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Department of Applied Economics and Management
Cornell University, Ithaca, New York 14853-7801 USA

Portugal and the Curse of Riches - Macro Distortions and Underdevelopment in Colonial Times

Steven Kyle

Abstract

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Steven Kyle
Cornell University
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This paper attempts to answer the following question: How, in economic terms, was being colonized by Portugal "different" for Lusophone African countries than was being colonized by France or Britain? Gervase Clarence-Smith addressed this question for the period after 1825, and comes to the conclusion that Portuguese economic motivations were much the same as those for other colonial powers. Nevertheless, this leaves open the question of whether the objective conditions of Portugal's economy and its development trajectory over the long run (i.e. from the 15th century on) may have affected its colonial relations regardless of whether motivations were the same.

The answer to this question is examined in terms of Portugal's own lack of economic development and the economic processes which led to this. Most important is the fact that Portugal experienced a massive influx of foreign exchange (gold and revenue from the spice trade) during a period when other Northern European countries were undergoing the beginnings of the Industrial Revolution and the consequent transformations in their economies that this engendered. Portugal, however, never underwent these changes until the twentieth century, due at least in part to what is commonly called "Dutch Disease" in the economics literature, a name for a pattern of problems afflicting resource rich countries which distorts their development and retards the growth of productive sectors of the economy. Portuguese colonies were consequently involved in this syndrome in much the same manner that outlying provinces of modern-day resource exporting countries are. This syndrome is consistent with the parasitical nature of Portuguese exploitation during much of the colonial era, and particularly with the powerful need of Portugal to derive foreign exchange earnings from its colonies after the end of the gold and spice boom. Even so, it is difficult to conclude that Lusophone Africa was in fact worse off than its neighbors during most of the colonial era. However, the lack of development of Portugal

itself can be seen as a powerful motivation for the pattern of settlement and exploitation of Portuguese Africa in the twentieth century, in that the large "exports" of unskilled labor and virtually complete marginalization of African populations from even menial labor in many instances was both more extreme than in other parts of Africa and a result of the inability of Portugal's own undeveloped economy to provide sufficient productive opportunities by itself. Also in this vein, Portugal's resistance to decolonization until the mid-1970's can also be viewed as stemming at least partially from the lack of development in Portugal itself.

In the final analysis, it must be acknowledged that even though Dutch Disease analysis is a useful construct for aiding understanding of the long run economic processes at work in Portugal during the colonial era, it cannot be argued that this was the sole or even necessarily the primary causal factor at work. Other plausible hypotheses are possible, and at the end of the day we are left with a chicken-and-egg problem if any attempt is made to assign priority to one hypothesis over another. The paper concludes that even though no one theory of causality can be defended, we must admit that available evidence is, perhaps unfortunately for academics, capable of supporting multiple causal processes, and understanding this, and the relations between them can help us to a more accurate vision of history.

Portugal and the Curse of Riches
Macro Distortions and Underdevelopment in Colonial Times

I. Introduction

Much of the current research and literature on the relations between Portugal and Africa is focused on a micro level analysis of the interactions between the colonialist Europeans and the African populations who were exploited by them. While this area of research is important and gives insights which can be gained in no other way, it is nevertheless also true that the economic changes brought about by this exploitation caused Portugal's own trajectory of economic and social development to be distorted and biased and that this in turn had an effect on colonial relations and the colonies themselves.

Gervase Clarence-Smith addresses the issue of Portuguese exceptionalism in economic colonial relations in his 1985 book *The Third Portuguese Empire 1825-1975* in which he portrays Portuguese colonial motivations as essentially identical to those of other European powers - a search for markets and an effort to secure sources of raw materials.[1] However, even if we accept this analysis there remains the open question of whether Portuguese colonial relations were nevertheless conditioned by the extent and nature of Portugal's own economic development over the whole colonial period from the late 15th century until 1975. That is, if Portugal's own development was distorted, this may well have affected the colonies even though motivations may have been the same as those of e.g. Britain or France. This paper comes to a somewhat mixed conclusion: While it is relatively clear that a case can be made for the existence of such macroeconomic distortions, it is much more difficult to prove that these had such a profound effect on Lusophone Africa as to support a case for Portuguese exceptionalism along the lines of

[1] Gervase Clarence-Smith, *The Third Portuguese Empire 1825-1975*, Manchester University Press, 1985.

what has been commonly argued in the past. Nevertheless, it is hard to escape the conclusion that these distortions must have had some effect on colonial relations and that an understanding of them may help us to understand the nature of Portugal's relations with its colonies and support some more speculative, but still interesting, observations about the colonization and economic development of Lusophone Africa.

II. Portuguese Expansion and the Curse of Riches

In essence, these distortions stemmed from the very success of the Portuguese efforts to exploit the new colonies that they acquired and the riches that were extracted from them and returned to Lisbon. Indeed, this was the entire raison d'etre of the Portuguese colonial project in the first place - efforts to colonize in the 1400's and later were better characterized at efforts to either cart off riches such as gold, ivory and slaves or, if military superiority could not be brought to bear, to trade for these items so that they could be brought back to Lisbon and used to support the expenditures of the crown and of the nobility. Early efforts met with success. The Portuguese succeeded in trading for gold in West Africa, (given their inability to conquer the well-organized kingdoms of Mali and Ghana) and were also successful in promoting a large trade in slaves from other parts of Africa to the islands of São Tomé e Príncipe as well as the Gold Coast and also to Portugal itself.[2]

During the 16th century, it is estimated that as much as 130,000 pounds sterling (1601 standard) of gold was sent to Portugal each year from Africa[3], a massive sum at a time when

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[2] The effects of the inflow of gold on the economy of Europe has been studied, particularly in the case of the effects of Spanish colonial silver on European price trends. This paper extends the analysis in two directions. First, it looks closely at the case of Portugal. Second, it extends the analysis to its predictions for the effects on the direction of economic development in those parts of the empire outside of the center, i.e. the hinterland of Portugal and the colonies themselves.

[3] This is based on estimates of about 170,000 dobras of gold from El Mina, an additional 30,000 from Axim, and about 9,000 from the Sierra Leone area. Using the exchange rate of 50 dobras per mark this is translates to 130,000 sterling. See Bean, R. "A Note on the

average per capita income of the working classes would have been on a par with subsistence farmers in many parts of Africa today. It has been estimated that approximately 700 kg/yr were imported from West Africa to Portugal through the 1500's, though only half or less was channeled through the royal mint in Lisbon[4]. (See Tables 1, 2 and 3). Much of the remainder was brought in on private account, or smuggled by individuals[5]. The Portuguese origin of much of the gold in circulation in northern Europe is attested to not only by the fact that many of the coins in circulation were in fact minted in Lisbon, but also that certain gold coins were referred to as "Portugaloisers" in northern Europe even centuries later.[6]

In addition to gold imports, success in the spice trade brought huge riches as well, as did mineral discoveries in Brazil in this and later centuries together with exports of sugar. In the 16th century, spices were of particular importance, with imports estimated at upwards of 40,000 quintals[7] during the first third of the 16th century and between 60,000 and 70,000 later on.[8] During the second half of this century consumption of spices in Europe doubled while prices also increased by about 100-200%.[9] About a third of this typically consisted of pepper, with mace, nutmeg cloves and cinnamon accounting for most of the rest.

Relative Importance of Slaves and Gold in West African Exports" *Journal of African History* 15:3 (1974) pp. 351-356. See also James Duffy *Portugal in Africa* Penguin Books, 1963 p 35.

[4] See Vitorino Magalhães-Godinho, *L'Economie de L'Empire Portugais aux XV et XVI Siecles*, Ecole Pratique des Hautes Etudes, 1969 and Philip C. Curtin "Africa and the Wider Monetary World 1250-1850" in Richards, ed. *Precious Metals in the Later Medieval and Early Modern Worlds* Carolina Academic Press, 1983.

[5] Vogt estimates that privately smuggled gold amounted to as much as 23% of officially transported gold. See John Vogt *Portuguese Rule on the Gold Coast 1469-1682* University of Georgia Press 1979 pp. 65-66.

[6] See Boxer, op. cit. p 31.

[7] A quintal is equivalent to 51.4 kg.

[8] See Boxer, op. cit. pp. 59-60.

[9] It was reported by Gaspar Correia that pepper prices tripled from 1520-1560. See Armando Castro, *Historia Economica de Portugal* Editorial Caminho 1985, p.108.

The profits from the spice trade were spectacular and played a large part in luring the Portuguese adventurers (and the Crown which financed their voyages) around the Cape of Good Hope in search of a direct route to the Spice Islands. Spices which sold for 2 ½ - 3 ducats in Calicut could be resold in Cairo for as much as 68.[10] While pepper was by far the most important in terms of volume, the so-called "luxury" spices of cloves, nutmeg and mace were far more valuable in terms of price for a given weight. This led to an intense drive to dominate the few small islands where these were produced, which the Portuguese succeeded in doing until the Dutch took over in the 1600's. It has been estimated that the total of spice imports by the Portuguese in the early 16th centuries amounted to between 1600 and 2450 metric tons, worth at least about a million cruzados, or about double the value of gold from Africa and very little of which was consumed in Portugal itself, instead being transshipped to other European ports in exchange for other goods.[11]

How then, did the amounts gained from the gold and spice trade compare with overall economic activity? While any estimates of Gross Domestic Product are of necessity much more approximate than are estimates of the value of gold and spices (for which accounting was performed at the time and for which records exist), it is still very instructive to look at the orders of magnitude involved. Armando Castro, an economic historian, has formulated estimates of GDP in Portugal in the 16th century and has come up with the following figures based on estimates of the production of the principal products and their prices at the time[12]:

GDP of metropolitan Portugal -	Between 9,630, 000 and 14, 445, 000 cruzados
Gross Product of Overseas Activities -	Between 1, 600, 000 and 7, 700, 000 cruzados

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[10] See Vitorino Godinho Magalhães *Mito e Mercadoria, Utopia e Pratica de Navegar* Difusão Editorial 1990, especially Chapter 12. See also B. W. Diffie and G. D. Winius, *Foundations of the Portuguese Empire 1415-1580* University of Minnesota Press, 1977, p. 205.

[11] See Castro, op. cit. p. 113 and 128.

[12] See Castro, op. cit. p. 140.

It can be seen that the value of the foreign exchange inflow from these new products was somewhere between about 10% and more than 44% of GDP, or between 11% and 80% of the GDP of the metropolitan economy of Portugal. This represents a massive inflow of foreign exchange, and in general magnitude is of the same order as the windfalls experienced by oil exporting countries in the 20th century. The table below shows the magnitude of oil shocks in countries widely cited as suffering from "Dutch Disease" in the modern era[13]:

Country	Oil Windfall as % of Non-Mining GDP
Algeria	27.1%
Ecuador	16.8%
Indonesia	15.9%
Nigeria	22.8%
Trinidad & Tobago	38.9%
Venezuela	10.8%

While it is perhaps tempting to count the slave trade as another source of foreign exchange, there are good reasons for not doing so during the early years of Portuguese colonialism prior to the 1600's. Essentially, the slave trade at this time was far less important to the metropolitan economy than was trade in gold and spices, though it came to be more important in the latter part of the 17th century and in the 18th as gold declined (other countries having taken over the majority of the West African gold trade) and the numbers of slaves exported increased. However, during the 15th and 16th centuries, about 3-4000 slaves per year were taken by the Portuguese from Benin, the Congo and Angola areas, but most of these went to other parts of Africa or to São Tomé rather than to Portugal itself. Indeed, slaves became an important import to West African gold areas as labor to work the mines was in high demand by

[13] See Alan Gelb ed. *Oil Windfalls: Blessing or Curse?* Oxford University Press 1988, p. 62. The figures cited are for the 1974-78 period.

interior kingdoms at that time.[14]

III. The Effects of a Large Inflow of Gold

The massive inflow of gold and goods readily transformed into gold (amounting to somewhere between 10 and 44% of GDP) caused distortions typical of mineral exporting economies, and commonly known as "Dutch Disease". This term refers to the problems of exchange rate overvaluation and relative price distortions that result in strong urban bias and stagnation of non-mineral exports and import competing sectors. The activities most adversely affected are those most exposed to competition from abroad, in the case of Portugal, agriculture and light manufacturing and agro-processing sectors which were replaced by imports in the large urban markets on the coast.

The applicability of this analysis to the case of Portugal during its colonial expansion is clear. Portugal, as noted in Chapter 1, was a country with extremely poorly developed infrastructure such as roads, and poorly developed links between Lisbon and the interior of the country.

It is interesting to note that the period of the 1600's through the 1800's saw the beginnings of the transformation of northern European economies from the mainly agricultural base of the late medieval and early Renaissance periods into the more modern agricultural and pre-industrial patterns typified by the industrial Revolution in England and elsewhere. That Portugal did not go through these same transformations can be attributed to the effects of large amounts of gold (the "foreign exchange" of this period) which obviated the need to develop these activities domestically. Thus, the agricultural and industrial revolutions which characterized economic development in other parts of Europe did not occur in Portugal, which imported the cheaper

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[14] See Vogt, J *Portuguese Rule on the gold Coast 1469-1682* University of Georgia Press, 1979, pp. 71-73. See also Bean, R. "A Note on the Relative Importance of Slaves and Gold in West African Exports" *Journal of African History* 15:3 (1974) pp. 351-356

manufactures that were available as a result of these transformations elsewhere.

In fact, not only did easy money obviate the need to develop these activities, but provided a strong disincentive to do so. This is due to what the modern analysis would call "overvaluation" of the exchange rate, or in more basic terms a distortion of the relative price of foreign exchange which makes it cheaper in local currency. The net effect of cheap foreign exchange is to make imported goods look cheap and this in turn discourages any domestic effort to compete with them. The end result is an economy which relies on its foreign exchange producing activity to generate the money needed to import necessities while skewing incentives against producing them at home.

A Brief Analysis of the Effects of Large Foreign Exchange Inflows[15]

The effects of large foreign exchange inflows on those parts of the economy not directly related to the sector that is producing the riches dates from a discussion by Cairnes in 1857 of the effects of the Australian gold rush[16] and has been of more direct interest in modern times in the analysis of the effects of large oil discoveries on the economies of oil exporters. The relevance of this to the case of Angola in the last quarter century is obvious, but it is also relevant to the case of Portugal in colonial times since the key to the analysis is the problem of absorbing large windfalls of foreign exchange, from whatever source. In modern times oil and diamonds are the most extreme examples of this, but large gold discoveries can be equally as problematic since they are not just convertible into hard currency, but in fact already are hard currency or at least could be treated as such as soon as they were processed into metal after mining.

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[15] This discussion draws on Corden, W, Booming Sector and Dutch Disease Economics: Survey and Consolidation *Oxford Economics Papers* 36 (1984) 359-380 and Alan Gelb et. al. *Oil Windfalls: Blessing or Curse?* Oxford University Press 1988.

[16] Summarized in Bordo MD John Cairnes on the Effects of the Australian Gold Discoveries 1851-73 *History of Political Economy* 3 (1975) 337-359.

The fact that gold was itself the hard currency of the day from the early colonial period right through the 1800's means that when we speak of "exchange rate distortions" we cannot use the term in the same way that we do in modern times when we are referring to the relationship between the price of a nation's currency in terms of another nation's currency or gold. Rather, we must focus on the relationship between the price of gold (which is itself "foreign exchange") and other prices in the economy. More particularly, we are most interested in the relative prices of "traded goods" and those which are non-traded.

Traded goods consist of all those items which are or have the potential to be traded internationally including both exports and imports for any given country. Obvious candidates are commodities such as wheat, wine or other easily transportable agricultural output, manufactures such as cloth or metal goods such as firearms or utensils of various types. The key characteristic regarding traded goods is that their prices are fixed by international markets by virtue of the fact that they can be traded - If, for example, the price of wheat were to start to rise in Portugal then it would pay for English exporters to send some wheat there to take advantage of the new market conditions, thereby increasing the supply and preventing the incipient price rise. The same reasoning can be applied *mutatis mutandum* to the wheat market in England. If prices there were to try to fall, then it would pay to export wheat rather than keeping it for sale in the domestic market, thus preventing the incipient price decline. Thus, prices of these items are not determined by domestic market conditions - rather, the quantity adjusts (via changes in exports or imports) - and are instead determined by world market conditions in the aggregate. In the case of Portugal in colonial times or of former Portuguese colonies now, the relative size of the domestic economy compared to the aggregate world market is quite small meaning that domestic market developments have no detectable effect on world prices.

Non-traded goods consist of all those items which cannot be traded internationally, or for which there are substantial barriers to such trade. Obvious candidates are housing, or personal services, which are of necessity produced at the point of consumption. The traditional example of this last category is a haircut, the price of which varies widely across borders since the demand and supply are essentially local phenomena and not subject to foreign influence since noone

crosses borders for the purpose of giving or getting a haircut. The key characteristic of non-traded goods markets which distinguishes them from traded goods is that incipient changes in supply and demand are of necessity equilibrated by changes in price rather than quantity since if these goods are not traded internationally, there can be no quantity adjustment via exports or imports.

The relative price of traded and non traded goods in the economy is what macroeconomists refer to as the "real exchange rate", usually expressed as the price of traded goods divided by the price of non traded goods: P_T/P_{NT}. In other words, it is the amount of traded goods that one can exchange for a given amount of non-traded goods. This relative price is of vital importance in determining the composition of both consumption and consumption in the economy in general. Two propositions hold:

1. The higher (lower) the real exchange rate, the more (less) expensive traded goods are in relation to non-traded goods, so that more (less) will tend to be *produced*. This additional (lesser) production of both export goods, and of goods that would otherwise be imported will tend to increase (decrease) the surplus in the balance of payments.

2. The higher (lower) the real exchange rate, the more (less) expensive traded goods are in relation to non-traded goods, so that more less (more) will tend to be *consumed*. This decreased (increased) consumption of both export goods, and of goods that would otherwise be imported will tend to decrease (increase) the surplus in the balance of payments.

The upshot of this is that the real exchange rate is of fundamental importance to an economy's external balance - The higher it is the bigger the surplus on the balance of payments is, both because of increased production and decreased consumption of traded goods as compared to non-traded ones. It is also of key importance to internal balance as can be illustrated by considering the effects of a shock to the economy when large foreign exchange inflows occur.

Initially the effects of such an inflow depend on what the money is spent on. Insofar as the money is spent on traded goods, we can say two things:

- Relative prices do not change if money is spent on imported goods or goods that could have been exported. Instead, there will simply be a bigger deficit in the balance of payments or a smaller surplus.

- Given that there is no change in prices, there is no change in incentives for production or consumption, hence the structure of the economy does not otherwise change.

However, there is a very different outcome insofar as the money is spent on non-traded goods. Here, we can trace through the following effects:

- As a first round effect, money spent on non-traded goods will cause their price to go up (or in other words the real exchange rate, P_T/P_{NT}, will fall). This results in inflation.

- Second, producers and consumers respond to the new relative prices in the following ways:

Producers see that non-taxables are now relatively higher priced than are taxables and so will tend to switch production from taxables to non-taxables.

Consumers also see more expensive non-taxables and so respond by consuming less of them and more taxables.

Both of these reactions tend to worsen the balance of payments.

- Third, future investment and resource flows will follow the changes in production. Apart from the sector that is producing the windfall, both capital and labor will tend to migrate toward the sector where production is increasing and away from the one where it is decreasing. This means that resources will tend to flow out of the traded goods sectors and into the sectors producing

non-traded goods.

Figure 1[17] illustrates these changes. There are three sectors of interest. The Booming Sector (B), which is the one producing the windfall, be it oil or gold or some other good, the Lagging Sector, (L) which produces tradable goods other than those from the Booming Sector, and the Non-Tradable Sector (N). Figure 1 shows the effects of a foreign exchange windfall on the N sector.

As discussed above, the first round of effects depends on how the windfall is spent. If some part of it ends up being spent on non-traded goods, either directly by beneficiaries of the windfall buying mansions, hiring servants or via government taxation or appropriation and funding of non-traded spending, then there will be a consequent increase in demand for N goods, leading to rightward shift of the demand curve for N goods to D^1. Depending on the elasticities of supply and demand there will be some combination of increased output of N and increased prices of N goods, which leads to an appreciation of the real exchange rate. This will tend to draw resources out of both B and L into N and to shift demand away from N and toward B and L. However, if B is indeed producing windfalls of sufficient magnitude to generate large macro effects, the resource movement effect will fall principally on the L sector.

There are further resource movement effects which are also shown in Figure 1. First, the B sector will tend to attract labor and capital from both L and N. This will result in a decrease in output in L (not shown in figure) as well as a decrease in the output of N goods. This last result is shown by the shift of the supply curve to S^1, with still higher prices for N goods and consequent shift to the left of the equilibrium output for N.

If there is mobility of labor as well as capital, then we can expect a migration of labor toward those centers at which expenditure of the windfall is concentrated (typically capital cities in the case of government appropriated windfalls). This migration induced a further spending

[17] Based on Corden, op. cit.

effect which, insofar as it falls on N goods, causes an additional rightward shift of the demand curve to D^2 with additional appreciation of the real exchange rate and a further round of effects as described above.

The lessons of this analysis are clear: Large inflows of foreign exchange, be they from oil, gold, or other sources, have the capacity to seriously distort economies by suppressing the growth of other sectors while facilitating the growth of a rentier class which lives off of the revenue stream produced by the foreign exchange generating activity. Investment in such an economy tends to be directed toward further expansion of this activity, whatever it is, as well as toward those sectors which help to dispose of the windfall. Typically, this would be trading, as well as a spectrum of service sectors aimed at supporting the consumption activities of the rentier class.

All of this is sustainable only so long as the foreign exchange windfall continues. Serious problems arise when the stream of easy money comes to a halt. The economy is then left with no source of foreign exchange and a stunted growth of all other productive sectors which is exacerbated by the typical failure to invest any of the windfall in the public infrastructure needed to support a diversified set of other activities. The center of such an economy, the capital city, enjoys an initial burst of activity as inflows of revenue fund large public works projects and the rentier class' consumption fuels a construction boom. Outlying areas are depressed as they not only do not enjoy the public expenditures of the center, but also are host to economic sectors which contract in the face of cheap import competition. In addition, the pull of resources (both labor and capital) out of these areas and into the sector producing the windfall gives further impetus to the downward spiral of economic activity away from the center.

Even those areas which are home to the activity producing the windfall do not enjoy a widespread or sustainable pattern of growth. With investment concentrated in only one activity, others wither except insofar as they can help fuel the expenditures which the large revenues generate. Examples of such local economies are found in oil producing areas in the modern age

or in gold rush economies of the 19th century in such areas as California or the Yukon[18]. As with the capital city, such areas do not enjoy a prosperity which survives the exhaustion of the resource upon which they are based and see a pattern of investment and infrastructure development geared almost exclusively toward the extractive activity they are centered on.

An additional effect is often present in cases where capital is internationally mobile. As domestic prices inflate, interest rates on foreign capital look cheaper and cheaper at a given exchange rate. This stimulates foreign borrowing to support consumption and/or investment beyond that which can be supported by mineral rents alone. This effect helps to explain the apparently perverse situation of many oil countries where huge foreign exchange windfalls are accompanied by huge foreign debts.

III. Application of Dutch Disease Analysis to Portuguese Colonial Relations

In the case of Portuguese colonialism, (and confining the analysis to the period prior to the early 1600's) it is clear that Lisbon and the Royal court constitute the "center" of the above analysis, while the hinterland of Portugal constitutes an area where economic activities are depressed due to competition from imports and starvation of necessary resources as investment funds are directed elsewhere and labor is drawn away to provide services to the wealthy rentier class in Lisbon and to work in the colonizing project which generated the windfall of gold. In the case of Portugal, the urbanizing tendencies of Lisbon are clear, as is the extent to which Lisbon was an outward looking city, emphasizing trade with colonies (the revenue generating activity) and trade with countries supplying imports (English wheat and textiles) to the exclusion of linkages with its own outlying areas.

[18] It should be noted that the California gold rush, though typical of mineral economies, was neither integrated enough into the economy of the Eastern US nor was it large enough compared to it to cause some of the "center" or capital city effects identified above. It remains, however, quite typical of the distorted development of booming areas themselves.

For example, during the reign of Joao III (1521-1580), it is reported that the main grain producing area for Lisbon, the Alentejo, declined steadily, with the wheat farms either worked by slaves or not at all. In the north peasants left to look for work in the large towns or shipped out to the east looking for riches. In addition, Lisbon grew rapidly during this time in response to the concentration of trade there resulting from the royal monopoly on trade with the colonies, to the detriment of other coastal towns. Lisbon, rather than being a center of industrial development, was at this time a center for consumption by the nobility and a way station for transshipment of colonial goods to other European ports such as Antwerp better situated for distribution.[19]

Further evidence of the lack of investment in non-booming sectors in Portugal is the "execrable" state of the roads, which as late as the end of the 1700's were characterized as "appalling even by 18th century standards". An Italian visitor is reported to have observed that it was easer to find at Lisbon a ship bound for Goa or Brazil than a carriage to Porto or Braga.[20]

Overall, the economy of 16th century metropolitan Portugal did not expand much at all outside of industries directly related to the colonial enterprise such as ship building and related industries and arms. Even industries for which there was a domestic demand, such as textiles, failed to develop as it was "easier" to simply buy them with the proceeds of gold and spice trade.[21]

The drain of manpower out of Portugal into ships and colonies is evidenced by reports which state that in the first half of the 16th century about 472 ships left for the East carrying about 180,000 men, most of whom never returned.[22] It has been estimated that about 2,400 men

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[19] See Anderson, J. *History of Portugal* Greenwood Press, 2000, p. 80-82.

[20] See Boxer, op. cit. p 174.

[21] See Castro op. cit. pp. 129-132 for a discussion of the lack of development of the domestic economy during this period. See also E. Mata and N Valerio *Historia Economica de Portugal* Editorial Presenca, 1993, pp. 93-94.

[22] See Anderson, op. cit. page 80

left Portugal each year during the this century, out of a total population numbering somewhere between 1 and 1.4 million. Though the small number of women among emigrants meant that the natural rate of growth of the population was not seriously affected, the continuing emigration of able bodied men resulted in a lack of labor which left many agricultural areas either undeveloped or underused.[23] This underdevelopment of a traded sector through drainage of manpower to the booming sector is a typical characteristic of a Dutch Disease economy, and is further evidenced by the large imports of wheat from other parts of Europe including Britain, Flanders and France.[24]

That the expenditure patterns of the rentier class were biased toward consumption and construction rather than investment in productive activities can be seen today in the magnificent castles and palaces built in Cintra and Mafra, among others, as well as in the many manor houses and beautiful country residences dotting the countryside around Lisbon. Most returnees from the colonies who amassed fortunes of any size did not invest them in commercial enterprises, instead using them to purchase houses, land and the formation of estates.[25]

In fact, Portugal suffered from a syndrome common to many oil countries today in that the crown amassed huge debts to foreign bankers to support consumption well beyond that which could be financed by overseas activities alone. The first emission of public debt was made in 1500 and by the middle of the century it amounted to 1500 contos, or well over 400% of annual receipts by the state. In 1560 the first suspension of payments occurred, the first in a long history of debt difficulties.[26]

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[23] See, for example, Boxer, C. *The Portuguese Seaborne Empire* Knopf, 1969, pp. 52-54.

[24] See A J R Russell-Wood *A World On the Move: The Portuguese in Africa, Asia and America, 1415-1808* St. Martin's Press 1993 pp. 124-125. For a discussion of this "resource movement effect" in Dutch Disease economies, see Corden op. cit. pp360-361.

[25] See Boxer op. cit. pp. 326-327.

[26] See Mata and Valerio op. cit. pp. 100-101. See also Anderson op. cit. p. 79.

What does this analysis mean for the colonies? First of all, it must be recognized that insofar as was possible, the Portuguese tried to monopolize commerce in their colonies to the maximum extent possible. That is, they tried to make their colonies and Portugal itself into one economic unit vis a vis the rest of the world. This had the effect (to the extent that it was successful) of cementing the economic development of the colonies into the patterns of foreign exchange dependence noted above. What does the analysis say about these areas?

First, those areas which are home to the extractive activities which generate the foreign exchange tend to be geared solely to this end, with all economic activity directed either toward extraction or toward servicing the consumption patterns of the extractors. This pattern is exacerbated by the direction of infrastructural development which, insofar as it proceeds at all, is aimed solely at promoting the extraction.

This is illustrated by the placement of Portuguese settlements in Africa both initially and as time went on. The first outposts were on the West African coast and were placed so as to facilitate access to the gold mines that are located in what is now Ghana. Indeed, the very name of this fort, El Mina, means "The Mine". Clearly, this was directly related to extractive activities, and in fact was not directed toward any other goal. Initially, the Portuguese attempted to subjugate the gold mines to direct control but were defeated by the well organized armies of the kingdoms in the interior. Subsequent trading activities were aimed directly at trading for gold, first in exchange for cloth and other manufactures[27] and later in exchange for slaves which were needed to work the mines.

Subsequent outposts down the Atlantic coast of Africa were similarly geared toward extractive activities, though these were aimed more at acquiring slaves for the Guinea gold trade

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[27] In fact, one of the main reasons for the settlement of Cabo Verde was to produce cotton and cloth for the gold trade in Guinea since Portugal lacked domestic sources for these goods. The cloth was produced largely by African artisans to African specifications, with the Portuguese providing large scale management and transport. See Eugenia Herbert, "Portuguese Adaptation to Trade Patterns Guinea to Angola (1443-1640)" *African Studies Review* Vol. 17 No. 2 (Sept. 1974) pp. 411-424.

than at gold directly. Sao Tome became a principal entrepot for the north-south slave trade in the early years and for the transatlantic trade later on. São Tomé and Principe were also important for sugar production in the sixteenth century, though this later moved to the Northeast of Brazil.

Further south in the Congo and Angola, the Portuguese first attempted to Christianize and establish relations with the existing power, the king of the Congo tribe. While the *mani kongo* Afonso I (1506-43) was a devout Catholic who genuinely attempted to christianize his people, his efforts never bore fruit for two basic reasons. First, the Portuguese throne never regarded his requests as important enough to devote sufficient resources to do the job, often taking years to answer communications from him and never sending enough missionaries.[28] Second, the missionaries themselves as well as other Portuguese in the area rapidly became deeply involved in the slave trade. Annual exports from the kingdom amounted to 4-5,000 peça*s* annually, a number which understates the number of people involved since a peça was counted as the equivalent of a prime male slave, with others either younger, older, or female counting as some fraction of a peça.

At first, most slaves were obtained through the Congo kingdom from surrounding peoples, an arrangement that was sanctioned by the Portuguese Crown which attempted to limit slaving activities in the Congo kingdom to those directed at its neighbors. However, as the century went on more and more slaves were taken from the Congo people themselves, leading to a deterioration of relations with Portugal and cementing a pattern which was to last for centuries.[29] Again, extractive activities dominated the pattern of development (or lack thereof) brought by the Portuguese.

On the East coast of Africa, the pattern was perhaps even more pronounced as the initial

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[28] See Boxer, op. cit. pp. 99-102.

[29] See J. Vansina "Long distance trade routes in central Africa" *Journal of African History* 3:3 (1962) pp. 375-390, Bean, R. "A Note on the Relative Importance of Slaves and Gold in West African Exports" *Journal of African History* 15:3 (1974) pp. 351-356, as well as Boxer op. cit. pp. 98-102 .

goals of the Portuguese were two-fold: First, they established forts at Sofala, Quelimane and further north on the coast at Mombasa and Melindi in order to break into the pre-existing Indian Ocean trade in gold and ivory originating from the Monomatapa kingdom in what is now Zimbabwe. Unable to conquer this powerful kingdom, the Portuguese established trading posts on the coasts and up the Zambezi River at Sena and Tete in order to try to monopolize trade in gold and ivory. Military conquest of the sultanates of Zanzibar and Kilwa helped to cement the Portuguese in a dominant role that was to last until the conflict with the Dutch of the first half of the 1600's. The second major goal of the Portuguese in their establishment of East African forts was to provide way stations for ships on the way to India, the Spice Islands and Japan. Indeed, this was specifically ordered by the royal court in launching fleets to this area at the end of the 15th and beginning of the 16th centuries.[30]

Dutch Disease analysis, in addition to predicting that colonial development will be focused narrowly on extractive activities, also predicts that those areas which were not directly involved in generating foreign exchange are typically starved of any investment or development at all. Worse, they suffer a drain of manpower and resources as these are drawn off to support the higher return activities which provide the revenue stream which fuels the syndrome.

The history of Portuguese occupation in Mozambique bears this out. The "development" of non-extractive economy in Mozambique was an afterthought at best. The Portuguese royal court gave grants of land called *prazos* which were conferred for the life of the grantee and two generations of descendants. *Prazos* rarely amounted to anything more than a fiefdom in which the prazeiro used virtually unlimited power to requisition labor for working plantations or mines or to levy a tax in kind from peasant farmers. In essence, the existing local economy was entirely unchanged except insofar as labor demands cut into labor available for other purposes. Even in this there were limits since unduly burdensome labor demands provoked migration to other areas

[30] See M. Newitt *A History of Mozambique* Indiana University Press, 1995, Chapter 1 "The Mozambique Channel Region in the Sixteenth Century".

where demands were less.[31]

[31] See M. Newitt *A History of Mozambique* Indiana University Press, 1995, 237-232.

VIII. Conclusions

It seems clear that the framework of Dutch Disease economics is a useful way to look at the macroeconomic development of not only modern day oil exporters such as Angola, but also its early colonial period under the Portuguese. One unfortunate implication is that it is possible for such a syndrome, once established, to generate effects that can still be felt many years later. The evidence supports the idea that Portugal was suffering from many of the symptoms of Dutch Disease from late in the 15th century until the beginning of the 19th and while loss of many colonial possessions to the Dutch after the early 1600's cut back earnings substantially, the stagnation of Portugal's domestic economy continued long thereafter. Indeed, the preoccupation with finding riches abroad continued unabated, with attention diverted both to extractive enterprises in Brazil, and to the slave trade, both of which provided substantial income to the metropole but which did not directly promote development there.

It is also interesting to look at the Portuguese colonial enterprise through the lens of modern macroeconomic analysis - What could have been done differently to improve economic performance over the long term? First, it must be emphasized that the whole notion of "macroeconomic management" is a product of the twentieth century and was not even conceivable in 16th century Portugal. Rather, the only real "economic policies" of the government (though they were not thought of this way) were first to ensure that money was not debased - that is, that the royal mint was operated so as to guarantee the purity and weight of the precious metals contained in each coin - and second, to decide the manner in which government money from taxes or overseas adventures was spent.

Here it is possible to imagine some outcomes other than those which actually happened. Dutch Disease economics tells us that the key elements of dealing with a foreign exchange inflow are first, how fast to spend the money and second, on what to spend it. The history of the Portuguese royal court makes it clear that their answer to the first question was the worst possible from a macro point of view: to spend the money as fast as it came in, and in fact even faster

since not only was all of the money spent, but sizable debts were incurred as well. The second question again shows the royal court making "bad" policy choices - Money was spent on a combination of imports and consumption goods for the nobility (castles, manor houses, servants, luxury items, etc.). The key common characteristic of all of these expenditures is their non-productive nature. No investment which could help the economy to grow or develop was undertaken.

Turning to the economies of Lusophone Africa at the present time, it would perhaps be tempting to try to ascribe some of the current macroeconomic dislocations of e.g. Angola, a country which suffers from Dutch Disease to an extreme rarely seen elsewhere, to its colonial history as a dependency of a developing country which itself underwent similar dislocations. However, this would be going well beyond the evidence at hand, which points strongly to the similarity in the problems caused by foreign exchange windfalls in the two countries but which does not support any attribution of causality.

Nevertheless, it is perhaps interesting to speculate somewhat on some vestiges of colonial behavior that can be traced at least in part to the macro distortions that conditioned relations between Portugal and its colonies. In particular, the development of Portugal and its merchant class as essentially traders with little or no productive capacity meant that colonial elites (and indeed metropolitan elites too) had a more parasitical relationship with both metropolitan and colonial economies than would be the case in a more production oriented class. This is certainly true to a large extent as regards urban elites, but until the 20th century was even true to some extent in rural areas as well. As was noted above, even in the case of plantations such as the Mozambican prazos, the colonial elite merely extracted surplus labor from the local economy rather than engaging in any widespread or in-depth development as occurred elsewhere in Africa or the Americas.

One can speculate that this has left an unfortunate example for the newly emerging commercial elites in Angola today. There is little history in the country of truly entrepreneurial

behavior in terms of production. Rather, entrepreneurial energies are devoted to extracting rents from trade in mineral or other already finished goods. While it is certainly true that marketing and distribution are key elements of any capitalist economy, an economy which is largely composed of mineral production and traders who satisfy the consumption that this revenue generates is not one with a sustainable trajectory over the long run, but is perhaps unpleasantly reminiscent of the behavior of the Portuguese elite during the colonial period.

In the final analysis, it must be acknowledged that even though the macroeconomic arguments presented here are consistent with known data, and that some degree of Dutch Disease almost certainly afflicted Portugal during the colonial period, this is not the only hypothesis capable of explaining the evidence we see. On the one hand, it is entirely plausible that Portugal, once having come into an immense flow of wealth based on gold, spices and the slave trade, then suffered from the symptoms of Dutch Disease and that this then led to the typical distortions and sectoral pattern of stagnation associated with the syndrome.

However, it is also plausible to argue that Portugal was a country with a poor natural resource endowment in terms of agricultural land and readily usable transport routes and that this, together with the country's location on the periphery of the European continent can by itself account for the stagnation and subsequent lack of development we have observed. One could push this argument still further and contend that it was precisely the poor prospects at home that led Portugal to lead the way in search of riches overseas. In this argument, the subsequent distortions of Dutch Disease merely reinforced existing developmental tendencies.

Accordingly, we are left with a chicken-and-egg problem which is, as they always are, insoluble. It is undoubtedly true that Portugal suffered both from poor initial physical endowments and from macro distortions stemming from huge inflows of riches from the colonies. We cannot assign priority of causality to either, but must content ourselves with saying that both are part of the overall picture, and while this is perhaps less than satisfying to the academic desire for rigorous proof of cause and effect, it is nevertheless a step forward toward an

accurate understanding of the historical and economic processes at work.

Table 1. Estimates of Gold Exports from Southeast Africa

Gold Exports	Contemporaneous Estimate
Arab period before 1500, two estimates of 1502 and 1506, respectively:	
Thome Lopex, Sofala Exports	8,500 kg
Diogo de Alcaçova, Sofala and Angoche exports	7,650 kg
1508-09 annual average of exports via Sofala based on a 20-month period	34kg/62 kg[1]
1512-13 annual average based on eight months of Sofala exports	49 kg[2]
c. 1512-15 reports of Sofala factory	61 kg[2]
1518-19 reports of Sofala factory	4 kg[3]
1585 exports from Sofala and Quelimane	574 kg[4]
1591 exports from Sofala and Quelimane	716 kg[1]
1610 exports from Sofala and Quelimane	850 kg[1]
1667 exports from Sofala and Quelimane	1,488 kg[1]
1750 estimate of Francisco de Mello e Castra for Butua only	213 to 255 kg[5]
1758 estimate of Ignacio Caetano Xavier	525 kg[5]
1762 anonymous estimate	298 kg[5]
1806 estimate of A.N. de Barbosa	51 kg[5]
1806 anonymous estimate for Quelimane only	29 kg[5]

[1] Axelson, *South-East Africa,* pp. 111-12. These data were mainly reported in *mithqal,* the Arabic measure of weight with a fair degree of local variation. Axelson used the weight of the Sofala *mithqal* at 4.83 gr. While Magalhães-Godinho and Randles used a *mithqal* at 4.25 gr. Recent scholarship on the 1506 exports by Magalhães-Godinho, *Empire Portugais,* pp. 270-271, suggests a figure as high as 1,000 kg.

[2] Axelson, *South-East Africa,* pp. 123-26.

[3] Axelson, *South-East Africa,* p. 150.

[4] Magalhães-Godinho, *Empire Portugais,* pp. 270-71

Table 2. Gold-coast gold received by the Lisbon mint

Year	Quality-Kilograms of 22 1/8 carat gold
1487	225
1488	225
1489	255
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1494	647
1495	647
1496	647
1497	371
1498	371
1599	371
1500	371
1501	280
----	---
1504	438
1505	438
1506	438
----	---
1511	321
1512	518
1513	414
1514	404
----	---
1517	423
1518	484
----	---

1520	465
1521	429
----	---
1523	300
1524	284
1525 (1st half-year)	206
1526	248
----	---
1528	223
1529	211
1530 (April)	150
1531	213
1532	680
----	---
1534	272
----	---
1540	392
----	---
1543	349
1544	142
----	---
1549	168
1550	155
1551	212
1552	123
1553	94
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1555	377
1556	242

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1560	144
1561	145

Source: Magalhães-Godinho, *L' économie de l'empire portugais,* p. 216. Before 1517, John Vogt, *Portuguese Rule on the Gold Coast, 1469—1682* (Athens, Ga., University of Georgia Press, 1979), pp. 217—218. Based on contemporary estimates.

Table 3. Gold from Guinea Imported into Portugal on Private Account, 1494-1513

Years	Quantity Annual Average Kilograms
1494-96	53
1497-98	182
1505-07	301
1509-10	372
1511-13	277

Source: Magalhães-Godinho, *L'économie de l'empire portugais,* p. 218.

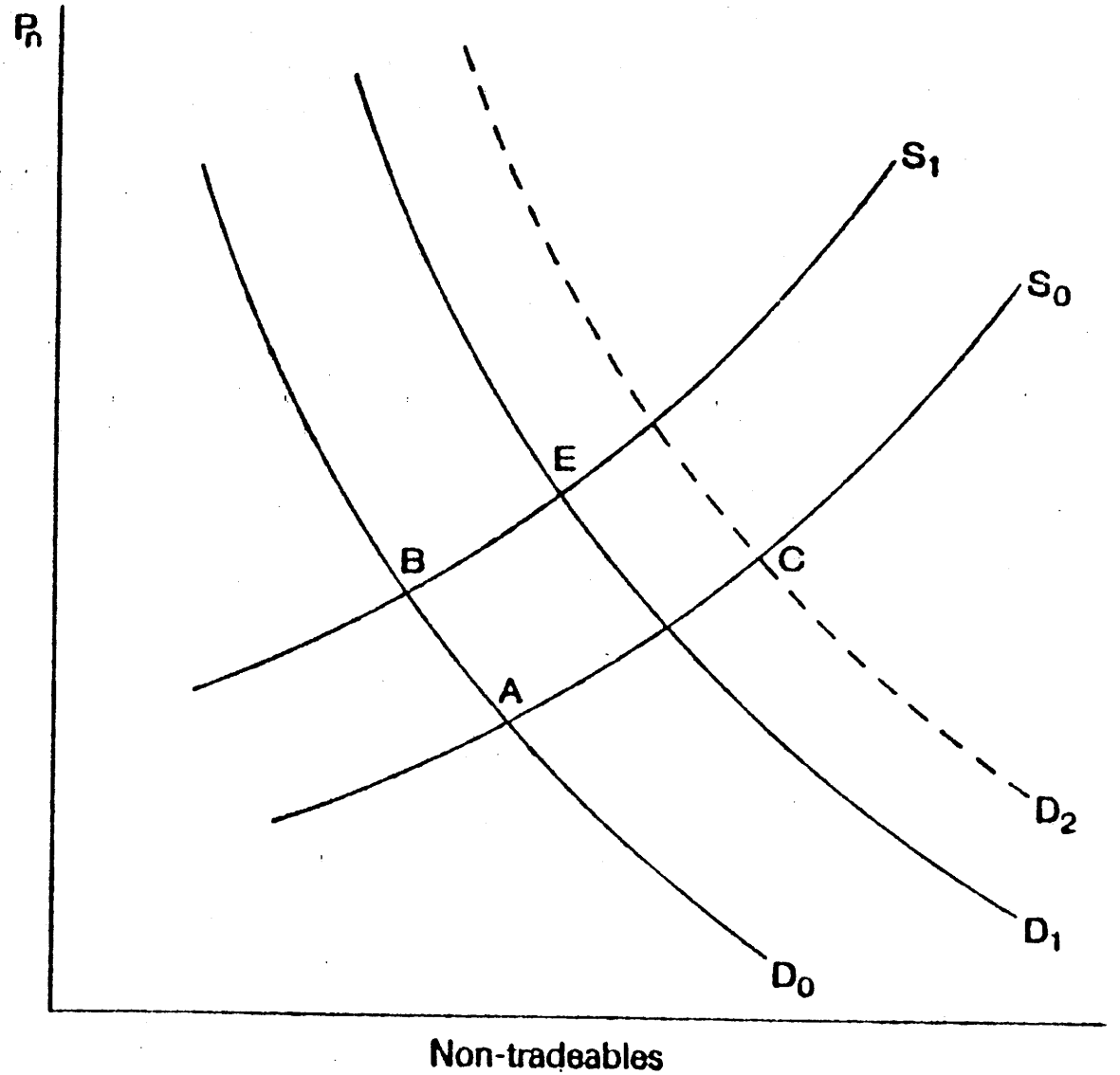

FIG. 1

Reproduced from Corden op. cit. page 361.

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