

The Great Portuguese Decline

Assessing Portugal's extraordinary reversal of fortunes

Álvaro Santos Pereira
School for International Studies
Simon Fraser University
515 West Hastings Street
Vancouver V5K 6B6, Canada
apereira@sfu.ca

Abstract

This paper surveys Portugal's economic performance in the 20th century and revisits the country's long-term economic development. By using a recent econometric technique, trend economic growth is analyzed and decomposed. Overall, the Portuguese economy performed well for most second half of the 20th century (see figure below), and the country's standard of living and productivity levels converged towards other European economies. After a period of relatively uneven performance in the first half of the 20th century, Portugal managed to achieve some of the highest rates of growth in Europe in the postwar period, when the country industrialized. Financial and economic volatility followed the revolutionary period after democracy was introduced, but trend economic growth resumed soon after the country joined the European Community. However, from the mid 1990s onwards, Portugal witnessed an extraordinary reversal of fortunes, when Portugal started to prepare for its adhesion to the European monetary union. The real exchange rate appreciated and the country's exports lost competitiveness. Consequently, GDP growth stagnated and the convergence process was severely interrupted. This paper presents new evidence on the Portuguese relative decline and analyzes the historical reasons why the country went from being a European economic miracle to a growth disaster. It concludes that the main culprits of Portugal's relative economic decline were an inadequate system of incentives, an over-appreciated real exchange rate, an economic structure and business demography that did not favour innovation, as well as low rates of entrepreneurial activity.

Portuguese trend GDP growth and GDP per capita growth, 1900-2008

