

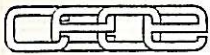


1-22.01 N  
SPA-

SPAIN'S ENTRY INTO THE COMMON MARKET:  
THE POSITION OF SPANISH EMPLOYERS

QA36

February 1981



20-11.161  
CEO

EJEMPLAR DE ARCHIVO

Nº R. 1658 Cuadruplicado  
6-7-82

11.121

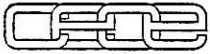
SPA -

COMISION DE LAS  
COMUNIDADES EUROPEAS  
COMITÉ DE REPRESENTACION  
Calle Ferrano, núm 41  
MADRID-1

SPAIN'S ENTRY INTO THE COMMON MARKET:

THE POSITION OF SPANISH EMPLOYERS

February 1981



Some time ago the CEOE (Spanish Confederation of Employers'-Organizations) considered the need to examine in depth a choice of formulas in accordance with which the integration of the Spanish economy with that of the Community would be feasible. The results of this investigation are summed up in this document to be published in two volumes, the first of which is that now issued.

Volume I is made up of two parts, the first of which is titled "Basic Considerations for possible Accession", and it suggests formulas which are in line with Community traditions and orthodoxy. We believe these formulas to be the most appropriate given the peculiarities of the Spanish economy, far removed in many ways from that of the Community.

Volume I also contains Part TWO which bears the title "The Spanish Economy and the Common Market: the main parameters". Part Two makes a comparative analysis of some of the fundamental features that are characteristic of both the Spanish economy and those of the Community and the findings confirm the assumptions that underlie Part One as follows: the incorporation into the Community of the Spanish economy calls for specific consideration because of the peculiarities of our productive apparatus which is so totally unlike those of the Community countries.

The final conclusion that comes out of this comparative analysis is that Spain's accession is going to demand a formidable effort throughout the transition period and should have the effect at the end of this of putting the different sectors of the Spanish economy in a position to compete, without any obstacles to the free circulation of goods and production services, with their counterparts within the Community.

In fact, Spanish businessmen accepted this challenge long ago, aware that if a Treaty of accession can be signed which would make possible our integration into the Community, our country would gain in political and social stability; and aware also that this effort to be made

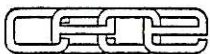


during the transitional period could be the motive power imparting to the Spanish economy the impulse at present lacking.

Integration into the Community postulates a basic remodeling of our productive structures embracing the great majority of sectors, to be considered in the third and final part of our document which under the heading "Sectors and their Problems" will shortly appear in a Volume II.

Here, on strictly drawn arguments and conclusions I believe to be convincing, we simply ask that Spanish businessmen may operate in a context similar to that in which their Community counterparts move, and that once our objectives, through the Treaty of accession are clarified, we may be given sufficient time to carry out the necessary changes in such a way that integration will not prove traumatic for our economy.

CARLOS FERRER



The CEOE (Spanish Confederation of Employer's Organizations) hereby records its appreciation of the co-operation it has received from all associated, sectorial and territorial bodies towards producing this document.

This co-operation, coming as it does from bodies that fully represent the views of businessmen from each and every sector of any significance in the Spanish economy, expressed during the course of 14 different Work Groups, is in itself a guarantee of the fact that the position struck in this document enjoys the full and effective support of the Spanish business community.

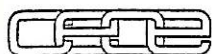


I N D E X

PART ONE

BASIC ISSUES FOR POSSIBLE ACCESSION

|   | Page |
|---|------|
| I INTRODUCTION  | 9    |
| II THE MECHANICS OF CUSTOMS UNION   | 17   |
| II.1 Suppression of obstacles to the free movement<br>of goods; tariff cuts, quota elimination and<br>abolition of technical barriers     | 18   |
| II.2 Suppression of obstacles to freedom of labour<br>movement, to establishment and provision of<br>services, and to movement of capital | 25   |
| II.3 Unification of tariffs applicable to imports<br>originating from third countries: the common<br>commercial policy                    | 30   |
| II.3.1 Issues of a general nature   | 30   |
| II.3.2 Possible procedures for the adoption<br>by Spain of treatment applicable in<br>respect of third countries generally                | 34   |
| II.3.3 Problems arising from the application<br>by Spain of preferential systems in<br>force between the Community and third<br>countries | 36   |

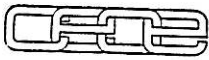


|   | Page |
|---|------|
| III THE APPLICATION BY SPAIN OF THE COMMUNITY'S ECONOMIC POLICIES   | 41   |
| III.1 The common agricultural policy: possibly a partially stabilizing element in the process of Spain's integration into the Community | 43   |
| III.2 The common regional policy: an essential supporting factor in the restructure of the Spanish economy                              | 46   |
| III.3 Fiscal and monetary policies: Community policies the Spanish economy should be capable of adopting in the medium term             | 51   |

## PART TWO

### THE SPANISH ECONOMY AND THE COMMON MARKET: THE MAIN PARAMETERS

|   |    |
|---|----|
| I INTRODUCTION                          | 58 |
| II THE PRODUCTIVE APPARATUS             | 59 |
| II.1 The energy problem                 | 59 |
| II.2 Technology. Industrial ownership   | 65 |
| II.3 The environment                    | 72 |
| II.4 The labour factor and productivity | 74 |
| II.5 The corporate dimension            | 81 |
| II.6 The public company                 | 84 |



|  | Page |
|--|------|
| III THE AGGREGATE DEMAND STRUCTURE             | 86   |
| IV THE FINANCING OF THE ECONOMY                | 90   |
| IV.1 General aspects                           | 90   |
| IV.2 Private sector financing                  | 90   |
| IV.3 Financing and Company financial structure | 93   |
| IV.4 Public sector financing                   | 95   |
| V THE EXTERNAL SECTOR                          | 103  |





PART ONE

THE BASIC ISSUES FOR POSSIBLE ACCESSION



PART ONE

THE BASIC ISSUES FOR POSSIBLE ACCESSION

- I INTRODUCTION
- II THE MECHANICS OF CUSTOMS UNION
- III THE APPLICATION BY SPAIN OF THE COMMUNITY'S  
ECONOMIC POLICIES



## I INTRODUCTION

It is essential to see Spanish membership of the European Communities for what it really is: a process involving the integration of two separate economies. As an undertaking, this process must be considered in the widest possible context; and any attempt to view it restrictively as merely involving the removal of barriers to the free movement of goods, services and the factors of production would, in itself, constitute a shortfall.

While nobody is likely to question this statement in terms of its underlying principles, putting it into practice requires a determined effort if a series of inert factors are to be overcome.

The fact is that the European Communities are building a Common Market: that is to say, a space within which the free movement of goods is supplemented by full mobility for the factors of production. It follows, therefore, that a Treaty of Accession should be seen to be, first and foremost, a useful instrument for the purpose of providing a New Member with access to the four liberties on which any common market must rest. These four liberties -the movement of goods, labour, capital, the right to incorporate and to provide services- can only have the effect of ensuring free flows of goods, services and the factors of production throughout Community territory.

The concept of membership outlined above was viable when the Community was first constituted, at a time when strong economic growth and sustained demand in market terms were the order of the day. This was a time when the division of labour, the growth in trade and in general, all those opportunities that in theory go with the opening up of wider markets could bestow their beneficial effects. This concept was still viable when, some years later, in economic circumstances not quite so favourable, the original Community decided to open its doors to countries

whose economies had been so traditionally geared to open trading, that the removal of barriers to the free flow of goods and the factors of production between them and the older members tended to constitute the formalization of a "status quo" already in existence rather than connote a radical transformation of their basic terms of trade.

Such is the economic climate today, however, that the bases that were used to fund the Community and subsequently to develop it can no longer be considered relevant in the context of the proposed membership of a country whose economy is, to a great extent, turned in upon itself.

In the case of Spain it cannot be sufficient for the Community to create, however cautiously and gradually, a wider economic space as happened in the case of the Six. Nor can it possibly be enough to give the new member State more or less automatic access, after a brief period of adaptation to the mechanisms made to the measure of their own needs by the original six Member States, as was the case on the occasion of the first intake of new members.

Spain's accession is taking place in circumstances that are singular both in terms of the current economic problems worldwide and in the context of the peculiarities of the Spanish economy, both factors that call for an effort of the imagination if the Spanish economy is to be merged into that of the Community as the result of a careful and smooth process of adaptation. This would be in line with the best interests of Spain which cannot accept that Spanish accession be reduced to an increase in market size, a formula which would work primarily in favour of industry within the Community. Acceptance of these realities must also favour the medium and long-term interests of the Community itself which would be ill-served on the occasion of Spanish accession at having a series of economic problems transferred from Spain, especially as these problems would prove to be a considerable source of difficulties for the Member States.

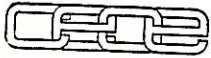


For all these reasons it is essential that the preparatory work leading up to accession should not stop at the definition, as in the Treaty of Accession, of the formulas of application of the classical mechanisms of a common market but that it should be extended to include the flow of goods and the factors of production between Spain and other member States.

To achieve this end implies, no doubt, embarking on a profound process of renovation since the Treaties under which the Community was founded and subsequently developed have been mainly concerned with the establishment of a common market in which both goods and the factors of production may freely circulate between the Member States. This is all the more readily understandable in the context of the difficulties being encountered in defining in detail the obligations of Member States in terms of economic policies that are still in the process of formulation and which will remain so until such time -still in the distant future- when the Community will achieve economic and monetary union. It is precisely joint action based on the common policies mentioned- or in their absence on specific action which can neutralize the obviously adverse consequences for Spain of a free flow with a more highly developed group of countries whose economic structure have traditionally been more outward-looking -a free flow which, it should be emphasized would come about during a serious crisis- such that the theoretical advantages of membership in wider economic pastures could become largely academic.

+ + + + +

But even supposing the negotiators attempt to introduce into the Treaty of accession commitments transcending pure free exchange levels and that they succeed, such a Treaty would never be more than a mere formal legal framework, that is, an instrument effective in the case of an integration so beset by difficulties as is that of Spain, only if it really created



the appropriate conditions to carry out the effort required, namely, a joint exertion of Spaniards and Community Members, at public and private levels, to ensure that at the end of the transitional period, the Spanish economy finds itself harmoniously merged in the widest sense in to that of the Community.

Such a concept relates the classical themes of accession negotiations, such as the extent of the adaptation period, the schedule of tariff cuts and the like. Indeed, it would no longer be a case of deciding how long it would take to introduce tariff cuts but of what was to be done during the years the cuts were being made to become competitive when these were completed. Undoubtedly in Spain's case, so different from that of other countries who have successively joined the original Community, tariff elimination in principle is not possible without previously introducing profound changes in the Spanish economic apparatus. These changes which should unencumber, restructure and enlighten many sectors, would not be feasible without the joint endeavour of Spaniards and Community members alike.

Thus the extent of the adaptation period should depend, more than on anything else, on the intensity of the effort it is proposed to make during this time, with the aim of effecting these transformations.

This effort could be so far-reaching as to convert Spain into a sort of "new economic frontier" of the Community world. For this to come about, the legal, formal framework established by the Treaty of accession must be made appropriate, business activity in Spain must appear attractive to Community members and a point of balance found between Spanish and Community businessmen.

If these conditions could combine, the development of business activity in Spain would be greatly intensified, since a transformation of the Spanish economy in the measure necessary to adapt it to the changed



circumstances deriving from accession would be a gigantic task likely to constitute for a long time a prime force of investment and job creating activity.

Very probably the catalyst for the effort required by the country to break out of its present economic atrophy and to give the economy the momentum indispensable to launch it on a new phase of growth, can be no other.

Spanish businessmen, who have amply proved their capacity in more than one difficult juncture, can make this endeavour. But for it they require the creation of a framework in which to develop their enterprising ability which should be at least as favourable as that in which their Community colleagues operate.

Essentially, this implies that labour legislation, projected allocations to Social Security and company financing systems in Spain, should respond to planning similar to that prevailing in present Member States of the Community, at the same time applying standards and techniques employed by the governments of the Ten to measures taken by the Spanish government for controlling imported goods according to technical requirements, as also to any other of its actions affecting the intermixing interests of Spanish and Community businessmen.

Further reference will be made in this document to these questions. But so important are they that they must be emphasized in its first pages.

It would be pointless to reiterate the formulas for applying the mechanics of integration or of Community policies in the process of Spain's accession, or promote plans for restructuring our economy if the commercial enterprising action to be taken within these coordinates were already mortgaged in such decisive aspects by conditions unacceptable in comparison with those obtaining in other Member States.

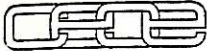
It is idle to dwell on this. Evidently our businessmen will be unable to operate efficaciously in a sphere exposed to full Community competition unless standards are applied in Spain similar to those prevailing in the Community respecting labour force flexibility and other key aspects of industrial relations; or if their production costs became artificially inflated in relation to the rest of the Community because of the Social Security allocations companies must make; or if they could not depend on financing opportunities in conditions resembling those enjoyed by their colleagues in other Member States; or finally, if administrative procedures did not respond to similar issues in so far as these touched on the multiple aspects to be taken into account in a process of integration.

+ + + + +

In the following pages of Part One formulas are examined which, based on previously expressed criteria, appear the most commendable for putting into operation the various mechanisms of an integration process. That is, not only the application of mechanisms whose aim is the suppression of obstacles to the free exchange of goods, services and factors of production, but also of those relating to common economic policies. For the rest, Part Three of this document which will be published in a second volume, analyses the Spanish economy from various viewpoints and also policies of restructure and others which it seems would have to be implemented, so that when the time comes to put these mechanisms for abolition of obstacles and these common policies into effect, the Spanish economy will find itself genuinely and harmoniously integrated into the Community.

When proposing to Spain formulas for the gradual application of mechanisms for abolishing obstacles to free movement and common economic policies throughout the transition period, the origin of these common policies and mechanisms within the Community area must be borne very much in mind. All were implemented by a group of very developed countries, the original Community Six, who outlined them carefully and tested them with caution, making them, as was logical, to the measure of their own structures and





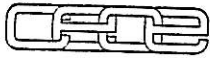
needs. Consequently our country, when joining the Community, will have to apply economic policies and mechanisms for suppressing obstacles not conceived for its particular requirements. Difficulties will spring from this circumstance because Spanish economic structures are traditionally introverted and more unlike the economic apparatus of the original Community than that of any other country that has joined it.

Inevitably then, an attempt must be made to ensure that the procedures in accordance with which the various elements leading to integration take effect -mechanisms for suppression of obstacles to free exchange of goods, services and factors of production and common economic policies- shall be adapted as much as possible to the requirements of our economy.

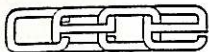
While by no means attempting to obstruct the process of such policies and mechanisms, the basic attitude to adopt would be to try to temper them sufficiently to enable integration of the Spanish economy with that of the Community without impairment despite the considerable difference between one and the other.

There are precedents in the Community, considerably more numerous than may be thought at first, that enable past experience to form a basis when seeking flexibility of formulas in a process of integration to suit special circumstances, and it is important in the case of Spain's accession to use every chance of adaptation. We must remember that we shall have applied to us formulas made to the measure of countries with very different economic institutions, who integrated in a general context quite distinct from the present one.

Without these modulations for exploiting to the full possibilities for adapting processes to suit the specific needs of the Spanish economy, the risk would be run in no way acceptable of Spain's accession to the Community resulting in an aggravation of its economic problems and their



transfer in good part to the Community. It is to be hoped that the good sense of both parties will avoid this risk.



## II THE MECHANICS OF CUSTOMS UNION

At its present stage of evolution, the Community is a common market in formation, which seeks to achieve full mobility for the factors of production throughout its whole territory in a way similar to that occurring on a national level.

Integration into this market implies first and foremost, the extension of four fundamental liberties to economic relations between the new Member and the old Member States, which are: movement of goods and labour, incorporation and provision of services, and finally, movement of capital.

By "mechanics of customs union" we understand those that suppress obstacles to the practice of these four liberties between Member States, that is, to the various forms of tariff elimination. A position is struck in the following pages indicating the formulas in accordance with which it is thought tariff cuts should be progressively introduced throughout the transitional period.

A similar position is adopted later in the report respecting Community economic policies, which as they are fundamental, may be expected to cause greater impact when extended to Spain following accession.

Some of these such as the agricultural policy or the common commercial policy are in reality the keystone of customs union, particularly the second, which is at the root of the Community's external unification process without which products originating in third countries could not circulate freely over the whole of its territory. This is why it is examined in this chapter as one of the mechanics of customs union.

Other common policies such as the regional, fiscal or monetary, extend beyond the limits of customs union to become part of the economic union. The final paragraph of this first Part which bears the title "The application by Spain of the Community's Economic Policies" considers possible formulas for the adoption by Spain of these common agricultural, regional,

fiscal and monetary policies.

## II.1 Suppression of obstacles to the free circulation of goods: tariff cuts, quota elimination and abolition of technical barriers

On questions of tariff cuts and quota elimination, the Community's previous trajectory contributes two very distinct precedents.

One is that deriving from the process of constitution of the original Community which carried out gradual tariff cuts based on flexible - timetables as counselled by the most elementary prudence, since it involved the suppression of obstacles between some free exchange States and others with protectionist traditions. The second precedent, proceeding from the first amplification of the Community, responds to very different principles. On this occasion tariff elimination was carried out in accordance with rigid formulas and in very brief time limits, an explicable circumstance from the moment these became operative between countries which had previously eliminated custom dues and quantitative restrictions against other industrialised and very competitive economies.

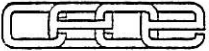
For tariff elimination in Spain in favour of the Community, a formula is proposed which even bearing in mind tariff cut precedents previously effected within the Community especially those carried out between the original Member States, responds, as is inevitable, to very specific criteria. Given the characteristics of the Spanish economy and the general economic context in which our tariff elimination will take place, it is essential that it should be carried out over a transitional period sufficiently extensive as to facilitate not only abolition of import dues which in principle the economy could not withstand, but also a series of structural changes in the economy without which tariff elimination would be unthinkable.

Throughout this adaptation period there would take place a remodeling of the various economic sectors, an operation dealt with in Part Three of this document. The objective sought is that at the conclusion of the adaptation period, our productive sectors should be capable not of withstanding the pressure without barriers of Community goods, but also the entry of products from third countries under the same conditions as they are imported into Community territory.

It is not possible to apply different time schedules in favour of the other Member States for tariff elimination, for alignment on a common customs policy and for the adoption of preferential tariffs applied by the Community to certain third countries. It is evident that the application of different schedules on these three levels would prompt traffic deviations and distortions which would hamper the process of Spain's integration into the European Community.

Assuming that these three key schedules -inter-Community tariff elimination, alignment on a common customs policy and application of preferential tariffs to third countries- are to be of similar duration, and given the extent of the structural changes to be effected in many sectors of the Spanish economy, a period of under ten years for the adoption of all three cannot be considered. The term forecast for the three would determine the extent of a uniform transitional period during which the remaining mechanisms of customs union would take effect while Community economic policies could be applied in Spain meantime at a rhythm and according to schedules that are possible to adapt to each specific case.

It would be advisable for tariff elimination in Spain to be applied uniformly over those ten years, to be linear, with a view to avoiding difficulties surrounding all negotiations concerning tariff elimination by product groups. Nevertheless, certain variances in this general lineas principle would facilitate solutions to problems possibly deriving from internal incoherencies in the Spanish customs tariff, at time accentuated

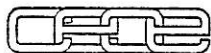


as regards dues at present applied to the Community, by the different tariff elimination percentages established in the Agreement between Spain and the EEC of 29 June 1970.

This modification in the basic linear characteristic could be achieved by applying a tariff elimination system based on average percentages either minimums by products as was done in the original Community. Another formula that could be used simultaneously would be to fix lower basic dues than those currently applied to the Community for certain tariff headings corresponding to inputs which Spanish companies import from the Common Market. This could be achieved by making unilateral reductions in these duties for the generality of third countries before the Treaty of accession comes into force. It is essential that the inputs tariff elimination process should keep pace, or even be in advance, of that respecting finished products.

At the same time it must be borne in mind that tariff cuts made according to time schedules not divided into stages, and lacking possibilities of reconciling the pace of one with the other, constitute a venture which Spain should not attempt unless in possession of firm guarantees for applying an automatic remedy to any serious harm which might occur from such tariff cuts in certain productive sectors. These guarantees could take the form of a safeguarding clause allowing Spain at any time during the transitional period to limit tariff cuts within the framework of tariff quotas situated at the level of average imports made in immediately preceding years, in the case of those products whose importation from the Community increases at an excessive rate, causing, or threatening to cause, serious harm to already existing Spanish production or hindering the development of new industries.

A safeguarding clause such as this could also be applied for solving problems created by the reduction in levels of protection of Spanish



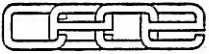
custom dues for third countries in general as a consequence of progressive alignment with the Common Tariff, or to palliate difficulties deriving from tariff cuts to be made on products from those third countries for whom Spain must apply preferential tariffs when adopting the common commercial policy.

Logically such a clause should be employed without distinction both towards the Community and those third countries who have granted the Community reverse preferences.

It must be emphasised that hopes for including in the Treaty of accession a workable, efficacious safeguarding clause designed to solve difficulties arising from a decrease in tariff protection, would have a heartening effect in certain areas of Spanish life, justly preoccupied by the consequences of these eliminations but this good effect could be neutralised if certain imports originating from the Community continued to cause serious harm, increasing as they have for some time at an excessive rate unchecked by the application of the provisions for such cases in the Spain'EEC Agreement of 1970. In some instances the situation created is so serious that prospective problems that could result from integration lose much force beside the urgent need to ensure that the affected sectors can continue to operate from now until integration takes place.

As regards basic duties for tariff elimination, it does not seem these can be other than those Spain will effectively apply to the Community when the Treaty of accession enters into force without taking conjunctural reductions into account or reduced duties applicable within the framework of tariff quotas.

It is assumed that the duties the Parties will implement when tariff elimination established by the Treaty of accession commences, will be those actually in force, with no further modifications than those to be introduced in accordance with agreements reached at the Tokyo Round.



It could by no means be accepted that in the meantime the conjunctural reductions in force in Spain should become definitive, much less that Spain and the Community should negotiate further preferential tariffs on the basis of the idea, concerning which the latter for some time fortunately has ceased to insist, of an eventual re-negotiation of the 1970 Agreement with a view to correcting supposed irregularities.

If the initial balance between mutual concessions settled upon in that Agreement has deteriorated, it has been to Spain's cost. It should be remembered that the tariff reductions Spain granted the Community continue to be genuinely preferential, since no other country or group of countries, has enjoyed in the Spanish market more favourable treatment. On the other hand, the conditions granted by the Community to Spain are now only formally preferential due to the fact that, contrary to what occurred when the 1970-Agreement was enforced, there are at present very few countries, only those having centralized economies and some very developed in non-European areas, whose products receive less favourable tariff treatment than the Spanish when imported into Community territory.

Together with tariff cuts, reference should be made to those on indirect taxes on imports equivalent to customs duties, and to fiscal duty cuts which in our case do not pose special problems, among other reasons because such charges are very infrequent in Spain. In this respect, the only important matter to consider is that of special tariffs applied to imports into the Canary Islands for certain goods both from the Peninsula and from abroad. But very probably these taxes should be regarded more as internal fiscal charges such as those contemplated in article 95 of the Treaty of Rome, which would become atypic as soon as they ceased to be applied to goods for the Canary Islands.

Regarding the abolition of quotas, it may usefully be pointed out that certain reflections previously expressed as an introduction to the subject of tariff elimination might be extended to this matter, such as



comments concerning the general economic context in which cuts will be made or of the need to proceed simultaneously with a profound restructuring of the Spanish economy and of the need to take into account that tariff cuts in favour of the Community would be accompanied by movements in the same direction respecting goods proceeding from many third countries. Also as in the case of tariff cuts, quota elimination to be carried out by Spain should follow the precedent afforded by the constitutional process of the original Community and not that contributed on the occasion of the first intake of new members.

It is evident that the removal purely and simply of quantitative restrictions against the Community from the entry into force of the Treaty of accession, with the exception only of a few products as was the case at the time of the first enlargement could not be withstood by the Spanish productive sectors this would affect. To abolish these would be injudicious unless by applying the method used by the European Organization of Economic Cooperation and later by the Community in its original form, and used also in the Agreement in force between Spain and the EEC. That is, on the basis of annual average percentage increases for quotas as a whole with a minimum per quota, until eliminating them altogether when in the course of two successive years, imports had not reached the established limit for the quota in question.

The basic quotas to which increases would be applied would logically be those resulting from the quantitative restriction elimination process effected by the 1970 Agreement, excluding conjunctural liberalizations.

Liberalization of imports of each product in respect of third countries when this has to be done following the adoption by Spain of the common commercial policy, would not of course be carried out until after the abolition of quantitative restrictions in favour of the Community, and also following successive increases in quotas until these remained above the level of real imports. For the rest, Spain should not simply adopt the common

liberalization lists applied by the Community, but should align its imports system with these lists progressively throughout the transitional period.

It would also be advisable to introduce an element of flexibility to ensure that liberalizations effected both in respect of the Community and third countries did not become consolidated until the end of the transitional period so that in case of need, the import of one product could again be made subject to quota in exchange for the liberalization of another or others amounting to a percentage similar to the total importation. Finally it would be necessary to ensure that in no case should the import of a particular product be liberalized until such time as quantitative restrictions respecting imports of the corresponding basic or intermediate products had been abolished.

Together with the abolition of quantitative restrictions, the elimination of effective measures equivalent to these restrictions on imports should be mentioned. These cuts should be applied both to Spanish goods imported into other Member States as those originating from the Community directed to Spain, in a time limit considerably shorter than the transitional period. In any case a reasonable maximum period must be allowed in which to adapt to Community standards certain customs firmly entrenched in the Spanish system (for example the scheme in force of official credits to farmers for the purchase of machinery) instead of hastening their sudden and traumatic abolition or transformation.

Finally, as regards the elimination of technical obstacles to free trade it is also advisable to think in terms of a relatively short period, in any case considerably shorter than the proposed adaptation period of ten years for the application by Spain of Community rules.

This will imply adoption by Spain of European technical specifications which will not fail to cause an impact on demand for certain products since their prices will inevitably rise, as also on production processes, as in specific cases they bring about changes which always signal some



confusion. It will be necessary therefore, to act cautiously by applying reasonable time limits for adapting to Community legislation.

Directives for harmonization already issued by the Commission to the Council should be examined as also those still at a formative stage, so that on the Spanish side adequate precautionary measures may begin with a view to the eventual application of these Directives. This should be done by setting up consultative bodies, possibly informal but in any case systematic, which will enable Authorities, industrialists, Trade Unions and Spanish consumers to make an immediate start in contributing their viewpoints in the same way as do such organisation in present Member States.

Note finally that hardly any reference has been made to tariff elimination by the Community towards Spain. It is a matter of small importance since the Community does not apply quantitative restriction to our products while tariff protection is low and will decrease further after reductions decided upon at the Tokyo Round are made. It can be assumed therefore, that removal of tariff obstacles still applied by the Community to Spain will be subject to the same conditions as those agreed upon for Spanish tariff elimination. A more important matter are the technical barriers which some Member States continue to maintain against certain Spanish products.

II.2 The suppression of obstacles to freedom of labour movement, to establishment and provision of services, and to movement of capital

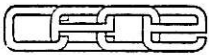
The abolition of obstacles to free trade between Spain and the Community and the adoption by Spain of the common commercial policy, will inevitably cause a severe impact on the Spanish economy given the considerable difference in potential between the productive apparatus of one and the other and the general economic context in which integration will take place.

Not only will barriers to free trade be abolished throughout the transitional period, but obstacles to the free movement of labour will also be eliminated. Workers should circulate freely between territories of the Parties at the latest from the moment in which goods proceeding from them or from third countries can do likewise, anything else constituting a grave inconsistency not only from the legal but what is surely worse, from an economic point of view. While fully respecting these key principles, an attempt should be made to ensure that this essential complement to the free circulation of goods which is mobility of production factors, is merged with the process as a whole throughout the transition period at a rhythm and in accordance with formulas which, far from aggravating the consequences of the impact caused by tariff elimination, will contribute largely to their mitigation.

In other words, the aim would be to introduce an element of stability into freedom of worker movement, that of capital and the provision of services much as the various economic policies of the Community should act as stabilising factors.

On this basis, freedom of labour circulation would be applied from the moment the Treaty of accession came into force while at the same time movement of capital of Community residents towards Spain should be liberalized. On the other hand, it would be necessary to fix terms of reasonable duration for applying freedom of establishment and provision of services to certain sectors, as also for the abolition of obstacles to certain types of capital movement from Spain to the Community, both factors whose implementation could signify an increase in "costs of accession" for Spain.

The greater penetration of the Community's industrial products in the Spanish market which accession will bring might contribute initially to a decrease in employment in industry until the integration process begins to yield the desired effect on our economic apparatus. Therefore total liberty of labour movement from Spain to the Community should be introduced



from the moment tariff elimination begins, fully applicable in each Member State, both towards those Spaniards already established in those States as towards those who from the enforcement of the accession Treaty will qualify for "national treatment" as laid down in current Community regulations.

This implies absolute equality with the subjects of the Member State of residence as regards conditions of access to jobs, social security services and any other benefits or advantages. The application of any other formula respecting this point would be tantamount to accepting the hypothesis, inadmissible in itself, that Spain's integration into the Community could aggravate, at least initially, the most serious problem confronting our economy which is unemployment. To this end it is necessary to examine also in what measure and at what pace Spain should assume obligation which the Community has adopted in respect of third countries, as also how support from the European Social Fund can help to combat the problem of unemployment in Spain.

Direct and uninhibited competition between Spanish and Community goods implemented as a consequence of tariff cuts will impose the need to use all means available to eliminate distortions possibly arising from divergencies between established practice current in one and the other in respect of job factors. Thus a proportion would have to be established similar to that prevailing in the Community Member States between company allocations and budgetary allowances for financing social security. Equally the job market would have to be liberalized in the exact measure necessary to approximate it to concepts which in this respect prevail in the Ten, aligning with them on matters of staff flexibility and the grading of salaries, circumstances which would stimulate increases in productivity, an indispensable factor if Spanish products are to compete with those from other Member States.



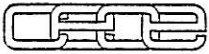
Liberty of provision of services and above all, freedom of establishment will constitute elements of considerable weight in the Spanish/Community integration process. Due attention should be paid to them since the institution of such liberties in accordance with inadequate formulas or time schedules can aggravate the risk of dislocating the delicate process of integrating the Spanish economy with that of the Community. This could occur if, to the pressure on the Spanish market of goods from the Community were added simultaneously that of products obtained by Community firms established in Spain practising liberty of establishment.

To ensure that interpenetration between the economies of the Parties does not thereby become endangered, it would be advisable especially for some sectors, for freedom of establishment and provision of services by Community firms or subjects in Spain to be a gradual process.

The methods used to achieve freedom of establishment could be centred on a gradual transformation of present Spanish legislation on government authorization for foreign investment respecting direct investment of Community origin. The action taken would not be restrictive tending to curb such investment, but rather would be based on rules of elementary prudence for avoiding, during the transitional period, an increase in already excessive penetration.

A similar line could be adopted regarding liberalization of services. There are in Spain sub-divisions within the services sector which are either competitive, or should be liberalized as soon as possible so that Spanish companies can receive from Community firms services available without restrictions from the moment of accession.

As regards some activities relating to provision of financial, technical and professional services, Spanish entities will have to modernize during the transitional period before being subjected to unrestricted competition from other Member States. The same applies to transport,

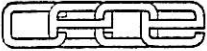


it being noteworthy that regulations in force in the Community condition liberalization of service provision in this field to progress made in harmonizing national transport policies, up to now carried out only, and that partially, in regard to road transport. It should also be remembered that, again in accordance with Community standards, the suppression of obstacles to the free provision of banking and insurance services is made conditional to the progress made in matters of liberalization of movements of capital.

Respecting movements of capital, evidently caution would have to be exercised to prevent speculative activities that could upset the proper functioning of the Spanish financial system. But as regards real and financial investment abroad, Spanish companies must enjoy the same facilities as those in other Community countries since otherwise they would have to compete with the latter in conditions of inferiority.

Fortunately, the Community's rules are very flexible in this matter. Thus at the time of the first intake of new members, it was agreed that liberalization of the various kinds of movement of capital should be scaled throughout the transitional period. More importantly, various Member States -new and founder- in fact apply permanent safeguarding clauses with the blessing of Community institutions, which restrict very considerably the scope of liberalization policies in force among them.

Be that as it may, it is as well to establish the variegations. Thus, in the case of movement of capital abroad, a distinction must be made between that effected by industry or services to boost their exports or international operations and that carried out by private individuals. The former should enjoy complete freedom in as much as this contributes towards the stability in the medium term of the trade balance on the side of revenue. With respect to the movement of private capital abroad, it must be admitted that this depends fundamentally on expectations generated



by the combined effect of interest and exchange rates, that is, by monetary policy. If savings were adequately recompensed in relative effective terms, substantial basic problems would be absent in the same measure, and the substance of temporary measures should be directed essentially towards regulating movements of a speculative nature.

A norm should be established whereby liberalization of movements of capital by residents already carried out through current Spanish law, or that may be effected throughout the transitional period if circumstances permitted or advised this, would be regarded up to the conclusion of that period as "conditional liberalizations" in the sense conveyed by the Resolutions of the Council of 11 May 1960 and 18 December 1962. That is that the Spanish Government could decide to reimpose restrictions abolished under such liberalizing policies if their application had occasioned difficulties in the execution of its economic policy objectives.

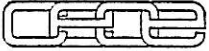
With regard to movements towards Spain of capital of residents of other Member States, Community standards should be applied as from the date of integration within the limitations imposed by current safeguarding clauses. The only exception to this basic procedure would be that during the transitional period, the liberalizations linked to the exercise of liberty of establishment and provision of services would be conditional to the progress made in these respects.

### II.3 Unification of tariffs applicable to imports originating from third countries: the common commercial policy

#### II.3.1 Issues of a general nature.

The Community would not constitute a genuinely united economic sphere if it had not provided itself with a common commercial policy which by enabling all Member States to apply identical customs tariffs for each type of merchandise from a specific third country, makes it





possible for goods from countries outside the Community, once cleared by customs, to circulate freely over the whole of Community territory.

The common commercial policy is an element of the Community patrimony whose adoption by Spain would cause one of the profoundest impressions on our economy. It has been elaborated to such a degree that its application by Spain would entail the disappearance of our own commercial policy, except for a small area not covered by that of the Community and limited to the promotion of exports.

This common commercial policy of the Community responds to essentially free trade conceptions, only recently tempered by so-called "selective protectionism", and adapted to outward looking and very competitive economies, totally different from what traditionally has been our own. It is necessary, therefore, to approach a merging with this Community policy with every precaution imaginable since otherwise very grave, possibly irreparable, harm could result in many of our productive sectors.

The situation is a delicate one since inevitably Spain will have to apply the common commercial policy in its entirety at the end of the transitional period. By then this policy may have been bent towards more judicious attitudes under pressures of external competition which will increasingly harden and even foreseeably become more distorted. But whatever the directions taken by the common commercial policy, Spain will have to apply it in all its parts when tariff elimination is completed on all products from other Member States, not only for legal reasons but also because on purely economic grounds, Spanish industria lists will by then need to receive inputs from third countries under the same conditions as their competitors in other Member States. But for this circumstance, the conditions under which our industry would have to compete with the rest of the Community would be seriously distorted to our disadvantage.

On this basis the problem is limited to the rhythm and the formulas in accordance with which Spain will proceed to adopt each of the aspects of the common commercial policy throughout the transitional period. The margin for manoeuvre is reduced to this and therefore, the possibilities afforded must be exploited to the full.

It should be pointed out in justification for the need to use every opportunity for adapting the process during the transitional period, that while between the Ten and countries enjoying preferential treatment in the Community there exists a very marked technological difference, this difference is much less between Spain and those countries, and therefore their exports will offer keener and more direct competition to Spanish products than to those of the present Member States. This is not surprising since this part of Community patrimony -the common commercial policy- in the same way as others, has been fashioned according to the requirements of present Member States, that is, of a group of very industrialized and outward looking countries, seeking free trade dealings, which appear incongruous when compared to the present state of the Spanish economy.

The common commercial policy can only be adopted by Spain gradually and in the measure in which, forced by intra-Community tariff elimination and other mechanisms of integration, the Spanish productive apparatus becomes more competitive bringing its technological levels closer to those of the present Member States.

Such a change cannot come all at once but rather gradually and tempered as much as possible. In other words, the whole of the adaptation period must be taken up in this process, regulating at the same time the pace of Spain's adaptation of the various parts of the common commercial policy. This implies an acceptance that Spain should apply rapidly those aspects leading to a fall in the price of inputs imported, and at the

same time greater restraint regarding those involving the elimination of protection with respect to products from third countries which can compete directly with our finished goods, especially with those from sensitive sectors.

This principle of applying "varying rhythms" when the time comes for Spain to adopt the various parts of the common commercial policy, would be bolstered by the safeguarding clause to which reference is made in II.1 designed to remedy difficulties arising, or which threaten to arise, in the Spanish economy during the transitional period caused by the process of reducing, for whatever reasons, our present levels of tariff protection. As regards imports into Spain from third countries, this safeguarding clause should be accompanied by another, also applicable only during the transitional period, designed to prevent fortuitous trading deviations caused either by the application of the first of these safeguarding clauses or by putting into practice the formula here proposed of "varying rhythms" when Spain applies the common commercial policy.

On the basis of these general considerations the following suggestions are made as to definite formulas Spain might adopt for the gradual application throughout the transitional period, of the different aspects of the common trading policy.

For the purpose we shall distinguish within the scope of the common commercial policy between:

- The tariff applicable to the generality of third countries or of general application to trade between the Community and third countries, embracing the common customs tariff, liberalization and setting of quotas for imports, measures for trade defence against exports from third countries under irregular conditions and special customs tariffs;

- Special tariffs applied for trading between the Community and third countries with whom the former has signed Agreements, preferential or otherwise, or to whom it has unilaterally granted preferential tariffs such as that of generalised preferences.

### II.3.2 Possible forms of adoption by Spain of tariff applicable in respect to third countries generally

The replacement of the Spanish customs tariff with that of the Community, central element of "erga omnes" trading, namely, that applicable to the generality of third countries, should be carried out in accordance with the suggestion made previously applying a schedule taking up the transitional period which it is here proposed should be ten years. A parallelism between this schedule and that for tariff elimination between Spain and the other Member States is recommended in order to avoid trading deviations which otherwise would occur.

The fact that in both cases the time limit covers a decade is essential in view of the far-reaching economic exigencies. The structure of a customs policy is the mechanism of the economy to which it is applied, so that the common customs tariff, which responds as we know to the economic requirements of the original Community, could not be applied to the Spanish economy in its present form without incurring in wide inconsistencies inviting serious risks. On the other hand when the process of restructure and adaptation of the Spanish economy concludes leading to accession, this should then respond to plans for expansion to which the common customs tariff is better suited than the present Spanish tariff. Accordingly the procedure to be followed is the gradual alignment of the latter with the former conforming to a schedule parallel to that controlling the other mechanics of integration.

This alignment would be regulated by the general mechanisms already referred to, both that for applying "varying rhythms" in tariff movements concerning inputs and finished products, and those pointed to in the safeguarding clauses mentioned previously.

With regard to quota elimination, suffice with what has been said concerning cuts in favour of third countries when the subject of elimination of quantitative restrictions respecting imports from other Member States was discussed under heading II.1. Nevertheless it should be emphasized that there is need for extreme caution concerning partial quota elimination to be made in respect of countries with centralized economies following on Spain's adoption of the common commercial policy standards applicable to those countries.

The various measures in defence of trade applied by the Community against irregular imports should be adopted by Spain from the entry into force of the Treaty of accession. The Spanish market, theoretically very protected against imports by "conventional" obstacles, in reality progressively ineffectual, is insufficiently defended against those exporting to Spain using irregular practices such as dumping, applying subsidies and the like. Consequently, it is to be hoped that from the date of accession, all Community systems of trade defence will be extended to Spain, as much those applicable to imports from market economy as from centralized economy countries.

Following a brief period of adaptation, Community inward and outward processing arrangements should also be extended to Spain, where at present slow and impractical systems are applied in such matters, considerably complicating operations.

On the other hand, it would appear impossible to transfer to Spanish legislation Community standards relating to free zones. On this subject as is well known, Community and Spanish standards are radically opposed. There is industrial activity in Spanish free zones while in those of the Community only goods in bond may be handled.

The replacement of Spanish legislation by that of the Community as applied to free zones therefore, is inadmissible. Industrial activity can neither cease in these zones nor is it conceivable that these areas in

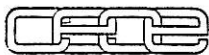
which large investments are made with the object of permanently developing industrialization there, planned on the basis of Spanish legislation, should cease to receive these attentions. Probably the only solution is to rely on the introduction into Community legislation before the end of the transitional period, of a new pattern for free zones which can subsist with that at present contemplated by the Community, thereby preventing disparities between the two legislations from obstructing productive processes against which no fundamental objections can be levelled.

### II.3.3 Problems arising from the application by Spain of preferential systems in force between the Community and third countries

Among special systems as distinct from the general tariff referred to under the previous heading applied to imports into the Community of products from certain third countries or groups of third countries, only the preferential will be considered here. As regards non-preferential Trade Agreements, only those relating to textile products are important, and these will be discussed in Part Three of this document in a chapter specifically devoted to the sector in question.

The preferential tariffs applied by the Ten may be grouped in four categories: free trade areas existing between the Community and the EFTA countries; preferential agreements in force between the Community and countries of the Mediterranean Basin; the Lomé Convention, and the Community system of generalized preferences.

The rules for adoption by Spain used in free trade areas existing between the Community and Member States of the EFTA are essentially predetermined by the Agreement between Spain and the EFTA countries of 26 June 1979. In accordance with the so-called "dynamic clause" of this Agreement, Spain must extend to EFTA industrial products the tariff cuts successively applied in the Community's favour, and the EFTA countries must make the



same cuts for Spanish industrial products as applied by the Community to EFTA products. That is, that tariff cuts between Spain and EFTA must be parallel to those which, in accordance with the Treaty of accession, are effected between Spain and the rest of the Community.

Accordingly, what has been said already respecting time schedules and rules for tariff and quota cuts to be effected in the Community's favour, is also applicable to the EFTA. Logically, also what has been indicated with respect to the safeguarding clause of a general character designed to remedy the more serious difficulties that might arise in Spain during the transitional period as a consequence of these tariff cuts.

It remains to be said that slower tariff elimination schedules should be applied for certain particularly competitive products from the EFTA, such as paper and pulp and special steels, adopting the precedent set by the Agreements signed between the Community and each of the EFTA countries.

It is to be hoped that at last, at the same time as final tariff eliminations are made between Spain and the EFTA countries, the latter will widen their concessions towards Spanish agricultural products. Only thus could they in some measure compensate Spain for cuts made in the industrial context which will greatly facilitate the penetration of EFTA products into our market, while cuts made by the countries of this Association to Spain's advantage will have scant effect from the moment their present level of protection becomes little less than symbolical. This argument becomes even more valid when with Spain's accession, Portugal will cease to belong to EFTA to accede as a Member State of the Community.

The other three blocks of preferential systems to which Spain must adhere as a result of accession, -generalized preferences, preferential Agreements with Mediterranean countries and Lomé Convention II- have

certain distinctive characteristics in common.

The first is that no provision is made for reverse preferences, so that Spain will derive no greater benefit from their application than price reduction in inputs imported within the framework of these tariffs.

The second feature in common is that the countries to whose exports the Community applies the preferential tariffs in question, have low wage levels, and in many cases are well equipped with sources of energy and raw materials.

These circumstances render them extremely competitive against an economy such as the Spanish part of whose productions are situated at technological levels easily accessible to many of the countries benefiting from the Community's system of generalized preferences as also of certain countries in the Mediterranean area. This is not the case, however, with signatories of the Lomé Convention II.

There is a precedent deriving from the first amplification of the Community regarding possible formulas for the adoption of these there systems by new Member States. On that occasion the assumption by the United Kingdom, Denmark and Ireland of preferential systems at that time applied by the original Community was effected very rapidly, practically with no transitional period, This formula can in no way be applied in the case of Spain's accession.

It is evident that the Community system of generalized preferences is particularly inconsistent with the present concepts and basic structures of the Spanish economy, especially from the moment highly developed and industrially competitive countries such as Israel, Yugoslavia, Argentina, Brazil, India and Mexico were among the beneficiaries of this system. These and other beneficiaries could compete very strongly with certain Spanish sectors such as the furniture, bicycles, footwear, textiles, or later, petrochemicals.

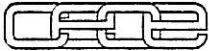


This inconsistency should have disappeared by the end of the transitional period, partly owing to the changes in Spanish industry it is hoped to bring about during its course, and also because possibly by then circumstances will have urged the Community to transform its system of generalized preferences into more selective forms of widening the market, a selectivity one imagines having reference not only to beneficiary countries, but also to the products covered and the modulating mechanisms of tariff-franchise at the base of the system.

Consequently, the only seemingly reasonable criteria to follow is that Spain should not assume the Community system of generalized preferences fully until the conclusion of the adaptation period. This would entail applying zero duty to those products qualifying on the basis of this system only gradually and in stages, in accordance with a rhythm similar to intra-Community tariff elimination and the alignment of the Spanish customs system with the common customs tariff.

When fixing for each year of the transitional period the conditions for application of the preferences system, the allocation of quotas respecting Community countries should be arranged in such a way as to ensure that for Spain these would not cause increases in excess of 5% taking as basis imports originating in countries benefiting from the system of generalized preferences during a preliminary period prior to our accession. This mechanism would not apply to imports from less developed groups of beneficiary countries, and it would be complemented as regards products not subject to quota allocations by the application of the general safeguarding clause previously proposed, designed to remedy difficulties arising from tariff cuts and consisting in applying those cuts within the framework of tariff quotas.

Similar arguments should guide the progressive adoption by Spain of the two remaining blocks of preferential systems applied by the Community, that is, of Agreements in force with countries in the Mediterranean basin



and of the Lomé II Convention. The significance of this would be that cuts in favour of countries benefiting from those preferential systems would be scaled throughout the transition period, and the safeguarding clause for general application so often referred to, would be used in case of necessity.

It is especially necessary to take precautions against Mediterranean countries among whom are some very competitive such as Israel and Yugoslavia, beneficiaries at the same time of the Community system of generalized preferences. Some others among these countries enjoying generalized preferences as for example those of the Magreb, could become capable in the medium term of competing very strongly with certain Spanish industrial and agricultural sectors as a result of our accession.

Finally reference should be made to the subject, crucial for Spaniards, of trade relations with Latin American countries although no preferential system exists between them and Spain, and in regard to whom the Community applies no specific preferential Agreement other than the Community system of generalized preferences.

It is to be hoped that Spain's accession to the European Community might lead to an intensification of trade relations with Latin America, in the same way as the Community's first intake of new members contributed to closer ties with English-speaking countries outside Europe.

In this connection it might be recalled that the extension of the Community's preferential network to the British ex-colonies was a matter the United Kingdom pre-negotiated before accession. The Spanish negotiators could usefully follow this precedent, though bearing in mind that in any case, the fact that those countries are beneficiaries of the Community's system of generalized preferences implies that from the date of accession the import of their products into Spain will be facilitated by the application of the generous arrangements on which that system is based.

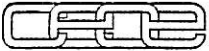
### III THE APPLICATION BY SPAIN OF THE COMMUNITY'S ECONOMIC POLICIES

Stress has been laid in previous pages of this document on the inadequacies and dangers of basing the process of Spain's accession to the European Community on the mechanics of integration, that is, on tariff elimination or abolition of obstacles with the aim of instituting free movement of goods, services and production factors between Spain and the rest of the Community.

On the strength of past experience and Community precedents, formulas have been suggested for avoiding the traumas that could result from applying these mechanics of integration to Spain without the modulations our particular situation requires; mechanics, moreover, which up to now have been tried only on very differently based economies from the Spanish and/or in contexts distinct from the present generalized crisis.

But be that as it may, the ultimate reality which it would be foolish to ignore, is the primordial effect the application of the mechanics of integration between Spain and the rest of the Community will have, however much they may be modified. This effect will be no other than an increase, probably very considerable, of the penetration into the Spanish market of industrial products, not only from the Community but also from many third countries.

Undoubtedly Spain's accession will contribute other things which is why we are seeking it. It should introduce a progressive alignment of the Spanish economy enabling it not only to become capable of resistint the keen competition exerted by imported goods, but also of profoundly renovating itself thereby encouraging a phase of intense industrial activity from which our economic apparatus can emerge reconstructed and modernized.



The point is that a fundamental reconstruction, especially in the present economic circumstances, must be a gradual process throughout a sufficiently long adaptation period, based on a combined effort, public and private, both on the part of Spain and the Community.

Public support for the industrial activity which must be instrumental in carrying out this reconstruction, will at time materialize in specific measures favouring this or that project. But fundamentally it should consist in the creation of a suitable framework within which the renovating impulse can develop, using firstly, the opportunities that can result from the application by Spain of Community economic policies in conditions best suited to these objectives.

Earlier a number of procedures were suggested for activating the mechanism of integration differing from the suppression of obstacles to the free movement of goods, which would contribute towards mitigating the impact of abolition as much as possible. But in fact little can be obtained from the sphere of customs union to facilitate Spain's integration into the Community. It is more on the level of economic union, unfortunately hitherto insufficiently developed, that elements might be found which, exploited to the full, could help to create conditions easing the work, inevitable in the process of integration, of modernizing the Spanish economy.

The circumstances in which this task must be undertaken, marked by a general and profound crisis, are not favourable. Therefore it is essential to try to neutralise this negative factor by an intelligent use of all possibilities afforded by current Community economic policies, or of those in the process of institution.

Among Community policies there are two, the agricultural and the regional, which can and should constitute, from that perspective, important factors when attempting to devise a valid scheme for inserting the Spanish economy into the Community's orbit.

Separate chapters are later devoted to these two common policies, also making reference, in that relating to regional policy, to the policy, of defence of competition, though the essential aspect of this, which is none other than that of State aid, has in practice become almost entirely absorbed in the sphere of common regional policy.

In the chapter devoted to these two common policies, regional and defence of competition, certain reflections could also have been included regarding the common commercial policy. But it was decided to deal with this in Part III of this document devoted to sectorial aspects, in the belief that this view is supported by the circumstances that the Community's industrial policy at this moment goes no further than forming an addition to aid systems for certain sectors, apart from those which occasionally derive from the application of mechanisms inspired by "selective protectionism" conceived as an exception to the basic free trade interpretation of the common commercial policy.

Finally, two more common policies are briefly analysed. Unlike the previous ones, these, far from facilitating the process of Spain's accession, hinder it and render it more onerous. These are the fiscal and monetary policies designed for requirements very different from those that could arise from an economy such as the Spanish in its present state of evolution, and especially taking present circumstances into account.

III.1 The common agricultural policy: possibly a partially stabilizing element in the process of Spain's integration into the Community

The percentage of the agricultural sector's participation in the Spanish Gross Domestic Product (9% against 4% in the Community) as also the proportion out of our total active population of the workforce

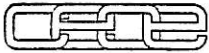
engaged in agriculture and farming (20% against 8% in the Community) reveals very clearly the extent to which ruralism constitutes an aspect of considerable relative weight in the Spanish economy.

This circumstances combined with the fact that agriculture is a "directed" sector in the Community, that is, offering ample possibilities for use as an instrument of economic policy, logically kindles expectations that the farming world could constitute a partially stabilizing factor in the process of Spain's accession to the European Community, especially when this accession must lead to Spanish agrarian reform and that this will coincide with a phase of Community agricultural reorganization, that is, at a time when the latter is more susceptible to change.

Up to a point, agriculture should play a compensatory role in the process of accession in the sense that it can contribute to a short term reduction in the disequilibrium which it is anticipated will at first occur in the trade balance between the Parties as a consequence of the pressure of imports into Spain of industrial products from the Community and certain third countries. Also because in the medium term, the necessary agrarian reform which should accompany our accession, would come to constitute the motive power which an industry subjected to considerable external pressure may need.

Only on the basis of a reasonable external and internal stabilization of the Spanish economy is it possible to consider implementing the industrial transformation required by accession, developed throughout the transitional period, and this stability cannot be attained except by the adroit use of the opportunities offered by the common agricultural and regional policies.

It is essential to envisage agricultural aspects of accession from such generalized perspectives as those suggested here and not primarily from the more limited view of the impact that certain production capacities



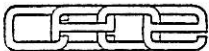
of each Party, actual or potential, can cause on the corresponding productive sectors of the other.

This does not mean that the sectorial problems that might result from free trade in agricultural products should not be paid due attention. On the contrary, it is essential to seek solutions for each of them, especially bearing in mind that the more acute problems arising will concern multiannual crops or long cycle livestock. Although for different reasons, very probably the greatest difficulties in Spain will surround the olive crop and milk products, and in the Community those touching on fruit, wine and certain other crops which though annual, are cultivated in costly fixed installations such as greenhouses.

The difficulties that reconverting or restructuring sectors such as those mentioned unquestionably pose, frequently fail to reveal the considerable extent of complementary potential between Spanish agriculture and that of the Ten. At first there seem only to be products such as certain fruits and vegetables, mutton, sunflower seeds, hard wheat, rice and tobacco that Spain can obtain in sufficient quantities to take up or reduce Community deficits. Or from the contrary viewpoint, milk products and some meat which the Community can at present supply us with in quantities sufficient to cover shortfalls between domestic production levels and Spanish requirements.

But undoubtedly the complementary capacities must be much greater if account is taken of the fact that endowment of production factors is very different in Spain and in the humid areas of the Community, namely, in those in which its great agricultural and livestock production is centred.

Capitalization of these complementary capacities will only take place in the measure in which a reorientation of the common agricultural policy makes possible greater agricultural and livestock specialization on a Community scale, a reorientation which is inescapable in view of the many imperatives, particularly those affecting budgets among others.



In any case the changes to be considered would be introduced gradually and would have to find a limit in order to maintain, as long as the social cost were not prohibitive, certain judicious levels of self-sufficiency. It is to be hoped that probably more frequently than may at first be thought, a greater degree of flexibility in certain mechanisms of the common agricultural policy, at present excessively protectionist, combined with support for restructural measures, might render competitive enterprises that at present can think of no other means of salvation than subsidies and defence against competition from the imported product. This could be the case with a number of Community fruitgrowers and with certain Spanish livestock production whose competitive line-up, at least in areas relatively more propitious for such productions, is feasible.

-----Treatment of difficulties raised by integration in the agricultural sector obeying similar criteria, would enable emphasis to be placed on complementary policies to the benefit of both Parties and would mark a tendency towards reducing production costs.

By assessing the situation thus and not by seeking primarily to maintain protectionist mechanisms during the greatest possible number of years of the adaptation period, the solution of sectorial problems would favour instead of impede a generalized conception of agrarian policy while at the same time acting as a partially stabilizing factor in the process of accession in the manner suggested at the beginning of this chapter.

III.2 The common regional policy: an essential supporting factor in the restructure of the Spanish economy.

No Community policy responds more fully than the regional to the specific issues and exigencies of the Spanish economy. Not in vain was





it given impetus chiefly by two Member States, Italy and the United Kingdom, afflicted by a regional instability comparable to that of Spain.

When the Community took the initial steps to form an economic and monetary union at the beginning of the sixties decade, Italy used the occasion to draw forcible attention to the problem. It was an oportune moment since it was evident that if, going beyond simple tariff cuts, the intention was to advance towards the constitution of a genuine economic union, there was danger that "suction" of the economic activity of the less developed regions by the stronger would operate not only at national level but also on a Community scale. Shortly afterwards this danger became more acute as a result of the crisis which, as always happens, threatened to cause greater impact on the more depressed areas.

For Spain probably the most serious threat that could stem from an incorrectly planned integration process, would be the aggravation of regional instability and its economy as a whole put in a position of excessive dependance on the Community with all the grave risks such a situation would entail. Consequently, an essential aspect of our accession process must be to pursue a regional policy aimed at mitigating instability in economic activity between the various Spanish regions and between Spain and other Member States of the Community.

On this basis, the first precaution to be taken would be to consider carefully what advantages and disadvantages integration, as outlined in the Treaty of accession, will bring to the various productive sectors and/or regions of Spain, with a view to preventing an exacerbation already existing regional instability. An attempt can be made through the efforts to reform the economy which must necessarily accompany integration, to palliate this instability which must be studied inter-regionally and also, when necessary, at district level.



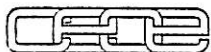
The Community's experience in this aspect leads to the conclusion that regional policy must be implemented co-ordinating the use not only of the instruments specifically assigned to it, but also those for other policy or funding uses. Thus we have attempted to combine with actions particularly concerned with regional policy, others undertaken with the assistance of the European Agricultural Guidance and Guarantee Fund, of the European Investment Bank, of CECA industrial policy loans and of any other means made available by the Community to this end.

Nothing could be more logical therefore than that, following the guidelines marked by the Community, we should endeavour to ensure that measures adopted for reforming our economy with integration in view, be put into effect while bearing in mind the objectives fixed by Spain in matters of regional policy.

If this interpretation is correct, the first priority will be the task of outlining a Spanish regional policy plan with accession in mind. This task, always arduous, will become even more so at the present juncture because of current political shifts in Spain whose extent cannot as yet be judged, but which point to the appearance of power centres which will put terms to any attempt to mount a regional policy on a national scale.

It must be remembered that Spanish regional policy will not be conditioned only by those new centres of political power situated on the periphery of national territory, but also by Community regulations and decisions.

Though the Community does not arrogate to itself the right to form the regional policies to be implemented internally by each Member State, it does subordinate concession of financial aid for these policies to their conforming to Community regulations.

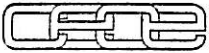


Thus the resources of the European Regional Development Fund are not employed unless to support investment either with a view to creating new productive activities or for the execution of infrastructural projects receiving a subsidy from the corresponding Member State. Previously this State must have provided the Fund with a global development plan for the region in question which has earned the approval of the Fund and recording the project for which aid is requested. For these purposes the Fund takes careful account of what regions have been considered by a preliminary national initiative, as priorities for assistance in regional development. The purpose of this is to achieve genuine co-ordination in regional policy undertakings on a Community scale and to ensure that the actions of the Fund respond to correctly understood Community interests leading primarily to provision of aid to regions that really require it.

It is essential then, when acceding to the Community that Spain should count on perfectly outlined regional development plan, combining all the requirements necessary to qualify for the support of the European Regional Development Fund.

Clearly it would be advisable to settle in the course of negotiations for accession, not only the percentage of its total resources the Fund has earmarked for Spain, but also the actual projects to which these funds would be applied during the first years. Otherwise there would be a risk of failure to channel these resources to Spain, as has already occurred in the case of a Member State in which these questions have become complicated owing to internal political issues.

It is of paramount importance to attract all the resources obtainable from the Regional Fund for a rational and rigorous regional policy, combining this aid with any other steps that can be taken to the same end, among them as previously indicated, those urged for the purpose of competitively aligning our various production sectors to enable them to withstand



the impact of accession. So much so, that it can be affirmed that the final step -the conclusion of the Treaty of accession- should not be taken until a plan for a regional development policy has been mounted in line with Community requirements outlined above.

This vital matter of action to reduce disparities in levels of economic activity between Spain and other Member States, as also between Spanish regions, is very directly connected to an important aspect of the Community's policy of defence of competition which in none other than that of public subsidies which are the mainspring of Community action in matters of regional development. In the form of sectorial aid they are moreover at the base of Community industrial policy as can be seen from its present stage of incipient development.

It would be reasonable to urge Spain from the moment the Treaty of accession enters into force, to take the measures necessary for adopting all public subsidies current in the country to Community standards within a certain period, for example in relation to ceilings for regional aid in accordance with the classification of regions as more or less developed, or to considerations of transparency or retrogression which among others have to be considered when making grants to sectors.

On the other hand it would be much more illogical to insist from the actual date of entry into force of the Treaty of accession, on the elimination of Spanish public subsidies, sectorial or otherwise, that did not conform at that moment to Community standards.

This promises to be an effort of adaptation requiring some time and which will need to follow flexible formulas. Excessive rigour in judging systems of public grants adopted in Spain from the viewpoint of Community standards, will only complicate the process of adapting the Spanish economy to the new conditions resulting from accession to the detriment of both Parties.

It is this aspect of the Community policy of defence of competition which assumes the greatest importance from the viewpoint which here

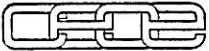


concerns us, although clarification of the conditions in which competition is generally conducted between private firms on the one hand and on the other public enterprises, or enterprises on which the government has conferred a privileged position of any kind, would certainly have a favourable effect on the Spanish economy. Considerable advantages for the economy can spring from new action procedures for national monopolies which will have to be applied to conform to Community standards, if replanning in this aspect is carried out successfully. Otherwise it does not seem as if the application of Community standards to agreements between companies or dominant positions can cause great repercussions in the Spanish economy although this will lead to Spanish companies having to advise the Commission of a large number of agreements particularly regarding distribution and transfer of technology.

III.3 Fiscal and monetary policies: Community policies the Spanish economy should be capable of adopting in the medium term

The twin aspects of the accession process truly traumatic for Spain will be, according to all probabilities, the opening up of the internal market to imports of industrial products and the adoption by Spain of Community fiscal and monetary policies. The key, then, to a properly planned process is to ensure that the assumption by Spain of these "hard" aspects of integration should be tempered and scaled over a sufficient length of time in such a way that their application will not block the effect of the "positive" aspects that should derive from integration. Only thus can a realignment of the Spanish economy occur which will make possible a harmonious integration with the Community.

The common fiscal and monetary policies represent the mechanism of a third stage of the integration process, succeeding the first during which tariff elimination and the adoption of the common customs tariff proceeded, and a second during which other common economic policies were put into operation. When this third stage implementing economic and monetary union has been completed, only political unification questions will remain.



These reflections suffice to emphasize the point to which Community fiscal and monetary procedures, even though hitherto partial or incomplete, involve acting upon very advanced aspects of the integrating process. It is not surprising therefore, that it has taken fifteen years for all the Member States of the original Community to apply value added tax, or that more than twenty years have been spent in putting into practice the so-called European Monetary System to which, moreover, one of the Member States, the United Kingdom, has not thought it possible to adhere.

These common fiscal and monetary policies then, are processes that Spain can only adopt with many precautions, throughout a transitional period of reasonable duration and in the measure in which the most deep-seated characteristics of its economy can gradually be made to resemble those of the other Member States. As to the rest, the progressive assimilation of the Spanish economy with that of the Community which should be facilitated and even impelled by the action of the remaining mechanisms of the integration process, will from a certain time feel the need to assume these fiscal and monetary policies as has occurred among present Member States. But nothing could be more dangerous than to try to precipitate Spain's passage to this final stage of integration.

It is well-known that if fiscal structures between one country and another are so diverse, even among those sharing similar economic and legal concepts, this is because they respond to deeply rooted traditions and sentiments in their citizens.

Perhaps only the Law of Inheritance is so closely linked to the texture of a society as is the Fiscal Law. This being so, it is easy to imagine the profound impression on the Spanish economy caused by the combined effect of the first tariff cuts and the substitution of our traditional system of indirect taxation for another totally different and alien, at a moment, moreover, when the preceding fiscal reform, throwing



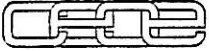
business activity into total confusion, will not have been totally absorbed.

The need to scale and at the same time even attenuate the introduction of tariff cuts and the application by Spain of value added tax, does not respond only to psychological motives; the introduction of this tax will also cause a profound impression on productive and commercial structures by affecting them in a different manner from our present fiscal system, according to whether more or less integrated processes are involved. It will also give rise to a mountain of difficulties in enterprises, particularly in small and medium businesses because of the considerable changes it will oblige them to introduce in their accounting systems. More seriously still, Spain being a country with insufficiently known profit margins, it will produce an increase in the cost of living and probably cause much disruption in the integration process and in the functioning itself of the Spanish economy.

All these aspects lead to the conclusion that the application by Spain of value added tax can only come about after careful preparation at an advanced stage of the integration process, when a considerable degree of homogeneity has been achieved between our economy and that of the other Member States, and also at a moment when inflationary pressures have moderated.

At the same time it cannot be expected that Spain should align herself with the rest of the Community on the question of indirect taxation without there being at the same time some collation respecting the second basic element of what might be termed the "institutional" part of production costs, that is to say, of company Social Security allocations.

As has been noted earlier in these pages, the proportion to Social Security revenue from budget sources is considerably lower in Spain than in the Member States of the Community, which inversely implies that



company contributions are very much higher. An increase in indirect fiscal pressure by passing from a seriated tax to value added tax without at the same time reducing company allocations to Social Security to a proportion similar to that prevailing on an average in present Member States, would be imposing an almost intolerable burden on Spanish enterprises.

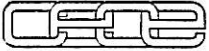
The matter is sufficiently serious as to ensure that simultaneity between the introduction of value added tax and a reduction in company allocations to Social Security is defended with particular resolution.

A similar attitude should be adopted respecting monetary policy. As this is a policy in process of formation, its consequences for Spain and formulas and time schedules for its adoption, must necessarily depend on what the common monetary policy may be and the prospects for evolution it offers when accession takes place.

A monetary policy common to Spain and the present Member States of the Community is in principle unimaginable today given the profound differences existing at economic level. This monetary policy could only be applied once the process of integration had lead to a considerable decrease in current dissimilarities, or if the Community should endow itself with a common monetary policy capable of facilitating the progressive reduction of structural inequalities and disproportionate economic activity between the different Member States which would also enable the less hardy among them to face the monetary risks application of this policy could entail.

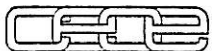
But the fact is that for the time being the Community, through the application of the European Monetary System, has only reached what might be the stage prior to the institution of a common monetary system, and even of this European Monetary System it must be said that it in turn is at a stage of development from which it would be difficult to extract clear conclusions as to its future evolution.





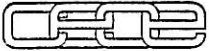
The formulas and schedules to be suggested for the application to Spain of a common monetary system, as yet in a development stage, will depend more on what happens to the European Monetary System and the progress this makes from now until the time approaches for Spain's accession to the Community than on specific technical aspects such as the fluctuations the peseta may be allowed respecting "pivotal rates of exchange" or on the initial levels of these.





PART TWO

THE SPANISH ECONOMY AND THE COMMON MARKET:  
THE MAIN PARAMETERS



PART TWO  
THE SPANISH ECONOMY AND THE COMMON MARKET:  
THE MAIN PARAMETERS

- I. INTRODUCTION
- II THE PRODUCTIVE APPARATUS
- III THE AGGREGATE DEMAND STRUCTURE
- IV THE FINANCING OF THE ECONOMY
- V THE EXTERNAL SECTOR

## I INTRODUCTION

The analysis made in Part One has attempted to synthesize co-ordinates in which it is reasonably hoped the process of Spain's accession to the European Community might evolve. The full integration of our society into the European Community, an objective proposed and accepted, will have the desired results only in the measure in which the Spanish economy successfully confronts the challenge posed by accession. For the purpose of reaffirming proposals made in Part One as to forms this process of accession should take, Part Two describes as briefly as possible the principal definable characteristics of the Spanish economy in relation to that of the Community. Bases are thereby established for examining in Part Three the complex problems arising in the various sectors with accession in view.

The contents of Part Two are divided into four chapters. The supply structure is first analysed, examining such factors as energy, productivity, technology etc. -which have a decisive effect on the productive apparatus and prepare it for its competitive role at international level. This is followed by a description of the principal aspects of the aggregate demand structure, as also its recent evolution in relation to that of the Community. The next chapter centres on an analysis of the flow of finance both of private business activity as of the public sector. The final chapter deals with problems affecting our overseas markets.

## II THE PRODUCTIVE APPARATUS

### II.1 The energy problem

During recent years energy has become a source of economic instability and uncertainty at international level with up to the present no long term settled solution achieved.

The effect of the energy crisis on our economy has been more pronounced than that experienced by other European countries. Spanish energy consumption per product unit is among the highest in the Organization for Economic Cooperation and Development (OECD) and the elasticity of the energy consumption/gdp ratio also exceeds the average in countries in this organization. Basically this is due to the fact that industries with high energy consumption have relatively greater weight in the Spanish economy than is the case in other more industrialised countries. It is also due to the difficulty and high cost involved in making necessary short term adjustment to the production apparatus to accommodate it to new oil prices as a consequence of the relative newness of capital equipment in a large part of high energy consuming industries still at a stage of amortization. Indeed, when the crisis began, Spain had put extensive investment plans into operation in the highest energy consuming sectors.

The consequences on inflation during 1980 were put at around 5%, an estimate that covers the direct effect of price rises on energy imports, on domestic energy production and on remaining goods and services through free exchange currents.

The effects on the balance of payments is no less pronounced. The oil bill rose in 1979 to 6.000 million dollars, and in 1980 was estimated at about 11.000 million dollars. The impact will be reflected in a deficit balance in the current account of approximately 5.000 million dollars.

Reflecting the sharp increase in oil prices, trading conditions have been evolving very adversely inhibiting the growth potential of our economy predictably for a number of years until a significant reduction in dependence on external energy sources has been achieved. Such a situation requires extensive redistribution of resources, both for the development of new sources of energy as for inter-sectorial expansion, calling for extensive modifications in production processes and in demand structure in an atmosphere of increasing debility in economic activity internationally, limiting our exporting capacity and consequently possibilities of making optimum use of our productive resources.

It is essential in these circumstances to apply the National Energy Plan approved by the government in June 1979 to minimize in duration and severity the limitations the energy factor imposes on the potential growth of the Spanish economy. However, two important divergences are already apparent in the National Energy Plan. One of these stems from over optimistic assessment of the economic growth rate (4% for the period 1979/87, the second from the circumstance that there is greater resort to imported coal than was forecast. In addition, entry into service of new nuclear groups will be considerably behindhand.

As regards Community energy objectives, the Council Resolution of 1974 has been revised by a series of Resolutions and documents published since 1979 which quantify objectives for 1990. Table I combines general objectives of energy policy in Spain and the Community while Tables II and III give figures for these objectives. An examination of these tables shows that the energy planning of both Parties is perfectly convergent. However, this similitude might be more apparent than real since all measures necessary for the total implementation of the Spanish National Energy Plan have not been implemented with the rapidity required.

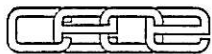
TABLE I

ENERGY POLICY IN SPAIN AND THE COMMUNITY

General Objectives

| COMMUNITY  | SPAIN  |
|--|--|
| 1. Economic growth: 3,8%   | 1. Economic growth: 1% for 1978, 4% for 1979-1987  |
| 2. Reduction of the ratio between economic growth and energy consumption to 0,8 in 1985 and 0,7 in 1990        | 2. The ratio between economic growth and energy consumption is fixed at 1,06 for the whole period.                     |
| 3. Limitation of imports to 50% of the energy consumed and, parallelly, diversification of sources and origins | 3. Reduction of dependence on external sources from 70% in 1977 to 54% in 1987. Diversification of sources and origins |
| 4. Freezing of present levels of oil imports, fixed at 470 million tons  | 4. Increase of 20% in oil consumption the effect of which will be an increase in imports of 3%                         |
| 5. Increased use of coal and nuclear energy until these contribute between 70 and 75% of electricity output    | 5. The contribution of coal and nuclear energy to electricity output should increase from 29% in 1977 to 64% in 1987   |
| 6. Restoration of Community coal production to 1973 levels and increase in coal imports                        | 6. Duplication of coal production in 1973 and strong impetus to coal imports   |
| 7. Maximization of Community hydrocarbides output and intensification of market transparency                   | 7. Stimulus to domestic hydrocarbon exploration  |





- |  |  |
|--|--|
| 8. Introduction of rational and realistic policies on prices                                     | 8. Realistic prices policy, adapted to production and importation cost |
| 9. Creation of a stable framework of relations between the Community and oil producing countries | 9. Coordination of energy producing activities                         |

TABLE II

| SOURCE               | CONSUMPTION         |            | DOMESTIC PRODUCTION |                             | IMPORTS             |                             |
|----------------------|---------------------|------------|---------------------|-----------------------------|---------------------|-----------------------------|
|                      | 10 <sup>6</sup> ETP | Percentage | 10 <sup>6</sup> ETP | Percentage over consumption | 10 <sup>6</sup> ETP | Percentage over consumption |
| Coal                 | 248                 | 18         | 193                 | 78                          | 55                  | 22                          |
| Oil                  | 667/652             | 48/46      | 87/147              | 13/22                       | 580/505             | 87/78                       |
| Natural Gas          | 238/253             | 16/18      | 116/131             | 49/52                       | 122                 | 51/48                       |
| Nuclear energy       | 208                 | 15         | 208                 | 100                         | -                   | -                           |
| Hydroelectric energy | 43                  | 3          | 39                  | 91                          | 4                   | 9                           |
| TOTAL                | 1.404               | 100        | 643/718             | 46/51                       | 761/686             | 54/49                       |

1990: "per capita" consumption 4,9 ETC/HAB

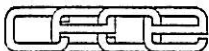
Electricity percentage over energy, 35%

TABLE III

| SOURCE               | CONSUMPTION         |            | DOMESTIC PRODUCTION |                             | IMPORTS             |                             |
|----------------------|---------------------|------------|---------------------|-----------------------------|---------------------|-----------------------------|
|                      | 10 <sup>6</sup> ETP | Percentage | 10 <sup>6</sup> ETP | Percentage over consumption | 10 <sup>6</sup> ETP | Percentage over consumption |
| Coal                 | 15,7                | 16         | 13,8                | 88                          | 1,9                 | 12                          |
| Oil                  | 52,5                | 55         | 7,2                 | 14                          | 45,3                | 86                          |
| Natural gas          | 5,1                 | 5          | -                   | -                           | 5,1                 | 100                         |
| Nuclear energy       | 14,3                | 15         | 14,3                | 100                         | -                   | -                           |
| Hydroelectric energy | 9,1                 | 9          | 9,1                 | 100                         | -                   | -                           |
| TOTAL                | 96,7                | 100        | 44,3                | 46                          | 52,4                | 54                          |

1987: "per capita" consumption 3,7 ETC/HAB

Electricity percentage over energy, 39%



It should be emphasized that in recent documents drawn up in 1979, the European Communities Commission produced an estimate to these effects, of the incorporation of Spain, Greece and Portugal, arriving at the conclusion that, despite the greater difficulties the new Member States would encounter in this field, the objectives fixed by the Community of Nine would remain valid for the new Community of Twelve.

These greater difficulties imply an increase in the effort required on the part of the new Member States regarding investment financing in this area, which will minimize their chances of investing productively in other sectors.

In the case of Spain, the investment expenditure required by the National Energy Plan is fixed at 1,7% of gdp for the period 1977-81 a percentage slightly higher than the 1,63% of gdp fixed by the Community for the years 1981-85. The discrepancy between both figures is much greater than appears at first in as much as there not only exists a marked difference between the Spanish and Community "per capita" income, but also because the Spanish figure relies on a very optimistic estimate of gdp growth and the Community's is distorted by the very high British investment in the North Sea without which it would settle at levels in the region of 1,5%.

For the attainment of those levels of investment in the energy sector, it would be most advantageous to be able to depend, as well as on national and traditional sources of financing, on the support that the various Community funding institutions can lend, and in particular the European Investment Bank.

## II.2 Technology. Industrial ownership

If Spanish dependence on external energy sources is preoccupying, hardly less so is the technological deficit. Spanish industrial development,

beginning in the sixties, has been based largely on imports, both of capital and technology, mainly from the United States and Europe.

There was a dearth of technology in Spain which explains the strong foreign presence in numerous important industrial sectors (automobiles, electronics, electricals, parts of the chemical industry, transformation, and medical products, among others). Nevertheless, this foreign presence has been salutary as it has contributed to a qualitative and quantitative increase in production, to greater attraction of foreign capital, has been an alternative to imports, at times to an increase in exports and, finally, to a greater and more rapid industrial, economic and technological development of the country.

In 1979 Spain imported technology worth 34.700 million pesetas (about 0,3% of gdp, a ratio among the world's highest). Exports under the same heading were only 7.640 million pesetas. Although in comparison with previous years as Table IV shows, the cover rate increased in 1979 as a result of a relative rise in exports, the deficit in real terms of the technological balance was larger.

TABLE IV

|            | Millions of pesetas |        |         | %          |
|------------|---------------------|--------|---------|------------|
|            | Payments            | Income | Deficit | Cover rate |
| 1970 ..... | 9.364               | 1.119  | 8.245   | 11,95      |
| 1971 ..... | 10.845              | 1.179  | 9.666   | 10,87      |
| 1972 ..... | 12.808              | 1.333  | 11.475  | 10,41      |
| 1973 ..... | 15.201              | 1.678  | 13.523  | 11,04      |
| 1974 ..... | 18.151              | 2.081  | 16.070  | 11,46      |
| 1975 ..... | 17.299              | 2.887  | 14.412  | 16,69      |
| 1976 ..... | 31.236              | 4.063  | 27.173  | 13,00      |
| 1977 ..... | 28.728              | 4.481  | 24.247  | 15,60      |
| 1978 ..... | 27.800              | 5.600  | 22.200  | 20,14      |
| 1979 ..... | 34.704              | 7.642  | 27.062  | 22,02      |

However, this disequilibrium is not relevant if we compare it with the country's general balance of payments, nor excessively preoccupying if we take into account that only the United States and Switzerland show a clearly positive technological balance, while that of the United Kingdom is even and the remaining Community countries and Japan have frankly adverse balances. Conspicuous among these is the large deficit of West Germany, a country with a wide technological and investigating tradition.

Nevertheless, the matter is preoccupying from the viewpoint of increasing disequilibrium, the limited total of exports, the need to generate domestic technology to maintain industrialization, the reduced effort made towards assimilating imported technology, and above all the debility of investigation and development programmes reflected in the low percentage of gdp (0,3%) earmarked for these objectives, very inferior to that in more industrialized countries as is shown in Table V.

TABLE V

| Countries      | Payments for purchase of technology/GDP (1) | Expenditure in R+D/GDP |
|----------------|---|------------------------|
| France         | 0,144 %                                     | 1,78 %                 |
| United Kingdom | 0,242 %                                     | 2,05 %                 |
| West Germany   | 0,186 %                                     | 2,07 %                 |
| Japan          | 0,120 %                                     | 1,86 %                 |
| United States  | 0,029 %                                     | 2,49 %                 |
| España         | 0,246 %                                     | 0,30 %                 |

SOURCE: For payments for technology: Bundesbank monthly bulletin; for gdp "Main Economic Indicators" of the OECD.

(1) Date refers to 1978 except for the United Kingdom for which data for 1977 has been taken.

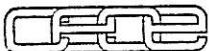
An immediate consequence of the lack of technology is the limitation imposed on exports by the foreign associates transferring this, an inhibiting circumstance for those sectors which, like that of motor vehicles and chemicals, would otherwise be capable of competing successfully abroad.

It can be said, then, that wide areas of Spanish industry are under foreign technological control which is exercised either through the establishment of subsidiaries (newly installed or purchased from some Spanish enterprise), participating in the company's business by transferring technology, or indirectly through licensing and technical assistance agreements.

The situation of the Ten is not very promising either as regards transfer of technology, although with important differences as can be deduced from previous comments. The technological balance of the Community as a whole is in deficit because dependence on and penetration of foreign technology (a high percentage American) is very intense. Nevertheless, figures for technological transfer from Community countries, at least from the more advanced, are high. They are countries which though with deficits in this respect, have their own technology capable of maintaining their high level of industrialization and available for export, thus facilitating their participation in foreign industry.

Spain's accession to the Community in present circumstances would encourage greater technological demand, because since Spanish technology is limited, foreign know-how would be necessary to pursue development and at least maintain competitiveness in an internal market which will become more difficult as a result of the suppression of obstacles to imports.

A short term solution appears difficult. So little has been done to create our own technology that it is impossible now in the space of a few years to resolve a problem of decades, in which the most diverse kinds of factors are involved.



It seems possible at least to select carefully the technology imported, to verify if it is available in Spain, if it is necessary, that it has not been superseded, if the conditions in which it is acquired are reasonable (not only as regards what is paid for it, but also commitments and limitations accepted), with the aim of avoiding acquisitions of obsolete and unnecessary technology as sometimes occurs at present.

Taking into account that present amounts earmarked by Spanish companies for investigation are generally very limited, a policy of investigation and technological development attractive to industry, should be put into practice as a longer term measure. This would require a clear definition of the aims to be pursued and establish what budgeted amounts were available to try to achieve these objectives through a sustained effort over a number of years.

This investigation should be selective, concentrating on those areas offering greater probabilities of yielding practical results. Accordingly a start should be made in sectors with the fewest structural gaps, having better exporting possibilities, that utilize and therefore promote Spanish raw materials and which have a suitable infrastructure.

It is evident that little can be done in this field if an attempt is not made to restructure State organizations dedicated to investigation, fund and equip them suitably and link them really effectively to industry.

Another measure could consist in promoting Spanish engineering companies and defending their interests against the foreign, supporting their export effort in order to encourage their presence in overseas markets. For this purpose the formation of associations between Spanish and Community engineering firms would be a commendable measure not only for exchanging technology, but also to facilitate penetration into countries such as the Latin American with whom Spain has closer ties.



Finally, it is probable that a hardening of international markets resulting from the present crisis situation will make it increasingly difficult for Spain to obtain from the more advanced countries the technology required to further her development. Countries lacking their own energy sources and short of essential raw materials, will only be able to maintain their position in the world scene if they succeed in giving impetus to their own technology.

In sum, Spain must continue importing technology, and indeed, requirements in this respect could become more pressing with membership of the European Community. The objective should be to rationalize the use of imported technology, creating as far as possible domestic expertise to diminish those imports and enable us to take a place in foreign markets by direct exports or through Spanish companies associated with Community firms established in those countries to whom we would try to sell technology.

Initiatives of this kind in the technological fields would contribute towards increasing productivity and the job creating capacity of the Spanish economy. These two variables, which will play an important role in the process of accession, are examined later in Chapter II.<sup>4</sup>

Another basic aspect for effective development within the Community sphere of free competition and movement of goods, is the standardization of all legal regulations controlling industrial ownership. The basis for unitary regulations can be found in the 1973 Munich Convention on European Patents and was the inspiration for the Luxembourg Community Patent Convention of 1975 which, indeed, has not been ratified by all the Member States and which therefore does not form part of Community patrimony.

Spain did not adhere to the Munich Convention because of the very grave consequences this could have on certain sectors such as the chemical, pharmaceutical, agricultural and food, despite provisions for a transitional period of ten/twelve years with exceptional prorogation for another five

years. An important feature of that Convention was that the exceptional expiry dates counted from their entry into force in 1977 and not from the time each country subsequently adhered to it. This limits the maximum duration possible of the transitional period to 1992/1994 providing there was no adherence by any country prior to the Luxembourg Convention since this expressly cancels all exceptional expiry dates.

An additional problem arising respecting the Munich Convention was the rejection of Spanish as an official language despite its universal standing. The consequence of this would be that processing patents and preparation of necessary technical documents would cause difficulties and supplementary costs for Spanish companies.

The accession of Spain to the European Community should not be dependent on adherence to the Luxembourg Convention since this has not been ratified by Denmark, Holland or Ireland. Nevertheless, in the long term adherence might be necessary if this Convention ever entered into force and became part of Community patrimony. In such a case Spain should ratify the Munich Convention as the legal basis of the Luxembourg Convention. There should be prior negotiation before ratification regarding possibilities of establishing, in accordance with article 167 of the Munich Convention, a transitional period lasting at least until 1992/1994 for sectors such as the chemical, pharmaceutical agricultural and foodstuffs, as also acceptance of Spanish as an official language.

Meanwhile, it would be advisable to improve national legislation on the subject, updating and approximating it to Community standards, so that the effects of an eventual ratification by Spain of the Luxembourg Convention might bear as lightly as possible on technological issues in our country.

### II.3 The Environment

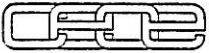
The need to take adequate measures to prevent productive processes from harming the environment, universally felt for some time, renders this subject one of the factors to be taken into account in an examination, however cursory, of the productive apparatus. Indeed, this apparatus will find itself increasingly affected in many sectors by conditions deriving from Community legislation on environmental matters.

The European Community has drawn up very complete legislation in this sphere while in Spain matters are still at a formative stage. The very rigid Community standards when eventually applied, will involve investment, at time very abundant, to be made in various sectors, constituting one more cost factor for our industries imposed by accession.

The European Community's five year programme 1977-1981 on environmental matters, approved in 1976, is a continuation of the trajectory begun in 1973. The trend still followed by the Community is to apply the principle that "who contaminates pays" so that polluters must bear the costs stemming from measures adopted to fight the pollution.

The extension of this principle to Spain would signify a greater increase in the cost of installations and processes necessary for environmental protection than in the Community. Effluents ejected into Spanish rivers would have to be subjected to stricter methods of purification because of their smaller flow and greater stagnancy in comparison with Community waterways.

In Spain the process of framing regulations on these matters began with the official publication of the Law for the Protection of the Atmosphere on 22 December 1972 whose regulations were made effective in 1975.



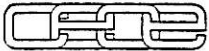
With the promulgation of the Constitution the principle of defence of the environment was raised to constitutional status. Article 45 refers to the enjoyment and defence of the environment, the rational use of all natural resources and to the protection and improvement of the quality of life, based on an indispensable collective solidarity, providing for penalties and establishing an obligation to repair damage caused by whosoever violated this precept.

In line with this article of the Constitution, the official publication is planned of a General Law on the Environment for the purpose of combining in one basic text regulations for the protection of nature and the environment already enshrined in the Law for the Protection of the Environment of 1972. Evidently no other legislative text on the subject should be enforced until this law is passed, but in the meantime several ministerial departments are preparing various legal projects on these matters and some have been officially published.

It can be assumed that regulations enforced in Spain on question relating to defence of the environment will be inspired by criteria similar to that forming the basis of Community legislation, which will facilitate the application by Spain of the latter when this has to be done following accession.

But in any case, this adoption by Spain of Community standards on defence of the environment must be a gradual process throughout the transitional period and only at the conclusion of this can they be fully applied in our country. Any other course would be impossible for many industrial sectors given the considerable effort and the very high costs involved in adapting their productive processes and installation to Community standards.

At the same time these adaptations made to conform to environmental defence standards should be assisted by flexibility in Community rules regarding aid when the aim of these is to facilitate reconversions necessary to comply with these rules.



Spanish businessmen should enjoy treatment in matters of public aid as favourable as that given to those of the Ten in the past and from which they continue to benefit, otherwise they could not adopt Community environmental legislation, so much more burdensome for Spain owing to the peculiarities indicated earlier in relation to waterways.

#### II.4 The labour factor and productivity

The effects of the economic crisis beginning in 1974 have been felt particularly severely by the labour factor. Limitation or virtual paralysis of growth together with inflation and restrictive economic measures, decisively influenced in Spain aspects connected with this production factor: unemployment, productivity, the emigratory balance, the active population rate and its composition etc., disrupting a tendency noted in recent years, towards matching them with the situation of these parameters in the Community and therefore impairing our levels of competitiveness.

In the more developed western countries when the first great impact of the crisis was felt, that is up to the end of 1975, the economic variables suffered heavily, but from then on there was some recovery. In Spain, on the other hand, unemployment rose sharply during the whole critical period, rising from 1,4% in 1974 to 11,7% in the third quarter of 1980, while in the Community the level reached in December of the same year was 7,2%. Wages increased to such an extent that the comparative advantage these signified for Spain in 1974 settling at a lower level of between 35% and 55% of the Community average, has disappeared, now being between 5% over Ireland and 40% below Holland, which does not correspond with relative levels of labour productivity, as will be seen later.

At the same time the participation of the labour factor in gdp to the cost of factors grew notably between 1973 and 1977 to become stable in 1978 and 1979. The curb to the rising tendency in the participation of the work factor did not have its origin in the restriction of wages per person, but in the fall of the level of employment, reflected in a big increase in unemployment. In turn the participation of net company profits in gdp has fallen from 38,29% in 1973 to 31,84% in 1979 leading to a serious decrease in productive investment with the decline in both incentives and means to finance it.

The net emigratory balance, an escape valve for internal pressures, became adverse from 1973, the number of Spanish workers returning in the period 1974/79 exceeding quarter of a million. This exacerbated the unemployment situation in Spain and signified the export to her of some of the unemployed in Community countries who, thanks to this, could carry out a less painful readjustment of labour problems with which to face the energy crisis. This is all the more serious because of the gap in the rate of activity between Spain and the Community - 34,3% against 42,5%. It may be added, with respect to the situation in Spain that the shift of agricultural labour to industry and services has dwindled while at the same time, hampered by investment apathy and employment creating incapacity, hardly any new progress can be made towards wider training facilities for the labour force.

Perhaps this is the basic problem to solve, together with investment possibilities, for achieving in the course of the next years harmonious integration into the European Community. It was earlier indicated that the percentage of unemployed in Spain is 11,7% of the active population and the activity rate 34,3%. This signifies that to the rate of infra-utilization of the factor capital, is added a rate of infra-utilization of the labour factor which can be estimated at 20%, much greater, therefore, than that of the Community. This is a serious difference from the quantitative point of view, but it is even more so if it is qualitatively analysed. Unemployment is particularly acute in low income level regions such as Andalucía and Extremadura; it affects more than a third of persons seeking their first employment; and seems accentuated in those sectors where there is less need for professional training such as in that of construction.



The gravity of the unemployment problem in Spain is the consequence, then, of various factors: the increase in the birthrate during the decades of the fifties and sixties accompanied by a marked decline in infant mortality; the great increase in nominal and real wages and in Social Security costs during the last five years; the inflexibility of labour legislation; sharper repercussion of the crisis on the stronger employment generating industrial sectors; and the deflection of the emigratory current away from other European countries.

The effort to approximate ourselves in these aspects to the Community will be particularly strenuous. Thus, an endeavour must be made to deal during the transitional period with demands for new jobs resulting from an increase in the population. But additionally there should be an attempt to achieve an active population level similar to that of the Common Market with increased employment of women, and finally an effort to absorb a percentage of unemployment to approximate it as much as possible to the Community average.

To cover employment demand and achieve the objective of reducing labour force participation in agriculture, a considerable increase in the gdp rate would be required, and also the adoption of a series of measures specifically concerned with employment.

With the human resources and materials available, the future potential growth of gdp and creation of jobs will depend in large measure on substantial increases in productivity to bring us closer to Community levels. This will be difficult to accomplish contrary to what occurred in the last decades during which the productivity growth in Spain was considerable, even superior to that achieved by the Community as shown in table VI, a circumstance due to the well-known phenomenon in accordance with which during early stages of development, there is a significant shift of the population from the agrarian sector -where it is under-employed and therefore very unproductive- towards nascent industry.

But despite the fact that during that period evolution of productivity indexes in Spain was favourable, they do not yet exceed the 50% achieved by the Ten, according to data contained in Table VII. It can be readily understood that if the same proportion is not maintained between costs, the competitiveness of Spanish products will weaken with the consequent limitation in gdp and employment growth. It has been seen how in recent years wage costs in Spain have approached those of the Community, and there is no reason to believe that other costs (raw materials, energy, financing) are inferior on average to those of the Community. It might be concluded, therefore, that gains in competitiveness and the growth of gdp necessary to reduce unemployment during the next years, are very largely conditioned by the maintenance, not easily achieved, of a sustained rhythm of increases in productivity and an inevitable wage restraint.

TABLE VI  
PRODUCTIVITY PER EMPLOYED PERSON IN SPAIN AND THE EEC  
Rates of variation in %

|                | 1960-73 | 1974 | 1975 | 1976 | 1977 | 1978 | 1979 |
|----------------|---------|------|------|------|------|------|------|
| Denmark        | 3,8     | 0,1  | -0,1 | -5,0 | 1,7  | -0,4 | 1,0  |
| Germany        | 4,3     | 2,4  | 1,5  | 6,0  | 2,9  | 2,4  | 3,2  |
| France         | 4,9     | 2,5  | 1,4  | 4,4  | 2,2  | 3,6  | 2,4  |
| Ireland        | 4,6     | 1,1  | 2,9  | 4,5  | 5,2  | 4,9  | 0,7  |
| Italy          | 5,5     | 2,7  | 4,6  | 5,0  | 1,3  | 1,9  | 4,1  |
| Holland        | 4,9     | 4,2  | 0,4  | 4,9  | 2,0  | 2,4  | 2,4  |
| Belgium        | 4,4     | 3,2  | -0,9 | 6,3  | 1,4  | 2,3  | 2,8  |
| Luxembourg     | 3,5     | 1,5  | -9,7 | 3,7  | 2,2  | 3,6  | 1,9  |
| United Kingdom | 2,9     | -2,1 | -1,2 | 4,3  | 0,7  | 3,1  | -0,5 |
| EEC            | 4,3     | 1,5  | 1,0  | 5,1  | 1,9  | 2,7  | 2,4  |
| Spain          | 5,4     | 5,1  | 3,0  | 4,7  | 3,6  | 4,9  | 3,5  |

Source: Eurostat and INE (National Institute of Statistics)



TABLE VII  
COMPARATIVE LEVELS OF SPANISH PRODUCTIVITY

| Año  | Productivity per occupied person |      |       | Spanish productivity in % over |      |
|------|----------------------------------|------|-------|--------------------------------|------|
|      | OECD                             | ECC  | Spain | OECD                           | EEC  |
| 1963 | 5,47                             | 4,48 | 1,78  | 32,5                           | 39,7 |
| 1964 | 5,74                             | 4,74 | 1,89  | 32,9                           | 39,9 |
| 1965 | 5,99                             | 4,94 | 2,00  | 33,4                           | 40,5 |
| 1966 | 6,25                             | 5,10 | 2,15  | 34,4                           | 42,2 |
| 1967 | 6,44                             | 5,31 | 2,23  | 24,6                           | 42,0 |
| 1968 | 6,74                             | 5,61 | 2,34  | 34,7                           | 41,7 |
| 1969 | 6,97                             | 5,89 | 2,49  | 35,7                           | 42,3 |
| 1970 | 7,13                             | 6,14 | 2,60  | 36,5                           | 42,4 |
| 1971 | 7,34                             | 6,36 | 2,70  | 36,6                           | 42,5 |
| 1972 | 7,71                             | 6,62 | 2,95  | 38,3                           | 44,6 |
| 1973 | 8,00                             | 6,89 | 3,09  | 38,6                           | 44,9 |
| 1974 | 7,94                             | 7,03 | 3,23  | 40,7                           | 45,9 |
| 1975 | 7,96                             | 6,99 | 3,31  | 41,6                           | 47,5 |
| 1976 | 8,26                             | 7,36 | 3,42  | 41,4                           | 46,5 |
| 1977 | 8,45                             | 7,44 | 3,52  | 41,7                           | 47,3 |

Source: ICE September 1979

Social Security is a factor that can strongly influence costs of the labour factor and constitute a disincentive to job creation. This occurs in Spain where company participation in financing Social Security (78,4% in 1980) is much higher than in the Community, to the point of representing 29% of the cost per worker according to an enquiry carried out by the Spanish Confederation of Employers' Organizations. It is essential therefore to implement the increase envisaged in State participation to 20% in 1984 and to continue this tendency in succeeding years to ensure that

Social Security does not become an adverse factor for business activity in Spain in terms comparable with the situation prevailing in the Member States of the Community. It must not be forgotten that the Social Security contributions share in gdp has greatly increased in recent years rising from 9,85% in 1973 to 12,76% in 1979 a growth exceeding that of wages which rose from 43,57% to 45,13% of gdp in the same period.

The introduction of an increasing margin of flexibility in labour relations could become another decisive factor in promoting increased growth in gdp and in employment opportunities. There are certain technical ratios of production which vary in accordance, among other factors, with technological changes and with evolution in demand. Traditionally rigid attitudes in the Spanish labour market have mortgaged the future development of many enterprises by preventing adaptation to these variations in technical ratios of production.

The Worker's Statute, approved by Parliament in March 1980 was an advance, although tardy and insufficient towards an attitude in labour relations more attuned to the present day. Moreover, important aspects contained in it have not yet been implemented, as for instance the introduction of new forms of contracts (temporary, part time, for training) which should constitute a significant stimulus to employment opportunities by offering companies greater possibilities of adapting the labour factor to the real necessities of each moment.

We are still a long way, therefore, from a flexible system of labour relations and a productivity level of the labour factor wholly comparable with those of the Community. The achievement of a process of accession which will neither damage our economy nor prejudice future employment possibilities in Spain requires the fulfillment of a series of prior objectives to some of which we have already alluded, and which can be summarised as follows:

- Development of private investment for which an inescapable condition is the normalization of the labour factor's share in national revenue and recovery in company profits.
- Greater independence and flexibility in price fixing as regards the labour factor to suit market trends, changing the concept on which this is based, essentially vindicatory, for a more efficacious use of available resources conforming to sectorial macroeconomic factors. Otherwise the sole result will be an increase in nominal wages, augmenting inflationary tendencies and fuelling continued unemployment.
- Instrumentation through the proper channels of means to stimulate ~~engagement of labour on the basis of accelerated amortization programmes~~ and reductions in Social Security quotas, and to offer opportunities for first jobs etc. Additionally ~~new forms of contracts must be introduced immediately to stimulate engagement of labour.~~
- A firm regional development policy, co-ordinated with Community institutions, tending to favour a progressive approximation of income levels between the various Spanish regions and between these and the Community, as also to encourage within Spain the transfer of agricultural labour to industry and services. In this the participation of the European Community Regional Development Fund will be decisive.
- An increase in Government investment at the expense of merely consumer outlay without stimulating increase in public spending. This transfer of ressources should be directed towards activities multiplying demand and therefore employment such as public works, the National Energy Programme, or of medium or long term profitability such as education and professional training, so necessary for achieving higher skills to increase productivity and the transfer of worker from agriculture to industry and services.

## II.5 The corporate dimension

The dimension of companies is another of the strategic variables in a process of economic integration. The amplification of the market permits an increase in corporate dimension and production specialization which should lead to growth in productivity of capital and labour. Naturally advantages to be gained from large scale economies are not the same in all sectors, nor in all products, but undoubtedly the widening of the market both in the geographic and economic sense, usually calls for greater corporate dimension. The process of Spanish economic growth as has been pointed out in various passages of this document, was inspired by introvertive criteria that is, the production of goods and services was directed fundamentally to the internal market which led to the size of companies being relegated in general to a position below that usual in Community countries. This places our industrial and services sectors at a severe disadvantage in any endeavour to achieve the desired degree of competitiveness.

At the same time there is wide consensus of opinion concerning the inadequacy of corporate dimension in the Community despite the fact that it is considerably greater than the Spanish. On this question intensification of competition from countries outside the Community, especially the United States and Japan, poses a decisive challenge to which the Ten should respond in common accord with the future Member States. The formation of multinational companies able to compete with their American and Japanese counterparts is becoming an increasingly pressing need, and is a task which should be carried out within the framework of an amplified Community.

Nevertheless, small and medium businesses undoubtedly have an important part to play. This type of company can satisfy local requirements optimizing use of resource, adjusting more easily supply to demand, raising income from factors which otherwise would be displaced, increasing competition, personalizing human relations, encouraging new initiatives and the appearance of new businessmen. For this reason Community policy

has taken into account the advantages of such companies and has tried to support them.

Similarly the Parliamentary Assembly of the Council of Europe on 3 July 1980 recommended a series of measures for adoption concerning small and medium companies which should also be applied in Spain as one more action preparatory to accession. Suggestions among others, included the revival of manual skills, access of small and medium enterprises to resources, private or public, of capital and credits, promotion of co-operation between each other to open new overseas markets and facilitate technological innovation, the formulation of training programmes for their proprietors and employees, and genuine access of small and medium business to tenders for projects and supplies for public entities, etc.

However, it should be emphasized that at no time has Community policy, nor recommendations of the Parliamentary Assembly of the Council of Europe in support of small and medium businesses, advocated the maintenance of endangered structures. The purpose is not to support at all costs sagging enterprises, but to assist the expansion of those that are efficient and competitive, capable of adapting to the new conditions created by the institution of the Common Market.

It must be borne in mind that support for small and medium businesses is the only efficacious barrier opposing a possibly accelerated growth of corporate concentrations which could threaten maintenance of an acceptable degree of competition in the various sectors. The Community's attitude respecting corporate dimension is known to respond to selective criteria: a large dimension is accepted when this serves to achieve pre-eminent Community objectives, but is rejected when it threatens to create monopolistic situations.

The dimension of Spanish industrial and services enterprises as has been indicated, is in good measure a consequence of the peculiarities of our recent economic development process. The close relation existing between corporate and market dimensions has been transmuted in Spain by a greater predominance over small and medium businesses than in other European countries since, with few exceptions, Spanish enterprises have been designed to operate in an internal market and accordingly their size has been adjusted to the reduced domestic demand. Unfortunately this tendency, perhaps at one time inevitable, was inadequate since a country with a limited population density and a low income level should not have enterprises projected solely towards an internal market. But so it was when our industry was formed, despite government efforts from 1959 to apply a policy favouring corporate concentration.

The industrial policy of minimum dimensions followed since 1963, plans for sectorial restructure, concerted action and tax benefits for concentrations, also failed to produce greater dimension. Proof of this is that in 1975 the number of companies with more than 500 employees continued to represent 0,2% of the total, the same as in 1958, giving employment to 19,3% of workers against 21,2% in 1958. At the same time throughout this period, there was a shift of the group of companies with between 50 and 500 workers towards the group with fewer than 50 which can lead, if the tendency persists, to an excessive polarization of the Spanish industrial structure with a gradual decrease in the medium size establishments and their participation in the total volume of employment. This is the reverse of what occurs in Community countries so that the difference between the average size of Spanish establishments and those of the Community is increasing in favour of the latter.

Nevertheless, it can be pointed out that the Spanish industrial structure resembles that in countries like Italy and France at the beginning of the integration process, and that the disparity between average corporate dimensions of one and the other Common Market countries

has not led to the disappearance of the national sectors affected, but on the contrary has been an incentive for improving dimensional structure and the competitiveness of the companies forming part of them.

Finally, it is to be hoped that the dimensional structure of Spanish industry will become adjusted to Community market standards if given the time and support necessary for adapting as was the case, at the time, with industries such as the Italian and French.

## II.6 The public company

Public companies in other European countries have been operating within a more liberal and flexible institutional framework than the Spanish and fulfilling more specific economic policy functions having more clearly defined objectives. With the incorporation of Spain to the Common Market, it becomes necessary to approximate the structure, aims and operational methods of the Spanish public company to its European counterparts.

In Spain the public company sector has two foundations: the National Institute of Industry (I N I) and the Ministry of Finance. The first of these controls 128 companies, in 55 of which there is direct and in 73 indirect participation. The Ministry of Finance controls about 30 companies (over 50 including subsidiaries) among them official banks, the petroleum and tobacco Monopolies, the National Telephone Company and other important enterprises of every kind.

Public enterprises in Spain give employment to 3,9% of the total active population, they generate 6% of the gdp and contribute 13,7% to the formation of fixed capital. In some sectors such as energy and mining, they absorb 25% of salaried employees in the sector and generate approximately 19% of added value. The National Institute of Industry,

nucleous of the public industrial sector in Spain, contributes 11% of the gross domestic product, employs something over 6% of the active working population and accounts for about 15% of industrial exports. Their large deficits are now traditional, rising in 1978 and 1979 to 56.000 and 51.000 million pesetas as a consequence, in large measure, to their deficient financial structure (exceedingly high proportion of foreign funding with a debt rising to 700.000 million pesetas) causing very high financial costs (in 1978 they reached a figure of 47.300 million).

It is precisely this deficient financial structure, and its causes, which should arouse most concern when the time comes to apply the approved standards referred to earlier. Equality of conditions for obtaining resources, efficacy in their application through tighter control of their use, long term co-ordination and clarification of objectives, and the attainment of greater efficiency and productivity of those resources, should be the premises upon which a public company's activities in Spain are based.

~~It is true that some public enterprises offer a public service~~ which cannot be self-financed, but this does not justify the deficit of many of them. For this reason it is necessary to establish a clear distinction between public companies giving a public service or which have structural and economic policy objectives that could justify such deficits (regional policy, defence, technology, investigation, forestal etc.), and on the other hand, those pursuing activities associated with the private sector. In the latter a systematic deficit cannot be justified.

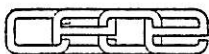
To sum up, the conduct of public enterprises in Spain should be that bringing them progressively closer to Community tenets, in accordance with which all companies, public and private, can compete on equal terms in the spirit of article 90 of the Treaty of Rome.



### III THE AGGREGATE DEMAND STRUCTURE

The characteristics distinguishing the Spanish economy from those of the Community in aggregate demand, can be concentrated in a number of very definite points on the basis of figures given in Tables VIII and IX.

- The participation of consumption in gdp in Spain is much greater than in the Community. In both cases during the period following the energy crisis, consumption has continued to gain relative importance as a consequence of the reduction in the quota corresponding to gross capital formation. In Spain in 1974, consumption accounted for 80% of gdp and gross capital formation for 28,1%. On the other hand, in 1979 the respective quotas were 82,5% for the first and 20,4% for the second. In the Community consumption rose from 75,9% in 1974 to 78,0% in 1979, and gross capital formation from 24,4% to 22,0% in the same period.
- The difference in distribution between public and private consumption is quite notable. In both cases there has been an increase in the relative weight of public consumption in gdp throughout the crisis years, with the circumstance that while in Spain private consumption participation has not diminished -71,3% in 1974 and 71,6% in 1979- in the Community public consumption has increased, in part at the expense of the reduction in private consumption. Thus it can be said that in Spain growth in public consumption has taken place at the expense of the gross capital formation.
- The share of gross capital formation in gdp is at lower levels in Spain than in the Community as a result of the uninterrupted decline in its importance since 1974. Thus, while participations in gdp in 1974 were 28,1% for Spanish investment and 24,4% for that of the Community, in 1978 that of Spain was 20,8% and that of the Community



21,6% while in 1979 the figures were 20,4% and 22,0% respectively. Despite the fall in the capital formation coefficient, in Spain a notable fall in the utilization of existing productive capacity has taken place simultaneously. Moreover, it should be noted that Spanish national accounting significantly under-estimates allocations for amortization. Both circumstances undoubtedly hamper the relaunching of productive investment.

- The opening up of the Spanish economy to overseas trade is as yet very far from attaining Community levels. Spanish exports of goods and services accounted in 1979 for 11,2% of gdp and those of the Community for 28,2%. For the same year comparable imports were 14,1% of gdp for Spain and 28,2% for the Community. For the period 1974-79 there was a slight increase in exports participation coinciding with a reduction of nearly five points in the weight of imports producing a parallel contraction in the chronic deficit in the goods and services balance. This tendency was reversed in 1980 when the percentage of participation of imports in gdp continued to increase, while that of exports did so in a much lesser degree, with the consequent increase in the trade deficit. A similar situation arose in 1980 in the Community causing disequilibrium in the trade balance, as in all industrialized countries as a result of the oil bill.

So significant a decrease in the capital formation coefficient reflecting as well as the effect of the energy crisis, a series of factors originating internally resulting from powerful political currents in Spain -still persisting- suggests that in order to maximize opportunities for economic growth originating internally there must be austerity in demand with priority given to investment. Private consumption must continue limited to a rate of increase similar to that of the population. As in 1978 and 1979, prospects for private consumption are that, at best, it will remain stationary in real terms "per capita". If investment revives to the extent of gradually recovering a share in gdp of the order of 23

to 25%, an internal demand could be forecast whose growth would stem from the strength of investment.

For its part the exporting sector, which in relative terms of participation in gdp is smaller than in any country of the Community (even including exports of tourism services) could represent a contribution to the aggregate demand growth of considerable significance if its role in the Spanish economy became similar to the part it plays in other European countries.

From the macroeconomic viewpoint, what seems to be the essential matter to consider during the transitional period is the opening up of European markets to the export of Spanish goods and services facilitating, in reciprocal conditions, greater development of the external sector and an orderly handling of the current account balance of payments.

The formation of a new aggregate demand structure and the achievement by the productive apparatus of higher rationalization targets in line with conclusions previously drawn, requires a realignment of the present Spanish financial system. The correct functioning of the real economy leading to progressive internationalization of Spanish enterprises is dependant on efficient financial management that will boost savings and channel them towards productive investment. From this perspective the following chapter briefly analyses characteristics of the Spanish financial system as reflected in the recent evolution of the principal monetary and financial variables.

TABLE VIII  
STRUCTURE OF GDP IN SPAIN

|                         | 1974  | 1975  | 1976  | 1977  | 1978  | 1979 (1) |
|-------------------------|-------|-------|-------|-------|-------|----------|
| Internal consumption    | 80,1  | 80,4  | 82,1  | 82,5  | 81,8  | 82,5     |
| - private               | 71,3  | 71,2  | 72,3  | 72,5  | 71,5  | 71,6     |
| - public                | 8,8   | 9,2   | 9,8   | 10,0  | 10,3  | 10,9     |
| Gross capital formation | 28,1  | 26,6  | 24,9  | 22,6  | 20,8  | 20,4     |
| Exports                 | 10,6  | 9,8   | 10,6  | 10,9  | 11,2  | 11,2     |
| Imports                 | -18,8 | -16,8 | -17,6 | -16,0 | -13,8 | -14,1    |
| GDP at market prices    | 100,0 | 100,0 | 100,0 | 100,0 | 100,0 | 100,0    |

(1) Advance

SOURCE: National Institute of Statistics

TABLE IX  
STRUCTURE OF GDP IN THE COMMUNITY

|                         | 1974  | 1975  | 1976  | 1977  | 1978  | 1979 (1) |
|-------------------------|-------|-------|-------|-------|-------|----------|
| Internal consumption    | 75,9  | 78,1  | 77,5  | 77,3  | 77,4  | 78,0     |
| - private               | 60,5  | 61,6  | 61,3  | 61,2  | 59,2  | 59,7     |
| - public                | 15,4  | 16,5  | 16,2  | 16,1  | 18,2  | 18,3     |
| Gross capital formation | 24,4  | 20,9  | 22,3  | 21,8  | 21,6  | 22,0     |
| Exports                 | 28,0  | 25,6  | 27,3  | 27,5  | 27,6  | 28,2     |
| Imports                 | -28,3 | -24,6 | -27,1 | -26,6 | -26,6 | -28,2    |
| GDP                     | 100,0 | 100,0 | 100,0 | 100,0 | 100,0 | 100,0    |

(1) Provisional

SOURCE: Eurostat

#### IV THE FINANCING OF THE SPANISH ECONOMY

##### IV. 1 General aspects

Since 1977 the Spanish economy has been subject to profound transformations, the result of substantial changes in the conduct of economic policy, a fundamental part of which was extensive reforms in the financial system leading to drastic changes in the structure and in costs of financing the national economy.

These changes in economic policy had sought to produce a shift from internal to external demand, which in fact occurred and was reflected in capital account tendencies (see Table X). In 1975 and 1976 gross national savings were insufficient to finance gross capital formation even when this was in decline and a large external contribution was therefore necessary. This external contribution was halved in 1977 and in 1978 the trend was even reversed; in 1979 its size was insignificant. The origin of this change was a recovery in savings in the private sector, in which families, or domestic economies, as well as businesses participated. Savings in the public sector deteriorated sharply.

Recently in January 1981 the Spanish Government adopted a number of measures designed to overhaul the financial system, the real extent of which it is as yet too early to assess.

##### IV.2 Private sector financing

The flow of funds to the private sector (see Table XI) clearly shows the effect of the change in monetary policy, reflected in a sharp contraction in 1978 in funds provided by the system of credits to the

private sector which only recovered the nominal level of 1977 in 1979. For its part, the external sector has contributed effectively to private sector financing, though more through credit than through direct investment channels. The stockmarket is stagnant although there was some recovery in 1979.

These changes in flows of financing to the private sector stem from the fact that for some years the public's preference for liquidity has been increasing in an attempt to protect savings from loss of acquisitive power caused by inflation, a circumstance which also produced an increase in the cost of the financing system's resources. The decrease in the volume of financing and greater liberty of the credit system considerably curtailed credit terms facilitating the transfer of the increase mentioned from cost of liability.

TABLE X  
CAPITAL ACCOUNT OF THE SPANISH ECONOMY  
% OF GDP

|   | 1975 | 1976 | 1977 | 1978 | 1979 |
|---|------|------|------|------|------|
| GROSS CAPITAL FORMATION                             | 26,5 | 24,9 | 22,5 | 20,7 | 20,2 |
| Public sector                                       | 2,6  | 2,3  | 2,6  | 2,1  | 2,0  |
| Private sector                                      | 23,9 | 22,6 | 19,9 | 18,6 | 18,2 |
| SOURCES   |      |      |      |      |      |
| EXTERNAL SAVING                                     | 4,1  | 4,2  | 2,3  | -0,6 | -0,4 |
| Current account remainder<br>of balance of payments | 3,9  | 4,0  | 2,1  | -0,7 | -0,5 |
| Net transfers                                       | 0,2  | 0,2  | 0,2  | 0,1  | 0,1  |
| GROSS NATIONAL SAVING                               | 22,4 | 20,7 | 20,2 | 21,3 | 20,6 |
| Public authorities                                  | 2,3  | 2,6  | 2,3  | 0,7  | 0,5  |
| Domestic economies                                  | 8,5  | 7,7  | 7,4  | 8,2  | 8,0  |
| Companies   | 11,6 | 10,4 | 10,5 | 12,4 | 12,1 |

SOURCE: Bank of Spain

TABLE XI

FINANCING OF THE PRIVATE SECTOR THROUGH THE CREDITS SYSTEM, THE  
BALANCE OF PAYMENTS AND THE STOCKMARKET  
(In thousands of million)

|                                | 1976    | 1977    | 1978    | 1979    |
|--------------------------------|---------|---------|---------|---------|
| CREDITS SYSTEM                 | 1.152,5 | 1.336,4 | 1.015,7 | 1.310,2 |
| EXTERNAL SECTOR                | 149,9   | 155,3   | 228,5   | 183,4   |
| Foreign investment             | 26,1    | 47,8    | 92,0    | 84,8    |
| Credit                         | 99,3    | 145,2   | 120,8   | 98,6    |
| Others                         | 24,5    | -37,7   | 15,7    | -       |
| ISSUE OF SHARES AND DEBENTURES | 68,7    | 77,4    | 78,0    | 126,3   |
| TOTAL FOR PRIVATE SECTOR       | 1.371,1 | 1.569,1 | 1.322,2 | 1.619,9 |

SOURCE: Bank of Spain

TABLE XII

PARTICIPATION OF FOREIGN INVESTMENT IN CAPITAL FORMATION IN SPAIN

|  | 1976  | 1977  | 1978  | 1979  |
|--|-------|-------|-------|-------|
| 1. Gross capital formation,<br>thousands of millions of ptas | 1.801 | 2.048 | 2.329 | 2.685 |
| 2. Direct foreign investment<br>millions of dollars          | 245   | 430   | 971   | 1.263 |
| Thousands of millions of pesetas                             | 16    | 33    | 74    | 85    |
| % s/l  | 0,9   | 1,6   | 3,2   | 3,2   |

SOURCE: National Institute of Statistics, Ministry of Economy and Commerce  
and own sources.

Although its absolute value has been growing rapidly, direct foreign investment as a whole does not represent large sums. (See Table XII). In terms of gross capital formation, its value has risen from less than 1% in 1976 to 3,2% in 1979. The greater part of the increase, however, has been concentrated in the industrial sector. Authorized direct foreign capital investment in industrial projects rose to 59,4 thousand million pesetas in 1980, nearly 153% more than in 1977, as appears in Table XIII.

#### IV. 3 Financing and company financial structure

The flow of funds available to the private sector diminished by over 40% in real terms between 1976 and 1979. This reduction combined with the fact that only 10% of this financing is constituted by long term funds, is reflected in the financial structure of companies.

According to one report (see Economic and Financial Survey of Spanish Companies by Alvaro Cuervo and Pedro Rivero) taking a number of companies as examples, in 1978 the ratio of indebtedness, external capital/own resources, of the Spanish company averaged 1,32, that is, its own resources represented only a little over 75% of the total of external resources handled by the companies. Within the total of indebtedness only 28,7% was medium and long term financing.

In times of crisis, such ratios are much more unfavourable to large than to medium and small companies, the latter being the only ones adapting to "normal" behaviour. Thus, the ratio of indebtedness of the large company rose to 1,65, while in the medium it was only 1,10 and in the small 1,95. On the other hand, large companies had been capable of obtaining 36% of their indebtedness at medium and long terms, while the medium companies had obtained only 24% and the small 15%.

The ratios described in the preceding paragraph clearly indicate that self-financing of the Spanish company is relatively low. According to the same source, the self-financing average could find a level of 25 to 30% of fixed annual investment.



TABLE XIII  
DIRECT INVESTMENT BY SECTORS  
(millions of pesetas)

|                            | 1977     | 1978     | 1979     | 1980     |
|----------------------------|----------|----------|----------|----------|
| Agriculture, farming, etc. | 268,0    | 184,1    | 1.006,7  | 1.312,8  |
| Industry                   | 23.545,6 | 40.946,0 | 55.727,8 | 59.372,4 |
| Mining                     | 1.378,7  | 3.469,6  | 10.476,6 | 16.734,6 |
| Chemicals                  | 6.365,2  | 13.144,3 |          |          |
| Metals and machinery       | 10.422,8 | 17.271,1 | 37.837,2 | 29.842,0 |
| Others                     | 5.378,9  | 7.061,0  | 7.414,0  | 12.795,8 |
| Electricity, water and gas | 43,1     | 564,0    | 1.911,1  | -        |
| Construction               | 366,0    | 877,5    | 1.528,0  | 739,6    |
| Services                   | 3.819,6  | 14.315,8 | 20.629,5 | 23.991,1 |
| TOTAL                      | 28.042,3 | 56.887,4 | 80.803,1 | 85.415,9 |

SOURCE: Ministry of Economy and Commerce, and own sources.

This financial structure of the Spanish company at the present juncture has clear implications. Normally a company resorts to indebted capital to reinforce the risk capital. This should lead to larger profits and to facilitate future amplifications of its own capital, providing that profitability of assets, after tax, are higher than the cost, also after tax, of the debt. However, at the present time in Spain, characterized by an almost continual reduction in company surpluses since 1975, the average profitability of company assets is inferior to debt costs. The significance of this is that many companies are generating a volume of profits inferior to their external financing costs which can lead them to situations of suspension of payments and even bankruptcy.

TABLE XIV  
ORIGIN OF FOREIGN INVESTMENT IN SPAIN

|                    | Structure<br>(%) |       |       |       |
|--------------------|------------------|-------|-------|-------|
|                    | 1977             | 1978  | 1979  | 1980  |
| United States      | 23,2             | 24,7  | 42,1  | 24,8  |
| Switzerland        | 20,8             | 15,3  | 5,1   | 17,0  |
| United Kingdom     | 12,8             | 2,7   | 3,4   | 3,2   |
| West Germany       | 13,6             | 15,2  | 8,5   | 11,7  |
| Holland            | 2,8              | 4,3   | 9,2   | 7,9   |
| France             | 5,2              | 15,2  | 10,7  | 11,8  |
| Belgium-Luxembourg | 5,0              | 1,7   | 2,6   | 3,0   |
| Italy              | 2,2              | 0,5   | 1,0   | 3,2   |
| Canada             | -                | 0,5   | -     | 0,3   |
| Japan              | 1,4              | 0,4   | 0,7   | 0,1   |
| Others             | 13,0             | 14,5  | 16,7  | 17,0  |
| Total              | 100,0            | 100,0 | 100,0 | 100,0 |

SOURCE: Ministry of Economy and Commerce

#### IV.4 Public sector financing

##### Aspects of taxation

The former fiscal system had reached a degree of rigidity which prevented it from fulfilling adequately the triple assignment a modern fiscal system should accomplish of serving as an instrument of economic policy, meet the demand for goods and services which should be

financed by the State, and act as a factor of distribution of income.

The new fiscal system whose aim was to pattern itself on the structure of fiscal systems prevailing in the more advanced countries, suffers from a number of important defects deriving fundamentally from the very circumstances in which its formation took place. Thus, for example, it puts special emphasis on aspects of redistribution and collection forgetting too much its role as an instrument at the service of the country's economic policy, which in the present circumstances of crisis and stagnation, leads to harmful consequences on savings and investment. But despite this, once these adverse aspects have been corrected, the fiscal system can attain levels of efficiency, justice and progress comparable to those of the Community.

Among possible future modifications to be introduced into the taxation framework, the project for reforming direct taxation may be stressed as a step towards harmonizing Spanish fiscal legislation with that of countries of the Community. This concerns the introduction in Spain of value added tax (VAT) over a suitable transitional period and taking all the necessary precautions.

The application of VAT in Spain in the present Spanish economic climate will cause very serious difficulties, rendering absolutely necessary a transitional period for full adaptation to Community Directives on this subject, to be taken very much into account for minimizing possibly damaging effects on the productive apparatus. The introduction of VAT should be accompanied by a substantial modification in the Social Security financing scheme which at present constitutes a veritable tax on the pay-roll paid almost entirely by the companies. Accordingly, State participation in Social Security financing would have to be increased at the same time decelerating the growth of Social Security costs, establishing a minimum guarantee system charged to the State accompanied by another

complemental system financed by the State, corporations and workers in the management of which private enterprise would have free access with the aim of improving the efficacy and increasing propensity to saving.

#### The public sector deficit

Many of the problems of financing availability for the private sector stem directly from the explosion of the public sector deficit in recent years. According to OECD data, this public sector deficit for national account items, has risen from 22 thousand million pesetas in 1976 to 55 thousand million in 1977, 333 thousand million in 1978 and 358 thousand million in 1979 (see Table XV). In relation to gdp for each year, these figures represent 0,3%, 0,5%, 2,9% and 2,7% respectively.

That the deficit in 1979 did not follow a trend similar to that of previous years was due, in part, to the fact that the Budget for the year was approved in July and its implementation, especially with regard to items of capital cost, was correspondingly delayed. Table XV shows that despite this circumstance the deficit for that year was the sizeable figure mentioned.

In sum, although revenues of public Authorities (including the central Government, local entities, Social Security and autonomous organisations) exceeded the Budget by 55,6 thousand million, there was excess of expenditure of 167,5 thousand million, centring principally on larger Social Security benefits, subsidies and transfers of capital. State aid to companies in difficulties is included in this. On the other hand the gross fixed capital formation was short of the Budget estimate principally because authorized expenditure for the Conjunctural Action Fund was not made, and remained pending for the following year.

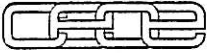
TABLE XV

BUDGETED OPERATIONS OF PUBLIC AUTHORITIES IN 1979  
(thousands of millions)

|                               | Budget  | Result  | Difference |
|-------------------------------|---------|---------|------------|
| REVENUE                       | 3.354,5 | 3.410,1 | 55,6       |
| EXPENDITURE                   |         |         |            |
| Wages and salaries            | 1.115,3 | 1.109,7 | - 5,6      |
| Goods and services            | 361,8   | 378,5   | 16,8       |
| Social Security benefits      | 1.343,8 | 1.443,7 | 99,9       |
| Subsidies                     | 171,0   | 200,0   | 29,0       |
| Other current expenses        | 149,0   | 162,0   | 13,0       |
| Fixed capital consumption     | 39,0    | 37,0    | - 2,0      |
| Gross fixed capital formation | 340,0   | 295,0   | - 45,0     |
| Acquisition of land           | 6,4     | 6,8     | 0,4        |
| Transfer of capital           | 152,1   | 208,1   | 57,0       |
| DEFICIT                       | 245,9   | 357,8   | 111,9      |

Although no final figures for Public Authority accounts are yet available for the financial year ending 31 December 1980, information on financing operations of these bodies confirms that their deficit will not be less than 520.000 million pesetas, compared with a deficit of 300.000 million initially budgeted. As in 1979, the principal reason for the deficit excess has been the inordinate growth in current expenditure which, despite favourable revenue trends, totally eliminated savings in Public Authorities' current accounts.

The Budget deficit forecast for 1981 is 435.000 million pesetas to which must be added a prepayment of 115.000 million from the Treasury to Official Credit, bringing the forecast public sector deficit to 550.600 million pesetas, to be financed by Bank of Spain resources (360.600



million) National Debt (120.000 million) and External Debt (70.000 million).

One aspect of Public Administration that most contributed to the great increase in the public sector deficit was Social Security whose financial deficit rose to 27 thousand million pesetas in 1977 and triplicated in 1979. This explosion in the financial deficit occurred despite Social Security quotas increasing 39 percent in 1977 and 26 percent in 1978 rising from 969 thousand million pesetas in 1977 to 1.217 thousand million in 1978. In 1979 these quotas increased by almost an additional 20 percent. Therefore the sharp rise in the deficit is due to a very much greater increase in expenditure principally in the form of transfers and subsidies.

Up to 1979 the Social Security quota was paid on two bases: a tariff base for the professional category, and a supplementary base which could not exceed a percentage of the tariff base and which in 1978 was 220 percent. The sum of both quota bases could not be higher than a maximum quota limit fixed in a general manner. Up to 1978 there was one quota rate for the tariff base and another for the supplementary base.

Table XVI lists quota rates to the General System contributed since the beginning of 1979 applied on wage bases, constituting an intolerable tax on employment.

Since the beginning of 1979 quota rates have only been modified to the extent of introducing slight increases in a number of special systems (domestic and agricultural sector employees, both for the self-employed as for contractual workers), and to apply the quotas for overtime. The bases of tariff and supplementary quotas disappeared when these modifications were introduced at the beginning of 1979 being combined in a single base calculated on the real wage and applied to each of the nine professional categories listed in the previous tariff bases. The quota base came

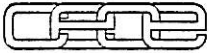
to have a minimum (equivalent to the former tariff base) and a maximum (which is fixed at 230 percent of the minimum base). These minimum bases with effect from 1 January 1979, signified an increase of 22,5% approximately, and the maximum quota limit rose from 99,750 pesetas monthly to 105,470.

TABLE XVI

SOCIAL SECURITY. QUOTA RATES TO THE GENERAL SYSTEM (%)

|                                 |                                    |
|---------------------------------|------------------------------------|
| TOTAL ON THE TARIFF BASE        | 34,30                              |
| Company                         | 29,15                              |
| Worker                          | 5,15                               |
| TOTAL ON THE SUPPLEMENTARY BASE | 34,30                              |
| Company                         | 29,15                              |
| Worker                          | 5,15                               |
| LABOUR ACCIDENTS                | according to<br>special<br>tariffs |
| OVERTIME                        | 14,00                              |
| Company                         | 12,00                              |
| Worker                          | 2,00                               |
| UNEMPLOYMENT                    | 2,70                               |
| Company                         | 2,35                               |
| Worker                          | 0,35                               |
| WAGES GUARANTEE FUND            | 0,30                               |
| Company                         | 0,30                               |
| Worker                          | -                                  |

SOURCE: Bank of Spain



Participation of Spanish companies in the financing of Social Security amply exceeds the average in countries of the Community as an examination of Table XVII will show, this being one of the causes of their loss of international competitiveness and the increase in unemployment. It is necessary, therefore, to increase the State's contribution to the financing of social costs, integrating company Social Security quotas in VAT from the time of its introduction.



TABLE XVII  
PERCENTAGE DISTRIBUTION OF THE VARIOUS SOCIAL SECURITY RESOURCES

|                                   | Belgium | Denmark | Germany | France | Ireland | Italy | Luxembourg | Holland | Britain | Spain* |
|-----------------------------------|---------|---------|---------|--------|---------|-------|------------|---------|---------|--------|
| 1970                              |         |         |         |        |         |       |            |         |         |        |
| Company quotas                    | 46,9    | 10,1    | 44,8    | 59,8   | 19,3    | 54,9  | 36,4       | 43,2    | 33,7    | 75,10  |
| Workers' quotas                   | 22,7    | 6,9     | 23,5    | 19,2   | 12,4    | 15,4  | 24,8       | 36,2    | 18,7    | 15,16  |
| Taxes and sub-<br>ventions        | 25,4    | 80,2    | 25,3    | 18,3   | 67,5    | 23,3  | 29,9       | 12,6    | 38,3    | 6,08   |
| Income from capital<br>and others | 5,0     | 2,8     | 6,4     | 2,7    | 0,8     | 6,3   | 8,9        | 8,0     | 9,3     | 3,66   |
| Total                             | 100,0   | 100,0   | 100,0   | 100,0  | 100,0   | 100,0 | 100,0      | 100,0   | 100,0   | 100,0  |
| 1975                              |         |         |         |        |         |       |            |         |         |        |
| Company quotas                    | 43,3    | 10,0    | 41,2    | 59,0   | 22,9    | 56,1  | 38,2       | 40,4    | 37,4    | 73,1   |
| Workers' quotas                   | 19,9    | 2,7     | 23,2    | 19,8   | 13,3    | 13,6  | 24,1       | 34,3    | 16,6    | 15,5   |
| Taxes and sub-<br>ventions        | 33,1    | 84,3    | 28,9    | 18,8   | 61,8    | 19,1  | 30,5       | 16,5    | 39,3    | 4,2    |
| Income from capital               | 3,6     | 3,0     | 6,7     | 2,4    | 2,0     | 11,2  | 7,2        | 8,8     | 6,7     | 7,2    |
| Total                             | 100,0   | 100,0   | 100,0   | 100,0  | 100,0   | 100,0 | 100,0      | 100,0   | 100,0   | 100,0  |
| 1980                              |         |         |         |        |         |       |            |         |         |        |
| Company quotas                    | 50,3    | 10,8    | 44,2    | 60,7   | 25,3    | 59,6  | 36,5       | 39,5    | 36,8    | 78,4   |
| Workers' quotas                   | 26,9    | 2,4     | 25,7    | 20,8   | 11,9    | 11,7  | 23,0       | 33,3    | 16,0    | 9,6    |
| Taxes and sub-<br>ventions        | 20,8    | 82,4    | 25,2    | 16,2   | 62,3    | 21,8  | 33,2       | 17,6    | 41,7    | 8,3    |
| Income from capital<br>and others | 2,0     | 4,4     | 4,9     | 2,3    | 0,5     | 6,9   | 7,3        | 9,6     | 5,5     | 3,7    |
| Total                             | 100,0   | 100,0   | 100,0   | 100,0  | 100,0   | 100,0 | 100,0      | 100,0   | 100,0   | 100,0  |

SOURCE: Círculo de Empresarios  
(\*) 1980 data: own sources

## V THE EXTERNAL SECTOR

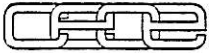
The continual rise in the price of crudes and the more moderate, though no less important, in that of raw materials, has characterized the balance of payments trend in countries with free market economies throughout the second part of the 70's decade.

The impact on Spain has been very severe and from 1974 our current account balance was again in deficit showing a global negative balance of over 13.000 million dollars in the four years 1974-77, reserves fell to 3.700 million dollars in June 1977, and our external debt increased, at present exceeding 20.000 million dollars.

Nevertheless, from the year 1978 as a result of the drastic devaluation of the peseta and internal market atrophy, it has been possible to increase our exports, these rising in that year by 27%, while the rate of imports diminished, their growth in that year being only 4,1%. This tendency continued during the greater part of 1979, beginning to waver at the end of that year and early 1980, in part due to the increase in prices of crudes and also to the appreciation of the peseta which had recuperated its value prior to the devaluation of 1977. According to advance figures of the Department of Customs and Excise the trade balance deficit in 1980 was almost triple that of the previous year rising from 4,024 million dollars in 1979 to 11.940 million in 1980.

The strong dependence of Spanish imports and exports in regards to the Community stands out in our trade structure -around 30,7% and 49% respectively in 1980- in contrast to the as yet scant relative weight of Spain in overall Community trading, although it has been increasing gradually.

A further factor to bear in mind, already emphasized in Chapter III of this Part Two, is that the degree of participation of external trade



in gdp is much lower in Spain than in the Community, because while exports of goods and services from the latter account for 28,2% of Community gdp, in Spain they account for only 11,2% of our gdp, the percentages corresponding to imports of goods and services being 28,2% and 14,1% respectively.

At the same time an increase can be seen in capital goods, transport material and consumer goods in overall Spanish exports to the Community against a decline in the percentage on total exports of food products, beverages and tobacco. In this respect the Spanish external trade structure comes closer to that of more developed countries, although we are still a long way from that of the Community where food products, beverages and tobacco represent 10% of total exports against 39% in the case of Spanish exports.

With reference to the degree of protection, following the partial tariff cuts of the Spain/EEC Agreement of 1970, the average Community tariff for Spain is 3,7% while that of Spain for the Community is 9,01%, relatively low levels especially of the Community. Nevertheless, the erroneous conclusion should not be drawn from this that Spanish products enter the Community market in conditions that are privileged in relation to those of other countries or areas. Since the enforcement of the 1970 Agreement the Community has increasingly extended the scope of its preferential treatment network to such a generous extent that at the present time all industrial products, except those from Eastern Europe and from large non-European industrial powers when entering the Community pay lower import duties than those paid by Spanish products.

The tendencies of component parts of the external sector in Spain are not favourable. As regards exports, a decline in growth may be forecast owing to the competitive inferiority of our products and worldwide stagnation of demand. Logically imports will increase under the weight of energy raw materials and capital goods for carrying out the necessary

sectorial restructuring, as also because of suppression of obstacles to imports from the Community and, at times, when these are from third countries to whom the Community has granted preferential tariffs. This will cause an increasingly adverse trade balance, difficult to offset by revenue from tourism and transfers from emigrants although, on the other hand, it is possible that capital balance will evolve more favourably as a result of entry into the Common Market.

Taking into account the evolution of our external trade during recent years and according to predictions made in a Survey by a Spanish bank, both imports and exports will grow at the rate of 5,5% while growth in the services balance will be between 2% and 4%, thereby producing an adverse current account balance. It would be necessary to cover such a deficit by capital inflow otherwise the external sector would constitute an adverse factor bearing decisively on the inflation-unemployment cycle, preventing the adoption of measures necessary to ensure the smooth integration of our economy into that of the Common Market.

With respect to trade with the Community following accession, all studies carried out agree that Spanish imports from the Community will grow at a faster rate than total imports. Predictably, this increase in imports from the Community will be particularly strong in high technology and machinery, chemical products, electrical equipment etc. As regards Spanish exports to the Community, the sharpest increases are likely to be in foodstuffs, beverages, certain chemical products and transport material.

In any case it seems clear that accession will produce a heavy deficit for Spain in its trade balance with the Community unless between now and then our industry considerably increases its degree of competitiveness in relation to the standard in present Member States and provided we are granted from the beginning of the transitional period, free access to

the Community market for those of our agricultural products with greater exporting potential.

It is essential that the "tug" of imports into Spain of industrial products from the Community which would accompany tariff cuts, should be compensated by an increase, also immediate, of our sales to the Community of those agricultural and industrial products in which Spain has a comparative advantage, eliminating all types of extra-tariff obstacles.

External stability is a key factor in the evolution of our economy and will continue to be so in the accession process. But predictions concerning the future development of our external sector are such that it appears essential to take a series of precautions to modify its trend in the measure necessary to ensure that it will not constitute an obstacle to the process of integrating our economy with that of the Community. For this the following must be accomplished:

- An immediate and accelerated removal in the Community, from the commencement of the transitional period, of obstacles to the importation of Spanish goods, especially of those in which we can best compete, with the aim of preventing excessive disequilibrium in our trade balance with the rest of the Community.
- Achieve an adequate degree of competitiveness by means of industrial reform referred to in Part Three of this document.
- Potentialize our exports by the elimination or adaptation of administrative obstacles; by a clear policy of credits, insurance, processing traffic etc as also by promoting the formation of commercial networks and consolidating those already existing.
- Reduce our energy dependence through the development and application of the National Energy Plan.

- Encourage foreign investment in Spain, especially of Community firms already established, with the aim of achieving a greater degree of industrial integration.
- Enlarge Spanish capital investment abroad as a means of introducing our products and as an opening towards multinationalization of the large Spanish groups.
- Apply a realistic money exchange policy, attempting to reduce intervention to the necessary minimum.
- An appropriate utilization, especially during the transitional period, of safeguarding measures agreed upon, both as regards the Community and third countries.