



**Instituto Juan March**

Centro de Estudios Avanzados en Ciencias Sociales (CEACS)

**Juan March Institute**

Center for Advanced Study in the Social Sciences (CEACS)

---

**Economic reforms in new democracies : the Southern European experience**

Author(s): Maravall, José María

Date 1991

Type Working Paper

Series Estudios = Working papers / Instituto Juan March de Estudios e Investigaciones,  
Centro de Estudios Avanzados en Ciencias Sociales 1991/22

City: Madrid

Publisher: Centro de Estudios Avanzados en Ciencias Sociales

---

Your use of the CEACS Repository indicates your acceptance of individual author and/or other copyright owners. Users may download and/or print one copy of any document(s) only for academic research and teaching purposes.

ECONOMIC REFORMS IN NEW  
DEMOCRACIES: THE SOUTHERN  
EUROPEAN EXPERIENCE

José M. Maravall

Estudio/Working Paper 1991/22  
June 1991

José M. Maravall is Professor of Sociology at the Complutense University (Madrid). This working paper is based on a research project on the economic reforms of the new Southern European democracies that has been funded with a grant from the Juan March Institute. It was presented by the author at a seminar held at the *Center for Advanced Study in the Social Sciences* on March 21, 1991.

This paper will discuss socioeconomic reforms after transitions to democracy, taking Southern Europe as a case study. It will examine the dilemmas faced by the new democratic governments, the types of reforms that were introduced, and the factors which help to explain the path that these reforms followed. Once democracies are reestablished after a period of dictatorial rule, new problems emerge: the efficiency of the new political system, and not just its legitimacy, becomes the main issue that is, the capacity of democracy to solve problems and fulfill expectations. It may be argued that the margins for purposeful change (i.e. what can be done once democracy is restored) depend mostly on the nature of economic requirements and on the type of transition to democracy; that these are indeed the “confining conditions” of political choices and strategies. Thus, the range of reforms that are introduced (regarding for example nationalizations, public expenditure, the balance between state and market) is very much the result of particular combinations of constraints and choices.

Socioeconomic reforms contribute to construct a particular type of democracy. They depend upon the political conditions of new democracies, but their success or failure also have consequences on the new political system. In the complex relationship that exists between the economy and the polity, some of the main questions refer to this contribution of economic reforms to the consolidation of democratic institutions and to their efficiency, to variations in the pattern of reforms and their association with political variables. Economic policies generally seek to maximize the efficiency of production, the satisfaction of demands, and the welfare of citizens, but they differ in the particular “mix” of these goals and in the instruments they use. Inflation, budgetary and current accounts deficits, unemployment, loss of competitiveness are serious challenges for new democratic governments, but their gravity is not always the same nor the political pressures for reforms that -governments face are equivalent. The Southern European economies from the mid-70's onwards were not in the same dramatic circumstances as the Eastern European or the Latin American ones over the last decade, nor were the governments confronted with economic exigencies of equivalent urgency.

Yet Southern European societies shared a situation of relative economic backwardness vis-à-vis the more advanced societies of Western Europe. They belonged to particular niches in the international division of labour, if we look -at the composition and the balance of their trade, the nature of foreign investment that they attracted, the importance of tourism in their economies, the extension of labour migrations to other countries. They had had a long experience of state economic protectionism and autarchy;

their economies have correctly been described as “assisted” rather than “competitive” capitalism (1): the state and public enterprises had played a central role as promoters of economic development since the 19th century. The state was highly centralized, and public bureaucracies were large and inefficient. Their welfare systems were very limited and did not satisfy ample social needs. Military intervention in government and political life had been a recurrent event in their contemporary histories. Religious pluralism had hardly existed and the dominant religion was identified with the state. The successive and failed democratic experiments were characterised by unstable party systems, with fragile roots in society, and by dramatic confrontations between left and right on basic questions referring to the legitimacy, the nature and the structure of the state (2). To “normalize” their societies by West European standards, to “catch up” both in economic and political terms, had been the major goal of Greek, Portuguese and Spanish reformers in this century. “Modernization,” a key word in Southern European democratic politics, was thus understood to a very large extent as “europeanisation” this was surely a major characteristic not only of democratic transitions in the three countries but also of reforms after transitions.

1. Economic development, crisis and conflict; the background of political transitions. Although differences existed in their respective levels of economic development prior to the reestablishment of democracy, Portugal, Greece and Spain had experienced considerable economic changes since the 50's. The Greek economy had become in this period largely integrated in the international markets and went through a phase of quick growth which from 1960 to the collapse of dictatorship in July 1974 reached an average annual rate of 7.7% (3). Economic development benefitted from low wages and from remittances of large migrations. In Portugal Salazarismo had been deeply anti-capitalist and had tried to “freeze” the economy and the social structure in a pre-industrial mould: the country had in 1974 the lowest per capita income of Western Europe, the agriculture was very underdeveloped, and the general productivity was very low; however, from the late 50's onwards a shift in economic policies took place, moving away from autarchy and towards greater integration in the world economy. From 1960 until the putsch of the Armed Forces Movement (MFA) against the dictatorship in April 1974, the Portuguese economy had been growing at an average annual rate of 6.8%. While trade had for decades benefitted from a colonial empire which provided protected markets and cheap raw materials, the economic changes in Portugal were reflected in that in 1973 nearly 50% of commercial exchanges were now with the European Community and only one sixth with the colonies. Foreign capital was entering Portugal (.4) and new industries were established in electronics, cars, shipbuilding and textile. Agricultural production fell as a proportion of

GDP from 20% at the beginning of the 60's to 14% at the end of the decade; the share of industrial production went up from 27 to 33%.

The Spanish economy under Franco stagnated for twenty years: only in 1963 did real wages reach the pre-Civil War level of 1936. International political isolation went hand in hand with economic autarchy. From the second half of the 50's, however, international isolation gradually ended, in parallel with a process of liberalization of the economy. After a three-year stabilization plan from 1959 to 1962, the Spanish economy benefitted from the general process of economic development in Western Europe and went through a period of rapid growth (5) which from 1955 to 1975 reached an average annual rate close to 8%, based on cheap and abundant labour, low taxation and state protection. The resulting changes in the Spanish economic and occupational structures were dramatic: the contribution of agriculture to GDP fell from 23% in 1960 to 5% twenty years later, the agricultural population declined from five million people in 1960 to two million in these two decades. Financial capital played a dominant role: in 1956, five banks controlled 51% of the country's capital and were largely responsible for the creation of the new national industry. The state was an important instrument of capitalist activity, basically through the INI (National Institute of Industry), a public holding created in 1941, which participated directly in 63 companies, employing over 200,000 workers and representing 10% of GDP. The subordination of the state to private interests was ideologically defended in terms of the principio de subsidiariedad. No modern tax system existed, but there was no budgetary deficit due to a very limited public expenditure.

Before their transitions to democracy started, the three Southern European countries had thus been going, in different degrees, through a phase of economic growth and liberalization which had brought changes to their economies and their social structures. However, serious economic and social contradictions existed in the three processes of limited economic modernization: protectionism remained much higher than in the other Western European economies and industrialization was based on hardly competitive industries -(steel, shipbuilding); there was a permanent gap between aggregate demand and the supply of manufactured goods, which caused important deficits in the balance of trade; inflation was always high.

The economic crisis of the 70's hit the three countries just at the moment when the authoritarian regimes collapsed. In 1973-74 the price of oil quadrupled; as a

consequence, Western Europe experienced in 1975 negative economic growth and its average inflation went up to 8%. After a short lived expansion in 1977-8, the second oil shock of 1979, in which the price of the barrel of oil increased from \$ 12 to \$ 31 in five months, led to a fall of GDPs, higher inflation and greater unemployment. Economic growth did not resume again until 1986. The economic crisis was deeper in Southern Europe, much more dependent on imported oil; for example, Spain could only cover with its own sources little more than a quarter of its demand of primary energy, while Greece's oil bill was equivalent to two thirds of its revenues from exports. The international crisis thus worsened the position of Southern Europe in the world economy.

Thus, Portugal, Greece and Spain had experienced a -period of economic development, followed by a serious economic crisis just as they embarked on their transitions to democracy. In fact, these were related to a growing social unrest stemming from the new strains and inequalities of development. This unrest, affecting in particular the industrial labour force and the lower middle class, acted as "pressures from below" against the Greek dictatorship (6); in Portugal, the expansion of urban industrial concentrations in Lisbon, Setubal and Oporto, and a growing industrial working class, were the basis of the successive waves of strikes which started in 1968 and reached their highest level in 1973 and 1974 (7), led by workers' commissions in the workplace defending claims that were increasingly political. The "pressures from below" were particularly important in the Spanish case: the number of working hours lost through strikes rose from 1.5 million in 1966 to 8.7 million in 1970 and to 14.5 million in 1975, the year Franco died, while the objectives of the workers' movement took on an increasingly political dimension. Confronted by this considerable social conflict in the final couple of years of Francoism, the Spanish government of Arias Navarro, very much as the Greek government of Papadopoulos and the Portuguese government of Caetano, was unable to take the tough economic decisions required in order to tackle the economic crisis. It thought that the crisis would not last and maintained the price of oil at artificially low levels. Basic areas of production were deeply damaged by excess capacity and high costs of production. Unions remained illegal, but the government was unable to control wage rises. From 1970 to 1979 wages grew forty points ahead of productivity (8). Exports lost competitiveness and the balance of trade deteriorated sharply. At the beginning of the transition, the Spanish economy was experiencing high inflation, an important trade deficit, a growing unemployment, a collapse in the level of profits, and an increasing public deficit as the government tried to compensate the fall of external demand by expanding public expenditure.

As dictatorships had become weaker, growing social demands, stemming from the very limited satisfaction of social citizenship rights, were expressed not only over wages but -also in the areas of health, education, or urban problems by a diversity of organizations, neighbours' associations, movements of educational reform and so on. This was particularly the case in Spain: besides the strong wage demands of the 70's, the absence of a developed welfare system was fuelling social demands in terms of citizenship rights. Welfare legislation, which had followed a rhythm similar to that of Western European countries until 1936, had been halted by Francoism. Thus, in 1975, public social expenditure amounted only to 9.9% of GDP, whereas the European Community average stood at 24%; only 4% of the social security budget was financed by public -revenues from taxes, in contrast to 26% in France or Italy; public expenditure in education was 1.8% of GDP, four percentage points below the European average; one out of every four Spaniards was not covered by public health.

Demands for the satisfaction of social citizenship rights were much less explicit in the two other countries. However, in Greece, where no welfare system had existed either, popular exigencies which had remained latent under the dictatorship of the colonels gradually emerged for an expansion of the "social wage" and for an income redistribution system (9). In Portugal as well, although workers' -strikes had increased before the transition, the explosion -of demands followed, rather than preceeded, the end of dictatorship. It was democracy that liberated demands. There were seventeen strikes in the first week of democracy, thirty one in the second, eighty seven in the third, ninety seven in the fourth week. For several months, an endless stream of strikes defended better work conditions, a shorter working day, more paid holidays, higher wages: they took place not only in the redoubts of working-class organization, but also in transports, the mail service, among fishermen, bakers and newspaper sellers. Warnings were increasingly made against generalized strikes by the Intersindical, the Communist party (10) or the President of the Republic; the Decreto-ley 392 of 27th August 1974 legalised strikes but also introduced restrictions. Yet strikes continued: from the summer of 1975 they included demands for self-management, not just on ideological grounds, but also in order to avoid the closure of firms and to ensure jobs and wages; houses were also occupied (two thousand in the first two weeks of democracy) by comissaos de moradores, and land properties were taken over by the peasants.

2. The first stage of democracy; the primacy of politics. As democracies were restored in the three countries, politics took predominance over the economy for some time. Although the Southern European transitions were all initiated “from within,” significant differences existed between them. In Spain, the leading role corresponded to civilian politicians; political change consisted more of a mixture of “pressures from below” and “reforms from above;” it also took the form of a gradual process based on transactions and pacts. The transitions in Greece and Portugal were much more a sharp break with the past and they both started with a military problem (the confrontation with Turkey over Cyprus, the war in Angola and Mozambique). In Greece, however, political change was directed by a civilian leadership once the army took power away from the Junta of colonels. The Portuguese transition, on the contrary, was initiated by a military uprising against the Caetano dictatorship; the army occupied subsequently, and until the constitutional change of 1976, a central position in the new regime, first with the MFA assembly and later with the Council of the Revolution. The “break with the past” was followed by two years of political turmoil; the new rules of the game were not clearly defined, the confusion of parliamentary and extraparliamentary politics was considerable; six provisional governments succeeded one another at short intervals. The rules of the game were much more clearly defined from the beginning in Greece and Spain. In these two countries also, the new democratic right (Nea Demokratia of Karamanlis and Unión del Centro Democrático of Suárez) won the first two elections; the left could gain experience on the possibilities and limits of pluralist democracy. But whereas Karamanlis, benefitting from an absolute majority in parliament, led the Greek transition very much on his own with little involvement of the opposition (and of PASOK in particular), Suárez followed a strategy of negotiations and pacts with the opposition, which extended to the passing of the 1978 Constitution, to the process of political decentralization that tried to accommodate nationalist demands in Catalonia and the Basque Country, and to economic policies.

The major problem for the new democratic governments of Greece and Spain was at that stage to establish a viable political democracy. In Portugal, the construction of a different kind of economic system was also part of the task. The ideology of the initial governments in Greece and Spain help to explain to a considerable degree the absence of radical economic reforms and the priority of politics; an additional factor was the threat of a military intervention against democracy (higher in Spain, and manifested in the Operación



Galaxia of November 1978 and the attempted coup of 23rd February 1981). Moreover, memories of past democratic failures contributed to political pragmatism. In Portugal, on the contrary, because of the sharp political break with the past, the dominant presence of the radical MFA and the vast popular mobilization that followed the collapse of dictatorship, everything seemed possible for some time. The tasks of establishing political democracy and reforming the economy beyond capitalism were attempted at the same time: this was to produce considerable political instability and to aggravate the situation of the economy.

If we examine the early economic decisions in Portugal, the provisional government which took power after the 25th April 1974 immediately closed the stock exchange and froze more than two billion dollars of private capital. Shortly afterwards, the Decreto-ley 203/74 of 15th May presented the program of the government: its main goals were to increase public investment, to change the credit system, to reform — the banks, to implement vast nationalizations. An anti-capitalist ideology guided also the drafting of the new Constitution once the elections of April 1975 were held. The Constitution, which was eventually passed in 1976, — thus stated that "the development of the revolutionary process imposes, on the economic level, the collective appropriation of the main means of production"? articles 89 and 105 declared that the private sector of the economy — would play only a residual role and that "a progressive and effective socialization of the economy" would take place; the objective was, according to article 91, "the creation of a socialist society". The first nationalization, that of the -Lisbon water company, took place in June 1974; the big wave of estatizacao came a few months later, in the radical period of Gonzalvismo, and included the railroads, sea transport, the airlines, oil refineries, the steel industry, the tobacco companies, the production of fertilizers and of cement, the breweries, and a myriad of dependent small firms. It has been estimated that 27% of Portuguese companies were affected, mostly large, technologically complex units (11). As a result, the share of total investment that corresponded to the state increased from 18% in 1973 to 45% in 1980. At the end of the period of nationalizations, public enterprises contributed 15% of GDP and 24% of gross capital formation: this proportion, however, was not too different from that of other Western European countries -the Portuguese productive public sector was smaller than the Italian. The major difference existed in the financial system, as the twenty two national banks were in public hands.

In this first stage of the Portuguese transition, important wage increases were granted, starting with a large -rise in the guaranteed minimum wage decided one month after the fall of dictatorship real wages grew 25% on average between 1975 and 1976. Public expenditure also went up very quickly, much faster than the GDP. A large amount of the budget was spent in non-competitive industries with shrinking markets (chemicals, shipbuilding, steel), trying to

preserve jobs. The satisfaction of large social demands and an ideological program of socioeconomic transformation took precedence over strict economic management. The consequences of these large increases in public spending, of wages growing faster than inflation and productivity, of the country living off the large foreign currency reserves which still existed at the beginning of the transition, were critical for the solvency of the state, the international position of the economy, and the macroeconomic indicators. The public budget deficit, which had not existed under dictatorship, was now very large; the balances of trade and payments were in heavy deficit; the external debt was growing fast. Inflation was increasing, as also was unemployment which suffered from the -additional impact of 600,000 migrants returning from Angola and Mozambique (roughly six times the ratio to population than Algerian migrations to France in 1958). Decolonization represented the sudden loss of safe colonial markets. Investment declined (falling from 22% of GDP in 1975 to 10% in 1976), an important capital flight took place, and capitalists left Portugal (12). The effect on economic development was considerable: the rate of GDP growth, which had reached 6.9% on average between 1968 and 1973, was only 2.9% between 1973 and 1977.

The evolution of the economy contributed to the political turmoil and to an increasing confrontation between radicals and moderates. This confrontation had to do both with economic policies and with parliamentary democracy. Economic policies divided the radical faction of the military and Melo Antunes (the military officer who had been in charge of the program of reforms of the MFA), particularly over the degree of state control of the economy and over the role of foreign investment; they also opposed the different parties. Disputes over the relative importance of parliamentary or direct democracy were also deep. In the first year of the transition, political mobilization was very extended: a myriad of channels of political representation and organs of "popular power" were set up, through commissions, assemblies and committees of various kinds. The elections to the Constituent Assembly in April 1975 had a deep moderating effect over economic policies: the sixth provisional government of Pinheiro de Azevedo, formed in the middle of a deep economic crisis, stopped further nationalizations and obtained important loans from the US and the European Community. This change of course away from collectivization was to be reinforced by a new victory of the moderates in the first constitutional elections one year later. Thus, over two years, serious political uncertainties existed over the role of state and market and over the importance of direct versus parliamentary democracy (13). The successive elections took gradually the country away from economic collectivism and from direct democracy.

In Greece, a major concern of Karamanlis was to consolidate democratic institutions and to insert the country into Western Europe. His reforms were political until the first democratic elections in November 1974 (which gave him 54% of the vote) he followed a carefully gradualistic strategy: the 1952 Constitution was reestablished as an interim norm, Ghizikis was maintained as head of the state, political parties were legalized (including the KKE), a political amnesty was granted, and civilian control over every important institution was ensured. Following the elections and a foiled military coup in February 1975, Karamanlis quickly set the new rules of the game; the Monarchy was abolished after the referendum of December 1974; those responsible for the 1967 military coup were brought to trial (14). However, the economy was under increasing difficulties; inflation reached 13.4% in 1976 and grew to 24.8% in 1980; the annual rate of growth, which had stood at 7.7% from 1961 to 1973, declined to half that rate (3.8%) between 1974 and 1979; investment fell (whereas in 1970 it had amounted to 4.5% of GDP, it went down to 2.5% in 1980); some three hundred enterprises were on the verge of bankruptcy. Public expenditure, however, increased at a fast rate, going from 33.6% of GDP in 1970 to 40.6% in 1979; it was largely financed by budgetary deficits and foreign loans (so that the external debt went up, reaching 4.4% of GDP in 1978 and 7.9% in 1981).

If massive public deficits were to be avoided, inflation reduced and investments promoted, deep reforms were needed in public expenditure, in the tax system, in the subsidies to firms, in the financing of public debt, in the evolution of the costs of production, in the labour relations legislation, in the public administration. However, these were not the only problems: the expanding public expenditure was fuelled by attempts to satisfy social demands and by the need to dedicate much larger resources to pay for more and better education, health, or pensions. This was a common predicament in the new Southern European democracies: governments faced the dilemma of either taking the country in a long and painful road towards economic efficiency and long-term economic growth, with dubious economic and/or political success, and postponing the rewards that many people expected from democracy, or attempting to respond to more immediate political and social needs, with economic policies trying to “muddle through,” and delaying the implementation of economic reforms. In Greece no deep economic reforms were introduced by Karamanlis, and politics dominated the first seven years of the new democracy.

This was also the case in Spain. Suárez believed that the new and fragile democracy was not ready to undertake deep economic reforms. The transition to democracy was a delicate enough task and powerful anti-democratic groups remained undisturbed, representing over a long period a serious threat to democracy. The careful knitting of the fabric of democracy by Suárez could be undone at any time. Besides, the UCD government,

which had won the first two general elections of 1977 and 1979 with 35% of the vote, was minoritarian in parliament. Thus, economic policies over most of the period from 1977 to 1981 were based on consultations and pacts: this was the case with the Pactos de la Moncloa in 1977, of the Acuerdo Marco Interconfederal in 1979, and of the Acuerdo Nacional sobre el Empleo in 1981.

The Spanish economy was in a deep stagflation. The annual rate of growth was no longer close to 8%: it fell to 0.9% on average between 1979 and 1982. Inflation had reached 24.5% in 1977; although the government was able to bring it down to 16% by 1979, it did not decrease significantly in the following four years. The Pactos de la Moncloa were a classical plan of stabilization, which adapted wage claims to the forecast of inflation and included some structural reforms that were never fully carried out. The second oil crisis of 1979 had a deep impact on a productive structure that had not adapted to the new economic conditions. Industrial production fell (-1,1% in 1982); investment declined sharply; the crisis of the financial system was the deepest of OECD countries threatening 30% of all external assets; the trade deficit grew rapidly; the public budget deficit went up to 5.6% of GDP in 1982, mostly financed by monetary emissions from the Bank of Spain that aggravated inflation. Yet, as in Greece, public expenditure increased from 28% of GDP in 1977 to 37% in 1982, particularly due to a large expansion of the budgets for social security, health and education, areas where large social demands existed. Wages also grew in real terms: the male adult worker improved his income in the transition and over the economic crisis. Unitary labour costs, which had almost duplicated in the eleven years from 1962 to 1973, duplicated again in the following four years (15). As a result of the crisis, unemployment started to rise dramatically: from 3.8% in 1975 to 16.8% in 1982 (16). Unemployment became indeed the greatest social problem of the new Spanish democracy, Francoism had kept it latent, as nearly three million Spanish workers had migrated to other countries and only a very small number of women had entered the labour market. The economic crisis in Europe brought many migrants back to Spain.

Thus, the new Southern European democracies experienced serious problems of economic efficiency over the period that corresponded to what Rustow called the phase of “habitation” in democratic transitions (17). Performance was poor in terms of GDP growth, inflation, unemployment, budget deficits and trade balances. Paradoxically, the crisis seemed to have had an egalitarian impact on Spanish society: if we examine the share of total consumption of the top decile of population, it declined from 31.0% in 1973 to 19.3% in 1981 (18). This was very much the result of the crisis itself, rather than of

redistributive politics: becoming poorer, Spanish society had also become more equal, as the losses in income and consumption were greater in the better-off groups. Social demands, in any case, multiplied with democracy: Przeworski is right when he states that “the advent of democracy is accompanied by an explosion of expectations: for most people democratization promises not only political rights but also social transformations (19).”

The predicament of the democratic governments was not only about the economy but about social demands for welfare and equality. These claims were particularly important in Spain: in the 1981. European Values study of thirteen countries, Spain ranked highest in “reformism” and support to social policies (20); in a 1 to 5 scale of popular support to social equality and welfare, Spain came again on top, compared to eight Western European countries (21), Three out of every four Spaniards believed the economic system to be very or fairly unjust, 87% held the view that “there would be fewer problems in the country if people were treated more equally,” and 70% considered that the government had the responsibility for the welfare of each and every citizen.(22) Thus, egalitarian views were very extended, and were expressed as demands against the state.

In the three countries expectations were contradicted by the economic crisis; they were also frustrated by social policies that drew much larger resources from public funds but were always lagging behind demands. Tocqueville’s discussion of spiralling expectations in democracies was fully appropriate: “Democratic institutions awaken and flatter the passion for equality without ever being able to satisfy it entirely... (the people) are excited by the chance and irritated by the uncertainty of success; the excitement is followed by weariness and then by bitterness.(23)”

The result was growing desencanto and disillusionment. It has sometimes been argued that transitions based on transactions and pacts tend to produce this effect (24), yet it is the case that Portugal experienced mobilization and disenchantment, The Portuguese political culture, only a few years after the collapse of dictatorship, was described in terms of extended political cynicism and withdrawal (25). Although the right was in crisis from 1974 to 1977, conservative values were influential; they were also reinforced by the economic crisis. As retrospective criticism of the dictatorship was very limited, the passing of time improved memories of that regime as a period of stability. At the end of the - decade, 28% of Portuguese people thought Caetano was a better choice to govern the country than the prime ministers of democracy (he was followed by .Mario Soares, chosen by 9%); a majority of people believed that democracy had worsened the economy, education, housing and morality, and had only improved wages and freedoms; 63% thought that Portuguese society was in the middle of a serious crisis, due. basically to the economic conditions, the cost of life and lack of work; only 5% believed that no crisis existed (26).

The contradiction between expectations and performance, caused mainly by economic problems, also became a growing problem in Spanish politics. Whereas in 1975 50% of Spaniards thought that the economy was in good condition, only 3% believed so in 1980; This pessimism was not only about economic performance: at the turn of the decade, only one out of every three individuals trusted democracy to solve the problems of the country, although three out of every four declared themselves "unconditional democrats" (27). The relationship between political efficiency and legitimacy has often been discussed in comparative politics (28); it has been argued that the legitimacy of democracy enjoys a considerable autonomy vis-à-vis efficiency, on the grounds that general support to the political system is different from -the satisfaction with specific outcomes, that responsibilities are always fragmentary in democracies, and that it is always possible to change the government without destabilising the regime. That autonomy is however more limited in the earlier phases of a new democracy, and problems of efficiency may have a greater impact on the regime, There was thus in Spain a correlation between positive orientations to democracy and satisfaction with specific outcomes; this correlation decreased over time, as legitimacy became more autonomous from performance: it was .81 in 1978, .68 in 1980, .57 in 1984 (29). Yet for several years the consolidation of democracy was seen as threatened .not just by involución, but also by an economy in crisis.

Frustration and disenchantment increased over the first years of the new democracies. They were also related to a cynical view of politics that had been for a long time a central trait of the Southern European political cultures probably a rational judgement based on a long experience of politics as abuse. The views that all politicians were the same, that they all looked after their own interests, that -people had very little say in politics, were much more widely held in Southern Europe than in old-established democracies. Seven out of every ten Spaniards thought that politicians cared only after themselves and that voting was the only way people could influence political decisions a proportion similar to that which existed in Hungary as democracy was established (30). These problems of political culture were to add to the difficulties of economic and social reforms.

3. The second stage of democracy; the launching of economic and social reforms. Several years after democracy was refounded, ample economic reforms were needed to redress economies that were lagging in international competitiveness and were facing serious problems of state solvency. Yet, besides tax reforms, control of public expenditure, changes in the exchange rates, liberalization of trade, deregulation of prices, suppression of subsidies, or reorganization of the labour and capital markets, the satisfaction of social citizenship rights, in countries where welfare provision was very limited, required an extension and reorganization of social policies, particularly in public pensions, unemployment benefits, education and health. Thus, the reform of the tax system

was needed not just for reducing the public deficit, but also in order to collect greater revenues and to redistribute incomes. Public administration had to be reorganized not only with the goal of improving the solvency of the state, but also to deliver wider social services. Decentralization and citizens' participation were related to a more satisfactory provision of social policies. These reforms were often contradictory: for example, a control of wage increases could result in lower technological development, greater social expenditure could harm state solvency. Economic and social reforms, in the particular context of the new Southern European democracies, required a new balance between market and state; whereas economic efficiency (in terms of state solvency and international competitiveness) would lead to a larger role for the market, the satisfaction of social citizenship rights would demand on the contrary an extension of the state.

The European Community was, to a very large extent, the reference for many of the reforms, "Catching up" with Western Europe meant joining the European Community, competing effectively with the other economies, and reaching their levels of satisfaction of social citizenship rights. In Spain, consensus over these goals was overwhelming. Adolfo Suárez presented the Spanish request for membership in 1977 and the totality of parliamentary parties supported him. It was widely believed that international isolation and dictatorship had been closely connected in recent Spanish history. The European Community was seen as a symbol of democracy and development; this symbol had been very important in the struggle against Francoism. Joining the EEC was believed to be a decisive step for the consolidation of democracy as well as for future economic competitiveness. In Portugal, consensus over EEC membership was also ample, although differences existed for example in the position of the Communist party. The socialist government of Mario Soares presented the request for admission in 1977; besides the PS, he was backed by the PPD (later PSD) and by the CDS. As in Spain, membership was largely seen in political and symbolic terms, as a reward for the recovery of democracy and as a decisive contribution to its consolidation, rather than in a strictly economic perspective. The European Community was perceived as a global alternative to isolation and third worldism; the request for membership was thus part of the change of course from the economic and political experimentation of 1974 and 1975.

The views that existed in Greece over the European Community were much

more divided. They opposed the left to the right: PASOK and KKE on the one side, the Centre Union and Nea Demokratia on the other. Whereas Karamanlis and ND believed that entry in the Community would be a decisive step for Greek democracy and for future economic growth, Papandreou and PASOK thought that the EEC, as well as NATO, would increase the dependence of Greece and limit its national sovereignty: memories of external interferences in Greek turmoils, particularly in the civil war from 1946 to 1949, which led to the political exclusion of the left, as well as a strategy of recapturing “patriotic” claims from the right, helped to shape this position of PASOK. Both democracy and development were thought to be more viable without external influences. Thus, PASOK opposed membership in the 1977 elections and demanded a “special agreement” (similar to the one that Norway enjoyed) and a referendum. Karamanlis, however, took Greece into the EEC before the 1981 elections; in the campaign for these elections, and with the prospect of coming to the government, Papandreou was much more nuanced about the European Community.

“Catching-up” with Western Europe, that is, the “normalization” of Spain by these comparative standards, was the main thrust of the reforms that the government of Felipe González launched as from the end of 1982. Political and economic considerations were entwined: it was thought that the political transition had to be followed by an “economic transition.” Whereas Suárez was concerned about the capacity of democracy to face the costs of deep economic reforms, González believed that, as in past episodes of Spanish history and in many other cases of democratic experiments, a prolonged economic crisis posed a deep threat to political stability. Economic strategies of “expansion in a single country” were rejected: the objective was, on the contrary, to increase the international competitiveness of the economy. González also mistrusted policies of nationalization; he was influenced in this by the Spanish experience of the public sector and by the skepticism of traditional PSOE leaders such as Prieto and Besteiro; he also sympathised with the ideological revision of the German SPD in 1959, with Swedish social democracy (and Palme in particular), and with the British Labour Party “moderates” (particularly Gaitskell and Crosland). The change of course of the economic policies of the French government in 1982 was also a useful negative example, although it only reinforced already existing views.



In spite of the economic crisis, González still believed in the summer of 1982, before the general elections in October, that the future government would have a considerable margin of manoeuvre for expansion, for public expenditure increases and for substantial job creation. By September, the future Minister of the Economy, Miguel Boyer, gradually came to know the real depth of the crisis. Massive departures of foreign capital in October and November aggravated the situation. Describing some years later this context of decision-making, González stated that (31)

“we were with the anguish of an economic situation which was very bad from the macroeconomic point of view, not only because there was a process of necrosis of the whole industrial structure, but because we had a balance of payments with a terrible deficit and we had less than \$ 3,000 million of foreign currency reserves... We had an extraordinarily bad set of economic data; for example, the destruction of employment was proceeding at a rhythm of a thousand jobs lost per day. In Europe, the process of economic adjustment had been going on for seven years and we were seven years late... In the electoral campaign of 1982 I had the courage to say that rather than have the IMF dictate to us what had to be done with the Spanish economy, we would do it by ourselves.”

The economic policies were tough from the beginning. A devaluation of the currency and higher prices for oil were decided on the first day of tenure of the new government. Over nearly three years the Spanish economy went through a deep adjustment whose aim was to create the conditions for future sustained growth, reducing the basic macroeconomic problems in the inflation rate, the public deficit and the external deficit, carrying out a large reconversion of the industrial sector since 1983 (with the Ley sobre Reconversión y Reindustrialización), reforming the capital markets, introducing changes in the labour market (establishing in 1984 more flexible types of labour contracts), and reorganizing the social security with the Ley de Pensiones of 1985. The reduction of the public deficit to one third of its 1982 level was achieved by slowing down the rate of public expenditure growth, so that while it had increased by 10.5 percentage points in the seven years from 1977 to 1982 it did so by only 4.5 points in the following seven years; on the other hand, larger tax revenues financed this expenditure and the accumulated debt. The fall in the inflation rate -4.6% in 1987 (32)- was due to the sharp reduction in the public deficit, very high interest rates, -the increase in the aggregate fiscal pressure, and wage moderation. The government thus used both demand and supply-side reforms: it tried to maintain demand avoiding underconsumption, to promote profits and to stimulate investment. Although a huge amount of resources were spent on mitigating the effects of the crisis in the productive and financial systems in order to defend the international credit of the country and employment (33), competitiveness, and not prolonged protectionism, was the goal.

In Portugal and Greece reforms were for some time either postponed or erratic. In the first of these two countries, the combination of the international crisis, uncontrolled public expenditure and the poor management of nationalized companies had had serious consequences on inflation, unemployment, investment and the current account. A few months after the first elections of 1975, the sixth provisional government presented a Plan of National Reconstruction that started to turn economic policies towards austerity, labour discipline, fiscal rigour, and tried to attract foreign investment. The economic crisis became the most important issue in the campaign of the second general elections shortly afterwards. It was increasingly thought that political priorities had postponed painfully needed reforms. In this -campaign, Soares committed the PS to no more nationalizations: "the first thing to be said to the Portuguese people, and we the socialists say it, is that there will be no more nationalizations. It is necessary to stimulate the private sector and to enable private entrepreneurs to work safely" (34).

Once in government, the PS passed the decreto-ley 42 2/76 that established mechanisms of privatization, brought to an end the collectivization of land, and tried to protect the "competitive coexistence" between the public and the private sector (35). There were few ideological notes in the economic program of the Soares government; social and economic "modernization" was the keyword. The government introduced more economic austerity, devalued the escudo, reduced subsidies to public firms, imposed a wage ceiling of 15%, and established monetary restrictions. The government also formally requested admission in the European Community and sought a loan from the IMF, which created serious political difficulties that ended with the replacement of the minoritarian PS government by a PS-CDS coalition led again by Soares. This coalition concluded the IMP agreement and reinforced the economic adjustment.

This government only lasted from January to July 1978. It was replaced by three consecutive governments of "presidential inspiration" (i.e. appointed and backed by Ramalho Eanes, who had won the 1976 presidential elections with 62% of the vote), made possible by the bipolar executive format of the Republic, and which maintained during a few months the policies of economic austerity. Yet the following access to power of the AD conservative coalition (between the PSD and the CDS) with the 1979 elections, which lasted until 1983, gave way to a relaxation of these policies: the result was faster growth, but also a higher inflation and an increase in the balance of payments deficit. It was this coalition which, with PS support, removed in 1982 the references in the Constitution to a "socialization of the means of production." These interrupted and partial economic reforms were very much the product of the instability of Portuguese politics over those years.

The launching of a comprehensive program of reforms only started as from 1983, nearly ten years after the transition to democracy took place. It was started by the new Bloco Central (PS and PSD) coalition in government. Soares, on taking over as Prime Minister, stated that "this government will be austere, uncompromising, and unpopular if that is what is required to achieve economic recovery". Reforms tried to achieve state solvency and economic competitiveness; a deflationary program was introduced in order to tackle the balance of payments deficit, inflation and the debt burden. Subsidies to firms were cut from 15.5% of GDP in 1980 to 5.5%, credits were restricted, and the prices of public goods were raised. The public deficit was reduced, to a large extent through an increase in taxation. The private sector enjoyed more favourable conditions: competition was fostered in several economic areas, including the financial sector. In June 1985 Portugal signed the treaties of the European Community and became a full member on the first of January -1986. In between, the Bloco Central coalition broke down with the 1985 elections, won by the PSD with 30% of the vote, while PS support fell from 36 to 21%. The new minoritarian PSD government, led by Anibal Cavaco Silva (which later became a majority government after winning the following 1987 elections with 50% of the vote) continued the course of economic reforms; it reinforced the role of the market, particularly in the financial sector and in public companies, and -was able to benefit later from the international economic recovery in the second half of the decade. The initial erratic economic path and the considerable political instability of the new democracy changed dramatically in the 80's; Portugal fully adapted to the Western European pattern.

Greek economic policies also experienced several shifts in the 80's. Karamanlis, while carrying out his impressive task of reestablishing democracy, had postponed many urgent economic reforms. At the beginning of the decade, economic stagnation, increasing unemployment and an inflation rate of 24.8% made Papandreou declare, after the PASOK electoral victory in 1981, that he had inherited a "scorched earth" economy. On taking over government, PASOK opted for keynesian policies of expansion-cum-redistribution that presented similarities with the economic policies of the first Mitterrand government in France. Papandreou tried to stimulate production by increasing low and middle incomes and by offering incentives to productive investment. The number of beneficiaries of public pensions increased sharply, the "social wage" was extended, and lower incomes were indexed with past inflation. As a result, income differentials decreased substantially; the ratio between the gross earnings of top civil servants and the minimum wage fell from 5.5 in 1980 to 2.6 in 1988. The state also intervened in 44 companies in order to save them from bankruptcy and avoid more unemployment. Monetary policies were also expansionist. The consequence was an increase in demand, but not in economic growth: the rate of GDP growth was of only 0.1% in 1982 and of 0.3% in 1983, and industrial production, which had increased at a rate of 4.4%

between 1973 and 1979, declined to 1.4% between 1980 and 1985. Investment also fell during these years. Inflation remained at a high level (21.0% in 1982, 20.2% in 1983), while unemployment doubled, going up from 4.3% in 1982 to 9.0% in 1985 (particularly youth unemployment, which was four times higher than the general rate). The public deficit grew from 9.8% of GDP in 1981 to 14.3% in 1985, as the government was unable to raise revenues from taxation. The cumulative public debt, which represented 47.2% of GDP in 1981, reached 84.1% in 1985. The external debt augmented from 7.9% of GDP in 1981 to 10.6% in 1983 (36).

The PASOK government reacted late to this set of poor economic results. It devalued the drachma by 21%, but did not introduce tough economic measures until after it had won the 1985 general elections. Following these Papandreou passed a stabilization plan which lasted two years. The plan tried to reduce inflation and the current account deficit by a restrictive demand management: wages were controlled by law (suppressing the mechanism of indexation), public expenditure was brought into strict control, monetary policies were much tighter. It also attempted to improve the competitiveness of the Greek economy, by cutting the costs of production and by devaluating again the currency by 15%. These measures improved the economic climate: inflation came down, but remained at 17% in 1986, the Public Sector Borrowing Requirements fell from 18% in 1985 to 13% in 1987, the rate of growth of unitary labour costs decreased from 22% in 1986 to 11% in 1987. The Greek government managed to get a substantial loan from the European Community to sweeten the pill. Yet investment remained low (it declined in fact by -6.2% in 1986 and by -7.8% in 1987) and industrial production was stagnant. Papandreou thought that these reforms were sufficient: when the Minister of the Economy, Kostas Similis, tried to carry them on -in 1988 the government refused, afraid that the political costs would be too high, and the Minister resigned in November 1987. Yet reforms were far from complete: competitiveness and productivity were low, structural microeconomic problems had been left untouched, the balance between investment and consumption was too uneven. Inflation, unitary labour costs, the balance of payments deficit and the PSBR went up again -very quickly. Thus, at the end of the 80's, after fifteen years of democracy, important economic reforms were still due in Greece.

The ideologies of these Southern European governments were not clearly associated with the launching of economic reforms. If we examine the record of the

conservative governments, state solvency and economic competitiveness were not the top priorities in the political agendas of Constantin Karamanlis and Adolfo Suárez, while the Alianza Democrática in Portugal did not continue the reforms which the previous governments had introduced. However, the PSD government of Aníbal Cavaco Silva from 1985 onwards was a “reformist” one. If we turn to left wing governments, the policies of Mario Soares and particularly of Felipe González were clearly dominated by the economy: they tried to improve the solvency of their states and the competitiveness of their economies. On the contrary, Andreas Papandreu made only a limited attempt in this direction between 1986 and 1987.

The reforms clearly abandoned experimentations: there was some convergence in the three countries in this respect. From 1976 onwards, Portugal moved away from collectivist policies; the neokeynesian attempt in Greece was dropped in 1985; economic pragmatism dominated Spanish policies. A relationship between political democracy and the market economy seems to have existed in Portugal, where discussions of the political and the economic models were simultaneous, and the turn towards parliamentary democracy after the first two elections coincided with the abandonment of collectivism. In Spain, the Pactos de la Moncloa of 1977 were not only a stabilization plan, but also an implicit agreement about the market economy that was later incorporated in the 1978 Constitution. The left was overwhelmingly concerned about democratic consolidation and about the political feasibility of their programmes.

The major ideological difference between “reformist” governments was not so much expressed in the economic content of their policies as in their combination with political and social reforms. Measures for state solvency and economic competitiveness must therefore be examined not just on their own, but as part of typical packages of reforms which included changes in the protection of social citizenship rights. These packages are relevant to analyse ideological variations between governments and also to interpret strategic choices: social reforms may vary the impact that economic reforms have in society and the burden of costs may change. Such packages may also be related to the strategical option between decretismo and pactismo.

Democracy considerably expanded social policies in the three countries. The greater concern about social citizenship rights confirmed Tocqueville’s argument that

“When the people begin to reflect on their position, they notice a mass of hitherto unfelt wants, which cannot be satisfied without recourse to the resources of the state. For that reason public expenditure increases with civilization, and as enlightenment spreads, taxes rise”(37),

Both public expenditure as a whole and social expenditure in particular increased very sharply. The welfare systems and the mechanisms of income distribution were extended and reorganized. The role of the state in the provision of health, education and pensions was reinforced. Revenues from taxation increased and the fiscal systems were made more redistributive.

Reforms took place in Greece in the system of education, in public health and in labour relations. New laws expanded further and higher education and contributed to their democratization, although private education was not integrated in the national public system and remained as a privileged sector (38). Law 1397/83 established a National Health System, providing universal health care and bringing together different organizations of health provision. Law 1264/82 regulated trade union freedoms and democratized their organization. New legislation was also passed in Spain which changed the criteria of welfare provision introducing universal entitlement. Besides voluntary and contributive pension schemes, basic pensions were established, unrelated to previous personal contributions, financed by the public budget, and equivalent to the guaranteed minimum wage. A National Health System was created by the 1986 Ley General de Sanidad which, as in Greece, replaced a diversity of insurance protection schemes by an integrated public system that provided universal protection. An educational reform was also undertaken, based on three laws: the 1983 Ley de Reforma Universitaria, which gave financial, academic and organizational autonomy to universities, the 19 85 Ley del Derecho a la Educación, which democratized the educational system as a whole and regulated the relationship between public and private schools, and the 1990 Ley de Ordenación General del Sistema Educativo, which made education compulsory up to sixteen years of age, expanded technical-vocational education, and reorganized the different levels below higher education. The Suárez government introduced new democratic labour legislation with the Estatuto de los Trabajadores and the Ley Básica de Empleo; the government of González completed this legislation, passed a new law protecting trade union freedoms (the 1985 Ley de Libertad Sindical) and expanded massively labour market policies. Thus, similarities existed in the social reforms introduced in Greece and Spain. The political discontinuities

of the governments in Portugal probably explain why legal changes were not so thorough. The new legislation tried to satisfy social citizenship rights and was an essential component of the “reformist package,” as it had an impact on the social distribution of the costs and benefits of the economic reforms. They also had relevant economic consequences, as they required larger budgets from the state. It was increasingly in this part of the “reformist package” that the ideological differences between governments were more clearly expressed.

Some other reforms were more qualitative. They did not rely on economic resources, and did not have direct effects on the system of material inequality. Reforms in the area of civil rights, greater decentralization and new channels of social participation were examples of this “qualitative” change which was of great importance in Greece and Spain. Civil rights reforms included in Greece the full acceptance of civil marriage (law 1250/82), the introduction of divorce, the modification of the penal code, a new family law that established equal rights for husband and wife and suppressed differences between legitimate and illegitimate children (law 1329/83), legal equality for women in the labour market, in pensions rights and in parental leave (law 1414/84). Reforms of a similar kind, which tried to change a very traditional legislation by a more liberal one, were introduced in Spain: divorce, abortion and objection of conscience were legalized, and the rights to habeas corpus and legal assistance were protected. The new channels of participation that were created in Spain affected the management of schools, universities, the health service, the Cajas de Ahorro or the Cámaras Agrarias (39). Political and administrative decentralization in the Estado de las Autonomías resulted in seventeen “autonomous communities,” each with a regional parliament and government, and in an increase in the proportion of public expenditure managed by these communities that went up by ten percentage points in the decade of the 80’s. In Greece, more competences and resources were transferred to local governments and the power of the nomarchs was reduced, but the Ministry of the Interior retained important controls. Participatory reforms were more limited, and criticisms were made that these mechanisms, rather than devolving power to society, were manipulated by the parties (40).

These “qualitative” reforms raised less problems in terms of economic resources but sometimes they originated serious ideological resistances. Divisions between left and right were, for example, particularly bitter in Spain over abortion, divorce and

educational reforms. These reforms were important in terms of the social identification of political alternatives and of electoral support (41). Yet the “quantitative” reforms as a whole made the Southern European transitions expensive. In the three countries, public expenditure grew considerably; the gradual satisfaction of social citizenship rights that had remained unattended put much pressure on the public budgets. Table 1 provides information on the evolution of public expenditure, public revenues from taxes, and public employment, as percentages of GDP, after the reestablishment of democracy in the three countries (42).

Table 1. Evolution of public expenditure, taxes and employment (as % of GDP).

	Portugal			Greece			Spain		
	1976	1984	1988	1976	1984	1988	1976	1984	1988
Total public expenditure .....	37.3	46.6	43.7	20.9	44.2	51.3	26.0	38.7	41.7
Revenues from taxes .....	31.0	34.6	36.6	29.2	34.2	35.9	25.0	33.2	36.7
Public employment....	8.8	13.3	13.8	8.5	9,4	10.1	8.5	12.8	13.8

While public expenditure grew in the three countries, it did so dramatically in Greece (by 30.4 percentage points), in more moderate terms in Spain (by 15.7 points) and to a much more limited extent in Portugal (by 6.4 points). After all the turmoils of the early years of democracy, the Portuguese governments appear to have controlled the growth of public expenditure more than their counterparts in the other two countries, even though the figures from Portugal do not include the large increases of 1974-75. Portugal is also the only case where economic adjustment in the 80' s appears to have reduced public expenditure; although Greece and Spain expanded their budgets at a more reduced pace from 1984 to 1988, no cuts were introduced. Governmental ideology seems to have been related to public expenditure trends if one compares Portugal with Greece and Spain, but not if we compare -governments within each country over time: as a whole, the annual rates of growth of public expenditure diminished in the three countries over the decade, Public employment augmented in the three countries as a share of GDP, but less so in Greece; in Portugal and Spain its rate of growth was also lower as from 1984. Public income from taxes increased in Portugal, Greece and Spain over the whole period in the case of -Spain the increase was however twice as much as in each of -the other two cases, but taxes eventually came to represent a similar proportion of GDP in the three countries. If we compare the evolution of public expenditure and taxation, expenditure grew much



faster in the first years of democracy; in the second period, this trend was maintained only in Greece; in Portugal, taxes continued to go up in the second half of the 80's, while public expenditure was reduced; in Spain, higher tax revenues financed both more public expenditure and a cut in the public budget deficit. By 1988 it was Spain which had the smaller gap between expenditure and taxes.

These differences mattered in political terms. The vague revolutionary objectives that had dominated the transition in Portugal ended fifteen years later in public expenditure cuts. Postponed economic reforms had brought a huge public deficit in Greece, which would lead after Nea Demokratia returned to power in 1990 to big cuts in public expenditure. The position of the state was more balanced in Spain: it had expanded the public provision of goods and services gradually and without reversals, yet its solvency had greatly improved over the 80's. This solvency of the state was crucial for economic efficiency and social fairness to be made compatible; otherwise U-turns in economic policies would sooner or later be inevitable and damage social citizenship rights reforms.

4. The effects of reforms: the balance between economic efficiency and social fairness. Reforms were always defended by their proponents with the argument that their final effects would be Pareto superior to the situation at the point of departure, that at the end of the day at least most people would be better off, and that no satisfactory alternatives existed. There are considerable difficulties, however, in assessing when effects are "final": new unexpected events may have consequences on the economy (e.g. a new oil crisis) and distort the results of reforms already undertaken; there is no threshold either beyond which governments no longer face new challenges. Yet if a crisis of solvency and competitiveness is avoided due to the economic reforms and several years of stable growth follow, we may consider these as "final" effects. Reformers also argued that the "transitional" costs would be lower than the final benefits; thus, temporary sacrifices should be accepted. Arguments about reforms also distinguished between their "aggregate" and their "distributive" effects, if what is considered is the economy as a whole or variations in the impact of costs and benefits within society. Economic competitiveness or growth were typical "final" effects; wage reductions were a case of "transitional" costs which might also reflect modifications in the distribution of income. Reforms in taxation had both "final" and "distributive" effects.

Improving the solvency of the state and the competitiveness of the economy brings inevitable "transitional" costs. These costs may however vary, according not just to the depth of the economic crisis but to two additional factors. One is whether reforms and costs are concentrated in a short period of time or introduced gradually. The other is -whether these economic reforms are compatible with social policies that redistribute their impact. These two factors, however, can limit not just costs, but the efficacy of economic reforms: gradualism and considerations of social fairness may only prolong, or "humanize" the illness, when surgery is urgently needed. The situation of the Southern European economies was comparatively better than that of the Latin American or Eastern European ones once the transition to democracy was completed: although it had seriously deteriorated, hyper-inflation did not exist and a system of collective ownership and state planning had not to be transformed. Gradualism and social fairness created thus less problems for economic efficiency. Deep economic reforms were much less urgent than politics when democracy was reestablished; public expenditure could generally grow in spite of the crisis.

When the governments eventually decided to tackle a crisis that had been growing over several years, the resulting "transitional" costs varied in the three countries. In Greece, the 1985-87 austerity package produced a fall in real wages of 11% on average over the two years (43). Although the rate of growth of public expenditure was slowed down, no cuts were made. Reforms had no dramatic consequences either on unemployment. The "final" economic effects of reforms were however frustrated, as these were interrupted in 1987. The balance was rather poor; the bad economic performance of the Greek economy over the 80's is indicated in Table 2, which compares it with that of the European Community as a whole: whereas in the 70's all the indicators, except inflation, were to the advantage of Greece, in the 80's all the indicators -were to its disadvantage.

Table 2. Comparative performance of the Greek and European economies.

	1969-79		1979-88	
	Greece EC average		Greece EC. average	
GDP growth.....	5.4	3.3	1.0	2.0
GDP growth per capita.....	4.5	2.6	0.5	1.5
Productivity.....	4.8	2.9	0.6	1.8
Fixed investment.....	4.0	2.1	- 1.9	1.8
Inflation.....	12.3	9.5	20.1	8.0

The "transitional" costs of the deflationary package that the Soares government introduced in Portugal as from 1983 were manifested in a drop of economic activity over the following two years and a considerable fall in real wages (of ten percentage points over two years). The effect on unemployment was, however, very limited: it only climbed from 7.9% to 8.5% between 1983 and 1986. The adjustment, as had been the case of Greece, and also of Japan, Austria and Sweden, was at the cost of wage levels due to a very rigid legislation on unemployment. The "final" effects of the reforms were more visible than in Greece. The average rate of GDP growth between 1985 and 1990 stood at 4%; gross fixed investment, which had fallen by eighteen points in 1984, reached twice the OECD average rate towards the end of the decade; direct foreign investment doubled in two years; inflation was cut from 28.0% in 1984 to 8.5% in 1990; unemployment fell by three points in two years, to 5.5% in 1990. As a consequence of reforms, the economy was able to benefit considerably from membership in the European community, which also provided Portugal with transfers that in 1989 were equivalent to 2.5% of its GDP.

The economic reforms introduced in Spain as from the end of 1982 produced serious "transitional" costs. Contrary to Portugal and Greece, these were particularly important on unemployment, which went up from 3.9% in 1975, to 16.2% in 1982, to 21.9% in 1985, twice the rate of the European Community, and suffered particularly by young people (44). The destruction of jobs had started in the mid-70's, due both to "classical" and "keynesian" factors; real wages had been growing much faster than productivity, a paternalist Francoist legislation had created important rigidities in the labour-market, low investment resulted in a serious lack of productive capital. But unemployment was also fuelled by structural factors, particularly the coming of age of the "baby-boom" cohorts of the 60's and early 70's; a fast expansion of the female active population since 1982 (45); and the return from Europe of migrant workers of the 60's. As can be seen in Table 3, the vast increase in the number of unemployed people was due both to the destruction of jobs in the decade 1975-85, and to the larger size of the active population over time.

Table 3. Evolution of jobs and active population in Spain. 1964-1989.

	Nurtoer of jobs created	Increases in the active population
1964-70 .....	823.200	751.500
1970-75 .....	519.400	803.700
1975-80 .....	-1.031.800	42.30.0
1980-85 .....	- 918.500	536.500
1985-90 .....	1.485.800	1.302.500

Unemployment was by far the greatest cost of the economic policies. It damaged support to the government and deeply strained the relations with unions. Besides, it brought enormous pressure on the budget: whereas in 1975 unemployment benefits covered 167,900 people, the number had multiplied by more than ten times in 1989, reaching 1,822.378 (46). In spite of this increased protection, families provided an ample network of protection for the unemployed: these were mostly young people and women in search of a job, so that in 1984, 73% of the unemployed lived in a family with an employed male provider. To a very large extent “it all was as if the adult worker... had sacrificed the possible employment of his offspring and, to a lesser extent, his consort in favour of the growth of his own income” (47). On the contrary wages did not suffer, in aggregate terms, from economic reforms. The average income per worker grew 13 points in real terms in the period 1977-82 and, although in much more moderate terms, it still went up by 5.5 points between 1982 and 1989 (48). That is, from the beginning of the economic reforms, the buying power of wages went up 0.9% per year.

The “final” effects of economic reforms in Spain began to emerge as from the second quarter of 1985, a few months before the country became a full member of the European Community. The fall in the price of oil and the depreciation of the dollar helped economic recovery, while the reforms had put the Spanish economy on much better grounds in terms of inflation, the public deficit and industrial competitiveness. In the following five years the rate of growth was, on average, twice that of the European Community as a whole around 5% per year. The inflation differential vis-à-vis the European Community was cut from five to 1.5 points, and the public budget deficit came down to 1.9% of GDP. Unemployment fell by six points, as the very large number of new jobs overcame the continuing expansion of the active population. By the end of the decade, however, the Spanish economy was experiencing, as other Western European countries, new problems with inflation (it went up to 6.9% in 1989) and with the current account deficit. The Gulf crisis aggravated the situation: Spain had not reduced its energy consumption over the decade and was largely dependent on imported oil. Reforms had taken the economy out of a difficult situation: it was now more open and competitive and the state was solvent (49); the problems were increasingly similar to those of other Western European economies, although the Spanish economy still lagged behind most of them.

Reforms improved the economies of Spain and Portugal; much less so in the case of Greece, where they had been much more incomplete. The costs of the reforms varied. They affected mostly the size of unemployment in the Spanish case, rather than

wages; the burden fell particularly on the shoulders of young people, long-term male unemployed, and women. In the Greek and Portuguese cases, on the contrary, reforms were at the cost of the wages of employed workers, while employment as a whole did not suffer much. The costs of reforms therefore represented in each of the three countries a trade-off between wages and employment.

Reforms also changed the balance between state and market. In Portugal and Spain the role of the market in the economy was reinforced. During the economic crisis income differentials were reduced: everybody became, poorer, but more so the rich. On the contrary, economic expansion, and a freer market stimulated greater differentials: the rich became richer (50). Economic differences, both territorial and social, in the primary distribution of income appear to have increased as a consequence of reforms. Yet, at the same time, taxation went up in the three countries and public expenditure grew as a proportion of GNP (with the only exception of Portugal after 1984). If we compare these trends with those of the other Western European countries, the fiscal burden went up everywhere (51), and while the new Southern European democracies were below the tax levels of the rest, their rate of growth was faster. To some extent this also happened with regard to public expenditure? it grew in Western Europe as a whole, albeit with considerable national differences (52), but Greece and Spain came on top in the rate of growth of public expenditure, although only in Greece did the budget reach the proportion of GDP of most Western European countries (though financed by a large public deficit). Thus, it is possible that the new inequalities generated by more un-restrained market forces were counterbalanced by the combined effect of taxation and public expenditure,

Reforms also resulted in a trade-off between wages and social policies. In negotiations with trade unions, governments often argued that wage increases beyond a certain limit would have negative consequences on social expenditure: they would have to be paid by reducing the budgets for more and better health, education and so on. They presented "wage moderation" as the counterpart of a larger "social wage" which would include the provision of collective goods. Trade-unions, on the contrary, tended to defend increases in wages and transfer payments, and were much less concerned with the provision of social goods: priorities related with the satisfaction of social citizenship rights, therefore, had a different, sometimes opposed, emphasis,

Democracy clearly improved the protection of social citizenship rights: it did not consist of political rights alone. Economic reforms and social expenditure were not related as a zero-sum problem. The budget for social policies grew, financed at least partly by larger revenues from taxes. If

we examine social expenditure in Spain, it went up in real terms by 47,9% between 1975 and 1982, and by 94.0% between 1982 and 1989; as a proportion of GDP, it increased from 9.9% in 1975 to 17\*8% at the end of the 80's. Table 4 shows the evolution of budgets and beneficiaries of public pensions, health and education (53).

Table 4. Evolution of the public provision of pensions, health and education in Spain.

	1975-82	1982-89
Public pensions		
% of budgetary growth in real terms .....	88.1	90.4
% of increase in number of beneficiaries .....	42,1	24.1
Public health		
% of budgetary growth in real terms .....	24.9	49.7
% of increase in number of beneficiaries .....	12.9	19.3
Education		
% of budgetary growth in real terms .....	199.5	153.1
% of increase in number of students post-compulsory education.....	45.1	30.4

If we look at Greece, social expenditure also went up as a whole: it was 12.8% of GDP in 1970, 15.5% in 1980, and 22.6% in 1987. The expansion of public pensions was dramatic: the number of beneficiaries increased at an annual average rate of 5.4% in the 80's; Greece eventually spent on pensions a higher proportion of its budget than any other OECD country except Italy and, as a result, the social security deficit jumped from 1% of GDP in 1970 to 7% in 1989. Education also expanded, particularly in the higher levels (the number of university students doubled between 1981 and 1986). Also, a larger part of the budget was spent on social services (54). Portugal was the opposite case to Greece: economic reforms from 1983 onwards were much stricter with social spending. A sound economy was here a much clearer priority -than a further improvement of social citizenship rights, Democracy thus mattered for the protection of social citizenship rights, and within democracy the political orientation of the governments also made a difference.

The effects of economic reforms on social inequality in the new Southern European democracies were thus complex. It has been argued that the logic of democracy results in a “conservatizing formula,” *a fortiori* when democracy is the outcome of transition by transaction, with no sharp break with the past: the pacts of the transition would impose limits on the political agenda (.55). In the case of the three Southern European countries, economic reforms were often described as “technocratic,” “monetarist” or “conservative” (56). A particularly critical analysis was formulated in Spain by the UGT (Unión General de Trabajadores), one of the two largest unions:

“Social inequality has not been redressed in our country over the last ten years, and with a very high degree of probability it will have augmented (...) The situation of the workers in Spanish society has not improved. The ‘way out’ of the crisis has been socially regressive: unemployment has increased, labour market dualism has emerged, cuts have been made in important social services which have deteriorated, work conditions in many productive sectors have worsened, the participation of wages in the national income has decreased” (57).

The conclusion is however far more complex. The trade-offs between wages, employment and social policies, the varying balance between market and state, and the different packages of economic/social/qualitative reforms, have been described. Almost by definition, turning the state solvent and the economy competitive is never a harmless task. Nevertheless, whether reforms can be described as “regressive” or not depends largely on how inevitable reforms were, whether costs could have been avoided, which alternative reforms were available, which trade-offs were achieved between economic efficiency, unemployment, wages and social policies, affecting in diverse ways different social groups.

The final pattern of economic growth, market inequalities, unemployment, wages, and redistributive policies seems to offer relevant variations in Southern Europe. Reforms improved economic performance more in Spain and Portugal than in Greece. The unemployed carried the heaviest cost in Spain, particularly young people, but also long-term unemployed male workers and women. Employed wage earners did not suffer a loss in their incomes, while low income groups benefitted from the expanded provision of public pension schemes, health protection and education. In Portugal and Greece wage earners lost purchasing power, but unemployment did not reach dramatic levels, except among young people, and in Greece some welfare policies expanded their coverage,

particularly pensions. The particular “packages” of reforms contributed to balance the effects; although differences existed between the three cases, economic policies that tried to improve the solvency of the state and the competitiveness of the economy were not necessarily incompatible with social policies that tried to ameliorate the satisfaction of social citizenship rights. Economic reforms in the three Southern European countries were, in comparative terms, less of a “bitter pill” than in other new democracies. Their “expensiveness” was to a very large degree made possible by the substantial increase in the revenues of the state due to a larger and more redistributive tax system.

##### 5. The path of reforms; dilemmas, decisions, and implementation.

Governments launch reforms when they consider that the crisis has reached a particular gravity and that decisions cannot be postponed, when they think that alternative courses of action are worst options, and when they believe that reforms are likely to succeed. The “objective” gravity of the crisis in the three new Southern European democracies has already been examined; the political priorities of the transition had postponed for sometime reforms that were necessary, but the economy was back on top of the political agenda a few years after democracy was reestablished. Reforms were launched in Portugal when the country had to turn to the IMF for help in 1977; in Spain, radical economic reforms were decided in 1982, when foreign currency reserves were depleted, the public deficit was much larger than expected, the destruction of jobs had reached a high rate, and large capital flights were taking place.

The option for a particular course of action depends on calculations about the comparative costs of alternative strategies: these costs may be social (i.e. reduction in wages, higher unemployment) or political (i.e. electoral losses, social conflict, divisions within the government or the party). Governments in new and fragile democracies may face a choice which leads to dramatic consequences either way. In such contexts, reformers often find themselves in the vicious circle of economic stagnation, social demands, deepening economic crisis, political destabilization, and authoritarian involution that Flisfisch has described (58).



These dilemmas affect of course all sorts of political decisions, not just economic policies. For example, when the Greek and Spanish governments faced the difficult choice in the 80's of whether to call a referendum on NATO membership as they had committed themselves to do in their electoral programs of 1981 and 1982, they had to assess carefully the consequences: the likelihood of winning the referendum, the political scenario if it lost, the subsequent electoral costs, the impact on the other member countries, the social reaction if the commitment was not fulfilled. Postponements, as much as decisions, may have deep negative effects on the economy and the polity. If the crisis is perceived as grave enough, decisions will be seen as inevitable and urgent. This was the case of Spain in 1982; much less so of Greece in the 80's, where only limited reforms were introduced, always subordinated to electoral considerations; it was the case of Portugal as from 1983 (with the exception of the period 1977-78).

The choice of a particular "package" of reforms always excludes other possible alternative policies. The rejection of experiments which could have serious economic and political risks was a negative determinant of choice. Democratic consolidation and economic recovery were the overwhelming concerns of reformers. The uncertainties of the first years of the Portuguese transition were a further deterrent to economic adventures. Thus, reformers gradually converged in rejecting nationalizations, economic protectionism, isolation, and experiments beyond a market economy. The change of course in economic policies which took place in Portugal was based on the conviction that the process of collectivization in 1975 had been inefficient. In Greece and Spain a very negative view existed of the economic performance and the redistributive impact of a public sector that was already of considerable size (59), and a reference to the "market economy" was included in the Spanish Constitution of 1978 that was accepted by the left. Whereas in Portugal economic protectionism was for some time hotly discussed inside the MFA and in the Constituent Assembly, in Spain it was generally associated with dictatorship. The commitment with the European Community was opposed to the protectionist model: in so far as Europe was considered to guarantee a better and safer future not just for the economy but for democracy, that alternative was excluded.

Reforms are launched when they are thought likely to be successful. This depends first of all on the strength of reformers. It has often been argued that majoritarian

governments will be readier to undertake reforms. They will have the right to carry out their policy intentions, in accordance with the doctrine of the mandate of representative government (60), and the capacity to do so. Only if a single party has all the powers of government can necessary but unpopular decisions be taken. The comparative study of economic policies in the 24 OECD countries appears to support this argument: one-party majority governments are associated with lower deficits and a lower debt/GDP ratio (61).

Whereas the Spanish experience confirms this hypothesis, the Portuguese and Greek ones do not. Greece had majoritarian governments from 1974 to 1989, yet neither Constantin Karamanlis (with 54% of the vote) nor Andreas Papandreou (with 48%) decided to introduce and complete reforms which were necessary. The complex variety of Portuguese governments does not show a clear pattern. The minoritarian 1977 government of Mario Soares failed precisely because the IMF questioned its political strength; on the contrary, the minoritarian 1985-87 PSD government was able to continue the reforms started in 1984. Some coalitions, such as the CDS/PSD one from 1979 to 1983 performed badly, but others, such as the PS/PSD one from 1983 to 1985, did much better. Spain offers perhaps the clearest case; after the first five years of the new democratic regime, the poor economic performance and the postponement of necessary reforms, the major political issue of the 80's was to have a government with the capacity to govern (un gobierno que gobierne). The majoritarian support enjoyed by González in 1982 was a decisive factor when the reconversion of industry, the expropriation of the private holding Rumasa, the reform of public pensions, or the educational reform laws were decided.

When reforms are launched, the main objective of the governments is to carry them through if they are seen as necessary. Only the survival of the government itself may modify this commitment. The future of reforms and the future of the government are more compatible if the latter enjoys majoritarian support and if the former are decided early and made irreversible. At the beginning of its mandate, the government still enjoys self confidence, internal party unity has not been strained, popularity is high: this is particularly so if the government is untainted by a recent disappointing record. Later on, the capacity to take decisions becomes increasingly restricted. If reforms are also seen as impossible to stop and as irreversible, resistances will be lower. The Spanish reforms of industrial sectors, social security or education would have been much more difficult to carry out, even for a majoritarian government, had they not been taken in the first two years of the mandate. As the initial impetus wears out, reforms increasingly require a different strategy, consisting more of negotiations and pacts. A weak government may be unable to take decisions and reforms

may be decided too late, yet decisionismo is not the only key to reformist success. Besides the capacity to take decisions, the cooperation from key sectors of society is needed, particularly when reforms require time: cooperation is for example more necessary for the success of tax and incomes policies than for a devaluation of the currency or for capital levies, which require suddenness, surprise and irreversibility. Consultations with parliamentary forces and key interest organizations may provide reformers precious information on potential adversaries and allies. This strategy is not necessarily incompatible with decisionismo, as long as consultations do not appear to be useless (.62), but it will highlight the issue of costs, and may affect the rhythm, the irreversibility and the content of reforms. It is a strategy that becomes more necessary when governments are more vulnerable, that is, when they are minoritarian or have taken too long to launch the initiative.

Consultation and concertation consist thus of a choice related both to strategy, to style of policy making, and to the content of reforms. If consultation is not useless and if concertation is to be possible, the government will have not just to convince its partners that reforms are necessary, that their future “final” benefits will be higher than the “transitional costs,” and that they will be carried out by the government alone if need be: costs will also have to be limited, a “package” with social compensations will have to be agreed, and specific benefits will have to be allocated to the interest organizations involved in the negotiation (63).

It has often been argued that the ideology of the governments is related to the choice of consultation and pactismo. Yet no clear association existed in Southern Europe. The PASOK government had serious difficulties with unions: the number of days lost to strikes doubled in its first two years and law 1365 was passed in 1983 restricting strikes in the public sector; conflict went up again in 1985, following the policies of economic adjustment. In Portugal, the minoritarian centre-right government of Aníbal Cavaco Silva was able to pact with the UGT in 1985-86, although not with the CGTP. In Spain, relations between governments and unions were particularly complex. In 1977, the Pactos de la Moncloa involved the government and the parliamentary opposition, only indirectly trade unions, and lasted only one year. In December 1978, a decreto ley imposed wage limits unilaterally, in a purely decretista fashion. In 1979, an agreement was signed for two years

by the employers confederation and the socialist union UGT, but not by the Workers' Commissions nor by the government. In 1981, a new pact for two years was agreed by the government, the employers confederation and the two trade unions. Thus, since the first constituent elections, some form of concertation existed in four of the five years of conservative government. When the PSOE came to power, the 1981 agreement was still in effect: until the end of the decade, only once was a pact agreed, including the government, the UGT and the employers confederation, for the years 1985-86. Although the PSOE insisted very much on the doctrine of concertation, its relations with the unions proved particularly difficult.

In Spain, unions were much readier to reach agreements during the transition than once the new democracy was consolidated. Also, conflict between the UGT and the socialist government had fratricidal connotations: both organizations shared a common history and the UGT had agreed to the PSOE electoral program of 1982. Pacts were more easily reached in the earlier stages over key reforms: the industrial reconversion, the new legislation on the working week, the new law on trade union freedom. The UGT was however increasingly unhappy and skeptical about economic policies and feared an eventual loss of support if it remained associated to the government, considering that it was better to reach agreements with a right-wing government (64). The Minister of the Economy, Carlos Solchaga, came also to believe that concertation was expensive and inefficient, as well as more unnecessary in a phase of economic expansion. Spanish unions had a very limited membership (65), and could perhaps be thought not to be centralized and encompassing enough to ensure efficient pacts; they had, however, a strong capacidad de convocatoria, a very important potential for mobilization, and provided symbolic legitimacy to reforms. Conflict between the unions and the government also increased when the government had lost part of its initial strength. Only after the mutual bitter experience of a successful general strike in 1988 that did not seem to lead anywhere and after new general elections in 1989, was it possible to resume concertation.

It would appear that the minoritarian character of the government was a more important factor than ideology: the PSD and the UCD governments in Portugal and Spain were minoritarian and reached agreements with unions. Cavaco Silva headed both minoritarian and majoritarian PSD governments in Portugal: he was much readier to reach

pacts in the first of the two situations. These governments were more vulnerable and they tried to win strength through pacts. The majoritarian government of González in Spain was more concerned instead about the application of the mandate theory; it believed that it had the right and the duty to carry out policies conceived in terms of the “general interest,” although agreements could be reached if they did not distort the main thrust of reforms. The stage of life of the government, associated with its strength, seems to have influenced the choice between decretismo and pactismo: for example, the choice of the PSOE government in Spain for rapid and irreversible decisions in economic and social reforms was later replaced by a strategy of negotiation, slower but arising less antagonism. The González government decided thus to withdraw a program of youth employment that had generated bitter resistance in the winter of 1988-89, even though it enjoyed vast support in public opinion surveys; it reached a considerable number of agreements with the unions (on pensions, unemployment benefits, vocational training, and so on) in 1990; and it offered to negotiate a “Pact of Competitiveness” with the parliamentary opposition, the unions and employers, in view of the European single market of 1992.

The urgency of reforms seems to have had a complex relationship with the choice of a strategy of decisionismo or of concertation. Agreements were easier in Spain in the depth of the crisis: the fragility of democracy, the weakness of unions only recently legalized, and the growing massive unemployment, pushed the unions towards a sindicalismo de negociación. In the process, they extracted legislation that protected trade unions rights, organized collective bargaining, established institutional channels of participation, and obtained substantial public funds for their activities. Later on, however, the UGT came to believe that “the unions have been the Cinderella of the transition, and this has damaged the interests of the workers” (66). The unions considered that expansion left more room for wage and public expenditure increases; they also cared more about real incomes and social protection than about the provision of collective goods such as health or education. As for the government, it was not ready to reach agreements that would have jeopardized growth, investment, state solvency and economic competitiveness. It also argued that wages had grown to the cost of unemployment and that increases in the budget for social transfers had been substantial. In its initial stage, and in the depth of the economic crisis, the government found least resistance from unions to early and tough economic decisions. Conflict between the unions and the government, paradoxically, multiplied when the economy was growing rapidly: it was not so much the distribution of costs, but of profits, which seemed to fuel the antagonism. Rather than the costs of reforms, it was the resistances that they generated and the capacity of governments to get them through which influenced strategical choices: reforms could be less urgent, but a strategy of negotiation was more necessary if they were to be successful.

Reforms are implemented through sequences of decisions that have to consider the results achieved so far and the resistances that have been raised. In taking successive steps in the process of reforms, governments examine the “transitional” costs that emerge, the likelihood that the “final” effects will be attained, and the possible electoral consequences of what has been and what remains to be done. The path of reforms may thus lead to their continuation and completion, the modification of their content or rhythm, their freezing in wait of better times, their abandonment, or their reversal. Decisions taken by reformers in strategic “conjunctures” of a reform process are thus influenced by variables which are to a very large extent similar to those which condition the initial decision to launch the reform. Yet reformers now have additional experience: besides the gravity of the crisis, the reforms must have brought some results, however partial and limited; the balance of forces between the government, its allies and adversaries, whether parliamentary or extraparliamentary, may have shifted; popular confidence in the government may have varied; the political calendar will also bring elections closer. This new information and considerations about the likely economic, social and electoral evolution will determine the course of the reforms from then onwards.

It was in part the gravity of the crisis and the negative economic results which led Portuguese governments to the abandonment, and later to the gradual reversal, of collectivist economic reforms from the end of 1975. This gradual shift was started by the 6th provisional government a few months after the Constituent elections, and was followed as from April 1976 by the first constitutional government. Politics however also mattered: the results of these two elections moved Portuguese politics towards the centre, and from then onward, the considerable fluctuations in electoral results were between the centre left and the centre right. The Greek government also modified its policies due to bad economic results: first, over a brief period in 1983, then more consistently after it had won the 1985 general elections, introducing the austerity package of 1986-87. The government changed course again at the end of 1987, out of fears that the political costs might be too high. In Greece, governmental decisions were very influenced by political rather than economic considerations. If we look at Spain, the reforms that were introduced from 1982 were reinforced one year later due to economic reasons: thereafter the public debt was financed in its entirety by the public budget in order to control inflation. Unemployment reached dramatic levels, but the government stuck to its economic policies, believing that only the competitiveness of the economy and stable growth would significantly increase the number of jobs. The distribution of available employment maintaining the wage levels offered little hope: working hours had already been falling since 1977 at an annual average of 1.7%; an

additional reduction in the age of retirement would have further increased a public pensions budget that went up by 495% in real terms over fifteen years. Towards the end of 1985 economic growth and job creation resumed, stimulated also by the European economic recovery just as Spain joined the Common Market. It is of course difficult to predict what would have happened to reforms and to the government if this international economic revival had not taken place, if the Spanish economy had not started to expand, and unemployment had kept increasing.

The evolution of the “balance of forces” appears to have been a crucial factor in deciding whether reforms were to be continued or not. Differences existed however between the Portuguese and the Greek reforms: Papandreou, with a majoritarian government, decided to interrupt the reforms in 1987; Soares and Cavaco Silva were prepared to continue them with minoritarian governments. The influence of governmental strength and support in carrying out the reforms was clear -in the Spanish experience. Resistances to reforms, also outside Parliament, were important (particularly to industrial reconversion, to taxation policies, to changes in the public pensions schemes, to legislation on abortion, to educational reforms). The parliamentary majority and the unity of the party, together with the support of public opinion, were the decisive factors in carrying them through. The Centro de Investigaciones Sociológicas provided regular survey data on social attitudes to policies. As a whole, the confidence in the competence of the government was always majoritarian; on average, twice as many people preferred the PSOE to its closest rival, Alianza Popular, “to ensure an efficient working of the economy,” and four times as many “to reduce inequalities.” Although considerable criticism existed towards the fairness of the government, no opposition party was seen as a better alternative in terms of “fairness”(67).

6. Conclusions. The varying degrees of success of economic reforms in Southern Europe appear to have been particularly influenced by the dimensions of the crisis, the characteristics of the programs of reforms, the political strength of the government, and the period of time used for implementing the reforms. The three Southern European economies shared some important traits of “poor capitalism” when dictatorships fell: high inflation, obsolete industries, public deficits, non-competitive agricultures, large unemployment, underdeveloped welfare systems, inefficient public bureaucracies, important trade deficits. Yet, their situation was much less dramatic than that of other new democracies East and South. Inflation and debt, for example, were serious problems, but of an altogether different kind than in Argentina, Brazil or Yugoslavia. They were also

helped by the geographical accident of being part of Europe: economic expansion in the South, in the two periods of 1958-75 and of 1985-90, was stimulated by the Western European growth. Yet the evolution of the economies in Greece, Portugal and Spain was not just determined by outside events. Domestic reforms were crucial for economic outcomes. If the comparative economic performances varied, it was largely due to differences in economic reforms. These were not equally competent, complete and consistent.

The second half of the 70's was, with few exceptions (such as the limited reforms in Portugal in 1977-78 or the "Moncloa Pacts" of the Suárez government), a period of economic "muddling through" in the new democracies and also in many of the old ones (68). The decade of the 80's was, on the contrary, both in Western and in Southern Europe, a period of increasing "realism" in the management of the economy. As a consequence, economic policies gradually converged. The Greek government of 1981 initially followed economic policies which resembled those of the first Mitterrand/Mauroy government: it had to reverse them much in the same way only a few years later, although with less rigueur. Portugal also undid much of what the provisional governments had done in 1974-75. Governments used similar instruments in order to achieve economic competitiveness and state solvency: devaluations of the currency, cuts of subsidies to industries, strict control of the money supply, increases in the prices of public goods, reduction of the public deficits, moderation of wages, reforms of the labour and capital markets. Taxes were also raised, coming closer to Western European levels of fiscal pressure, both as part of the economic policies and in order to finance reforms that tried to satisfy social citizenship rights more fully. Besides differences in competence, comprehensiveness and consistency, the particular "mix" of economic and social reforms also varied, according to the political orientation of the governments.

The strength of the government seems also to have influenced the eventual success of reforms. This was most clearly so in the case of Spain; much less so in Portugal; on the contrary, in Greece the majoritarian support of governments and the strict control of the parties by the leaders was unrelated to what they did or failed to do. In Spain, voting intentions did not go through dramatic oscillations after 1982 (69), and González was in full control of his party: reformers thus enjoyed a considerable time perspective to implement their policies. The Economics Minister also benefitted from the unrelenting backing of González, who followed the advice of Olof Palme that this Minister had to be supported by the Prime Minister in 98% of the occasions (sic).



This long-term perspective was essential for reforms: the government could look beyond their “transitional” costs. González insisted very much on this, arguing that it was not possible “to change in four years a society that has not been able to change for two centuries... In Spain we have to measure change by decades” and that “if we have the political courage to withstand the demagogic pressure of some, and to sustain our policies for a long period of time, then we shall take this country out of a long relative retardation in respect to European countries” (70). After political democracy was reestablished, the decade of the 80’s was seen as a period of growing normalization vis-à-vis the Western European socioeconomic pattern. A lot of “catching-up” remained to be done, but the Southern European new democracies had shed much of their singularity over the decade.

Whatever the “transitional” or “final” effects of reforms, the ups and downs in their implementation, democracy was maintained in the three countries. Portugal faced problems over a few years: both political democracy and the economy presented serious uncertainties. Gradually, elections and a growing economic realism in the 80’s put the country on the path of normalization. Greece had difficulties of a different kind: confrontational politics, a lack of consensus over some basic rules of the game, a predominance of electoral interests over responsible policies, made governance difficult and affected economic outcomes. Spain experienced after a successful transition serious problems of “consolidation,” including military conspiracies and an attempted coup in February 1981. This political instability was connected to a very difficult economic situation: efficient economic policies were widely seen at the beginning of the 80’s as crucial for democratic consolidation. In the decade of the 80’s, then, both elections and economic policies reinforced democracy in Portugal and Spain; the case of Greece is more doubtful. In Spain in particular, assessments of satisfaction with democracy followed a curvilinear trend: average scores had stood at 4.45 in 1978, declined in 1980 to 4.19, reflecting the effects of the economic crisis, and went up again to 5.54 by 1984 (71). Those who thought that democracy had become more stable doubled in the course of the decade (72).

The Southern European experience does not conform to the arguments that new democracies based on pacts will leave very little room for reform, that transitions will be at the cost of socioeconomic changes. Fifteen years after democracy was reestablished in Portugal, Greece and Spain, the type of transition does not seem to have decisively determined the possibilities of reforms. There was something in between: namely, elections, economic constraints, and governmental capacity. A considerable convergence

occurred as economic policies increasingly shared objectives and instruments, and the differences that remained were to a considerable extent due to electoral results and to the governments. These differences were manifested in economic performance and in the “reformist packages” of economic and social reforms. These “packages” were quite expensive: over the fifteen years of democracy, the three countries increased public expenditure and expanded social policies. This may be one of the distinctive differences between reforms in the new Southern European democracies and in Latin America and Eastern Europe. After the transitions, reforms not only sought to improve the performance of the economies but to increase the protection of social citizenship rights.

- (1) A. Vázquez Barquero and M. Hebbert, "Spain: Economy and State in Transition," in R. Hudson and J. Lewis (eds.), Uneven Development in Southern Europe: Studies of Accumulation, Class, Migration and the State, London: Methuen, 1985.
- (2) J. Solé Tura, "Socialist Governments in Southern Europe: Between Reformism and Adaptation to State Structures," paper presented at the European Consortium for Political Research, 1985.
- (3) The Economist Intelligence Unit, Greece. Country Profile, London: The Economist Publications, 1990.
- (4) The percentage of foreign capital in total current investment went up from 1% in 1959 to 2.1% in 1969. In this latter year the percentage of foreign capital reached 52% of all investment in manufacture. The Economist Intelligence Unit, Portugal. Country Profile, London: The Economist Publications, 1990.
- (5) This growth was to a large extent financed directly or indirectly by the new European wealth. Thus, income from tourism rose to \$ 2,386 million in 1973, as the number of tourists increased from six million in 1960 to thirty six million; remittances from migrant workers reached \$ 1,718 million in 1973, and foreign investment came to \$ 852 million in the same year.
- (6) See P. Nikiforos Diamandouros, "Regime Change and the Prospects for Democracy in Greece: 1974-83" in G. O'Donnell, P.C. Schmitter and L. Whitehead (eds.), Transitions from Authoritarian Rule. Southern Europe, Baltimore: Johns Hopkins University Press, 1986 (pp. 138-164).
- (7) The strikes in 1973-74 took place in the airlines (TAP), textile, electronics (Siemens, Phillips, Plessey, Standard Electric), the Lisbon underground, etc. See M.L. Lima Santos, M. Pires de Lima and V.M. Ferreira, 0 25 de Abril e as Lutas Sociais nas Empresas, Oporto, 1976, and J. Pires, Greves e o 25 de Abril, Lisboa, 1976.

- (8) See V. Pérez Díaz, El Retorno de la Sociedad Civil, Madrid: Instituto de Estudios Económicos, 1987 (p. 114).
- (9) C. Tsoucalas refers to this in “Radical Reformism in a ‘Pre-Welfare’ Society: the Antinomies of Democratic Socialism in Greece,” in Z. Tzannatos (ed.), Socialism in Greece, Aldershot: Gower, 1986.
- (10) At that stage of the new Portuguese democracy, the warnings emphasized that strikes were threatening democratic conquests and had a counter-revolutionary impact, as for example Alvaro Cunhal stated in a speech in Braga, on the 30th of November 1974.
- (11) See H.M. Makler, “The Portuguese Industrial Elite And Its Corporative Relations: A Study of Corapartmentalization in an Authoritarian Regime,” in L.S. Graham and H. M. Makler (eds.), Contemporary Portugal. The Revolution and Its Antecedents, Austin: University of Texas. Press, 1979 (pp, 156-157), and by the same author, “The Consequences of the Survival and Revival of the Industrial Bourgeoisie,” in L.S. Graham and D.L. Wheeler (eds.), In Search of Modern Portugal. The Revolution and its Consequences, Madison: University of Wisconsin Press, -1983 (p. 261).
- (12) Among others, A. Champaulimaud, owner of a very large economic group which included Sidurjería Nacional. On winning the 19 76 election, Mario Soares made a trip to Brasil at the end of the Summer, in order to convince exiled industrialists to return to Portugal.
- (13) A good example of the uncertainties faced by representative democracy was the interview of Alvaro Cunhal, general secretary of the Portuguese Communist Party, to Oriana Fallaci following the elections to the Constituent Assembly in April 1975, in which he declared: “if you think the Socialist Party with its 40% and the Popular Democrats with their 27% constitute the majority, you are the victim of a misunderstanding.”
- (14) See P. Nikiforos Diamandouros, “Transition to, and Consolidation of, Democratic Politics in Greece, 1974-1983: A Tentative Assessment,” West European Politics, 7, 2, 1984.

- (15) A. Espina, Empleo, Democracia y Relaciones Industriales en España. De la Industrialización al Mercado Único, Madrid: Ministerio de Trabajo y Seguridad Social, 1990 (p. 53).
- (16) The female active population stood at 2,804,000 in 1964, reached 3,852,600 in 1974, and was of 3,908,600 in 1982.
- (17) D. Rustow, "Transitions to Democracy: Towards a Dynamic Model," Comparative Politics, 2, 3, 1970 (pp. 337-63).
- (18) A. Bosch, C. Escribano and I. Sánchez, La Desigualdad y la Pobreza en España. 1973-1981, Madrid: Instituto Universitario José Ortega y Gasset, 1988 (p. 9).
- (19) A. Przeworski, "The Games of Transitions," unpublished manuscript, University of Chicago, January 19 90 (p. 27).
- (20) See J.J. Linz, "Legitimacy of Democracy and the Socioeconomic System," in M. Doggan (ed.), Comparing Pluralist Democracies. Strains on Legitimacy, Boulder: West view Press, 1988 (pp. 75-80).
- (21) P. McDonough, S.H. Barnes, A. López Pina, "Economic Policy and Public Opinion in Spain," American Journal of Political Science, 30, 2, 1986 (p. 453). The other European countries are studied in S.H. Barnes, M. Kaase et al., Political Action, Beverly Hills: Sage, 1979.
- (22) Data from surveys of Demoscopia S.A. in October 1988 and the Centro de Investigaciones Sociológicas in November 1987 and May 1988.
- (23) A. de Tocqueville, Democracy in America, New York: Harper and Row, 1988 (p. 198).
- (24) For example, J. Solé Tura, "The Spanish Transition to Democracy," in R.P. Clark and M.H. Haltzel (eds.), Spain in the 1980's. The Democratic Transition and a New International Role, Cambridge (Mass.): Ballinger Publishing Co., 1987 (p. 29).

- (25) This is for example the analysis of T.C. Bruneau, "Continuity and Change in Portuguese Politics. Ten Years after the Revolution of 25 April 1974," West European Politics, 7, 2, 1984 (p. 77).
- (26) See T.C. Bruneau, "People Support for Democracy in Postrevolutionary Portugal," in Graham and Wheeler, op. cit. (pp. 21-42); also, T.C. Bruneau and M. Bacalhau, Os Portugueses e a Política Quatro Anos Depois do 25 de Abril, Lisboa: 1978.
- (27) Data from national surveys of the Centro de Investigaciones Sociológicas in September 1979 and in July-September 1980.
- (28) For example by S.M. Lipset, "Some Social Requisites of Democracy: Economic Development and Political Legitimacy", American Political Science Review, 53, 1, 1959 (es pecially pp. 86-91); also, Linz, in M. Doggan, op. cit. (particularly pp, 81-85).
- (29) P. McDonough, S.H. Barnes, A. López Pina, "The Growth of Democratic Legitimacy in Spain," American Political Science Review, 80, 3, 1986 (pp. 751-752).
- (30) From a study of the Centro de Investigaciones Sociológicas, September 1987; data for Hungary are from J. Simon and L. Bruszt, Magyar Nemzet, 23rd June 1989, and J. Simon, "La Revolución Silenciosa y la Cultura Politicca en la Transición Húngara," paper presented to the 12th World Congress of Sociology, Madrid, July 1990.
- (31) Interview in Tiempo, nº 327, 15-21 August 1988.
- (32) The reforms are described by G. de la Dehesa in "Los Límites de la Política Económica Española," Leviatán, 32, 1988 (pp. 27-37).
- (33) 25 billion dollars were drawn for this purpose: this sum includes \$ 11 billion spent in helping banks in crisis, \$ 6 billion in the economic recovery of the Rumasa group, and \$ 9.2 billion in industrial reconversion. The data were revealed by José Borrell, Secretary of State for the Treasury, in Diario 16, 2 August 1988, and La Vanguardia, 4 August 1988.

- (34) The New York Times, 3 April 1976.
- (35) Later on, in the 1979 Third Congress of the PS, a program was adopted (“Ten Years to Change Portugal”) that accepted the “mixed economy” and defined socialism in terms not of “state ownership” but of “egalitarian” social and fiscal policies.
- (36) Data from the Greek Statistical Yearbook, the report of the Governor of the Bank of Greece for 1985, and P. Corliras, “The Economics of Stagflation and Transformation in Greece,” en Z. Tzannatos (ed.), op. cit. (pp. 35-39).
- (37) A. de Tocqueville, op. cit. (p. 211).
- (38) E. Kalogeropoulou, “Election Promises and Government Performance in Greece: PASOK’s Fulfilment of Its 1981 Election Pledges,” European Journal of Political Research, 17, 1989 (pp. 289-311).
- (39) For more details, see J.M. Maravall, “Valores Democráticos y Práctica Política,” Leviatán, 37, 1989 (pp. 13-15).
- (40) See for example y, Papadopoulos, “Parties, the State and Society in Greece: Continuity Within Change,” West European Politics, 2, 12, 1989 (p. 67).
- (41) The association between non-economic issues, ideological identification and party support in Spain over the 80’s is discussed by J. Díez Medrano, B. García-Mon and J. Díez Nicolás, “El Significado de Ser de Izquierdas en la España Actual,” Revista Española de Investigaciones Sociológicas, 45, 1989 (pp. 9-41).
- (42) The sources are OECD Economic Surveys: Portugal, Greece and Spain, 1989 and 1990, and J. Borrell, Balance General de la Política Presupuestaria durante el Período 1981-1988, Santander: Universidad Internacional Menéndez Pelayo., 1988.
- (43) Financial Times, 5 February 1988.
- (44) In 1985 the unemployment rate reached 55.9% for the age group from 16 to 19, and 44.6% for the 20 to 24 age group.

- (45) The female active population was 3,852,600 in 1974 (the last year of Francoism); 3,908,600 in 1982 (when the Socialist Party won the elections) and 5,109,200 in 1989.

The number of unemployed women went up from 608,000 in 1982 to 1,297,000 in 1987. As what refers to the growing size of the cohorts, whereas the 16 to 25 years age group was over 6.5 million, the group of 26 to 35 was only of 5.1 million; this demographic trend was to last until 1993.

- (46) This number includes beneficiaries of either direct subsidies (1,169,235, representing 46.2% of all unemployed) or active labour market policies, particularly vocational training (653,143, that is 25.8% of the total number of jobless). The budget went up from 1975 to 1989 by 3,366%, ten times faster than inflation.
- (47) A. Espina, op. cit. (p. 191). See also on the evolution of unemployment and economic policies in Spain, J.M. Dolado, J.L. Malo and A. Zabalza, Spanish Industrial Unemployment. Some Explanatory Factors, Banco de España: Servicio de Estudios, EC/1985/16, 6 March; L. Fina and L. Toharia, Las Causas del Paro en España: Un Punto de Vista Estructural, Madrid: Fundación IESA, 1987.
- (48) Banco Bilbao-Vizcaya, Informe Económico 1987, Madrid: 1988 (pp. 67-68).
- (49) The public deficit fell to one third of its 1982 level; foreign currency reserves went up from \$ 3 billion in 1982 to \$ 45 billion in 1989.
- (50) Data on incomes are from the Instituto Nacional de Estadística, Encuesta de Presupuestos Familiares, Madrid: 1981; Banco de Bilbao, Informe Económico 1984, Madrid: 1985 (pp. 47 and 122).
- (51) In the European OECD countries, the tax burden went up from 41.4% of GDP in 1979-80 to 44.6% in 1987-88.



- (52) It grew very rapidly in Italy and Denmark (by 15.3 and 12.0 percentage points of GDP) and only slightly in the German Federal Republic and Great Britain (1.6 and 1.7 percentage points). See V. Tanzi, "Tendencias Generales del Gasto Público en los Países Industriales," Papeles de Economía Española, 37, 1988 (p. 101).
  
- (53) From Ministerio de Economía y Hacienda, Gasto Público en España, Madrid, 1989; "El Gasto Público en España," Papeles de Economía Española, 37, 1988.
  
- (54) Social services costed 9.85% of the budget from 1974 to 1981, and 13.0% from 1981 to 1989.
  
- (55) For example A. Przeworski, "Some Problems in the Study of the Transition to Democracy," in G.O' Donnell, P.C. Schmitter and L. Whitehead (eds.), Transitions from Authoritarian Rule. Comparative Perspectives, Baltimore: Johns Hopkins University Press, 1986 (pp. 61-63).
  
- (56) See for example A.M. Williams, "Socialist Economic Policies: Never Off the Drawing Board?," in T. Gallagher and A.M. Williams (eds.), Southern European Socialism. Parties, Elections and the Challenge of Government, Manchester: Manchester University Press, 1989 (pp. 188-9); D. Share, Dilemmas of Social Democracy. The Spanish Socialist Workers Party in the 80's, Westport, Conn.: Greenwood Press, 1984 (pp. 4, 74-77, passim); J. Petras, "The Rise and Decline of Southern European Socialism," New Left Review, 146, July-August 1984.
  
- (57) Instituto Sindical de Estudios, Evolución Social en España: 1977-1987, Madrid: Unión General de Trabajadores, 1988 (vol. I, pp. 39 to 41, and vol. II, p. 176).
  
- (58) A. Flisfisch, "Reflexiones Algo Oblicuas Sobre el Tema de la Concertación," en M.R. dos Santos et al. (eds.), Concertación Social y Democracia, Santiago: Centro de Estudios del Desarrollo, 1985 (p. 25).

- (59) The productive public sector in Spain consisted mostly of the Instituto Nacional de Industria, created in 1941, which was a central piece of economic autarchy. It became involved in concerns that ranged from large scale manufacture of iron and steel to fishing industries in Africa.
- (60) See the discussion on the actual application of the “mandate theory” in British politics, in R. Rose, Do Parties Make a Difference?, Chatham (N.J.): Chatham House Publishers, 1980 (chap. 2, 4 and 8).
- (61) J.D. Sachs and N. Roubini, Political and Economic Determinants of Budget Deficits in Industrial Democracies, NBER Working Paper n°. 2682. Japan, West Germany, France and Britain did better than Belgium, Italy, Ireland, Sweden or Denmark.
- (62) As Edmond Maire, then General Secretary of the French union CFDT, used to say about the Mitterrand government, la concertation ne peut pas seulement servir a bavarder.
- (63) Concertation led the government of Adolfo Suárez to include in the public budget important provisions for the financing of trade unions.
- (64) Declaration of Antón Saracíbar, Secretary of Organization of the UGT, in the PSOE Federal Committee meeting of October 2, 1987.
- (65) A European A European Community report of 1989 indicated that the rate of affiliation was 11%, compared with an EEC average of 42%. Only France had a similarly low rate, while in Portugal and Greece affiliation was three times as high. See El País, 5 September 1989.
- (66) Instituto Sindical de Estudios, op. cit. (vol. I, p. 9).
- (67) For example, between 1984, 1986 and 1988, 31% preferred the PSOE and 14% AP for the management of the economy; 33% preferred the PSOE to reduce inequalities against 8% AP, according to surveys by the Centro de Investigaciones Sociológicas (CIS), 55% expressed their confidence in the competence of the government, against 21% who did not. See for example CIS, studies number 1416, 1712, 1740 and 1745, carried out between 1984 and 1988.

- (68) For example, in France, the Giscard/Barre governments had acted as if the economic crisis was just a cyclical problem, delaying any effective action. Real incomes and public expenditure kept growing at a fast rate.
- (69) Over the decade, the lowest estimate of voting intentions for the PSOE was 38.8% in May 1988, according to CIS data.
- (70) Interview to Tiempo, see footnote 31, and also P. Calvo Hernando, Todos Me Dicen Felipe, Barcelona: Plaza y Janes, 1987 (pp, 237-8).
- (71) P. McDonough, S.H. Barnes, A. López Pina, “The Growth of Democratic Legitimacy in Spain,” op. cit. (p. 743).
- (72) Centro de Investigaciones Sociológicas, surveys in September 1986, September 1987 and May 19 88.