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Spanish Political and Economic Development in the Last Three Decades

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SPANISH POLITICAL AND ECONOMIC DEVELOPMENT IN THE LAST THREE DECADES

The recent development of the Spanish economy over the course of the last three decades can be divided into three different parts, which are defined by political developments which have had significant consequences at all levels in the Spanish social and economic structure.

The first period is the sixties, which is a period marked by the exceptional economic growth. The key factor behind this period of economic progress is the application of the 1959 Stabilization Plan, with a new political team led by Mr. Mariano Rubio that was the real director of the stabilization programme.

The second period begins in 1973 with the serious international crisis derived from the effect of the rise in petrol prices. This is a decade marked by the delay in the application of the policy of economic adjustment in answer to the sudden rise in petrol prices, due to the delicate Spanish political situation which was undergoing: the weakening of the Franco regime and the start of the transition period towards democracy.

The third period starts in 1986 when Spain joined the European Community. As from this moment, the Spanish economy has to adapt to Community regulations, and becomes an active part in the European integration process, participating in the economic and monetary union process and the Maastricht Treaty.

The factors marking each of the stages are at all times a subject of great concern for Spanish society in general, and, particularly, for the country's economic agents.

The economic policy of each period will therefore be determined, as may be expected, by the political situation arising within the Spanish State, as well as that associated with the foreign context, especially that of the European Community taken as a whole.

THE DECADE OF DEVELOPMENT: THE SIXTIES

At present, to speak of economic development in the sixties is almost identical to speaking of equivalent terms. Indeed, a representative figure of the economic development is the growth in the Spanish GIP, in real terms, placing it at around the yearly 7% figure.

The starting point for development: the Stabilization Plan

This important development was largely the consequence of the application of the 1959 economic Stabilization Plan.

The plan allowed for two lines of action. The first one aimed at achieving the balance of the Spanish economy within the Spanish territory itself. For this reason an effort had been made to reduce inflation and the upward trend of prices which until that moment were predominant in Spain. In this same line, several actions contributed to the introduction of the principles of the market economy in a context marked by strong State intervention.

The second line of action in the Stabilization Plan was addressed at the gradual liberalization of the external trade.

All these measures were intended to serve the final aims of the plan: to ensure continued development and facilitate the integration of the Spanish economy into the international market and specially in relation to the European Community .

In fact, this was an attempt, on the part of the Spanish State's economy to not be wholly left out of the European scene, after the period of isolation it had suffered for not having participated in the second World War and because of the fact that the establishment of the Franco regime had been aided by the States under a fascist regime. Factors such as the incorporation of Spain into the OECE in 1959, in this organization's tenth year of active life, and the non-application of the Marshall Plan in Spain, as well as the lack of interest shown by Schumann as regards inviting the Spanish State to form part of the first European Integration Movement - the CECA - reveal the sense of mistrust European States had towards the authoritarian regime of General Franco.

In this sense, the Stabilization Plan was important because, apart from representing the moment the Spanish

State's economy became open to the European economy, it stood for the implicit recognition of the fact that the State's possibilities of development in the context of autarchy had been exhausted.

It is nevertheless clear that such an important change in economic policy could not be carried out without counting on powerful motives. Three circumstances were decisive in bringing about this key change:

1. The deficit in the balance of payments was significant, and even more so when we consider the limitations imports were submitted to due to the application of protectionist instruments such as import quotas and licenses. In this context, it was difficult to import raw materials and capital goods which were needed for production development of the Spanish enterprise in the period before 1959. The Export line was , condemned to deal in limited figures because of the State's autarchic policies, prevented the accumulation of enough foreign exchange funds for industry.
2. On the other hand, Franco's politically authoritarian regime and the corporative capitalist economic system had reached a point where inefficiency began to stand out. In this way, it could be seen that the continued economic development achieved during the dictatorship had come to an end. It was not possible to continue a form of development constructed on the basis of isolation from the outside world, preventing the renewal and increase of capital goods. With an autarchic economic model, the necessary financial fluidity to buy capital goods abroad was not attained. In this way, at the same time as the Spanish State opened up to the outside world, its economy increasingly benefited from the rhythm of World and European development. In this context, an autarchic development such as that of the Spanish State was out of date and non-viable. The fact that it was based on an internal market of a low purchasing power was equivalent to establishing more restrictive limits to the State's economic growth because the restricted potential of the market prevented any industrial rationalization process, and also prevented scale economies or access to better conditions in the financing process.
3. Finally, the majority of people who had obtained posts in the administration as a result of the 1957 crisis openly criticized the autarchic policy. Apart from this criticism arising in the Spanish State itself - in particular, in the Economic Sciences Faculty - there was also that of other foreign technicians belonging to OECE and FMI.

The combined effect of the three circumstances led to the preparation of the Stabilization Plan. From 1959 an intensive development process started up which lasted throughout the sixties, till mid seventies.

The principal effect of the Stabilization Plan was the reorganization of the Spanish State's economy. In this sense, the balance of payments evolved from a situation of continual deficit to one of moderate surplus. On the other hand, the other worrying variable before the plan came into being - inflation - came under control

In this context of economic reorganization, the Spanish Government formally made its application for "a form of association which may lead to full integration in the future". This came about because at the beginning of 1962 everything seemed to indicate that the EEC was involved in the customs unification process, having the intention of increasing its number of candidates for admission and association.

In fact, the chances that the application might succeed were very slight. The Spanish petition was cold-shouldered for political reasons. Franco's Government twice asked for the initiation of exploratory talks with the Community in 1962 and 1964, and it stressed that the full fulfilment of the Economic Stabilization Plan for the economy called for conversations to decide on commitments which could be adopted by either party involved at that particular moment. Therefore, these commitments which were the result of conversations between the Spanish government and the Community could be included in the economic and social development plan.

Spanish development in the sixties: factors to explain it

The sixties, and especially the mid-sixties, were marked by a great general development of the Spanish economy. The motives that may explain it are basically five:

1. When we speak of economic growth, we must consider the accumulated backwardness of the Spanish State, because the starting point was very low, and, therefore, the margins the economic development had in the sixties was extraordinary if we bear in mind the difference between available know-how and that applied to Spanish productive processes. The step forward this relative backwardness allowed explains for the acceleration at the beginning of the sixties.
2. The liberalization of imports unleashed a decisive force which accounts for the expansion process of the sixties, for the fluid arrival of capital goods from abroad was an indirect means of extending technical progress originating abroad.

3. The strength of demand, with all its components, plays, then, a key role in the process. Families consumed more and invested more intensively as a result of the increase in personal income. Exports began to gain relative importance
4. The Spanish economy was opened up and began to connect up with a World economy undergoing full expansion, which had to have important effects on Spanish capital good and service exports. The growth in exports stands out among the principal changes of the sixties, despite the limitations of the customs policy. On the other hand, one must point to the spectacular growth of tourism figures and the transfer incomes from the Spaniards who had emigrated to the more industrialized European States, along with foreign investment. These three circumstances had a very positive effect on the balance of payments and contributed to the payment of goods being imported for their subsequent incorporation into the productive process.
5. The Spanish economy had enough productive resources for growth to be possible. It firstly had the financial resources made available by interior and foreign saving resources, as well as plenty of available labour force. We are referring to the demographical reserves which were to be found in agriculture and among the female population.

Nonetheless, this acute economic growth gradually led to a series of liabilities and weak points in the overall Spanish economic system, which would become most obvious with the international crisis of the seventies.

The liabilities of the economic development of the sixties: the changes in economic policy and the characteristics of the economic structure

If it is obvious that the development of the sixties was made possible by the liberalization measures of 1959, it is no less true that the losses in potencial development were derived from the rebirth of the old autarchic policy, which began to reappear in the sixties and culminates in the Development Plans.

This new wave of interventionism was motivated by the rebirth of the old interests of corporative capitalism. These pressure groups saw that the liberalization process brought on by the changes introduced in 1959

called for new reforms which affected very delicate areas. In this sense, substantial changes became necessary in the labour market, in the fiscal framework and in the financial system. They were reforms which the authoritarian regime of Franco was not inclined to embark on insofar as they might put their continuity and survival at risk. The great economic reform promised in 1959, involving the final establishment of a market economy system, was paralysed in the second half of the sixties. Thus, the development plans which are introduced as from 1964 may be taken as a permanent attempt to distort the market in order to prevent

profound political reforms. In this way, it becomes clear that in the late sixties, there was no clear economic development model. Neither the market economy nor planification were chosen; a few components of the combined market system were conserved, with important doses of arbitrary intervention.

This step backwards from Liberalism to protectionism, both as regards the interior of the Spanish State territory and relations with the outside world, becomes clear through three measures which were adopted during the second half of the sixties, which are quite contradictory with the general spirit of liberalization which had been started by way of the 1959 Stabilization Plan. The following three measures would considerably limit the development potential of the sixties:

1. In the first place, the creation of a customs tariff such as that in force in the sixties puts an end to the process of increased permeability to the outside world, in a clearly protectionist line. In addition to this, the customs tariff did not anticipate any further procedure to gradually reduce those higher import duties in the future.
2. Certain Spanish pressure groups tried to reduce the liberalization of imports. The application of this protection in the face of purchases abroad led to a decrease in imports.
3. Finally, the measures which had to define the market economy system were frozen. Most of them had been initiated in 1959. In this way, the labour market continued with its problems of rigidity as it waited for the necessary changes to be brought in, as did the fiscal system, and so many other fields too.

The continued application of interventionism in these fields tried to favour the interests on which the Franco regime was founded.