Regional Integration and Development

A Study of the European Union, the Transformation of Spain, and the Pursuit of Regional Development

by

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“If I have seen further into the universe it is by standing on the shoulders of giants.”
-Isaac Newton

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Introduction

The purpose of this thesis is to explore the impact of European regional integration on the development of Spain and its regions. In beginning this analytical process, a conception of development must be decided upon. In their text, *India: Economic Development and Social Opportunity*, Dreze and Sen (1995) argue that "one way of seeing development is in terms of the expansion of the real freedoms that the citizens enjoy to pursue the objectives they have reason to value, and in this sense the expansion of human capability can be, broadly, seen as the central feature of the process of development" (10). In a global environment where varying levels of oppression and poverty are the norm for over half of human civilization, the ability of an individual to secure access to education and health care represents a fundamental beginning to the development process. Likewise, if these capacity-building human services are to translate into an expansion of the freedoms of citizens to pursue their objectives, it follows that the provision of civil liberty and meaningful economic opportunities are also integral components of the development process.

Spain's swift transformation from an economically isolated and politically repressed nation to a legitimate democracy with open markets over the short span of twenty-five years is thus both enviable and worthy of examination. When thirty-six years of dictatorship came to an end in 1975 Spain experienced a rapid transition to democratization and economic liberalization that has, thus far, proved enduring. Out of this experience there has emerged a body of dual transition theory that offers hypotheses for how, with proper structure and sequencing, simultaneous political and economic transformation can foster a virtuous cycle of national development (Bermeo, Encarnacion, Kohli). In situations where neither the government nor the economy have yet consolidated themselves a simultaneous process of democratization and economic liberalization can create either a virtual cycle of mutually reinforcing structural change or it can create a vicious cycle of instability whereby a lack of institutional capacity to cope with political and economic shocks undermines the security of the society. Spain's ability to establish responsive political institutions that have weathered attempted coup, corruption scandals and changes in political leadership, while simultaneously securing rates of economic growth that surpass the EU average, has come to be seen as the "most successful" example of third wave democratization—a model for national political and economic transformation (Encaracion 2001).

Spain did not pursue these transformations in a vacuum. It is within a volatile international system plagued by chronically unequal distributions of wealth, power and material prosperity that a region must sustain itself, nominally searching for strategies with which public policy can leverage the specific types of economic growth that contribute to sustainable prosperity and social development. In numerous ways, the vision of European integration achieved by key architects Jean Monnet and Jacques Delors has shaped both the external environment and the processes through which Spain underwent democratization and economic liberalization. The prospect of a group of nations leveraging political power and socioeconomic stability through a coherent process of regional integration makes the study of the European experience valuable to those interested in regional development.

Yet while national and international economic, polititical and social contexts are important elements of the development process, it is often at the regional and local levels that development synergies are harnessed. As Dréze and Sen remark, while political and economic stability are notable achievements, “the success of development programmes cannot be judged merely in terms of their effects on incomes and outputs, and must, at a basic level, focus on the lives that people can lead” (13). The value of the European Union’s contribution to Spain’s transformation will be explored through a multi-spatial (international, national and regional) analysis that examines both economic and social development experiences.

Ultimately, it is the objective of this thesis to explore the impact of European integration on Spain in order to determine the role that integration can play in the pursuit of development. Chapter One consists of an overview of the relevant historical contexts of Spain’s development. This includes an exploration of Spain’s development trajectories during the modern period, a discussion about the economic and sociopolitical impacts of the Franco dictatorship on the development of Spain, and finally a brief exploration of the origins of European integration.

Chapters Two, Three and Four address Spain’s national transformation and its adaptation to the European Union. As democratic reforms were a *sine qua non* for participation in the European integration experiment, the story of Spain’s accession to the European Union begins in Chapter Two with its political transformation from dictatorship into a constitutional monarchy. Here, the confluence of Spain’s European identity and the EU’s democratic imperative will be evaluated to determine what role regional integration played in catalyzing Spanish democratization. Next, Chapter Three will explore the dramatic process of economic liberalization Spain underwent as it attained membership in the EU. Here we will look closely at the structural adjustments to Spain's economy that were brought about by accession. In Chapter Four the gamut of European law and policy will be explored, revealing the uniquely supranational character of the European integration phenomenon.

Finally, Chapter Five explores the impact of democratization, economic liberalization and EU accession on the development of the Spanish region of Andalusia. Placing Andalusia in the political and socioeconomic contexts of European integration and Spanish transformation, we will examine regional development theory, correlating it with regional development indicators and local case studies in order to determine what integration has meant for the creation of economic growth and social opportunity for one of Europe's poorest regions. Lastly we will explore the rhetoric and reality of Europe's commitment to cohesion and convergence, ultimately drawing conclusions about the significance of the European integration model to the theory and practice of development.

1
Historical Contexts

In the examination of Spain's political and economic transformations in the last quarter of the twentieth century there are three histories pertinent to our discussion. First, to understand the obstacles to development faced by modern Spain it is necessary to explore the historical trajectories of political, economic and social development that established the context of Spain's transformation. Second, the experience of dictatorship under Franco endured by the Spanish peoples for 36 years introduced critical political, economic and social realities that would impact the Spanish national condition during the time of transformation. Finally, a basic conception of the origins of European integration is essential to understanding the Spanish story of democratization and economic liberalization. These histories form the historical context of Spain's development process.

Trajectories of Spanish Underdevelopment

Within the historical literature of Spanish development, several themes emerge that guide us towards an understanding of the historical contexts of Spain's late-twentieth century transformations. To begin, the nature of Spain's rise and decline of empire during the 15th to 19th centuries stunted its industrial growth, relegating it to an underdeveloped European periphery. Next, divergences in development between Spain and the European core would take Spain down a path towards economic autarky that it would not begin to emerge from until the economic crisis of the 1950s. Lastly, history shows us that Spain's political heritage was made up of centuries of monarchy and dictatorship, interrupted only briefly by two failed Republics. This legacy of autocracy made the Spanish transition to democracy both uncertain in its chances and remarkable in its success. These themes of lagging development, economic isolation and political repression represent the historical trajectories which the modern Spanish state would have to diverge from if it were to take a place alongside its peers as a member of the European integration project.

Within the history of Europe, and in a broader sense the evolution of the nation-state, Spain occupies a prominent position in the early modern era. The consolidation of Christian power that followed the 1467 marriage of Ferdinand of Aragon and Isabella of Castile set in motion a series of reforms and campaigns that would transform their kingdoms into what was arguably the most modern example of a nation-state at the time. Predating the landmark Peace of Westphalia, this consolidation of power also ushered in the era of colonial expansion that forever reshaped the modern period. Indeed, the Spanish colonial empire established in the sixteenth century predated by at least a century the colonial empires of Holland, England and France (McMichael 18).

With the completion of the *reconquista* of Moorish territory on the Iberian peninsula, as well as the tragic success of Cortes and Pizzaro in displacing the Aztec and Incan civilizations during the first half of the sixteenth century, it would seem that Spain should have been poised to command a powerful and durable empire. As history shows us, this was not the case. The cause of Spain's decline of empire was approached in the works of Hermann Kellenbenz in his work, "The Impact of Growth on Government: The Example of Spain," and Carla Rahn Phillips', "Time and Duration: A Model for the Economy of Early Modern Spain." In the first piece Kellenbenz explores the relationship between government and economy during the reigns of Charles V and Phillip II (1519-1598), offering weak political economy during the period as an explanation for the concurrent loss of empire. The work by Phillips, on the other hand, discredits the reliance on political economy to explain the decline of Spanish Empire, instead applying a lens of Malthusian logic to explain Spain's decline as a world power.

The condition of the Spanish economy during the fifteenth and sixteenth centuries was a mixed bag of cumbersome and protectionist state intervention, a deteriorating financial situation brought on by severe debt and balance of payment crises, and contrasting economic surges as the bounty of Spanish conquests in the Americas began replenishing Spanish coffers by the middle of the sixteenth century. Of primary importance, according to Kellenbenz, were the "influx of precious metals and the opening of the American market" (349). He illustrates how this abundance of precious metals, then the foundation of world financial markets, allowed Spain to overcome severe deficiencies in its fiscal policy, its weak interior market and its lagging industrial development. Quantifying this lag is difficult as data from the period are sporadic, however consensus is that state protectionism and prohibitive taxation (used to finance Spain's imperial pursuits) aggravated an economy that lacked comparative advantage in the production of core staples like steel and wheat.

Apart from a highly lucrative trade in precious metals, which effectively became the economic crutch on which Spain's economy stood, its key exports remained raw goods such as iron and wool (350). Additionally, Kellenbenz illustrates that the newfound wealth from the Americas was essential in helping the monarch overcome "regional and social opposition" (351) under otherwise adverse economic conditions.

Inheriting these weaknesses and dependencies in 1556, the reign of Phillip II, Charles V's heir, found itself bogged down by continually deteriorating economic conditions and increasing entanglement in foreign aggressions. Growing deficits, numerous defaults on payment of the national debt, productivity levels that were suffering from increased government intervention and an economic *Reconquista* (against non-Catholic economic actors), all contributed to create a crisis-prone economy. It is a remarkable feature of history that circumstances in Spain could deteriorate to such a point while it was simultaneously experiencing growth in population, agriculture, industry and trade. Kellenbenz finds his answer to this discord in the political realm. "The ambitious ideas of empire and hegemony held by Charles V and his son imposed immense financial burdens on an organization not yet advanced enough to bear them, in spite of the huge treasures flowing in from America" (Kellenbenz 361). In summary, his hypothesis is that the rapid growth of the era placed strains on Spain that the government was unable to endure. Accordingly, by the middle of that century Spain's holdings in Portugal, France and the Netherlands had been lost.

Phillips contradicts interpretations of Spanish economic history, including Kellenbenz's, that conclude that the decline of Spanish power was as a result of the failure of the Spanish Monarchy and the institutions of government. Rather, Phillips contends that the relationship between Spanish society, its economy and its environment, rather than government, determined the rise and decline of Spanish power. She explores the various limitations imposed on the regions of Spain by environment, population, government and international circumstance. Through a lens of Malthusian logic, Phillips observes that "within the matrix created by the ecological, social, and legal features of a region the central economic relationship was between population and resources" (534). Arguing that a region's resources during this early modern period were the primary determinants of its national stability, she observes that these determinants were in place by the sixteenth century and would determine the evolution of Spain's economy throughout the South-central, Northern and Eastern regions (see figure 1).

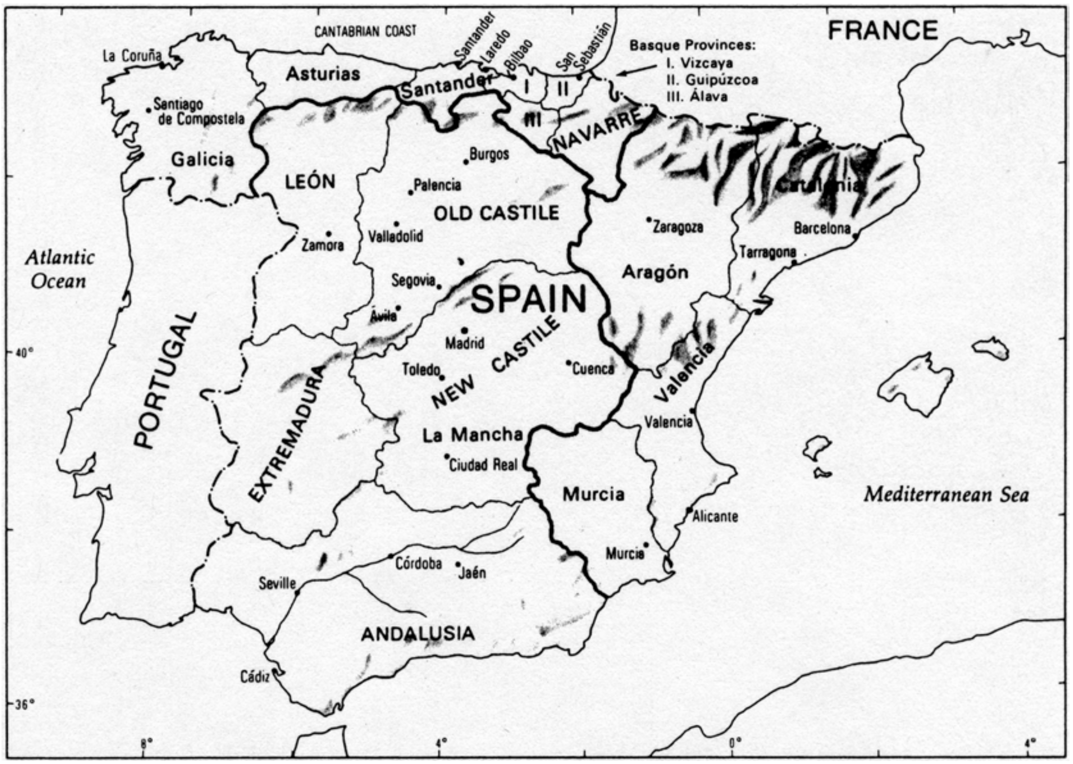


Figure 1: Spain Divided into Three Regions
Source: Phillips (534)

The first region explored by Phillips includes Castile (central Spain), Andalusia (southern Spain), and the southwest coast. Unified by the fifteenth century legacy of Queen Isabel and King Ferdinand, this region dominates any study of the development of the Iberian Peninsula through the sixteenth and seventeenth centuries and warrants a detailed analysis. By the late sixteenth century, it is estimated that sixty-eight percent of Spain (or 5,469,910 inhabitants) resided in this region (537). The Castilian *Cortes*, a parliament representing eighteen major cities and towns, was considered to be the political center of Spain. While surrounding terrain kept the levels of long distance trade to Castile relatively low, the shared customs union with Andalusia was a catalyst for the formation of numerous networks of exchange within the region. Andalusia's access to seaports made it a commercial hub of the region as well as for the Iberian Peninsula as a whole.

The demographic picture painted by Phillips tells the story of a society highly vulnerable to fluctuations in the yearly harvests. Climate changes were of particular relevance in Castile. Despite being known as the "dry region" of Spain, agriculture in this large area thrived for many staples. For example, grapes, olives, and orchard crops were all successfully harvested here. The cultivation of critical crops such as grain, however, proved to be especially vulnerable to weather conditions. Periods of increased food production and population growth suffered alternating periods of decimation when weather failed to provide adequate crop yields.

While marital fertility, a variable often considered a proxy for general social welfare, was relatively high according to Phillips, the death rate often exceeded the birth rate during these years of poor harvests. The sixteenth century saw a surge in population throughout Spain, in part a response to the plague-induced depression of the fourteenth and fifteenth centuries. The population rise continued into the seventeenth century, creating an increased demand for food. Enjoying a low population density, the farmers of the region chose expansion over innovation, cultivating a greater share of land then had been done in previous years. This touched off disputes with herders of the region, as the expansion of farming came at the expense of much grazing land. As Phillips observes, “numerous legal cases document the growing tension between herders and farmers as the sixteenth century progressed, with herding literally losing ground as crop lands expanded” (540).

As the New World evolved into a more sophisticated market for European goods Castile and Andalusia were poised to make the greatest gains from this era of Spanish mercantilism, yet during this period of intensive economic growth came the greatest strains on the society. Continued population growth began to exert untenable strain on the region’s resources. Citing numerous reports of firewood shortages, the plowing of traditionally common land, and the shortage of pasture as indicators of this tension, Phillips looks to Malthusian theory to explain how these strains on resources, exacerbated by several harvest disasters, brought an end to this period of Spain’s population growth.

With the seventeenth century came attempts by the region to adjust to the agricultural crisis of the previous century. The grain surpluses of the sixteenth century had turned into grain shortages by the seventeenth, however, and the purchase of Baltic grain drained significant amounts of currency from the Spanish economy. Coupled with increasingly prohibitive taxation used to fund the wars against enemies and foreign rebels, seventeenth century Spain fell victim to several famines and epidemics, suffering an overall population reduction of twenty percent. The “creation” of Madrid, argues Phillips, provided additional shock to many localities as trade routes and centers of commerce throughout Spain’s integral region of Castile were rerouted through the new capital.

Despite the eventual resumption of population growth by the very end of the seventeenth century, large-scale manufacturing proved less resilient. By this century heightened competition from international markets began to undermine Spanish industry, particularly in the textiles sector. Coupled with a devalued copper currency that stimulated the economy at the expense of inflation and the corresponding decrease in exports, Spain's export situation only worsened. "Governmental policies in the seventeenth century," according to Phillips, "did little to aid the internal economy of Castile. Far-reaching reform plans were discussed frequently in the reigns of the last three Habsburgs, only to be abandoned as impractical" (548). Despite this balance-of-payments deficit, income from taxes and trade with the New World facilitated a modest resumption of growth in the eighteenth century. The cyclical picture painted by Phillips foreshadows her conclusions on the relationship between population and resources in sixteenth and seventeenth century Spain:

> The relationship between population and available resources governed the ebb and flow of the Castilian economy. Central to the demographic and economic behavior of the region as a whole were individual decisions made in response to changing local conditions. The combined effects of these decisions, in a favorable ecological, legal, and social climate, allowed the population to expand notably in the late fifteenth and early sixteenth centuries. Even so, expansion ceased before encountering Malthus's "positive check" of mass starvation and diseases related to malnutrition…. While avoiding the worst Malthusian corrective, Castile clearly experienced much short-term distress and the classic Malthusian cycle of boom and bust. (550)

Implicit in such an observation is the rejection of popular theory that government policies and interventions created the conditions in which the populations of Castile and Andalusia, and the territories of Spain at large, rose and declined. While it is clear that bad fiscal policy and the economic strains of military expansionism contributed to the looming implosion of Spanish power, the limitations of food production during the sixteenth and seventeenth centuries tied the destiny of Spain to Malthusian theory in a way that offered little possibility of escape.

In the iron-ore and shipbuilding industries of the North, and the textile industries of the East, Spanish sectors strove to increase the competitiveness of their products in European markets. This became essential as grain production in Castile, already expensive to transport North and East, became scarce due to harvest shortages and the peripheral regions began looking to Western Europe for wheat importation. Nevertheless, both regions suffered a limited ability to adapt to international markets and thus suffered the same balance of payments problem that plagued Castile.

The question posed by Phillips in the beginning of the text was how could Spain, "having created a worldwide empire and achieved political hegemony in the sixteenth century, decline in the seventeenth century to second-rank status?" (531). In her answer to this crucial question lies the relevance of Phillips argument to the trajectory of Spanish development. Spain's prolonged vulnerability to Malthusian relationships of population and scarcity of resources, particularly wheat production, fostered periods of unsustainable growth and that were mitigated only by an equally unsustainable extraction of resources from the Americas.

> By the late seventeenth century in some areas of Europe, land quality, population density, and opportunities for market specialization favored intensive cultivation. In those areas, people were able to break free from the Malthusian cycle of boom and bust, expansion and retrenchment. Parts of England and The Netherlands provide notable examples of this. (Phillips 562)

Reciprocally, it is no coincidence that the losses of Spanish Empire during the eighteenth century were matched by gains for England. With stable growth and market specialization arriving sooner in the Northern parts of Europe a shift in the balance of power would accompany the diverging rates of innovation and growth between Spain and the European core. As we shall see in further examinations, this reality would find Spain trailing much of Europe in the path to industrialization, a relationship of disparity that would continue define Spain's relationship to Western Europe at the dawn of the twenty-first century. Whether factors of political economy (Kellenbenz) or Malthusian shocks (Phillips) proved most detrimental to Spain's empire, it is clear that the various challenges to Spain posed by the early modern period were not overcome, relegating the nation to a state of economic and political decline by the eighteenth century.

Andrew Janos offers an intriguing insight into this diverging relationship in his piece, "The Politics of Backwardness in Continental Europe, 1780-1945." In this study he proposes a general model for comparative international development from the late eighteenth to mid-twentieth centuries. Much as Phillips does, Janos links scarcity with backwardness in his analysis of the international economic, political, and cultural systems of the era. From this analysis he derives a concept of concentric geographic circles of political, economic and social innovation within the European sphere.

The capacity to generate a food surplus, something that continually eluded Spain, is what defines the first phase of the Janos development model of the European core. The agricultural innovations in Northwestern Europe resulted in the capacity to produce a food surplus, thus aiding in the expansion of markets and risk-taking entrepreneurship. Additional characteristics include the division and specialization of labor and the creation of a political infrastructure, founded on Western legal tradition, which could accomodate an increasing base of participation within society.

Agricultural production, according to Janos, is the foundation of innovation during this time period. Improved crop yields, methods of plowing, fertilizing and crop rotation from within a select group of regions within Northwestern Europe afforded these societies the ability to reallocate human and physical capital for the purpose of fulfilling more elastic consumer demands.

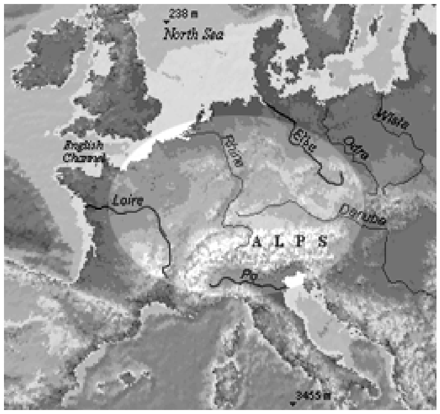


Figure 2: Rivers Loire, Po, and Elbe
Source: Encarta Reference Suite

The regions of the core (identified by Janos as the Low Countries, England, northern France, the Rhineland, and a few other provinces in western Germany) did not exclude adjacent countries from emulating some of these innovations. Janos's conception of a semi-periphery extends from these regions out to the Loire River in the west, the Elbe to the east, with the Po River forming the southern border of this semi-periphery of agricultural innovation (Figure 2). In the regions east and south of these rivers, the periphery proper, innovation in agricultural production achieved by the core during the sixteenth century would be virtually absent at the dawn of the nineteenth century.

Since innovation in the core was not a one-time affair but an ongoing process, regions located some six to eight hundred miles from the epicenter of economic change remained some two hundred years behind the core in terms of yields per acre. Overall, the distribution of agricultural productivity and income across the Continent acquired a neatly clear geographical pattern that transcended both climatic and cultural boundaries. Indeed, the work of Spanish economic historian Gabriel Tortella corroborates this conception of innovating core and lagging periphery and enables us, by 1800, to distinguish among the three economic regions of Europe

In his work The Development of Modern Spain, Tortella examines the origins and significance of Spain's lagging development. "Contemporary Scholars," observes

Tortella, “attach great importance to economic progress in the agricultural sector as a precursor of industrial development” (50). In three specific ways the advancement of agriculture was a prerequisite for industrialization in the early modern period to take place. First, in order for industries to evolve there was a need for urban migration. As late as 1900, according to Tortella, two-thirds of the Spanish workforce was involved in agricultural production. Without the capacity to generate a food surplus, there was neither a possibility nor an impetus for the realignment of the labor market towards manufacturing and away from agrarian pursuits. Second, the profitability of agricultural commodities was essential for the creation of a domestic consumer base during the early period as these represented such a large percentage of a nation’s economic activity. Without the ability to generate wealth from such activity, the market for more elastic or non-essential goods would be diminished. A linked third concept is that the accumulation of capital necessary to finance industrial ventures was largely dependent on the profitability of agricultural products, both domestically and internationally. According to Tortella, “Spanish Agriculture was in no way able to fulfill these functions in a satisfactory manner” (50).

Desamortización, or Spanish land reform, moved slowly during the nineteenth century. In contrast to the more ideological roots of French land reform during the era, the primary impetus of *Desamortización* was to replenish the royal treasury. While the reforms did have the effect of returning a great portion of land left stagnant by the Church and various municipalities to productive use, it was primarily the land-owning nobility that were most able to take advantage of the terms of purchase. “The clear losers,” according to Tortella, “were the poor farmers and peasants, who had long encroached upon Church and public lands and had a more difficult time after these lands became private" (58). Indeed, historians attribute a great deal of the political upheavals of nineteenth and twentieth century Spain to this dynamic of socioeconomic division.

The amount of land released during *Desamortización* was vast. Tortella estimates that the total amount of land sold was approximately 20% of the whole Spanish territory and 50% of the cultivated part (58). Was this land reform the answer to Spain's agricultural backwardness? The data in Figure 3 indicate that, despite the extent of land reintroduced to the market (an estimated 25-33% of the total value of Spanish real estate), reform had failed to spark innovation.

	(1) Wheat	(2) Barley	(3) Rye	(4) Oats	(5) Potatoes
SPAIN					
1891–1900	7.6	9.2	6.9	7.9	n.d.
1901–1910	9.0	11.5	7.9	7.7	n.d.
ITALY					
1890–1896	7.9[a]	6.5[b]	7.8[b]	7.1[b]	61.1[b]
1901–1910	9.5	9.0[c]	14.1[c]	9.3[c]	95.0[c]
PORTUGAL					
1901–1910	5.9	n.d.	n.d.	n.d.	70
FRANCE					
1892	12.7	11.9	11.0	10.8	105.0
1902	13.6	13.7	8.7	12.8	76.7
GREAT BRITAIN					
1891–1900	25.3	20.9[d]	n.d.	17.4[d]	146.2[d]
1901–1910	22.1	21.1[e]	n.d.	19.0[e]	141.1[e]
GERMANY					
1892	17.1	17.0	14.2	14.4	111.7
1902	19.7	18.9	15.4	18.0	134.1
UPPER SILESIA					
1891–1900	15.5	16.6	13.3	15.0	110.0
1901–1910	17.6	18.7	15.3	17.6	125.5

Figure 3: Agricultural yields in various European countries, 1890-1910 (in quintals per hectare). a: 1890-1896; b:1890-1895; c:1909-1910; d: 1892; e:1902
Source: Tortella (66)

Here we see groupings of national agricultural productivity that clearly coincide with Janos's conception of a core-periphery relationship (figure 2): Great Britain and Germany demonstrating levels of productivity which justify a "core", Silesia (present-day eastern Germany, southwest Poland and north-central Czech Republic) and France trailing by a perceptible margin, and a periphery defined by significantly lagging productivity in Spain, Italy and Portugal.

Tortella offers a simple explanation for the stagnation of Spanish agricultural productivity relative to the core—high tariffs. "Products such as wines, raisins, figs, almonds, hazelnuts, olive oil, and above all citrus fruits" (Tortella, 65) would come to represent the future of Mediterranean agriculture. Spain's slow transition to such crops is explained by a combination of factors. First and foremost, protectionist measures by the Spanish government discouraged farmers from transitioning to products with which Spain held comparative advantage. Tortella best describes the historical context of Spanish protectionism during the nineteenth century:

> If wheat had not been so heavily protected, increased imports of this cereal would have caused a reduction in the number of Spanish wheat farmers, with the elimination of the less efficient ones. This would have set in motion a redeployment of resources towards products and techniques that were more productive and competitive… In addition, this process of resource reallocation would have had the crucial effect of stimulating a flow of outmigration from the dry central plateau to the cities and abroad…By opting for tariff protection, the Spanish politicians, consciously or unconsciously, made a choice in favor of social stability and against economic and social change. (67)

To compound the problem, the law of reciprocity would find countervailing tariffs being imposed on Spanish goods by the countries of the core, further discouraging a movement to products of comparative advantage.

To be fair to the long-deceased monarchs, Tortella's criticism ignores the volatility of international relations in Europe during this era, which would have most certainly provided an impetus for nations like Spain to maintain production capacity of “strategic” goods such as wheat. By all indications, however, agricultural productivity remained stagnant in Spain throughout the nineteenth century. The lack of innovation would mean that the percentage of workers employed in the agricultural sector would remain fixed at roughly two-thirds for the duration of the century, leaving no capacity or impetus for industrial growth. With the net yearly export of wheat and flour totaling less than 1% of the average yearly harvest (Tortella, 69), the agricultural sector was unable to provide either capital for potential investment in industry or disposable income for the creation of a domestic consumer base. Thus, by all three criteria proposed by Tortella, the Spanish agricultural sector failed to provide the necessary foundation for industrial growth and innovation.

The second development phase identified in Janos’s study is the impact the industrial revolution had on consumption and consumer classes within the core. Through an illustration of the increased availability of textiles (particularly cotton) and household goods, he demonstrates how simple goods like underwear, once limited to the richest of classes, were put within reach of a far greater extent of society. As Neil McKendrick put it, in his work <u>Birth of a Consumer Society. The Commercialization of Eighteenth Century England</u>, “Luxuries came to be seen as mere ‘decencies,’ and ‘decencies’ came to be seen as necessities” (Janos, 331). Here we see how the citizens of the European core expanded their demand for elastic goods as the more basic necessities became available.

What impact did this have on the European peripheries? Two rational responses to this core-periphery relationship occurred within peripheral regions like Spain. First, preexisting levels of disposable income that were normally reserved for savings and investment within the country were now being redirected to the purchase of goods in a

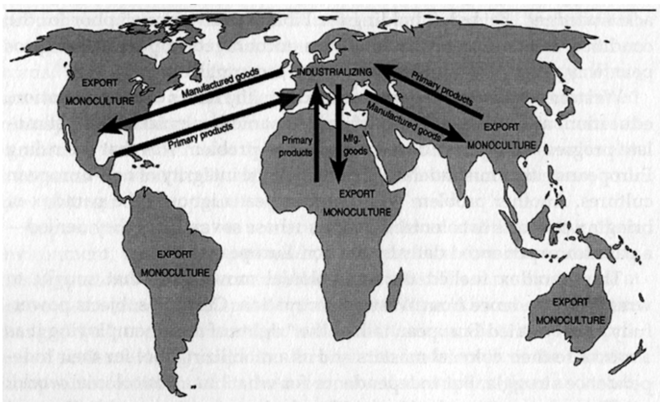


Figure 4: The International Division of Labor
Source: McMichael (8)

race for parity of material wealth between the core and periphery. Because the periphery had been unable to establish a competitive industrial base, these funds were, by default, spent on goods imported from the core. The benefits accrued to the core industrializing countries are clear:

> The amount of raw cotton processed by British factories grew from a mere 2.5 million pounds in 1760 to 22 million pounds in 1787, and then to 366 million pounds in 1837, a sixteenfold increase within a period of fifty years. The total amount of iron processed into steel by English factories was 68,000 tons in 1788. This figure rose to 250,000 tons by 1806, and 678,000 by 1830. (Janos 331)

With the emergence of these economies of scale England was able to swiftly dominate world markets. The loss of international competitiveness for Spanish exports, compounded by the lack of indigenous investment, resulted in an accelerated divergence between the core and periphery.

This vicious pattern of international trade flows has been well studied. In his analysis of the twentieth century globalization project, Philip McMichael examines the international division of labor between lower-skill production/extraction economies (yielding primary products) and those engaged higher-skill value added production (yielding manufactured goods). As the European core's rate of industrialization accelerated, Spain found itself among the ranks of the colonies in terms of international flow of goods. Spanish producers that could previously compete on the international market with value-added products were, by the seventeenth century, being forced to export the lowest denominator of unfinished goods (primary products). As a result, sectors of the Spanish economy began to crumble under the weight of competition from the European Core. The decline of Spanish ore and textiles as export commodities illustrate this.

In the North of Spain, Guipuzcoa and Vizcaya were the locations of two key iron-ore industries. As international competition in the iron-steel market began to intensify in the early part of the seventeenth century the competitiveness of Spain's northern ore production industries declined rapidly. According to Janos, while Vizcaya was able to introduce *some* new techniques in the refinement process, the end product (forged iron) yielded a relatively low added value at market. As the international market moved towards steel, Guipuzcoa was forced to rely completely on the export of crude (non-value added) iron ore.

In Eastern Spain the increased exportation of raw textiles (wool, silk, leather), resulting from a lack of competitiveness in production of higher value products, was aggravated by a massive influx of cheap cloth from the areas bordering the core (Phillips). According to Tortella, "The Spanish cotton industry followed the English model, but its techniques always lagged a step behind, its factories were smaller, its prices were higher" (76).

The trajectory of Spanish development as it emerged from the early modern period is a dynamic one, finding the Peninsula enjoying many of the advantages of economic empire while simultaneously suffering many of the vulnerabilities of the economically colonized. During the early Modern period Kellenbenz illustrates how bounty from the new world, namely the influx of precious metals, was the key ingredient for the continued growth of Spain during an era of frequent conflict and constant mismanagement. As Philips depicts, the political and economic stability of Spain through the eighteenth century became dependent on both income from taxes and trade with the New World. During this period Spain was in the curious position of being both the colonizer and the economically colonized.

In Tortella's analysis of the Spanish economy during the nineteenth and twentieth centuries, the twin culprits of Spain's lagging and stagnant industries were a weak economic foundation due to stunted agricultural productivity and a culture of protectionism shielding industry from market stimuli. Later, as we explore the dynamics of Spanish political economy in the twentieth century, we will see a great deal of continuity in this regard. The agricultural sector in particular would continue to enjoy and suffer the types of state protectionism that would preserve its relative backwardness. While tariff protection of the industrial sector would remain a constant as a strategy for the cultivation of infant industry, the variable that would trigger what Tortella calls the "Industrial Takeoff" of the twentieth century is the efficacy of state intervention.

The twentieth century brought with it the advancements in agriculture, industry and demographics that had eluded Spain throughout the modern period, albeit through dynamics that were foreign to the development trajectories of the core. In contrast to the agriculture-driven industrialization process experienced by Europe's core, it would be this growth of Spanish industry during the early 1900s that would prompt the transformation and modernization of Spanish agriculture (Tortella, 286-287). This new path to industrialization, that of a semi-developed economy, was theorized in 1955 by Arthur Lewis (Tortella, 286). According to his model, the economy is divided between the modern sector (industry) and the subsistence sector (agriculture). As the modern sector experiences growth, it also experiences a rise in the marginal product of labor, whereas the subsistence sector's marginal product (per unit value) of labor remains relatively fixed. Accordingly, demand for labor increases within the modernizing sector and wages increase relative to the subsistence sector of the economy. The resultant shift in economic opportunity would result in the migration of workers from rural to industrial (typically urban) areas, forcing the remaining (agricultural) workers to adapt to the shortage of labor by increasing productivity. Thus, instead of agricultural surplus leading to the expansion and diversification of economic activity, as had happened within the European core, an externally stimulated period of industrial growth would force agricultural sectors to innovate and adapt. Such is the pattern we see in Spain.

What changed from the nineteenth to the twentieth centuries to trigger Spain's industrialization? Specifically, what was the source of stimulation that fueled the industrial growth necessary to realign the agricultural and industrial sectors? According to Tortella, the process of industrialization requires, "an expanding market, or an important technological innovation, or preferably both" (299). Spanish tariff protection in the nineteenth century had the effect of increasing the cost of inputs, distorting competition, and resulting in the establishment of countervailing tariffs by foreign markets. None of this changed in the twentieth century. Commercial policy throughout the first half of the twentieth century remained highly protective. In fact the Spanish economy in 1922 was ranked by the League of Nations the most protective in the world after the Soviet Union (Tortella, 430).

What did change was that Spain, benefiting from imported technological innovation and a social identity closely linked to Europe, began to favor diversification and industrial growth (300); Spanish consumer demand had became more sophisticated. Additionally, programs of state intervention, beginning in 1907 with the *Ley de Fomento de la Industria Nacional* (Law Promoting National Industry), would cultivate a positive business climate for domestic industries. In areas ranging from favorable government procurement policies to subsidies, from financing mechanisms to tax credits, to tariffs that approached prohibitive levels, the Spanish government of the early twentieth century systematically created a domestic market for Spain's diversifying and largely infant industries. This has come to be known as the import substitution model of industrialization (ISI).

From the formation of the state in 1467 to the strategies of import substitution lasting through the mid-twentieth century, the dueling culprits of underdevelopment and economic isolationism define Spain's development trajectories. These trajectories reveal the dependent relationship Spain developed in regards to its colonial possessions, a dependency that sustained an otherwise unhealthy economy while Northern Europe moved along the path of innovation. The economic divergence between Europe's core and the Spanish periphery reinforced a dynamic of backwardness that gave way to commercial policies based on isolationism. It wasn't until a reevaluation of Spain's economic policy under Franco in 1950 that Spain began reversing its course of autarky and integrating its economy into the global community.

Legacy of the Franco Dictatorship

The violent termination to Spain's Second Republic, marked by the 1936-39 civil war, set the stage for an era of authoritarianism that would survive the defeat of "Axis" fascism and the social upheavals of the 1960s, ultimately bringing about a new phase of economic industrialization and political internationalization. Excepting a short-lived attempt at democracy in the late nineteenth century, Spain's Second Republic was its first experiment with liberal government. Coming in the wake of a seven-year dictatorship based on the alliance between King Alfonso XIII and General Primo de Rivera, Spain underwent a peaceful transition to the Second Republic in 1931, when the Spanish public passed a vote of no confidence for the monarch. A government that was born under the peaceful sign of referendum nevertheless collapsed into a bloody civil war that would haunt the minds of Spanish society throughout the remainder of the twentieth century.

From its inception in 1931, Spain's Second Republic faced formidable obstacles. For one, Spain's attempts at liberal government were congruent with the global depression of the 1930s and the rise of fascism in Europe. Adding to the economic strains faced by the Second Republic was the inescapable need for a new wave of *Desamortización* (land reform). Secularism was also atop the reformist agenda of Spain's democratic groups, as the Catholic Church was unapologetically integrated into Spain's educational and political systems. These issues, as well as the pervasive dilemma of Basque and Catalan separatism, served to exacerbate tensions between the conservative right wing Nationalists and the divided leftist factions. As Ian Gibson estimates in his survey of modern Spain, the inability of the Second Republic's political actors to come together in the formation of a negotiated political center would undermine the legitimacy of the regime and foster a climate of tension ripe for political violence between the two extremes. This tension manifested itself in the brutal Spanish Civil War of 1936-1939.

A shrewd tactical thinker who also succeeded in unifying the right wing's Fascist and Carlist (religious) political factions, General Franco commanded Spain's North African Army in a 1936 rebellion against the Republican government. Dubbed Nationalists, the alliance of right-wing forces under Franco was ultimately able to defeat the sharply divided Republican left, due in no small part to the intervention of Europe's Axis powers. Installed as the *Caudillo* of Spain in 1939, Franco would keep a firm hold on power until his death in 1975. The faltering economic policies of autarky and export oriented industrialization, coupled with an inability to control inflation, resulted in a period of dramatic economic instability. As economic shocks were coupled with a repressive exercise of authoritarian power in the political sphere, the reign of Franco created an atmosphere of societal insecurity that would become his legacy in the final quarter of the twentieth century.

In light of the international instability of the period through 1945 it is not difficult to understand why the dictatorship concluded that the Falangist ideology of political neutrality and economic self-sufficiency was the most secure path for the nation to take. Signaling the futility of isolationist economic thought, argues Tortella, was the failure of Spain to take advantage of its comparative economic strength emerging from World War II. "With industrial capacity that had survived the Civil War almost intact, and with a remarkable endowment of mineral and energy resources (coal and hydroelectricity), Spain ought to have been able to exact some benefit from a situation that was sad but inevitable" (315). The preservation of Spain's economic infrastructure during World War Two placed Spain in a position to extract tremendous gain from the post-war reconstruction effort in Europe, yet the dominance of a falangist ideology within the Franco regime would prevent Spain from exacting such gains.

Sima Lieberman (1995) characterizes the period from the commencement of Franco's rule in 1939 through the first major modification of economic policy in 1950 as dominated by policies of autarky and monopoly. While a focus on the expansion of Spain's industrial power during the first decade of Franco's dictatorship resulted in a perceptible increase in production (Figure 6), it did so only as a result of massive government subsidization. Administered by the newly formed *Instituto Nacional de Industria* (INI), such endowments would escalate to unimaginable levels by the end of the Franco era. "The INI was endowed by the government in 1941 with 50 million pesetas; the cumulative government endowment rose to 54,650 million pesetas in 1976, while the aggregate value of its investments amounted in that year to 105,500 million pesetas" (Lieberman, 30).

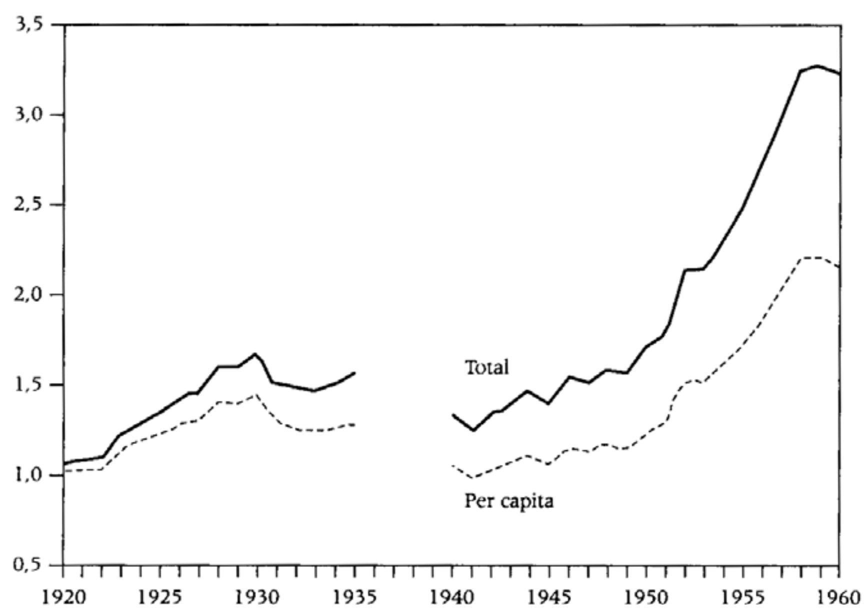


Figure 5: Indices of industrial production, total and per capita, 1920-1960. (1913=1)
Source: Tortella (314).

In contrast to such aggressive government intervention on the side of industry, the failure of government economic policy to take action against soaring inflation during the 1940s had a devastating impact on the Spanish citizen. During the period between 1940 and 1951 the annual rate of increase for wholesale prices averaged 14%. The hyper-inflated peseta, which wasn't to see even modest reform until 1948, contributed to a rapid deflation of foreign trade. Stagnating GDP and climbing inflation continued up until the early 1950s, when a combination of foreign credits, American aid and an expanding tourism industry strengthened Spain's ability to import the capital goods necessary for the resumption of growth. Thus the Spanish economy of the 1950s was characterized by highly protectionist tariffs, an inflated peseta that contributed to the diminished purchasing power of both the domestic and foreign consumer bases and market-distorting price controls that all but hermetically sealed Spanish industry from international competitiveness. The extent of Franco's success in moving the economy towards an import-substitution model, characterized by a dramatic increase in the percentage of goods supplied by domestic producers, is shown in Figure 7.

	Participation of domestic production in aggregate domestic supply		
Year	*Consumer goods*	*Low technology manufactured products*	*High technology manufactured products*
1941	**77.1**	**77.9**	**32.7**
1951	**79.7**	**81.4**	**47.3**
1958	**94.4**	**82.4**	**70.6**

Figure 6: Import –substitution indicators: 1941-1958 (percentages)
Source: Lieberman (38).

This data demonstrates that, rather than generating increased trade, the state policies of import substitution and high inflation ensured that the increased industrial capacity shown in Figure 6 was absorbed by an isolationist economy.

Exacerbating government indifference to the deteriorating purchasing power of workers due to inflation, labor laws passed in 1958 gave police open license to persecute the workers who went on strike to protest diminishing wages. While the vast provisions of U.S. aid and commerce stemming from Franco's anti-communist alignment in the brewing Cold War proved invaluable in helping to alleviate this inflation, as well as helping the Spanish economy on its way back to growth during the 1950s, it wasn't until a brush with bankruptcy in 1957 that the Spanish government underwent a major realignment from autarky to export-oriented industrialization.

With the nation's currency reserves down to roughly $61 million by the late 1950s, Franco finally had the stimulus to reverse the twenty-year period of economic isolationism. The platform for this policy change was the National Stabilization Plan of 1959. Conceived as a proposal for receiving aid from the IMF, the Plan was made up of four parts. First, the government proposed an austerity plan to cut back on government spending and curb inflation. Second, Spain volunteered modest limitations on the government's ability to manipulate public sector finances. Third, the government proposed that it would "eliminate the rigidities imposed by labour legislation, as well as those originating in restrictions of competition" (Lieberman, 52). This would also curtail the government's authority to exercise wage control. Finally, the government outlined a series of measures by which Spain could re-integrate itself into world trade. Proposals included the relaxation of restrictions on foreign direct investment and the repatriation of capital held by Spaniards abroad.

The immediate effect of these reforms was economic crisis. Domestic investment declined as tax credits to the private sector were curtailed. The relaxation of labor regulation also gave way to a temporary surge of unemployment and the income of industrial workers declined in real terms by 23%. By 1960, however, most these losses had been regained and, as Lieberman observes, by 1961 the Spanish economy was well on its way to a period of unprecedented growth. Ultimately, the outcome of the Stabilization Plan was a more competitive Spanish currency, greater inflows of foreign direct investment (FDI) and rapid growth of both trade and tourism. This resulted in a tremendous economic boom, yielding a 40 percent increase in GDP during the 1960s. The corresponding labor shortages resulted in dramatic wage increases, sending Spain's per capita income from $300 in 1960 to $1,500 by 1970. The instability of export markets induced dramatic balance of payments fluctuations during the 1960s, with 1964 seeing a surplus $326 million, only to be followed by a deficit of $500 million in 1965. A similar fluctuation would occur in 1973, however it would not offer as swift a recovery. In that year the economy had achieved a surplus of $500 million, only to be followed by a year of looming economic crisis that yielded a balance of payments deficit of $4 billion.

Spain's inability to curb its inflation during the "booming 60s", when coupled with an international oil crisis, resulted in a diminished rates of annual investment growth during the first half of the 1970s, reaching -9.2 percent by 1975. Additionally, the decline in productivity and exports in the wake of the oil crisis resulted in a weakening of Spain's ability to import the capital goods needed for continued growth, further destabilizing the Spanish economy. The Franco regime succeeded in beginning to open Spain's economy, creating a domestic consumer market and industrializing the country, however its highly centralized political economy weakened the capacity of the regime to effectively respond to the economic shocks that ensued during this phase of Spain's transformation.

With the juxtaposition of political and social repression onto this landscape of economic chaos we complete the historical picture of Spain's tragic legacies of lagging development and authoritarianism. A dictatorship founded upon an alliance between the military leadership, the landed aristocracy and the Catholic Church, Franco's regime sustained itself by inflicting various forms of political and social violence on the people of Spain in an effort to contain regional separatism and suppress the voices of political change. In the 1970s Spanish society would grow more vocal in its opposition to the incompatibility of these policies with the Western norms and, coinciding with the deteriorating physical health of the dictator, cultivate a political atmosphere receptive to the European Community's democratic imperative.

According to a work by Raymond Carr et al titled Spain: Dictatorship to Democracy, the centerpiece of Franco's regime was "the establishment of an era of peace and order without precedent in the history of Spain" (134). Unfortunately, this stability came at a price. In the political sphere Spain was isolated from the international community until the 1950s, when the United States shifted to its Cold War *realpolitik* and accepted Spain's anti-communist Franco as its ally. Spanish isolation from the international community up until this time, according to Carr, made the Franco regime less concerned with the implications of its campaigns of brutal repression against the various social forces at play.

By 1970, however, the rejection of the Franco regime was becoming widespread and international concern was having an impact on social stability. Workers, students, regional separatists and whole sections of the church were becoming vocal in their opposition (Carr, 137). The publicity of 45,000 striking Asturian miners in 1962 signaled the beginning of a period of heightened social unrest. In the labor movement the number of strikes had reached the level of 484 strikes in 1964, a trend that continued over the next ten years with a total yield of over 5,000 reported strikes (139). Student protests beginning in 1956 were eventually complemented by a steady erosion of support for Franco's regime by the Church. Most dramatically, regional separatism finally went on a dramatic offensive, partially as a backlash to the linguistic and cultural suffocation inflicted upon them by Franco' homogenizing state apparatus. It is the origins of these rebellions, and the tactics employed by the Franco regime to quell them, that reveal the character of Spain's sociopolitical condition under authoritarianism.

The suppression of Spain's organized labor movement began during the Spanish Civil War with the prohibition of working-class unions and parties (Carr, 136). The regime's correlation of these social actors with Communist political insurgency resulted in the imprisonment, torture and execution of labor leaders throughout the 1940s. Replaced by state-controlled, vertically stratified labor syndicates, the Spanish worker did not regain the right of collective bargaining until 1958. The resulting stagnation of real-term wage levels had the practical effect of worsening the impact of Spain's spiraling inflation during the 1940s and 50s.

The revival of the labor movement began with the Concordant of 1953, which provided for the existence Catholic workers' organizations, the regime's first critics of social and economic conditions (Carr et al, 143). Ultimately, the worker movement would reach its climax in 1968 under the auspices of the *Comisiones Obreras* (CC OO-Workers' Commissions). A network of ad hoc labor groups that became unified within the framework of the state syndicate, this once-legal organization leveraged enough political clout that the regime disbanded them and sentence their leaders to 150-year prison terms (Grugel et al, 88).

While the Franco regime's eventual legalization of collective bargaining would rekindle a modest class-consciousness among the Spanish workers, evidenced by an escalating number of labor strikes during the 1960s and 70s, the dictatorship's maintenance of a state-controlled labor syndicate made institutional adaptation within the regime impossible according to Carr. While brutal tactics of oppression had succeeded in diminishing the class-consciousness of Spanish workers by 1960, ultimately Franco's vision of a totalitarian state based upon a classless syndicate of workers and employers would become irreconcilable in the face of mounting social agitation for Western-style reforms.

Throughout the final 20 years of the Franco regime the norms of social repression revealed themselves. In 1962 the momentum for an associational agreement between Spain and the European Community would be undermined by the execution of a political prisoner, Spanish Communist Julian Grimau. At the same time the regime's intolerance for political liberalism was manifested in the state crackdown following the 1962 Congress of Munich, where domestic and exiled opposition to the dictatorship had shaken hands on the concept of a constitutional monarchy. These politically motivated prosecutions carved divisions in Spanish-Western European relations, reaching its widest point during the crisis of the 1970s when the regime executed five Basque separatists and sentenced labor leaders to life sentences following lengthy pre-trial detentions (MacLennan 107). Additionally, the politicization of students and the subsequent occupation of universities by government forces from 1968 to 1973 would signal the fragility of the regime. In his last public appearance before his death, General Franco attributed the political and economic problems of the country to "a Masonic leftist conspiracy of the political class in collusion with Communist-terrorist subversion in the social sphere" (Lieberman 167). Subversion, according to Franco, was responsible for all of Spain's ills.

Despite the economic and sociopolitical turmoil brought on by the Franco regime, the idea of "the Franco Peace" that was elevated by the regime to mythological proportions does have some credibility. Franco's ability to forge a consensus among rightist groups, exploiting cultural traditions of religious belief and social deference, accorded a tremendous longevity to the state apparatus and facilitated an intense programme of import substitution industrialization (Grugel et al, 71-72). Despite these considerations, the political atmosphere of authoritarianism, manifested in the suppression of political voices and the subjugation of regional groups, created a political culture of distrust and deference within Spanish society that represents what Grugel et al refer to as the "Legacy of Franco" (190). This legacy, they argue, lurks not far beneath the blanket of democracy and liberalism that covers Spain in the present, representing an enduring threat to the consolidation of Spain's liberal institutions.

From this survey of the history of the Franco regime three themes can be ascertained. First, Spain's legacy of protectionism and its subsequently delayed industrialization, when placed in the context of volatile global markets and oil shocks, yielded an economy that by the mid 1970s was in a state of crisis. Second, society's rejection of Franco's campaigns of repression was at a climax in 1975 when the dictator lost his long battle with Parkinson's disease, leaving the country without a clear process of succession. Lastly, the political backwardness of Spain, manifested in society's rejection of the Franco regime, created immense internal pressure for liberal reform. While the divisions between Spain and Europe that resulted from the policies of the Franco regime will be evaluated in greater detail in Chapter 2, the historical events themselves serve to illustrate the complexity of Spain's economic, social and political condition on the eve of its democratization.

Origins of European Integration

The final piece of the historical puzzle necessary to understand the context of Spain's development is a brief exploration of the history of European integration. The political culture of the European Union shall be established by exploring the origins of Europe's political will for pooling national sovereignty on a supranational level. An understanding of the evolution of European integration is a prerequisite for grasping why Spain chose to pursue membership in the European Union and how integration has impacted Spain's development.

Noting the historical proximity of the European integration phenomenon to the horrific conflicts of the twentieth century, it is tempting to look upon the ideologies of interdependence that emerged from World War II, in the environs of French cafes and the spirit of Churchill's proclamations of a United States of Europe, and conclude that the European Union is simply the enlightened product of a continental interest and demand for institutionalized interdependence. In reality, however, the historical origin of the European Union has as much or more to do with pragmatic national interests than philosophical altruisms of peace and social unity. This is not to say that the social visionaries didn't have their day. Although interdependence theory was not the driving force behind creating the political will for the surrender of select national sovereignties in Europe, the EU has undoubtedly emerged as a compelling example of international cooperation yielding gains regionally and leveraging power globally. Nevertheless, the evolution of the European integration project has been firmly rooted in the *realpolitik* of national interest rather than any abstract ideology of regional interdependence.

The initial drive towards an integrated Europe commenced in May of 1948 at The Hague, where a Congress of Europe convened to explore the different perspectives on the idea of a pan-European model for integration. Two groups and two visions of a united Europe collided at this conference. A United Europe Movement, launched by Churchill in May of 1947, argued for what was effectively a decentralized intergovernmental framework for regional integration—not much different than the status quo. In contrast, the Union of European Federalists was formed by Altiero Spinelli to forge a stronger, constitutionally based path to integration. Ultimately the two groups would only find agreement on the lowest common denominator unionist position called for by Churchill, which led to the formation of a weak parliamentary body called the Council of Europe. Although this body would continue to resurface as a tool for pan-European (as opposed to EU-only) cooperation, manifested in its creation of the Organization for Economic Cooperation and Development (OECD), it could not generate the political will necessary for nations to pool certain decision-making sovereignties on a supranational level.

Completely outside the fray of the Unionist-Federalist debate, French financier and public policy administrator Jean Monnet kept occupied as the postwar director of the French Modernization Plan. Monnet was a vocal advocate for integration during the postwar years, however the supranational institutions he envisioned to administer such a union were clearly beyond the scope of European political will during the time of the 1948 Congress of Europe. Instead, Monnet contented himself with the rebuilding of France and searched for a moment of political opportunity that might stimulate the nations of Europe to pool their sovereignty in a federated system. In 1949 that moment came.

In a survey of the history of European integration titled Ever Closer Union, Desmond Dinan portrays a punitive French policy towards post-war Germany, offering that France's three objectives for Germany were demilitarization, deindustrialization and political decentralization (19). By the late 1940s the political climate of the Cold War rendered the French policy track untenable. As the grand Alliance between the West and the Soviet Union deteriorated and Churchill observed the "Iron Curtain" descending over Europe, the United States determined that it was necessary to prop up Western Europe as a bulwark against Soviet Communism. In order to achieve this the United States pursued a dramatic course of assistance through the mechanisms of the Marshall plan, of which the restoration of the German economy became an essential pillar. Thus Monnet's plan for the modernization of the French economy, which was based on preventing the reindustrialization of Germany (particularly the Ruhr) and dependent on the extraction of German coal from territories occupied by France (the Saar), had lost its viability by 1949.

With an abundance of iron-ore on the French side and coal on the German, the capacity of France to produce steel (an integral component of the French Modernization Plan for national reconstruction) was dependent upon its ability to develop a strategy that could ensure its access to German coal while simultaneously allowing for the rehabilitation of the German economy. The strategy that emerged would become the foundation of the European integration phenomenon:

> A famous poster commemorating the birth of European integration depicts two men, Jean Monnet and Robert Schuman, standing together "at the beginning of the European Community (9 May 1950)." The date in parentheses is the day on which Schuman, then foreign minister of France, announced an unprecedented plan to place "the whole of Franco-German coal and steel production under a common High Authority, within the framework of an organization open to the participation of the other countries of Europe." (Dinan, 9)

While the Europeanist sentiment that existed in dueling forms across Europe in the wake of World War II (Churchill's Unionism and Spinelli's Federalism) resulted in the creation of a pan-European council (and later the OECD), it was the *realpolitik* of German and French national interest that fueled the creation of the European Coal and Steel Community (ECSC). As the European integration project unfolded over the next fifty years, it would be a continuing pursuit of national interest among the expanding group of nations, not the ideology of interdependence, which drove the pooling of national sovereignty at a supranational level.

Negotiated between the summers of 1950 and 1952, the ECSC framework was ultimately ratified by six countries: France, Germany, Italy and the Benelux countries (Belgium, the Netherlands and Luxembourg). Although by and of itself the ECSC was an unglamorous union of heavy industries, the experience in intergovernmental cooperation and supranational institutionalization provided by Monnet's experiment laid the groundwork for the creation of the European Economic Community (EEC). Indeed, the various ministerial meetings held by the ECSC Six during the mid-1950s provided the forum in which governments could discuss the future of European integration (Dinan, 30). As was true with the formation of the ECSC however, it wouldn't be until another crisis, this time in the Suez in 1956, that Europe's principles would possess the political will necessary to commit to greater integration and ratify the Treaty of Rome (Dinan, 30).

The ECSC Six ratified the Treaty of Rome, also referred to as the Treaty Establishing the European Community (TEC), in 1957. The TEC created the basic framework for balancing intergovernmental cooperation with supranational institutionalization in the pursuit of European regional integration. While featuring several additions, the Maastricht Treaty on European Union (TEU) is essentially a direct descendent of the TEC (Dinan, 33). Driven by the goal to create a common market for Europe, the TEC established principles relating to "the movement of goods, persons, services and capital; a customs union and common external tariffs; and various community policies" (32). Over the following years, in no small part due to the leadership of Jacques Delors during the 1980s, Monnet's experiment with coal and steel grew into a vast European Union that spanned virtually all sectors of modern government.

From such humble and incremental roots, the European Union of today represents the most developed form of supranational regional integration on historical record. First, there is little debate over its impressive scope as a customs union facilitating the free movement of goods between nations and the maintenance of a common external tariff. This agenda of integration-based trade liberalization has allowed for the construction of a single European consumer market numbering over 375 million persons, vying with the North American trade area as being the largest economic space in the world. Beyond this, however, the EU has also evolved into a political space. The European Central Bank has synchronized monetary policy among the majority of EU members in order to facilitate the introduction of a common European currency, the Euro. Immigration policy has undergone harmonization by assimilating the Schengen Agreement into the EU framework, thus allowing for the free movement of people between EU borders and controlling the entry of persons outside those borders. The Community has also, over the last quarter of the twentieth century, aggressively funded a “Cohesion” program intended to foster the convergence of underdeveloped regions with the European Community average. Finally, European Community law, the *Acquis Communautaire,* has reached as far into national sovereignty as amending the constitutions of European member nations. Most remarkable is the fact that national courts have consistently upheld the institutional backbone of the *Acquis Communautaire*, the European Court of Justice, as the highest court in the land. The width and depth of European integration in the present day is the product of decades of pursuing a common European market that began with coal and steel. The challenges encountered during this journey have led to institutional adaptation and spillover as member-nations sought to manage integration and secure national interests.

Orchestrating the European integration project is a plethora of institutions that in some ways signal the unique supranational or federal character of the EU, in others revealing a more conventional intergovernmental character. On the surface the various institutions of the European Union seem to resemble a national government, with executive, legislative and judicial subsidiaries. Although possessed of a Council, a Parliament and a Court of Justice, only the Court of Justice truly holds muster as a quasi-national institution. While the Council ostensibly fulfills the role of the executive branch, in reality it is a forum for intergovernmental consensus building among the foreign ministers of the EU nations. With the European Commission charged with implementing Council decisions on more of a supranational level, in this way the executive branch resembles a two-headed dragon. Although the Parliament engages in direct elections and has been delegated increased competency in recent years, it nevertheless surrenders significant legislative power to both the Council and the Commission. Foremost among the differences between the EU and a nation-state, the territories of the EU are bound together politically, economically and socially by multilateral treaties and not by a constitution. This, and the nature of decision-making procedure within the EU, has given way to concerns about a democratic deficit.

Other bodies include a European Central Bank, responsible for the maintenance of the Economic and Monetary Union, the Committee of the Regions a forum for articulating sub-national interests at the European level, and a European Investment Bank that provides capital for development programs and Community activities. The list also includes the European Agricultural Guarantee and Guidance Fund, which administers the EU Common Agricultural Policy. There is another set of institutions clustered around European Union Cohesion Policy, including the various Structural Fund programs (European Regional Development Fund and the European Social Fund) and the Cohesion Fund, all of which are responsible for administering this largest portion of EU expenditures.

As the European Union grew from 6 member-states to 15, and as the terms of integration became broader and deeper, the institutions were required to transform and adapt to growing responsibilities. The achievements of monetary union and a European legal system have resulted in the creation of powerful supranational entities, yet the essence of decision making within the EU has retained its intergovernmental character. As was true of European integration at is birth, the driving force behind the integration project's slow acquisition of national sovereignties remains national interest. In the following chapters we will explore the role that European integration played in transforming Spain into a politically and economically liberalized nation, and the impact of that transformation on regional development.

2
Democratization

As economies of scale became the mechanism for industrial growth during the postwar years, the prospective gains from membership in a regional common market would compel the majority of Western European nations to seek inclusion in the European Community. Spain under the Franco regime was no exception. Despite Spain's growing promise as an economic power following its initial programs of trade liberalization during the 1950s, political complications centering around the authoritarian character of the Franco regime would ultimately negate the possibility of its participation in the European integration project. The employment of both passive and overt pressure by the European Community during the 1960s and 70s created a democratic imperative that would guide Spain as internal events created a political environment where a democratic transformation could be pursued. Ultimately, the interaction between internal forces for reform and the external pressure from the European Community would result in a transformation of Spain's political system from dictatorship to a democratically based constitutional monarchy. Through an analysis of Spain's applications to the European Community in 1962 and 1977, and its European relations crisis from 1970-75, the impact of the European democratic imperative as an external force for democratization will be explored.

Courting the European Community (1962-70)

There is an oft cited quote from a prominent Spaniard in the early 1900s that goes, "Spain is the problem and Europe is the solution" (Ortega, 1988; Farrell, 2001). The processes of European integration have become the manifestation of that Europeanist sentiment among Spaniards (MacLennan 2000), yet the role of these processes has evolved over the second half of the twentieth century. During the 1960s the EC was an objective, the symbol of Spain's growing impulse to participate in the international community. During the 1970s it symbolized an economic and political imperative, one that compelled Spanish political elites to democratize. During the 1980s and 90s the EU was an agent for redefining the environment of Spain's historically closed and inflationary economy towards a competition-driven free(er) market, as well as the impetus for policy change within the Spanish government. While the nature of the EU's impact on the development of Spain was in flux throughout these decades, what did not change was the fact that the European integration project was then and remains today a constant stimulus for national transformation and adaptation. Nowhere has European policy contributed to Spain's transformation more than in the adaptation of Spain's political institutions to the European democratic imperative.

The ratification of the Treaty of Rome coincided with a significant turning point within Franco's government. By 1957 unchecked inflation, expensive price supports and a nearly bankrupt foreign currency reserve account signaled that the Spanish economy was in deep trouble. Just as the six members of the ECSC were creating the blueprint for European integration, Franco was forming a new government in 1957 in an effort to respond to the ensuing economic crisis. While a major component of Franco's economic recovery strategy from 1950 onward involved the gradual opening Spain's economy, Spain nevertheless greeted the European integration phenomenon with skepticism as officials weighed the prospective gains from trade liberalization against the dominant Falangist ideology of self-sufficiency (i.e. import substitution) upon which the Franco government was founded.

By 1957 over 60 percent of Spanish exports were going to Europe and 26 percent of its agricultural products were sold to the ECSC Six (McLennan 39). Although Spain was still a few years away from embracing trade liberalization and region integration, the common reaction of both the Europeanists advocating integration and the skeptics admonishing it as a Masonic conspiracy was that the creation of a European Economic Community clearly affected Spain's interests (37, 40). By 1962 Spain's gravitation towards an export-oriented economic ideology would be complete and Franco would come to view participation in the EEC as a strategic imperative.

At the same time that Franco was engaged in a policy of rapprochement with the anti-communist West, democratic Europe was struggling to create a policy track that would promote the democratization of Spain. In the postwar years Spain's foreign relations with the West were defined by ostracization; the wartime neutrality of its fascist regime was nominal at best, thus the authoritarian government won few friends among the victors of World War II. This dynamic didn't begin to change until 1953, when the geopolitical climate of the Cold War compelled the United States to sign a lease for the construction of military bases on Spanish territory in exchange for trade and aid. More significant than the provision of US aid however, though at this time the funds were sorely needed, was the symbolic impact the lease had on dislodging the Falangist ideology. U.S.-Spanish rapprochement during the 1950s led to Spain's admission to the United Nations, as well as its inclusion in the IMF, the World Bank and the OECD (Grugel et al, 166-168).

Despite these gains, uncertainty about how to press Spain for political reform continued throughout Western Europe. As Spain's flirtation with the policies of austerity, deregulation and trade liberalization prescribed by the IMF in 1959 began yielding trade surpluses and industrial growth by 1961, Spain's orientation to the EEC shifted away from skepticism. Masonic conspiracy or not, Spain's application for association with the Community in 1962 (the first step towards accession) signaled a full-on retreat from the Falangist paradigm of disengagement from the geopolitical camps of capitalism and communism. Inspired by the success of its Stabilization Plan, and no doubt seeing Britain's initial application in 1961 as a reflection of the expansionary future of the European project, Europeanists and non-Europeanists alike would agree that Spain's economic well-being was dependent upon healthy trade relationships with the European Community.

Spain's application touched off a fury of debate within the EEC Six that effectively divided the membership into two camps. While liberal socialists advocated continuing a punitive policy of isolating Spain, conservatives were calling for the creation of economic linkages, as well as the application of pressure and incentives to promote democratic reforms (MacLennan, 62-63). With the European integration project in the midst of its own crises during the 1960s, characterized by Dinan as be the Decade of De Gaulle, the problem of Spain had become a political landmine that none of the EEC Six wanted to step on. By February 1964 the Community had still not replied to Spain concerning its February 1962 application, thus triggering a second letter from Spanish Ambassador Casa Miranda:

> My country has successfully carried out the aims of the [IMF] Stabilization Plan and has a substantially liberalized economic system. In reality this has served as the basis for a Plan for Economic and Social Development with the aim of accelerating the economic growth of the country following certain criteria which it has attempted to make compatible with the basic principles of the Treaty of Rome. (MacLennan, 74)

This reminder to the European Commission of Spain's request for inclusion in the Common Market signaled the changing focus of Spain's interests, and the centrality of the EEC to those interests. At the core of these interests was the growing trade deficit between Spain and the EEC Six, touched off by the impact of the protectionist features of the Community's Common Agricultural Policy (CAP).

Nevertheless, the political incompatibility of Franco's authoritarian regime with the European integration project was revealed by the numerous acts of social repression during the mid-1960s that only served to inflame the EEC members. More visible examples included Franco's harsh repression of Spanish domestic and exiled political actors who convened the Congress of Munich in 1962 to discuss Spain's application to the EEC and propose a list of steps towards the necessary political liberalization, as well as the execution of a political prisoner in 1963 for his Communist agitations. These events charged the political atmosphere so greatly that Spain's most prominent Ambassador, Jose Maria de Areilza, resigned in 1964 over the episodes and became an advocate for constitutional monarchy (MacLennan, 83-84).

While some Francoists viewed European integration as a purely economic pursuit, other members of the Franco government began conceding that there were indeed political implications to the pursuit of integration. Spain's Ambassador to the European

Community, Alberto Ullastres, took a middle-road position, arguing that EEC considerations were economic in the short term but political in the long term (MacLennan, 83).

Ultimately Spain's application for association would be denied in favor of a "preferential agreement" that was strictly economic in nature. It had been decided that the terms of Article 238 of the Treaty of Rome created a democratic imperative that would render Franco's Spain incompatible with the deeper process of European integration (MacLennan, 77). The Franco regime and the state-controlled media trumpeted the preferential trade agreement concluded between Spain and the EEC in 1970 as the first step towards Spain's integration into the European project, "whereas for the representatives of the Community there was no political content whatsoever, nor was there any hope for Spain's further integration as long as the Franco regime survived" (89). Although diehard Francoists would uphold the trade agreement as a victory, Europeanists throughout Spain would come to view the compromise-ridden Preferential Agreement of 1970 as merely a signal that the authoritarian Franco regime was undermining the advance of the socioeconomic reforms of the 1960s.

Spain's European relations crisis (1970-75)

The early 1970s were marked by a crisis in Spain's relations with Europe. First, the European enlargement of 1972, which added Great Britain, Ireland and Denmark to the EEC, resulted in a massive recalibration of EEC tariffs. As members of the European Free Trade Area (EFTA), the three new members found the prospect of raising tariffs to the non-EEC EFTA members problematic. The result of this was an EEC-EFTA deal to gradually eliminate tariffs between the two overlapping trading blocs that effectively neutralized the gains made by Spain in the 1970 Preferential Agreement (MacLennan, 94). Making the situation worse, enlargement meant that there was now an additional tariff (the EC Common External Tariff) between Spain and Britain, its most important customer (95). Spanish attempts to secure unilateral compensation for losses from enlargement would fail, and Spain's relationship with the Community would be relegated to the group of nations classified under the EEC's global Mediterranean policy (which included Israel, Lebanon, Egypt and Yugoslavia). The political implications of being grouped with a non-European bloc took the wind out of Franco's Europeanist sails.

Overlapping with the economic divisions of the early 1970s, the resurgence of Basque separatism and increased labor activism compelled the regime to adopt increasingly repressive tactics for dealing with Spain's internal affairs. The European Community consistently protested the regime's use of the death penalty to punish Basque separatists:

> On 21 February 1974 the European foreign relations commissioner, Christopher Soames, visited [Spanish Ambassador to the EC] Ullastres and just as his predecessor Dahrendorf and Mansholt had done, he pointed out that, even though there was no intention to interfere with the Spanish authorities, it was his duty to warn him that such measures were not approved by the European Community and could seriously damage relations with them. (MacLennan, 101-102)

The European relations crisis suffered by Spain, brought on by a strategy to cope with internal affairs that was incompatible with the values of the Community, complicated efforts by Spanish government to press for deeper integration with Europe.

Spain's attempt to regain its 1970 preferential trade status through negotiations with the Commission as a Mediterranean nation failed in 1974. Next, an attempt by Ullastres to push through a compromise agreement via secret negotiations collapsed in 1975 when the Spanish government passed anti-terrorist legislation that legalized summary court martials and automatic death sentences for convicted terrorists, laws it subsequently applied to 11 convicted seperatists (MacLennan, 115). International outrage climaxed when the court martial found five of the ETA members guilty and ordered their execution the following day. Protests around the world erupted, leading to the withdrawal of all ambassadors from European Community member states except Ireland, official protests from 19 governments (as well as Pope Paul VI), and Mexico's request that Spain be expelled from the United Nations (115). Later, on October 2, 1975, the European Commission announced it was suspending all negotiations with Spain.

With the death of Franco appearing imminent, on November 6 the European Commission announced that it would support the efforts of Spanish monarch Juan Carlos to officiate a peaceful succession in Spain. The death of the dictator on November 20 brought no let-up by the European Community, which would continue to apply external pressure for political reform. In response, the newly crowned King Juan Carlos of Spain announced in his coronation speech on November 22, "Europe must identify itself with Spain, and we the Spaniards are European. It is an urgent necessity that the two sides understand this and draw the appropriate consequences" (MacLennan, 121). The day before the proclamation of King Juan Carlos, his father proclaimed that Spain's future rested on the consolidation of a unified and democratic Spanish state and that this state be fully integrated into the European Community (122). While treading lightly during a tense and fragile period in Spain's political history, the newly crowned King committed Spain to a path of integration with the European Community, signaling the beginning of what would be a two year transition to a democratic form of government. Ultimately, the interaction between the concrete interests of the state and the more abstract notion of

Europeanism among Spanish society would preclude any political transformation that left Spain outside the EEC fold.

The confluence of several disasters in Spain's European relations cast a shadow of crisis on the Spanish government and contributed to a sense of urgency for reform: The loss of preferential trade status following EC enlargement, the implications of including Spain in a peripheral Mediterranean status in the eyes of the Community, and the diplomatic fallout from Franco's brutish response to Spain's internal affairs. For a society that had been experiencing a decade-long reconciliation with its European identity the impact of this fallout on the Spanish consciousness was devastating. The economic imperative for deeper integration had, by 1975, been eclipsed by a sociopolitical desire to restore relations between Europe and Spain. Ultimately, the death of Franco and the external pressure for democratization put forth by the European Community would interface with domestic pressure for reform and set Spain down a path to democratization.

Democratic Political Transformation (1975-77)

European democratic activism manifested itself through two primary channels during the transition years of 1975-1977. First, the EEC Council of Ministers became highly responsive in their contacts with Spain's political leadership during the transition years, ensuring that the carrot of participation in the integration project was always dangling within reach of the Iberian Peninsula. Second, the European Parliament became seized of the matter of Spain's political future. Through its attentive monitoring of Spain's unfolding story of political succession, the members of the European Parliament proved willing to transmit signals to both the evolving Spanish regime and the Council of Ministers, admonishing political developments that might threaten the future of Spanish civil liberties. This activism on the part of the European Community was met by a Spanish political climate that viewed rapprochement with the Europeans to be the most important benchmark of success in the execution of regime change.

The crisis in relations between Spain and the European Community, climaxing with the termination of negotiations between the two entities in October 1975 in response to the execution of Spain's political prisoners, began its reversal in January of 1976 when the EC Council of Ministers announced that the political situation in Spain had improved to the extent that the EC was prepared to resume negotiations. Three key steps on the part of Spain afforded this concession. First, the aforementioned proclamations of Europeanism by King Juan Carlos and his father sent a clear signal to the EC that there was a genuine commitment to democratization among many of Spain's political elite. Second, the transition government appointed by the King had a distinctly reformist character to it. Although Carlos Arias Navarro, a loyal Francoist, was appointed as the head of government, the Ministers of Justice, Interior and Foreign Affairs were very much oriented towards the creation of a new political regime in Spain. Upon formation of the government the last of these officials, Foreign Minister Jose Maria de Areilza, embarked immediately on a tour of the nine EC capitals to convey Spain's commitment to democratization and integration. Of this message the Italian paper Il Tempo remarked, “for the first time the Spanish government talks about a democracy linked with the West and full integration into Europe” (MacLennan, 123).

The transition was not without its setbacks however. Despite pressure from Navarro’s cabinet, the head of state became entrenched about continuing the regime built by Franco. Sensitive to European interference in Spanish politics, Navarro would proclaim to the Council of Ministers on February 11 1976, just weeks after the EC resumed negotiations with Spain, that no substantial changes would be made to the governing regime (MacLennan, 126). This retreat from political reform created great tension within Navarro’s cabinet and discontent throughout Spanish society, manifested in the highest levels of labor strikes in Spanish history (Carr et al, 212-213). The rhetoric of continuation emerging from Navarro during the spring of 1976 also inflamed liberal members of the European Parliament, who quickly passed a resolution calling for the legalization of independent trade unions, political parties, and amnesty towards Spanish political exiles (MacLennan, 130). All the while the European Council of Ministers was testifying before the European Parliament regarding its strategy of open negotiations as a means of pressuring Spain to continue reform. Also during this time the political parties of the EC countries were in continuous dialogue with their emerging counterparts within Spain. The socialist parties, and the Spanish Socialist Workers’ Party (PSOE) in particular, were a significant part of this dialogue as socialist parties governed six of the nine EC countries. In addition to general discussions of political mobilization, the dialogue between Spain’s parties and their European counterparts focused on discussions concerning the blueprint for Spain’s democratic system.

Discontent with the lack of reform efforts during the first half of 1976, King Juan Carlos asked for Navarro's resignation and appointed Adolfo Suarez on July 3. By July 16 a program of reform was issued, as was a statement by the Suarez government to the EC Council of Ministers: "The government confirms the continuity in the fundamental lines of Spanish foreign policy…and it also manifests its willingness to be integrated into the European Communities to pursue active and increasing international cooperation" (MacLennan, 137). To facilitate this, the Suarez government laid out a series of steps. First, the Spanish legislature (*Cortés*) was to pass a political reform law. Second, this law would be presented to the Spanish public for a referendum of support. If the referendum succeeded, Spain's political parties could be legalized and begin organization for free elections before June 30 of the following summer (1977). Thus, within weeks of its formation, the Suarez government laid out an ambitious roadmap for the creation of a legitimate democratic process within Spain.

Moving in parallel with Spain's democratization process was the pursuit of closer relations with the European Community. With officials inside the Spanish government and the European Community viewing Ambassador Ullastres as a figure of the Franco era, it was decided that Spain's ambassador to the EC would be replaced by Raimundo Bassols. Bassols identified two key objectives to facilitate the deepening of rapprochement. During the interim period that preceded the Spanish election it was necessary to capitalize on the warming relations between Spain and Europe by negotiating an update to the 1970 Preferential Agreement. The second priority was to submit an application to the European Community immediately after the completion of the summer 1977 elections. This was critical in the eyes of Bassols. "The initiation of negotiations with the EEC implied," according to MacLennan, "European recognition of the Spanish political system, which would play an essential role in the consolidation of democracy" (143-144).

Ultimately the Suarez government was successful in following its roadmap towards free elections. By November of 1976 the Spanish *Cortés* had successfully passed a law on political reform that was adopted by referendum with an overwhelming 94 percent majority (144). By February of 1977 virtually every Spanish political party had been legalized with the exception of the PCE (Spanish Communist Party). By early April of 1977 the contentious PCE would be legalized, provoking the European Parliament to pass a unanimous resolution acknowledging Spain's fulfillment of the democratic promises made by Suarez in July of 1976 (146). While Suarez would be re-elected in the successful Spanish general elections of June 15 (1977), the socialist PSOE would receive an impressive 33 percent of the vote—signaling the beginning of a distinct new period of ideological plurality within the Spanish government.

Spanish interests in European integration, fueled by a sense of urgency caused by the applications for membership of Greece and Portugal in June 1975 and March 1977 (respectively), placed European integration high on the priority list of the new government's foreign policy. A memo by Ambassador Bassols succinctly illustrates why these interests proved so compelling:

> First, there were political reasons: the European Community constituted a definite anchorage to democracy. It symbolized the end of an intolerable period of isolation. It guaranteed the practice of liberties. It represented a new horizon which was going to lead Europe into a process of political and economic integration. Secondly, there were economic reasons: 48 percent of Spain's exports (80 percent of her agricultural exports) went to the European Common Market and 30 percent of her imports came from that area. Also, 41 percent of foreign investments into Spain came from the Community. As long as Spain remained outside of the EEC, exports to Europe would

> suffer restrictions and the industries in crisis would be deprived of financial aid…. Thirdly, there were social reasons. Nine hundred thousand Spaniards lived in the European Community, but were not eligible for the rights that the EEC workers enjoyed. Finally, there were legal reasons: the EEC had a modern and efficient legislation. The Spanish Judicial system was obsolete and its modernization would be difficult to implement in a young democracy. Membership of the Community would enable the introduction of a system by the EEC institutions and be tacitly accepted by Spaniards as the price to be paid for membership. (MacLennan, 150-151)

Spain's application for full membership was delivered on July 28, 1977 to the European Community and quickly accepted. Although economic considerations would delay the completion of Spain's accession until January of 1986, the commencement of negotiations for membership created the expectation that integration would be achieved. This expectation, with the implication that Spain's democratic institutions would have to be reconciled with the requirements of the Treaty of Rome, had a direct impact on the evolution of Spain's democratic institutions. As one scholar put it, "at each advance, Spain was forced to consider how the national polices might conform to the EU *Acquis Communautaire* [community law]" (Farrell, 1).

The difficult but ultimately successful democratic transformation was by no means an inevitable outcome, a reality punctuated by the attempted military coup in 1981. External pressure on the part of the European Community or the international community, by itself, could not have triggered the relatively smooth transformation to democratic government that Spain experienced had internal factors dictated otherwise. The existence of broad support for democratization among the populace, and more importantly among the political elites, created a political climate where, between 1975 and 1977, external pressure from the European Community could productively influence the transition process. In the absence of such an internal political climate during the 1960s, Europe's exclusionary policies towards Spain were dutifully constrained to the relations between sovereign states. Had the EC attempted to interfere with Spain's political system prematurely and invasively, it is unlikely that the outcome would have been desirable. Ultimately it was the convergence of internal forces (pressure from Spanish society and political will among Spanish elites), coupled with effectively coordinated external pressure from the European Community, which resulted in a functional and enduring political transformation of Spain.

Ultimately, the combination of domestic and international consensus for Spanish democratization culminated in the admission of Spain to the European Community on January 1, 1986. Few Spaniards felt any tangible presence of the EC the next morning, however Spain's admission to the integration project marked the fulfillment of Bassols' vision of an internationally legitimate and internally stable democratic regime. Accession would have further impacts on the policies of the Spanish government that will be explored in subsequent chapters, however the core democratic values of political and civil liberty that were deemed imperative for Spain's participation in the integration project had been secured. While the consolidation of its democratic institutions continued to unfold, the economic consequences of the Single Market program, Economic and Monetary Union and the Treaty of European Union would become the focal point of Spain's national adaptation to integration during the 1990s.

3
Economic Liberalization

Following its democratic transformation, Spain successfully pursued accession to the European Community and implemented a national development plan founded on neo-liberal economic theory and predicated on the belief that economic growth would result in socioeconomic convergence with the European economic core. In addition to restructuring its political and economic institutions, Spain would have to adapt to a slew of European policies relating to markets and development. Spain's unwavering commitment to participation in Europe's menu of integration activities evidences its belief that national interests are served by embracing the political and economic norms of the Community and its legislation (the acquis comunautaire). Chapter 3 will explore the scope of Spain's economic transformation through the structural adjustment of its trade and macroeconomic policies, and the resulting impact this had on foreign investment.

Deriving its inspiration and identity from Monnet's ECSC and the efficiency gains that a common market for coal and steel offered, the European integration project has first and foremost been a mechanism for national political elites to pursue economic liberalization policy on a continental scale. While noble intentions of social equity and economic cohesion were placed alongside the decree for a single market in the Treaty of European Community, the policies of economic liberalization have received the fullest attention from successive generations of political leadership, creating what European scholar Stanley Hoffman observed to be an economic giant but a political dwarf. While the consequences of the EC development model for regional development will be explored in Chapter 5, here it is important to understand how the economic policies pursued by the EC have transformed Spain's economic environment. Through an analysis of the single market and the economic and monetary union initiatives, Chapter 3 will establish how the economic giant came to be and what it has meant for Spain.

The pursuit of a single European market required that Spain diverge from its historically insulated economy and commit itself to an agenda of trade liberalization and macroeconomic discipline that would seek the convergence of national economic variables with criteria established by the European Community and its institutions. Thus, Spain's accession to the EC brought about a comprehensive lowering of tariff barriers against EC members, austere fiscal policy coupled with anti-inflationary monetary policy, and a national program of privatization. Spain pursued these policies with the expectation that the resulting economic growth would bring convergence with development levels of the "Core" European member states.

Single Market

The guard shacks that dot the borders between European Union member-states have been deserted. By the end of the 1990s, planes, trains, automobiles and maritime vessels were moving people and goods between EU nations with increased frequency and decreased paper trail. Less than two months after Spain's accession, pursuing full participation in the EC became something wider and deeper than the customs union that Spain had courted in the 1960s and 70s. The completion of the Single European Act (SEA) in February of 1986 commenced a process of transforming the Community from a union based on liberalized trade to an entity with a common currency, harmonized fiscal and monetary policy, and the realization of the TEC's four freedoms.

The objectives of the SEA, and the Single Market program specifically, represented the pursuit of a more complete union. Spain's accession to the EC had coincided with the beginning of an important evolutionary stage for the integration project:

> With the advent of EC membership in the 1980s, [Spain's] government was preoccupied with the task of preparing for membership and meeting the conditions necessary to comply with the *acquis comunautaire*, changing institutional political and legal systems, and generally undergoing a process of 'europeanisation' at both the political and economic level. The Single Market Programme compounded the 'europeanisation' of the institutional system, as the government launched the process of removal of the various obstacles to the free movement of goods, services, capital and labour. Effectively, this meant for Spain merely a continuation of the liberalization commitments associated with European integration undertaken as conditions of membership. (Farrell, 73)

In the ramp-up to the 1993 Treaty on European Union, the SEA agenda laid the groundwork for a more complete implementation of neoclassical economic theory in an effort to consolidate a single internal market by 1992 (Dinan, 120).

The macroeconomic imperatives established by the Community were manifested in the Single Market's free trade agenda and through the criteria for fiscal and monetary policy that formed the basis of the EC's Economic and Monetary Union (EMU). The impact of each of these programs was deeply felt by Spain, a country whose transition from isolation and import substitution was still incomplete. Ultimately, through the mechanisms of the SEA and TEU, these two thrusts of the European integration project transformed the environment of Spain's economy.

When Spain became a member of the European Community in 1986 the borders between member-states were diligently guarded by customs and immigration control.

Trade within the Community, while highly liberalized, had not completed the transformation to a free-flowing single internal market. A White Paper published by the European Commission in 1985 identified three broad barriers—physical, technical and fiscal—to the completion of the Single Market (Dinan, 354).

Physical barriers consisted of customs and immigration controls between member nations. Although equally formidable challenges, the removal of barriers to the movement of goods proved less politically challenging to the nations of the Community than those pertaining to the movement of people. By 1992 the phased removal of customs barriers to goods was virtually complete, whereas the free movement of people, under the auspices of the Schengen agreement, was not fully incorporated into the TEU until 1997. (Dinan, 354-355)

The technical barriers identified by the White Paper encompassed a broad range of sectors in need of liberalization or harmonization: product standards, testing and certification, movement of capital, public procurement, movement of labor and the professions, movement of services, transport, new technologies, company law, intellectual property and company taxation. With a few exceptions, the adaptation of each of these sectors was phased into the Single Market framework of White Papers between 1987 and 1993. (Dinan, 355-356)

Finally, the fiscal barriers to completion of the single market centered primarily on non-harmonized tax systems within the member states. Of particular concern was the need to harmonize Community value-added (VAT) and excise tax. Previous to this harmonization process, "consumer groups calculated that the cost of a car varied as much as 100 percent across Europe because of excise, value-added, and other tax differentials"

(Dinan, 364). Reconciling tax differentials was critical for the Single Market to avoid inducing an environment of cross-border tax evasion by consumers.

The gradual removal of physical, technical and fiscal barriers to trade coincided with Spain's completion of a seven-year tariff phase-out period in 1993 as part of its treaty of accession. By 1993 the barriers to movement of goods, services, capital and labor had been dramatically lowered. This transformation of commercial policy had several affects on the evolution of Spain's economy. First, Spain's economy was opening. According to an EC trade liberalization index, by 1993 Spain was leading Germany, Greece, Italy, Ireland and Portugal in terms of liberalization measures adopted during the period 1985-93 (Farrell, Appendix 11). Second, trade flows between Spain and the EU altered the landscape of Spanish exports, diversifying Spain's comparative advantage in low-tech primary sectors like agriculture by shifting jobs towards somewhat higher-skill manufacturing. The shift is a slow one, however, and Spain continues to lag the more developed European member states in the production of high-tech products (Farrell, 39-40). As a result, the increasing demand for imports following accession conspired with a domestic production system that was struggling under the weight of increased competition, netting a trade deficit between Spain and the EU from 1986 onwards (Farrell, 34 & Appendix 12).

Accession to the European Community also had impacts in terms of Spain's external trade relations. As a member of a European customs union, Spain transferred significant autonomy over trade agreement negotiation to the European Council through the auspices of EU Common Commercial Policy (CCP). This had both positive and negative effects on Spanish external trade relations. On one hand Spain was now a part of the incriminating “Fortress Europe” of agricultural aid and cultural protectionism (e.g. French filmmaking subsidies) (Dinan 487). On the other hand, membership in a trading block with a market of over 375 million consumers has not harmed Spain’s negotiating leverage in the least. Through the CCP mechanism, the European Commission has been responsible for conducting all trade negotiations, including WTO deliberations—thus offering a united front to heavyweight negotiating partners such as the United States.

Additionally, the adoption of Europe’s external tariff resulted in a general opening of Spanish markets to international trade, as in most cases the European external tariff was lower than the Spanish one (Farrell 33). One sector where this liberalization was not the case was in the case of US agricultural exports to Spain, which were adversely affected by Spain’s adoption of the common external tariff, ultimately leading to a standoff in the WTO (Dinan 546). Overall, the preferential arrangements extended to the European Community members have had both positive and negative effects on international trade liberalization, although economists estimate that the impact of trade diversion created by the common external tariff are far outweighed by the trade creation effects of the single market (Caves et al, 260).

While Spain has undergone a dramatic shift towards an open economy, its historically rooted protectionism has not completed a total reversal. Despite ten years of integration-driven economic liberalization, Spain in 1996 retained the lowest overall trade volume among EU countries as measured by the percentage of imports and exports relative to the GDP (Farrell, 43-44). “What is undisputed,” according to Farrell, “is the extent to which the Spanish economy has moved away from protectionism to embrace liberalization and trade with the European economy” (34). In terms of trade flows, European integration has meant precisely that for Spain's economy. Imports from the EU as a percentage of Spain's total have climbed from 39% in 1985 to 67% in 1998; exports to the EU from 54% to 71.6%. Despite the increasing Europeanization of Spain's economy, the pervasive theme of Spanish trade relations with the EU continues to be deficit. For this reason, the influx of financial flows from foreign investors and EU transfer payments continues to be a central feature of Spain's economic growth.

Foreign Investment

The importance of Foreign Direct Investment (FDI) to the orthodox economic development model made provisions for the movement of capital an essential component of the Community's Single Market program. As theory has it, when an underdeveloped country stabilizes its capital market the influx of FDI facilitates a national policy of export-oriented industrialization that should nurture a balance of payments surplus, thus allowing the nation to finance the importation of technology from the "developed world" and close the development gap. Although Spain had been experiencing increasing inflows of FDI following its Stabilization Plan of 1959, it wasn't until the 1980s—and the prospect of EC membership—that FDI began having a significant effect on the investment capital and GDP of Spain (Farrell, 28).

Examining Figure 1, it is clear that the injection of FDI into the economy accelerated as Spain moved closer to EC membership. Afterwards, in the wake of a Europe-wide recession in the early 1990s, Spain continued to experience a growth in investment. Two factors drove the increase in FDI according to Farrell. First, as membership in the European Community appeared imminent, the position of Spain as an entry point for access to the markets the European Economic Community became a locational advantage. Second, the depressed value of labor and capital due to historically divergent core-periphery development trajectories gave Spain an advantage in factor costs also.

What was the impact of European integration on the sources of investment flowing into Spain? Looking at the origins of FDI in Figure 2, the growing significance of the EU as a source of investment suggests the effectiveness of the European Community's capital mobility program, as well as the growing relevance of Spain to the European economy.

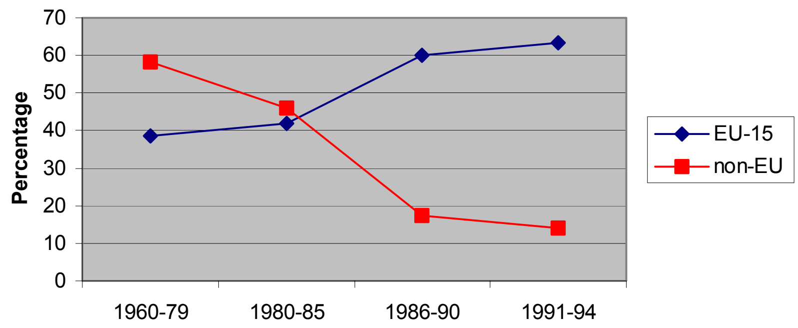
Figure 1

Foreign direct investment in Spain 1970-2001

	Direct Investment *(net)* *(thousand million pesetas)*	%GNP *(net investment)*	% GDP*
1970	15.5	0.59	-
1975	16.8	0.28	-
1980	67.6	0.45	-
1984	156.1	0.61	-
1986	284.2	0.88	-
1988	521.1	1.3	-
1990	1073.1	2.14	-
1992	737.1	1.25	0.8
1993	877.4	1.44	1.3
1994	-	-	1.3
1995	-	-	0.9
1996	-	-	1
1997	-	-	1.7
1998	-	-	2.6
1999	-	-	4.8
2000	-	-	8.2
2001	-	-	4.3

Source: Farrell
**Source:* Eurostat

Figure 2: Changes in geographical origins of Spanish FDI
(% of total)
***Source:* Farrel**



A sectoral analysis of the destination of investment flows into Spain reveals a pattern that partially illustrates the reasons behind the shift in investment. Up until 1986, investment was primarily destined for the Spanish manufacturing sector. As accession led to a liberalization of services, Europe's financial sector increasingly sought to enter Spain's previously insulated financial and commercial services market. During the 1990s this would be the source of a continual influx of capital. (Farrell, 30)

Foreign investment in Spain has brought about a shift towards higher-skill manufacturing as multi-national corporations shifted production (primarily export oriented), yet even the highest levels of FDI have failed to close the gap in Spain's trade deficit that coincided with accession to the European Community. While the long-term benefit of FDI is widely contested within the scope of European development literature (Farrell, O'Sullivan, Scott), it is clear that participation in the European integration project has clearly changed both the quantity and origin of foreign investment in Spain up until the present.

As for the future of FDI on the Iberian Peninsula, there is broad consensus within the academic community that the impending enlargement of the European Union will have a negative impact on the locational advantages currently enjoyed by Spain. As Eastern European countries integrate into the Single Market, the depressed factor costs brought about by their unique historical circumstance will increasingly divert from Spain the foreign investment capital that feeds off the bottom end of the European economic area's labor and capital markets. Additionally, the large surplus of transfer payments that Spain receives from EU programs such as CAP and the European Regional Development Fund will be strained and ultimately curtailed as the current 2000-2006 Cohesion Plan expires and the Union absorbs the developmentally challenged Eastern European countries (Farrell, 42).

Looking to Spain's future, the threat of reduced financial flows as a result of decreased comparative advantage has severe implications for an economy whose growth has been driven by EU transfer payments and foreign investment in low-road manufacturing operations. Spain's roadmap to convergence with the European core has been predicated on the economic imperative of maintaining rates of growth that exceed the EU average. Spain has been modestly successful in achieving this, with an average GDP growth rate of 2.8% per annum during the period of 1986-1999, compared with the EU average of 2.1% (Farrell, Appendix 10). Nevertheless, as the enlargement of regional and global markets for capital investment offer investors increasingly lower-cost factors of production that eclipse Spanish locational competitiveness, the future of the Spanish development will be increasingly reliant upon its ability to engage in higher value-added economic activities. As the following section will demonstrate, the macroeconomic convergence criteria put forth by the EU's Economic and Monetary Union (EMU) project has had positive and negative impacts on the capacity of the Spanish government to leverage competitive economic activity.

Fiscal and Monetary Policy

Next to the operation of political institutions, it can be argued economic policy represents the foremost exercise of sovereign power. A nation's budget, its fiscal policy, determines what services the government is able to provide (such as health care and education). In a welfare state such as Spain, fiscal policy also acts as a lever for the state to intervene to expand national employment levels and, by way of transfer payments, incomes. Since the termination of the Bretton Woods system of fixed exchange rates between nations, national monetary policy has also become a lever with which government can control the expansion or contraction of the national economy. As market economies find themselves expanding and contracting cyclically, having corresponding effects on government revenues, the ability of government to manipulate fiscal and monetary policy has become a central instrument for the modern state to cope with recessionary economic shocks. In the end, however, orthodox economic theory dictates that the long-term impact of expansionary fiscal and monetary policy is inflation, or price instability, and that a policy of near-zero inflation is the best way to secure long term economic growth (Caves et al, 565). Spain's quest for a macroeconomic policy able to check its historical struggle with inflation was fundamentally transformed when accession to the EC brought with it a process of fiscal and monetary harmonization between the majority of member states. The Maastricht Treaty (the TEU) established specific benchmarks—convergence criteria—for the cause of attaining a single European currency, effectively institutionalizing a theoretical model for development at the European level. "In a very real sense," observes Farrell, "the inclusion of the convergence criteria constituted the most explicit endorsement by the European Union of the neo-liberal economic policies and economic orthodoxy that had become entrenched in the 1980s" (12).

At the time of the EU's inception in the late 1950s, monetary union was more of a single market curiosity than an economic imperative. The maintenance of fixed exchange rates among member states of the EC through the Bretton Woods system made the adoption of a single currency nearly a cosmetic goal in 1957, one that found little political support in the wake of Europe's failed attempt at establishing a European Defense Community. It wasn't until the collapse of the Bretton Woods system and the phenomenon of exchange rate volatility during the late 1960s and the 1970s that the EC would take decisive steps towards the creation of an Economic and Monetary Union (EMU).

After Europe failed to achieve the goal of a 1972 declaration (the Werner Plan) calling for monetary union by the end of the decade, tangible Europeanization of monetary policy was not achieved until the 1980s. Beginning with the creation of the European Monetary System (EMS) in 1979, the pace of monetary unification accelerated under the leadership of European Commission President and former French Finance Minister Jacques Delors. Through the levers of the SEA and the EMS Exchange Rate Mechanism (ERM) pact, Delors cultivated the political will for incorporating economic and monetary union into the TEU. (Dinan 453-461)

At the same time that member states of the EC and the international community at large were struggling with the dual shocks of exchange rate volatility and the oil crisis during the 1970s, Spain was coping with inflationary pressures brought about by an undervalued Spanish *Peseta*. During 1977, in an effort to increase the competitiveness of Spanish industry, Spain weakened the national currency so as to decrease the relative price of Spanish exports. This had the effect of generating wage pressures from the unions and moving the Consumer Price Index up 24 percent that year (1977). While wage stabilization programs brought about by the 1977 Moncloa pact (a negotiated compromise between the political left and right) achieved diminished wage pressures and contributed to a CPI that increased only 16 percent by December of the following year, a second oil crisis between 1979 and 1982 overwhelmed the government's attempts to control inflation. It is estimated that Spanish inflation over the period of 1974-1985 weighed in at 15 percent annually. Speculative foreign investments stimulated by Spain's pending European accession put additional inflationary pressure on the economy and further increased the ferocity of Spanish intervention. (Farrell, 80-83)

Spain's attempts at checking inflation through the manipulation of interest rates during the 1980s pitted the central bank against a cyclical dilemma where increased interest rates resulted in increased capital inflows and placed further pressure on the exchange rate. Perez (1999) identifies shortsighted Spanish economic policy as the culprit of the government's inability to stabilize prices. The ultimate fallout from this failure was depressed wages and exorbitant unemployment. This set of constrictive monetary policies played out in two different ways.

The Spanish government's efforts to curb inflation meant resorting to disinflationary labor and finance policies that had negative impacts on economic growth. The Spanish government, through agreements with labor such as the Moncloa pact, sought to peg wage increases to inflation forecasts that were grossly underestimated. This had a contractionary effect on the wages of the Spanish worker. “Spanish unions thus tolerated an almost continuous decline in the real take-home pay of their members” during the period 1979-89 (Perez, 664).

Additionally, financial policy adversely impacted job creation and contributed to making unemployment a central feature of the Spanish economy. With a reported unemployment rate of 4.4% in 1975, Spain’s unemployment ultimately peaked at 24% during the recession of the early 1990s with an average annual unemployment rate of 17.5% between 1985 and 1998 (Farrell, Appendix 4). Twelve years after EC accession Spain’s national unemployment rate was 18.2%. Distribution of unemployment within Spain’s regions was and remains highly imbalanced, with some Spanish regions reporting unemployment rates that approach or exceed 30% while others maintain around 10% (Farrell, Appendix 3). It should be noted that there are significant problems with Spain’s unemployment figures, which will be explored in Chapter 5 but, nevertheless, Spain has indeed experienced periods of chronic unemployment.

The maintenance of unemployment levels far above European averages represents a fundamental failure of government policy according to Perez. Although scholars frequently point to labor market inflexibility to explain Spain’s (and indeed Europe’s) characteristically high unemployment levels (Lopez, 660), in part this problem was exacerbated by the draconian attempts of Spanish monetary authorities to restrict the influx of manufacturing capital by speculative foreign investors, all the while maintaining high interest rates as a part of a tight monetary policy. By inducing a shift in speculative foreign investment from manufacturing to the sheltered Spanish financial markets, the outcome of this set of policies was a reduction in the financial resources available to Spain's job-creating manufacturing sectors. Put simply, contractionary Spanish financial and monetary policy favored price stability over economic growth. (Farrell, 82-83, Perez, 670-671)

Ultimately, the cost of the government's efforts to contain Spain's inflationary economy was measured in worker wages that had plummeted to pre-1970 levels (in real terms) and financial market interventions that discouraged investment in job-creating economic sectors. The cyclical problems of exchange rate volatility and price instability, induced by Spain's inflation-prone economy, were precisely the ills the Delors plan for ERM aspired to eliminate. Proposing a three-stage path to monetary union, the 1989 Delors Report presented at a June 1989 meeting of the European Council in Madrid called for the gradual harmonization of monetary policies culminating in the creation of "irrevocably fixed" exchange rates between EC members. As Farrell argues, the desirability of such a program to a weary Spanish macroeconomic policy was obvious:

> Exchange rate stability could offer important benefits for integration, and at the same time provide an ideal opportunity to secure price stability. A stable exchange rate would generate a degree of credibility and discipline, which in turn would operate on expectations and reduce inflationary pressures. Monetary integration in the form then available, namely the Exchange Rate Mechanism, would also force the authorities into taking a more restrictive monetary policy, unhindered by the usual political concerns which often deterred the taking of unpopular decisions when these were most needed. (Farrell, 83)

The implementation of Delors' 1989 proposal, which was ultimately embraced by the European Council, sought to expand upon EMS by calling for, among other things, the creation of a federalized European System of Central Banks (ESCB) to oversee a process of securing fixed exchange rates and transferring full authority over monetary policy to EC institutions—effectively creating a European "Fed" (Dinan, 457-458).

It was at this 1989 meeting of the Council in Madrid that Spain officially entered the ERM system. Although the first several years following its harmonization with EC monetary targets went smoothly, with Spain staying within the upper limit of its six percent margin of currency fluctuation, the 1992 ramp up to TEU coincided with a crisis in the exchange rate system (Farrell, 83-84). In the United States, a weakened dollar and low interest rates touched off what would become a yearlong series of speculative attacks against the currencies of the member states which ultimately destabilized the ERM system (Dinan, 462). The violence of speculative pressures ultimately forced Britain and Italy out of the ERM system (although Italy would eventually rejoin it). As Farrell notes, the pressures on Spain's economy were not only speculative, but also systemic:

> At this period, the individual member countries were experiencing diverging economic conditions. Several countries, including Spain, were in recession. With their economies situated at the trough of the economic cycle, the domestic economic conditions required expansionary measures to stimulate recovery or at least avoid a worsening of conditions. At the same time, other countries were in a much better position economically, with higher levels of improvement in macroeconomic stability. (85)

Among the European nations, Germany was the clear economic hegemon during the early 1990s. The stability of the German Mark had made it the de facto monetary unit to which other member states had pegged their currencies, and consequently the European currencies were closely tied to the monetary policy of the Bundesbank. While economic theory holds that high levels of inflation adversely affect employment in the long term, the short-term impact of contractionary monetary policy (high interest rates) is a reduction in the kinds of investment and consumption that create growth and employment. When German interest rates were raised in 1992 to offset inflationary pressures brought about by German unification, the deflating economies of the European periphery such as Spain found participation in the EMS to be contradictory to their short term interests.

The tension created by the diverging macroeconomic trajectories of member-states drew reservations from economists like Martin Feldstein about the economic logic of European monetary union (Dinan, 460). The asymmetric shocks to member states' economies during the 1992-93 crisis highlighted the inflexibility of the EMU system. Orthodox economic theory holds that an area of common currency is only beneficial if several conditions exist: (1) there exists high levels of trade within the area, (2) there exists a high level of labor mobility between countries, (3) the expansions and contractions of their economies are relatively harmonized (thus affording a sensible policy response to what would be a symmetric shock), and (4) there exists a centralized fiscal system for distributing funds to regions that suffer asymmetric shocks (Caves et al, 574). Although trade volume was high between member states, the row over German growth and Spanish recession illustrated that, indeed, macroeconomic shocks to the EC were asymmetrical and therefore called for different policy responses.

Spain's adherence to the requirements of EMU proved costly. The ultimate result of this for Spain, according to Farrell, was a prolonged recession during the early 1990s contributing to unemployment levels roughly double the EU average. In the face of economic crisis, Spain's continued commitment to monetary union evidences that, as Dinan observes, "the main push for EMU was political, not economic" (460). Political will for a more complete consolidation of the single market overcame economic impulse and member states struggled to remain within the currency fluctuation corridor established by the ERM.

Despite the economic and political instability resulting from the currency crisis of 1992-1993, or perhaps because of it, the governments of the European Community, minus Thatcher's Britain, sought to include in the TEU a commitment to achieve not just monetary union, as Delors had called for in his 1989 report, but a single currency. To accomplish this, the TEU established a set of economic "convergence criteria" to be phased in that added several features to the requirements of the ERM. In addition to currency stability, the three-stage path to monetary union called for by the TEU entailed the maintenance of price stability requirements, long-term interest rate harmonization (to reduce speculative pressures among European currencies), and finally the TEU introduced specific parameters for fiscal austerity (an annual public debt not in excess of 3% of GDP and a total public debt ratio not in excess of 60% of GDP)(Dinan, 461). Of these requirements, the Spanish government's adaptation to EU budgetary (fiscal) discipline requirements put particular pressure on a country whose public institutions were less than 20 years old.

As the newly elected socialist government led by Felipe Gonzalez of PSOE began revising national fiscal policy in accordance with the TEU, the burdens of fulfilling the universal welfare principles of the 1978 constitution came to bear. Public spending "virtually doubled" during the first 20 years of Spanish democracy, with more than 70 percent of public expenditures going to welfare transfer payments of one form or another (Farrell, 97). Public dependency on transfer payments has been on the rise historically, partly as a result of a dramatic decline in the Spanish birth rate. As the nation's demographics shift from a large working class to an aging retired class the contributions to Spain's social security system have declined, meanwhile demands upon the system continue to increase. Additionally, the Spanish government (under PSOE) had become a key source of national employment, with the public sector workforce increasing by 80% between 1975 and 1995 (yielding an additional one million jobs). The creation of Spain's 17 autonomous communities, effectively another layer of government, was a primary contributor to this period of expansionary fiscal policy, especially as administration of health and education have been gradually transferred from national to regional competence (Farrell, 99, 122). When coupled with an untenable rate of joblessness, the burdens on the welfare system became formidable. As Farrell notes, by 1995 government deficit had become a structural feature of the Spanish economy and an inflationary pressure.

Spain's commitment to the EMU process following ratification of the Maastricht Treaty necessitated gross reductions in public spending. Although the debt to GDP ratio target of 60% was tenable given the initial size of the Spanish public sector, reaching an annual public deficit target of below 3% was problematic for a sector that was still in a period of incubation—particularly during the recession of the early 1990s (Figure 3).

Figure 3 Evolution of public deficit and debt, 1975-1998 (% GDP)

	1975-85	1986-90	1991-95	1995	1996	1997	1998
Deficit	-2.8	-3.7	-5.7	-7.3	-4.6	-2.6	-2.2
Debt	43.7	44.8	65.5	65.5	70.1	68.8	67.4

Source: Farrell, 100, Table 5.1

The size and composition of Spain's emerging public sector has remained diminutive compared to the size of its European counterparts. In terms of both public spending and public revenue as a proportion of GDP, Spain has consistently trailed Germany, France and Italy by a significant margin (Farrell, 96). The nature of this mismatch, in light of the restrictions put on Spain by the TEU, had significant implications for national development according to Farrell:

> The original objectives of convergence towards the EU average, measured in terms of the size of the public sector as a proportion of GDP, and involving expansion in health, education and a national welfare system comparable to well-established systems elsewhere, gave way to the objectives set out in the Maastricht Treaty [TEU] and the Stability and Growth Pact. The need to consolidate democracy was replaced by the desire to consolidate European integration. (97)

Another artifact of Spain's participation in EMU was the privatization of publicly owned companies, specifically those in the energy and telecommunications sector. Between 1992 and 1995, during the last years of PSOE's reign, a program was initiated to maximize the position of publicly owned companies. This plan was ultimately put into effect by the newly elected Conservative government (Partido Popular), who shared PSOE's enthusiasm for EMU. Although broad issues of efficiency, competitiveness and job creation drove the concept of privatization to the Spanish public, at the core this was a strategy to preserve existing social expenditures while still addressing the debt to GDP ratio commitments of EMU. In order to continue paying its bills, and at the same time appear fiscally solvent so as to fulfill strict convergence criteria, the Spanish government resorted to privatization. Thus, "by 1 January 1999, there remained little that was recognizable of the Spanish public enterprise sector as it appeared when Spain joined the European Union in 1986" (Farrell, 117).

In the face of significant domestic pressure to address the recession of the early 1990s, Spain remained committed to the macroeconomic convergence criteria set forth by the Maastricht Treaty and subsequent treaties on EMU. Between 1995 and 2002 the Community successfully completed the three-stage process that resulted in the establishment of a single European currency, the "Euro", among twelve of the fifteen member-states (Britain, Denmark and Sweden being outside the "Eurozone" at the time of its adoption in 2002). Through the ratification of the Stability and Growth Pact in Amsterdam in 1997 that reinforced fiscal austerity, the establishment of the European Central Bank and the ESCB in 1998, and the establishment of "irrevocably fixed" exchange rates leading to the conversion of all foreign currency exchanges to Euros, the EU twelve were ready by January 1, 2002 to introduce the European currency and phase out all national currencies within the twelve (Dinan, 469).

The participation and completion of EMU signals that Spain has successfully achieved a high degree of macroeconomic convergence with the EU member states. In the areas of price/currency stability and fiscal austerity Spain has successfully met the criteria put forth by the EU, ostensibly positioning it for the heightened levels of economic growth necessary for eventual convergence with the EU's primary development indicator—per capita GDP. However, macroeconomic convergence has come at the cost of a public sector that is neither as well funded nor as consolidated as the other member states of the European core. While orthodox theory holds that higher rates of economic growth will be facilitated by Spain's liberalized trade policy, disciplined macroeconomic policy and its locational advantages (low cost capital and labor factors), other factors relating to economic growth may have been compromised. Conclusions about the present and future prospects of real convergence for Spain will be discussed in Chapter 5, however it is important to note here the dramatic structural transformations undertaken by Spain as a participant in the EU's experiment with European-style economic liberalization.

4
European Law and Policy

In addition to democratization and economic liberalization, Spain's accession to the European Union has necessitated adaptation to numerous laws and policies that relate to its development. In particular, the political will for completion of the single market cultivated by Jacques Delors during his tenure as European Commission President has required nations to adapt to numerous European competencies spanning competition (antitrust), agriculture, development, the environment and labor. The laws and policies that have emerged from this set of policies have defined and in some cases transformed the meaning of European integration.

The ultimate primacy of EU laws and regulations over those of the member states is a central feature of European integration—one that has been consistently upheld by the European Court of Justice (ECJ) and, by their consent, the member states. It has the potential to give considerable bite to treaty commitments within the Community. While legal enforcement is always balanced in Europe by the political realities of intergovernmental consensus, in a very real way European law and policy has forced member states like Spain to adapt and transform behavior to remain in compliance with the obligations of the Treaty. Articles 93 and 96 of the Spanish constitution, modeled after legal text within the Belgian constitution, detail that Spain may transfer powers to international organizations whose treaties it has ratified and asserts the primacy of international law over Spanish internal law (Santaolalla Gadea and Martinez Lage, 12).

Thus, from its conception in 1978 the Spanish constitution was intended to provide a legal mechanism for adaptation to the body of European Community law—the acquis comunautaire. This process was facilitated by a 1985 law (47/1985) that provides for the assimilation of EC law by either legislative delegation or by expeditious royal legislative decree (Santacruz, 149-150).

Through its ability to initiate legislation, the European Commission has a key role to play in the creation of EU policy. Primary responsibility for administering this policy also rests with the Commission although, as stated before, this occurs in a delicate balance between the intergovernmental nature of the Council and the supranational character of the Commission. Being dependent upon member-states for the ultimate implementation of community policy, the Commission's role is essentially to translate European legislation (the Treaty and its amendments) into common rules and regulations through a system of advisory, managerial and regulatory committees. European societies and their cartoonists have derided the Commission for appearing to be a regulation-happy bureaucracy, particularly in its efforts to officiate the single market. While the notion of seeking to harmonize the length of British sausage with European norms seems laughable, the 5,000-plus directives, regulations and decisions offered by the Commission signal the complexity of administrating the Union in general and the single market in particular (Dinan, 227).

Enforcement of Community policy also falls under the rubric of Commission responsibilities, whereby the Commission can initiate processes to deal with violations of the Treaty. Should a member-state fail to uphold its obligations to the Treaty the Commission may bring member-states before the European Court of Justice (ECJ), although in practice this happens only rarely. Despite the limitations placed on the Commission by intergovernmental realities, the 17,000 member staff it employs throughout fourteen Directorates General—with portfolios spanning the gamut of integration affairs—are an integral part of officiating the European integration project. Nowhere has the Commission been more visibly active in the policing of community policy than in the area of competition policy. (Dinan, 219-234)

Competition Policy

The principle aim of European competition policy is to create a level playing field between the firms of the single market. Beyond regulating private sector anti-trust affairs, EU competition policy confronts both state-aid (subsidies and tax credits) and regulated industries (particularly energy, finance, transportation and telecommunications). The Fourth Directorate General (DGIV) of the European Commission—whose powers were expanded in 1962 to encompass investigation, adjudication and enforcement—heads the policing of both private and public sector activities. Nowhere has this authority been more publicized than in the Commission's authority to authorize or reject mergers and acquisitions through the recommendations of its merger taskforce—a peer of the US Federal Trade Commission. (Dinan, 379-390)

For Spain, EC competition policy necessitated adaptation and transformation in all three of the areas of concern identified in the Treaty (anti-trust, state aid and regulated sectors). This process began as early as 1963, when Spain implemented "The Law on Restriction of Practices in Restraint of Competition," a manifestation of Spanish government policy during the late 1950s and early 60s to prepare the economy for eventual integration into the European economy (Rubio de Casas, 179). While Spanish competition law drew heavily upon EC text to define anti-competitive market practices, enforcement was decidedly less active than was the norm within the Community. Indeed, the preamble to Spain's 1989 "Law on Competition" reaffirms both the primacy of the integration project as an external stimulus for policy change and the political impact of Spain's failed attempt at accession in 1962:

> …once the external pressures had been formally answered and the hopes for a quick incorporation into the European Community vanished, the tradition of a regulated economy and protection of national industry, added to the lack of a social rejection of the inherently anticompetitive behaviors, resulted in the suffocation of a political will to enforce legislation for the defence of competition. (180)

As Rubio de Casas observes about the state of Spanish competition law preceding accession, "the reports of the Court's decisions, compiled into a few volumes, may be quite comfortably arranged on a single shelf" (180). Spain's accession to the EC changed this dynamic, providing a new legal framework within which anti-trust issues would be decided and a political environment where competition policy would be enforced.

The Commission, particularly since the early 1990s, has also extensively addressed issues concerning the relationship between public policy and the market. With a high proclivity for state aid, European nations like Spain have come under fire from the Commission for maintaining subsidies and tax incentives that were having a distorting effect on the market. It is notable, however, that provisions within the treaty encourage the use of state aid in circumstances involving social, regional and environmental policy. While this stipulation has provided a broad source of justification for the continuation of state aid, the Commission is increasingly creating a different policy environment where national leaders are increasingly able to refrain from selecting state aid as the policy recourse, having the Commission providing "bad guy" justification for politicians' constituents. And although the majority of requests for allowing the provision of state aid are approved by the commission, conditions are often attached that attempt to restrict future use and safeguard the market from dumping. Thus, while state aid in the EU continually amounts to over $100 billion annually, countries like Spain understand that the new economic environment in Europe requires substantial justification for the use of aid (Dinan, 386-387).

Ultimately, the efforts of the DG IV to harmonize the economic environment in which firms operate contribute directly to the viability of the single market. Although the Commission has become more active in its efforts to police the formation of monopolies and the distorting effects of public intervention in the market, it has pursued this objective within a framework that has allowed nations some flexibility in the use of fiscal policy to stimulate economic growth in depressed regions (Barbado, 18-19). In Spain's case, the Commission has identified ten of its seventeen autonomous communities as areas experiencing unique socioeconomic conditions that clearly necessitate some degree of state intervention. On a European level, no sector of the economy has been the recipient of greater state intervention than agriculture.

Agricultural Policy

In the wake of World War II food security was of tremendous importance to the nations of Europe. Additionally, most countries attached cultural value to the preservation of an agrarian lifestyle. For these reasons, Article 42 of the original TEC excluded the agricultural sector from Community competition policy (Dinan, 335). In addition to protecting the European agricultural market from international trade, the TEC also called for the formation of a European Common Agricultural Policy (CAP). Articulated in

Article 39 of the TEC, the objectives of this policy were to increase agricultural productivity, safeguard the standard of living for farmers, stabilize agricultural markets, guarantee regular supplies of food and ensure reasonable prices for consumers (334). Although initially funded by member-state contributions, the desire to offset the costs of the CAP eventually led the European Union to create its "own resources" in 1970 through the allocation of a percentage of the revenue from the Common External Tariff.

The European Community's adoption of the CAP was a turning point in the integration project, signifying the transfer of agricultural policy from a national to a supranational level (Dudek, 18). Financed through the mechanism of the European Agricultural Guarantee and Guidance Fund (EAGGF), the CAP provides for the maintenance of a minimum price for a given commodity, an intervention price whereby the EU purchases unlimited surplus product to remove it from market (thus maintaining the minimum Community price), a minimum import price for competing commodities, a levy on imports to provide the minimum import price, and a rebate to EU exporters for the difference between lower world prices and higher EU prices (Dinan, 336). Egalitarian in intent, this policy nevertheless resulted in massive overproduction and the creation of "intervention warehouses" full of infamous "butter mountains and wine lakes" (338). The response to this problem was the implementation of an elaborate quota system throughout the EU, one that would have an impact on Spanish agricultural production later on, as well as a reduction in price supports and a subsidized phase out of large tracts of land (343-344). Additionally, the scope of European agricultural intervention brought it in contravention to the stated policies of economic liberalization in the context of the WTO.

Agriculture matters to Spain. At the time of Spain's accession to the EC over sixteen percent of its working population was employed in the agricultural sector, a figure representing nearly 200% of the EC average. While that gap had closed to roughly 63% above the EU average by the year 2000, European agricultural policy remains important to the Spanish economy (Instituto de Estadisticas de Andalucia), although statistical analysis reveals that not all regions within Spain share the same dependency on agriculture for employment.

The impact of the CAP on Spain varied dramatically, by agricultural sector as well as by region. When Spain negotiated its accession agreement with the Community, the interests of regions producing highly competitive Mediterranean products were secured at the expense of producers that cultivated goods characteristic of "continental" European agriculture—that is, agricultural commodities of the preexisting "EC-10" member states. According to a working paper by Marie Dudek of the European University Institute there is a strong tendency within national governments to conclude international agreements that favor those sectors and regions that enjoy the greatest comparative advantage. Agricultural production in the North and West of Spain was heavily involved in these "continental" commodities where Spanish prices were above those of the EC at the time of accession. The South and East tended to focus agricultural production on Mediterranean products that were previously selling at prices below EC levels (Mykolenko, 19). Obviously this meant that agricultural products in the Northwest were at a price disadvantage in the face of EC accession, versus the prospects for higher prices for the Southeast regions exporting Mediterranean goods. In the Spanish region of Galicia, for example, core agricultural production of beef and dairy were forced to cease growth under the terms of the CAP negotiated by Spain in its act of accession, while in Valencia Mediterranean products like oranges and olive oil received CAP subsidies and were given greater access to European markets (Dudek, 16, 24). This dynamic was extremely paradoxical for Galicia, where agricultural employment as a percentage of the regional total was at 43% in 1986, as compared to 13% for Valencia. In Andalusia CAP quotas bounded the production of wine in the early 1990s, contributing to unemployment levels that in one community exceeded 40 percent (OECD 1999, 81).

Since Spain began participating in CAP in March of 1986 the CAP has simultaneously constricted agricultural production and subjected Spanish producers to lowered prices, as was the experience of Galicia, while alternatively opening agricultural markets throughout Europe to competitive Mediterranean crops, as was illustrated by the example of Valencia. Although Spain is a net recipient of funds from the EAGGF, adaptation to European agricultural policy has had a dramatic impact on those regions of Spain that are dependent on "continental" agriculture for employment and revenue.

Development Policy

Twelve yellow stars circling a blue background is the flag of the EU, and its presence has become conspicuous in the streets of Spanish cities in any one the eleven regions that have been classified by the EU as underdeveloped. Signs bearing the flag of the *Union Europea* abound, marking billboards on the sides of highways, fences surrounding urban development projects, and even the sides of city sanitation vehicles. Each of these flags identifies a project that has been co-financed by one of the EU's many development funds. These funds are part of a European development policy wealth redistribution mechanism that assists lagging regions cope with the pressures of European integration.

The philosophical underpinnings of European development policy can be found in the original Treaty of Rome, which aimed to promote harmonious development and reduce the gaps in development between Europe's regions. In Euro-speak this would eventually become known as Cohesion Policy. The first instruments created by the EC to address development policy were the European Social Fund (ESF), the European Investment Bank (EIB) and the Guidance portion of the EAGGF, although none of these programs targeted regional development specifically. Policies designed to address the spatial disparities between Europe's regions came about with the creation of the European Regional Development Fund (ERDF) in 1975 following the 1972 accession of Britain and Ireland, although major resources would not come online until the Delors I budget package submitted in the wake of the 1986 Iberian enlargement.

The Delors I budget called for a doubling of structural funds between 1987 and 1993 to assist Europe's least developed regions cope with the shocks and adapt to the opportunities of the single market. This funding increase necessitated a major reform in the Structural Funds in 1988. At the core of the 1988 reforms were the establishment of five objectives (Dinan, 434-435):

- Objective 1: Regions whose development is lagging. They are regions with a per capita GDP of less than 75 percent of the EU average.
- Objective 2: Areas of declining industry.
- Objective 3: Combat high unemployment.
- Objective 4: Integrate young people into the workforce.
- Objective 5: Adjust agricultural sectors in support of CAP reform.

Of these objectives, the majority of EU Structural Funds go to the first category—lagging regions—and all of the Structural Funds (the ERDF, ESF, EAGGF, and when applicable the Financial Instrument for Fisheries Guidance (FIFG)) contribute to this effort, whereas Objective 2 assistance utilizes only the resources of the ERDF and ESF (CEC 1999a, 4, 12). These objectives have been modified over the years as program reviews have dictated reform, creating three phases of European Cohesion Policy: 1989-93, 1994-99 and 2000-2006.

In addition to programming, the levels of EU transfer payments have varied between phases. In preliminary negotiations for the TEU Spanish President Felipe Gonzalez, employing the rhetoric espoused by the Delors I budget negotiations concerning the imperative of a redistribution of wealth to lagging countries, became the advocate of poorer member-nations for a greater budgetary commitment to cohesion in the final Treaty. Thus, by the end of 1993 the Community set up a Cohesion Fund to address issues of infrastructure development (relating to the Delor's TEN initiative), environmental programming and venture capital for Small and Medium Size Enterprises (SMEs). The combined resources of the Structural and Cohesion Funds effectively constitute the bulk of EU development policy, referred to as Cohesion Policy

Programming is a critical component of EU Cohesion Policy. Member states and the Commission cooperate in the implementation of Cohesion Policy through the mechanism of annual Community Support Frameworks (CSFs) and Single Programming Documents (SPDs)—essentially contracts between the member state and the Community concerning financial resources, programming, program supervision and monitoring, as well as member states commitment to Community policies of cofinancing and additionality. The member state and its regions must cofinance each project financed by the EU. Various rates of cofinancing requirements exist depending on the fiscal realities of the region. Additionality means, simply, that member states will maintain pre-existing public expenditures between programming periods, allowing for fiscal fluctuations from privatization and macroeconomic fluctuations (CEC 1999a, 20).

The net effect of TEU agreement on Cohesion Policy for Spain was a doubling of net receipts from the EU during the period 1994-1999 (Farrell, Appendix 2). Spain received a lion's share (roughly a quarter) of all Structural Funds over the 1994-1999 programming period. This is due to the fact that eleven of Spain's seventeen Autonomous Communities, accounting for approximately sixty percent of the population, met the criteria for being classified as Objective 1 (lagging) regions during the 1994-1999 programming period (CEC 1999b, 224), making the resources of each of the Structural Fund partners (ERDF, ESF, EAGGF, FIFG) available for Spain's CSF programming (CEC 1999a, 24). ERDF activity consisted primarily of employment generation, infrastructure development, and community and SME development. The ESF focused exclusively on the labor market, pursuing a variety of educational programs that seek to generate employment, targeting the young and female demographics that are over-represented in Spanish unemployment figures. Last among the Structural Funds, the Guidance section of EAGGF policies provides funding for Community efforts to "adjust production, processing, and marketing structures in agriculture and forestry" (Dinan, 435).

The Cohesion Fund, with programming periods that roughly mirror those of the Structural Fund starting in 1993, transferred nine billion dollars to Spain during the first period (93-99). Among the priorities established by the Cohesion Fund, environmental activities were directed primarily at the human health issues of water treatment and waste management. Transportation infrastructure was also a primary focus, with major ground transportation corridors between Spain's regions being established or upgraded, as well as efforts to consolidate metropolitan transportation infrastructure (CEC 1998, 32-41).

Finally, EU development policy has contributed, both directly and indirectly, to an exhaustive list of capacity-building initiatives for Spain's public institutions. First, ERDF funds been used to directly augment regional and national statistical initiatives. Additionally, Spanish institutions have also been required to come into compliance with EU Cohesion Policy accounting requirements, indirectly contributing to the development of best practices for those agencies that interface with the EU.

The volume of financial flows has attempted to offset both the regional income disparities suffered by Spain's Objective 1 regions as well as fill the public expenditure vacuum created by Spain's commitment to EMU (Farrell, 137). Do to the way Cohesion Funds integrate themselves into the fiscal policy of regional governments it becomes difficult to disaggregate their impact in such a way that one could quantify the effectiveness of Cohesion programs in closing the gaps in development of the EU's lagging regions, however there can be no doubt that the wide range of development activity embarked upon by European Cohesion Policy have truly left their mark on Spain's regions.

Environmental Policy

"Environmental policy," Dinan observes, "is now one of the most important and highly regulated areas of EU competence" (407). Although no mention of a European environmental policy exists in the original Treaty of Rome, except for general statements tasking the EC to secure "the living and working conditions" of Europeans, the 1970s marked the beginning of an era of EC activism concerning the environment. Over the past three decades polices pertaining to this area of concern have evolved by means of five periodic Environmental Action Programs (EAPs) and explicit commitments to the environment contained within the SEA, the TEU and the Amsterdam treaty. The ability of the EU to achieve consensus on environmental policy, especially among the poorer member states, has resulted in legislation that has evolved from corrective measures to policies that are distinctly preventative in nature. Environmental legislation has been able to consolidate institutional capacities on a European level and mandate the regulation of such areas as habitats, ecosystems and wildlife, air quality (emissions), water contamination and waste management. (Dinan, 408-414)

The inclusion of environmental standards throughout Europe was not a problem for several member states that were at the forefront of environmental policy advocacy themselves—particularly Germany and Denmark. Indeed, the Nordic countries that acceded in 1995 (Finland and Sweden) were confronted with generally lower standards among preexisting EU nations than those already in place. Yet for poorer countries of the economic periphery, like Spain, the cost of such policies were of great concern, particularly as external pressures for fiscal austerity generated by EMU meant that funding for national programs was scarce.

> Investment in environmental areas [by Spain] was not significant until 1978, when the amount spent on this subject came close to 0.5% of the GNP, which was one third of the average amount spent on environment in the first nine countries to form the European Community (EC-9). This percentage was only comparable to that of Greece, Ireland and Portugal. (Barbado, 63)

Not surprisingly, in the first three years of Spain's membership the European Commission filed over one hundred complaints against the government, including sixteen infringement procedures (Barbado, 63). National realities had created a paradoxical relationship to environmental policy where the countries with the greatest need for environmental reform were precisely the ones that were burdened by underdevelopment and lagging institutional capacity.

The necessity of achieving intergovernmental consensus on this issue was imperative for the consolidation of the single market, where capital mobility might lead to predatory investment in regions with little regulation. The response of the TEU was one of flexibility. For member states that were unable to immediately fulfill the requirements of European environmental policy allowances were made for temporary deviations and financial assistance from the EU's own resources, to be distributed through the Cohesion and Structural Funds. Additionally, in 1992 the community set up the Financial Instrument for the Environment (LIFE) that made 450 million Euros available for environmental activities in member states and throughout the Mediterranean region between 1996 and 1999 (Dinan 409-410).

The cooperative framework established by the EU to cultivate common environmental standards has resulted in a spectrum of pro-environment activity within Spain. Since Spain's accession numerous rulings have been made against Spanish companies engaging in activities that trigger environmental degradation. Public aid has been portioned for research and development related to quality of life. Cooperation between the Spanish bank Banesto and the European Investment Bank has resulted in the creation of the Spanish Environmental Bank, which provides advice, diagnosis and financing to environmental initiatives within Spain. Additionally, an educational initiative co-funded through the European Social Fund (a component of the Structural Funds) has been set up to train students and faculty about the needs of the environment and quality of life in urban and rural areas. (Barbado, 64)

The overarching logic behind elevating environmental policy to a European level, according to Dinan, was the concern that national environmental standards (or lack thereof) would distort the single market by giving certain regions comparative advantage in less stringent regulatory environments (409). This concern provided the EU with the political will to make the kinds of investment in Cohesion Funds for underdeveloped regions that was necessary to achieve consensus among Europe's economically diverse member-states.

Additionally, the creation of the European Environmental Agency (in 1995) has greatly increased the amount of information available to policy makers at regional, national and European levels. One last remarkable feature of EU environmental policy is that the regional body has the authority to negotiate and enter into international environmental agreements such as the Rio Declaration and the Kyoto protocol. The proposals emitting from such conferences, such as the development of green accounting practices within Europe, have the potential to transform the domestic policy environment even further (CEC 1999b, 34).

Finally, the inclusion of environmental impact assessments as a prerequisite to virtually all EU programmes has been mirrored by national governments to varying degrees. While enforcement of the environmental decisions of the Commission is by no means complete or satisfactory, the existence of a European Environmental Policy and a body of environmental law for the region only contributes to the sustainability of the common market and distinguishes it from other regional free trade platforms.

Labor Policy

Just as it was important for the EU to secure a regulatory environment where no member state had comparative advantage in lax environmental standards, EU policy has sought to prevent an imbalance of labor standards that could trigger low-road capital movement—what Dinan refers to as "social dumping" (424). The creation of European labor standards has been accomplished through the mechanism of European Social Policy. Labor regulation previous to the SEA occurred in several phases. Included within the TEC were provisions relating to achieving full labor mobility, equal pay for equal work performed by men and women, and the creation of the European Social Fund (ESF). The first phase of social policy reform was initiated during the 1960s, pegged to TEC articles relating to labor mobility, although it wouldn't be until the ratification of TEU that the remaining legal barriers to labor mobility would be removed. During the 1970s labor policy was advanced in fits and starts, however by 1974 the Commission produced the first Social Action Program, addressing among other issues the topics of equal pay and building upon a body of EC company law directives. (Dinan, 421-423)

The next major phase of European labor policy reform came during the presidency of Jacques Delors. Although the focus of SEA—and Delors—was the economic and monetary reforms necessary to prepare the Community for a 1992 single market, the former trade union official also initiated (in 1988) an evaluation of the social implications of deeper economic integration. This ultimately resulted in the adoption of the Community Charter of the Fundamental Social Rights of Workers (the Social

Charter) by the heads of all member states except Thatcher's Britain. Within the Charter, workers rights were broken down into twelve categories (Dinan, 423-425):

- Freedom of movement
- Employment and remuneration
- Improvement of living and working conditions
- Social protection
- Freedom of association and collective bargaining
- Vocational training
- Equal treatment for men and women
- Information, consultation and participation for workers
- Health protection and safety at the workplace
- Protection of children and adolescents
- Protection of disabled persons

Although it was not part of the acquis comunautaire, the rights prescribed by the Charter signaled consensus among the overwhelming majority of Europe's political elite for a basic platform of labor standards from which to build the single market. Unfortunately, the birth of the Social Charter also coincided with a period of high unemployment, contributing to a policy environment that was calling for labor market flexibility and thereby forcing the commission to strike a balance between, as Delors puts it, "what was desirable, what was appropriate, and what was feasible at the European level" (425). The outcome of this process of social review was a new social action program that, after all political fighters weighed in (which is to say Thatcher and the 11), reached consensus on merely eight European Commission directives limited to the health and safety of the work environment (426).

Efforts to incorporate the Social Charter into the upcoming TEU continued, but sustained resistance from John Major (Thatcher's successor) forced the Community to adopt a two-tier social policy mechanism for the Treaty that allowed the eleven (and eventually 14 after the 3-country EFTAN enlargement) consenting member states to pursue European labor policy legislation in the context of the 1989 Social Charter. Ultimately reluctance on the part of EU members to propagate a two-tier approach to European social policy that excluded Britain, as well as a shifting focus towards unemployment, resulted in a modicum of labor legislation in the wake of TEU—the most notable of which being the establishment of a worker's right, without regard to gender, to three months unpaid maternity leave. Eventually the newly elected British Labour party would swiftly endorse the spirit of EU social policy, ultimately resulting in its full incorporation into European law via the Treaty of Amsterdam in 1997.

For Spain, European Social Policy has meant the incorporation of Commission directives into Spanish law, the receipt of subsidies from the ESF to address Spain's chronic unemployment problems, and the facilitation of national trade union cooperation at the Community level via the European Confederation of Trade Unions. While the Community's efforts to create European labor standards have attempted to bridge the gap between economic growth and social opportunity, former Spanish union leader Jose Maria Zufiaur warns that the primacy of economic integration policy over social cohesion at the European level means that industry will become more concentrated and powerful while trade unions and European institutions will remain relatively static (Barbuda, 130-131). Thus, the existence of labor standards does not automatically represent a public policy agenda that fully addresses the needs of labor, it merely creates the opportunity for policy discussion to take place at national and European levels.

In conclusion, the pursuit of a functional common market between Europe's disparate nations has begotten a series of policies, including competition, agriculture, development, the environment and labor. It has also necessitated a body of European Law that empowers the European Commission to enforce these regulations on the same geographic scale as the free trade area created by European integration. While there remain weaknesses in the implementation of each of these policies, their very existence signals a willingness of the European member-states to use supranational mechanisms to balance the benefits of international trade with the long term interests of socioeconomic stability within the region.

5
Integration and Regional Development

Regional development is a complex, multidimensional phenomenon. Economic growth occurs in a global environment where the increased volume of international transactions assimilates regions into a highly fluid international ecosystem. A central feature of globalization has become the creation of an international system where shocks in one part of the world are immediately transmitted to another. This has fostered the need for a new understanding of development ecology where external (often global) contexts of the regional development puzzle have become at least as important as the endowments of the regions themselves. Former World Bank Chief Economist Joseph Stiglitz (2002) likens globalization to a rough ocean where economies are tossed about like boats in a storm. In this environment, he argues, even the boat of a well-captained developing country can be capsized if the economic shocks of ungoverned global markets are unchecked.

With Spain's participation in the European integration process the complexities of regional development—the pursuit of economic growth and social opportunity—have become particularly conspicuous. The increasing number of economic, social and political transactions between EU member-states is yielding a magnified experience of globalization on a regional scale, effectively redefining the spatial or geographic ecosystem in which regions pursue development. As the phenomena of regional integration and development relate to each-other in dynamic ways, this paper has attempted a multidisciplinary and multi-spatial analysis in which this new ecology of development is illustrated. Earlier chapters have explored the historical, political and economic dynamics of European integration—dynamics that have played themselves out on the supranational and national levels. In chapter five we will explore the development of a sub-state region—Andalusia—since Spain's accession to the EU in an attempt to illuminate more clearly how Spain's participation in European integration has impacted social opportunity, what Dréze and Sen (1995) defined as "the real freedoms that the citizens enjoy to pursue the objectives they have reason to value" (10).

European Development Theory

Despite recent attempts to offset the costs to poorer member states of EMU by aggressive funding of European Cohesion Policy, the backbone of the EU development paradigm has remained the pursuit of economic growth through consolidation of the single market. "The stylized fact that convergence occurs at a more rapid rate during periods of economic growth and closer integration, is a simple yet powerful observation," observes the European Commission (CEC 1999b, 19). From this logic emerges three "forces" of the single market that result in regional convergence according to orthodox economic theory.

First, depressed factor costs among the poorer regions (cheap labor and capital) should result in higher rates of investment. Second, trade of goods and services, as well as transnational production, should result in a transfer of technology and best practices from the core to the periphery, thus slowly moving the capital-to-labor ratio (and thus individual incomes) towards equilibrium; in other words, helping to shift production from low-wage labor-intensive production to higher-wage capital-intensive production. Finally, the labor mobility provisions set forth by the TEU should allow workers to seek higher wages in regions where demand for labor is greater. The validity of this economic paradigm is predicated on the assumption that, in the case of capital, labor and technology, European market forces will successfully seek out equilibrium.

Malizia and Feser (1999) make several points regarding conditions where the movement towards equilibrium, or interregional factor reallocation, might not happen. First, regions that employ multiple manufacturing sectors, featuring both high *and* low capital/labor ratios, may actually attract *internal* movements of labor and investment. This could happen when manufacturing ventures that generate a higher marginal product of labor have the effect of increasing regional income and creating forces of endogenous growth. Thus, European regions that have successfully created a competitive economic base, typically those of the European "core," may become caught up in a virtuous cycle of endogenous growth that generates "high road" equilibriums which do not necessitate the outside migration of capital and labor. In other words, by pursuing a strategy of endogenous development the innovating core would have limited exchanges of technology with Europe's economic periphery. Second, Malizia and Feser observe that barriers often exist to the migration of capital and labor. Although the European Union has worked diligently to remove obstacles to the free flow of goods, services, capital and labor, social and linguistic divisions within the Union make the mobility of the last of these factors—workers—severely constrained.

Finally, barriers to technological diffusion may strain the European Commission's conception of the "powerful forces" of the single market. First, the theoretical assumption that technology is being transmitted between regions depends upon the existence of near-perfect information throughout the single market, a feature that is difficult to achieve in even the most homogenous economies. Second, "technological advances would be expected to be made in more prosperous regions that possess the necessary agglomeration economies to permit significant investments in research and development" (Malizia and Feser, 136). In such a case, a region that enjoys technological advantage could experience what the authors refer to as a positive feedback mechanism, whereby locationally driven technological advantage merely reinforces existing regional development differentials (137).

Among the four freedoms of the single market, the mobility of capital, goods and services are the have most successfully been "liberated" through the mechanisms of the European single market program. Thus, within the market-based conception of development created by the European integration project, the possibility of translating increased export markets into higher rates of economic growth becomes the best-case scenario for poorer countries like Spain to achieve convergence with the European core.

To understand the linkage between exports and economic growth we turn to post-Keynesian regional growth theory, a synthesis of Keynes' General Theory and neoclassical economics (Malizia and Feser, 130). According to theory, within each regional economy occurs a process of cumulative causation; a process where a region's ability to generate growth in output (of something people want) results in increased productivity and price competitiveness. Once a region is producing output efficiently, and thus offering competitive pricing, it will develop export markets that will bring revenue into the region. The revenue generated by these exports then multiplies the gains made by the original growth of output as it is re-invested in regional economic activity. In other words, the primary task of regional development policy should be to generate competitive, export-oriented economic activity (output) that will generate revenue and foster a cumulative process of regional growth and prosperity.

To implement such a theory, the challenge for the region becomes how to prime the proverbial pump of economic capacity. It is a generally recognized phenomenon that as higher-quality “imports” from the European core began entering Spain’s regions with increasing volume, one outcome was an increase in the sophistication (demands and expectations) of Spanish consumers. According to Porter’s (1990) competitive diamond theory, this consumer sophistication process should lead to increased competitiveness in those economic sectors that dominate the region.

Yet many scholars are skeptical of the institutional capacity of poorer regions like Andalusia to translate sophisticated demand into greater competitiveness in the export industries that post-Keynesian regional growth is dependent upon for the generation of employment and income growth. Without the transfer of technology and best practices, the limitations of a region’s public and private sector organizations signals that the only thing consumer sophistication will generate is a profound awareness of material poverty (Amin and Tomaney, Rumford, Scott).

Expanding on the argument of development theory, Dréze and Sen (1995) argue that development based solely on economic growth paints an incomplete picture of the interdependent relationship between economic and social development—and ultimately between markets and government (18). The authors argue that the failure of national development agendas in India to secure the provision of basic levels of education and health care as an integral component of economic reform has created a dysfunctional imbalance in Indian planning efforts. By ignoring the linkage between social development and economic capacity, the authors argue that India is not properly priming the pump.

Looking at development from a more holistic perspective, increasing social opportunity through the provision of the core services of education and health care are imperative for a competitive, market-based development strategy. Dréze and Sen's implication that social development not only reinforces economic growth but, indeed, fuels it by the augmentation of human capital, has tremendous potential for exacting positive side effects from the development process. The spillover from enhancing the social factors relating to the economic growth of a region is higher quality of life for its inhabitants and greater sociopolitical equality and stability. It ultimately translates into higher common denominators of output among the workers/entrepreneurs/policymakers of the regional economy. The capacity of Europe's regions to achieve convergence with the more prosperous European core is thus predicated on their ability to pursue a development trajectory that addresses the social as well as the economic dimensions of development.

Looking at development theory from a holistic perspective, then, we see that participation in Europe's single market offers tremendous opportunities for regional development, but is also inherently full of challenges and contradictions. If the realities of the single market fail to result in the transfer of technologies and best practices from the core to the periphery, or if the requirements of European integration inhibit the ability of lagging nations and regions to pursue the types of social programs that result in the enhancement of human capacity, then the ability of regions to prime their economic pumps, and thus the very foundation of European development theory, becomes compromised.

Andalusia's Regional Reality

Having a more complete perspective of the potential challenges to growth and development, the question becomes where to start priming the pump. Dudek (2000) offers five reasons why regional policy must be at the core of development policy in the EC (5). First, the geographic proximity of regional governments to the socioeconomic realities of their respective communities allow for the possibility of a more specialized—and thus efficient—set of policies for economic growth. In an environment of increasingly competitive global markets, national competitiveness relies increasingly on the ability of regions to identify and cultivate innovation-yielding agglomerations of firms (Porter, 1990). Thus, economic growth strategy becomes better informed when regional endowments are brought into focus.

Second, the mobility of capital across international borders has greatly expanded markets for foreign investment within Europe. With national macroeconomic variables highly equalized across the EU, locational decisions made by companies will increasingly be based on regional rather than national attributes. Regions, argues Dudek, no longer compete on the basis of Ricardo's traditional conception of comparative advantage, but rather are pitted against one another for competitive advantage over the locational factors that influence investment decisions.

Third, 20th century economic orthodoxy has diminished the capacity of national governments to use expansionary fiscal policy as a means of buffering underdeveloped regions from the shocks of global markets. In the tight fiscal environment of EMU, national development funds have tended to go to sectors and regions that are most competitive and thus offer the quickest return on the investment. Thus, for regions whose base industries are in decline, "International trade rules and restrictions on national government subsidies," according to Dudek, "has [sic] made it imperative for regional governments to solve their own economic problems" (11). A related fourth point is that, as economic integration forces national private sectors to adapt to new competitive pressures in a fiscal environment that precludes the expansion of transfer payments and subsidies on a national level, regional governments will increasingly be in demand to create cost-effective and coherent public policy.

Lastly, Dudek argues that efforts by the public sector to effect economic growth and development are paradoxically more challenging and necessary for weaker regions that may not have the private-sector expertise necessary to provide the services firms need to compete (e.g. research and development, market information etc…). "The critical question for the less favoured regions," according to Amin and Tomaney (1995), "is whether globalization represents the centralization or decentralization of development opportunities" (33). As increased competition places greater pressure on human and institutional know-how to forge competitive advantage within the global economy, Europe's lagging regions must close the innovation gaps that exist between the core and the periphery in order to successfully decentralize these development opportunities.

Regional overview. Counted among Europe's twenty-five poorest regions is Andalusia. With official unemployment rates that hover in the vicinity of 30%, and a per capita GDP figure of well below 60% of the EU average, Spain's southernmost region seems placed in the difficult position of having the most to gain as well as the most to lose by its assimilation into the European Union. With the consolidation of a democratic government in Spain and what seems to be the end of Spain's chronic battle with price instability, the people of Andalusia have relatively free access to the largest consumer market in the world—enough imports to whet the appetite of sophisticated consumers and outweigh the exports Andalusia can generate. Reciprocally, the expanded opportunities for export-oriented economic growth presented by Europe's common market promise spectacular gains if the region can successfully adapt its economy. With the forces of competition brought about by the single market a reality, how Andalusia's policymakers choose to prime the pumps of economic growth and social opportunity becomes increasingly pivotal for the people of the region.

Extending across the southern quarter of the Iberian Peninsula, the geography encompassed by Andalusia makes it the second largest of Spain's seventeen quasi-autonomous regions. Occupying over 34,000 square miles, the region is 2,000 square miles larger than Ireland and three times larger than Belgium (Gibson). Along its western border is Portugal and, along its long southern coastline lies the British dependency of Gibraltar. Because of the short distance across the Strait of Gibraltar to Morocco, Andalusia is often thought of as the bridge between Europe and Africa.

It is also thought of as one of Spain's most backward regions. Of the seventeen regions that comprise Spain, only Extremadura suffers lower levels of basic development indicators. Although it possesses an economy that is in the process of diversification, Andalusia remains far more dependent upon agriculture than is the average within the EU. Staggering levels of unemployment and poor infrastructure were the primary features of this region when Spain joined the EU in 1986, contributing to make this region one of the poorest in the Community. Since then it has been the recipient of a tremendous amount of development aid through European Cohesion Policy, qualifying as a most lagging “Objective 1” region. To qualify for Objective 1 funding, a region must have a per-capita GDP of less than 75% of the EU average. Andalusia’s was 53%. With some of the lowest levels in Europe of industrial development, workforce development, technological capacity and physical infrastructure, the region’s ability to exploit the opportunities created by European integration becomes an important question.

Andalusia is a semi-arid mountainous region, with the Sierra Morena stretching along its northern frontier and the Sierra Nevada extending down along the Southeast coast. Sandwiched between these two mountain ranges is the Guadalquivir river, flowing from the eastern mountains of Jaen to the western estuaries of Cadiz. The fertile valley formed by the Guadalquivir River is an essential part of Andalusia’s physical environment. Among the six primary river basins supplying water to Andalusia, the Guadalquivir River alone was responsible for satisfying over 63% of the demand in 2001. The majority of the water from Spain’s water basins (78%) is used for agricultural purposes. By comparison, urban areas use only fifteen percent. (IEA)

With well over seven million inhabitants Andalusia is the most populous of Spain’s regions. While historically inherited regional divisions have created size-mismatches that skew national comparisons of regional population density (such as the diminutive grape-growing protectorate of La Rioja or the Spanish-held Moroccan port of Melilla), Andalusia’s population density of roughly 214 persons per square mile puts it close to the median of Spain’s regions.

The region is divided into eight administrative provinces (Almeria, Cadiz, Cordoba, Granada, Huelva, Jaen, Malaga and Seville) that correspond to the areas surrounding their like-named urban centers. Almeria and Malaga are known for their beautiful coastlines, forming the Costa del Sol. Cadiz (the city) is said to be the first human settlement on the continent of Europe. Cordoba, Granada and Seville are endowed with magnificent historical monuments to the Muslim, Jewish and Catholic heritages of Spain. Huelva and Jaen are primarily agricultural regions where vistas of olive groves stretching to the horizon can be found.

Political landscape. Due to the extensive and increasing list of autonomies granted to Spanish regions, the regional government in Andalusia—the *Junta de Andalucia*—has become a focal point for political leverage and policymaking. Quartered in Seville, the *Junta* has an elected president, a legislative parliament and fourteen *consejerias*, or councils, which carry out the competencies of the regional government.

The relationship between the central government and the seventeen Autonomous Communities that comprise Spain is a unique and often confrontational one. In the absence of either complete devolution or clear delineation of powers from the national to the regional government several problems have emerged. In her comparison of national and regional institutional adaptations to the European Union, Tanja Borzel reveals several themes that illustrate a dysfunctional relationship between Spain's central government and the 17 sub-state regions.

The first characteristic of the central government's relationship with the regions is asymmetric federalism. During the drafting of the 1978 constitution two categories of autonomy were granted to Spain's regions under Article 2. As a concession to the several regions considered historically distinct from the unitary Spanish state, Catalonia, the Basque Country and Galicia were granted faster and more complete conferral of administrative and political autonomy based on a codified recognition of nationality. This preferential status, *nacionalidad*, was originally intended to consolidate national unity in the wake of Franco's era of oppressive policies towards Spanish cultural diversity. The list has since been expanded to cover provision of basic social services like health care, education and social welfare, the majority of these competencies having been conferred upon the fourteen remaining Spanish *regiones* identified by Article 2 at a much slower rate. As one of these *regiones*, Andalusia did not attain recognized "autonomy" until 1982.

Second, unlike a federal system the constitutional distribution of power between the Communities and the Central Government make few provisions for cooperation and delegation. Recognized by article 69.1 of the Spanish Constitution as the "Chamber of territorial representation" (Borzel 97), the *Senado* is the only institutional structure responsible for coordinating regional policy on a national level. Spain is noted for having more constitutional conflicts between the national and regional governments than any other decentralized European state, over 1000 during the period between 1981 and 1999 (Borzel).

Andalusia's reputation for being a strong base of support for Spain's leftist Spanish Socialist Workers Party (PSOE) has had interesting consequences since the 1996 elections where Spain's conservative Popular Party (PP) ended the 13-year stranglehold on national power enjoyed by PSOE. Since then, the contrasting themes of strong political autonomy, dysfunctional centralization and weak asymmetric federalism offered by Borzel have come to be personified by Andalusia's regional government. From Andalusia, the base of the present opposition party, PSOE engages in relentless battles of confrontation and blame-shifting with the national government. Public policy, meanwhile, is criticized as being weak and indecisive, defined by overlapping systems of patronage. Ultimately, administrative conflicts between Andalusia and Madrid over autonomy adjoin themselves to entitlement-driven local political realities, creating a combative environment for the formulation of regional development policy.

Indicators of economic growth: employment, trade and income. Low rates of employment are a central feature of Andalusia's economy. The reported unemployment figure for the year of accession (1986) was 31.1%. In 1997 the figure was 32%, with female and youth unemployment reported at a disproportional 41.8% and 50.8% (respectively) (CEC 1999b, Table 43). The use of these unemployment figures is problematic however. As one scholar residing in Seville put it, "if unemployment rates were as high as reported there would be tanks in the streets" (John Boyle, interview, August 2002).

The Spanish system has been criticized by the OECD for maintaining an entitlement system that distorts the behavior of the labor market—a situation that is not helped by the chronically lax implementation of job-placement programs (Farrell, 48-49). For example, agricultural employment in Andalusia is highly seasonal, and the regional government has dealt with seasonal unemployment by creating a specific transfer payment system for rural workers (*la programa de empleo rural-PER*). Additionally, there remain significant administrative problems with over-reporting. As a writer for the national newspaper *El Pais* put it in 1988, "It is almost officially acknowledged that about a quarter of the workforce is employed in undeclared jobs, most of them young people and women with low incomes" (Ortega, 132). "Nevertheless," Ortega goes on to say, "the black economy does not explain all the 2.7 million of unemployed" (132). Thus, conditions and behaviors unique to the Spanish labor market do not fully account for the high—seemingly structural—unemployment suffered by Spaniards.

In terms of employment, Andalusia has remained primarily a Services Economy over the past 18 years (*Instituto de Estadisticas de Andalucia-IEA)*. As the region enjoys many of the features of climate and culture that are desirable to the prospective tourist, a major component of the Service industry exists to facilitate the tourism industry, where over forty percent of tourists in Andalusia hailed from the EU. It is estimated that over one-tenth of all employment in Andalusia is related to the hospitality industry and, with an average annual growth rate of 5.3% between 1997 and 2001, it seems that this trend is likely to continue.

While services will continue to grow as industrialization and consumer sophistication within the region progresses, ultimately Andalusia's ability to translate the single market into a mechanism for development depends upon its ability to generate growth in export industries. Among these, Andalusia enjoys high location quotients (relative to Spain) in Petroleum extraction, Food production, and miscellaneous (non-metal, non-electronic manufacturing).

At the time of Spain's accession to the European Community one in five jobs was in the agricultural sector. Although agricultural employment in the region has declined to one job in ten by 2000, within the realm of trade in goods agricultural production and fishing has remained the largest export commodities produced by Andalusia (IEA *Datos*

Basicos 2002, "*Precios, Comercio y Turismo"*). By comparing regional employment growth rates with the national average, a shift-share analysis of employment levels in Andalusia reveals that employment in this sector has declined more slowly, at roughly 25% of the national average rate between 1986 and 2001 (see figure 1). Had Andalusia's agricultural employment growth rate been the same as the national average rate of –44 percent, its share of agricultural employment would have meant a loss of roughly 130,000 jobs. In reality Andalusia lost only 34,500 jobs, yielding a positive employment shift of 95,200 agricultural jobs. Examining figure one, Andalusia's trend of out-pacing national job growth since accession was the case for all four sectors of the economy.

Figure 1:
Shift-Share Analysis of Andalusia's Economic Base, 1986-2001

	Employment Change 1986-2000 (thousands of jobs)		
Sector	Shift	Share	Total
Agriculture	95.2	-129.7	-35.4
Industry	19.9	24.4	44.3
Construction	31.2	129.9	161.1
Services	85.6	519.1	604.7
Total	231.9	543.7	775.6

Source: IEA

As long-term trends indicate an overall decline of agricultural production as a source of employment for Andalusia, Spain and the EU, the future of the region's employment growth lies in its manufacturing base. Figure 2 introduces us to the manufacturing sector within Andalusia. Food, beverage and tobacco production represents the largest source of manufacturing employment within the region, as well as the largest single contributor to regional income (by category). This does not come as a surprise as much of rural Andalusia is involved in the production of agricultural commodities, although further data indicate that this is a declining industry in terms of employment.

Figure 2: Andalucia's Industrial Sector, 2000
Source: INE Encuesta industrial de empresas
*Thousands of Euros

Employment and Revenue	Employment	Percent of Total Employment in Industrial Sector	Income*	Percent of Total Income in Manufacturing Sector
Oil extraction industries	7,068	3%	5,524,106	15%
Food, beverages and tobacco	53,856	23%	9,071,596	25%
Textile, clothing, leather and footwear industry	20,450	9%	1,042,633	3%
Wood and cork	9,812	4%	565,705	2%
Paper, edition, graphic arts and reproductions of engravings	10,835	5%	1,301,070	4%
Chemical industry	8,331	4%	2,474,947	7%
Rubber and plastic materials	4,808	2%	576,241	2%
Diverse non metallic mineral products	20,714	9%	2,276,123	6%
Metallurgy and manufacture of metal products	30,142	13%	4,507,938	13%
Machinery and mechanical equipment	8,864	4%	768,760	2%
Electric, electronic and optical equipment and material	9,010	4%	1,515,251	4%
Transport material	17,519	8%	2,260,136	6%
Diverse manufacturing industries	20,665	9%	1,024,937	3%
Energy and water	9,260	4%	2,948,693	8%
Total	231,336	100%	35,858,137	100%

Now we will take a closer look at employment creation in the manufacturing sector during the period since 1993, when the seven-year tariff phase-out period ended and Spain became a full participant in the common market. The shift-share diagram in Figure 3 illustrates the breakdown of where growth in Andalusia's industrial employment was able to outpace the national average. Dramatic concentration in the oil/energy industry has been occurring within Andalusia. The creation of a gas pipeline between Andalusia and Algeria offers one indication of why energy-related employment in the region has surged in the face of national decline.

Significant growth in the diverse products manufacturing industries has also been occurring, outpacing national growth in this sector by over 6,000 jobs. Indeed, Andalusia is experiencing significant interregional factor reallocation in nearly all manufacturing sectors except the characteristically labor intensive non-durable sectors, food and textiles. Transportation equipment is one sector where industrial decline is taking its toll on the region, particularly as the province of Cadiz has been forced to cope with the dramatic decline in its shipbuilding operations. Ultimately, the shift of value-adding manufacturing processes towards Andalusia will play an integral role in closing the development gap between the region and the rest of Spain.

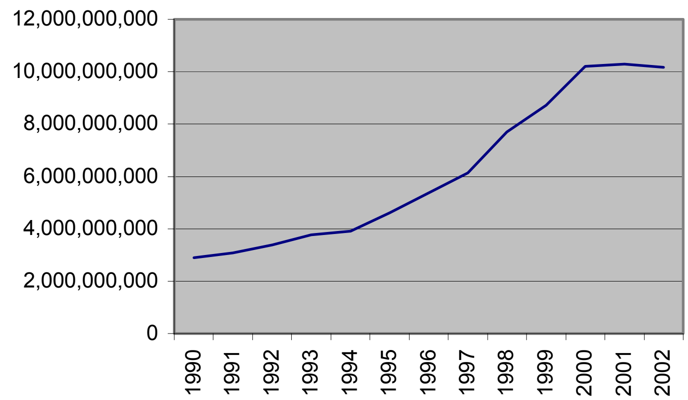
Figure 3:
Shift-Share Analysis of Andalusia's Manufacturing Base, 1993-2000

	Employment Change 1993-2000* (*actual figures)		
Sector	Shift	Share	Total
Oil extraction, energy and water	3587	-2727	860
Food, beverages and tobacco	-2958	1457	-1501
Textile, clothing, leather and footwear industry	-5124	2158	-2966
Wood and cork	-56	1420	1364
Paper, edition, graphic arts and reproductions of engravings	-782	1880	1098
Chemical industry	2	-202	-200
Rubber and plastic materials	-500	1320	820
Diverse non metallic mineral products	3673	5936	9609
Metallurgy and manufacture of metal products	322	2649	2971
Machinery and mechanical equipment	-198	2064	1866
Electric, electronic and optical equipment and material	1647	874	2521
Transport material	-1861	1948	87
Diverse manufacturing industries	3610	2312	5922
Total	1362	21089	22451

Source: IEA

Trade levels within Andalusia underwent dramatic change during the 1990s. The volume of both exports and imports has soared between Andalusia and the external environment. Geographically, it is no surprise that the EU is Andalusia's largest trading partner by wide margin. Roughly 80% of all Andalusia's import and export activity was with the EU (IEA 2002, *Datos Basicos)*. This trading partnership generates a trade surplus of just over 3 billion Euros (or 40% over the declared value of EU imports). These data signal a vastly better position for Andalusia vis-à-vis Spain, which has generated a trade deficit with the EU every year since accession. Andalusia's trade balance with the EU is essential to the overall health of its economy as it offsets a 4 billion Euros trade deficit with OPEC member countries that contributes to an overall trade deficit of approximately 1.75 Billion Euros in 2001.

Figure 4
Andalusia: Total Export Volume (Euros)
***Source:* IEA**



Figures 4 illustrates the strong growth of exports during the seven-year growth cycle of the 1990s, revealing an overall increase in trade of over 7.25 billion Euros annually. An average annual export growth rate of 11.3% between 1990 and 2000 has slowed in recent years, indicating that either recessionary or structural factors may be limiting Andalusia's ability to achieve levels of export growth that could eventually compensate for the trade deficit generated by its petroleum imports.

Figure 5: Andalusia Imports and exports by group.
Years 2000-2001

(thousands of Euros)

	Imports	% of total	Exports	% of total	**Balance**
Year 2000					
Transport material	430,642.58	3.55	925,999.67	9.07	**495,357.09**
Food, beverages and tobacco	591,106.04	4.87	715,107.92	7.01	**124,001.89**
Fats and oils (animal and vegetable)	60,683.20	0.50	667,720.51	6.54	**607,037.30**
Rubber and plastic materials	852,590.45	7.03	688,100.97	6.74	**-164,489.48**
Machinery and electrical equipment	972,941.13	8.02	552,378.64	5.41	**-420,562.49**
Metallurgy and manufacture of metal products	796,528.15	6.57	1,306,206.15	12.80	**509,678.00**
Wood and cork	337,258.07	2.78	280,653.81	2.75	**-56,604.26**
Textile, clothing, leather and footwear industry	259,107.08	2.14	254,974.94	2.50	**-4,132.14**
Diverse non metallic mineral products	6,640,207.16	54.74	1,707,718.34	16.73	**-4,932,488.83**
Agriculture and Fishing Products	820,687.53	6.77	2,356,609.08	23.09	**1,535,921.55**
Other	368,011.40	3.03	752,453.69	7.37	**384,442.29**
Total	12,129,762.79	100.00	10,207,923.70	100.00	**-1,921,839.09**
Year 2001*					
Transport material	410,560.86	3.43	819,747.31	8.04	**409,186.45**
Food, beverages and tobacco	746,439.34	6.23	812,939.14	7.97	**66,499.80**
Fats and oils (animal and vegetable)	69,797.05	0.58	678,298.67	6.65	**608,501.62**
Rubber and plastic materials	901,964.99	7.53	695,389.33	6.82	**-206,575.66**
Machinery and electrical equipment	971,982.47	8.11	550,597.76	5.40	**-421,384.71**
Metallurgy and manufacture of metal products	754,999.44	6.30	1,167,847.40	11.45	**412,847.96**
Wood and cork	318,445.71	2.66	247,610.66	2.43	**-70,835.05**
Textile, clothing, leather and footwear industry	295,454.94	2.47	303,755.23	2.98	**8,300.29**
Diverse non metallic mineral products	6,140,578.08	51.27	1,401,663.68	13.74	**-4,738,914.40**
Agriculture and Fishing Products	913,419.17	7.63	2,680,419.02	26.28	**1,766,999.85**
Other	454,426.20	3.79	839,794.41	8.23	**385,368.21**
Total	11,978,068.25	100.00	10,198,062.61	100.00	**-1,780,005.65**

Source: IEA. Intercambios comerciales de Andalucía con el extranjero

*Provisional Data

Figure 5 offers a breakdown of the kinds of economic activities in Andalusia that are generating exports. Here we see the prevailing significance of Andalusia's primary sector (agriculture and fishing) to regional income. Nevertheless, the growing diversification of Andalusia's manufacturing activity is reflected here by the values of several industrial sector commodities. In general, Andalusia's trade data can be seen as a signal that regional manufacturing is moving away from relatively labor-intensive sectors like agriculture and textiles and moving towards a trade surplus in goods of higher added value.

Despite Andalusia's success in generating employment (relative to the national average) and high rates of export growth, in terms of wages there has been very little movement. Real-term salary growth within Andalusia was effectively neutralized between 1983 and 1995 by the inflation-prone economy, national government wage suppression tactics, and the rising consumer price index. By 1996, however, Spain's participation in the Economic and Monetary Union mechanism had brought inflation down below five percent. The end of Spain's bout with near-hyperinflation has diminished need for wage restraint measures from the national government and allowed for modest increases in real-term wages, however reductions in CPI growth since 1996 have been accompanied by correlated reductions in annual salary growth. Overall, inflation-adjusted wages among workers with negotiated salaries have increased only 8.5% since 1983. (IEA, Table 6. Agreements, workers affected and negotiated salary increases by sector of activity in Andalusia. 1983-2000)

Indicators of social opportunity: education and health. In its Sixth Periodic Report on the Regions, the European Commission noted that the dearth of statistical tools for measuring the quality of life represents the Achilles' heel of EU planning efforts (CEC 1999b, 33). Nevertheless, certain variables can be used as a proxy for determining the trends in the provision of critical social services. Education and health care, suggests Dréze and Sen (1995), represent integral components of both social opportunity and human capital formation. Ultimately, the cultivation of human capital plays a pivotal role in fueling long-term growth and development.

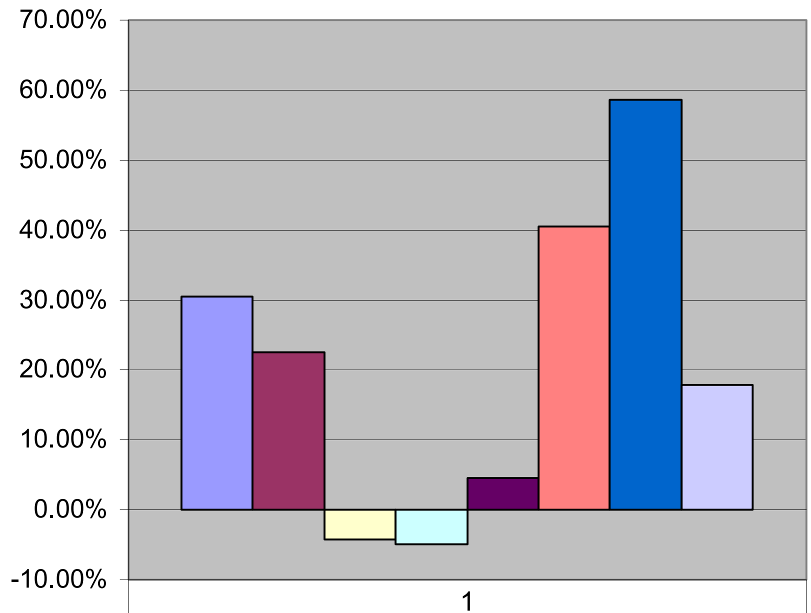
In the field of education regional trends are promising. If one takes the number of university graduates being produced by the region as a proxy for its development of human capital, the trend in Andalusia between 1994 and 1999 reflects a dramatic increase in the region's capacity to educate its workforce (Figure 6). Indeed, the number of graduates between 1994-95 and 1998-99 has nearly doubled. Despite such positive trends, the level of education attained by the average Andalusian in 1997 ranked near the very bottom of Spain's regions, "worsted" only by Extremadura and Castilla-La Mancha (CEC 1999b, Table 43). Thus, while some dramatic progress was made during the mid-to-late 1990s to provide opportunities for higher education the region still has barriers to overcome.

Figure 6: Andalusia: University Graduates	Number of Grads	per 1000 inhabitants
1994-95	17,734	2.45
1995-96	26,475	3.62
1996-97	29,678	4.10
1997-98	33,213	4.59
1998-99	33,895	4.68

Source: IEA

One measure of health care provision is the number of treatments administered per thousand inhabitants. Here Andalusia has seen tremendous growth in most areas of medicine, indicating that the provision of general health service has improved dramatically for the people of Andalusia (Figure 7).

Figure 7: Percent Growth in Medical Services Delivered 1987-1998 (per thousand inhabitants)
Source: IEA



	1
General Medicine	30.45%
Surgery	22.49%
ObGyn	-4.21%
Pediatrics	-4.98%
Psychiatry	4.52%
Intensive Care	40.50%
Other	58.66%
Total Average Change	17.92%

While neither of these proxies for social opportunity offer any indication of the quality of service received or the equality of distribution (indeed, the reduced provisions of ObGyn and pediatric care allude to potential distributional issues), they point to a general improvement in social infrastructure by the region of Andalusia.

While improvements in the provision of social services must improve if the region is to attain meaningful convergence with the European core, the tax base required to assure the financing of these services over the long-term points to the interdependent relationship between economic growth and social opportunity. The ability of the region to exploit the European market in order to increase exports and attract foreign investment has the potential to generate the revenue necessary for the region to realize Malizia and Feser's conception of a cumulative process of regional growth and prosperity. The trend of shifting regional economic activity away from its dependence on agricultural production and towards higher value-added production activity means that the demand for higher-skilled labor will increase, thus enabling the region to capitalize on its improved rates of higher education. Not only will these improvements in social infrastructure augment the region's ability to participate in a competitive, market-based development strategy, argue Dréze and Sen, but they should also effect the positive externalities of social stability and a higher quality of living.

Case studies in development. One of the keys to translating the economic opportunities of the single market into convergence lies in cultivating the innovative capacities of the public and private sectors to adapt to the new European environment. Within Andalusia there are two communities where public policy and private entrepreneurship resulted in positive gains. The first example is the city of Jerez de la Frontera, a small city situated between the port of Cadiz and the regional capital, Seville. Jerez, with roughly 190,000 inhabitants, is the fifth-largest city in the region. The name Jerez, Spanish for "Sherry," alludes to a long history of producing a special type of wine unique to the southwestern region of Andalusia called the “Sherry Triangle.” This also alludes to a unique challenge that European integration posed to the stability of the Jerez community.

In the attempt to secure food stability and acceptable standards of living for the farmers of the European Union, the Common Agricultural Policy (CAP) maintains strict controls on the production of various commodities so as to prevent surpluses that would need to be bought up so as to avoid a drop in commodity prices. One of the commodities most closely regulated is wine. Thought of as a “Continental” commodity due to the fact that the French produce quite a bit of it, nations that have acceded to the European Union have been forced to freeze and sometimes curtail production of wine through the implementation of quotas and incentives to decultivate the land. This is precisely what occurred to the vineyards of Jerez in the late 1980s.

In addition to the elimination of national export subsidies from Madrid, CAP financial incentives to cut back production resulted in a 40% drop in output within four years of accession. This had a dramatic impact on employment within the community. By 1990, an industry that had employed nearly 10,000 workers as recently as the early 1980s found jobs halved and unemployment levels reaching forty percent. The tremendous response of the Jerez city council to this crisis brought the city to the attention of an OECD study (1999) titled *Best Practices in local development.* The study noted that the decisive response by the council to commission a study on the strengths and weaknesses of the local economy, and then generate a strategy for local development based on the study, contributed directly to the successful restoration of the local employment base.

The principal weakness of the Jerez economy was that it was based on what the OECD report called a wine monoculture (81). The absence of a diverse economic base had resulted in dependency on a commodity that, due to accession to the European Union, was being forced to undergo dramatic restructuring. As a result of the report, the city set out to undergo some dramatic restructuring of its own. Through initiatives to capitalize on its proximity to popular tourist destinations, the city began creating a development plan that would generate employment and revenue for the community. By 1997 the city had restored employment back to pre-1990 levels, created educational programs to retool workers and prevent them from lapsing into a state of social exclusion, and diversified the local economic base by creating attractions that draw tourists from nearby destinations.

The OECD report cites several factors as instrumental in the ability of Jerez to respond to the crisis brought about by EU accession. First, the city government empowered itself to take active role in responding to the economic shocks of agricultural restructuring by commissioning objective studies of the local economic base and acting upon those findings. Second, the community created a strategy that addressed issues of infrastructure, urban planning and social development in order to effect a comprehensive response to the crisis. Third, the community successfully sought out money from the European Union Structural Funds to provide financing for the implementation of this strategy. As the OECD observed, “one of the main lessons to be learnt from Jerez is how to draw up a rational strategy to reverse a serious situation and open up a new avenue for long-term development, coherently taking advantage of EU Objective 1 funding” (87).

The experience of Jerez is useful as it illustrates several themes about the meaning of European integration for the communities and regions of Spain. First, it illustrates the potential shocks that can come during the period of transition to a new economic environment (such as the EU). Second, it illustrates how the availability of redistributive resources at the European level can play a crucial role in enhancing the capacity of a government, be it local, regional, or national, to cope with those transitional shocks. Most importantly, the experience of Jerez highlights the critical role that well-conceived public policy can play in not only "surviving" the markets, but actually reinforcing them by providing the kind of leadership and services that business, workers and communities require in order to maintain some degree of control over their communities and their lives.

The second example of community adaptation to the transitional shocks of integration takes us to a hilly region in the northern corner of Andalusia (just above Cordoba) called Los Pedroches. One of the most prevalent problems within the Andalusian economy is the inability to translate productive capacity into processes that add greater value to the commodities produced. An example of this is the olive. Spain is by far the largest single exporter of olives in Europe, and Andalusia produces 80% of Spain's olive-related products (mainly olives and olive oil). Indeed, over 59% of the region's arable land dedicated to producing this crop (Mielgo et al, 2001). Rather than process these products within the region, package them, and sell them at a premium, the majority of Andalusia's olives are shipped unprocessed to Italy where they are processed, packaged with a distinct Italian label that markets the joys of Mediterranean life, and sold at market for a value many times greater than the value of the unprocessed olive.

A cooperative of small farmers in the region of Los Pedroches are trying to capture a piece of this economic opportunity. The olive groves of this region have historically been very difficult to manage due to the steep topography of the region. Mules must be used instead of plows and workers must sometimes be tied to the tree to knock the olives down with her or his stick (169). Throughout Andalusia a central problem of olive cultivation is the problem of insects ruining the harvest. This was also a problem for the growers of a farming cooperative in Los Pedroches called Olivarera. Started by 27 members in 1995, the cooperative was brought together by two primary concerns. First, the use of pesticides, herbicides and machinery on the soil of the mountainous region was causing soil erosion, contamination and harm to the region's flora and fauna. Second, the saturation of the market with olive production was driving down prices and threatening the economic viability of smaller groves (170).

The answer to this crisis was the decision to form of a cooperative to transition the small olive groves of the region into a new system of ecological growth and production. Not only does the employment of ecological technology offer a more sustainable, and indeed cost effective, long-term solution to the problem of environmental degradation, it also creates better olives that fetch a higher price at market as they can be marketed as organic and environmentally friendly.

Making the decision to move towards "green" growth and create the facilities to produce processed goods—mainly olive oil—that could be certified organic was only the first challenge. Getting financial backing was the next one. That's where the EU came in. Out of resources from its regional development fund the EU cofinanced a scheme whereby growers that converted to environmentally friendly production would receive a

$2500 per year subsidy—in addition to the higher market prices they would fetch for the environmentally friendly product. A seemingly slight incentive, this figure represents a significant amount of money for the families farming in a region of Europe that suffers a per-capita GDP that is nearly half of the EU average.

By 1998 the 27 members of Olivarera had grown to 504, with an additional 145 going through the process of transitioning to ecological production. In 2000 the cooperative was managing 700 farmers and generating annual revenues of $5 million. At 9,000 hectares, the cooperative is believed to be the biggest single "green" farm project in Europe. With export markets opening up throughout Europe, the availability of EU financing and the prospects of a single market success have contributed to increased revenue generation, jobs and sustainable environmental usage for the people of Los Pedroches.

From these two examples we see that, through the creative utilization of local endowments and opportunities created by the European Union, both public and private sector actors can achieve remarkable success and contribute to their region's convergence with an integrated Europe. It is precisely the ability to cultivate these types of public and private sector innovations that will determine whether regions like Andalusia will manage to successfully accelerate the rates of growth that can be translated into convergence and development in the short-to-medium term.

Prospects for convergence. As the European Community was gradually expanded to take in the nations of its economic periphery it became apparent that economic liberalization alone would not bring about a convergence of development indicators. Regional disparities in economic competitiveness, social development and national infrastructure threatened to prevent Europe's underdeveloped peripheries from participating in the single market. Cohesion Policy was created to prevent these regional imbalances from disrupting the operation of the single market. While the European Union has aggressively subscribed to Dudek's conception of development through the regionalization of its development policy, the weight of Cohesion Policy resources pale in comparison to the volume of commercial transactions that have been unleashed by Delors' Single Market program. Even at its high point in 1999, the total amount of funding transferred to all of Spain's regions from the Cohesion Policy's various subsidiaries (ERDF, Cohesion Funds, etc…), just over 7 billion Euros, amounted to only about 1.3% of Spain's GDP. By contrast, the volume of trade between Andalusia (just one such region) and the EU was over 10 billion Euros that year.

Despite the great sums of money and administrative energy the EU has invested in redressing the regional imbalances that Europe has inherited from its past, the foundation of its development agenda remains the implementation of the single market and the generation of higher levels of economic growth in depressed regions. This process should, according to the neoclassical models of Heckscher and Ohlin, result in convergence between Europe's regions, measured by an equalization of per-capita GDP (Caves et al, 115). While convergence between Europe's regions has been almost a universal trend, with only Spain's Murcia diverging in terms of per-capita GDP, some regions have done better than others.

Andalusia's per-capita GDP at the time of accession was 52.8% of the EU average. By 1996 it had risen to 57.2% (roughly 10,000 Euros), a gain of 4.4%. The national figure for per-capita GDP, by contrast, had risen from 69.8% in 1986 to 78.7%

by 1997—a gain of 8.9% (double the gain experienced by Andalusia). Although Andalusia had received over 20% of the Structural and Cohesion funds allocated to Spain by the European Union during the 10 year period, even Extremadura managed to outpace it in growth (moving from 44.2% to 54.6%). Despite investments by the EU in regional education programs (primarily through the ESF), educational attainment levels in 1997 rested near the bottom of both European and Spanish rankings. And despite the 1992 construction of technology park incubators in Seville and Malaga, which were intended to foster entrepreneurial innovation, Spanish patent activity weighs in at a paltry 3.2 applications per million people as compared to the EU average of 90.7. (CEC 1999b, Table 43)

According to the numbers, the answer to the question of convergence is ambiguous: Progress has been made, but faster improvement must be achieved if convergence is to be obtained in the short-to-medium term. At best, the investments in infrastructure, venture capital and social development made by EU Cohesion Policy have helped create a viable economic skeleton for Objective One regions like Andalusia. Whether or not the region is capable of generating the kinds of economic muscle necessary to take advantage of this newly purchased capacity, and consequently participate more fully in the European market, remains to be seen.

While the noble intentions of European Cohesion Policy provide no guarantees that regions will be able to elevate themselves from the conditions of vulnerability that accompany poverty, they do provide a framework through which regions may begin to address the challenges they face in “priming their pumps” so that the economic advantages of the single market can actually be realized. As Farrell (2001) concluded, in the supranational environment of the European Union, national and regional public policy play an even greater role than ever in development:

> In the future, the responsibility for convergence, for economic and social cohesion, will lie much more with the national and regional authorities, and with national economic agents…At the national level, the government and the regional authorities must adopt a strategic approach to the formulation and implementation of policies regarding investment in human and technological capital. (173-174)

It is clear from the economic and social data is that Andalusia has weathered the transition to the European Union, emerging with a more diversified economy and improved social indicators. These aggregate improvements within Andalusia's regional economic and social climate signal that the kinds of pump-priming activities necessary to capitalize on the opportunities for development presented by the European Union are underway. In the end, the region's ability to achieve convergence with the EU will depend on whether private and public sector innovation—like those that occurred in the city of Jerez de la Frontera and the olive groves of Los Pedroches—can be cultivated in sectors and communities throughout the region. It is precisely these kinds of capacity-building activities that are required if Andalusia is to realize the promise of economic and social convergence theorized by the European integration model.

Conclusion

While the ability of Andalusia to fully converge with the EU in terms of economic development and social opportunity remains uncertain, what is ultimately at stake in the region's convergence with the rest of Europe is—as Dréze and Sen (1995) succinctly put it—social choice. In the final analysis convergence will not be measured by one-to-two percent fluctuations in nominal development indicators but, rather, in the quality of life generated for a society by the policy choices governments make. In the conclusion we will explore the relevance of the EU to the often-paradoxical relationship between globalization and development before finally determining what role European integration played in the transformation of Spain and the pursuit of regional development.

In her work titled *Rise of the Rest,* Amsden (2001) presents evidence that two groups of nations have emerged, each employing different strategies to generate economic growth and development. She dubs these groups the independents (e.g. the Asian tigers) and the integrationists (e.g. the members of the North American Free Trade Agreement). The former camp attempts to achieve economic growth through "getting the institutions 'right' and building skills", the latter one by "getting the prices 'right' and buying skills" (293). Both independent and integration models offer strategies to achieve economic growth. According to Amsden, the independent model is predicated upon the pursuit of a "high road" economy where public and private sector institutional capacity building creates a wealth of knowledge-based assets to fuel innovation and economic growth. Alternatively, the integration model seeks growth through the economic efficiency gains that result from reinforcing a system of comparative advantage where more industrialized countries produce capital-intensive products, meanwhile less developed countries are relegated to the production of primary products (such as agriculture and textiles) and natural resource extraction.

At the core of Amsden's argument is the recognition that dynamic strategies of import substitution and export-oriented industrialization, creating an active role for government policy in generating innovation, have effected the creation of competitive industrialized economies among the "independents". As a model for economic growth, the EU is somewhere in-between Amsden's statist conception of "independentism" and neoliberal "integrationism."

The spectrum of development models is vast, and while Amsden's Asian tigers may sit atop her mantel as examples of how industrialization should look in the *end*, oftentimes it is the *means* of achieving development that determine the worth of the model. In a book *Korean Workers* by Hagen Koo (2001) the story of Korea's industrialization is told. It is the story of a powerful central government employing Cold War anti-leftist rhetoric to create a distinct, ahumanistic model of export-oriented industrialization during the 1960s and 70s. This model sought a particular type of economic growth that capitalized on cheap exploitable labor in an effort to rapidly industrialize South Korea by competing for advantage in the "low road" international labor market. This growth allowed the country to fund the kinds of import-substitution policies necessary to generate a more competitive industrial sector.

The result of this "model" of development was the brutal division of society into separate classes, as well as the fragmentation of Korean geography into rapidly industrialized urban centers and rapidly declining rural areas. The absence of labor standards contributed to the horrific exploitation of workers through inhuman productivity demands. The absence of responsive democratic institutions meant that the logical social change sought by the working class had to be won through violent social upheaval rather than a negotiated process. Ultimately, this resulted in the formation of class-consciousness among Korean labor workers and the beginnings of a national labor movement.

At the same time that Korea was undergoing the process of industrialization, Spain was struggling to find *its* way through the gauntlet of industrialization, economic liberalization and political reform. While Korea's status as a Newly Industrialized Country (NIC) wears like a badge in present-day development circles, the severity of Korea's experience merely emphasizes the remarkable tranquility of Spain's transition from dictatorship and autarky to what is today an emerging modern industrialized society. Put simply, when examining development models the outcome for the society in question matters. While a countervailing hypothesis would probably determine that democratization would have taken place eventually, and that indeed economic liberalization was already on its way when Spain began pursuing European integration, the argument presented in this thesis argues that the framework of regional integration that began with the 1957 Treaty of European Community created a unique external environment, a regional incubator if you will, for Spain to pursue its political and economic transformation.

When determining the value of regional integration in creating development opportunities, however, it is important to distinguish between different integration models. In his analysis of electronic consumer goods manufacturer RCA's seventy-year business strategy of exploiting the economic integration of North America to lower the costs of its production, Jefferson Cowie (1999) portrays a model of integration that conforms to Amsden's conception. He observed that, in the absence of transnational labor and environmental regulation, regions and nations were creating a new comparative advantage based upon exploitable labor and environmental conditions in an effort to attract external investment. As developed nations pursue trade liberalization with less-developed countries through the international trade mechanisms of the WTO and regional agreements such as the proposed Free Trade Area of the Americas (FTAA), the failure to attach labor and environmental standards to the agreement, as well as actively support institutions and programs to enhance the competitiveness of poorer regions, represents a fundamentally different model for regional integration than the one implemented in Europe.

While the policies of economic liberalization pursued by the EU over the course of its history have manifested what is arguably the most liberalized international economic area in existence, several features of the European integration project put it in stark relief to both the NAFTA/FTAA experiment and globalization in general. First, from its inception the founders of the European integration project have recognized that consolidated democratic government is a precondition for stable economic interdependence. The ability of the member states to maintain consensus on the European democratic imperative, even in the face of Cold War geopolitical realities, has had the effect of shifting the political environment of Europe towards democratization. Spain's process of democratization examined in Chapter 2 exemplifies this.

Second, EU member states have also managed to maintain consensus on the necessity of incorporating some tangible form of labor and environmental standards into the Community's body of European law, the acquis comunautaire. The creation of transnational regulations on the behavior of firms operating within the European single market, examined in Chapter 4, has arguably reduced the threat to national and regional development posed by the EU's commitment to capital mobility. While the pending enlargement of the EU to incorporate ten central and eastern European nations will certainly trigger new calculations by investors and companies seeking reduced capital and labor costs, the differentials in development between Europe's core and its underdeveloped southern and eastern peripheries are lower than those that exist globally. More importantly, the lower differentials of environmental and labor standards neccesitated by EU community law should slow the pace of investment capital's race to the bottom.

Third, the creation of regulatory institutions by the member states of the EU offers a regional solution to what Siglitz (2002) called the problem of "global governance without global government:"

> As the market economy has matured within countries, there has been increasing recognition of the importance of having rules to govern it…In the United States, government promoted the formation of the national economy, the building of railroads, and the development of the telegraph—all of which reduced transportation and communication costs within the United States. As that process occurred, the democratically elected national government provided oversight: supervising and regulating, balancing interests, tempering crises, and limiting adverse consequences of this very large change in economic structure…By contrast, in the current process of globalization we have a system of what I call global governance without global government. International institutions like the World Trade Organization, the IMF, the World Bank, and others provide an ad hoc system of global governance, but it is a far cry from global government and lacks democratic accountability. (5)

The phenomenon of European integration provides us with another conception of how nation-states might choose to govern the operation of a global market. The capacity of European institutions to assist in the removal of physical, technical and fiscal barriers to integration through the execution of European Cohesion Policy demonstrates the unique character of European integration. Andalusia's development experiences demonstrate that, by coordinating efforts by national, regional and European institutions to redress regional imbalances, member-nations can greatly improve their capacity to extract gains from European free trade.

Where the European model achieves some tangible success, orthodox regional trading platforms like NAFTA or the proposed Free Trade Area of the Americas (FTAA) provide few resources to create the kinds of development programming and regulatory frameworks that can enhance the capacity of signatory nations to extract gains from regional trade liberalization. Without redistributing resources and national sovereignty to create international institutions that would be capable of working to consolidate a region of opportunity-based economic growth, it is unlikely that such trade platforms would ever achieve the reasonable goal of development convergence. In place of development programming and regulatory safeguards, integration policy in the western hemisphere is inherently ad-hoc in character—offering stark contrast to the institutional character of European integration. The European Union has come to represent a very different sort of regional integration, one that has granted the same kind of human agency to the integration process that Stiglitz found in the development of a market economy in the United States.

The tragic experiences of developing countries like Jamaica and Argentina, once touted as textbook examples of development policy, signal an inherent danger in pursuing economic growth through a trading platform that is not capable of augmenting the capacity of weak and industrializing democracies to cope with the transitional shocks of trade liberalization as well as take advantage of free trade. As Amsden (2000) concedes, "there is abundant need for social change in both North and South America. Closer political, economic, and intellectual integration may be conducive to more fundamental restructuring in the long run" (16). In the absence of the more holistic approach to regional integration that Amsden ultimately invokes, the metaphorical waves of market shocks observed by Stiglitz (2002) during his tenure at the World Bank could become so violent that they capsize an entire region.

The failure of orthodox trade agreements to provide a minimum institutional capacity to manage market forces serves to reveal the central character of the EU. Although continuing political tugs-of-war over national sovereignty—reminiscent of those fought by De Gaulle and Thatcher—gives the EU its enigmatic quasi-national identity, in the day-to-day world of Europe the Union works. As a purely political construct, if it didn't work it would cease to exist. And as the nations of the developing world proceed to reevaluate their interests in response to the shocks of unregulated free trade, perhaps new economic development orthodoxy will emerge based on the European integration model.

Finally, it is the purpose of this thesis to determine the impact of European integration on the development of Spain and its regions. Our exploration of the unique, supranational character of the European Union has revealed a distinctly different model of integration as compared to other regional and global integration models based solely on trade liberalization. On a more basic level, during the period examined participation in the EU contributed to a meaningful provision of civil liberties and an expansion of economic and social opportunity for Spain's people. On a larger scale, by providing Spain's political elite with the political imperative to democratize, by establishing institutions and policies that created a more managed system of regional integration, and by actively engaging in development programming that targets Europe's lagging regions, the European Union has constructed a model for regional integration that has contributed positively to Spain's development. Thus, despite enduring differences in the levels of development between Europe's regions, for the citizens of Spain the political, economic and social stability attained during the integration process has resulted in the expansion of their freedom to pursue the objectives they have reason to value. By these measures, the process of European regional integration has had a positive impact on the development of Spain and its regions.

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