

Central Intelligence Agency

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DIRECTORATE OF INTELLIGENCE

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Portugal: From Empire To Small Country

Summary

Portugal is a poor country with a rich history. It became a nation state in 1140, when most of the countries of modern Europe had not yet taken shape. It has failed to keep pace with its neighbors, however, in its political, economic, and social development. Today, it is one of the continent's poorest countries with an annual per capita income of about \$2,000, compared to the West European average of about \$8,000. [redacted]

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History: Seeking Greatness

Over the centuries, Portugal has viewed Spain as the main threat to its independence. Formerly known as Lusitania, after the tribal people from whom the modern Portuguese claim descent, Portugal was an independent kingdom during much of the period from the middle ages until 1910. Sixty years of Spanish rule from 1580 to 1640 offer the only exception to this record of independence. Domination by Spain remains a vivid memory and helps to explain modern Portugal's suspicions of its larger neighbor. [redacted]

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This memorandum was prepared by [redacted] the Office of European Analysis. It was requested by Peter Sommer, National Security Council. Questions and comments may be addressed to John McLaughlin, Chief of the West European Division, [redacted]

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The selection of Lisbon as the capital fixed Portugal's Atlantic perspective, and it became the first European nation to establish an overseas empire. The golden age of Portuguese exploration and imperialism came early in the 15th century as Portuguese sailors traded with and conquered dominions in Africa, Asia, and South America many times the size of the mother country. [redacted]

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The empire brought few lasting benefits as Portugal did not use wealth acquired overseas to spur domestic economic growth, but instead reinvested it in the colonies. The perception of greatness that accrued from the empire permeated society, however, and many Portuguese felt the sense of loss when the colonies were granted independence. Even some of Portugal's current leaders -- including President Eanes and Prime Minister Soares -- aspire to restore a degree of Portugal's influence among its former colonies. [redacted]

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Modern Portugal has alternated between authoritarian rule and weak, unstable democracies. The First Republic, which replaced the monarchy in 1910, set new standards of political instability in Europe. In its nearly 16 years of existence, it had seven general elections, 45 governments, seven presidents, three counter-revolutionary dictatorships, and 25 uprisings. The legislature was fragmented and splintered into 22 parties. Fragmentation led to frequent votes of no confidence and a failure to deal with the country's pressing economic and social problems. Few Portuguese mourned when the Republic was overthrown by the military in May, 1926. [redacted]

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Salazar's Legacy -- Political And Economic Underdevelopment

Facing an economic collapse in 1928, the military gave absolute control over government spending to an economics professor from Coimbra University -- Antonio de Oliveira Salazar. Salazar, who was to rule until 1968, restored order to the economy and gained absolute power after 1932. [redacted]

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Salazar's Estado Novo (New State) was designed to preserve Portugal's traditional social and economic structures against the inroads of modernization, and to retain Portugal's empire. Salazar's dictatorship was paternalistic; he was certain he knew what was best for the people. In some ways he did much for the country -- he stabilized the financial situation and balanced the budget, built roads, and improved railroads. But he left the people mired in poverty and illiteracy and used the secret police to repress political expression. [redacted]

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Salazar's authoritarian system eventually crumbled under the burden of Portugal's overseas commitments. Faced with wars of independence in its African colonies beginning in the early 1960s, Portugal underwent mass mobilization, further reducing a labor force already depleted by emigration. Salazar's need to finance the wars forced him to reverse his long-held opposition to foreign investment in Portugal. This decision led to increasing transactions with the rest of the world and a shift in the trade pattern from Africa to the West. [redacted]

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Marcelo Caetano assumed the reins of power after Salazar's incapacitating stroke in 1968, but Caetano never gained full control. Inertia kept the regime going until the military, frustrated by low pay, poor equipment, and the realization that the African wars could not be won militarily, banded together to bring the government down in 1974. [REDACTED]

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Agreement to overthrow the regime was not followed by agreement on what should replace it. Widespread nationalizations and expropriations of agricultural lands were carried out, and initially it seemed the Communists -- with the support of radical military officers -- would take control. A stalemate among contenders for power developed in the armed forces, however, which combined with the emergence of democratic political parties and pressure from Portugal's allies to allow a liberal democracy to emerge. [REDACTED]

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The Domestic Situation

Democratic rule has meant a return to governmental instability and policy immobility. All of the political parties agree that Portugal must modernize, but differ sharply on how it should be done. No single party or group holds enough power to implement its approach to modernization. The result has been frequent governmental change -- since 1976, there have been four general elections and 10 governments. This political kaleidoscope has prevented the development of a coherent approach to dealing with Portugal's economic problems. [REDACTED]

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The Socialist-Social Democratic coalition government of Mario Soares that took power in June, 1983 was forced to apply an IMF-mandated stabilization program after its current account deficit ballooned from \$1.3 billion in 1980 to \$3.2 billion in 1982 and bankers shied from extending new loans. It was Portugal's second turn to the IMF in less than a decade. Despite strains within the coalition, the government has pursued the unpopular austerity measures that cut the balance of payments deficit to \$600 million last year. [REDACTED]

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But the parties cannot agree how to tackle other serious problems. Inflation and the budget deficit remain high, unemployment is up, and the already low real wages paid to workers have fallen by about 19 percent during the past two years. More importantly, Portugal has done little to reform either public sector enterprises or the agricultural sector. And in this climate of economic uncertainty, terrorism has grown. The main terrorist organization, the Popular Forces of the 25th of April (FP-25), claims to represent the beleaguered working class and lashes out against "foreign imperialism". [REDACTED]

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Accession to the European Community should come next January, and the Portuguese tend to see it as a panacea that will guarantee democracy, modernize the country, and bring wealth and stability. In the short term, however, membership is likely to bring more strains as weak Portuguese

industries are exposed to foreign competition. Portugal's trade deficit will likely deteriorate as it shifts to more expensive food imports and reduces its trade barriers. [redacted] 25X1

The country faces a presidential election in December that could change the face of Portuguese politics. President Eanes cannot succeed himself and Socialist Prime Minister Soares would like to replace him. Parties of the right and left, including a new one comprised of supporters of President Eanes, also will offer candidates to contest the election. Even Soares' Social Democratic Party coalition partners want to run their own candidate. 25X1 If they do so, they will likely bring down the government, forcing either a new realignment in Parliament or even an early legislative election. [redacted]

Eanes wants to prevent Soares from winning the presidential election and is debating whether to support the new party, which will compete largely against Soares' Socialists. Even if the new party does well in the next legislative election, it probably will not win a majority. Instead, it is likely that the addition of another major player to an already overcrowded political field will mean even weaker coalition governments and the continuation of governmental instability in Portugal. [redacted] 25X1

A potentially worrisome development is the openness of some leaders of the new "Eanista" party to "dialogue" with the Communist Party. They have ruled out a coalition with the Communists, but might accept informal arrangements that could lead to a partial emergence of the Communists from the political ghetto in which they have resided since failing to take control in 1975. [redacted] 25X1



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