Economic crisis and democratic consolidation in Spain, 1973-82

Joseph Harrison

Abstract
This Spain’s transition from dictatorship to democracy after the death of General Francisco Franco in 1975 has been viewed in many ways. Political historians and political scientists generally deem it an outstanding success. Yet many economists and economic historians have been remarkably critical of the process. This article analyses how the long-drawn-out process of democratic consolidation caused policy-makers to neglect other unresolved issues, not least the country’s enduring economic crisis which dragged on from the mid 1970s to the mid 1980s. Lack of political legitimacy, weak governments and, to a certain extent, the perceived requirement for consensus held back the Madrid authorities from tackling head on many of Spain’s fundamental problems, especially in the field of economic policy. From the beginnings of the crisis in 1973 until the summer of 1977, when voters went to the polls for the first time in more than four decades, Spain was governed by a series of weak and unstable administrations. In addition, the political authorities were seriously challenged by a resurgent opposition. After June 1977, against a disturbing background of low growth, rising inflation and incipient inflation, the minority centrist government of Adolfo Suárez finally resolved to take firm action.

Keywords: Spain, Economic Crisis in Spain.

Joseph Harrison: University of Manchester.
E-mail address: robert.j.harrison@manchester.ac.uk
ECONOMIC CRISIS AND DEMOCRATIC CONSOLIDATION IN SPAIN, 1973-82*

JOSEPH HARRISON
University of Manchester

Abbreviated title: Economic Crisis in Spain

Abstract: Spain’s transition from dictatorship to democracy after the death of General Francisco Franco in 1975 has been viewed in many ways. Political historians and political scientists generally deem it an outstanding success. Yet many economists and economic historians have been remarkably critical of the process. This article analyses how the long-drawn-out process of democratic consolidation caused policy-makers to neglect other unresolved issues, not least the country’s enduring economic crisis which dragged on from the mid 1970s to the mid 1980s. Lack of political legitimacy, weak governments and, to a certain extent, the perceived requirement for consensus held back the Madrid authorities from tackling head on many of Spain’s fundamental problems, especially in the field of economic policy. From the beginnings of the crisis in 1973 until the summer of 1977, when voters went to the polls for the first time in more than four decades, Spain was governed by a series of weak and unstable administrations. In addition, the political authorities were seriously challenged by a resurgent opposition. After June 1977, against a disturbing background of low growth, rising inflation and incipient inflation, the minority centrist government of Adolfo Suárez finally resolved to take firm action.

Spain’s transition from dictatorship to democracy after the death of General Francisco Franco in November 1975 has been viewed in many different ways. Political historians and political scientists generally deem it an outstanding success. Yet many economists and economic historians have been remarkably critical of the process.
This article analyses how the long-drawn-out political process of democratic consolidation caused policy-makers to neglect other unresolved issues, not least the country’s enduring economic crisis which dragged on from the mid 1970s to the mid 1980s. Lack of political legitimacy, weak governments and, to a certain extent, the perceived requirement for consensus held back the Madrid authorities from tackling head on many of Spain’s fundamental problems, especially in the field of economic policy.

Not for the first time in the twentieth century -- the other memorable occasion being the hapless Second Republic of the 1930s -- it was Spain’s misfortune that an economic depression engulfed the country at a moment of profound political uncertainty. From its beginnings in 1973 until the summer of 1977 -- when the voters went to the polls in the nation’s first free elections in more than four decades -- Spain was governed by a series of weak and unstable administrations, all of them lacking in political legitimacy. In addition, the political authorities were seriously challenged by a resurgent opposition and an emerging civil society. After June 1977, against a disturbing background of low growth, galloping inflation, and incipient unemployment, a minority centrist government, led by Adolfo Suárez, resolved to take firm action. Above all, Suárez -- King Juan Carlos’s preferred candidate for the post of prime minister (presidente del Gobierno) -- hoped to strengthen the legitimacy of Spain’s fragile democracy as well as to ensure the survival of his fledgling political party, the Unión de Centro Democrático (Union of the Democratic Centre -- UCD) formed by the amalgamation of fifteen national and regional parties in May 1977. Suárez -- a shrewd political operator -- was confronted with the stark choice between gradualism and shock therapy. Both options were clearly fraught with potential dangers. A concerted attempt to push through rapid economic adjustment might easily
spark off massive social unrest. At the opposite extreme, by settling for moderate reform, in order to avert a confrontation with a nascent trade union movement, Suárez risked jeopardizing the political transition. Denied a parliamentary majority by the electorate in June 1977, he plumped for the second option, to be implemented via a series of social and political agreements with the opposition. The principal achievement of Suárez’s consensual approach -- often referred to as social concertation -- was the Moncloa Pacts of October 1977. These negotiations involved, among other matters, face-to-face meetings between Suárez and the leaders of the Partido Socialista Obrero Español (Felipe González) and the Partido Comunista Español (Santiago Carrillo). Over the next five years, however, the UCD administration began to disintegrate and eventually disbanded. Most notably, between the general elections of March 1979 -- when the party was returned to office following the approval of a new democratic constitution -- and those of October 1982, which resulted in a landslide victory for the more dynamic-looking Socialists, the political situation south of the Pyrenees was characterised by weak government and a strong opposition. As a result, the administrations of Adolfo Suárez (1977-81) and his successor Leopoldo Calvo Sotelo (1981-2) tended to put off taking controversial decisions. Only when the PSOE -- with its huge majority -- won power in 1982, did the political elite regain its capacity for taking decisive action.

Spain’s lengthy and deep-seated recession of 1974-85, provoked by the decision of the oil producers’ cartel OPEC (Organisation of Petroleum-Exporting Countries) in 1973 to treble the price of crude oil on international markets, brought to an end a decade and a half of unprecedented economic expansion south of the Pyrenees. From the late 1950s, the nation was transformed from an agrarian backwater -- where
almost one-half of the active labour force worked on the land -- to the world’s tenth-largest industrial power.

Most interpretations trace Spain’s ‘Golden Age’ of economic growth (1960-73) from the implementation of its highly acclaimed Stabilisation Plan of 1959 which opened up the Spanish economy by liberalizing foreign trade and encouraging inward investment, thereby putting paid to twenty years of ‘absurd autarky’. This point of reference for the Moncloa Accords of 1977 was introduced by a new breed of technocratic ministers associated with the Catholic lay group, Opus Dei, aided by a distinguished coterie of economic advisers from the Bank of Spain and the finance ministry, many of whom -- including Spain’s most celebrated economist, Enrique Fuentes Quintana -- occupied key posts in the administration upon the death of the patriarch. A number of the economists who worked on the 1959 Plan passionately desired that the economic liberalisation measures would clear the way for far-reaching political reforms, leading to the demise of Franco’s suffocating dictatorship. Alas, they would have to wait another two decades.

In the short term, the Stabilisation Plan brought mixed blessings. On the positive side, the annual inflation rate tumbled from 12 per cent in 1957-59 to 2.3 per cent in 1959-61. The country’s visible trade deficit also fell, from 7 per cent of GDP in 1957-8 to 3.2 per cent in 1961. On the negative side, the Plan created a number of losers. The traumatic shock which it unleashed on Spain’s backward economy paralysed economic activity for the next eighteen months. Marginal firms collapsed, while private investment and industrial output plummeted. However, the leading casualties of the Plan were the working classes, denied the protection of democratic trade unions. The official jobless total jumped from 74,000 during the third quarter of 1959 to roughly 200,000 by the end of 1960. Indeed, it was largely due to
unforeseen developments, above all the take-off of mass tourism along the costas, that the country was not plunged into recession.

Between 1960 and 1974, per capita GDP rose by an average of 7 per cent per annum. Within the developed world, only Japan boasted faster growth. Yet, Spain’s rapid economic expansion -- loudly trumpeted by the Franco regime -- was distinctly unbalanced. Industrial production increased by an annual rate of 10.2 per cent, compared with 6.7 per cent for services and 2.3 per cent for the shrinking agricultural sector. In addition, the country’s manufacturing boom of the 1960s was dangerously dependent on specialisation in a restricted number of ‘mature’ industries -- prominent among them iron and steel, shipbuilding, and textiles -- which faced stiff competition from the so-called Newly-Industrializing Countries (NICs). Cushioned by protective tariffs, reinforced by further state intervention after 1964, industrial production remained overwhelmingly directed towards the narrow domestic market. Manufacturing exports, meanwhile, languished.

Furthermore, the very existence of Spain’s industrial boom of 1960-73 itself disguised a plethora of structural weaknesses. In particular, the country’s prosperity, was extraordinarily vulnerable to potentially destabilizing outside influences. Thus, imports of raw materials, capital goods, and semi manufactures crucial to its delayed industrialisation had to be financed by a combination of foreign direct investment (FDI), emigrant remittances and revenues from foreign tourism. The future of Spain’s smoke-stack industries was perilously dependent on cheap supplies of imported oil, which made up almost seven-tenths of total energy consumption in 1974. Elsewhere, the nation’s rudimentary health and education systems failed to satisfy even the basic needs of the population. Yet the timid attempts of the finance ministry, spearheaded by Enrique Fuentes Quintana -- the country’s foremost authority on public finance --
to modernise its regressive and inadequate taxation system, initiated in 1969, were blocked by the Council of Ministers in June 1973 due to fears of antagonizing the regime’s well-heeled supporters. According to one estimate, Franco’s Spain had the smallest public expenditure in Western Europe, accounting for as little as 11-12 per cent of GDP in 1973-4.\(^{15}\)

Despite these shortcomings, the ‘Spanish growth model’ of the 1960s and early 1970s permitted a prolonged period of development. Whatsmore, this was achieved without giving rise to the sort of the balance-of-payments problems which had bedevilled the final years of Spain’s autarkic experiment. At long last, the Iberian nation started to catch up with its more advanced neighbours. According to a recent calculation, its per capita GDP rose from 51 per cent of the EC average in 1959 to a respectable 77 per cent in 1975.\(^{16}\)

II

During the summer of 1973, Spain’s GDP was growing by an impressive 8 per cent, its gold and foreign currency reserves enjoyed a healthy surplus of $6 billion, while unemployment was an insignificant 2 per cent. To all appearances, the only storm cloud on the horizon was an inflation rate of 12 per cent.\(^{17}\) Even so, the deputy director of the Bank of Spain’s research department later conceded that ‘the fight against inflation would never have been an objective of Spanish economic policy’.\(^{18}\) Yet, to the surprise of most observers, the nation was on the verge of a long-lasting depression whose intensity surpassed that of all of its rivals. In the opinion of two young left-wing economists, writing in the mass circulation weekly Triunfo, the crisis signalled the exhaustion of the Spanish growth model.\(^{19}\)

Coinciding with its successful political transition, Spain suddenly found itself relegated from leader to laggard in terms of economic growth. Its per capita GDP fell
from 77 per cent of the European Economic Community average in 1975 to 71 per cent in 1985. Not until the country’s belated recovery in the second half of 1985, following the approval of its application to join an enlarged EEC, did economic divergence make way to a renewed phase of catching-up.

What were the causes of Spain’s recession? In the early stages of the crisis, the dominant impression was that it was a transient phenomenon brought about by the sharp rise in the price of oil. According to the Bank of Spain’s calculations, the overall impact of the oil shock was equivalent to a three per cent drop in national income in 1974, with similar falls over the following three years. A tripling of Spain’s total import bill for crude oil in 1974, from 62 billion pesetas to 199 billion pesetas, in turn led to substantial price increases, a slump in exports bringing with it severe balance-of-payments problems, a collapse in business profits, and a sharp fall in private investment. Before long, however, prime responsibility for Spain’s economic downturn was attributed to a massive increase in wages in the manufacturing sector during the mid-1970s as -- in the face of rampant inflation -- social groups struggled to maintain their real incomes. In the opinion of a future UCD trade minister, the country became the victim of the ‘champagne effect’ on labour relations, as the cork finally shot out of the bottle after forty years of repression. Other interpretations emphasized changes in the pattern of international trade which favoured the Newly-Industrializing Countries (NICs), where labour costs were lower, the impact of falling profits on business confidence, together with restrictive monetary and fiscal policies.

Prior to the general election of June 1977, much of the responsibility for the country’s relative economic decline can be ascribed to the prevailing atmosphere of political uncertainty. This phenomenon manifested itself in the political class’s
persistent refusal to take tough decisions on the economy. The London Economist, an unrivalled source of information and comment throughout the transition period, contended that Spain had been ‘left virtually pilotless by a succession of politically weak governments’. Its Madrid correspondent contended that ‘political uncertainty has already had its economic effects: foreign investment has shrunk, 50 per cent fewer buildings are under construction outside the subsidised housing sector, and holiday bookings have slumped in most of the country’s tourist resorts.’ Two months before the Caudillo’s death, the paper declared that:

Spanish businessmen looking to the Franco twilight see few bright stars. If there are fears of a Portugal repeat investors will shy away. So will tourists. The government is intent on keeping the workers happy (unemployment is still under 3 per cent), but inflation is at an annual 20 per cent. … The trade deficit doubled to $7 billion in 1974. Best hopes are for a 1 per cent growth in GNP this year, but even that is unlikely if investment keeps dropping.

A similar judgment came from the pen of Samuel D. Eaton, deputy chief of mission of the United States foreign service in Madrid, and a keen observer of political and economic life south of the Pyrenees. In his personal account of the events of 1974-9, Eaton argued that:

Franco’s governments in their last two years had no taste for demanding sacrifices even when it became clearer that they were necessary. Instead, they were assiduous in providing easy money and encouraging substantial increases in real wages. The economic crisis that was approaching was not visible to
them: at a time when political ferment was growing, and Franco’s physical infirmities becoming increasingly evident, they tended to concentrate on not rocking the boat rather than on straightening out economic matters.\textsuperscript{31}

\textit{The Economist’s} blunt assessment of Adolfo Suárez’s first unelected government (June 1976-June 1977) was that ‘economics follows politics’.\textsuperscript{32} ‘Bereft of political influence with the working class, the authorities in Madrid bought labour peace by winking at wage increases that exceeded government ceilings. Gaping trade deficits were covered by dipping ever more deeper into reserves and borrowing ever more heavily abroad’.\textsuperscript{33} A similarly harsh conclusion was reached by the Paris-based Organisation for Economic Co-operation and Development (OECD), which affirmed that:

The Spanish economy has been characterised by slow growth, falling investment and a substantial increase of unemployment during the last few years … in sharp contrast with the very rapid growth and industrialisation of the 1960s and early 1970s. Moreover, the rate of inflation has been one of the highest in the OECD area and the current external deficit increased sharply until the summer of 1977, before the devaluation of the peseta and other measures produced a noteworthy improvement. These unfavourable developments reflected, to a large extent, the effects of the world depression and subsequent slow recovery. But domestic politics also did not come to grips with increasing disequilibria in the economy during the period when priority was accorded to fundamental institutional and political reforms. It was
only after the elections of 1977 … that the new government elaborated a more coherent economic programme.\textsuperscript{34}

None the less, it is important not underestimate the enormous political strides that were made by Adolfo Suárez’s provisional administration at this stage. With the odds stacked firmly against him, in the winter of 1976 this former apparatchik of the old order forced a political reform Act through Franco’s last parliament, which allowed for a bicameral parliament consisting of a congress of deputies of 350 members elected by proportional representation and a senate of 207 members partly elected and partly nominated by the sovereign. In December 1976, this Act was overwhelmingly approved by the Spanish people in a referendum. Later, so as to justify its claim to be staging free elections in June 1977, the Suárez government abolished the Movimiento (the Francoist single party) while at the same time legalizing the main opposition parties, including the Communists. It also allowed the outlawed trade unions to operate freely and permitted freedom of speech and assembly during the election campaign.\textsuperscript{35}

III

When it came to economics, however, successive Spanish governments were roundly attacked by, amongst others, the press, the politicians, the illegal trade unions, and big business for their evident inaction. For his part, Juan Antonio García Díez, who was Leopoldo Calvo Sotelo’s vice president for economic affairs, joked that, from the beginning of the recession down to the June 1977 elections, the official response to the economic crisis could be divided into two distinct phases: ‘nothing’s happening here’ (aquí no pasa nada), in 1974-5, followed by ‘nothing can be done here’ (aquí no puede hacerse nada) in 1976-7.\textsuperscript{36}
Thanks to the Franco regime’s cordial relations with the majority of Arab states, Spain’s policy-makers initially deluded themselves into believing that the country was well placed to ride out the storm. Ministers even dared to hope that OPEC’s monopoly power would be broken up by resolute international action. In marked contrast to the austerity measures that were being adopted elsewhere, policies aimed at sustained growth and full employment continued to take precedence over the fight against inflation.

In the three and a half years between the winter of 1973 and the summer of 1977, Spain witnessed three prime ministers (Luis Carrero Blanco, Carlos Arias Navarro and Adolfo Suárez) and four finance ministers (Antonio Barrera de Irimo, Rafael Cabello de Alba, Juan Miguel Villar Mir, and Eduardo Carriles) who between them brought in a raft of economic reforms. In the opinion of the Communist Party’s respected economic spokesman, Ramón Tamames, these policies ‘served virtually no purpose whatsoever’. 37

Before the general election of June 1977, we can distinguish three phases of economic policy:

1. a compensatory policy, from late 1973 to mid 1975
2. a restrictive policy, sometimes referred to as mild stabilisation, during the second half of 1975
3. a permissive policy, from the death of Franco to June 1977.

The first package of reforms was introduced by Antonio Barrera de Irimo in the wake of the 1973 oil shock. 38 Barrera’s ‘compensatory’ policy was characterised by a complete absence of adjustment measures, not least because the Madrid authorities naively assumed that the crisis would be only fleeting. Its main thrust was to sacrifice the external sector in a vain attempt to alleviate the impact of the energy
crisis on prices and employment. Thus, the full extent of successive increases in the price of imported oil were not passed on to consumers, thereby discouraging them from making energy savings. In addition, to compensate for falling exports -- due the repercussions of the global recession -- the minister chose to stimulate domestic demand at a time when Spain’s competitors were bringing in deflationary measures. Although severely attacked by Spanish economists, Barrera de Irimo’s ‘Keynesian’ policies nevertheless won warm applause from a surprising quarter, viz. the International Monetary Fund. Yet the overall results of Operation Barrera were extremely disappointing. While the country did enjoy ephemeral growth of 5.7 per cent in 1974, it did so at the expense of inflation, which rose by 15.8 per cent. Spain also faced a yawning trade deficit of $1.8 billion. In addition, unemployment, while still below the OECD average, started to climb.

Rafael Cabello de Alba’s orthodox treatment of the crisis represented a minor U-turn in economic policy. To his credit, the minister had the good sense to acknowledge the intensity of Spain’s recession. He set out to combat its effects through a set of policies dubbed ‘mild stabilisation’. Enrique Fuentes Quintana, a harsh critic of Spanish economic policy at this stage, made a rare exception of Cabello, whose policies he described as ‘honest and responsible’. Owing to the delicacy of the political situation -- Franco was at death’s door -- Cabello ruled out taking more stringent measures. His cautious approach centred on attempts to balance the budget, the introduction of price and credit controls, and allowing the peseta to depreciate against the dollar. Even so, this half-hearted experiment in austerity was pretty much ineffective. Indeed, 1975 saw the arrival of stagflation in the peninsula. Spain’s GDP grew by a miserable 1.1 per cent, while inflation hovered around 15 per cent.
Finally, the ‘permissive’ or ‘accommodating’ policies associated with the names of Juan Miguel Villar Mir and Eduardo Carriles (January 1976-June 1977), have gone down in Spanish economic history under the epithet of ‘Waiting for Godot’, since both ministers stood accused of playing for time. In February 1976, Villar Mir devalued the peseta by 10 per cent, in a forlorn attempt to tackle the country’s severe balance-of-payments difficulties. Yet this isolated measure -- a delayed response to Spain’s escalating balance-of-payments problems -- soon proved insufficient. Later, the minister tabled a reflationary package contained in a so-called economic action plan. This misnamed bill contained a list of proposals for more progressive taxation, price controls, job creation, etc. To no one’s surprise, it remained a dead letter. Indeed, the OECD’s annual report for 1977 declared ‘within the context of social uncertainty and political change which prevailed in 1976, it was difficult to define and implement a new economic policy’.

After further procrastination, in February 1977, Villar Mir’s successor, Eduardo Carriles, introduced a second (equally misnamed) action plan, laughingly dismissed by The Economist, in Buchanesque language, as ‘the 49 Steps’. Little more than a ‘welter of announced intentions -- some good, some debateable’, it too stood practically no chance of success. Among its goals, the new bill promised to deliver 3.5 per cent growth in 1977, with inflation reduced to 17 per cent by the end of the year.

Despite evidence of modest growth -- GDP rose by 3 per cent in 1976 -- all other economic indicators predicted impending disaster, unless urgent remedial action was taken without delay. Firstly, inflation was out of control, running at 42 per cent in July and August of 1977. Secondly, hourly wages in the manufacturing sector rose by an annual rate of 30 per cent. Thirdly, the trade gap was getting wider by the month,
due in no small measure to dwindling earnings from foreign tourism. Fourthly, as large numbers of migrant workers returned to the Peninsula from Western Europe, unemployment had crept up to 6 per cent of the active labour force.\(^{47}\)

A fortnight before the general election of 15 June 1977, the OECD published the McCracken report, prepared by a committee of eminent economists headed by Professor Paul McCracken, a chairman of the United States Council of Economic Advisers. One of the report’s main arguments was that demand should be expanded faster than potential supply so as to drag the world economy towards the full employment path. However, the group was adamant that demand management should not be used to accommodate high rates of inflation. On the subject of incomes policy, then much in vogue in Western Europe, the report concluded that although wage restraint never worked in the long term, it might be a useful short-term expedient to break into a wage spiral.\(^{48}\)

While the McCracken report enjoyed a wide diffusion south of the Pyrenees, not least amongst economists and policy-makers who played a key role in drawing up the Moncloa accords,\(^{49}\) much of the preparation for a Spanish ‘stabilisation programme’ had already been carried out closer to home. In the spring of 1976, the research department of the Bank of Spain, under the direction of Luis Ángel Rojo, called for rigorous monetary control in conjunction with ‘a grand social pact’ in order to tackle the Spanish economy’s three basic imbalances: unemployment, the trade deficit, and inflation. The gist of the Bank’s argument was that structural reforms should be traded for wage moderation. In its annual report for 1975, published in July 1976, the central bank recommended that:
There should be a moderation in the growth of monetary wages via an agreement with the interested parties, which naturally includes the government; but it also appears clear that this agreement should not be restricted to wages and should set out an economic strategy which seeks a better distribution [of wealth] and also leads to greater efficiency. … However, the present circumstances of political change place a question mark over the possibility and means of achieving such an agreement.⁵⁰

By the summer of 1977, there was common agreement amongst Spain’s economics profession on the pressing need for economic adjustment based on achieving some type of broad-based social consensus. Among its most enthusiastic supporters was a group of Madrid-based economists led by Enrique Fuentes Quintana. Fuentes, it was universally known, had turned down the offer of the trade ministry in Adolfo Suárez’s first administration since, in his own words, ‘it did not appear an opportune moment to do anything with the economy’.⁵¹ The indefatigable professor himself advocated drawing up a ‘recovery plan’. To be endorsed by both the International Monetary Fund (IMF) and the OECD -- in similar fashion to the 1959 Stabilisation Plan on which he had played a leading role -- its main aim should be to bring down the rate of inflation in a gradualist manner. To facilitate this process, Fuentes demanded a root-and-branch reform of the impoverished public sector, aimed at eradicating the budgetary deficit and providing the impecunious Exchequer with adequate resources for much-needed improvements in education, health, pensions and housing.⁵²

IV
After the centrist victory in the June 1977 elections, Adolfo Suárez was soon immersed in political issues, first and foremost drafting a new democratic constitution. By comparison, the premier paid scant attention to the economy, which he was content to delegate to ministers. Lacking a parliamentary majority, Suárez ruled out the formation of a ‘government of national coalition’, as proposed by the speaker of the lower house, Fernando Álvarez de Miranda. Instead, he sought to strengthen his administration by bringing in a handful of independents, including Enrique Fuentes Quintana. More than just one minister among many, Fuentes was made vice president for economic affairs. Although he admitted to no political affiliation, Spain’s ‘economic supremo’ was widely believed to be on the centre-left of the political spectrum. The Economist, which alleged that the vice president ‘saw himself as an economic surgeon operating on a very sick patient’, categorised him as an independent with social democratic leanings. To assist him in his task, Francisco Fernández Ordóñez, president of the Federación Socialdemócrata, who was in charge of drafting the economic section of the UCD’s election manifesto, was appointed finance minister.

The two men wasted little time in confronting what Fuentes Quintana dismissed as ‘the blatant failure of Spanish economic policy between 1974 and 1977’. On 11 July 1977, shortly after the formation of the new government, Fuentes announced a 20-per cent devaluation of the peseta. Currency depreciation had been a hotly-debated issue during the election campaign. The positive effects of this well-thought-out measure -- in contrast to Villar Mir’s earlier bungled attempt -- were immediately apparent. In the opinion of The Economist, it came ‘just in time to give a last-minute boost to this year’s tourist income’. Spain’s balance of payments also witnessed a spectacular improvement.
On 23 July 1977, the new cabinet approved an emergency economic plan giving pride of place to the ‘struggle against inflation’. This wide-ranging package called for negotiations between the ‘interested parties’ on wage moderation. In addition, it proposed the implementation of moderate monetary controls backed up by price controls. Meanwhile, in order to alleviate the adverse effects of stabilisation on employment, there would also be measures to stimulate internal demand and the introduction of unemployment subsidies. As well as confronting outstanding conjunctural problems, the plan also outlined a series of structural reforms. These included measures to modernise the country’s outmoded economic institutions and reform its financial and tax systems.  

Once approved, the plan was redrafted by a small high-ranking group of economists and civil servants. The committee’s secretary was José Luis Leal -- a former school mate of King Juan Carlos -- who had recently returned from the OECD in Paris. It also included Luis Ángel Rojo, head of research at the Bank of Spain, Manuel Jesús Lagares Calvo, under secretary at the finance ministry and Blas Calzada, general director of the department of statistics. Renamed the Programme for Recovery and Economic Reform (Programa de Saneamiento y Reforma Económico -- PSRE), the revised document would serve as a basis for future negotiations. The vital question was now, what form should these negotiations take?

Fuentes Quintana’s initial aim was to tackle Spain’s economic crisis by means of a broad based social pact encompassing the government, the trade unions and the employers. However, following a series of punishing meetings with representatives of capital and labour during the high summer, the vice president realised the impossibility of this form of concertation. Most importantly, several of the leading organisations, on both sides of industry, were still emerging from clandestinity or had not yet been established.
The fragmented trade union movement, which had strenuously resisted the idea of social pacts throughout 1976 and the first few months of 1977, made the return of democracy a sine qua non for taking part in negotiations. Only after Adolfo Suárez announced the legalisation of the leading unions in April 1977, did their leaderships agree to enter into discussions on wage restraint or inflation targets. Yet, little was achieved. Among the unions’ minimum demands for negotiating an austerity package were the normalisation of industrial relations, a recognition of the right to strike and a reform of the tax system. Meanwhile, the main employers’ body, the Confederación Española de Organizaciones Empresariales (CEOE), shortly afterwards to be decidedly critical of UCD economic policy, was still in the process of formation. That said, many Spanish businessmen were puzzled by the machinations a supposedly centre-right government, whose economic and social agenda appeared to them either ‘social democratic’ or ‘centre left’.

In such an fluid situation, the administration opted, not for a social pact, but for a political agreement between the main parliamentary parties. According to José Luis Leal, who was the heart of the negotiations, this change of mind reflected the primacy of ‘political’ over ‘social’ factors. Ministers also calculated that a political accord between elected representatives, following the country’s first democratic elections since 1936, would have greater moral force than an agreement between organisations not yet adapted to the new circumstances. Even so, despite their exclusion from the talks, both the trade unions and the employers were expected to abide by the main recommendations.

Negotiations between the parties’ representatives opened on 8 October 1977 in the Moncloa Palace, the prime minister’s official residence in the northern outskirts of the Spanish capital. The talks got under way on the understanding that, if no
substantive agreement were forthcoming, Spain faced ‘a situation of economic collapse with grave political consequences’.\textsuperscript{68} Since no alternative proposals were tabled by the opposition parties, discussion was based on the PSRE. The resulting agreement, signed by all the participants to the talks on 25 October, and later ratified by both houses of the Spanish parliament, was summed up by the OECD in the following terms:

a programme of restraint based on market restrictive monetary policy and a curbing of wage costs, with fiscal policy designed to alleviate employment effects of the austerity measures without impairing any positive stimulus to activity. Over and above the short-term austerity package, a list of desirable structural reforms was drawn up, with a timetable for their preparation extending to 1979. A number of economic measures are envisaged within the framework such as fiscal reform, the improved supervision of public expenditure, a town planning and housing policy, a reform of the social security, monetary and financing systems, an agricultural and energy policy and a definition of the status of public enterprise. A reform of the education system is also planned.\textsuperscript{69}

As a \textit{quid pro quo} for the sacrifices their members were making by accepting wage restraint, the trade unions were promised important institutional and structural reforms, including a framework for industrial relations, a ‘workers statute’, and a recognition of the unions as the representatives of these interests. Even so, the accords provoked a bitter polemic within the trade union movement. Many unions at first
wanted to reject the deal because they had not been consulted. However, in order to consolidate Spain’s newly won democracy, they eventually consented.70

The main economic objective of the Moncloa Pacts was to bring down inflation. In an attempt to curb escalating price increases, an upper limit of 20-22 per cent was imposed on gross pay awards for 1978. This ceiling was made compulsory for the public sector, although for the private sector it was purely indicative, with the vaguest of threats that firms which paid over the odds could find themselves temporarily out of favour with the administration. The government’s part of the bargain consisted of a declaration of intent to bring down the level of inflation to 15 per cent by the end of 1978. This objective was only narrowly missed. The rate of inflation fell by nearly ten points in 1978, from 26.4 per cent to 16.5 per cent, still double the OECD average.71 Another important aspect of the accords was what they admitted to mention. As critics of the Moncloa Pacts point out, the policy-makers made no serious attempt to confront rising unemployment.72

In common with the 1959 Stabilisation Plan, ‘Moncloa’ was conceived in terms of short-term shock therapy. The policy-makers anticipated that the Spanish economy would enter a phase of sustained recovery in the second half of 1978, helped by a resurgence of both exports and domestic demand in the following year.73 Unfortunately for Adolfo Suárez, just as his government’s macroeconomic adjustments appeared to be bearing fruit, the second oil price shock of 1979-80 -- which reached a climax when Iraqi troops invaded Iran in September 1980 -- exposed even more starkly than before the uncompetitive nature of much of Spanish industry.74 Over the next five years (1978-82), a net total of 1.35 millions jobs were lost, of which approximately 700,000 were in the manufacturing sector and a further 300,000 in construction.75
Before long, the hard won gains of the Moncloa Pacts started to unravel. Under pressure from business interests, who believed that the government had made too many concessions to the opposition, a number of the UCD’s more controversial proposals for structural adjustment were quietly dropped. Indeed, by 1978, the opposition did not appear quite as frightening to the Right as it did a year before. Consequently, tax reforms initiated by Fernández Ordóñez in 1977 were only partly implemented, attempts to liberalise the financial system were delayed, many institutional reforms were never confronted, whilst outstanding labour market rigidities persisted. Moreover, within weeks of the agreement, there were rumours of cabinet splits. As The Economist informed its readers ‘right-of-centre ministers and deputies complain that the government’s economic policy is too soft. Some of them want a tough austerity programme that would slash government spending, reduce real wages, cut fuel imports, and persuade Spaniards that the wolf really is at the door’.

The resulting atmosphere of political intrigue was too much for Enrique Fuentes Quintana, a ‘technocrat surrounded by politicians’. It soon became apparent that the vice president found it ‘hard to fit in’ in government circles. According to The Economist, he angered many of the UCD’s business supporters who thought him ‘too keen on fiscal reform, too tough on credit restrictions and too soft on unions’. Humiliatingly for the professor, he was openly criticised by three fellow ministers, Joaquín Garrigues (public works), Alberto Oliart (industry and energy), and José Lladó (transport and communications). His most significant disagreements with his ministerial colleagues concerned cut-backs in steel production and the nationalization of electricity supply. Isolated in cabinet and tired of politics, Fuentes Quintana eventually threw in the towel in February 1978, citing a complete lack of team spirit
amongst ministers. Troubled by conservative criticisms, Suárez replaced him by his Movimiento ‘crony’, Fernando Abril Martorell, who shifted the emphasis in economic policy away from incomes policy to tight monetary discipline imposed by the central bank. Sensing a return to the days of ‘politics first’, ‘The Economist warned of problems ahead. Some senior officials’, it recounted, ‘say that Mr Abril devotes too much time to politics and not enough to economics. But his job is going to become increasingly political in the next few months as the new social pact (to replace the existing Moncloa Pact) is negotiated with the unions and the employers’.

As matters turned out, the UCD’s hopes of securing a far-reaching agreement with the two sides of industry in order to replace the ‘stop-gap’ Moncloa Accords faded rapidly. In September 1978, Abril Martorel invited the trade unions and the employers to take part in a number of ‘days of reflection’, whose aim was to study the effects of the Moncloa Pacts and come up with fresh proposals. For their part, the unions replied by urging the government to demonstrate its good faith by implementing its unfinished programme of structural reforms. At this point, Suarez decided to act alone. After first winning approval for a democratic constitution by a referendum in December 1978, the government issued a decree imposing a statutory incomes policy, based on a 11-14 per cent wage band, to come into effect from the beginning of 1979 for a period of twelve months.

The American political scientist, Richard Gunther contends that, if we can refer to the period 1977-8 as the ‘politics of consensus’, the policy-making environment that followed is best termed the ‘politics of dissensus’. Once the new constitution came into effect -- and the transition to democracy was completed -- this consensual norms of decision-making was brought to an end. While neo-corporatist negotiations involving government, business and the trade unions continued to take
place until 1986, the main focus and ultimate objectives of these negotiations were much more limited than the all embracing policy commitments included in the Moncloa Pacts. Other commentators take a more positive view of the ensuing period. Thus, Sebastián Royo points out that between the late 1970s and the mid 1980s, no fewer than five major agreements were reached between government, unions, and business. Concertation, Royo contends, contributed greatly to the consolidation of the new democratic regime. It facilitated agreement over the content of the new constitution and helped foster consensus and bargaining among the social actors, thereby contributing to their integration into the new political and economic system.

VI

Unfortunately for Spain, the profound and enduring economic recession which had its origins in the oil shock of 1973 engulfed the nation at just about the worst moment imaginable, namely the death throes of Franco’s authoritarian regime, followed by the slow transition from dictatorship to democracy under the restored monarchy of King Juan Carlos. Between 1973 and 1977, as the economic crisis deepened, a succession of weak governments lacking political legitimacy deliberately avoided implementing necessary adjustment measures for fear of provoking even greater social unrest than already existed. As a result of their inactivity, while the country’s competitors took corrective action, Spain slid further and further into a mire of hyperinflation, faltering growth, severe balance-of-payments problems and, before too long, escalating unemployment. Not long ago the leader in Europe’s growth stakes, Spain was suddenly transformed into an economic laggard, while the process of catching-up with its more advanced European neighbours gave way to a decade of growing divergence.
Only after the democratic elections of June 1977 did the nation’s policy-makers feel strong enough to undertake a long overdue response to the country’s deteriorating economic situation. Enrique Fuentes Quintana, whom Adolfo Suárez appointed Spain’s ‘economic supremo’ in his first minority government (1977-9), struggled against the odds to remedy the sad state of affairs through an unorthodox mélange of incomes policy and tight monetary discipline. After negotiating a neocorporatist pact with representatives of the main opposition parties -- the so-called Moncloa Agreements of October 1977 -- the erstwhile irrepressible professor was eventually forced out of office by disgruntled members of his own quarrelsome party, the ill-fated Unión de Centro Democrático. Meanwhile, as the governing party fell apart, promising signs of economic recovery in 1978 soon disappeared due above all to the outbreak of the second oil crisis in 1979-80 which brought with it massive job destruction, not least in the manufacturing sector. It took the Socialist administration of Felipe González, with its huge parliamentary majority, to regain the political initiative and embark on a new and this time more determined phase of economic adjustment than that undertaken by the unfortunate Enrique Fuentes Quintana, not to mention the half-hearted endeavours of the ‘pseudo reformers’ of the pre-transition period. But that is another story.

---


7 Hopkin, Party formation and democratic transition, pp. 151-238.

8 Fabián Estapé, Sin acuse de recibo (Barcelona, 2000), p. 194.


Albert Carreras and Xavier Tafunell, Historia económica de la España contemporánea (Barcelona, 2004), statistical appendix.

José Luis García Delgado and José María Serrano Sanz, ‘De la primera crisis energética a las elecciones del 77: tiempo de incertidumbre’, in García Delgado, ed., Economía española de la transición a la democracia, p. 3.


José Luis García Delgado and Julio Segura, Reformismo y crisis económica: la herencia de la dictadura (Madrid, 1976), pp. 31-3.

Carreras and Tafunell, Historia económica de la España contemporánea, statistical appendix.

22 García Delgado and Serrano Sanz, ‘De la primera crisis energética a las elecciones del 77’, p.9.


33 Ibid., 25 June 1977, p. 89.


41 Fuentes Quintana, ‘La crisis económica española’, p.121.

42 Ros Hombravella, Materiales de economía política, p. 188.

43 Ibid., p. 195.

44 Martínez Méndez, ‘El proceso de ajuste’, p. 69.


47 Ros Hombravella, Materiales de economía política, p. 196; Fuentes Quintana, ‘De los Pactos de la Moncloa a la Constitución’, p. 26; José María Serrano Sanz, ‘Crisis


55 Trullén i Thomás, Fundamentos económicos, p. 167.

56 Ibid., 16 July 1977.

57 Martínez Méndez, ‘El proceso de ajuste’, p. 72.

58 For its contents see ‘Plan Económico de Urgencia’, Coyuntura Económica, 2 (1977), passim.

59 Alonso-Castrillo, La apuesta del centro, pp. 208-10.

60 The leading trade unions during the transition were the communist Workers’ Commissions (Comisiones Obreras -- CC OO), the socialist General Workers’ Union (Unión General de Trabajadores -- UGT) the independent Unión Sindical Obrera (USO), Basque Workers’ Solidarity (Solidaridad de Obreros Vascos -- STV) and the anarchist Confederación Nacional del Trabajo (CNT).


The political parties which took part in the negotiations were the Unión de Centro Democrático (UCD), the Partido Socialista Obrero Español (PSOE), the Partido Comunista de España (PCE), the Alianza Popular (AP), Convergència Democràtica de Catalunya (CDC) and the Partido Nacionalista Vasco (PNV).

José Luis Leal, Una política económica para España: lo necesario y lo posible durante la transición (Barcelona, 1982), p. 27.


Trullén i Thomàs, Fundamentos económicos, p.197.

Serrano Sanz, ‘Crisis económica y transición política’, p. 153. From this point economists began to speak of Spain’s ‘industrial crisis’; see Papeles de Economía Española, 1 (1980), passim.


Sevilla, Economía política, p. 83.


Ibid.

Alonso-Castrillo, La apuesta del centro, p. 220.


Preston, The triumph of democracy in Spain, p.140.

The Economist, 23 Sept. 1978, p. 100.


These agreements were (i) the Acuerdo Básico Interconfederal (1979) between the CEOE and the UGT, (ii) the Acuerdo Marco Interconfederal (1980-1) between the CEOE, UGT and USO, (iii) the Acuerdo Nacional de Empleo (1982) between the CEOE, UGT, CC OO and the government, (iv) the Acuerdo Interconfederal (1983) between the CEOE, UGT and CC OO, (v) the Acuerdo Económico y Social (1985-6) between the CEOE, UGT and the government, later the CEOE and the UGT.