

THE FINANCIAL COSTS OF THE PORTUGUESE COLONIAL WAR, 1961-1974: ANALYSIS AND APPLIED STUDY

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ABSTRACT

This article presents estimates of the financial costs incurred by Portugal with the Colonial War (1961-1974). The results obtained show that, on average, the extraordinary expenses most directly related with the war represented 22% of Portuguese state expenditure, equivalent to 3.1% of GDP. They also show that the total costs incurred by Portugal with the Colonial War amounted to between 21.8 billion euros and 29.8 billion euros, at today's prices and in the present-day currency. By estimating a dynamic model, it was also possible to identify a positive relationship between the extraordinary military expenditure on the defence and security of the overseas provinces—which included the budgetary costs of war—and Portuguese economic growth. The conclusions reached represent a valuable contribution to contemporary economic history.

Keywords: Colonial War, Portugal, war costs, public finances, economic growth

JEL Classification: C13, H56, N14, N44

RESUMEN

Este artículo presenta las estimaciones de los costes financieros asumidos por Portugal en la Guerra Colonial (1961-1974). Los resultados obtenidos

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muestran que, como media, los gastos extraordinarios más directamente relacionados con la guerra representaron el 22% del gasto estatal portugués, equivalente al 3,1% del PIB. También muestran que los costes totales asumidos por Portugal en la Guerra Colonial ascendieron a entre 21.800 millones de euros y 29.800 millones de euros, cifras equivalentes a los precios de hoy día y en la moneda actual. Al estimar un modelo dinámico, también fue posible identificar una relación positiva entre el gasto militar extraordinario en defensa y seguridad de las provincias de ultramar, que incluía los costes presupuestarios de la guerra, y el crecimiento económico portugués. Las conclusiones alcanzadas representan una valiosa contribución a la historia económica contemporánea.

Palabras clave: Guerra Colonial, Portugal, costes de guerra, finanzas públicas, crecimiento económico

1. INTRODUCTION

In the second half of the 20th century, Portugal became involved in a heavily armed conflict on the African continent known as the Colonial War (1961-1974)¹. This war brought the Portuguese armed forces into direct opposition with the independence movements in the overseas provinces of Angola, Guinea and Mozambique². Resulting in a high number of deaths and mutilations, it lasted for more than a decade and was one of the main reasons for the downfall of the so-called *Estado Novo*³.

Using historical data (primary sources), combined with carefully selected secondary sources, this research is original in that it seeks to answer the following fundamental question: what were the financial costs incurred by Portugal with the Colonial War⁴? The answer to this

¹ At that time, the Portuguese nation consisted of the «metropolis» and the «overseas». The «metropolis» was the Portuguese mainland, together with the islands of Madeira and the Azores. «Overseas» and «the overseas provinces» were terms adopted after the Second World War to replace the words «colonial empire» and «colonies», respectively. The overseas provinces were Cape Verde, Portuguese Guinea, São Tomé and Príncipe, Angola, Mozambique, Macao, Timor and the Portuguese State of India (the latter only until 1961).

² For detailed studies of the Colonial War, see Rosas (1994), Antunes (1995), Afonso (1996), Afonso and Gomes (2000, 2013), Alexandre (2017) and Jerónimo and Pinto (2018). For a useful periodisation of the wars in which Portugal has participated since its foundation as a nation, see Valério (2000).

³ The *Estado Novo* (1933-1974) was a nationalist, corporatist, anti-liberal, authoritarian and anti-democratic political regime. It began with the Constitution of 11 April 1933 and ended on 25 April 1974, when it was overthrown by the Armed Forces Movement, an event that opened the doors to democracy. For more details on this regime, see, for example, Cruz (1982), Cabral (1983), Georgel (1985), Rosas (1994, 2001), Léonard (1998) and Torgal (2009).

⁴ Lains (1998) considered that the consequences of Portuguese state expenditure on the Colonial War are difficult to analyse, despite admitting that the costs of the war would certainly have been high.

question is important in terms of Portuguese historical culture, since it makes sense to understand all the dimensions—political, social, economic and financial—of one of the main wars in which Portugal participated as an autonomous state with almost nine centuries of history. Viewed from a more scientific perspective, the results of this study may open new research avenues in economic history, for example, by making it possible to establish comparisons between the expenses incurred by Portugal with its colonial war and those resulting from other initiatives, as well as to compare this spending with the financial costs of conflicts fought by other countries⁵.

Another aim of this study is to test whether the extraordinary military expenditure on the defence and security of overseas provinces, as recorded in the Portuguese public accounts (which included the budgetary costs of war), had any relationship with Portugal's economic growth. This is an interesting question, especially if we take into account that, for most of the time during which these expenses existed (from the late 1940s to the early 1970s), the Portuguese economy grew at its highest rates ever, in a period that became known as the Golden Age (1950-1973)⁶.

After this introduction, Section 2 presents a historical overview of the Portuguese Colonial War and the budgetary impacts of military spending on public finances. This is followed by Section 3, which presents concrete estimates of the financial costs to Portugal of this conflict. In Section 4, an econometric model is estimated to test the possible relationship between the extraordinary military expenditure on the defence and security of the overseas territories and the country's economic growth. Finally, the main conclusions are presented in Section 5.

2. BACKGROUND

2.1. Historical Overview

The independence of Guinea-Conakry in 1958, the problems in the British Central African Federation and the Belgian Congo, as well as the emergence of African nationalist movements in the Portuguese overseas territories, already pointed to potential problems in these regions even before the start of the Colonial War (Alexandre 2017, pp. 770-771). However, Portugal was not prepared for the conflict that was about to begin. The reports of the military missions in 1959 had already underlined the

⁵ I am grateful for the comments of an anonymous reviewer, which enabled me to give greater depth to my justification of the importance of the research question raised in this article.

⁶ This phase of the world economy corresponds to a period of great prosperity (Eichengreen 1994; Maddison 1995, 2001; Temin 1997, 2002).

ineffectiveness of the Portuguese forces stationed in the overseas territories in the event of their being required to engage in combat (Moreira 2000, p. 321). These reports ended up being undervalued by the Portuguese government.

It is generally agreed that the event which marked the beginning of the Colonial War occurred on 4 February 1961, when groups of armed guerrillas attacked the *casa de reclusão militar* [military prison], the headquarters of the Public Security Police and the headquarters of the *Emissora Nacional* [National Radio Broadcaster] of Luanda in Angola. These attacks, which took place almost simultaneously, were perpetrated by the *Movimento Popular de Libertação de Angola* [People's Movement for the Liberation of Angola] (MPLA)⁷. This was the first organised group to engage in significant anti-colonial activities in the overseas province of Angola. On 15 March, there were fresh incidents in northern Angola, involving guerrilla attacks on civilians in a wave of massacres that lasted for several weeks and resulted in hundreds of victims. Responsibility for these attacks was claimed by another revolutionary movement called the *União das Populações de Angola* [Union of Angolan Peoples] (UPA). These events led the Portuguese government to despatch additional military forces to defend the Angolan territory.

About 2 years later, on 23 January 1963, there was an attack in Guinea, in southern Bissau, by guerrillas from the *Partido Africano para a Independência da Guiné e Cabo Verde* [African Party for the Independence of Guinea and Cape Verde] (PAIGC)—the main anti-colonial movement in Guinea. This incident is seen as the event that marked the beginning of the conflict in this overseas province.

In Mozambique, the war started later, in September 1964, with an attack on the administrative post of Chai in Cabo Delgado by the *Frente de Libertação de Moçambique* [Front for the Liberation of Mozambique] (FRELIMO), the only independence movement of any significant size in this Portuguese colony.

In the different theatres of this war, which was essentially waged in the bush, Portugal mobilised more than 800,000 men (Afonso 1996, p. 351; Martelo 2000, p. 512). The statistics of Afonso and Gomes (2000, p. 522) further show that the number of soldiers killed in Angola, Guinea and Mozambique during the Colonial War amounted to 8,290, while, according to Rodrigues (2000, p. 562), around 25,000 military personnel were evacuated with the most diverse problems (motor, sensory, organic and mental deficiencies).

⁷ It is also important to mention the following events that occurred in the Portuguese overseas territories: (1) Invasion by India of Goa, Daman and Diu (Portuguese India), after having already occupied Dadra and Nagar-Haveli in 1954; (2) Occupation of São João Baptista de Ajudá by Dahomey in 1961.

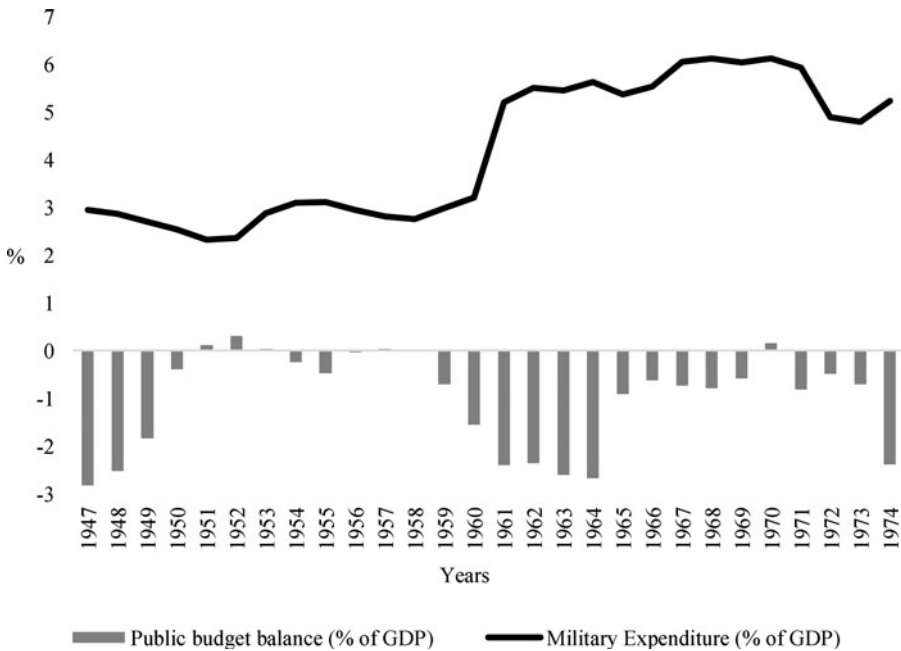
At the same time as the war was being fought, Portugal was also faced with an anti-colonialist current within the UN, which was not surprising, especially if we take into account the admission of new African countries to this organisation (Alexandre 2017, p. 518)⁸. These diplomatic problems became more acute from the beginning of the 1960s onwards, with Portugal being condemned in several UN resolutions, which soon recognised the legitimacy of the struggle that the peoples under Portuguese domination were waging in order to achieve their freedom and independence (Duarte 1995; Nogueira 2000). Thus, the campaign against Portuguese colonial policy intensified visibly as the war progressed. Diplomatic relations with Portugal were severed by some countries—as was the case, for example, of Senegal and Congo-Kinshasa (now the Democratic Republic of the Congo)—and embargoes were placed on arms sales by some western countries⁹. On 2 November 1973, while the war was still being waged, the UN General Assembly passed a historic resolution (Resolution 3061 [XXVIII] of 2 November 1973) recognising the independence of the Republic of Guinea-Bissau and considering the presence of Portuguese military personnel in that territory to be illegal (General Assembly of the United Nations 1973, pp. 2-3).

On 25 April 1974, after decades of dictatorship, the political regime of the *Estado Novo* was finally overthrown. The new political decision-makers defended the independence of the overseas provinces and the self-determination of the African people. Transition phases were negotiated with the independence movements, leading to the end of Portuguese military operations (Afonso and Gomes 2000, p. 5). The demands of the independence movements in Angola, Guinea and Mozambique were accepted, with Portugal similarly relinquishing all of its other overseas provinces on African soil.

⁸ Portugal's entry into the UN was initially vetoed by the Soviet Union in 1946. It did, however, succeed in becoming a full member in 1955.

⁹ The UN Security Council Resolution 218 (1965) of 23 November 1965 requested «all States to refrain forthwith from offering the Portuguese Government any assistance which would enable it to continue its repression of the people of the Territories under its administration; and to take all the necessary measures to prevent the sale and supply of arms and military equipment to the Portuguese Government for this purpose, including the sale and shipment of equipment and materials for the manufacture and maintenance of arms and ammunition to be used in the Territories under Portuguese administration» (United Nations Security Council 1965, p. 19). Similarly, Resolution 2107 (XX), of 21 December 1965, of the UN General Assembly asked Member States to take tough measures against Portugal including: «(a) To break off diplomatic and consular relations with the Government of Portugal or refrain from establishing such relations; (b) To close their ports to all vessels flying the Portuguese flag or in the service of Portugal; (c) To prohibit their ships from entering any ports in Portugal and its colonial territories; (d) to refuse landing and transit facilities to all aircraft belonging to or in the service of the Government of Portugal and to companies registered under the laws of Portugal; (e) To boycott all trade with Portugal» (General Assembly of the United Nations 1965, p. 62). These resolutions, however, did not prevent the Portuguese economy from growing at its highest rate ever during the 1960s (as will be seen below).

FIGURE 1
MILITARY EXPENDITURE AND THE BUDGET BALANCE IN PORTUGAL (AS A PERCENTAGE OF GDP), 1947-1974.



Sources: Calculated with data from *Ministério das Finanças* (1948-1977) and Valério (2008).

Notes: Regarding the period chosen for this analysis, 1947 corresponds to the year in which Portuguese public finances ceased to include items relating to the Second World War (Valério 1994, p. 28). 1974 was the year that marked the end of the war.

2.2. War and Public Finances

With the start of the war, military spending skyrocketed, which naturally affected the Portuguese public finances, as shown in Figure 1.

Military expenditure was calculated by using the Portuguese General State Accounts (*Ministério das Finanças* 1948-1977) to identify the expenses incurred with the armed forces, specifically the Army, Navy and Air Force. These expenses are documented in the accounts of the following Portuguese ministries: (1) Ministry of War (renamed Ministry of the Army in 1950); (2) Ministry of the Navy; (3) Ministry of the Colonies (renamed Ministry of the Overseas in 1951); (4) Ministry of Finance; (5) Ministry of Public Works; (6) General Expenses of the Nation (included in the expenditure of the Ministry of Finance until 1957, but rendered

autonomous in 1958). The estimates for GDP are taken from Valério (2008).

To better understand the impact of military expenditure on the budget balance, it makes sense to remove a series of variables from the latter. The following items were therefore removed from the budget balance: (1) loans obtained; (2) revenue carried over from previous balances (which was a mere artifice for transferring state revenue from one year's accounts to the next; (3) amortisations of public debt; (4) interest on «fictitious» public debt (in practice, the money that was paid for certain state services and received by the state itself).

Apart from a small budget surplus in 1970, there were budget deficits in most of the years of the Colonial War. As can be seen, these deficits were higher in the first years of the conflict, reaching a maximum of 2.7% of GDP in 1964, the year when military expenditure amounted to 5.6% of GDP (whereas, in 1960, before the war started, it was only 3.2%). It is important to highlight that this war shock occurred at a time when the state's expenditure was growing more rapidly due to the stimulus to economic activity, which continued to be implemented despite the conflict in Africa.

To finance the increase in expenditure during 1961-1964, the Portuguese state resorted to a greater volume of loans. However, in the following years, more specifically between 1965 and 1973, the budget balance improved due to a higher level of tax collection, ranging between -0.9% and -0.2% of GDP. This was essentially the result of the combination of two separate elements: (1) an extraordinarily favourable macroeconomic environment referred to as the «Golden Age» of economic growth, 1950-1973; (2) an increase in taxation levels and the creation of new taxes in this positive context.

It should be pointed out that, during the so-called Golden Age, Portuguese GDP and GDP per capita each grew, on average, by 5.7% per year, corresponding to a better performance than that registered by the world economy itself, where these variables recorded average growth rates of 4.9 and 2.9 per cent, respectively, as can be seen in Table 1.

Of the countries considered, Portugal recorded the second highest GDP and GDP per capita growth rates in Europe during 1950-1973. This fact allowed for the economic convergence of Portugal with a group of more developed countries (Badia-Miró *et al.* 2012).

During the Golden Age, there was a large accumulation of physical capital in the Portuguese economy, with total factor productivity growing at an even faster pace. On the other hand, it was the industrial sector that grew at the fastest rate, with Portugal having undergone a strong industrialisation process. Portuguese economic performance between the early 1960s and early 1970s was particularly noteworthy, with the average growth rate of its real GDP exceeding 6% (see also the data from Valério 2008).

TABLE 1
GDP and GDP per capita growth rates in a series of countries, 1820-1998

	GDP					GDP per capita				
	1820-1870	1870-1913	1913-1950	1950-1973	1973-1998	1820-1870	1870-1913	1913-1950	1950-1973	1973-1998
Portugal	0.63	1.27	2.35	5.73	2.88	0.07	0.52	1.39	5.66	2.29
World	0.93	2.11	1.85	4.91	3.01	0.53	1.30	0.91	2.93	1.33
Argentina	–	6.02	2.96	3.78	2.06	–	2.50	0.74	2.06	0.58
Austria	1.45	2.41	0.25	5.35	2.36	0.85	1.45	0.18	4.94	2.10
Belgium	2.25	2.01	1.03	4.08	2.08	1.44	1.05	0.70	3.55	1.89
China	–0.37	0.56	–0.02	5.02	6.84	–0.25	0.10	–0.62	2.86	5.39
Denmark	1.91	2.66	2.55	3.81	2.09	0.91	1.57	1.56	3.08	1.86
Finland	1.58	2.74	2.69	4.94	2.44	0.76	1.44	1.91	4.25	2.03
France	1.27	1.63	1.15	5.05	2.10	0.85	1.45	1.12	4.05	1.61
Germany	2.01	2.83	0.30	5.68	1.76	1.09	1.63	0.17	5.02	1.60
Italy	1.24	1.94	1.49	5.64	2.28	0.59	1.26	0.85	4.95	2.07
Japan	0.41	2.44	2.21	9.29	2.97	0.19	1.48	0.89	8.05	2.34
Netherlands	1.70	2.16	2.43	4.74	2.39	0.83	0.90	1.07	3.45	1.76
Norway	1.70	2.12	2.93	4.06	3.48	0.52	1.30	2.13	3.19	3.02
Spain	1.09	1.68	1.03	6.81	2.47	0.52	1.15	0.17	5.79	1.97
Sweden	1.62	2.17	2.74	3.73	1.65	0.66	1.46	2.12	3.07	1.31
Switzerland	1.85	2.43	2.60	4.51	1.05	1.09	1.55	2.06	3.08	0.64
United Kingdom	2.05	1.90	1.19	2.93	2.00	1.26	1.01	0.92	2.44	1.79
United States	4.20	3.94	2.84	3.93	2.99	1.34	1.82	1.61	2.45	1.99

Source: Maddison (2001, pp. 196-197; 262; 265).

In the literature on this subject, it is possible to find several explanations for the Portuguese performance (Lains 1994, 2003; Silva Lopes 1996; Mata and Valério 2003; Costa *et al.* 2011; Coppolaro and Lains 2013; Mateus 2013; Reis 2018). One of the most important factors was the orientation of Portuguese economic policy towards the promotion of economic growth, with Portugal having implemented, for this purpose, the so-called Development Plans (1953-1974), which called for heavy investment, especially in the sectors of industry, energy, and transport and communication¹⁰. Another decisive factor was the relative liberalisation of the Portuguese economy and its integration into the world economy, which resulted in its greater openness to the outside, one of the main results of the international agreements that the country had signed¹¹.

In this favourable economic environment, a major tax reform was introduced between 1958 and 1966 (Valério 2006; Sousa 2012; Ferraz 2015). Due to its importance, particular emphasis should be placed on the creation of the Tax for Overseas Defence and Development in 1962, with the aim of raising funds to be used directly for the defence of the overseas provinces. This tax was levied on companies that exploited public service concessions or were engaged in industrial activities that benefited from special privileges in the market (*Diário do Governo* 1961a; *Diário das Sessões* 1962, p. 129). Subsequently, a customs reform was introduced in 1965, which resulted in a significant increase in import duties (*Diário do Governo* 1965a). Also in 1965, the capital gains tax was created, which was levied on the gains made through various activities, such as, for example, the sale of land for construction or the incorporation of reserves

¹⁰ The Development Plans guided the investment spending of the Portuguese nation during the third-quarter of the 20th century, with the aim of stimulating economic growth. They envisaged various investments, both in the metropolis and the overseas provinces, and in different economic areas (agriculture, fisheries, industry, tourism, energy, transport and communications, education and health). These plans were imperative and programmatic with regard to public and private investments, respectively (Ferraz, 2020a).

¹¹ Portugal became a founding member of the Organisation for European Economic Cooperation (OEEC) in 1948, which favoured exports, but also the imports of goods that were necessary for the Portuguese industrialisation process (Bordo and Santos 1995). Portugal also became a founding member of the European Free Trade Association (EFTA) in 1960, having secured a tariff dismantling schedule that was very advantageous for its economy, while its exports to the EFTA countries increased immediately after its entry (Macedo, 1992). This favoured international trade with important partners, as was the case with the United Kingdom. Later, in 1961, Portugal became a member of the International Monetary Fund (IMF) and the World Bank, after adhering to the principles established at the Bretton Woods Conference. The following year, in 1962, Portugal signed the protocol of accession to the General Agreement on Tariffs and Trade (GATT), which favoured the reduction of its customs tariffs (Cunha, 1992). Finally, in 1972, Portugal also signed trade agreements with the European Economic Community (EEC) and the European Coal and Steel Community (ECSC). In this instance, I am grateful for the comments of an anonymous reviewer, which enabled me to detail the main international agreements that contributed to the opening up of the Portuguese economy to the outside world.

into the capital of companies (*Diário do Governo* 1965b). Finally, in 1966, the Transactions Tax (the predecessor of the present-day VAT) was created, which was levied on the sale and exchange of goods, services and financial assets (*Diário do Governo* 1966a). The Transactions Tax was the most important tax to be levied during the period 1971-1974.

The combination of these two aspects—strong economic growth and the increase in, and creation of, taxes—made it possible to obtain greater tax revenue, which enabled the Portuguese state accounts to remain relatively controlled and stable. In other words, none of the deficits recorded exceeded the limit of 1% of GDP during the period from 1965 to 1973, despite the war. It should, however, be noted that the public accounts deteriorated in the last year of the conflict (1974), which also marked the transition of the political regime from the *Estado Novo* to democracy and the effects of the first international oil shock. In a more adverse external environment, this decline was essentially due to the increase in military expenditure and the increase in expenses with the Development Plans, as well as a series of social measures adopted after the fall of the *Estado Novo* regime, as was the case, for example, with the increase in the wages of civil servants (Carolo and Pereirinha 2010; Ferraz 2017).

3. ESTIMATES OF THE COSTS OF THE WAR

Afonso and Gomes (2016, p. 338) revealed the existence of a document issued by the *Direcção do Serviço de Administração e Finanças do Estado Maior General das Forças Armadas* [Administrative and Financial Directorate of the Armed Forces] (*EMGFA*)—Portugal's supreme defence body. Dated 17 December 1974, this document shows the total amount of the expenses recorded by the Portuguese armed forces in Portugal's overseas territories during the period 1960-1974.

The amount mentioned was paid through the following budgets: (1) *Orçamento para as Forças Militares Extraordinárias no Ultramar* [Budget for the Extraordinary Overseas Military Forces] (*OFMEU*)¹²; (2) *Orçamento Privativo das Forças Armadas Ultramarinas* [Private Budget of the Overseas Armed Forces] (*OPFAU*)¹³; (3) *Plano de Reequipamento*

¹² In the Portuguese public accounts for the years 1960-1975, there was a specific item of state expenditure entitled «Extraordinary Overseas Military Forces», which was included in the «National Defence» section of the account of the so-called «General Expenses of the Nation» (expenditure that, due to its nature, could not be fitted into the accounts of the different ministries). This specific item included the expenses incurred with the mobilisation and maintenance of additional contingents for the defence and the security of the overseas territories. In practice, it related not only to personnel expenses, but also to the construction and purchase of military materials, as well as payments for other services (Cunha 2014, p. 89).

¹³ Under the Organic Law of the Overseas Territories, dated 27 June 1953, each overseas province was obliged to contribute towards the financing of the National Defence (*Diário do Governo*

Extraordinário do Exército e da Força Aérea [Extraordinary Plan for the Re-equipment of the Army and Air Force] (*PAE/PAFA*)¹⁴; (4) *Fundo de Defesa Militar do Ultramar* [Overseas Military Defence Fund] (*FDMU*)¹⁵; (5) *Orçamento Suplementar de Defesa* [Supplementary Defence Budget] (*OSD*)¹⁶.

Thus, using the *EMGFA* document made available by Afonso and Gomes (2016, p. 338) and also using the Portuguese General State Accounts (Ministry of Finance 1961-1977), Figure 2 was constructed to illustrate the contribution of each of these budgets to the total amount spent on the Portuguese overseas armed forces during the period 1960-1975.

As can be seen, it was the *OFMEU* budget that accounted for the largest share of the expenses incurred with the overseas armed forces, amounting to roughly 60%. According to Simões (2000, p. 517), these expenses «provided the budgetary measure of the costs of the war», in other words «the money actually spent on the Overseas War», as stated by Cunha (2014, p. 78). On the other hand, these expenses also enable us to understand «how the war had turned into the dangerous defence of a prejudice» (Martelo 2000, p. 514).

Although the *OFMEU* expenses only appeared for the first time in the State Budget of 1960, as explained by the Portuguese Minister of Finance, António Manuel Pinto Barbosa, this amount only showed the expenses that already existed for the defence and security of the overseas territories (*Diário do Governo* 1959a, p. XCI). Thus, using the accounts of the Ministry of War (later renamed the Ministry of the Army) and the Ministry of the Navy, it is possible to calculate estimates for the expenses of the *OFMEU* budget before 1960, more concretely between the years of 1948 and 1959.

Figure 3 presents the evolution of these expenses as a percentage of total state expenditure in a period of both peace and war.

It can be seen that, before the Colonial War, these expenses had little relevance within the broader context of total state expenditure. However,

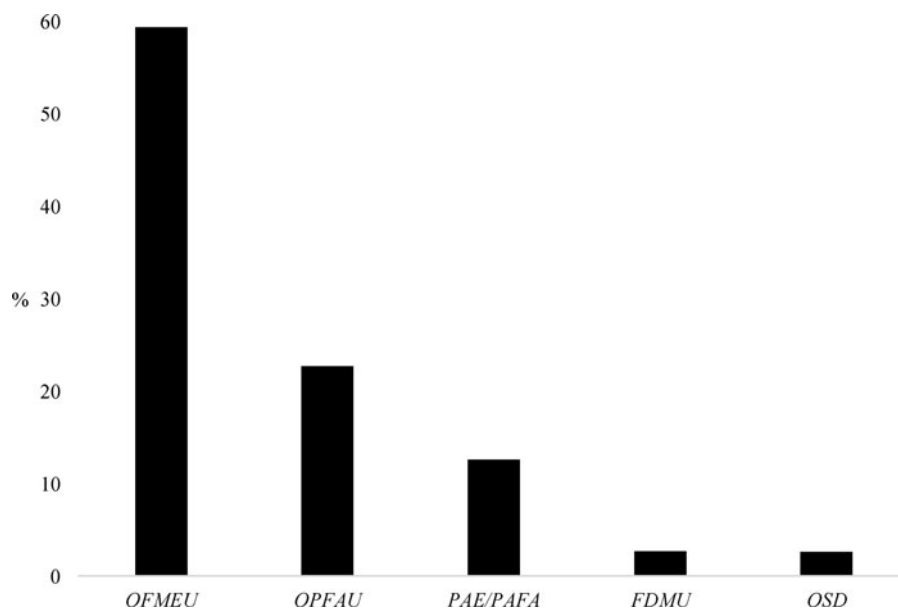
1953a). According to Decree-Law No. 42559, of 3 October 1959, these funds were paid from the private budgets of the Overseas Armed Forces in order to cover military expenses (*Diário do Governo* 1959b).

¹⁴ Extraordinary military expenses that were incurred from the end of the 1960s onwards, and which were financed by the Portuguese State Budget.

¹⁵ The Overseas Military Defence Fund was created by Decrees Nos. 28263 and 30117, of 8 December 1937 and 8 December 1939, respectively. This fund was financed by the overseas provinces themselves with the aim of meeting the expenses incurred by the Overseas Military Forces (*Diário do Governo* 1972a).

¹⁶ Decree-Law No. 38614, of 24 January 1952, provided for the creation of an annual budget to pay military expenses (*Diário do Governo* 1952a). These initiatives were part of the so-called «Law for the Organisation of National Defence», approved in the previous month and intended to define Portugal's military policy (*Diário do Governo* 1952b).

FIGURE 2
EXPENSES PAID BY *OFMEU*, *OPFAU*, *PAE/PAFA*, *FDMU* AND *OSD* (AS A PERCENTAGE OF THE TOTAL AMOUNT SPENT ON THE PORTUGUESE OVERSEAS ARMED FORCES), 1960-1975.

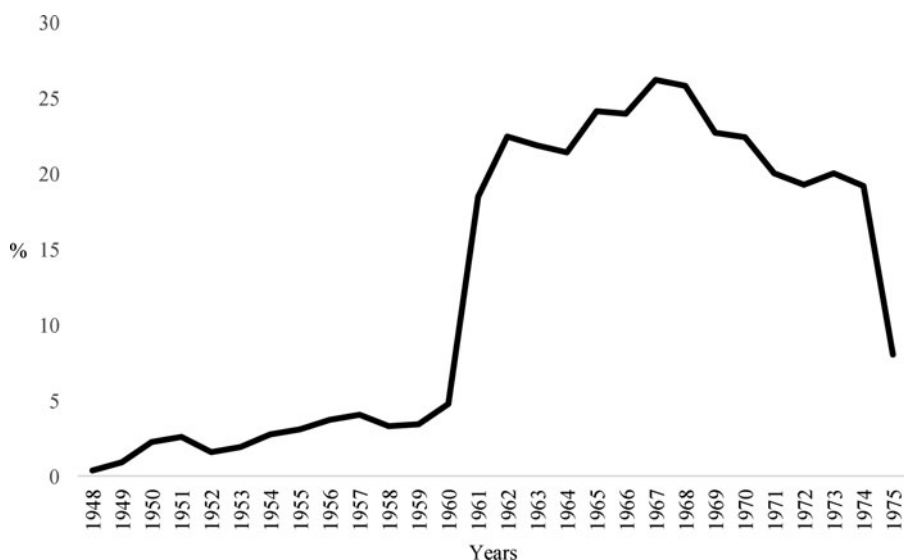


Sources: Calculated with data from *Ministério das Finanças* (1961-1977) and Afonso and Gomes (2016, p. 338).

Note: There are differences between the values presented in the *EMFGA* document and those that are recorded in the General State Accounts, more specifically regarding the expenditure of *OFMEU* and *PAE/PAFA* in the period 1970-1974. On the other hand, unlike the *EMFGA* document, the Portuguese public accounts also show the amounts that were spent on those two items in the year 1975. Therefore, Figure 2 includes adjustments to the values of the *EMFGA* document, based on the information contained in the General State Accounts (which are an official source of public information).

the beginning of the war resulted in a significant increase in spending on extraordinary forces, which increased from a share of 5% in 1960 to 18% in 1961. During the period of the conflict, the values oscillated between a minimum of 18% and a maximum of 26%, with two distinct trends. The first of these was an upward trend, which occurred between 1961 and 1967, when the expenditure on extraordinary forces grew at a faster rate than the state's overall expenditure. The second trend was a downward one, occurring between the years 1968 and 1974, in which the expenditure on extraordinary forces grew, but at a slower pace than the state's total expenditure. This second trend is explained by the large increases in expenditure in other sectors, as was the case with the education sector,

FIGURE 3
EXPENDITURE ON EXTRAORDINARY OVERSEAS MILITARY FORCES (AS A PERCENTAGE OF STATE EXPENDITURE), 1948-1975.



Sources: Calculated with data from *Ministério das Finanças* (1949-1976).

Notes: Expenditure between 1948 and 1959 was calculated using the accounts of the Ministry of War/Ministry of the Army and the Ministry of the Navy. Expenditure between 1960 and 1975 corresponds directly to the expenses included in the item «Extraordinary Overseas Military Forces» of the «National Defence» section of the «General Expenses of the Nation» account. The state's expenditure does not include: (1) amortisations of public debt; (2) interest payments on «fictitious» public debt.

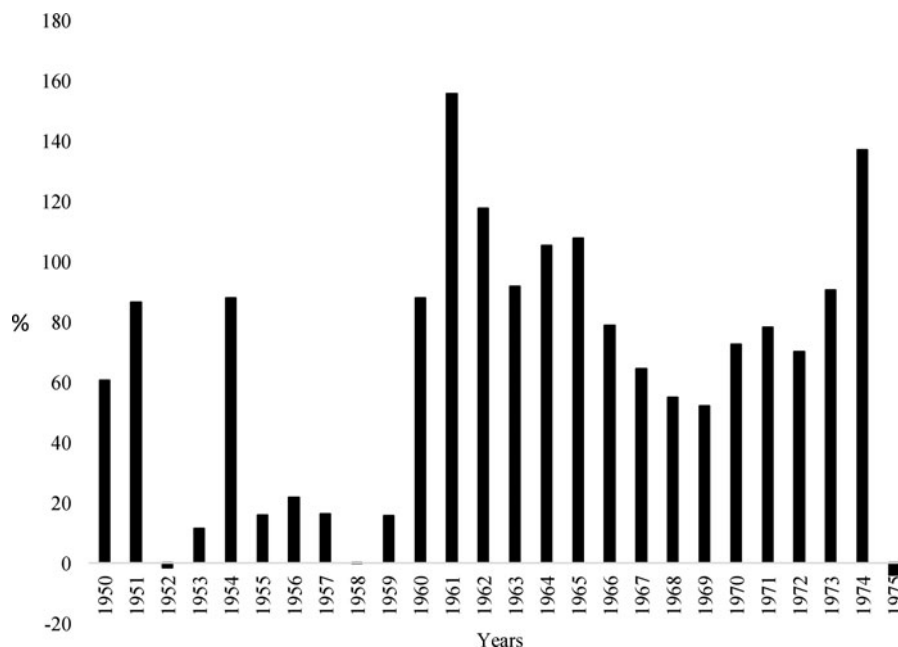
whose share increased from 10% of total expenditure in 1969 to 16% in 1974 (Ferraz 2020b, p. 5)¹⁷. In 1975, the expenditure on extraordinary forces accounted for only 8% of state expenditure, reflecting the sharp fall in these expenses in absolute terms in the first year after the end of the war.

In the period in which this conflict took place, 1961-1974, Extraordinary Overseas Military Forces absorbed, on average, 22% of state expenditure and 3.1% of GDP each year. It was in 1968 that these expenses reached their highest value as a percentage of GDP, namely 3.5%¹⁸.

¹⁷ On 17 January 1970, the Portuguese government publicly recognised the need to implement profound reforms in education, which was considered a priority sector for the Portuguese economy (Caetano 1970, pp. 94-95).

¹⁸ This is an interesting fact, since it was also in 1968 that the United States of America spent most heavily on the Vietnam War (1955-1975), more specifically, 3.2% of GDP, according to Capella (2012, p. 114).

FIGURE 4
EXCESS EXPENDITURE COMPARED TO THE STATE BUDGET FOR
EXTRAORDINARY OVERSEAS MILITARY FORCES (AS A PERCENTAGE),
1950-1975.



Sources: Calculated with data from *Ministério das Finanças* (1951-1977) and *Diário do Governo* (1949-1951, 1952c, 1953b, 1954-1958, 1959a, 1960, 1961b, 1962-1964, 1965c, 1966b, 1967-1971, 1972b, 1973, 1974).

Note: Expenses (budgeted and incurred) between 1950 and 1959 were calculated using the expenditure accounts of the Ministry of War/Ministry of the Army and the Ministry of the Navy. Expenses (budgeted and incurred) between 1960 and 1975 correspond directly to those included in the item «Extraordinary Overseas Military Forces», which appears in the «National Defence» section of the «General Expenses of the Nation» account. There were no expenses budgeted for the years 1948 and 1949.

On the other hand, Figure 4 shows that, during the war, and especially in the first years (1961-1965) and in the last year (1974), the expenses with these forces significantly exceeded the budgeted values.

Indeed, the first years of the war resulted in sharp deviations from the state budgets. The largest deviation—over 150%—occurred in 1961, at the very beginning of the conflict, reflecting the adverse shock to the Portuguese public accounts (as we have already seen). The last year of the conflict (1974) also resulted in a serious deviation; it was precisely at this time that Portugal reached the critical limit of its capacity to mobilise the necessary resources for deployment in the overseas territories (Afonso

TABLE 2

Estimates of the costs of the Colonial War for Portugal, in thousands of euros (at 2018 prices), 1961-1975

	Amounts
Minimum value: expenses incurred with Extraordinary Overseas Military Forces, with adjustments, plus other residual charges	21,785,197
Maximum value: overall expenses incurred with the Portuguese Overseas Armed Forces, with adjustments, plus residual charges	29,814,298

Sources: Calculated with data from *Ministério das Finanças* (1961-1976) and Afonso and Gomes (2016, p. 338).

Notes: The expenses in *escudos* (the Portuguese currency at that time) were converted into «euros» (the Portuguese currency since 1999) at 2018 prices using the Consumer Price Index of the *Instituto Nacional de Estatística* [National Statistics Institute] (INE 2019). The value of the costs incurred in each year can be consulted in Table A1 (see Online Appendix).

and Gomes 2000, pp. 4-5). On the other hand, this figure also enables us to conclude that there was a chronic under-budgeting of these expenses during the war, allowing the *Estado Novo* regime to portray the Colonial War as being cheaper than it actually was.

Although the spending on extraordinary military forces reflects the costs that were most directly related to the war, and which were paid through the Portuguese state budget, it should, however, be admitted that there were other expenses incurred by the Portuguese overseas armed forces that were also linked to the war. This reasoning allows us to build an interval for estimating the costs of this conflict to Portugal.

To calculate the minimum value of the interval, we can use the amount spent on extraordinary military forces plus some residual expenses relating to the mobilisation of police contingents sent to defend the populations overseas. On the other hand, in order to calculate the maximum value of the interval, we can also consider the spending paid for by the remaining budgets (*OPFAU*, *PAE/PAFA*, *FDMU* and *OSD*), which also financed the Portuguese overseas armed forces. However, to calculate these amounts (minimum and maximum), it makes sense to consider as war expenses only the values that, in each of the years 1961-1975, exceeded the amount spent in the pre-war year of 1960.

According to the estimates presented in Table 2, the Colonial War cost Portugal a minimum of approximately 21.8 billion euros and a maximum of 29.8 billion euros respectively, at 2018 prices and in the present-day currency of Portugal¹⁹.

¹⁹ Since there was no official account to register all the Colonial War expenses—which led us to make these estimates—it is plausible to admit that there may have been more war expenses that were not accounted for in the official documents (the confirmation of this possibility would place the maximum estimate at an even higher value).

If we spread these two amounts over the 13 years of war, we obtain an average annual cost of between 1.6 billion and 2.3 billion euros²⁰. Interestingly, this latter value is similar to the average annual amount spent on (both public and private) investments in Portugal under the Development Plans (1953-1974)²¹.

The question of whether the expenses with Extraordinary Overseas Military Forces—which included the costs most directly related to the war—show any relationship with the growth of the Portuguese economy, however, remains.

4. APPLIED STUDY

4.1. Brief Literature Review

The relationship between economic growth and the expenditure of the military sector has been increasingly studied and debated over time (Utrero-González *et al.* 2019). Many varying conclusions have been reached by a wide range of different studies (Dunne *et al.* 2005; Hou and Chen 2013) regarding the positive, negative and even neutral effects of this kind of spending in an economy.

For example, Rothschild (1973) found that a high level of military expenditure was associated with lower economic growth in some OECD member countries during the period 1956-1969. On the other hand, using a sample of 44 developing countries, Benoit (1978) concluded that, in this case, there was a positive correlation between heavy defence burdens and rapid economic growth rates during the period 1950-1965. More conclusions regarding this relationship can be found in Degger and Smith (1983), Biswas and Ram (1986), Atesoglu and Muller (1990), Knight *et al.* (1996), Batchelor *et al.* (2000), Klein (2004), Landau (2007), Pieroni (2009), Dunne and Nikolaidu (2012), Yildirim and Ocal (2016), and many other studies. In fact, there is still no consensus regarding the effects of such spending on economic growth (D'Agostino *et al.* 2019).

According to Biswas (1992), there are several transmission mechanisms. For example, the military sector incurs consumption expenses that are part of total state expenditure, which, in turn, can be an important

²⁰ To calculate the annual average costs of the war, the absolute values were divided between the period from 4 February 1961 (which corresponds to the date that marked the beginning of the war, with the attacks claimed by the MPLA in Luanda) and 25 April 1974 (which was the day when the *Estado Novo* regime was overthrown, leading to the end of the conflicts in Africa and paving the way for the independence of the Portuguese overseas provinces).

²¹ If we divide the total amount of 50.4 billion euros spent under the Portuguese Development Plans (see the estimate in Ferraz, 2020a) by 22 years (1953-1974), then we obtain an annual average value of approximately 2.3 billion euros.

variable for stimulating the growth of an economy. Also, military innovations can contribute towards technical progress within an economy, thus benefiting the civil sector. Viewed from a less optimistic perspective, however, military spending can also lead to lower investment in key sectors such as education and health. Seen from this same viewpoint, increases in military expenditure may lead to crowding out effects, that is, to an increase in interest rates and therefore to a reduction in private investment. These expenses may also appear to be insignificant for an economy at a given time, when compared with other more important variables.

There is even a certain ambiguity regarding the effects of a war. Armed conflicts can lead to a fiscal stimulus that boosts economic growth, as was the case with the United States during World War II (Krugman 2009, 2011). In fact, increases in military spending during a conflict can create jobs, promote additional economic activities and develop new technologies that can then be used by other industries (Institute for Economics and Peace 2011). Viewed from the same perspective, and according to Thies and Baum (2020), war can increase GDP per capita by reducing unemployment and employing people in the war industry (such as the production of weapons and ammunition). However, it can also lower GDP per capita through the destruction of physical and human capital, reduce investments in productive sectors, and diminish domestic and foreign trade (for the impact of the wars on trade, see Glick and Taylor 2010).

Some studies have tested the relationship between military spending and economic growth in the specific case of Portugal. Barros and Santos (1997) and Dunne and Nikolaidou (2005) did not find any relationship between military expenditure and Portuguese economic growth in the periods 1950-1990 and 1960-2002. Furthermore, Nikolaidou (2016) concluded that Portuguese military expenditure was insignificant in promoting economic growth during the period 1960-2014. However, more recently, clear empirical evidence has been found of the effects of military spending on the Portuguese economy over a broader time horizon, from 1874 to 2018. Such spending has had both positive and negative effects on the Portuguese economy (Ferraz 2020b).

4.2. Model

To test the relationship between the Extraordinary Overseas Military Forces (*OFMEU*) expenses and economic growth, an ARDL model was constructed (Pesaran and Shin 1999; Pesaran *et al.* 2001), which includes lagged values of both dependent and explanatory variables²². This growth

²² According to the literature, there are important advantages in the ARDL approach: (1) It can be applied to both series I(0) and I(1); (2) It generally provides unbiased estimates of the long-run

model was inspired by other studies that have examined the impact of a set of variables on economic growth, such as Barro and Lee (1994), Huchet-Bourdon *et al.* (2018), Ferraz (2020a, 2020b)²³:

$$y_t = c_0 + \sum_{i=1}^a \alpha_i y_{t-i} + \sum_{i=0}^q \beta_i \cdot EDUC_{t-i} + \sum_{i=0}^b \lambda_i LIFE_{t-i} + \sum_{i=0}^w \Omega_i GFCF_{t-i} + \sum_{i=0}^k \theta_i TRADE_{t-i} + \sum_{i=0}^z \Phi_i OFMEU_{t-i} + c_1 t + u_t \quad (1)$$

All variables are expressed as growth rates in order to obtain better results in terms of stationarity, which is an important property in time series analysis²⁴. Therefore, y is the real growth rate of GDP per capita. As far as the explanatory variables are concerned, we have: (1) the past values of y , which enable us to evaluate the impact on growth of the initial conditions; (2) EDU is the growth rate of the population that has completed a higher education course, expressed as a percentage of the total population (the literature shows that there is a positive relationship between the level of education and economic growth, see Barro 2002, 2013; Mariana 2015); (3) $LIFE$ is life expectancy at birth, and represents a health indicator (this is expected to contribute positively to economic growth—see Bloom and Sachs 1998; Sunde and Cervellati 2011; He and Li 2020); (4) $GFCF$ is the real growth rate of Gross Fixed Capital Formation per capita (with it being expected that total investment, both public and private, would have a positive impact on increasing the productive capacity of the economy); (5) $TRADE$ is the real growth rate of trade openness per capita, which enables us to assess the impact of international trade on the economy (in general, the literature tends to show that economies that are more open to the outside world usually experience greater economic growth, see Edwards 1998; Frankel and Romer 1999; and Huchet-Bourdon *et al.* 2018); (6) $OFMEU$ represents the real growth rate of the expenditure on the Extraordinary Overseas Military Forces per

model and valid t -statistics, irrespective of the endogeneity of some regressors (Lendesma and Thirlwall 2002; Harris and Sollis 2003; Acikgoz and Mert 2014; Menegaki 2019). For a broader perspective related to time series analysis, see Brockwell and Davis (1991), Gouriéroux and Monfort (1997) and Box *et al.* (2015).

²³ Using other works to help build the growth model presented in this paper also reduces the risk of omitting important determinants that affect the dependent variable and are correlated with one or more explanatory variables.

²⁴ I am grateful to two anonymous reviewers for their comments, which enabled me to improve my growth model.

capita; (7) t is the time-trend that is useful in accounting for period-specific effects, such as, for example, productivity changes. The parameters to be estimated are c_0 , c_1 , α_i , β_i , λ_i , Ω_i , θ_i , Φ_i , with u being the error term.

4.3. Data and Time Horizon

The time horizon for which data are available for all the variables presented in equation (1) is 1949-1975; a period that covers both the Golden Age (1950-1973) and the Portuguese Colonial War (1961-1974). In the case of the price index, total population, exports and imports, and GDP per capita, the data were taken from Valério (2008). Data for students who completed higher education courses were taken from Valério and Domingues (2001). For life expectancy at birth, the data were obtained from HDM (2017). For Gross Fixed Capital Formation, the data were calculated using Pinheiro (1997). For the *OFMEU* expenses, the data were taken directly from the primary sources, namely *Ministério das Finanças* (1949-1977).

4.4. Estimated Results and Analysis

The model presented in equation (1) was estimated using the OLS method with Robust Standard Errors.²⁵ The appropriate ARDL lag order was chosen using the Akaike Information Criterion (AIC), Hannan-Quinn Information Criterion (HQC) and Schwarz-Bayesian Criterion (SIC/BIC).

The estimated results are shown in Table 3.

According to the tests performed, there is no evidence of any problems relating to autocorrelation, heteroscedasticity and multicollinearity. There is parameter stability and the regressors are jointly significant. On the other hand, we can see that the explanatory power of the model is not particularly high.

Some regressors display a statistical significance in period $t-1$ that continues through to the period t , thus providing evidence of a relationship between these variables and economic growth in the period 1950-1975. This is the case, for example, with *GFCF*, which had positive effects on y . This is not surprising, since in the Golden Age there was a large accumulation of physical capital under the scope of the Portuguese industrialisation process. *LIFE*—a health indicator—also contributed positively to y , a result that is further supported by the empirical literature. However,

²⁵ According to the unit root and stationary tests performed, all the variables, expressed as growth rates, are stationary. The results can be consulted in Tables A2, A3 and A4 (see online Appendix).

TABLE 3
 Estimation of equation (1) by the OLS method with robust standard errors (HAC)

Explanatory variables	Coefficients
<i>Const</i>	-1.11 (0.92)
y_{t-1}	-0.04 (0.15)
<i>EDUC_t</i>	-0.05 (0.04)
<i>EDUC_{t-1}</i>	-0.04 (0.03)
<i>LIFE_t</i>	0.60 (0.28)*
<i>LIFE_{t-1}</i>	0.39 (0.18)**
<i>GFCF_t</i>	0.25 (0.06)***
<i>GFCF_{t-1}</i>	0.13 (0.03)***
<i>TRADE_t</i>	0.17 (0.06)**
<i>TRADE_{t-1}</i>	0.00 (0.07)
<i>OFMEU_t</i>	0.01 (0.00)***
<i>OFMEU_{t-1}</i>	0.02 (0.00)***
<i>t</i>	0.09 (0.08)
Adjusted <i>R</i> ²	0.48
<i>P</i> -value (<i>F</i>)	0.00
<i>P</i> -value of LM test for autocorrelation	0.33
<i>P</i> -value of Durbin-Watson test for autocorrelation	0.30
<i>P</i> -value of White test for heteroskedasticity	0.35
CUSUM test for parameter stability (<i>P</i> -Value)	0.15
Variation inflation factors (VIF)	Values ≤3.0

Notes: The first observation (for the year 1949) was dropped in order to accommodate the lag; *, ** and *** represent the statistical significance of the regressor at the 10%, 5% and 1% levels, respectively. The figures shown in parentheses are standard errors; the tests were performed using Gretl (2017).

contrary to expectations, the lagged *TRADE* variable was not statistically significant in regression.

By continuing to analyse Table 3, it is possible to identify the most relevant fact: the lagged variable of *OFMEU* displays statistical significance in regression. This means that an increase of 1 percentage point (pp) in *OFMEU* occurring in a certain year *t*-1 was associated, on average, with an increase of 0.02 pp in *y* in the following year (*t*) during the period 1950-1975. It is important to emphasise that, although these expenses related largely to expenditure on personnel (consumption spending), the war effort of 1961-1974, which was reflected more visibly in these costs, had reproductive effects, such as, for example, stimulating investment in the Portuguese military sector for the production of vehicles, weapons,

ammunition and explosives²⁶. These results are compatible with the empirical literature, namely the study by Ferraz (2020b).

It is important to highlight that the coefficient of the lagged *OFMEU* is, however, clearly lower than that of other variables, such as *LIFE* and *GFCF*. This also suggests the hypothesis that, if the war had not occurred, Portugal could have channelled its resources towards other initiatives, which would have increased the economic growth of the Golden Age even more.

These estimated results should, however, be interpreted with some caution, due to the evident limitations of this study, such as its small sample size and the use of only one lag in the ARDL model, as well as the dangers of omitted variable bias.

5. CONCLUSION

The Colonial War (1961-1974) led to a sharp rise in Portuguese military expenditure. This had a negative impact on the country's public finances (a war shock), resulting in a worsening of the budget deficit in the first years of the conflict, from 1961 to 1964. However, in the following years, from 1965 to 1973, the budget balance remained at a low level (below 1% of GDP). This situation of relative comfort in the Portuguese public finances during the war (in contrast to the uncomfortable scenario of thousands of dead, injured and traumatised victims) can be attributed to the increase in tax revenue motivated by an extraordinary economic conjuncture, as well as to the increase in, and creation of, new taxes as part of the tax reforms implemented by the Portuguese state in 1958 and 1966.

The expenditure on Extraordinary Overseas Military Forces (*OFMEU*)—involving the despatch of additional contingents for the defence and protection of the Portuguese overseas territories—accounted, on average, for 22% of state expenditure in each year of the conflict, equivalent to 3.1% of GDP. These expenses reached their highest value, namely 3.5% of GDP, in 1968. Such figures suggest that this expenditure was a heavy and prolonged burden.

The estimates presented in this paper also show that the costs borne by Portugal with the Colonial War amounted to between approximately 21.8 billion euros (minimum estimate) and 29.8 billion euros (maximum estimate) at 2018 prices and expressed in the present-day Portuguese currency. It also means that, on average, each year of the military conflict cost Portugal between 1.6 and 2.3 billion euros. This last value is similar to the average annual amount invested in Portugal under the scope of the

²⁶ For example, in the 1960s, Portugal started to produce the «Chaimite»—a famous Portuguese armoured vehicle—which was used during the war.

Portuguese Development Plans (1953-1974). This is an interesting fact, since the defence of the overseas provinces and economic planning (which made the Portuguese industrialisation process possible) were the two main stated objectives of the *Estado Novo* regime after the Second World War.

Additionally, by estimating a dynamic model, it was found that an increase of 1 percentage point (pp) in the real growth rate of the expenditure on Extraordinary Overseas Military Forces per capita in a certain year $t-1$ was associated, on average, with an increase of 0.02 pp in the real growth rate of GDP per capita in the following year (t), during the period 1950-1975. We cannot, however, fail to admit the hypothesis that, if the Colonial War had not occurred, important resources could have been directed towards more productive sectors, which would have boosted the Portuguese economy even further during the Golden Age. Although the results of this applied study are supported by the empirical literature, they should, however, be interpreted with some caution, due to certain limitations and risks that have been identified in this study.

The findings presented in this paper represent a unique contribution to contemporary economic history. The paper not only presents concrete estimates of the financial costs incurred by Portugal with the Colonial War—one of the most important conflicts in its history—but it also provides empirical evidence of a statistically significant relationship between the military expenditure incurred with the defence and security of overseas provinces (which included the costs of war) and Portuguese economic growth.

SUPPLEMENTARY MATERIAL

The supplementary material for this article can be found at <https://doi.org/10.1017/S0212610921000148>

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Appendix

TABLE A1.

Estimates of the costs of the Colonial War for Portugal, in thousands of euros (at 2018 prices), annual data

	Minimum value: expenses incurred with Extraordinary Overseas Military Forces, with adjustments, plus other residual charges	Maximum value: overall expenses incurred with the Portuguese Overseas Armed Forces, with adjustments, plus residual charges
1961	843,082	873,283
1962	1,172,461	1,263,087
1963	1,188,462	1,295,876
1964	1,241,454	1,346,852
1965	1,395,368	1,552,918
1966	1,409,105	1,624,038
1967	1,791,009	2,087,108
1968	1,827,899	2,377,720
1969	1,630,411	2,434,025
1970	1,791,894	2,706,789
1971	1,652,750	2,651,058
1972	1,587,610	2,485,808
1973	1,772,343	2,586,281
1974	1,743,634	3,255,031
1975	737,715	1,274,424

Sources: Calculated with data from *Ministério das Finanças* (1961-1976) and Afonso and Gomes (2016, p. 338).