

SPANISH PUBLIC POLICY: FROM DICTATORSHIP TO DEMOCRACY

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Introduction^{*}

Empirical studies in the field of comparative public policy have, from the very beginning, tended to focus on one central question: "Does politics matter?" Indeed, ever since the seminal work of Cutright (1965), numerous studies have focused on a debate between, on the one hand, those who contend that levels of socioeconomic modernization and affluence are the principal determinants of the volume and structure of government services--most commonly, social services and transfer payments--and, on the other hand, those who argue that political factors have an important impact.¹ Among those political variables whose policy impacts have been most extensively examined are the extent of partisan competitiveness (classic studies of which include Lockard 1959; Dawson and Robinson 1963; and Beer 1965), the ideologies and programmatic preferences of political parties (e.g., Castles and McKinlay 1978; Rose 1980; and Castles 1981, 1982, and 1986), and various aspects of political regime (e.g., Pryor 1968; Cameron and Hofferbert 1974; McKinlay and Cohan 1975; and Leichter 1976).

Attempts to resolve this debate have produced mixed results. It is clear, for example, that a certain level of socioeconomic development and affluence must be achieved before the establishment of an advanced social welfare state is a realistic policy alternative. Once this threshold has been surpassed, however, some have argued that the contribution made by socioeconomic variables to an explanation of cross-national differences in social policies declines markedly (see, for example, Aaron 1967; and Castles and McKinlay 1978). Even among relatively affluent and

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¹ As Castles (1981) pointed out, this vehement debate "is frequently tied in with the conflict of sociological functionalists and Marxist structuralists on the one side, and the pretensions of a political science discipline premised on the exercise of human choice, on the other" (119-20).

developed countries, however, tests of the alternative "political" hypotheses have produced mixed and often unconvincing results. To some degree, this is the product of the shortcomings of the available data: it is extraordinarily difficult, for example, to capture all of the complex, multidimensional and often interactive facets of political regimes (authoritarian/democratic, civilian/military, left-wing/right-wing, centralized/decentralized, presidential/parliamentary) using simple quantitative measures or "dummy variables." Another complicating factor in cross-national comparative studies is that the relatively small number of cases for which reliable data are available, in combination with the high level of multicollinearity among the explanatory variables, makes it difficult to disentangle and separate the impact of socioeconomic from political factors--democratic countries also tend to be rich and developed, while authoritarian regimes are most commonly found in economically lagging societies. Finally, as Castles (1981, 121) pointed out, in most countries the relevant economic and socioeconomic factors vary little over time, making longitudinal comparative analysis difficult and often indecisive.

The transition to democracy in Spain presents us with a valuable and almost unique opportunity to study the impact of political regime characteristics on public policy. A change of political regime within a single country makes it possible to control for a wide variety of social and economic factors and isolate the impact of political variables. An exploration of Spanish public policy is particularly fortuitous (from a purely methodological standpoint, that is), since the country's most rapid phase of economic development had run its course prior to the breakdown of the authoritarian system and the emergence of new democratic institutions. Real economic growth between 1960 and 1975 averaged 6.8 percent per year, and by the early 1970s Spain had clearly passed the threshold commonly associated with the development of advanced social welfare states. A purely socioeconomic explanation of social-policy development would therefore predict

that these programs should have grown significantly during this period, and should have begun to approximate the levels of other West European countries by the mid 1970s. In contrast with the preceding decade, from 1975 until 1985 the Spanish economy was by-and-large stagnant, with a real rate of growth of just 1.7 percent (Alcaide 1994, 57). These sharply distinctive economic environments facilitate our efforts to measure the effects of the political change which began in 1975, since any subsequent increases in public policy outputs could not be explained as merely the products of increasing affluence. In effect, the economic-development variable can be "held constant." This period is not free of confounding economic factors, however: the economic crises which accompanied the twin "oil shocks" of the mid to late 1970s led to substantial increases in unemployment which, other things being equal, would imply a greater need for certain kinds of social spending. But overall, the stagnation of the Spanish economy during the key stages of the transition to democracy and the remarkable continuity in the Spanish state administration serve to minimize the potentially confounding influence of these non-regime factors.

Conversely, massive political transformations (including the displacement of dictatorship by democracy, legalization of trade unions and competitive political parties, and empowerment of formerly excluded social groups) occurred just as the economy was entering a protracted period of stagnation. These circumstances are ideal for testing the relative impact of political and socioeconomic determinants of public-policy outputs. If "politics matters," then democratization should have been accompanied by an expansion in these programs. But if, as Wilensky (1975, *xiii*) argues, "economic growth and its demographic and bureaucratic outcomes" are the real determinants of these social policies, and political factors such as "collectivistic' versus 'individualistic' ideologies, or even 'democratic' versus 'totalitarian' political systems...are almost useless in explaining the origins and general development of the welfare state," then we should expect to find that the

most rapid period of social-policy expansion should have corresponded with the economic boom of the 1960s and early 1970s, and that subsequent democratization would have had little perceptible impact.

This longitudinal comparative study of the socioeconomic and political determinants of public policy is greatly facilitated by the availability of parallel in-depth interviews with key decision-making elites under both authoritarian and democratic regimes in Spain.² Thus, it is possible to go beyond inferences based solely upon quantitative data to interpret policy choices on the basis of the perceptions, objectives and calculations of key decision makers under both regimes. Since the earlier study of the Franquist regime (Gunther 1980) hypothesized that anomalous features of public policy outputs were systematic products of key characteristics of the authoritarian regime's central political institutions, with anomalies in the budgetary decision-making process serving as crucial intervening variables, a test of those explanatory propositions also requires a parallel exploration of decision-making processes under Spain's subsequent democratic governments. Thus, we will undertake a systematic longitudinal analysis of both the public policy outputs and decision-making processes in Spain under two distinctly different political regimes.

Public Policy Under Franco

² I undertook over two hundred hours of interviews with 97 middle- and high-ranking officials of the Franquist state between December 1973 and February 1975. These were followed in the 1980s and 90s by in-depth interviews with the highest-ranking policy makers of the democratic regime. These included extensive interviews with all three of Spain's prime ministers who served between 1977 and 1996, and six interviews with individuals who served as ministers in the UCD and PSOE governments of this period. I am especially grateful to Leopoldo Calvo Sotelo and José María Maravall, who not only gave excellent and insightful interviews, but also read and commented upon earlier drafts of this manuscript.

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Throughout the final years of the Franco regime, Spain was, in several respects, strikingly different from other Western industrialized states with regard to several important public policy outputs. In 1975, for example, its overall level of taxation was the lowest of any country in Western Europe, and among all OECD (Organization for Economic Cooperation and Development) member states trailed all except the much less economically developed Turkey. As can be seen in Table 7.1, the 19.5 percent of Gross Domestic Product that flowed to all levels of government in Spain was very substantially below the OECD average of 32.7 percent. Contrary to the pattern one would expect to find on the basis of a "socioeconomic explanation" of public-sector growth, Franquist Spain was significantly lower in this respect than less affluent OECD countries, such as Ireland (30.0 percent), Greece (25.5 percent) and Portugal (24.7 percent). And when social security taxes are removed from this total, an even more striking anomaly emerges: between 1965 and 1975, all these other tax revenues combined actually **declined** as a share of Spain's GDP, from 10.5 to 10.3 percent. Not only does this represent a dramatic departure from "Wagner's Law" (Wagner 1892) but this also means that Spain was actually falling farther behind the rest of the industrialized world³ at the same time that it had one of the fastest rates of economic growth in Western Europe.

Table 7.1 *Tax Revenue as Percentage of Gross Domestic Product, 1975*

Country	
Norway	44.9
Sweden	43.4
Netherlands	42.9

³ In 1965, the OECD's average percentage of GDP taken up by all taxes except Social Security taxes was 21.8 percent. By 1975, it had risen to 25.4 percent. Thus, Spain's non-Social Security tax level fell from 48 percent of the OECD average to 41 percent. (Source: OECD, *Revenue Statistics*, 1993, 76.)

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Luxembourg	42.8
Belgium	41.8
Denmark	41.4
Austria	38.6
Finland	37.7
France	36.9
West Germany	36.0
United Kingdom	35.5
OECD Average	32.7
Canada	32.4
New Zealand	31.1
Ireland	30.0
Switzerland	29.6
United States	29.0
Australia	27.5
Italy	26.2
Greece	25.5
Portugal	24.7
Japan	20.9
Spain	19.5
Turkey	16.0

Source: Organization for Economic Cooperation and Development, *Revenue Statistics of OECD Member Countries, 1965-1994*. Paris: OECD, 1995, 73.

As the result of the small volume of revenues flowing to the state during the last years of the Franquist era, in combination with the adoption of balanced state budgets, the Spanish state lagged far behind other West European governments in the provision of basic services. In 1975, only 9.9 percent of Spain's GDP was devoted to the provision of social services, as compared with a European Community average of 24 percent (Maravall 1993, 84). Indeed, some basic services were at "Third World" levels. In 1964, for example, Spanish state expenditures on education were less than one third (as a share of GDP) of education-spending levels in West Germany, France and Austria, and less than one quarter of those of the UK, the Netherlands and Belgium (Ministerio de

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Educación y Ciencia 1969, 174). Spanish rates of enrollment in higher education in 1967 were as low as those of the poorest quartile of the 64 countries studied by Harold Wilensky. Spain thus ranked alongside such countries as Upper Volta, India, Togo and Paraguay.⁴ And 1965 data assembled by Taylor and Hudson (1972, 32) showed that the Spanish government's level of education expenditures (as a percentage of its GNP) placed it in a tie with Angola, in 122nd place out of 131 countries included in the survey! A significant reform of the education system was initiated following enactment of the *Ley General de Educación* in 1970, but despite this policy initiative Spain's education system remained underdeveloped and drastically underfunded. By 1973, education expenditures had increased to 2.1 percent of GDP (up from 1.5 percent nine years earlier), but this was still far behind education spending in other West European societies.⁵ In 1977, the Spanish education ministry was still incapable of providing free elementary education for all children, and at the beginning of the 1980s, Spain's illiteracy rates were startlingly high (21.5 percent among those over age 65--Tezanos 1984, 55-56) relative to other industrialized societies.

There were other striking examples of the low levels of State Budget expenditures under the Franquist regime, such as spending for national defense. Despite Generalísimo Franco's military background and the central role played by the army in founding the regime, in 1973 the Spanish government was spending less (as a percentage of GDP) on defense than was any European country except Luxembourg (Gunther 1980, 49). The country's physical infrastructure was also sadly deficient. Indeed, it was not until the 1980s that the capital city, Madrid, was connected with the rest of Europe by a multi-lane highway.

⁴ Sources: for Spain, Ministerio de Educación y Ciencia, 21; for other countries, Wilensky 1975.

⁵ In 1964, for example, the government of Belgium was spending 7.1 percent of its GDP on education, that of the Netherlands 7.0 percent, the UK 6.0, Sweden 5.4 percent, Italy 5.3 percent, France 4.6 percent, and West Germany 4.2 percent. (Source: Ministerio de Educación y Ciencia, 174)

To what can these low levels of government spending and services be attributed? One of the most frequent findings in comparative public policy research is that levels of government spending and the provision of social services are closely related to the degree of a country's economic development and its overall level of affluence. Although late industrialization clearly contributed to Spain's public-policy backwardness in the past, by the mid 1970s this could no longer be regarded as a factor constraining the growth of spending. To be sure, Spain's level of per capita wealth in 1973 did lag behind most other industrialized countries: its GDP per capita of \$2,074 was significantly lower than those of the United Kingdom (\$3,056), Japan (\$3,848) and the United States (\$6,127), for example.⁶ But following the rapid economic expansion of the 1960s and early 70s, Spain had been transformed into a highly urbanized, and relatively affluent society. By the mid 1970s, it had become the world's tenth-ranking industrial power (Schwartz 1976, 86), and it had taken its place among the world's 30 richest countries. In 1973, Spaniards were richer than were citizens of Ireland (whose GDP per capita was \$2,034 in that year), Greece (\$1,589), Portugal (\$1,158), Argentina (\$1,157), Chile (\$801) and Turkey (\$500), and their per capita incomes were orders-of-magnitude higher than those of Third World Countries like Zaire (\$131), India (\$107) and Indonesia (\$92) (US A.I.D 1974).

Franquist Spain's Third-World level of spending on basic state functions could not, by the mid 1970s, be attributed solely to economic underdevelopment. One could argue that, since budgets tend to grow incrementally, spending levels in the mid 1970s were depressed in part as a long-term consequence of low expenditure levels in earlier decades. But this "historical legacy" argument provides, at best, only a partial answer to this anomaly: in the mid 1970s

⁶ *Sources:* Gross National Product statistics for the UK, France and the U.S. from United States Department of Commerce, *Statistical Abstract of the United States: 1974*; Spain's Gross Domestic Product from Instituto de Estudios Fiscales, Ministerio de Hacienda.

spending on many services was not growing (in real terms) even incrementally, and was falling even farther behind the West European average. Instead, a detailed analysis of budgetary decision-making in the mid 1970s (Gunther 1980) has demonstrated that it was largely the product of a taxation system that generated an insufficient volume of revenues to the state. This taxation system was strongly criticized in the early 1970s by officials in both the Ministry of Finance and the Comisaría del Plan de Desarrollo, as well as by economists, not only because it was incapable of raising sufficient revenues, but also because it was grossly unfair in its distribution of the tax burden. The tax structure was extremely regressive, with over 73 percent of its total tax revenues (in 1970) derived from indirect taxes and social security contributions (OECD 1995, 79 and 84). One study of the actual distribution of the tax burden under this system revealed that upper-income Spaniards paid 50 percent less in taxation as a percentage of their total income than did those in the poorest income septile (Perona 1972, 475-6). In addition, the taxation system was also strongly criticized on the grounds that its archaic and complex structure, coupled with an insufficient number of tax inspectors, made it highly susceptible to tax evasion. Why this system was maintained, unreformed, until after the demise of the Franquist regime is, therefore, an extremely important question, to which we will return.

The one partial exception to this pattern of extraordinarily low spending was the Social Security system. This system, established in 1963 through the consolidation of several formerly separate agencies, administered old-age pensions (first established in 1919), maternity services (1926), occupational injury insurance (1938), disability insurance (1939) and health insurance (1942). It was outside of the State Budget, and completely exempt from finance ministry control. Relying almost exclusively on contributions by workers and employers, it was not as severely constrained by the political limitations on tax revenues (which will be discussed below) which so severely limited the growth of State Budget spending.

Accordingly, between 1965 and 1975, the total flow of revenues into the Social Security system more than doubled as a share of GDP, from 4.2 percent to 9.3 percent.

One reason why the Social Security system differed from other sectors of state activity was that it was one of the few sectors of the Franquist state within which the falangist Movimiento Nacional continued to exert some influence. Thus, the National Movement's corporatist commitment to social welfare programs⁷ was reflected in consistent increases in the overall level of Social Security spending and some expansion in the scope of its coverage during the period of rapid economic growth in the 1960s and 1970s, as might have been predicted on the basis of a "socioeconomic explanation" of social welfare spending. Expenditures on all Social Security programs combined increased from 2.7 percent of GDP in 1964 to somewhere between 10.3 percent (INP 1976) and 12.1 percent (Velarde 1990, 109) in 1975,⁸ and by the end of that period nearly 81 percent of the population were covered by the system's health service (Guillén 1992, 126). Even so, Spain continued to lag significantly behind other West European countries in this regard. In 1975, for example, it was spending 4.3 percent of GDP on retirement pensions (as compared with an OECD average of 7.6 percent), and its overall level of spending on all programs in that year (12.1 percent) was also substantially below the OECD average (20.1) (Guillén 1992, 127-8). The employment-based nature of the system also meant that coverage was uneven and incomplete. As

⁷ The Ley de Principios del Movimiento Nacional, for example, included a declaration calling for recognition of the right of all Spaniards to Social Security coverage. Nonetheless, despite some small expansions in the scope of its coverage (such as the 1955 law extending pensions to widows of deceased pensioners, and the 1963 reform granting pensions to those over age 70 who had not previously paid into the system), the system remained predominantly a social insurance program, in which coverage was restricted to those who had made employment-based contributions to the Social Security fund.

⁸ Given the absence of fiscal accountability of the Social Security system until 1978, data on revenues and expenditures by this off-budget agency are not entirely reliable, and vary from one source to another.

described by Guillén (1992, 126), it was "a welfare system organized along corporatist lines, with significant dissimilarities among the varied professional categories and a highly fragmented management." The greatest departure from the West European norm, however, was the extraordinarily small volume of transfers from the state to help finance the Social Security system: in 1975, state transfers amounted to just 0.43 percent of GNP--the average OECD country had a level of state transfers to Social Security that was 28 times higher (Guillén 1992, 128).

While there have been no empirical studies of Social Security policy-making processes under the Franquist regime, a detailed study of the processes through which State Budgets and economic development plans were formulated and specific investment projects were selected was undertaken between December 1973 and February 1975.⁹ Its findings indicate that many of the anomalous and anachronistic features of public policy outputs under the Franco regime were products of important aspects of the state's budgetary decision-making processes, and that these distinguishing features of policy-making were, in turn, systematic consequences of institutionalized features of the regime itself. An understanding of these policy outputs therefore requires an examination of the decision-making processes through which they were formulated.

Decision-Making Processes Under *Franquismo*

The State Administration's economic decision-making processes during the final decade of the Franco regime revealed several characteristics that were most

⁹ The following analysis was based upon analysis of aggregate data and interviews with 97 middle- and high-ranking officials of the Spanish state Administration undertaken between December 1973 and March 1975. For much more detailed argumentation supporting this interpretation, see Gunther 1980.

unusual, if not unique among governments of Western industrialized countries. The manner by which interests were aggregated and higher-order spending priorities¹⁰ were established in the budgeting and economic planning processes, for example, clearly differentiated Franquist Spain from other Western industrialized societies. Unlike in most other countries, the regime's "central" political figures (Franco and his prime minister or vice premiers) and institutions (the Council of Ministers as a collective body) did not play important roles in this process. Instead, this function was devolved upon two individual ministers: the minister of finance (in the budgetary process) and Laureano López Rodó (the commissioner, then minister, of development planning). These two individuals acted with considerable autonomy.

In the budgetary processes of other Western countries, central political figures play dominant roles in setting down basic spending priorities. In the United States, the president annually establishes a set of spending priorities to be incorporated into the budget (see Wildavsky 1984 and 1988, and Wildavsky and Boskin 1982). While Congress will almost invariably alter the distribution of budget credits among departments, the budget bill presented to Congress will clearly reflect the president's policy preferences, and the budget ultimately adopted will normally respect a sizable number of those priorities, especially when the president is of the same party as the majority in Congress. In Britain, cabinet committees play an important role in allocating sectoral budget subtotals among the various departments, and the prime minister will have briefed the Chancellor of the Exchequer concerning those programs which should be permitted to expand in the coming year (see Wildavsky and Heclo 1974). The collective decision-making role of the cabinet and cabinet committees is a unique characteristic of

¹⁰ I shall use this short-hand expression to refer to the relative priorities among broad sectors of government activity, such as education vs. national defense vs. public works, as distinguished from lower-order or intradepartmental priorities among programs within the same sector of state activity.

British budgeting, although there has been a marked increase in the dominance of the prime minister as a single source of government policy priorities (particularly under strong-willed prime ministers, like Margaret Thatcher). The dual executive of the French Fifth Republic gives budgeting under that regime certain unusual characteristics, particularly during periods of divided government or "cohabitation," but involvement in that process of the president and the prime minister guarantee that the spending priorities which emerge have been heavily influenced by at least one "central" political figure (Lord 1973). Perhaps only the marginal role of the prime minister in Japanese budgeting resembles the relative passivity of Franco and his close collaborators in the routines of budgeting, but the heavy involvement of the government party and its various factions clearly differentiate it from budgeting in Franquist Spain (Campbell 1977).

In Franquist Spain, by way of comparison, persons and institutions at the center of the state apparatus neither set down systematic expenditure priorities nor played a significant policy-coordinating role. The Council of Ministers never attempted to systematically order the budgetary priorities of the state. For the most part, the minister of finance would be given a free hand in formulating the budget, and the budget bill he presented to the Council of Ministers was ratified without alteration. Neither Franco nor his close collaborator Luis Carrero Blanco played active roles in establishing state spending priorities. As a general rule, it can be said that they did not become personally involved with most issues most of the time, and they never attempted to establish general spending priorities.

By no means, however, does this mean to imply that they had no influence upon public expenditure decisions. Their main influence on the budget was exerted through indirect means, primarily through the recruitment of government ministers. Conservative fiscal policies were almost guaranteed by the recruitment to office of only persons with conservative political values and elite social backgrounds. The existence of a nearly consensual understanding of the

boundaries surrounding acceptable policy options made it unnecessary for Franco or Carrero to intervene in economic decision-making processes most of the time. Instead, spending priorities were established by the finance and planning ministers (through private, bilateral negotiations with the various spending ministers) within what constituted a "zone of indifference" for Franco and Carrero.

Certain kinds of issues, however, were of great concern to Franco, and thus almost constituted reserved policy areas. These included (1) matters of public order, (2) church/state relations, (3) the armed forces, and (4) the character of the regime's basic institutions and, in particular, the selection of his successor. When one of these issues arose and became closely linked to budgeting or planning decisions, Franco and Carrero would abandon their normal passivity and actively intervene in the policy-making process. When massive demonstrations which erupted following the Burgos trial in 1970 reawakened the Franquist elite's interest in spending on the military and police, Franco and Carrero quickly concluded that the Finance Ministry's steady reductions in the budgetary shares devoted to military and security forces had undermined the state's ability to repress dissent. What had been previously regarded as mere budgetary matters that fell within a zone of policy indifference suddenly captured the attention of the Franquist elite. Their response was to enact the National Defense Law (1971), which both increased the budgetary share devoted to defense and security spending, and removed military expenditures from the annual budgetary process altogether by granting the military ministries specific sums over a period of ten years. This made it impossible for finance ministry officials to continue to reduce the relative budget share of military spending, as they had throughout the preceding decade.¹¹

¹¹ It should be noted that this boost in military spending was only temporary, given the extraordinarily high rates of inflation of the mid 1970s. The combination of these unanticipated high rates of inflation and the fixing of the level of defense spending for several years at a time meant that real levels of defense spending and the military's share of total budget expenditures

The most far-reaching instance of intervention in the budgetary process by Franco involved proposals formulated by the Ministry of Finance in 1973 which would have substantially reformed the taxation system by distributing the tax burden more fairly among social classes, closed loopholes exploited primarily by high-income Spaniards, and increased the flow of revenues to the state, thereby helping to correct some serious deficiencies in the provision of basic public services. On the very day that the proposal was presented to the Council of Ministers in June 1973, Franco dismissed the entire government and had the finance ministry's report on the taxation system classified as a secret document, ostensibly on the grounds that it was still "pending a decision by the Council of Ministers." Government officials interviewed by Gunther in 1974 and 1975 variously interpreted this intervention as motivated by the belief that the proposed reforms might alienate the professional and middle classes whose support for the regime, Richardson and Fernández (1973, 1) argued, had "been bought with low tax rates;" that the proposal was simply too "socialistic" (as described by a director general during the Franquist era) and thus inconsistent with Franco's conservative values and anti-leftist political orientation; and/or that this proposal might give rise to conflict or at least dissatisfaction within or among those groups making up the Franquist coalition. But the consequences of this intervention were unambiguous: the June 1973 ministerial turnover and the suppression of the four-volume finance ministry report effectively killed all prospects for tax reform for the duration of the Franquist regime, and imposed severe constraints on the evolution of the entire public sector.

Groups and individuals outside of the State Administration itself were completely absent from the processes which set interdepartmental spending priorities, both with regard to the annual budgetary process and the investment planning process which took place every four years. Extensive interviews with

would resume their downhill slide beginning in 1975 (see Gunther 1980, 167).

budgeters revealed that individuals speaking on behalf of *sindicatos* [the regime's corporatist "vertical trade unions"] or private-sector firms sometimes contacted officials in spending ministries, but these contacts concerned only the preparation of departmental budget requests and the *intradepartmental* allocation of funds, not the decisive processes of review and appeals through which the finance ministry determined the *interdepartmental* allocation of funding for the coming year. Spending ministry officials never attempted to mobilize clientele groups as a means of influencing the finance ministry's decisions, and no finance ministry official reported (in the numerous and extensive interviews that I conducted in 1973-75) any contact whatsoever with persons outside of the State Administration or with any representatives of the National Movement during formulation of the budget. Neither did individuals representing private-sector interests, the National Movement or the *sindicatos* intervene in the establishment of the higher-order spending priorities of the Development Plan. A document issued by the planning commission claimed that the plan was the product of extensive deliberations involving the Cortes, the Council of Ministers, the National Economic Council, the Syndical Organization, central banks, 18 quasi-corporatist sectoral committees (including numerous members of the general public), and 6 "horizontal" committees (see Comisaría del Plan de Desarrollo 1973). Officials of both spending ministries and the planning commission unanimously stated in interviews, however, that these public deliberations were largely a public relations exercise, and that they had no significant impact on the determination of interdepartmental spending priorities. "Nobody outside of the State Administration influenced these decisions," as one official bluntly put it. Instead, these higher-order investment spending priorities were established primarily through private, bilateral discussions between officials of the planning commission and the various spending ministries.

But while higher-order spending priorities may have been established

within the confines of the State Administration, almost hermetically sealed off from outside pressures, many intradepartmental or lower-order economic policies were made in a veritable hotbed of private-sector lobbying activity. In selecting sites for state investment projects, handling applications for subsidy payments to private firms, determining the geographical distribution of spending-department recurrent-expenditure budgets, and making other kinds of economic decisions which affect disaggregated interests, State Administration officials were incessantly bombarded with particularistic appeals from individuals speaking on behalf of private-sector interests. In short, economic decisions were made in the absence of "aggregated" demands from social groups, but there was a great deal of interest "articulation" of a highly particularistic kind. It was particularistic not just with regard to the extraordinarily narrow scope of interests affected by these decisions, but also insofar as access to decision makers was sharply restricted to those of upper socioeconomic status and those who enjoyed *enchufes* (personal connections) with influential persons within the regime. As I shall argue, moreover, economic decision-making processes involving both higher- and lower-order priorities were highly personalistic, both in their dominant negotiating and deliberative styles and in the criteria employed in establishing the spending priorities of the State Administration. In effect, the *amiguismo* which has often been regarded as a distinctive feature of Spanish political culture reached its high-point within this authoritarian political system.

One final characteristic of these decision-making processes was that spending ministers enjoyed an extraordinary degree of autonomy in setting policies that fell within their respective departmental jurisdictions, and in setting intrasectoral spending priorities. Only on very rare occasions did the Council of Ministers, Franco, or even the finance and planning ministers intervene to alter intra-departmental spending policies.

I contend that these distinguishing features of Spanish public policy

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processes and outputs are systematic byproducts of important features of the Franquist regime. Personalism, departmental fragmentation of policy jurisdictions and significant policy-making functions of finance ministers are by no means unique to Franquist Spain; but these features assumed an inordinate importance under that regime due to the absence of other kinds of factors relevant to policy formulation that are universally found in democratic systems. Economic decision-making under this authoritarian regime can be regarded, somewhat paradoxically, as taking place within a relative power vacuum which was a direct product of basic changes in the Spanish polity that had been undertaken in founding the regime.

The basic thrust of Franco's efforts to restructure the Spanish state and regulate society involved the suppression of political conflict. All organizations designed for the expression of social and political conflict (political parties and trade unions) were vigorously suppressed right up to the day of Franco's death. Horizontal, or class-based, trade unions were replaced by vertical organizations whose declared intention was to mute or eliminate the expression of class conflict. Ultimate authority in this system was to be vested in a single individual-- Franco himself. Authority was not to flow from below, as in systems based upon electoral responsibility and mass suffrage. No authoritative regime ideology was formulated. No powerful party apparatus was created. And no charismatic or powerful rivals were permitted to emerge within the governing elite. The Franquist regime was designed to concentrate authority in the hands of one person, as well as to discourage the emergence of organized groups which might have employed coercive power of any kind.

The almost boundless authority of the so-called *Caudillo*, however, was rarely used to guide economic policy decisions. Due to an apparent lack of interest and expertise in most policy domains, Franco did not systematically attempt to guide the state's economic or social policies. Instead, he limited this active

involvement to the four sets of issues listed above. When he did actively intervene in specific policy disputes, Franco's prime objective was to preserve the regime and maintain its basic character, rather than to pursue economic or social policy objectives in their own right. Thus, most budgetary priorities (which fell within Franco's "zone of indifference") were set within a relative power vacuum. Unlike in democratic systems and even authoritarian systems with strong single parties, few authoritative or "coercive" resources could be employed in settling disputes among ministers. One minister could not coerce another into accepting a certain policy by threatening to resign from a governing multi-party coalition, thereby raising the threat of retaliation at the polls--there were no elections. Nor could he refer to an authoritative ideology--there was none. Neither could he threaten to mobilize a segment of the party apparatus against a recalcitrant minister--the "National Movement" was, by the 1960s and 1970s, a lifeless bureaucratic hulk. Nor could he mobilize private-sector groups--who, unless they held clientelistic ties to the Franquist center, lacked coercive resources. Nor could he evoke the authority of the most powerful figure within the regime--Franco did not care about most economic policy issues most of the time. In the absence of political resources such as these, which are commonly employed to resolve intragovernmental disputes in other political systems, two sources of power and authority assumed abnormally great importance in these decision-making processes: ministerial hierarchy, and the social and psychological dynamics of personal interaction.

Ministerial hierarchy was one source of authority about which all department heads could agree. As a result, authority to make economic and social policy decisions was distributed in strict accord with Spanish administrative law. This basis of authority had several consequences: (1) Responsibility for setting expenditure policies was highly compartmentalized. A legalistic distribution of decision-making authority, based almost exclusively upon departmental hierarchy, meant that policy jurisdictions were rather rigidly defined. Each minister was

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regarded as having full authority to set those policies which fell within his department's jurisdiction. Questions pertaining to public housing, for example, were regarded as matters reserved for the minister of housing, not as an integral part of the government's social policies. Each department, therefore, was more or less isolated from outside political pressures, and intrasectoral priorities were set in accord with internal ministerial criteria. (2) Ministers were held accountable as individuals for the success or failure of policies adopted by their departments. Since those policies had been set by the department head and his supporting ministerial team of directors general and subsecretaries almost exclusively, it is not surprising to find that they, alone, should have been held responsible for those policies when the day of reckoning finally arrived. The Council of Ministers had little sense of collective responsibility for each of these segments of the state's expenditure policies. (3) Accordingly, the government did not, as a collective body, play a role in coordinating the interdepartmental priority of those spending policies. The function of economic-policy coordination initially fell, instead, upon one minister whose jurisdiction happened to overlap with those of the other departments--the minister of finance. Formulating the budget of the Ministry of Agriculture, for example, was perceived as partly a matter of agricultural policy (thus falling under the jurisdiction of the minister of agriculture) and partly a matter of public finance (hence, under the finance minister's jurisdiction). Consequently, the budget of the Ministry of Agriculture was established in the course of private, bilateral negotiations between the minister of finance (and his supporting departmental team) and the minister of agriculture (and his aides and associates). Since the entire state budget was set, department by department, in this fragmented manner, and since the Ministry of Finance was the only department whose jurisdiction touched upon each of these separate fragments, the function of coordinating the state's expenditure policies was performed by the finance minister.

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The state's investment budget was set in exactly the same manner between 1964 and 1973, except that the central priority-setting role was performed by the commissioner, then minister, for development planning. In this instance, priority-setting authority was reinforced by virtue of a close personal tie between the incumbent in that position, López Rodó, and Franco's closest associate, Luis Carrero Blanco.¹²

The great importance of personalistic criteria in determining public expenditure priorities is partly explained by the extremely high degree of concentration of decision-making authority. Given that so few actors had major decision-making roles in the Spanish budgeting and planning processes, and, among those few actors, given the preponderant impact of the ministers of finance and development planning, it is almost axiomatic that the personal policy preferences of those two individuals would have had greater influence over the shape of expenditure policies in Spain than one would expect of finance ministers in other budgetary systems, within which such personal preferences are often subordinated to powerful political constraints. Under the Franquist regime, moreover, the bilateral negotiations between these two individuals, on the one hand, and the various spending ministers, on the other, actually served to reinforce the personalism that characterized this process.

Individuals may influence government decisions either through persuasion or coercion. Under Franco, coercion was almost irrelevant to setting interdepartmental spending priorities. Within departments, certainly, coercion was an important factor which reinforced the authority of the minister; ministers could and did dismiss directors general and other subordinates who displeased

¹² This close personal relationship was of considerable significance insofar as it enabled the Planning Commission to wrest control of an important segment of the expenditure-allocation process from the finance ministry. The typical pattern in other West European countries in the 1970s was that planning offices formulated plans that were not respected in the budgetary process and never implemented (see Gunther 1980, 217).

them. But when one moved outside of each department's hierarchy to deal with higher-order policy matters, the ability of one minister to influence another by means of coercion dropped off markedly. In the absence of coercive resources, therefore, persuasion became the only means by which a spending minister could secure an extra budget increase.

The social and psychological dynamics of persuasion contributed yet another dimension to the personalistic quality of Spanish economic decision making under this regime. A spending department's probability of receiving a budget increase was highly dependent upon the negotiating skill of its minister; his personal knowledge and expertise concerning the affairs of his sector and his general capacity to argue persuasively significantly affected the eventual priority of spending on that sector's programs. The nature of the personal relationship between a spending minister and the finance or planning minister also strongly affected the ultimate priority of his sector's programs. Other things being equal, a finance or planning minister would respond more readily to the appeals of a spending minister from the same "political family" or faction, with the same basic ideological orientation,¹³ than he would to appeals from a minister with a significantly different outlook or whom he disliked.

To be sure, these personal dynamics are present within budgeting and planning processes in all countries, but they assumed a disproportionate importance in Franquist Spain because of the absence of aggregated demands pressed upon the finance and planning ministers. No collective body or institution under the authoritarian regime effectively performed the function of interest aggregation. The National Movement and the corporatist syndicates may have

¹³ For an extensive analysis of the political families that made up the franquist coalition, see Amando de Miguel 1975. Throughout the 1960s and early 1970s, the technocratic Opus Dei political family dominated the economic ministries. Hence the dominant values of this faction are clearly reflected in the budgetary priorities of this period.

sometimes attempted to press such demands upon these decision makers, but in the late Franquist period (in which these key decision-making roles posts were filled by non-ideological technocrats) their demands were systematically ignored. Franco failed to play this role, and the Council of Ministers did not attempt to establish systematic policy priorities or assume collective responsibility for the conduct of public policy. And ordinary Spanish citizens completely lacked institutional mechanisms for the articulation and aggregation of demands. Only sporadic outbursts of protest demonstrations (such as the labor unrest of the late 1950s and early 1960s, and the student mobilizations of the late 1960s) effectively influenced government spending decisions. These popular mobilizations, however, were largely spasmodic and limited in scope, and the policy responses they provoked were usually short-lived¹⁴ and sometimes even antithetical to the interests of the protestors (such as the strengthening of the state's repressive capacities through enactment of the National Defense Law). Instead, the interest aggregation function was performed only implicitly in the course of private, bilateral negotiations over the budget and the development plan.

In democratic systems, in contrast, one of the ways interest aggregation takes place is through electoral competition. Elections directly involve the building of coalitions, either prior to the election, as in the United States, or after the election, as in multi-party parliamentary systems, and coalition building is by its very nature an interest-aggregating process. In formulating electoral appeals, in bidding competitively for electoral or parliamentary support, politicians aggregate the interests of an ever-broader range of social groups. These incentives were absent under the Franquist regime. Ministers were responsible not to a mass electorate, with disparate interests and conflicting goals, but to a single

¹⁴ Labor unrest in 1956, for example, led to an increase in spending through the Ministry of Labor from 380 million pesetas in 1955 to 2,668 million the following year. But that ministry's allocation fell to 712 million pesetas in 1957, and to 276 million in 1958.

individual who did not care about most economic policies most of the time.

This is not to say that significant changes in policy outputs did not occur under this regime. Between 1953 and 1973, for example, education's share of the total budget more than doubled (from 8.2 percent to 17.7 percent of government spending), while the amount devoted to defense spending fell to less than half its earlier level (from 30.4 percent of the budget to 13.2 percent) (Gunther 1980, 50). More importantly, the dominant economic development strategy of the regime was radically altered between 1957 and 1959, with the abandonment of corporatist autarchy and the shift to neoliberalism. How could changes of this magnitude occur, while other proposals for reform were impossible?

One important force for change was demographic and ideological turnover at the highest levels within the State Administration. Beginning in 1957, in particular, an entirely new elite cohort assumed important positions of leadership. Many of these new ministers were technocrats who shared a great deal in common, in terms of academic and elite professional training, ties to financial institutions, and membership in a religious organization with ambitious political aims. Thus, it is not surprising to find that their public-expenditure priorities would reflect values greatly different from those of their predecessors (many of whom came from the military or from the quasi-populist Falange). Rapid economic growth through market liberalization was the central policy goal of the Opus Dei technocrats who increasingly dominated economic ministries. Accordingly, those government activities which most directly contributed to economic growth (such as education and public works) received high priority, and, in order to free up financial resources for those programs, defense and some other ministries were substantially scaled back.

There were also important obstacles to policy change, however. One of these was the limitation of ministerial recruitment to only those individuals whose basic political and social values did not clash with the conservative "mentality" of

the regime. Recruitment within many ministries was further limited to members of elite *cuerpos*, the overwhelming majority of which consisted of persons with extraordinarily upper-class social backgrounds (Linz and de Miguel 1968, 208). The conservative policy bias resulting from these restrictive elite-recruitment practices was reinforced by extensive personal ties between State Administration officials and big business and banking interests (see de Miguel 1975, 121). Thus, by recruiting only individuals from the upper social strata and from "safe" ideological families, and by tolerating a system of interactions which rewarded ministry officials for maintaining cozy personal relations with private firms and for carefully looking after the interests of their respective *cuerpos*, the Franquist elite indirectly set up obstacles to certain kinds of policy change.

Ministers were granted considerable policy-making autonomy, as long as their policy initiatives remained within Franco's "zone of policy indifference," and if a clever minister could positively link his reform proposal to one of the Chief of State's reserved policy domains, it was even possible to gain Franco's active support (or at least passive acquiescence) for even a far-reaching change. Education ministry officials, for example, were successful in enacting the General Education Law of 1970 largely by convincing Franco that this reform proposal was the only effective means of quelling student unrest (and thus of maintaining the regime itself). Regime maintenance was also Franco's principal objective in approving the radical change in economic development strategy, following the failure of two decades of corporatist autarchy and an impending economic crisis. At the crucial meeting of the Council of Ministers which adopted the Stabilization Plan of 1959, it was clear that he had not come to favor the austerity program as the result of a personal conversion to neoliberalism; instead, as Trythall writes, "He is said to have agreed to the inevitable with an exasperated 'Do whatever you like' to his economic ministers" (1970, 230), and appears to have been convinced by his economic ministers that this policy change was the only alternative to outright

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bankruptcy, which could have had regime-destabilizing consequences (see Payne 1987, 467-71).

When one of the reserved policy areas was adversely affected by a policy change, however, Franco and his inner circle of collaborators would abruptly intervene and halt or reverse the direction of the policy change. Examples of this rare but decisive intervention include a highly disruptive reallocation of resources from the public to the religious sector of education in 1973, enactment of the National Defense Law in 1971, and, of greatest significance for the entire public sector, blockage of tax reform in 1973 (see Gunther 1980, 93-98 and 163-174). The overturning of this key reform meant that the State Administration would continue to be starved for funds and incapable of providing basic government services (such as education and infrastructural development) at typical West European levels, and that the income-redistributive impact of the state's spending and taxation policies would continue to be profoundly regressive.

The ultimate constraint on public expenditure and taxation policies under Franco was the authoritarian character of the regime itself--especially its denial of universal suffrage and its suppression of institutionalized political conflict. Long ago, V.O. Key speculated about the impact on policy processes and income distribution of the absence of competitive party conflict:

The grand objective of the haves is obstruction, at least of the haves who take only a short-term view. Organization is not always necessary to obstruct it is essential, however, for the promotion of a sustained program in behalf of the have-nots... Over the long run the have-nots lose in a disorganized politics. They have no mechanism through which to act, and their wishes find expression in fitful rebellions... The scales in the have/have-not conflict have been tipped by the exclusion of a substantial sector of the have-not population...from effective participation in politics (Key 1949, 307).

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Public policy processes and outputs in Franquist Spain are consistent with Key's hypothesis: proponents of reform were incapable of organizing public support behind their proposals, and individual ministers who had become convinced of the necessity of substantial policy changes lacked the institutionalized coercive resources needed to enlist support from cabinet colleagues. Most importantly, the articulation of demands by the population at large--for more and better government services, or for a fairer system of taxation--was stifled by the authoritarian nature of the regime and by the effective suppression of representative party and trade union organizations that could speak on behalf of the less affluent majority of Spaniards.

Thus, these regime characteristics had clear implications for the distribution of resources among Spain's social strata. While the regime was authoritarian, not totalitarian--thereby allowing for the articulation of demands by individuals implicitly representing certain sectors of Spanish society--whatever pluralism that existed was **limited**. The political families that ran the Spanish state for nearly four decades all shared a basic "mentality," characterized by "National Catholicism" and authoritarianism, by an explicit rejection of socialism and regional-nationalism, and by an implicit conservatism and upper class bias. The articulation of interests was restricted to those social groups which were (or had been) supportive of the Nationalist side in the civil war--especially the Church, and business and banking groups. Insofar as such groups enjoyed *enchufes* (personal contacts) with governmental decision-makers or were linked through common membership within a "political family," they could articulate their demands. Working-class interests were deliberately excluded from this process, and were suppressed. The working classes were supposed to be represented by the regime's *sindicatos*, but by the early to mid 1970s the *sindicato* structure was widely regarded as illegitimate and dysfunctional by many of the apolitical technocrats who increasingly dominated the State Administration, and

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were largely ignored. Thus, not only was the interest-articulation function largely restricted to narrow and particularistic demands, but it was also limited insofar as it effectively excluded participation by the working class and heavily overrepresented the interests of the country's increasingly diverse economic elites. Finally, the interest aggregation function was performed implicitly in the course of a series of private, bilateral negotiations among a handful of individuals within the structure of the state itself, and did not in any way involve the general public, except on those rare occasions when popular discontent culminated in protest mobilization.

In short, the Franquist State Administration's economic decision-making processes implicitly favored the adoption of conservative expenditure and taxation policies which favored the interests of the upper socioeconomic strata, and the sporadic participation of Franco and his closest collaborators explicitly imposed obstacles to the adoption of policies that strayed too far from the regime's conservative "mentality." Only the Social Security system (outside of the State Administration, with its own source of revenues, and more heavily influenced by a tradition of falangist populism) somewhat departed from this overall pattern.

Spanish Public Policy in the Democratic Era

To what extent would the dismantling of the Franquist regime affect the Spanish government's policy processes and outputs? If the preceding interpretation¹⁵ is correct, then the transition to a democratic regime should have

¹⁵ It should be noted that these explanatory hypotheses were first formulated in 1975, prior to the death of Franco.

allowed for a more balanced flow of social demands from the general public, placed into the hands of long-excluded groups coercive resources that might enable them to press effectively for the adoption of policies favorable to their interests, and eliminated the regime's obstacles to policy innovation. In short, the radical restructuring of this key "political" variable--regime--should have made possible an approximation of more typically West European patterns of spending and taxation, as well as decision-making procedures more typical of modern, industrialized societies. It is to this question that we now turn our attention.

Before embarking on an analysis of the public policy outputs of the democratic regime that began to take shape in 1977, it is important to note that the dismantling of the political regime did not include a purge of the State Administration. There was no unusually extensive turnover of personnel within ministries, and career patterns of even those individuals who occupied "political" positions within most departments of the State Administration (i.e., directors general and subsecretaries) were uninterrupted.¹⁶ This is in part a product of the fact that by the mid 1970s apolitical, technocratic criteria had come to dominate State Administration recruitment processes, and the elite-recruitment role of the *Movimiento Nacional* had become virtually nil. In addition, the State's bureaucracy was not overstaffed: indeed, the State Administration was among the smallest (in terms of civil servants as a percentage of total population) in Western Europe (Beltrán 1990, 349; and Gunther 1980, 85). Thus, there was no groundswell of support for a purge of the State Administration on the grounds that

¹⁶ Many of the respondents interviewed in my 1973/5 study progressed normally to higher-ranking positions in the State Administration under the new democratic regime. Budget director José Barea, for example, became subsecretary for budgeting, then subsecretary for Social Security. Finance ministry General Technical Secretary José Ramón Álvarez Rendueles served as Governor of the Bank of Spain under the UCD governments. Finance ministry section chief Miguel Martín served as subsecretary for budgeting under both UCD and PSOE government. And agriculture ministry director general Fernando Abril assumed the extraordinarily important post of Vice President of Government, playing key roles in negotiations over the 1978 Constitution and in setting down the basic outlines of the Suárez government's economic policies.

it was bloated and inefficient, or staffed by incompetent political hacks. One positive consequence of this continuity in administrative personnel is that there was no temporary loss of control of the state apparatus during the transition. Reasonable levels of efficiency were maintained, and there was none of the chaos experienced in neighboring Portugal, let alone the collapse of state authority that has been experienced in a number of former Eastern Bloc countries in the 1990s.

Public Policy Outputs in Democratic Spain

An analysis of the structure of public policy outputs following the first democratic elections in 1977 requires a distinction among at least four distinct periods during the democratic era, reflecting decidedly different policy-making environments. The first is that of completing the transition to democracy. For our purposes, this period began with the June 1977 elections and ended in the spring of 1979.¹⁷ The second phase was that which transpired between the end of the "politics of consensus" in 1979 and the election of a Socialist (PSOE) government in late 1982. This phase was marked by dissensus and harsh clashes (particularly pitting the PSOE against the governing Unión de Centro Democrático, as well as one faction of the disintegrating UCD against another). The third phase began with the election of a PSOE majority government in late 1982, and ended with its loss of an outright parliamentary majority in 1989. Some defining characteristics of the fourth phase (which ended in 1996, following the PSOE's loss in the March

¹⁷ To be sure, the establishment of autonomous regional governments represented the final stage of the transition to a new democratic system. Thus, it is conventionally argued that the Spanish transition ended with the ratification of Basque and Catalan autonomy statutes in late 1979. Since the dynamics of spending and taxation policies were not immediately affected by that final phase of the transition, and since the dynamics of inter-party relations at the national level changed abruptly in the spring of 1979, I shall accept that date as the beginning of the second period in my analysis.

elections) began to emerge in 1989, but became most prominent following formation of a single-party minority government in 1993. As we shall see, important aspects of decision-making processes varied from one phase to another, with some impact on state policy outputs. The most dramatic changes in both policy processes and policy outputs, however, were products of the change from an authoritarian to a democratic political regime. All of these four phases were different from the Franquist past in very fundamental ways.

One major change in public policy outputs occurred in 1977 immediately after the first democratic election. As we have seen, the linchpin of the conservative budgeting practices of the Franquist era was the archaic, regressive, evasion-prone taxation system, and the political impossibility of substantially reforming that system. Once the main political obstacle to tax reform (Franco himself) was removed from the scene and a democratically elected government came to power, reform of that system was immediately implemented. The UCD government under Adolfo Suárez enacted (initially through the issuance of an emergency decree) a substantial package of reforms in the taxation system which bore a striking resemblance to the abortive tax reform proposals of 1973.¹⁸ These reforms eliminated secret bank accounts, increased the legal penalties for tax evasion, expanded the finance ministry's auditing service, shifted a greater burden onto the income tax, and introduced a net wealth tax. These changes were not intended to have a revolutionary impact on the level of taxation, but they did significantly increase the flow of revenues to the state: between 1975 and 1982, all tax revenues (including Social Security taxes) increased from 19.5 percent to 25.6

¹⁸ This should not be too surprising, since the new finance minister and Vice President of Government for Economic Affairs, Francisco Fernández Ordóñez and Enrique Fuentes Quintana, had been two of the principal authors of the tax reform proposals of 1973. It is interesting to note that, in this respect, the continuity of State Administration personnel over the two regimes actually contributed positively to the pace of public policy change; the necessary technical studies had already been completed, and the reform proposals were already on the shelf and ready for enactment.

percent of Gross Domestic Product (OECD 1993, 75).

In combination with abandonment of a second major constraint on government spending that was an integral component of fiscal policy in the late Franco years--the invariable adoption of balanced budgets (see Gunther 1980, 78-110)--this allowed for a massive expansion of government expenditures. Between 1975 and 1982, the overall level of government spending increased from 24.9 percent to 38.2 percent of GDP (Alcaide 1994, 72). This represents a dramatic acceleration in the growth of public spending: between 1960 and 1974, public expenditures had increased at a rate of just 0.2 percent of GDP per year; over the following eight years, this rate of expansion was nearly ten times faster. Since tax revenues increased at a much slower pace than did government spending, this meant that a substantial portion of the government's expenditures was financed through borrowing and the issuance of public debt. In 1983, for example, the State Budget deficit was equivalent to 4.6 percent of GDP (Rodríguez Cabrero 1994, 1447). Much of the increase in overall spending levels resulted from a rapid rise in spending on social protection. In just five years, from 1975 (the year of Franco's death) to 1980, the percentage of Gross Domestic Product devoted to spending on social security and social welfare programs jumped from 12.1 percent to 17.2 percent of GDP (Velarde 1990, 109).

What explains this abrupt change of budget policy? Three different factors help to account for this tremendous increase in social spending financed by public debt. The first was the product of international economic developments. The two recessions that followed the "oil shocks" of 1973 and 1979 created an environment which was substantially different from that of the stable and prosperous early 1970s. As a result of the high rates of economic growth of those earlier years, and of the substantial migration of surplus labor to neighboring European countries in the 1960s and early 1970s, unemployment rates in Spain prior to 1975 were very low. In 1973, for example, only 2.7 percent of the Spanish labor force were

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unemployed.¹⁹ The period from 1975 to the mid 1980s, in sharp contrast, was one marked by repeated economic crises. Due to serious recessions at home and the repatriation of newly redundant migrant workers from abroad, unemployment in Spain soared to 9.5 percent of the labor force in 1979, and to 17 percent by 1983 (Flaquer *et al* 1990, 28). Thus, much of the expansion of social spending and budget deficits resulted from an increase in unemployment payments and the recession-induced shrinking of the tax base.

Interacting with this economic variable was a second set of factors: the special requirements of the transition to democracy. The success of that transition depended in part upon support from all politically significant sectors of Spanish society--something that would have been more difficult to achieve if social relations were polarized as the result of severe economic deprivation of a sizable sector of the population. Accordingly, economic "structural adjustments" which might have exacerbated the unemployment situation were postponed (see Maravall 1995, 108-112), and massive increases in social spending (especially unemployment insurance payments) were implemented to soften the effects of the economic crisis. Indeed, rather than closing down inefficient firms in the parastate sector or taking other painful steps towards increasing their competitiveness (as the PSOE governments of the 1980s would do), the UCD governments of Adolfo Suárez increased the flows of subsidies to weak firms and nationalized those that otherwise might have collapsed altogether.²⁰ At the same time as these spending increases were being implemented, tax increases were kept moderate, partly to provide a counter-cyclical economic stimulus, partly to avoid alienating the middle

¹⁹ Source: Instituto Nacional de Estadísticas, *Encuesta de población activa*, cited in Flaquer, Giner and Moreno 1990, 28.

²⁰ It was estimated in 1985 that nearly half of the loss-making industries under the auspices of the Instituto Nacional de Industria (the holding company established in 1941 by Francisco Franco to shore up weak industrial firms, as part of the autarchic economic strategy of the 1940s and 1950s) had been nationalized after 1975. (See the *Financial Times*, January 18, 1985, insert, 6; and Maravall 1995, 118.)

and upper social strata from the democratization process, and partly to retain the electoral support of those social groups. In short, massive increases in social spending and deficit budgeting were integral components of the Suárez government's highly successful strategy for ameliorating social tensions during the transition to and consolidation of the new democratic regime.²¹ At the same time, it must be noted that the macroeconomic policies that were adopted as the end product of this *political* strategy were compatible with Keynesian counter-cyclical policies adopted by most West European governments throughout the first three decades following World War II.²²

A third factor will be explored more extensively in the concluding section of this piece. As we shall see, these policies were products of fundamental changes in the processes of political decision making that were central elements in creating the new democratic regime itself. The most important decisions made during this first period (July 1977-December 1978) were characterized by extraordinarily broad participation by representatives of both government and opposition political groups. This was especially pronounced in the writing of a democratic constitution, as well as negotiations over the so-called Pacts of the Moncloa. This agreement pledged the government to continuing reforms of political institutions and the regressive taxation system inherited from the Franquist regime; to

²¹ It should be noted that recourse to this "soft" fiscal policy as a means of reducing social and political strains during the political transition was made possible in part because of an inheritance from the Franco regime: as the long-term consequence of balanced budget policies from the 1950s through the mid 1970s, the standing public debt in Spain was remarkably low (between 19 and 20 percent, according to an estimate provided by the finance ministry's General Technical Secretary in the course of an interview in 1974), and at the time of Franco's death, Spain was a net creditor nation within the international financial community. Thus, these soft fiscal policies may have been a luxury that not all countries undergoing transitions to democracy can afford, especially those in debt to (and subject to often draconian austerity policies imposed by) the International Monetary Fund.

²² It is also important to note that, despite the highly conservative neo-liberal budgets adopted throughout the final years of the Franquist era, these policies were consistent with the economic philosophies and policy predilections of most of the technocrats in the ministry of finance at that time. (See Gunther 1980, 78-110.)

increased State Budget transfers to the Social Security system and an expansion of social protection programs; to government controls on price increases; to substantial improvements in the public education system; and to certain other policy changes. In exchange, the Socialist and Communist parties promised to induce the two trade unions over which they had influence to refrain from excessive strike activity, to limit their demands for pay increases to 22 percent (the estimated level of inflation for that year), and to accept more restrictive monetary and expenditure policies.

If we can refer to this period (1977-78) as "the politics of consensus," the policy-making environment which followed can be referred to as "the politics of dissensus." Beginning with the investiture of a new UCD government under Adolfo Suárez following ratification of the new constitution, it was characterized by considerable and often rancorous partisan and intra-party conflicts, as well as abandonment of consensual norms of decision-making.²³ In some respects, this second phase simply reflected the passage from regime transition to "politics as usual." (Indeed, the kinds of broad, interparty consultations and consensual decision-making practices which had characterized the preceding period are atypical of established democracies, and are normally found only in "consociational democracies" and in some Scandinavian countries.) Accordingly, the minority UCD government (which was able to remain in office in part as a result of the constructive-motion-of-no-confidence provisions of the Constitution) largely limited inter-party negotiations to its efforts to secure the additional parliamentary votes necessary to pass legislation through the Cortes, in a manner typical of most other democratic systems.

²³ It should be noted that the consensual decision-making procedures which were also adopted in negotiations with the Basque and Catalan nationalist parties over their respective autonomy statutes in the summer of 1979 represent a limited continuation of these practices for a few additional months, but these were exceptional circumstances that departed from the conduct of politics in other spheres of government activity in 1979.

The intensity of inter- and intra-party conflict during this period, however, was extraordinary. One line of conflict pitted the principal party of opposition, the PSOE, against the governing UCD. Frustrated in the aftermath of an electoral disappointment in 1979, the Socialist party redoubled its attacks on Adolfo Suárez in what proved to be a highly successful effort to undermine both electoral support for and the internal cohesion of the UCD. More seriously, intense criticism of Suárez from within his own party and an outbreak of factional squabbling soon followed, culminating in Suárez's resignation both as party leader and as President of Government in January 1981.²⁴ An attempted military coup during the parliamentary debate of the investiture of the new President of Government, Leopoldo Calvo Sotelo, on February 23, 1981 interjected a new element of instability into an already turbulent political atmosphere. Although the first few months under the Calvo Sotelo government represented a respite from this *Sturm und Drang*, intraparty dissension once again resumed crisis proportions in late 1981, culminating a year later in the dissolution of the UCD following a devastating electoral defeat. Further complicating the policy-making environment during this period was a renewed deterioration of the Spanish economy in the early 1980s following the "second oil shock." Economic growth came to an abrupt halt, inflation in the cost of living ranged between 14.4 and 15.7 throughout this period, and by 1982, the unemployment level had reached 16.2 percent of the labor force.²⁵ In general, it could be said that policy making from 1979 through 1982 took place within an extremely difficult and turbulent environment.

Nevertheless, in terms of expenditure and taxation policies, the period from

²⁴ For detailed journalistic accounts of this period, see Chamorro 1981; Figuero 1981; Oneto 1981; Meliá 1981; and Navalón and Guerrero 1987. For in-depth analyses of the collapse of the UCD, see Gunther 1986; Huneus 1985; Hopkin 1995; and Gunther and Hopkin, forthcoming.

²⁵ Spain's Gross Domestic Product declined by .1 percent in 1979, increased by 1.2 percent in 1980, and declined again by .2 percent in 1981. Sources: Unemployment figure from Maravall 1995 119; inflation estimate from INE, Indices de Precios de Consumo, as published in Alcaide 1995, 66; economic "growth" figures from Zaldívar and Castells 1992, 75.

1979 through 1982 was one characterized by continuity with the previous phase and with the policy trends set in motion by the regime transition and the Moncloa Pacts. The volume of tax revenues (as a percentage of GDP) continued to increase at a rate of about one percent per year, and total government spending continued to expand by about 2 percent of GDP per year. A significant extension of coverage of the Spanish population by the Social Security system, as well as increases in education spending, also represented continuity with the first phase. In terms of the functional allocation of government resources, the most noteworthy pattern was that spending on social protection completed its most rapid period of growth during this period. Between 1975 and 1983, spending on social protection programs rose from 12.1 percent of Gross Domestic Product to 19.5 percent. Following this growth spurt, spending on these services levelled off somewhat: while spending on social protection continued to grow in real terms throughout the 1980s, as a share of the GDP it increased only from 19.5 to 20.1 between 1983 and 1989 (Velarde 1990, 109; and Rodríguez Cabrero 1994, 1449). In general, it can be said that the most important budgetary legacies of the UCD governments which spanned the first two policy-environment periods were initial steps to correct the deficiencies in the education system and the archaic, corruption-ridden and highly regressive taxation system, as well as to increase the provision of social protection services to more typically European levels.

The election of a Socialist majority government in November 1982 initiated the third distinct phase. Throughout this period (which ended in 1989), the PSOE governments under Felipe González enjoyed substantial parliamentary majorities. In addition, Spanish democracy was by and large consolidated by the time the first PSOE government came to power. The defining feature of this third phase was, thus, the absence of constraints on government policy options resulting from overwhelming concerns with the political demands of the transition (the dominant aspect of the first phase) or the extreme insecurity characteristic of a faction-

ridden governing party lacking a parliamentary majority at a time of worldwide economic recession (which characterized the second phase). Accordingly, the González governments of 1982-89 turned their full attention to the tasks of resolving the long-term problems of the Spanish economy and, more broadly, of completing the "modernization" of Spanish society.

The strategy pursued by the González governments was different from those of the preceding UCD governments in one fundamental way. The principal macroeconomic thrust of UCD budget policies had been to employ traditional Keynesian methods of stimulating demand to counter the short-term effects of recession, while at the same time relying upon neocorporatist agreements among labor, business and government to reduce the rate of inflation. In contrast with these demand-side policies, the PSOE governments opted for a novel mix of demand- and supply-side policies whose primary objective was an enhancement of the competitiveness of the Spanish economy over the long term (see Maravall 1993, 94-96).²⁶

The abandonment of traditional demand-side Keynesianism was the product of several factors. First, those policies had proven to be largely ineffectual in combating the oil-crisis-induced "stagflation" of the late 1970s and early 1980s. While Keynesian policy instruments had worked remarkably well in facilitating three decades of sustained economic growth and prosperity throughout most of the post-war Western industrialized world, they faced extreme difficulty in coping with the simultaneous occurrence of extremely high levels of both unemployment *and* inflation, which resulted from the twin oil crises of the late 1970s and early 1980s. This unusual combination had the effect of temporarily suspending the

²⁶ It should be noted that these differences were more of outcome than intention. There were numerous proposals for more ambitious economic reforms under UCD governments, but they were postponed due to concerns over the political demands of the transition to democracy and the international economic crisis of that time.

"Philips Curve" (linking unemployment and inflation in an *inverse* relationship) upon which Keynesian counter-cyclical policies are based. Closely related to this was the internationalization of economies--a product of long-term forces whose impact was most dramatically illustrated by the oil crises. National governments were severely limited in their efforts to use counter-cyclical policies to offset adverse international trends, and could not ignore the international economic environment in setting domestic macroeconomic policies. This point was made clear by the experience of the Socialist government of France, which had come to power just one year before the Spanish Socialists. In a sharp departure from most other European countries' efforts to contain rapidly accelerating rates of inflation, the Mitterrand government adopted an aggressively stimulative demand-side budgetary policy. Rather than enabling France to buck the worldwide trend towards recession, this policy only served to greatly exacerbate domestic inflation and provoke a run on the Franc (see Maravall 1992, and forthcoming). Instead of avoiding the effects of the 1981-82 recession, this combination of policies only made matters worse. This highly visible policy failure had a marked impact on the newly elected government of Felipe González, leading it to abandon traditional demand-side macroeconomic policies (see Boix 1994, ch. 2, 1; and Maravall 1995, 120).

An additional reason for shifting to a long-term, supply-side focus was that Spain needed to prepare for entry into the European Community. Several legacies of the Franquist period--especially the large and inefficient parastate INI empire (80 percent of whose firms were money-losers [Maravall 1995, 124]), an extremely inflexible labor force, and a non-competitive mentality among private-sector entrepreneurs who had been insulated from the forces of competition by decades of state corporatism, heavy-handed regulation and (in the 1940s and 50s) autarchy--made Spanish industrial firms ill-suited to compete successfully with those of other EC member countries. In short, prior to EC entry (which occurred on

January 1, 1986), it would be necessary to modernize the Spanish economy and force it to become more efficient.

One facet of the PSOE's economic strategy was an "industrial reconversion" program oriented towards improving the competitiveness of the parastate sector. Tens of thousands of redundant workers were laid off (particularly in the steel and shipbuilding industries [see Share 1986; and the *Financial Times*, January 18, 1985, 6]), inefficient plants were closed down, and some firms (including the automobile manufacturer, SEAT) were sold to the private sector. But this cannot be regarded as a "privatization" program of the kind initiated by Margaret Thatcher. It was never intended to transfer the bulk of nationalized industries to private hands, but rather to improve the efficiency of those industries, focusing the activities of parastate industries on key sectors within which they might enjoy a competitive advantage (see Boix 1994, ch.2, 28). As a result, the scope of privatization was sharply limited. Nevertheless, the closing of steel and shipbuilding plants (particularly in Valencia and Galicia) provoked bitter and sometimes violent protests by laid-off workers, and drove a wedge between the PSOE government and its allied socialist trade union, the UGT. Other facets of the government's economic policy included a relatively restrictive monetary policy, some market reforms, and the removal of certain government regulations which had undermined competitiveness (Flaquer, Giner and Moreno 1990, 48). These policies gave rise to accusations that the PSOE had embraced a "neoliberal" economic strategy.

In terms of budgetary policy, however, the González governments adopted a supply-side strategy that included several innovations that differentiated the Spanish "social democratic" variant from the conservative versions found elsewhere. In sharp contrast with supply-siders in the United States (who possess a nearly religious belief in the inherent superiority of the market over all forms of government activity, and in the capacity of the appropriately named "Laffer

Curve" to balance the budget by cutting taxes [*sic*]), the supply-side strategy of the Spanish socialists was based upon the notion that governments must play important roles in establishing conditions favorable for long-term economic growth, and in correcting for the shortcomings of the market mechanism. The basic thrust of the supply-side policies adopted by the PSOE, as described by Boix, was as follows:

On the one hand,... the cabinet emphasized the need to maintain a stable macroeconomic framework as the best means to attract investment and maximize long-term growth. On the other hand, loyal to its socialdemocratic aspirations, it planned to transform the supply side of the economy through the direct intervention of the public sector in order to ease the set of structural problems--long-term unemployment and substantial underdevelopment in vast areas of the country--that beset the Spanish economy. Accordingly, tax revenues were to be gradually raised, public savings were to be rebuilt and public spending on fixed and human capital were to be massively increased (1994, part. 2, 1; also see Maravall 1993, 94-96, and 1995, 121-124).

In some respects, these policies did not represent a significant departure from those of the preceding UCD governments. Rejecting the simplistic American supply-side notion that economic growth is fueled primarily by low levels of taxation, the PSOE expanded upon the tax reforms that had been initiated in 1977, adding to them a series of additional incremental reforms over several years. The first step (beginning in 1983) was to launch a new crackdown on tax evasion. The dramatic increase in income-tax filings that followed, in addition to the interactive effects of "bracket creep" and inflation, led to a steady expansion in the flow of tax revenues to the state. This was followed by increases in the top marginal rate of taxation for the wealthiest Spaniards and tax cuts for the poorest, making the income tax much more progressive as a means of offsetting the regressivity of other taxes.²⁷ Some of the effects of these incremental changes in

²⁷ Zaldívar and Castells 1992, 128. For a more detailed discussion of these tax reforms, see Boix

the tax system can be seen Tables 7.2 and 7.3.

As the data in Table 7.2 reveal, the overall level of taxation in Spain had increased over the decade preceding the transition to democracy, but **all** of that increase was accounted for by increases in regressive Social Security contributions which were not under the control of the ministry of finance. When Social Security taxes are removed from this total, it is clear that there had been no significant change in the overall level of revenues available to the Spanish state during the 12 years prior to the transition. The effects of the UCD's moderate tax reforms can be seen in an increase in non-Social Security revenues from 11 percent to 13.6 percent of GDP over the following five years. Additional modifications in the taxation system under the succeeding Socialist governments, however, increased the flow of revenues at a much faster rate. Overall, between 1977 and 1990, the volume of non-Social Security taxes more than doubled. While this generated much revenue for the financing of public expenditure programs, Spain's taxation levels remained below the OECD average, although it is clear that during this period Spain narrowed the gap considerably.

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Table 7.2 *Tax Revenues as a Percentage of Gross Domestic Product, 1965-1993*

Year	All Tax Revenues as Pct. of GDP		All Tax Revenues Except Social Security as Pct of GDP	
	Spain	OECD Average	Spain	OECD Average
1965	14.7 %	26.5 %	10.5 %	21.5 %
1970	16.9	29.7	10.6	23.9
1975	19.5	32.7	10.3	25.1
1977	21.4	34.6	11.0	
1980	24.1	35.0	12.4	26.6
1982	25.6	36.3	13.6	
1985	28.8	36.9	16.9	27.9
1987	32.5	37.9		
1990	34.4	38.0	22.2	28.7
1993	35.1	38.7	21.7	28.5

Source: OECD, *Revenue Statistics of OECD Member Countries, 1965-1994*, 73-74 (for all years except 1977 and 1982, from the 1979 and 1984 *Revenue Statistics* volumes).

Table 7.3 further reveals that much of this increase was generated by a greater reliance on the increasingly progressive personal income tax. At the same time, the growth of Social Security taxation (which, apart from its regressivity, had a negative impact on job creation) was halted following democratization of Spain's political system: it leveled off as a percentage of GDP, and it actually declined in its share of total tax revenues. This development was made possible in

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part as the result of a substantial increase in the level of transfers into the Social Security system of funds from the State Budget's general revenues. As mentioned earlier, the level of these transfers under the Franco regime had been extraordinarily low. In 1977, when the first democratically elected government came to power, only 3.6 percent of the Social Security system's revenues came from State Budget transfers. By the last year of UCD government (1982), this share had risen to 14.9 percent. By 1994, however, fully 34.8 percent of the Social Security system's revenues came from State Budget transfers.²⁸ In general terms, it can be said that the PSOE's taxation policies represented continuity with the tax reforms initiated in 1977, but accelerated the trends towards progressivity and higher revenue yields that had been established by the first UCD government.

Table 7.3 *The Structure of Taxation, 1965-1993*

Year	Taxes on Personal Income		Social Security Taxes	
	As pct. of Total Taxation	As pct. of GDP	As pct. of Total Taxation	As pct. of GDP
1965	14.3%	2.1%	28.3%	4.2%
1970	11.5	1.9	37.4	6.3
1975	14.5	2.8	47.5	9.3
1978	17.0	3.9	49.5	11.3
1980	20.4	4.9	48.6	11.7
1982	19.8	5.0	46.5	11.8
1985	19.7	5.7	41.3	11.9
1987	21.4	7.0	36.2	11.8
1991	23.3	8.1	35.6	12.4
1993	24.0	8.4	38.1	13.4

²⁸ Sources: *Memorias del Instituto Nacional de Previsión, 1967-1976*; and Secretaría General para la Seguridad Social, "Informe económico-financiero," *Proyecto de Presupuesto de Seguridad Social*, 1995, cited in Mota López 1995).

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Source: (For all years except 1978, 1982 and 1987) OECD, *Revenue Statistics, 1965-1994*, 77 and 79; (for 1978, 1982 and 1987), OECD, *Revenue Statistics* 1980, 1984 and 1993 editions.

The distinctiveness of the PSOE's budgetary policies are most apparent on the expenditure side. The most notable legacy of the UCD's spending priorities had been the expansion of social-protection programs. In accord with the Socialist governments' socialdemocratic-supply-side development strategy, the most decisive impact of PSOE budgetary policy can be seen in increased spending on education and state capital investments. The Socialists continued to incrementally expand social-protection programs, and launched some new initiatives in this sector,²⁹ but its highest priority was given to social and physical infrastructure development. These trends can be observed in Table 7.4.

Table 7.4 *The Evolution of Spanish Public Expenditures, 1953-1994*

Percentage of Gross Domestic Product Spent on...						
Year	Education		Defense	Social Protection		State Capital Investments
1953	0.7%	2.6%		--	--	
1963	0.8		2.1	--		2.1%
1970/73	2.1 (1973)		1.5 (1973)	9.5% (1970)		2.7% (1970)
1975	2.2		1.7	12.1		2.7
1980	3.3		2.0	18.1		1.9

²⁹ The most notable example of policy innovation in this area was enactment in 1986 of the Ley General de Sanidad, which established the principle of universal coverage by the national health system. This led to an expansion in coverage from 85.7 percent of the population in 1982 to 99.9 percent in 1992 (Rodríguez Cabrero 1994, 1480; also see Zaldívar and Castells 1992, 135)

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1985/86	3.6 (1985)	2.0 (1985)	19.5 (1986)	3.7 (1985)
1989/90	4.1 (1990)	1.7 (1990)	20.1 (1989)	4.9 (1990)
1991/92	4.3	1.6	22.5	5.2 (1992)
1994	4.7	--	--	--

Sources: 1970 and 1975 social protection data from Velarde 1990, 109; other social protection data from Rodríguez Cabrero 1994, 1449; education and defense expenditures, 1953-1975, Gunther 1980, 50 and 62; education 1994, *Anuario El País* 1995, 117; other education and defense data, Rodríguez Cabrero 1994, 1458; capital investment data for 1953 to 1990 from Alcaide 1994, 72, and for 1992 from Maravall 1995, 112.

While different sources vary slightly with regard to estimates of social protection expenditures, they all reveal the same pattern. Velarde (1990, 109) reports that spending on social protection programs increased from 9.5 percent of GDP in 1970, to 12.1 percent in 1975, to 18.1 percent in 1980, to 19.5 percent in 1983, to 20.1 percent in 1989 and to 22.5 percent in 1992. Zaldívar and Castells (1992, 332) report that these expenditures rose from 10 percent in 1970 to 15.6 percent in 1980, to 17.4 percent in 1983, to 17.3 percent in 1989. Maravall (1995, 230) presents estimates of 10 percent of GDP for 1970, 18.1 percent for 1980, 19.5 percent for 1986, and 21.4 percent in 1991. And Flaquer *et al* (1990, 50) report estimates of 15.6 percent for 1980, 17.6 percent in 1983, and 18 percent in 1990.

The pitifully low levels of spending on education throughout the 1950s and 1960s had been somewhat raised as the immediate effect of enactment of the General Education Law in 1970, but as discussed above, Spain's education expenditures in the final year of the Franquist era still placed it in last place among industrialized societies. Education spending as share of GDP increased by 50 percent under the UCD governments of 1977-1982, in accord with commitments incorporated within the Pacts of Moncloa. But it was only in the 1980s that Spanish education spending approximated levels typical of other Western democracies.³⁰ Higher levels of spending led to spectacular increases in enrollment rates in secondary and higher education. Between 1982 and 1994, the percentage

³⁰ In the mid 1980s, for example, most West European governments were spending about 5 percent of their GDP on education. Zaldívar and Castells (1992, 130) report the following levels of education spending as a share of GDP: Luxembourg 1.3 percent, Greece 3.7 percent, Portugal 4 percent, Germany 4.5 percent, Italy and Britain 5 percent, France 5.8 percent, Denmark 6 percent, Belgium 6.1 percent, and the Netherlands 6.8 percent.

of young persons aged 14-15 who were enrolled in school increased from 76.9 to 99.7 percent, while enrollment rates among those age 16-17 increased from 57.3 to 78 percent (*Anuario El País* 1995, 117). During this same time period, the number of university students more than doubled, from 640,000 in 1979 to nearly 1.4 million, making Spain's university-enrollment rate (over 37 percent of those age 20-24 in 1993) one of the highest in Europe.³¹ In the aggregate, by the late 1980s it could be said that the Spanish education system had, in little more than a decade, been transformed from the most poorly developed in the industrialized world to one which, in terms of some quantitative indicators, exceeds those of most other West European countries.³²

In addition to heavy budgetary commitments to strengthen the social infrastructure for economic development, the PSOE also made substantial investments in the country's physical infrastructure. As Table 7.4 reveals, the level of state capital investments nearly doubled as a share of GDP between 1980 and 1985, and nearly tripled by 1992. Among other things, this made possible a massive improvement in the country's transportation system. What had been (along with that of Portugal) the worst highway system in Western Europe in the 1970s, was transformed by the end of the 1980s into one of the best, with multi-

³¹ Sources: Number of university students in 1979 from Cobo 1994, 1126, and in 1993 from *Anuario El País* 1995, 177; enrollment rate from Cobo 1994, 1141. One study (Zaldivar and Castells 1992, 131) stated that by 1989 (when university enrollments were 26 percent lower than they would be just five years later) only the Netherlands had a higher percentage of enrollment in universities, while another showed France in the lead over Spain that same year. Maravall (1995, 82) reported that in 1989 Spain's university enrollment rate of 32 percent was just below that of France (37 percent), but above those of Sweden (31 percent) and Britain (24 percent). In stark contrast, only 6 percent of Spaniards in the university-level age cohort were enrolled in institutions of higher education in 1965. Another study (Enguita 1994, 368), however, puts Spain's university-age enrollment level at 36 percent.

³² Zaldivar and Castells (1992, 57) claim that Spain's enrollment rate in 1987 of young people between the ages of 5 and 24 (79.6 percent) was "very much above the other countries in the EC with the exception of France and Belgium, [and was] 17 percentage points above that of the United Kingdom."

lane expressways linking virtually all the regions of Spain (except Galicia). These state investments were accompanied by a substantial increase in private-sector and foreign capital investments in Spain between 1985 and 1990. Following a period of disinvestment during the recession-plagued preceding decade (1975-85), the overall level of capital investment increased from 19.5 percent to 24.4 percent of GDP (Zaldívar and Castells 1992, 81). Again, this represented a departure from UCD policies more in outcome than in intention: UCD economists, like their PSOE counterparts, also wished to increase investment spending, but they were largely prevented from doing so by the deep recessions of that earlier period, and the pressing need to adopt stimulative counter-cyclical policies and rapidly increase spending on social protection programs.

The overall level of government spending continued to increase throughout the 1980s and early 1990s, as can be seen in Table 7.5. Although the period of most rapid expansion in public spending was in the late 1970s (accompanying the transition to democracy), twelve years of PSOE government raised the aggregate level of government expenditures to 44.3 percent of GDP by 1994. This spending increase was not offset by augmented revenue flows, resulting in sizable budget deficits throughout the period which swelled the cumulative public-sector debt substantially. The small size of the standing public debt inherited from the Franquist period, however, meant that even by the mid 1990s Spanish public debt was close to the average standing debt for Western democracies.

Table 7.5 *Public Expenditures, Annual Deficits, and Public Indebtedness (as pct. of GDP)*

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Year	Total Public Expenditures (as pct. of GDP)	E.C. Average Expenditures (as pct. of GDP)	Budget Deficit (as pct. of GDP)	Standing Public Debt (as pct. of GDP)
1965	19.7 %	--	0 %	
1970	22.2	39.2	0	
1974/75	24.9 (1975)	44.5	0	19-20 % (1974)
1980	33.7	46.0	1.3	
1982	38.2			
1985	42.7	49.0	3.1	
1990	43.3	46.0	2.5	36.6
1992			7.3	46.1
1994	44.3			

Sources: Spanish expenditure data, 1965-90, Alcaide 1994, 72; EC average 1970-90, Alcaide 1988; Spanish expenditure total 1994, Ministerio de Economía y Hacienda, *El presupuesto para 1995*, Ley 41/194 de 30 de diciembre de Presupuestos Generales del Estado para 1995, Madrid, 1995, 60; 1994 GDP from Dirección General de Previsión y Coyuntura, Ministerio de Economía y Hacienda, "Síntesis de indicadores económicos," May 1995, 25; budget deficits 1980-9 from Rodríguez Cabrero 1994, 1447, and for 1993 from Maravall 1995, 125; budget deficit figures for 1965-1975 (for State Administration only) from Gunther 1980, 79; standing public debt 1974 from Secretario General Técnico, Ministerio de Hacienda, personal communication; standing debt 1990 and 1993, Ministerio de Economía y Hacienda, *El Presupuesto para 1995*, 44.

While I have no intention of attempting to attribute subsequent macroeconomic developments to these policies, it is noteworthy that during the period 1985-1990, Spain experienced a significantly faster rate of economic growth (4.5 percent) than the average for EC member countries (3.1 percent), and its 1987 growth rate of 5.6 percent was the highest in Western Europe.³³ This rate of

³³ See Alcaide 1994, 58; Zaldívar and Castells 1992, 81; and Flaquer *et al* 1990, 48.

economic development provides clear evidence that (contrary to the strong, deterministic, inverse relationship posited by American supply-siders and economic conservatives) economic growth is not incompatible with increasing levels of taxation and government spending.

The fourth distinct period relating to the policy-making environment began in 1989, with the PSOE's loss of an outright majority in the Congress of Deputies. While the continuing boycott of the Cortes by deputies of the Basque-separatist antisystem party Herri Batasuna meant that the governing PSOE would continue to hold a small voting majority in the Congress, its ability to pass legislation became somewhat more precarious than it had been in the previous two legislatures, within which the party had enjoyed substantial majorities. This, coupled with the replacement of Alfonso Guerra by Narcis Serra as Vice-President of Government, marked the beginning of a different phase of PSOE government. The complete loss of a parliamentary majority in the 1993 elections made the characteristics of this period even more pronounced.

By the beginning of this period, the once close relationship between the PSOE and its allied trade union, the UGT, had completely broken down. Thus neocorporatist agreements oriented towards containing excessive wage demands in order to combat inflation were not possible (see Maravall 1993, 119). The PSOE secured only one such pact, involving the UGT and the CEOE in 1985, and in the early 1990s sought to contain inflationary pressures by adopting harshly restrictive monetary policies (Maravall 1995, 124-5). In reaction to these austerity measures, trade union protests escalated, culminating in two general strikes. The economic recovery of the late 1980s also came to an abrupt end, and unemployment soared to 24 percent of the labor force by 1994. In short, a worsening of labor relations and renewed economic crisis had become key features of the policy environment of this period. Despite this altered environment, however, the budgetary policies of the government remained largely unaltered. A

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strong economic recovery which began in the first half of 1995 appeared to vindicate this policy continuity.

Decision-Making Processes

Budgetary decision-making processes have varied significantly since the election of Spain's first post-Franco democratic government in 1977. These variations imply that it is inappropriate to describe policy making in Spain as characterized by one single "policy style" (cf. Subirats 1992). But the most important conclusion to be drawn from an examination of decision-making throughout this period is that these processes--variations from one to another of the aforementioned four periods notwithstanding--were all profoundly different from policy-making processes under the regime of General Franco. The dramatic shifts in taxation and expenditure policies outlined above are the product of this fundamental alteration of governmental decision-making practices.

In contrast with the Franquist regime, where no "central" political figure set down the broad outlines of government priorities, in all of the governments of Adolfo Suárez, Leopoldo Calvo Sotelo and Felipe González the prime minister and/or his close collaborators exerted direct control over the establishment of expenditure priorities. Finance ministers continued to conduct private, bilateral negotiations with individual spending ministers in the final and decisive phases of the budgetary process, but by no means were they as autonomous in performing this role as they had been under Franco. Accordingly, "higher order" budget priorities were explicitly established by these central political figures, and did not

emerge as the *de facto* product of bargains struck with the finance minister. Also in contrast with the Franquist era, when ministers, as individuals, were held accountable only to the Head of State, policy making in the democratic era is based upon and constrained by a much keener awareness of the collective responsibility of the government to society and the electorate. This has led to a much more effective aggregation of interests--a function which was very poorly performed under the previous authoritarian system. And as Arvid Lukauskas (1992) has argued, this has made government ministers more conscious of the need to appeal to the median voter (who, in Spain, is located just to the left of center), and thereby to formulate policies which are much more progressive and oriented towards maximizing the production of "collective goods," as compared with the much greater emphasis on rewarding entrenched economic elites which characterized the Franquist era. In terms of direct participation in the policy process, as well, groups outside the State Administration which under *franquismo* had no institutionalized role in establishing the government's higher-order spending priorities have consistently exerted some influence, and at times have had direct and decisive influence in the setting of policy. Finally, the general passivity of the Cortes under Franco has given way to varying patterns of parliamentary involvement from one of the aforementioned four phases to another, but in all phases the Cortes is more active and influential than under the authoritarian regime.

In only two ways have distinguishing characteristics of Franquist policy making continued into the democratic era, but these have varied over time and from issue to issue, and one of them can be regarded as a kind of continuity only if the functions of political parties are narrowly defined. The one clear case of continuity is that government ministers are still largely autonomous in establishing policies that fall **within** the jurisdictions of their respective departments. Only when highly controversial issues erupt (such as over

legalization of divorce, the tight-money policies of PSOE finance ministers, the Industrial Reconversion program, and three of the four Organic Laws regarding the education system³⁴) does a broader array of social forces (party, secondary organizations and, sometimes, mass mobilizations) exert significant influence on the relevant government minister. And the Council of Ministers would only deal with matters that arose out of disputes between ministers claiming that the issue in question affected more than one departmental jurisdiction, or which were brought to the Council by a minister who regarded one of his/her policy proposals to be of such political transcendence as to require broader ministerial deliberation. Reflecting this general continuity in ministries' jurisdictional autonomy, a great deal of particularistic lobbying continues to be focused on individual ministers. It is likely that this high level of ministerial autonomy is a product of the extent to which decision-making authority is concentrated in the Council of Ministers, in combination with the general weakness of parliament as an independent policy-making body, as in Britain (as contrasted with the broad dispersion of powers, as in the United States).

The other *prima facie* "continuity" with the Franquist period involves the weakness of parties as institutionalized "transmission belts" of interest articulation between government and society. In contrast with conceptions of parties as the central actors in the "democratic expression of the class struggle" or as coalitions of interests, party government in Spain has been characterized by weak and often antagonistic relations between the cabinet and its putative electoral clientele groups. The center-right UCD governments completely lacked institutional ties to secondary organizations, and were often viciously attacked by groups that should have been expected to support the more conservative of the country's two largest parties: conservative sectors of the Catholic Church assailed

³⁴ These were the Ley de Autonomía Universitaria and the Estatuto de Centros Docentes of the UCD governments, and the LODE under the PSOE.

the UCD government for compromising some of its interests during the transition, and were outraged by some features (in retrospect, quite trivial) of the divorce law; and the peak business organization, the Confederación Española de Organizaciones Empresariales (CEOE) launched a series of unrelenting assaults against the macroeconomic and budgetary policies of UCD governments (see Calvo Sotelo 1990, 163-169). Similarly, the PSOE governments of the 1980s and 1990s were the targets of bitter verbal attacks, mass protests and two general strikes organized by trade unions, and experienced a rupture of once strong ties to the UGT. One could regard these tumultuous relations as the products of a predictable frustration on the part of those who expected that parties would give primacy to furthering the interests of those social groups who regarded themselves as closest to the incumbent party. This psychological phenomenon was nicely described by Leopoldo Calvo Sotelo, who wrote in his memoirs of the bad relationship between the UCD and the CEOE, as contrasted with the surprisingly good relations between big business and the succeeding Socialist government: using a scale from 0 to 10 to describe expectations and actual behavior,

the CEOE was expecting a government of the center (center-right, according to them) to [deliver a] 9, when they only got 7; on the other hand, they were fearing that a PSOE government would adopt behavior of 3, and what they got was a 5. Certainly, 5 is worse than 7, but the improvement over what they had feared led to sentiments of gratitude towards the PSOE, just as they were left with feelings of hostility towards the UCD because [our policies were] less than they had expected, even though in an absolute sense they were better (1990, 171).

This pattern of weak or non-existent relationships between party and organized interests is also in part the long-term consequence of catch-all development strategies that eschewed institutionalized linkages between parties and their respective clientele groups (see Gunther, Sani and Shabad 1986, esp. 58-177). It is not surprising, therefore, to find that policy making in democratic Spain

does not conform to conceptions of parties primarily as vehicles for the representation of narrowly defined clientele interests. Superficially, then, the weakness of contemporary Spanish parties as interest-representation organizations would appear to parallel the irrelevance of the Movimiento Nacional in the former regime's policy processes.

Seen in a different light, however, the catch-all nature of Spanish parties in the democratic era, coupled with the importance of parties in the electoral process, have led to a substantial qualitative change *vis-à-vis* the authoritarian past. As argued above and elsewhere (Gunther 1980), particularistic interest articulation was privileged in the decisions-making procedures and by the very nature of the authoritarian regime itself, while the interest aggregation function was extremely weak, and performed only implicitly in the course of private bilateral negotiations between government ministers. This resulted in a highly conservative package of public policy outputs that was very much at odds with the preferences of the vast majority of Spaniards.³⁵ Under the current democratic regime, in sharp contrast, the weakness of party-clientele linkages, combined with center-seeking vote-maximizing electoral strategies,³⁶ led the center-right UCD governments to adopt much more socially progressive policies and the Socialist PSOE to adopt more "neoliberal" monetary and regulatory policies than their core supporters might have preferred. In adopting such policies, governments were responding to the interests and preferences of the much more heterogeneous and sizable segment of the Spanish population near the center-left segment of the political spectrum. In this respect, the electoral efforts of Spanish parties to build winning coalitions of voters led them to play an important interest-aggregation function that was

³⁵ Subsequent surveys, for example, have found that Spaniards are much more predisposed towards equality of income distribution, and towards an activist role of a paternalistic social-welfare state, than are citizens in most other industrialized societies. (See, for example, Beltrán 1990, 318.)

³⁶ For a detailed analysis of the electoral strategies of both parties, see Gunther, Sani and Shabad 1986.

largely absent from policy-making processes under Franco. Thus, one's degree of satisfaction with the performance of parties in the policy process depends upon whether greater emphasis is given to the interest representation or to the electoral interest-aggregation function of parties.

Four Phases of Policy-Making³⁷

The first phase of democratic policy making, from June 1977 through March 1979, was dominated by the primacy of politics over economics. The overriding objective of the Suárez government was to complete the transition to democracy and to consolidate that new system by securing the positive support of all politically significant sectors of Spanish society. "The politics of consensus" was thus characterized by two features that would not be typical of "politics as usual," or any of the three periods which followed. The first was a marked effort to avoid substantive commitments which would be regarded as unacceptable by any politically significant group or would unnecessarily polarize society, thereby undermining the prospects for consensual acceptance of the new regime. In substantive terms, this led to the postponement of any consideration of structural adjustment policies, to lax fiscal policies, and to the great expansion of social protection programs (in part, in response to the increased hardships brought about by the economic crisis). As Maravall has argued, "Suárez believed that his new and fragile democracy was not ready to undertake serious economic reforms" (1993, 89).

The second distinguishing feature involved the scope of inclusiveness of the

³⁷ The following discussion is based primarily on interviews with former finance ministry subsecretary Javier Moral, former ministers José María Maravall, Iñigo Cavero and José Pedro Pérez Llorca, and former prime ministers Leopoldo Calvo Sotelo and Adolfo Suárez.

decision-making process. Specifically, the main opposition parties were given important roles in the decision-making processes relating to the new constitution and the Pacts of Moncloa. In reaching the latter agreements, leaders of the Socialist and Communist parties, were invited to the prime minister's residence (the Moncloa) for face-to-face negotiations over the adoption of a wide variety of social and economic policies. The Moncloa Pacts represented one of several highpoints of "the politics of consensus," which ended following enactment of the new democratic constitution. This decision-making process was dramatic evidence of change from the Franquist past, but was also an exception to the patterns of decision making which would emerge in the three periods which followed.

There were several reasons why this inclusionary neocorporatist procedure was adopted. By far the most important (as stated in interviews with both former UCD prime ministers) was to make these opposition groups--representing the once excluded leftist and/or working class segments of society--feel that they were part of the democratic process and to perceive that they had a stake in its success. As argued elsewhere (Gunther 1992, esp. 70-75), this strategy of inclusion was a key ingredient in the success of "the politics of consensus," and greatly contributed to the consolidation of the new regime. A second reason why this procedure was adopted was that neocorporatist "social contracts" of this kind were very much in vogue throughout Western Europe in the 1970s, and also fit with the personal preferences and behavioral styles of the central actors within the UCD government. The demanding circumstances of the economic crisis also implied that extraordinary steps, involving cooperation among a wide range of groups, should be taken to prevent the economy from deteriorating further.

It should be noted that this process of broad, interparty negotiation was a direct reflection of the greatly altered circumstances in which formerly repressed groups now legally possessed coercive resources. This was made quite explicit in the text of these agreements: the UCD government pledged to undertake a series

of progressive policy reforms, and, **in exchange**, the Socialist and Communist-affiliated trade unions would refrain from strike activity (an explicitly coercive device) and excessively inflationary salary demands. It was a bargaining process whose dynamics and inclusiveness were unthinkable under the Franquist regime.

Once the new constitution had come into effect and the transition to democracy was terminated, this variety of decision making came to an end. This is not to say that neocorporatist negotiations involving government, business and trade unions would not take place. Two such agreements were negotiated during the second policy-making phase--one relatively modest agreement (the Acuerdo Marco Interconfederal) between the UGT and the CEOE in 1979, and a somewhat more ambitious Acuerdo Nacional sobre el Empleo, involving a somewhat broader package of commitments and concessions by the government, the UGT, the Comisiones Obreras and the CEOE in 1981. But the substantive focus and ultimate objectives of these negotiations were much more limited than the far-reaching policy commitments included in the Moncloa Pacts, and they involved the government in negotiations with labor unions, rather than opposition political parties.³⁸

Inter-party negotiations during the second phase of democratic policy making (1979-1982) took place on a regular basis, but these merely reflected the fact that the UCD government lacked a majority in the Congress of Deputies and needed to pick up additional votes to pass its legislation. Accordingly, the UCD would negotiate with other parties (most commonly the Catalan parliamentary group and, on occasion, the PSOE) for their support, making whatever policy concessions were necessary to get bills through the Cortes. This *ad hoc*, shifting,

³⁸ The AMI of 1979 was not legally binding, and it was limited to labor-relations issues exclusively, dealing with pay guidelines, working hours, overtime and productivity. The ANE of 1981 also dealt with wage issues, but also included government promises to boost employment and continue with reforms in the social security system.

coalition-building process was conducted largely in accord with "majoritarian" norms of parliamentary behavior, rather than the consensual or quasi-consociational logic which dominated the preceding period.

In other respects, there were no substantial differences between the first and second phases, or between the basic decision-making procedures of the Suárez and Calvo Sotelo governments. As Calvo Sotelo points out, there was a great degree of continuity--in personnel, policy priorities and decision-making practices--throughout the UCD era.³⁹

There was heavy involvement of "central" political actors in the establishment of policy priorities under both Suárez and Calvo Sotelo, in sharp contrast with the Franquist regime. There were, however, some stylistic differences between the two. Suárez was almost completely absorbed in questions of "high politics," particularly concerning the tasks associated with completing the transition to the new regime (including the negotiations with Basques and Catalans over their respective statutes of regional autonomy in mid 1979). He was largely uninterested in economic matters and the budgetary process. Accordingly, he devolved most responsibility for these policies to a Vice-President. The first Vice-President for Economic Affairs, Enrique Fuentes Quintana, occupied his post for too short a period (July 1977 to February 1978) to institutionalize this role,⁴⁰ but his successor (from February 1978 until September 1980), Fernando Abril Martorell, played a dominant role in establishing and implementing budgetary priorities. He collaborated closely with the Minister of Finance and initially with the economics minister (the two posts were later merged into a single Ministerio

³⁹ Calvo Sotelo (1990, 42-3 and 67) states that he was reluctant to make any changes in the Council of Ministers both because he was satisfied that it represented "the best possible" group of ministers that he could recruit from the ranks of the UCD, and because tinkering with ministerial appointments could shatter the already fragile unity of the parliamentary party.

⁴⁰ It must be noted, however, that Fuentes Quintana also exerted considerable influence over policy, and was a prime mover behind the Moncloa Pacts.

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de Economía y Hacienda) in performing this function. Abril, a close personal friend of Adolfo Suárez, frequently consulted with the President of the Government throughout this process. Thus, unlike in the Franquist past, when the finance minister and the minister for economic development planning were left to negotiate such priorities largely on their own, the highest-level government leaders were closely involved in the establishment of spending, taxation and macroeconomic policies.⁴¹ The Vice President performed this policy-coordination role in his capacity as chair of the Comisión Delegada de Asuntos Económicos [select committee on economic affairs],⁴² whose membership initially included the ministers of Industry, Commerce, Agriculture, Public Works and Housing, and Labor. All budgetary questions that did not merely involve the intradepartmental allocation of funds were discussed by this select committee.

Policies which entailed the passage of new legislation or the enactment of Decree-Laws were also discussed within the Committee of Undersecretaries (composed of the second-ranking officials of all ministries, and chaired by the minister of the Presidencia del Gobierno), which had the authority to introduce minor amendments in the text. If no ministry objected to the text of the proposed law, it was ratified in the subsequent meeting of the Council of Ministers without debate. If, on the other hand, the deliberations within the Committee of Undersecretaries did not produce a supportive consensus, the matter was discussed in the Council of Ministers, where the prime minister would ultimately resolve the dispute. Discussions of economic or budgetary matters by the Council of Ministers were rare; normally, the cabinet devoted its plenary-session

⁴¹ This structure is quite similar to that of Fifth Republic France, in which the President of the Republic devolves upon the Prime Minister responsibility for day-to-day management of governmental affairs, but (when they are of the same party) collaborates closely with the premier in establishing the broad outlines of policy and intervenes directly whenever he is particularly interested in a particular issue or sector of government activity.

⁴² Formally, the prime minister was the titular head of this economic committee. In actual practice, under Suárez, this function was performed by his Vice-President of Government.

deliberations to more purely political questions. And **never** were budgetary disputes resolved through a vote in the council; the prime minister, himself, would arbitrate between the conflicting preferences of his ministers.

Less important policy questions were, at the initiative of the relevant minister, discussed by and settled within the select committee on economic affairs, assuming that there was no substantive disagreement and the proposal was supported by the Vice-President of Government. If disputes arose over such proposals, however, they were referred to the Council of Ministers for final resolution. Again, the prime minister was the ultimate arbiter of interdepartmental conflicts.

In all stages of deliberations over proposals involving public expenditures or revenues, and in all of these decision-making arenas, the finance ministry exerted considerable influence. It is important to reiterate, however, that frequent and close contacts between the finance minister and the Vice-President (and, indirectly, the President of the Government)⁴³ clearly differentiated this process from economic-policy making under the former regime.

When Abril was replaced as Vice-President in September 1980, he was replaced by Leopoldo Calvo Sotelo, who continued to play that policy-making and coordination role until he became President of Government four months later. Calvo Sotelo was so interested in economic and budgetary matters, however, that after becoming President he continued to perform this role himself, rather than delegating this responsibility to a Vice-President. Given the many other responsibilities of the prime minister, the role of budget-policy coordinator (i.e.,

⁴³ Most commonly, these contacts were by telephone. All government ministers, the Vice-President and the President of the Government were linked by a secret telephone network. This provided direct access, without the intervention of secretaries or other intermediaries. Indeed, only the prime minister was authorized to permit the head of his cabinet to use this private telephone network.

that previously performed by the Vice-President) was delegated to the minister of economics and finance. The key priority-setting role, however, was performed by the prime minister. While this change certainly represented a style of decision making different from that of his immediate predecessor, it makes even clearer the sharp break from the non-involvement on the part of the Franquist regime's central political figures.

The UCD as a party did not play a direct role in the establishment of budgetary priorities. Indeed, internal divisions within the executive committee virtually precluded a common stand on such policies. The party's executive body was preoccupied with factional squabbles and with major non-budgetary issues, such as entry into the NATO alliance and the privatization of television.⁴⁴ This is not to say that the UCD as a party had no effect on policy priorities. As a result of factionalism and the lack of commitment to the party as a legitimate institution (see Gunther and Hopkin, forthcoming), it was necessary to continually "buy off" the various factions by awarding them ministerial posts whose jurisdictions touched most closely upon their primary concerns. Christian democrats, for example, were given control of such ministries as Education (which regulated and subsidized the religious sector of education), liberals held portfolios like the Ministry of Culture, and social democrats (many of whom were economists) were placed in charge of the economics ministries. This had the unfortunate consequences of reinforcing the jurisdictional fragmentation which had been inherited from the Franquist regime, as well as raising the stakes in factional conflict.

Finally, the impact of interest groups was quite uneven and uninstitutionalized. The most decisive role of trade unions was in the course of

⁴⁴ Calvo Sotelo 1990, 66. Calvo Sotelo adds, somewhat sarcastically, that "Between February and November of 1981, there were no frictions between the Government and the Party because there were hardly any contacts between the two" (*ibid*).

negotiating neocorporatist pacts with the government, as discussed above. But there was no regular consultative role aside from these infrequent deliberations. And contrary to frequent assertions in the press at the time, there was no significant input on the establishment of higher order priorities from the so-called *poderes fácticos* (i.e., economic, religious and military elites). In fact, relations between big business and the banks, on the one hand, and both the Suárez and Calvo Sotelo governments, on the other, were largely antagonistic, as noted above, and both former prime ministers unequivocally denied that religious or military officials had influenced their key decisions in any way.⁴⁵ In short, business, religious and military elites, rather than exerting a powerful influence over the course of government policy from behind the scenes during the UCD era, appear, instead, to have functioned as groups which lobbied individual ministers to advance their narrow, special interests, and which railed in frustration against a UCD government which was adopting policies of which they often disapproved.

Budgetary decision-making processes under the PSOE governments during the third phase (1982-1989) were decidedly different in several ways from those of the preceding UCD governments. One major change was that authority to formulate and implement a wide range of government policies was being transferred to newly created regional governments. By the end of this period,

⁴⁵ In his memoirs and in an interview conducted in June 1995, Calvo Sotelo flatly refuted press assertions that Church officials had exerted pressure on him with regard to his government's divorce bill. The press had reported, for example, that the prime minister was pressed to curtail the bill in a meeting with Church officials. In fact, the subject matter of that meeting was nothing more controversial than the extension of social security coverage to retired nuns. The press asserted, to cite another example, that military pressure had motivated the Calvo Sotelo government to propose the LOAPA (the Ley Orgánica para la Armonización del Proceso Autonómico, which sought to significantly modify the processes of decentralization of the state), but Calvo Sotelo vigorously rejects such claims, pointing out that he had called for a modification of regional autonomy policies in his investiture speech, written before he became prime minister and before the attempted coup of February 23, 1981. (See Calvo Sotelo 1990, 104) In a 1995 interview with the author, the former prime minister stated that military officials had lobbied him about two things throughout the entire course of his presidency: (1) the severe problem of low pay for military officers, and (2) displays of pornography in open-air kiosks, which some officers found offensive.

about 20 percent of all government spending in Spain was being allocated by regional governments, and another 12 percent by municipal governments. This stands in sharp contrast with the highly centralized Spanish state which predated the autonomy process: in 1978, 89 percent of all government spending was completely under the control of the central government. (Unfortunately, since no behavioral studies of regional budgeting have been undertaken to date, this important dimension of government decision making cannot be discussed here.)

With the coming to power of the PSOE in late 1982, the key decision-making role of the Vice-President of the Government was substantially altered. Vice-President Alfonso Guerra chaired the committee of undersecretaries, which resolved uncontroversial matters, and prepared the agenda for the Council of Ministers, referring to it the resolution of important interdepartmental disputes. But he did not play the same direct role in establishing expenditure priorities as his UCD predecessors. Instead, the crucial bilateral negotiations with spending ministers which took place near the end of the annual budgetary cycle were undertaken by the finance minister alone (rather than in tandem with the Vice-President, as under UCD governments). Under the González governments of 1982-89, the power of the finance minister was thereby greatly enhanced,⁴⁶ and the function of Vice-President was largely reduced to that of serving as a "traffic cop" regulating the flow of legislative proposals through the policy-making process. The personal skills and aggressive bargaining tactics of Miguel Boyer and Carlos Solchaga further strengthened the hand of the finance ministry. Frightening statements about the deteriorating state of the economy which accompanied "claw-back" bargaining tactics (in which previous concessions to spending ministries were taken back and their budgetary allocations slashed) were employed in efforts

⁴⁶ Maravall adds that "the minister of the economy also benefitted from the unremitting backing of González, who followed the advice of Olaf Palme that this minister had to be supported by the prime minister 98 percent of the time" (1993, 123).

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to try to keep the growth of spending under control. In general, finance ministers appeared to have been more influential in the annual budgetary process than their UCD predecessors had been. This enhanced role of the finance minister did not, however, imply a return to the practices of the Franquist era.

One major feature of PSOE budgetary processes during this period was a dominant priority-setting role and sometimes dramatically decisive intervention by the prime minister. Felipe González was heavily involved in establishing general priorities at the beginning of each budget cycle, and he often directly intervened at the end. Whenever disputes between the finance minister and the heads of spending departments could not be resolved through private negotiations or by the committee of undersecretaries, they were appealed to the Council of Ministers. The final resolution of these disputes was usually determined by González himself. Sometimes the prime minister's intervention was extraordinarily bold: one year, frustrated with the lack of consensus over the emerging budget, he announced to the stunned Council of Ministers, "I am going to allocate five percent of the budget myself!" This was an exceptional occurrence, but, overall, the cumulative impact of more incremental but frequent interventions by González over the course of more than a decade enabled him to have enormous influence over the spending and taxation policies of the Spanish state. In particular, the emergence of education and infrastructural development as the government's top priorities were reflections of his own personal policy preferences.

A second distinguishing characteristic of PSOE decision making was the influence of the party. Often, in disputes between spending departments and the finance minister, the programmatic commitments of the party were invoked in frequently successful efforts to secure additional funds for a particular sector of government activity. In addition, the executive committee of the party would sometimes discuss the budgetary priorities that were emerging from negotiations within the government, and express concern that spending on certain functions

was being cut back excessively. Since many government ministers (and most importantly, the President and Vice-President of the Government) were also members of the party's executive committee, channels of communication between the party and relevant decision makers were numerous and open. In general, the existence of a relatively homogeneous party executive, which (unlike the faction-ridden UCD) was able to reach consensus on key aspects of public policy, represented an important asset for ministers in their annual battles with the finance minister. In the aggregate, the policy commitments of the party had a significant impact on the shape of public policy outputs.

A third distinguishing characteristic of budgeting between 1982 and 1989 was that the PSOE did not depend on the support of other parliamentary parties in order to pass its legislation. Thus, in contrast with the broad inter-party consultations of the "politics of consensus," and with the shifting, *ad hoc* coalition-building procedures which characterized phase two, more majoritarian decision-making norms were adopted. The government's sense of security in office (based upon its huge parliamentary majority and the lack of a credible electoral threat at that time posed by any opposition party), coupled with the fact that it did not have to bargain or compromise with other parliamentary parties, were important assets which enabled the party to adopt bold and unpopular economic restructuring policies, such as the industrial reconversion program. Reflecting its considerable parliamentary majority, the PSOE was able to pass nearly all of its bills during the 1982 legislature: in contrast with the relatively limited ability of the preceding UCD government to enact its proposed legislation (207 of the 287 bills it introduced between 1979 and 1982 were enacted into law), fully 183 of the PSOE government's legislative proposals were passed by the Cortes between 1982 and 1986). Correspondingly, input from opposition parties reached its lowest level during the 1982-86 legislature, when the PSOE had a huge majority: only 13 *proposiciones de ley* introduced in the Congress by opposition parties and only one

in the Senate were enacted into law during this period; this compares with 33 and 6, respectively, during the 1979-82 legislature (López Garrido and Subirats 1990, 40; also see Maurer 1995; and Capo *et al* 1990).⁴⁷

This did not mean, however, that inter-party bargaining did not take place. PSOE ministers often attempted to secure support from another party for a bill prior to its submission to the Cortes. The rationale behind these informal, inter-party discussions, however, was decidedly different from those which underpinned comparable negotiations during the 1977-78 period (when the political strategy for consolidating the new democracy required inclusiveness in the decision-making process, as well as substantive agreements which would not be regarded as unacceptable by the major opposition parties) and between 1979 and 1982 (when it was simply necessary to pick up additional votes to pass bills). The most important rationale was the desire to prepare for the future by cultivating a cordial and collaborative relationship with a party that might one day serve as a coalition partner. As a former minister stated in an interview, "We were aware that we would not have an absolute parliamentary majority forever, and we were anticipating that day when we would either have the support of another party, or we would be out of power altogether." This rationale led to frequent agreements with the centrist Catalan coalition *Convergència i Unió* (which eventually did play a key policy-making role in the fourth phase, particularly after 1993). Less frequent participants in such discussions were the parliamentary representatives of the Basque *Partido Nacionalista Vasco*, who were somewhat more difficult to deal with given their much more rigid and conservative stands, particularly when church-state issues were at stake. A second rationale largely explains some legislative concessions to the principal party of opposition, *Alianza Popular/Partido*

⁴⁷ The Senate is largely irrelevant to the policy-making process. Indeed, in 1994-5 its very existence in its current form is currently the object of considerable discussion (see López Garrido and Subirats 1990, 44).

Popular. Some adjustments in the contents of legislation were sometimes made in order to demonstrate to the AP/PP that their criticisms and suggestions had been heard. Incorporation of these modifications into bills was intended to reduce the possibility that the opposition party would regard the legislation as totally unacceptable, and therefore, upon assuming control of the government at some point in the future, would completely overturn the legislation and replace it with a more partisan law. All such discussions with the AP/PP, however, were private and took place outside of the parliamentary arena. Irrespective of what had been said in these private discussions, the AP consistently maintained a confrontational stance in parliament, frequently going so far as to challenge the constitutionality of the government's legislative proposals through appeals to the Constitutional Court.

In some other respects, policy-making under PSOE governments resembled patterns that had emerged in the earlier periods. As under the UCD (and, indeed, General Franco), the Council of Ministers as a collectivity did not establish policy priorities by achieving some negotiated consensus, and it never resolved conflict over budgetary matters by formal votes. Instead, resolution of disputes between the ministers of finance and various spending departments was most commonly the product of the prime minister's intervention, following some discussion in the Council. Other ministers (i.e., aside from those directly involved in the dispute) would occasionally participate in these discussions, but, as the logic of budgeting under zero-sum rules would suggest, only on very rare occasions would the request of a spending minister be altruistically supported by his/her colleagues. As a former minister stated,

The thing that surprised me the most when I entered government was how quickly individuals shifted to the defense of their own ministries' budgets. They may have made great speeches during the election campaign about how important it was to improve education or highways, but once they assumed their responsibilities as

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ministers, all of that was forgotten, and they limited themselves to the affairs of their own departments.

Recognizing that an increase in spending on some other department's programs might require a reduction in their own budgets, they very rarely intervened to support other ministers in these battles. As a result, the Council of Ministers did not play a collective decision-making role.

Also consistent with budgeting under the UCD (as well as under *franquismo*), interest groups had only sporadic and restricted influence over budgetary decisions. Individual ministers were the object of intense lobbying over the defense of narrow, particularistic interests,⁴⁸ but with one exception, secondary organizations outside of government did not have a direct impact on higher-order spending priorities of the Spanish government. That one exception occurred in 1985, when the UGT, in exchange for its collaboration with the government and the CEOE in the neocorporatist agreement of 1985, the Acuerdo Económico y Social, was invited to participate (along with the CEOE and the government) in determining the allocation of ten percent of the state's investment budget. Aside from this one instance, trade unions and other interest groups were not consulted and had no direct impact on the basic outline of the state's budgetary priorities. Indeed, the AES of 1985 was the last such neocorporatist agreement. By the late 1980s, relations between the PSOE government and trade unions had deteriorated to such an extent that they were completely unwilling to enter into such negotiations (see Maravall 1993, 119), despite the government's repeated attempts to restore a neocorporatist dialogue. The end of such agreements, it should be noted, fit with a broader West European trend in which "social contracts" and

⁴⁸ Indeed, one former PSOE minister estimates that he had spent over 1,000 hours in meetings and negotiations with one powerful secondary organization in his attempts to assuage its concerns and gain its acceptance of a major piece of legislation which directly affected its interests.

other neocorporatist arrangements fell out of favor as policy instruments.⁴⁹

The fourth and final phase of decision making to be discussed here began in 1989. While some of its distinguishing features began to emerge that year (with changes in the composition of the government and with the loss of an absolute majority in the Congress of Deputies),⁵⁰ these characteristics became most apparent following the 1993 election, in which the PSOE's parliamentary delegation fell to 159 out of the 350 seats in the Congress. The formation of a single-party minority government in that year meant that, as under the UCD governments, legislative support from at least one other party was required for the passage of all bills.

In contrast with UCD practices, which involved legislative coalitions whose partners shifted from issue to issue, the PSOE forged broad and explicit agreements, one year at a time, with the Catalan nationalist leader Jordi Pujol. In exchange for support from the CiU's 17 deputies over the coming year, Pujol would extract commitments concerning a wide range of policy issues. In terms of budget priorities, these were largely intended to impose greater budgetary austerity and liberalization of the labor market, as well as to substantially augment the flow of resources from the central government to the various regional Autonomous Communities. The extent of Pujol's power over government policies was such that the influential Madrid daily *El País* referred to him as the Co-President of the Government.⁵¹

⁴⁹ See Maravall 1995, 226-7; Zaldívar and Castells 1992, 86-88; Pérez Díaz 1984, 38-40; Martínez-Alier and Roca 1988, 44-49; Flaquer, Giner and Moreno 1990, 41.

⁵⁰ Maurer (1995) reports that there was a significant increase in both formal and informal input from opposition parties and from parliament in general during the 1989-93 legislature.

⁵¹ *El País*, Domingo supplement, September 11, 1994. In 1993, the government conceded 15 percent of all income tax revenues to the regions, and agreed to far-reaching changes in the financing of health care, as demanded by Pujol. In the 1994 budgetary agreement, control over one third of all EU regional development funds was turned over to the regions. It is important to note

A second set of changes that evolved during this period involved the processes of decision making within the cabinet. Accompanying the replacement of Alfonso Guerra as Vice-President of the Government by Narcis Serra was a shift back to a more important budgetary role for the Vice-President. While Guerra had been preoccupied with other political matters, Serra was given a more important role in the budgetary decision-making process. In 1994, this included responsibility for negotiating with Pujol over the forthcoming budget. This increased role for the Vice-President was also accompanied by a general decline in the direct involvement of Felipe González in formulating these policies. Whether this was the result of fatigue after over a decade as prime minister, preoccupation with mounting political scandals, or the gradual replacement of a cohort of long-time friends and collaborators by newcomers, it appears that by the mid 1990s González was becoming increasingly detached from direct control of the government, which he had so dominated in the preceding decade.

Concluding Observations

At the time of Franco's death in 1975, Spain was strikingly different from other West European societies in many ways aside from its anachronistic authoritarian political regime. Despite its rapid economic growth of the preceding decade and a half, its public expenditure and taxation policies were more like those of the Third World than they resembled a modern industrialized society. I have argued that, while these anomalous policy outputs in part represented the residual effects of late industrialization, they must also be regarded as the direct product of constraints imposed on the policy process by General Franco and his

that the constitutional balance between central and regional levels of government was therefore redefined as a by-product of annual budgetary negotiations.

regime. We have seen dramatic evidence that, once those constraints were removed as a by-product of the transition to democracy, Spain began to evolve rapidly towards more typically West European models of public sector activity, for better or for worse. The regressive, archaic and inefficient taxation system so tenaciously defended by the Franquist elite immediately gave way to one that was more typical of modern democratic societies. The social and physical infrastructure provided by the state was dramatically upgraded: the most underfunded education system in the industrialized world was replaced by one which leads the rest of Western Europe according to some quantitative indicators; and a massive program of public works quickly brought a highly inadequate highway system and other infrastructures up to West European standards. Only with regard to the provision of some social protection services had the Franquist state been remotely close to the advanced social welfare states of Western Europe. While in 1960 Spain was spending less on Social Security than any other country in the OECD (Castles 1995, and forthcoming), the system expanded significantly prior to the end of the authoritarian era, in part due to its insulation from many of the budgetary constraints that limited the rest of the public sector. But even in this sector, the unevenness of coverage afforded by the system and the extraordinarily low levels of state subsidization of the Social Security fund set it apart from those of the rest of the industrialized world. Here, too, the dismantling of the Franquist regime was followed by a massive increase in state budgetary commitments. Castles (1995, and forthcoming) not only points out that following the onset of the democratization process Spain had by far the fastest rate of growth in Social Security spending of any country in the OECD, but his multivariate time-series analysis revealed that most of this increase is explained by a dummy variable measuring the effects of political-regime change. In short, replacement of the Franquist regime by a democratic system made it possible for Spanish public policy to approximate levels found throughout the rest of Western Europe.

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Relevant characteristics of Spanish society have also become more "modern." The high levels of illiteracy which resulted from inadequate financial support for the public education system have given way to levels of literacy and educational attainment which equal and even exceed many of the most developed West European societies. The distribution of incomes has also become substantially more egalitarian. Standards of public health and life expectancy are actually higher than in most industrialized societies.

Finally, governmental decision-making processes, which under the Franquist regime had several unusual characteristics, have come to resemble those found in other West European political systems. We have observed some variations in policy-making style from one period to another: one prime minister may play a direct, dominant role in setting policy priorities, while another, preoccupied with non-budgetary matters, may delegate authority for supervision of these policy processes; the coordinating role of Vice-President has appeared and disappeared with surprising rapidity; the role of interest groups in setting higher-order priorities has varied considerably; and opposition parties have had differing levels of input into the establishment of policy priorities. But these shifting patterns are all within the range of variation found in other West European political systems. The truly distinguishing features of Franquist decision making have all disappeared. No longer are the most central political leaders uninterested in or uninvolved with the establishment of higher-order policy priorities. No longer are certain policy options ruled out automatically, and large segments of Spanish society completely and permanently excluded from the policy process.

Without doubt, the modernization of Spain's economy and society contributed to the massive expansion in government services (especially social services) which began in the mid 1970s. Population movements, demographic shifts, and the demands of an advanced industrial economy created needs for new or expanded government activity, while a substantial increase in aggregate wealth

made it possible to fund such programs. But socioeconomic change provides at best only a partial explanation. In terms of public policy, it can create functional gaps which imply a government-program response, and it can establish the economic potential for a relevant policy response. However, Spain in the mid 1970s clearly reveals the limitations in socioeconomic-reductionist efforts to explain complex political phenomena: rapid social change had created the "need" for new or expanded services, and economic growth had generated the potential financial resources to fund such programs, but as long as Francisco Franco was alive, there were unsurmountable political obstacles to the development of programs which would have moved Spain in the direction of the West European norm.

To a very great extent, the changes in policy processes initiated in the mid 1970s, in the structure of policy outputs, and in their impact on society are attributable to a change of political regime. This is most obvious with regard to changes in policy-making processes. The increased sense of collective responsibility for government policy that results from electoral accountability is one powerful force for change. Although this has been manifested in increased intervention in the policy process by the prime minister (with or without the collaboration of a Vice-President), rather than in a more collective decision-making role by the Council of Ministers, it represents a marked departure from the non-involvement of Franco and his prime minister (*de facto* or *de jure*), Luis Carrero Blanco, and from devolution of the dominant policy-coordination role to a minister whose prime concern was to hold down the level of spending--the minister of finance. Another major force for change inherent in the shift to democratic governance was the allocation of legal "coercive resources" to formerly disenfranchised groups. Accordingly, the right to strike dramatically enhanced the ability of trade unions and their allied political parties to influence the basic outlines of public policy, sometimes as the product of direct, face-to-face bargaining

with the government. Perhaps most importantly, democracy placed in the hands of the general public the ultimate coercive resource, the ability to toss the incumbent out of office. This not only increased the government's sense of collective responsibility for its policy decisions (as noted above), but it also institutionalized a process of "competitive bidding" (Beer 1965) between government and opposition parties for majority electoral support. By inducing parties to advance electoral programs which would appeal to the broadest array of voters (or at least a minimum winning coalition), this electoral competitive bidding process played a key interest-aggregation function, which was largely lacking under the previous authoritarian regime.

Demonstrating the impact of regime change on public policy outputs, as mentioned in my introductory remarks, is often complicated by virtue of the fact that regime type is often highly correlated with other powerful determinants of public policy outputs. In the Spanish case, however, it has been possible to isolate the impact of politics from the potentially confounding influence of economic growth, since the most rapid period of economic growth occurred between 1960 and 1975, before the transition to democracy, while the transition to and consolidation of democracy took place during a period of economic stagnation. As we have seen, only the incremental expansion of the Social Security system (which, due to its complete autonomy from the State Budget, is anomalous) prior to 1975 is compatible with a socioeconomic explanation of growth in public spending. The rest of the State Budget actually shrank as a percentage of GDP during the most rapid period of economic growth. While one might argue that the retardation of social policies by the mid 1970s was partly a "lagged effect" of Spain's late industrialization, the "smoking gun" represented by Franco's killing of tax reform proposals in 1973, in combination with the other aberrant features of the regime's policy-making processes, provide clear and consistent evidence of the overt impact of political regime characteristics on a wide range of policy outputs.

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The overall impact of regime change on public policy has been to transform Spain from a society whose policy processes and outputs bore unfortunate similarities to those of some Third World countries into one that fits well within the mainstream of affluent Western democracies. In short, we can unequivocally conclude that politics does, indeed, matter.

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