



# The Political Economy Origins of Portugal's Discontents

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**The Political Economy of the European Periphery**  
**UCD Geary Institute**  
**UCD, Belfield, Dublin 4**

# Motivation & focus

- From success story to P of PIGS
- Portugal's specific pathway to crisis

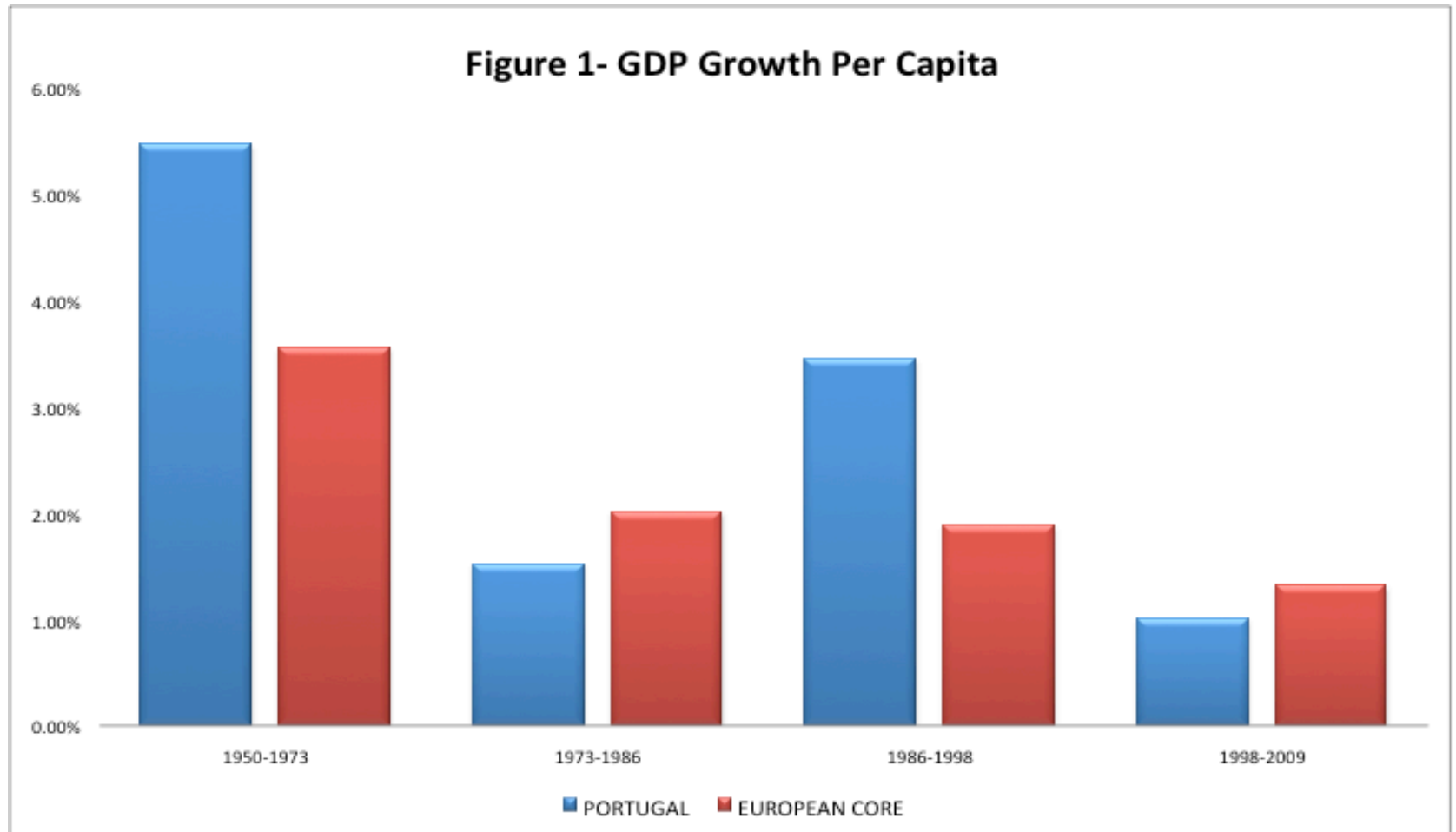


# Presentation outline

- Background
  - Economic development (1950-1973)
  - Democratic transition (1974-1985)
- Post-accession boom (1986-1992)
- Road to EMU (1995-1999)
- Adjustment to the euro (2000-2008)
- Portugal's "multiple" crisis

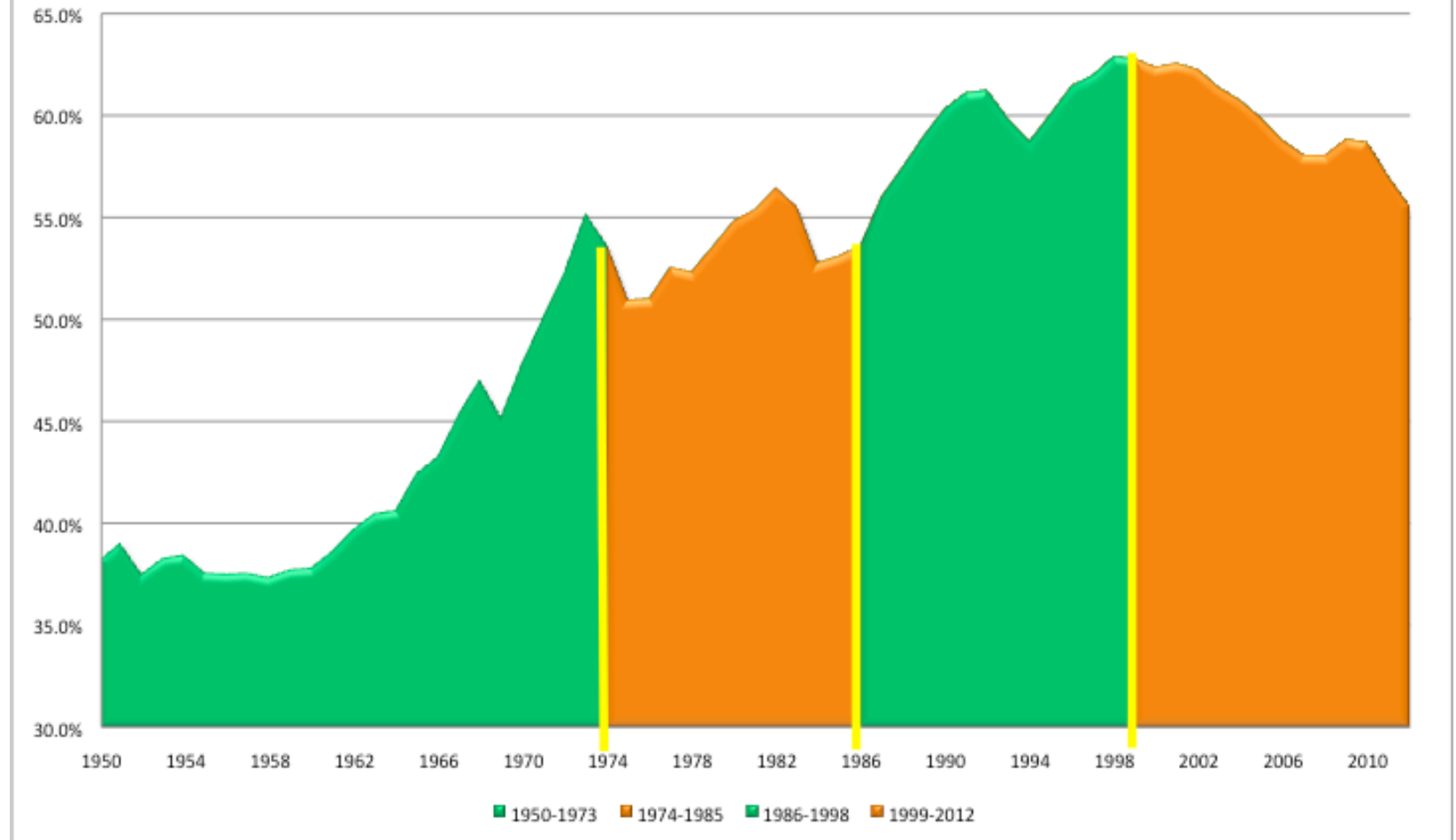


# Main growth cycles

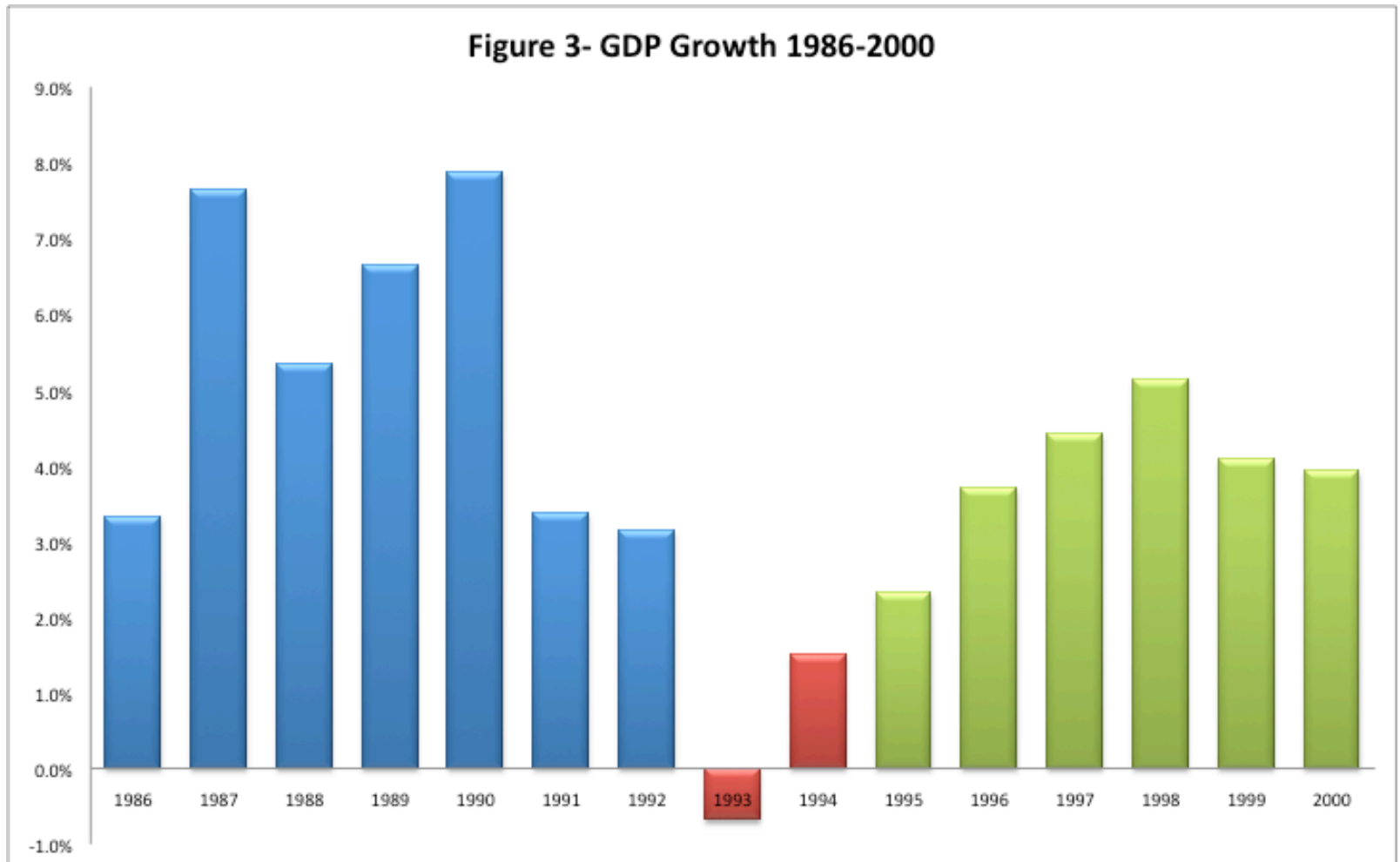


# From success story to sick man

Figure 2- Portuguese catch up process



## 2 post-accession growth “booms”



# The “golden age” (1986-1992;1990?)

- Timing of accession (declining oil prices, IMF, SEA)
- Post-accession boom (1986-1990)
- Capital inflows (FDI, EC transfers)
- Trade effects, structural change
- An “over-heated” economy (1990-1992)
- Political economy of Cavaco’s reforms
- Achievements and “reform gaps”

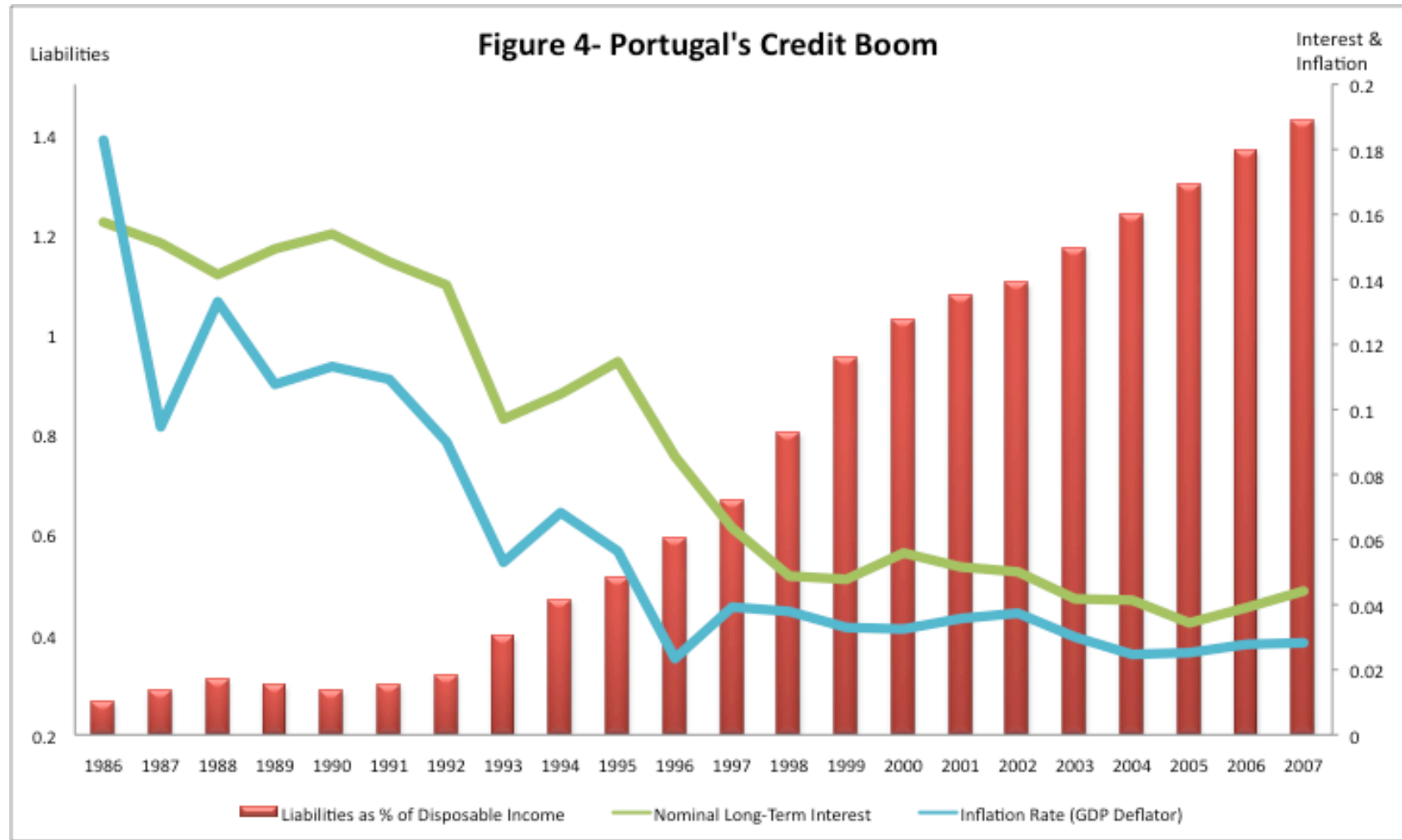


# 1995-2000: privatised Keynesianism?

- Demand-driven, debt-led growth
- Portugal's bubble-economics
- The paradox of credible commitment
- A curious road to EMU
- Nominal convergence and the illusion of fiscal discipline



# Market-led indiscipline?



# The “lost decade” (2001-2010)

- From “good pupil” to “sick man”
  - A difficult adjustment to the euro
  - An appreciated exchange-rate
  - Higher costs and limited room for real wage flexibility
  - Increasing competition from EE and the BRICS
  - Highly indebted households and firms
- Early internal devaluation (2005-2007)
- Portugal’s crisis path: soft landing + hard landing

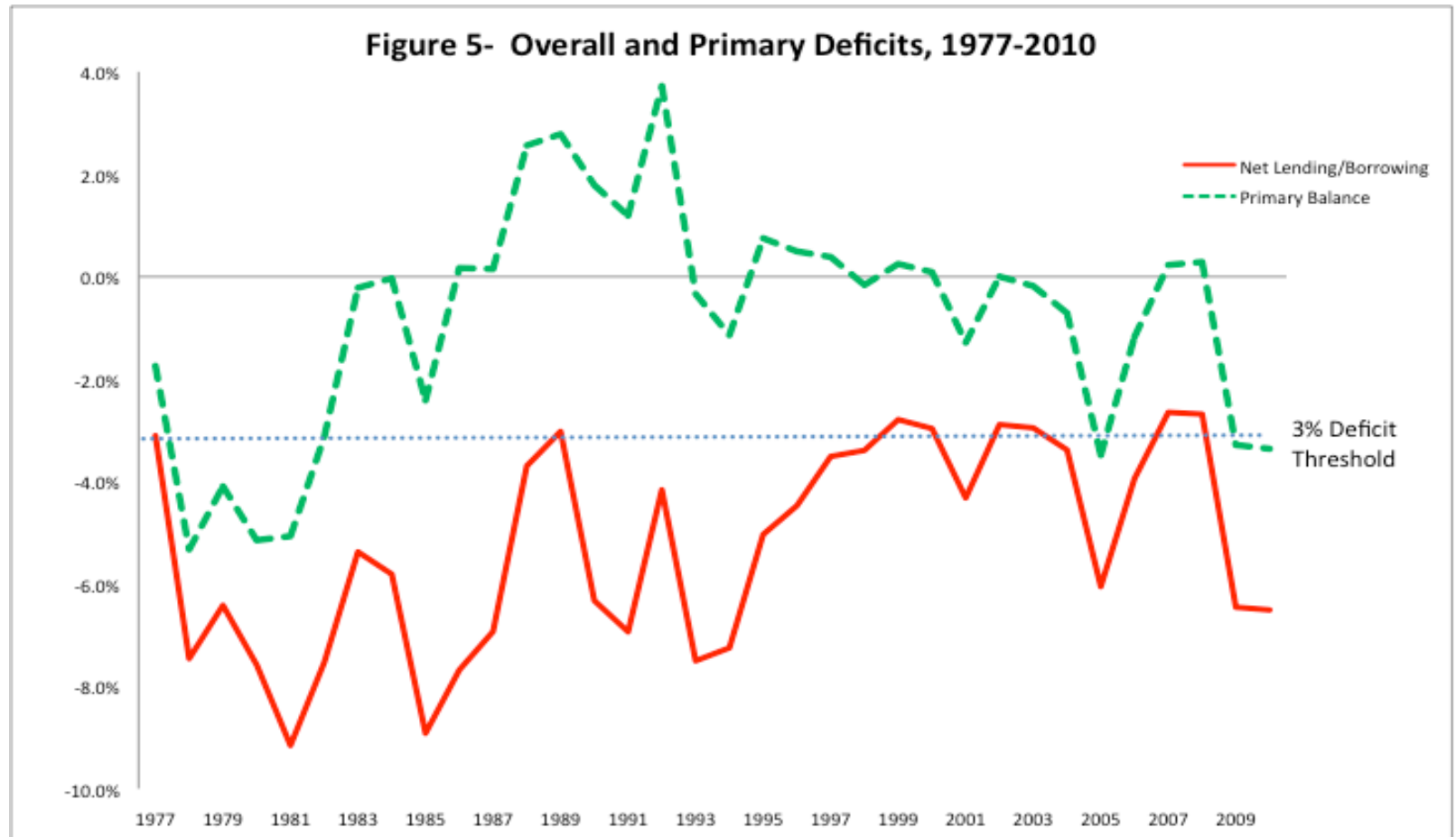


# The “multiple” crisis

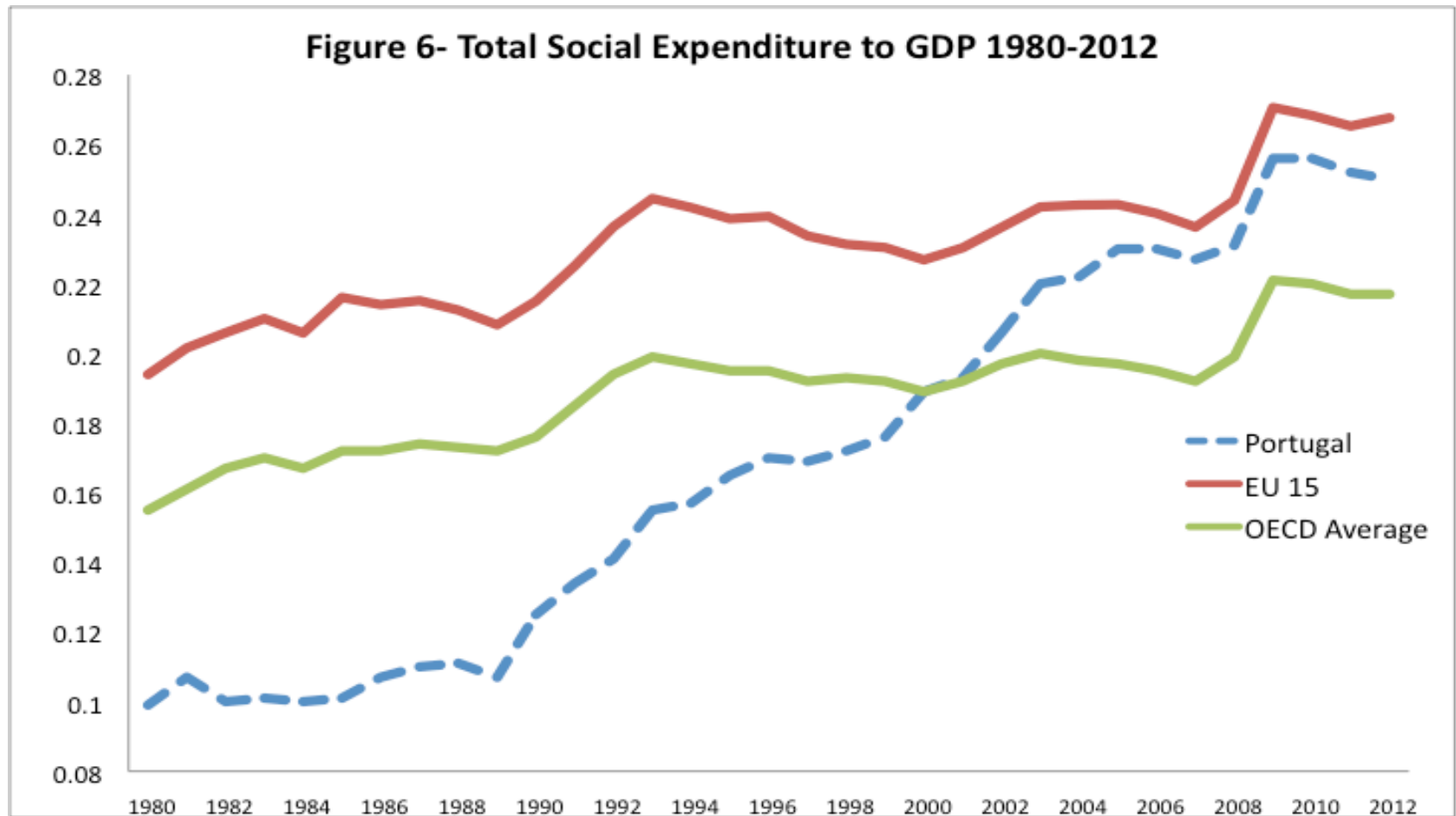
- Fiscal
- External competitiveness
- Financial
- Governance/institutions?



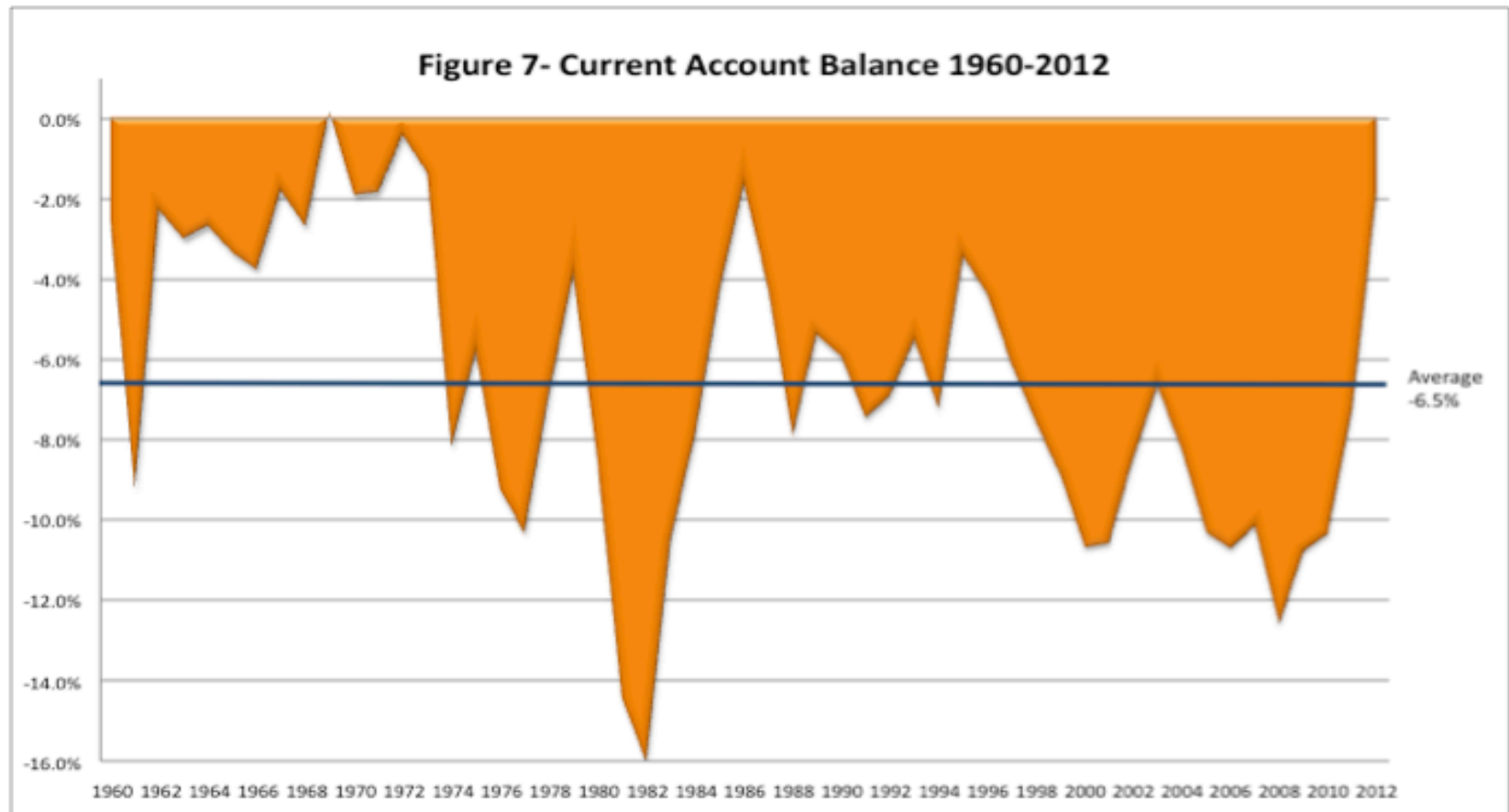
# Democracy in deficit



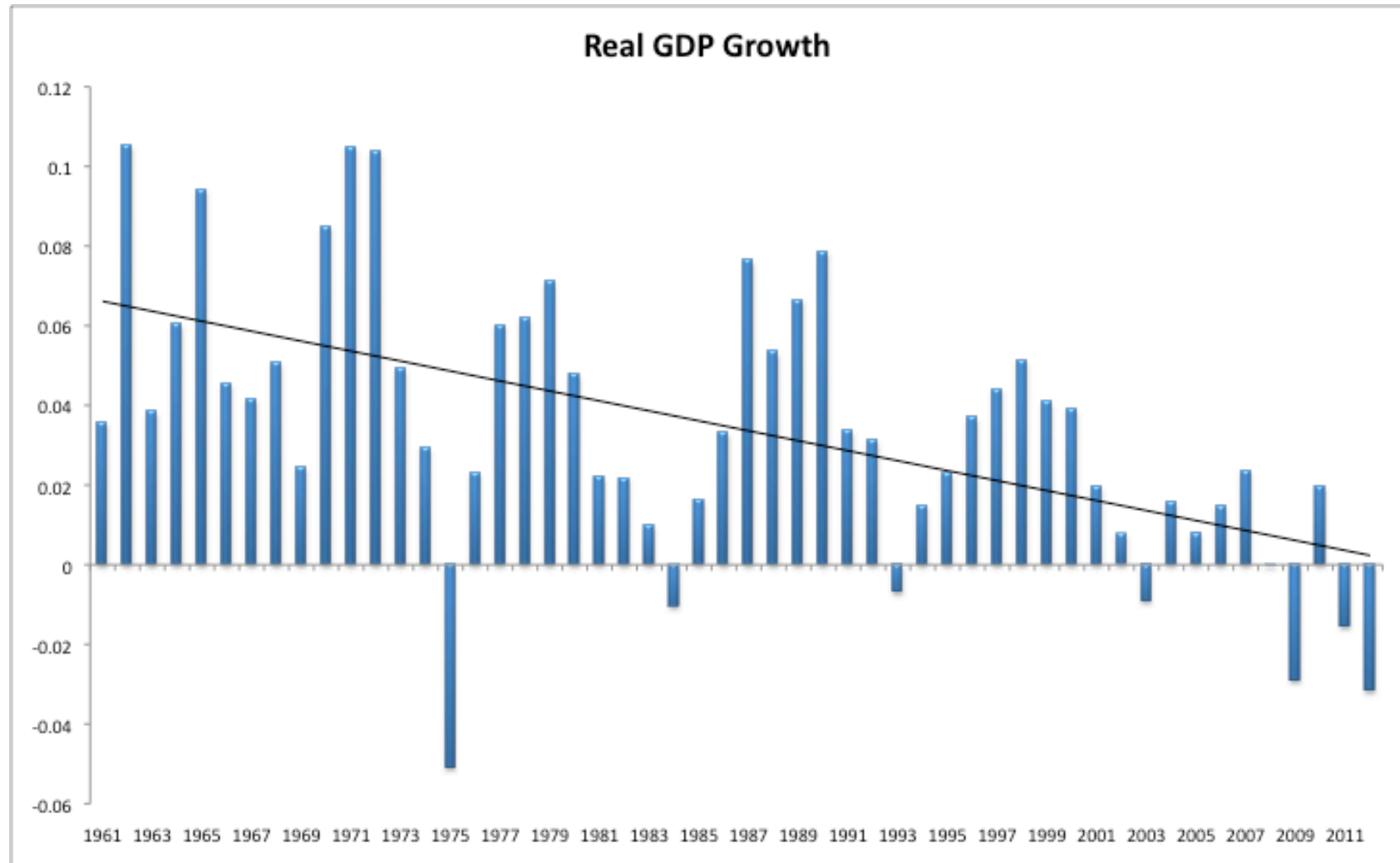
# Yet, a social revolution



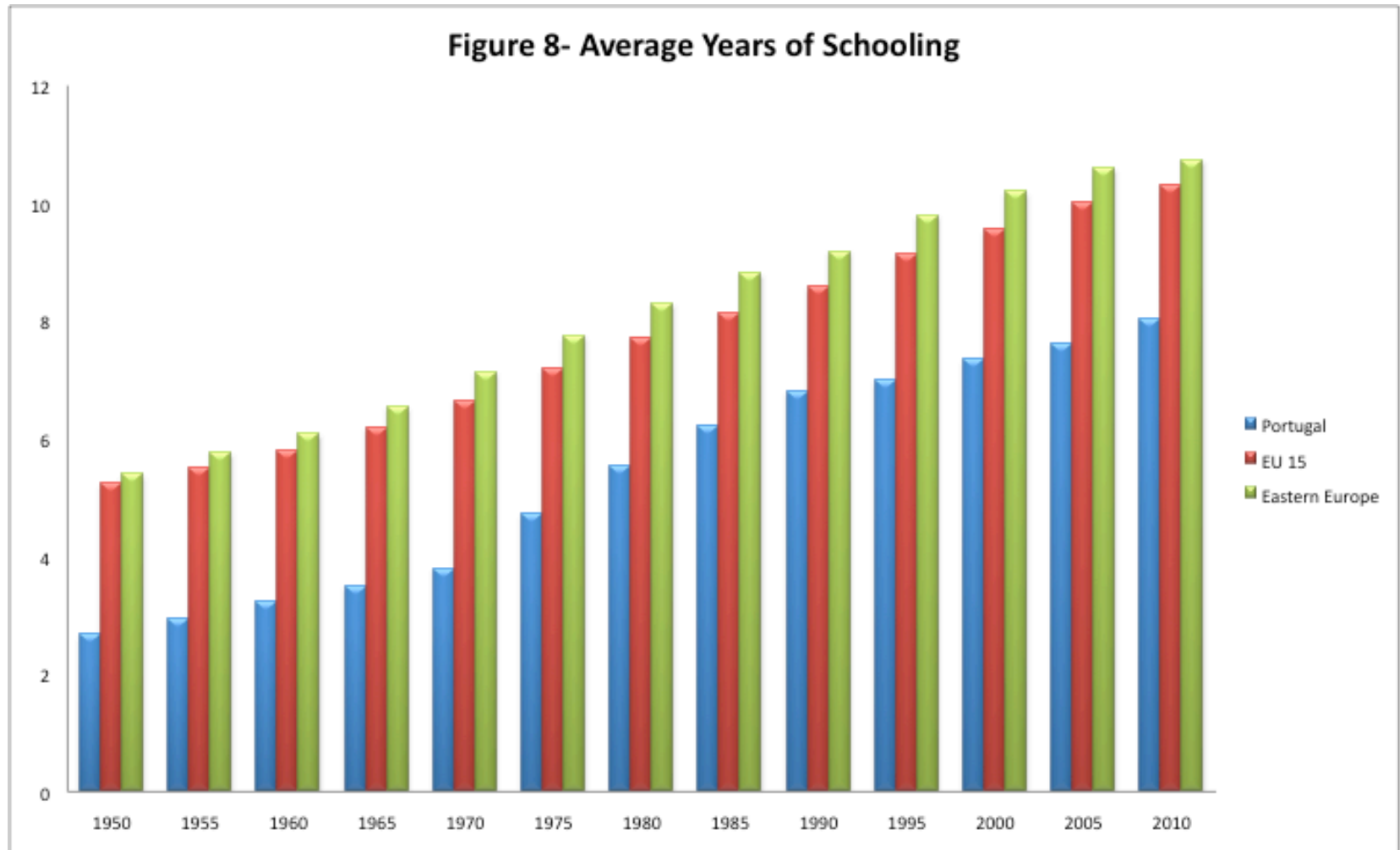
# The external crisis



# Declining long run growth

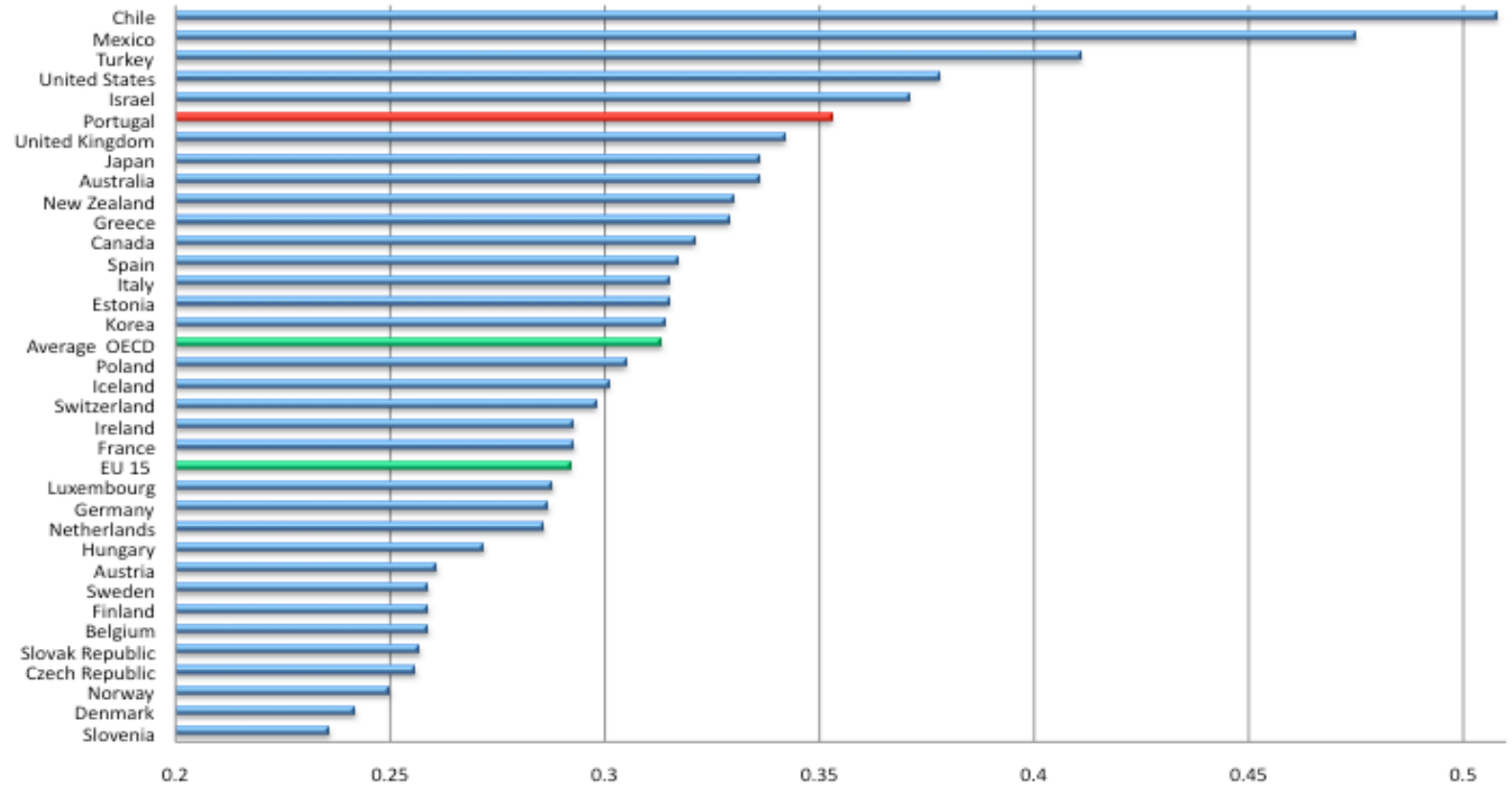


# Education gap: *progressos do atraso*

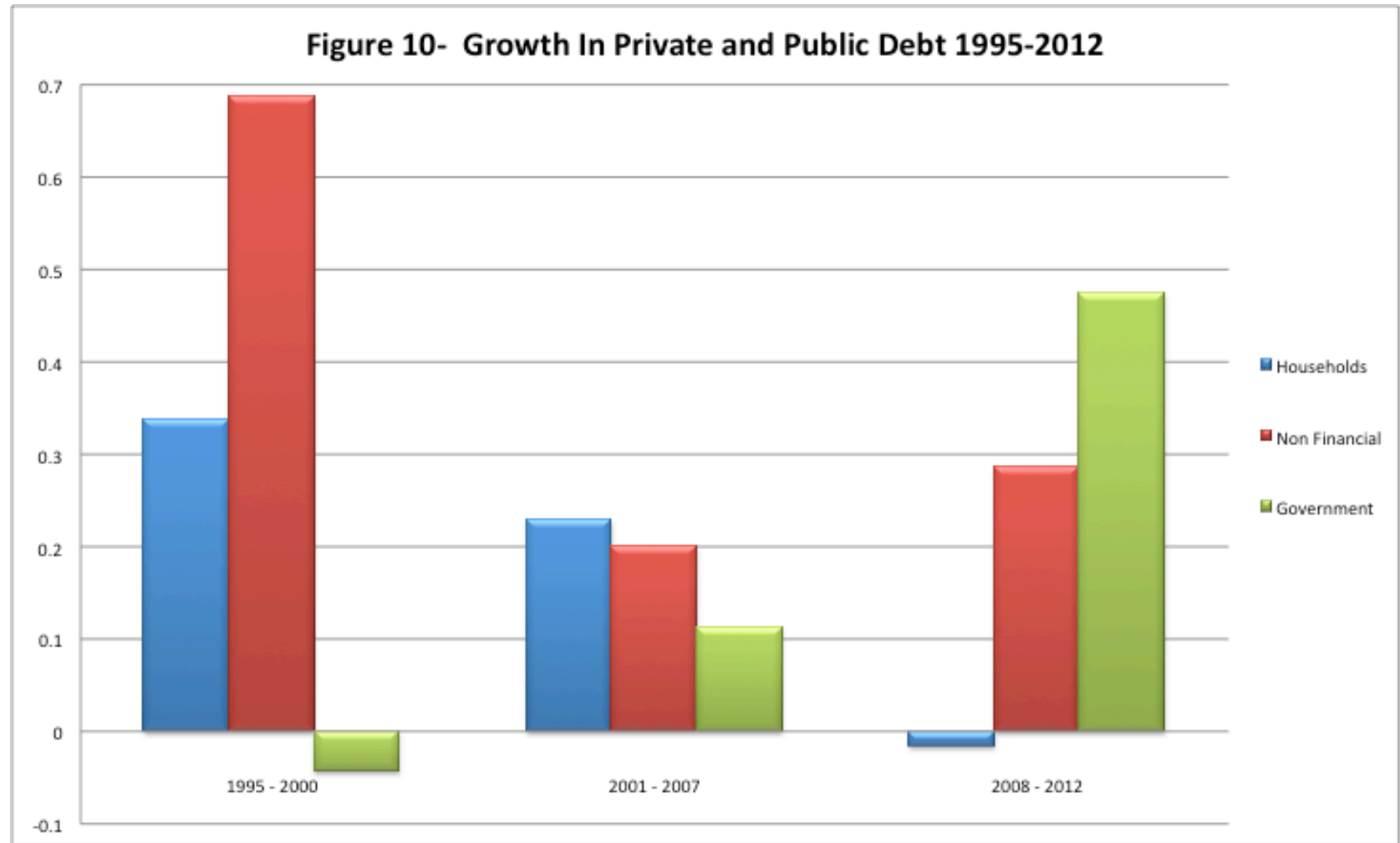


# Inequality gap

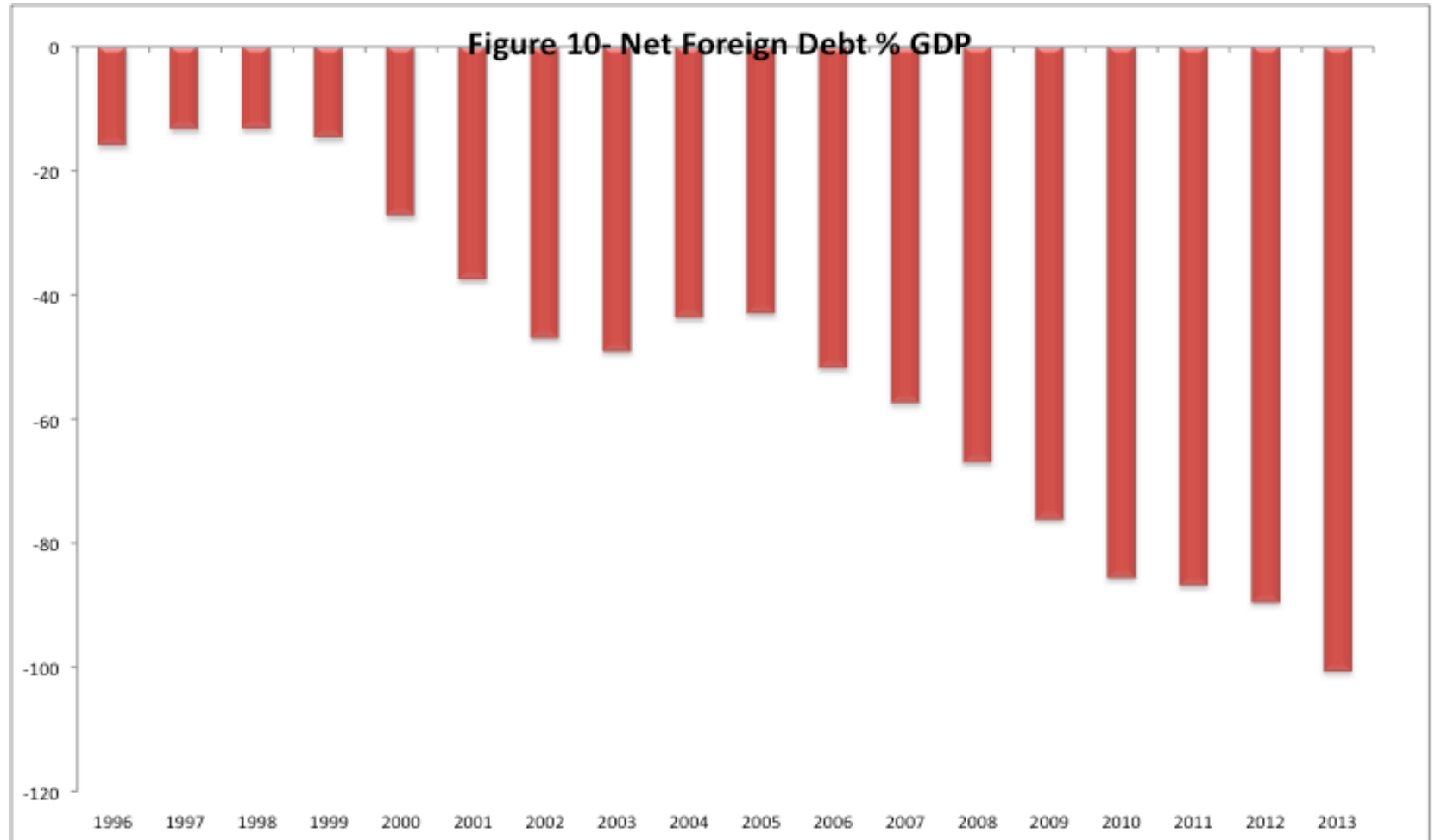
Figure 9- Gini Index 2008



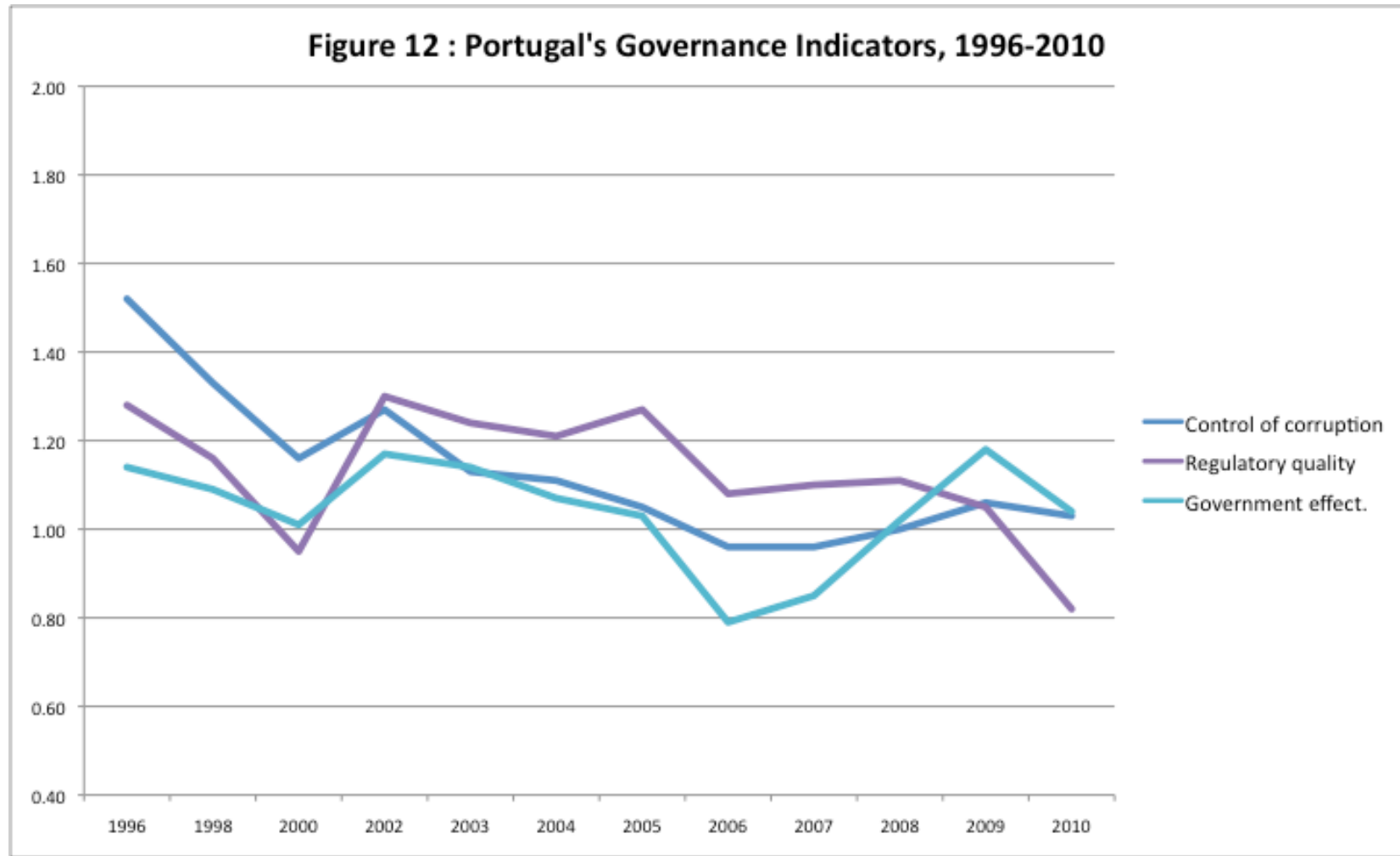
# The debt game



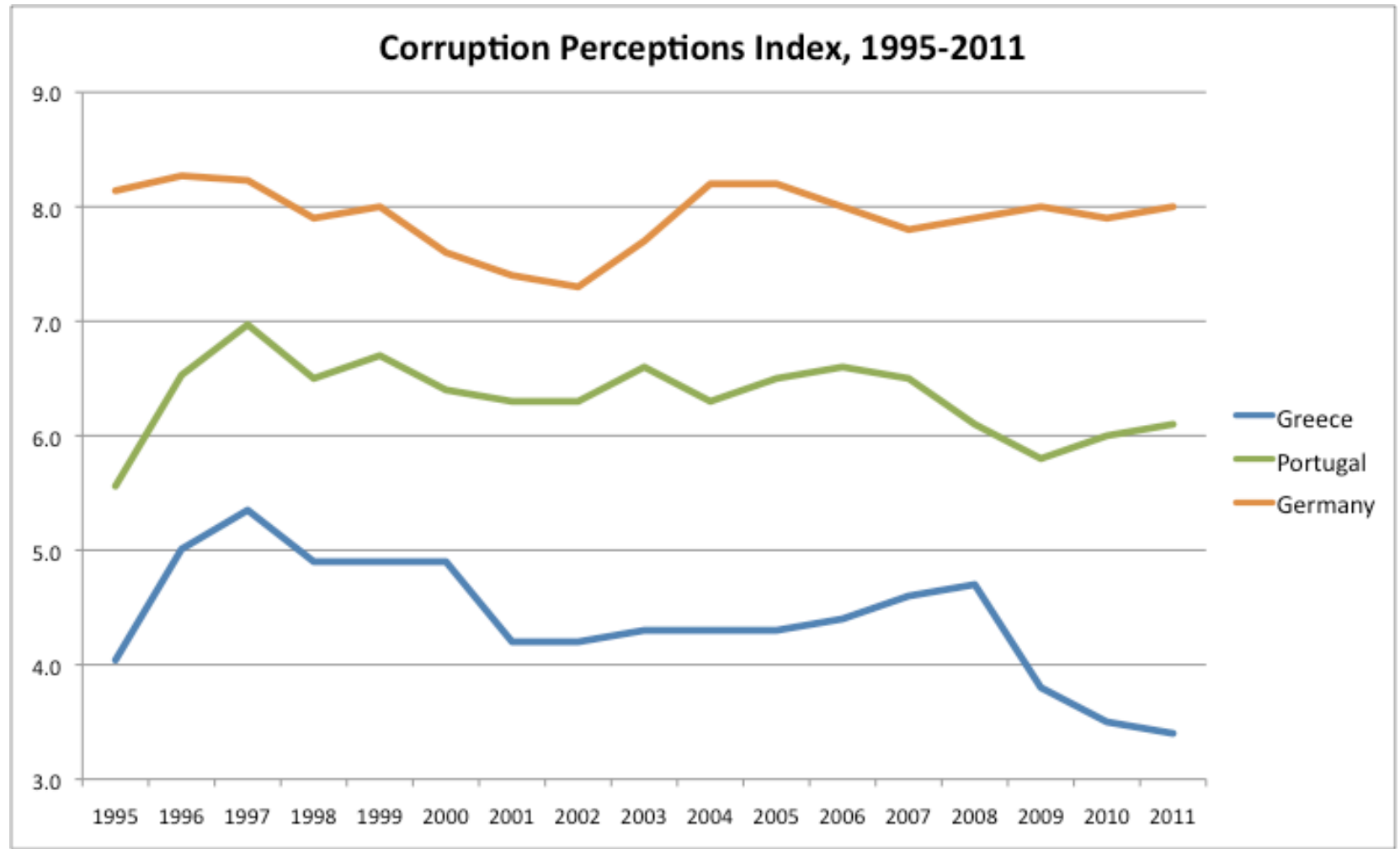
# External liabilities



# A governance crisis?



# A governance crisis?



# Governance deficit

- Low satisfaction with democracy, low trust in parties and politicians, weak participation (Torcal 2010)
- Corruption, patronage, clientelism (De Sousa 2001)
- Cronyism, “jobs for the boys” (Martins 2010)
- Pervasive “revolving-doors”: promiscuity between public and private interests (De Moraes 2013)
- Neo-patrimonial public administration (Magone 2011)
- Very low effort to control corruption (OECD 2013)



# Portugal's pathway to crisis

- The social revolution outpaced fiscal capacity
- External deficits have been chronic
- Financial dynamics interacted with fiscal sustainability and productive capacity in subtle ways
- Weak state capacity and governance issues have mediated the process (e.g. structural funds)



# Final reflections

- Imperfect domestic adaptation to Europeanization
- But also key failures in the design of European rules
- 'Euro forte, euro fraco' (Bento 2013)
- Towards a new model of political economy?
- Economics and politics of crisis management





## The Political Economy of the European Periphery



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