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SPAIN AND THE E.E.C.

By Laureano López Rodó

THE European Economic Community now has such a considerable importance in world affairs that its activities are watched everywhere with great interest. Its decisions have repercussions that affect practically all nations, and Spain is no exception. Until recently, she had remained a little aloof from the rest of Europe, but now has decided to recognize her European destiny even though she knows that this will entail no small effort and sacrifice.

As part of this effort, conversations have been started in Brussels, on the initiative of the Spanish Government, in order to study the problems faced by the Spanish economy as a result of the operation of the Common Market. On February 9 last, the E.E.C. authorities presented a questionnaire to the Spanish Government asking specifically about important aspects of the relations between the Six and Spain which had been studied in a Spanish report of December 9, 1964. The Spanish Government's answer to the questionnaire was handed to the E.E.C. in June.

This development has encouraged me to comment on the positions which will determine the outcome of the dialogue between Spain and the E.E.C. Spain, of course, would receive a boost for the accelerated economic development in which she is now engaged; and the E.E.C. would also receive some advantages. In any case, it would seem to me unrealistic for the E.E.C. to reject Spain's petitions and proceed with a commercial and agricultural policy which completely ignored the problems it poses for the Spanish economy.¹

It is no secret that life in Spain is undergoing a real transformation, especially since 1959. I believe that year will be a milestone in Spanish history. Nor have the changes occurring in the world, and especially in Europe, been less important or slower. The most visible manifestation of them has perhaps been the desire to unite, to integrate, as a means of solving increasingly numerous and complex problems of general policy.

¹ One example of such a damaging policy was the agreement of the Council of Ministers of the Common Market last December, proposing modifications to the regulations covering fruits and vegetables which would apply certain fees on imports from third countries. Since Spanish exports of fruits and vegetables to the E.E.C. are over 70 and 60 percent respectively of Spain's total exports of those commodities, the harm caused is obvious.

Spain is enthusiastically readying herself to face this reality. She sees that the idea of European integration represents a formidable challenge for her as well as a gamut of rich possibilities.

It is a challenge in as much as life in relationship to countries with a more advanced economic structure will require Spain to make a greater effort than has been normal in the past and to modify substantially the somewhat closed-in mentality that has dominated our economic decision-making. In fact, here lies the most basic problem faced by the Spanish economy in the process of its integration into wider geographic areas. Since the end of the 19th century, the Spanish economic structure has been taking shape without connection with other economies. Production was aimed almost exclusively at the domestic market. Moreover, this was not very large owing to the low per capita income, which was not sufficient for industries to benefit extensively from the economies of large-scale production and from foreign sales. Further, the sources of industrial finance were also insufficient.

All of this, together with other reasons which need not be discussed here, determined a level of productivity and costs which was in many cases very different from that in advanced countries, especially in the United States and Western Europe.

To adjust the whole structure of Spanish production to the degree of competitiveness that exists in the E.E.C. is going to require a process of intensive capitalization. This will in turn pose the problem of eliminating some industries and will require a new approach to our production policy in that it will probably imply a change in the priorities among various sectors. The opportunities opened up by the larger markets and the need to face tougher competition will give new life to industries which could not previously exist, but will weaken others whose modernization would involve greater efforts than are worthwhile.

Consequently, it will be logical for the Spanish authorities who are carrying on conversations with the Common Market to suggest special conditions. The details of these conditions will be determined as the talks go along. For the same reason, also, the Development Plan Agency in its first four-year plan pays particular attention to integration. The best way to do so is to foster the development of those sectors in the Spanish economy which could enjoy a comparative advantage, or those others

that can have the greatest impact on the general level of costs and productivity, such as education and public utilities. In other words, anything that tends toward increasing the competitive ability of the Spanish economy (through a reduction of costs and an increase of productivity), and giving it a higher degree of flexibility, will work in favor of a possible association in the future. Spanish economic policy must always take account of the fact that a progressive lowering of tariffs and liberalization of commerce, a joint agricultural policy, and a gradual unification of fiscal, monetary and social policies, can be effected only by making the economy more competitive—in other words, by reducing the general level of costs.

But integration also presents our economy with rich possibilities in the sense that, according to strict economic reasoning, the development which started in a coördinated and formal way at the beginning of 1964 will benefit highly from coöperation with the E.E.C. countries. Interdependence between the Spanish economy and that of the E.E.C. countries exists to an important degree. Spain can benefit from it, but the E.E.C. should not disdain it either.²

The series of measures adopted by the Spanish Government in 1959 amounted to a sharp turn in Spanish traditional economic policy in that they passed beyond considering domestic markets and forces as the basis for growth and looked to the outside world. An end was put to deficit financing, which had traditionally been an important cause of inflationary tensions. The rate of exchange was made more realistic (60 pesetas to the dollar). Above all, the doors were opened to a free inflow of foreign products and capital. Along with this liberalization toward the outside world there came a full domestic liberalization, and together they gave the economic system the necessary flexibility for an adequate distribution of resources and for bringing prices and costs closer to potential supply and demand

² This seems to me to be the way the average Spaniard feels. It is also the way I feel personally as Minister Without Portfolio in charge of the Development Plan and as a citizen wholly responsible for his own opinions in the political and economic fields. I emphasize this in order to make clear (contrary to observations in an article by Hugh Thomas in *Foreign Affairs* of October 1962) that the fact that I am a member of the Catholic association *Opus Dei* does not in any way imply that I have to accept directives in those fields or, indeed, of any other kind. *Opus Dei* as a purely religious association is devoid of any pre-occupation other than to perfect Christian life among its members, who belong to all races, nations, social classes, and professional activities, and who remain totally free in their personal opinions and decisions.

in the country. At present, 3,114 items in our customs lists have been freed of quotas, and in 1964 over 60 percent of our total imports came from the freed list. True, the degree of liberalization of the Spanish economy is not as high as we might wish it to be; however, it is not the absolute situation which is most important but rather the accelerated rate of liberalization over the last few years. The latest list of liberalized commodities, published last May, includes 76 tariff items freed of quotas.

These measures, plus others of minor importance, helped by some extraneous factors such as tourism, the emigration of Spanish workers to Europe and the generally quite prosperous situation of almost all the European countries, have determined high rates of growth for our G.N.P. (10.5 percent in 1961, 8.8 percent in 1962, 13.1 percent in 1963, and 7.1 percent in 1964, at constant prices). There has also been a considerable increase in investment, from 20 percent of the G.N.P. in 1961 to 24 percent in 1964. Our balance of payments has developed satisfactorily, with a balance in our favor of \$303,500,000 in 1964. As a result, our gold and foreign exchange reserves in May of this year were \$1,287,900,000 (including our gold-reserve position at the International Monetary Fund). Finally, an important increase of productivity—6.7 percent per active person—has taken place in the economy as a whole.

These favorable developments (from a quantitative as well as a qualitative point of view) have prepared a solid basis on which to plan economic development according to the current mentality and ideology in the Western World. The First Economic and Social Development Plan for Spain was inaugurated on January 1, 1964, to cover a period of four years.

The new Spanish policy of economic development sets "progressive integration into the world economy" as one of its fundamental objectives, and serious study has been—and is being—given to the problems that will have to be faced and their solutions. This progressive integration, and especially the closer economic relations with the E.E.C., will imply coexistence with other economies in which the national income is substantially higher. In order to narrow this difference of incomes we have to achieve a rate of growth higher than theirs and this will require structural adjustments. Higher rates of growth and adjustments of structure are two aspects of a single problem (the increase of productivity), since an improvement in the latter will mean

automatically achieving the former. And achieving a higher rate of growth will facilitate the adjustments.

Concerning the rates of growth, if we take the figures given in the E.E.C. study, "Perspectives of Economic Development in the E.E.C. from 1960 to 1970," we find the G.N.P. will rise faster in Spain than in the average Common Market country. The Spanish Development Plan foresees an annual cumulative rise in G.N.P. of 6 percent (this goal has been surpassed in 1964) while the most favorable projections made by the E.E.C. are higher than 5 percent only in the case of Italy. For the rest of the countries it varies between 4 and 5 percent. However, in 1964 Italy's development suffered a slowdown, with a rate of increase of only 2.5 percent.

On the other hand, the inclusion of the Spanish economy in the E.E.C. will most certainly facilitate many of these developments because the productive factors on the two sides are to a certain degree complementary. While the E.E.C. has excess capital, which can be profitably invested in our country, and a high level of know-how, Spain is deficient in these two factors of production, at least in the measure necessary to achieve the best possible rate of growth.

Moreover, there is a labor shortage in the E.E.C. countries and a relative abundance in Spain. Salaries in Europe have risen sharply as a result, increasing the gap between salaries in our country and in the E.E.C. This has produced a strong emigration of Spanish laborers during the last few years. Part of this emigration would probably have stayed in our country had we had the necessary volume of capital to give them better opportunities and more security and, as a result of higher productivity, bigger wages.

The fact that production factors are complementary makes it possible for us to talk about a commercial exchange rather than a commercial interdependency. In the first place, the balance of payments between our country and the Common Market results in a substantial deficit for us: in 1964, our imports amounted to \$811,841,000 from that area and our exports, \$371,432,000. In 1963, we imported \$656,523,000 from the Six and exported \$278,758,000. In the second place, the percentage of trade with the Common Market in our total foreign trade is very high. In the years 1961, 1962, 1963 and 1964, the Common Market absorbed 37.7, 37.5, 37.9 and 38.9 percent respectively

of our exports. The Six were the origin of 26.1, 29.8, 33.5 and 35.9 percent of our imports for the same four years. In the third place, while those imports are essential for our economy, our exports are much less important for the E.E.C. countries.

Finally, our exports not only have to pass the common tariff applicable to all external imports into the E.E.C. area, but also because there are countries in a special position—that is, associated with the E.E.C. or having a commercial agreement with it (Greece, Turkey, Algeria, Tunisia, Israel, etc.)—some of our competitors enjoy special privileges when they export to the Common Market the same products which we export. With the progressive and unavoidable adjustment of our tariffs, many sectors of our economy will face serious problems.

It is important, however, to stress a few aspects which the E.E.C. should take into consideration in its own interest. The Spanish economy, with very good prospects of expansion, is a valuable client for the E.E.C. countries, not in the sense that their exports to us are an important percentage of their total exports, but because our total purchases abroad are growing and European firms find here an expanding and safe market. This is a fact that cannot be ignored. It should be noted that while our total imports grew at the rate of 51.43, 43.66 and 24.57 percent for the periods 1960–61, 1961–62, and 1962–63 respectively, and 15.5 percent in 1964, imports from the E.E.C. countries grew at the rates of 56.93, 63.95 and 40.33 percent respectively for the same periods, and 23.7 percent in 1964. This proves we are an expanding market, helped by our policies of liberalization and development, and are becoming a good outlet for Common Market products.

It nevertheless will be difficult for us to increase the quantity or quality of our exports unless we achieve certain minimum levels of capital formation. Capital is relatively abundant in the E.E.C., and scarce in Spain. The provisions of the first Spanish Economic Development Plan (1964–1967) project a high rate of growth in gross capital formation. The volume will be \$3,916,000 in 1967, or 24.4 percent of the G.N.P. (in 1962 it was \$2,833,000, and 22 percent of the G.N.P.). The financing of planned investments will require a volume of capital that will be difficult to obtain entirely from our savings. For that reason, the Plan counts on a net foreign capital contribution rising gradually from \$280,000,000 in 1964 to \$387,000,000 in 1967 (this is in addition

to the transfers, composed mostly of remittances from Spanish emigrants in the E.E.C. countries).

Foreign capital, especially from the Common Market countries, has traditionally played an important role in our economic history. Various French, Belgian, German and other European firms have long been established in Spain. Those firms would, no doubt, welcome a closer relation with the Common Market, since they could widen their activities as well as serve as a source of contact and encouragement for other firms wishing to expand their markets. The liberalizing measures adopted since 1959 have already prompted a rising trend of incoming investment; thus the net inflow of long-term private capital into Spain was \$249,750,000 in 1962, \$236,110,000 in 1963, and \$299,000,000 in 1964.

Such, broadly speaking, are the prospects for closer relations between the Spanish economy and the E.E.C. It is true, of course, that Spain would be the one to benefit most from this association. But it is equally true that the E.E.C. would not be damaged. It is not surprising, then, that Spanish economic policy should be oriented more and more toward producing the circumstances which, without detriment to our own evolution, will make possible the coöperation we all desire.

The first Spanish Plan for Economic and Social Development emphasizes the efforts to achieve the greatest economic expansion while maintaining stability. It also encourages a fair distribution of income and strives to achieve more flexibility in our economic system and its integration into the world economy. In order to reach these aims, the structure of our production will be modified; investments will be increased, selected and coördinated; exports will be expanded; a flexible and competitive market will be promoted; productivity will be increased; the financial system will be improved; and regional development will be promoted.

THE COMING CRISIS IN IRAN

By Hossein Mahdavy

THREE years ago, the Iranian Government declared that the country would undergo a White Revolution, the purpose of which would be to modernize Iran and render any revolution from below unnecessary. Of the revolutionary measures proclaimed, land reform figured as the most important.

To appreciate the significance of land reform and the circumstances that led to this abrupt change of posture on the part of the régime in Iran, we must look back briefly on the last decade or so. When the Shah decided to participate in the overthrow of the national government of Dr. Mohammed Mosaddeq in 1953, he could hardly have underestimated the risks involved in challenging the most popular government Iran had known in its recent history. The underlying malaise, characteristic of the period of the Shah's personal rule which followed, stems from the difficulty of "normalizing" a political situation which does not originate in the consent of the majority of the governed and whose legitimacy is being continuously challenged by the nationalist forces loyal to Mosaddeq.

The opposition forces so far have been concentrated mainly in cities and towns, which comprise about 30 percent of Iran's 22,000,000 people. A small ruling oligarchy, which had supported the Shah in the overthrow of Mosaddeq, had to rely heavily on the army and the security police (*Savak*) to control a rapidly increasing middle- and lower-class urban population. Merchants, shopkeepers, civil servants, intellectuals, students and workers comprise the bulk of those who, under the leadership of the National Front,¹ have presented and continue to present a formidable opposition to the régime.

The real significance of land reform in Iran must be appraised as a political measure on the part of the government to gain the allegiance of the "neutral" and still inarticulate peasantry to offset the growing opposition in urban areas. At the time of the reform, Iran was not faced with any particular agricultural

¹ The National Front is not a unified political party, but an alliance of a number of political parties and groups with separate organizations and platforms. The eclectic and complex nature of this vast but often suppressed political movement has sometimes led foreign observers to believe that the Front itself is an independent political party which is poorly organized and lacks social and economic doctrines.