

Moser, Carsten R.

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On the Door-step of Europe

by Carsten R. Moser, Hamburg

Politically and economically speaking, Spain is still waiting in this year of 1969 on the door-step of Western Europe. From 1940 until 1960, "splendid isolation" was what the Franco-Regime wanted. Since then Spanish politicians and economists have however expressed a desire to become incorporated in the Western European community. And yet, Spain—this "archetype" of a European Country—has not up to now been accepted by Western Europe as an equal partner. People in other countries, instead of making a thorough analysis of the problem, prefer to rest content with the general remark that „Spain is different“.

Spain is indeed different. The fascist structure still determines the way the state is run. And yet, in the political field, certain attempts at liberalisation are unmistakable. In the economic field, Spain has made great strides since 1940, and this with little help from Western Europe. The Government skilfully applied its policy of economic regimentation by supporting the natural dynamism of free enterprise and thus guided the country during the past ten years into a boom which has rightly been called „Spain's economic miracle“.

Period of Restoration after the Civil War

Spain's economy had been largely paralysed by the Civil War (1936/39) which had inflicted great losses to the labour force and destroyed much production capacity. The Spanish Government attempted to get things going again by its own unaided efforts through a National Recovery Programme, for after World War II political reasons precluded any outside aid going to Spain.

In 1953, the USA and Spain signed the Washington Treaty. That rapprochement in military matters was followed by an extension of US credit aid for improvements in agriculture—within the framework of "Public Law 480"—and for the benefit of industry and commerce. The latter were helped by the so-called "McCarran Amendment", bringing into play the Export-Import Bank and the Development Loan Fund. As a consequence of American aid, Spain's National Product rose on average by 4.5 p.c. per annum. At the same time,

the Government's expansionist economic and social policy led to big increases in wages and salaries and caused public expenditure to rise totally out of proportion to regular revenue. The policy of forced industrialisation resulted in imports to rocket, while the expected rise in exports failed to materialise because the accumulated backlog of consumer demand absorbed almost completely the increased output. This led to an intensification of the inflationary process.

Towards the end of the fifties, Spain applied for membership of the OECD. At the same time it asked the OECD and the International Monetary Fund (IMF) for cooperation in setting up a Stabilisation Programme. Work on this programme was concluded in 1959. Its aims were:

- ☐ in the short run: to stop the inflation and to get rid of the rising deficits in the balance of payments;
- ☐ in the long run: to accelerate the liberalisation process in trade and industry with a view to making the Spanish economy more competitive.

The Peseta was devalued, and the devaluation was supplemented in the sphere of foreign trade by restrictions on imports. Internally, the Government took steps to curb state expenditure and to reduce the volume of credit. The Stabilisation Programme turned out to be a success: the inflationary process was brought under control for a period of several years, capital exports diminished, IMF credits could be repaid and the gold and foreign currency reserves increased from \$ 60 mn in 1960 to 1,400 mn in 1964.

Regional Disequilibrium

Economic aid from abroad—and particularly from the USA—together with the Spaniards' own efforts to restore their country's economy during the fifties failed to level out the economic and social disparities—considerable in some cases—that existed between the various provinces of Spain. In 1960, regional disparities were illustrated by the following features:

- ☐ Concentration of production in specific areas: If one draws an imaginary line through Oviedo-Madrid-Alicante, one has to the South and West

of this line 58.6 p.c. of the total territory of Spain. 47.6 p.c. of the population lived in this area, which however contributed no more than 38.5 p.c. of the country's total output. The remaining 61.5 p.c. came from the North and East of the dividing line.

□ Internal migration in the direction of the predominantly industrial regions in the North: This trend becomes clear when one compares the actual population increases between 1950 and 1960 in the two areas separated by the Oviedo-Madrid-Alicante line. To the East of the line, the increase was 14.9 p.c. and to the West of it 3.8 p.c.

□ Differences in income distribution per head of population: In 1960, the average income was roughly \$290, but in twelve provinces where 20 p.c. of the nation lived the average income did not even reach $\frac{2}{3}$ of the national average.

Long-term Alignment of the Economic Policy

It was in order to level out differences in the economic and social structures more quickly and to guide long-term economic development that the "Plan for Spain's Economic and Social Development for 1964/67" was worked out. The Plan, which follows the lines of the French "planification", had the following main objectives: an average growth rate of 6 p.c. in the GNP; regional alignment of the country's economic and social structure; full employment; price stability and a balance of payments in equilibrium.

The Plan was intended to be an economic as well as a social programme, that is to say it aimed at stimulating not only economic development but also social progress. It gave private firms and authorities an over-all view of the relevant data on which the state's economic policy was based and provided a precise insight into how the various sectors of the economy depended on each other. As far as the private sector of the economy is concerned, the programme helped it to obtain a picture of what the public sector was doing.

For the state sector public investments to the tune of \$5,500 million were planned, the funds to be used to improve the infrastructure—transport, housing, irrigation schemes, education and retraining facilities. Incentives were to be given to private investors—Spanish as well as foreign—in the form of credits on favourable terms and tax relief in order to attract them into regions where the average income per head was low. At the same time, it was hoped to reform the agricultural structure and to regulate population shifts within the country and emigration abroad. In support of the Plan's aims a nuclear energy law was promulgated and a—much too modest—tax reform introduced.

By the end of 1964, the Spanish Statistical Office calculated that the GNP had increased by 7.1 p.c. Industrial output had risen by 11.6 p.c., whereas the building industry had recorded a growth rate of 20 p.c. Agricultural output, on the other hand, had fallen by 9.7 p.c.—a consequence of the pitifully poor harvests of the preceding two years.

Industrial Output Rises

The boom conditions that had developed in industry in general and in the building sector in particular, coupled with the fact that already by the end of the first year of the Plan more than 50 p.c. of the public investments envisaged by the Plan had been placed, caused numerous economists and politicians to warn against the danger that pressure of demand might unleash a runaway inflation. In fact, the cost-of-living index had risen by 13.5 p.c. within a year. The authorities attributed this rapid increase to the higher food prices. The rapid rise in the GNP and the fact that nearly \$1,000 mn of Spanish and foreign capital had been invested in seven of the regions which the Plan had designated as underdeveloped encouraged the responsible authorities in their optimistic belief that the rise in the cost of living would be halted in the following years when more goods would become available and when crop yields would be better.

In 1964, the first contacts took place between representatives of the Spanish Government and the EEC Commission with a view of Spain's eventual association with the Common Market. The arguments centred right from the start on the question of how Spain's agricultural exports ought to be treated. Italy, whose agricultural structure is very similar to the Spanish one, resisted any possible move by the EEC to make concessions to Spain in this sphere. The Spanish Government, nevertheless, thought that the differences of opinion on the question of Spain's association could be reconciled. It put its faith in Spain's economic successes, on the—admittedly timid—moves towards liberalisation and on the social rapprochement that had been encouraged by the steadily rising number of foreign tourists. In 1960, there had been only six million of them, and by 1964 the figure of foreign visitors had already risen to 14 mn. These were the grounds on which the Spanish Government based its hopes of overcoming any possible political and historical prejudices against Spain's association,

Criticism Increases at Half-time

By the end of 1965, the planning authorities were able to point to a series of successes which had been achieved during the first half of the First Development Plan. The actual growth rate of 8.2 p.c. had exceeded the target by 2.2 p.c. Average output had improved by 5.9 p.c. The

industrial production index had risen by 10.8 p.c. and the index for services by 8.3 p.c. On the other hand, the index measuring agricultural output showed an increase of no more than 2.7 p.c.

At around this time, voices were heard, criticising not only the aims of the First Development Plan and the measures taken for its implementation but also the state's economic policy in general. The representatives of agricultural interests accused the planning authorities of discrimination in favour of industry to the detriment of agriculture, whose interests had been neglected. Concern was being expressed in financial circles and by economists about the large state expenditure and the rapidly rising capital investments, which, it was thought, could not be reconciled with the desired price stability. In addition, the authorities were criticised for inadequately coordinating their financial, fiscal and social policies with their policy to encourage industrial growth. The cost of living rose in 1965 by 13.2 p.c.

The Government attempted to curb the inflationist demand by deciding to limit public expenditure and bank advances. But it deliberately proceeded with caution in applying restrictive measures for fear that it might prematurely halt the upward trend or even reverse it and bring about a recession.

The Economic Emergency Programme

Admittedly, the Gross National Product again increased by 8.2 p.c. in 1966, but at the same time the balance of trade showed a considerably larger deficit. Because private investment activity had been decreasing since the middle of 1966, demand had increased at a slower pace than in the preceding year. The cost-of-living index rose by a further 6.2 p.c.—a consequence of the prompt measures taken by the Spanish Council of Ministers to influence the economic trend. This Emergency Programme contained the following provisions:

☐ State expenditure was to be cut by \$ 600 million. In addition, the increase in public investments during the following year was to be limited to 10 p.c. in comparison with the year before. At the same time, the interest rate for such credits was to be raised to 4.5 p.c.

☐ Stricter control over taxation to curb tax evasions. But tax rates were to remain unchanged. Tax concessions and even tax exemptions were to be granted with a view to encouraging concentration in agriculture and industry.

☐ Improved export credit and insurance guarantees.

☐ Preferential interest rates for medium and long-term deposits to stimulate internal savings and—to curb consumer demand—minimum deposits in the case of hire purchases and maximum periods over which hire-purchase payments might be spread.

In autumn 1966, the referendum about a change in the constitution was held. This provided the Spaniards with their first opportunity in 27 years to go to the polls. The result of the referendum was an unequivocal "Yes" to the Franco-Regime's policy of "liberalisation by little steps". At the same time, a fundamental reorganisation of the labour market was carried out. What this reorganisation did however not do was to permit freely negotiated wage agreements and the freedom of assembly for workers and employees—two of the principal demands of the opposition in Spain and abroad.

The talks between Spain and the EEC about association had meanwhile made no progress since 1964. For this reason the Spanish Government decided first of all to endeavour to obtain a tariff agreement with the EEC. Both sides pointed out, however, that a tariff agreement would not automatically be followed by association.

The Spanish Austerity Programme

The Emergency Programme announced towards the end of 1967 had failed to reduce the foreign trade deficits or to stop the inflationary process. The growth rate of the GNP declined to 3.2 p.c., the foreign trade deficit amounted to \$ 2,000 million and the cost-of-living index rose by 6.2 p.c. Towards the end of 1967, growing balance-of-payments difficulties forced Great Britain to devalue the Pound Sterling by 14.3 p.c. Several countries with close links with Great Britain followed suit. Spain devalued the Peseta by 16.6 p.c. to avoid—as was officially stated—any decrease in the number of British tourists coming to Spain. The true reason for the devaluation of the Peseta was however that the Government was finding it increasingly difficult to control the unfavourable balance of payments, the inflation and the incipient economic recession.

In addition, the Ministerial Council worked out an Austerity Programme, which, among other things, contained the following measures: A wage and salary stop for 1968; price stop until Dec. 31, 1968 on all goods used in the compilation of the cost-of-living index and on all other essential products; saving in public expenditure; increase in the bank rate from 4 to 4½ p.c.; measures to suppress tax evasion, supplementary taxes on luxury articles and the imposition of a new tax on unused building sites; larger depreciation allowances and greater tax incentives to plough back profits to bolster up the economy.

Successes of the Austerity Programme

The Austerity Programme did not meet with universal approval by Spanish industry and commerce. On the one hand, economic measures in the public sector received unanimous praise, on the other, it was generally pointed out that there

was a danger that devaluation would lead to an increase in the prices of goods which had to be imported if industrialisation was to continue. These increases—it was said—were likely to occur in spite of the fact that import duties had been lowered for some goods. It was further feared that the stop on wages, salaries and prices would make the wage and price structure even more lop-sided than it was already.

The Austerity Programme did not entirely eliminate price increases; it did however manage to keep them down, to about 5 p.c. until the end of 1968. Unemployment rose at first, but went back after measures to fight it had been taken. On the other hand, the expected increase in exports failed to materialise. The authorities declared with a show of optimism that the danger of a recession had been averted and that a way had been opened for a fresh leap forward. But numerous economists anxiously pointed to the structural weaknesses in the Spanish economy. They expressed their dissatisfaction with the low degree of productivity in agriculture and criticised the lack of an effective all-embracing agricultural policy. The consolidation of farm land and the efforts to encourage investments and to improve the distribution methods, they said, were carried out much too timidly.

At the same time, the critics pointed to the regional disequilibrium that persisted in the field of industrial production. They expressed their dislike of the fact that Spanish industry was dependent on foreign licences and said its machinery and production processes were old-fashioned. In various branches of the heavy industry production units were too small and the power of the state syndicates was such as to prevent measures to increase the capital intensiveness of private undertakings. The existing tax system also came under fire. It was held to consolidate the status quo, to impede competition and to encourage investments in speculative enterprises. The critics finally pointed out that not enough internal capital was being created. Government measures designed to encourage the Spanish investor had remained largely ineffective; the remarkable growth rate of the past few years had—in their view—been largely due to foreign investment.

The Second Development Plan

The implementation of the First Development Plan showed that in the various sectors actual achievements differed appreciably from the set norms, and that either in a positive or in a negative sense. Among the targets reached were high growth rates for the GNP, full employment and a sound balance-of-payments position. The annual growth rates were actually higher than planned and the official unemployment figures never exceeded 1.5 p.c. Unfavourable balances of trade

notwithstanding, the gold and foreign currency reserves amounted to more than \$ 1,000 mn. This was mainly due to a further rise in the number of foreign tourists, from 14 mn in 1964 to 19 mn in 1968. On the other hand, it proved impossible to remove the imbalances in the country's regional structure and the disequilibrium between agriculture and industry, nor could the desired price stability be achieved. The Spanish Government decided to continue the stop on prices and dividends into 1969. Any wage increase granted during 1969 was not to exceed 5.9 p.c. By linking wages more closely to productivity and by curbing public expenditure the Government hopes to be able to hold the price level in the next few years.

By the end of 1967, the Second Development Plan (for 1968/71) was nearly ready, but it had to be adjusted in the light of the new circumstances—devaluation of the Peseta, the Austerity Programme and the measures of the Johnson Administration to curb American investments abroad. These adjustments delayed publication by nearly a year. It aims at a 6 p.c. annual increase in the National Product. The main emphasis is laid in the Programme on: modernisation of agriculture; regional development projects to reduce income differences; stimulation of exports, education and research, and housing; development of basic industries; improvements in the infrastructure; a better functioning financial market and social progress.

A drastic change of the taxation system is not part of the Second Development Plan. But with the help of international organisations, Spain should soon undertake a tax reform to eliminate the evil of tax evasions as well as the uneven incidence and injustices of the present taxation system.

Social Unrest

The Spanish people never had it so good as today. In 1967, the average income per head of population amounted to \$ 600. Until the state of emergency was declared, the process of political liberalisation had made much—and sometimes unexpected—progress. But for all that, there is a constantly growing desire among the people to be treated as responsible adults, to be free, and to be granted elections and democracy. This causes concern in reactionary circles—the military and conservative groups. The two fronts are in the process of becoming more sharply defined as was plainly demonstrated when the state of emergency was declared early this year. A rapid integration of Spain into the West European community could accelerate the process of economic and political democratisation and assuage the internal differences in the country. The EEC would do well to take account of this point of view when next it discusses association with Spain.