An Economic History of Portugal, 1143 2010

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of income per capita within Europe, clearly distinguishing a core of industrializing countries and an outer periphery, to the south and the east, where the prevalence of backward agriculture lasted for several decades up to the twentieth century.[2] It still is a point of lively discussion in the literature to define when that "little divergence" commenced in the European continent, whether it is a heritage from the *Ancién Régime* or a feature of the century of industrialization. Regarding Portugal, for example, it has been argued that backwardness has to be mostly explained by events that occurred either in the revolutionary years of the first half of the nineteenth century, or in the decades of relative political pacification that followed.[3] Whatever the origins of backwardness in time, the fact was that the poorer peripheral European countries experienced economic growth and some degree of structural change across the nineteenth century.[4] In this chapter we start by identifying the economic consequences stemming from the French invasions, the end of the Brazilian Empire, and the civil and military strife that ensued from the fall of the *Ancién Régime*. Then, the chapter deals with the analysis of the trends in industrial and agricultural output growth, as well as changes in productivity and the structure of the economy. In this respect, the study of the first half of the century is different from that of the second half because there is more quantitative evidence on the main macroeconomic variables for the latter period. The chapter will also deal with other issues concerning the economy at large, of which the financial constraints of growth will receive due attention.

The end of an empire

During the last decades of the eighteenth century, Portugal's foreign trade experienced quite a favorable period, which was largely due to imperial preference for Brazilian ports, as well as to the neutrality the country managed to keep among the warring nations in Europe, particularly Great Britain, France, and the Low Countries. The Continental Blockade, which was imposed by Napoleon to Portugal in 1806, led to an end of that prosperity, not in any direct manner, but because it led to the retreat

2 Berend and Ránki 1982; Broadberry and O'Rourke 2010, vol. 2; Pollard 1994, Chapter 5.

3 For the first half of the century, see Alexandre 1993 and Pedreira 1993; for the second half, see Pereira 1983, Reis 1993: Chapter 1, and Tortella 1994. Macedo 1982b provides probably the first account on how the eighteenth century Portuguese economy was unable to follow British industrialization closely.

4 See Lains and Silva, eds. 2005 and Lains 2012. For Spain, see Prados de la Escosura 1988 and 2003. See also Landes 1998 for a somehow opposing perspective, where peripheral countries' backwardness is seen as equivalent to lack of growth or industrialization.

of the Lisbon court to Brazil and ultimately to the end of the Portuguese Brazilian empire, in the following decade. The wars between Britain, France, and Spain, in the seas and on the European continent, had direct impact on Portugal ending the relatively peaceful situation which the country knew during the second half of the eighteenth century. In 1793, Portugal sent troops to fight on the Spanish side against the French at the Battle of Toulon, but two years later Portugal was put aside in the peace treaty signed between Spain and France at San Ildefonso. In 1801, Spain defeated Portugal at the War of the Oranges and Portugal had to accede to French demands to renounce its old alliance with Great Britain. Yet Portugal was for some time able to maintain a position of neutrality, which allowed it to continue its privileged economic relationship with its traditional ally. In 1806, Napoleon imposed the Continental Blockade on the entry of British ships into Europe, and reinforced his demand that Portugal also close its ports, threatening Portugal with a military intervention. Faced with this threat, Prince Regent João submitted to French pressure and, in October 1807, ordered all British ships to leave Portuguese ports. This brought Portuguese neutrality to an end, but it was insufficient since it did not satisfy two other demands: the arrest of all British citizens residing in Portugal and the confiscation of their property.[5] The blockade of British commerce in Portuguese ports was ineffective, as the data on the entry and exit of ships show (see Table 5.1). The entry of ships of all nationalities declined between 1801 and 1803, and stabilized in the following years, and in 1808, the first year of effective blockade, the number of ships in Portuguese ports was practically equal to that of 1803. On the other hand, the number of vessels that left the port of Lisbon increased between 1808 and 1811. Thus, the most important consequence of the French blockade was a brief contraction of British ships entering the Tagus, in the year 1808, immediately followed by a recovery. In fact, between 1801 and 1807, around three-quarters of the ships that entered Portuguese ports were British, a proportion that declined to less than one-half in 1808 before increasing again to higher values. As for British ships leaving Lisbon, there was a slight decline after 1808, followed by a strong recovery. At the city of Porto, the reduction in the number of British ships was larger, with arrivals falling by 27 percent and departures by 7 percent in 1808, but the recovery that followed was quite remarkable. Indeed, in 1812 the tonnage carried by British ships increased above the levels of the beginning of the century. The largest

[5] Macedo 1990; Pedreira 2000; Ramos, Sousa, and Monteiro 2009. The Continental blockade was, however, overcome in many ways, including by increasing imports from the United States. See Moreira and Eloranta 2011.

Table 5.1 *Ships in Portuguese ports, 1801–1814 (number of vessels)*
A. All ports*

	Inbound				Outbound			
	Total	British	Other	British/ total (%)	Total	British	Other	British/ total (%)
1801	508	395	113	77.8	363	182	181	50.1
1802	415	373	42	89.9	353	246	107	69.7
1803	364	282	82	77.5	280	220	60	78.6
1804	372	241	131	64.8	314	197	117	62.7
1805	401	274	127	68.3	307	204	103	66.4
1806	468	354	114	75.6	332	210	122	63.3
1807	390	305	85	78.2	398	216	182	54.3
1808	358	165	193	46.1	390	231	159	59.2
1809	540	474	66	87.8	576	444	132	77.1
1810	627	536	91	85.5	642	466	176	72.6
1811	433	385	48	88.9	651	537	114	82.5
1814	551	428	123	77.7	436	296	140	67.9

B. Porto

	Inbound				Outbound			
	Total	British	Other	British/ total (%)	Total	British	Other	British/ total (%)
1801	357	142	215	39.8	430	102	328	23.7
1806	327	150	177	45.9	251	74	177	29.5
1807	337	149	188	44.2	347	95	252	27.4
1808	263	72	191	27.4	258	17	241	6.6
1809	295	212	83	71.9	262	44	218	16.8
1810	233	154	79	66.1	230	35	195	15.2
1811	472	258	214	54.7	310	172	138	55.5
1812	391	197	194	50.4	349	228	121	65.3

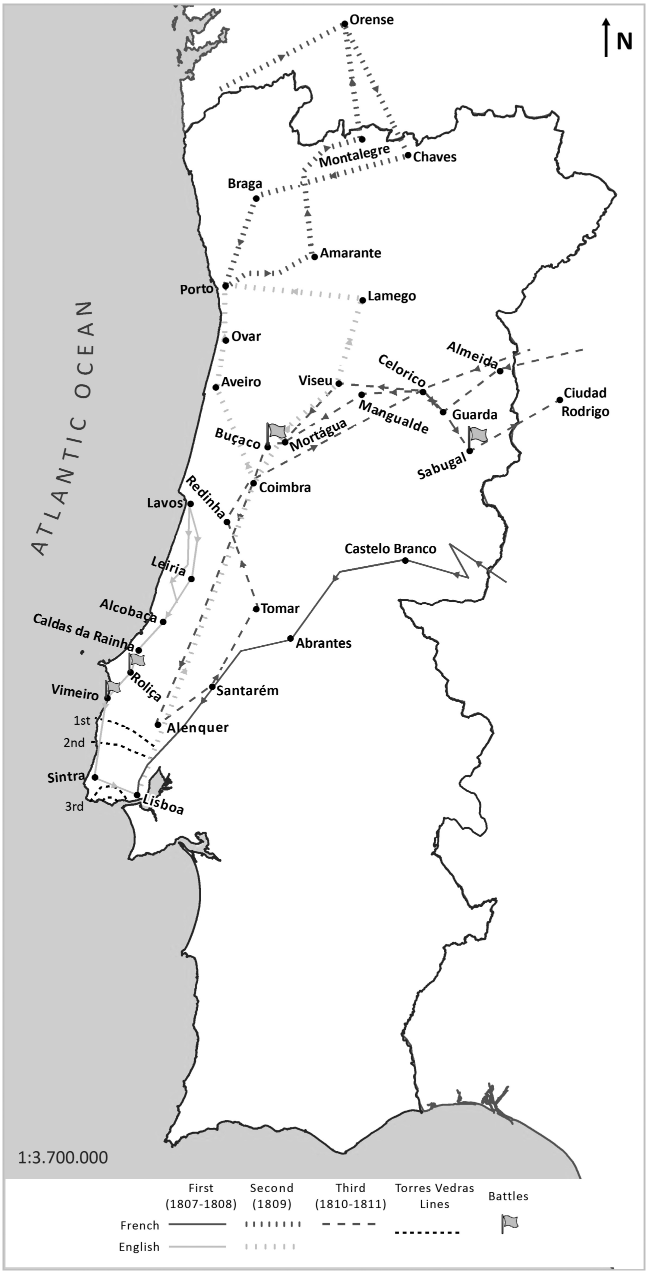
* Portuguese ships not included
Source: Macedo 1990: 73 74.

portion of Portuguese foreign trade was conducted through Lisbon and it increased throughout the decade of the Napoleonic Wars, to the extent that "the increase in British influence was the truly important element of the continental blockade" (Macedo 1990: 102).

As a direct consequence of the failure to impose the blockade on British ships, in late 1807, French troops under Junot's command invaded Portugal, following the route of the river Tagus and taking about six weeks to arrive in Lisbon. The goal was to seize the ships and take control of the port of Lisbon (Macedo 1990: 46–47). Just before the French troops entered the capital, Queen Maria I, the Prince Regent João, the royal family, the Court, and a thousand more people left for Brazil under the escort of the British Royal Navy. The French troops were expelled in September 1808 with the aid of around 10,000 British troops under the command of General Wellesley, the future duke of Wellington. A second French invasion occurred soon after, in February 1809, and lasted until May, when they were again defeated by Anglo-Portuguese forces, under the command of Lord Beresford. A third and last attempt by Napoleon to occupy Portugal took place in July 1810 involving a much larger army of 80,000 men, but they were unable to go beyond the line of Torres Vedras, 50 kilometers to the north of Lisbon, which had been built under British command, and the French finally withdrew in March 1811 (Map 5.1).

Although they were territorially limited, the French invasions had some direct impact on the Portuguese economy, as they involved the raising of an army, death, the occupation of agricultural land, the confiscation of working animals and foodstuff, looting, and a generalized climate of unrest and instability. But the exact extent of such consequences have not yet been measured by economic historians. However, the fact is that the Portuguese economy overall was probably affected to a larger degree by the opening up of Brazilian ports to shipping from all nations, in 1808, and the Anglo-Portuguese Treaty of 1810, which conceded the most-favored-nation status for British imports and special privileges for British commercial agents. These two measures spelled the end of Portugal's exclusive colonial trade with Brazil, which remains to this day a hotly debated topic among Portuguese historians. The "oldest alliance" with Great Britain rescued Portugal's independence, but proved very costly too, very nearly shutting the country out of international trade altogether from 1808 to 1813 (Pedreira 1993). In the aftermath of the changes in trade relations with the rest of the world, in 1815, Prince Regent João declared the United Kingdom of Portugal and Brazil, and Rio de Janeiro, instead of Lisbon, became its capital. Queen Maria I died in the following year, and João VI was proclaimed king. But the new king had to face revolt back in Portugal, as the conditions there were worsening in political terms. This was a period in which the absolutist regimes were challenged across Europe, including Portugal.

The first revolt against the absent monarch and British rule under General Beresford took place in 1817 in Porto. In 1818 a group of discontents from the second city of Porto, in the north of the country and away from the court formed the first liberal political movement in the country, the *Sinédrio*, which on August 24, 1820, taking advantage of Beresford's absence on a trip to João in Brazil, made a *coup* together with



Map 5.1 The French invasions, 1807 1811

factions of the military.[6] The coup was followed by the election of a constitutional parliament (the *Cortes*) in December 1820, which demanded the return of the monarch, and João VI arrived in Lisbon in August 1821, having left his son Pedro as regent in Brazil. An unintended consequence of this occurred in September of the following year, when the government of Brazil declared the country's independence and appointed Pedro as emperor, and in that same year the *Cortes* in Lisbon approved a new constitution. In 1823 and 1824 two successive Absolutist coups took place but D. Miguel was defeated and ultimately fled to exile in Austria. The political and military instability continued nevertheless and culminated in an open civil war that lasted from 1832 to 1834, ending in a victory for the liberal forces, ensuring the gradual return to stability in the following decades.

The economic consequences of Brazilian independence

The opening of the Brazilian ports to international trade and the substantial lowering of tariffs by the trade treaty with Great Britain, respectively, in 1808 and 1810, ended Portugal's trade monopoly in what was then its most important colony. This imposed a crucial change in the international context for the Portuguese economy and the study of the consequences is clearly one of the most debated topics of Portuguese historiography. It should be noted that the end of the Brazilian empire coincided with the advent of the industrialization of most of the European continent, a phenomenon from which Portugal was largely absent for a long time, at least in a way that can be compared to what happened in the pioneer nations or regions that followed closely the British leadership.[7] Yet it is quite difficult to establish a measure for the economic consequences of the end of colonial monopoly across the Atlantic as we need to build a complex counter-factual scenario. Moreover, that alternative scenario is particularly difficult to construct in the context of the first decades of the nineteenth century which were particularly unstable. Nevertheless, we may reach some conclusions regarding the impact of the end of Brazil's trade monopoly by looking at the development of the Portuguese economy in the period and, particularly, that of the industrial sector, and at international comparisons.

According to some scholars, the opening of Brazilian ports, the treaty with Great Britain, and the independence of Brazil were severe blows for the Portuguese economy because of the contraction of the exports of manufactures, which in turn resulted in a reduction in Portugal's industrial

[6] Valente 1997; Ramos, Sousa, and Monteiro 2010.

[7] Alexandre 1993; Haber and Klein 1997; Lains 1991 and 2005; Macedo 1982; Pedreira 1993 and 2000; Costa *et al.* 2014. See also O'Brien 1982 and O'Rourke 2006.

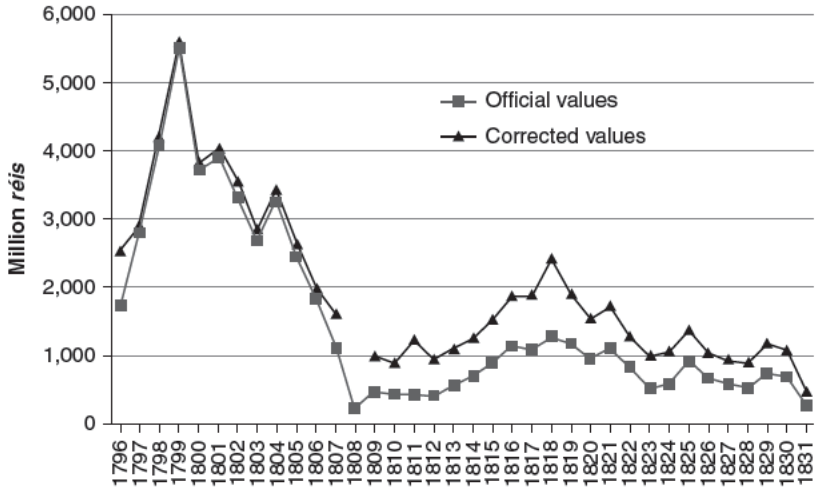


Figure 5.1 Exports of manufactures to Brazil, 1796 1831
Source: Lains 1991.

production.[8] This interpretation is based on the unproven assumption that exports to Brazil represented an important part of the total output of Portuguese industry and on a misinterpretation of export data. Yet the decline in the value of industrial exports began in 1799, well before Brazilian ports were opened to countries other than Portugal, and a recovery in the value of manufacturing exports can also be seen from 1808 until 1818, before Brazil's independence (see Figure 5.1). Manufactures exports from Portugal to Brazil were mainly affected by the convulsions of the French wars, and not as much by the loss of trade privileges. During the decade of 1796–1806, manufactures represented 35.6 percent of all Portuguese exports, and more than 90 percent of these exports, including cotton and linen cloth, printing presses, hats, and iron-work, were sent to Brazil. In the years 1825–1831 manufactures had declined and amounted to 16.8 percent of Portuguese exports, a decline that continued slowly until the 1850s, when it fell to 4 percent.[9] The Brazilian market was also important for Portuguese food exports, including wine and flour. Lisbon was furthermore the compulsory entry port for Brazilian cotton and sugar exports to Europe, an obligation that was profitable for the Portuguese merchants involved in this trade, for the

[8] Pedreira 1994; Sideri 1978. [9] Pedreira 1993, Tables 2 and 12; 1998: 218.

Table 5.2 *The cost of Brazil in 1830 (1830 prices)*

1. Portuguese industrial exports to Brazil, 1796 1805	2,625 million *réis*
2. Portuguese industrial exports to Brazil, 1806 1831	1,070 million *réis*
3. Loss of Brazilian market for Portuguese industry	1,555 million *réis*
4. Minimum value of Portuguese GNP in 1830	66,900 million *réis*
5. Maximum value of Portuguese GNP in 1830	155,400 million *réis*
6. Loss of Brazilian market as percentage of GNP (minimum GNP)	2.30%
7. Loss of Brazilian market as percentage of GNP (maximum GNP)	1.00%

Source: Lains 1991: 156 158.

Portuguese state through the customs revenues and for the national economy.

Exports of manufactured goods to Brazil, however, only represented a small part of Portugal's manufacturing activity and thus the loss of that market can only account for a small part of demand. Let us first establish how much was lost in export values and for that we compare average annual total exports for the period from 1806 to 1831, with that of the golden period from 1796 to 1805. This periodization avoids any discussion of the dates at which there was an inflection of exports of manufactured goods. In order to compare real values, an index price based on linen exports was used as reference. Accordingly, exports of manufactured goods fell by 1,555 million *réis*, at 1830 prices (see Table 5.2). If we assume that the loss of exports to the Brazilian market was not replaced by an increase in sales in the domestic market, we can take the above value as the total industrial sector lost. Next, we need to convert that loss as a share of total industrial output or GDP. Yet Portugal's industrial output value for 1830 is unknown, as is the value of national output. However, controlled estimates can provide an idea of the importance relative to the value of the manufactured goods that stopped being sold in Brazil (Lains 1991). Table 5.2 also shows estimates of the value of per capita GNP in 1850 and some hypotheses about growth between 1830 and 1850. Based on these values, it is possible to conclude that the 1,555 million *réis* that were lost with the opening of Brazil's ports represented between 1 and 2.3 percent of Portugal's GNP in 1830. Brazilian independence was not accompanied only by a decline in manufactured exports. Portuguese traders also exported foodstuffs to Brazil and re-exported tropical products from there through Lisbon to ports in northern Europe, as well as imported manufactured goods from Europe, activities that earned considerable incomes. The state also benefited from the duties charged on all of this trade. According to one estimate, taking into account the whole commercial activity related to Brazil would increase the annual loss of income from the end of the empire to about 6,000 million *réis* between the period 1796–1806 and the period 1816–1822, or between 3.4 and 6.7 percent of Portugal's GNP in 1830. This is probably a maximum figure for the loss of the empire and it should be noted that it assumes that all trade with Brazil was not diverted elsewhere which is rather implausible.[10]

The production of manufactured goods for export markets is probably an activity that involves additional dynamism and innovation, in comparison to activities catering for local markets, and the fact that linen or iron apparel factories in Northwest Portugal sent their products across the Atlantic is certainly evidence of some degree of industrial dynamism which may also be gauged from other sources regarding the sector.[11] Moreover, Europe's early industrialized regions began in a similar fashion by taking advantage of demand from other regions or from overseas.[12] Additionally, the manufacture of goods for sale in protected markets could lead to the development of a sufficiently competitive manufacturing sector no longer requiring protected markets, as the argument of infant industry would stress. Thus, the notion that exports of manufactured goods to Brazil could have been relevant for Portuguese earlier industrialization would be at least partially valid. But this is not an argument about quality but, necessarily, about the dimension of the external market for industrial output. It should also be noted that European economic history clearly shows that industrial exports had but a marginal role in the early stages of industrialization of the more advanced economies.[13] Summing up, although the loss of the Brazilian market certainly had some sort of negative impact on Portugal's industrialization, albeit small, the deep causes of the country's persistent degree of economic backwardness have to be sought elsewhere.

[10] Pedreira 1993. The author points to a loss of 8 percent of GDP. See also Costa, Palma, and Reis 2015, who estimate a higher value for the share of Brazilian intercontinental trade in GDP, of about 20 percent in 1800, but they do not establish a counterfactual value for the loss of trade.

[11] Alexandre 1993; Pedreira 1994; Madureira 1997.

[12] Pollard 1994; Van Zanden 2009.

[13] Allen 2009; Crafts 1985; Crafts and Harley 2000.