**Economic History of Portugal**

**Main Geographical Features**

Portugal is the south-westernmost country of Europe. With the approximate shape of a vertical rectangle, it has a maximum height of 561 km and a maximum length of 218 km, and is delimited (in its north-south range) by the parallels 37° and 42° N, and (in its east-west range) by the meridians 6° and 9.5° W. To the west, it faces the Atlantic Ocean, separating it from the American continent by a few thousand kilometers. To the south, it still faces the Atlantic, but the distance to Africa is only of a few hundred kilometers. To the north and the east, it shares land frontiers with Spain, and both countries constitute the Iberian Peninsula, a landmass separated directly from France and, then, from the rest of the continent by the Pyrenees. Two Atlantic archipelagos are still part of Portugal, the Azores – constituted by eight islands in the same latitudinal range of mainland Portugal, but much further west, with a longitude between 25° and 31° W – and Madeira – two islands, to the southwest of the mainland, 16° and 17° W, 32.5° and 33° N.

Climate in mainland Portugal is of the temperate sort. Due to its southern position and proximity to the Mediterranean Sea, the country’s weather still presents some Mediterranean features. Temperature is, on average, higher than in the rest of the continent. Thanks to its elongated form, Portugal displays a significant variety of landscapes and sometimes brisk climatic changes for a country of such relatively small size. Following a classical division of the territory, it is possible to identify three main geographical regions: a southern half – with practically no mountains and a very hot and dry climate – and a northern half subdivided into two other vertical sub-halves – with a north-interior region, mountainous, cool but relatively dry, and a north-coast region, relatively mountainous, cool and wet. Portugal’s population is close to 10,000,000, in an area of about 92,000 square kilometers (35,500 square miles).

**The Period before the Creation of Portugal**

We can only talk of Portugal as a more or less clearly identified and separate political unit (although still far from a defined nation) from the eleventh or twelfth centuries onwards. The geographical area which constitutes modern Portugal was not, of course, an eventless void before that period. But scarcity of space allows only a brief examination of the earlier period, concentrating on its main legacy to future history.

**Roman and Visigothic Roots**

That legacy is overwhelmingly marked by the influence of the Roman Empire. Portugal owes to Rome its language (a descendant of Latin) and main religion (Catholicism), as well as its primary juridical and administrative traditions. Interestingly enough, little of the Roman heritage passed directly to the period of existence of Portugal as a proper nation. Momentous events filtered the transition. Romans first arrived in the Iberian Peninsula around the third century B.C., and kept their rule until the fifth century of the Christian era. Then, they succumbed to the so-called “barbarian invasions.” Of the various peoples that then roamed the Peninsula, certainly the most influential were the Visigoths, a people of Germanic origin. The Visigoths may be ranked as the second most important force in the shaping of future Portugal. The country owes them the monarchical institution (which lasted until the twentieth century), as well as the preservation both of Catholicism and (although substantially transformed) parts of Roman law.

**Muslim Rule**

The most spectacular episode following Visigoth rule was the Muslim invasion of the eighth century. Islam ruled the Peninsula from then until the fifteenth century, although occupying an increasingly smaller area from the ninth century onwards, as the Christian *Reconquista*started repelling it with growing efficiency. Muslim rule set the area on a path different from the rest of Western Europe for a few centuries. However, apart from some ethnic traits legated to its people, a few words in its lexicon, as well as certain agricultural, manufacturing and sailing techniques and knowledge (of which the latter had significant importance to the Portuguese naval discoveries), nothing of the magnitude of the Roman heritage was left in the peninsula by Islam. This is particularly true of Portugal, where Muslim rule was less effective and shorter than in the South of Spain. Perhaps the most important legacy of Muslim rule was, precisely, its tolerance towards the Roman heritage. Much representative of that tolerance was the existence during the Muslim period of an ethnic group, the so-called *moçárabe* or *mozarabe* population, constituted by traditional residents that lived within Muslim communities, accepted Muslim rule, and mixed with Muslim peoples, but still kept their language and religion, i.e. some form of Latin and the Christian creed.

Modern Portugal is a direct result of the *Reconquista*, the Christian fight against Muslim rule in the Iberian Peninsula. That successful fight was followed by the period when Portugal as a nation came to existence. The process of creation of Portugal was marked by the specific Roman-Germanic institutional synthesis that constituted the framework of most of the country’s history.

**Portugal from the Late Eleventh Century to the Late Fourteenth Century**

Following the Muslim invasion, a small group of Christians kept their independence, settling in a northern area of the Iberian Peninsula called Asturias. Their resistance to Muslim rule rapidly transformed into an offensive military venture. During the eighth century a significant part of northern Iberia was recovered to Christianity. This frontier, roughly cutting the peninsula in two halves, held firm until the eleventh century. Then, the crusaders came, mostly from France and Germany, inserting the area in the overall European crusade movement. By the eleventh century, the original Asturian unit had been divided into two kingdoms, Leon and Navarra, which in turn were subdivided into three new political units, Castile, Aragon and the *Condado Portucalense*. The *Condado Portucalense* (the political unit at the origin of future Portugal) resulted from a donation, made in 1096, by the Leonese king to a Crusader coming from Burgundy (France), Count Henry. He did not claim the title king, a job that would be fulfilled only by his son, Afonso Henriques (generally accepted as the first king of Portugal) in the first decade of the twelfth century.

***Condado Portucalense* as the King’s “Private Property”**

Such political units as the various peninsular kingdoms of that time must be seen as entities differing in many respects from current nations. Not only did their peoples not possess any clear “national consciousness,” but also the kings themselves did not rule them based on the same sort of principle we tend to attribute to current rulers (either democratic, autocratic or any other sort). Both the *Condado Portucalense* and Portugal were understood by their rulers as something still close to “private property” – the use of quotes here is justified by the fact that private property, in the sense we give to it today, was a non-existent notion then. We must, nevertheless, stress this as the moment in which Portuguese rulers started seeing Portugal as a political unit separate from the remaining units in the area.

**Portugal as a Military Venture**

Such novelty was strengthened by the continuing war against Islam, still occupying most of the center and south of what later became Portugal. This is a crucial fact about Portugal in its infancy, and one that helps one understand the most important episode in Portuguese history , the naval discoveries, i.e. that the country in those days was largely a military venture against Islam. As, in that fight, the kingdom expanded to the south, it did so separately from the other Christian kingdoms existing in the peninsula. And these ended up constituting the two main negative forces for Portugal’s definition as an independent country, i.e. Islam and the remaining Iberian Christian kingdoms. The country achieved a clear geographical definition quite early in its history, more precisely in 1249, when King Sancho II conquered the Algarve from Islam. Remarkably for a continent marked by so much permanent frontier redesign, Portugal acquired then its current geographical shape.

The military nature of the country’s growth gave rise to two of its most important characteristics in early times: Portugal was throughout this entire period a frontier country, and one where the central authority was unable to fully control the territory in its entirety. This latter fact, together with the reception of the Germanic feudal tradition, shaped the nature of the institutions then established in the country. This was particularly important in understanding the land donations made by the crown. These were crucial, for they brought a dispersion of central powers, devolved to local entities, as well as a delegation of powers we would today call “public” to entities we would call “private.” Donations were made in favor of three sorts of groups: noble families, religious institutions and the people in general of particular areas or cities. They resulted mainly from the needs of the process of conquest: noblemen were soldiers, and the crown’s concession of the control of a certain territory was both a reward for their military feats as well as an expedient way of keeping the territory under control (even if in a more indirect way) in a period when it was virtually impossible to directly control the full extent of the conquered area. Religious institutions were crucial in the *Reconquista*, since the purpose of the whole military effort was to eradicate the Muslim religion from the country. Additionally, priests and monks were full military participants in the process, not limiting their activity to studying or preaching. So, as the *Reconquista* proceeded, three sorts of territories came into existence: those under direct control of the crown, those under the control of local *seigneurs* (which subdivided into civil and ecclesiastical) and the communities.

**Economic Impact of the Military Institutional Framework**

This was an institutional framework that had a direct economic impact. The crown’s donations were not comparable to anything we would nowadays call private property. The land’s donation had attached to it the ability conferred on the beneficiary to a) exact tribute from the population living in it, b) impose personal services or reduce peasants to serfdom, and c) administer justice. This is a phenomenon that is typical of Europe until at least the eighteenth century, and is quite representative of the overlap between the private and public spheres then prevalent. The crown felt it was entitled to give away powers we would nowadays call public, such as those of taxation and administering justice, and beneficiaries from the crown’s donations felt they were entitled to them. As a further limit to full private rights, the land was donated under certain conditions, restricting the beneficiaries’ power to divide, sell or buy it. They managed those lands, thus, in a manner entirely dissimilar from a modern enterprise. And the same goes for actual farmers, those directly toiling the land, since they were sometimes serfs, and even when they were not, had to give personal services to *seigneurs* and pay arbitrary tributes.

**Unusually Tight Connections between the Crown and High Nobility**

Much of the history of Portugal until the nineteenth century revolves around the tension between these three layers of power – the crown, the *seigneurs* and the communities. The main trend in that relationship was, however, in the direction of an increased weight of central power over the others. This is already visible in the first centuries of existence of the country. In a process that may look paradoxical, that increased weight was accompanied by an equivalent increase in *seigneurial* power at the expense of the communities. This gave rise to a uniquely Portuguese institution, which would be of extreme importance for the development of the Portuguese economy (as we will later see): the extremely tight connection between the crown and the high nobility. As a matter of fact, very early in the country’s history, the Portuguese nobility and Church became much dependent on the redistributive powers of the crown, in particular in what concerns land and the tributes associated with it. This led to an apparently contradictory process, in which at the same time as the crown was gaining ascendancy in the ruling of the country, it also gave away to *seigneurs* some of those powers usually considered as being public in nature. Such was the connection between the crown and the *seigneurs* that the intersection between private and public powers proved to be very resistant in Portugal. That intersection lasted longer in Portugal than in other parts of Europe, and consequently delayed the introduction in the country of the modern notion of property rights. But this is something to be developed later, and to fully understand it we must go through some further episodes of Portuguese history. For now, we must note the novelty brought by these institutions. Although they can be seen as unfriendly to property rights from a nineteenth- and twentieth-century vantage point, they represented in fact a first, although primitive and incomplete, definition of property rights of a certain sort.

**Centralization and the Evolution of Property**

As the crown’s centralization of power proceeded in the early history of the country, some institutions such as serfdom and settling colonies gave way to contracts that granted fuller personal and property rights to farmers. Serfdom was not exceptionally widespread in early Portugal – and tended to disappear from the thirteenth century onwards. More common was the settlement of colonies, a situation in which settlers were simple toilers of land, having to pay significant tributes to either the king or *seigneurs*, but had no rights over buying and selling the land. From the thirteenth century onwards, as the king and the *seigneurs* began encroaching on the kingdom’s land and the military situation got calmer, serfdom and settling contracts were increasingly substituted by contracts of the copyhold type. When compared with current concepts of private property, copyhold includes serious restrictions to the full use of private property. Yet, it represented an improvement when compared to the prior legal forms of land use. In the end, private property as we understand it today began its dissemination through the country at this time, although in a form we would still consider primitive. This, to a large extent, repeats with one to two centuries of delay, the evolution that had already occurred in the core of “feudal Europe,” i.e. the Franco-Germanic world and its extension to the British Isles.

**Movement toward an Exchange Economy**

Precisely as in that core “feudal Europe,” such institutional change brought a first moment of economic growth to the country – of course, there are no consistent figures for economic activity in this period, and, consequently, this is entirely based on more or less superficial evidence pointing in that direction. The institutional change just noted was accompanied by a change in the way noblemen and the Church understood their possessions. As the national territory became increasingly sheltered from the destruction of war, *seigneurs* became less interested in military activity and conquest, and more so in the good management of the land they already owned land. Accompanying that, some vague principles of specialization also appeared. Some of those possessions were thus significantly transformed into agricultural firms devoted to a certain extent to selling on the market. One should not, of course, exaggerate the importance acquired by the exchange of goods in this period. Most of the economy continued to be of a non-exchange or (at best) barter character. But the signs of change were important, as a certain part of the economy (small as it was) led the way to future more widespread changes. Not by chance, this is the period when we have evidence of the first signs of monetization of the economy, certainly a momentous change (even if initially small in scale), corresponding to an entirely new framework for economic relations.

These essential changes are connected with other aspects of the country’s evolution in this period. First, the war *at the frontier* (rather than within the territory) seems to have had a positive influence on the rest of the economy. The military front was constituted by a large number of soldiers, who needed constant supply of various goods, and this geared a significant part of the economy. Also, as the conquest enlarged the territory under the Portuguese crown’s control, the king’s court became ever more complex, thus creating one more demand pole. Additionally, together with enlargement of territory also came the insertion within the economy of various cities previously under Muslim control (such as the future capital, Lisbon, after 1147). All this was accompanied by a widespread movement of what we might call internal colonization, whose main purpose was to farm previously uncultivated agricultural land. This is also the time of the first signs of contact of Portuguese merchants with foreign markets, and foreign merchants with Portuguese markets. There are various signs of the presence of Portuguese merchants in British, French and Flemish ports, and vice versa. Much of Portuguese exports were of a typical Mediterranean nature, such as wine, olive oil, salt, fish and fruits, and imports were mainly of grain and textiles. The economy became, thus, more complex, and it is only natural that, to accompany such changes, the notions of property, management and “firm” changed in such a way as to accommodate the new evolution. The suggestion has been made that the success of the Christian *Reconquista* depended to a significant extent on the economic success of those innovations.

**Role of the Crown in Economic Reforms**

Of additional importance for the increasing sophistication of the economy is the role played by the crown as an institution. From the thirteenth century onwards, the rulers of the country showed a growing interest in having a well organized economy able to grant them an abundant tax base. Kings such as Afonso III (ruling from 1248 until 1279) and D. Dinis (1279-1325) became famous for their economic reforms. Monetary reforms, fiscal reforms, the promotion of foreign trade, and the promotion of local fairs and markets (an extraordinarily important institution for exchange in medieval times) all point in the direction of an increased awareness on the part of Portuguese kings of the relevance of promoting a proper environment for economic activity. Again, we should not exaggerate the importance of that awareness. Portuguese kings were still significantly (although not entirely) arbitrary rulers, able with one decision to destroy years of economic hard work. But changes were occurring, and some in a direction positive for economic improvement.

As mentioned above, the definition of Portugal as a separate political entity had two main negative elements: Islam as occupier of the Iberian Peninsula and the centralization efforts of the other political entities in the same area. The first element faded as the Portuguese *Reconquista*, by mid-thirteenth century, reached the southernmost point in the territory of what is today’s Portugal. The conflict (either latent or open) with the remaining kingdoms of the peninsula was kept alive much beyond that. As the early centuries of the first millennium unfolded, a major centripetal force emerged in the peninsula, the kingdom of Castile. Castile progressively became the most successful centralizing political unit in the area. Such success reached a first climatic moment by the middle of the fifteenth century, during the reign of Ferdinand and Isabella, and a second one by the end of the sixteenth century, with the brief annexation of Portugal by the Spanish king, Phillip II. Much of the effort of Portuguese kings was to keep Portugal independent of those other kingdoms, particularly Castile. But sometimes they envisaged something different, such as an Iberian union with Portugal as its true political head. It was one of those episodes that led to a major moment both for the centralization of power in the Portuguese crown within the Portuguese territory and for the successful separation of Portugal from Castile.

**Ascent of John I (1385)**

It started during the reign of King Ferdinand (of Portugal), during the sixth and seventh decades of the fourteenth century. Through various maneuvers to unite Portugal to Castile (which included war and the promotion of diverse coups), Ferdinand ended up marrying his daughter to the man who would later become king of Castile. Ferdinand was, however, generally unsuccessful in his attempts to tie the crowns under his heading, and when he died in 1383 the king of Castile (thanks to his marriage with Ferdinand’s daughter) became the legitimate heir to the Portuguese crown. This was Ferdinand’s dream in reverse. The crowns would unite, but not under Portugal. The prospect of peninsular unity under Castile was not necessarily loathed by a large part of Portuguese elites, particularly parts of the aristocracy, which viewed Castile as a much more noble-friendly kingdom. This was not, however, a unanimous sentiment, and a strong reaction followed, led by other parts of the same elite, in order to keep the Portuguese crown in the hands of a Portuguese king, separate from Castile. A war with Castile and intimations of civil war ensued, and in the end Portugal’s independence was kept. The man chosen to be the successor of Ferdinand, under a new dynasty, was the bastard son of Peter I (Ferdinand’s father), the man who became John I in 1385.

This was a crucial episode, not simply because of the change in dynasty, imposed against the legitimate heir to the throne, but also because of success in the centralization of power by the Portuguese crown and, as a consequence, of separation of Portugal from Castile. Such separation led Portugal, additionally, to lose interest in further political adventures concerning Castile, and switch its attention to the Atlantic. It was the exploration of this path that led to the most unique period in Portuguese history, one during which Portugal reached heights of importance in the world that find no match in either its past or future history. This period is the Discoveries, a process that started during John I’s reign, in particular under the forceful direction of the king’s sons, most famous among them the mythical Henry, the Navigator. The 1383-85 crisis and John’s victory can thus be seen as the founding moment of the Portuguese Discoveries.

**The Discoveries and the Apex of Portuguese International Power**

The Discoveries are generally presented as the first great moment of world capitalism, with markets all over the world getting connected under European leadership. Albeit true, this is a largely post hoc perspective, for the Discoveries became a big commercial adventure only somewhere half-way into the story. Before they became such a thing, the aims of the Discoveries’ protagonists were mostly of another sort.

**The Conquest of Ceuta**

An interesting way to have a fuller picture of the Discoveries is to study the Portuguese contribution to them. Portugal was the pioneer of transoceanic navigation, discovering lands and sea routes formerly unknown to Europeans, and starting trades and commercial routes that linked Europe to other continents in a totally unprecedented fashion. But, at the start, the aims of the whole venture were entirely other. The event generally chosen to date the beginning of the Portuguese discoveries is the conquest of Ceuta – a city-state across the Straits of Gibraltar from Spain – in 1415. In itself such voyage would not differ much from other attempts made in the Mediterranean Sea from the twelfth century onwards by various European travelers. The main purpose of all these attempts was to control navigation in the Mediterranean, in what constitutes a classical fight between Christianity and Islam. Other objectives of Portuguese travelers were the will to find the mythical Prester John – a supposed Christian king surrounded by Islam: there are reasons to suppose that the legend of Prester John is associated with the real existence of the Copt Christians of Ethiopia – and to reach, directly at the source, the gold of Sudan. Despite this latter objective, religious reasons prevailed over others in spurring the first Portuguese efforts of overseas expansion. This should not surprise us, however, for Portugal had since its birth been, precisely, an expansionist political unit under a religious heading. The jump to the other side of the sea, to North Africa, was little else than the continuation of that expansionist drive. Here we must understand Portugal’s position as determined by two elements, one that was general to the whole European continent, and another one, more specific. The first is that the expansion of Portugal in the Middle-Ages coincides with the general expansion of Europe. And Portugal was very much a part of that process. The second is that, by being part of the process, Portugal was (by geographical hazard) at the forefront of the process. Portugal (and Spain) was in the first line of attack and defense against Islam. The conquest of Ceuta, by Henry, the Navigator, is hence a part of that story of confrontation with Islam.

**Exploration from West Africa to India**

The first efforts of Henry along the Western African coast and in the Atlantic high sea can be put within this same framework. The explorations along the African coast had two main objectives: to have a keener perception of how far south Islam’s strength went, and to surround Morocco, both in order to attack Islam on a wider shore and to find alternative ways to reach Prester John. These objectives depended, of course, on geographical ignorance, as the line of coast Portuguese navigators eventually found was much larger than the one Henry expected to find. In these efforts, Portuguese navigators went increasingly south, but also, mainly due to accidental changes of direction, west. Such westbound dislocations led to the discovery, in the first decades of the fifteenth century, of three archipelagos, the Canaries, Madeira (and Porto Santo) and the Azores. But the major navigational feat of this period was the passage of Cape Bojador in 1434, in the sequence of which the whole western coast of the African continent was opened for exploration and increasingly (and here is the novelty) commerce. As Africa revealed its riches, mostly gold and slaves, these ventures began acquiring a more strict economic meaning. And all this kept on fostering the Portuguese to go further south, and when they reached the southernmost tip of the African continent, to pass it and go east. And so they did. Bartolomeu Dias crossed the Cape of Good Hope in 1487 and ten years later Vasco da Gama would entirely circumnavigate Africa to reach India by sea. By the time of Vasco da Gama’s journey, the autonomous economic importance of intercontinental trade was well established.

***Feitorias* and Trade with West Africa, the Atlantic Islands and India**

As the second half of the fifteenth century unfolded, Portugal created a complex trade structure connecting India and the African coast to Portugal and, then, to the north of Europe. This consisted of a net of trading posts (*feitorias*) along the African coast, where goods were shipped to Portugal, and then re-exported to Flanders, where a further Portuguese *feitoria* was opened. This trade was based on such African goods as gold, ivory, red peppers, slaves and other less important goods. As was noted by various authors, this was somehow a continuation of the pattern of trade created during the Middle Ages, meaning that Portugal was able to diversify it, by adding new goods to its traditional exports (wine, olive oil, fruits and salt). The Portuguese established a virtual monopoly of these African commercial routes until the early sixteenth century. The only threats to that trade structure came from pirates originating in Britain, Holland, France and Spain. One further element of this trade structure was the Atlantic Islands (Madeira, the Azores and the African archipelagos of Cape Verde and São Tomé). These islands contributed with such goods as wine, wheat and sugar cane. After the sea route to India was discovered and the Portuguese were able to establish regular connections with India, the trading structure of the Portuguese empire became more complex. Now the Portuguese began bringing multiple spices, precious stones, silk and woods from India, again based on a net of *feitorias* there established. The maritime route to India acquired an extreme importance to Europe, precisely at this time, since the Ottoman Empire was then able to block the traditional inland-Mediterranean route that supplied the continent with Indian goods.

**Control of Trade by the Crown**

One crucial aspect of the Portuguese Discoveries is the high degree of control exerted by the crown over the whole venture. The first episodes in the early fifteenth century, under Henry the Navigator (as well as the first exploratory trips along the African coast) were entirely directed by the crown. Then, as the activity became more profitable, it was, first, liberalized, and then rented (*in totu*) to merchants, whom were constrained to pay the crown a significant share of their profits. Finally, when the full Indo-African network was consolidated, the crown controlled directly the largest share of the trade (although never monopolizing it), participated in “public-private” joint-ventures, or imposed heavy tributes on traders. The grip of the crown increased with growth of the size and complexity of the empire. Until the early sixteenth century, the empire consisted mainly of a network of trading posts. No serious attempt was made by the Portuguese crown to exert a significant degree of territorial control over the various areas constituting the empire.

**The Rise of a Territorial Empire**

This changed with the growth of trade from India and Brazil. As India was transformed into a platform for trade not only around Africa but also in Asia, a tendency was developed (in particular under Afonso de Albuquerque, in the early sixteenth century) to create an administrative structure in the territory. This was not particularly successful. An administrative structure was indeed created, but stayed forever incipient. A relatively more complex administrative structure would only appear in Brazil. Until the middle of the sixteenth century, Brazil was relatively ignored by the crown. But with the success of the system of sugar cane plantation in the Atlantic Isles, the Portuguese crown decided to transplant it to Brazil. Although political power was controlled initially by a group of *seigneurs* to whom the crown donated certain areas of the territory, the system got increasingly more centralized as time went on. This is clearly visible with the creation of the post of governor-general of Brazil, directly respondent to the crown, in 1549.

**Portugal Loses Its Expansionary Edge**

Until the early sixteenth century, Portugal capitalized on being the pioneer of European expansion. It monopolized African and, initially, Indian trade. But, by that time, changes were taking place. Two significant events mark the change in political tide. First, the increasing assertiveness of the Ottoman Empire in the Eastern Mediterranean, which coincided with a new bout of Islamic expansionism – ultimately bringing the Mughal dynasty to India – as well as the re-opening of the Mediterranean route for Indian goods. This put pressure on Portuguese control over Indian trade. Not only was political control over the subcontinent now directly threatened by Islamic rulers, but also the profits from Indian trade started declining. This is certainly one of the reasons why Portugal redirected its imperial interests to the south Atlantic, particularly Brazil – the other reasons being the growing demand for sugar in Europe and the success of the sugar cane plantation system in the Atlantic islands. The second event marking the change in tide was the increased assertiveness of imperial Spain, both within Europe and overseas. Spain, under the Habsburgs (mostly Charles V and Phillip II), exerted a dominance over the European continent which was unprecedented since Roman times. This was complemented by the beginning of exploration of the American continent (from the Caribbean to Mexico and the Andes), again putting pressure on the Portuguese empire overseas. What is more, this is the period when not only Spain, but also Britain, Holland and France acquired navigational and commercial skills equivalent to the Portuguese, thus competing with them in some of their more traditional routes and trades. By the middle of the sixteenth century, Portugal had definitely lost the expansionary edge. And this would come to a tragic conclusion in 1580, with the death of the heirless King Sebastian in North Africa and the loss of political independence to Spain, under Phillip II.

**Empire and the Role, Power and Finances of the Crown**

The first century of empire brought significant political consequences for the country. As noted above, the Discoveries were directed by the crown to a very large extent. As such, they constituted one further step in the affirmation of Portugal as a separate political entity in the Iberian Peninsula. Empire created a political and economic sphere where Portugal could remain independent from the rest of the peninsula. It thus contributed to the definition of what we might call “national identity.” Additionally, empire enhanced significantly the crown’s redistributive power. To benefit from profits from transoceanic trade, to reach a position in the imperial hierarchy or even within the national hierarchy proper, candidates had to turn to the crown. As it controlled imperial activities, the crown became a huge employment agency, capable of attracting the efforts of most of the national elite. The empire was, thus, transformed into an extremely important instrument of the crown in order to centralize power. It has already been mentioned that much of the political history of Portugal from the Middle Ages to the nineteenth century revolves around the tension between the centripetal power of the crown and the centrifugal powers of the aristocracy, the Church and the local communities. Precisely, the imperial episode constituted a major step in the centralization of the crown’s power. The way such centralization occurred was, however, peculiar, and that would bring crucial consequences for the future. Various authors have noted how, despite the growing centralizing power of the crown, the aristocracy was able to keep its local powers, thanks to the significant taxing and judicial autonomy it possessed in the lands under its control. This is largely true, but as other authors have noted, this was done with the crown acting as an intermediary agent. The Portuguese aristocracy was since early times much less independent from the crown than in most parts of Western Europe, and this situation accentuated during the days of empire. As we have seen above, the crown directed the *Reconquista* in a way that made it able to control and redistribute (through the famous donations) most of the land that was conquered. In those early medieval days, it was, thus, the service to the crown that made noblemen eligible to benefit from land donations. It is undoubtedly true that by donating land the crown was also giving away (at least partially) the monopoly of taxing and judging. But what is crucial here is its significant intermediary power. With empire, that power increased again. And once more a large part of the aristocracy became dependent on the crown to acquire political and economic power. The empire became, furthermore, the main means of financing of the crown. Receipts from trade activities related to the empire (either profits, tariffs or other taxes) never went below 40 percent of total receipts of the crown, until the nineteenth century, and this was only briefly in its worst days. Most of the time, those receipts amounted to 60 or 70 percent of total crown’s receipts.

**Other Economic Consequences of the Empire**

Such a role for the crown’s receipts was one of the most important consequences of empire. Thanks to it, tax receipts from internal economic activity became in large part unnecessary for the functioning of national government, something that was going to have deep consequences, precisely for that exact internal activity. This was not, however, the only economic consequence of empire. One of the most important was, obviously, the enlargement of the trade base of the country. Thanks to empire, the Portuguese (and Europe, through the Portuguese) gained access to vast sources of precious metals, stones, tropical goods (such as fruit, sugar, tobacco, rice, potatoes, maize, and more), raw materials and slaves. Portugal used these goods to enlarge its comparative advantage pattern, which helped it penetrate European markets, while at the same time enlarging the volume and variety of imports from Europe. Such a process of specialization along comparative advantage principles was, however, very incomplete. As noted above, the crown exerted a high degree of control over the trade activity of empire, and as a consequence, many institutional factors interfered in order to prevent Portugal (and its imperial complex) from fully following those principles. In the end, in economic terms, the empire was inefficient – something to be contrasted, for instance, with the Dutch equivalent, much more geared to commercial success, and based on clearer efficiency managing-methods. By so significantly controlling imperial trade, the crown became a sort of barrier between the empire’s riches and the national economy. Much of what was earned in imperial activity was spent either on maintaining it or on the crown’s clientele. Consequently, the spreading of the gains from imperial trade to the rest of the economy was highly centralized in the crown. A much visible effect of this phenomenon was the fantastic growth and size of the country’s capital, Lisbon. In the sixteenth century, Lisbon was the fifth largest city in Europe, and from the sixteenth century to the nineteenth century it was always in the top ten, a remarkable feat for a country with such a small population as Portugal. And it was also the symptom of a much inflated bureaucracy, living on the gains of empire, as well as of the low degree of repercussion of those gains of empire through the whole of the economy.

**Portuguese Industry and Agriculture**

The rest of the economy did, indeed, remain very much untouched by this imperial manna. Most of industry was untouched by it, and the only visible impact of empire on the sector was by fostering naval construction and repair, and all the accessory activities. Most of industry kept on functioning according to old standards, far from the impact of transoceanic prosperity. And much the same happened with agriculture. Although benefiting from the introduction of new crops (mostly maize, but also potatoes and rice), Portuguese agriculture did not benefit significantly from the income stream arising from imperial trade, in particular when we could expect it to be a source of investment. Maize constituted an important technological innovation which had a much important impact on the Portuguese agriculture’s productivity, but it was too localized in the north-western part of the country, thus leaving the rest of the sector untouched.

**Failure of a Modern Land Market to Develop**

One very important consequence of empire on agriculture and, hence, on the economy, was the preservation of the property structure coming from the Middle Ages, namely that resulting from the crown’s donations. The empire enhanced again the crown’s powers to attract talent and, consequently, donate land. Donations were regulated by official documents called *Cartas de Foral*, in which the tributes due to the beneficiaries were specified. During the time of the empire, the conditions ruling donations changed in a way that reveals an increased monarchical power: donations were made for long periods (for instance, one life), but the land could not be sold nor divided (and, thus, no parts of it could be sold separately) and renewal required confirmation on the part of the crown. The rules of donation, thus, by prohibiting buying, selling and partition of land, were a major obstacle to the existence not only of a land market, but also of a clear definition of property rights, as well as freedom in the management of land use.

Additionally, various tributes were due to the beneficiaries. Some were in kind, some in money, some were fixed, others proportional to the product of the land. This process dissociated land ownership and appropriation of land product, since the land was ultimately the crown’s. Furthermore, the actual beneficiaries (thanks to the donation’s rules) had little freedom in the management of the donated land. Although selling land in such circumstances was forbidden to the beneficiaries, renting it was not, and several beneficiaries did so. A new dissociation between ownership and appropriation of product was thus introduced. Although in these donations some tributes were paid by freeholders, most of them were paid by copyholders. Copyhold granted to its signatories the use of land in perpetuity or in lives (one to three), but did not allow them to sell it. This introduced a new dissociation between ownership, appropriation of land product and its management. Although it could not be sold, land under copyhold could be ceded in “sub-copyhold” contracts – a replication of the original contract under identical conditions. This introduced, obviously, a new complication to the system. As should be clear by now, such a “baroque” system created an accumulation of layers of rights over the land, as different people could exert different rights over it, and each layer of rights was limited by the other layers, and sometimes conflicting with them in an intricate way. A major consequence of all this was the limited freedom the various owners of rights had in the management of their assets.

**High Levels of Taxation in Agriculture**

A second direct consequence of the system was the complicated juxtaposition of tributes on agricultural product. The land and its product in Portugal in those days were loaded with tributes (a sort of taxation). This explains one recent historian’s claim (admittedly exaggerated) that, in that period, those who owned the land did not toil it, and those who toiled it did not hold it. We must distinguish these tributes from strict rent payments, as rent contracts are freely signed by the two (or more) sides taking part in it. The tributes we are discussing here represented, in reality, an imposition, which makes the use of the word taxation appropriate to describe them. This is one further result of the already mentioned feature of the institutional framework of the time, the difficulty to distinguish between the private and the public spheres.

Besides the tributes we have just described, other tributes also impended on the land. Some were, again, of a nature we would call private nowadays, others of a more clearly defined public nature. The former were the tributes due to the Church, the latter the taxes proper, due explicitly as such to the crown. The main tribute due to the Church was the tithe. In theory, the tithe was a tenth of the production of farmers and should be directly paid to certain religious institutions. In practice, not always was it a tenth of the production nor did the Church always receive it directly, as its collection was in a large number of cases rented to various other agents. Nevertheless, it was an important tribute to be paid by producers in general. The taxes due to the crown were the *sisa* (an indirect tax on consumption) and the *décima* (an income tax). As far as we know, these tributes weighted on average much less than the *seigneurial* tributes. Still, when added to them, they accentuated the high level of taxation or para-taxation typical of the Portuguese economy of the time.

**Portugal under Spanish Rule, Restoration of Independence and the Eighteenth Century**

**Spanish Rule of Portugal, 1580-1640**

The death of King Sebastian in North Africa, during a military mission in 1578, left the Portuguese throne with no direct heir. There were, however, various indirect candidates in line, thanks to the many kinship links established by the Portuguese royal family to other European royal and aristocratic families. Among them was Phillip II of Spain. He would eventually inherit the Portuguese throne, although only after invading the country in 1580. Between 1578 and 1580 leaders in Portugal tried unsuccessfully to find a “national” solution to the succession problem. In the end, resistance to the establishment of Spanish rule was extremely light.

**Initial Lack of Resistance to Spanish Rule**

To understand why resistance was so mild one must bear in mind the nature of such political units as the Portuguese and Spanish kingdoms at the time. These kingdoms were not the equivalent of contemporary nation-states. They had a separate identity, evident in such things as a different language, a different cultural history, and different institutions, but this didn’t amount to being a nation. The crown itself, when seen as an institution, still retained many features of a “private” venture. Of course, to some extent it represented the materialization of the kingdom and its “people,” but (by the standards of current political concepts) it still retained a much more ambiguous definition. Furthermore, Phillip II promised to adopt a set of rules allowing for extensive autonomy: the Portuguese crown would be “aggregated” to the Spanish crown although not “absorbed” or “associated” or even “integrated” with it. According to those rules, Portugal was to keep its separate identity as a crown and as a kingdom. All positions in the Portuguese government were to be attributed to Portuguese persons, the Portuguese language was the only one allowed in official matters in Portugal, positions in the Portuguese empire were to be attributed only to Portuguese.

The implementation of such rules depended largely on the willingness of the Portuguese nobility, Church and high-ranking officials to accept them. As there were no major popular revolts that could pressure these groups to decide otherwise, they did not have much difficulty in accepting them. In reality, they saw the new situation as an opportunity for greater power. After all, Spain was then the largest and most powerful political unit in Europe, with vast extensions throughout the world. To participate in such a venture under conditions of great autonomy was seen as an excellent opening.

**Resistance to Spanish Rule under Phillip IV**

The autonomous status was kept largely untouched until the third decade of the seventeenth century, i.e., until Phillip IV’s reign (1621-1640, in Portugal). This was a reign marked by an important attempt at centralization of power under the Spanish crown. A major impulse for this was Spain’s participation in the Thirty Years War. Simply put, the financial stress caused by the war forced the crown not only to increase fiscal pressure on the various political units under it but also to try to control them more closely. This led to serious efforts at revoking the autonomous status of Portugal (as well as other European regions of the empire). And it was as a reaction to those attempts that many Portuguese aristocrats and important personalities led a movement to recover independence. This movement must, again, be interpreted with care, paying attention to the political concepts of the time. This was not an overtly national reaction, in today’s sense of the word “national.” It was mostly a reaction from certain social groups that felt a threat to their power by the new plans of increased centralization under Spain. As some historians have noted, the 1640 revolt should be best understood as a movement to preserve the constitutional elements of the framework of autonomy established in 1580, against the new centralizing drive, rather than a national or nationalist movement.

Although that was the original intent of the movement, the fact is that, progressively, the new Portuguese dynasty (whose first monarch was John IV, 1640-1656) proceeded to an unprecedented centralization of power in the hands of the Portuguese crown. This means that, even if the original intent of the mentors of the 1640 revolt was to keep the autonomy prevalent both under pre-1580 Portuguese rule and post-1580 Spanish rule, the final result of their action was to favor centralization in the Portuguese crown, and thus help define Portugal as a clearly separate country. Again, we should be careful not to interpret this new bout of centralization in the seventeenth and eighteenth centuries as the creation of a national state and of a modern government. Many of the intermediate groups (in particular the Church and the aristocracy) kept their powers largely intact, even powers we would nowadays call public (such as taxation, justice and police). But there is no doubt that the crown increased significantly its redistributive power, and the nobility and the church had, increasingly, to rely on service to the crown to keep most of their powers.

**Consequences of Spanish Rule for the Portuguese Empire**

The period of Spanish rule had significant consequences for the Portuguese empire. Due to integration in the Spanish empire, Portuguese colonial territories became a legitimate target for all of Spain’s enemies. The European countries having imperial strategies (in particular, Britain, the Netherlands and France) no longer saw Portugal as a countervailing ally in their struggle with Spain, and consequently promoted serious assaults on Portuguese overseas possessions. There was one further element of the geopolitical landscape of the period that aggravated the willingness of competitors to attack Portugal, and that was Holland’s process of separation from the Spanish empire. Spain was not only a large overseas empire but also an enormous European one, of which Holland was a part until the 1560s. Holland, precisely, saw the Portuguese section of the Iberian empire as its weakest link, and, accordingly, attacked it in a fairly systematic way. The Dutch attack on Portuguese colonial possessions ranged from America (Brazil) to Africa (Sao Tome and Angola) to Asia (India, several points in Southeast Asia, and Indonesia), and in the course of it several Portuguese territories were conquered, mostly in Asia. Portugal, however, managed to keep most of its African and American territories.

**The Shift of the Portuguese Empire toward the Atlantic**

When it regained independence, Portugal had to re-align its external position in accordance with the new context. Interestingly enough, all those rivals that had attacked the country’s possessions during Spanish rule initially supported its separation. France was the most decisive partner in the first efforts to regain independence. Later (in the 1660s, in the final years of the war with Spain) Britain assumed that role. This was to inaugurate an essential feature of Portuguese external relations. From then on Britain became the most consistent Portuguese foreign partner. In the 1660s such a move was connected to the re-orientation of the Portuguese empire. What had until then been the center of empire (its Eastern part – India and the rest of Asia) lost importance. At first, this was due to the renewal in activity in the Mediterranean route, something that threatened the sea route to India. Then, this was because the Eastern empire was the part where the Portuguese had ceded more territory during Spanish rule, in particular to the Netherlands. Portugal kept most of its positions both in Africa and America, and this part of the world was to acquire extreme importance in the seventeenth and eighteenth centuries. In the last decades of the seventeenth century, Portugal was able to develop numerous trades mostly centered in Brazil (although some of the Atlantic islands also participated), involving sugar, tobacco and tropical woods, all sent to the growing market for luxury goods in Europe, to which was added a growing and prosperous trade of slaves from West Africa to Brazil.

**Debates over the Role of Brazilian Gold and the Methuen Treaty**

The range of goods in Atlantic trade acquired an important addition with the discovery of gold in Brazil in the late seventeenth century. It is the increased importance of gold in Portuguese trade relations that helps explain one of the most important diplomatic moments in Portuguese history, the Methuen Treaty (also called the Queen Anne Treaty), signed between Britain and Portugal in 1703. Many Portuguese economists and historians have blamed the treaty for Portugal’s inability to achieve modern economic growth during the eighteenth and nineteenth centuries. It must be remembered that the treaty stipulated tariffs to be reduced in Britain for imports of Portuguese wine (favoring it explicitly in relation to French wine), while, as a counterpart, Portugal had to eliminate all prohibitions on imports of British wool textiles (even if tariffs were left in place). Some historians and economists have seen this as Portugal’s abdication of having a national industrial sector and, instead, specializing in agricultural goods for export. As proof, such scholars present figures for the balance of trade between Portugal and Britain after 1703, with the former country exporting mainly wine and the latter textiles, and a widening trade deficit. Other authors, however, have shown that what mostly allowed for this trade (and the deficit) was not wine but the newly discovered Brazilian gold. Could, then, gold be the culprit for preventing Portuguese economic growth? Most historians now reject the hypothesis. The problem would lie not in a particular treaty signed in the early eighteenth century but in the existing structural conditions for the economy to grow – a question to be dealt with further below.

Portuguese historiography currently tends to see the Methuen Treaty mostly in the light of Portuguese diplomatic relations in the seventeenth and eighteenth centuries. The treaty would mostly mark the definite alignment of Portugal within the British sphere. The treaty was signed during the War of Spanish Succession. This was a war that divided Europe in a most dramatic manner. As the Spanish crown was left without a successor in 1700, the countries of Europe were led to support different candidates. The diplomatic choice ended up being polarized around Britain, on the one side, and France, on the other. Increasingly, Portugal was led to prefer Britain, as it was the country that granted more protection to the prosperous Portuguese Atlantic trade. As Britain also had an interest in this alignment (due to the important Portuguese colonial possessions), this explains why the treaty was economically beneficial to Portugal (contrary to what some of the older historiography tended to believe) In fact, in simple trade terms, the treaty was a good bargain for both countries, each having been given preferential treatment for certain of its more typical goods.

**Brazilian Gold’s Impact on Industrialization**

It is this sequence of events that has led several economists and historians to blame gold for the Portuguese inability to industrialize in the eighteenth and nineteenth centuries. Recent historiography, however, has questioned the interpretation. All these manufactures were dedicated to the production of luxury goods and, consequently, directed to a small market that had nothing to do (in both the nature of the market and technology) with those sectors typical of European industrialization. Were it to continue, it is very doubtful it would ever have become a full industrial spurt of the kind then underway in Britain. The problem lay elsewhere, as we will see below.

**Prosperity in the Early 1700s Gives Way to Decline**

Be that as it may, the first half of the eighteenth century was a period of unquestionable prosperity for Portugal, mostly thanks to gold, but also to the recovery of the remaining trades (both tropical and from the mainland). Such prosperity is most visible in the period of King John V (1706-1750). This is generally seen as the Portuguese equivalent to the reign of France’s Louis XIV. Palaces and monasteries of great dimensions were then built, and at the same time the king’s court acquired a pomp and grandeur not seen before or after, all financed largely by Brazilian gold. By the mid-eighteenth century, however, it all began to falter. The beginning of decline in gold remittances occurred in the sixth decade of the century. A new crisis began, which was compounded by the dramatic 1755 earthquake, which destroyed a large part of Lisbon and other cities. This new crisis was at the root of a political project aiming at a vast renaissance of the country. This was the first in a series of such projects, all of them significantly occurring in the sequence of traumatic events related to empire. The new project is associated with King Joseph I period (1750-1777), in particular with the policies of his prime-minister, the Marquis of Pombal.

**Centralization under the Marquis of Pombal**

The thread linking the most important political measures taken by the Marquis of Pombal is the reinforcement of state power. A major element in this connection was his confrontation with certain noble and church representatives. The most spectacular episodes in this respect were, first, the killing of an entire noble family and, second, the expulsion of the Jesuits from national soil. Sometimes this is taken as representing an outright hostile policy towards both aristocracy and church. However, it should be best seen as an attempt to integrate aristocracy and church into the state, thus undermining their autonomous powers. In reality, what the Marquis did was to use the power to confer noble titles, as well as the Inquisition, as means to centralize and increase state power. As a matter of fact, one of the most important instruments of recruitment for state functions during the Marquis’ rule was the promise of noble titles. And the Inquisition’s functions also changed form being mainly a religious court, mostly dedicated to the prosecution of Jews, to becoming a sort of civil political police. The Marquis’ centralizing policy covered a wide range of matters, in particular those most significant to state power. Internal police was reinforced, with the creation of new police institutions directly coordinated by the central government. The collection of taxes became more efficient, through an institution more similar to a modern Treasury than any earlier institutions. Improved collection also applied to tariffs and profits from colonial trade.

Centralizing power by the government had significant repercussions in certain aspects of the relationship between state and civil society. Although the Marquis’ rule is frequently pictured as violent, it included measures generally considered as “enlightened.” Such is the case of the abolition of the distinction between “New Christians” and Christians (new Christians were Jews converted to Catholicism, and as such suffered from a certain degree of segregation, constituting an intermediate category between Jews and Christians proper). Another very important political measure by the Marquis was the abolition of slavery in the empire’s mainland (even if slavery kept on being used in the colonies and the slave trade continued to prosper, there is no way of questioning the importance of the measure).

**Economic Centralization under the Marquis of Pombal**

The Marquis applied his centralizing drive to economic matters as well. This happened first in agriculture, with the creation of a monopolizing company for trade in Port wine. It continued in colonial trade, where the method applied was the same, that is, the creation of companies monopolizing trade for certain products or regions of the empire. Later, interventionism extended to manufacturing. Such interventionism was essentially determined by the international trade crisis that affected many colonial goods, the most important among them gold. As the country faced a new international payments crisis, the Marquis reverted to protectionism and subsidization of various industrial sectors. Again, as such state support was essentially devoted to traditional, low-tech, industries, this policy failed to boost Portugal’s entry into the group of countries that first industrialized.

**Failure to Industrialize**

The country would never be the same after the Marquis’ consulate. The “modernization” of state power and his various policies left a profound mark in the Portuguese polity. They were not enough, however, to create the necessary conditions for Portugal to enter a process of industrialization. In reality, most of the structural impediments to modern growth were left untouched or aggravated by the Marquis’ policies. This is particularly true of the relationship between central power and peripheral (aristocratic) powers. The Marquis continued the tradition exacerbated during the fifteenth and sixteenth centuries of liberally conferring noble titles to court members. Again, this accentuated the confusion between the public and the private spheres, with a particular incidence (for what concerns us here) in the definition of property and property rights. The act of granting a noble title by the crown, on many occasions implied a donation of land. The beneficiary of the donation was entitled to collect tributes from the population living in the territory but was forbidden to sell it and, sometimes, even rent it. This meant such beneficiaries were not true owners of the land. The land could not exactly be called their property. This lack of private rights was, however, compensated by the granting of such “public” rights as the ability to obtain tributes – a sort of tax. Beneficiaries of donations were, thus, neither true landowners nor true state representatives. And the same went for the crown. By giving away many of the powers we tend to call public today, the crown was acting as if it could dispose of land under its administration in the same manner as private property. But since this was not entirely private property, by doing so the crown was also conceding public powers to agents we would today call private. Such confusion did not help the creation of either a true entrepreneurial class or of a state dedicated to the protection of private property rights.

The whole property structure described above was kept, even after the reforming efforts of the Marquis of Pombal. The system of donations as a method of payment for jobs taken at the King’s court as well as the juxtaposition of various sorts of tributes, either to the crown or local powers, allowed for the perpetuation of a situation where the private and the public spheres were not clearly separated. Consequently, property rights were not well defined. If there is a crucial reason for Portugal’s impaired economic development, these are the things we should pay attention to. Next, we will begin the study of the nineteenth and twentieth centuries, and see how difficult was the dismantling of such an institutional structure and how it affected the growth potential of the Portuguese economy.

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