Introduction

This book is about the evolution of the Portuguese economy during the course of eight centuries, from the foundation of the kingdom, in 1143, when political boundaries began to take shape in the midst of the Christian *Reconquista* of the Iberian Peninsula, to the integration of the nation in the European Communities and the Economic and Monetary Union. While the economy we are interested in responded to external influences across the land and sea borders, its activity also exerted influence on events occurring elsewhere.\(^1\)

The study of the Portuguese economy highlights in a vivid way a number of aspects of European economic history. Indeed, the formation of Portugal as a political unit in 1143 should be seen as part of the broader movement in the Iberian Peninsula, called *Reconquista*, which obtained the statute of Crusade by papal encyclical in 1123. The understanding of the economic forces driving territorial expansion, which ended with the takeover of the Algarve, in 1249, presents a rare opportunity to observe how Christian rulers and settlers managed to conquer and reorganize resources that were once inserted in the Muslim al-Andalus, by then one of the more urbanized and possibly technologically more advanced areas of southern Europe. The *Reconquista* of the Iberian Peninsula spanned 781 years, since the fall of Granada took place in 1491, and thus contributed to expand Europe’s cultural, religious, and economic borders while establishing the political and institutional framework of the new Christian kingdom.

Regarding this particular aspect of the first century of Portuguese history, the development of manorial organization in Iberia provides additional evidence for a comparison with the seigneurial regime as it evolved elsewhere in Europe. The rise of a stable and legitimized

\(^1\) For Europe, see Broadberry and O’Rourke 2010; Crouzet 2000; Magnusson 2002; Malanima 2009; Persson 2010; and Di Vittorio 2006. See also, for the rest of the world, Findlay and O’Rourke 2007 and Neal and Williamson eds. 2014.
monarchy in the twelfth century went hand in hand with the distribution of land and wealth that defined the balance of power between the king, the nobility, and the Church. This equilibrium needed regular military actions to ensure its sustainability and was accompanied by a dynamic of territorial expansion in order to secure more resources to be distributed. These factors were also the main drivers of the overseas expansion, beginning with the conquest of Ceuta in the northern coast of Africa, in 1415, and the ensuing discoveries. The Reconquista and maritime expansion were thus closely linked in their institutional, military, and economic aspects.

The study of the peripheral country that is the focus of the present book provides a unique perspective about European expansion. After Vasco da Gama’s first voyage to India (1498), the long-term evolution of the European economy was shaped by the “simultaneous effect of contradictory forces: the forces of decline and the forces of growth” (Malanima, 2009: xiv). Down to a certain point in time, the forces of decline are largely associated with rural areas, and the forces of growth with cities and national, international, or colonial trade, thus defining the regions of the continent which forge ahead or lag behind in different historical moments.

The tension between decline and progress is present in our analysis of the Portuguese economy as will be clear in the book. In the sixteenth century if not in earlier times, the forces of stagnation, or at least of slow growth, in Portugal outweighed the forces of expansion. In fact, the conditions for growth in this region of Europe were less favorable than in the more dynamic axis, located between the northern cities of the Low Countries and the rich plains of Lombardy. That difference became even clearer during the eighteenth century, the period of Europe’s “little divergence”, and the heyday of the British industrial revolution (Van Zanden 2009). Thus, theories about the causes of industrial and, for that matter, overall economic success, need to be tested in the regions that lagged behind, like Portugal. Yet, despite the undeniable historical level of economic backwardness, the Portuguese economy also made considerable advances, as backwardness and growth are not incompatible concepts.

From the mid-nineteenth century onwards, the Portuguese economy was transformed in a substantial way, albeit not at a pace that allowed it to overcome the gap in the level of income per capita in relation to more advanced countries. The phases of growth and slowdown of the

Portuguese economy, as well as those of convergence and divergence vis-à-vis countries that industrialized earlier, are associated with cycles of higher or lower tariff protection, levels of State intervention, and levels of institutional development. This means that the Portuguese experience also provides an excellent lens to observe how these factors interacted in the European economy. As stated in a work on another small peripheral European economy, “the history of any individual country of the West is inseparably connected with the historical development of the West as a whole (…) [and that] applies with particular force to a small Western country and the economic history of such a country.”

The long-term analysis we carry out in this book constitutes the ambitious and challenging task of providing a coherent account of the evolution of a national economy and its external and imperial relations during a long period for which quantitative data is scarce, scattered, and sometimes contradictory. We are, however, following the steps of recent work on comparative growth in the long term, which has generated an impressive body of scholarship on convergence and divergence, within Europe or at the world level. In this literature, the main focus is to find large trends in growth and decline and explain them in terms of demographic, political, or institutional change, taking into account information of those different areas that englobe economic activity. In order to grasp economic evolution in such a long period of time, we need to go beyond the standard analysis of macroeconomic variables, for lack of the necessary quantitative information, and integrate institutional developments.

Our approach questions a certain historiographical tradition that somehow dominated earlier interpretations on Portugal’s economic growth and was mostly focused on detecting possible consequences of systemic crises, which considered mostly variables such as price levels and scattered information on foreign trade. The influence of this older literature on Portuguese historiography stands out in the notion that the economy was affected by repeated crises, which is based to a large extent on the writings of contemporary observers. By identifying social and institutional constraints, these observers followed a stream of criticism, based on the notion of a national or Iberian decline that shaped their own political agenda. The arbitristas, a group of seventeenth-century thinkers and reformers common to Portugal and

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3 Berend and Ránki 1982; Broadberry and O’Rourke 2010.
4 Hecksher, 1954, p. 9 (italics from the original).
6 Pomeranz 2000; Allen 2001; Broadberry and Gupta 2006; Malanima 2013; Van Zanden 2009.
Spain, are an example of political sensitivity to alterations in the economic environment. These writings were abundantly quoted by a generation of philosophers, historians, and politicians living in the last decades of the monarchy and also by actors of the new republican regime who became profoundly upset with Portugal’s backwardness.8

This book takes into consideration such qualitative insights that mirror the actors’ perspective on lived events, and also recognizes the intellectual legacy left by historians, who provided a broader interpretation of Portuguese economic history by stressing the ups and downs and the causes of the country’s falling behind.9 Our overview relies heavily on the body of literature on Portuguese history and its empire.10 Although extensive and providing a wide array of information and quantifications, this literature tackles issues and periods that are not usually studied in an economic and integrated perspective. Nevertheless, we believe it is possible to build an intelligible narrative based on information about demographic change, agricultural and industrial outputs, internal and external trade. There will, however, be some room for intellectual doubts in exercises that aim to offer a comprehensive reading of scattered data, especially with regard to medieval or early modern periods for which evidence is often insufficient or even contradictory. Furthermore, our approach adds to this immense literature when it makes use of entirely new results and data sets produced by research projects namely on living standards from 1300 up to 1910.11 As for the contemporary period, neither scarcity nor scattering of data hinders an in-depth historical investigation. The evolution of the economy in the last two centuries can therefore be based on regular assessments of production, both at the sectorial and at the aggregate levels, and factor productivity. Economic development is necessarily linked with the development of institutions which provide the framework of formal and informal rules that constrain individual or social choices.12 An examination of eight centuries of Portuguese history thus needs to identify the bundle of property rights that determined the distribution of resources and output, as well as the fiscal and monetary scope of the decisions taken by the political core, in order to tackle the different paths toward the rise of

8 Sérgio 1984; Quental 1982.
12 North 1990.
modern political institutions. As for contemporary relations between the State and the economy, this book deals with the role of economic policies in constraining or boosting growth.

In the rest of the book, we look into the behavior of variables, such as demography, agriculture, industry, foreign trade, and public finances, to assess the evolution of the Portuguese economy. Not surprisingly, the benchmarks that shape the book’s structure are milestones set at the international level, except the year of 1143 that marks the beginning of our story.

The formation of the kingdom in the midst of the Christian Reconquista is at the core of Chapter 1 and we argue there that the Portuguese economy in the medieval period was strongly affected by the consequences of changing borders. From 1143 to 1249, economic activity must be seen in the context of the endemic wars against the Muslims. The southward movement allowed the monarch, the nobility, and military orders to take possession of the land, thus expanding the seigneurial regime and its institutional arrangement of wealth and land distribution. At the same time, an ancient tradition of property rights over common land and self-government gave rise to a network of local organizations, based on municipalities (concelhos), encouraged either by the Crown or by lay and ecclesiastical lords. The king, the nobility, the Church, and the municipalities were thus the major institutional actors to take possession of the land and derive economic profit from it.

After the end of the Reconquista, between c. 1250 and the 1340s, population and agricultural output trends became increasingly more aligned with the long cycle of growth in Western Europe. Even though agriculture continued to be the main source of economic change, there is also evidence on the role of commercial activities, both at the domestic level and with the rest of Europe. Within the domestic borders, regular fairs and occasional markets constituted the most important forms of connecting producers to consumers. Externally the kingdom took an increasing part in the burgeoning trade, particularly in the routes that linked northern Europe to the Mediterranean.
The phase of demographic and economic expansion from the twelfth century to the thirteenth century was interrupted, like elsewhere in Europe, by the Black Death, certainly one of the worst catastrophes ever to strike the continent. The epidemic wiped out nearly a third of the country’s population, dramatically impacting on agricultural output, trade, and manufactures, leading to a demographic and economic crisis that lasted throughout the fourteenth century (Marques 1987). Contemporarily, beginning in 1369, the hostilities with Castile unfolded in several episodes, including the dynastic crisis of 1383–1385 that followed the death of the last member of the House of Burgundy, and which allowed João de Avis, the bastard son of King Pedro, to take the throne as João I. War with the neighboring kingdom lasted until 1411 and put the kingdom’s financial resources under tremendous pressure. With the rise to power of the Avis dynasty, a second wave of border expansion took place. The military expedition that captured Ceuta in 1415 was certainly part of the new dynasty’s efforts to legitimize its political credibility, both in Portugal and abroad. The addition of Ceuta to the kingdom inaugurated an expansionary phase spanning over a century. Early on during this phase, Portugal colonized islands in the Atlantic, secured its military presence in northern Africa, and undertook a series of long-distance overseas voyages along the west coast of Africa. As early as the 1480s, the goal of reaching India by sea became a priority and was finally accomplished in 1498 with Vasco da Gama’s first journey. The second voyage to India (1500) expanded Portugal’s area of influence even further, this time to the northeastern shores of South America.

With economic borders that encompassed settlements in three continents, the Portuguese economy showed clear signs of prosperity and after 1500 population grew steadily, in line with the European long-term upward trend and most probably the levels of population and output from the period before the epidemic were attained once again, which was also followed by the growth of commercial relations within the empire. In 1580, Portugal and the other Iberian kingdoms were united under the rule of Filipe II. The dynastic union has been associated since as early as the seventeenth century, with a widespread crisis that put Portugal along a path of decline (Peres 1933, vol. III). Nevertheless, the view that the higher level of integration of the Iberian economies, both within Europe and with the overseas economies, under the rule of the Habsburgs was one of recovery is well established now. Trade across the Cape route was kept active and expanded, while Brazil assumed a leading

20 Dias 1996; Rodrigues 2008.
position in sugar production between 1580 and 1620, which spurred transatlantic trade to new heights. As a result, the first forty years of the Iberian Union were economically beneficial for Portugal, particularly in terms of its position in the world economy. This conclusion, which we express in Chapter 2, is in line with what we may sense in the literature about European growth in the sixteenth century up to the 1620s. The bulk of this chapter focuses on Portugal’s role in the growth of intra-European trade, which is assessed by taking into consideration the relative contribution of each Portuguese colonial specialization. The development of a maritime empire in the sixteenth century ensured a new intermediary role to Portuguese shores, competing with Mediterranean outlets that traditionally had connected Europe to the Middle East and Asia. Domestically, some economic sectors were positively affected, especially shipbuilding. Furthermore, the empire provided the crown’s finances with new resources, both through customs duties and through monopoly rights over businesses within the empire directly exploited by the crown or by private groups of merchants. The imperial dimension of the economy thus represented a new level of openness and a greater integration of Portugal in European flows.

Meanwhile, a set of reforms changed the structure of the crown’s revenues, but domestic resources continued to be redistributed among the nobility and the Church through fiscal arrangements established since the Reconquista. This was a significant mechanism that ensured a social pact that held the kingdom together, and was challenged during the last twenty years of the Habsburg rule. The 1640 coup that restored Portugal’s independence from Spain can be explained by the challenges to this fiscal equilibrium brought about by Habsburg rule rather than by the loss of overseas territories due to the international conflicts in which Portugal was involved during the Iberian Union. The hostilities increased in intensity during Philip IV’s reign (1621–1665), involving the Habsburg monarchy in the Thirty Years’ War (1618–1648), while warfare with the United Provinces resumed after 1621. Chapter 3 opens with this moment, also taken as a turning point in Portugal’s economic history.

Portuguese Asia, whose revenue clearly outweighed that derived from other overseas possessions, was increasingly threatened by the encroachment of the maritime trading companies of the United Provinces and Great Britain. The conflict with the Dutch resulted in the loss of

21 Boyajian 1993; Subrahmanyan 1993; Cortesão 1940a and 1940b; Costa 2002a, 2002b; Mauro 1983; Moreira 1990; Polónia 2007; Schwartz 1985; Silva 1988.
settlements in Asia and Brazil whilst, on the domestic front, apart from the rise of taxation, indicators such as demography and agricultural output point to a phase of stagnation from the late 1620s onwards. This is different than what was happening in the Dutch Republic and England, where signs of prosperity in the second half of the seventeenth century confirm the erosion of Portugal’s position vis-à-vis European Atlantic powers. Social and political unrest favored a political conspiracy led by the aristocracy that put an end to Habsburg rule. Political independence came in a period of relative economic stagnation and the War of Restoration that followed determined fiscal innovations that had long-lasting effects. In 1641, a universal income tax of 10 percent, the décima, was introduced, legitimized on the need for a collective effort to pay for independence and defense of the kingdom. Despite its origins, it continued to be collected after the war ended until well into the liberal period, in the nineteenth century. The décima was unparalleled in Europe, where the rise of the state’s revenue was mainly based on indirect taxes.

The conflict spanned over almost three decades, and population growth was thus constrained, while agriculture was hit by a succession of poor harvests. In 1668, peace with Spain was finally signed, but Portugal’s economy took a long time to recover, and foreign trade remained stagnant until well into the first quarter of the eighteenth century (Rau 1954). However, agricultural output apparently recovered after around the 1680s and the population resumed growth most probably after around 1700. Such signs of positive evolution of the domestic economy occurred in the midst of monetary devaluation and inflation, which probably had significant effects on the distribution of income and on other matters such as the real interest rate of public debt bonds. Reacting to what contemporary actors viewed as a critical shortage of financial resources, foreign trade contraction, and outflows of bullion to offset the trade deficit, the State foresaw the introduction of import-substitution policies. Industrial improvements, together with rising population and investment in the primary sector, at least in certain regions of the country, suggest some degree of economic recovery on the eve of the war of the Spanish Succession (1702–1713).
The war put in check the diplomatic links inherited from the times of the Restoration where France had a leading role, and, in 1703, Portugal joined the Grand Alliance of England, the Dutch Republic, and the Holy Roman Empire. Chapter 4 begins at this new international order which favored the kingdom’s interests in the Atlantic and steered the diplomatic decision of signing a commercial treaty with England in 1703 (known in Portugal as the Methuen Treaty), with relevant economic implications for both parties (Francis 1966). The English wool industry gained easier access to Portuguese markets from then on, while Portuguese wine was taxed in England at a rate one-third lower than that levied on French wines.

The eighteenth century thus started with a positive tone in Europe, at least from the point of view of demographic growth. In the Portuguese case, however, the population fell until around 1730 as a result of unprecedented migration flows to Brazil driven by the gold mining rush. Portugal’s trade surplus with the colony ensured inflows of gold as a result of re-exports of European commodities, especially British cloth, which was paid for mostly with gold in the colony. In turn, the abundant bullion that entered the British economy increased the demand and thus exports of wine to the British market experienced an upsurge. The growth of the foreign sector was nevertheless accompanied by successive trade deficits, as imports of both manufactures and foodstuffs were not matched by exports, and the deficits had to be covered by the export of gold. Yet, gold inflows from Brazil clearly exceeded outflows from Europe. Colonial trade thus raised the levels of money supply in Portugal, and this level of liquidity positively affecting the royal treasury must have contributed to the issuing of public debt at decreasing interest rates.

In 1755, a terrible earthquake occurred in Lisbon and in other parts of the country, particularly in the south which had very important consequences at the political and the economic levels (Araújo et al. 2007). The aftermath of this disaster saw the rise of marquis of Pombal, Carvalho e Melo, who led the centralization of the state and a higher degree of economic intervention. The minister’s actions went far beyond the context of the catastrophe. He changed the institutional framework of the Portuguese agricultural economy with the creation of the first demarcated wine region, in order to limit and control the production and quality of the wine. Alongside the colonial companies that emerged with Pombal policies, this institutional framework for wine

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production and trade became a bone of contention with Great Britain, and gave rise to the notion that Pombal’s government was driven by the aim of nationalization of Portuguese colonial and foreign trade. Apart from the nationalistic implications, which in fact were not a cornerstone of Pombal’s policy, his government enhanced the wealth of the elite who dominated colonial commerce, industry, and state financial affairs.

The extent to which the institutional changes put forth by Pombal’s government had long-term results is not entirely clear. Doubts remain on the country’s economic performance in the late decades of the eighteenth century because the evidence is somewhat contradictory, particularly from the 1790s on. On the one hand, Portugal strengthened its economic ties with the Atlantic system after the Seven Year war (1754–1763), which diversified the country’s trade relations with positive consequences on the trade balance. On the other hand, the involvement in ongoing international conflicts increased public expenditure, along with budget deficits, so that in the 1790s, Portugal resorted to issuing paper currency for the first time. This monetary innovation led to rising prices and inflation penalized all stakeholders in the agricultural sector, but wages were also hit. There is evidence that the standard of living on the eve of Napoleon’s invasion were lower than those in the middle of the century.

These events marked a new era of Portugal’s economic history, which we analyze in Chapter 5. In the following years, soon after the royal court was settled in Rio de Janeiro, the government declared the end of Portugal’s trade monopoly with Brazil, in 1808, and a substantial reduction of tariffs levied on the British, in 1810. Political and military instability ultimately led to the 1820 coup that put an end to the absolutist monarchy and to a liberal Constitution. In 1822, Brazil became independent. Stability returned only in 1851, when a new coup appeased the political and military conflicts. And the new set of liberal institutions was only in place well into the third quarter of the century. The slow and troubled political change that we observe in the first half of the nineteenth century was accompanied by the first steps of the Portuguese economy toward industrialization, growth of foreign trade, transformations in the agricultural sector, and increasing levels of urbanization. Portugal started the century as a backward country in the European context, and remained so by the end of the century. But backwardness, or divergence, did not mean an absence of change, and this is one of the most relevant lessons of the experience of this country in the nineteenth century. The century.