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Budget and Policy change in Spain 1977 - 1987

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1. Introduction

While the Seventies in Spain were years of far-reaching transformation and change in the political situation, aggravated by the repercussions of the world economic crisis, the Eighties have seen a great many of the country's economic problems overcome and its relative isolation from the rest of the world ended.

During these years Spain has moved from a dictatorship which had lasted forty years to a state of democracy, which is the longest in its history. We can safely say that this democracy is solidly implanted. The very internal structure of the country has changed. No longer is Spain a thoroughly centralist state. Instead, it now consists of 17 autonomous regions, formed in the wake of the new Constitution, all of which are to a certain extent self-governing. Furthermore, after centuries of isolation, of marginalization, Spain is now a member of the EEC and has broadened its defence policies and its alliance with foreign powers from a simple bilateral relationship with the United States (by no means free of tricky and delicate problems) to becoming a fully integrated member of NATO.

Last but not least, the extremely serious economic situation triggered by simultaneous political transition and world economic recession, in which priority was given to solving political problems and laying the foundation of the new democracy, has been largely overcome. Businesses have begun registering profits in similar proportions to the returns they enjoyed prior to the 1973 energy crisis and the GDP is increasing at a rate higher than that of any other country in Europe. Thanks to increased tourism (over 50 million visitors in 1987) and the massive influx of foreign capital, Spain's foreign reserves account is reassuringly solid. Even inflation has been brought down to more than acceptable levels. Still, economic recovery has not gone hand-in-hand with a proportionate increase in jobs, and jobs are what is needed to solve Spain's exceedingly serious unemployment problem, which officially affects 20% of the active population. Neither has a solution been found to the problem of the public deficit accumulated during these past years. The existence of 3 million jobless is seriously undermining the relationship between the Socialist government and the labor unions, breaking a long tradition of social pacts and agreements which helped keep wage increases to moderate levels and contain inflation.

Furthermore, entry in the EEC has triggered a considerable increase in Spain's trade deficit with the EEC countries as a whole. This could prove a crushing blow to the economy when the Single European Act, slated to unify the EEC market, goes into effect in 1992.

All this proves that so much has happened during this past decade that we can safely speak of radical change in Spanish politics and public policies

TABLE 1 ECONOMIC FIGURES. SPAIN-OECD, 1960-1987

	1960-73		1974-83		1984-87	
	Spain	OECD	Spain	OECD	Spain	OECD
Growth of GNP %	7.2	5	1.6	2.3	3.1	3.1
Inflation %	6.7	3.9	16.8	9.2	6.9	5.9
Unemployment %	2.7	3.4	18.1	9	21.8	8.3

Source: *Statistiques retrospectives OCDE 1960-1982. Perspectives Economiques de l'OCDE, dec.1984, Anuario El Pais, 1986, Own calculations*

We have chosen to analyze this past decade by examining changes in the structure of Spanish state income and expenses as reflected by the budgets of the past ten years

2. The Budget Policy: Major Options and Policy Evolution

The major options of Spanish budget policy in the period from 1977 to 1987 should be viewed in the framework of the economic recession in the developed countries and Spain's own peculiar economic and political situation.

a) The comparative framework

As is well known, during the Fifties and particularly the Sixties, public powers increasingly intervened in economic and social affairs, causing a considerable increase in public spending. This took place at a time of great stability and high rates of economic growth. In these conditions, budget policies were expansionist. Conservatives and Social Democrats governed on this basis. There was no disagreement as to whether public spending was a good thing; the only discussion was about how to spend more.

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With the onset of the crisis years in the Seventies, some doubts about this policy began to be expressed (Damgaard-Gerlich-Richardson, 1988)

The growing gap between spending and income registered between 1973 and 1975 was the starting point for a public deficit situation which has gradually become chronic: the deficit continues to grow simply by virtue of the need to pay interest and make amortization payments on the Public Debt which was issued as a way to finance the deficit in the first place. The increase in interest rates only served to make things worse.

In a situation like this, neo-liberals and conservatives alike began criticizing the effects of public spending and tax pressure - considered excessive - on the allocation of resources, economic stimulation, consumer choice and individual liberty. Despite these warnings, public spending remained stubbornly high.

At the beginning of the Eighties, with the conservative powers safely back in the saddle in most of the Western world, OECD and the EEC Commission set priority goals of reducing the public deficit and keeping down the public debt. In order to make deficit reduction compatible with the goal of increased growth, the deficit had to be reduced by controlling spending and not by increasing taxes. As a result, it was absolutely essential that inflation be reduced. This meant that wage increases had to be kept to moderate levels, which in turn meant that purchasing power would, at least initially, decline.

As of 1986, the drop in the prices of oil and other raw materials caused this policy to be relatively successful, especially as regards cutting down inflation and interest rates. But though the size of the deficit has been reduced, the deficit has by no means been eliminated (Tornos Zubiria, 1988).

Within this new framework, the policies designed in the countries which have been most successful in reducing inflation and correcting budget imbalances (Great Britain, France and West Germany) are aimed at continuing to contain the deficit by lightening the tax burden in an attempt to stimulate production and create employment while simultaneously transferring ownership of public companies to private hands (Gallego Sánchez, 1988). The ultimate goal is to reduce the State's role in the economy and let market mechanisms have freer play.

b) The peculiarities of the Spanish process

Spain has lagged behind the other Western European countries in taking steps to control the public deficit. The policy of public debt in Spain goes back only as far as the advent of democracy and the important jump in expenses contained in the 1976 Budget. The new democracy gave rise to great expectations in broad sectors of society and led to the first attempt at "concertation" (the Moncloa Pacts) between political forces in order to establish economic and social agreements which would parallel the consensus politics applied in drafting the Constitution and alleviate the problems inherent in a transition that of necessity had to be economic as well as political (García Delgado, 1982) ④

However, economic consensus was not as successful as its political counterpart. PSOE's hesitation to play this card for all it was worth, the discontent expressed by considerable sectors of Labor and the business world's radical opposition to the pacts meant that they were not fully adhered to.

It should be remembered here that Spain is more dependent than other industrialized countries on imported oil for primary sources of energy. As a result, from 1973 on all Spain's efforts to deal with the economic crisis were aimed at keeping the increase in energy prices in relation to capital and labor lower than in other industrialized countries. The reason for this was purely political, at a time when the Franco regime was already in its death throes. And so while other countries worked to reduce the final demand for energy per product unit - and were very successful at doing so - in Spain the difference between the costs of energy, capital and labor evolved in such a way that it stimulated (or at least did not discourage) the use of energy and reduction of employment (Blasco-Cruz, 1981).

In a situation like this, increased unemployment and inflation became the main problems and reducing them was the primary goal of the budget policy. The UCD government attempted to enact measures to fight unemployment and inflation that would be compatible, although the effects of such measures are by nature largely contradictory. In order to overcome this contradiction, social pacts were defined as essential if an order of priorities on which to base budget decisions was to be established. The ANE (National Employment Agreement) between Business and Labor was an attempt to confront the problem of unemployment with both sides making sacrifices as regards form and content. The ANE gave a relative push to public investment, hoping to dynamize the economy. Furthermore, Business was given incentives to hire new employees, and

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Social Security coverage for unemployment was increased. In exchange, employers were given a cut in their contributions to the Social Security system, which was made up for by larger public contributions and a policy of moderate wage increases was applied.

These measures were designed to support employment. Together with the fledgling industrial reconversion policy, they meant increased public spending - at least in the short term. This increase was ostensibly to be controlled by greater efficiency in managing such spending and by a reasonable tax increase. The 1982 Budget - drawn up by the last of the UCD legislatures, which was already in crisis - was a first attempt. In 1983 and 1984 PSOE budgets carried on in the same vein in an attempt to bring Spain's macroeconomic and budget policy objectives in line with those of their trading partners abroad, who played an important role in the country's economic, political and social life (Fuentes Quintana, 1983). Thus, when the economic policy of France's Socialist government proved to be a resounding failure, PSOE quickly decided to follow the guidelines recommended by the OECD. Before that, the Spanish Socialist government had favored a budget policy based on increasing taxes in order to be able to increase public spending (intended to act as an engine in the process of economy recovery), and reduce the effects of the wage moderation policy pact in the ANE and later in the AES (Economic and Social Agreement). (Blasco-Cruz, 1981)

Supporting job creation, reducing inflation and the deficit (through keeping wage increases and spending down), changing the system of financing the deficit, greater efficiency in budget management through budgeting by programs from 1984 on, are all aspects of PSOE's economic policy to which must be added the impact of Spain's decentralization policy and the country's entry into the Common Market in 1986. All of these things form the axis on which Spain's budget policy has revolved in recent years.

This policy, which has not been successful in controlling the increase in unemployment, has managed to erode relations between the Socialist government and the labor organizations. The Communist-oriented Workers' Commissions (CC.OO.) opposed the government's policy from the outset and as time went on even the Socialist UGT began distancing itself from the government and finally reached a point of open confrontation.

In Spain, as in all other Western countries, the situation is now completely opposite to what it was back in the Sixties. Today's goal is to contain spending. And, as was the case twenty years ago, everyone agrees the goal is a good one. The only differences in opinion are on how it is to be reached.

It should be remembered here, however, that the decision to contain spending was made when the volume of "committed" spending was already great and leaves little room for manoeuvring (16-17% of total spending) when it comes to setting figures for Expenses and Income (Blasco-Cruz, 1981).

3) Income Policy

Public income is not simply money to be used for paying expenses, it is also a powerful instrument for achieving specific objectives.

Public income comes from taxes (about 40% of the total), social fees (about 30%) and miscellaneous types of income (rates, returns on assets and, above all, financial operations such as public debt issues).

Budget and tax policies operate on these three levels in order to obtain the level of income desired and specific social and economic effects.

On State (central) level fiscal resources come exclusively from taxes and rates. The percentages collected through direct and indirect taxes are almost equal, although indirect taxes account for a slightly higher percentage (45% of all tax income).

The main source of direct taxes is the personal income tax which accounts for 1/3 of tax income. Corporate income tax is much less important - accounting for somewhat less than 10% of the total - but in recent years taxes from this source have been growing far faster than the average as corporate taxes rise and tax inspection becomes increasingly common. The share of other, smaller direct taxes (capital gains taxes, inheritance taxes and taxes on net worth) in State income has grown smaller as the proceeds from many of these taxes are now turned over to the individual regions.

VAT is by far the most important indirect tax, accounting for 21.5% of the total

Lastly, rates account for about 8% of all taxes collected and recent policy favors increasing rates until they more closely approximate the cost of the services provided by the State (Boyer, 1983).

The tax burden in Spain continues to be one of the lowest of all Western industrialized countries.

Table 2. Comparative Tax Burden

Países	1984	1978
Estados Unidos	28,99	26,92
Japón	27,89	21,79
Suecia	32,18	31,39
Bélgica	48,73	41,47
Dinamarca	48,82	41,55
Francia	45,49	39,39
Grecia	35,23	27,27
Irlanda	38,49	34,99
Italia	41,17	38,27
Holanda	45,54	43,24
Portugal	31,97	28,85
Reino Unido	38,51	35,94
RFA	37,73	36,77
España	28,39	19,61
OCDE total	37,11	33,69
OCDE Europa	38,88	35,49
Comunidad Europea	41,88	38,83

Source. OECD. Anuario El País. Madrid. 1987

in 1978 taxes rose sharply only to remain practically stable during the remaining years of UCD government.

With the advent of the socialist government taxes were increased twice, in 1983 and 1984. The 1983 increase was in the rates of Personal Income Tax while 1984 brought increased tax income as the result of a drive to fight income tax evasion.

Table 3. The Spanish State Fiscal Income (Source: Own Calculations)

1978	10.2 (% of GDP)
1981	11.17
1982	11.15
1983	12.75
1984	14.7
1985	14.6
1986	14.7

The most recent trend is to increase State income from taxes without raising taxes themselves. In other words, the policy now is based on the goal of "everyone who has to pay taxes paying the amount he or she ought to pay". This involves a continuous fight against tax evasion and an improvement in how tax collection is managed. It also means making the tax authorities more accessible to taxpayers both physically (through opening more offices) and by simplifying the forms taxpayers must fill out. But the fight against tax evasion must become even more effective without tempting people to avoid their obligations. Tax collection must be carried out in a more open and aboveboard manner and the public must be more clearly informed as to what tax money is used for. Last but not least, spending priorities must be brought in line with the often difficult combination of social demands and general interest.

Even if this new orientation should prove effective economically speaking - a possibility which is being questioned primarily by Labor - it can scarcely be successful unless some definite progress is made towards the goals mentioned above. This will not be easy given the way Spaniards view their fiscal system. Still, it is true that recent surveys have shown an increasing trend towards meeting one's obligation as a taxpayer and an equally growing belief that tax evasion is on the decline, due not only to tighter controls but also because most citizens are convinced that tax evasion is being more severely punished.

As regards the tax structure, up until 1977 indirect taxes were more important than direct ones. The 1978 budget - the first of the democratic years - included a major leap in direct taxes, bringing them more in line with indirect ones. The same budget also registered a considerable increase in public spending. The reason for the shift towards a system of taxation according to income was the change in the political framework, and the importance of Leftist political parties.

Things were relatively stable, with slight ups and downs, until 1983, when the first Socialist budget increased the importance of direct taxes yet again. The Socialists' arrival to power meant a slight break in the trend towards increasing indirect taxes and the government defined this measure as "accentuating the progressive nature of the tax system".

However, as of 1984 the trend reversed and indirect taxes began again increasing. By 1986, when VAT was introduced, they once more accounted for a greater share of tax income than did direct taxes. (Note: do direct and indirect taxes balance out if you don't count province-level taxes such as sales taxes and canons which were not collected by the State and have now been replaced by VAT?)

The Socialist government justifies, and is attempting to compensate for, this change, which amounts to a setback for progressive taxation, by redistributing its spending (bigger State contributions to the Social Security system - instead of employer payments! - and more unemployment coverage). At the same time, they are adjusting tax rates and income tax deductions to favor lower income groups.

Still, up until 1986, two-thirds of the Spanish public felt that the tax system was unfair because the burden was badly distributed.

There is an impression that State administration of income has improved since the earliest days of democracy. Public opinion registered a major change for the better when the Socialists came to power. The Socialist image has now become slightly tarnished, no doubt simply by virtue of being in power.

The man in the street increasingly tends to relate the idea of taxes with services. The dominant opinion is that the services provided by the State don't correspond to the needs of Society. The more conservative sectors are naturally the most reluctant to raise taxes in order to improve services. However, the majority of political forces favor cutting defense spending in order to improve public health and education services and aid, agriculture. Still, and in line with the government philosophy, the preferred way to increase tax income and improve services is by fighting tax evasion and administering the taxes collected in a more efficient way.

4 The Increase in Public Spending

One of the most noteworthy phenomena of this past decade is the great increase in public spending registered as of 1977. As is well known, the term "public spending" embraces all public sector spending. This makes it difficult to clearly demarcate the different categories of spending, particularly in a country like Spain, where a radical change in the system has meant a redistribution of power. In order to be able to make relatively coherent comparisons, we shall consider "public spending" here to mean the total combined expenses of central, regional and local Public Administrations, not including allocations to autonomous agencies of a more commercial nature or expenses of a public institution like the Post Office which is implicitly covered by the State Budget (Borrell, 1985).

In 1977 public spending accounted for 24.9% of Spain's Gross Domestic Product. In the course of a decade it rose to almost 44%. This increase of almost 20 percentage points in ten years is above the average increase in public spending registered in the OECD countries and brings Spain somewhat closer to the levels of public spending registered in the most highly developed European countries (55%) (La Vanguardia, 1 March, 1988).

We should also make special mention here of the tremendous increase in overhead, which accounts for over 90% of the total increase in public spending. Rising overhead played an important role in the key years of the political transition (1976, 1977, 1978), when social benefits alleviated some of the strain caused by the dramatic political change. Social benefits accounted for the lion's share of increased overhead, although major increases were also registered in the so-called "operating subsidies" and effective interest rates, the former largely due to increasing efforts to promote and financially support the private sector and the latter due to the increase in financial costs caused by the public deficit.

if we analyze State expenses, the most spectacular changes were registered in Social Security spending (0.5% of the GDP in 1977 vs. 2.9% in 1987). One of the major reasons for this increase was the fact that Employer contributions to Social Security were reduced. State funds destined for unemployment benefits rose from an almost symbolic amount in 1977 to 1.2% of the GDP in 1987. Furthermore, there was a considerable increase in the transfer of State funds to the autonomous regions and municipal governments.

How can these major changes in the structure of public spending be explained? Aside from the inflationist effect which might justify a certain increase in monetary terms, it seems obvious that political and institutional changes and the impact of the economic crisis in Spain are the causes of increased spending. Neither can we overlook the fact that the structure of public spending has been affected by Spain's redistribution in autonomous regions and the country's membership in the EEC.

a) the political change

Political changes have had an important impact on both society and public institutions, triggering an increase in public spending. The basic reasons for this are to be found in the explosion of a series of grievances which had been suffocated for many years by the dictatorship. When in 1977 it became possible to participate in Spain's political life, these grievances were voiced louder and more clearly - at a time when the weakness of the State, riddled with internal contradictions and hobbled by resistance to change, made it more vulnerable. These grievances were quickly translated into improvements in public health, education, culture and social welfare services. For example, between 1973 and 1981 public spending on old age pensions rose from 3.7% of the GDP to 7.9% (by 1987 it accounted for 30% of total public spending). During the same period unemployment costs rose from 0.2% to 2.5% of the GDP (Lagares Calvo, 1982).

Because changes in government institutions and subsequent alterations in administrative structures were not accompanied by a change in the system of financing, they also contributed to the increase in public spending. Administrative structures of the dictatorship (the National Movement or single political party, vertical union organizations, the so-called Movement press, etc.) disappeared but the fixed costs of their operations lived on, albeit dispersed, under different names and with

different destinations. No significant decrease in spending was noted as a result of the demise of the dictatorship. In fact, personnel costs rose from 6.6% of the GDP in 1973 to 9.5% in 1981.

The new democratic institutions and the political renewal that took place in local governments also triggered considerable increases in public spending. Particularly worthy of note here is the tremendous increase in public spending by local governments. Directly pressured by the public, local governments were obliged to deal with serious problems of infrastructure, urban public works, public school improvements, etc. This caused the State to considerably increase the funds transferred to local governments which were unable to generate their own short-term funding.

Furthermore, what have been called the "costs of national reconciliation" (Borrell, 1985), i.e. expenses occasioned by the new democracy's attempt to redress wrongs caused by the fratricidal Civil War of the Thirties, also contributed, though to a lesser extent, to the increase in public spending by recognizing the passive rights of exiles or those who had suffered retaliation at the hands of the Franco regime.

b) the economic change

The economic recession which began with the increase in oil prices also had an influence on the structure of Spanish State spending. Naturally, the deterioration of the economic situation immediately translated to an increase in social needs, such as unemployment benefits, subsidies to public or private business, etc. Furthermore, a public investment policy designed to compensate for the inertia of the private sector was applied. Although this policy did not go into effect immediately, it led to a major increase in public spending as of 1980-1981. This spending took the form of transfers to public companies with large deficits and to costly policies designed to reconvert the industrial sectors hardest hit by the crisis (the textile, heavy metal, construction and shipbuilding industries).

During the early part of the democratic period (at least up until 1984) major errors were made in budgeting for public spending. During the dictatorship, the State Budget had been an instrument suitable for an Administration which did almost nothing and whose public was more interested in avoiding taxes than in demanding public services.

Nor can we overlook the tremendous increase in financial charges which rose from 8.37 billion pesetas in 1975 to 694 billion in 1985 and to

9% of total public spending in 1987. This increase in financial charges occurred when it was decided not to resort to the official bank in order to finance a deficit which was pushing inflation ever higher, but to instead use the more orthodox system of State treasury notes.

The economic situation also triggered an important change in the Spanish government policy on public companies. During the Franco years the tendency was towards creating a sort of "national company", following the Italian example of the IRI (its counterpart in Spain was - and still is - called the INI/National Institute of Industry) which would later serve as a way to subsidize private businesses in crisis (particularly in the mining and heavy metal industries). With the advent of democracy political problems took priority and the issue of the public companies in Spain and their true economic situation was, like so many other things, temporarily shelved.

As of 1982 there began to be important developments in this sector. The exceedingly serious financial situation of Rumasa left the Socialist government no other choice but to expropriate this huge company whose holdings included industries and banks. Rumasa was expropriated just two months after the Socialists formed their first government and led many observers to see similarities between the nationalizations of the French Socialists during their first year of government and the advent of Socialist government in Spain. They could not, however, have been further from the truth. Six years later we can clearly see that the successive González governments have always been not only opposed to nationalizations and expropriations but have returned a number of publicly-owned companies to private hands, starting with the the ones "acquired" from Rumasa in February 1983. The reasons are largely the same as those cited in other European countries: financial considerations, and the organizational flexibility required by the new economic circumstances. However, in Spain, logically enough, no mention has been made of those political reasons (less Government influence) which were so important in other countries.

The Socialist government's official position is that "reprivatization" does not take place in Spain. Instead, attempts are being made to "rationalize and change the dimension" of State holdings (Cuervo, 1986). Using this rationale, the State has sold off companies as important as the SEAT automobile manufacturer and the great majority of the Rumasa companies and has dissolved or shut down many other publicly owned firms.

c) the change in autonomies

Naturally enough, the process of political transition coincided with an increasing demand for self-government by certain parts of the Spanish state which had historically aspired to some degree of autonomy. The 1978 Constitution attempted to satisfy these demands without closing the door to other regions which might eventually wish to opt for autonomy as well. This process more or less ended in 1987 when the transfer of all powers slated for the regional governments was completed. As a result, there has been a certain shift in funds from the State to the individual regions so that they can satisfy the commitments inherent in their newly-acquired powers. Similarly, and as already mentioned, local governments were pressured by their constituencies and because there were all manner of deficiencies in structure and service that dated far back into the past, the State was further obliged to transfer considerable amounts to the local governments in order to remedy this situation.

By 1985, when most of the transfers had taken place, the breakdown of public spending was as follows: 73% was accounted for by the State, 11% by regional governments and 16% by local governments (Colom, 1985). These figures are far from the ones contained in the "Pacts on Autonomy" in which the ideal breakdown was set at 50% for the State, 25% for the regional governments and 25% for the municipal governments. This ideal breakdown was recommended in a report drafted by a committee of experts, following a comparative study of the structure of spending and its distribution among the various levels of government in a number of European countries (*Informe Comisión Expertos, 1981*)

Nonetheless, an important change has taken place in these past years. In 1977, when regional governments did not yet exist and the volume of transfers to local governments had not increased, the breakdown of public spending was 88% for the central government and 12% for local governments.

d) the European change

Although the establishment and consolidation of Spain as a State of Autonomous Regions was important, the country's entry into the Common Market was - and continues to be - no less so. On January 1, 1986 Spain entered the EEC after a lengthy process of negotiations, thereby satisfying a long-felt desire to put an end to the country's role of "odd man out" after 40 years of dictatorship and centuries of isolation. Probably because of this, Spaniards valued the historical and political advantages of membership in the EEC higher than the economic ones.

Now, over two years after joining the EEC and with the Single Europe of 1992 on the horizon, the economic aspects of Common Market membership are in the foreground. As Spain's foremost EEC authority, Manuel Marin, Vice-President of the EEC and Commissioner of Social Policy admitted, referring to Spain's economic competitiveness, "Spain still hasn't reached the appropriate cruising speed for working in the EEC". (Declarations to El Pais, December 23, 1986). Factors such as facilitating foreign investment in Spain, searching for adequate measures to offset the opening of a market in which some specific sectors will have trouble keeping competitive, concern over the fact that Spain is not a net contributor to the EEC are constant motives of preoccupation for Spanish political powers. The balance sheets of the first two years as an EEC member reveal, in fact, that Spain had a deficit each year of approximately 570 million ECU, and this will no doubt also have an effect on the structure of our public spending.

Recent agreements made at the European summit of Heads of State in Brussels seem to have set the course to follow towards the Single Europe of 1992. They also seem to have definitely recognized that Spain's industrial and financial sectors will play a secondary role in the Europe of 1992 and responded by designating generous amounts for social funds and the country's regional development.

5) The change in the budget model

If the relationship between the State and its tax payers was to improve as a result of more efficient management of the budget and greater clarity in the choice of spending options, then a change in the budget model was essential. Thus, the 1984 Budget- the first of the Socialist period- introduced reforms in the way the State Budget is elaborated, presented and executed. The former Budget by Resources was replaced with a Budget by Objectives (or Goals), generally referred to as the Budget by Programs.

Under the old system, budget allocations were in no way linked to specific objectives. In other words, the budget established **who** could spend, **how much** could be spent and **how** it could be spent, but there was no clear explanation as to **why** a particular expense was budgeted. Thus, there did not exist a budget system which made it possible to group together the results of the measures employed by different agencies in pursuit of a single goal. The matter of personnel costs was thoroughly unclear. There was no way to get a breakdown of personnel costs by activities. The Budget by Resources was a mishmash of scarcely intelligible information.

The 1984 Budget (by Programs) was devised in such a way that, formally at least, the important thing was not so much knowing the kind of spending that took place (on personnel, operations, etc) as knowing what was the objective of this spending and to later be able to see whether or not this objective had been met. The budget was structured by programs and these had to be formally adhered to. Any decision as to the distribution of public funds was to be based on this breakdown by programs.

This new type of budget was also presented as essential in terms of politics. It was said to respond to the taxpayers' curiosity about how funds were distributed for different purposes. The new budget model aimed to much more clearly identify and evaluate Government priorities and the goods and services received by the public in exchange for taxes paid.

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Still, a new budget model is not introduced in a vacuum, but in a context where there are bound to be remnants of the earlier situation (technical background, institutional organization, etc.), no matter how much political good will exists. Such a change is further complicated by the impact of major institutional changes such as decentralization into autonomous regions and membership in the EEC (addition of the Interterritorial Compensation Fund (FCI) and other European funds such as FEDER, FEOGA and FSE).

Budgeting by programs is still in the process of taking root in Spain and will become "apparent as policymakers increasingly adopt the nomenclature and categories of the Budget by Programs in order to explain their decisions and alternatives, and as the Administration itself becomes structured in these categories in order to administer the corresponding funds" (Ministry of Economy, 1987). At the present time, the change is still largely a simple change in name.

Conclusions

1. Without risk of exaggeration we can say that Spain is the Western European country that has changed most in the past ten years. Everyone knows about the political change in Spain, but there have also been changes in the field of economics and in the way public policy decisions are designed and made. The State has been obliged to adapt its administrative and bureaucratic processes to a new situation which includes such authentic novelties for Spain as democratic elections, Parliamentary negotiations on the content of regulatory bills, outspoken declaration and subsequent negotiation of social needs, fragmentation of power and new importance of the individual regions, or internal and formal influence on decisions related to supranational norms.
2. The transition to democracy had an impact on Spain that is too well known to warrant further discussion here (Subirats, 1988; 1987) (Canals-Pallarés-Vallés, 1986), but it is obvious that the change from a centralist structure to a decentralized system of autonomous regions has caused - and continues to cause - major changes in the political process of decisionmaking. This can be clearly seen in the budget structure and in the distribution of public income and spending. Furthermore, Spain's entry into the EEC has caused economic means and decisionmaking to be transferred on yet another level - outside of Spain - with results that are thus far contradictory.

3 Following initial hesitation due to the delicate political situation, the major options of the Spanish budget policy have gradually been brought more in line with those of comparable countries abroad. Spain's increasing integration into the Western world has done a good deal to consolidate the position of democracy, but it has limited the range of policy alternatives to be developed. The increasing economic movement between Spain and the other EEC and OECD countries makes it ever more difficult for Spanish policymakers to make independent decisions of a macroeconomic nature.

4. In this context, the change in the ruling political party has had only a relative impact on Spain's major budget options. The country has gone from a situation dominated by the need for democracy to put down roots and by a government which functioned on the basis of Parliamentary pacts and was backed by a party that lacked inner cohesion (UCD) to a situation where democracy is firmly entrenched and the government has the support of a Parliamentary majority and a tightly knit political party. This situation and the Socialist government's ideological proximity to the labor organizations made it possible to firmly implement a policy of reconversion and adjustment (in line with OECD recommendations), but ultimately led to a breakdown in communications between Labor and Government, giving rise to a new period of tension which can only be alleviated by a general improvement in the economy, such as seems to have begun during the past year. PSOE's arrival to the government and the progress made in fighting tax evasion has improved the Administration's image without correcting the widespread public impression that the State does not provide the social services that correspond to existing needs or to the burden borne by the taxpayers.

5. The result of all the foregoing is a complicated mixture of change and continuity. Change to the extent that all outside points of reference are now different. There are new leaders, new rules of the game. Continuity because despite the change in scenario and in the leading actors, the peculiar way of relating State power to traditionally powerful social groups (to which there are now many more aspirants) still lives on. In fact, since 1982, the extraordinary hegemony of the Socialist party on State, regional and local levels, has caused a reappearance (we cannot safely state that it had ever been thoroughly eliminated) of the special direct connection between the State and Society that was long a characteristic of contemporary Spain. In this relationship, mutual weakness is shored up by personal networks of influence and "politicking", networks that have proven far more efficient than the

political institutions formally charged with decisionmaking. The new economic and political situation has caused standard government routine to be readapted, so that dealings are generally more open and aboveboard and the government itself is more accessible. However, numerous vestiges of the past still exist and because of this the past ten years in Spain can be described as a prodigious decade of continuity and change.

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