

EIR Special Report

The strategic role of Portugal's fight for economic progress

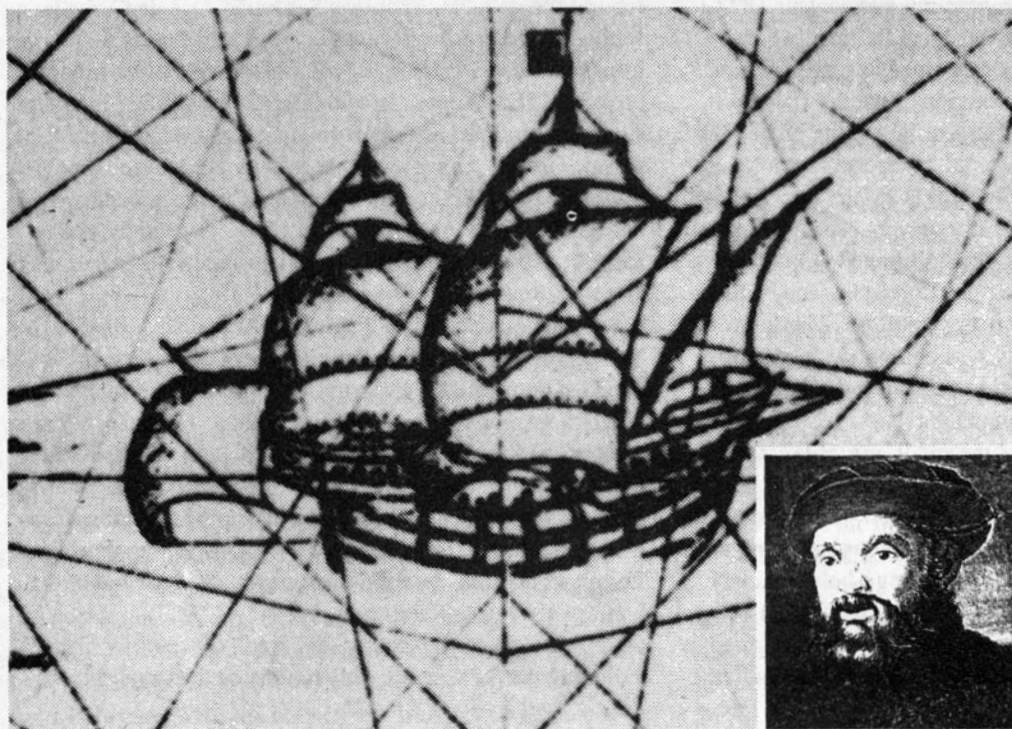
by Laurent Murawiec

When President Ronald Reagan arrives in Lisbon on May 12, he will be welcomed by one of America's most committed European allies, and one of the poorest. He will find a nation that emerged 10 years ago from decades of a stultifying dictatorship, only to be rocked for two years by an attempted communist takeover, which only an energetic intervention by a patriotic military faction ultimately prevented. The nation's economy has been virtually destroyed by a combination of International Monetary Fund (IMF) austerity conditionalities, communist upheaval and destabilization, and 10 years of world economic crisis. But the President will find a nation whose leaders are committed to the Atlantic Alliance, to backing the Strategic Defense Initiative, and to offering the West a chance it must not refuse: "to wage a war for the development of Africa to regain it from communism." Portugal needs from the United States the means to accomplish that, in order to avert the disastrous crisis which threatens to blow apart Portuguese society.

An *EIR* team visited Portugal for a week in March, and issues this report to lay the groundwork for a successful outcome of President Reagan's trip.

Portugal is a debtor nation, economically less developed than some countries considered part of the Third World. Its external debt amounts to \$16 billion, out of a Gross National Product that stands at \$25 billion—an extraordinarily high proportion. Portugal imports 60-70% of the foodstuffs it consumes, and 85% of the energy. Unemployment is at 700,000—with an active population of 4 million, that is close to 20%. A powerful Communist Party (PCP) and a related terrorist movement, the FP25, are the tools of destabilization which any further tilting of the economic balance could render irreversible. Yet lending rates for businesses—close to 35%, determined by the necessity of preventing a permanent collapse and devaluation of the *escudo*—are maintained at some par with the dollar-sector interest rates, and make even economic stagnation, not to mention prosperity, virtually impossible. The IMF and the U.S. Federal Reserve are the best recruiters for Alvaro Cunhal's Communist Party.

In 1974, the Armed Forces Movement (MFA), led by Portuguese officers who intended to bring to an end the ruinous colonial war being conducted in Angola,



Portugal's navigators and scientists played a leading role in charting and exploring the New World. If this tradition is revived today, a vital U.S. ally can be saved from the economic collapse and Soviet strategic manipulation. Shown are long-course Portuguese ships, from a 1529 map, and Fernando Magellan, the first man to circumnavigate the globe.

Mozambique, and other Portuguese colonies in Africa by what Portuguese call the *Ancien Régime*, overthrew the decaying dictatorship of the *Estado Novo*, the "New State" established in 1932 by Dr. Antonio de Oliveira Salazar. Their intent was certainly not to abandon those African nations to Moscow and Fidel Castro; but too much frustration had accumulated during the long night of Salazar's dictatorship, and the MFA was soon overtaken by radical-communist officers, who worked in tandem with Moscow's most dogmatic, cunning leader in Western Europe, Cunhal.

The *Ancien Régime* of Salazar began in 1926, with the military coup that brought to an end the First Republic created in 1910, when the last kings of the Bragança dynasty were ousted. Sixteen years of instability were replaced, after a transitional period, by the *Estado Novo* of Salazar—who remained prime minister until 1968. The *Estado Novo*, which presented many similarities to the "Latin" fascism of Mussolini and even more to the "black-clerical fascism" of Austria's erstwhile Chancellor Dollfus, was enshrined in the Constitution of 1933, which banned all political parties, subjected the whole of civil society to a dictatorship backed up by a feared political police, the PIDE, and balanced the budget and the external accounts—at the price of the economy, whose growth was deliberately slowed down by the regime.

Salazar's motto was, "Portugal is an essentially agricultural country," meaning not that agricultural production should be boosted—it was not—but that the backwardness of rural life was exalted as official ideology and practice. The productivity of agriculture was abysmal. Salazar, we were told,

loathed "urban life, big cities, and industrial concentrations, since those must group a lot of workers, who then become communists." As a result, Portugal limited itself to one principal export (besides the traditional wine trade)—the export of its own workers to France, Canada, and the United States, remitting part of their wages to provide financial stability to Salazar's regime.

The hatred for progress which characterized the *Ancien Régime* had deeper roots. Salazar explicitly based his system of government on the medieval doctrines of the turn-of-the-century *Action Française* of Charles Maurras, and the theocratic doctrines of the theorists of the Holy Alliance and the 1815 Treaty of Vienna, France's wild-eyed anti-republican Joseph de Maistre and his disciples. They maintained that science, technology, industry, urban life, and indeed reason itself had to be destroyed, that the whole evolution of Western civilization since the Renaissance had been wrong and sinful, and that only a return to the Middle Ages' "age of organic harmony" could repair that.

Portugal, after all, was the birthplace of the irrationalist cult of Our Lady of Fatima in 1917—a cult that rejects modern civilization as evil—and as long as Salazar ruled, was maintained under the iron yoke of enforced backwardness by police terror and the ideology of the Inquisition.

The roots of backwardness—and greatness

The evil wreaked by the Salazar regime during its close to 40 years of domination was all the more destructive in that it struck a country already enfeebled by the Napoleonic Wars (1807-14); a seven-year civil war (1828-34); and the loss of

the colony of Brazil, which became independent in 1822. Through the early part of the 19th century, Portugal's history seems to be an endless cycle of oppression, insurgency, and brutal repression, coups, and revolutions, like the 1846 civil war, and the later stabilization was acquired at the price of a social-political compromise that did not permit industrial progress to take off. Portugal became a junior imperialist power, subject to the dictates of major powers—as in the case of the 1890 British ultimatum which enjoined Portugal to evacuate the region that was to become Rhodesia. One British warship sufficed to force Lisbon to capitulate. The loss of prestige of the Bragança dynasty was enormous; it explains much of the 1910 success of the Carbonaro-Freemasonic movement which abolished the monarchy.

Portugal had not always been the small, unstable country this suggests. Prince Henry the Navigator (1390-1460) led a high-powered national policy of exploration, "the Discovery," and gathered to that aim teams of scientists, technologists, skilled workers, and sailors, launching a bold policy of colonization and settlement (island of Madeira from 1417; the Azores from 1427) which discovered much of the African coast, reached the Cape of Good Hope, and led to the Indian Ocean and Asia. The great explorers—Vasco da Gama, Pedro Alvares Cabral, who discovered Brazil, and Fernando Magellan, whose ships realized the first circumnavigation of the world—testify to the extraordinary expansion of a country that counted little more than 1 million inhabitants.

Portugal's fortune, however, was soon assailed by the Inquisition. In 1496, the Jews were expelled, with economic and other consequences disastrously similar to those that hit Hapsburg Spain, which had put pressure on the Portuguese King. The Society of Jesus infiltrated and took over the Asian and Indian trade for the sake of its own geopolitical schemes. Soon the death of the King led to a Spanish invasion and 60-year occupation, started by the Inquisition's own Emperor, Philip II of Spain.

Portugal only recovered with the powerful development of the mid-to-late 17th-century "mercantilist" current, exemplified by Luís de Menezes, Count of Ericeira, whose policy compares well with that of France's Jean-Baptiste Colbert. Ericeira had drawn upon the support of Portuguese "mercantilist" (that is, advocate of a state-directed industrial development) Duarte Ribeiro de Macedo, who was a familiar of Colbert. This time, it was the Treaty of Methuen, signed with England in 1703, that destroyed the great development attempt; Portugal became essentially a wine-exporter and agreed in return for this "deal" to lift all tariffs on industrial imports from England, which nipped its own industrial development in the bud, as the great German economist Friedrich List recounts in his classic demolition of Adam Smith's and David Ricardo's economics.

When Lisbon was devastated by an earthquake and tidal wave in 1755, it could have seemed that the last word had been said on the decline of Portugal. An exceptional statesman, however, used the catastrophe to take the reins and

rebuild the country. That was Sabastião José de Carvalho e Mello, the Marquis of Pombal, who ruled Portugal with an iron fist until 1777. He broke the stranglehold of the nobility, broke the Jacqueries, and ruthlessly imposed his grand design: a centralized and powerful state, the establishment of private Great Companies for international trade and colonial settlements. Skilled foreign engineers and technicians were brought in, new industries launched. Education was reformed, and an ambitious scientific program started, as well as a vast broadening of literacy.

Pombal played a prominent role in the dismantling of the Society of Jesus, which Pope Clement XIV disbanded in 1773—a move that was part of the worldwide strategy that led to the American Revolution. "What a great man! What a great man!" the Pope commented on Pombal. It took the storms of the Napoleonic Wars to suppress Pombal's work. From then, there was no recovery. Portugal did not succeed in freeing itself from the role it was given by the larger European powers, that of a mere pawn. Endless and bloody battles between left and right, between liberals and conservatives, occupied the front stage. And 20th-century history, including the Salazar era, only replicated the same pattern.

The coups d'état of 1974

In 1968, struck by illness, the aging Salazar had to step down, and was replaced by Marcelo Caetano, a friend of Spain's Opus Dei politician L. López Rodo, who sought to industrialize Portugal by emulating what his Spanish neighbors were doing. Development projects were launched, many of them based on petroleum and energy-intensive technologies, to allow the country to catch up with its European trading partners—although Portugal was straightjacketed by its membership in EFTA, the European Free Trade Association, and was not a member of the European Economic Community. Steel, shipyards, petrochemicals, and the project of a major seaport in Sines near Lisbon were typical projects of the time. The industrial population grew, and so did a manufacturing middle class.

However, after the 1961 start of guerrilla warfare in Angola, quickly followed by Mozambique and Guinea-Bissau, the regime was too deeply enmired in its own obsolescence to be able to cope with both. The budget was overburdened by the colonial wars; agitation grew against a rotten, deliquescent dictatorship; and what industrial and general economic development had emerged was choked off.

On April 25, 1974, the *Ancien Régime* met its unglorious end, when the Movement of the Armed Forces swept it away in hours. A great power struggle and lengthy period of destabilization began, as communists and all factions of the military battled for control. With Henry Kissinger running the U.S. State Department, the United States kept the pot boiling. Hours after the beginning of the coup, truck-loads of pro-communist officers raided the headquarters of the PIDE, the secret police, and stole most of the dictatorship's secret archives—which gave Cunhal an extraordinary blackmail

capability over many in the corridors of political power. Those files have thrown a long shadow on Portuguese politics ever since.

What followed was a year and a half of revolutionary disorder. Strikes, sit-ins, demonstrations, mini-coups, strong-arm tactics were used by the PCP and its collaborators in the MFA, Prime Minister Vasco Gonçalves and the histrionic leftist Lt.-Col. Otelo de Carvalho. On May 11, 1975, the PCP arrived within sight of its objective, and imposed through the power of the street the nationalization of the banking system and other sectors of the economy. The "hot summer" that followed brought Cunhal within inches of state power.

Mário Soares, the leader of the Portuguese Socialist Party (PSP), then went to Washington to visit Kissinger. Europe and the West as a whole were terrified that a communist regime was about to take over—a repeat of the Spanish events of the 1930s? Soares has revealed the tenor of his talks with Kissinger—and there is not one political leader in Portugal who, queried on the matter, will not tell the story. Kissinger told Soares, "Mr. Soares, you are the Kerensky of the Portuguese Revolution. Do not return to Portugal, stay here in the United States!"

"Kissinger tried to sell our country cheap to the Soviets—but the Soviets were mostly interested in Africa then, it was too early for their plans in Europe, they wanted a major capability in Portugal, but not the country," a leading Portuguese military figure says.

Constitutional stability restored

The "hot summer" of 1975 was an uninterrupted series of attempted PCP mini-coups. Cunhal could see himself in the role of Lenin—the Winter Palace was in sight. It was then that a rally of patriotic military leaders, led by today's President Ramalho Eanes, put a stop to the communist insurgency. On November 25, 1975, they expelled the pro-communist leadership of the MFA and set off a process of constitutional stabilization, which led to the election in 1976 of General Eanes to the Presidency. The ranks of the Socialist Party of Mario Soares were swollen by nationalists looking for a rallying point against the PCP.

But removing the formidable dangers posed by Cunhal and Kissinger did not suffice to ensure the welfare of the new republic. The IMF imposed its conditionalities upon the country's tottering economy. The minority Socialist government accepted the conditions, hocked part of the country's gold reserves in obeisance to the IMF pawnbroker's edict, and embarked upon a course of austerity, swelling the bureaucracy and other unproductive sectors. Devaluing the *escudo* made traditional backward industries such as textiles, clothing, footwear, and ceramics "more competitive," but also made sure that the promising, more technology-oriented and skill-intensive industries like mechanical engineering and machine-tool production, took a nearly fatal beating. Unemployment rose, at a time when nearly 1 million Portuguese refugees flocked in from the African colonies, and had

to be reintegrated in Portuguese society, as well as hundreds of thousands of "guest workers" returning from crisis-stricken West European countries.

The present economic situation is an unmitigated disaster. Inflation stands at 29%, unemployment officially at 11%, the foreign debt at \$16 billion, the trade deficit at \$2 billion, and the budget deficit at \$1.8 billion—equal to the service paid on the foreign debt. The vertiginous collapse of the *escudo*—which has lost 9/10ths of its value to the dollar in 13 years—has worsened the problem of debt repayment, which engulfs one-third of the budget! Last year, Portugal sold 49 tons of gold as a stop-gap measure to repay old loans, while capital flight accelerated and the reduced numbers of emigrants sent home less money from abroad. Private industrial investment last year was down 15%, and the public companies depend heavily on state subsidies, or are forced to borrow on the international markets.

The "black economy" is officially estimated at 11% of GNP, but sources in Lisbon put it as high as 30%. Several hundred thousand workers have not been paid in 6, 12, or 18 months, while those fortunate enough to get their pay checks have seen their purchasing power drop by 20% in seven years. The IMF—called in again by the present coalition government—insists on squeezing wages further down. Exports must increase, the IMF insists, and they do: Massively undervalued products are sold below their effective cost of production and the overall cost of reproducing the Portuguese economy, and increased by 14% last year as a result, while imports dropped by 5.5%.

Not astonishingly, the Soares-IMF austerity package cost the PSP its government position in the 1979 elections, as Soares's party drew upon itself the opprobrium attached to IMF policies and capitulation to the Fund. This brought in a center-right coalition led by Prime Minister Francisco de Sá Carneiro—himself killed shortly thereafter in a plane crash. The principal parties of the Left, Right, and Center have been fighting within the constrained environment of zero and negative growth, of social tension exploited by the PCP and a labor movement it broadly controls. Nine governments have succeeded one another since 1974, none of which has been able to cut the Gordian knot of austerity.

But Portugal, a nation of 10 million inhabitants living in less than 100,000 square kilometers, had in 1975 an infant mortality rate as high as 38.9 per thousand—compared with Spain's 11.1 or Italy's 15.1—a rate closer to that of some Latin American countries. In 1970 the rate of illiteracy stood at 29%. Portugal does not have one nuclear power plant yet. If the PCP and Henry Kissinger failed in their designs a few years ago, the permanent destabilization led by the PCP has gained credibility in the eyes of impoverished workers and farmers, whose purchasing power dropped by 13% last year alone. There is hunger today in Portugal. The shock of 1974 did not destroy the nation at one blow, but the insidious undermining that followed might be closer to achieving the same result.

Presidential elections are scheduled for the end of the year, and President Eanes will have to step down in January, since the Constitution precludes more than two mandates. Much byzantine maneuvering is underway among the political parties, and the fragile government coalition of PSP and PSD might blow apart before that, and early legislative elections be held before the presidential ones. It is not the intricacies of the political playpen however, which really matter. More to the point, there is one current in Portugal which advocates "transforming the country into a new Singapore, with off-shore banking and finance, reintegrating the black economy, free enterprise zones, etc.," which would destroy the industrial economy. A leading political figure explained that "our youth are already looking too much to the stars. It is natural of course for them to be excited by great projects, development, space exploration, but we have so little to offer that they leave the country."

Portugal's future—and its allies

Where could solutions be? Every political and military leader met by *EIR* in Lisbon stressed that Portugal's experience and expertise must be brought to bear by the West to develop Africa. This is not only a matter of regaining Africa from the twin brothers of Soviet control and economic destruction for strategic reasons. Portugal's labor force, its linguistic abilities, its experience, must be used in the framework of a plan for triangular cooperation—both United States-Portugal-Africa and Europe-Portugal-Africa—to develop infrastructure, training, and overall economic development.

The enthusiastic response to *EIR*'s March 15 conference in Lisbon on beam-weapon defense shows the potential for another promising orientation: that of using Portuguese participation in the Strategic Defense Initiative as a lever to develop high-technology industry. Machine-tool production and research in lasers and plasma physics could begin an economic development program aimed at "leap-frogging" from the present backwardness and low productivity, directly into 21st-century technologies. Similarly, the Armed Forces need new equipment, a new mission and doctrine—and the conditional deals for military aid which have prevented Portugal from developing its own arms industry must be revised in the same light. Portugal is not just a major base at the Azores, a refueling and stopover capability and convenient port of call.

The precondition is the end of the IMF's financial dictatorship. The choice will be open to President Reagan in the next weeks. "Portugal is not a desk at the State Department!" one hears often in Lisbon. A collapsing ally, one might add, is no asset at all. The United States alone has the power to save Portugal from what could otherwise be the path to renewed revolutionary troubles and civil war.

The following interviews were conducted in Lisbon by EIR's team of correspondents—Elisabeth Hellenbroich, Michael Liebig, and Laurent Murawiec.

Interview: Dr. Rui Machete

Portugal is open to the SDI program

Dr. Rui Machete is Portugal's deputy prime minister and, since February, defense minister. He is a leader of the center party, the Partido Social-Democrata (PSD). EIR interviewed him on March 11. Text excerpted.

EIR: Dr. Machete, what is your view of the developments associated with the Strategic Defense Initiative?

Dr. Machete: First of all, you must remember that Portugal is a small European power, with many friendly links to the United States, and our history for centuries has emphasized the Atlantic Ocean as our horizon. We are in that sense divided between two horizons, that of Atlantic policy and that of European policy.

On the SDI, first, we recognize that Europe needs to have a defense policy. I cannot understand why Europe has not been able, for so many decades after the war, to have a defense policy. This does not mean a policy against the United States, but that Europe ought to have its role in international relations.

With the recent debates on missiles, pacifism, neutralism in Germany's public opinion, reunification, etc., some Europeans fear that the U.S. could tell us one fine day, "We feel that we are strong enough to defend ourselves isolated from Europe," and there are documents that show that.

EIR: You mean the Nunn Amendment for example?

Dr. Machete: Yes, the withdrawal, the recall of American troops. U.S. troops in Germany have the same role to play in Germany as the French atomic capacity: to create a situation which would involve the United States. A French nuclear strike would create a higher-level conflict, or many American soldiers would be involved that the U.S. could not neglect the conflict. The eventuality of a recall of those troops would create an enormous shock in Europe. The Strategic Defense Initiative, in turn, creates a new situation: Is it a specifically