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THE ECONOMIC CRISIS IN SPAIN:
WHAT MAKES IT DIFFERENT?

Joan Subirats
University of Barcelona
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THE ECONOMIC CRISIS IN SPAIN: WHAT MAKES IT DIFFERENT

The Spanish economy is, naturally, affected by the same elements that constitute the world economic crisis. However, these elements affect Spain more intensely than other countries in the same geographic area, proving that Spain's economy is more vulnerable. Furthermore, the economic crisis in Spain is aggravated by certain elements that are peculiar to this country. In fact, it is perfectly acceptable (Lagares, 1982; Papeles de la Economía Española, 1984; Jose V. Sevilla, 1985; Programa económico a medio plazo, 1984) to label the Spanish crisis as "differential".

a) a more intense crisis

1964 to 1975 were boom years for the Spanish economy. Then production dropped, as it did in all OECD countries, but the drop was greater in Spain. From 1973 to 1981 Spain's GNP registered a 1.6% annual accumulative growth while the other OECD countries registered 2.3%. (Source: Contabilidad Nacional Española and OECD).

Investments and exports provide two other significant indications of the state of the economy. Although investments in Spain between 1964 and 1977 accounted for a greater share of the GNP than they did in the other OECD countries, the Spanish share dropped to below OECD level as of 1977. Furthermore, the decrease in the volume of exports has been comparatively greater in Spain than in the rest of the OECD countries. If both these factors are considered together, it can safely be said that during these crisis years the Spanish economy has lost ground in relation to the rest of the OECD (Lagares, 1982).

The economic crisis has also upset prices, the employment rate and the foreign trade balance. Even though Spain showed signs of rising inflation as early as the mid-Sixties, the current rate of inflation was thoroughly

inconceivable prior to 1973. The crisis has triggered a spectacular increase in inflation in all Western countries but, here again, its impact on the Spanish economy was even greater. In the 1960-1973 period inflation was 2.8 points higher in Spain than in the rest of the OECD. By the 1975-1983 period inflation was 7.6 points higher in Spain. The Spanish economy has been plagued by double digit inflation throughout the crisis.

The major problem arising from the crisis is unemployment, which is exceptionally high in Spain. The differences in Spanish unemployment figures and those of the other OECD countries are striking. While the latter saw unemployment rise from an average of 1.2% in the years between 1960 and 1973 to 8.1% in the years between 1975 and 1983, Spain registered an even more brutal increase; from 5.7% in the 1960-1973 period to an average of 21.4% during the crisis years.

And while Spain's balance of payments was practically balanced in the 1960-1975 period, the 1975-1983 period registered a deficit considerably higher than that of the other OECD countries. During this period Spain's average deficit was -1.7% of its GNP while the deficit in the rest of the OECD was -0.3%. All this goes to show that Spain was harder hit by the crisis than was the rest of the OECD, and this alone makes the Spanish economic crisis different from that of other countries (Source: OECD statistics for 1960-1982 and 1984).

But this still does not answer a very basic question: is the Spanish economy suffering its own particular crisis in addition to the international economic crisis or has the world crisis simply hit Spain harder than other countries?

b) a more vulnerable economy

Several things seem to support the idea that the Spanish economy is more vulnerable than most to the factors which caused, and continue to cause, the general economic crisis.

First of all, we must remember that the economic crisis was triggered by the hike in oil prices between 1974 and 1979. Spain is highly dependent on oil for its energy requirements and is consequently extremely sensitive to any fluctuations or changes in the price of oil. Spain's domestic production only covers 33% of the country's energy needs while the other OECD countries supply an average of 60% of their own energy. Even today, raw materials for energy account for a very large share of Spanish imports and the country thus suffers the economic imbalance this involves (Iranzo Martín, 1984).

We are all well aware that the economic crisis has caused great concern about increased production costs. When a country has a labor-intensive production system this is another sign of vulnerability. Spain's production system continues to be more labor-intensive than most, although there has been a slight improvement in this situation in the past two or three years (Lagares, 1982; Malo de Molina, 1984).

The resource allocation policy can give us a general idea of the flexibility of the Spanish economy and its capacity to adapt to the new market conditions created by the crisis. When the crisis began, the Spanish production system was by no means as efficient as that of the other OECD countries. This was because the proportion of capital goods per person employed was so low. In 1965 it was only 40% of the EEC average and by 1978 it had increased to only 45%. Not only was investment in capital goods low, but what capital goods there were were antiquated and consequently less efficient. Generally speaking, Spain invested only 1/3 the amount the EEC countries invested in capital goods. Since 1978, Spain

has suffered an investment slump which is causing our capital goods to become increasingly outmoded and less efficient, making Spanish products still less competitive (Fuentes Quintana, Requeijo, 1984; Lagares, 1982).

Furthermore, there is an excess of interventionism which made, and continues to make, it difficult to improve the efficiency of the Spanish production system. This interventionism was responsible for the low wages in Spain: in 1973 gross wages (including employer-paid Social Security charges) were 48.5% of EEC gross wages (Malo de Molina, 1984). Furthermore, the employment policy was so rigid that it was difficult for employers to adapt to economic fluctuations. As a result, when the crisis hit, Spanish industry was overstaffed and this made it difficult to adapt the necessary new technologies. Furthermore, there was also a good deal of government intervention in the financial market. This meant that in the early 70's, 45.5% of all the funds theoretically available were not allocated through the financial market but through government orders. (Argandoña, 1984; Lagares, 1982).

All this combined to make the Spanish production system less than efficient and unable to flexibly adapt to the new conditions imposed by the economic crisis. The Spanish economy was, and largely continues to be, more vulnerable to the crisis than do the economies of other countries in the same geographic, economic and political area. As a result, the only solution for the Spanish economy was to maintain a high level of protectionism combined with generous State support of exports. This did little to encourage efficient and rapid adaptation to economic conditions which, as of 1973, began undergoing a rapid change (De la Dehesa, 1984). In short, when the crisis broke out the Spanish economy was extremely vulnerable: the country was highly dependent on imports of raw materials for energy and was thus particularly sensitive to fluctuating oil prices; the industrial structure was dominated by smokestack industries and was therefore more sensitive to the phenomenon of technological "displacement";

production was excessively labor-intensive and thus more sensitive to wage increases. Interventionism was rampant, the economy far from efficient and certainly not very able to adapt to the far-reaching changes resulting from new market conditions.

Spain's crisis would thus seem to be "different" in that its effects were more intensely felt and the country's economy was far more vulnerable to the factors that triggered the crisis.

c. What "differentiates" the Spanish economic crisis

The onset of the international economic crisis coincided with the death of an authoritarian, highly interventionist regime in Spain and the later transition to a democratic system with all sectors and forces of society competing to achieve their individual goals. This difference is the key to the peculiar way in which the economic crisis has developed in Spain. From 1973 until 1979, when the new Constitution was approved, the country's main priority was a political one: how to restructure the Spanish political system so it would be similar to that of other Western European countries. The alternatives appeared to be reform or rupture and the economic crisis and its attendant consequences tended more to be the stuff of political and social dialectics than major problems requiring solution. The very need to make a peaceful and non-traumatic political transition led to compromises which are difficult to explain today when attempts are at last being made to find solutions to the country's economic problems.

Another point worth remembering is that none of the Spanish governments from 1973 on had the necessary strength, the social consensus or (as of 1977) a solid parliamentary majority capable of surviving the political toll that would be taken by a fight against the economic crisis. Before 1982, when PSOE won the general elections and the first Socialist government took power, there had

been no strong, consolidated government with solid parliamentary support. Furthermore, pre-1982 governments suffered a lack of cohesion which made it extremely difficult to enact economic measures about which the various social forces had contradictory feelings.

During those years of transition issues such as the legalization of all political parties, the recognition of autonomous territories, amnesty, and the drafting of a new Constitution which would summarize and symbolize the dawn of a new political system in Spain took precedence over inflation, unemployment, the public deficit, industrial restructuration or the need for technological innovation. In fact, the major triumph of those years was the successful transition to democracy, but it is this very transition that differentiates the Spanish crisis and that delayed the country's response to this crisis, causing it to become more complicated and further aggravated as time went by.

This "differential" feature, this important political and social change that took place in Spain, had a major impact on the country's economy. This was most notable in terms of wages. From 1973 to 1978 the wage cost per product unit was far higher in Spain than in the rest of the OECD. In 1974 and 1978 it was 5 points higher; in 1977, 14 points and in 1976 almost 17 points above the other OECD countries (Source: Contabilidad Nacional Española and OECD statistics, quoted by Lagares, 1982). Obviously, these sizeable increases in wage costs were bound to have a negative effect on Spain's ability to compete with other countries. While it may be true that higher inflation caused wages to soar more in Spain than elsewhere, the basic reason for the wage hikes is that those years were marked by a tremendous increase in labor agitation. The number of working hours lost for reasons of conflict was four times greater in 1976 than in 1975, while the number of striking workers rose from one million to three million six hundred thousand. This period of tension and unrest had its peaks and valleys but lasted until 1980 (Ludevid, 1982). In

In short, the struggle for democracy also awakened the Spanish labor movement, whose agitation translated into an increase in wage costs per product unit that was far greater than that of the other OECD countries, and which was a "reflection and expression of the shift in the distribution of power" (Sevilla, 1985). But the working class alone was by no means to blame for aggravating Spain's economic crisis. At least in the beginning the Spanish business community displayed a tendency to "passively adapt" to the crisis (Sevilla, 1985). When production costs went up due to increased wage costs, employers simply raised their prices, thus theoretically maintaining their rate of profit. But no matter who is to blame, the fact remains that increased labor costs which were almost certainly caused by the "differential" element (the transition to democracy) served to further aggravate the Spanish economic crisis (Malo de Molina, 1985).

The transition to democracy also caused the business community to view the future with increasing uncertainty, and this may partly explain the sharp decline in investments. This theory appears to be born out by facts: investment reached its lowest ebb in the years when uncertainty was greatest: 1975 and the death of Franco, 1977 and the first general elections, 1979 and the second general elections, 1981 and the attempted military coup (Lagares, 1982). This indicates that political tension, no matter what kind, discourages investment. One of the necessary, though not essential, conditions for investment is reasonable political stability. In conditions of uncertainty businessmen fear for their future investment profits and prefer to make investments that either cut down on manpower needs (Zabalza, 1985) or increase production capacity. Investors may well find either State bonds or capital exports more attractive (Donges, 1984). We realize that this reluctance to invest is not due solely to fear of possible political instability, but there is no doubt that at least until 1982 the political situation was one of the most immediate concerns of any potential investor, much more so than even the experts suspected (Marzal, 1985). This

reluctance to invest is still another sign of how the "differential" element has affected the development of the economic crisis in Spain.

When reviewing the consequences of this "differential" element of Spain's economic crisis we must also consider the sizeable increase in public spending registered by the post-Franco democratic governments which increased subsidies and social welfare as part of a policy of redistribution of wealth. At the time of the democratic transition, the quality of public services in Spain was far inferior to that of other Western European countries. Political claims triggered social conflict and as numerous civic organizations and movements (labor unions, neighborhood associations, users of public utilities) were made legal, there was a sort of blast wave that led the State to increase social benefits. This, in turn, caused such a great and rapid increase in public spending that it cannot even be compared with any other European country.

At the end of the 1975-1983 the public spending/GNP ratio in Spain varied on an average of -5.9 per annum and only -4,8 in the rest of the OECD (Fuentes Quintana, Requeijo, 1984). In 1973 Spain's public spending totalled 968 thousand million pesetas. In 1978 it had risen to 3,404 thousand million and by 1983, it was up to 8,956 thousand million. This translates into an annual increase of 24.9% which was the equivalent of 23.4% of the GNP in 1973 and 39.5% in 1983. Furthermore, although public spending increased rapidly, public investment remained practically constant while social benefits (unemployment insurance, pensions and public health expenses) and subsidies to public firms rose considerably (Rojo, 1984).

The fact that Spain's political transition coincided with the economic crisis is also important in that it led to social pacts between Business, Labor and, occasionally, the Government. After the first demo-

cratic elections in 1977, the various political and social forces began attempting to address the country's economic problems with the idea of reducing conflict and forging a certain solidarity. In October 1977 the leading parliamentary parties signed the "Moncloa Pacts" which symbolized this willingness to pact, but because neither Labor nor Business (the employers' organization- CEOE - had not yet been formed) were involved these pacts differed from the usual tripartite (Business, Labor, Government) agreements existing in many Western European countries. Thus the first responses to Spain's economic crisis were political: the social organizations which would later act as intermediaries and representatives of the different interest groups were still in the embryonic stage and subordinate to the political parties. But the Pacts did reflect the desire to alleviate and contain the social tensions beginning to be unleashed by the crisis and were an attempt to gain time and increase the manoeuvrability that would enable the "politicians" to make it through to the end of the transition period (Zufiaur, 1985).

d) a different sort of crisis

As we have seen, the Spanish economic crisis has some peculiar characteristics of its own. Not only did the crisis hit the Spanish economy harder, but it also revealed that Spain's economy is highly vulnerable to the factors which triggered the crisis. Furthermore, the crisis coincided with the transition from an authoritarian, strictly interventionalist political system to one that is democratic and open. All these particular conditions had an impact on when and how the country began attempting to respond to the crisis.

The Spanish economic crisis is also conditioned by other peculiarities. As far back as the end of the 19th century and the beginning of the 20th, the Spanish economy was a system of corporatist capitalism

where decisions on economic policy were centralized, bureaucratic and closely intertwined with, and dependent upon, private interests. The dictatorships of Primo de Rivera (1923-1929) and Franco (1936-1975) had left Spain with a rigid economy: State interventionism became more pronounced as time went by and the economic policies kept changing. Even today the Spanish business community favors a more liberal economy while simultaneously demanding larger subsidies or tighter protectionist measures, and employees demand that new jobs be created while simultaneously opposing any measure that would serve to make the labor market more flexible. This has translated into great dependence upon, and subordination to, the measures enacted by the State.

All this means increased pressure on the public budget. The costs of bad management and excessively passive adaptation to the new demands of the crisis always seem to result in higher social costs. This is endemic to Spain's public deficit as are an inefficient government policy of resource allocation (further aggravated by the distribution of power among the newly recognized autonomous regional governments) and the fact that the country's public firms are in serious shape (Rojo, 1984).

The economic crisis in Spain is definitely a different sort of crisis and one that is hard to tackle with the usual "economic engineering" measures. Spain has long been plagued by structural and institutional problems which require specific solutions.

RESPONSES TO THE SPANISH ECONOMIC CRISISa) Different phases of economic policy

Responses to the crisis have been uneven ever since it first began in 1973. Although the crisis has continued uninterrupted, the attitudes, approaches and reactions to it have gone through several different phases.

- During the first phase (1973-1977) there were several different economic policies and several different governments. Each policy was highly conditioned by the delicate circumstances of the transition years when the democratic opposition was on the offensive and the die-hard Franco followers were fighting to avoid "adapting" to democracy. The governments of this period were politically insecure and either chose to ignore the economic crisis or adapt a "wait and see" policy (Lagares, 1982).

There were many reasons for this. Spain was genuinely unaware of the true magnitude of the crisis. Furthermore, there were no reliable sources of information about the possible effects of the crisis on an economy like Spain's which at that time was characterized by considerable State interventionism and a high degree of protectionism. In addition, Spain had deliberately chosen to play a subordinate role in international economic decision-making and this caused the country to submissively wait and see what measures other countries might take to combat the crisis. Above all, this period was so difficult politically speaking that it would have been presumptuous for any government to make decisions or devise medium- or long-term programs for dealing with the crisis. As a result, these governments chose to gamble that the crisis was a temporary phenomenon, which explains why measures enacted in Spain in 1974, 1975 and 1976 have little or no relationship to those adopted in the rest of Europe.

Spain paid dearly for this attitude: foreign trade reserves evaporated and on the domestic scene inflation rose to almost 25% in 1977. A "wait and see" policy seemed to be the only approach to a situation where management of the economy was secondary to the political transition and where State interventionism made it difficult to "receive" messages signalling the extent of the crisis. The costs of this position were, and continue to be, of considerable importance in explaining some of the reasons why the economic crisis is "different" in Spain.

- During the next period (1977-1979) the policy seemed to be "politics first". As of the summer of 1976 and up to the time the new Spanish Constitution went into effect, Spanish political leaders in general seemed to take this approach to the economic crisis. As then-President Adolfo Suarez said when presenting the Political Reform Bill in a televised message on September 10, 1976. "Let's not fool ourselves. In other times the economic measures agreed upon by the Cabinet would have been enough to drastically change the course of the economy, but now they have not been as effective as we might have hoped and this is due to the impact of politics on our economy. So long as the country is haunted by unknown quantities in politics the economy cannot be reactivated or stabilized". (ABC, September 11, 1976). The quote accurately reflects the stance not only of the government but of all the political parties which, once legally recognized, would participate first in the elections of June 15, 1977 and later in the drafting of the new Constitution. The "Moncloa Pacts" are the best example of the consensus policy which characterized this period

of recent Spanish history. Even though the institutions considered to be formally representative took no part in drafting the Pacts and they were not signed by representatives of either Business or Labor but only by those political parties then represented in the Spanish Parliament, the Moncloa Pacts were the first serious attempt to articulate a concrete response to the extremely grave problems posed by the international economic crisis and Spain's earlier attitude towards it. The objectives of the Pacts were clear and the measures designed by the then-Minister of the Economy, Fuentes Quintana, technically correct. But the Government was neither strong nor consistent enough to put these measures into practice. The Pacts were never completely implemented but, as Fuentes Quintana himself has pointed out, their greatest service was that they contributed to the drafting of a Constitution marked by a spirit of consensus and conciliation and one that can be peacefully and lastingly applied.

Indeed, the Moncloa Pacts managed to reduce inflation, balance payments and restore a certain amount of confidence in the peseta and this kept the economic problems accumulated since 1973 from distorting the social situation to such an extent that it would have been impossible to achieve the goal that obviously took priority: a Constitution based on consensus. "The economic policy pacted in October 1977 enabled the political parties involved to gain the time necessary to draft the Constitution" (Fuentes Quintana, 1983). But the very political situation, the very priority given to political issues prevented the Pacts from going beyond these essential measures designed to get the economy back on a more even keel.

- The 1979-1982 period was further aggravated by several new factors. The second energy crisis struck: the state of the Spanish balance of payments

worsened and unemployment spiraled. Furthermore, the diagnosis of the crisis and its possible solutions opened a gap between the government and the Opposition, putting an end to the period of consensus. Internal strife within the governing party became worse and this affected the government's very approach to the economy. Within the government, "which in the past several years has become a hodgepodge of different factions" (EL PAIS, 1982), each Ministry seemed to defend a particular faction of its party or a particular production sector, and this favored status was enjoyed by individuals ranging from civil servants to some specific businessmen. The Ministry of Economy should have done a sweeping job of management and coordination but this was made impossible both by the resistance of UCD's "barons" who controlled the ministries that had any sort of economic power and by the existence of a Vice-Presidency of the Economy which only served to obstruct or duplicate the work of the Ministry. Every Ministry operated on its own and this made an efficient general operation impossible. The ministries incurred expenses that were difficult to pay and acted without the guidance of any sort of well thought out general plan for combating the crisis. This is just another example of how UCD's internal strife and political weakness lessened its ability to deal with the crisis. This inability translated into yet another postponement of the moment when drastic measures would have to be enacted in order to combat Spain's crisis. In short, politics played a major role in Spain's approach to the economic crisis.

It was at this time that unemployment began to soar, toppling inflation from its position as the number one public concern. In 1979 the unemployment rate accounted for 10% of the active population. Just

prior to the 1982 general elections, unemployment registered 16%. Furthermore, many of the issues reflected in the diagnoses and proposals of the Moncloa Pacts had not yet been tackled or action had been considerably delayed.

This policy echoed that of previous governments which simply "passively adjusted" to the crisis and had no definite strategy for combating it. It seemed as though the status quo would be maintained and this caused delays, high social costs and made the Spanish economy more dependent than ever (Segura, 1983). In short, it was a conservative policy, very faulty and not only incapable of combating the crisis but actually guilty of aggravating it (García Delgado, 1983; Fuentes Quintana, Requeijo, 1984).

Starting with the Socialist (PSOE) victory in October 1982, there was a marked change in the approach as the new government party began taking advantage of its absolute majority in Parliament.

One of the many strategies that can be adopted in an attempt to combat the economic crisis is that of making radical structural changes a contingency for solving existing problems. The Spanish socialists definitely tend to favor this approach. They presented "change" as the magic word which expressed the need for a radical restructuring of the entire Spanish society. Their electoral triumph in 1982 was based on the slogan "in favor of change", an expression imbued with a multitude of different meanings, ranging from a simple change of government to structural reform of the State and its government, and including the consolidation of democracy and the State of Autonomous Regions. The "change" was also understood to be the best proof that Spanish institutions were democratically effective and capable of supporting political change.

The Socialist change gave the country a government that was far more capable of solving the country's serious economic problems than its indecisive predecessors. The "change" promised that the public sector and State investment would be the principle means for resuscitating the Spanish economy and generating employment. Unemployment had become the country's leading problem and the Socialists promised to create 800,000 new jobs.

The "change" brought the Socialists to power but once in power the first economic measures enacted were examples of the purest orthodoxy: devaluation of the peseta, a wage freeze designed to reduce inflation. At the same time attempts were made to control the creation of money and contain the deficit - measures which are a far cry from the expansionist policy preached in the electoral platform. The reason for this apparent change of heart may be found in the resounding failure of the French socialists' economic policies; it may be due to the desire to give the business community and the world powers an impression of cautious action well within the guidelines set by the OECD in order to still possible fears about a socialist government in Spain after almost fifty years; it may even be due to personal discrepancies between the people who drafted the program and the people actually responsible for directing the government's economic policy. No matter what the reason, the fact is that the Socialists began governing with a typical plan for stabilizing the economy. Miguel Boyer himself, "superminister" of Economy, the Treasury and Trade, announced at the end of 1982 that priority would be given to the fight against inflation, thus shifting the focus away from what was to prove the greatest unkept promise of the "change": the 800,000 new jobs. Gradually, what had seemed no more than a necessary period of re-adjustment and stabilization began to take on the

quality of a medium-range government policy, "making stabilization measures permanent fixtures" (Jose V. Sevilla, 1985). The economic policy began to resemble a policy that offered no alternatives, the "only possible" policy. The Socialist government enjoyed tremendous electoral and parliamentary support, and was not as conditioned by political concerns as its predecessors had been. Taking advantage of this situation, the Socialists chose to apply an economic policy which can be labelled as the "Schmidt law" (after Germany's former Social Democratic chancellor): "today's business profits are tomorrow's investments and tomorrow's investments are the next day's new jobs" (Fuentes Quintana, El Correo Catalan, 1985). This stance differs substantially from the Socialists' electoral promises: it implies that emphasis will be on fighting against inflation by keeping wages down, deregulating the labor market, etc., i.e. by removing all impediments to the growth of business profits, leaving the creation of new jobs as a fruit of business recovery.

Recently a high-ranking Socialist official admitted "the obvious failure to fulfill some of the electoral promises which were major planks in the 1982 platform". But he considered this justified inasmuch as the government has taken "the only road towards overcoming the crisis and creating new structural conditions which will make possible a more equitable distribution of labor". According to this Socialist leader, the Opposition is criticizing the government for doing the "inevitable", for doing "what is logical in the world economy" (José M. Benegas, EL PAIS, July 21, 1985).

So, once in power, the Socialists' promised "change" turned into a new strategy of "modernization". The objectives of this modernization were: "to make democracy more firmly rooted, to reform the State,

break with the centuries-old tradition of corporatism, make up for lost ground in industry, science and technology and put an end to our international isolation"(José M. Benegas, EL PAIS, July 21, 1985). The economic problems caused by the crisis and Spain's delayed reaction to it now took a back seat to a general "modernization" strategy. This strategy was to cause "additional short-term costs and unwanted, but unavoidable, effects which would cause, and have in fact caused, inevitable discontent", but "PSOE was obliged to opt for a basic clean-up of our national economy in order to settle a number of issues, among them the pressing problem of unemployment and of steady and "misleading" sub-employment by creating jobs without increasing the public deficit". (Resolutions of the 30th PSOE Congress, December 1984). In other words, the strategy of "change" was traded in on a new strategy of "modernization" which changed or, more accurately, postponed the priorities but which continued to link solving economic problems with overcoming delays and inefficient actions which were branded as "centuries' old".

b) The economic issue: some attitudes of the current Socialist government

Although the current government has a more concrete policy for responding to the crisis, it is marked by several different attitudes which are particularly significant:

- "get to the bottom of it". "A non-negotiable solution".

This attitude has been used as a tool for demonstrating that the government has the strength and will to ram through a particular measure intended to combat the crisis. The particular measure is presented as a non-negotiable solution in order that it may serve as a precedent in the future. This attitude is consistent with the overall strategy mentioned earlier: the "inevitable policy" or the "only possible alternative". There is no room for negotiation, no backing off because no other solution exists.

This was the approach taken to industrial restructuration. The first experience was in Altos Hornos del Mediterráneo, a metal industry in Sagunto. The way the restructuration process was begun, the extent of conflict the government seemed willing to endure, was the first serious indication of the kind of economic policy the government intended to apply. The tactics employed at Sagunto were no doubt deliberate and intended to serve as an example; not only to other industries in line for restructuration, but also as a warning regarding the entire economic strategy devised by the Boyer team. As President Felipe González said, addressing the nation in a televised message on the subject of industrial restructuration, "As President of the Government I want to inform you that we will firmly adhere to the economic policy. It is a rigorous policy". Somewhat later on, he stated, "This government is open to dialogue, but there is a warning to be made: if the dialogue or the negotiations advocate that we

change the economic policy we believe is right for Spain...then you will find that the government cannot accept this dialogue".

Another example of this attitude was displayed in relation to the reform of the Social Security system. As part of this reform the Socialist government announced a plan to reduce future pensions. Opposition from the labor unions was fierce and particularly so from the one with closest links to the PSOE. There were sizeable demonstrations protesting the plan and even an attempt at a general strike, but the government stood firm, once again maintaining that this was the only possible solution. "The alternative would be bankruptcy of the State" (José M. Benegas, op. cit.). In the end, a less drastic cut in pensions was negotiated while the Bill was under Senate discussion. But one wonders why the government chooses to adopt an attitude that turns every issue into a crucial battle. Perhaps it is consistent with the path the Socialists have chosen in their attempt to overcome the crisis. They are aiming to reduce or eliminate the problems on which Business blames its failure to invest. And the Social Security system was a major problem. So the Socialists made the apparently difficult decision to confront the very social classes responsible for their election. In practice, however, this is far easier than trying to thoroughly clean up and restructure a Social Security system that is riddled with corruption, double-dealing and administrative irregularities. The Socialists' stance makes them far more acceptable to more conservative members of society, entrenching their power and making it more unlikely that any more moderate or conservative party could come up with a successful political alternative.

- The fight against unemployment: a symbol

Unemployment in Spain is now so great (as of March 1985, 22% of the active population was jobless) that there is

no longer a single political party that does not consider it the number one problem. Nevertheless, none of the governments have as yet enacted any measures which directly create new, permanent jobs. Bad experiences have caused them to reject the idea of expanding the public sector in order to create employment - a system which only leads to an exaggeratedly high public deficit. Instead, the various governments have adopted a series of measures which either temporarily solve the unemployment problem for a few thousand workers or which, in theory, indirectly favor the creation of new jobs.

This response to the pressing problem of unemployment is strictly symbolic. The government admits de facto that it is powerless to solve the problem directly and chooses a strategy by which, if all conditions are met, private business will theoretically begin investing again and thus creating new jobs. Obviously, the State cannot admit that it is not doing anything, and has no intention of doing anything, about a problem which everyone agrees is the country's primary concern. So they try to take steps which will temporarily alleviate matters in particularly hard-hit areas or they create a multitude of tax deductions, exemptions and subsidies in order to encourage Business to create new jobs. This is the reason why it has been made so easy to hire temporary personnel. The outcome is that the government policy appears to be more a concession to Business' repeated demands for deregulation of the labor market than a way to resolve or alleviate the unemployment problem. A simple look at recent employment statistics is enough to demonstrate that permanent job contracts are almost extinct and that there are now a multitude of facilities for temporary hiring.

The ZUR (Urgent Reindustrialization Zones) is a similar sort of measure. The ZUR have been touted as a major

government response to the unemployment problem, but the truth is that they affected only a very few of the unemployed. Calculated on the basis of the re-industrialization plans presented, only 4,500 new jobs would be created in the six ZUR's that existed as of November 1, 1985.

- "manipulate the definition of the problem"

There have always been problems with basic Spanish statistics due to their sectorial nature, their faulty elaboration and the delay in handling and publishing them. These problems do not appear to have been solved as yet and, as a result, it is fairly easy for politicians to manipulate statistics at will. Obviously, errors are made, but it is a serious matter indeed when these "errors" are used to justify or prove the justice of a particular policy adapted. There have recently been several examples of such possible manipulations. In 1984 the government announced that 60,000 new industrial jobs had been created within a 2-month period. The data had been taken from the Survey of the Active Population designed by the INEM (National Employment Institute) for its quarterly check on employment. When it turned out that these monthly figures did not jibe with the forecasts, they were no longer published. In 1984 the Ministry of Labor tried to strike everyone over 55 and students looking for their first jobs from the unemployment rolls. When the plan was leaked, it was abandoned. In March 1985 there was a definite discrepancy between the government's summary balance of the year 1985 (according to the Secretary of State for Economy, the results were "the best in the past few years") and the data released by the National Accounting Office which is compiled by the National Statistics Institute. The Press even went so far as to state that

"professional statisticians felt pressured " (EL PAIS, March 5, 1985). And lastly, in August 1985, the make-up of the Consumer Price Index was changed. While changes may well have been necessary due to social changes and alterations in consumer behavior since 1973 when the CPI was last revised, the fact remains that revising the CPI in mid-year makes it impossible to know with any certainty the final increase in the 1985 index because the statistical series has been broken. Under these circumstances it is only logical to wonder whether this change in the make-up of the CPI is not just an excuse to be able to present some more attractive year-end results, particularly when one of this year's prime goals has been to keep inflation strictly under control.

- "ignore it." "Refuse to see it".

As we all know, one of the possible solutions to the economic crisis is the shadow or "hidden" economy. Although this is one response to the rigid social system and excess social charges, it has revived circumstances which, to all intents and purposes had been eliminated long ago. There is a considerable shadow economy in Spain but, because of its very nature, it is difficult to get an exact idea of its size. However, there are some more or less reliable statistics. A report by UGT (the Socialist-oriented union), based on a survey carried out by INEM (the National Employment Institute) estimated that the shadow economy accounts for 24.4% of the construction industry, 20.2% of the manufacturing industry, 18% of wholesale and retail trade and the restaurant and hotel industries, and 12.2% of other service industries. The people who work in the shadow economy tend to be people who draw unemployment payments and work illegally on the side, the unemployed

who receive no welfare payments and the self-employed whose job status is not clearly defined. Some parts of the country are notorious for their shadow industries. In Alicante, the shadow economy accounts for an estimated 40% of shoe, textile and toy production. And Sabadell has registered a 34% increase in electricity consumed for private use (to run domestic workshops) while the use of electricity for industrial purposes has dropped by 9% (Statistics: EL PAIS, May 5, 1985; La Vanguardia, August 18, 1985).

The Administration has generally been tolerant and understanding of this situation. As Vice-President Alfonso Guerra said in May, 1983, "an outright battle against the shadow economy would destroy part of our economic activity". Felipe Saez, Sub-Director of Employment and Labor Market Studies for the Ministry of Labor said in a report published by the Círculo de Empresarios (a businessman's club) in August 1985 that "the shadow economy is not only a substitute for the regular market but also a complement to it" and admitted that "at the moment the Administration is taking very limited steps to put an end to shadow business" (La Vanguardia, August 23, 1985). It would appear that the government is aware that a pitched battle against this kind of unorthodox economic activity would not only jeopardize Spanish production, but would also make the current widespread unemployment situation unendurable.

There are no doubt similar reasons for the apparently tolerant official acceptance of some businesses' failure to pay their taxes or Social Security fees. Obviously, there are controls and inspections, but it is just as obvious that they are neither as enthusiastic nor as systematic as they should be, and this is also due to the desire to avoid a further drop in production and employment.

- "Today's sacrifices are tomorrow's profits"

This is another way the Socialists justify their policy of recession and constant, sweeping readjustment. The major battles of these past years - industrial restructuration and Social Security reform - were presented to the public as sacrifices which are essential if we are to have a better tomorrow. Sometimes the arguments were extremely vague: "the Socialist plan is to create a Spanish economy with a future, to make Spain a country respected by its equals and to do this in a climate of world détente and peace" (José M. Benegas, op. cit.). Or: "A Socialist government.. is obliged by the very logic of things to restructure industry or reform the Social Security system, but these are sacrifices which will make it possible for the economy to survive and offer a future to all wage-earners." ("Los Socialistas ante el Primero de Mayo". EL PAIS, May 1, 1985).

c) The mechanisms of cooperation: the powers that pact

Since 1977 there has been a series of pacts or agreements between Spain's government, political forces, Business and Labor: the Moncloa Pacts in 1978, the AMI (Interconfederate Framework Agreement) for 1980 and 1981, the ANE (National Employment Agreement) in 1982, the AI (Interconfederate Agreement) in 1983 and, lastly, the AES (Social and Economic Agreement), signed in 1984 but valid for 1985 and 1986. Both the content and the signatories of these pacts have varied widely.

The Moncloa Pacts were signed by the political parties represented in the Spanish Parliament. Neither Labor nor Business (The Spanish Employers' Association- the CEOE - was not yet even organized) participated in the Pacts. The content of the Moncloa Pacts was very broad and, as I mentioned earlier, actually attempted to offer some generally acceptable ways to combat the crisis. In truth, the Pacts amounted to an integral economic plan disguised as a political pact to be signed only by the parties, but which was later approved by Parliament. The Moncloa Pacts contained a clause that set a ceiling on wage increases and this was a breakthrough clause that was not only carried over into subsequent agreements, but which also put a halt to spiralling inflation.

The next agreement, the AMI, had more modest pretensions and was signed only by the Socialist labor union, UGT, and the new employers' organization (CEOE). Its basic goal was to create an "agreement to agree" (Alonso Olea, 1983), i.e. it set wage increase guidelines for the coming year, making allowances for predicted inflation and taking into consideration such factors as productivity, absenteeism, etc. There were several ulterior motives behind this pact. First, CEOE and UGT were both anxious to remove CC.OO. from center stage and start a new round of wage negotiations. Employers were convinced that negotiations were the only way to put a stop to the conflicts that had caused such a tremendous number of working hours to be lost the previous year. These conflicts

notwithstanding, the pacted wage increase (12.5%) was well within the wage limits set by the government (11-14%) and this made the unions aware that their position was fairly weak (Ludevid, 1982). AMI was important because it attracted a considerable following. Despite CC.OO.'s opposition, it managed to sharply reduce labor conflict and led UCD and PSOE to agree on a framework for Spanish labor relations: The Statute of Workers' Rights, which was approved at the end of 1979 .

The ANE, signed in June 1981 by the Government, CEOE and the two leading labor organizations (UGT and CC.OO.) would be utterly inexplicable were it not for the attempted military coup that had taken place in February of that year. It was obvious that democracy had to be consolidated and that disagreements over individual aspects of the negotiating process or the labor movement's claims would have to be overcome. The ANE was a tripartite pact with a broader content than its predecessors. It was not just a pact on income policy, but also addressed subjects such as job creation, reform of the Social Security system, and Business and Labor participation in public institutions. The signatories religiously complied with the clauses on wage policy, but paid little attention to the rest of the pact. Because many of its clauses were political or legislative in nature, they required government action and control. But there was no effective way to enforce the pact (failure to comply with its terms was not grounds for judicial proceedings) and furthermore the UCD government was weak and split by internal strife. As a result, it was difficult to implement any of these clauses.

The AI (Interconfederate Agreement), effective during 1983, was another "agreement to agree": a bilateral agreement between Labor (UGT and CC.OO.) and Business (CEOE). The new Socialist government cited its close

links to UGT as the reason for not participating in the pact. UGT felt that the new government's stance had been made clear enough in PSOE's electoral platform and that government participation in the negotiations might lead to attempts to either limit or radicalize the objectives. CEOE also opposed government participation, fearing that it might lead to double-dealing, i.e. agreeing to wage ceilings while simultaneously legislating a cut in working hours with all its attendant costs to employers. (Roca Jusmet, 1985). The AI dealt essentially with wages and its philosophy was similar to that of the AMI. The AI served as a guideline for negotiating collective agreements and compliance with it was fairly widespread.

No agreement was signed by Business and Labor in 1984. There were intense negotiations, but they never resulted in a general pact of consensus. The reasons for this are to be found in the attitude of the architects of the Socialist government's economic plans and in the representatives of the employers' associations, both of whom felt that they could better achieve their individual objectives by negotiating on the open market. In addition, there was serious disagreement over the wage review clause. Furthermore, UGT seemed reluctant to sign a pact when its "own" government was in power. The truth is that, although there was no real pact, the negotiators established a basis for collective bargaining and their differences of opinion were not excessive. As a result, there was relatively little room for negotiation, labor conflict increased sharply (although the industrial restructuration policy had a lot to do with this), and the end results were not very different from, nor any more favorable to, either Business or Labor than the situation before

negotiations began (Toharia Cortés, 1984; Perez Díaz, 1984). This brings us to the AES (Economic and Social Agreement) signed in 1984 and valid for 1985 and 1986. Like ANE, the AES is a tripartite agreement, although this time CC.OO. is not among the signatories, having walked out on the negotiations. The content of AES differs a good deal from that of the earlier tripartite pact. As several authors have pointed out (Sargadoy, Bengoechea, 1984; J.A. Anton, 1984; Rojo and Perez Amorós, 1984) the AES has three parts: a Government statement, a tripartite agreement (Government, Business and Labor) and an inter-confederate agreement (Business and Labor). The AES signatories had different aims than those of the ANE: the government was trying to put an end to the uncertainty caused by the previous year's failure to execute a pact and wanted to create that climate of confidence that is so necessary if the economy is to recover. Furthermore, the Socialists wanted to improve their credibility which had been damaged by an economic policy which did not respond to the expectations of change they had generated in 1982. For Business, the advantages of the agreement were obvious. First of all, it meant that there would be less labor conflict than the previous year and it also gave Business an opportunity to negotiate what it considered to be the two key issues: Social Security reform and deregulation of the labor market. The AES pact was necessary for Labor as well. UGT was in an uncomfortable position. The fact that the Socialists were in power presented the union from really mobilizing. The AES gave UGT an opportunity to regain its image as a privileged bargainer and strengthened its reputation as a union known for its constructive management. CC.OO. needed this opportunity to negotiate with Government and Business in order to appear as something other than a union dedicated solely to harrassing the Socialist government. The reason CC.OO. did not ever actually sign the AES was because the Communist union disagreed with some of the policies pacte'd and because it had no desire to validate

the Government's political stance. CC.OO. had to maintain its reputation as a union that offered an alternative to the "official" union, which defended the economic policy on the grounds that it was the only possible alternative (Ariza, 1984; Sartori us, 1984).

Having reviewed the general lines of the pacts signed since 1977, we can now draw some conclusions. First, we must remember that union membership is very low in Spain. Estimates are that the total number of union members is less than 15% of the wage-earning population (Roca Jusmet , 1984; Perez Díaz, 1984; Ludevid, 1985). Nevertheless, the two major unions (UGT and CC.OO.) are much more influential in Works Committees, labor conflicts and pacts and in their ability to represent workers in general than membership statistics would lead one to believe. There are various explanations for this discrepancy between the number of union members and the union's actual power as wage-earners' representatives. Some authors have mentioned an "implicit social pact" whereby non-union workers are willing to accept the authority of labor leaders in exchange for some basic satisfactions: giving the working class a "voice" after years of being ignored and giving them "substantial" improvements as well (wages, job security, Social Security coverage and other fringe benefits). According to this theory, the pacts would be complied with not because the labor unions control the wage-earners , but because of the "implicit social pact" mentioned above (Perez Díaz, 1984). Others feel that conformity or indifference account for this compliance with State-wide pacts (Roca Jusmet, 1985).

The tremendous number of unemployed and the low rate of union membership would certainly seem to indicate that these pacts affect fewer workers every day. Still, no one has come up with an alternative to either the labor unions or the pact policy, although CC.OO. has occasionally expressed its active opposition to the latter. There is no doubt that employees of small businesses benefit from

nation-wide wage negotiations which result in more sizeable raises than they could have negotiated on their own. Employees in big businesses are in a better position to defend their claims and they find that these pacts are the best job insurance because it is Spain's biggest businesses that are hardest hit by the economic crisis and the industrial restructuration policy. Furthermore, employees in both types of businesses achieve better social benefits (unemployment payments, pensions, etc.) through concerted agreements than through generalized conflict. But the legacy of the Franco years is important too. During the dictatorship there was a sort of implicit agreement between employees and the State whereby a solid guarantee of job security and considerable State protectionism compensated for the lack of political and labor union freedom (Ludevid, 1982). Viewed from this angle, the increase in union membership and the unions' power to mobilize workers in the last years of the dictatorship and the first years of the transition, were caused more by a desire to gain political and labor union freedoms and put an end to a long history than by a strong and deeply-rooted belief in the labor movement. The labor unions have a low rate of credibility, but the rate of adherence to the pacts is high. The same holds true for the political parties, whose credibility and membership rates are low (Reis, 1984) but which attract votes at election time. A vote is a complete delegation of power that does not imply any subsequent measures of control or any excessively close link to a particular political option. Likewise, the general pacts are adhered to because they "work" and not because people have any more confidence than before in the labor unions or any more desire to join them or because they are any more in agreement with a particular policy.

RESPONSES TO THE ECONOMIC CRISIS: THE POLITICAL SITUATION
AND THE MECHANISMS OF DECISION-MAKING

The various responses to the economic crisis in Spain are also conditioned by the State mechanisms of political decision-making and the country's ever-changing political situation.

After Franco's death, Spain's prime necessity was to make the transition to democracy. At that time UCD was the most suitable party for steering the country peacefully and gradually through the transition. Made up of reform-minded politicians from the Franco regime as well as members of the moderate opposition, UCD's very heterogeneity enabled it to avoid conflicts and accept opinions that would otherwise have made the transition extremely difficult. Unfortunately, this very heterogeneity also meant that the party was torn by inner conflicts that eventually caused its disintegration.

Indeed, when discussing UCD you are talking more about a conglomeration of different groups or "families" and specific personalities or "Barons" than about a unified and uniform political party. The lack of unity was reflected in the very relationship between the government and its own parliamentary group and in the general mechanisms of decision-making. Although many parliament members and ministers were linked by similar political views, this was of little use given the lack of unity within the Cabinet itself or within the parliamentary group. In addition, political offices and responsibilities were handed out among the different "families" that made up UCD and this meant, for example, that the President of the government and the Secretary General of the party had nothing in common either personally or politically, and neither one of them shared the viewpoints of the parliamentary whip. This naturally caused problems within the party.

A look at the legislative process during this period

reveals a consistent lack of cohesion. Every minister searched within "his" parliamentary group for "his" spokesman to defend a particular bill. General discussions between the Government and UCD's parliamentary group were deliberately avoided in order to keep latent differences of opinion from coming to the surface. Only when the differences were so great that the very viability of the bill was threatened would an arduous process of negotiation begin between the government and its own members of Parliament (this was the case with the University Reform Bill, the Divorce Bill and even the 1981 Budget). Furthermore, the fact that UCD did not have an absolute majority in either House meant that the government was continually obliged to negotiate and pact with other parliamentary groups. This put a further strain on the party as the different factions accused one another of being weak or making too many concessions to either the Right or the Left. The opposition pressured the government, criticizing its lack of consistency and its irresolute policy, and made it increasingly difficult for Adolfo Suarez, harrassed by inner-party problems and under constant attack by the opposition, to continue leading the country.

As a result, it was by no means easy for UCD to design a coherent and effective response to the economic crisis. Because of the need to first steer the country through the transition and produce a Constitution of consensus (1977-1979) and later because of internal conflict and the incoherence and subsequent breakdown of its policy (1979-82), UCD did not go very far towards solving the structural problems which caused the economic crisis to hit Spain so hard. In fact, UCD's economic policy was perhaps best known for its lack of coherence and consistent direction. The most accurate description of the economists of the various UCD governments was that they were "a hodgepodge of different factions".

Under these circumstances all UCD could do was passively adjust to the crisis, limiting measures largely to a restrictive monetary policy which resulted in a drop in wage-earners' purchasing power and a spectacular increase in the rate of unemployment. As the country advanced along the road to a solid democracy, UCD, a party born in, and for, the transition period, began disintegrating. At the same time the economic situation was getting worse, the Opposition was taking power in more and more municipal governments and autonomous regions, and the idea of "change" was beginning to take shape. The 1982 elections and PSOE's victory marked the end of the political transition and signalled the beginning of a new era, in which the "economic transition" was to be the key issue.

Indeed, for better (the first coherent strategy for systematically responding to the crisis) or worse (the unpopularity of some of the measures enacted), the economy has played the leading role in this legislature. But there have been other changes which reflect the differences between the Socialist PSOE and the moderately conservative UCD.

As almost everyone knows, PSOE has a long history in Spain. When it emerged again in the 1970's it was with a group of young leaders and an up-to-date platform which resembled the doctrines preached by Europe's modern and powerful Social Democrats. Following a marked upsurge in growth during the transition years, there was a period when the party was torn by controversy over whether or not it was Marxist in nature. This led to a confrontation between the "critical" faction and the party leaders, headed by Felipe González and Alfonso Guerra. Following González' dramatic resignation at the 28th Congress in May 1979 and his clamorous re-election in September of that same year, the "critical" faction of the party was left weakened while the González-Guerra team was firmly entrenched in terms of both organizational and political strategies.

PSOE's success in the 1979 municipal elections, the impressive public image of Felipe González and the Socialist alternative, the debate following the Socialists' motion to censure the Suarez government all presaged the 10 million votes cast in 1982 for PSOE and its much-touted "change".

When the Socialists took power they were backed by a solid party apparatus. No longer were there any "critical" sectors to constitute an obstacle to the strategy of a highly personalized party leadership. Furthermore, the Socialists have an absolute majority in both houses of Parliament, govern in 12 of the country's 17 autonomous regions and in all the leading cities of Spain. Not only that, but in the 1982 elections the moderates were almost wiped off the map and the Communists registered a tremendous drop in votes. In fact, the only blot on the Socialist horizon is the right-wing Coalición Popular and the presence (almost negligible in politics, but still to be reckoned with in the labor movement) of the Communists.

The mechanisms of decision-making are as different as the political situation. While UCD was split into many different factions, PSOE is a highly centralized party where the Secretary and Vice-Secretary General are the outstanding figures. These offices are held by Felipe González and Alfonso Guerra who also happen to be President and Vice-President of the government. Since none of their cabinet ministers are simultaneously members of the party's Executive Committee, this makes the position of González and Guerra even stronger.

A look at the government's relations with Parliament and the Socialist parliament members also reflects this centralization of decision-making. There exists a Secretary of State for parliamentary relations and legislative coordination which is directly responsible to the President's Office and, more specifically, to Vice-President Alfonso Guerra. It is this Secretary of State that centralizes relations between government and parliament and it does so

to such an extent that it filters the replies of every minister to the questions raised by the various members of Parliament. The relations between the government and the Socialist parliamentary group on matters of legislation are also channeled through this office. Every single bill drafted by the government is jointly discussed by the minister or ministers responsible and the Socialist members of Parliament who are specialists in the particular subject of the bill. These meetings, held at the headquarters of the Secretary of State, result in an agreement about which amendments are to be proposed. In the event of disagreement, the opinion of the President or Vice-President is decisive. Although this is the only kind of arbitration acceptable to everyone concerned, it has been resorted to in only 5% of the cases).

This relationship between the PSOE government and its parliamentary group is echoed throughout the legislative procedure, disciplining the parliamentary group and assuring its loyalty but also disciplining the government as well because it can no longer arbitrarily designate spokesmen or present amendments as was the case during the UCD era.

All the foregoing serves to point out the government's leading role in political relations and the great extent to which decision-making is centralized in the President and Vice-President of the government. The party, the government and the parliament all converge and intersect in this team of leaders who, incidentally, have a close personal relationship (Lopez Garrido, 1985).

All this naturally influences the Socialists' response to the economic crisis, which is very different from the UCD approach.

When the Socialists took office they were already familiar with the results of their French colleagues' experiment in

economic expansion. Their determination to take a different path was clear as soon as the new government chose its economists: a highly qualified team, which actually had a certain charisma in the banking world and was strongly backed by the official bank. Furthermore, it was solidly supported by a centralized and consistent political program. The Socialist economists based their policy on the hypothesis, broadly accepted in both Spain and elsewhere, that the only lasting solution to unemployment lies in revitalizing private investment. This meant adopting measures which encourage business profits, guarantee a climate of mutual trust and eliminate the problems frequently cited by Business in order to justify its failure to invest and create new jobs. Labor was naturally opposed to this policy as it meant leaving the unemployment problem to the mercy of a strategy that was beyond government control and that would continue to keep wages down and deregulate the labor market.

Although their economic policy made the Socialists unpopular with their natural allies, it permitted them to move into "enemy territory" and strip the moderate and conservative opposition of a good deal of its strength. Support from the farther left may be lost, but now that the Communists have all but disappeared from the political scene, there is no leftist leader capable of capitalizing on the unpopularity of the economic measures. This government policy makes for strained relations with the labor unions, but UGT is still "obliged" by tradition and its need to capitalize on the Socialist image to leave a door open for dialogue with the government. The other leading union, CC.OO., is not strong enough politically to capitalize on its opposition to the

government. (Although CC.OO, is becoming more and more a socio-political movement, it was still not capable of summoning up much response to last June's attempted general strike).

As Arangu ren said recently, "The Left has governed exactly as the Right would have done. The result is doubly paradoxical: first of all, the Left has ceased to be the Left and now, with the crisis in the Communist party, Spain has no Left wing at all. Secondly, since the so-called Left has taken over the program of the Right, the latter has no content, no raison d'être and is limited to vociferous rhetoric and demagoguery" (Arangu ren, 1985). While this might be simplifying the matter, the truth remains that the Socialists' medium-range policy is based on the idea of political continuity and, by extension, the continuity of its economic policy. As long as the current economic policy is maintained there is little chance for any possible moderate or conservative alternative to the government to prosper and the Socialists (if the referendum on NATO membership does not put a spanner in the works) will get what they are after: a second legislature - and probably with electoral results that are very similar to those of 1982. With political continuity guaranteed and assuming that the economic measures actually work, the Socialists will be able to go to the elections at the end of the 1980's with a more optimistic approach to expansion and social development. Economic recovery will result in new options that will permit the Socialists to make a clearer distinction between PSOE and the moderate and conservative parties and improve their image in the eyes of their "natural" electorate. Spain requires political stability if it is ever to enjoy the fruits of economic recovery. The very policy chosen by the Socialists guarantees this political stability.

Should the medium-term strategy for economic recovery be successful this will, in turn, favor political continuity, thus closing the circle.

Joan Subirats
University of Barcelona
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