Spain to press OAU on Canaries issue

BY OUR OWN CORRESPONDENT MADRID, March 2.

THE SPANISH Government is preparing a diplomatic and political offensive to head off the possible adoption by heads of state of the Organisation of African Unity (OAU) of a draft resolution backing the Canary Islands independence movement.

Last month, OAU Foreign Ministers meeting in Tripoli ratified a recommendation by the liberation committee that financial and material assistance should be given to the Canaries independence movement, MPAIAC, which is waging a terrorist campaign. The OAU heads of state are expected to consider this resolution when they meet in Khartoum in July.

The OAU's claim regarding the "African nature" of the Canary Islands has enraged the Spanish Government and all political parties, and was condemned in the Cortes last week.

Sr. Adolfo Suarez, the Prime Minister, saw Sr. Felipe Gonzales, the Socialist leader, yesterday as part of a series of contacts aimed at forming an inter-party delegation to visit African countries between now and July to explain Spain's position. The political parties appear to be well united behind the Government on this issue despite having different relations with African countries.

Sr. Gonzales visited Algiers recently to try to persuade the Government there to curb its support for the MPAIAC. The Algerians have now stopped Sr. Antonio Cubillo, the MPAIAC leader, from continuing his broadcasts from Algiers beamed at the Canary Islands. However, Spanish officials feel that Algeria only did this knowing that it would not affect its long-term designs on the Canaries. Sr. Cubillo had been broadcasting from Algiers for 13 years.

The Spanish Government is urging the ambassadors in Madrid of the 47 countries which voted in favour of the OAU resolution to visit the Canaries to acquaint themselves with the reality of the situation in the islands. Spanish officials still remember the visit of one OAU leader, who went to the Canaries and was surprised not to find any negroes there. The islands have been under the flag of Spain for 500 years. The indigenous population, the Guanches, have long since disappeared.

The storm over the OAU's attitude to Canary Islands has led the Spanish Government to begin questioning its foreign policy towards African countries, in particular Algeria, which is leading the movement over the Canaries. Among the considerations are whether Spain should sever diplon atic relations with Algeria if the situation worsens.

However, for this to occur the situation would have to become very serious as Algeria is quite an important customer for Spanish goods—the second-largest in Africa—and also supplies natural gas to Spain. But the fact that it is being mentioned in official circles emphasises the seriousness with which Spain regards the problem.

Another issue which may be affected is Spain's good relations with the Arab world. Madrid was surprised that some Arab countries, such as Egypt, which is a member of the OAU, voted for the resolution. Spain does not have diplomatic relations with Israel, but their establishment may be brought nearer if those Arab members of the OAU persist in supporting the resolution.

Suarez defeat in Cortes

BY OUR OWN CORRESPONDENT MADRID, March 2.

THE SPANISH Government has lost its first parliamentary debate since last June's general elections. Socialists, Communists and the Right-wing Popular Alliance joined forces late last night, to reject the explanation given by Sr. Fernando Abril Martorell, the Vice-Premier for Political Matters and the new Economics Minister, about the reasons for the formation of the new Government, the second since the elections.

As a result the Government will have to explain itself better at the first plenary session of Parliament in April.

The Government changes in the Ministries of Industry, Work, Transport and Agriculture, were provoked by the resignation last week of Professor Enrique Fuentes Quintana, the Vice-Premier for Economic Matters. The Left see it as a move to the Right.

Sr. Abril said nothing about why it was necessary to change four Ministers, but insisted that the Government's economic policy would remain the same.

● The Bank of Spain and most private banks have officially formed their special body to take over and administer banks which find themselves in difficulties.

The Corporacion Bancaria has Ptas.500m. ($6m.) capital, subscribed 50 per cent. by the Central Bank and the remainder by the other banks.

Bipartisan policy on Canaries fails in Madrid

Madrid, March 2

Government efforts to enlist opposition support for its African policy and to ease foreign political pressure on the Canary Islands have failed.

Sounding out opposition reaction to a plan to send multi-party missions to African capitals in an effort to soften a decision by the Organization for African Unity, to back a Canary Islands independence movement, Señor Suárez, the Prime Minister, conferred today with Señor Felipe González, the leader of the Socialist Workers' Party.

Señor González is reported to have refused to take part in the plan. The basic point of disagreement, it is believed, is the question of the former colony of Spanish Sahara.

Carnations at actors' trial in Barcelona

From Our Correspondent

Madrid, March 6

It was standing room only today in the Barcelona courtroom where four members of the El Joglars mime troupe were facing court-martial on charges of "insults to the armed forces".

The trial of two other members of the company, who have escaped, has been postponed.

About 500 people gathered outside the barracks where the trial was held. Several of them tossed bunches of red carnations over the wall before riot police dispersed the crowd. A group of right-wing demonstrators tried to force their way inside the barracks and were chased away by military police.

Defence counsel presented arguments for the declaration of a mistrial. The military prosecutor called for the equipment which the actors had used on stage to be shown as evidence.

The four actors, who allegedly insulted the military establishment while performing the play *El Torno* in a Barcelona theatre last December, face on conviction possible imprisonment for up to three years.

They were arrested and charged under legislation passed under General Franco which allows the military to hold and try civilians for military offences. Señor Suárez, the Prime Minister, has made no overt effort to intervene in the case.

The verdict and sentences are not expected to be announced until they have been reviewed by higher military authorities.

The trial had been originally set for last Tuesday. It was postponed because the principal defendant, Señor Albert Boadella, escaped the day before. He and his colleague, Señor Ferrán Reñé are reported to be in Paris.

Spanish actors jailed for insult

From Harry Debelius

Madrid, March 7

A military court shook the faith of some Spaniards in their fledgling democracy today by sentencing four actors in Barcelona to two years' imprisonment for "insulting the armed forces" in a pantomime. The performance had been approved by the Ministry of Culture.

The sentences on three men and a woman must be approved by higher military authority. It was imposed under legislation remaining in force from the Franco era which allows the armed forces to try civilians for military offences.

The Government of Señor Suárez has made no overt attempt to intervene. The case began in December when a general ordered the closing of the Barcelona theatre where the troupe of Els Joglars had given just 12 performances of the play *La Torna* Señor Albert Boadella, the actor-director of the troupe, and five other actors were arrested.

Señor Boadella and one of his colleagues escaped and fled to France, where they are expected to be granted political asylum.

Señora Marta Mats, a socialist deputy, has presented a question in the Cortes, calling on the Government to explain "various actions opposed to the right of free speech", especially in regard to the Barcelona court martial.

The two-day trial resulted in clashes between the police and demonstrators, as well as other disturbances in Barcelona, in which several people were injured.

In Madrid, the police today ousted about sixty people, mostly connected with the theatre, from a cultural centre where they had been staging a sit-in in support of the Barcelona actors. Several people were reported to be in custody.

The play *La Torna* was based upon the court martial and execution of a Polish murderer in Tarragona in 1974. The military prosecutor said: "In the script the military tribunal is portrayed as acting out of opportunistic and political motives, to the extent that it does not hesitate to condemn a man to death."

Franco lampooned, page 7

Catalan actors go on trial amid protests

By Our Own Correspondent

MADRID, March 6.

THE COURTS martial of four Catalan actors charged with offending the armed forces in a show based on the execution in 1974 of a Pole and an anarchist, began in Barcelona to-day. The trial has aroused fierce protests from the Left and from the cultural world and is the first of its kind since the death of General Franco.

The trial was suspended last week after the director of the "Els Joglars" troupe, Sr. Alberto Boadella, and another actor, Sr. Ferran Rane, failed to appear before the court. They are both now in exile in France.

The prosecution asked for prison sentences of three years each for the four actors, who have been on hunger strike in Barcelona's Modelo prison.

A new law came into effect on Friday which did away with censorship in the theatre. Previously all scripts had to be submitted for vetting by censors. Now material must still be submitted, but only with a view to grading it as in the cinema.

However, there is still a catch, for the military code of the Franco dictatorship remains in force and this can override civil law.

New powers for Bank of Spain

BY OUR OWN CORRESPONDENT

MADRID, March 7.

THE BANK OF SPAIN was given powers under a new law to-day to take over the administration of private banks and liquidate their assets if necessary.

The decree law, approved by the urgent legislation committee of the Cortes (parliament) last night, is in line with the Government's declared aim of giving the central bank greater autonomy.

The Bank of Spain took over the small commercial Banco de Navarra in January and since then a "hospital bank" has been formed, 50 per cent. subscribed by the central bank and the rest among other banks, to come to the aid of ailing banks. The new law means that the central bank no longer has to seek the authority of the Finance Ministry to intervene.

The law also authorises the central banks to suspend temporarily those banks which commit irregularities, in matters of tax for example. In the event of this happening the central bank would nominate delegates to look after the bank under inspection. If they decided to suspend the operations of the bank under review permanently then they would automatically become the liquidators.

Spanish Socialists quit constitution talks

BY OUR OWN CORRESPONDENT

MADRID, March 8.

SPAIN'S uncertain political timetable has been thrown into confusion after last night's withdrawal of the Socialists from the comtee responsible for drafting the new democratic constitution. It was the clearest breach yet between the main opposition party and the Government.

The Socialist representative in the committee, Sr. Gregorio Peces Barba, withdrew after protesting that the ruling Union of the Democratic Centre party (UDC) had broken its promise that it would reach a consensus on certain issues.

The specific reason for his withdrawal was the UDC's attempts to substitute the existing text on autonomy with one toning down the powers of autonomous regions and delaying the granting of home rule to those regions requesting it for five years after the constitution's approval. The Basque country and Catalonia already have a degree of autonomy.

The withdrawal throws into doubt whether the constitutional committee will finish its work. It is reportedly near the end of discussing the draft which will then go to the Cortes (Parliament). Upon the approval of the new constitution hinges the dates for fresh general and municipal elections.

The Committee, which is made up of all parties, issued a statement urging the Socialists to show a sense of responsibility and to finish their work, so fulfilling their mandate.

There is a feeling that the Socialists have deliberately sought an excuse to sever their deteriorating relations with the Government in order to reinforce their image as the alternative future Government, and that the real reason for quitting the committee was the Government's attempts to delay municipal elections for as long as possible.

Municipal polls delay angers left

BY OUR OWN CORRESPONDENT

MADRID, March 8.

THE SPANISH Left is preparing to launch an offensive in the Cortes (Parliament) and most probably in the streets against the Government's attempts to delay municipal elections as long as possible.

The continued Government silence over this important issue —municipal elections were last held 42 years ago when the Left won an overwhelming victory— has led the Socialists to warn that they will hold demonstrations and meetings unless a decision is made quickly.

Sr. Adolfo Suarez, the Prime Minister, promised last June, after his Union of the Democratic Centre party won Spain's first general elections in 41 years, that municipal elections would be held by the end of the year. There is still no sign of a date.

The Government's reluctance to give a specific date reflects its concern that the Left will do well and the Centre badly. Opinion polls carried out by the Centre reportedly reveal that the party's popularity is declining. The Government is banking on an upward turn in the economy by the autumn to restore its fortunes.

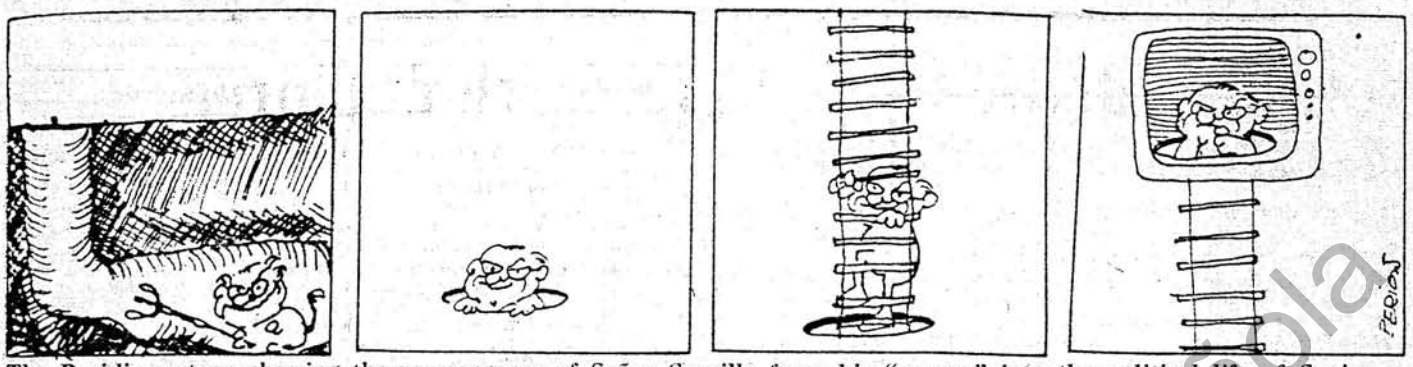
Town halls are still full of people appointed during the Franco dictatorship, although some councils have resigned since the general election and a few are being run by committees made up on a proportional basis according to the strengths of the parties in areas.

Resignation explained

MADRID, March 8.

SPAIN'S FORMER Vice-Premier for Economic Affairs, Prof. Enrique Fuentes Quintana, to-day said he resigned his post because he lacked the political weight to carry out his economic programme.

Explaining for the first time his decision to resign two weeks ago, he told the monarchist daily ABC that co-ordination between various Government departments was necessary to carry out the programme.



The Peridis cartoon showing the reemergence of Señor Carrillo from his "sewer" into the political life of Spain.

Iberian peninsula bedevilled by anomalies of transition to democracy

Franco era the target of lampoons in Spain

From William Chislett
Madrid, March 7

Records of General Franco's last message are being sold here along with cassettes of speeches by Communist leaders; in Portugal copies of *Mein Kampf* lie next to pornographic magazines. The anomalies of the transitions in the Iberian peninsula from dictatorship to democracy are glaring.

After the Portuguese coup of April 25, 1974, the barriers were removed immediately and every kind of left-wing literature flourished, with posters and jingles praised revolutionary heroes.

In Spain the boom really started only last June, about the time of the first free general election in 41 years.

Spain now has a flourishing magazine and newspaper industry. There are now 10 daily newspapers in Madrid, four of them started since General Franco's death in November, 1975, and eight in Lisbon—there were 12 at the height of post-coup fervour but four have ceased publication.

"We had the same experience as Spain, but the Portuguese are now bored and everything has died down"; Senhor Alfredo Duarte Costa, the former head of Anop, the official Portuguese news agency, told me. In Spain the novelty has not yet worn off.

In Madrid you can buy General Franco's recorded speeches, books about him, medallions and a set of colourful wall tiles bearing his last testament to his people: "Do not forget that the enemies of Spain and of Christian civilisation are alert. Be on your guard, and against them lay down your lives. . . ."

In February the publishers Sedmay started a weekly series called *The History of Francoism* which followed a series by one of Spain's leading cartoonists, "Forges", called *The Last 40 years* in which he depicted the Franco era hilariously. Both are selling well.

Under the dictator, cartoonists dared not lampoon politicians without running the risk of appearing before a court. Now not even King Juan Carlos escapes the pens of cartoonists, and satirical magazines like *La Cordoniz* make even *Private Eye* look a little tame.

The most incisive cartoonist is Peridis of *El Pais*. His daily cartoons were recently assembled in a best-selling book with commentaries by some of the people he depicts including Señor Suárez, the Prime Minister, who praises him to the skies. The book, for the initiated, is the best record of the transition period and Peridis has the kind of following enjoyed by the Peanuts strip.

Señor Suárez's nose seems to get longer every day and the column upon which he sits higher or lower depending upon his standing with the opposition. Señor Santiago Carrillo, the Communist leader has emerged from his sewer and cast off his pointed ears, tail and pitchfork to pursue other politicians (the Franco regime sustained the myth of Communists as monsters).

Politicians were grey figures in the dictatorship. Now they are vibrant and in the public eye. When Señor Carrillo was asked last June what would happen if the right-wing Popular Ailiance won the elections, he replied: "I would have to return to the sewer of Peridis."

It is a surreal situation. Most of Franco's press laws still exist, but are rarely applied. The boundary is not clear.

The first issue of a blatantly republican fortnightly magazine, *Acción Republicana*, appeared in February without problems, while in the same week magistrates ordered the imprisonment, pending trial, of five journalists of Saida, an extreme left magazine. A press law passed last April outlaws attacks on the monarchy.

Political cabaret is becoming a hit, but it is eclipsed by risqué shows in nightclubs where very little is left to the imagination.

Madrid move to force early local elections

From Our Correspondent
Madrid, March 8

The Spanish Socialist Workers' Party has withdrawn from the parliamentary committee studying the draft constitution, in a manoeuvre to induce the Government to call municipal elections without delay.

The Centre Democratic Union, the party of Señor Suárez, the Prime Minister, hinted recently that it would put off municipal elections until after a constitution had been approved.

Opinion polls suggest that the left would do well in early elections. The Centrists believe that they will gain more votes if they are able to claim credit for a new constitution.

Election date dispute in Spain settled

From Harry Debelius
Madrid, March 10

The parliamentary storm over the date of Spain's municipal elections began to blow over here today after a Government promise to hold them not later than one month from the approval of a new constitution.

The dispute led the main parliamentary opposition, the Spanish Socialist Workers' Party (PSOE) to withdraw its support last Tuesday for a multi-party agreement on a draft of the constitution which is now being studied by a parliamentary committee.

However, the Socialist leader, Señor Felipe González, said today that his party would once again support the agreement, provided the Centre Democratic Union (UCD) of Señor Suárez, the Prime Minister, was willing to make concessions on home rule, freedom of worship and education.

The PSOE is anxious to take advantage of the present political climate, in which public opinion polls predict a victory for the left.

In Barcelona, an actors' sit-in continued today at the National Theatre Institute in protest against the sentencing of four civilian actors to three years' imprisonment each by a military court for "insulting the armed forces".

Spain gives autonomy to more of its regions

From Harry Debelius
Madrid, March 12

The Spanish Government approved provisional autonomy for four more regions at the weekend, bringing the total to six. The latest to be granted what is officially termed "pre-autonomy", pending constitutional recognition, are the Canary islands, Valencia, Aragon and Galicia.

Their people will have regional governments similar to those of the Catalans and the Basques.

The new statute for the Canaries, which are subjected to a wave of separatist terrorism led from abroad, will not solve the islands' serious economic and political problems, but it is expected to open up administrative channels which will make Madrid more sensitive to their needs.

According to the Madrid newspaper **El Pais**, there was little popular enthusiasm in the region for autonomy.

In Galicia the move also brought little celebration. One of Spain's underdeveloped areas, Galicia has traditionally been a fount of emigration. It has its own language, closer to Portuguese than to Castilian Spanish.

Loss of fishing could spread poverty

African claim to Canaries comes at difficult moment

From William Chislett
Madrid, March 14

Canary islanders are living in the shadow of several volcanos. Apart from their own on the islands of Tenerife and Lanzarote, which have behaved themselves for some time, there are potentially more destructive ones. A motion to be debated by the Organization of African Unity (OAU) in Khartum in July, claiming the islands as part of Africa, is one. The islands' mounting social problems form another.

Both the Spanish Government and the opposition parties have rejected the OAU's claim regarding the "African nature" of the islands, but action is so far confined to words.

The claim could not have come at a worse time for the Government, for the islands' economic problems are far more severe than in the rest of Spain, except for Andalucía.

With an unemployment rate estimated at 12 per cent, a population growth rate of about 2.5 per cent and a per capita income 20 per cent less than in the rest of Spain, the Canary Islands are the most vulnerable part of Spain.

Between 1960 and 1975 it is estimated that more than 180,000 islanders sought work abroad, mainly in South America.

With the departure in February, 1976, of the last Spanish colonial officials from the Sahara, the Canary Islands ceased to be a bridge between mainland Spain and the country's overseas territories.

The handing over of the former Spanish Sahara to Morocco and Mauritania has led to a guerrilla war between the Algerian-backed Polisario, seeking independence for the territory, and Moroccan and Mauritanian troops. The conflict has aggravated the island's problems, swelling their population and weakening the fishing industry, one of the main sources of income for the islanders.

The Cortes (Parliament) recently ratified a controversial fishing agreement with Morocco which amounts to a de facto acceptance of Moroccan control of the waters formerly belonging to the Spanish Sahara where the islanders used to fish. Spain obtained certain fishing guarantees but, in the long-term, the agreement could deal a fatal blow to the islands' fishing industry.

There is a great shortage of water on the islands and the soil is consequently very arid. Many islanders have found that they cannot support themselves in the countryside and so have moved to the towns.

These problems have to be set against an increasingly active terrorist campaign being waged by the independence movement, MPAIAC, which wants to establish a "socialist, African republic, politically and socially independent, and forming part of the OAU and the United Nations".

The latest victim was a policeman who died last Wednesday from wounds received when he tried to defuse a bomb planted by the MPAIAC.

The MPAIAC is led by Señor Antonio Cubillo, a former lawyer, who is reported to have once worked for the Spanish military information services. In 1962 he went into exile after the police detained him for illegal propaganda, and since 1964 he has been broadcasting his propaganda from Algiers.

The Algerian Government agreed to stop his broadcasts earlier this year after the Spanish Socialist Party persuaded it to curtail support for Señor Cubillo.

Señor Suárez, the Spanish Prime Minister, has just four months in which to try to get the OAU countries to change their minds on the Canaries. If the resolution is accepted in July then Señor Cubillo will present his case for Canaries independence to the United Nations.

Confusion surrounds Spain's trade union elections

Spaniards have been voting for the last six weeks in their first free trade union elections since the civil war and it looks as if they will go on voting until the summer in a very drawn out campaign.

While a dangerous industrial vacuum is at last being filled after the dismantling of General Franco's fascist labour organization, the panorama remains highly confusing.

The centre government's ruse of minimizing the importance of the elections by leaving the running of them to the unions themselves—mainly the socialist General Union of Workers (UGT) and the Communist Workers Commissions (CCOO)—is paying off to some extent. The left has won its inevitable victory, but it is a victory which needs qualifying. The government's tactics have shown the limited nature of industrial democracy in post-Franco Spain.

Last December the Government said elections would be held in those firms where they were necessary. The fledgling UGT and CCOO protested and decided to call elections everywhere between January 16 and February 6. But when the campaign was over most workers had not voted and so elections are continuing spasmodically.

The difference in the results being given out by the respective unions and the labour ministry is mind-boggling. For example on February 20 the UGT claimed that the CCOO had obtained 2,394 delegates in Madrid. The ministry said the CCOO had 6,406 delegates and the CCOO itself virtually agreed with this figure.

There are accusations of falsifying returns and lack of official control in the counting. At least one firm in Barcelona is reported to have sent in the same result four times. There has been some bitter rivalry between the two main unions whose campaigns resemble those of a general election.

It is thought that about 35 per cent of workers have voted. Civil servants, where the law is still not clear, have still to vote and agricultural workers have been left to one side. Employers, which emeans anyone from a sweet shop owner to a factory boss, are also not included and neither are those in places where less than six people work, estimated to be some two million workers.

During the dictatorship the syndical organization brought together employers, 29 industry-wide syndicates and the Government's Ministry of Syndicates under one umbrella. Subscriptions for the syndicates were automatically taken out of workers pay packets, strikes banned and leaders of underground trade unions imprisoned.

One-third of the seats in the Cortes (Parliament) were made up of state appointed syndical leaders. The syndical organization had its own newspaper, at least 60 weeklies, 27 radio stations, and 30,000 bureaucrats.

The Franco system, formed in 1940 on the pattern of Mussolini's corporate system, was abolished last year and the bureaucrats moved to other ministries. Workers now pay quotas to the union of their choice: 100 pesetas a month for UGT and CCOO.

The CCOO managed to penetrate the base of the Franco system around 1966 and built up an impressive reputation. Their leader, Senor Marcelino Camacho, spent 12 years in prison and is now a Communist MP for Madrid... The CCOO likes to insist that it is not a "Communist" trade union.

The UGT, Spain's oldest trade union founded in 1888 is the trade union wing of the Spanish worker's Socialist Party, the main opposition party with 118 MPs compared to the Communists' 20. It is richer than the CCOO and reportedly spent a vast sum on the elections with loans from the United States and West Germany.

The UGT rejects the CCOO's overtures for a single united trade union, seeing in this an attempt by the Communists to gain control of the labour movement.

The ruling Democratic Centre Union Party has no trade union of its own, nothing like the Italian CISL, and in the elections supports the "independent" unions, which have done quite well.

The UGT reluctantly, and the CCOO more willingly, are supporting the Moncloa Pact between the Government and political parties which establishes a 22 per cent wage ceiling this year in return for anti-inflationary measures and an improved social programme.

William Chislett

lany of the problems which ice the Spanish economy are s much structural as they 're the result of the general conomic situation. The economic base which was constructed during the Franco ictatorship, when Spain not from a predominantly gricultural society to a ainly industrial one, has ecome obsolete; and many f the institutions created 're incomparible with the merging democracy.

Just as the country's political institutions—the democratic Cortes (Parliament), olitical parties, trade unions —are finding their feet in his transition period, so too re the main financial institutions. But whereas political institutions lay dormant for 0 years until they were revived under the monarchy of King Juan Carlos, the financial structure was well intrained in the country by he time the old Generalisimo died and is now in lany aspects a fossil in a ew age.

The political structure of he regime—the state-run rade unions; the National Movement, the one legal olitical organization; the olitical police—is being dismantled with remarkable ase. Rigor mortis had set nto the political system ome time before General 'ranco actually died, but he economic system, a nixed economy with overones of national socialism, asically remains.

The base that was created nder General Franco—a nixture of paternalism, a igh degree of protectionism or the home industries, the lominant role of the major anks, the open-arms treatnent for foreign investors —helped to bring Spain in he latter two decades of the ictatorship to a level not ar below that of the rest f West Europe. No one enies that there has been n economic miracle in the ast 20 years in Spain. The np grew at an average nnual rate of 7.3 per cent n real terms between 1961 nd 1973; the per capita inome shot from $594 in 1965 o $2,865 in 1975; the cars n use went from 10 per ,000 in 1960 to 125 per ,000 in 1975.

The years 1962, when the tabilization plan (after a eriod of autarchy) was in ull swing, to 1974, when pain was sorely hit by the ise in oil prices, seem like golden age compared with he present troubled times, lthough workers bore the runt of the change as they till do. Economic growth vas spectacular, but it should e seen in the proper context of a grossly underleveloped country being iven the chance to develop, vhich would have happened nyway, and was not the result of a miracle worked by he regime. It was the product of various factors.

Only 20 per cent work on the land

industry, giving the banks a powerful, many say toopowerful, position in the economy, especially the Big Seven as they are colloquially known: Banco Central, Banesto, Hispano Americano, Bilbao, Santander, Vizcaya and Popular.

Their all-powerful role in granting credit is now being questioned, mainly by the left. Central is involved in construction among many other matters; Bilbao in siderurgy and Hispano Americano in shipbuilding.

During the dictatorship banks invested vast sums of money and they prospered easily. The relationship between bank directors and the political establishment was a cosy one.

Another important financial base is foreign investment and foreign loans, mainly from the United States and the IMF. The foreign debt stands at $14,000m not counting the loan granted in February of $300m from the IMF. Foreign banks in the main were not allowed to operate but investors were greatly encouraged. The Government is changing this policy and foreign banks will shortly be allowed to operate.

Spain cannot exist on its own resources and its imports bill has been steadily rising over the years to a total last year of $16,500m with exports of $9,450m. Tourism and remittances from emigrants have traditionally helped to offset the trade deficit. In 1977 tourism contributed $3,800m to the balance of payments. This was a good year, but remittances are going down as a result of the tougher labour policies in EEC countries (12,124 people emigrated to Europe in 1976 compared with 110,840 in 1969 according to the Emigration Statistical Department) and the return of workers to Spain.

According to provisional figures in the first 11 months of 1977 remittances totalled 108,000m pesetas compared with 99,000m in 1976, but taking into account the 25 per cent devaluation last July this represents a decrease in real terms on 1976.

While high hopes are continually placed on tourism

An armed guard at the entrance to the Banco de España in Barcelona. The banks are said to own 40 per cent of industry.

(called "Spain's oil")—one wonders how much longer it can remain at its present level—little hope is placed in the country's own oil expectations. The country's energy imports bill is a continual drain on the trade deficit. The volume of crude oil imports in 1977 fell by 6.3 per cent but in value represents a 27 per cent increase in pesetas reaching $5,000m.

Spain produces only a tiny amount of what it consumes, having no North Sea oil equivalent, although explorations are going on. A major oil price increases t year would have a prop tionately more profou effect on Spain's econon structure than on that other countries.

W.

on the land

Any discussion of the financial base of Spain cannot fail to take into account the enormous effect of the flight from the farms to towns and cities and to foreign countries. In 1960 41 per cent of the labour force worked on the land; now only 20 per cent do so.

It is estimated that in 1975 at least 850,000 Spaniards were emigrant workers and that between 1961 and 1970 nearly 4,500,000 people moved within Spain. Only Sweden and Japan had comparable moves away from the countryside during the period 1900 to 1966.

When the economy began to "take off" after 20 lean years after the civil war the demand for cheap labour was enormous as industries like shipbuilding, textiles, cars and iron and steel expanded. Hundreds of thousands left their *pueblo* misery for the seemingly gold-paved streets of Barcelona, Bilbao and Madrid. But no more. Towns and cities are now full and have all the ensuing urban difficulties of housing and education needs. Now people are being encouraged to stay where they are.

As a result the agricultural sector, which in 1960 produced 27 per cent of the gnp, now produces 9 per cent, industry 38 per cent (then 30 per cent) and services 53 per cent (then 43 per cent). Agriculture produces nowhere near the country's food needs.

With the creation of industry—Spain is now the ninth industrial power in the world—came the advent of the large banks and foreign investment. Close links were forged between industry and banks, which are now estimated to own 40 per cent of

Stock market barometer shows a deep depression

20/3/1978

The Spanish stock market has been an accurate barometer of the ups and downs of the past two and a half years since the death of General Franco. A brief look at the graph reflecting the steady fall of the market is enough to give an idea of the seriousness of the position.

Barometers forecast coming weather. If the graph of the rise and fall of the stock market is anything to go by, and it probably is, then Spain has not, contrary to optimistic official statements, touched bottom and the situation is likely to get worse before it gets better.

During 1977 (taking January 1 as 100) the Madrid stock market—there are others in Bilbao and Barcelona, but the Madrid one deals with about 60 per cent of business turnover—rose only once above 100 and that was on March 1 when it reached 102.37 after the announcement of the economic measures of the first Government of Señor Adolfo Suárez. These measures turned out to be more theory than practice. The market ended 1977 32.7 per cent down. In 1976, the first year after General Franco, the market was down 28.56 per cent. In the first month of this year it went down 4.14 per cent.

It should be pointed out before political capital is made from these figures and anyone proclaims that democracy in Spain has heralded economic chaos, that the economic rot set in some time before General Franco died. There were already signs in 1973 but the mad tumble of the stock market really began in 1975.

Señor Mariano Rabadan Fornies, president of the Spanish Institute of Investors, pointed out in January that since April, 1974 (20 months before the dictator's death), quotations have gone down by 62 per cent and during this period the cost of living has risen in Spain by 70 per cent which meant that 100,000 pesetas invested four years ago is now worth 22,000 pesetas in terms of 1974.

Spain's stock market has three million individual investors, representing about one in three families, and 710 quoted companies. Compared with other stock markets it dropped the most in 1977, followed by the Milan market which fell by 24.77 per cent. Total capitalization ($6,175m in 1977) is still low compared with Paris, Frankfurt and London, but then they are far more established markets.

The fall is logical when it is placed in the context of the political uncertainty which naturally follows the demise of an authoritarian system and the gradual establishment of a democracy or vice versa. However, 26 months have now passed and with the Moncloa economic pact agreed between the Government and the main political parties an air of confidence should be returning. But this has so far not happened.

Interestingly the Madrid stock market reached its lowest point of the year, 62.92, on December 9, a few weeks after the signing of the pact, which reflected probably as much the worry produced by the mention in the pact of fiscal reforms as by the air of cynicism that such a pact would work. Instead of producing a feeling of buoyancy among investors it has made them adopt a wait-and-see approach.

The most affected sector of the stock exchange in 1977 was property investment which ended the year down by 46 per cent. Despite the slump in the quotations this has not brought down the astronomical real estate prices still being asked (and got) in and around Madrid. The reason behind the drastic fall is probably to be found in the reluctance of those who have money to invest in property not to do so until they know what will be the tax situation. The property specuiator is less willing to gamble when the risk is greater.

The clear tendency has been to sell and now the price-earnings ratio is lower than European levels. "Now is the time for smart, valiant people to buy", one Madrid stockbroker said. At the same time he admitted that he was not very optimistic.

Although the primary market ended 1977 with 95,637 shares, 145,539 bonds and 46.000 public bond issues, which figures respectively represented a fall of 32 per cent and increases of 6 per cent and 130 per cent on 1976, only about 60 per cent of the bonds issued were subscribed to.

The Treasury's public debt issue launched on December 5, however, has been quite well subscribed to. The issue carries a 10.25 per cent coupon, higher than normal, and has a 10-year life. This issue forms part of the Moncloa pact and has been publicized with full-page newspaper advertisements and announcements on billboards encouraging people to invest for national solidarity.

One of the main difficulties resulting from the fall in the market is the fact that firms are no longer able to use the market as a ready short-term source of financing. The market has never been a long-term source of finance. This has produced serious trouble for firms which have projects under way or planned and which cannot be dropped.

Portfolio management groups like Gesbancaya, part of the powerful Banco de Vizcaya, ranked number six, view the situation with some alarm. "It is absolutely necessary", the Gesbancaya annual report for 1977 said, "for the stock market to improve to the extent that large companies can once again count on an investment market sufficient to absorb as many increases in capitalizations as these companies find necessary.

"If this is not achieved then the country will not recover because it is false and demagogic to maintain that the big entrepreneurs are not investing at the present time. These entrepreneurs, who are irreplaceable because of their demonstrated creative capacity, only place the money which they get from the numerous and generally modest shareholders, who are the true owners of the important firms. If there is no stock market, there is no investment."

Professor Enrique Fuentes Quintana, Vice-Premier for Economic Matters, has been constantly urging Spanish businessmen to match the confidence shown in Spain by foreign businessmen. The Spanish press has referred to the lack of investment as a "shares strike".

Part of the confusion which surrounds the stock market stems from the general lack of information about the activities of companies. This is partly the result of a deliberate hiding of information from the public in order to evade taxes. Señor Francisco Fernandez Ordonez, the Finance Minister, tried to calm fears at the annual investors' congress when he said that the tax system would not greatly affect investors. Their confidence depends upon the success of the pact.

W.C.

20/3/1978

Unhappy over EEC terms

by William Chislett

The trumpets which heralded Spain's formal application to join the EEC last July are no longer heard; now there is only low moaning. The political fanfare is over and the hard economic bargaining is on the horizon.

Señor Adolfo Suárez, the Prime Minister, seemed in a hurry when he sent his Foreign Minister, Señor Marcelino Oreja, to Brussels to lodge the application only six weeks after the country's first general election in 41 years.

But the desire to come out from behind the Pyrenees, behind which the Franco regime hid so xenophobically, was very strong and was as much psychological as a matter of political expediency.

It also reflected the remarkable degree of unity among all the political parties in the Cortes over the need for Spain to belong to the EEC. If nothing else, agreement on this should make the Government's task in the negotiations that much easier.

Reviewing Spain's industry, agriculture and finance with eventual full membership of the EEC in mind, one is struck by the realistic approach in official circles. No one seems to fool himself, although the public is bemused by the issue through the general lack of information.

Spain faces its negotiations with the EEC in a period of recession. The inflation rate for 1977 was 28 per cent, the balance of payments deficit about $2,800m and unemployment was officially said to be more than a million out of a labour force of 13,300,000. Of the unemployed, 100,000 were estimated in February to be out of work in Andalucia alone because of the depression in agriculture. Reserves, however, did rise by $1,190,000 to $6,130m.

A credit squeeze is affecting many businesses and investment has fallen off greatly. The trade deficit for 1977 was slightly improved on 1976; imports increased in value by 15 per cent to 1,350,000m pesetas ($16,500m) and exports by 32 per cent to a record 775,000m pesetas, mainly as a result of the 25 per cent devaluation last July.

Señor Suárez is aware that he will have to try to restructure some aspects of the economy, especially agriculture, which will not be easy given the general economic crisis. Businessmen know that many small firms will have to be reorganized if they are to become more competitive and so avoid going out of business. The will is there, although there is some disappointment over the Community's approach to some of the difficulties.

The immediate problem facing Spain and the EEC is to renegotiate the 1970 preferential commercial agreement and adapt it for the Nine as opposed to the Six, for whom the agreement was originally made.

There is general agreement that it should be readapted and negotiations began in February, Spain has been trying to readapt the agreement since 1973 when Denmark, Britain and Ireland entered the EEC.

Spain signed a protocol agreement then which maintained the status quo and temporarily excluded the new three from the benefits which Spain gave to the original six.

Spain is far from happy with the terms being offered in the talks. The Community is offering various concessions which Spain considers insufficient in view of the country's economic position. For example, the Community is prepared to offer a 40 per cent reduction on the tariffs on oranges, whereas countries like Israel and Morocco, which Spanish officials always remind you are not even prospective EEC members, have 60 per cent and 80 per cent respectively.

Spain wants at least a 60 per cent reduction and estimates that if it had had last year the same treaty as Israel, £8m could have been saved in the citrus industry.

The proposed tariffs for industrial products are another problem. It seems that the Community would like a limit on some exports, such as ceramics, shoes and textiles, so that Spain would have to pay the full tariff if it exported more than that amount.

The general industrial reduction being mentioned is 60 per cent on the tariffs imposed by EEC countries at any given moment. The Community would also like an average 17 per cent reduction on its industrial exports to Spain.

Spain is prepared to grant the reduction on industrial goods if it can get greater concessions for its agricultural products. Spain wants the renegotiated 1970 agreement to be the final say before it actually enters the EEC, after which there will be the normal transition period of adjustment.

By next spring the Community's report on Spain should be drawn up and on that basis the mandate for Spain's entry negotiated. Officials believe Spain could be in by 1982 and that the transition period could be eight years.

Signor Lorenzo Natali, the vice president of the EEC, visited Madrid recently to start the interchange of information for the report. A few hours before his arrival Señor Leopoldo Calvo Sotelo was appointed "Mister Europa" (Minister without portfolio for Relations with the European Communities).

One of the main problems will be French and Italian fears that Spain could flood the EEC with products like wine and fruit at lower prices.

On the other hand some EEC countries, France included, stand to gain from dairy products, which they could export to Spain more easily. Spain's underdeveloped dairy market will be hard hit by EEC membership unless the Government steps in to save it from the brunt of fierce competition from other countries.

The economy's salvation depends to a large extent on the Moncloa Pact agreed between the Government and political parties last October. It is too early to judge the pact's successes, but the wage ceiling of 22 per cent, one of the main points, was adhered to during the first two months of this year. The former Vice Premier for Economic Affairs, Professor Enrique Fuentes Quintana, has given a warning that Spaniards will have to pay a high price to overcome their difficulties.

The steel industry is in such bad shape that the Government is thinking of nationalizing it. The accumulated deficit of the steel industry is expected to reach $365m by the end of March.

"Spain wants to play its role in the new Europe", Señor Gabriel Ferran de Alfaro, sub-director of the Foreign Ministry's department of European integration, said. "We have no part out of Europe and we have a right to be there."

Reforms sap the public's confidence

20/3/1978

by William Chislett

For Spanish bankers the new corridors of power are just as dark as they were under General Franco but with one important difference: previously the relationship between the political and financial establishment was a known quantity and so bankers knew how to navigate the murky waters. But now they feel lost, unconfident of their position and nervous at the lessening of their public voice.

Privately, bankers are quick to tell you how deep is the crisis of confidence, but in public they remain noticeably tight-lipped in order not to further shake the public's confidence.

During the dictatorship banking grew to a privileged position. It is estimated that banks own about 40 per cent of industry. The banks' cosy position was the natural product of playing a crucial part in laying the base for the Spanish economy by providing cheap credit and profits were easy. The industrial groundwork was laid some time ago; and now the nursemaid role of banks, working in the bosom of the Government, has changed.

The Government of Señor Adolfo Suárez is committed to lifting many of the restrictions previously imposed on the economy in its policy of liberalization, and this means that reforms are needed in banking.

The Government is proposing to allow more foreign banks and greater flexibility for them in Spain. At present there are 17 foreign banks in restricted conditions. There is pressure from the financial oligarchy for the Government to delay the entry of foreign banks. A decree has reportedly been drafted, which would establish 750m pesetas as the capital needed to start a foreign bank—the same amount as Spanish banks.

With Spain's wish to join the EEC and the increase in foreign loans and the operations of Spanish banks abroad the entry of foreign banks into Spain is inevitable. Their presence will be a psychological blow for Spanish banks, although not initially a source of important competition. In the long term the presence of more foreign banks could lead to Spanish banks becoming more flexible in their approach to the economy and more eager to attract customers. "The Spanish banker just waits for clients to come to him", a Madrid banker told me, "whereas the foreign banker goes out to look for clients."

Another measure, which was started shortly after last June's general election is to reduce Government control over investments and interest rates, but very gradually, otherwise it would have a distorting effect.

Until last July, the state controlled the investment of 25 per cent of commercial bank deposits over and above the amount of deposits which had to be left with the Bank of Spain. The figure for industrial banks was 18 per cent, and for savings banks as high as 69 per cent. Savings banks hold about a third of the total deposits.

In the heyday of the groundwork for Spanish industry the interest rates charged on the state-directed investments of banks were low, and understandably so, with the birth of Spanish industry and the need for cheap credit. Most of the money went into the state-run industrial cartel INI. Interest rates were 4.5 per cent on public debt and 6.9 per cent on industrial credits which became ludicrous as inflation shot up. Now, for example, between 17 and 20 per cent is charged for a three-year industrial loan.

The Government is trying to use strict control of the money supply as its main weapon to reduce inflation and the payments deficit. The Bank of Spain is seeking to reduce the growth in money supply to an average 17 per cent this year. (The annual average of the first eight months of last year was 20 per cent.)

The chronic lack of liquidity with many firms unable to meet their payments, including social security contributions, has pushed up the interest rates which in turn have produced a drastic cutback in the demand for credit. Bankers started noticing at the beginning of February that the normal demand for credit was dropping very sharply.

The secondary banks are caught in this vicious circle far more than the large banks—the big seven (Central, Banesto, Hispano, Bilbao, Santander, Vizcaya and Popular) whose dominant position and influence is unlikely to be affected very much.

The collapse in January of the Banco de Navarra, a small commercial bank based in the northern province of Navarra, sent a few shudders of fear down the spines of bankers over whether the fall might have a chain reaction. The Bank of Spain took it over and a special holding company was created in February with a capital of 500m pesetas, half from the Bank of Spain and the rest divided proportionately among other banks like Banesto and Central. This company will acquire and administer the assets of those banks with problems, brought on by the tough credit policy.

The Banco de Navarra was forced into relying on the inter-bank market whose interest rates are high and it became heavily in debt, reportedly £19m.

It is thought that other small banks are likely to collapse, and while the new holding company is ostensibly aimed at coming to their rescue it does seem that the powerful private banks do not want to create the feeling that any bank will be automatically bailed out. The leading banks see some of their operations being damaged by the small banks which are offering higher interest rates on deposits in order to attract new customers.

There would not be many tears shed in the hard banking world if the number of secondary banks was reduced, but on the other hand the collapse of more than the odd one would produce a further lack of confidence and damage the image of banks in the public eye.

Coinciding with the collapse of the Banco de Navarra has come a tendency for the large banks to start to close their ranks through mergers. In December Banesto and Banco Coca joined together to reconfirm Banesto's position as the leading bank with deposits of 582,000m pesetas. Earlier that month Banesto forfeited its position when its main rival, Banco Central, merged with Banco Ibérico.

Tax authorities now have the right to inspect individual and corporate accounts. The breaking of the bank secrecy has annoyed the banking community, which feels that this betrays the confidence of clients. This may help to explain why some people have been lodging sacks of 1,000-peseta notes not in deposit accounts but in bank vaults, which still escape the official eye.

Fiscal reforms are another factor which have gone down badly in the banking world. "Defrauding the tax system was a national sport", a Madrid bank director said. In fact, the fiscal reforms are slight in the context of other European countries and even less than were originally planned last year as a result of pressure from the right. But the fact that an attempt is being made has been sufficient enough to dampen spirits.

The other unknown threat on the horizon is the nationalization of banks. Talk of this by the left last June, when it was barnstorming the country during the electoral campaign, produced fears in the financial oligarchy. These fears have since died down and there now appears to be little concern as the cries from the left have petered out for the time being—probably from not wishing to aggravate the situation further—and the ruling Democratic Centre Union appears to be less hesitant now in defending the interests of the oligarchy.