

# Forty years of democratic Spain

Political, economic, foreign policy and  
social change, 1978-2018

William Chislett





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# Working Paper

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Spain: Autonomous Communities





## Summary<sup>1</sup>

Whichever way one looks at it, Spain has been profoundly transformed since the 1978 democratic Constitution that sealed the end of the 1939-75 dictatorship of General Francisco Franco, the victor of the three-year Civil War. Be it economically with, for example, the creation of significant number of multinationals or the world's second-largest tourism industry in terms of visitors (81.8 million in 2017), politically with a vibrant democracy that ranks high in classifications, socially with the greatly improved status of women or in foreign policy –where Spain has reclaimed its place on the international stage–, the country bears no resemblance to what it was like 40 years ago. Over the period, per capita income at purchasing power parity increased fivefold and life expectancy at birth rose by almost 10 years. All the more remarkable is that the transition, guided by King Juan Carlos I, was achieved in the face of considerable adversity. It was not guaranteed from the outset to be successful: the Basque terrorist group ETA killed an average of 50 people a year in the first decade of democracy (and mounted assassination attempts in 1995 on both the King and the Prime Minister, José María Aznar), and Francoist officers staged a coup in 1981 in an attempt to turn back the clock. The economy, which was entering a period of recession, galloping inflation and rising unemployment, was also subjected to unprecedented competition after decades of protectionism. In the first three months of 1976 there were 17,731 cases of industrial action alone. Today's problems, such as the very high jobless rate, particularly among young adults, acute income inequality, increased social exclusion, the illegal push for independence in Catalonia and corruption in the political class do not detract from the fact that Spain has enjoyed an unprecedented period of prosperity and stability over the past 40 years. Spain has achieved conditions that are similar –in some cases better– than in the rest of Western European nations, disproving the theory, still beloved in some quarters, of the country's 'exceptional nature' or 'anomaly'.

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## 1. Background

By the time General Franco died in 1975 Spain had undergone profound economic and social change, which laid the foundations for an even greater transformation over the next 40 years, but it was a long haul. The Civil War had brought the economy to its knees (GDP declined by 36% in real terms between 1935 and 1938) and Spain was excluded for political reasons from the 1948 Marshall Plan, the US aid programme that helped to rebuild 16 non-communist economies in post-war Europe. It was not until 1953 that economic output regained its 1935 (pre-Civil War) level. The most pressing need was food (the 1940s were known as the 'years of hunger'). Rationing was introduced in 1939 and did not end until 1952.

The 'economic miracle' between 1960 and 1973, following the move away from autarky, which had proved disastrous, and towards liberalisation under the Stabilisation Plan, created a much larger middle class (33% of the population in 1970 compared with 14% in 1950) and with it a consumer society, ridding Spain of the huge gulf between rich and poor that existed before the 1936-39 Civil War. Per capita income rose from US\$248 in 1960 to US\$3,186 in 1975. Agriculture's share of GDP, for example, dropped from 27% to 9% during the period (see Appendix a), as the country became more urbanised. There was a massive exodus from villages during the 1960s to towns and cities: more than three million people, out of a population of 30 million, changed residence during the decade.<sup>2</sup> Furthermore, 2.75 million people emigrated between the 1950s and 1973. Their remittances helped finance Spain's development.

Many workers could afford to take their first holidays by the sea in the 1960s when Spain's tourism industry was burgeoning. The greater prosperity enabled the state to invest significantly in roads, railways and reservoirs. In a country prone to drought, water-storage capacity increased sixfold.

Spending on education also rose. The primary school enrolment rate more than doubled to 88% between 1960 and 1970, the year when it was compulsory to attend school (between the ages of six and 14), much later than most other developed countries, and the rate of illiteracy dropped from 13.7% to 8.8%. Average life expectancy increased from 50 years at the end of the Civil War to 74 years in 1975.

The position of women also improved: they accounted for 30% of the workforce in 1974, more than double the proportion in 1950. Society was also increasingly secular and less influenced by the Roman Catholic Church, a pillar of the Franco regime until its last years, when it began to distance itself. The press became slightly freer too as a result of a law in 1966 that did away with prior censorship by the state and replaced it with self-censorship.

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<sup>2</sup> This exodus gathered pace and by 2018 some 10 million people (20% of the population) were living in almost 60% of the territory, which is termed *la España vacía* ('empty Spain'). There are parts of Castilla-La Mancha and Aragón, for instance, where there are fewer than six people per square kilometre and more than 1,800 villages are at risk of extinction.

Spain's international position was very different too. During the Cold War the country was firmly anchored in the Western bloc, as a result of the 1953 Madrid Agreements with the Eisenhower Administration allowing the US to establish air and naval bases in the country. This was followed by joining the IMF, the World Bank and GATT and signing a preferential trade agreement in 1970 with the European Economic Community (EEC). Madrid's EEC membership application in 1962 had been rejected because the country was not a democracy.

Opinion polls in the 1970s showed Spaniards increasingly overcoming the divisions caused by the Civil War, paving the way for reconciliation. According to a survey in 1975, 74% of respondents wanted press freedom, 71% religious freedom and 58% trade-union freedom. The ossified political system under the *Movimiento Nacional* ('National Movement'), the only legal political organisation, was out of step with the socioeconomic changes and people's aspirations.

The changes, however, did not automatically guarantee a smooth transition to democracy after Franco died. The first steps towards democracy came incrementally rather than by engineering a swift and sudden break with the regime, and by using Francoist 'legality'. With the exception of those at either end of the political extremes, there was no desire to open up the divisions caused by the Civil War. The transition, in the words of the distinguished sociologist Victor Pérez-Díaz, 'required Francoists to pretend they had never been Francoists, and left-wing compromisers to pretend they were still committed to leftist principles'<sup>3</sup>. Consensus, after so polarised a past, was very much the watchword between the reformist right and the non-violent left. This was epitomised by a *pacto de olvido* (literally, a 'pact of forgetting'), an unwritten agreement among political elites to let bygones be bygones and look to the future in order to create a blank slate upon which to build democracy. This should not be equated, however, with political amnesia.

The pact was institutionalised by the 1977 Amnesty Law. Unlike the regime of Greece's Colonels, the dictatorship in Portugal and Argentina's military junta, the Franco regime was not subjected to any form of judicial accountability. There were no political trials for those associated with the Franco regime or a Chilean-style truth commission. To have done this in the early years of democracy would have led the military to rattle their sabres, since 500 of the generals of the armed forces at the time of Franco's death had fought on his side. The new democratic Spain did not even ban individuals from the old regime from participating in the new regime. It is easy to criticise this rather *sui generis* approach –as some on the radical left who did not directly experience the transition do from the comfortable perspective of today– for disregarding the 'transitional justice movement', which promotes coming to terms with the past as part of the process of democratisation. Yet there is no one-size-fits-all for democratic transitions and nor is there a consensus on what coming to terms with the past entails. Spain took a pragmatic approach, and it worked. The proof is that the democratic regime crafted in 1977 is the first to enjoy any significant degree of stability in the country's turbulent history.

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<sup>3</sup> Victor Pérez-Díaz (1999), *Spain at the Crossroads, Civil Society, Politics and the Rule of Law*, Harvard University Press, Cambridge, MA, p. 65.

Sufficient time has now gone by during which Spain has become a mature democracy to resolve the contentious issue of what to do with the 'Valley of the Fallen', the basilica hewn into rock in the mountains near Madrid where Franco is buried. Ostensibly, the grandiose state-funded mausoleum, crowned by the world's tallest stone cross, is a monument to reconciliation, as it contains the bones of 33,847 victims of the 1936-39 Civil War from both sides. Yet this is hard to square with the fact that it was originally designed to honour those fallen for 'God and Spain', mainly built with the forced labour of Republican political prisoners over an 18-year period (they were promised reduced sentences and paid) and is the last resting place of Republican dead brought there without the consent of their families, in some cases even against the express wishes of their loved ones. Not only is Franco buried there but so is José Antonio Primo de Rivera, the founder of the far-right Falange movement, side by side to the dictator. Franco's is the only body there of a person who died in bed in peacetime: Primo de Rivera was shot by a Republican firing squad.

In August 2018 the Socialist government issued a decree-law <sup>4</sup> (an emergency procedure) to exhume Franco and bury him elsewhere, which was approved by parliament. 'Democracy is not compatible with a tomb in honour of the memory of Franco', said Carmen Calvo, the Deputy Prime Minister. The previous Socialist government of José Luis Rodríguez Zapatero had drawn up a plan in 2011 to do the same and turn the monument into 'a place of reconciled memory'. But the plan was shelved when the Popular Party (PP) was returned to power at the end of that year on the basis of a lack of consensus on the issue. The only party against the idea was and still is the PP, which sees no reason to rake over the past.

Unlike other countries, such as Germany, there is still no commonly accepted narrative about the country's authoritarian past and how to deal with it. This is because a civil war is the worst kind of conflict a country can have and the most divisive, and it leaves the deepest and longest scars (some 600,000 people were killed during the three years it lasted). The best condemnation of Franco, however, is the consolidation of Spain's democracy, which has disproved the dictator's belief that Spaniards are incapable of peaceful co-existence.

The democratic elections in 1977, the first free ones since 1936, were contested by a veritable alphabet soup of 70 political parties and 4,537 candidates that ran for the 350-member Cortes (parliament). Twelve parties won seats on a voter turnout of 79% and opened up a constitutional process. The Union of the Democratic Centre (UCD), an unruly federation of 12 groups including the more progressive segments of the Francoist bureaucracy –liberals, Christian-democrats, social-democrats, conservatives and regional parties, tenuously held together by Adolfo Suárez, the Prime Minister that began the transition to democracy– captured 165 of the 350 seats, the Socialists 118, the Communists 20 and the neo-Francoist Popular Alliance 16. The other seats went to Catalan and Basque nationalists, and six other parties. Franco's most ardent supporters, despite not believing in political parties, fielded several of them in the elections and between them gained less than 1% of the total vote.

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<sup>4</sup> Parliament has the right to reject such decrees, but only under a heavily-curtailed procedure that leaves a maximum of 30 days to examine and debate the legislation.

The results were a victory for the reformist centre-right over the neo-Francoists and for the moderate left over the radical left and clearly expressed Spaniards' desire to turn the page on the dictatorship.

The new constitution, drawn up by all the main political parties and approved in a referendum on 6 December 1978 by 88% of voters on a turnout of 67%, sealed the transition to democracy. It was drawn up by a seven-man inter-party committee of conservatives, centrists, communists, socialists and nationalists; as a result, each new government since then has not felt the need to mould it to its particular interests. The constitution resolved a historical problem. In the words of Landelino Lavilla, the Justice Minister at the time: 'While we have had constitutions of every type we have never had a well-structured constitution which expresses the common beliefs of Spaniards and not the ideological contention of a specific option of power'. The constitution has hardly been changed since it was approved. Between 1812 and 1975 there were six different constitutions and two dictatorships.

The constitution consolidated the parliamentary monarchy under King Juan Carlos I, the grandson of Alfonso XIII, who went into exile in 1931 shortly before the Second Republic was proclaimed, and the system that the Political Reform Law of 1976 put into effect. This reform turned Franco's Cortes into a two-chamber parliament and paved the way for a quasi-federal system with 17 autonomous communities, ending the ultra-centralised state that Franco had created and that the military was charged with defending. As regards the Roman Catholic Church –anticlericalism was one of the factors that sparked Franco's uprising in 1936 against the democratically-elected government–, the constitution stated that 'there shall be no state religion'. Article 16:3, however, declared: 'the public authorities shall take the religious beliefs of Spanish society into account and shall in consequence maintain appropriate cooperation with the Catholic Church and the other confessions'. No other religious group is mentioned by name.<sup>5</sup>

The constitution has given Spain institutional stability. Spain has had seven Prime Ministers since 1978 (Italy has had 25, one of whom served three times); during the Second Republic, between the spring of 1931 and the summer of 1936, it had seven Prime Ministers and two Presidents of the Republic, some serving more than once at different times. The comparison is even more striking if one takes the 21 years between the start of the reign of Alfonso XIII (1902) and the dictatorship of General Miguel Primo de Rivera (1923), when there were 33 changes of Prime Minister.

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<sup>5</sup> The Roman Catholic Church is also the only religion that receives funding from taxpayers' ticking of a box on their annual tax return.

## 2. Political scene: a new mould

Between 1982 and 2015, when two upstart parties, the at-the-time centrist Ciudadanos (Citizens) and the populist-left Podemos (We Can), won a significant number of seats in parliament, political life was dominated by two parties, the conservative Popular Party (PP) and the Socialists. They alternated in power and all but two of their governments lasted their full four-year term.

UCD, that oversaw the transition, had collapsed in the 1982 election when the Socialists were swept to power with 202 seats and the neo-Francoist Popular Alliance (the PP as of 1989) won 97 seats, pushing it into third place with just 11 (down from 165 in 1977 and 168 in 1979).

The combined votes of the Socialists and AP/PP in general elections between 1982 and 2015 varied between a high of 84% in 2008 and a low of 51% in the December 2015 election when the mould of Spanish politics was broken (see Figure 1). In that election, the PP under Mariano Rajoy won 123 of the 350 seats, its lowest number since 1989, the Socialists 90, their worst performance, Podemos 42 and Cs 40. This produced a deadlocked parliament as parties failed to agree the formation of a new government of any persuasion and a fresh election was held in June 2016. The PP won again but its 137 seats were still far from an absolute majority (176). The Socialists were in second place (84), with an even worse result than in 2015, and Unidos Podemos (71) was not far behind.

**Figure 1. The rise and fall of the Socialists and the Popular Party, 1982-2016 (% of votes in general elections)**

	1982	1986	1989 (1)	1993	1996	2000	2004	2008	2011	2015	2016
PSOE	48.1	44.1	39.6	38.8	37.6	34.2	42.6	43.9	28.8	22.0	22.6
PP	26.4	26.0	25.8	34.8	38.8	44.5	37.7	39.9	44.6	28.7	33.0
Total	74.5	70.1	65.4	73.6	76.4	78.7	80.3	83.8	73.4	50.7	55.6

(1) Alianza Popular (AP) became the Popular Party (PP) in 1989.

Source: Interior Ministry.

The PP remained in power, but as a minority government, thanks to parliamentary support from Ciudadanos. It only lasted, however, until June 2018 (the next election was not due until July 2020) when it lost a no-confidence motion in parliament triggered by the Socialists, backed by an unholy alliance of Podemos and Catalan and Basque nationalists, after a court found the PP had benefited from kickbacks in a long-running corruption case known as

Gürtel. The court also cast doubt on the evidence given to it by Rajoy in 2017. The censure motion was brought by Pedro Sánchez, the Socialists' leader, who took over from Rajoy after claiming that more than 900 PP politicians had been under investigation in a slew of corruption cases. For a Prime Minister to fall, the constitution requires that a majority of the parliament backs an alternative candidate. The transfer of power as a result of the unprecedented censure motion was carried out in an exemplary fashion, underscoring the maturity of Spain's democracy.

The 63-year-old Rajoy bowed out of politics and was replaced, after a primary election, as party leader by the 37-year-old Pablo Casado who moved the PP to the right. All four leaders of the main parties are now 'post-Franco', as they were either not born when the dictator died in 1975 (the case of Casado, Podemos's leader Pablo Iglesias and C's Albert Rivera) or were just three years old in the case of Sánchez.

At the heart of the erosion of the two-party system was anger at a long succession of corruption scandals in the political class (mainly the PP and the Socialists and chiefly during the 1997-2007 boom period) and the impact of a long recession with an unequal effect on the population. Even the Royal Family was not free of corruption: King Juan Carlos's son-in-law, Iñaki Urdangarín, was jailed in June 2018 for almost six years after he was convicted of graft. The long-running scandal, which took seven years to come to court, contributed to the decision of Juan Carlos to abdicate in 2014 in favour of his son Felipe, a move that probably saved the monarchy. Since then King Felipe VI has greatly improved the monarchy's popularity: his approval rating of 75.3% four years after his father's abdication was slightly above the high point of Juan Carlos's rating in 1995.

Until the recession Spain had been a socially mobile society: today's younger generation is the first one in a very long time that is poorer than its parents. Trust in the political class, viewed as an extractive elite, particularly in the interface between local politicians and construction companies seeking public contracts, and in state institutions plummeted. Spain experienced one of the steepest declines in confidence in national governments between 2007 and 2014, according to the OECD. Confidence fell 27 percentage points to 21% compared with a decline in the average for OECD countries from 45.2% to 41.8%. Evidence shows that trust in government is negatively correlated with the perceived levels of corruption in government. Spain's score in the corruption perception index drawn up by the Berlin-based Transparency International dropped from 65 out of 100 in 2012 (the nearer to 100 the cleaner the country) to 57 in 2017, the largest drop after Hungary, and its position in the ranking of countries fell from 30th to 42nd, albeit still well above Italy (see Figure 2).

Figure 2. Corruption perception index, 2012 and 2017

2017 ranking out of 180 countries	2012 score	2017 score
1. New Zealand	90	89
8. UK	74	82
12. Germany	79	81
16. US	73	75
23. France	71	70
29. Portugal	63	63
<b>42. Spain</b>	<b>65</b>	<b>57</b>
54. Italy	42	50

(1) On a scale of 0 (highly corrupt) to 100 (very clean).

Source: Transparency International.

‘Corruption is not in our cultural DNA nor in that of the political parties’, said a report published in 2018 by the Círculo de Empresarios, a business lobby. ‘It is in our institutional DNA: public organisations strongly controlled by the governing political parties, which lack the weights and counterweights of power that oversee the integrity and impartiality of public action’. The report draws a distinction between the lack of confidence in public institutions and the notably high degree of confidence in the public administrations that provide services, such as health.

Spain is also ranked relatively low in the World Justice Project Rule of Law Index, which comprises eight categories including constraints on government powers and absence of corruption (see Figure 3).

Figure 3. WJP Rule of Law Index, global rankings of selected countries by factors, 2017-18

	Overall	CoGP	AoC	OG	FR	OS	RE	CJ	CrJ
France	18	17	20	10	24	46	16	22	21
Germany	6	6	13	11	5	17	8	3	7
Italy	31	24	39	30	28	50	35	52	22
<b>Spain</b>	<b>23</b>	<b>23</b>	<b>24</b>	<b>21</b>	<b>19</b>	<b>37</b>	<b>23</b>	<b>27</b>	<b>24</b>
UK	11	9	14	8	12	21	9	14	11

(1) Out of 113 countries. CoGP: Constraints on government powers; AoC: absence of corruption; OG: open government; FR: fundamental rights; OS: order and security; RE: regulatory enforcement; CJ: civil justice; and CrJ: criminal justice.

Source: World Justice Project.

Podemos was born out of the grassroots movement of los *indignados* ('the indignant ones'), which grabbed world headlines in May 2011 when thousands of mainly young people occupied the Puerta del Sol square in the heart of Madrid and set up camp for a month (and, incidentally, inspired the Occupy Wall Street movement). The party coined the expression *la casta* ('the caste') to describe the political and business elite. Podemos rejected the traditional left-right axis of politics and engaged in transversal politics –trying to cross and redraw borders that mark politicised differences–. Its goal is to take the hegemony of the left from the Socialists.

Ciudadanos also seized the political openings produced by the 2008 crisis and the conflict in Catalonia; it had started life in Catalonia in 2006 as a centrist anti-nationalist party. It was largely unknown in the rest of Spain and overshadowed by the media-savvy Podemos until it forcefully opposed the mock non-binding referendum on Catalan independence in November 2014 that took place in defiance of a ban by the Constitutional Court.

Ciudadanos' leader Albert Rivera sees his party in the mould of France's liberal, reformist and ruling En Marche party founded by Emmanuel Macron, while Podemos's Pablo Iglesias drew some initial inspiration from Venezuela's United Socialist Party founded by the late Hugo Chávez, the country's authoritarian President for 11 years.

The high degree of disaffection shown in opinion polls with public institutions –parliament, the body overseeing the judiciary, regulatory bodies, the Court of Auditors– that were colonised by the two main political parties and consequently failed to fulfil their accountability role, does not mean that the majority of Spaniards want a break with what Podemos calls the 'regime of 1978' in reference to the democratic constitution of that year, but they would like an overhaul.

Furthermore, it is to Spain's credit that the influx of several million immigrants over a 20-year period, which sharply reversed the previous trend of net emigration, has not produced any relevant xenophobic, far-right, populist parties. Nearly 25,000 migrants entered Spain by sea in the first seven months of 2018 –three times as many as in the same period in 2017 and more than the number to Greece and Italy, according to the International Organisation for Migration–. Spain is the only EU country without an anti-immigrant and Eurosceptic party in the European Parliament (see Figure 4).

Figure 4. Eurosceptics in the European Parliament, 2014-19

	Total seats	Seats of Eurosceptic parties
Germany	96	7
France	74	24
Italy	73	22
UK	73	24
<b>Spain</b>	<b>54</b>	<b>0</b>
Poland	51	4
Netherlands	26	4
Belgium	21	1
Greece	21	4
Hungary	21	3
Sweden	20	2
Austria	18	4
Denmark	13	5
Finland	13	2
Lithuania	11	2

Source: The Economist.

Spaniards might find it hard to believe, given their discontent with their political elite, but the country is among the world's 19 'full democracies' in the Economist Intelligence Unit's Democracy Index, though only just, and is ahead of the US and France (see Figure 5). The index is based on five categories: electoral process and pluralism; civil liberties; the functioning of government; political participation; and political culture. Based on their scores on a range of indicators within these categories, each country is then itself classified as one of four types of regime: 'full democracy'; 'flawed democracy'; 'hybrid regime'; and 'authoritarian regime'.

Figure 5. The Economist Intelligence Unit's Democracy Index, 2017

	Rank	Overall score	Electoral process & pluralism	Functioning of government	Political participation	Political culture	Civil liberties
<b>Full democracies</b>							
Norway	1	9.87	10.00	9.64	10.00	10.00	9.71
Iceland	2	9.58	10.00	9.29	8.89	10.00	9.71
Sweden	3	9.39	9.58	9.64	8.33	10.00	9.41
New Zealand	4	9.26	10.00	9.29	8.89	8.13	10.00
Denmark	5	9.22	10.00	9.29	8.33	9.38	9.12
Canada	=6	9.15	9.58	9.64	7.78	8.75	10.00
Ireland	=6	9.15	9.58	7.86	8.33	10.00	10.00
Australia	8	9.09	10.00	8.93	7.78	8.75	10.00
Finland	=9	9.03	10.00	8.93	7.78	8.75	9.71
Switzerland	=9	9.03	9.58	9.29	7.78	9.38	9.12
Netherlands	11	8.89	9.58	9.29	8.33	8.13	9.12
Luxembourg	12	8.81	10.00	8.93	6.67	8.75	9.71
Germany	13	8.61	9.58	8.21	8.33	7.50	9.41
UK	14	8.53	9.58	7.50	8.33	8.13	9.12
Austria	15	8.42	9.58	8.21	8.33	6.88	9.12
Mauritius	16	8.22	9.17	8.21	5.56	8.75	9.41
Malta	17	8.15	9.17	8.21	6.11	8.75	8.53
Uruguay	18	8.12	10.00	8.93	4.44	7.50	9.71
<b>Spain</b>	<b>19</b>	<b>8.08</b>	<b>9.17</b>	<b>7.14</b>	<b>7.78</b>	<b>7.50</b>	<b>8.82</b>
<b>Flawed democracies</b>							
US	=21	7.98	9.17	7.14	7.22	8.13	8.24
Italy	=21	7.98	9.58	6.43	7.22	8.13	8.53
France	29	7.80	9.58	7.50	7.78	5.63	8.53

Source: The Economist Intelligence Unit.

Spain's political leaders today are among the youngest in Europe, but this in itself is not a sufficient renewal. As well as some reforms, the political class needs to heed the words of Adolfo Suárez, the Prime Minister who began the transition to democracy in 1976. After his UCD party won the 1977 election, which ushered in a constitutional process, Suárez said that as well as a new legal system Spain required 'civic uses and customs that are clearly

democratic and which complement strictly political principles and rules'. This is a question of mentality, of creating a democratic culture, and not just changes to laws. It was not until December 2014, for instance, that Spain's first Transparency Law came into effect and the country finally fell into line with the rest of the EU (long after the former communist Eastern European countries). Access to government information is still, however, extremely difficult as a consequence of red tape, the rigid interpretation of exceptions and restrictions and a Transparency and Good Governance Council that is understaffed and underfunded. To the bane of historians, in particular, Spain never declassifies official documents, even decades after the events to which they refer. There is nothing comparable to Britain's 30-year rule. The Official Secrets Law dates back to 1968. Millions of documents recording the fate of generations of Spaniards during the Civil War and Franco's dictatorship remain hermetically sealed unless opened individually by judicial order.

Two habits could do with changing. One is the custom of changing all the top jobs in the public sector every time there is a new government, including, for example, the head of the Cervantes Institute, the body responsible for the teaching and study of Spanish language and culture abroad, Red Eléctrica, the electricity transmission grid, and the Paradores chain of hotels, to name just three of the more than 500 political appointments in the gift of the central government (this 'jobs for the boys' also happens at the regional government level when there is a change).

The other is the reluctance of politicians to resign when the political or judicial circumstances commonly accepted in other democracies demand it. Principled political resignations are virtually unknown. In one notorious case, Cristina Cifuentes, the Popular Party Premier of the Madrid region, refused for weeks to bow to demands to resign after she was accused in 2018 of fraudulently obtaining a master's degree. Two of the three people who signed her certificate said their signatures had been forged. It was not until someone released a seven-year-old video showing her being questioned by a security guard for putting €40 of face cream in her bag without paying that she had no option but to throw in the towel. Resistance to resigning started when Alfonso Guerra, the former Socialist Deputy Prime Minister (1982-91), clung to power for a year after it was shown that his brother Juan occupied a government office in Seville for several years although he held no government appointment, and allegedly used it for influence peddling and enrichment.

Another problem area is what is termed 'the politicisation of the judiciary and judicialisation of politics'. There are two issues here. On the one hand, the 20 members of the General Council of the Judiciary (CGPJ), the governing authority, are appointed by parliament and the Senate by qualified majority vote (60%), and with a tenure of five years. As a result, depending on the person elected, they are perceived as being largely beholden to the parties that appointed them and to whom they feel they owe their allegiance. On the other, the courts have been excessively thrust into the limelight when resolving problems that politicians have failed to deal with or prevent, such as, for instance, the push for independence in Catalonia. The CGPJ, however, cannot overrule court sentences. The body could be depoliticised by a much more rigorous selection by parties of candidates.

The system of electoral districts and the party list method would also benefit from reforms. No electoral system is entirely fair, not least the UK's first-past-the post system, which awards the seat in each constituency to the party that gains the most votes. The problem with Spain's system is not so much its lack of proportionality or the formula used to assign seats (the D'Hondt method,<sup>6</sup> which is widely used in other countries), but the territorial asymmetry that gives rural areas an excessive importance in elections. Some malapportionment (the creation of electoral districts with divergent ratios of voters to representatives) is justified in terms of territorial re-balancing but Spain's is very high. Although the majority system in the UK is 'theoretically' unfair, it does provide a link between voters and Parliament, unlike in Spain where there is a disconnect between electors and MPs. Each constituency in the UK has one MP and voters know who he or she is.

The D'Hondt method, which favours large parties and coalitions over scattered small parties, ensures that a party fielding candidates throughout the country that does not reach 25% of the vote tends to be under-represented in parliament (the only one to achieve this in the 2016 election was the Popular Party), while regional parties can be over represented.

The closed-list system, the one used in Spain to elect MPs but not members of the Senate, gives excessive power to a party's apparatus at the expense of accountability and makes politicians vulnerable to sycophancy. Under this system, as opposed to the open list, people vote for the party, and not a particular candidate, and therefore the list as a whole. Candidates are elected in the order they appear on the list (as decided by the party's leadership) until all the seats are filled. Closed party lists stifle independent and minority opinion within the party's ranks.

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<sup>6</sup> For an explanation of the method see [http://www.europarl.europa.eu/thinktank/en/document.html?reference=EPRS\\_BRI\(2016\)580901](http://www.europarl.europa.eu/thinktank/en/document.html?reference=EPRS_BRI(2016)580901).

### 3. Autonomous communities: unfinished business

The 1978 Constitution opened the door to autonomy for Spain's regions but did not provide the final architecture. When the Constitution was drawn up not even which parts of Spain would request autonomy was known, other than the 'historic nationalities' of the Basque Country, Galicia and Catalonia, nor what shape the regions would take. This was not something exceptional: the steady state, to use a political-science term, is not normally achieved until sometime after a new system is started. Forty years later, Spain's system of autonomy is under strain and needs an overhaul.

The creation of 17 autonomous regions moved Spain from being the most rigidly centralised state in Western Europe, under which Franco's armed forces were given the mission to defend the country's 'sacred unity', to the most decentralised nation in Europe and a federation in all but name. Regional governments' share of total public spending including Social Security increased from 3% in 1980 to 36% in 2017.

The Constitution acknowledged the existence of 'nationalities' and 'regions' (the word 'nation' was reserved for Spain), but preferred not to list them for fear of upsetting sensibilities. Article 2 of the preliminary section of the Constitution sought to strike a careful balance between national unity and national diversity, stipulating 'the indissoluble unity of the Spanish Nation, the common and indivisible *patria* ('fatherland') of all Spaniards', while guaranteeing 'the right of autonomy for all the nationalities and regions that integrate it and the solidarity between them all'.

The devolution produced bloated bureaucracies in the autonomous communities and a plethora of companies owned by regional governments, contributing to Spain's ballooning budget deficit and public debt and to the economic and banking crisis of 2008-13 (regional governments held sway over the many savings banks). Each region has its own Premier, government, parliament and often television and radio stations, and powers over health, education and much economic regulation. The central government retains control of foreign policy, trade, defence and macroeconomic policy. The number of people on the payroll of the 17 regional governments rose fourteenfold to 621,616 between 1982 and 1995, as responsibilities were transferred, but the number working for the central government (including the armed forces) fell by only a quarter to 905,801. Central-government employees were down to 511,708 in January 2018 and regional government ones stood at 1.3 million.

The Basque Country and Catalonia had enjoyed a measure of self-rule during the Second Republic (1931-39) and Galicia also had a statute of autonomy, but it could not be implemented because of the 1936-39 Civil War. The Basque group ETA, founded in 1959, initially as a cultural organisation and after a few years as an armed terrorist group to fight for an independent Basque state, viewed the considerable degree of autonomy granted to the Basque Country, including its own tax system, as of 1979 as little more than a cosmetic change in the authoritarian nature of the Spanish state. Having assassinated Franco's heir apparent, Admiral Luis Carrero Blanco, in 1973, it stepped up its violence after the advent

of democracy (see Figure 6). In 1980 it assassinated 95 people –twice as many as during the Franco regime– and in 1987, in its bloodiest single attack, 21 people died when it placed bombs in the carpark of a shopping centre in Barcelona. Weakened by repeated arrests of leaders and operatives and with minimal support for its cause, the group formally disbanded in May 2018. By then it had killed 854 people, injured thousands and carried out 79 kidnappings. Jorge Semprún, a former communist opponent of the Franco regime and Culture Minister (1988-91), called ETA ‘the only serious residue that remains of Francoism’. In this respect, it can be said that the last legacy of Francoism ended 40 years after the dictator died, with ETA’s disbanding.

**Figure 6. Abbreviated timeline on ETA, 1958-2018**

1959	ETA created during the Franco dictatorship to fight for an independent Basque Country
1968	Civil Guard officer killed in the group’s first deadly attack
1973	Franco’s Prime Minister, Admiral Luis Carrero Blanco, assassinated when a bomb is detonated under his car
1974	Thirteen people die in a bomb attack on a Madrid café
1980	The bloodiest year of its violent terrorist campaign, two years after Spaniards approve a new democratic constitution: 92 people killed
1983-87	GAL (‘Anti-terrorist Liberation Groups’) death squads, made up of members of the security forces and hired assassins, kill 28 suspected ETA members
1987	Single bloodiest attack: 21 people killed by bombs in the carpark of a shopping centre in Barcelona
1989	ETA declares its first cease-fire but breaks it by assassinating a Civil Guard officer
1996	Francisco Tomás y Valiente, former President of the Constitutional Court, killed
1997	Six million people take to the streets to protest the murder of Miguel Ángel Blanco, a local Popular Party politician
1998	New ETA truce ends in 1999 after failed negotiations
2002	New law on political parties bans Batasuna, an ally of ETA
2006	Third cease-fire ends after car bomb kills two Ecuadoreans in the Madrid airport carpark
2011	ETA announces ‘definitive cease’ to its armed struggle. Officials say ETA believed to have fewer than 50 members
2017	ETA disarms after handing over weapons to French authorities
2018	ETA disbanded

The Basque terrorism problem has been resolved. ETA's defeat was a victory for democracy, although a 'dirty war' against the group's suspects by state-sponsored death squads until the 1980s undermined the rule of law and shamed Spain's nascent democracy. The issue of Basque independence, however, has not gone away and is now in the hands of the radical EH Bildu, the political ally of ETA, which has 18 of the 75 seats in the Basque parliament, the second-largest number after the Basque Nationalist Party (EAJ/PNV, with 28 seats).

The issues that remain to be resolved are the push for independence in Catalonia (see the following section) and how to reform the common financing system that applies to all the autonomous communities apart from the Basque Country and Navarra, which have special fiscal regimes under which they collect taxes and transfer to the central government a pre-arranged amount every year that covers services provided by the state that have not been transferred. The regime, with almost complete spending and revenue autonomy, recognises the traditional *foral* system in these territories. The amount, known as the *cupo* in the Basque Country and *aportación* in Navarra, is set by a formula that takes into account economic size, among other factors. The financing system of autonomy is thus asymmetrical.

The Inter-Regional Compensation Fund seeks to correct inter-territorial imbalances by financing regional development while fiscal-equalisation grants guarantee a standard level in the provision of public services, such as education and healthcare. EU Cohesion and Structural Funds have also enabled the poorer regions to promote development.

For instance, tax revenue per person in Madrid was twice that of Extremadura, one of the poorest regions, in 2016 (see Figure 7), but after redistribution under the common system it received 9% more money from the central government per person than Madrid (adjusting for the cost of service provision), according to Fedea, a think tank. The Basque Country, thanks to its special status, got 228% of the adjusted average per person (in 2014, the latest figure available), whereas Valencia, the epicentre of waste and corruption during the property bubble, received only 91.3% and Catalonia 100.3%. Those living in the four underfunded regions (ie, below the average final financing of 100) numbered 16.9 million compared with the 29.7 million in the 11 overfunded regions. Persuading the overfunded to receive less so that the underfunded can receive more is politically difficult.

Figure 7. Per capita adjusted financing at different stages in the application of the common regional financing system (1)

	Fiscal capacity (regional tax revenue before redistribution)	Financing after equalisation transfers	Final financing
Andalucía	78.6	94.4	95.0
Aragón	103.0	99.3	106.7
Asturias	94.6	97.3	103.8
Balearic Islands	137.9	116.6	111.8
Canary Islands (2)	56.1	100.8	106.6
Cantabria	100.7	94.9	119.8
Castile-La Mancha	77.7	93.4	97.9
Castile-León	90.2	96.8	105.5
Catalonia	121.0	104.7	100.3
Extremadura	68.8	92.1	109.9
Galicia	81.9	94.3	101.7
La Rioja	97.9	97.2	115.1
Madrid	146.9	112.5	101.1
Murcia	81.9	94.5	93.1
Valencia	93.3	95.1	91.3
Average	100	100	100

(1) 2016.

(2) The Canary Islands have a special fiscal regime with lower indirect taxes and the Basque Country and Navarre have their own systems.

Source: Fedea.

Another problem is that the financing system today reportedly needs €17 billion more if the regions are to provide the same standard of services as they did before the crisis. The central government came to the rescue of regions in 2009 during Spain's Great Recession and provided an extra €11.5 billion until 2011 and established mechanisms to enable public administrations to pay the vast backlog of arrears (5% of GDP) with suppliers, most of it owed by regional governments. These governments also made greater use of the powers ceded to them to raise taxes, which they had been reluctant to use for fear of losing votes.

Per capita income differences between the richest and poorest regions remain almost as wide today as 40 years ago. Extremadura's income per person in 2017 of €17,262 was still half that of Madrid's, roughly the same gap as in 1980 (see Figure 8).

Figure 8. Per capita income of Spain's 17 regions, 1980-2017 (€)

	1980	1990	2000	2017
Madrid	3,071	9,717	21,333	33,809
Basque Country	3,299	9,552	19,542	33,088
Navarra	3,423	10,234	20,287	30,914
Catalonia	3,026	9,475	19,383	29,936
Aragón	2,819	9,106	16,692	27,403
La Rioja	2,868	9,220	17,813	26,044
Balearics	2,613	8,779	20,030	25,772
Spain	2,506	7,873	15,935	24,999
Castile-León	2,518	7,712	14,445	23,555
Cantabria	2,601	7,639	14,891	22,513
Galicia	2,142	6,610	12,372	22,497
Valencia	2,488	7,577	15,185	22,055
Asturias	2,591	7,170	13,382	22,046
Murcia	2,193	6,769	13,328	20,585
Canary Islands	2,106	6,592	15,570	20,435
Castile-La Mancha	2,133	7,012	12,431	19,681
Andalusia	1,807	6,175	11,823	18,470
Extremadura	1,422	5,240	10,145	17,262

Source: INE.

The financing system will not be changed, assuming there is agreement, before the next election, which is not due until July 2020. Ways will have to be found to revise the common system and the degree of solidarity of the richer with the poorer regions, which have largely caught up in the areas where they were historically backward. Catalonia, Madrid and Valencia are regarded as having an excessive degree of solidarity. The Basques are also widely viewed as handing over not enough revenue to the central government.

An overhaul of the financing system should also go hand in hand with a reform of the Senate, defined in the 1978 Constitution as '... a chamber of territorial representation' but which has failed to meet its function. The upper chamber of parliament consists of 265 senators, 57 of whom are appointed by the regional parliaments and the rest by popular vote. It has almost no legislative powers and is essentially a rubber stamp chamber which has become an 'elephants' graveyard' where the two main parties, the Popular Party and the Socialists, send their older leaders at the end of their political careers.

Had the Senate become a fully-fledged chamber representing the regions, capable of defusing tensions between the centre and the periphery in a quasi-federal country, the conflict in Catalonia might not have reached the proportions that it has, as that region's crisis would have been tackled in a multilateral body and not on a bilateral basis. Similarly, the financing issue might have been amicably resolved.

But neither the PP nor the Socialists showed any interest in reforming the Senate, which the Constitution stipulates requires the approval of three-fifths of the Senate and the Congress of Deputies, the lower chamber. Alternatively, a commission composed of members of both chambers could reach an agreement through an absolute majority in the Senate and a majority of two-thirds in the Congress. In today's polarised political climate and the addition of two new parties, Podemos and Ciudadanos, this is highly unlikely. Furthermore, and paradoxical as it may seem, Basque and Catalan nationalist parties prefer to negotiate directly with the central government rather than through a federalised Senate, as their seats in the national parliament, depending on the results of elections, can give them leverage over which party forms the central government and thus the chance to horse-trade for their own benefit.

## 4. The discord in Catalonia: no end in sight <sup>7</sup>

The most pressing political problem is what to do about the push for independence in Catalonia, a region where more than 90% of voters in 1978 approved Spain's democratic constitution, which affirms the 'indissoluble unity of the Spanish nation'. The region, with its own distinct language and culture, plays a key role in Spain's economy: its population of 7.5 million (16% of Spain's total and more than Denmark and Finland) generates around one-fifth of Spain's economic output and one quarter of total exports. The Catalan economy is the size of Portugal's and is more diversified: as well as medium-sized, family-run industrial, textile and perfumery-making firms, it has car producers, pharmaceutical firms, fashion boutiques and hundreds of start-ups.

While ETA's drive for Basque independence was through the barrel of a gun, Catalonia's has been much more subtle and pivoted on using the powers ceded to it by the central government after democracy was restored to create a climate for secession. The former Prime Minister Leopoldo Calvo Sotelo (1981-82) caused some consternation when he prophetically told a meeting of academics in 1983 on Spain's transition that the Catalan issue would be more intractable and dangerous than the Basque issue, despite the scale of ETA's violence, because Catalonia's size would always be harder for Spain to absorb and digest, while the overwhelming majority of Basques realised that it was in their interest to form part of a larger entity.

Catalonia was never an independent sovereign state (hotly disputed by secessionists) in any modern definition of the term. Its origins lie in the County of Barcelona, a Frankish principality established as part of the Carolingian empire during the reconquest of Spain from Muslim rule. It then formed part, as the Principality of Catalonia, of a federation, the Crown of Aragon, which was united with the Crown of Castile as a result of the marriage of Ferdinand II of Aragon and Isabella I of Castile in 1469. This dynastic union (a composite monarchy) created the country that came to be known as 'Spain'. In 1716, following the surrender of Barcelona two years earlier to the forces of Philip V, who was the monarch of the newly enthroned Bourbon dynasty, Catalonia, like the rest of the Crown of Aragon, was stripped of its traditional laws and liberties, and was merged into what became an authoritarian monarchical Spain in which Castilian culture and power were paramount.

The Catalan stand-off, the most serious political crisis since the failed coup in 1981, has been more than a decade in the making (see Figure 9), although as in Canada, Belgium and, to a certain extent, the UK, tensions have long been a permanent feature of Spain's political landscape. Spain undertook early and effective state-building in the 15th-18th centuries but a late and more troubled nation-building process took place in the 19th and 20th centuries, with strong regional identities in competition, particularly in Catalonia and the

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<sup>7</sup> The background to the conflict draws on a document published by the Elcano Royal Institute, available at [http://www.real-institutoelcano.org/wps/portal/rielcano\\_en/contenido?WCM\\_GLOBAL\\_CONTEXT=/elcano/elcano\\_in/zonas\\_in/catalonia-dossier-elcano-october-2017](http://www.real-institutoelcano.org/wps/portal/rielcano_en/contenido?WCM_GLOBAL_CONTEXT=/elcano/elcano_in/zonas_in/catalonia-dossier-elcano-october-2017).

Basque Country. Spain, however, is one of the very few cases in Europe in which national integrity has been successfully preserved: no territorial change has occurred in the past 200 years (colonial possessions aside, which were not an integral part of the country despite futile efforts to equate them, at least in name, with metropolitan Spain).

**Figure 9. Timeline of the collision between the Catalan and central governments**

Date	Events
2006 August	Catalan Parliament passes new autonomy statute, approved in a referendum in the region and ratified by the Congress and Senate in Madrid
2010 June	Constitutional Court rules there is no legal basis to recognise Catalonia as a nation and that the Catalan language should not take precedence over Castilian Spanish. This followed a challenge by the Popular Party, the ombudsman and five regional governments
2010 July	Massive demonstration in Catalonia against the Constitutional Court's ruling
2012 September	Catalan Premier Artur Mas meets Prime Minister Mariano Rajoy in a bid to obtain a fiscal pact. Fails and calls an early election in the region
2012 November	Artur Mas's CiU party wins the election but with 12 fewer seats in Parliament. He remains Premier thanks to the support of the openly pro-independence ERC, which captures 11 more seats
2014 November	Artur Mas defies the Constitutional Court and holds an informal, non-binding referendum on secession. More than 80% in favour but only 2 million out of an estimated 5.4 million eligible voters took part. The public prosecutor brings charges against Mas and two of his Ministers for holding the referendum
2015 September	Pro-independence alliance Junts pel Si headed by Artur Mas wins Catalan election and teams up with anti-capitalist CUP to form a government. But CUP refuses to retain Mas as President. Pro-independence parties win 48% of the vote (72 seats) and anti-independence parties 39% (52)
2015 November	Catalan Parliament approves declaration of sovereignty and the right to decide
2015 December	Constitutional Court annuls the declaration of sovereignty and right to decide
2016 January	Carles Puigdemont becomes new Catalan Premier with the goal of calling a legally binding referendum on independence
2016 August	Constitutional Court suspends independence roadmap approved by the Catalan Parliament
2016 September	Carles Puigdemont announces an independence referendum in September 2017 with or without Madrid's permission
2016 October	Public prosecutor brings charges of disobedience against Carme Forcadell, President of the Catalan Parliament, for allowing the pro-independence roadmap to be put to a vote in July
2016 December	Constitutional Court blocks plans to hold an independence referendum
2017 March	Artur Mas, former Premier of Catalonia, and three of his Ministers banned from public office over the 2014 non-binding informal vote

2017 September	Catalan parliament fast-tracks a referendum law and the regional government formally calls a referendum on secession from Spain. Catalan government officials arrested over the unconstitutional referendum
2017 October	Catalan officials said that almost 2.3 million people voted in the referendum (40% of voters eligible for the plebiscite), with 2 million voting 'Yes', a similar turnout to the informal consultation in 2014. Carles Puigdemont declares independence and the central government imposes direct rule. Puigdemont flees Spain to avoid arrest on charges of rebellion and misappropriation of public funds
2017 December	Pro-independence parties win a slim majority in the Catalan election, called by the Spanish government. The anti-independence Ciudadanos is the largest single party in the regional parliament
2018 April	In a preliminary decision, a German court rules against extraditing Carles Puigdemont on rebellion charges
2018 May	Pro-independence parties change the law to enable fugitive Carles Puigdemont to be re-elected Premier, but it is struck down by the courts. The ultra-nationalist Quim Torra is elected new Catalan premier thanks to the abstention of MPs from the anti-capitalist CUP
2018 June	Madrid ends direct rule after the new Catalan government is sworn in
2018 July	A German court decides that Puigdemont can be extradited on a charge of misuse of public funds for organising the illegal referendum but not for the much more serious charge of rebellion. Pedro Sánchez, Spain's new Prime Minister, meets the Catalan Premier Quim Torra for the first time

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Source: the author.

Until the mid-2000s Catalan society was roughly split into three equal parts: a group comprising the rural population and the urban middle and upper classes, who feel that Catalonia is a stand-alone nation due to its distinctive language and culture; a sociologically less cohesive and less mobilised group made up of the descendants of immigrants from other Spanish regions who retain a predominantly Spanish identity and have Castilian as their mother tongue; and, lastly, those with a shared Spanish-Catalan identity who tend to be truly bilingual and bicultural.

Before 2010 it was unusual for more than 20% of Catalans to support independence. The political status quo changed for a number of external and internal long-term and short-term reasons. Externally, globalisation and EU integration can encourage secession: free trade and international governance mean that states no longer need to be big to exploit economies of scale. The Catalan problem can also be seen in the context of the growing disconnect between government and the governed and the rise of populism. What is happening in Catalonia is a localised strain of what is happening in the US with Trump, in the UK with Brexit and in Germany with the rise of the far-right AfD party.

Internally, the process of explicitly building up a national identity distinct from the Spanish began under Jordi Pujol, the Catalan Premier between 1980 and 1993, and was based on the education system, the Catalan language and television broadcasts (TV3) in that language, made possible by devolved powers. 'Catalanisation' fostered pro-independence sentiment. The linguistic policy turned the modern bilingual Catalonia into a predominantly Catalan-speaking territory. From 2008 onwards, all Spain underwent a deep economic, social and political crisis, which quickly eroded the political system's legitimacy. Nationalist politicians succeeded in deflecting popular outrage at the austerity measures, feeding the grievance that Catalonia was paying more than its fair share towards the rest of Spain and receiving too little in the way of state investment in infrastructure, suggesting it would be better off on its own. In 2010 the Constitutional Court, following an appeal by the Popular Party (PP), then in opposition, partly disallowed the Catalan Autonomy Statute, which had been approved in 2006 by a referendum in the region (in which only 49% voted, with 20.7% rejecting it). The Court ruled that some of the statute's articles were unconstitutional, particularly the reference to Catalonia as a 'nation'. This inflamed nationalists: support for independence peaked at 49% in 2013 (13.6% in 2005) but subsequently declined somewhat. The more centralist PP replaced the Socialists in power in Madrid at the end of 2011.

The mobilisation of nationalist civil society and nationalist elite polarisation fed off each other and culminated in the decision of the Catalan government, headed by Carles Puigdemont, to hold an illegal referendum on secession in October 2017. The referendum violated Spanish law, UN resolutions on the right to self-determination, the recommendations of the Council of Europe's Venice Commission –an agency of reference on constitutional matters and referendums– and Catalonia's own regional charter. Only the Spanish parliament, followed in some cases by a nationwide referendum, can change the Constitution. International law recognises a right to self-determination only in cases of colonisation, invasion or flagrant denial of human rights, none of which apply to Catalonia.

The PP central government responded by sending in the riot police in a public relations disaster. The fact that over 2 million Catalans (more than 40% of the electorate) got to the polls and voted for an independent state, although the count was not independently verified, followed by the Catalan parliament's unilateral declaration of independence, testified to the success of the 'Catalanisation' strategy and the utter failure of Madrid to effectively counter the propaganda campaign.

The Popular Party central government responded to the declaration of independence –which caused more than 4,500 companies based in Catalonia to vote with their feet and move their legal headquarters to elsewhere in Spain– by imposing direct rule from Madrid under Article 155 of the Constitution (lifted in June 2018) and calling a snap election. But the gamble did not pay off as the pro-independence parties retained their majority in the Catalan parliament, winning 70 of the 135 seats (two less than in 2015) on 47.5% of the vote and a record turnout of 80%. The anti-independence parties mustered 57 seats, five more than in 2015, of which 36 were won by the anti-independence Ciudadanos in a

stunning victory (up from 25) for Inés Arrimadas, a rising star of Spanish politics. This was the first time a non-nationalist party had won a Catalan regional election, but with not enough seats to govern on its own or in coalition. The PP, which has never counted for much in Catalonia, was relegated to a marginal position as it only won four seats, seven fewer.

The judiciary sent nine prominent separatist Catalan politicians to pre-trial prison for promoting independence. Pre-trial detention in Spain can last two years, and in special circumstances can be extended, compared with a maximum of 182 days, for example, in England. Several other politicians, including Puigdemont, went into self-imposed exile and were wanted by the Spanish authorities. A German court ruled in July 2018 that Puigdemont could only be extradited on a charge of misuse of public funds for organising the illegal referendum, not for the more serious charge of rebellion, which carries a jail sentence of up to 30 years. The court rejected the argument that the Spanish charge of 'rebellion' could be equated with the German penal code's charge of 'high treason' as there was no evidence of sufficient violence at the referendum to have posed a direct threat to the central government.

The news was greeted as a victory in the pro-independence camp. Spain's Supreme Court judge Pablo Llarena rejected the extradition conditions and withdrew the European arrest warrant under which Puigdemont had been detained in Germany, and also rescinded it for five of his aides in self-imposed exile in other countries. This meant they have freedom of movement outside Spain but should they set foot in the country over the next 20 years (beyond which time the charges would no longer be in force under a Statute of Limitations) they would be arrested.

Internationalising the independence issue has been key factor in the Catalan secession movement, but the only explicit support for a break with Spain came from Nicolás Maduro, Venezuela's authoritarian President. All other international leaders have either supported Madrid, particularly in the EU, or kept silent. The European Commission made it very clear that an independent Catalonia would no longer be part of the EU, and hence of the euro zone, and would have to negotiate its membership.<sup>8</sup>

While Rajoy never got beyond leaving the problem to the courts, Prime Minister Pedro Sánchez recognised that a 'political crisis requires a political solution'. He sought to defuse tensions by meeting Quim Torra, the ultra-nationalist Catalan Premier and close ally of Puigdemont, but there was very little common ground.<sup>9</sup> Torra wanted a Scotland-style referendum on independence, but this was not allowed by the legal framework and was a red line that the government, backed by the PP and Ciudadanos, was not prepared to cross. He also called

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<sup>8</sup> 'A new independent state would, by the fact of its Independence, become a third country with respect to the EU and the Treaties would no longer apply on its territory', Letter to the British House of Lords from EC President J.M. Durão Barroso, 2012.

<sup>9</sup> In 2012 Torra wrote an article describing those who opposed the use of the Catalan language and objected to expressions of Catalan culture and traditions as 'carrion-feeders, vipers and hyenas' and 'beasts in human form'.

for the release of those jailed for their part in organising the independence referendum whom he referred to as *presos políticos* (political prisoners). For non-secessionists they are *políticos presos* (imprisoned politicians).

There is an affinity between Catalan and Scottish separatists. When Scotland held its independence referendum in 2014 in which the Unionist cause won by 55% to 45%, hundreds of Catalans came to aid the independence campaign. Catalonia and Scotland share similarities but also significant differences,<sup>10</sup> mainly that the referendum held in Scotland was agreed with London, in sharp contrast with the dominant unilateralism in Catalonia and the Spanish government's refusal to even contemplate the possibility. The Scottish government abided by the British rule of law while the Catalan cause flouted legality, both in Spanish (several decisions of the Constitutional Court were disregarded) and European terms: 'The Union shall respect their essential state functions, including ensuring the territorial integrity of the state...' (article 4.2, Treaty on European Union). According to the Spanish constitution, national sovereignty lies in the Spanish people as a whole. For its part, the UK has retained some elements of an explicitly multinational state (a historically composite monarchy). Without Catalonia, there would be no Spain since the Spanish national project would be voided. This is similar to the Canadian case regarding Quebec, while Scotland is seen in the UK as ultimately more dispensable.

Sánchez offered a new autonomy statute for Catalonia agreed among the political parties, which would be approved first by the Catalan parliament, then by the national parliament and followed by a referendum in Catalonia.

Support for independence has been waning, according to opinion polls, and the nationalist camp is split between those led by Puigdemont, who are not prepared to compromise as they believe they have a mandate for secession, and a more pragmatic group which realises that more support is needed to win secession.

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<sup>10</sup> John Elliott's book *Scots and Catalans; Union and Disunion*, published by Yale University Press in 2018, is a masterly comparative history.

## 5. Economy: transformed but vulnerable

Membership of the EU since 1986 and of the euro zone since 1999, as a founder member, have transformed Spain's economy and turned it from one of Western Europe's most protected and least competitive into one of its most dynamic. In the process, the economic structure has changed significantly: agriculture, for example, generated 3% of GDP in 2017 and employed 4% of the workforce, down from 9% and 20%, respectively, in 1978, meaning that today the sector is much more productive.

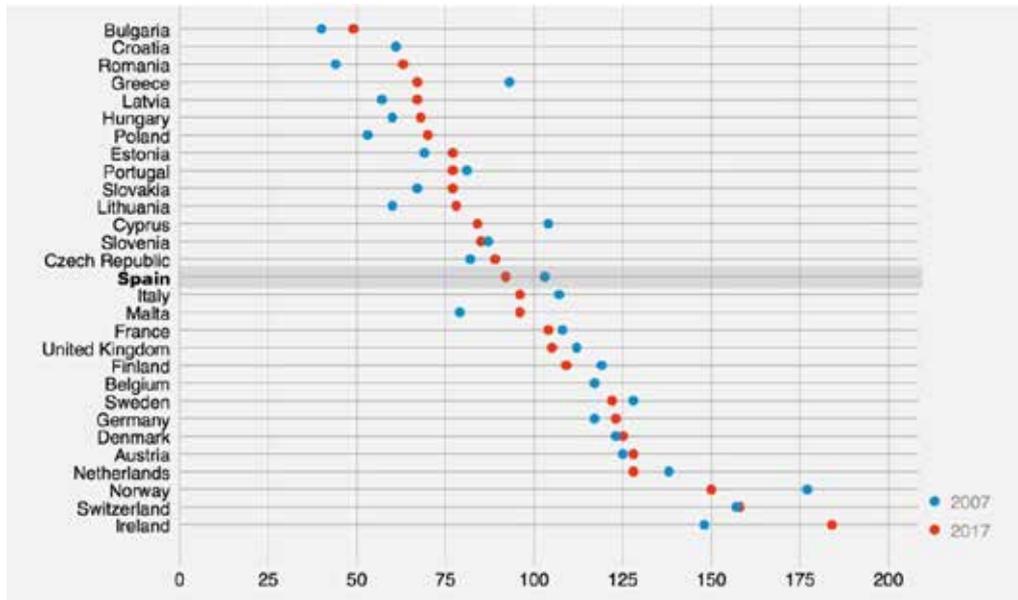
Spain has become far wealthier: per capita GDP at purchasing power parity increased from close to US\$8,000 in 1978 to more than US\$38,285 in 2017, a tad above Italy, according to the IMF (see Figure 10). Eurostat, the statistical office of the European Commission, using a different methodology, put Spain's per capita GDP in 2017 at slightly below Italy's (see Figure 11).

Figure 10. Per capita GDP, 1980-2023 (at purchasing power parity, US\$)

	1980	1990	2000	2010	2017(e)	2023(e)
France	10,763	19,661	28,514	37,284	43,760	53,205
Germany	11,273	20,725	29,839	40,850	50,425	62,510
Italy	10,543	20,016	28,601	34,767	38,140	45,440
<b>Spain</b>	<b>7,883</b>	<b>15,293</b>	<b>24,053</b>	<b>32,251</b>	<b>38,285</b>	<b>48,768</b>
UK	8,878	17,538	26,669	36,038	44,117	52,902

(e) Estimates for Italy and UK in 2017 and all countries in 2023.  
Source: IMF.

Figure 11. EU/EEA countries by GDP per capita as a % of the EU average, 2007-17



Source: Eurostat.

Getting the economy into shape to qualify for EU membership (negotiations began in earnest in 1982) was an arduous and socially painful task that largely fell to the first Socialist government of Felipe González. As a major importer of oil, the energy crisis sparked by price increases in 1973 and 1979 hit Spain hard. Inflation accelerated to 18% per annum in that period. The country was very slow to react, in part because the crisis coincided with the end of the Franco dictatorship in 1975 and the transition to democracy. Consumption of oil continued to grow as if nothing had happened: of the 10 leading Western industrial nations, Spain was the only one in which oil consumption increased.

The large and inefficient state-run industries such as shipbuilding (the world's third largest in 1974) and steel (the 13th biggest), were massively slimmed down. The public sector was overburdened: in 1976 the Instituto Nacional de Industria (INI) had a stake in 747 most loss-making companies and a controlling interest in 379 others. The big profitable state companies regarded as strategic, such as Telefónica (telecoms), Repsol (oil and gas) and Endesa (electricity), were privatised in order to prepare them for the onslaught of competition arising from EU membership. Various companies of the sprawling National Institute of Industry (INI) were also privatised, most notably Seat, the loss-making car manufacturer, which was sold to Germany's Volkswagen in order to guarantee its survival. The peseta was devalued. Of the 110 banks of all shapes and sizes, 58 of them suffered problems of one type or another between 1977 and 1985 (see the section on banks).

EU and euro zone membership have been hugely beneficial. More than 30 years after joining the EU, Spain was still a net recipient of EU funds. Between 1986 and 2016, the country received €95 billion more than what it contributed (excluding co-funding of EU projects). In the 1990s, net income from the EU represented 1% or more of GDP. The funds have played a significant role in improving the country's infrastructure. The country's roads, train services (the high-speed train network is the longest in Europe and the second in the world) and other infrastructure such as the fibre-optic network for high-speed data transmission (it covers three-quarters of the population) are world class. Spain's infrastructure ranked 13th out of 137 countries in World Economic Forum's competitiveness index. But it has come at an excessive cost. Spain wasted more than €81 billion on 'unnecessary, abandoned, under used or poorly planned infrastructure' between 1995 and 2016, according to a damning report published by the Association of Spanish Geographers and written by experts from nine universities. One-third of this amount (€26.2 billion) was squandered on the high-speed rail network. There were 'too many multi-million-euro train stations, closed lines, stretches that were dropped halfway through construction, unnecessary lines, and cost overruns', the report stated. 'It was done without a proper cost/benefit analysis, and often on the basis of estimates of future users or earnings supported by a scenario of economic euphoria that was as evident as it was fleeting'. Valencia's City of Arts and Sciences ended up costing more than €1.3 billion, nearly four times the original price tag, and several white elephant ('ghost') airports were built, notably at Castellón and Ciudad Real. The latter, opened in 2008, has the longest runway in Spain and was built to handle 2.5 million passengers a year. It was closed in 2012 and sold in 2016 for €56.2 million, a fraction of the original cost of around €1 billion.

Not surprisingly, Spain is among the most pro-EU countries (see Figure 12). Integration in Europe has been part and parcel of Spain's modernisation. As well as providing funds to develop infrastructure, EU and euro zone membership has made macroeconomic policy more disciplined, lured foreign direct investment, improved the financial conditions (a stable currency and low interest rates) for Spanish companies to make acquisitions abroad and facilitated export growth.

Figure 12. Generally speaking, do you think that membership of the EU is a good thing? (%)

	%
Ireland	81
Germany	79
Poland	70
<b>Spain</b>	<b>68</b>
France	55
UK	47
Italy	39

Source: Eurobarometer 2018.

The stock of Spain's inward investment soared from US\$66 billion in 1990 (the earliest figure available) to US\$644 billion in 2017 (see Figure 13), and in GDP terms stood at 52.3%, compared with 62.6% for the UK, 36.1% for France, 27.2% for Germany and 22.9% for Italy. Exports of goods and services increased from 15% of GDP in 1978 to 34.1% in 2017 (see the exports section).

**Figure 13. Inward stock of foreign direct investment, 1990-2017 (US\$ billion) (1)**

	1990	2000	2010	2015	2017
France	104	184	631	687	874
Germany	226	471	956	776	931
Italy	60	122	328	340	413
<b>Spain</b>	<b>66</b>	<b>156</b>	<b>628</b>	<b>544</b>	<b>644</b>
UK	204	439	1,068	1,407	1,564

(1) Figures rounded off.

Source: World Investment Report 2018, UNCTAD.

The economy dipped in 2008 when a massive property bubble burst (the number of housing starts in 2006 was more than Germany, France and the UK combined), triggering, along with the global financial crisis sparked by the collapse of Lehman Brothers, a Great Recession (Spain's economic output shrank 9.2% between 2008 and 2013). Macroeconomic imbalances had greatly improved during the boom, apart from the current account deficit which hit 9.3% of GDP in 2007, but they now worsened. The unemployment rate skyrocketed from 8% to 27% in 2013, public debt almost trebled to 100% of GDP and the budget deficit soared from 2.2% of GDP to 10%. The non-performing loan (NPL) ratio for banking business in Spain surged from 0.7% of total lending in 2006 to a peak of 13.8% in 2013 (excluding the toxic loans placed in a specially created 'bad bank'). Spain averted a full international bailout, as was the case for Greece, Ireland and Portugal, but several banks, most notably Bankia, the fourth-largest lender, had to be rescued by financial assistance from the European Stability Mechanism (see the section on banks).

It has been a long haul pulling Spain out of recession, aided by low interest rates and oil prices and not just by labour market and banking reforms and austerity measures. Not until 2017 did economic output recover its pre-crisis level. Unemployment was down to below 16% in 2018, but this was still double the euro zone average, public debt had stabilised, albeit at the very high level of 98% of GDP, the economy was growing at more than 2.7% for the fourth year running and the budget deficit looked to be on course to fall below the EU's 3% limit for the first time in a decade. This would release Spain, the only EU country in this situation, from the European Commission's excessive-deficit procedure. The deficit was

lower, but there was still no primary fiscal surplus (before interest payments). The current account recorded its fifth consecutive surplus in 2017, an impressive turnaround and largely thanks to record exports of goods and buoyant tourism (82 million visitors) and a lower net debtor position relative to the rest of the world. Banks were also much healthier (the NPL ratio was down to around 6%). Unemployment remained the biggest problem (see the labour market section).

Cutting the budget deficit has been a long and winding road over the past decade (see Figure 14). Targets agreed with Brussels have either been missed or only met when revised upward. Tax revenue peaked at 36.4% of GDP in 2007 and has yet to recover that level (see Figure 15), while spending has taken a long time to control. Compared with more than 40 years ago when avoiding taxes was something of a national sport –total tax revenue stood at less than 20% of GDP in 1975 (personal income tax accounted for less than 1.5% of fiscal revenue) compared with an OECD average of 31%– Spain's tax system today is relatively efficient and highly computerised. The number of people making personal income tax returns increased from 5.8 million in 1980 (15% of the population) to 19.5 million in 2017 (42%). Tax evasion was made an offence in 1977, a wealth tax was introduced in 1981 and VAT in 1986 upon Spain's accession to the EEC. Nevertheless, tax fraud and evasion remained high (the Tax Agency recovered €14.8 billion in 2017).

Figure 14. Spain's budget balance, 2007-18 (% of GDP) (1)

2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
1.92	-4.42	-11.02	-9.45	-9.31	-6.79	-6.67	-5.84	-5.23	-4.29	-3.07	-2.7

(1) Target for 2018.  
Source: Eurostat.

Figure 15. Total tax revenue, 1975-2016 (% of GDP)

	1975	1985	1995	2007	2012	2016
France	34.9	41.9	41.9	42.4	44.0	45.3
Germany (1)	34.3	36.1	36.2	34.9	36.5	37.6
Italy	24.5	32.5	38.6	41.7	42.7	42.9
<b>Spain</b>	<b>18.0</b>	<b>26.8</b>	<b>31.3</b>	<b>36.4</b>	<b>32.1</b>	<b>33.5</b>
UK	34.2	35.1	31.9	34.1	33.0	33.2
OECD	28.6	31.7	33.6	34.2	33.7	34.3

(1) Unified Germany as of 1991.  
Source: Revenue Statistics, OECD.

One of the biggest fiscal challenges is in the social security system. Half the total budget deficit in 2017 of €35.7 billion (3.1% of GDP) came from the Social Security system. On the revenue side, the number of social security contributors surpassed 19 million in June 2018 for the first time since September 2008, reflecting the improved employment situation, but it was still below the peak of 20.7 million in 2007 and costs (pensions and unemployment benefits) continued to rise. The number dropped to 18.8 million in August at the end of the summer tourism season. As unemployment fell, so did the total amount of benefits paid out but the number of pensioners was rising every year due to the rapidly ageing population, which was ‘greying’ at a much faster pace than other developed countries. Thanks to the creation of a universal healthcare system (Spain’s health system is ranked 7th out of 190 countries by the World Health organisation, well above the UK and Germany) and a diet that is among the healthiest, Spaniards are living almost 10 years longer today than they did 40 years ago. Life expectancy at birth is 83 years, the third highest in the world after Japan and Switzerland. Spaniards today are on average taller than the British, Italians and French. Where one represents the maximum in the UN’s Human Development Index –based on life expectancy, means years of schooling and per capita income–, Spain’s score increased from 0.680 in 1978 to 0.891 in 2017, a rise of 31% (see Appendix b).

In a major demographic change, deaths outstripped births in 2015, for the first time since 1941 in the aftermath of Spain’s devastating Civil War and ensuing massive hunger, and also in 2016 and 2017. The fertility rate of 1.3 children per woman (2.5 in 1978) is one of the world’s lowest. In 2050, Spain will have 77 retired people per 100 people working compared with around 30 at the moment and just 19 in 1975 (see Figure 16). The higher the old-age dependency rate, the smaller the proportion of the population in a position to work and contribute to the social security system. The number of pensioners is forecast to rise from 8.7 million to 15 million in 2050.

**Figure 16. Historical and projected old-age dependency ratios, 1950-2075 (1)**

	1950	1975	2000	2015	2025	2050
France	19.5	24.5	27.3	33.3	40.9	52.3
Germany	16.2	26.5	26.5	34.8	41.4	59.2
Italy	14.3	21.6	29.2	37.8	45.6	72.4
Japan	9.9	12.7	27.3	46.2	54.4	77.8
Poland	9.4	17.1	20.1	24.3	36.4	60.8
<b>Spain</b>	<b>12.8</b>	<b>19.0</b>	<b>26.9</b>	<b>30.6</b>	<b>38.6</b>	<b>77.5</b>
UK	17.9	25.5	27.0	31.0	35.9	48.0
OECD	13.9	19.5	22.5	27.9	35.2	53.2

(1) The old-age dependency ratio is defined as the number of individuals aged 65 and over per 100 people of working age defined as those aged between 20 and 64.

Source: United Nations Population Division.

The government has been struggling to pay pensions; their number in just the last decade has risen by more than one million as a result of the retirement of the first cohort of baby boomers (those born in the late 1950s). The reserve fund created in 2000 for the pay-as-you-go pension system and built up during the economic boom to help pay future pensions, which peaked at €66.8 billion in 2011, has been depleted. The pension system has been in the red since 2011.

A reform which came into force in 2014 stopped pensions being automatically indexed to inflation every year. The annual rise was set at 0.25%, with a maximum increase capped at 0.5% above inflation, if the system can afford it which has not been the case so far. The statutory retirement age is also being gradually increased from 65 to 67 as of 2027, for both men and women. Indexation, however, was restored in 2018 by the then minority Popular Party government in order to win belated approval for that year's budget (in the June), and the reform to allow for rising life expectancy in calculating pensions has been put back from 2019 to 2023.

The pensions rise, which the government planned to fund with a controversial bank tax, followed nationwide protests by pensioners over the ending of indexation. Pensioners largely maintained their relative standard of living during the crisis (Spain has one of the highest aggregate replacement ratios in Europe). They survived the crisis much better than young adults, a large proportion of whom earn well under €1,000 a month and are on precarious temporary contracts that prevent them getting mortgages and moving onto the property ladder. Most pensioners own their homes (unlike, for example, in Germany), which, if circumstances demand it, can be sold.

With the ending of indexation, the government needs to implement other measures to reinforce the pensions system, such as making plans taken out by individuals more attractive (the amount that is tax deductible was reduced from €12,000 to €8,000 in 2015). Saving for a rainy day, however, is beyond the means of a large swathe of the working population who barely get by as it is. The household savings rate was below 6% of gross disposable income in 2017, well under the peak of 13.4% in 2009. Private pension funds in Spain were equivalent to 14.3% of GDP in 2016 compared with 206% in Denmark and 97% in the UK.

There are also severe disincentives to combine work and a full pension. Spain is one of only seven OECD countries that applies limits to the earnings above which combined pension benefits are reduced. The pensions of those who continue working are reduced by 50%, apart from self-employed workers earning less than the minimum wage or hiring at least one worker. Furthermore, workers still in employment and receiving a pension do not earn additional pension entitlements although they pay a special 'solidarity' contribution of 8%, which does not apply to those continuing to work and deferring the pension.

Research and innovation also remain weak areas, as evidenced by the relatively poor ranking of Spain's universities in world classifications, the low level of spending on R&D of 1.2% of GDP (see Figure 17) and the very small number of patents registered (see Figure 18). Spain accounts for 9% of the EU's population and less than 1% of its total patents each year. The Socialist government of José Luis Rodríguez Zapatero had set an R&D target of 2% for 2010. The country's scientific community delivered a petition to the Spanish parliament in April 2018 to stop what it called the 'progressive abandonment of science in Spain', caused by budget cuts. The science budget was cut by 39% between 2009 and 2013, and since then has seen only minimal increases apart from in 2018.

Figure 17. Gross domestic expenditure on R&D, 2004 and 2016 (% of GDP)

	2004	2016
France	2.09	2.25
Germany	2.42	2.94
EU-28	1.75	2.03
Italy	1.05	1.29
<b>Spain</b>	<b>1.04</b>	<b>1.19</b>
UK	1.55	1.69

Source: Eurostat.

Figure 18. European patent applications filed with the European Patent Office (by country of residence of the applicant)

	1978 (1)	1986 (2)	1992	1998	2004	2010	2017	2017 applications per million inhabitants
Belgium	84	346	601	1,078	1,493	2,040	2,155	188
France	312	3,440	4,743	5,643	8,079	9,531	10,559	157
Germany	1,211	9,018	11,422	15,809	23,044	27,354	25,490	316
Italy	13	1,290	2,229	2,835	3,998	4,088	4,352	70
Netherlands	138	1,283	2,377	3,534	6,974	5,957	7,043	412
<b>Spain</b>	<b>3</b>	<b>104</b>	<b>257</b>	<b>467</b>	<b>846</b>	<b>1,436</b>	<b>1,676</b>	<b>34</b>
UK	342	2,775	3,013	3,793	4,791	5,402	5,313	82

(1) European patent agreement entered into force in 1978.

(2) Spain joined the European patent organisation in 1986.

Source: EPO Annual Reports.

Spain has no shortage of talented young scientific researchers, but too often they have been left with no option but to seek employment abroad. In general terms, however, Spain needs to equip its young people with the higher productivity skills that tech-oriented businesses demand. There are, however, some striking successes; for instance, several Spanish companies were involved in the creation of Curiosity, the robot designed to find out whether there was or is life on Mars, and three out of every five flights worldwide are controlled using Spanish air navigation systems. This belies the fatalistic approach epitomised in the phrase of the philosopher Miguel de Unamuno (1864-1936): ‘Let them invent! The electric bulb lights up here as much as where it was invented’. More pertinently, Unamuno also said, ‘We should try to be the parents of our future rather than the offspring of our past’.

The surge in exports over the last decade reflects the gains in Spain’s competitiveness (see the section below). Exports relative to GDP are 10 percentage points above 2007 levels. In the run-up to the global financial crisis in 2008, wage growth outstripping productivity led to a 30% faster increase in Spain’s unit labour costs, compared with countries like Germany, making exports uncompetitive. Unit labour costs were lower in 2018 than in 2015, as a result of a reduction in wages in real terms and greater employer flexibility following the 2012 labour market reforms, as the standard countercyclical policy response of exchange-rate devaluation and loose monetary policy were not available to the authorities because of Spain’s membership in the European Monetary Union.

Spain was ranked 36<sup>th</sup> in the IMD ranking in 2018, up from 45<sup>th</sup> in 2013, its lowest point (see Figure 19). The main weaknesses include the unemployment rate, the size of total general government debt, employee training and language skills.

**Figure 19. Competitiveness input factors, ranking in each category and overall ranking, 2013-17**

	2013	2014	2015	2016	2017
Economic performance	53	51	39	30	35
Government efficiency	50	46	43	49	38
Business efficiency	50	42	46	41	42
Infrastructure	27	27	29	27	26
Overall ranking	45	39	37	34	36

Source: IMD World Competitiveness Yearbook 2018.



## 6. Labour market: haves and have-nots

Spain has moved from a labour market characterised during the Franco regime by heavy state intervention, no free trade unions, the prohibition of strikes and lock-outs, a low female participation rate and paternalistic legislation to one that is flexible, but marked by consistently high unemployment and a chasm between ‘insiders’ (those on permanent contracts) and the precarious conditions of the inordinate number of ‘outsiders’ (those on temporary contracts).

Affiliation to the so-called *sindicatos verticales* or ‘vertical unions’ was compulsory for Franco’s workers. They grouped employers and workers, with the stated intention of suppressing the class struggle. Labour contracts were very largely indefinite, laying off workers was penalised and severance payments were generally high for employers. Even when workers were dismissed and imprisoned for anti-regime activities, they had the right to return to their job. For example, Marcelino Camacho, a leading communist, was always able to return to his metallurgy job at Perkins after spells in prison (after Franco’s death, Camacho became the first Secretary General of the previously clandestine Communist trade union *Comisiones Obreras*). Workers were given an extra month’s salary in the summer known as ‘the 18th of July wage’ and that day was a national holiday, in commemoration of the anniversary of the beginning of the Civil War.

There was full employment in the last decade of the Franco regime (with a yearly average jobless rate of just under 2%), but this was made possible by considerable *pluriempleo* (holding two or more jobs) in order to make ends meet, very low female participation in the labour market and massive emigration for economic reasons (2.75 million between the 1950s and 1973). These factors significantly lowered the unemployment rate, as both the numerator (those without jobs) and the denominator (the size of the labour force) were very much reduced. The jobless rate began to rise after the two oil-price shocks in the 1970s (to 3.8% in 1975), as it was aggravated by the return of migrants as a result of the economic slump throughout Western Europe. Some 200,000 Spanish ‘guest workers’ in Germany returned home in 1975, and there was a steady exodus of workers from Spain’s agricultural sector, despite the declining job prospects in cities. Between 1973 and 1985 one million jobs were lost in agriculture and 1.2 million in industry and construction. The unemployment rate climbed continuously, exceeding 10% in 1980 and 20% in 1984.

Apart from the real-estate bubble period (2002-08), Spain’s jobless rate since 1980 has been at least five percentage points above that in Germany, France, Italy, the UK and the US, 10 points higher in the early 1990s and 15 points in 2013 and 2014. Even in 2007, at the height of its economic boom, Spain’s jobless rate was 8%, a high level by the standards of countries such as Germany and the UK (whose respective unemployment rates in 2018 were just over 3% and 4%). Spain’s rate peaked at 27% (6 million jobless) in 2013 during

the Great Recession and in 2018 was down to below 16%, but this was still 8 percentage points higher than its pre-crisis level and double the EU average, and youth unemployment (those under 25) was still more than 30%. There was also a deep north-south divide, with the jobless rate in the Basque Country and Navarra at 10% but at 23% in Andalusia. Furthermore, 40% of all unemployed had been without a job for more than a year; the longer they were out of work and the older they are the less likely the prospect of returning to employment. More than half the total number of youth employment losses were in the construction sector. The figures are dire, but no one starves in Spain. The jobless survive on unemployment benefits, money from relatives (the extended family comes to their help) and the 'black' (unofficial) economy.

Why is unemployment in Spain so stubbornly high? Some of it is overstated because workers have off-the-books jobs in the informal economy, which cushions the impact of the high unemployment (see Figure 20). And yet Italy's shadow economy is larger than Spain's but its jobless rate is much lower, at around 10%.

**Figure 20. Size of the shadow economy of the largest EU countries, 2003-18 (% of official GDP)**

	2003	2005	2007	2009	2011	2013	2015	2017	2018
France	14.7	13.8	11.8	11.6	11.0	9.9	12.3	12.8	12.5
Germany	16.7	15.0	13.9	14.3	12.7	12.1	11.2	10.4	9.7
Italy	26.1	24.4	22.3	22.0	21.2	21.1	20.6	19.8	19.5
<b>Spain</b>	<b>22.2</b>	<b>21.3</b>	<b>19.3</b>	<b>19.5</b>	<b>19.2</b>	<b>18.6</b>	<b>18.2</b>	<b>17.2</b>	<b>16.6</b>
UK	12.2	12.0	10.6	10.9	10.5	9.7	9.4	9.4	9.8
EU-28	22.6	21.8	20.3	20.1	19.6	18.8	18.3	17.3	16.8

The values for some countries in 2016 and 2017 are projections on the basis of preliminary values. Those for Germany have been adjusted due to a change in the country's official GDP statistics.

Source: calculations by Professor Doctor Friedrich Schneider, University of Linz, Austria, 2018.

Workers emerged from the Franco regime with ironclad job security, and those protections remained. Democracy brought class-based trade unions but the paternalistic labour legislation was seen as a 'worker conquest' and political freedom gave the unions the muscle to exploit Franco's *ordenanzas* to the full. Temporary contracts were introduced in Spain in 1984 –when the unemployment rate was 20%– by the first Socialist government of Felipe González in order to make the labour market more flexible. Employers complained that the rigid labour-market rules would put them at a disadvantage when Spain joined the European Community in 1986 and became a free-market economy. Employers were quick to use them and by 1997 around one-third of jobholders held temporary contracts, three times the EU average. This created the two-tier system of 'insiders' and 'outsiders' and widespread abuse of temporary contracts.

Temporary workers were the first to lose their jobs when the crisis hit, particularly after the bursting of the massive property bubble. The construction sector shed 1.3 million jobs between 2008 and 2018; many of these workers, having left secondary school at 16, were poorly qualified to find alternative employment, though not as much as in Italy (see Figure 21).

Figure 21. Percentage of adults with low literacy and/or numeracy skills, by age group

	Aged 16-24	Aged 25-34
Italy	32.1	29.3
US	30.1	26.7
England	28.5	23.5
<b>Spain</b>	<b>25.0</b>	<b>26.8</b>
France	22.7	21.0
OECD average	21.8	20.5
Germany	18.6	17.3

Source: OECD, Getting Skills Right: Spain, 2018.

When the economy was booming in the decade to 2008, boys, more than girls, dropped out of school in droves, particularly for jobs related to the construction sector. And it paid them to do so: unskilled construction workers were taking home not much less than a university teacher. In 2006, the early-school leaving rate was a whopping 30%. More than 20% of workers today are still on temporary contracts (see Figure 22) and fewer than one in 10 of them were offered permanent contracts in 2017, the lowest proportion in the EU, according to a study by Eurostat.

Figure 22. Temporary employees as a percentage of the total number of employees, 2006 and 2017

	2006	2017
<b>Spain</b>	<b>27.1</b>	<b>22.1</b>
EU-28	11.1	11.3
Germany	10.6	10.0
Italy	9.4	11.8
UK	4.4	4.3

Source: Eurostat.

Another factor behind high unemployment was the influx of immigrants. Spain's booming construction sector in the decade to 2008 acted as a magnet for immigrants. They were particularly needed in the construction and agricultural sectors, as there were not enough Spaniards to work in them or prepared to work in them. At the peak of the boom, more than half of the 3.3 million non-EU immigrants worked in the construction sector. When the economy went into recession, immigrants bore a large part of the surge in unemployment. The jobless rate among foreigners in 2018 was 22%, eight percentage points higher than that for Spaniards.

It is an axiom that higher educational attainment increases employment prospects. In Spain 34% of those aged between 25 and 34 in 2017 had not achieved an upper secondary –more than twice the OECD average of 15%–, 24% held an upper secondary or post-secondary non-tertiary qualification –with an OECD average of 42%– and 41% a tertiary qualification –only slightly below the OECD average of 43%–. Spain has made considerable progress in attainment in the last 40 years, and has done better than many other European countries as regards educational mobility: around 40% of adults have a higher level of education than their parents. It also leads in the area of early childhood enrolment rates: 96% of three-year-olds are in education compared to the OECD average of 76%.

The unemployment rate for young adults who have not completed upper secondary education is about 30% (OECD average, 16%), compared with 21% for those with upper secondary education and 16% for tertiary-educated individuals. Spain also has a low share of young adults aged 15 to 19 enrolled in vocational education and training programmes compared to other OECD countries (12% versus 25%), despite the fact that those with a vocational qualification have an employment rate of 74%, as against 63% for those with a basic education qualification.

One of the positive results of Spain's Great Recession has been the considerable reduction in the country's early school-leaving rate, as students have little option but to stay on at school after 16, but at 18% in 2017, and beginning to rise again, it was still the second highest in the EU after Malta (see Figure 23). Many of those who dropped out of school early were repeaters at the lower secondary level: Spain has the largest share of these repeaters across all OECD countries (11% compared with an average of 2%).

Figure 23. Early leavers from education and training, 2006 and 2017 (1)

	2006	2017
<b>Spain</b>	<b>30.3</b>	<b>18.3</b>
Italy	20.4	14.0
EU-28	14.2	10.6
Germany	13.7	10.1
France	12.4	8.9
UK	11.3	10.6

(1) The percentage of those aged between 18 and 24 who have only lower secondary education or less and are no longer in education or training.

Source: Eurostat.

The proportion of 15-to-34 year-olds not in employment, education or training (known as NEETs) was also still high at 17.9% in 2017 (see Figure 24).

Figure 24. Young people neither in employment nor in education and training, 2008 and 2017 (1)

	2008	2017
<b>Spain</b>	<b>16.0</b>	<b>17.9</b>
Italy	20.3	25.5
EU-28	15.3	14.7
Germany	12.7	10.0
France	13.3	15.0
UK	11.3	12.2

(1) Percentage of 15-to-34 year-olds.

Source: Eurostat.

Skill demands are more polarised in Spain than in many other OECD countries, with a big share of jobs requiring either very low levels of education or very high levels. The share of all jobs requiring only a primary education is higher in Spain (25%) than in any other OECD country; however, the supply of low-educated workers exceeds demand. At the other end of the labour force, Spain faces high over-qualification and field-of-study mismatch. ‘Rising educational attainment has created a large supply of highly-qualified adults, but many of them are working in jobs for which they are over-qualified’, the OECD noted in a report on Spain.<sup>11</sup>

<sup>11</sup> Published in April 2018 and available at [https://read.oecd-ilibrary.org/employment/getting-skills-right-spain\\_9789264282346-en#page1](https://read.oecd-ilibrary.org/employment/getting-skills-right-spain_9789264282346-en#page1).

Spain implemented 52 labour reforms between the 1980 Statute of Workers' Rights, which laid the foundations for post-Franco labour relations, and 2015, apparently a world record in this sphere, but high unemployment persisted and the labour market remained dysfunctional. The last package of reforms, in 2012 by the previous Popular Party government, helped to create employment, but the bulk of new jobs since then were temporary, with contracts typically ranging from a few days or less to, at best, six months. Those working in the tourism sector in 2018 (2.65 million) outnumbered those in construction (2.55 million) for the first time since 2008, but 35% of them were on temporary contracts. One proposal to create a level playing field between temporary and permanent workers would be to introduce a single employment contract but the idea has yet to be taken up.

The 2012 reforms were more ambitious than those in 2010 by the previous Socialist government (which led to a general strike) as they allowed companies to opt out of collective pay-setting agreements within industries and to make their own deals with workers. They also gave companies greater discretionary powers to adopt internal measures to limit job destruction. Dismissal regulations were also modified, redefining the conditions for fair dismissal and improving further on the greater clarity introduced by the 2010 reform. Severance payments in the case of unfair dismissal for those on permanent contracts were reduced from 45 days per year-worked with a maximum of 42 months to 33 days per year with a maximum of 24 months and the requirement of administrative authorisation in the case of collective redundancies eliminated. Compensation for permanent contract termination in the case of redundancies for objective reasons was set at 20 days per year-worked with a maximum of 12 months. Employment protection legislation (EPL) became less strict, though severance pay for permanent workers in relative terms remained among the highest in OECD countries, despite the significant reduction in compensation for unfair dismissal. The reforms lowered the GDP growth rate needed to create jobs from around 2% to 1%-1.5%.

## 7. Exports: surprising success

Spain has become a relatively significant exporter. In 1976 exports of goods represented a mere 8.5% of GDP as against 22.6% for Italy, 22.5% for the then West Germany and 16.1% for France. Foodstuffs such as oranges, wine and olive oil were Spain's main exports then (21% of the total) in an unsophisticated range of products. In 2017, Spain's merchandise exports hit a record 23.8% of GDP compared with 20.7% for France, 26% for Italy and 39.2% for reunified Germany, with the motor industry's exports (vehicles and components) accounting for 16.3% of the €277 billion total (negligible 40 years earlier). Spain is the second-largest producer of cars in the EU and the 8th worldwide, and around 1,000 companies manufacture spare parts and equipment. Other exports range from oddities such as doughnuts to machine tools, information and air traffic control systems and space navigation equipment.

The surge in merchandise exports began as of 2009 when the Spanish economy was in a slump: output shrank 9.2% between 2008 and 2013, but even allowing for this fall, which made exports in GDP terms look better, this was still a significant achievement (see Figure 25). Spain's exports rose from €162.9 billion in 2009 to €283.7 billion in 2017 (+74%) while Germany's increased from €806.6 billion to €1.28 trillion (+59%), France's from €355.7 billion to €473.6 billion (+33%) and Italy's from €293.7 billion to €448.1 billion (+52.5%).

Figure 25. Merchandise exports' value, as a percentage of GDP and coverage, 2007-18  
(€ billion and %)

	Exports (€ bn)	% of GDP	Coverage (%) (1)
2007	184.8	17.6	64.7
2008	191.4	17.3	66.8
2009	162.9	15.2	77.6
2010	186.8	17.7	77.8
2011	215.2	20.2	81.8
2012	226.1	21.5	87.7
2013	235.8	22.8	93.4
2014	240.6	22.9	90.6
2015	249.8	23.3	90.9
2016	256.5	22.8	93.6
2017	277.1	23.8	91.6
2018 (2)	144.9	–	90.8

(1) Exports as a percentage of imports.

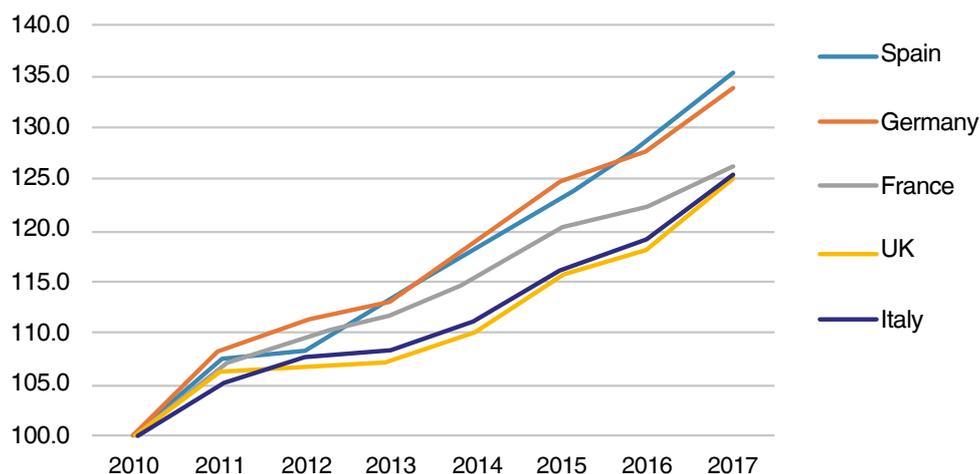
(2) First six months.

Source: Ministry of Economy and Competitiveness.

External demand, after years of excessive internal demand, has played a key role in Spain's economic recovery. Since 2013 exports have covered more than 90% of imports (the 2007 level of imports was not surpassed until 2017), reducing the trade deficit massively.

Including services (defined as any service provided by a resident in one country to people or companies from another), Spain's exports stood at 34.1% of GDP in 2017, up from 25.5% in 2010 and the fastest rate of growth of the five largest EU economies, although from a lower base (see Figure 26). Germany's were 47.2%, Italy's 31.3%, France's 30.9% and the UK's 30.5%

**Figure 26. Exports of goods and services, 2010-17 (2010 = 100)**



Source: Eurostat.

The impressive export performance contributed significantly to the turnaround in Spain's current account, which moved from a nerve-wracking deficit of 9.3% of GDP in 2008 to a small surplus in the last five years (1.9% of GDP in 2017). The sustained surpluses helped to improve the net international investment position (NIIP) by 14 percentage points since 2013 to -81% of GDP at the end of 2017 (ie, Spain's foreign liabilities exceeded its foreign assets). Germany's NIIP, by comparison, was 60% of GDP (ie, its foreign assets exceeded its foreign liabilities), twice the 2012 level.

Spain's global market share of merchandise exports rose from 1.6% in 2012 to 1.8% in 2017 (see Figure 27), above its share of world GDP (1.6%), while that of services dropped from 3.2% to 2.6% (see Figure 28).

Figure 27. Ranking by global market share of merchandise exporters, 2012-17 (%)

Ranking*	2012	2014	2015	2016	2017
1. China	11.2	12.3	13.8	13.2	12.8
2. US	8.4	8.5	9.1	9.1	8.7
3. Germany	8.3	7.9	8.1	8.4	8.5
8. France	3.1	3.1	3.1	3.1	3.0
9. Italy	2.7	2.8	2.8	2.9	2.9
10. UK	2.6	2.7	2.8	2.6	2.5
<b>17. Spain</b>	<b>1.6</b>	<b>1.7</b>	<b>1.7</b>	<b>1.8</b>	<b>1.8</b>

Ranked by position in 2017.  
Source: World Trade Organisation.

Figure 28. Ranking by global market share of exporters of commercial services, 2012-17 (%)

Ranking*	2012	2014	2015	2016	2017
1. US	14.1	14.1	14.8	15.4	14.5
2. UK	6.4	6.8	7.3	6.9	6.7
3. Germany	5.9	5.5	5.3	5.6	5.6
4. France	4.8	5.4	5.1	4.9	4.7
5. China	4.4	4.6	4.9	4.3	4.3
<b>11. Spain</b>	<b>3.2</b>	<b>2.8</b>	<b>2.5</b>	<b>2.7</b>	<b>2.6</b>
14. Italy	2.4	2.3	2.1	2.1	2.1

Ranked by position in 2017.  
Source: World Trade Organisation.

Exporting has been a path to survival for many companies after the country went into the Great Recession. Faced with plummeting demand from consumers (private consumption dropped 14% between 2008 and 2013) and the government, some firms, particularly small and medium-sized ones, had no alternative but to seek out markets abroad or face going to the wall. Three-quarters of the increase in exports between 2008 and 2013 was due to what the authors of a study (*Venting Out: Exports during a Domestic Slump*) call the 'expulsion effect', or, more colloquially, 'making a living', and only 25% to gains in competitiveness. For example, the exports of Gestamp, the manufacturer of metal automotive components founded in 1997, with plants in many countries, surged 179% between 2008 and 2012, as it sought new markets away from Spain's depressed vehicle industry.

The total number of exporters rose from 137,528 in 2012 to 161,454 in 2017, and regular ones (more than four years continuously) from 38,373 to 50,562. Growth in regular exporters (+24.1%) was almost three times more than that in total exporters (+9.2%). This is a significant structural improvement, particularly given the fixed costs companies incur when they enter foreign markets, and is a hopeful sign that Spain will keep on improving its export performance and not ease up when the domestic market is booming again.

Markets and products have been diversified. The EU, as expected, takes the lion's share of exports of goods (65% in 2017), but there has been noticeable progress into other markets, such as Turkey and China. Total exports to Latin America, however, and despite all the fraternal relations and traditional links, are still well below those to tiny neighbouring Portugal (7.5% of the total as against 5.6%).

A major challenge is to increase the size of companies so that more have the economies of scale to be able to export. Fewer than 1% of companies in Spain have more than 50 workers (compared with 3% in Germany). The 10 largest exporters accounted for 15.5% of total exports in 2017 (see Figure 29). The average size is a fraction compared to that of many other developed economies. Firm size is the largest single determinant for companies to start exporting.

**Figure 29. Percentage share of the value of Spain's exports by main exporters, 2017**

Main exporters	% share
Top 10	15.5
Top 25	24.5
Top 100	38.9
Top 500	58.6
Top 1,0000	67.5
Top 5,000	87.8

Source: ICEX with customs data.

## 8. Direct investment abroad: the forging of multinationals

If a foreigner had been asked to name a well-known Spanish company 40 years ago, he might have said Iberia, the flagship airline, and perhaps the car producer Seat, but nothing else. Ask the same question today and the list would probably include the bank Santander, the telecoms giant Telefónica (owner of O2), the fashion retailer Zara and the cava producer Freixenet.

These companies, and many more, have acquired assets abroad that have made some of them significant players on the global corporate stage. They are the dynamic part of Spanish business. As well as being the largest bank in the euro zone by market capitalisation, Santander, along with its rival BBVA, owns a large swathe of the Latin American banking system; Acerinox is the largest producer of stainless steel; Ebro Foods is the leading trader/miller of rice; Inditex is the world's largest fashion retailer; Roca is the leading producer of sanitary equipment; Iberdrola is the number one producer of wind power; and Grupo Antolin is the leading supplier of headliner substrates.

The stock of Spain's direct investment abroad soared from US\$16 billion in 1990 to US\$597.2 billion in 2017, higher than Italy (see Figure 30). It peaked at US\$656 billion in 2011. The stock represented 48.5% of GDP in 2017 (5.7% in 1995) compared with 60% for France, 47% for Germany and 29.5% for Italy, and accounted for 1.9% of the global outward stock (above Spain's 1.6% share of global GDP).

Figure 30. Outward stock of foreign direct investment, 1990-2017 (US\$ billion) (1)

	1990	2000	2010	2015	2017
France	120	366	633	1,173	1,452
Germany	309	484	794	1,364	1,607
Italy	60	170	244	491	533
<b>Spain</b>	<b>16</b>	<b>129</b>	<b>305</b>	<b>653</b>	<b>597</b>
UK	229	940	1,239	1,686	1,532

(1) Figures rounded off.  
Source: World Investment Report 2018, UNCTAD.

The extent of the internationalisation of Spanish companies can be gauged by the high proportion of revenue generated abroad by the firms that comprise the Ibex-35 benchmark index of the Spanish stock market. In 2017 a record 67.7% of their total revenue of €443.4 billion came from abroad (23.8% in 1997). Santander earned 87.3% of its revenue internationally, its rival BBVA 82.6% and Acciona, the infrastructure and renewable energy company, 56.3% (see Figure 31).

Figure 31. International revenues of Ibex-35 companies, 2017 (€ million and % of total revenues)

Company	Sector	Total revenues (€ mn) (1)	International (% of total)
Abertis	Motorways	5,136	74.0
ACS	Construction & services	34,898	87.3
Acerinox	Metals	4,627	89.7
Aena	Consumer services	3,961	5.4
Amadeus	Technology	4,852	95.0
Acciona	Construction	7,254	56.3
Amadeus IT Holding	Travel technology	3,418	95.0
Bankia	Banking	2,309	0.1
Bankinter	Banking	1,289	8.3
BBVA	Banking	29,296	82.6
Caixabank	Banking	6,970	6.0
Cellnex	Technology	758	44.0
Inmobiliaria Colonial	Real estate	283	69.1
Día	Supermarket chain	8,620	44.4
Enagás	Energy	1,360	0.2
Endesa	Energy	19,556	9.7
Ferrovial	Construction	12,208	76.8
Gas Natural	Energy	23,306	53.8
Grifols	Pharmaceutical	4,318	94.4
IAG	Transport	21,329	86.5
Iberdrola	Energy	31,263	57.6
Inditex	Consumer goods	25,336	83.7
Indra	Technology	3,012	53.9
Mapfre	Insurance	19,309	65.4
Mediaset	Consumer services	986	2.9
Melia	Consumer services	1,885	52.7
Merlin	Real estate	463	2.3
Red Eléctrica	Energy	1,941	2.2
Repsol	Energy	41,668	50.3
Banco Sabadell	Banking	4,840	34.7
Banco Santander	Banking	56,041	87.3
Siemens Gamesa	Engineering	6,538	97.5
Técnicas Reunidas	Engineering	5,068	98.6
Telefónica	Telecoms	52,007	75.6
Viscofan	Consumer goods	778	86.2
<b>Total</b>		<b>443,468</b>	<b>67.7</b>

(1) Figures rounded to nearest whole number.

Source: BME Spanish Exchanges. Data from the National Securities Market Commission (CNMV).

The first and very modest wave of outward direct investment occurred in the 1960s and early 1970s. Spain at that time was opening up its economy after moving away from the autarky that followed the country's 1936-39 Civil War. The catalyst for a much stronger drive came from joining the European Economic Community in 1986 when the underdeveloped Spanish market was opened up to foreign investment. The liberalisation of the domestic market as European single market directives began to unfold made the big Spanish companies –particularly the state-run companies in oligopolistic sectors such as telecommunications (Telefónica), oil and natural gas (Repsol and Gas Natural) and electricity (Endesa), all of which were privatised and became cash rich– and the big private-sector commercial banks conscious of the need to reposition themselves in the more competitive environment. Membership of the euro as of 1999 gave Spain a more solid currency and lower financing costs.

The shift away from Latin America, the natural first port of call because of the cultural affinities and the wave of privatisations in the 1990s, and into Europe, particularly the UK, the US and to some extent Asia, was marked by several emblematic investments: Santander's €12.5 billion purchase of UK bank Abbey in 2004, the acquisition by BBVA of two small banks in California and Texas, and Telefónica's purchase in 2006 of the O2 mobile telephony operator in the UK, Germany and Ireland for €26 billion.

Companies started a new wave of acquisitions in 2014, following the incipient recovery in the domestic economy and spurred by the build-up of large cash reserves, interest rates at historically low levels, an abundance of liquidity in markets and stock markets with an appetite for companies financing their purchases by increasing their capital. The largest investment was Repsol's purchase of Canada's Talisman Energy for €6.6 billion. BBVA increased its stake in Turkey's Garanti Bank to 49.85% and Banco Sabadell acquired the 600 branches of the UK's TSB (see Figure 32).

Figure 32. Spanish acquisitions abroad, 2014-18

Company	Sector	Company acquired and cost
Repsol	Oil and gas	100% of Canadian Talisman Energy, €6.6bn plus debt
Gas Natural Fenosa	Gas	Chilean Compañía de Electricidad, €2.6bn
CLH	Oil products pipeline	UK distribution network, €138mn
BBVA	Banking	Stake in Garanti Bank increased to 49.85% in two purchases for a total cost of €2.6bn
Banco Sabadell	Banking	Take-over of UK's TSB, €2.3bn
Bankinter	Banking	Barclays retail and insurance business in Portugal for €175mn
Abertis	Infrastructure	90% of Italy's Wind Galata, €693mn
Vidrala	Container glass	UK's Encirc, €408mn
NH	Hotels	Colombia's Royal, €66mn
Tubacex	Stainless steel tubes	68% of India's Prakash and 65% of Italy's IBF, around €60mn
Grifols	Pharmaceuticals	45% of US Alkatest, €38mn
Enagas	Gas	Acquired with Belgium's Fluxys Swedegas for €200mn
Grupo Antolin	Auto-parts	The car interior division of Magna for €490mn
Abertis	Toll roads	Enters India with purchase of two toll roads from Australia's Macquarie Group for €140mn
Iberdrola	Electricity	Acquires 50% of Vineyard Wind located off the coast of Massachusetts from Copenhagen Infrastructure Partners
Grifols	Pharmaceutical	Acquires 43.9% of the US GigaGen for US\$35mn

Source: the author.

Infrastructure and engineering companies have had extraordinary success in winning contracts, some of them flagship projects such as designing and constructing the high-speed railway between Mecca and Medina (inaugurated in 2018) and expanding the Panama Canal (see Figure 33). Spain has the most companies among the world's 10 largest transport developers (see Figure 34).

Figure 33. Major infrastructure works won by Spanish companies in recent years

Country	Project
Saudi Arabia	Design and construct the high-speed railway line between Mecca and Medina. Awarded to a Spanish-Saudi consortium (12 Spanish companies)
Saudi Arabia	Design and construct lines 4, 5 and 6 of the Riyadh underground railway (65km of tracks, 25 stations and 24 viaducts). FCC leads the consortium
Peru	Lima underground railway. Awarded to a consortium led by ACS (25%) and FCC (19%)
Australia	East-West Link in Melbourne, the largest civil works project in the country. Awarded to Acciona
Turkey	Tunnel under the Bosphorus and Istanbul-Ankara high-speed railway. Awarded to a consortium led by OHL
Panama Canal	Building new access channels and locks and widening the existing navigation channels. Awarded to a consortium led by Sacyr (48%)
China	Hotel and leisure resort in Macau (world's largest tourist hotel). Contract awarded to ACS
Qatar	Sidra hospital in Doha. OHL leads the consortium (55%)
Russia	Ural polar project. Awarded to OHL
Canada	CHUM hospital in Montreal. Awarded to consortium led by OHL (50%)
Scotland	Cable-stayed bridge over the Firth of Forth and expansion of Aberdeen port. Awarded to a consortium led by ACS
Australia	Sydney light rail project. Consortium including Acciona
Mexico	Contracts to build and operate two combined-cycle power plants in Sinaloa awarded to Iberdrola
UK	Contract to complete enabling works on the 100km central section of the high-speed rail linking Birmingham and London awarded to Ferrovial Agroman. CAF to supply 98 trains with carriages for the Northern franchise in the UK
US	Talgo wins contract to refurbish 74 rail cars of the Los Angeles Metro Consortium led by Ferrovial awarded contract to design and build segments of the State Highway 99 ring-road known as Grand Parkway in Texas OHL awarded contract for dry lake dust controls at Lake Owens in Keeler, California
Iran	Tubacex is to supply Iran's oil industry with €550 million of corrosion-resistant alloy pipes

Source: Ministry of Foreign Affairs and Cooperation and companies.

Figure 34. Ranking of the world's 10-largest transport developers (1)

	Operating or under construction	Of which: in the US	Of which: in Canada	Of which: in home country	All other
<b>1. ACS Group/Hochtief (Spain)</b>	<b>59</b>	<b>4</b>	<b>10</b>	<b>17</b>	<b>28</b>
2. Vinci (France)	47	1	3	17	26
<b>3. Abertis (Spain)</b>	<b>45</b>	<b>0</b>	<b>0</b>	<b>14</b>	<b>31</b>
4. Macquarie (Australia)	41	3	1	1	36
<b>5. Ferrovial/Cintra (Spain)</b>	<b>39</b>	<b>4</b>	<b>3</b>	<b>11</b>	<b>21</b>
<b>6. Sacyr (Spain)</b>	<b>33</b>	<b>0</b>	<b>0</b>	<b>13</b>	<b>20</b>
7. Meridiam (France)	30	7	3	3	17
<b>8 Globalvia (Spain)</b>	<b>28</b>	<b>1</b>	<b>0</b>	<b>16</b>	<b>10</b>
9. John Laing (UK)	25	3	0	14	8
10. Egis (France)	25	0	1	6	18

(1) Developers are ranked by the number of road, rail, port and airport concessions over US\$50 million in investment value that they have developed worldwide, alone or in joint ventures since 1985, and are currently operating or have under construction as of 1/X/2017.

Source: Public Works Financing.

Contracts won in the last year, usually with a consortium, include upgrading the rail line between Lund and Malmö in Sweden (OHL), maintaining and upgrading 700km of roads in Australia (Ferrovial), modernising an oil refinery in Bahrain (Técnicas Reunidas) and building the automatic passenger transport system for Montreal (ACS).

## 9. Banks: from a cosy club to tough competition

The cosy world of Spanish banking was epitomised by the monthly meetings between the chairmen of the seven largest commercial banks, which were held during the Franco regime and well into the 1980s and constituted a cartel. The lion's share of banking business in a strongly protected and highly profitable market was in the hands of the so-called Big Seven and those banks controlled by, affiliated to or associated with them. They also had major stakes in industrial companies. The average age of the chairmen was 70, long past the normal retirement age; two of them had been in their groups since before the Civil War.

This situation lasted until September 1989 when Banco Santander, the sixth-largest lender, broke ranks and launched the so-called 'deposits war' by massively marketing high-interest-bearing current accounts. This marked a sea change in the Spanish banking system. The chairman of one of the other seven banks called Santander's new accounts 'immoral'. Santander's commercially aggressive chairman, the innovative Emilio Botín, had succeeded his 83-year-old father in 1987.

The Big Seven have morphed over the past 30 years into the Big Two, as a result of a wave of mergers, triggered by the need after Spain joined the European Economic Community (EEC) in 1986 to be in a stronger position to defend the domestic market from the arrival of EEC banks. In 1993, Spain's monetary authorities had to give up their power of discretion that effectively could prevent the establishment of European banks in the country. The mergers came after the 1977-85 banking crisis, one of the most severe in Europe, which affected 58 banks (more than half those existing in 1977) accounting for 27% of deposits, 28% of employees and 11% of branches.

Banco de Bilbao was the first off the mark and teamed up with Banco de Vizcaya to form BBV in 1989. In 1999 the state bank Argentaria was privatised and added to create BBVA. Santander swallowed up Banco Central, Banco Hispano Americano, Banesto and most recently, in 2017, absorbed the ailing Banco Popular, which was on the verge of collapse. The seven largest banks might have been big in Spanish terms, but they were minnows on the global stage. That has changed. As well as being the euro zone's largest bank by market capitalisation, Santander is one of the Financial Stability Board's global systemically important banks –meaning, at least in theory, that it is too big to fail, and is subject to higher capital buffer and total loss-absorbing capacity requirements–.

Santander pioneered a 'third way' with its expansion onto the global stage, spurning the approach of Citigroup and HSBC, which focused on serving big companies and facilitating trade, and that of JPMorgan Chase or Deutsche Bank, which created investment banking hubs in places like New York and London.<sup>12</sup> Santander created a global retail bank (with more than 133 million clients). Both Santander and BBVA generate most of their profits

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<sup>12</sup> See 'The Santander experiment' by Schumpeter in *The Economist*, 24/11/2018.

abroad, enabling them to weather downturns in their home market. The largest slice of Santander's profits comes from Brazil and BBVA's from Mexico.

There has also been substantial change among the close to 80 regionally-based savings banks, known as *cajas*, that existed in the 1980s and which accounted for more than 40% of deposits. They were allowed as of 1989 to extend beyond their traditional territory and in 1993 were free to open as many branches as they wanted around Spain, and they did so to an excessive degree. The number of savings-bank branches rose from 13,642 in 1990 to a peak of 25,001 in September 2008, while the number of branches of the more prudent commercial banks dropped over the same period from 16,917 to 15,657.

Spain suffered a second and much worse banking crisis in 2009-13, following the bursting of a massive debt-fuelled property bubble which sparked a Great Recession. The total stock of loans to real-estate developers and builders ballooned to almost €500 billion (50% of Spain's GDP). The loan defaults of property developers and construction firms as a percentage of total bank lending (known as the non-performing loan, or NPL, ratio) surged from a mere 0.6% in 2007 to more than 25% in 2012. The total NPLs of Spain's banks peaked at 13.8% of lending to all sectors in 2013 (excluding the toxic loans placed in a specially created 'bad bank'), up from a mere 0.7% in 2006. In five years the banking system moved from total profits of €25 billion in 2007 to losses of €74 billion in 2012.

The crisis was concentrated in Bankia, the largest real-estate lender created from the merger of seven ailing *cajas*, which was nationalised and rescued with the help of €22.4 billion from an EU bailout that totalled €42 billion for all those banks in dire straits. Total support for the recapitalisation of banks (€62 billion) was the fourth largest in the EU after the UK (€100 billion), Germany (€64 billion) and Ireland (€63 billion). As well as Bankia's nationalisation, the government had to intervene, force into mergers and/or nationalise eight institutions. The five largest banking groups accounted for 70% of total assets in 2017, up from 49% in 2008 (20 points higher than the EU average).

The number of banks was reduced from 55 in 2008 to 14. Most of those that disappeared were *cajas*. A bad bank, known as Sareb, was established to absorb and re-sell soured assets in bank portfolios of €106.5 billion (€50.8 billion, after discount). Santander and BBVA did not face significant liquidity problems as they were much better managed and their international diversification gave them access to funding denied to the savings banks.

The *cajas* were not limited companies and so did not have share capital. In the absence of shareholders, they were governed by a general assembly (representing the various stakeholders ranging from 'insiders' –employees and depositors– to 'outsiders' from local and regional governments) and a board of directors packed with political appointees sometimes with scant knowledge or experience of banking. Political control was one main reason for the *cajas'* troubles. Commercial and savings banks also did not have the same regulatory

frameworks. The *cajas* were regulated by both the national government (in charge of basic norms) and by the regional governments (in charge of the application and development of the norms). The Bank of Spain thus had limited supervisory competences over them.

As well as heavy exposure to toxic assets, other factors behind the crisis were weaknesses in the regulatory framework, bad lending practices, especially in the savings banks, and the passivity of the Bank of Spain. There were serious governance problems in the *cajas* during the run up to the crisis, misdiagnoses by the political authorities, slowness in reacting throughout the process, vulnerabilities associated with heavy investment in the real estate sector and dependency on wholesale markets for funding.

Spain exited the EU's bailout programme in 2014. The structural reforms tied to the programme including tighter rules for coverage of NPLs and for treatment of foreclosed property and real-estate collateral, higher capital-adequacy requirements, better governance frameworks and enhanced macroprudential oversight by the Bank of Spain have strengthened the banking sector. Supervisory procedures were also improved, including extending on-site continuous monitoring to all significant banks and the introduction of forward-looking exercises in order to regularly assess the solvency position. FROB, the body responsible for restructuring the banking system, took a scalpel to savings banks: 25 *cajas* were integrated into seven new banks.

The NPL ratio was down to around 6% in 2018 for banking business in Spain from a peak of 13.8% in 2013 and the provisioning ratio for the whole system stood at more than 40% (95% if collaterals are factored in) of total NPLs. Profitability has improved since the crisis but remained subdued, due to the low interest rate environment and the high level of NPLs in some bank. Profit before tax represented 0.71% of average total assets in 2017, down from 1.36% in 2002. Efficiency, as measured by the cost-to-income ratio, was greatly improved at above 50% compared to over 60% for Italy and the UK and over 70% for Germany. At the end of 2017, the state sold 7% of Bankia for €818.3 million, raising to €2.65 billion the amount of repaid state aid. The government has until the end of 2019 to sell off the 61% stake it still holds.



## 10. Foreign policy: from isolation to full integration

When the Franco regime ended in 1975, Spain was far from being fully integrated into the international order. It had been linked to the Western defence system as of 1953 after allowing the US to station air and naval bases in the country, and it joined the UN in 1955 and the IMF in 1958. Yet it did not have diplomatic relations with all countries. Relations with the Soviet Union and Mexico, both of which helped the Republican cause during the 1936-39 Civil War, were not re-established until 1977, and were not opened with Israel until 1986.<sup>13</sup> Franco did not recognise the State of Israel when it was created in 1948 as he maintained a pro-Arab discourse. Nearer home, the border with Gibraltar, the British Overseas Territory long claimed by Madrid, had been closed by Franco in 1969 and was not re-opened to pedestrian traffic until late 1982 (the same year that Spain joined NATO) and completely in 1985, as part of the process of joining the then EEC in 1986 when NATO membership was reaffirmed in a referendum.

Foreign policy was essentially focused on the European democracies, which were also Spain's main economic partners, and largely bipartisan for almost the first three decades after Franco, although there was also a strong Atlanticist component and a drive for closer relations with Latin America for cultural and historical reasons. King Juan Carlos played a key role in the transformation of Spain's foreign policy, in particular as a firm advocate of membership of the EEC.<sup>14</sup> Like many people of his generation, he fully identified with the philosopher José Ortega y Gasset's dictum that 'Spain is the problem and Europe the solution'. Juan Carlos's foreign policy experience and familiarity with numerous world leaders, begun several years before he became King, represented a valuable political capital.

It was not until the second Popular Party government of José María Aznar (2000-04), when Madrid backed the US- and UK-led invasion of Iraq, despite overwhelming opposition in Spain, that there was a significant shift in foreign policy.<sup>15</sup> The 11 September 2001 terrorist attacks in New York had galvanised the US connection –Aznar had narrowly survived an assassination attempt in 1995 by the Basque terrorist group ETA–. Aznar sought to forge a Spanish equivalent of the UK's 'special' relationship with Washington.

José Luis Rodríguez Zapatero, the Socialist Prime Minister (2004-11), reversed Aznar's policy of closer relations with the US when he took office by unilaterally withdrawing Spain's 1,200 peacekeeping troops from Iraq. The abrupt pull-out, which followed the bomb blasts by Islamist radicals on commuter trains in Madrid, outraged the White House. Not surprisingly, Rodríguez Zapatero was not invited to make an official visit to Washington (Aznar made 16).

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13 In the course of 1977, Spain also established diplomatic relations with Romania, Bulgaria, Yugoslavia, Poland, Hungary and Czechoslovakia.

14 During his reign, the King travelled to 103 countries on 241 visits (averaging more than six trips per year, and a record 13 in 2009), which in turn generated an only slightly smaller number of return visits to Spain by other heads of state.

15 Spain has a long history of anti-Americanism. See this author's Paper on the subject at <http://www.realinstitutoelcano.org/wps/wcm/connect/1bebe2804f0187e0be08fe3170baead1/047-2005-WP.pdf?MOD=AJPERES&CACHEID=1bebe-2804f0187e0be08fe3170baead1>.

While the troops were withdrawn from Iraq, Rodríguez Zapatero stepped up Spain's military presence in Afghanistan, started under Aznar. He drew a distinction between the 'illegal' war in Iraq (because it did not have UN support) and Afghanistan, which was a training base for terrorists and, unlike over Iraq, there was a wide consensus in the international community on the need for action. Perhaps because of the dictatorship, Spaniards set great store by the principles and institutions of international law.

The Popular Party's Mariano Rajoy succeeded Rodríguez Zapatero in 2011 and inherited an economy in ruins and a banking crisis, as well as later having to face the independence conflict in Catalonia, all of which understandably made him concentrate on domestic matters. He did, however, get Spain to join the International Syria Support Group and together with Italy, France and Germany put forward a proposal for an EU defence union. The passive foreign policy created a feeling among independent observers that Spain was punching below its weight.

When the Socialists returned to power under Pedro Sánchez in June 2018, the Spanish economy was in much better shape and the clock was ticking on the UK's withdrawal from the EU at the end of March 2019. Brexit is bad news for Spain, given the strong trade, direct-investment and tourism ties with the UK, and having the largest British expat community in Europe. The Socialists, like the PP, would like the softest Brexit possible. Two-way trade between Spain and the UK rose from €12.3 billion in 1995 to €30.3 billion in 2017, with Spain enjoying a trade surplus that year of €7.5 billion, some 18 million British tourists came to Spain and Spanish multinationals such as Banco Santander, the telecoms group Telefónica and the energy company Iberdola have major investments in the UK.

Madrid also sees in Brexit an opportunity to reconfigure the status of Gibraltar, though it is not at the top of Madrid's agenda. Brexit will make the Rock's border with Spain an external and not an internal EU frontier. As such, Spain could close it and a legal challenge by the UK/Gibraltar would be more difficult. In 2017 the PP government succeeded in persuading the institutions and members of the EU to grant what amounts to a veto over any aspect of the negotiations that affect the Rock, to the immense chagrin of the Gibraltarian government. The greatest concerns regarding Gibraltar relate to cross-border movement and taxation, in terms of their impact both on the economy of the Campo de Gibraltar district and on the illegal activities and trafficking resulting from the area's unique situation.

Sánchez thrust Spain into the front line of the EU's migration crisis by allowing the humanitarian ship Aquarius, carrying 629 migrants rescued from the Mediterranean, mainly Sub-Saharan, to dock in Valencia in June 2018 after the Eurosceptic Italian government turned it away. The move enabled Sánchez to distance himself from the legacy of Rajoy, who took in only 13% of Spain's quota of 19,449 refugees as part of a 2015 EU-wide accord. It also acted as a counterbalance to the xenophobic trends in Eurosceptic countries.

Josep Borrell, Spain's Foreign Minister and a former President of the European Parliament, wanted Spain to play a 'more intense role' in Europe, moving it closer to the Franco-German axis. Spaniards are in favour of deeper financial and political integration and a common policy on migration (see Figure 35).

Figure 35. What is your opinion on each of the following statements? For or against? (%)

	France		Germany		Italy		Spain	
	For	Against	For	Against	For	Against	For	Against
The free movement of EU citizens who can live, work, study and do their business anywhere in the EU	76	18	92	6	70	22	<b>90</b>	<b>7</b>
A common defence and security policy among EU member states	74	17	86	12	71	22	<b>82</b>	<b>10</b>
A common energy policy among EU member states	72	17	88	9	67	23	<b>81</b>	<b>11</b>
The EU's common trade policy	58	29	84	12	61	28	<b>80</b>	<b>11</b>
A common European policy on migration	67	24	85	14	68	25	<b>82</b>	<b>11</b>
A common foreign policy of the 28 EU member states	56	33	85	12	63	27	<b>78</b>	<b>13</b>
A digital single market within the EU	52	27	77	10	55	26	<b>71</b>	<b>12</b>
A European economic and monetary union with one single currency, the euro	70	24	83	14	61	29	<b>76</b>	<b>19</b>
Further enlargement of the EU to include other countries in future years	31	61	31	63	38	51	<b>67</b>	<b>20</b>

The difference between the sum of those for and against with 100 corresponds to the 'don't knows'.  
Source: Eurobarometer.

One area where Spain has been a particularly active international player, and generally unknown, is in participating in peacekeeping missions around the world. Its first mission was in 1989 when soldiers participated in the UN's peacekeeping mission in Angola. Since then the country has taken part in more than 50 missions of a different nature in countries such as Nicaragua, Haiti, Bosnia-Herzegovina, Ruanda, Albania, Kosovo, Afghanistan,

Pakistan, Iraq and Lebanon (see Figure 36). In Afghanistan alone, more than 13,000 troops have participated in missions. The only mission in which Spain was in a combat role was in Bosnia-Herzegovina when it participated in allied air attacks. The rest of the missions were humanitarian, peace keeping or as observers.

**Figure 36. Spain's ongoing international military missions**

Place	Mission	Started	Mandate
Bosnia and Herzegovina	EUFOR Althea	December 2004	EU
Lebanon	FINUL	September 2006	UN
Indian Ocean	Atalanta	January 2009	EU
Somalia	EUTM-Somalia	February 2010	EU
Colombia	UN Peace Agreement	August 2012	NATO
Mali	EUTM-Mali	January 2013	Spain/France
Senegal	Ivory detachment	January 2013	EU
Central African Republic	Support	December 2013	Spain/France
Turkey	Support	September 2014	NATO
Iraq	Support	October 2014	NATO
Mediterranean	EUNAVFORMED Shopia	June 2015	EU
Colombia	Peace process verification	2016	UN
Turkey	Protection from missiles from Syria	January 2015	NATO
Afghanistan	Resolute Support	January 2015	NATO
Central African Republic	EUTM RCA	July 2016	EU
Various zones	Sea Guardian	November 2016	NATO
Various zones	NATO permanent naval groups	January 2017	NATO
Baltic countries	Baltic Air Policing	May 2018	NATO

Source: Ministry of Defence.

The missions have come at a heavy price: 171 members of the armed forces have been killed, 62 of them in an air accident in May 2003 when a Russian-built Yak-42 bringing them back from Afghanistan crashed in Turkey, and six soldiers belonging to the UNIFIL contingent in Lebanon were killed in June 2007 by a car bomb.

These missions have played a not insignificant part in Spain's increased global presence, as measured by the Elcano Global Presence Index, which measures the results of internationalisation. The index, the result of adding together 16 indicators of external projection which are aggregated according to the criteria of experts in international relations, measures the ability of countries to project themselves beyond their borders

and the extent to which they are participating in and shaping the process of globalisation. First, it ranks a country's economic presence, including outward foreign direct investment and other elements such as energy, services and exports. Secondly, it assesses a country's military presence, which is determined by the number of troops deployed abroad and the equipment available for deployment, Third, it includes statistics on a country's soft presence, which is based on a wide number of factors including exports of cultural products, tourist arrivals and official development aid. By comparing a state's presence with its actual power (or influence), it is possible to gauge the extent to which it is punching above or below its weight. Spain is regarded as punching below its weight.

Spain's global index-value doubled between 1990 and 2017, underscoring the extent to which the country has reasserted itself into the international community since the transition to democracy, a process that coincided with globalisation. Spain was ranked 11th out of 110 countries in the 2017 index (see Figure 37). The country's share of the global-presence index rose from 1.4% to 2.1% between 1990 and 2017, while Germany's dropped from 6.4% to 5.6%, France's from 6.6% to 4.8% and Italy's from 3.2% to 2.4%, not much higher than Spain and something that few would have thought possible 40 years ago.

Figure 37. 2017 Elcano global presence ranking, top 20

Country	Score	Country	Score
1. US	2,494.1	<b>11.Spain</b>	<b>233.7</b>
2. China	840.7	12.South Korea	225.8
3.UK	636.7	13.India	202.4
4. Germany	618.5	14.Switzerland	190.4
5. France	531.6	15.Australia	185.5
6. Japan	518.1	16.Belgium	185.5
7. Russia	380.3	17.Singapore	127.7
8. Canada	337.4	18.Sweden	126.4
9. Netherlands	297.3	19.Brazil	118.9
10. Italy	271.1	20.Saudi Arabia	113.3

Source: Elcano Royal Institute.

Close to 60% of Spain's total global presence is economic (see Figure 38), followed by its soft presence (31.5%) and its military presence (10.2%). Spain was ranked 12th in economic presence, 17th in military presence and 9th in the soft dimension.

Figure 38. Spain's global presence index absolute values and % share in the index of the economic, military and soft presence dimensions

Variable	1990	1995	2000	2010	2013	2014	2016	2017
<b>Economic presence</b>	50.8	64.9	101.1	174.3	152.6	143.4	132.0	136.2
% of global presence	47.5	50.1	57.1	62.0	61.3	59.6	58.2	58.3
Energy	1.7	0.7	1.8	2.4	4.0	4.0	2.6	2.1
Primary goods	5.0	8.3	8.6	10.9	12.1	12.2	11.5	11.9
Manufactures	15.4	20.0	23.3	24.0	22.6	24.5	23.6	23.8
Services	22.3	24.8	30.1	35.9	31.4	31.5	30.4	32.2
Investments	6.3	11.0	37.4	101.0	82.5	71.2	63.9	66.2
<b>Military presence</b>	32.6	33.7	34.7	39.4	39.1	24.2	24.1	23.9
% of global presence	30.5	26.0	19.6	13.9	15.0	10.0	10.6	10.2
Troops	0.3	6.5	10.9	9.8	9.3	3.2	4.0	3.9
Military equipment	32.3	27.2	23.8	29.6	29.9	21.0	20.1	20.0
<b>Soft presence</b>	23.5	31.1	41.1	70.7	69.3	73.1	70.7	73.6
% of global presence	22.0	23.9	23.2	24.9	26.5	30.4	31.2	31.5
Migrations	1.5	1.8	2.7	9.2	8.9	8.8	8.0	8.0
Tourism	8.8	7.2	9.5	9.6	10.2	10.6	11.7	12.8
Sports	0.7	2.1	1.0	2.7	2.5	2.4	2.3	2.1
Culture	4.4	9.1	14.0	15.7	16.9	16.7	16.4	16.2
Information	0.0	0.1	0.4	3.7	7.8	10.9	10.6	10.5
Technology	2.7	2.2	2.5	4.1	3.2	2.9	2.4	2.3
Science	2.3	3.9	5.1	11.0	12.3	12.6	12.5	10.7
Education	1.0	2.0	3.6	3.8	4.3	4.3	4.2	4.1
Development coop.	1.9	2.6	2.4	10.9	3.2	3.8	2.6	6.7
<b>Global presence index value</b>	106.9	129.7	176.8	284.3	261.0	240.6	226.8	233.7
Position in the index	12	11	11	11	11	11	12	11
<b>% share of presence</b>								
<b>Economic</b>	1.43	1.71	1.96	2.77	2.35	2.12	2.02	2.11
<b>Military</b>	1.08	1.41	1.37	1.98	1.74	1.20	1.14	1.24
<b>Soft</b>	1.45	1.77	2.01	2.84	2.47	2.41	2.26	2.31
<b>Global</b>	1.43	1.71	1.96	2.77	2.35	2.12	2.02	2.11

Source: Real Instituto Elcano.

## 11. Migration: from a net exporter to a net importer of people

The face of Spain has changed enormously in the last 40 years and is no longer ethnically homogeneous. When Franco died in 1975 there were only 165,000 foreigners officially registered in the country. That number rose to 800,000 in 1990 (2.1% of the population) and peaked at 5.7 million in 2012 (12.1%). During the 1997-2007 boom, when the construction sector, in particular, demanded labour that Spaniards were unable to satisfy or did not want to do so, the country received more immigrants per capita than any other country in the world except the US. As a result of the Great Recession, which greatly reduced the inflow of immigrants, and foreigners becoming naturalised Spaniards (almost 700,000 between 2013 and 2016), the registered foreign population dropped to 4.7 million at the beginning of 2018. The largest foreign community are Moroccans (see Figure 39).

Figure 39. Registered foreign population, top-10 countries, 1 January 2018 and 1 January 2012

	1 January 2018 (1)	1 January 2012	Change 2018/12
Morocco	769,050	788,563	-19,513
Romania	673,017	897,203	-224,186
UK	240,934	397,892	-156,958
China	215,748	177,001	+38,747
Italy	206,066	191,901	+14,165
Colombia	165,608	246,345	-80,737
Ecuador	135,045	308,174	-173,129
Bulgaria	123,730	176,411	-52,681
Germany	110,852	196,878	-86,026
Ukraine	106,823	88,966	+17,857
Other countries	1,972,545	2,266,924	-294,379
Total	4,719,418	5,736,258	-1,016,840

(1) Provisional figures.

Note: These figures do not include foreigners who became naturalised Spaniards.

Source: INE.

For centuries Spain was a country of emigration for economic and political reasons. Between 1492, with the massive expulsion of Jews –and in 1609 of Muslims forcibly converted to Christianity (Moriscos) a century earlier–, and 1975, around 3 million Spaniards left the country under political or economic pressure, without counting the very many others who formed part of a regular process of emigration, according to the historian Henry Kamen.

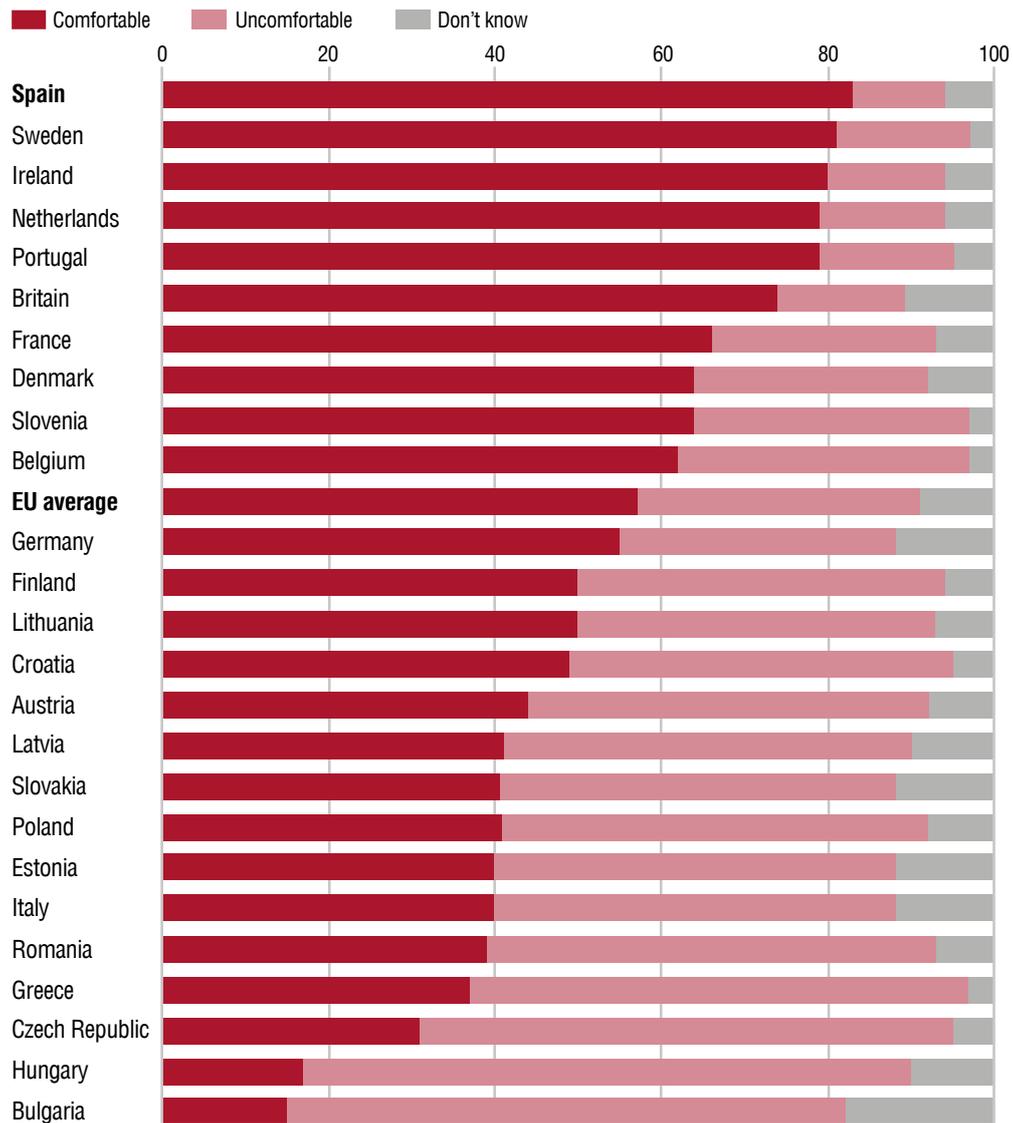
Spain was the 'only European country to have attempted to consolidate itself over the centuries not through offering shelter but through a policy of exclusion', Kamen wrote in his book *The Disinherited*.

More than 250,000 people on the losing Republican side went into permanent exile after the 1936-39 Civil War, and between the 1950s and 1973 2.75 million emigrated mainly to France, Switzerland, Belgium and Germany and principally for better employment prospects. Spain stopped being a country of net emigration around 1988, as EEC membership created the economic conditions for Spaniards to return home and the incentive to move abroad was much less.

To Spain's great credit, the huge influx of immigrants has not produced any significant xenophobic, far-right movements or parties, making the country in this respect an exception to the norm in many other EU countries, such as the UK, France and Germany. The far-right Vox won a mere 0.2% of the vote in the June 2016 general election. There are no French-style *banlieues* or US-style ghettos in Spain.

Many Spanish families have relatives who emigrated, helping them to view today's migrants with understanding and sympathy and to feel relatively comfortable with them (see Figure 40). Assimilation has also been aided by a significant chunk of the foreign population (20% in 2018) being Latin American and hence (apart from Brazil) sharing the same language and often the same religion (Roman Catholicism), while Romanians, the second-largest foreign community in Spain, pick up the Spanish language easily.

Figure 40. Comfort zones: do you feel comfortable or uncomfortable in social interactions with immigrants? (% responding)



Source: Economist.com.

The balance of migrants over a period of less than 20 years has been generally very positive, but Spain is still far from those countries where immigrants play an important role in public life.



## 12. Social change: a new world

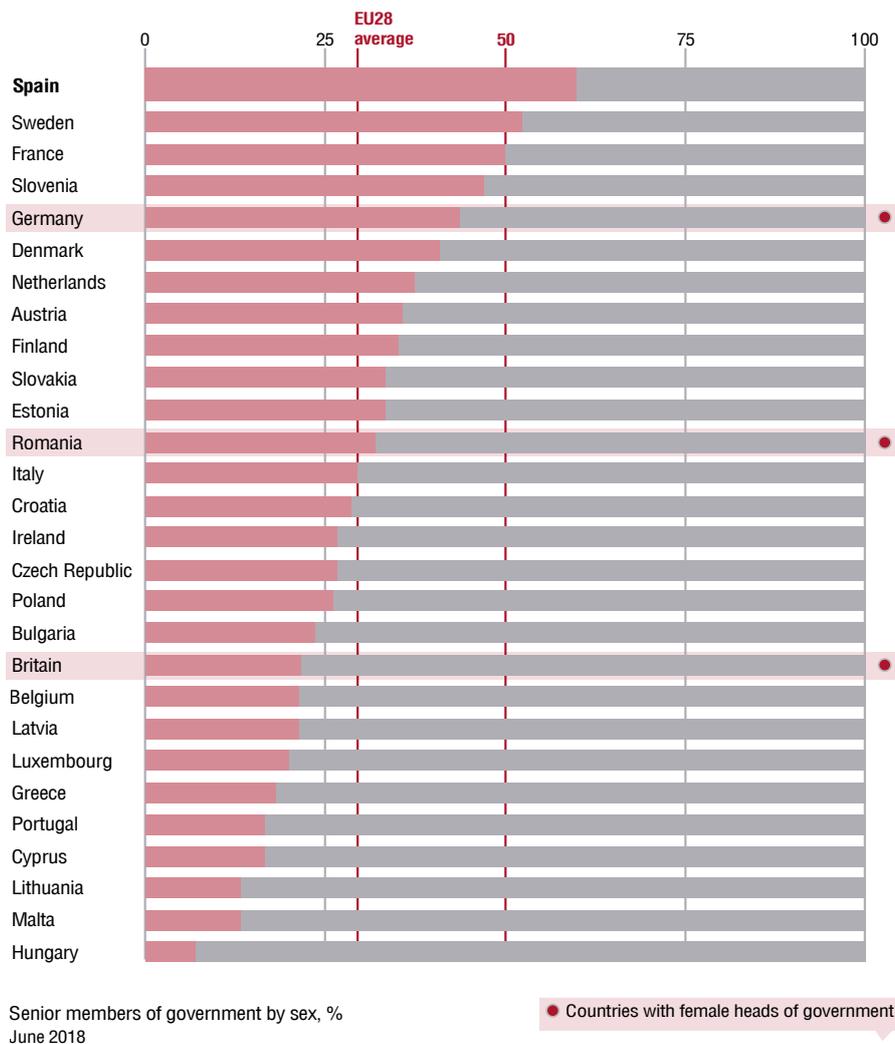
Perhaps nothing better illustrates the profound social change in Spain than the rapid and intense change in personal relations. For instance, only one-fifth of marriages today take place in a church compared with 75% less than 20 years ago, reflecting the greatly reduced influence of the Roman Catholic Church; 44% of children were born to mothers who were not married and 3% of weddings were between people of the same sex. In 2005, Spain became the fourth country in the world to legalise marriage between same-sex couples, after the Netherlands, Belgium and Canada (during the Franco regime the law lumped 'pimps, villains and homosexuals' into one group). Madrid's LGBT Pride parade in 2018 was led by the gay Interior Minister, Fernando Grande-Marlaska. Contraception, divorce and abortion, banned during the Franco regime, were legalised, respectively, in 1978 (along with the de-criminalisation of adultery), 1981 and 1985. The only way a person could remarry was to have the marriage annulled by the Church, a lengthy process that, on average, took about four years. These changes are not exclusive to Spain, but they have been telescoped into a much shorter period than in most other European countries.

The family is on the retreat throughout the developed world, particularly in northern Europe, but to a much lesser extent in Spain. The extended family has been a safety net for the unemployed and grandparental care, in particular, has helped women start a family and continue to work.

The situation of women in Spain has improved considerably. They were effectively second-class citizens in the Franco regime, when laws discriminated against married women. Article 57 of the penal code (repealed in 1975) stated that 'The husband must protect his wife and she must obey her husband'. Without her husband's approval, a wife was prohibited from almost all economic activities, including employment, ownership of property, opening a bank account or even travel away from home. The law also provided for less stringent definitions of such crimes as adultery and desertion for husbands than it did for wives. Single women were not allowed to leave their home without their parents' consent before the age of 25.

Today, there are more women at university than men –and they tend to get better degrees–, the labour force participation rate for females rose from 20% to 53% between 1978 and 2018 and 11 of the 17 Ministers in the Socialist government of Pedro Sánchez formed in June 2018 were women, the largest number in Spain's history and the highest proportion in the world (see Figure 41). There were no female Ministers in post-Franco Spain until 1981 and then only one. And all this in a country which gave the world the word 'machismo' and which is still imbedded in the culture.

Figure 41. A gender disparity: senior members of government by sex (%)



Source: Economist.com.

The fertility rate dropped from 2.54 children in 1978 to 1.31 in 2017, one of the world's lowest and below the replacement rate of 2.1 (see Figure 42). More than 3.6 million couples do not have children. Deaths outnumbered births in 2017 for the third year running. But for the influx of immigrants, Spain's population today would be not much higher today than it was 20 years ago. The main deterrent to having children, particularly since 2008, is the very high unemployment rate, which for those aged 16 to 24 is still more than 40%, and when a job is attained the contract is usually a temporary and hence a precarious one. Another key factor is a budgetary policy of successive governments that has long been one of the

least supportive of families: state spending on families and children in one form or another in Spain was 0.7% of GDP in 2016, well below the EU average of 1.7%. Two much needed measures are to increase the network of day care centres for children under the age of three and adapt working hours to school hours –they have hardly changed in the last 50 years–. Women had their first child 40 years ago when they were 25; today it is at 32 and they tend to only have one.

Figure 42. Fertility rates (live births per woman) in the EU, 1975-2015

	1975-80	1990-95	2005-10	2010-15
France	1.86	1.71	1.97	2.00
Germany	1.51	1.30	1.36	1.39
Italy	1.89	1.27	1.42	1.43
<b>Spain</b>	<b>2.55</b>	<b>1.28</b>	<b>1.39</b>	<b>1.32</b>
UK	1.73	1.78	1.88	1.99

Source: United Nations Population Division.

Spanish society is also very solidario (solidarity-minded or caring). This can be seen in Spain's position as a leader in donating organs and in the large number of voluntary workers abroad.



### 13. Conclusion: the next 40 years

When the Socialists won a resounding victory in the 1982 election, Alfonso Guerra, the Deputy Prime Minister, said 'We're going to change Spain so much she'll be completely unrecognisable'.<sup>16</sup> Anyone who has lived in Spain since then, as this author has done for most of the time, cannot but be impressed by the changes that have taken place. As the British novelist L.P. Hartley said: 'The past is a foreign country; they do things differently there'. This is certainly the case of Spain over the past 40 years; the country today is another planet.

The next 40 years, however, will be very different. The ruling political party of whatever colour needs to regain its capacity for structural reforms. The reforms in the last decade have largely resulted from the country's Great Recession, which were necessary, but now that this period is over reforms for the future are required.

The challenges ahead will test the largely cohesive society that has been created over the last four decades. The most visible one is the ageing of the population and the pressure this is already exerting on the sustainability of the healthcare system and the viability of the state pension system. In 2050 35% of the population will be over the age of 67 compared with 16.5% today. Within a decade, unless there is a significant demographic change, only around 400,000 people will be entering the labour market every year whereas between 700,000 and 800,000 will be retiring annually. Such a change would put a heavy burden on public finances and weaken Spain's economic growth. Either policies are introduced to increase the very low fertility rate of 1.33 children (below the replacement rate of 2.1) or Spain is going to need another big influx of immigrants. The IMF suggested Spain needed 5.5 million migrants by 2050 to reverse the deterioration in dependency ratios resulting from the ageing population.

Unemployment was well down from its peak of 27% in 2013, but at around 15% in 2018 was still absurdly high. While countries such as the UK, Germany and the US have virtual full employment, albeit with millions of precarious jobs, Spain's jobless rate will remain in double figures for years. Lowering the rate to below 10% requires profound structural labour market and educational reforms and a revamped growth pattern. Drop-out rates at the secondary school and tertiary levels remain high and there is a mismatch between education supply and labour demand, with limited vocational training. Universities have been slow to adapt to the changing economic environment; they need to do more to link research to the needs of the economy and improve the quality of training. R&D and innovation need to be strengthened. Employers have exploited to the full and abused temporary contracts for new recruits, which provide no incentives for on-the-job training and hence enhanced

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<sup>16</sup> The Spanish phrase '*Vamos a poner a España que no la va a reconocer ni la madre que la parió*' is much more colourful and literally translates as 'We're going to change Spain so much that not even the mother who gave her birth will recognise her'.

productivity. The establishment of a single contract for all workers, in place of the plethora of existing contracts and their complexities, could help to address this issue.

The general government budget deficit was also much lower and by dropping below 3% of GDP in 2018, for the first time in a decade, Spain would cease to be the only country under the European Commission's excessive-deficit procedure. Once this happens, however, there would be little leeway for much more state spending unless revenue can be substantially increased through tax reform and a greater reduction of tax fraud and tax avoidance. The very high level of public debt at 98% of GDP is a millstone around the government's neck (even more so when interest rates finally begin to rise) and one making it hard to generate a primary fiscal surplus (before interest payments). The size of the debt makes Spain vulnerable when the next downturn occurs.

Politically, the stable two-party system since 1982 with the conservative Popular Party and the Socialists, which ended in 2015 with hung parliaments as a result of the rise of Podemos on the radical left and Ciudadanos towards the right, does not look like returning. A wider choice of political alternatives is a healthy change, and one that polls show Spaniards are happy to keep, but it has come at the cost of a loss of reformist momentum. Prime Minister Pedro Sánchez only has 84 of the 350 seats in Congress, making the life-span of his government potentially short.

Spain has so far bucked the trend of coalition national governments in Europe. Together with Malta, Spain is the only EU country that has not had a coalition government in the last 40 years. Such governments exist at the regional and municipal level in Spain. Depending on the results of the next election, due by July 2020, it would be good for the body politic and the maturity of the excessively acrimonious political culture and debate to have a reformist coalition government, thereby reviving the admirable spirit of consensus that characterised Spain's transition to democracy. Spain cannot afford to stand still.

Such a government would be better placed to resolve the stand-off in Catalonia, reform the whole system of decentralisation by making Spain a fully-fledged federal state along the lines of Germany and other problems such as improving the education system.

Spaniards should be proud of what has been achieved, but they cannot afford to rest on their laurels.

## Appendix

### Appendix a. Basic socioeconomic statistics, 1960-75

	1960	1975
Population (million)	30.9	36.0
Per capita income (US\$)	248	3,186
Structure of GDP (%)		
Agriculture	27.0	9.0
Industry	30.0	39.0
Services	43.0	52.0
Employment by sector (% of total)		
Agriculture	44.0	21.8
Industry	24.0	37.8
Services	32.0	40.4
Export earnings (US\$ mn)	725	6,583
Structure of exports (% of total)		
Agriculture	56.0	23.0
Industrial goods	33.0	60.0
Raw materials	11.0	8.0
Tourists (million)	6.0	30.0
Emigrants' remittances (US\$ mn)	57	700
Net foreign direct investment (US\$ mn)	123	430
Cost of living (index)	100	375
Earnings (index)	100	1,000
Telephones per 1,000 population	56	210
TV sets per 1,000 population	5	190
Cars per 1,000 population	10	125
Car production	39,600	696,000
Tractors in use	71,000	336,700
Donkeys and mules	1,850,000	570,000
Steel production (mn tons)	1.9	11.1
Cement production (mn tons)	5.2	23.9
Dwellings built (mainly apartments)	127,800	374,200

Source: The Economist, compiled from the magazine's survey of Spain published on 2/IV/1977.

### Appendix b. Basic socioeconomic statistics, 1978-2018

	1978 (1)	2018 (1)
Total population (mn)	37.0	46.7
Foreign population (mn) (2)	0.16	4.7
Unemployment rate (%)	7.6	15.2
GDP (US\$ bn, 2010 prices)	640	1,460
GDP per person (at purchasing power parity)	US\$7,883	US\$38,285
GDP structure (% of total)		
Agriculture	8.9	2.9
Industry	31.8	18.1
Construction	8.8	5.7
Services	50.3	73.3
Employment by sector (% of total)		
Agriculture	20.3	4.3
Industry	27.4	14.0
Construction	9.5	6.0
Services	42.8	75.6
Labour force participation rate (%)		
Male	80.0	64.6
Female	20.0	53.3
Exports of goods and services (% of GDP)	15.0	34.1
Imports of goods and services (% of GDP)	14.0	31.4
Number of tourists (mn)	36.9	81.8
Consumer price inflation	16.5	0.5
Public expenditure (% of GDP)	27.0	41.2
Public revenues (% of GDP)	25.7	38.1
Public debt (% of GDP)	15.3	98.3
Total tax revenue (% of GDP)	21.5	33.5
Personal income-tax returns filed (mn)	5.8	19.5
Inward stock of foreign direct investment (US\$ bn)	5.1	644.4
Outward stock of foreign direct investment (US\$ bn)	1.9	597.2
Spending on R&D (% of GDP)	0.35	1.2
Patent applications filed with EPO	3	1,676
UN Human Development Index (3)	0.680	0.891
Life expectancy at birth (years)	74.3	83.2

Population aged 15 and under (% of total)	26.7	15.4
Population aged 65 and over (% of total)	10.7	19.1
Old age dependency ratio (4)	19	30.6
Urban population (% of total) (5)	71.5	80.0
Fertility rate (births per woman)	2.54	1.33
Illiteracy rate, over 16s (% of total)	9	1.75
Illiteracy rate over 65s (% of total)	30	5.4
University educated (% of over 16s)	3.6	28.2
Passenger cars per 1,000 inhabitants	136	493
Trade union affiliation (% of labour force)	26.0	13.9
Defence spending (% of GDP)	2.1	0.9

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(1) Or latest available.

(2) Excluding foreigners who became naturalised Spaniards.

(3) The maximum value is one. The index is based on life expectancy at birth, mean years of schooling, expected years of schooling and per capita income.

(4) The number of individuals aged 65 and over per 100 people of working age defined as those aged between 20 and 64.

(5) People living in built-up areas of more than 50,000 inhabitants.

Source: National Statistics Office, Eurostat, World Bank, International Monetary Fund, UN Human Development Reports, UNCTAD, International Labour Organisation, Economy Ministry, Afi, European Patent Office, BBVA Foundation and NATO.

### Appendix c. Timeline, 1978-2018

Year	
1978	The Constitution is approved by 88% of voters in a referendum on 6 December on a 67% turnout
1979	Adolfo Suárez's Union of the Democratic Centre (UCD) wins the general election
1980	The Basque terrorist group ETA kills 118 people in its bloodiest year
1981	King Juan Carlos faces down a military coup on 23 February led by Lt Col Antonio Tejero and it collapses
1982	The Socialists led by Felipe González win a landslide victory in the general election
1983	Industrial reconversion programme launched
1984	Labour-market reform leads to sharp rise in fixed-term contracts (from 10% to 30% in 1989)
1985	Abortion becomes legal in Spain, limited to cases of rape, a malformed foetus or danger to the mother. Inflation dips below 10% for the first time in a decade
1986	Spain joins the European Economic Community (EEC), votes in a referendum to remain in NATO and establishes diplomatic relations with Israel. Socialists re-elected
1987	ETA places a bomb in an underground carpark of a Barcelona supermarket, killing 21 people
1988	Banco de Bilbao and Banco de Vizcaya merge to form BBVA. General strike against labour-market reforms
1989	Spain joins the European Monetary System. Socialists hold a snap election and are re-elected with a very slim majority
1990	The compulsory schooling age is raised from 14 to 16 and more technical subjects are introduced to the curriculum
1991	Compulsory military service reduced from 12 to nine months
1992	Seville hosts the Universal Exhibition and Barcelona the Olympic Games. Peseta devalued
1993	The Bank of Spain intervenes in Banesto in a US\$4 bn rescue operation. The economy enters a mild recession. Socialists lose their absolute majority in parliament
1994	Luis Roldán, the former head of the Civil Guard, goes into hiding to avoid prosecution for embezzlement. Security services accused of 'dirty war' against suspected members of the violent Basque separatist group ETA
1995	Bank of Spain forced to accept a 7% downward adjustment of the peseta's parity within the European Monetary System
1996	The Popular Party (PP) under José María Aznar wins the election, ending 13 years of Socialist rule
1997	Spain joins the military structure of a reorganised NATO
1998	Land market liberalised, refining the category of land previously excluded from development. This sparks the massive building of homes and an eventual property bubble

1999	Spain forms part of the first wave of countries to use the euro
2000	The PP wins for the first time an absolute majority in the legislature
2001	The EU includes the Basque group ETA in a list of terrorist organisations
2002	A debt-fuelled property boom begins and the economy grows by more than 3% a year until 2007
2003	Prime Minister José María Aznar defends the Iraq war together with US President George W Bush and UK PM Tony Blair, but does not commit combat troops
2004	Spain suffers its worst-ever terrorist attack on 11 March, with the bombing by Islamist militants of commuter trains in Madrid, causing 191 deaths. The Socialists led by José Luis Rodríguez Zapatero win the general election on 14 March, ending eight years of PP rule
2005	Spain becomes the fourth country to legalise gay marriage after the Netherlands, Belgium and Canada
2006	The number of housings starts (865,000) is more than Germany, France and UK combined
2007	The jobless rate reaches a low of 8.3% (1.8 million unemployed) and the Ibex-35 stock market index peaks at 15,945. Foreign population reaches 10% of the total
2008	The debt-fuelled property bubble bursts. GDP growth drops to 1.1%
2009	Economy in recession until 2014 when grows 1.4%
2010	Government makes U-turn with cuts to civil service pay and public investment
2011	The PP returns to power under Mariano Rajoy
2012	Spain agrees a bank bailout of up to €100 bn with the EU. Unemployment rate reaches 26%. Labour-market reforms cut severance pay
2013	El Mundo reveals that former Popular Party (PP) treasurer Luis Barcenas used a slush fund to pay leading PP members
2014	Felipe VI becomes King following the abdication of his father King Juan Carlos I
2015	Pro-independence parties win an absolute majority in Catalan elections on just under 50% of the vote
2016	UK votes to leave the EU on 23 June. Ibex-35 stock market index plunges 12.3% the next day. The PP wins the general election. Two-party system gives way to four parties
2017	Economy recovers pre-crisis (2008) GDP level. Illegal referendum on independence for Catalonia held on 1 October and independent Catalan republic proclaimed
2018	Basque terrorist group ETA, responsible for more than 800 deaths in 50 years, disbands. PP government dislodged from office after Socialists win an unprecedented censure vote in parliament, triggered by a court imprisoning PP politicians and businesspeople for corruption. Pedro Sánchez becomes Prime Minister with 84 of the 350 seats in Congress. Parliament narrowly approves a law to exhume the remains of General Franco from the Valley of the Fallen basilica.

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### Appendix d. Spain's position in international rankings (1)

	<b>Ranking</b>
Travel and tourism competitiveness	1st out of 136
World energy trilemma	13th out of 125
Logistics performance index	17th out of 160
Global connectedness index	23rd out of 140
WJP rule of law index	23rd out of 113
Venture capital and private equity Index	25th out of 125
Global innovation index	28th out of 126
International tax competitiveness index	28th out of 35
Global talent index	31st out of 119
Global entrepreneurship index	34th out of 137
WEF global competitiveness index	34th out of 137
IMD world competitiveness ranking	36th out of 63
World Bank ease of doing business ranking	28th out of 190
Corruption perception index	42nd out of 180
Economic freedom index	60th out of 180
Freedom in the world	25th out of 210
EIU Democracy Index	19th out of 167
United Nations Human Development Index	26th out of 189
Women, peace and security index	5th out of 153
World Health Organisation's ranking	7th out of 190
Best work-life balance (OECD)	4th out of 38
UNESCO World Heritage Sites	3rd largest number out of 168 countries
The most attractive countries for the world's workers	6th out of 197

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(1) Latest available.

Source: The institutions responsible for the rankings.

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