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Darwinian Natural Selection or Political Interference? A Political Economic History of the Lisbon Stock Exchange

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Abstract
This paper addresses the legal features of the Lisbon Stock Exchange. It gives special attention to the trade networks, global performance, and economic growth that have influenced that stock market over the centuries, ultimately determining shareholder protection, market transparency, and economic efficiency according to prevailing politics. Understanding the prerequisites of stock markets will help to promote them in the future.

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I. The Earliest Legal Aspects of the Lisbon Stock Exchange

Where did stock markets come from? Were they invented by government or did they evolve over time? This article contrasts what are essentially creationist versus Darwinian views of stock markets, where the creationist view holds markets as suddenly invented by government, and the Darwinian view considers them as a process of market evolution. This article focuses on the evolution of stock

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markets in Lisbon and examines exchanges' juridical features throughout Portugal's history. Although government was involved at various points, a process of market selection determined many of the outcomes.

There is much evidence that during the fifteenth century, at the peak of the Portuguese discoveries, a rudimentary form of centralized market existed in Lisbon as a response to two main problems: mobilizing the large amounts of money necessary to finance the fleets and the successive voyages, and dealing with the insurance premiums to cover the associated risks (Santarém 1552; Amzalak 1958).

This market was not very organized, and all transactions were conducted in the open air on a corner of a major downtown street, Rua Nova, which most archival documents describe as the longest and the noblest in the city. It served many professional establishments, which made it vibrant, and it also connected the many narrow and twisting medieval streets to the royal palace. The presence of foreign merchants living in Lisbon or attending its seaport explains why this rather informal market offered trading in commodities, exchange letters, and foreign currencies. Milanese, Genoese, and Florentines performed an important role in this kind of financial business in Lisbon (Marques 1987, p. 176). Additionally, the traffic of commodities, in particular those brought from recently discovered overseas regions, required funds for investment. At this stage, one cannot yet speak of a specialized market, but of a business center—a centralized market for freight, trade, insurance, and negotiation—where extending credit and taking risk had to be rewarded. As Stringham (2002, p. 14) writes about London, it was the "need to attract business that allowed for discovery of better ways of organizing and self-regulating."

From the docks near the royal palace, fleets left for the Mediterranean, France, Flanders, and Britain, and more and more regularly for the Atlantic islands and Africa. In the 1500s, they also sailed to India following da Gama's voyage, which opened the Cape sea route to that destination in 1498, and to the New World, crossing the Atlantic, thanks to Columbus's and Cabral's voyages (Justino 1994, pp. 5–10; Ullrich 1906, p. 103). Local municipal authorities oversaw trading in all these segments, with the operations on exchange letters following Crown regulations (Justino 1994, p. 31). The Lisbon Bourse also developed the professional expertise for managing contracts, and the presence of brokers is documented in archival sources on fourteenth-century municipal regulations for urban provisioning businesses, and for maritime businesses thereafter (Justino 1994, p. 11, quoting Oliveira 1891, pp. 92–94). In fact, the law of August 23, 1342, compiled the rules for the exercise of the brokerage profession and defined tabular data for the value of the listing fees and intermediation commissions. This legal framework represents the earliest known attempt to control transaction costs and to provide for market transparency.

By the end of the fifteenth century, the royal law of February 15, 1492, reduced the number of brokers from twenty-five to twelve in order to promote the implementation of a policy of professional privileges to reward the king's twelve most trusted aristocrats for relevant services provided to the Crown (Justino 1994, p. 13). This law reveals that the profession was upscale and profitable. It also means that the profession was honorable in a society based on clear social cleavages between common laborers and the highest strata, which comprised respectable merchants and traders. Financial business was not considered an unsavory way of life for the Portuguese nobility (Godinho 1980). The warrior-merchant was a gentleman, coupling military activities in Portugal or overseas with benefits and profits, a noble condition of life.

All the revenues from listing fees and commissions on financial businesses in that market were pooled together and shared equally among all brokers, according to a 1458 resolution of the municipal senate (Justino 1994, p. 22). As some brokers were more agile than others in dealing with and negotiating the operations, two years later, some of them complained to the king, but the equal division of the revenues prevailed, and the new law of July 15, 1473, consecrated that principle and even forbade competition among them (Justino 1994, p. 22). These facts illustrate that the government saw the bourse, and the services it provided to trade and to long-distance markets, as a public good whose dominant role was to fuel the implementation of a geopolitical project for the nation. The original 1485 regulations (*Regimento de 1485*) also required that all operations be recorded by a clerk in a single ledger as a corporation so that the profits collected by the receiver could be equally divided among the brokers, even though some of them had a larger portfolio of clients and operations (Justino 1994, pp. 25–26). This means that a division of labor within the corporation created specialized tasks among the brokers. Penalties collected for disrespectful behavior were also registered in the book, as well as some common costs of the corporation (such as funeral expenditures upon a broker's death).

The elevated esteem of the profession was clearly expressed in the law of November 11, 1491, which stipulated that brokers should take a leading position in the rank-structured file of Lisbon's annual Corpus Christi procession, which wandered from the cathedral throughout the main streets of the capital city (Ullrich 1906, p. 102).

Market trust and confidence were decisive features, but they did not prevent the authorization for the subestablishment of the brokerage privilege, which was consecrated in the royal law of August 20, 1500. This meant that the brokerage function belonged to a restricted number of nobles, who could delegate the practice of this function to a specialized clerk under his responsibility, as clearly registered in the regulation book for the profession (*Livro do Regimento dos Corretores*).

There are four cases of individual brokers whose names are followed by another name (Justino 1994, p. 13, quoting the *Livro do Regimento dos Corretores*, follium 31 Vº). This regulation reveals that the profession required technical abilities that only trained people could provide, was very honorable from a social perspective, was in high demand for the high revenues it could provide to the entitled person, and was very conspicuous with the political authorities in order to provide financial help to them, both at the central and local (municipal) governmental levels. To implement market transparency and maximize rewards for the regulatory authority, in 1500 it became routine for the municipal senate to award those broker positions to the highest bidder, thereby discontinuing the monopoly aristocratic condition for applicants, because the condition of trader and merchant could also lead to a personal nobility entitlement to attain the warrior-merchant status (Justino 1994, p. 15).

Political authorities inspected the business of exchange letters to apply penalties for usury behavior, but overlooked those penalties against the opportunity of obtaining loans for the king and the government. For example, in January 1443, the government bought armaments in Bruges with the credit granted by local merchants and paid by letters of exchange issued by Lisbon traders and merchants, who lent to the central state (Justino 1994, pp. 33, 34). Then, brokers could deal in maritime transportation, insurance, freight, credit, exchange letters and currency exchanges, international trade, and lending to government.

Domestic public debt (short-run floating debt and long-run redeemable public debt) also became a financial business in the Lisbon stock market because the Crown developed entrepreneurial merchant (retail) activity in the Cape of Good Hope route shipping. As public revenue was not enough to manage the huge colonial empire that the government dared to build, the central state's participation in maritime shipping provided funding for new undertakings (Godinho 1971, pp. 244–64). The nonspecialization of the brokerage in each of these businesses may result less from the small development of each one of these financial branches and much more from the strong ties and interconnections among all of them, which produced positive externalities and synergies to tackle all of them simultaneously.

In the seventeenth century, complaints against the "impure blood" of some individuals approved for the position of broker were coupled with the compulsory character of their intervention in all transactions, as they should encourage businesses rather than hinder them. The royal law of October 28, 1718, defended their business assistance as an important social mission to assure safety and confidence, and also referred to their meetings in a house close to the main downtown Lisbon location. The complaints may reveal a decrease in the relative importance of the Lisbon Exchange in the European context, as other countries developed powerful trade companies as assertive and successful business organizations (Stringham 2002, p. 4; Kindleberger 1984, p. 196).

The destructive earthquake that struck Portugal in 1755 forced a thoughtful prime minister—the Marquis of Pombal—to tackle the huge problems created by that catastrophe, especially the rebuilding of a significant part of downtown Lisbon. Destruction, disruption of trade, social turmoil, and deregulation of economic life led a group of important Lisbon traders and merchants to ask for the use of a collective donation to rebuild the customs house and the bourse (a physical place for negotiation, dealing, and financial operations). The decree of January 2, 1756, granted the collective donation, the decree of May 28, 1926, created its rules as a disguised tax, and the decree of January 16, 1758, ordered the reconstruction of the stock exchange house. Pombal also founded in Portugal the first three limited liability corporations, funded by shares, which led him to construct a proper place within the Ministry of Finance, on the eastern side of the rebuilt central square, to headquarter the Lisbon Stock Exchange. He also decreed rules for that market to function properly on a daily schedule.

These corporations brought a new business to the stock market,[1] leading some authors to define this moment as the birth of the Lisbon Stock Exchange. In fact, economic functions propel stock markets, and stock markets develop when larger enterprises require large amounts of capital (Roe 2006, p. 1). This is the reason to consider the first day for operations on January 1, 1769, as the inaugural date for the Lisbon Stock Exchange (Justino 1994). The issue of bonds with the character of exchange letters may be considered as the first loan of the modern public debt, according to the decree of October 29, 1796. These two features point to corporate finance and bonds issuing as the criteria for defining the existence of a real stock exchange (Brealey and Myers 2009). Increased by the law of March 13, 1797, public debt was also a new financial business and a very successful one in the conversion of earlier public loans. Military expenditures, aggravated by the Napoleonic invasions, obliged the exchequer to seek financial innovation, particularly the issuing of paper money in the stock market, according to the law of July 13, 1797.

II. The Plural Stock Markets Phase in Portugal

More recently, and in the northern part of Portugal, another centralized market was put in place in the city of Porto, probably following the spirit that Napoleon brought to the country as a result of the three invasions of his army from 1808 to 1811. This second market was necessary because of the local merchant community's needs: exports of port wine to Britain and elsewhere created specialized farming and a large, wealthy merchant class. As Stringham (2002, p. 2) writes, a stock exchange provides buyers and sellers a location to meet in an orderly atmosphere. Spain established its first exchange in Madrid, which opened on January 28, 1811, following the royal decree of October 14, 1809, when Napoleon's brother, Joseph, ruled the country. The regulation of the decree of July 20, 1810, was clearly inspired by the Parisian model (Rojo 1977). The Spanish War of Independence interrupted this market's operations for two decades, and the law of September 10, 1831, is now considered as the juridical foundation of the Madrid Stock Exchange (Cagigal 2009, p. 41).

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[1] The law of June 6, 1755, created the Companhia de Grão Pará e Maranhão; the law of September 10, 1756, created the Companhia Geral da Agricultura e das Vinhas do Alto Douro; and the law of August 13, 1759, created the Companhia de Pernambuco e Paraíba.

The February 28, 1825, Portuguese regulations for the profession (*Livro do Regimento dos Corretores*) mention twelve brokers in Lisbon, as usual, and eight in Porto. It was a very liberal system of regulation. The municipality of Lisbon lost the right of decision in the provision of these positions in the capital city, as only technical abilities were required, independently of conditions of birth. The bourse was no longer conceived of as a corporation. Each broker would receive compensation according to his own operation, and the revenue from listing fees and commissions was no longer pooled. Moreover, traders were not obliged to use the brokers' intervention, something that had been in practice for two decades: businesses were free to devise anticompetitive strategies.

Two more things helped to modernize the financial sector in Portugal. One was the emergence of the first bank in Portugal, the Bank of Lisbon, authorized by the law of December, 31, 1821. The other was the first commercial code of September 18, 1833, authored by José Ferreira Borges. He acknowledges his inspiration in the Prussian, Flemish, and French codes, which, once again, gives a corporate character to the stock exchange (Ullrich 1906, p. 111). The important legal framework for all commercial activities deserved detailed regulations, and stock exchange businesses found them in Code Title II, seeking to avoid volatility provoked by deregulation (Borges 1856, pp. 7, 57, 106).

A different perspective prevailed in Spain, where Pedro Sainz de Andino, the 1829 code's author, avoided including any regulations on stock markets, choosing to devote to this new market a separate law, the law of September 10, 1831, that could be adjusted independently of the commercial code. According to some interpretations, this decision reflects a strong need for a stock exchange in Madrid to issue public debt to support the construction of a state bureaucracy, but at the same time it reflects great hesitation about the success of an official market strongly regulated by government (Cagigal 2009, p. 41).

In Portugal, this was not the model, and the consequent regulation book for brokers resulting from the first commercial code of September 18, 1833, was approved much later by the decree of January 16, 1837, which fixed the commissions for each kind of operation and allowed for different rewards for the brokers. Public debt had become an important segment of stock market operations, because in spite of the abolition and withdrawal of paper money by the decree of July 23, 1834, new debt was issued throughout the

1832–34 civil war. Specialization among the brokers was recommended for Lisbon (into bill brokers, exchange brokers, shipping brokers, stock brokers, insurance brokers, and custom-house brokers) but not for Porto, meaning that the dimensions of the two markets were very different. A room for brokers' meetings was also provided in Lisbon, contiguous to the trading floor, while in Porto, only later did the law of June 19, 1841, give a building (the old convent of São Francisco) to the city stock market.

The municipal archives preserve the books registering the operations, exchange rates, and quotations for bonds, shares, and securities in Lisbon dating back to 1837. The books list companies and new banks, as well as more and more public debt, which was issued for public works and for the military costs of the 1846–47 civil war. A general conversion of all public debt (into a single 3 percent consolidated loan), authorized by the decree of December 18, 1852, simplified bond operations and created confidence in a central state. Accelerated construction of railways from the mid-1850s onward also contributed to new stock operations, and the law of June 22, 1867, liberalized the creation of domestic limited liability companies and regulated the entrance of foreign companies to operate in Portugal (Mata 1998). Foreign enterprises needed to apply for government authorization (from the Ministry of Public Works, Commerce, and Industry) after submitting their statutes and pledging to abide by Portuguese law and court rulings. Foreign companies were coming more and more into sectors such as mining, insurance, engineering, railway construction, urban gas illumination, and water provision to urban centers (Mata 2008). Listings in the two stock exchanges of Lisbon and Porto increased, and companies were to be audited according to the same law of June 22, 1867. Listing was an important step into foreign direct investment capital flows and global business for Portugal.

Global business cycles afflicted the market in periods such as 1875–76, when the 1875 euphoria developed options, futures, and warrants, and gave place to crisis and panic in 1876, particularly for the owners of some bank securities. Inducing contractual performance, financial behavior did not rely on law (Stringham 2003). Transactions outside the official stock market worried government in the aftermath of the crisis, as may be detected in the law of May 7, 1878, where the reasons for the creation of an additional percentage to the stamp tax mention the existence of private bourses (*bolsins*) whose transactions escaped transaction costs (brokers' fees, bank commissions, and taxes). Such a worrying attitude reveals the desire to tax the provision of such services and also government's vision for the stock exchanges as a public good, calling for a legally defined environment to ensure a seal of trust and confidence to the users to avoid bad practice.

Private stock exchanges were a common situation in some European countries whenever the initiative of merchants and traders created self-regulated bourses under competitive intermediation, some of which became large markets (even in the same city). "It is choice that allows groups of freely associating individuals to discover new ways of governing their conduct," writes Stringham (2002, p. 2). In Spain, the Barcelona Stock Exchange, whose operations date back to the 1840s, and the Casino Mercantil, a local bourgeois club, are good examples (Cagigal 2009, pp. 42, 43). The main difference is their organization as free associations under private initiative (and not as corporations), enjoying autonomy from government, under the management of a commission of brokers. In spite of long-rooted experience in trade and insurance affairs (particularly in the Netherlands, Belgium, and France), most stock exchanges are recognized as nineteenth-century developments (New York, London, Berlin, Milan, and Vienna), according to Ullrich (1906, pp. 64–69, 153–70, 414–16). And today, prominent differences in corporate finance literacy may be due more to political events (such as the differing participation in the world wars) than to differences between the civil law and the common law systems for their legal environment (Roe 2006, p. 1).

The first Portuguese commercial code (1833) could not cover every kind of transaction and operation, and in the government's perspective it became obsolete after serving for fifty-five years. The recovery from the 1870s crisis, which raised the Portuguese GDP to a peak in 1875, brought the opportunity for more businesses, as well as fears of herd behavior in a new speculative bubble, which could lead to subsequent firm and bank failures in the downturn following the burst. The enactment of a new code, published in the law of June 28, 1888, and known by the name of its author, Veiga Beirão, was an attempt to regulate and to avoid bad practice.[2] This code did away with the freedom to create new stock exchanges, official or not, and forbade the existence of more than one stock market in the same city

[2] The new code was published in the official journal *Diário do Governo* on September 6, 1888.

(Article 85).[3] Regarding foreign companies, the new code confirmed all the features established in the law of June 22, 1867: decisions on listing belonged to the Chamber of Brokers, domestic bonds were automatically listed, and bonds from foreign countries needed authorization from the Portuguese government to be listed.

Soon, however, a new global crisis affected both exchanges in Portugal. The Baring crisis afflicted the kingdom not only because of the traditional heavy dependence on public borrowing from these bankers, but also because of their influences on the Portuguese economy via Brazil. The crisis triggered the abandonment of the gold standard in 1891 and the national treasury bankruptcy in 1892 (Mata 1993).

In this historical context, the exchange regulation from the decree of October 8, 1889, was revised: in spite of giving the surveillance of the stock markets in the kingdom to the government (to the Ministry of Public Works, Commerce, and Industry, in particular), the issuing of debentures did not require any authorization.[4] In the aftermath of the crisis, even in banking, through the decree of July 12, 1894 (which was converted into a law on April 3, 1896), the issuing of debentures became subject to government authorization.

Despite the publication of the stock market regulations, the regulation on brokers was missing. Among investors, the need for more flexible rules on limited liability corporations was also felt for the recovery.[5] The regulation on brokers was published only in this same year, by the decree of October 10, 1901, and it would last until 1974. This means that the period from the Veiga Beirão code of 1888 to the 1901 regulations was a real first package of state regulation, a genuine founding structure. Using the call-auction system, assets were traded in the Lisbon stock market five days per week, and once per day the brokers established the binding price of all matched orders. Transparency was assured in this law-based system, and a daily bulletin was issued with the equilibrium prices. The bid and ask prices per asset were also available in the bulletin,

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[3] In Spain, the 1885 commercial code already included regulation for all Spanish stock markets but recognized the existence of private stock markets. Valencia, Santander, and Seville had their own stock markets, and in 1915, a fourth stock market was created in Barcelona (Cagigal 2009, p. 45).

[4] For a general view on the available concepts for economic life, see Duarte (1880).

[5] The stock market regulations were published in the *Livro do Regimento dos Corretores*. A synthesis on commercial law is available in Saldanha (1896).

which was released to the press for inclusion in leading daily newspapers.

The twentieth century was a "stepmother" to the Portuguese capital market due to a number of events that negatively affected its development, if not its very survival. The new century came on the heels of the Portuguese government's bankruptcy in 1892. In 1908, the king and the crown prince were both assassinated in an assault on the royal carriage by two gunmen, and in 1910, a military coup established a republic, ending a monarchic regime that had lasted since the country's birth in the twelfth century. The stock market was very small at the beginning of the century: the 3:00 p.m. to 5:00 p.m. schedule was enough for all transactions in 1901, and in 1910 was even reduced to 2:00 p.m. to 3:30 p.m. In 1901, telegraph facilities connected the Lisbon market to Paris, London, and Berlin, thanks to a contract established with the Havas agency intended to allow the following of European markets' behavior, at a monthly cost of 46,130 reis. The most important companies listed were the banks, water, urban gas and electricity provision, and companies having colonial businesses.[6] The fact that the October 10, 1901, regulation on brokers prevailed until 1974 shows that the volume and diversity of businesses did not require legal adjustments.

For a short time, a decree of April 13, 1911, required the disclosure of more accounting information from listed companies and their surveillance by government.[7] The First World War interrupted normal operations in businesses and financial markets and introduced restraints, while "British capital controls helped New York displace London as the world's largest market" (Hennart 1998, p. 84). As in any war, financial distress reduced asset prices in foreign markets and increased transaction costs (Amihud and Mendelson 1986, pp. 223–49). In Portugal, decree 1645 of June 15, 1915, authorized the creation of privileged shares in limited liability companies, but it was suspended by law 340 of July 30, 1915, to be reintroduced by decree 4118 of April 18, 1918. The postwar recovery was brief and abruptly interrupted. The confusion that followed the first republic led to the revolution of May 28, 1926, which established an authoritarian regime lasting until 1974. The Great Depression (1929–1939) was severe globally, but drew attention to the need for a

[6] These companies were listed in Bulletins, Euronext historical archive.

[7] The *Repartição Técnica de Fiscalização das Sociedades Anónimas*, created by the decree of January 14, 1911, as a mixed direction for statistics, also.

separate housing for the commodity exchange (Associação Industrial Portuguesa 1930).

Following the Depression, stock-market trading volumes could only increase until 1939, then dropped again until the end of the Second World War, when historical sources indicate that transactions of real estate and securities from nonlisted companies were helping to support the stock market.[8] In many nations, even wealthy ones such as France, Germany, and Italy, "the polity did not support capital markets in the immediate post-war decades" (Roe 2006, p. 2). Perhaps the same can be said of Oliveira Salazar's government. Although nationalizations did not occur (as in those countries), public capital penetrated many companies in sectors such as electricity, water provision, transport, and communications. Portugal remained a neutral country throughout the war, and export opportunities, war refugees, and capital inflows brought some prosperity, paving the way to a golden age of economic growth in Portugal in the 1950s and 1960s.

Joining the Marshall Plan and the Organisation for European Economic Co-operation in 1948 brought considerable cooperation with European partners and brought Portugal into close contact with global stock markets. The postwar period was the most successful growth period in Portugal's history, with sustained economic growth of 2–5 percent annually in the 1940s and 1950s, and 5–7 percent annually in the 1960s, following Portugal's participation in the European economic integration process. A genuine economic modernization and urbanization occurred (Amaral 2003; Maddison 2001). The period witnessed the formation of conglomerates through firms' affiliation under the government's development policy. This policy may have been a critical survival mechanism for small firms by allowing them to benefit from homeland and colonial markets in a wild and inhospitable international business environment. The most important were family groups and venture capital firms.[9]

Within the context of the European Free Trade Association (EFTA), Portugal converged with its partners in regulations on corporations and the issuing of shares and debentures in decree

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[8] Daily Bulletins, 1940–45, Lisbon Stock Exchange Historical Archive.

[9] These groups and firms were the CUF (Mello family), the Sommer group (Champalimaud family), the Fonsecas and Burnay, and the Espírito Santo Martins. Maria Belmira, *Sociedades e Grupos em Portugal* (Lisbon: Estampa, 2nd ed., 1975), pp. 21–65.

44652 of October 27, 1962, and in the new Civil Code of 1966. Thanks to the development of agricultural cooperatives in the context of the EFTA, decree-law 49184 of August 11, 1969, created the legal background for group agricultural associations.

Concerning the financial sector, a decree-law of January 6, 1969, quoting the 1967 British Companies Act, regulated associations' ownership in establishing the rules for the securities market. The reason was the domain of companies in case of divergent views or conflicts of interest between boards of directors and auditing committees (Duarte 2008, pp. 42, 43).[10] Mergers and crossed-capital participations (groups of companies that invest in one another's businesses) strengthened several economic groups. Listing flourished, and corporations greatly increased their equity. In many companies, ownership separated from control, and corporate governance became powerful.[11] Although corporations often relied on the firm's reserves and provisions in funding increases of capital, and venture capital firms frequently used bank loans, this period witnessed considerable issuing of share capital in the stock market. Enthusiasm increased, and decree-law 1/72 of January 3, 1972, regulated the profession of official auditors, their professional chamber, and the auditing firms in order to guarantee transparent accounting and a clear appraisal of corporations' financial situations.

As legal uniformization of procedures was underway in the European Economic Community, the Portuguese regulation on mergers dating from the old 1888 commercial code was considered to be insufficient, in spite of Portugal's participation in the EFTA and not in the European customs union. Regarding mergers and demergers, decree-law 598/73 of November 8, 1973, adopted the European laws in advance (Duarte 2008, p. 55, quoting Ventura 1972). Just before the first oil shock (in the last quarter of 1973), which greatly affected the Western world, decree 8/74 of January 14, 1974, was a real novelty in promoting a more stimulating background for the stock exchange. In the decree's preamble, the legislator states that the stock market's impact on economic growth critically

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[10] The motivation for decree-law 1/71 was to prevent the merger of Bank Pinto & Sotto Mayor related to an economic group (Champalimaud) with another successful bank, Banco Português do Atlântico, revealing government fears about large concentration and economic power.

[11] On the criteria for historians to discover this separation, see Hilt (2008, p. 652) and Ullrich (1972).

depended upon the old legal, regulatory, and political environment prevailing in the country since "the archaic decree of October 10, 1901."[12]

If it was already a constraint to the number of operations in the exchange when its pace was slow, it was "a real blockade against the spectacular growth" the exchange was experiencing then.[13] The decree prepared the juridical environment of stock markets in the country for a sizeable multiplication of operations and negotiation, in the context of the highest GDP growth rates ever experienced in Portugal. Strongly influenced by the finance secretary of state, Luís Sapateiro, it opened the possibility of creating autonomous exchanges in any Portuguese city where the volume, frequency, and expectations of transactions should require a market. Autonomous exchanges should be under the surveillance of one of the two exchanges (Lisbon or Porto), and the whole market was to be coordinated and overseen by the Ministry of Finance for conflict arbitrage, with the help of a consulting board comprising the governor of the central bank, the president of the public debt general office (*Junta do Crédito Público*), representatives of the banking and insurance sectors, and representatives of firms and exchanges.

Decree 8/74 of January 14, 1974, also imposed many duties on the corporations listed in the stock market, particularly regarding their admission. Shareholder protection, fixed fees, and strong enforcement were key features.[14] All of this was meant to result in greater stock market capitalization, initial public offerings, and a greater number of publicly traded companies (La Porta et al. 1997; La Porta et al. 1998). The decree also regulated term operations and brokerage firms headed by the duly authorized stockbrokers. The daily schedule was divided into specialized operations,[15] administrative practices were detailed according to brokers' specializations, and brokers elected appointments to the specialized positions (on bonds, commodities, insurance, etc.).

The decree promised a large and multiplied transaction system that would be long lasting, but it was suddenly interrupted by the 1974 military revolution and is recalled as an interim package of

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[12] Decree 8/74 of January 14, 1974.

[13] Ibid.

[14] Penalties for disrespectful behavior were also established (articles 53, 133, and 134 of decree 8/74, published in the official newspaper *Diário do Governo,* I Série, no. 11, January 14, 1974, p. 42-(12) and (22).

[15] An example of specialized operations was options and primes in the first hour.

regulation. Portugal experienced a military coup (the Carnation Revolution) on April 25, 1974, with strategic consequences for the domestic economy (and therefore the domestic stock exchange as well).

In Portugal, the aftermath of the Carnation Revolution put an end to centuries of business and Darwinian-selective legal and organizational improvement. Political reasons must be included to explain the close convergence of juridical features to other countries. Joining the European Union in January 1986 brought a new credibility to the country's future, which led to a progressive opening of borders to financial investment from abroad (adding upward pressure to the price of any Portuguese asset). This upward pressure also occurred because the market was so small that even small influxes of cash fueled discussions on the juridical background.

Coupled with the privatization program during the 1990s, the country executed an unexpected miracle that was so impressive it drew the attention of several other European exchanges, a fact that led in February 2002 to the merger of Portugal's markets with others in what was then called the Euronext Group. Institutional convergence assured that in a few years, it was possible to overcome most of the fears regarding small size and establish a "normalized" capital market that is open to foreign investors and mature enough to accommodate the overreaching aims of capital-free circulation in a global perspective.

III. Summary and Conclusions

The Lisbon Stock Exchange is a special example that other countries have looked at to gain insight. Market stability, harmony according to convenience, and guidance according to behavioral aims have been the main concerns in the legal framework in the one hundred years of the Lisbon Stock Exchange. The promotion of more perfect market interactions was implemented over the centuries in preserving rational methods and collective intelligence in stock markets. Established as a reference system, the regulations on the Lisbon exchange survived according to a Darwinian natural selection process.

Portugal seems to be a singular case of response to concrete market challenges due to two special characteristics of its own history. On the one hand, the pressures stemming from the discoveries in the endeavors of the fifteenth century dictated the centralization of a market in Lisbon, where commodities, financing, and insurance could be traded in order to cope with the needs of those discoveries. On the other hand, domestic and geopolitical aspects of the following centuries disturbed the smooth development of such centralized markets in Portugal. Since then, the role of the Portuguese trade and financial services in the global network of financial operations has been reflected in the special legal rules and settings that framed the Lisbon Bourse.

Stock markets underpin advanced markets, and there is a debate about how to best promote them. Legal origins and frameworks affect finance, but politics and globalization dictate the tools to build markets and advance economically. Depending on political conditions, exchanges may disappear under unfavorable polity or flourish suddenly in a stimulating political environment. Although centralized markets, like any other economic activity, were born out of and responded to the economic needs of their "clients," recent years have seen profoundly important legal and organizational changes in most stock markets around the world.

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