



The transition to democracy of Spain in 1975 was a result of years of Spain's close foreign relations with the United States, though this was not the case in Portugal

## บทคัดย่อ

### การมุ่งสู่แนวเศรษฐกิจเสรีและการเปลี่ยนผ่านสู่ประชาธิปไตย ของประเทศสเปนและโปรตุเกส ในช่วงระหว่างปี 1959-1978

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ในบทความนี้ผู้เขียนได้เปรียบเทียบแรงผลักดันที่ก่อให้เกิดการมุ่งสู่แนวทางเสรีนิยมทางเศรษฐกิจ และการเปลี่ยนผ่านสู่ระบอบประชาธิปไตย ของประเทศสเปนและโปรตุเกสในช่วงระหว่างปี ค.ศ. 1959 ถึง ค.ศ. 1978 ซึ่งในช่วงดังกล่าวทั้งสองประเทศยังอยู่ภายใต้การปกครองแบบเผด็จการ

ผู้เขียนได้ชี้ให้เห็นถึงแรงผลักดันภายนอกประเทศที่ทั้งสเปนและโปรตุเกสมีร่วมกัน ซึ่งได้แก่ การถูกกีดกันจากนานาชาติ และการแทรกแซงทางการเมืองของสหรัฐอเมริกา ในขณะที่แรงผลักดันภายในทั้งสองประเทศเองนั้นมีความแตกต่างกัน อันได้แก่ ความแตกต่างกันในมุมมองทางการเมืองของผู้นำเผด็จการแต่ละฝ่าย และความแตกต่างกันในนโยบายการร่วมมือกับประชาคมเศรษฐกิจยุโรป แรงผลักดันเหล่านี้เป็นปัจจัยสำคัญที่ทำให้สเปนและโปรตุเกสเปลี่ยนระบอบการเมืองและระบบเศรษฐกิจ จนสามารถเข้าสู่ประชาคมเศรษฐกิจยุโรปในปี ค.ศ. 1986 ได้สำเร็จ

## Economic Liberalisation and Democratic Transition of Spain and Portugal, 1959-1978

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Potsawat Chaimongkolrat

### I. Francoist Spain and Portuguese Estado Novo: Two Iberian Dictatorships in a Democratic Sphere

Barely had Europe survived the devastating World War II when yet another conflict was simmering at its heart: the Cold War. By the late 1940s, tensions were growing between the two superpowers: the United States and the Soviet Union. In utter contrast with the democratic United States, the Soviet Union's political ideology was communism. While both superpowers never engaged in direct full-scale battle, they endeavoured to spread their ideologies to others, especially those in their vicinity. Europe, a continent in between this conflict, was inevitably divided into two blocs: the Western Bloc and the Eastern Bloc. As the Eastern Bloc fell to the hands of the Soviet Union; the Western Bloc, which included two powerful victors, France and the United Kingdom, remained democratic and against to the communist Eastern Bloc. Amidst this East-West conflict, however, Spain and Portugal, two south-western European nations situated in the Western sphere; right from mid-1930s till late 1970s struggled through decades of repressive dictatorial regimes. Only until after the completion of transition to democracy of Spain and

Portugal in the late 1970s that the threat of Iberian dictatorship had fully become a bygone past of European history.

Until mid-1970s, Spain was a ring-wing authoritarian regime under the military dictatorship of General Francisco Franco; a fierce nationalist who emerged as the 'Caudillo' (Leader) following the end of the bloody Spanish Civil War (1936-1939). *Francoist Spain*, a term known of Franco's dictatorship; would span nearly four decades, constantly shaking Western Europe's sense of security. Portugal was similarly under the dictatorial rule of António Salazar, the notorious Portuguese dictator, who rose to power after the turbulent years of the unsuccessful democratic *First Portuguese Republic* (1910-1926) and temporary military dictatorship of *Ditadura Nacional* (1926-1933). Under Salazar's dictatorship, Portugal evolved into the *Estado Novo* (New State), a four-decade-old single-party republic. Despite the fact that the *Estado Novo* was technically a republic and the fact that Salazar himself was the Prime Minister, the Portuguese republic was notoriously repressed. Elections' results were manipulated and any opposition to Salazar was suppressed. The Western World was frequently shocked to learn of Franco's constant signing of death sentences of those who came in his way and Salazar's use of the controversial secret police, the PIDE, trained specifically for opposition surveillance. The two Iberian regimes were also similar in terms of ideology. Francoist Spain was a military dictatorship of conservative and nationalist authoritarianism. The Portuguese *Estado Novo* was a single-party regime of conservatism and anti-liberalism. In Spain, General Franco exercised his power

both as a military dictator and the Head of State; while Salazar served as Prime Minister who was virtually the dictator of the Portugal. In both regimes, communism remained the most despised ideology, even more than liberalism, and this would render them attractive to the eyes of the United States, a superpower from the democratic Western sphere.

## II. Post-1959 Spain: From Autarky to Economic Miracle

Spain, seen as rigidly authoritarian as well as having fascist traits during the war, became the subject of criticism and ostracism. Internationally isolated, Francoist Spain pursued its own self-sufficiency economic model—autarky—that would eventually damage its economy, already immensely troubled by the cost of the Civil War. After two decades of autarky, Spain was on the verge of bankruptcy by late 1950s, and Franco realised it was time to change the economic policy in order to save his nation. Thus, autarkical economic model began to give way to a gradually liberalised market economy which would bring about the story of the *Spanish Miracle* (1959-1973), a period of unprecedented growth in the Spanish economy. Prior to 1959, autarkical Spain had relied on heavy industrialisation with strong protectionism and controlled trades that proved damaging for the economy.<sup>1</sup> Despite apparent hardship, international organisations were also reluctant to help, owing to

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<sup>1</sup> based on George Pagoulatos, *Financial Repression and Liberalisation in Europe's Southern Periphery: from "Growth State" to "Stabilisation State"*. (Princeton: Department of Politics, Princeton University, 1999): 6.

that fact that Spain was a military dictatorship seen as an awkward regime neither democratic nor communist in the democratic Western sphere. There came, however, a gigantic superpower from the Western world which was willing to aid Spain: the United States. During the Cold War, the priority of the United States was always to contain the extension of the communist sphere, which had consumed Eastern Europe. Seeing General Franco's strong opposition to communism as an advantage; President Eisenhower decided to engage closely and bilaterally with Spain and the Caudillo, who was equally enthusiastic in dealing with the anti-communist superpower such as the United States, which was in clear contrast with the reluctant Western Europe. Starting with military cooperation in 1953, when Franco allowed American air bases, naval stations, and communication facilities to be established in Spain in exchange for an economic assistance of \$500 million; Spain made its position in Europe clear, that it was willing to cooperate with democratic regimes and that it was collaborating a world superpower. International recognition of Spain followed almost magically after its military cooperation with the United States. By 1955, Spain was admitted into the United Nations, though as a temporary Security Council—an extraordinary achievement for a dictatorship. Subsequent Spanish membership of the World Bank and International Monetary Fund (IMF) also followed in 1958. To the Western world's astonishment, President Eisenhower paid a state visit in December 1959 to Madrid, where he was formally welcomed by General Franco<sup>2</sup>.

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<sup>2</sup> based on Charles Powell, 2007. *Spain Transformed: the Late Franco Dictatorship, 1959-1975 - The United States and Spain: From Franco to Juan Carlos* (New York: Palgrave MacMillan), 228-229.

But despite economic assistance from the United States, an enthusiastic interest from the American President, and the granted membership of some important international monetary organisations, Spain was still economically troubled by the destructions of the Civil War and was still isolated from Europe. Nearing bankruptcy and alerted by a critical shortage of gold reserves which resulted from its autarkical economic policy, General Franco realised the need for economic reforms. Though initially resolute in his determination to make Spain a completely autarkical regime; the Spanish Caudillo, a zealous nationalist, finally agreed to an economic liberalisation plan. With the approval of Franco and his prominent Opus Dei technocrats who were influenced by the American way of thinking; the *1959 Spanish Liberalisation and Stabilisation Plan*, an economic reform package, was introduced. The goal of the Plan was to solve Spain's post-war economic problems resulting from its earlier anti-market economic policy. Once implemented, it marked a new era never before seen in the economy of Spain as a consequence. For the first time, the Spanish peseta was devalued against the U.S. Dollar.<sup>3</sup> Tourism boom and foreign investment were approved and encouraged by the state, resulting in capital inflows and a very moderate financial liberalisation at the time. The gross receipts of the tourism boom in Spain reached \$919 million in 1964, the second

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<sup>3</sup> based on Leandro Prados de la Escosura, Joan R. Roses, and Isabel Sanz-Villarroya., *Economic Reforms and Growth in Franco's Spain*. (Madrid: Universidad Carlos III de Madrid, "Figuerola" Institute of History and Social Sciences, 2011), 2-9.

highest in Europe. The Spanish economy was transformed from only a small autarkical economy with only 9% of liberalised trade to an economy with doubled GDP growth—an extraordinary shift in economic growth. By 1973, a couple of years before Franco’s demise, 80% of the total trade in Spain had been liberalised.<sup>4</sup>

### III. 1978: Smooth Transition and Rebirth of Democracy in Spain

The economic miracle, however, was put an end to in 1973 when the first oil crisis hit Europe. As the crisis coincided with the deteriorating health of the Spanish dictator, the question was: who would succeed Franco, and what would become of Spain. Concerns were raised over whether Franco’s appointed successor, Prince Juan Carlos, would prove to be a more liberal-minded leader, or whether a revolution would occur and plunge Spain into a devastating war again. However, it turned out that Franco, a monarchist, had appointed a prince who was pro-democratic and reformist. The prince proved to be unexpectedly liberal to the Spaniards who were anxious over the path of political ideology he would choose. Juan Carlos embraced the principles of democracy, and was an important figure and internal force of the Spanish democratisation. The prince acceded to the Spanish throne, previously guarded by Franco, as the King of Spain in 1975 following the Caudillo’s death.

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<sup>4</sup> based on Rodney H. Mills, Jr., *The Spanish “Miracle”: Growth and Change in the Spanish Economy, 1959-65*. (Washington, D.C.: Board of Governors of the Federal Reserve System, 1965), 4-20.

He was committed to consolidating democracy in Spain, legalising political parties and allowing democratic elections. Under Juan Carlos's much anticipated democratic regime, the first democratically-elected government, the centre-right Union of the Democratic Centre (UDC), came to power in 1977. The party was led by the liberal-minded politician appointed by the king himself, Adolfo Suárez; who later became the prime minister known for his openly anti-communist attitude and the will to strengthen the legitimacy of democracy in his home country<sup>5</sup>. One of the major achievements of the Suárez government was the ratification of a new Spanish Constitution of 1978 fully implemented after a national referendum. The enactment of the Constitution fully completed the Spanish transition to democracy<sup>6</sup>. Suárez was highly praised for his efforts, and Juan Carlos continues to rule Spain as a constitutional monarch with no threats of authoritarian dictatorship returning ever again since then

#### IV. Post-1959 Portugal: From Gloomy to Golden Years

While Spain blossomed under the Spanish Miracle years; Portugal also experienced a similar period of remarkable economic growth, though at lesser extent, called "The Portuguese Golden Years". The period, while not a total shift in economic policy as in

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<sup>5</sup> based on Omar G. Encarnacion. *The Legacy of Transitions: Pact-Making and Democratic Consolidation in Spain*. (New York: Division of Social Studies, Bard College, 2003), 21-22.

<sup>6</sup> based on Omar G. Encarnacion. "Spain after Franco: Lessons in Democratisation." *World Policy Journal*, vol.18, no.4 (Winter) (2002): 36, 38.

the Spanish experience, was a move from the pre-1959 highly state-interventionist economy of the Estado Novo (New State), in which state autonomy and corporatism dominated all aspects of life. Neutral Portugal after World War II, despite being a recipient of the Marshall Plan, failed to catch up with other war-ravaged European countries. Prior to 1959, Portugal, like Spain, relied on industrialisation with heavy protectionism and controlled trade.<sup>7</sup> Poverty and illiteracy was widespread among its population in its agricultural-based rural economy, its GDP per capita lower than half of twelve other developed western European countries.<sup>8</sup> Even though not seen as a threat to the liberal Western sphere; Portugal was not an attractive sight to its democratic vicinity in Western Europe, being among the poorest European nations. Fearing that economic problems would take place in anti-liberal Portugal as it had plagued Spain, Salazar, the Portuguese dictator and former Minister of Finance whose great concern for the economy of Portugal rendered him being referred to as the “first and foremost an extremely competent housekeeper”; to make a moderate reform of the regime’s economic policy in early 1950s. In spite of his contempt for liberal market capitalism, Salazar allowed some liberalisation of the market in order to save his country’s economy. An economist as well as a dictator, he aimed to achieve an economic growth with

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<sup>7</sup> based on George Pagoulatos, *Financial Repression and Liberalisation in Europe’s Southern Periphery: from “Growth State” to “Stabilisation State”*. (Princeton: Department of Politics, Princeton University, 1999): 6.

<sup>8</sup> based on Stanley G. Payne, *A History of Spain and Portugal Vol. 2*. (Wisconsin: University of Wisconsin press, 1973), 673,-677.

monetary stability in the Portuguese economy. An initial *Six-Year Plan of 1953* for National Economic Development was set to promote foreign investment, but it was not until the initiation of the second *Six-Year Plan of 1959* that drove Portugal towards “a young economy” international status, starting with EFTA founding membership in 1959 and World Bank and GATT in the following years. Similar to what was happening to Franco’s close inner circle, a group of technocrats began to replace Salazar’s cabinet. Moderate economic liberalisation took place. Tariffs were lowered. Industrialisation, along with tourism and foreign investment, was supported by the state in compliance with EFTA and GATT. Private investments were allowed, but still under the state’s authority that was less rigid than what it had used to be<sup>9</sup>. The economic liberalising policy proved effective when Portugal achieved its highest GDP growth rate in the history, with real GDP growth skyrocketing from by 6.2% per annum from 1959 to 1965 and by 7.5% from 1966 to 1973, the year before Portugal began its transition to democracy. By the late 1960s; iron and steel mills, modernised ship-constructing complex, oil refineries, and industrial plants filled the areas in Portugal where traditional farms and orchards had once been. Despite Salazar’s persistence in waging the financially damaging Portuguese Colonial War starting from 1961, the economy of Portugal continued to thrive. However, questions and anxiety were raised in 1968, when Salazar suddenly

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<sup>9</sup> based on Eric N. Baklanoff. “*The Political Economy of Portugal’s Later ‘Estado Novo’: a Critique of the Stagnation Thesis.*” *Luso-Brazilian Review*, vol.29, no.1 (Winter) (1992): 2-5.

suffered a brain haemorrhage that rendered him incapacitated until his death two years later; over the economic policy of his successor, Marcelo Caetano. Appointed by President Americo Thomaz, President of the Estado Novo, whose role was essentially ceremonial; Caetano proceeded with Salazar's economic policy. During Caetano's tenure, the Portuguese economy went on to perform extraordinarily, with an emphasis on industrial modernisation and foreign investor presence. A complete free trade agreement between Portugal and the European Economic Community (EEC), EFTA, was agreed by both in 1960, indicating Portugal's economic capacity and the enthusiasm from Europe which saw Portugal as part of it<sup>10</sup>.

#### V. 1976: Portugal's Difficult Transition and Return to a Democratic Republic

Portugal's story of economic liberalisation was similar to Spain, though with a lesser extent of economic success; but its political transformation in mid-1970s proved a difficult transition to democracy. Salazar was successful in embarking on the economic liberalisation of Portugal, but he never attempted to liberalise his regime. His successor, Caetano, inherited his ideology. Strongly against the idea of decolonisation and political liberalisation, Caetano's persistence proved disastrous for his own government. The Portuguese people, especially a new generation military officers, started to turn against the colonial war since its start in 1961. The war had consumed the lives of young Portuguese and the prospect

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<sup>10</sup> Ibid., 15.

that Portugal could grow more economically prosperous, but the Caetano administration refused to stand down. Tensions grew for years until the boiling point was reached in April 1974; when the Portuguese Movement of the Armed Forces (MFA), an organised group of lower-ranked officers who opposed the Portuguese dictatorship, decided it was time to take action. The MFA formed a principle composed of three D's: democracy, development, and decolonisation. Among the political figures supporting the MFA was Mário Soares, future Prime Minister of Portugal having been exiled to Paris by Caetano<sup>11</sup>. To the western world's relief, in 1976 with the social-democratic PS Party (Socialist Party) won the Portuguese national election of 1975, the first democratic election in 50 years, and the promulgation of a new Portuguese Constitution of 1976; democracy was finally established in Portugal.<sup>12</sup> Thus, the massive popular opposition to the dictatorial regime and the Colonial War was an internal force that pushed Portugal forward democratic transition commencing with the Carnation Revolution.

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<sup>11</sup> based on Paul Christopher Manuel, 2010. *Portuguese Exceptionalism and the Return to Europe: the 25 April 1974 Coup and Democratisation, 1974-2010* (Washington, D.C.: Center for European Studies, Howard University), 6-7.

<sup>12</sup> based on George Bragues. "Portugal's Plight: the Role of Social Democracy." *The Independent Review*, vol.16, no.3 (Winter) (2003): 329.

## VI. Conclusion

Post-war dictatorial Spain and Portugal embarked on a noteworthy period of economic liberalisation and democratic transition during the years 1959-1973. Both Iberian dictatorships shared common political ideology and approach towards economic policies. Deemed as repressively rigid, Francoist Spain and the Portuguese Estado Novo were strongly anti-communist as well as anti-liberal. However, as pre-1959 economic policies of autarky in Spain and high state interventionism in Portugal proved disastrous; the Iberian dictators, both realising the necessity to change, allowed young technocrats to initiate economic reform programmes to save their national economies. The Spanish Stabilisation and Liberalisation Plan and the Portuguese Six-Year Plan, both initialled in 1959, brought to Spain and Portugal a period of remarkable economic growth that would last until 1973: the Spanish Miracle and the Portuguese Golden Years. Spain and Portugal were driven towards economic liberalisation due to the dictators' intention to save the regimes from further trouble as internal factor. The United States was also a major external force that influenced Spain in its economic transition, though its extent of influence in Portugal was significantly lower. Spain's close military cooperation with the United States and the large amount of American economic assistance it continued to receive during the period were crucial in establishing the international recognition of Spain as a firm ally of the democratic power. Conversely, Portugal saw Europe as a continent where it belonged and to which it must attempt to deal with. Portugal's status

as a republic and not a military dictatorship as in the case of Francoist Spain allowed it more privilege in engaging with international organisations such as EFTA and NATO. Thus, the extent of the United States' influence as external force to economic liberalisation in Spain was more much more prominent than in Portugal.

The transition to democracy of Spain in 1975 was a result of years of Spain's close foreign relations with the United States, though this was not the case in Portugal, of which the dictator was keener on engaging economically with Europe. In the case of Spain, President Eisenhower and Nixon were particularly interested in dealing with General Franco, who consented to having his appointed successor, Prince Juan Carlos, be exposed to the liberal American presence due to his monarchist and patriotic view. The Spanish Caudillo's decision to appoint Juan Carlos was as equally important as a major internal force of the democratic transition in Spain as the role of the United States as an external force influencing Spain to change. The case of the Portuguese transition, on the contrary, was a result of the internal massive popular opposition to the dictatorial Estado Novo and the regime's persistent reluctance to stop its financially consuming Colonial War. The desire to be part of Europe, seen as democratic and where Portugal belonged, the presence of the European Economic Community, and its decision to sign the EFTA in 1960 with Portugal were also a key external factor. The response was a revolution in Portugal: the Carnation Revolution. While the smooth transition in Spain went on without revolution or rupture, the Portuguese dictatorship was put an end

to by a revolution. By 1978, Spain and Portugal had completed the transitions. Dictatorship had become a bygone past of Spain and Portugal, and with democracy firmly consolidated they had at last a strong foundation to proceed with its goal to integrate with Europe, which was subsequently demonstrated by their capacity to both join the EEC in 1986.

The period 1959-1973 was an extraordinary part of history not only for Spain and Portugal, but also for Europe. In spite of the fact that Francoist Spain and Portuguese Estado Novo were notoriously repressive amidst democratic Western sphere; both Iberian nations demonstrated to Europe that a shift in economic and political policies was possible and did not necessarily mean a negative result, though it would take decades to achieve. Having liberalised the economies and democratised the political systems by the year 1978, the Iberian transition experience, as first part of the third-wave democratisation, provided a lesson for other European countries still non-democratic at that time, and even other non-European countries at the moment. Economic liberalisation could foster a transition to democracy, and Spain and Portugal, a comparatively similar case, proved a valuable lesson.