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1977: Hopes Fulfilled—Building Democracy in Turbulent Economic Times

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6.1 Why 1977 Was a Turning Point in Spain

Although the Spanish crisis was sparked by an external shock (the oil crisis), there are several particular features of the country that make 1977 a turning point in Spanish economic history.[1] The first of these particularities is that the crisis came later (in 1976/1977 instead of 1973) than in other countries as a consequence of the measures introduced by the Franco government and the first government of the democracy to "camouflage" the problems. Moreover, the impact was more severe. The 1977 Spanish crisis has been considered by Reinhart and Rogoff (2008) as one of the "Big Five" crises of the twentieth century. There were huge difficulties in terms of inflation, external imbalances, high unemployment rates and low growth rates. It was also a period of financial turmoil, with

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almost half the banking sector affected, along with currency and stock market crises.

Another distinctive feature is that the crisis also coincided with major political and institutional changes associated with the political transition after Franco's death in 1975, a combination which had economic consequences. The political transition and the weakness of the new governments of the democracy shaped responses to the crisis, with key economic decision-making postponed. Moreover, the fact that the arrival of democracy coincided with an economic crisis limited the country's ability to face the new challenges that appeared after forty years of dictatorship.

Finally, 1977 was a turning point in Spanish economic history not only because of the severity of the economic and financial crises and the upheaval of the political transition but also due to the efforts made to reach agreed solutions and the seminal nature of the reforms implemented from 1977 onwards. Spain came into the 1970s with an institutional framework characterized by a high level of state intervention that stood in contrast to the small size of the State. This interventionism was mainly instrumented through regulations and protectionist measures that distorted the role of the market. Therefore, when the crisis hit, Spain had a rickety state that prevented the correct use of fiscal policies, making it impossible to fight against the negative social consequences of the crisis, particularly the high unemployment rates. Moreover, it prevented investment in human capital and infrastructure to promote economic growth.

The political context is crucial in understanding the nature of the reforms and their timing. There was major political instability during the last years of the dictatorship and the first years of democracy: the assassination of Carrero Blanco in December 1973 (prime minister of the Franco government from June of that year), the serious illness of Franco from 1974 until his death in November 1975, the short duration of the first democratic governments (the first government lasted seven months and the second one a year) and four ministers of finance in only three-and-a-half years. Finally, in 1981 there was a failed military coup d'état. All this instability adversely affected the response to the crisis and led to a delay in the implementation of reforms to correct the strong imbalances that arose (once again) in the 1970s and 1980s. Adolfo Suárez, who was initially appointed as prime minister of the transition by King Juan Carlos and was eventually the first democratically elected prime minister after Franco's death, gave priority to policy rather than economy. The most urgent task was deemed to be the dismantlement of the Francoist institutional and political framework, and so the economic measures were postponed.[2] The Political Reform Law passed in 1976 called for democratic elections; they were won by Suárez, who formed his second government in 1977. Only then, when the crisis had already become very severe, were the economic problems addressed (Martín-Aceña 2010).

The economy urgently needed to be stabilized, which required the implementation of a modern monetary policy and an increase in revenues through fiscal reform. A tax reform was also a prerequisite for increasing social spending and constructing the welfare state. The hopes of reform by the Republican government in the 1930s were left unfulfilled as a consequence of the Civil War and the long-lasting dictatorship, and it was not until Franco's death that any significant economic modernizing reforms were implemented. This was the second historical opportunity to build a plural democracy and it came hand-in-hand with a serious economic crisis (Fuentes Quintana 1982). The transition to democracy entailed the introduction of reforms to radically transform Francoist economic bases, but also to meet the need for social dialogue and the growing public demand for progressive and redistributive policies.

Although Fuentes Quintana, who served as deputy prime minister of Spain between 1977 and 1979 with the *Unión de Centro Democrático* (UCD) government, prepared a major reform package, he convinced Suárez to reach an agreement with the main opposition parties given the crucial nature of the reforms needed to solve the economic difficulties; the result was the Moncloa Pacts (*Pactos de la Moncloa*) that were passed on 27 October 1977. The problem was not only one of priorities, it was also one of effectiveness. Spain lacked economic policy instruments and so first had to establish them. However, this happened in a context where other countries were moving away from Keynesianism and adopting supply-side policies (Skidelsky 1978). Consequently, there was a change in the Spanish policy framework at a time when other, more developed countries were gradual shifting towards a new paradigm.

Having learned from the lessons of history, the Moncloa Pacts were the result of a policy of consensus on economic and social issues referred to as "transition through transaction" (Powell 2015). This time, hopes were fulfilled and the country began a process of economic and institutional transformations that was not without its difficulties. The Moncloa Pacts, the new Constitution of 1978, the process of decentralization and the construction of the welfare state were crucial reforms that had to be introduced in turbulent times but that definitely altered the attitude governing the economy. With Spain finally being a democracy, the goal of integration in Europe became a priority and, for the first time, feasible.

The rest of the chapter is organized as follows. Section 6.2 describes the main characteristics and consequences of the economic crisis. Section 6.3 explains the nature and contents of the Moncloa Pacts, designed mainly to solve the economic problems but also to underline the possibility of setting aside ideological differences and finding agreed solutions in the interests of the democratization process. This section also addresses the main reforms related to the stabilization of the economy. In Sect. 6.4, other major reforms that changed the institutional framework are explained, with a special emphasis on the expanding State and the construction of the welfare state. Some concluding remarks are presented in Sect. 6.5.

6.2 Economic Crisis in a Context of Political Transition

Spain's political and economic difficulties in 1977 placed it in one of the worst crises in its recent history. But the 1970s were also turbulent times in the international context. The decade began with an unexpected global crisis that ended two decades of prosperity and supernormal growth. Several factors destabilized the economy. The first was the collapse of the Bretton Woods system when in 1971 the US, experiencing major trade and fiscal deficits, declared the non-convertibility of the dollar into gold and other currencies; most countries then abandoned fixed exchange rates and their currencies entered a floating exchange rate regime. The second factor was the two oil shocks (in 1973 and 1979). Global growth problems were also influenced by other factors such as the growing process of tertiarization and the difficulties in increasing productivity rates. The emergence of new competing countries such as Japan, Hong Kong, Taiwan and Vietnam, which achieved higher growth rates in the 1970s and 1980s, also had a global impact.

The main effects of the rise in oil prices in the 1970s were inflation and lower growth, which negatively affected business profits, discouraged investment and drove up unemployment in most parts of the world. Inflation was also fuelled by other factors such as wage increases, or the rising prices of some raw materials and food, in addition to expansionary spending policies that favoured liquidity growth. These problems (high inflation with high unemployment rates, the so-called stagflation) forced policymakers to re-evaluate their response to these challenges. On the one hand, the traditional Keynesian tools (demand management policies based on fiscal instruments) failed to solve simultaneous problems of unemployment and inflation. On the other hand, monetary policy severely weakened growth and unemployment.

The 1977 Spanish crisis has some distinctive features in relation to other countries. Regarding the severity of the crisis, it is the second most severe crisis to affect Spain in the period from 1850 to 2015, surpassed only by the 2008 crisis. It was also more severe than in other OECD countries, with an output loss from 1976 to 1985 of more than 49% of GDP[3] (Betrán and Pons 2017). In the early 1970s, Spain was a recently industrialized country, with relatively low income (80% of the EU15 average), relatively late and rapid structural change[4] and very intensive in energy consumption. The fact that the external shock (the hike in oil prices) coincided with an economic growth model based on state interventionism, lack of competition and low productivity rates, along with the political problems of the end of the Franco dictatorship and the transition to democracy, created an explosive cocktail that aggravated the economic recession.

Regarding the growth model, the Francoist economy was characterized by controls that pervaded the whole system (barriers to entry, labour conditions etc.) and protectionism. As explained in Chap. 5, the 1950s began with a process of liberalization but this process was incomplete, involving advances but also setbacks. In addition, at the end of the 1960s, Spain had achieved high growth rates and improved efficiency[5] but accumulated internal and external imbalances that were exacerbated after the oil shocks of 1973 and 1979. Although many European countries suffered due to the oil crisis, the difficulties of the Spanish economy were exacerbated by its internal problems, in particular its larger imbalances, lack of competition and the unbalanced growth that was concentrated in the domestic market and in some specific industrial sectors. Liberalization efforts were insufficient and regulation prevented the Spanish economy from being exposed to market forces, with the corresponding increase in efficiency that this measure would have encouraged.

In this context, the political problems played a key role. Franco was eighty-one years old when the oil prices spiked, and the uncertainty due to political instability hindered the adoption of measures to adapt to the new situation. The last governments of the Franco regime and those of the beginning of the democracy tried to hide the problems by subsidizing the price of oil. Although this meant that Spaniards did not notice the crisis in the short term,[6] the decision worsened the consequences, with oil consumption increasing in 1974 and 1975 when OECD countries were reducing it, and with a dramatic impact on the external deficit. Oil imports accounted for 30% of total imports in the first oil shock and rose to 40% in 1979, and half of the foreign reserves obtained by exports went to pay for oil imports (Rubio and Muñoz 2018). During the 1960s and the first half of the 1970s trade deficits were easily covered by the surplus in the balance of services and transfers thanks to the tourism revenues and the migrant remittances. After the oil crisis, increasing trade deficits were no longer offset by the balance of services and transfers, which led to a serious deterioration in the current account balance.

Although economic growth was accompanied by trade liberalization, in the mid-1960s liberalization was halted (Buisán and Gordo 1997). In the early 1970s there was a new liberalizing push, linked to the signing of a preferential agreement with the European Economic Community (EEC), which was advantageous for Spain as it reduced tariffs on Spanish products. Spain became more open and went from an openness ratio of 12% in 1960 to 27.6% in 1973. Specifically, the oil crisis occurred in this phase of relative external liberalization and the result, as noted before, was a sharp deterioration of the external deficit. The devaluation of the peseta enabled a better external position in 1978 and 1979, and thus permitted a new push towards liberalization with various agreements and measures. As a result, in 1980, 90% of trade was liberalized (De la Dehesa et al. 1991). Although the devaluation of the peseta positively affected exports, it increased not only the cost of imports but also the cost of servicing foreign debts. This was particularly costly for some specific sectors such as the electricity industry.[7]

The second oil crisis again led to a deterioration in the external position, but thanks to a new devaluation in 1982, Spain's export dynamism recovered. In any case, the final process of trade liberalization was only completed after 1986 with the entry into the EEC. External deficits were accompanied by strong fiscal deficits as a consequence of the government's decision to absorb part of the rise in oil prices. Until the oil shock, the public deficit-to-GDP ratio had been very low (close to zero in 1973), whereas after the crisis it increased considerably, reaching a peak in 1981 (−6.32%). External imbalances and public deficit difficulties forced the Spanish government to apply for a special line created by the IMF amounting to SDR 689.32 million in 1975/1976. Only the UK and Italy received more financial aid. In 1977 Spain also obtained SDR 143 million, which it never used, and, finally, in 1978 received SDR 98.75 million (Varela and Varela 2005).

In addition to external imbalances and public debt deficits, inflation was creeping up (with a peak in 1977 of 25%) and was clearly above the inflation rates of Spain's European neighbours. As Fig. 6.1 shows, the annual rate of growth of the consumer price index (CPI) from 1970 to 1979 was high in comparative terms; in the period 1980–1984 only Italy had a higher CPI growth rate than Spain. In addition to the higher price of oil, another factor explaining the rise in inflation was wages. During the 1960s, wages and productivity increased rapidly and the real unit labour cost remained stagnant (Toharia 1997). However, in the 1970s wages increased above inflation as a consequence of the strategy adopted by the still illegal unions of using collective bargain as an instrument to achieve wage increases but also to fight against the Franco regime (Sanz 2018). The result was an inflationary spiral. In the initial years of the democracy, the demand for higher wages was even more intense and

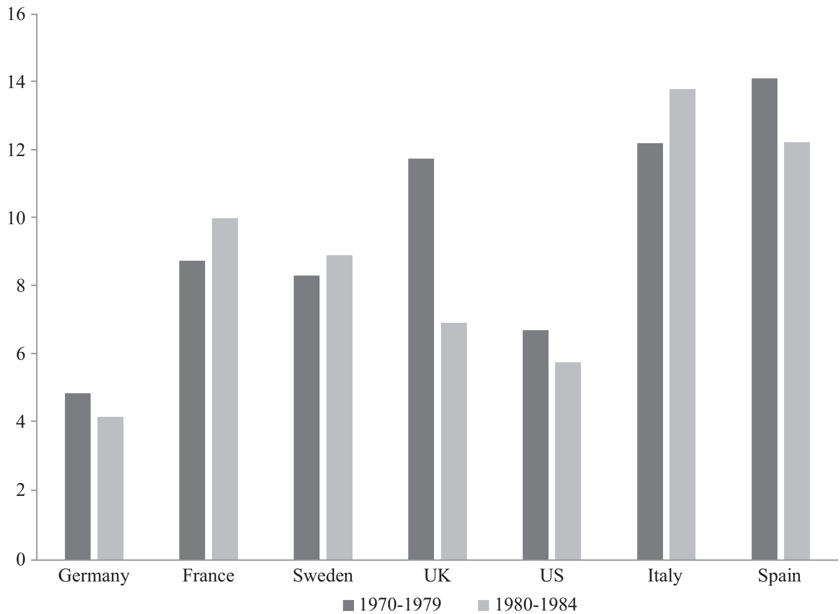

Fig. 6.1 CPI annual rates of growth, 1970/1979 and 1980/1984. (Source: Spain, Maluquer (2013); other countries, Jordà, Schularick and Taylor (2017))

social security costs also rose substantially. Between 1972 and 1978, the labour cost did not adjust quickly enough to productivity; the result was not only inflation but also an upsurge in unit labour costs (Andrés 1994). A "social agreement" was only reached with the Moncloa Pacts, and real wage costs started to decrease as part of a more general strategy to control inflation.

Inflation in a context of crisis lowered business expectations, collapsed private investment (with negative rates from 1975 and especially in the early 1980s) and from 1977/1978 saw the economy embroiled in an industrial crisis with a sharp rise in unemployment rates (which peaked at 16% in 1976).[8] Spanish unemployment rates were clearly above those in other developed countries (Table 6.1) and 1,200,000 people lost their jobs between 1977 and 1981. The OECD countries reacted to the crisis with an expansive fiscal policy and accommodative monetary policy, which allowed them to recover their economic activity but with an

Table 6.1 Unemployment rates in Spain and other countries, 1969–1985

	1969–1973	1974–1979	1980–1985
France	2.6	4.5	8.3
Germany	0.8	3.2	6.0
Italy	4.2	4.6	6.4
UK	3.4	5.1	10.5
US	4.9	6.7	8
Spain	2.7	5.3	16.6

Source: Layard, Nickell and Jackman (1991)

increase in inflation. By contrast, the Spanish government at that time lacked the capacity to implement fiscal and monetary policies[9]; the result was, as mentioned, a higher rise in inflation and unemployment than in the OECD countries.

The industrial crisis entailed the closure of many firms and it was eventually accompanied by a banking crisis. Spanish banks were in most cases mixed or "universal" banks with high participation in sectors such as electricity or construction (Tortella and García Ruiz 2013). Moreover, Spanish companies were very dependent on bank credit. When the economic and industrial crisis hit, it subsequently spread to the banking sector. The inability of many companies to make loan repayments increased the default rate, and the resulting bankruptcies had a depressing effect on the stock market that dragged down some mixed banks. The rise in interest rates also made it more difficult for companies to repay their loans. The 1977 banking crisis affected half of all banking institutions but the impact was predominantly on small- and medium-sized banks, most of which had been founded during the 1960s, rather than the core big banks. The total number of banks in 1977 was 110 and around half of these (63) were impacted by the crisis (Cuervo 1988). Six years later, in 1983, the banking crisis brought down a large industrial holding group (Rumasa), with more than 700 businesses, including several banks. The estimates provided by Cuervo (1988) of the total cost of the 1977–1985 banking crisis indicated that the public sector and private contributions jointly represented around 6% of GDP. Laeven and Valencia (2013) estimate the 1977 fiscal cost, showing that the cost in

Spain (5.6% of GDP) was below the average for a sample of countries (6.8%) but above the average for advanced countries from 1970 to 2011 (3.8%).

6.3 The Moncloa Pacts and the Stabilizing Measures

The fact that the economic crisis coincided with a political transition meant that efforts to tackle the crisis had to involve a political programme of reforms and not merely economic reforms. This perspective was often reiterated by the key players of the period, most of them economists. The economic reforms were designed by a small but influential group of people from different key institutions (Bank of Spain, Ministry of Finance, Bank Research Services, etc.). Among them was a professor of public finance, Fuentes Quintana, who ended up being the vice president of economic affairs in the first democratic government, and Luis Angel Rojo, professor of economic theory, who worked out of the Bank of Spain. Fuentes considered that the reforms were "inevitable", and had to be carried out "gradually and consensually". Rojo defended monetary control as the main instrument of adjustment, although he agreed with Fuentes as to the consensual nature of the reform.

It was essential for those who designed the reforms to consider political aspects. They bore in mind the experience of the 1930s, and how political instability had hindered the adoption of effective measures. The stabilization of the economic situation was impossible without the consolidation of a democratic regime that legitimized the adjustment measures. In the words of Fuentes Quintana (1982): "An economy in crisis constitutes a fundamental political problem" or "economic problems need political solutions". Political considerations meant two things. First, the reforms had to be "agreed" with the new political actors (political parties and unions, hitherto non-existent or illegal) and implemented gradually and sometimes experimentally, due to the high uncertainty and instability (Cabrera 2011). Second, there was a need to frame the reforms in the international context, mainly European, with an eye to integration into the EEC. As mentioned, the crisis called into question the Keynesian macroeconomic model. Moreover, other countries, with the support of the IMF and the OECD, proposed economic policy measures that sought to rebuild social consensus through agreements with trade unions and employers, especially on appropriate wage costs and inflation, and this influenced Spain's reform programme.[10] The need for monetary policy as the main stabilizing instrument was combined with collective bargaining agreements and wage negotiations to improve income redistribution (Trullen 1993).

The measures adopted between 1973 and 1976 transferred most of the adjustment to the public sector. In 1977, the responsibilities of the different ministries were restructured and the Ministry of Economy was created. This ministry took over responsibility for financial policy, which hitherto had been the remit of the Ministry of Finance. This allowed the coordination of and unified action on economic policy. The first initiative was the launch of the *Programa de Saneamiento y Reforma de la Economía* (Restructuring and Reform of the Economy Programme), which planted the seed for the Moncloa Pacts agreed months later, to reduce public deficit and fight inflation. The proposed measures reflected a consensus on the diagnosis of Spanish economic problems: the imbalances and defects inherited from the Franco regime had to be faced, as well as the lack of competitiveness of the economy; moreover, unlike in the past, the solutions should account for the future horizon of international integration, which would eventually lead to Spain's entry into the European Union in 1986.

The crisis-fighting measures and the reforms became a reality in the Moncloa Pacts signed in October 1977 by the group of political forces that emerged from the first elections. The agreements were based around ten sectoral points that covered two main objectives: economic stabilization (monetary, budgetary and wage adjustments); and the institutional reform of the Spanish economy (factor market liberalization, tax reform, financial reform and industrial restructuring). Franco's economic institutions had to be replaced with new, more inclusive ones that enabled the introduction of redistribution instruments but were also governed by market forces. Despite the consensual nature of the 1977 Pacts, they met with opposition from various sectors of society, and led to periods of enormous tension with the unions. In fact, the reforms proposed for the following three years could not be fully implemented until the period 1982–1986, with a majority socialist government.

The first point of the Pacts referred to economic stabilization, with the fight against inflation as a priority. The proposed measures addressed four different angles, with varying degrees of success. First, a monetary policy based on the control of the monetary aggregate should be applied, forcing the central bank to act. Second, the public deficit should be controlled through limits on expenditure and the issuance of public debt. Third, the enormous external deficit should be reduced through successive devaluations of the peseta. Finally, as in other surrounding countries, a wage moderation policy should be established. The main and most novel initiative was the wage indexation, in a collective bargaining framework that did not compromise, in principle, workers' purchasing power with regard to price increases. There was relative consensus given that, in return for agreeing to wage moderation and the necessary adjustments, trade unions and political parties successfully negotiated the granting of significant increases in budget items for social benefits (unemployment and pensions) and spending on education and health. The deal they secured marked the origin of the modern domestic welfare state.

The most important reform was the fiscal one, designed to increase revenues, modernize fiscal management and remove the Franco tax framework. It was also a clear precondition for building the welfare state. Moreover, it was accompanied by the attempt to implement a modern monetary policy and the liberalization of the financial sector, which was still operating under strong state intervention. Two additional aspects were subject to reform: the labour market and the industrial sector. Finally, other institutional reforms were implemented, such as the administrative and political decentralization of the State into autonomous regions. As explained below, not all the reforms were completed on time or achieved the expected results.

6.3.1 Monetary Policy: The Slow Run to Modernization

During the Franco period, financial repression was the primary way of monitoring the demand for money in the economy and controlling inflation. Monetary policy was subordinated to the objectives of the Planes de Desarrollo (Development Plans) designed during the 1960s (Rojo and Pérez 1977) and centred exclusively on controlling the monetary base through the control of bank reserves. The arrival of democracy did not change this situation suddenly or substantially. At the beginning of the 1970s, in Spain, as in other European countries—especially those in southern Europe—it was difficult to implement an active monetary policy.

On paper, the Moncloa Pacts sought to implement monetary policy by controlling money, public loans and avoiding the inflationary mechanisms of public financing. However, the lack of independence of the Bank of Spain and its subordination to government interests and financing needs led to the failure of these attempts. Some steps in the right direction were made thanks to the efforts of Luis Angel Rojo from the Research Service of the Bank of Spain; as a result, there was a limit on the Bank of Spain providing resources to the Treasury as well as on credit from public banks. However, the inflation rate remained high (14%), between 3 and 5 percentage points above the rest of the European Union until practically 2000. The measures of the Moncloa Pacts were only the beginning of a long road of adaptation and modernization of monetary policy, which had to be completed in subsequent years with reforms in other areas of economic policy (Malo de Molina 2003). However, this monetary policy was the only one possible under the existing institutional framework, and it required ongoing financial repression of the banking sector to limit the expansion of monetary aggregates. Financial interventionism continued through compulsory banking coefficients, financial institutions remained the main holders of public debt and the Treasury continued to resort to heterodox financing through the Bank of Spain. In this sense, the growing public deficit (7% of GDP in 1985) had to be covered by an explosion of public debt issuance: it went from 8.5% of GDP in 1977 to more than 45% in 1986 (Comín 2012).

However, from the mid-1980s on the situation changed: budget stabilization, consolidation of the expansionary cycle and integration into the EU in 1986 put an end to financial repression and a new stage in monetary policy management began (Aríztegui 1990; Díaz Roldán 2007). The learning process from the implementation of these measures in such complex conditions constituted a historical milestone: by lowering the cash ratios in the banking sector, direct intervention in the monetary base was abandoned, allowing the country to fully adopt an approach based on the control of interest rates as a fiscal instrument. From then on, an effective monetary policy prevailed over intervention in the financial sector through quantitative liquidity restrictions. In fact, the modernization of monetary policy and the increasing macroeconomic and financial discipline allowed Spain to participate in the founding of the European Monetary System. As Malo de Molina (2003) has pointed out, it was something of a paradox that Spain's monetary policy fully achieved its stabilizing objectives just when it started to share its sovereignty through the unified European monetary policy. From a historical perspective, the process fully culminated in 1994, when the Bank of Spain assumed the function of a central bank with the capacity to act to address financial and macroeconomic imbalances.

6.3.2 Fiscal and Tax Reform

Although the fiscal and tax reform was a structural reform, it was also essential for the stabilization of the economy by reducing the public deficit. Admittedly slow and imperfect, the tax reform nevertheless placed Spain on the path of convergence with the rest of Europe and it was an essential requirement for adopting subsequent reforms.

At the end of the Franco regime, Spain had an underdeveloped fiscal system with very low tax rates, a predominance of indirect taxation, a lack of data about the tax bases, a weak administration to enforce tax payments and a huge amount of tax fraud (Pan-Montojo 2015). Most of the revenues came from the tax on personal labour and the main indirect taxes were on state monopolies (oil, tobacco and phone services), imports and some specific industrial sectors. It was in 1963 that the *Seguridad*

Social or social security system was established and replaced the old forms of pension funds,[11] unifying the various contributions to pensions, disability, and so on into a general contribution to the social security system. During the 1960s and the beginning of the 1970s, several economists, led by Fuentes Quintana,[12] highlighted the main problems of the Francoist tax system and the need for a fiscal reform. These efforts were finally embodied in two books: the *Libro Verde* (Green Book) in 1973, which was classified as a secret document and never printed, and the *Libro Blanco* (White Book), which was printed in 1976 but never distributed. This reflects the strong opposition to tax reform of part of the government and the elites. Only after the establishment of democracy was the fiscal reform implemented, giving Spain a modern tax system comparable to that of other European countries.

Although some of the targets established by the promoters of the reform had to be abandoned, the reform represented a clear break with respect to the previous situation (Comín 1996). Fiscal reform would have been impossible without the concatenation of three forces. First on the eve of the economic crisis, most economists and intellectuals had already been converted to the "cause" of the need for tax reform in particular, and the need to increase public sector spending in general. They effectively raised public awareness about the need to increase the size and role of the State. Second, the new political climate allowed the discussion and introduction of fiscal measures that would have been impossible during the dictatorship. Finally, the magnitude of the economic problems of the crisis made it crucial to look for financial resources. The income tax (*Impuesto sobre la Renta de la Personas Físicas*) was approved in 1978, the same year as the Corporation Tax (*Impuesto de Sociedades*). The main gap in this reform was that the indirect taxes (VAT) were not addressed until 1986.[13]

The most important contributions of the fiscal reform were the increase in revenues and the rise in fiscal pressure (from 20.4% in 1975 to 30.9% in 1986). However, there were two main weaknesses of this reform. First, the high level of fraud and the slow response in imposing measures to fight it. There was no fiscal information, and a lack of fiscal "culture" among taxpayers. In fact, in 1977, 45.2% of businessmen and professionals, 72.3% of farmers and around 31% of salaried workers did not pay the income tax (Martín Seco 1985). Second, the unequal distribution of the fiscal pressure, such that it mainly affected families, and to a much lesser extent firms. However, tax progressivity was insufficient but undeniable. In 1970, the revenues from income tax did not reach 2% of GDP, even below countries such as Portugal, and a long way off the OECD average of around 8%. After the introduction of the tax reform, the revenues from income tax as a percentage of GDP rose to 5%. This was still far below the OECD average (10%), but was a clear indication of the process of convergence, a process which was not completed until the 1990s (Torregrosa 2015). With respect to social security, in the 1970s the revenues from contributions on wages as a percentage of GDP was around the OECD average but it underwent a sharp rise until the 1980s, when it became the main source of financing of the public sector and was situated above the average for the OECD. To sum up, fiscal reform "made the public system more efficient and flexible … but the overall tax system was not made more progressive" (Torregrosa 2018).

It would not have been easy to adopt a more far-reaching tax reform. Whereas other developed countries transformed their fiscal system in a context of growth and full employment, Spain had to do it in a context of crisis, slow growth, growing unemployment and greater international competition. Moreover, these changes in Spanish taxation took place at a time when other countries were moving towards less fiscal pressure and less state interventionism. Therefore, despite its imperfections, the tax reform increased revenues and enabled a substantial rise in social spending, despite the fact it was not a particularly redistributive tax system.

6.4 Changing the Institutional Settings

Although during the first years of democracy the main challenges were to correct the macroeconomic imbalances and to tackle the industrial and banking crisis, other reforms were also urgently needed. A welfare state had to be built along with a framework of social agreement after forty years of dictatorship. Moreover, it was essential to continue dismantling the interventionist structure and to advance in the process of internal and external liberalization of the economy. All these challenges were crucial for Spain to lay the foundations for its future integration in Europe; however, they had to be reconciled with the construction of democracy and the new power distribution, with the pressure of the oligarchy and the business and banking groups, and the growing demands of the working class. Although not all the reforms were equally successful, and all of them were afflicted by imperfections and delays, they marked the beginning of the path to modernization, liberalization and international integration on a level with other European countries.

6.4.1 Growing State, Welfare and Decentralization

The main effect of tax reform was the growing role of the State in the economy, with an absolute and relative increase in public expenditure, basically tied to the emergence of domestic welfare. The other two features related to the State's reformist action were the change in the functional composition of public spending, and its decentralization through the creation of autonomous regions (*Comunidades Autónomas*). The 1970s definitively broke the historical budgetary backwardness, a situation that began and was consolidated during the Franco regime, that meant public expenditure in Spain lagged behind that in the rest of Europe.

The political cycle conditioned the evolution and growth of public expenditure, its nature and structure (Alcaide 1988; Sáenz 2008; Fuentes Quintana 2005). After the Civil War, there was a large decline in public expenditure—mainly social expenditure—with the lowest public expenditure-to-GDP ratio registered in 1952, at 8.7%, even below the pre-war figures (Espuelas 2013). This delay is more striking in comparative terms. After World War II, European countries adopted expansive fiscal policies and increased public expenditure to favour economic reconstruction and improving employment and income redistribution (Pan-Montojo 2002; Comín 2010). By contrast, the beginning of the welfare state was delayed in Spain until the 1960s, and only really developed with the demise of the Franco regime and the establishment of the democratic system.

Fig. 6.2 Government expenditure/GDP in Europe, 1970–1990 (%). (Source: Alcaide (1988), Bank of Spain and Eurostat)

In 1975 the public expenditure-to-GDP ratio was around 20%, below the average of the rest of Europe (43.3%). However, that year marked the start of a long convergence cycle and in 1986 the Spanish ratio was close to the European average (Fig. 6.2). Something similar happened with the social expenditure-to-GDP ratio: in 1975 it was only 59% of the European average and in 1980 it reached 85%, although in terms of social spending per capita the distance with Europe was greater (Espuelas 2013). It was in 1993 when the maximum level in the public expenditure-to-GDP ratio was reached, a high of 49.6%, similar to other Western countries.

In addition to the increase in public expenditure, the other main change was in its nature. The end of the Franco regime saw the first basic public supply of social services (social security and education). At the end of the 1960s, public expenditure began to shift from collective assets (defence, administration and economic services) to welfare (education, health and income redistribution). However, this transition did not take place harmoniously during the 1970s due to the economic crisis and the institutional-political change. The crisis triggered an increase in social demands (especially unemployment benefits), and the fact that it coincided with the arrival of democracy meant that social demands were almost automatically transferred to the public budgets. This was the result of the social and economic agreements of the first years of democracy: in exchange for wage moderation there was an increase in the expenditure items for transfers and social services (Trullen 1993). The establishment of democracy was supported by the various pressure/lobby groups (trade unions, business associations and political parties), and the promotion of public expenditure, especially social expenditure, was the result of such pressures, especially between 1975 and 1982, rather than rational planning. This offers an understanding of the hesitant nature of economic policymaking (or the lack of planning) as well as the explosive growth in public expenditure from 1976 on and its consequences: deficit, uncontrolled inflation and public indebtedness.

Regarding the functional distribution of the public expenditure, as seen in Table 6.2, the political commitments signed in 1977 increased

Table 6.2 Functional distribution of public expenditure, cumulative annual growth rate

	1975–1985
Unemployment	21.6
Debt interests	23.1
Subsidies	11.8
Transfers	18.4
Pensions	7.6
Housing	7.6
Education	7.2
Health	3.3
General services	5.3
Investments	5.0
Defence	3.0
Other	–2.9
Total public expenditure	**7.12**
GDP	**1.55**

Source: Own elaboration from Álvarez, Prieto and Romero (2003) expenditure aimed at combatting unemployment (with the highest growth rate of 21.6%, very close to the 23.1% corresponding to the payments to service the public debt) as well as transfers and direct subsidies to companies, generally public, but also private. In addition to unemployment benefits, there was a strong increase in pensions along with other social items (housing, education and health). The latter accounted for the largest share of social spending—greater than unemployment benefits[14]—and was influenced by the demographic trend; from 1977 the population began aging, while reforms in the system expanded the coverage. In addition, the crisis prompted more early retirements.

Public spending on education grew notably between 1975 and 1980, with an intense transformation of the educational system as a whole. By 1970, public and private spending on education was practically equal at around 1–1.5% of GDP (San Segundo 2003). Later on, public spending rose to 2.5% in 1980, and 3.7% in 1985. This fostered Spain's convergence with the rest of Europe in educational terms. There was also an increase in the schooling rate: between 1970 and 1980 the coverage rate of public education at all educational levels went from 26% to 45%.[15] Tertiary education also rose from 1977 on, with a growing enrolment of women in universities.[16] All this represented the beginning of path to redressing the country's educational backwardness; during the democracy, this progress enabled an increase in the stock of human capital in the Spanish economy, although it continues to lie below the average OECD levels.

Public spending on health was one of the functions that mobilized the most resources, in both absolute and per capita terms. The health item went from representing 3% of total public expenditure between 1965 and 1975, to reach 10% in the 1990s (Cantarero and Urbanos 2003). This strong relative increase was due to the universalization of the healthcare system and the rise in the number of people covered by the system, which by 1985 already covered 95% of the population. This was another area of convergence with other European countries, along with the modernization of the healthcare system. The inclusion of Health Protection was included in the 1978 Constitution and in 1977 a Ministry of Health and Social Security was created, as well as the INSALUD—National Health Institute—in 1978 (Blanco et al. 2003). Improvements to the public health system were part of the "agreed" nature of the reforms, although its growth had some negative effects in terms of rationality. It was in the following decade that reforms focused on efficiency (Cantarero and Urbanos 2003).

In short, in the 1970s public expenditure grew more and was oriented towards transfers to families, although also to businesses and investors in public debt. This situation intensified from 1977 on, due to the effects of the crisis and the political decisions taken to tackle it. The most significant aspect of this evolution was a more redistributive public expenditure structure, aimed at guaranteeing the operation of the automatic stabilizers (mainly unemployment benefits) and the provision of preferential assets.[17]

The last feature of the transformations of the State during the political transition was the process of decentralization carried out through the Moncloa Pacts and the new Constitution. Traditionally, the Spanish public sector was composed of two levels: the central one (State) and local entities (Municipal Councils). However, during the transition a new intermediate level was designed: Autonomous Communities. This detail is very important because this decentralized design of the State endures to this day. There were regional differences in intensity and speed in assuming management and spending powers. Political context also played a prominent role in this design. The historical claims of some Spanish regions (primarily Catalonia and the Basque Country) and demands for political autonomy, which had not been met during the Franco regime, were conceded during this period. In terms of public spending, the figures are clear: in 1980 (two years after the creation of this new level of decentralization) the proportion of decentralized public spending by the regional administration barely reached 0.3%, while twenty years later the figure had grown to 20% of the total public expenditure (more than 13% of GDP), being described by the OECD as quasi federal (OECD 1999). The decentralization process initiated in 1977 ended in 2002, when the State had transferred all the agreed responsibilities to all regions.

The process by which the Autonomous Communities were created is a good reflection of the nature of the period in general: it had an experimental and progressive character, and not all the regions acquired the same spending and management skills and services at the same time. In addition, the process was—and continues to be—complex from the revenue side, since spending at the regional level has developed much more harmoniously than the ability to obtain tax revenues. The latter responsibility remains, for the most part, in the hands of the central State, which subsequently transfers the funds to the Autonomous Communities for them to use. However, the regional level has acquired the functions of providing public goods such as health and education, which account for between 75% and 80% of the total funds transferred by the State. In addition to providing public goods, the rest of the region's expenditure is made up of investments in infrastructure, such as roads, homes and hydraulic works. The central State establishes the conditions of the services to be provided and transfers the resources to the regions, which finally provide these public goods to citizens. In sum, the creation of regional governments has led to the territorial distribution of the decision-making on public spending, one of the distinctive features of the contemporary Spanish economy.

6.4.2 Banking Reforms: Crisis and Liberalization

In the financial and banking sector, the reforms that began in the late 1960s and accelerated in the 1970s and 1980s changed the structure, characteristics and regulation of this sector. However, whereas the banking reforms can be viewed a relative success (albeit with some ups and downs), Spain had to wait until the 1990s to see positive results in terms of the monetary policy. As controlling inflation was one of the priorities of the first reformist governments, the implementation of an active monetary policy and the liberalization of the financial system became political priorities. The two reforms ran in parallel and contemporaneously, since the two sectors shared the same reformist objective: to achieve a more efficient allocation of the financial resources. Sometimes, however, the measures adopted in one of these two areas contradicted the other and progress was not linear but rather involved a series of setbacks and successive advances.

One of the main problems afflicting the banking sector in the late 1970s was the excess interventionism, which had negative effects on the level of competition and efficiency of the banking institutions. The low level of competition was due to financial repression from Franco. The system was intensively regulated, with barriers to entry, controls on opening branches, a rigid system of control over interest rates that protected bank margins and strict regulation of savings banks and commercial banks with the objective of financing the public sector, or those activities that were considered a priority by governments. In addition, and largely as a result of the lack of competition, financial institutions had a low endowment of their own funds and an acute lack of experience.

The Moncloa Pacts insisted on the need to liberalize the financial system. The beginning of the 1970s saw the introduction of some liberalizing measures related to geographic expansion (branches), interest rates or allowing the entrance of foreign banks,[18] among other issues. However, the process of liberalization was very slow: the crisis consumed financial resources and the different governments continued to use the financial sector as a source of financing. Moreover, the process of liberalization did not affect all financial institutions equally; it mainly affected banks but savings banks had very high levels of compulsory investments that affected the use of their resources. Public banking (ICO: *Instituto de Crédito Oficial*) continued to operate without major changes, and its privatization took place a decade later, between 1987 and 1992, although it reduced in size and public sector banks disappeared (Martín-Aceña et al. 2016).

The elimination of mandatory investments (usually in public debt) was the slowest and most complex part of the reform. Ten years after the Moncloa Pacts, in 1987, banks still maintained a small percentage of mandatory investment in public assets. It was between 1989 and 1990 when the coefficients as an instrument of monetary policy disappeared. Deregulation and liberalization of interest rates began in 1977, but as in the previous case, it was not until 1987 that the process was completed. From that date on, the interest rates in Spain would reflect the scarcity or abundance of loanable funds, leaving aside its historical interventionist role that penalized savers and claimants of free credits (Malo de Molina 2011).

The industrial crisis also affected banking performance. Banks faced an increase in competition in a context of an industrial and stock market crisis. The main problem was that neither the Ministry of Finance nor the Bank of Spain had adequate prudential regulation, since the existing one established low requirements in terms of minimum capital for newly created entities, and did not set limits on concentration and risk taking (Poveda 2011). The absence of significant banking crises during the second half of the twentieth century contributed to the fact that the Bank of Spain's inspections were limited to detecting accounting violations. In fact, when the first crises became evident, temporary solutions were improvised and the classic rediscount remedy was still applied as a basic aid instrument (Poveda 2011; De Juan 2017). The development of mechanisms and institutions was experimental and tentative, and only accelerated when the banking crisis became more acute (Banking Corporation in 1978 and Deposit Guarantee Fund in 1980). Although the cost of the intervention in the banking sector was very high, the adopted measures prevented a bank panic and in the end none of the big banks was seriously affected by the crisis. To date, this continues to be the main mechanism for solving banking crises in Spain.

The reforms and the banking crisis produced a more concentrated sector with the formation of groups led by certain banks that increased their size through mergers and acquisitions. There was a clear break with the banking model of the Franco era, and the result in the medium term was an increase in the average size of Spanish banks, which allowed them to compete in the international markets. The financial reform tended to equate savings banks with commercial banks, and led to the consolidation (via mergers) of four large entities with sufficient size to compete with private banks. The last consequence of the banking reforms was the transformation of the investment structure of the banks from the early 1990s, as a result of the elimination of repression and the privatization of public banks. There was also a reform of the stock market in 1988, with the creation of the National Securities Market Commission. In short, the reforms undertaken during this period led to a true expansion of the financial institutions (banks and savings banks) and mediation instruments. Laxer regulation and financial innovation formed the basis of the new banking sector and its international expansion in the 1990s.

6.4.3 Labour Market Shocks and Reforms: Unemployment as a Structural Problem

The crisis had dramatic effects on the labour market. Moreover, almost four decades later, large-scale unemployment persists as one of the structural features of the Spanish economy, as well as an anomaly within the OECD countries. At the beginning of the 1970s, the labour market relations framework inherited from Franco regime featured strong interventionism, low wages and productivity, a very favourable negotiating position for business-owners (the abusive use of overtime is a good example), and strong political repression that prevented workers from participating in the design of wage or sectoral policies as their European counterparts did. Against this backdrop, several factors came together during the 1970s: the return of emigrants, the end of the structural change from agriculture to industry, population growth above other that of European countries, and the economic and political crisis.

Moreover, the wage policy was essential for the countercyclical, reformative design of the Moncloa Pacts to be able to stop inflation. The wage adjustment was carried out through the implementation of a collective bargaining model based on wage indexation that accounted for expected inflation rather than past inflation. This represented a significant change in terms of both the results and the new macroeconomic approach that it entailed. In addition, institutional reforms dismantled Franco's labour regulations and placed negotiation between employers and unions, recently legalized (1977), at the centre of the process. The labour reform encountered resistance from various areas, as shown by the union strikes between 1974 and 1979.

The new regulation recognized the new actors (trade unions and business associations) and their autonomy to negotiate and to represent themselves, the right to strike, collective bargaining and a new unemployment insurance in the context of a universal social security regime. This basic regulation was progressively complemented by other laws, the creation of the National Employment Institute (INEM), as well as two key regulations that remained in force until the first decade of the twenty-first century: the Statute of Workers, and the Basic Law of Employment, both passed in 1980. These regulations built on previous aspects and established new elements, such as limits on the working day and the preference for stable contracts, although they also recognized labour flexibility (Toharia 2003; Sanz 2018). As growing unemployment depleted public accounts, the government stiffened the conditions for accessing unemployment insurance, which from 1980 covered less than 40% of unemployed people.

The results of the wage adjustment policy were clear and immediate. The annual growth rate of unit labour costs declined rapidly, from 21% in 1978 to 6% in 1984 (Malo de Molina 2003). The share of wages in GDP decreased by more than 7 percentage points between 1978 and 1985 (Muñoz del Bustillo 2010; Sola 2014). This was the result of the macroeconomic discipline of the Moncloa Pacts but also a reflection of the limitations of the unions' bargaining power. In return, inflation also declined rapidly: from 24% in 1977 to 8.8 on the eve of Spain's entry into the European Union in 1986. Despite this, unemployment was not eliminated, and remained at very high levels even with the change in the expansionary cycle from 1986 on.

From 1982 onwards, the new socialist government transformed the institutional labour framework and the wage adjustment policies were progressively complemented by successive labour reforms that favoured the use of temporary contracts. The increase in temporary hiring, considered a necessary instrument to better adjust the demand to the supply of employment, has sparked a wide-ranging debate about the more or less protective or rigid nature of the Spanish labour institutions, which are largely based on the 1977 reform (Toharia 1997). On the one hand, it is argued that the Moncloa Pacts prioritized the focus on labour aspects to correct macroeconomic imbalances (from this perspective, unemployment was the price to pay) (Ferreiro 2003; Sola 2014; Jimeno and Ortega 2003). However, others have claimed that the labour institutions that emerged from the 1977 reform are responsible for the rigidity of the Spanish labour market (excessive unemployment protection, recognition of collective bargaining, expensive dismissal etc.), and thus bear the responsibility for the persistence of unemployment in Spain (Bentolila and Jimeno 2003).[19]

6.4.4 Industrial Restructuring

Another reform that was not immediately undertaken was the industrial restructuring. The industrial crises had heavy costs in terms of unemployment and business closure. Some surviving firms went over to the black market, especially in sectors such as textiles and shoes. Many sectors lacked the capacity to adapt to this new context characterized by lower demand and more competition. The deterioration of the economic situation reduced demand in sectors with low income elasticity, such as food and beverage. Other sectors such as steel or shipbuilding were faced with the competitiveness of countries such as South Korea and Japan, and this revealed their weaknesses: low technology, high costs and excessive dependence on state subsidies. In this context, it became necessary to restructure the Spanish industrial activity.

The Moncloa Pacts, however, did not include any industrial policy and from 1977 to 1982 there was no coordinated, coherent industrial policy. The only measures passed were some specific programmes to help individual firms with problems, which were included into the Development Plans). In 1978 the Ministry of Industry and Energy justified this intervention in individual firms rather than a more general programme on the basis of the complexity of the problems. The result was that some particular firms received financial aid, through public or subsidized loans, and in some cases, firms were nationalized, implying the "socialization" of losses. As a result, the state holding company INI (*Instituto Nacional de Industria*, created in 1941) became a "business hospital". Priority was once again given to political aspects instead of economics and efficiency; the weakness of the first UCD governments and the fear of an even higher increase in unemployment are the reasons behind this decision. The difficulties and arbitrariness of intervening in individual firms and the worsening crisis made it necessary to implement more comprehensive action: an industrial restructuring with a sectoral focus. Between 1980 and 1982 several Decree Laws were passed. The problem was the delay in implementing this reform and the large number of sectors that had to be included in this restructuring. The resources targeted at industrial restructuring from 1981 to 1986 totalled 738.811 million pesetas, a substantial yet insufficient amount considering the seriousness of the Spanish industrial problems (Navarro 1990).

It was only in 1982, when the *Partido Socialista Obrero Español* (PSOE) came into power, that a real restructuring policy got underway. However, this reform was not achieved without difficulty, and it was concentrated in priority sectors (steel, shipbuilding, fertilizers, domestic appliances and capital goods). There was serious conflict between the government and unions, especially in sectors such as steel, which were geographically concentrated and where restructuring entailed major reductions in production capacity and employment. Fiscal instruments were used (e.g. tax deductions), as well as labour measures (early retirement, redundancy schemes) and financial aids (public credits and guarantees, subsidies, contributions from private financial entities through the application of mandatory investment coefficients etc.). The Law also created the so-called areas of urgent reindustrialization (ZUR by its initials in Spanish) with a regional focus.

Industrial restructuring also affected INI firms that had accumulated substantial losses, partly as a result of the process of nationalizing private companies during the crisis years. Thus, the INI had to reorganize and reduce its workforce and rationalize its investments. For example, in the shipbuilding sector production capacity was reduced by 55%, and in the fertilizer sector the least efficient companies were closed down and a new nitrogen plant was built. Feasibility plans were also applied to many other companies in the group, such as Iberia and *Empresa Nacional de Autocamiones SA* (ENASA), as well as privatizations. The result was a reduction in the INI workforce, which went from 216,000 workers in 1983 to 151,000 in 1989 (Martín-Aceña and Comín 1991).

The overall balance of the industrial restructuring shows that in the short- and medium-term workforce reduction goals were achieved (in some sectors by more than 50%). However, in financial and productivity terms, the results were below the forecasts, which prompted the start of a new phase of conversion after 1986 (Simón 1997). The main negative aspects were the high cost of this policy in terms of public spending, the discriminatory effect of some of the measures taken to support the sectors in crisis, such as pre-retirement, which placed workers in some of these sectors in a clearly privileged situation, and the limited results obtained in the reindustrialization of some areas. Moreover, the achievements in the ZURs were minimal. The main positive aspect was the necessary rationalization of the industrial structure through the gradual dismantling of sectors that were unable to cope with the growing international competition. Thus, in many sectors the reconversion solved the problem of excess capacity in productive and employment terms, improving the level of competitiveness of Spanish industry. However, a large amount of public resources had to be channelled into this restructuring, and the results in terms of reindustrialization and job creation were well below those expected.

6.5 Conclusions

The year 1977 was a turning point in Spanish economic history because a severe economic and financial crisis was accompanied by major political and institutional changes associated with the political transition after Franco's death in 1975. But it was also a defining moment because of the seminal nature of the reforms implemented from 1977 onwards. In a context of crisis and political transition, Spanish society would hardly have been able to absorb a more radical adjustment. The reforms put the economy on the right path. They also acted as a national reconciliation mechanism and served to demonstrate the legitimacy of a democratic government to introduce measures that were necessary but unpopular due to the potential social costs in the short term. One of the key features of the reforms was that they were achieved through negotiation between new political and social actors, unions and political parties, which facilitated the implementation of wage adjustment policies. The most evident example of this negotiatory process was the sustained growth in social spending and the construction of the first domestic welfare state, as a compensatory policy.

It is true that some reforms were left pending and some problems were not solved. An example is the failure in terms of unemployment. Although all European countries saw unemployment rates rise in the 1980s, in 1982 the Spanish unemployment rate was the highest of all OECD countries. However, the persistence of a high unemployment rate was consistent with a continued decline in income inequality, which had begun in the early 1970s and continued to decline until 1986 (Prados de la Escosura 2008); this can be interpreted as a sign of the effectiveness of automatic stabilizers launched in the 1977 Pacts. In terms of monetary policy, and also in public and private banks, the changes were slower than desired, although the first steps were taken in the right direction. However, in most aspects, hopes were fulfilled this time. The introduction of a modern tax system and the construction of the welfare state represented a clear break with the Franco regime and laid the foundations for the future convergence and external integration of the Spanish economy.

Notes

1. The economic crisis started in 1976 but worsened in 1977 as a consequence of the banking crisis that erupted in that year.
2. The economic situation was probably not correctly assessed, and the crisis was considered as temporary (Betrán et al. 2010).
3. The output loss is a way of determining the loss associated with a crisis. This is estimated by summing the differences between trend growth and output growth following the crisis, up to the point where annual output growth returns to its trend (see Betrán and Pons 2017).
4. The agrarian population as a share of the total population in Spain dropped from 50% to 25% in less than twenty years. The share of agriculture in GDP, which represented around 25% in 1960, fell to less than 10% in 1975 (Prados de la Escosura 2017).
5. During the 1960s and until 1975, the Spanish economy diversified and improved efficiency significantly, with an annual increase in total factor productivity from 1965 to 1975 of 3.8% for the whole economy (Prados de la Escosura 2017).
6. The decision had an asymmetric effect on different consumers because the subsidized prices were mainly for industrial producers and less so for end consumers.
7. The costs of loans doubled as a consequence of the peseta devaluation. This mainly affected certain sectors, such as the electricity sector. Eleven out of the fifteen most indebted companies in dollars belonged to the electricity sector (De la Torre and Rubio 2015).

8. In relative terms, unemployment rates in the 1970s were higher than in other countries but lower than the peaks of 21.5% in 1985, 24.5% in 1994 or 27% in 2008.
9. As explained in more detail in Sect. 6.3, the fiscal system was very underdeveloped and did not have the capacity to increase revenues, while the monetary policy lacked the necessary instruments to be effective.
10. The McCracken Report issued by the OECD in June 1977 was widely referenced (Trullen 1993). For details about other experiences in Europe of agreed wage policies, see Flanagan, Soskice and Ulman (1985).
11. For a history of the social security system, see Boldrin, Jiménez- Martín and Perachi (1999) and Pons and Silvestre (2010).
12. For example, during the 1960s Fuentes Quintana published several works about the need for tax reform, in the journals *Información Comercial Española* and *Anales de Economía*.
13. VAT was introduced in the EEC in the late 1960s, when that body consisted of only six members (Belgium, France, West Germany, Italy, Luxembourg and the Netherlands). However, in the UK it was introduced in 1973. Several reasons were given to justify why it was not introduced in Spain in the 1970s, such as the impact on prices (in an inflationary context) and the possible negative impact on exports.
14. In 1975 pensions represented around 36% of total public spending, rising to 40% in 1980, whereas unemployment was around 2.98% in 1975 and increased to 12.5% in 1980 (Espuelas 2013).
15. It was also a consequence of the compulsory eight years of basic education imposed by the General Law of Education in 1970.
16. In 1976, Spanish women's level of education was very low and from the late 1970s the number of female graduates from tertiary education increased substantially (Rodríguez-Modroño et al. 2016).
17. However, not to other public goods, such as justice.
18. Only thirty-five foreign banks entered the Spanish market and their market share in terms of deposits never exceeded 2%. However, their presence boosted the level of competition and also had a positive influence on financial innovations such as the loans tied to floating interest rates or the interbank market development (Álvarez and Iglesias 1992).
19. For information about the current structure of the Spanish labour market, as well as the effects of the Great Recession, see Andrés and Doménech (2015).

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