounted for about 10% and 20% of total exports, respectively. The export of Port wine (which was the most significant) decreased by 22% in quantity in 1952, due to the contraction of sales to its traditional markets, the United Kingdom and France. Additionally, in 1953, the export prices of Port wine also declined, resulting in decreases in both quantities and

revenue. Cork exports, in turn, experienced a reduction for the first time since the post-war period, with a decline of around 35% between 1951 and 1952, affected by the contraction in the economies of important trading partners. In fact, even the high production of olive oil and wine in 1953 faced difficulties in clearing the stock in international markets, with both wine and olive oil exports decreasing in value compared to 1952, according to reports from that time. On the other hand, canned food exports increased.

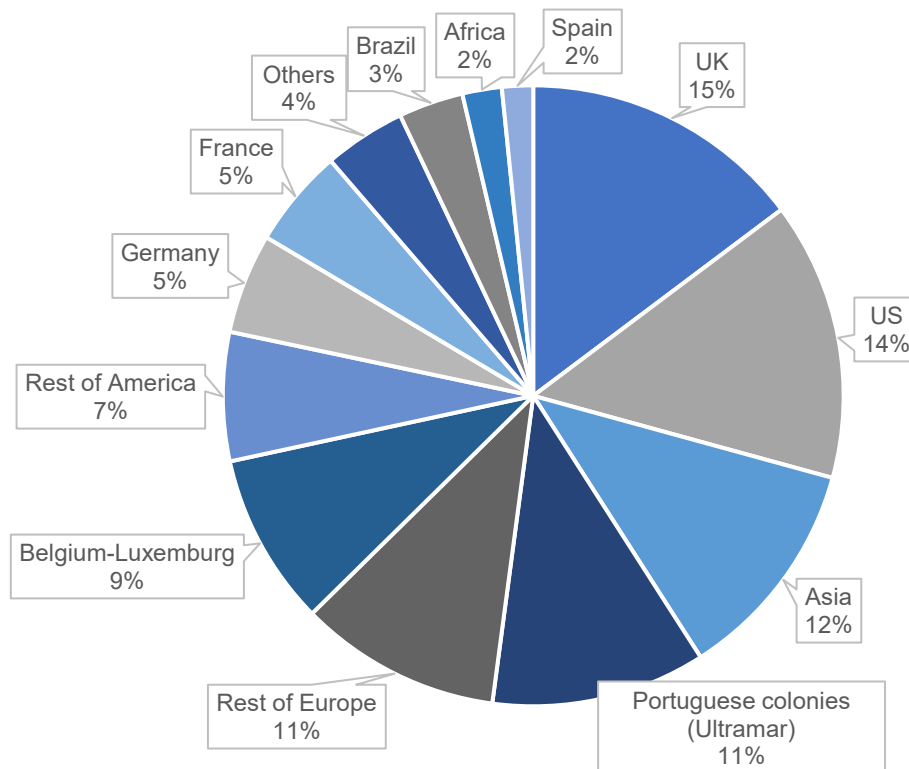
Fig. 9 - EXPORTS (QUANTITIES) BY GOOD TYPE



Source: Lains (2003), based on Batista et al. (1997).

These developments indicate that the external environment was the source of an adverse shock. **Figure 10** shows the composition of Portugal's main international markets. The United States and the United Kingdom were in a recession in 1953, partly due to the slowdown in military expenditures following the end of the Korean War. Portuguese industrial production, and, especially, the cork and chemical products manufacturing industries that were export-oriented, were affected by the reduced external demand in international markets.

Fig. 10 - COMPOSITION OF EXPORTS BY DESTINATION (IN NOMINAL VALUE, 1951)



Source: Report from the Board of Directors of the Banco de Portugal, 1951.

CALIBRATION OF THE PEAK AND TROUGH

The Portuguese economy had been expanding since the post-war period, with an acceleration since 1948, particularly in agricultural output. The summer and autumn harvests of 1951 were reasonably good, as were industrial production and exports. In this context, the analyzed indicators led the Committee to consider that economic activity was still expanding in early 1952.

However, the wine and olive campaigns in the second half of 1952, which were predominant in the rural economy at the time, were so contracted that they resulted in an overall decline in 1952. This was due to a negative combination of the natural cycles of the two crops, which are typically characterized by alternating years of higher and lower yields, aggravated by unfavorable weather conditions. Despite industrial output growth (though at a slower pace than in 1951), the weight of agriculture in employment, output, and income was such that it explained, in the Committee's view, the sharp decline in private consumption observed in 1952. In addition to this, there was a decline in exports, explained by the international economic environment, as several countries were implementing fiscal adjustments, reducing the dynamics of international trade.

Furthermore, the moderate drought of 1952-53 particularly affected the spring-summer harvests of 1953 (cereals, legumes, fruits), which prolonged the recession into that year. This was accompanied by a significant slowdown in industrial production in a scenario of stagnant international trade, leading the Committee to consider that at least the first half of 1953 was still one of contraction. However, the exceptionally high production of olive and wine that occurred in the second half of the year, motivating continued private consumption growth in 1953, justified that the Committee, in its annual dating methodology, determines the turning point of the business cycle as having occurred in 1953, marking the trough of this recession.

3. CONCLUSION

As in previous decades, it was the cycles associated with agriculture that determined the business cycle in Portugal. The country still had a profoundly agricultural economy, particularly in terms of employment, but also in production and exports. Therefore, a year of a poor olive harvest, a weak grape harvest, and adverse weather conditions affecting cereal crops were the main immediate causes of the 1951-53 recession. The unusual coincidence of these phenomena led to multiple productions of key products being affected *simultaneously*, resulting in a widespread contraction of economic activity. Above all, this was still an agricultural recession, as most of the previous ones had been. However, it has two particularities: on one hand, given the structural evolution of the weight of agriculture, this would ultimately be the last distinctly agricultural recession; on the other hand, the increasing openness of the economy to international trade brings the influence of external factors that become increasingly relevant for Portuguese business cycles. Both deserve final consideration.

Recessions generated by the agricultural cycle become increasingly unlikely from now on. If in 1945 agriculture employed 52% of the active population and accounted for 31% of GDP, by 1980 the weight of agriculture in employment had already dropped to around 20% and in output to about 11%. Overall, industrialization, production diversification, openness to foreign trade, and technological progress have contributed to breaking the causal link between poor agricultural years and recessions, which, in the Committee's opinion, occurred in Portugal for the last time in the agricultural year of 1952-53.

Finally, Portugal had escaped the destruction of World War II as well as the Spanish Civil War. In economic terms, it had not suffered greatly from these conflicts because it was still a closed economy and not very sensitive to a contraction in exports. In the post-war period, the Portuguese economy began a process of industrialization and opening to international trade, following the pattern of small Western open economies. Since 1945, export growth was remarkable – continuously increasing from 5% to 8% of GDP in 1951 –, a trend that continued in the following decades. The 1951-53 recession was, therefore, the first to partially reflect one of the main recessive factors in open economies: the evolution of external demand. This factor becomes much more significant in future recessions in Portugal, in which external factors are an important source of shocks.