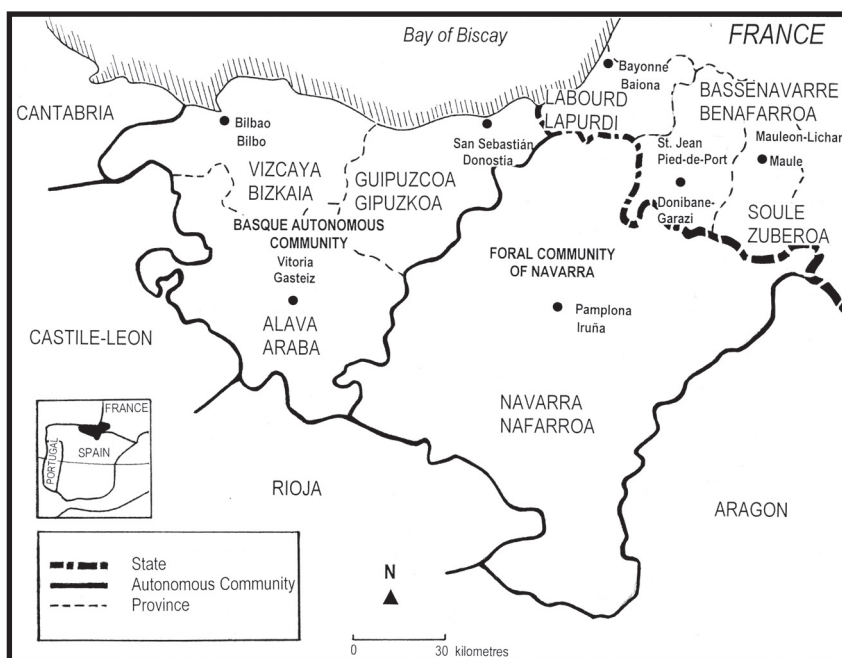


REGIONALISM AND REVENUE

– THE MODERATE BASQUE NATIONALIST PARTY, THE PNV, AND POLITICO-ECONOMIC POWER IN THE BASQUE COUNTRY OF SPAIN 1980–1998

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*Academic dissertation to be publicly discussed
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in the auditorium of Helsinki University Museum,
on the 20th of August, 2005 at 10 o'clock.*

“But what makes the domination of a group, a caste, or a class, together with the resistance and revolts that domination comes up against, a central phenomenon in the history of societies is that they manifest in a massive and global form, at the level of the whole social body, the locking-together of power relations with relations of strategy and the results proceeding from their interaction.”

– Michel Foucault, *The Subject and Power* (Foucault 2000b, 348)

“Historical knowledge gives solidity to the understanding of the present and may suggest guiding lines for the future.”

– G. R. Elton, *Practice of History* 1967, 67.

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LIST OF ABBREVIATIONS

ABB	Araba Buru Batzar
AP	Alianza Popular
BBB	Bizkai Buru Batzar
CC	Coalición Canaria
CCOO	Comisiones Obreras
CEOE	Confederación Española de Organizaciones Empresariales
CEV	Círculo de Empresarios Vascos
CiU	Convergència i Unió
CONFEBASK	Confederación de Empresarios Vascos
EA	Eusko Alkartasuna
EB-IU	Ezker Batua - Izquierda Unida
EBB	Euskadi Buru Batzar
EC	European Community
EE	Euskadiko Ezkerra
ELA-STV	Eusko Langile Alkartasuna - Solidaridad de Trabajadores Vascos
ETA	Euskadi Ta Azkatasuna
EU	European Union
GBB	Gipuzko Buru Batzar
GDP	Gross Domestic Product
HB	Herri Batasuna
IU	Izquierda Unida
LAB	Langile Abertzale Batzordea - Comité Patriótico Obrero
LOAPA	Ley Orgánica de Armonización del Proceso Autonómico
LOFCA	Ley Orgánica de Financiación Autónoma de las Comunidades Autónomas
LTH	Ley de los Territorios Históricos
NBB	Napar Buru Batzar
PCE	Partido Comunista de España
PCE-EKA	Partido Carlista de Euskadi - Euskadiko Karlista Alderdia
PCE-EPK	Partido Comunista de Euskadi - Euskadiko Partidu Komunista
PNV-EAJ	Partido Nacionalista Vasco - Eusko Alderdi Jeltzalea
PP	Partido Popular
PSE-EE	Partido Socialista de Euskadi - Euskadiko Ezkerra
PSOE	Partido Socialista Obrero Español
UA	Unidad Alavesa
UCD	Unión del Centro Democrático
UGT	Unión General de Trabajadores
VAT	Value-added Tax

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This thesis does not in any sense bind the Ministry for Foreign Affairs of Finland. I am, as a historian, responsible for the all the arguments and opinions it contains. Naturally, the errors that remain are the fault of the author alone.

Ilkka Nordberg
Paris, May 2005

1. INTRODUCTION

When I studied at the University of Deusto in Bilbao (in Euskara or Basque *Bilbo*) in 1996 and followed the politics of the Autonomous Basque Country of Spain at close quarters for the first time, the moderate Basque Nationalist Party, *Partido Nacionalista Vasco / Eusko Alderdi Jeltzalea* (PNV/EAJ)¹ was already 101 years old. As a student of history I was interested in the fact that the PNV, which was founded in 1895, was the oldest political party still active in Spain, along with the socialist party of Spain, *Partido Socialista Obrero Español* (PSOE). Since it had also been continuously at the forefront of the regional government since the beginning of the current autonomy in 1980, the PNV could not be an insignificant political movement. Quite the contrary.

While living in Bilbao, I also noticed how this city and its neighbouring areas, traditionally characterized by heavy industry, were experiencing considerable economic changes and a redirection of its economy. As a citizen of Finland, in those days a new member state of the European Union (EU), my curiosity was aroused by the comments of the regional leaders, where the Autonomous Community was described, because of its taxation power, as one more member state of the EU.² There was no need for more stimuli; my interest in the recent history of the economic policy and the PNV's role in it was aroused. My Licentiate thesis (2001) concentrated on the history of the economic policy of the autonomous government of the Basque Country in 1980–1998.³

¹ For simplicity, I use the abbreviation PNV in my thesis. In the complicated Basque politics even language has been politicized, and language or terminology used can be interpreted as taking a political stand. In this work I consciously use the Spanish (Castilian; *castellano*) toponyms and names of the parties or institutions, though I always mention the Basque or Euskara version of a name when I use it for the first time. This is because the sources and the bibliography I have used are mainly in Spanish. Spanish toponyms are also better known than their Basque counterparts. In my thesis the terms *national economy* or *region* do not carry any political connotation they may have in Basque politics either. Basque nationalists may interpret my line as a political decision, which it is not. It must also be stated that calling the central government simply “Madrid” would be historically misleading, since various parties formed the governments in the period covered by my thesis. See also HYML: Raento 1996; for the use of toponyms for political purposes in situations where territorial claims, cultural differences or historical orismology have lent strong symbolic value to the use of certain place-names, see Monmonier 1996, 110–111 & Hall 1981, 320–322; for the link between power and maps in the use of nationalism, see Anderson 1991, 173; Kosonen 2000.

² See, for example, Zulaika 1997, 81 & 83; CD/PNV: ... y ahora Europa. El Proyecto del Partido Nacionalista Vasco en Coalición Nacionalista 1989, 29–30; CD:PNV: Programa electoral para las elecciones europeas. 1994. EAJ-PNV, 40; El Mundo 1.12.1997 & 2.12.1997.

³ *Autonomisen Baskimaan aluehallituksen talouspolitiikka 1980–1998*. HYHL: Nordberg 2001.

In the previous studies of the Basque Country, too little attention has been paid to the history of the use of politico-economic power of the ruling party, the PNV. However, it reveals the internal tensions, tendencies and alignments as well as the strategy of moderate Basque nationalism. It also tells us about its way of operating. When I started post-graduate work in general history I believed, and still do, that this approach also offers an alternative explanation of the history of moderate Basque nationalism. The analysis of the PNV in particular as a long term user of power and a major political force in the region, provides elements for a historical study of its definitions of policy and internal forces.

My dissertation offers a fresh perspective on the history of the Basque nationalism, which is one of the most studied ethnic nationalist movements in Western Europe. Although this is a case study in which the subject is the Basque Country, the empirical analysis reveals that western European minority nationalism is not a simple matter. In the period I cover in my investigation (1980–1998), the PNV also proved tangibly through its actions that nationalism was not a political alignment in decline.

My Licentiate thesis was just a beginning. The methodological point of view I applied there was functional, but not adequate to clarify the history of the use of power and its most important player, the PNV, and the changes that took place in that process. The analysis must go deeper than simply investigating the interaction between the administration and the economy. The rationalization of the contemporary history of the Basque Country and the PNV can be found in the economic and administrative structures of the region, the centre-periphery relationships that colour them, and in the internal and competing visions of economic policy within the party itself. The English historian G.R. Elton's empirical method of political history and the empirical power analysis of the French historian and philosopher Michel Foucault were instrumental in my analysis of this complex. The theory template of my dissertation is based on interconnections between those two empirical approaches, and the subject of my study is the use of politico-economic power.

Because of the significant internal political and economic differences, the Basque Country should not be approached as one entity, nor should Basque nationalism be seen as a coherent political movement, ignoring its antagonist internal tendencies and orientations. The political importance of the moderate Basque nationalism and its so far most significant political manifestation, the PNV, should not be underrated in the historiography of the Basque Country. The basis of my analysis of the Basque Country as a historian is by no means the worst possible, since history is traditionally well represented within that field together with political sciences, sociology and anthropology.

In my dissertation, I answer the questions of how the Basque Nationalist Party acted as an important power-broker, and how this influenced the party. As the hegemonic regional party, the PNV was also prone to change. These changes, together with the party's ability to act pragmatically, allowed it to maintain its dominating position during the 1980s and 1990s. In addition, I shall investigate what the answer of the PNV as a major political force was to the centre-periphery tensions within the Basque Country.

The need to investigate and understand the history of the PNV has not diminished. As Elton stated, “historical knowledge gives solidity to the understanding of the present and may suggest guiding lines for the future.”⁴ This is particularly true in the case of the PNV and politico-economic power.

1.1. The subject of my thesis

The subject of my thesis is the PNV and its use of politico-economic power in the Autonomous Basque Country of Spain. The Basque Country⁵ (*Figure 1*), which is located on the coast of the Bay of Biscay and extends to both sides of the Pyrenees, consists culturally and historically of four provinces in Spain and three in France. Álava (*Araba*), Vizcaya (*Bizkaia*), Guipúzcoa (*Gipuzkoa*) and Navarra (*Nafarroa*) form the historical Basque Country of Spain. However, the first three constitute the Autonomous Community of the Basque Country (*Comunidad Autónoma del País Vasco*) established by the Autonomy Statute of 1979. It is one of the 17 autonomous communities and two autonomous cities originating from the Spanish Constitution of 1978.⁶ In this study, I call the region the Basque Country, referring to that autonomous community of Spain. Navarra, which in cultural history forms a part of the Basque Country, is nowadays a separate autonomous region (*Foral Comunidad de Navarra*)⁷ that decided to opt out of the Autonomous Basque Country in 1979. The provinces located in France, Basse Navarre (*Benafarroa*), Labourd (*Lapurdi*) and Soule (*Zuberoa*) belong to the Department of Pyrénées Atlantiques and the Aquitaine Region.⁸

Why study the Basque Country and its politico-economic history? From a politico-economic viewpoint, the Basque Country is significant because (1) from 1980 onwards it has had wide-ranging autonomy, and (2) the PNV, as the ruling party, exercised considerable politico-economic power there in the 1980s

⁴ Elton 1967, 67.

⁵ Figure 1. The Basque or Euskara language spelling *Euskadi* is a political term. Sabino de Arana, who is considered the father of Basque nationalism, originally used the term *Euzkadi*, which changed to Euskadi in the usage of the radical nationalists. *Euskal Herria* is a concept of cultural history, which does not carry such strong political connotations.

⁶ The other autonomous communities are Andalusia, Aragón, Asturias, the Balearic Islands, the Canary Islands, Cantabria, Castile-La Mancha, Castile-Leon, Catalonia, Extremadura, Galicia, La Rioja, Madrid, Murcia, Navarra and Valencia. For condensed information on the substance of the Spanish Constitution of 1978 and the structure of the state, see Aja 1999, 13–20 & Loughlin (et al.) 1999, 114.

⁷ Navarra is an autonomous community, established by a statute on 19 August 1982. In a referendum in 1979, the people of Navarra turned down the opportunity offered to them by the founders of the Spanish Constitution to join the autonomous community of the Basque Country. Payne 1985, 212; The Autonomy Statute of the Basque Country allows the later accession of Navarra if it so wishes. Ley Orgánica 3/1979, de 18 diciembre de Estatuto de Autonomía para el País Vasco. Artículo 2. LPV 1991, 75.

⁸ For information about the Basque provinces in France, see Raento 2002, 93–94.

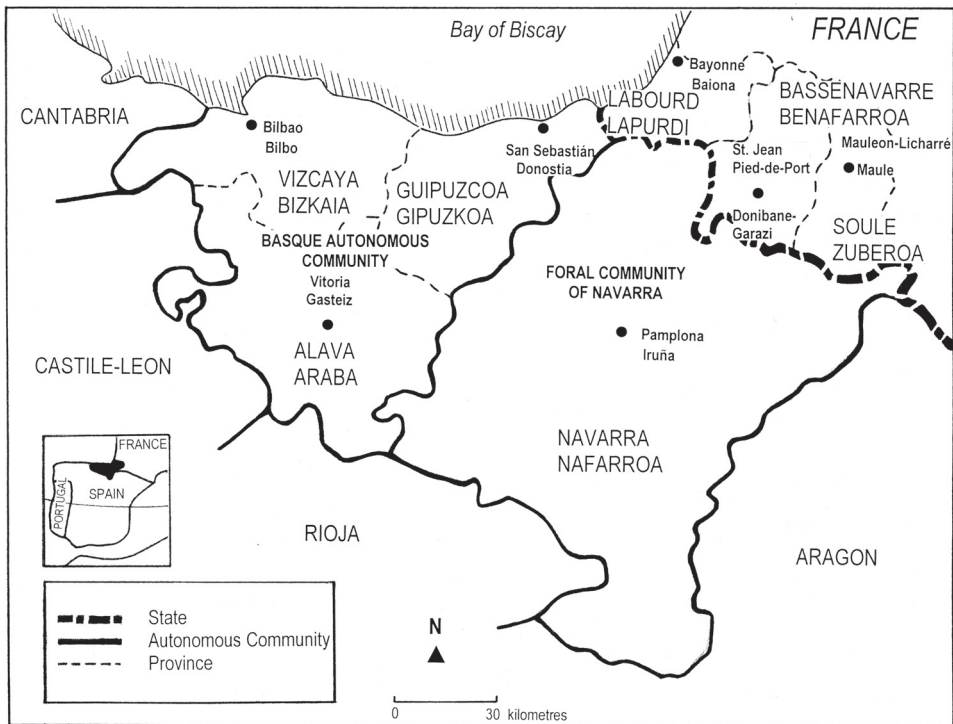


Figure 1. The Basque Country.

and 1990s. (3) Despite the economic problems the region experienced during that period, the Basque Country still remained one of the wealthiest regions of Spain.

Economic policy and its history can be studied in different ways. My thesis pertains to political history, and I concentrate on a period from the beginning of the current autonomy in 1980 to October 1998 when the sixth regional election was held. It is reasonable to limit my study to this, because only a couple of months before, the almost 10-year-old common governmental base of the PNV and the Basque Socialists, *Partido Socialista de Euskadi / Euskadiko Ezkerra* (PSE/EE) ended. After the election, the PNV and the EA formed a new two-party coalition government and started lengthy negotiations with the radical Basque nationalist party *Euskal Herritarrok / Herri Batasuna* (EH/HB), which then led to an agreement on parliamentary support in 1999.⁹ The moderate and radical nationalists cooperated in the regional parliament for the first time in history.

The history of the use of politico-economic power in the Basque Country is actually an important matter for research, because economic policy, economics, and revenue relate to the historical analysis of the PNV and offer essential guidelines for it. The leading scholar on Basque nationalism, the historian Javier

⁹ Acuerdo de bases de actuación colaboradora en sede parlamentaria para la legislatura 1999–2002. GV/EJ Vitoria–Gasteiz 1999.

Corcuera Atienza from the University of the Basque Country (UPV-EHU),¹⁰ points out that in order to understand the PNV's history, policies and exercise of power, it is of the utmost importance to be familiar with the economic history of the Basque Country.¹¹ The economic changes, especially the rapid industrialization of the coastal area, were important factors in the emergence of the PNV at the end of the 19th century. However, the use of politico-economic power by the PNV, an influential party at regional and local level, has not been the main subject of previous studies on the Basque Country or the party, having only been touched upon in pursuance of other questions. For this reason, my thesis will give a fuller and more diversified picture of the PNV than that in the previous historical studies on this subject.¹² The historical analysis of the PNV's exercise of power from 1980–1998 involves studying economic policy decisions, background factors and, above all, the historical process that took place when the PNV used that power.¹³

A historical assessment of economic policy is crucial in trying to understand the ideology and strategy of the PNV and their changes in the 1980s and 1990s. The PNV was determined in its endeavour to enhance the transfer of powers up to the full scale established in the 1978 Constitution; the PNV still presumed that its own values should be applied and enforced in the Basque Country. No other political party in the region was as pragmatic in its everyday actions as the PNV, and at the same time as ideological in enhancing its own historical principles and symbols.

What makes the PNV an interesting research subject is its nature as a regional and populist party and the way it presents itself as a pragmatic defender of the market economy. Ideologically the PNV could be described as a predominantly Christian Democratic party. In its political reasoning, the self-government of the Basque Country is organically linked to the valid economic arrangement (*Concierto Económico*) which has its roots in history, and to its financial instrument, the *cupo*.¹⁴ Under the latter, the Basque Country pays the maintenance cost of those parts of the public sector in the region which have not been transferred to the autonomous government and are still financed by the state. In this thesis, I demonstrate how the analysis of the PNV as a long-standing user of politico-economic power offers substance for assessment by historians of the party's internal forces and structures. Divergent alignments governed within the PNV, and in turn dictated its economic policy.¹⁵ The changes in the PNV's strategy and

¹⁰ *Universidad del País Vasco - Euskal Herriko Unibertsitatea* or UPV/EHU.

¹¹ Corcuera Atienza 1979.

¹² For historical analysis and the need for further and complementary research on that question, see, for example, Granja, Beramendi & Anguera 2001, 289.

¹³ Cf. the tasks of history writing, according to Elton. Elton 1967, 93.

¹⁴ *Cupo* comes from the Spanish word *cuota*, a share. It means the share of tax levy the Basque Country delivers to the Spanish state for the cost of powers that have not been handed over to the region, such as defence or the coast guard.

¹⁵ Zirakzadeh 1991, 101–121 & 140–144.

the mindset that dominated its lateral thinking are apparent in public comments made by the party's representatives and in the writings of contemporaries. It is evident from the political debate in the Basque Country that those changes could be rapid.¹⁶

The PNV's own structure also influenced its use of power in different policy fields. The PNV is formed by provinces and resembles a confederation; despite the strong role of the PNV's national executive body, the *Euskadi Buru Batzar* (EBB), its provincial representations have a manifestly independent position (*Figure 2*).¹⁷ During the period my thesis spans, the provincial councils of the PNV influenced the Basque Country's internal public economy measures. It is also important to raise the question of how independent the regional economic policy really was in relation to the business elites of the Basque Country and its provinces. The results can be applied more generally to historical analysis of other Western European minority nationalisms, for example, the history of the political groups of Northern Italy.¹⁸

The framework of my thesis consists of studies of the PNV, among which the most significant and outstanding work today is still the historian Corcuera Atienza's *Orígenes, ideología y organización del nacionalismo vasco* (1979). It has maintained its position as the basic study, analysing and explaining the establishment and ideology of the PNV, as well as the economic factors linked to these.¹⁹ Besides that convincing interpretation, it is worth mentioning the economic historian Joseph Harrison (1977), who considered the policy of the PNV at the beginning of the 20th century and the connections between the party and the Basque Country business elite.²⁰ In political sociology, Cyrus Ernesto Zirakzadeh has analysed the history of Basque politics and the PNV in the 1970s and early 1980s through the economic development of the region, using the methodology of

¹⁶ Despite an active discussion on economic policy, economic policy issues became more common, and more detailed, in the party's political programmes at the end of 1980s. Among other reasons, this was because of the economic and political changes in the region caused by Spain's membership of the EC/EU (1986–). The EU funding available and the internal market regulations had their effect on the regional economy, fishing as well as heavy industry being affected. For more information on changes in the fishing sector, see Clark 1987 and Wallace & Wallace 2000, 351–352 & 363.

¹⁷ Since with the exception of the representation of Navarra and the Basque Country in France, the provinces had an even number of representatives in the national executive body of the PNV, the *Euskadi Buru Batzar* (EBB), the significant differences in the population of the provinces do not have a direct effect on their right to vote within the EBB. In 1998, Vizcaya had a population of 1,137,000, Guipúzcoa 677,000, and Álava less than 300,000. *Manual del Estado Español* 1999, 598–609.

¹⁸ See, for example, Shin & Agnew 2002, and Agnew 1997; Tusell 1999, 190.

¹⁹ Corcuera Atienza 1979; for a revised edition, see Corcuera Atienza 2001a; a version in English was published in 2001 by the University Press of Nevada. Corcuera Atienza 2001b.

²⁰ Harrison 1977.

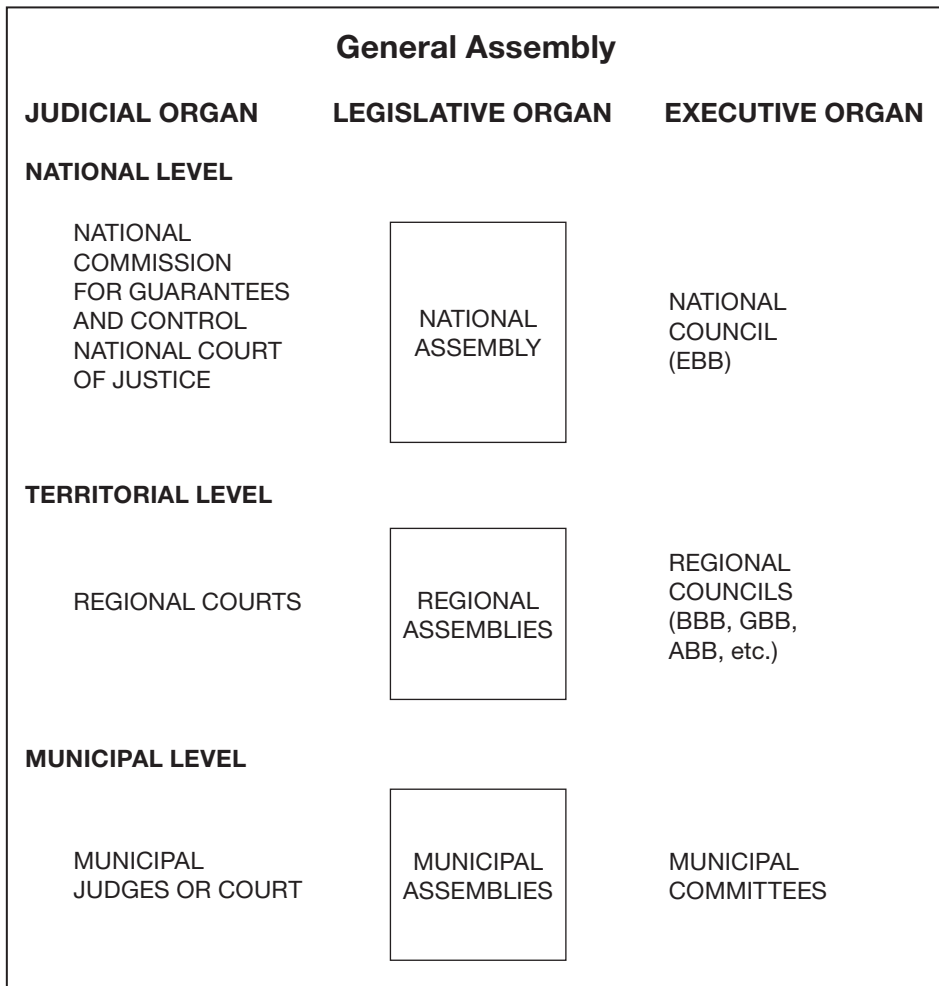


Figure 2. The organization of the Basque Nationalist Party 1980–1998.

history (1985 & 1991).²¹ He broadened the notion of the various economic policy factions within the party by analysing the economic policy of the Basque regional government at the beginning of the 1980s. The political scientist Robert Clark has observed (1985 & 1987) what effects representatives of economic life and the economic changes had on the PNV's actions in the 1980s. He also investigated how Spain's membership of the EC, and later the EU, affected the PNV.²² According to historians of the UPV-EHU, Santiago de Pablo, Ludger Mees and José A. Rodríguez Ranz (1999 & 2001), the characteristics of the economy of the Basque Country, such as its growing importance in Spain's foreign trade since the

²¹ Zirakzadeh 1985 & 1991.

²² Clark 1985 & 1987.

1950s, has benefited the position of the faction that preferred regional autonomy, as opposed to the party wing supporting full independence.²³

The theoretical setting of my thesis, which analyses the PNV's behaviour in power, is based on Elton's definition of empirical political history that is concerned with striving for and use of power.²⁴ Elton has been the subject of wide-ranging and fierce criticism from postmodernists such as Roy Jenkins (1991 & 1995).²⁵ Assimilation and reconciliation of empiricism and postmodernism has seemed to be a difficult task. But, as another English historian, Richard J. Evans (2000) stresses, we should not ignore the influence of postmodernism on historiography, but critically analyse its variety of positions and diverse ways of thinking.²⁶ Evans's opinion can be accepted, because by unifying and making a synthesis it is possible to try to merge history and postmodernism. In my thesis, I have adopted the critical but constructive attitude to postmodernism and the new, positive approaches that its discourse-oriented analysis can offer, as represented by Evans or the American historians Joyce Appleby, Lynn Hunt and Margaret Jacob.²⁷

My thesis rests on Elton's theory on political history but, because of the nature of my research subject, I shall compare and accommodate it to Foucault's ideas in particular in my analysis of the use of power. Where Elton underlines dynamic action and "the system within which the political elements (individual or societal groupings) move into contact with each other"²⁸ and the need for a historian to be familiar with all that, Foucault stresses that power and institutions are not basically the same thing. His idea is particularly interesting with regard to the complex organization of administration in the Basque Country and the dominant position of the PNV there. Nevertheless, Foucault also calls for knowledge of the structures of particular political systems. The core of Elton's and Foucault's methodology is to recognize the use of power and its structures in an actual situation, in other words, empiricism.

The PNV's use of power must be analysed as a historical process in which contexts are emphasized: (1) the autonomous community of the Basque Country; (2) the complex formed by the autonomous communities of Spain, and (3) the EC/EU. The main stage for the use of that power, the Basque administration, was characteristically multi-staged: the regional administration, common to the whole autonomous community, has existed since 1980 and consists of the regional

²³ Economic policy is dealt with through the history of the Basque General Council, which was formed for the pre-autonomy years (*administración preautonómica*, 1978–1980). Pablo, Mees & Rodríguez Ranz 1999 & 2001.

²⁴ Elton 1970, 4.

²⁵ Jenkins 1991 & 1995.

²⁶ Evans 2000, 254–255, 257 & 266.

²⁷ Appleby, Lynn & Hunt 1994, 262. They emphasize the research standpoint, which always has an effect on the final result; the exactitude of the historian's work must not, however, suffer in this process.

²⁸ Elton 1970, 9.

parliament, government and president (*lehendakari*); by its side, there are the traditional or historical governing bodies, the councils and parliaments of the provinces (*Figure 3*). The separation of powers between the regional government and the provincial councils and the problems linked to this (such as coordination of economic and fiscal policy, internecine political horse-trading and piling of political pressures on to the regional government) resembled the relations between the Spanish central government and the autonomous regions in the 1980s and 1990s.²⁹ The internal tensions and differences in the PNV had already become visible in the relations between the regional and provincial administrations at the beginning of 1980s.

In my study, I shall firstly, (1) concentrate on the *context of the Basque Country*, on how the political, economic and historical disagreements and rivalry between the provinces influenced the economic policy of the PNV-led government. This will allow me to define the links between the Basque Country's internal centre-periphery relationship and the economic policy choices of the party. However, I must stress that I discuss the broad question of identity only when concerns the economy. First of all, one must be familiar with the whole sweep of economic policy decision-making. The historical role of the national council, the EBB, and its way of operating become central questions when a historian using the documents of the EBB analyses how various actors were placed in the process of the economic policy decision-making at the early or the final stage. The rise of the EBB's power in proportion to the regional government during the 1980s is already a recognized fact in the historiography, but the analysis of that process and its implications is incomplete; for example, the time frames in the studies by Clark are loose. In history writing, the use of politico-economic power must be analysed within a clear time frame and it must also lead to a synthesis.

In the context of the Basque Country, another important question is what the historical sources such as newspapers and official documents can tell us about the role of the public sector in the PNV's use of power. The PNV always advocated a market economy, but the role of the public sector was important in its economic policy between 1980 and 1998.³⁰ The relationship between the PNV and the public sector was nonetheless complex. Even though the PNV embraced the concept and the meaning of the welfare state more openly by the end of 1980s, it pressed the need to reduce the size and role of the public sector again in the mid 1990s. The position of the PNV towards the public sector varied depending on the current situation and on whether it referred to the central or regional administration. In my dissertation, I wish to pursue the analysis of public-private cooperation, because there are several reasons for the strong position of the public sector in this context. The most important politico-economic arena for the PNV, the province of

²⁹ Aja 1999, 184; Colomer 1998, 40.

³⁰ Cf. in 1980–1998, the proportion of jobs in the public sector and the growth in the service sector was the biggest in Spain. This was beneficial in a situation where the number of jobs in industry practically collapsed. Domínguez Martín 2002, 295.

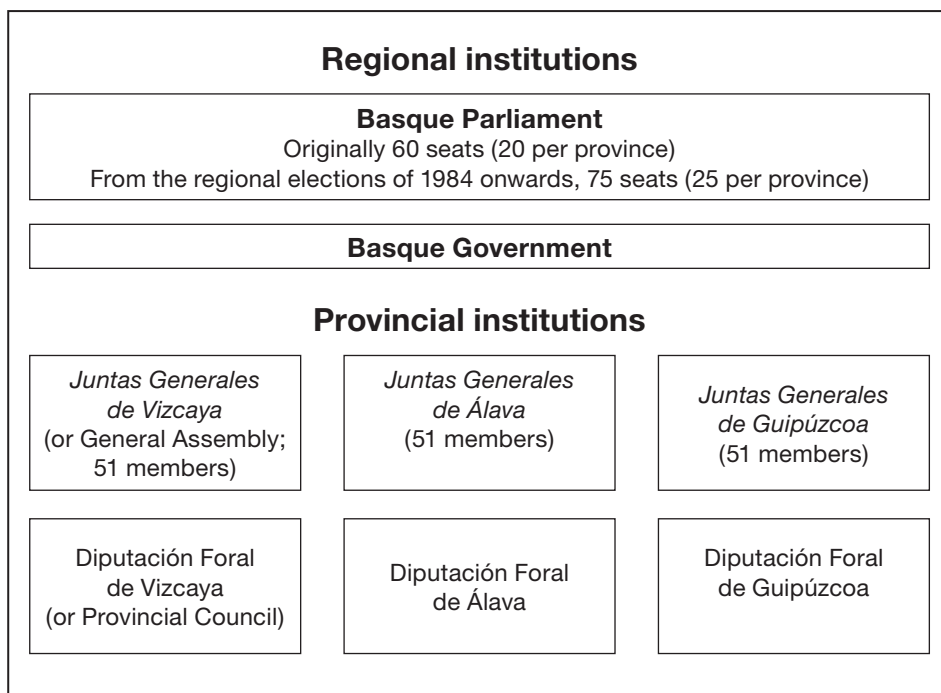


Figure 3. The regional and provincial political institutions in the Autonomous Basque Country since 1980.

Vizcaya and its administrative capital, Bilbao, is relevant in this respect. This was linked to the historical change in the strategy of the PNV. My thesis will reveal what consequences this had.

Secondly, (2) I shall examine the evolution of the politico-economic position of the Basque Country *in the context of Spain*. Before the Constitution of 1978, the structure of the state in Spain was characterized by authoritarianism and centralized use of power. In practice, the only exceptions in the 19th and 20th centuries were the period of 1868–1873, which culminated in the First Republic and the time of the Second Republic in 1931–1936. According to the Constitution of 1978, Spain is not a federal state, and the constitution does not even mention the established Spanish term *el Estado Autonómico*, the State of Autonomies which is being used of the current decentralized state structure.³¹ Nor are there any inter-regional bodies as in a federal state. In the context of Spain, the Basque Country has the greatest autonomy (Figures 4 & 5), even though the transfer of powers, limited by laws and regulations,

³¹ The structure of autonomous regions in the 1978 Constitution has been developing throughout its existence. Aja stresses that it was not fully established in the latter part of the 1990s, and that various tensions still continued to “question” its validity. Aja 1999, 13–14 & 33–34; see also Pelaz López 2002.

Special or Common Regime	Characteristics of the system of financing	Autonomous Community	Powers in spending
Foral (or Special Regime)	Economic agreement + cupo + Internal Financial Relations + Basque Tax Office + Municipal Finance	THE AUTONOMOUS BASQUE COMMUNITY*	Extensive powers + Municipal Financing
Foral (or Special Regime)	Economic agreement + Contribution + Municipal Finance	THE FORAL COMMUNITY OF NAVARRA	Extensive authority + Municipal Financing
Common Regime	LOFCA + health care + Local Financial Management	ANDALUSIA** GALICIA CATALONIA*** VALENCIA	Extensive authority (common regime + education + health care)
Common Regime	LOFCA + health care + Local Financial Management	CANARY ISLANDS****	Extensive authority (common regime + education + health care)
Common Regime	LOFCA	EXTREMADURA** CASTILE-LEON ARAGON BALEARIC ISLANDS****	Reduced authority (common regime + authority in education)
Common Regime	LOFCA + Local Financial Management	CASTILE-LA MANCHA**	Reduced authority (common regime + authority in education)
Common Regime	LOFCA + Provincial Tax Office	ASTURIAS, MADRID, MURCIA, LA RIOJA	Reduced authority (common regime + authority in education)
Common Regime	LOFCA + Provincial Tax Office + Local Financial Management	CANTABRIA	Reduced authority (common regime + authority in education)

* The local police forces had also been created.

** Andalusia, Castile-La Mancha and Extremadura, which did not accept the 1997–2001 financing model, continued to be financed by the five-year system of unconditional resources (based on its tax performance in its jurisdiction and in the overall Spanish territory). Neither did not have any taxing powers in 1998 on the so-called ceded tax or on the regional component of personal income tax.

*** Catalonia's powers also included prison administration and hydraulic constructions.

**** Powers in hydraulic constructions.

Figure 5. The Powers of the autonomous regions of Spain in 1998

Source: own elaboration, and Zulaika 2000, 74; Joumard & Varoudakis 2000, 37 & 39.

region's tax revenue remained in the region and benefited its own economy.³⁴ The Basque Country therefore had its own public finances and national economy to a great extent, although the central government of Spain continued to have its own financial administration. Using the Basque Country as an example, my thesis offers a historical point of view on the debate concerning the possible federalist characteristics of the Spanish state of autonomies³⁵ in the time period covered. The particular problems of federalism and its theory are always case-specific.³⁶ In this case, it is a question of fiscal federalism to a significant degree.³⁷ It is also worth noting that the authority of the Basque Country grew, but it also had different powers from most of the other autonomies in Spain. This type of asymmetry is, however, not typical of federalist systems.³⁸ Secondly, using the concepts of economic policy, two levels of fiscal federalism can be found: (i) the position of the Basque Country in the context of the autonomies in Spain; (ii) an internal federalist structure within the Basque Country where the provinces had, in contrast to the regional government, widening, but identical powers since the early 1980s (*Figure 6*). In any case, the politico-economic powers given to the Basque Country made a long term economic and fiscal policy and management of public finances possible. The approach of my study is based on a detailed historical study on the functioning of the Basque politico-economic structures.

(3) The third politico-economic context was, from 1986 onwards, the *EC/EU*, i.e., the continental context. Concrete results of this included community funding being funnelled directly to the regional and local level, and that the Internal Market regulations beginning to have an impact on the Basque economy and the region's extensive politico-economic power. The relationship of regional powers and especially the politico-economic powers with the EC and later the EU in 1986–1998 is part of the economic and political history of the Basque Country. Despite the fact that within the EU there are also other autonomous regions, the

³⁴ In my thesis, the term *national economy* does not have any political implication, and I do not indicate that the Basque economy was politically a separate unit. Because of its broad taxation powers, the Basque Country can still easily be seen as a region in economics and economic history. Hobsbawm has mounted a strong argument against the use of the term 'national economy'. For example, in the case of the Basque Country, the nationalists use it to promote their own views, though it is a 'meaningless' concept according to Hobsbawm. Hobsbawm 1992, 184–185.

³⁵ Aja 1999, 31, who considers that the Spanish state of autonomies includes characteristics that are typical of a federal system, like "the existence of a functional system of regional financing". Similar interpretations have also been published by Muguruza Arrese (1997) and Tusell (1999).

³⁶ Cf. for example Berndtson 2002, 88.

³⁷ Joumard & Varoudakis 2000, 35–46; Ruiz Almendral 2002.

³⁸ The dissimilarity of powers is not typical of federalism. Aja 1999, 240.

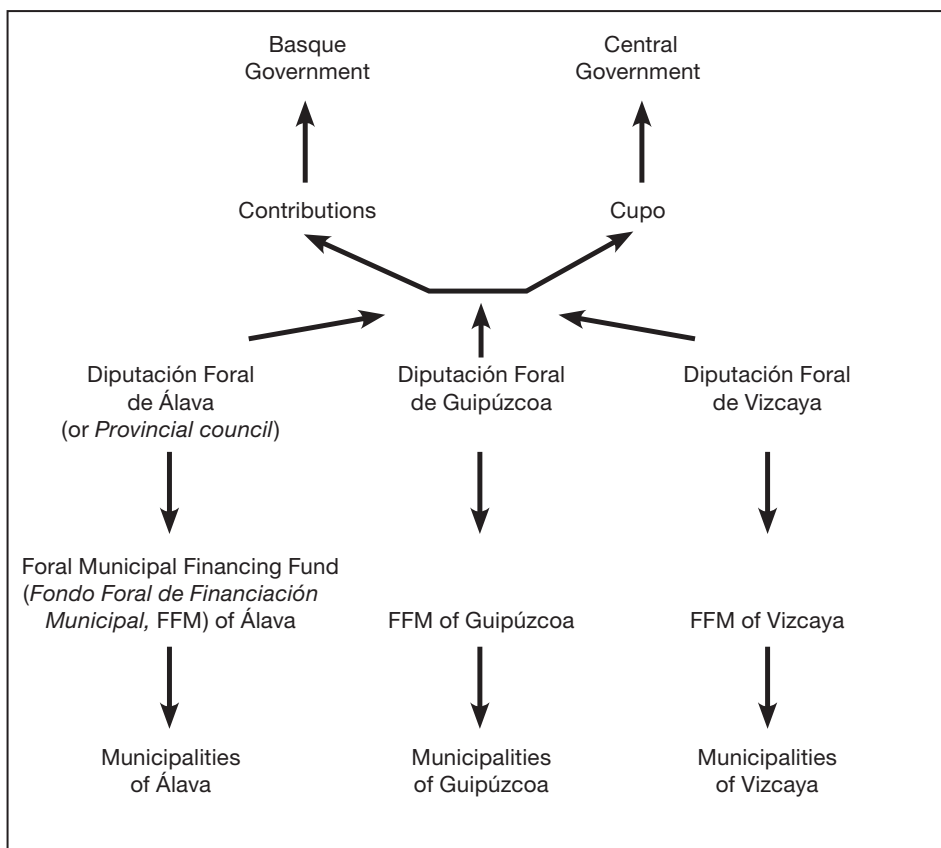


Figure 6. The financial relations between the political institutions in the Autonomous Basque Community in 1998.

Basque Country's autonomy is extremely broad in this context.³⁹ The attitude of the Basque political leaders and the PNV in particular to the EU has, in the long run, been tied to the question of representation.⁴⁰ From the point of view of other EU member countries, such as Finland, an essential question is that if an autonomous

³⁹ For the exceptionality of the system in the EU context see, for example, Van Miert 2000, 59–60. See also his article published in *El País* 5.5.1999; Zubiri 2000; Montero 1998, 94; from the Finnish point of view see *Autonomies in the European Union: The Special case of the Åland Islands* 2002.

⁴⁰ CD/PNV: Programa electoral para las elecciones europeas, 1994, 4 & 10. The PNV hoped that beside the State's representatives those of the Basque Country would be present when issues linked to the region's competences were dealt with in the various EU meetings. The PNV referred here to the practices of member countries like Germany or Belgium; according to the PNV, the representatives of the regions even participate in ministerial meetings; see also Deia 18.11.1998; Anasagasti 2004, 214.

region has not followed *the acquis communautaire*, the role of defendant in the case is reserved for the member country in question. The EC/EU affected the PNV's use of power in different ways and presented a significant challenge to the PNV's politico-economic strategy and methods. This question has not so far been discussed extensively in historical studies; my study shows how empirical political history is a viable approach in this context as well.

1.2. The concept of politico-economic power and prerogatives in the context of the Basque Country

Since my study interfaces with political science, it is important to specify the definitions of economic policy and politico-economic power (1) in general, and (2) in the context of the Basque Country particularly in order to clarify the special nature of the region's politico-economic position. This is also necessary because my approach is close to political economy,⁴¹ which recognizes the political nature of decision-making and discusses the influence of politics on economic choices in society.⁴² It takes into consideration the political cycles and the effect of elections on politico-economic decisions, differentiating it from research in empirical political history.

(3) The question of public finance, always linked to the delegation of administrative powers, must also be discussed. The Basque Country offers a perspective on the development of the system of regional finance in Spain. However, my thesis is not an investigation into the history of politico-economic thinking, nor is it a study on the theory of federalist economic policy.

1.2.1. The concept of economic policy

The concept of economic policy generally relates to choosing the means and methods by which to achieve set objectives, within the limits of existing institutions and external circumstances, and according to which the turn of events and changes in the economic and political environment are dealt with. The way governments react to short-term economic fluctuations can coincide with structural adjustment policies, though their compatibility in a particular economic

⁴¹ Traditional economics analyses the optimal use of limited resources. Political economics has a special meaning during periods of transition; i.e., when one social and economic system changes into another. For political economics in its current form, see Drazen 2000.

⁴² *Politics* is being used here to mean influence and ability to achieve results that correspond to the objectives set by those who exercise power. Ranki 2000, 20–21. The subject of Ranki's doctoral thesis is the Finnish ministerial committee for economic policy in 1987–1991, a good example of how research on economic policy can make use of economic policy analysis of political sciences. *Political cycles* are used for fluctuations caused by elections. The theories of political cycles have also been analysed empirically. See, for example, Alessina, Roubin & Cohen 1997; Ranki 2000, 23 & 25.

situation is not without its problems.⁴³ Economic policy is divided into financial or fiscal policy carried out through state finances (as well as municipalities and social security funds); monetary policy, which affects interest rates and the money supply, exchange rate policy, and incomes policy. In a broader sense, it can also include commercial and industrial policy; instead of the macro-level regulation, structural policy concentrates on the micro level (i.e., the corporate level).⁴⁴

1.2.2. The concept of politico-economic power in the context of the Basque Country

What are we talking about when we discuss politico-economic power and its use in the context of the Basque Country? Power and authority in the region is regulated and defined by Spain's 1978 Constitution and the Basque Autonomy Statute of 1979. Article 2 of the Constitution declares the indivisibility of the Spanish nation, but at the same time "recognizes and guarantees the right to autonomy of the nationalities and regions integrated therein and the solidarity among all".⁴⁵ Article 143, written for the Basque Country, Catalonia and Galicia, describes how the so-called historical regions, which have common "historical, cultural and economic"⁴⁶ characteristics, have the opportunity to form autonomous communities and approve themselves a statute of autonomy. In the Constitution, the autonomy of Álava, Guipúzcoa, Vizcaya and Navarra was intended to be anchored in the traditional system of provincial rights and privileges (provincial charters, or *fueros*) in the Basque Country by "protecting and respecting the historical rights" of the foral communities, which include an economic agreement.⁴⁷ Despite the many interpretations of "the historical rights," the financial aspect was already

⁴³ Ranki 2000, 30; Forssell 1981, 278.

⁴⁴ It depends on the emphasis on policy goals, whichever policy sector is in the forefront of an economic policy model, and how it is being used. Such goals can include employment, the exchange rate, the inflation rate, the current balance payments, and the public deficit. Ranki 2000, 30–31; for a general overview of and insights into economic growth, see the recent publication by the OECD, *Understanding Economic Growth 2004*.

⁴⁵ Article 2: "La Constitución se fundamenta en la indisoluble unidad de la Nación española, patria común e indivisible de todos los españoles, y reconoce y garantiza el derecho a la autonomía de las nacionalidades y regiones que la integran y la solidaridad entre todas ellas." CE:BOE 1983, 19; Loughlin 1999, 114; Powell 1999, 251; Tusell 1999, 167–168.

⁴⁶ Articles 144 and 151 were created for the other regions. The gradually progressive nature of the Constitution was emphasised in the formulation of Article 143, which indicates that the historical regions "may accede" to self-government and become an autonomous community. Article 143. CE:BOE 1983, 85–86; the same section of the constitution enacts the regional structure of the state. Chapter VIII, sub-chapter 1, Article 137. Op. cit., 83; the Constitution also enacts the procedure to establish autonomous administration. The Constitution explicitly prohibits the autonomous regions from creating a federation of self-governing communities. Article 145.1. Op. cit., 86.

⁴⁷ Op. cit., 107.

included in the Constitution.

From the politico-economic point of view, the Spanish constitution includes four main aspects: (1) it is a combination of basic economic principles; (2) it includes a group of definitions for the planning and development of the economy; (3) it regulates public finances and the basis for the relations between the industrial structures of the different regions, as well as (4) the economic regionalism of Spain.⁴⁸ The Constitution lists the powers delegated⁴⁹ to the autonomous regions, including, among other things, powers over regional infrastructure, fishing and agriculture as well as the authority to “enhance economic development in the region within the conceded framework of national economic policy”;⁵⁰ a formulation open to interpretation. The state continued to oversee monetary policy and the general planning of economic policy and its coordination as well as the state’s financial administration.⁵¹ The Constitution’s definition of decentralization of powers was, however, complicated. Consequently, it lists the powers that *can* belong to the autonomous regions, and are to be acquired gradually, including the right to develop the economy of the region following the principles settled in the national economic policy.⁵² The determining factor is that the central government held back the possibility to regulate the transfer of powers, which depends on political agreements. The politico-economic relationship between the central and regional administrations is therefore, according to the Constitution, characteristically bilateral by nature. On the other hand, the relations between the regional governments and particularly the sectoral conferences remained underdeveloped between 1980 and 1998. What is important is that the Constitution did not specify a legally definitive model for a new a kind of state,⁵³ the system of autonomies being left open to change.

The decentralization of power, as the contemporary history of the Basque

⁴⁸ Tamames 1993, 808; Tamames & Rueda 1998, 517 & 529–530.

⁴⁹ Articles 148.–150. CE:BOE 1983, 88–90.

⁵⁰ Article 148.1. Op. cit., 88.

⁵¹ Article 149.1. Op. cit., 90–94.

⁵² Other such areas include the right to legislate on soil, housing, public works, railroads and communications, the road network and transport traffic, telecommunications and airports, as well as agriculture and dairy farming in the harmony with the state-level policies. Article 148. Op. cit., 88–89; according to Article 149.1. the areas *exclusive* to the state include international relations and trade, customs, the monetary system and defence. Article 149.3 lists the powers which *do not explicitly* belong to the state level and can belong to the autonomous regions through their statute of autonomy. However, the powers that have not been conceded to an autonomous region in its statute will belong to the state. The Spanish parliament was authorized to deliver powers to an autonomous region to decree laws for itself in an issue regulated by national law. (Article 150.1.) Op. cit., 94; the state can also always transfer those powers to the autonomies by law that do not belong to the group of “exclusive” areas. The state is expected to transfer public financing and financial auditing (Article 150.2.) Op. cit., 94–95.

⁵³ Loughlin 1999, 114.

Country reveals, was not a process without problems. The Constitutional Court (*Tribunal Constitucional*) arbitrates between the State and the Autonomous Communities in questions of the competence to approve a law or a by-law. Since the decision is based only on law (the Constitution or the Statute of Autonomy in question) the role of the Constitutional Court is that of a conciliator.⁵⁴

In any case, the Constitution defined economic and financial autonomy (*autonomía financiera*) and included a configuration for the system of financing of the autonomies (*financiación autonómica*), leaving the details and further elaboration to future political negotiations, however.⁵⁵ Although the duty of the state was also to transfer the funding needed, the Constitution did not explicitly refer to the division of powers in tax collection (*corresponsabilidad fiscal*), which was also left for future handling.⁵⁶ The autonomous communities are being given *the right to their own share of financing and its expenditure in their own region*. Based on this principle, two different basic systems of regional funding were created: a general model (*el Régimen Común* or LOFCA) and a model based on separate economic arrangements, which applies to the Basque Country and Navarra.⁵⁷ The Basque Country is, therefore, an exception among the autonomous communities, because of its own arrangement, which resembles a small national

⁵⁴ Aja 1999, 127.

⁵⁵ Articles 156.–158. CE:BOE 1983, 100–101; Article 156 covers a region's economic authority to fulfil its own tasks, and Article 157 establishes the autonomies' own share of taxation (50–57%) in their budgets, their own fiscal supplements, and a definition of local taxes and charges as well as a state level compensation fund (*Fondo de Compensación Interterritorial*). The article defines a three-step process for the general scheme of regional funding, which would lead to a situation in which a region would have the right to its own tax revenue.

⁵⁶ To implement the shared tax liability would mean extending the powers of an autonomous community; in the case of other autonomous regions than the historical regions, the sharing of fiscal responsibility became reality through LOFCA (*Ley Orgánica de financiación de las Comunidades Autónomas*) only in 1997. Informe sobre la Financiación de las Comunidades y Ciudades Autónomas Ejercicio 1997, 1999.

⁵⁷ The finance and property of the autonomous communities consist of (1) taxes levied fully or partially by the state (i.e., taxes that form part of Government revenue and other state subsidies); (2) their own tax revenues, levies and remunerations; (3) transfers from the inter-regional compensation fund and other income transfers related to the State Budget; (4) the region's own property or entries of revenues based on their own rights; (5) earnings from credit granting. The autonomous regions get resources from income tax (IRPF, *Impuesto sobre la Renta de Personas Físicas*) when the state tax passes a predetermined level. If that level is not reached, the state will disburse the difference. Articles 156.–158. CE:BOE 1983, 100–101; see Tamames & Rueda 1998, 530; Articles 137 and 138 include the so-called “principle of joint responsibility”, which aimed to avoid a situation where some of the regions would end up in a worse economic situation than the others; it took shape only in the form of the fund of compensation. Article 139 regulates that the interregional economic arrangements must not violate the free trade and the movement of goods at the state level. Tamames & Rueda 1998, 528.

economy. In the latter part of the 1990s, the concepts of fiscal or economic federalism were used in referring to the politico-economic part of the Basque autonomy.⁵⁸

1.2.3. The Basque System of Finance

The Statute of Autonomy (*Estatuto de Autonomía del País Vasco* or *Euskal Herriko Autonomia Estatutua*),⁵⁹ approved in the Basque Country in a referendum⁶⁰ in 1979, establishes the economy and public funds of the Autonomous Basque Country in section 3, according to which the region has its own independent economy and assets and liabilities. Article 41.1 states that the tax relations between the state and the Basque Country are regulated by the foral system based on the traditional provincial rights and privileges in the form of an economic arrangement or agreement.⁶¹ Important for future developments was that the competent Institutions of the Historic Territories may maintain, establish and regulate, within their own territory, the tax system, bearing in mind the general tax structure of the State, the rules contained in the Economic Agreement itself for co-ordination, fiscal harmonization and collaboration with the State, and those to be issued by the Basque Parliament for the same purposes within the Autonomous Community.⁶²

Politico-economic powers, and significantly, the right to regulate taxes, had thus

⁵⁸ Aja 1999, Muguruza Arrese 1997 & Tusell 1999.

⁵⁹ The statute consists of 46 articles, which have been divided into five sections: an introduction or the preliminary section and four main sections. Moreover, it includes an Additional Provision (*Disposición adicional*) and Transitory Provisions for the transition period from the pre-administration to the new one. The first section explains the jurisdictions of the Basque Country, the second chapter regulates the powers and defines the main institutions of the region. Section three explains the region's finances and property, and the fourth includes the principles of amendments to the statute and how to change or modernize the statute. EA:BOE 1986, 19–21; LPV 1991, 75–102; Aja 1999, 87; Oña Gómez & García de Vicuña Peñafiel 2000, 180.

⁶⁰ In the October 1979 referendum on the Basque Autonomy Statute, the combined turnout of the Basque provinces was 58.9 percent. The affirmative vote reached the level of 90.2 percent of votes cast, the negative vote was 5.2 percent, and the informal votes 4.6 percent. However, 40.2 percent of voters abstained. Importantly, there were significant regional differences within the Basque Country. BOE no.269, 9 November 1979; see Table 1; the statute was supported by the PNV, PSE, ESEI, EE, UCD, PCE/EPK, Partido Carlista (PCE-EKA), the ORT, and the PT. The Communist LCR/LKI, EMK and radical HB abstained. The right-wing AP Alavesa and the PPA, as well as the radical right voted against. Documentos para la historia del nacionalismo vasco 1998, 159; Oña Gómez & García de Vicuña Peñafiel 2000, 180; Prego 2000, 94.

⁶¹ *Concierto Económico* or *Convenios*. The latter one is for Navarra; Article 41.1. LPV 1991, 96.

⁶² Article 41.2a; a law concerning the Economic Agreement must always be passed. The translation here is by the Basque regional government and published in Euskal Herriko Autonomia Estatutua 1983, 184.

already been extended to the provinces. Despite the state's intention to harmonize taxation between itself and the Basque Country, the Statute emphasized the future role of negotiations between the Basque regional government and representatives of the provinces to determine the real division of powers. A more detailed division of politico-economic powers within the Basque Country understandably became a bone of contention between the political forces in power; it had also been heavily dependent on the outcome of that struggle since the beginning of the autonomy.

1.3. Elton's theory of political history and Foucault's analysis of power examined

What are the congruences and differences between Elton's research method and Foucault's analysis of power, and what are the problems that these two approaches contain? Why is it reasonable to assimilate and combine them, particularly in this context? In other words, what is it in the contemporary political and economic history of the Basque Country that makes them indispensable methodological tools for my study? I analyse these questions by taking into account (i) the relationship between power and administration and (ii) study of the use of politico-economic power and the factors influencing it.

Accommodating Elton's and Foucault's theoretical elements forms the basis of my research method. Firstly, their definitions offer a way to analyse the use of power and factors that influence it. Secondly, they clarify the links of my research subject with administrative history, political economy and political sciences. In order for Elton's theory of history to play the role that I have reserved for it in my thesis, I finally discuss the challenges that his explications pose to a historian. I also emphasize empiricism, narrativeness and criticism of sources in my study.

1.3.1. The relation between power and administration

Elton's definition of political history, presented in his book of the same name⁶³ is concise: "political history is the study of that dynamic activity in the past experience of human societies which has direct relevance to the organizational aspects of those societies".⁶⁴ The work of Elton is resonant, since he shows how politics can be analysed by traditional methods used in historical study. Since the essential theme of political history is *power* and the way it is striven for and used within and between societies,⁶⁵ it is about dynamic activity and action. In my Licentiate thesis, I demonstrated how Elton's empirical research method was suitable for the analysis of a bounded political environment since the structures of power and

⁶³ Elton's work *Political History* was written as a result of a dispute concerning the nature of historical study. Elton 1970; Kouri 1990, 104; cf. also in this respect Elton's work *The Practice of History*. Elton 1967.

⁶⁴ Elton 1970, 4.

⁶⁵ Elton 1970, 4; see also Häikiö 2003, 90.

their contexts are essential in the contemporary history of the Basque Country.⁶⁶ According to Elton, the study of political history should become absorbed in those structures and analyse the functioning of the administration that exercises power. A historian must, first of all, be familiar with the way this happens, and “needs to understand and relate the elements that produce given political structures in particular and ascertainable circumstances”.⁶⁷ Secondly, he must “understand the machinery which made possible the translation of power into action”.⁶⁸ Elton sees administrative history as a part of political history.⁶⁹

The key issue in Elton’s version of political history is the concept of power and its relationship to administration. The dynamic action examined by a historian “depends on the presence of a force – on the employment of energy – and the force applicable to political action is power: the power to do things for, or to, other people.”⁷⁰ A historian is interested in (a) the struggle for power, and, (b) the active exercise of power. For Elton, power has no meaning, unless “it is exercised over others, contested with others, won or lost to others”.⁷¹ Political history concentrates on analysing power and its uses in human social relationships.⁷² Elton underlines that the struggle for power, as well as its use, takes place through organizations such as political parties and social power structures, within and between societies.⁷³

Foucault, who analysed “power” in the humanities, seems to have interfaces with the general theory formulated by Elton. Moreover, he advocates Elton’s empirical method. In Foucault’s writings, two questions can be distinguished: (1) the relationship to power, that is, what conceptualizes it, and (2) power’s relationship to administration. The first is closely related to the task of the historian who critically utilizes Foucault’s ideas and must distinguish between (i) “power” and its appearance in Foucault’s research work and (ii) the way Foucault explains power, or what it is.

(1) Foucault was not attempting a theory of power, but an analysis of it.⁷⁴ He

⁶⁶ HYHL: Nordberg 2001.

⁶⁷ Elton 1970, 10–11.

⁶⁸ Op. cit., 28; an essential question in analysing a policy of a particular government is what its freedom of action was, so that administrative and constitutional history became parts of political history.

⁶⁹ Elton’s thorough approach is illustrated by his requirement of including economic questions in the analysis of political history. Op. cit., 7 & 8.

⁷⁰ Op. cit., 4.

⁷¹ Op. cit., 5.

⁷² Op. cit., 8.

⁷³ Op. cit., 4 & 10; according to Elton, a society’s internal structures are dependent on how power is available and active. A historian who analyses political history must also be able to lean on results from research into social structures and attitudes. Op. cit., 38–39.

⁷⁴ Foucault 1980, 145; scholars have emphasized how Foucault’s analysis of power was constantly developing, and is not a problem-free road-map for the researcher. See, for example, Dreyfus & Rabinow 1982, 205.

considered the theory under construction to be more a logic of the specificity of power relations and the struggles surrounding them.⁷⁵ Power should therefore be seen as an open, more or less coordinated nexus of relations. While Foucault's concept of power is essentially collective by its nature,⁷⁶ he claims that the analysis of power – including history writing on the use of political power – should be more empirical in that: power exists only when it is being used. The exercise of power is an inclusive and comprehensive structure. Nevertheless, according to Foucault, “power” is not so much a confrontation between two parties, as a way of directing the conduct of individuals, groups or organizations and “a question of government”.⁷⁷ “Power relation” is not, however, for Foucault, an expression of consensus or stasis, but an “action upon an action”.⁷⁸ This aspect is also characteristic of (i) the internal (politico-economic) power relations in the Basque Country where powers have been delegated from the regional government to the provinces and (ii) the hegemonic party's relation to these governing bodies.

(2) More important than the views concerning the reasons for the use of power is Foucault's idea that the aspiration and striving for power will normally manifest itself more through institutions than individuals. Though Foucault's reasoning appears self-fulfilling and includes the danger of taking freedom of choice away from individuals, his analysis expands on the definition of power and, above all, defines how the use of power and the structures of governance are present in the empirical history reading. “The internal structure of states depends on the manner in which power is made available and active”,⁷⁹ Elton claims. He also claims that decision-making and policy-making are separated from administration, although they are linked to its structural characteristics. My argument is that Foucault's idea that power and institutions are not the same thing can be endorsed because he still admits that power relations are close to institutions.⁸⁰ The structures emphasized by Elton are thus not in any way absent in Foucault's pronouncedly empirical viewpoint.

An important observation for the subject of my study is Foucault's view that power is productive.⁸¹ He underlines that political technologies cannot be identified as pertaining to particular institutions. Power and power relations always exist downwards and upwards. His observation is particularly important to my study because, in the context of contemporary Basque political history, regional and local levels are interlocked and also strongly affected by the national and EU

⁷⁵ Foucault 1980, 145.

⁷⁶ Väyrynen 1992, 101.

⁷⁷ “A question of government”. Foucault 1982, 220–221.

⁷⁸ *Op. cit.*, 220.

⁷⁹ Elton 1970, 10.

⁸⁰ Foucault 1982, 222.

⁸¹ Foucault 1980, 119.

politics. For Foucault, power is manifested as a productive network⁸² that more or less pervades the whole society. This view is also important for my analysis of the PNV's use of power and its relation to the administration. According to Elton, political history is concerned about activities, but the institutions have their impact on the events of political history. Recognizing the administrative and political structures is not an end in itself. For a historian, a thorough knowledge of the components and actors of a system is a prerequisite for an analysis of the *change* in time, the core problem.⁸³

The use of political power in the Basque Country has been regulated by the fundamental characteristics of the region's political system, such as the tensions between the provinces and the regional administration. Even the analysis of the use of politico-economic power is essentially about describing, understanding and analysing the active interaction⁸⁴ that Foucault describes as the "strategic relationship".⁸⁵ The institutional structure of representative democracy and the politico-economic power structures and their limits are relevant to the political history of the Basque Country, which follows Elton's theory and Foucault's thinking. My thesis reveals that, beside understanding the functioning of the government and the administration, political history must analyse the effects of these activities, thus transcending the limits of purely administrative history.

1.3.2. Analysis of the use of politico-economic power

To know and recognize the mechanisms of exercising power⁸⁶ is for Elton a prerequisite for untangling and explaining causality and consequences in contemporary political history. Foucault also intends that the analysis of administration and government must be augmented by research into mechanisms;

⁸² Foucault's idea is linked, however, to power mechanisms. He mentions state apparatuses developed in the Classical period, such as the army or fiscal administration; these allowed the effects of power to "circulate in a manner at once continuous, uninterrupted, adapted and 'individualised' throughout the entire social body." Foucault 1980, 119.

⁸³ Fogel & Elton 1983, 112.

⁸⁴ Elton 1970, 8.

⁸⁵ Foucault 1980, 142 & 145.

⁸⁶ Cf. Risto Ranki's thesis on the work of the ministerial committee for economic policy issues in prime minister Harri Holkeri's government's (1987–1991). It is a combination of political science and economics, but as an administrative comparison it has also characteristics of administrative history. Ranki 2000, 42; an interface can be found here with Foucault's thinking. For Foucault, analysis of technologies and mechanisms of power is possible, and is not the same thing as a theory of power. Foucault 1980, 116; the encounter between thinking and mechanisms in economic policy has been analysed. See, for example, the economist Peter Miller and sociologist Nikolas Rose's study *Governing economic life*, which refers to such historical events as the French national planning project, developed under Jean Monnet, through which "political language a variety of concrete and micro-level issues were to be thought about and acted upon". Miller & Rose 1993, 86–87.

i.e., methods of influence.⁸⁷ The term used by Foucault, *governmentality*,⁸⁸ is being embodied in innumerable attempts to create, develop, locate and use the mechanisms of government. The process by which power becomes an instrument and is made viable therefore includes a technological form.⁸⁹ The variety of mechanisms should be regarded as a broader repertoire, including direct and indirect means by which the rulers try to influence the units and processes of the economy.⁹⁰ Foucault's idea that the rulers' means of influencing such things as the economy are manifold can be accepted and exploited in empirical history research.⁹¹ In fact, I think that the research into the dynamic functioning of societies and pursuit of policies defined by Elton and my PNV-related focus even require that kind of viewpoint from a historian.

Just as Foucault sees power relations as intentional, political actors are always conscious of their own actions. When we analyse a political situation, we always see its logic and objectives.⁹² Elton divides historical causes into two main categories: (1) the "situational causes" which provide conditions for the production of a given event, and (2) the causes which directly produce it. This latter group can be subdivided into (a) intentional, and (b) unintentional causes; he again divides the last one into those (i) where unintended results were produced by an act of will, and (ii) those causes in which no act of will was involved.⁹³ The main issue is that Elton recognizes the problem of causation: "the difficulty of establishing independent or objective criteria for judging between one alleged cause and another".⁹⁴ However, he points out that the argument against cause and motive "dangerously removes man from ... history".⁹⁵ In the empirical analysis of

⁸⁷ Miller & Rose 1993, 102.

⁸⁸ Foucault 2000a.

⁸⁹ Foucault refers to this using the term *government*. Foucault 1986, 225–226; Miller & Rose 1993, 82; the historical analysis of political power is not a sub-science of the theory of power or the history of political thought, although the significance of language and political statements in the administration and use of power is present, for example, in the analysis of economic policy. See also *op. cit.*, 80; although Foucault's idea (based on discourse) of the political discussion's significance for economic policy would not be accepted as such, it is clear that intentionality can be shown through political statements as well as seeing signs of economic policy change.

⁹⁰ Miller and Rose, who have applied Foucault's analysis of power, point out that in economic history, the economic policy changes of the 1960s have been seen in many cases as a demonstration of the state's growing planning and regulatory power in the national economy. Still, it would be misleading to juxtapose an interventionist and a non-interventionist state in the historiography. Miller & Rose 1993, 89–90; the conceptualization was applied in order to help the administration. See also *op. cit.*, 92.

⁹¹ Morris & Patton 1979; see also Miller & Rose 1993.

⁹² Foucault 1980, 145.

⁹³ Elton 1970, 138.

⁹⁴ *Op. cit.*, 119.

⁹⁵ *Op. cit.*, 120.

politico-economic power this would lead a historian to inaccurate interpretation. Here it is important to see that in Foucault intentionality is reflected in the use of power, so that power is always used for a certain purpose and to gain something.⁹⁶ His idea that there is no clear subject for the use of power can be explained by the practices themselves.

In Foucault's concept of causality, two questions can be distinguished. His emphasizing the diffusion and complexity of power has been criticised in comparative studies on theories of power for not meeting the most important criterion that the effects of the use of power cannot be trivial.⁹⁷ For Foucault, the power of directing and influencing, or *governance*, is the same thing as strategic directing and exertion of power. This, I think, is an interesting question for the analysis of the PNV's relationship to the regional administration during its long period of ascendancy. Secondly, Foucault's analysis of power includes workable elements for the study of politico-economic history, since it separates, recognizes and analyses the network of relations. Since, as Elton points out "there is no politics without contact", political history requires understanding of the system within which this contact between the political elements takes place.⁹⁸ In order to understand the historical causality properly, the links between the Basque economy and regional politics must also be included in the analysis.⁹⁹ Elton and Foucault follow that logic in demanding that the study of actual events, as effects and as a causes of further effects, must disentangle the background and the contexts of those events.

The study of decision-making is a challenging part of political history. In a democratic system, government decision-making and economic policy-making is in fact a process, not an isolated event. This process consists of fact-finding, charting possibilities, preparing the public and one's own supporters for the future, convincing and persuading governmental and political parties, and making those who are *de facto* responsible for the decision commit themselves to this end.¹⁰⁰ According to Elton, the historian must therefore ask (1) how decisions were arrived at, and (2) how they were carried into action. The first question includes two other questions: (a) who contributed to this decision-making, and (b) what conventions

⁹⁶ Dreyfus & Rabinow 1982, 187.

⁹⁷ The obvious problem is how to talk about a strategy without one, or intentionality without a subject. Foucault emphasizes strategic relationships, but his analysis of power has been criticized in comparative studies of theories of power for stressing the decomposition and complexity of power and not meeting the criteria for the significance the exercise of power. In other words, when power is used, its effects cannot be trivial. See, for example, Väyrynen 1992, 102.

⁹⁸ Elton 1970, 9; this is, in fact, the core question in Zirakzadeh's analysis of the relationship and interaction between the Basque businessmen and PNV in the late 1970s. Zirakzadeh 1985 & 1991.

⁹⁹ The analysis of economic life and the circles which influence it is the key to Zirakzadeh's analysis of the PNV's internal ideological tendencies. Zirakzadeh 1991.

¹⁰⁰ Ranki 2000, 40.

of thought and attitudes conditioned it?¹⁰¹ Foucault stresses that although in a political system it is always possible to point out who occupy the leading positions, who the so-called “decision-makers” are, the decision-making itself, and why and how these decisions were taken is still not known. The solution he proposes is to investigate strategies, mechanisms and techniques of power, without which a particular decision could not have been taken the way it eventually was.¹⁰² My investigation thus concentrates on the grouping, in other words, the strategy of the PNV and its governing body, the EBB.

An exact analysis of decision-making discloses the close relationship of my empirical study with political economy. Consideration of the latter recognizes the political nature of decision-making and assesses the impact of politics – i.e., the influence and ability to achieve results which correspond to objectives – on economic choices in a society.¹⁰³ The basis for decision-making in economic policy consists of information on past events and assessment of future developments.¹⁰⁴ Thus, analysing economic policy must include the information and scenarios available at that time, how the decision-makers knew to react to them, and what the possible limitations in the choice of measures were. By following Elton’s theory, my own thesis takes into account, above all, the limits of politico-economic power and the components of administration which created them at different times. However, I also explore the use of that power as a process, since I believe that the actions of the PNV are also better understood as such. Understanding the interaction between Basque politico-economic power and politics in the 1980s and 1990s requires one know the whole sweep of Basque politics and the changes occurring, as well as the economic indicators. This is why it is necessary to know the Basque Country’s economic history and structure.

An important constraint of empirical history writing is that one can only be certain of what actually *happened*. On the other hand, empiricism is an obvious challenge to political history, coercing the historian to take different views on the institutions and mechanisms of government and political decision-making; all this is necessary when I assess the internal, multi-stage administration of the Basque Country. Empiricism does not therefore mean that the historian is not analytical. The essential element here is to specify the concepts and the research subjects; the historian must also distinguish the information from the sources, which is

¹⁰¹ Elton 1970, 29.

¹⁰² Foucault 1988, 103–104.

¹⁰³ It is important to emphasize that traditional economic science includes the idea that finding an optimal solution can also lead to its realization. Political economy recognizes that political restraints might lead to a situation in which the policy chosen is not the optimal one. Ranki 2000, 20; Pekkarinen & Vartiainen 1993; see also Williamson 1996, Hall 1986 & Drazen 2000.

¹⁰⁴ The prognosis can be divided into (1) a normal short-term prognosis; (2) a longer-term scenarios based on different alternative presumptions, and (3) impact assessments of alternative actions. See, for example, Ranki 2000, 121.

significant regarding these concepts and subject.

It is essential to Foucault's empiricism that the use of power is not just a relationship between the parties, individuals or societies, but a way in which different actions shape each other. The core in Foucault's thought is that power exists only when it is being used, not just held. He is an empiricist in two respects: through the idea of the "concreteness" of power, and in his power-analysis, he declares himself an empiricist.¹⁰⁵ For him, the theories are therefore just an instrument. Political struggle should be analysed strategically, and this analysis should be historical.¹⁰⁶ A fundamental question in this study of the behaviour of the PNV is what the strategic road in economic policy was in the 1980s and 1990s between (a) the Basque regional administration and the central government, and (b) the regional and the provincial politico-economic prerogatives.

The challenge of empiricism is linked particularly to the "problem" of narrativeness raised by the post-modernists.¹⁰⁷ When the historian analyses a historical process, the research subject is the change which occurs. According to Elton, individual historical events such as political crises can be treated without telling the chronological story, but by trying to explain what happened in a crisis and why, simply dismantling "the circumstances and events which led to a particular main event".¹⁰⁸ The danger in doing this, however, is that the "narrative turns into a piece of journalistic reporting, unable to isolate and account for the real points of issue".¹⁰⁹ I thus conclude that Elton's reasoning is that he warns us that while political history is about explaining a sequence of events, it does not confine itself to a superficial exposition of those events and what lay behind them. His underlying aim is to draw a distinction between the professional historians who use scientific methods, amateurs, and those who popularize history.¹¹⁰ This means that, I am interested in events as part of a process in my thesis.

The goal of Elton's method is to discover the essential; an analysis concentrates on what happened, but, in my case, examines economic policy and politico-economic power within a stipulated time period. The order is still clear: the historian moves from an individual case to general developments, not vice versa.¹¹¹ The application of Elton's ideas means that the ultimate goal of history writing is not to generalize

¹⁰⁵ Foucault 1988, 106.

¹⁰⁶ Foucault 1980, 145.

¹⁰⁷ E.g., Appleby, Hunt & Jacob 1994, 231.

¹⁰⁸ Elton 1970, 163.

¹⁰⁹ *Ibid.*

¹¹⁰ For "amateur" historians, see Marwick 1993, 208; Marwick cited in Kouri 1990, 109.

¹¹¹ Cf. Häikiö 2003, 90, Häikiö, a Finnish historian, who assesses the history-writing genre represented by the British historian Eric Hobsbawm in particular.

about the man or society.¹¹² Without considering the critical relationship of post-modernists to narration at more length, it needs to be pointed out that Foucault makes an exception in this,¹¹³ since his thought is based on narrative and action. Foucault does not see any “direction” in history,¹¹⁴ a problematic point. In other words, the effects of the use of power cannot be seen as meaningless for the user or the object of his action. On the other hand, it must be remembered that Foucault still accentuated the intentionality of the use of power.

The analysis of political history is ultimately always the interpretation of a chain of events.¹¹⁵ Political problems call for analysis rather than a narrative, but this does not mean that political history does not take an analytical point of view.¹¹⁶ The type of history writing Elton represents includes narrative characteristics because of the nature of political events.¹¹⁷ Historical analysis does not exist without narration.¹¹⁸ It can be combined with analysis, since analytical political history deals with time and change. An analysis which excludes change is no longer history writing. Despite the discussion started by postmodernists on the effects of narration on historical research, “history, politics, and narrative are still the best tools available for dealing with the world and preparing for the future,”¹¹⁹ as Appleby, Hunt and Jacob have stated. In fact, it is a story about “how change works”.¹²⁰

¹¹² However, factors that affect history, like innovations, complex human behaviour, and the restraints set by different conditions, must form part of the analysis. This is Häikiö’s approach to the differences between so-called “progressive” and “objective” history writing. Häikiö 2003, 90.

¹¹³ Cf. Foucault’s way of associating identity with historical processes is particularly apparent in the case of the PNV, since the party utilized the local identity and consciously built on it. Foucault 1980, 118.

¹¹⁴ For him history is ultimately a non-continuity. Philp 1985, 79–80; in this he differs from Hobsbawm.

¹¹⁵ Elton 1970, 163.

¹¹⁶ *Op. cit.*, 160–163.

¹¹⁷ Evans 2000, 2 & 268–269. Evans’s interpretation of Elton is that Elton sees “real” historical analysis as always including narration. Elton is not alone in this argument; see, for example, Pablo, Mees & Rodríguez Ranz 2001, 3–4.

¹¹⁸ According to Elton, “a good deal of the history still to be discovered and told is still political, and not only in recent history where obviously the advance of time continuously enlarges the area to be worked”. He also points out that “narrative history is usually political history because narrative records movement, and the dynamic life of society (as I have stressed several times) equals political life”. Elton 1970, 156–157; description, analysis and synthesis are the preconditions for Elton’s version of political history. Elton emphasizes how the mistakes in analysis are more fatal than those in narration. He also warns about superficial narration and over-rationalization. Sources and their lacunae also create pre-conditions for the narration. *Op. cit.*, 161, 163–164 & 177.

¹¹⁹ Appleby, Hunt & Jacob 1994, 236.

¹²⁰ *Ibid.*

While it is difficult for a historian to demonstrate the motives of political actors using his sources, knowledge of the context and the background are, notwithstanding, fundamental to successful analysis. The historian must show and understand the contexts of the Basque economy and politics, because they reverberated to the PNV's use of power and, moreover, explain the acts of certain local interest groups. For example, the lobbies enter the political process with their activities and become significant to political history.¹²¹ Although, Zirakzadeh recognizes the influence the Basque business elites had on the PNV and the regional government dominated by the party, we should also see what those elites were composed of in that context, and what they strove for. In the business circles of the Basque Country, the economic characteristics of and differences between the provinces were apparent. The interaction between striving for economic power and politics cannot be understood without knowledge of Basque politics, and of the influence of various advocacy groups. According to Foucault, modern politics should be seen as an indefinable field of power relations or strategies of dominance, not as a conflict.¹²² How the state codifies these relations and how its own actions depend on power relations is a different thing.¹²³ This becomes a special challenge in a political environment like the Basque Country, which was characterized in the 1980s and 1990s by the structurally complex political institutions,¹²⁴ a pluralistic society, a heterogeneous party system, political polarization and dissidence and violence. All these factors had an influence on the complex structure of administration, relations between the political parties and the voting behaviour of the region's inhabitants.¹²⁵ Naturally, they also influenced the use of power.

According to Elton, when the historian phrases a question, he must take into account the structures that affect policy-making; the treatment of the research subject must still support the study of political relations.¹²⁶ A theory must not offer answers prepared beforehand; the answers must be based on historical sources. From Foucault's point of view, only critical and empirical research which aims to describe the evolution of complex relations is meaningful.¹²⁷ Although Foucault is often associated with research into micro-power, his studies are about state

¹²¹ Elton 1970, 8.

¹²² Foucault 1988, 106; Foucault 1980, 123.

¹²³ Foucault 1980, 122; About limits on freedom of action of political decision-makers, compare Elton 1970, 28.

¹²⁴ This structural complexity, which has its roots in the system based on the provincial laws, or *fueros*, called the foral system, was given form in the Ley de Territorios Históricos law or LTH of 1983 which regulates the internal division of power and the financial, fiscal and administrative relations between the regional and provincial institutions. Ley 27/1983, de 25 de noviembre, de "Relaciones entre las Instituciones Comunes de la Comunidad Autónoma y los Organos Forales de sus Territorios Históricos", LPV 1991, 251–275.

¹²⁵ Llera Ramo 1998, 414.

¹²⁶ Elton 1970, 43.

¹²⁷ Foucault 1980, 142.

governance and the relationship between the economy and politics.¹²⁸ Foucault's idea of the use of power as the history of a "strategic relationship"¹²⁹ visible in the society is applicable to the politico-economic history of the Basque Country, because the regional powers gradually extended in this process. The transfer of power to the regional level was not, however, automatic or regular. The PNV, as the leading party, strove for more political power for the region and its parts (provinces), which it then also used. This raises the question of what the strategy of the Basque Nationalist Party was. Elton's approach to analysing this process is functional, even if Foucault's strategic analysis of power that describes the conditions for the research of the use of power replenishes it. In historical analysis, the PNV's struggle for politico-economic power and its use can be seen as a strategic relationship. From that relationship, the analysis must distinguish why, how and for what that power was used, and what it achieved. Thus my argument and conclusion is that the historian considers the dynamics and strategy of the situation: the strategic element facilitates the study of the motives of the use of power.

1.4. Sources

As those postmodernists who have criticized Elton – even Evans, who has taken a more constructive attitude towards Elton's writings – have emphasized, the sources and their criticism are a pronounced element in Elton's theory. What they seem to find particularly annoying is that the historian should look for the "historical truth" in the sources.¹³⁰ According to Evans, "that past only speaks through the sources when the historian interrogates them".¹³¹ Elton's critics tend to forget that in the end he also emphasizes the questions – which lead to further questions – that the historian must ask in going through his sources.¹³² For Elton, this is linked to the essence of professional history writing in that the historian must be familiar with his sources, be systematic, avoid hit-and-miss methods, and identify

¹²⁸ See, for example, Foucault 2000a; Foucault's analysis of power is a demonstration of the existence of different opinions and standpoints within so-called postmodernism (and post-structuralism). The English historian Evans stresses the significance of this, and how the influence of postmodernism appears in the science of history through the emphasis placed on language, culture and ideas. Evans 2000.

¹²⁹ Power is not an institution or a structure for Foucault, not even a given power, but a complex strategic relationship within a certain society. Foucault 1980, 142 & 145; Mark Philp claims that Foucault sees power as an inborn element of social relations. See Philp 1985, 20 & 75. According to the philosopher Hubert L. Dreyfus and the anthropologist Paul Rabinow, Foucault's goal was to "isolate, identify, and analyse the web of unequal relationships set up by political technologies which underlies and undercuts the theoretical equality posited by the law and political philosophers". Dreyfus & Rabinow 1982, 185.

¹³⁰ Elton 1967, 88 & 95.

¹³¹ Evans 2000, 271.

¹³² Elton 1967, 32.

the essential information for his own research. Methodologically, Elton puts the historian on the spot: “the historical record always leaves it to the historian to discover the causes of action and motives of men”.¹³³

In Elton’s method, the analysis of the use of power must recognize the institutions and the mechanisms of political decision-making and governance. Foucault focuses on (i) recognizing the use of power, and (ii) strategic analysis of a political struggle. For Elton’s method, the key question is to identify the historical change that took place. An analysis of the effects of the governance and the use of power is central for both of them. To be able to answer this question, all the substantive information must be found in the relevant sources. This method is laborious because it means in practice that an exhaustive knowledge of extensive archival materials and sources must be gained, and these documents must be collated for the purposes of the historian’s research.¹³⁴ In areas with abundant material, the real work of discovering “historical truth” must still concentrate upon particular studies of restricted problems.¹³⁵

Elton skilfully divides the sources of political history into (a) narratives of events, (b) documents or records of these events, and (c) comments and reflections upon the events. Moreover, he points out that there is a sub-group of material which is linked to the subsidiary structures of political history, namely (d) the records of government, institutions, law, and finance.¹³⁶ This also includes statistics. Documents form the most important group of sources for a historian.¹³⁷ The political historian in particular depends on previous accounts of the events he is analysing but, in contemporary history, historians must do their own research and reading and not depend on the structures erected by other historians.¹³⁸ In this respect, Elton is again uncompromising. He also points out how important it is to work through all the relevant material when the actions of a particular government or administration are being analysed, because these sources can reveal to the historian important information on the motives behind the decision to archive these materials.¹³⁹ The analysis and reading of political decision-making must in any case be based on sufficient historical evidence. This is important because political decision-making and the effects of politics cannot be researched simply on the grounds of the materials of constitutional and administrative history. When the historian makes use of administrative material, there is a danger that

¹³³ Elton 1970, 168; See also Elton 1967, 33.

¹³⁴ The sources of political history are often “exceptionally massive”, and their utilization “demand[s] ... manifold abilities, insights, and skills from the historian”. Elton 1970, 108.

¹³⁵ Elton 1967, 95.

¹³⁶ Elton 1970, 74.

¹³⁷ Elton divides them into sub-groups of documents concerning decisions, consequences, counter-actions, and reactions. *Op. cit.*, 94–108.

¹³⁸ *Op. cit.*, 74.

¹³⁹ Elton 1967, 93.

he will not be writing political history.¹⁴⁰ For this reason, the sources must include newspapers and narratives written by contemporary political actors.

Before I start to enlarge on my sources, it is necessary to discuss certain aspects of the historical evidence. First of all, one important factor is that after the death of Franco in 1975 the political life of Spain and Basque politics were characterized by strong political rhetoric. The relationship between this, ideological definitions of policy, and actual political decisions is a key issue in the study of the PNV, and is linked to the methodology of my thesis. The historian must aim to see behind that rhetoric as well as recognizes the use of power and separate out the factors which influenced that activity, trace its strategy and consequences, and create a synthesis in the end.

It is also noteworthy that in political science, research concerning political parties representing western European minority nationalisms has traditionally been restrained by two factors:¹⁴¹ (i) the assumption that regional political parties lack political weight, and (ii) the limited availability of sources on them. Spain, with its regional political parties,¹⁴² the PNV in particular, form an obvious exception to this rule.¹⁴³ My argument is that the Basque Nationalist Party's long and uninterrupted period of ascendancy since 1980 in fact requires this subject to be analysed. One positive consequence of the PNV's institutional position and political activeness is that there is plenty of material for historians who want to study the history of its actions at regional level.¹⁴⁴

Despite the existence of historical sources, criticism of those sources is strident in the contemporary political history of the Basque Country. In the period of my study, the newspapers, and the press in general, were extremely politicised in Spain. The historian must therefore be careful and maintain a critical eye in using them as sources and basing his conclusions on them. Indications of this problem can be seen, for example, in Finnish studies that take a general look at the contemporary political history of Spain, and in which the Basque Country has seldom received professional treatment. Basque politics may have been described by using incidental or adventitious public statements from the extreme ends of the

¹⁴⁰ Cf. Evans' afterword in the second edition of Elton's *The Practice of History*. Elton 2002, 180–181.

¹⁴¹ Müller-Rommel 1998, 18.

¹⁴² Historically, the most significant are the PNV in the Basque Country, and *Convergència i Unió* (CiU) in Catalonia.

¹⁴³ Granja, Beramendi & Anguera 2001, 289.

¹⁴⁴ According to Elton, "political action, being of all actions the most self-conscious, reaches the record more systematically and more plentifully than all other human activities". Elton 1970, 83.

political spectrum as examples.¹⁴⁵ The problem of rhetoric has not been tackled sufficiently by the authors of these works. The Basque Country and the Basque nationalism, not to mention the Basque Nationalist Party, are described in a stereotypical way. The manner of representation makes it even more difficult to further describe and analyse Basque politics and its history. These writings are mainly a compilation of disconnected and inaccurate information, not a sound way for the historian to assess and provide information on the relationship between the political and economic development of Spain and the Basque Country. In this type of political analysis, as in journalism, it sometimes seems difficult to explain the complex causal connections in the region briefly.¹⁴⁶ Research and journalism are intermingled, consequently suffering from the significant problem of which Elton warns.¹⁴⁷ In these cases the criticism of sources has not worked, or not even been applied properly, and the writings do not transmit convincing knowledge of the historical characteristics of their subject. This is a serious problem, because the premises for historical assessment and analysis are completely lacking.

In addition, the political statements of the PNV and its representatives make the historian's task challenging and difficult. He must know the concepts used and the various interpretations and connotations linked to them. In Basque politics, there are many terms and names which are being deliberately used. Moreover, the historian must know the history of the PNV thoroughly and understand its internal power mechanisms and processes. Generally, the time that the historian has spent on and in the region benefits the end product, whether it is question of an article or a more extensive work. For the contemporary historian, it is especially important to experience and understand how interpretations of the political history of the Basque Country differ from each other, and how they are connected to political standpoints, or how these concepts were used in the daily politics of the 1980s or 1990s. The time spent in the region may cause its own problems in that the neighbourhood and immediate surroundings begin to affect the researcher's point

¹⁴⁵ See, for example, Helminen, Korppi-Tommola & Korppi-Tommola 1994, whose non-scientific work *Espanja - diktatuurista demokratiiaan*, directed to a larger Finnish-speaking audience, is a short introduction to the society and history of Spain, although concentrating on the events of the 1980s and the 1990s. The book briefly describes the recent development of Spain and its autonomous regions, but in the case of the Basque Country it mainly deals with radical nationalism in the region. The book also gives some information on the PNV and moderate Basque nationalism. However, it conveys a stereotypical picture of the region and Basque nationalism. The format makes it difficult to explain the complex recent history of Basque politics, so that in this respect the book is merely a collection of imprecise and fragmentary information on the Basque Country. It does not offer a clear picture of the relationship with the politico-economic development of the rest of Spain.

¹⁴⁶ See, for example, Helminen 1999; also see the reply to this article, written by the geographer Pauliina Raento. Raento 1999b.

¹⁴⁷ Elton 1970, 163.

of view.¹⁴⁸ There are several examples of this in political science. However, it is still possible to achieve a solid historical viewpoint on the political and economic history of the Basque Country and, in fact, the sources help in this. The criticism in this case is always based on an exhaustive knowledge of the Basque history, economics and geography, particularly political history.

Particular problems occur in considering the PNV's use of power. The subject is political by nature, and the events I discuss relatively recent, which factors create additional pressure for objectivity. Partly because of this, the sources that describe the regional political structures and are typical of administrative history have a special place among my sources. I have, without exception, used the Spanish versions of this material.¹⁴⁹ The question of language, as I have noted previously, is complex in the context of the Basque Country. Apart from the fact that political and cultural terms are often mixed with each other, or, for example, used in maps to promote certain political goals,¹⁵⁰ the language used – Spanish or Basque (Euskara) – can also be interpreted in the Basque Country as a political statement. In this context, the discipline of the researcher and his background is also significant. The most important thing is that the historian is aware of these factors and is consistent in his practice, as well as always trying to see behind the text, in other words, practices stringent criticism of sources.

In addition to the challenge that the short time-perspective of my thesis creates, I have to take into account another problematic feature of the history of Basque autonomy and the whole structure of autonomies in Spain. The 1980s and 1990s are part of an evolutionary process of a structure which is still developing.¹⁵¹ It proceeds on the basis of political agreements. The questions the political historian poses must therefore take into account the discussion that emerged during the period of my study and that concentrates on the possible federalist traits of the so-called state of autonomies (*el Estado Autonómico*). Officially, Spain is not a federal state; nonetheless, Spanish experts on constitutional law, such as Eliseo Aja, pointed out in the late 1990s that its structures resemble those of the current federal states.¹⁵²

The powers of the Basque autonomous community are extremely extensive, particularly in economic policy, not just in the context of Spain but also in

¹⁴⁸ See, for example, HYPL: Pohjanheimo 1996, 3.

¹⁴⁹ It could be interpreted as a political choice, and a sign of an interpretation which favours the political views of the central government at that time. This is not my intention. There is always a Basque language (or Euskara) version of the administrative, legislative and political documents of this sort.

¹⁵⁰ See, for example, Hall 1981, 320–322; Monmonier 1996; Kosonen 2000.

¹⁵¹ My interview with the Finnish Ambassador Pekka J. Korvenheimo. Korvenheimo 2000; for the constitutional changes in the system created in the Constitution of 1978, see Aja 1999, 13–14; on the term *el Estado Autonómico* which does not exist in the Constitution, see *ibid*, 33–34; see also Mur 1999, 21; other examples can be found in jurisprudence. See BOPV n° 40/1995, 1860–1889.

¹⁵² Aja refers here particularly to European federal states. Aja 1999.

the continental EU context. The growing regional politico-economic power is part of the contemporary history of the region, but also an essential part of the contemporary history of Spain and its state structure.¹⁵³ All this makes the historian's job even more demanding, but again, this is a challenge he must face. Elton's method will help me in this: the contexts, the causalities, as well as the consequences must be clearly indicated and understood. The historical analysis must not content itself merely with scratching the surface of its subject.

The sources of my thesis can be divided into the following groups: (1) the documents of the PNV, (2) documents of the regional government and parliament, (3) the newspapers and the press, (4) texts and works of contemporaries, (5) statistics and, as secondary sources (6) academic research literature, and (7) other literature. The first four groups are the most important.

(1) The core of my sources consists of the material produced by The Basque Nationalist Party itself from 1980 to 1998, including a few documents from the years immediately preceding the current regional autonomy. The definitions of PNV policy and its actions are explained primarily through its own political publications, communiqués and announcements. Here lies the significant difference from the sources and the research angle of my Licentiate thesis, where these sources were not crucial. From the point of view of my present thesis, the electoral manifestos for regional and local elections are the most important documents among the political publications of the PNV. The manifestos of general elections are also relevant in some cases.

My main focus is on such valuable written material as the bulletins of the PNV (Alderdi Berriak) and particularly the communications issued in the name of the party (Comunicados; Aberri Eguna). They are particularly interesting for the study of the role of the EBB, the leading organ of the party. All this material, as well as the party programmes and platforms, can be found in the EBB's archive in Bilbao. However, the minutes of the weekly meetings of the EBB were not made available for my study.¹⁵⁴ Some of the most important PNV documents have been edited, but only to a limited extent, by the historians Pablo, Granja Sainz and Mees (1998).¹⁵⁵ This particular material is only a fraction of the sources I have used in my thesis, which includes documents that have not previously been used on this scale. The reason for this lies in the problems I have already explained. These sources contain valuable information, but the historian must be aware of many factors at the same time in order to use these documents carefully and critically.

¹⁵³ In the theories of economic liberalism, a federal state is seen as an intention to solve the problems of a nation-state. This scheme of things relates the functionality of a federal system to the maintenance of its members' identity. Kaarlejärvi 2001, 339–340; Rosamond 2000, 24 & 30.

¹⁵⁴ Letter of the EBB Centro de Documentación of 28 April 2004; there is no relevant material for my study from the time of the current autonomy in the historical museum and archive of the PNV, *Fundación Sabino Arana* (Artea, Vizcaya).

¹⁵⁵ Documentos para la historia del nacionalismo vasco 1998.

Here I have applied the reasoning of Elton that the political historian is not writing about the history of ideas but “his task is to understand the ideas and feelings which contributed to political action or reaction or comprehension”.¹⁵⁶ The political historian does not look for opinions, but tries to discover events. I use these documents when I consider the stages preceding decisions. Although the “why” remains the most problematic and disputable part of the political historian’s work,¹⁵⁷ it is the goal of my thesis.

In any case, the material produced by the PNV also tells us how the party aimed to become more open and strengthen its communications and public relations in the 1990s with the help of the EBB’s communiqués and the more visible role of its presidents in public. The other political parties often criticized the EBB for not necessarily having listened to the opinion of the party membership before taking decisions, or for not having traditionally bothered to explain those decisions in public.¹⁵⁸ It must be remembered that the role of the PNV’s provincial councils in the EBB and the election process of its president is particularly strong. The separate role of the party leader arises because the person in charge of the regional government cannot be a member of the party leadership at the same time. However, he would normally attend the EBB’s weekly meetings.¹⁵⁹ This fact was portrayed particularly well in the press at the time. Interviews and public comments of party leaders are considered a good source for the analysis of definitions of policy,¹⁶⁰ the political history of the Basque Country being no exception.

(2) The second group consists of material produced by the regional administration, led by the Basque Nationalist Party, and the regional parliament, covering the years 1980–1998. The latter sub-group includes documents that report the work carried out by the parliament and its committees. The official journals and publications of the Spanish State and the Basque autonomous community also belong to this group. All the politico-economic legislation of Spain and the Basque Country, including the Spanish Constitution of 1978 and the Basque Autonomy Statute of 1979, are included in this group. In the case of the Basque administration, like the PNV and the EBB, the historian faces the problem of accessibility to these documents. The general principle of confidential information, linked to the everyday work of government, determines what material about those actions is public and what is not, and is based firstly on the general constitutional structures. Secondly, that confidentiality is due to the party-political structure of the governments, a factor that hinders openness and transparency. The basic form of parliamentary cabinet is a ministerial government formed by one political party that does not

¹⁵⁶ Elton 1970, 166.

¹⁵⁷ Op. cit., 93–94.

¹⁵⁸ See, for example, the article written by José María Benegas, published in *El País* 1.11.2002.

¹⁵⁹ The only exception to this was the time before *lehendakari* Garaikoetxea resigned.

¹⁶⁰ For the best example of this, see Moreno del Río 2000, whose analysis covers the years 1986–1996.

want to reveal its internal disagreements or the consideration of choices that preceded decision-making to its opponents. The principles of internal solidarity and collective responsibility include a government standing unanimously behind its policy wherever or in whatever order the decisions have been taken.¹⁶¹ Coalition governments also attempt to maintain confidentiality and the charade of unity by concealing disputes. The Basque government is no exception to this principle, and this fact is reflected in the sources available.

To compensate for this obvious lack of sources, answers must be found in other sources, such as parliamentary documents and the analyses and publications of the research unit of the government's fiscal department and the institute of Basque public administration (*Instituto Vasco de Administración Pública – Herri-Arduralaritzaren Euskal Erakundea*; IVAP). These are documents which precede the decision-making of the Basque government and can help to trace the various views that prevailed in the regional administration.¹⁶² Naturally, since public discussion on economic policy questions is not limited to the parliament or the cabinet meetings, I have used all the possible material on this subject. When the historian analyses the economic policy, actions or the decision-making of a government, the government programme can be used a starting-point. In the Basque Country, as well as in the Spanish central government, this means in practice that the new prime minister will give his inaugural speech, but it is not always published and printed as in Finland. The programme includes the agreed goals and policies of the new government, but also reflects elliptical ways of thinking which differ from time to time.¹⁶³ Directing the economy is not, however, the same thing as implementing government programmes or making the dreams of those who drafted it come true.¹⁶⁴ In the end it is always a question of political choice.

As Elton stated, the selection of sources is not the same thing as the conclusions that have been made in assessing them.¹⁶⁵ In the conclusion to my thesis, I emphasize the recognition of the limits of power so that the link with the constitutional and administrative history can be clearly seen in my sources. The politico-economic powers of the Basque government are established in the Spanish Constitution and the Basque Autonomy Statute.¹⁶⁶ Studies of the Statute and its various interpretations is a subgroup of its own. Despite the legal and administrative historical nature of that sub-group, it is clearly linked to the study

¹⁶¹ Nousiainen 1992, 10.

¹⁶² Elton 1970, 93–94.

¹⁶³ Ranki 2000, 110.

¹⁶⁴ “Programs constitute a space within which the objectives of government are elaborated, and where plans to implement them are dreamed up.” However, the techniques of implementation do not always work. Miller & Rose 1993, 88.

¹⁶⁵ Elton 1967, 94.

¹⁶⁶ Constitución Española 1978 CE:BOE 1983; Estatuto de Autonomía del País Vasco 1979. LPV 1991.

of the contemporary history of the Basque Country and the Basque nationalism.¹⁶⁷ These law texts and the politico-economic legislation approved by the regional parliament have been a part of the process in which politico-economic powers were transferred gradually to the region in the 1980s and 1990s. The economic agreement, signed by the central and the regional governments and the documents concerning the *cupo* financial instrument also belong to this group.¹⁶⁸ All these documents are keys to the political and administrative structures of the Basque Country and to its regional economic and fiscal policy. They do not describe political events directly, but are the results of the actions of the politicians and establish the limits of action in economic policy. The political historian must be familiar with these documents in order successfully to assess the use of politico-economic power.

Similarly, the official journal published by the regional parliament¹⁶⁹ becomes part of the documentation, as, for example, does the material concerning the parliament's work during legislative periods.¹⁷⁰ This material provides information for research into economic policy decision-making at regional level as well as inter-institutional relations. The material includes information on all the laws and the private member's bills, and the results of the work of parliamentary committees. I have used the diaries of the economic and treasury committee sessions especially.¹⁷¹ These all help me to trace the internal tendencies of the regional government.

Together with the material produced by the PNV, these sources are records of events that tell us about actions, i.e., decisions taken, and the discussions concerning those decisions. There are also records of consequences, and counteractions or reactions. Records of discussions are the most problematic for the historian, which means that the stages before political decisions remain the most problematic, uncertain and controversial in history writing.

(3) The third, a very important group of sources, is made up of the newspapers and magazines published during 1980–1998 in the Basque Country, and elsewhere in Spain, and in some cases even outside the country. This group also includes publications that mainly concentrate on economies and economic policy. Newspapers, beside being records of the events of a day or a week, are closely linked to the everyday expression of opinion and the shaping of the world-view of readers. The most important newspapers for my research are the daily *Deia*,

¹⁶⁷ Granja, Beramendi & Anguera 2001, 289.

¹⁶⁸ See, for example, Normativa Básica sobre el Modelo financiero vasco 1991; Ley 14/1997. BOPV 196/1997.

¹⁶⁹ Boletín Oficial/Aldizkari Ofiziala or BOPV.

¹⁷⁰ See, for example, Memoria Txostena 1987–1988, 1987–1990, 1991–1994, 1995–1998.

¹⁷¹ *Batzordearen bilkuren aldizkaria / Diarios de Comisiones; Ekonomi, ogasun eta aurrekontu batzordea / Comisión de economía, hacienda y presupuestos*. The committee also assembled in mixed compositions with other parliamentary committees during the first legislature. PV:SC:CEHM & PV:DC:CEHM.

which is published in Bilbao and represents the views of the Basque Nationalist Party, and the independent Bilbao daily, *El Correo*, and the San Sebastián daily *El Diario Vasco*, published by the same publishing house.¹⁷² The newspapers are in a very special position as regards the political debate, since all the public comments and statements were purely political in the political environment of the Basque Country in the 1980s and 1990s. The newspapers are an important tool for the historian who needs to study the Basque political culture. The importance that newspapers play as a source for political history is that they cannot have been changed or composed afterwards. The politico-economic discussion of the period can also be traced and followed in the journal *Ekonomiaz*, published by the regional administration. Many of the lectures given at the Royal Basque Society of the Friends of the Country (*La Real Sociedad Bascongada de los amigos del País*)¹⁷³ that have been published also became part of the public discourse on economic policy. A good example of a newspaper specializing in economics is the nationwide *Cinco Días*. The economic development and politics of Spain and of the Basque Country were also monitored closely and analysed in the pages of the London-based weekly, *The Economist*, which offers an additional perspective on the subject.

(4) At least as important as the previous groups is that formed by memoirs, autobiographies, and edited and published interviews of Basque and Spanish politicians. The number of these narratives and accounts by contemporaries is, however, limited,¹⁷⁴ one reason being that the events are quite recent. On the other hand, the local political culture does not favour memoirs.¹⁷⁵ I also include a number of narratives and public interventions from the 1980–1998 period. The authors include ministers or officers of the regional government, journalists specializing in economic policy,¹⁷⁶ social scientists¹⁷⁷ and commentators. Some political or a personal bias is, however, normally apparent in these writings. The facts should be

¹⁷² Other newspapers published in the Basque Country which I have used include *Egin* and *La Gaceta del Norte*.

¹⁷³ For the history of the society, which was founded in 1765 and was the first combination of Basque commercial, ecclesiastical, military, and administrative interests, see Douglass & Bilbao 1975, 104.

¹⁷⁴ See, for example, Carlos Garaikoetxea's memories, Garaikoetxea 2002; Mario Onaindía's *Guía para orientarse en el Laberinto Vasco* (he was an ex-member of ETA, later joined the EE, and became a PSE-EE senator). Onaindía 2000; see also the book by the independent member of the Basque General Council (1978–1980), José Manuel López de Juan Abad, entitled *La Autonomía Vasca*. López de Juan Abad 1998; the writings of prominent PNV politicians such as Joseba Arregi and Iñaki Anasagasti, should also be mentioned here. Arregi 2000 & Anasagasti 2004.

¹⁷⁵ Cf. for example, the comment by Juan María Leizaola (PNV) in 1980. Deia 16.12.1980.

¹⁷⁶ For example, Copa 1989, and *Nuevos Extractos de la Real Sociedad Bascongada de los Amigos del País* 1998 (I).

¹⁷⁷ Such as, Llera Ramo 1994, and Llera Ramo & Uriarte 1994.

checked against documentary evidence. However, the arguments, information and the explanation of motives that can be found in these writings is of interest.

The narratives and memoirs of contemporaries involved in national Spanish politics and economic life,¹⁷⁸ can also provide valuable information about the actions of the PNV. Because of the centre-periphery relation, the region's socio-economic problems, and the persistent political violence, the Basque Country was one the most difficult issues in Spanish politics in the post-Franco era.¹⁷⁹ However, the focus of my study – the use of politico-economic power – means that no more than a fragment of the material available concerning the Basque Country is relevant. It must also be stated that this type of narrative sources should be judged on the strictest criteria, based on the knowledge of contemporary history of Spain and the Basque Country. The interviews with previous ministers of the regional government, conducted in 1998 and published later by the IVAP,¹⁸⁰ are an extremely important source. These interviews cover the period my study covers, and I have been comparing their contents to the picture that the newspapers of the same time convey.

The historian must be careful here as well. These sources pose problems in their use and interpretation, since they are mostly accounts by somebody else than a historian, and in many cases intended to serve other purposes, such as partisan politics or accusations, or simply self-defence. Still, they contain a lot of information that the historian must analyse critically. The essential questions are what the author or the person interviewed could have known, what they were trying to do and what can be established about their personal competence and opinions.¹⁸¹

(5) The statistics concerning the Basque and the Spanish economy that I have used are naturally necessary for my thesis. The important sub-groups here are the statistics provided by the Basque Office of Statistics (*EUSTAT*), the Spanish Ministry of Public Administration (*Ministerio de Administraciones Públicas*), the Spanish National Administration of Labour (*Instituto Nacional de Empleo*, INE) and the material published by the European Union Office of Statistics EUROSTAT.¹⁸² These figures make it easier to follow the developments in the Basque economy, and make it possible to compare them to developments in the Spanish economy in general, and in some cases to the EC/EU context.¹⁸³

For the reason that I have already mentioned, the historian must be cautious

¹⁷⁸ For example, Calvo Sotelo 1990, and Almunia 2001.

¹⁷⁹ My interview with the Finnish ambassador Pekka J. Korvenheimö. Korvenheimö 2000.

¹⁸⁰ *Historia del Gobierno Vasco contada por sus consejeros*, HGV 2001, I & II.

¹⁸¹ Elton 1970, 77.

¹⁸² The EUROSTAT's statistics on the regional differences can also be found on the web page of EUSTAT. See EUSTAT: EUROSTAT 1998.

¹⁸³ For the analysis of the regional effects of the structural change in the Spanish economy see, Cuadrado Roura 1991.

with statistics concerning the Basque Country. They can and have been used for political purposes in many publications, particularly newspapers. It is always necessary to base historical analysis on the original figures provided by the official statistical centres. One good example is the regional unemployment rate. The relatively high unemployment figures of the Basque economy in the early 1980s and again in the early 1990s appeared to have been rounded up in some cases to support the conclusions of some newspapers or magazines which tried to influence public opinion.

All the information I have used in the tables has been calculated from the original, absolute figures given in official statistics published by the autonomous or central government. I have done this to make the data comparable. However, in some cases, the methods of calculating the percentage of the voting rate for political parties varied, even in the official publications, from one year to another. In addition, the numbers concerning *cupo* that have been published in newspapers suffer from inaccuracy and are not reliable. The official figures published in the official journals and by the regional government are also needed.

(6) The sixth group of sources consists of academic research literature. My thesis cannot be based on other scholars' studies, but must present my own interpretation. It is still necessary and useful to be familiar with previous studies of the Basque history, economy, and society. Moreover, there is a need to make comparisons between them and my own analysis both in content and methodologically. Previous research essential for my thesis includes particularly the analysis of regional economic policy and the PNV. The research literature I have used can be divided into (i) the Spanish studies, particularly those carried out in the Basque Country and published in Spanish, and (ii) the Anglo-American studies in the humanities and social sciences. The most important and influential examples for my thesis in the group of analyses on the PNV done in the Basque Country are those by the economic historian Corcuera Atienza, and the historians Granja Sainz, Pablo, Mees, and Rodríguez Ranz.¹⁸⁴ Their assessments and conclusions concerning the Basque Nationalist Party and its policies are exemplary and demonstrate the functionality of the empirical method in contemporary political history in the Basque Country. Among the Anglo-American studies, or in those done elsewhere in Spain, the questions of economic policy and the PNV have been dealt with or at least touched upon by the sociologist Zirakzadeh, the social scientists Clark and Cesar Díaz López,¹⁸⁵ and by the economic historians Harrison and Jordi Palafox Gamir.¹⁸⁶ Clark and Zirakzadeh have been particularly instrumental in establishing the focus of my thesis because they emphasize the historical point of view and empiricism in their studies and in the selection and use of their sources.

¹⁸⁴ See, for example, Granja & Pablo 2000, and Pablo, Mees & Rodríguez Ranz 1999 & 2001.

¹⁸⁵ Díaz López 1985.

¹⁸⁶ Palafox Gamir 1989.

1.5. Merits and problems of previous studies on The PNV

The academic research literature cannot form the basis for my own construction of the history of the PNV's use of power. There are several reasons for this as I have previously explained in discussing my sources. However, in this section, I concentrate on the various ways the PNV has been seen by scholars and how their works deal with the interesting relationship between the party and politico-economic power and its history.¹⁸⁷ In this way, I shall indicate what questions should inform the analysis of the PNV; in other words, what aspects and viewpoints have so far been bypassed in the historiography of the Basque Nationalist Party and its use of power. This clarifies the place of my thesis among the studies of the party.

Those who have considered the question of politico-economic power in this context have mainly been interested in the relationship between the PNV and the business elite, but less in *how* it actually affected policy-making. The latter question is, however, linked to my objective of ultimately tracing the strategy of the PNV's use of power, which is essential to the historical picture of the party and its actions. Naturally, the issue of interrelationship between big business and the government is not a new one.¹⁸⁸ Still, two different lines of interpretation in the studies on the link between the party and the business elites can be distinguished. Those works which recognize the influence of those elites on PNV policy concentrate predominantly on particular occasions and limits this type of influence to short periods of time. In many cases, the previous studies have not explained, or even considered, the differences between the economic structures of the Basque provinces, and how they affect the different interests and priorities of the provincial business elites. Moreover, most attention has been given to times of economic change when the signs of these contacts are more visible. The situation is similar to that seen more generally in the works on the history of the Basque Nationalist Party. There is some basis for this analysis, but despite the many merits of the previous historiography, it is still not congruent, and there are some disconnected arguments and results.

Among the Anglo-American scholars, Clark especially has succeeded in demonstrating how the regional politics of the late 20th century were full of pragmatism and calculation.¹⁸⁹ The question of the economic policy of the PNV is not the main interest of his studies, but when he analyses the changes in the strategies of the Basque political parties and their actions and decisions, he takes the changes in the economy into account.¹⁹⁰ Clark has researched the PNV using empirical methods, concentrating particularly on its policy in the 1980s. His

¹⁸⁷ Here I do not consider the large field of works concerning ETA and radical Basque nationalism.

¹⁸⁸ For the relationship between the economy and the political elite in Spain, see Sánchez Recio & Tascón Fernández 2003 (eds.); cf. the analysis of the same relationship in the USA; see, for example, Phillips 2002.

¹⁸⁹ Zirakzadeh 1991, 14 & Clark 1987.

¹⁹⁰ For example, Clark 1987.

observations, which are based on sources like newspapers and the PNV's own material, corroborate my earlier claim that in skilful hands the motives behind the PNV's actions can be coherently analysed. He has also dealt with the historical relationship between the supporters of the PNV and European integration, and the changes in the policy definitions of the PNV caused by Spain's membership of the EC/EU.¹⁹¹ Apart from Clark, a clear division can be seen in the Anglo-American studies: while Stanley G. Payne openly undervalues the role of the economy in the contemporary Basque history, Zirakzadeh, who considers Clark as his model, represents the view that the historical role of the economy was crucial. His approach is successful – when applied to the history of the PNV –¹⁹² in indicating the historical changes in the party and their link with the Basque economy.

For their part, Corcuera Atienza and Jean Claude Larronde consider that the PNV and its founder Sabino de Arana, were subject in its early stage to the influence of various interest groups and political tendencies.¹⁹³ This is an important observation. Zirakzadeh follows the same line, emphasizing the influence of the leading Basque businessmen on the ideology and policy of the PNV at the beginning of the 20th century and again in the 1970s, during the political transition in Spain. The businessmen who were also party activists influenced party policies so that “by the 1930s the anti-commercial rhetoric of the early years had almost completely disappeared”.¹⁹⁴ Zirakzadeh's work sheds light on the internal tendencies in the party and the links between those economic visions and the persistent differences in the party's supporters in the Basque provinces.

The economic historian Joseph Harrison (1977) had already noted, before Zirakzadeh, that the representatives of the business world had maintained cordial relations with the PNV since before 1920. According to Harrison, the Basque Nationalist party embraced the useful parts of two antagonistic worlds by seeking support in the conservative countryside, as well among the ranks of the industrialists in Bilbao.¹⁹⁵ Harrison's view is that the capitalist and anti-capitalist factions cooperated within the party.¹⁹⁶ This seems a sound argument if we take into account the demographic and regional scale, the local social culture, class and ethnic links, and, for example, the strong influence of catholicism.

Zirakzadeh underlines that the PNV had used its policies to facilitate and contribute to the development of capitalism since the beginning of the current

¹⁹¹ Clark 1987.

¹⁹² Zirakzadeh 1985.

¹⁹³ Corcuera Atienza 1979 & Larronde 1977.

¹⁹⁴ Zirakzadeh builds his views on Larronde's work. Zirakzadeh 1991, 102; Larronde 1977, 279 & 361.

¹⁹⁵ Harrison 1977, 379; see also Harrison 1983, where he defines the historical picture of the Basque industrialists' influence on Basque politics.

¹⁹⁶ In the sub-group of historical analysis done in the Basque Country, Elorza considers that such cooperation never existed there. Elorza 1978, 252–253; Zirakzadeh 1991, 14.

autonomy.¹⁹⁷ He calls for a more nuanced picture of the PNV and its various internal ideologies.¹⁹⁸ Among other things, the dispute concerning the system of financing in the Basque Country¹⁹⁹ in the early 1980s is for him the PNV's internal battle between the anti-capitalist tradition and a more modern vision on economic policy questions.²⁰⁰ He holds that the economic policy of the regional government in the early years was dictated by the interests of one sector of industry and followed the ideas of the modernist faction.

Zirakzadeh's conclusions concerning the use of politico-economic power in the early 1980s have not been much criticised and remain relevant. He outlined the situation in the 1970s and 1980s, but his intellectual structures concerning the motives behind the actions are occasionally quite general. He succeeds in combining Harrison's and Jordi Palafox Gamir's conclusions with his own, but does not consider the changes in the ideology of the PNV further, or the effects that politico-economic power had on its other policy statements. In any case, he demonstrates how the internal problems of the party in the 1980s can be analysed with its visions on economic policy and development, thus reinforcing the reading that the political and economic power structures were in interaction in the Basque Country. He also diversifies the historical picture of the PNV and its links with the corporate elite. He does not yet draw conclusions or make a synthesis of the PNV's use of power as a historical process or the role of that process in the changes that the party lived through. In this respect, his analysis differs from mine in my thesis. My argument is that it is important always to keep in mind that the party was traditionally a mouthpiece for the petit bourgeoisie in Basque society. The so-called "Spanish" period in Arana's thought and political career testifies to the political success of that group within the party.

The model constructed by Zirakzadeh, which emphasizes the role of economic policy questions in the PNV's internal disputes in the 1980s and in which he presents those disagreements as a fundamental division between the group of new, liberal members of the regional administration and a more traditional group of party activists, is not in all respects a complete one. The traditionalism which was strongly present in the party ranks and in party ideology was intermingled with economic policy. This is a complex pattern in which the historical politico-economic roots and objectives of the PNV must be remembered, since they

¹⁹⁷ Zirakzadeh 1991, 102.

¹⁹⁸ One of the underlying reasons was that the 1970s was a time of economic uncertainty for Basque businessmen, and the general view in the region was that some kind of autonomy would be introduced in the Basque Country. Moreover, the PNV and the Socialists last became the leading parties in the region in 1979. Op. cit., 103.

¹⁹⁹ *Ley de Territorios Históricos* (LTH).

²⁰⁰ The traditionalist wing, or the so-called Aranaists or *aranaistas*, and the modernist wing, which supported the rapid industrialization of the Basque Country, the so-called *euskalerriacos*. The roots of the latter can be found in the moderate liberalism which existed in the Basque Country before 1873. Corcuera Atienza 1979, 141.

influenced the decisions of the PNV and consequently the internal, politico-economic structures of the Basque Country. In some respects, the problem of Zirakzadeh's analysis of the PNV is the lack of historical focus, i.e., what the process was and what its results were. Naturally, his works are not finally about the history of actual decisions and use of politico-economic power.

The previous works on the PNV, and particularly those of Corcuera Atienza, have demonstrated how the party used *fueros* and the economic agreements in its own ideology and policy-making in an instrumental way. A longer historical period shows the influence of the economic lobbies on the PNV. The party itself became an instrument in this process, and the shortcoming of the historical analysis of Harrison and Zirakzadeh relates to this aspect. It is partly a consequence of the shortness of the periods they analyse. A study on a longer, uninterrupted period like that in my thesis, reveals the party's links with various sectors of Basque society. This offers a new dimension and much needed information for the construction of a more coherent historical picture of the Basque Nationalist party. The crucial thing in Zirakzadeh's and Harrison's detailed studies is that they do not entirely follow the path shown by Corcuera Atienza, where the structure of the PNV²⁰¹ is the key element in analysing its policy and decisions. The way Corcuera Atienza frames his question makes it possible to show what relationship the provinces had with the internal disagreements of the PNV, and its long-term quest for power. This is precisely the essential element in the theoretical framework based on Elton's and Foucault's reasoning. My thesis continues, therefore, from the point where Corcuera Atienza leaves off. The works of Zirakzadeh and Harrison are, of course, also in a special position in my research literature.

There are practically no examples of the study of economic policy or the use of politico-economic power of the PNV among the Spanish scholars. The closest examples are the historians Juan Pablo Fusi and Javier Tusell who have written on the regionalist movements. Nevertheless, they represent the tradition that does not consider the changes in the national or regional economy or wealth as significant for the history of regionalist parties. They concentrate on the elements of the nationalist ideology and whether the Basque nationalists strive for regional autonomy or independence, and where the line between them and other political groupings goes in the context of the Basque Country and elsewhere in Spain. In Fusi's writings, the PNV is present as a party that, in the 1970s, supported the idea of regional autonomy as a way of rectifying the abolition of the regional laws, the *fueros*.²⁰² Tusell and Fusi have both touched upon the Basque political history, the role of that region in the context of the Spanish quasi-federal system of autonomous communities. Fusi does not provide a complete analysis of the PNV's history in the 1980s, though the role of the PNV was important in the gradual

²⁰¹ For the PNV's structure as a party, see Esteban & López Guerra 1982, 179–182; for the differences between the PNV and the EA, see Acha Ugarte & Pérez-Nievas 1998.

²⁰² Fusi 1984 & 2000, and Tusell 1999; for the PNV's internal interpretations of this, see Arregi 2000, 110.

process of empowerment of the region, and in the rapid development of the whole system which made the Spanish case exceptional in the context of Western Europe. It is also strange that the contexts and the limits of the regional powers became apparent in that process; the historical *fueros* of the Basque provinces, which Fusi has dealt with, concerned the same question of the powers, and their limits and contexts.²⁰³ The same issues come up in the economic and political history of the Basque Country through the system of financing and Spain's membership of the EC/EU. The role of principal negotiator for the economic agreement was transferred to the PNV, the leading force of the regional government, but the potential mingling of its ideology and strategy during the history of the Basque Country is not thoroughly explained by Fusi and Tusell.²⁰⁴ The analysis of the PNV remains general: although they emphasize the intention of the party to enhance the bilateral negotiation channel with the central government, they still do not analyse the underlying reasons.

It is interesting to notice how Fusi believes that the local businessmen generally had a negative attitude towards the PNV.²⁰⁵ A problematic part of Fusi's view is the Basque business elites as a politically homogenous group. This has not been the case during the existence of the PNV. This is particularly surprising if we take into account Fusi's own background as a social scientist and historian. Fusi, like the sociologist Juan Linz and the historian Stanley G. Payne, stresses macro-level changes in Basque society, and offers a modernist point of view on its history which, according to Zirakzadeh, denies the local institutional settings.²⁰⁶ For Fusi, big historical changes are relevant in the history of the PNV, as well; his studies thus do not offer tools for a detailed analysis of the Basque economy and politics. The nuances in the actions of the PNV, which I believe say more about the party and its politics, are not the focus of his works. The same applies to the historian Fernando García Cortázar, whose various works on the contemporary Basque history are not PNV-oriented. When he discusses the PNV, he presents it as a movement with an ideology based on artificial mental structures of a national Basque identity and the region's political status. In his works, the role of the PNV in the 1980s and 1990s is reduced to striving for maximum benefits.²⁰⁷

Elsewhere in Spain, scholars like the economic historian Palafox Gamir and the social scientist Cesar Díaz López have discussed the liaison between regionalist movements and economic policy, as well as the politico-economic

²⁰³ Larrazábal Basáñez 1997; see also Tocqueville 1981, 188; Tocqueville referred to the *fueros* as an exceptional arrangement.

²⁰⁴ This question, however, became relevant through the economic agreement, fiscal arrangements and the question of the representation of autonomous communities in the EU context.

²⁰⁵ Fusi 1984.

²⁰⁶ Zirakzadeh 1991, 7.

²⁰⁷ For example, García de Cortázar 1998, 393–407 & 423–433; García de Cortázar & Azcona 1991.

aspects of the centre-periphery relationship. Palafox Gamir's approach to the PNV is similar to Clark's: they approach it through the changes in the economy and the expectations of Basque voters in relation to the economic policy of the PNV. The PNV, together with other regional parties such as the CiU of Catalonia, are at the centre of Gamir's studies. The sociologist Juan Díez Medrano continues Díaz López's analysis of the centre-periphery relation within Spain, and its historical development,²⁰⁸ making comparisons between Basque and Catalan nationalism and discussing their relation to the region's history and economic development, including the underlying role of the middle class.²⁰⁹ Díez Medrano relies heavily on Zirakzadeh's idea that the Basque businessmen had a powerful influence on the politics of the PNV in the 1970s.

Among the works written in the Basque Country, a major interpretation and the most complete account of the emergence and early years of the PNV is still that of the economic historian Corcuera Atienza.²¹⁰ His writings also offer a clear historical picture of the *fueros*, removing the political imprint the nationalists have imposed on them. The historian Antonio Elorza (1978) concentrates on Arana's ideas and the permanent role those ideas had in the ideology of the PNV. The ideology-centred nature of Elorza's accounts leads him to believe that there was no cooperation between the PNV and the business elites.²¹¹ It is true that references to economic policy are extremely limited in Arana's work, and that in the early 20th century, the businessmen were just one of the influential groups behind the PNV. This takes us to the basic setting of Elorza's work: the ideological comments and publications of the PNV do not fully reflect the complex and manifold relationship the Basque business executives had with the Basque Nationalist Party. Once in power, the actions of the PNV reveal much more on this issue. Besides, this type of focus does not help us to see how the party itself was instrumentalized. As I shall demonstrate in this study, analysis of the exercise of politico-economic power by the PNV which takes into account the power structures emphasized by Elton and Foucault offers a solid way to treat these questions. The research must also include administrative sources and a wider selection of newspapers and narratives by contemporaries, as Elton points out in his methodology. They must be assessed critically, taking into account the history and the internal political and economic tensions of the region, not forgetting the politicized nature of these sources either.

Significantly, Corcuera Atienza's studies on the establishment and the early years

²⁰⁸ Díaz López 1985.

²⁰⁹ Díez Medrano 1999.

²¹⁰ Corcuera Atienza 1979.

²¹¹ Elorza's *Ideologías del Nacionalismo Vasco, 1876–1937* sees the dualist (pro-independence, pro-autonomy) ideology of the PNV as the rationale for the party's very existence before 1936. Elorza 1978; in his *Basque Nationalism*, Stanley G. Payne analyses the establishment of Basque nationalism and its early years. In the history of the party, it covers the time until Franco's rise to power. Payne 1975.

of Basque nationalism are based on documents, newspapers, and other traditional historical sources of the party and its founders. His work is characterized by the re-examination of this evidence and discovery of new points of view, and the creation of a comprehensive interpretation of it. The analysis by Corcuera Atienza is not mental history like Elorza's writings, though it does reveal the slow mental changes in the region in the longer term, and particularly in Vizcaya. As opposed to Elorza, the basis of Corcuera Atienza's analysis is always historical with an empirical tone, where the sources and the solid way they are used guarantees the depth of analysis.

Elorza succeeds in creating a historical picture of how the PNV carried out the instrumentalization of the rural culture and idyll to promote its ideology and politics at an early stage. Unlike Corcuera Atienza, however, he does not touch upon the question of how the party was able to achieve popularity in the rural areas, particularly Vizcaya. Appealing to rural romanticism, or merely trying to provoke a counter-reaction to the new social class of immigrant workers and the threat they posed was not enough to vote for the nationalists. In order to attract votes in the countryside, the PNV needed a political programme they could support. Although it took many years to formulate the party programme, it was created out of the *fueros* and their defence.²¹² They also included an economic aspect, which was precisely what made them a useful instrument; Elorza does not analyse this much. Elorza later (2001) defines the image of the PNV as a political movement which actively sought for support in different parts of society. He attaches the concept of political religion to Basque nationalism, and concentrates mainly on creating a picture of its ideological development in the 20th century.²¹³ The biggest problem in Elorza's analysis is his way of seeing Basque nationalism as unitary, which it has not always been, with the exception of its early years when the movement was strongly identified with its founder, Sabino de Arana. In spite of the differences between the various alignments in Basque nationalism, Elorza's goal is to make a synthesis of them. Elorza concentrates on the ideology of the PNV, but reflects only occasionally on the behaviour of the party and its way of operating, and seeks as well as stresses the common ground between the moderate and radical nationalists. This approach does not, however, explain fully the actions and political choices of the PNV.

In terms of the precision and scope of their analysis, the historians Granja Sainz and Pablo succeed in getting very near to Corcuera Atienza, and are almost his match as examples of empirical study on the PNV.²¹⁴ Their studies include a historical assessment of the internal, ideological groupings of the party and its policies. Moreover, in the joint works of Pablo, Mees and Rodríguez Ranz, the actions of the PNV are presented in relation to its history. This is justified

²¹² The PNV emphasized these factors specifically as differing ones in the region's relation to the rest of Spain. Corcuera Atienza 1979 & Mieza y Mieg 1984.

²¹³ Elorza 2001.

²¹⁴ For example, Granja Sainz & Pablo 2000.

because many concepts of history are central to the comments and rhetoric of the PNV's representatives.²¹⁵ They do not confine themselves to this, but also offer a synthesis of how two main visions existed within the party and were at work simultaneously: the line that supported full independence and that which aspired for regional autonomy. They put the individual political actions of the party into this context.

Critical examination will reveal elements for the creation of a more coherent picture of the relationship between the economy and the political leadership and their influence on the PNV's exercise of power. For example, the Guggenheim museum, which was inaugurated in autumn 1997 in Bilbao, was an important chapter in the economic history of not just the city or Vizcaya but of the whole of the Basque Country, where it stands out as a significant separate public investment project. It is also a part of the history of the regional government's economic policy. In addition to economic journalism, the Guggenheim museum in Bilbao has given rise to studies that help the historian complement and improve his assessment of contemporary economic and political history. Analysing the political context of this project, the geographer Donald McNeill indicates how cities have an important role in globalisation. His particular interest is the relation between that phenomenon and national identity.²¹⁶ McNeill's contribution to economic and political history is to show how urban change might be related to changes in political strategy. He also describes the technique that was used to get the PNV-led regional administration to direct wealth to the local level, and from one sector of the economy to another. In essence, the study deals with the use of power and its effects. The impact of the Guggenheim museum on the regional economy and its economic context have been addressed in political economics by UPV's economist Beatriz Plaza Inchausti.²¹⁷ Some works on the history of Bilbao or of the Basque Country, which are directed to the general public, have also touched upon the political events linked to the launching of the project, and indicate the role of the PNV as the leading

²¹⁵ Pablo, Mees & Rodríguez Ranz 1999 & 2001; see also the article written by Granja Sainz in *El Correo* 16.1.2000; all these works tend to leave aside the concept of "protonationalism" (Hobsbawm 1994, 44–45 & 74–75); for the surveys of the PNV's history see also San Sebastián 1984, and Barandiaran Contreras 1995 (in Euskara); Sainz's work *El Nacionalismo Vasco: un siglo de historia*, published for the centenary of the PNV in 1995. Granja Sainz 1995.

²¹⁶ McNeill 2000.

²¹⁷ She has analysed the regional government's instruments directed to industry and the regional economy. Plaza 2000; for the economic analyses and surveys of the so-called Guggenheim effect, after the first year of the museum (1997–1998) see, for example, Plaza 2000, Esteban 1999, *El Semanal* 20.2.2000 and *Impacto de las actividades de la Guggenheim Bilbao Museoaren Fundazioa en Euskadi* 1998.

political force and the party exercising power on that occasion.²¹⁸

In selecting bibliography on the historical relationship between the PNV and politico-economic power for my thesis, the question of the economic effects and consequences of political violence turned out to be particularly problematic;²¹⁹ there is a limited number of studies or even literature on that subject. Politicians and various writers have, in any case, indicated the effect of terrorism on the Basque economy. In my thesis, it is also one issue in the contemporary economic and political history of the region. This question was increasingly discussed in public, and cannot be left out of the scope of my study.

So far, the politico-economic picture of the PNV has been fragmented in historical studies. It is true that mastering the complex networks and levels of power and administration that Elton and Foucault call for in their writings is a challenge to the historian; particularly so for the PNV and the Basque Country. Still, there are examples of extremely influential and excellent interpretations in this field, like the work of Corcuera Atienza. It is important to note that since the politico-economic point of view in the analysis of the PNV is not, according to the previous studies, artificial, it cannot be considered as an irrelevant basis for the study of the history of the Basque Country in the 20th century. On the other hand, it is true that only on a few occasions has the PNV been put into the framework of economic policy, although the historians are generally aware of the importance of the economy in the region's history and politics.²²⁰ If we accept the basic idea that a government has a crucial role in capital transfers,²²¹ the politico-economic power in the context of the extensive powers of the Basque Country is an important subject for research. Power and authority did not lose their meaning in the history of the region from the late 19th century to the 1980s. The previous works partly

²¹⁸ The anthropologist Joseba Zulaika's work *Crónica de una Seducción*, which is ultimately directed to the more general audience, describes the PNV's use of power in the context of the Guggenheim museum project. In any case, Zulaika's book helps us to follow the economic policy discussion concerning that project, and demonstrates the interaction between the business world and the regional political leadership in the Basque Country. Zulaika 1997; see also *El milagro Guggenheim*, which was written by a group of journalists of the independent Bilbao daily *El Correo*. Esteban & González Carrera & Tellitu 1997.

²¹⁹ Calling the political violence of ETA *terrorism* may be interpreted by radical Basque nationalists as a political decision. However, ETA is on the EU's list of terrorist organisations, and in the EU's justice and home affairs cooperation the term terrorism is a legal and technical definition not connected to historical background or the political opinions underlying terrorism. In my thesis, which concentrates on the history of economic policy and politico-economic power, and which is not a study of ETA or radical Basque nationalism, I use that term for manifestations of political violence such as bomb attacks. For the EU context, see, for example, Wallace & Wallace 2000, 496 & 515.

²²⁰ For example, Lluch (et. al.) 1998; Montero 1998; see also Rivera 1998.

²²¹ For example, the American political journalist Kevin Phillips. Phillips 2002, 200; see also Sánchez Recio & Tascón Fernández 2003.

cover the development of the relationship between administration and wealth in that period. A major problem of those studies is that the fundamental role and influence of the regional government and administration gets less attention. There have been few accounts of the intention of the PNV to keep relations with the central government as bilateral as possible while the party advocated creating functional mechanisms for cooperation among the autonomous regions in Spain. One reason for this may be that assessing this issue requires knowledge of the history of the PNV and the Basque administration and its structures, as well as the economic history of the region, and of Spain. For example, Zirakzadeh recognizes the role of the structures, but does not consider them further. His work helps, in any case, to understand the interrelationship between the economic and political history of the Basque Country and how the local structures influenced the use of power. He does not, however, discuss in more detail how this was manifested, and what the consequences were, as I will here.

2. THE PNV AND THE HISTORICAL CHANGES IN THE BASQUE ECONOMY

Basque politics is influenced by a number of complex factors and relationships that can be traced back in its history. Historians usually recognize that when the liberalization of trade encouraged industrialization in the Basque Country in the latter part of the 19th century and the sudden rise in industrial jobs attracted emigration from other parts of Spain, nationalist ideas emerged among the Basque middle class as a reaction to this major social and economic change. However, as I pointed out earlier in this study, only some observers, like Zirakzadeh and Clark, take the regional and local economic conditions and the contemporary economic history fully into account. Although I concentrate on 1980–1998, in this chapter consider (1) the economic context of Basque politics and (2) the historical politico-economic roots of the PNV. In this way, I shall demonstrate the continuing links between the PNV and the changes that took place in the economy of the Basque Country in the 19th and 20th centuries. The long-term links between the PNV and these structural changes are essential for my study because this element pervaded the party's way of using politico-economic power in the 1980s and 1990s becoming apparent on various occasions, and thus should not be ignored by the historian.²²² This question is closely linked to the history of the party organization. Analysing and understanding the contemporary history of the use of politico-economic power thus requires familiarity with the long-term economic frame of reference of the region and its relation to the history and actions of the PNV.

Although cultural, ethnic and historical ties such as a common language and cultural and social traditions bond the historical Basque provinces, there are significant differences between them in geography, their economy and customs.²²³ My investigation understandably puts the emphasis on economic geography. The coastal areas of the Basque Country of Spain became industrialized in the late 19th century, whereas the other areas started their industrialization process only after the Second World War. The coast, where basic industry dominated, was undergoing another major economic transformation at that time. In the years after the Second World War, the whole Basque economy experienced great changes again. From 1940 to 1975, the population growth was the second highest in Spain, and it was a question of domestic immigration within Spain. The people who moved in were attracted by jobs in industry, but they also contributed to the region's wealth. By 1959, the gross domestic product (GDP) per capita in the Basque Country was the highest in Spain, and no less than 95 percent of the average in Western Europe. After a long period of economic growth, the change in GDP during 1975–1985 was negative and the lowest in Spain. Although the Basque Country was no longer a “promised land” of immigrants in the 1980s,

²²² Corcuera Atienza 1979 & 1991, 30–33.

²²³ Douglass & Bilbao 1975, 13–16; Raento 2002, 102–103.

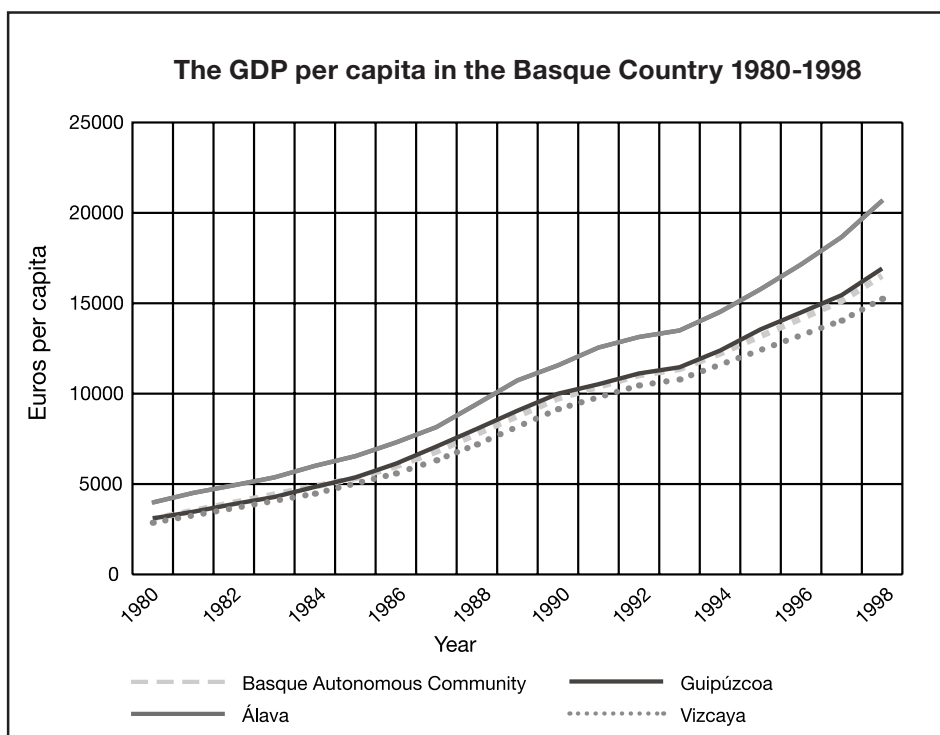


Figure 7. The economic growth in the Basque Country 1980–1998.

Source: EUSTAT: Cuentas económicas y sector público: PIB 1980-1998 per capita (euros) por territorio y periodo. Base 2000.

the GDP per employee was relatively high and linked to export and trade.²²⁴ The role of the Basque country in Spanish trade, particularly exports, and as a transit route, and the dependence of regional economy on the changes in trade flows were foregrounded in the 1990s when the upswing in the economy started. The traditionally strong Basque industry and the financial institutions located in the region also played an important part in the economic foundations of the Basque Country.

When I apply the ideas of Elton and Foucault, the most visible things in the political history of the Basque Country are the structures of the use of power, their relations and limits as well as their stratification. The Basque Nationalist Party, like the other parties in the region, tried to take these factors into account and capitalize on them politically as much as possible. Analysis of these structures reveals that the struggle for power of the Basque provinces was, during the period

²²⁴ Domínguez Martín 2002, 296; for the GDP of the Basque provinces in 1980–1998, see Figure 7.

covered by my research, linked both to their economic interests and to their differences (Figure 7). Since the differences were an important factor in the use of power of the PNV at regional level, we must consider this situation in detail by analysing the region's economic sub-regions and the economic context of Basque politics. Knowledge of the geography and economy of the Basque Country are key factors in understanding the historical and economic causal connections of the region, and must be kept in mind in assessing historical change in economic policy. This is a prerequisite for understanding the history and evolution of the contacts between the Basque politicians and the representatives of the commerce and industry in the region.

2.1. The economic context of contemporary basque history

2.1.1. The Basque Country from the economic point of view

The geographical area of the Basque Country is 7,234 km², which is 1.5 percent of the total surface of Spain. By the end of the period of my study, 1998, the population of the community was 2,098,628 people, 5.4 percent of the total population of Spain. The population density was 290.1 inhabitants per square kilometre (km²), where the equivalent in Spain was 79.5,²²⁵ and almost half lived in towns of 10,000–100,000 inhabitants. Nonetheless, differences between towns remained considerable, some being modern centres and others fairly agrarian. The province of Vizcaya still had the biggest population (1,137,000 inhabitants), ahead of Guipúzcoa (677,000) and Álava (less than 300,000). The biggest cities of the region were the provincial capitals, Bilbao (*Bilbo*; 371,000 inhabitants, and almost one million in the Bilbao metropolitan area) in Vizcaya, San Sebastián (*Donostia*; 180,000) in Guipúzcoa, and the administrative capital of the autonomous region, Vitoria-Gazteiz (214,000) in Álava.²²⁶

In the context of Spain, the Basque Country is small in population and total area. However, it has economic importance in that context. The Basque Country contributed about 6 percent to the Spanish GDP.²²⁷ Although the estimates of the economic effects of the geographical location of the Basque Country varied during the 1980s and 1990s, the benefits from transit traffic were obvious, particularly in 1998.²²⁸ At the end of the 1980s, the Basque Country was still seen as a living example of economic regression, and as a *de-facto* industrial graveyard, with limited prospects for the future.²²⁹ It was considered extremely difficult to implement the necessary structural changes and the re-direction of the regional

²²⁵ España en Cifras 1997.

²²⁶ Manual del Estado Español 1999, 598–609.

²²⁷ Figure 9.

²²⁸ Differing interpretations are linked to the time of analysis. See, for example, Euskadi en el Proyecto Europa 1991 & Raento 2002.

²²⁹ Euskadi en el Proyecto Europa 1991; The Economist 3.7.1993, 12.

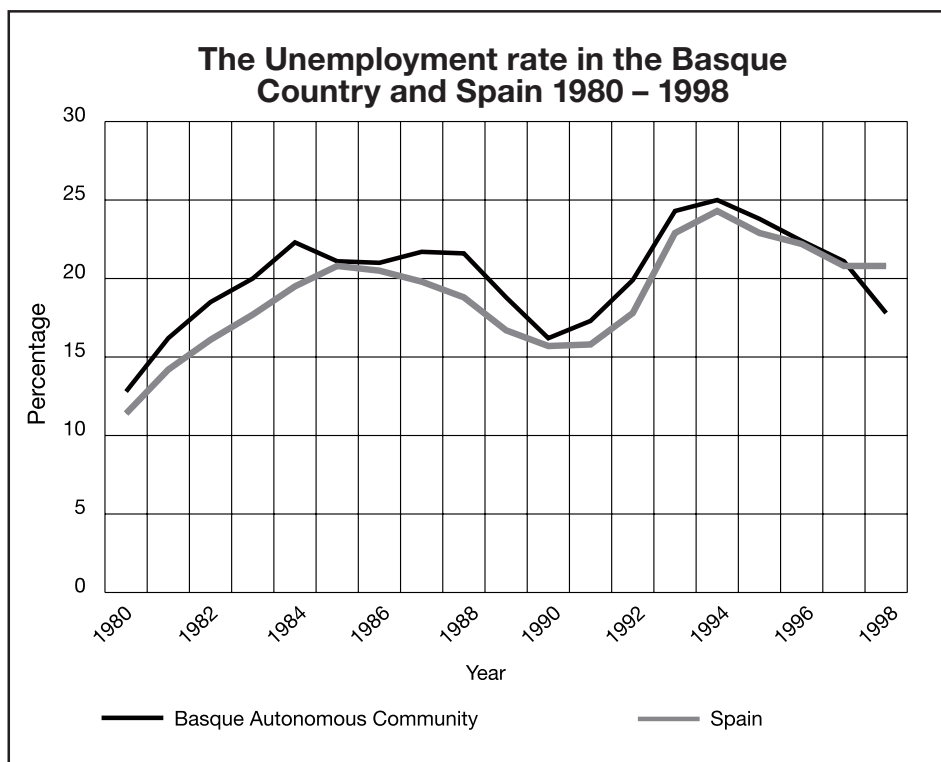


Figure 8. The problem of unemployment in the Basque Country and Spain 1980–1998

Sources: EUSTAT: EPRA (<http://www.eustat.es/spanish/estad/tablas/tbl0000300/tbl304.html>); INE: PAE003T00000001 & PAE693T00000001 (<http://www.ine.es/tempus/cgi-bin/itie>); GV/EJ: *Economía Vasca* 1998, 66.

economy, which suffered from high unemployment (*Figure 8*). In this sense, it is interesting to compare the role of the Autonomous Basque Country with the cultural-historical Basque Country: the autonomous region, though smaller in size than the Foral Community of Navarra (population of 530,811; surface area 10,391 km²), is more important demographically and in industrial production. On the other hand, Navarra, as a frontier region, became an important channel for Spain’s foreign trade, and showed great potential in attracting foreign investment in the 1990s. In the east, the autonomous Basque Country borders on the French Basque provinces, which were still pronouncedly agricultural in the 1990s.²³⁰

Since the late 1970s, the effects of oil crises, the problems of the traditional heavy industry in the region, the difficult employment situation and the protracted economic recession characterized the Basque economy.²³¹ Although the economic

²³⁰ Raento 2002, 95.

²³¹ Zirakzadeh 1985 & 1991; Cuadrado Roura 1991; Harrison 1983.

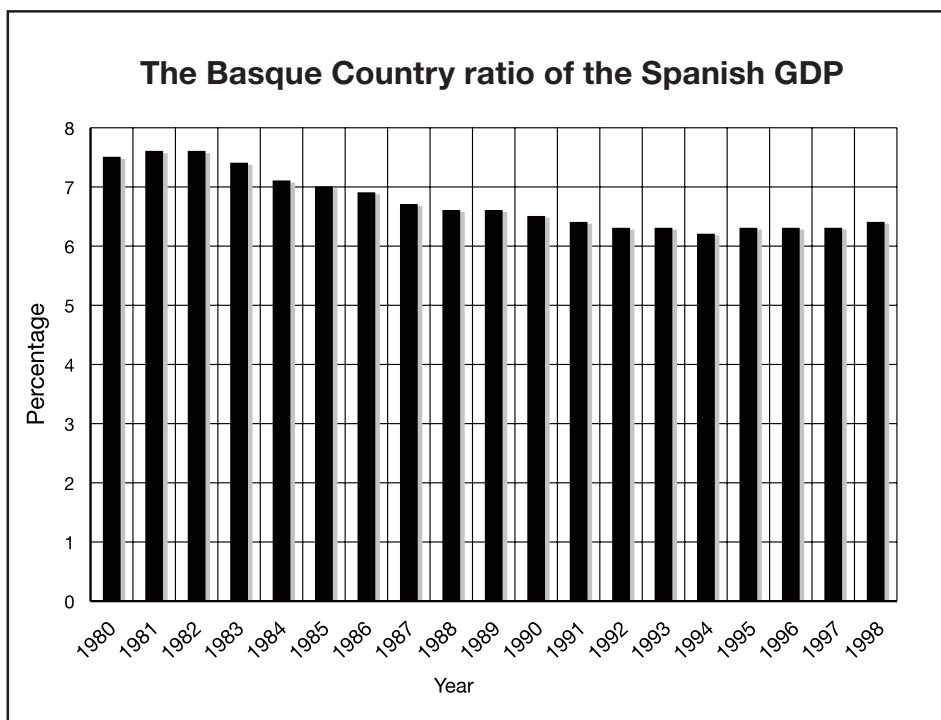


Figure 9. The Basque Country in the Spanish economy 1980-1998

Source: my own elaboration from INE: Economía. Cuentas Económicas. Contabilidad Regional de España. Base 1986, Series 1980-1996 & Base 1995, Series 1995-2003. (<http://www.ine.es/inebase/cgi/um?M=%2Ft35%2Fp010&O=inebase&N=&L=0>)

crises of the 1970s and 1980s, as well as the socio-economic changes that European integration brought affected the structures and relative position of the Basque industry and economy, many key factors and conditions still did not change. The economic pressures on regional politics are based on the uneven distribution of wealth and displacement of production and production methods to other regions, and the consequent disappearance of jobs.²³² Despite the volume of its industry and the famous local financial institutions, the resources of the Basque Country are limited. It is a frontier region and retains several economic core areas and hinterlands.²³³

The main economic contexts of the Basque Country nowadays are Spain (Figure 9) and the EU. Although European integration has brought well-being to the region and new opportunities for its economy, the differing local and regional

²³² Zirakzadeh 1991, 17–18.

²³³ Raento 2002, 95.

views and the national (autonomous communities) as well as international (state borders) division cause problems.²³⁴ In the latter part of the 1990s, the economic position of the Basque Country was defined by signs of recovery, the growing importance of the new port of Bilbao, technology parks,²³⁵ cross-border trade and cooperation between Spain and France, and transit traffic. Structural problems, the paucity of new jobs created annually, high unemployment among people with higher education qualifications, and pressures to bring the educational and vocational training systems closer to the needs of commercial life in order to develop service and technology sectors were still the main economic concerns in the 1990s. The proportion of industry remained high in the region's GDP, and the structural change in local industry was still in progress.

The division between town and countryside in the Basque Country is as important in its economic geography as is the contrast between the coast and the hinterland. In 1980–1998, the GDP per capita was consistently highest in Álava and lowest in the most densely populated province of Vizcaya.²³⁶ The regional location of production followed the provincial borders, so that at the end of the 1990s, Vizcaya was still heavily industrialized, whereas small and medium size enterprises characterised Guipúzcoa. Cooperative movements also flourished in Guipúzcoa from the 1970s onwards.²³⁷ Álava was the province of new technology entrepreneurship, and intensive, large-scale, mechanized and commercial agriculture.²³⁸ Whereas agriculture in the coastal and mountain regions of the Basque Country was mainly concerned with beef production and sheep breeding, production on the plains of Álava consisted of large-scale cultivation of cereals and vegetables.²³⁹ The average estate size in the Basque Country was still small in the 1990s. From the 1960s, the trend had been towards fewer, but bigger farms.²⁴⁰ In comparison to other parts of Spain, a relatively large part of the cultivated area was occupied by cereal crops and grapevines rather than fruit.²⁴¹ Agriculture and fishing employed few people in the Basque Country, and only 3 percent of

²³⁴ Raento 2002

²³⁵ The three technology parks of the Basque Country are Zamudio (Vizcaya), Miñano (Álava), and Miramón (Guipúzcoa). *Noticias de Euskadi* 1998:9.

²³⁶ EUSTAT: Cuentas económicas. PIB per cápita por territorio. Valores corrientes (euros). Figure 7.

²³⁷ The most prominent one is Mondragón, which later became an important conglomerate in Basque terms. *Conversi* 1997, 199–200.

²³⁸ This can be seen clearly in the export statistics of the provinces. *EUSTAT: Comercio Exterior* 1998, 14.

²³⁹ Zirakzadeh 1991, 20.

²⁴⁰ Álava's agriculture commercialized rapidly after the Second World War, when it produced groceries for the growing markets in the cities. As elsewhere in the Basque Country, the farmers suffered during Franco's period when the prices of agricultural products did not rise at the same rate as those of industrial products; industrial products were exported in growing quantities in the 1960s. *Op. cit.*, 38–39.

²⁴¹ *España en cifras* 1997, 30.

the active population worked in those sectors in 1998, whereas the service sector accounted for 60 percent and industry and construction for 37 percent. Still, it must be remembered that in the 1980s and 1990s the fishing fleet of the Basque Country was among the biggest in the EC/EU.²⁴²

The best-known example of the economic juxtaposition in the Basque Country is the relationship between Bilbao and Vitoria-Gazteiz. Bilbao is the historical power-house of the Basque economy, which traditionally still weilds considerable economic and politico-economic power. The support for the PNV has traditionally been strongest there, and the party has been politically well represented. The city with its neighbouring areas suffered, however, during the economic depression of the 1990s, and the economic recovery has been slower than expected. The port traffic in Bilbao comprised a huge portion of the Spanish export and import trade. Vitoria-Gazteiz is the administrative centre of the autonomous community with an ambitious and nuanced cultural and regional identity. The 1980s and 1990s saw favourable development in the city, which benefited from the various EC/EU funds and other opportunities.²⁴³

2.1.2. The Basque economy in relation to Spain and the EC/EU

The most important context of the Basque economy is naturally Spain. This framework accentuates the fact that practically all through the 20th century, the Basque Country was one of its wealthiest regions.²⁴⁴ For example, in 1995, the proportion of the Basque Country in the total Spanish GDP was 6.1 percent, and this figure did not change greatly when the economic boom, which touched all the autonomous communities in the country, started in 1996.

In terms of GDP per capita, which is a revealing figure, the Basque Country was the fourth richest autonomous community in Spain in 1998, only Madrid, Navarra and Catalonia being more so.²⁴⁵ The seriousness of the economic turmoil of the early 1990s was reflected in the fact that in 1994–1996, when the basis for the new economic boom was created, the growth in the region was still the lowest in Spain.²⁴⁶ Only during 1997–1998 did the industry of the region regain its traditional leading position in the Spanish economy, mainly because of economic recovery in general, better prospects for foreign trade,²⁴⁷ and the emerging, new

²⁴² Wallace & Wallace 2000, 363; for the role of fishing in commercial and trade policy, see Clark 1987.

²⁴³ Zirakzadeh 1991, 20; Raento 2002, 106; for example, the Guichet programme for border regions.

²⁴⁴ Tamames & Rueda 1998, 526.

²⁴⁵ See <http://www.eustat.es/spanish/estad/tablas/tbl0000700/tbl730.html>. EUSTAT: EUROSTAT 1998.

²⁴⁶ Informe Económico Financiero de las Administraciones Territoriales 1998, 33–34.

²⁴⁷ In 1997–1998, the export flow which went through the Basque Country was directed mostly at other EU countries, like Germany and France, which remained the most important markets for Spanish-made products. EUSTAT: Comercio Exterior 1998.

structures of production. In 1997, the GDP growth was 4.9 percent in the Basque Country, whereas the corresponding figure in the Spanish economy was 4.0 percent.²⁴⁸ In 1998, the growth rate was 5.9 percent, which was 1.6 percent higher than the Spanish average (4.3). This was the highest annual growth rate in the Basque Country in over ten years (*Figure 10*).²⁴⁹

The great structural changes experienced during the previous years had left their mark on the Basque economy: in 1998, the unemployment rate was 17.8 percent,²⁵⁰ which was still slightly lower than the Spanish average (18.1).²⁵¹ Significantly, the productivity rate per employee in the region was higher than anywhere else in Spain in the 1990s.²⁵² Despite the persistent economic problems, the Basque Country was able to maintain a higher growth rate in 1980–1998 than the other autonomous communities, particularly in increasing productivity. In this sense the Basque economy²⁵³ differed from the rest of the Spanish economy, which suffered from slower growth in productivity and production efficiency. This was one of the factors that also drew foreign investment to the region.²⁵⁴

Direct foreign investment by the Basque Country grew, especially after the middle of the 1990s, representing 7.8 percent of overall Spanish foreign investment in 1998.²⁵⁵ At that time the inflation rate in the Basque Country came close to the Spanish average (in 1997 the inflation rate in the Basque Country was 2.3 percent,

²⁴⁸ El País Semanal 18.10.1998.

²⁴⁹ Figure 10.

²⁵⁰ In the Basque Country, 30,000 new jobs were created in 1998. World Urban Economic Development 1999, 2.

²⁵¹ Figure 7; for the statistics of INE, see <http://www.ine.es/tempus/cgi-bin/itie>; the statistics of EUSTAT, see <http://www.eustat.es/spanish/estad/tablas/tbl0000300/tbl304.html>. INE:PAE:Parados nacional tasas & Parados País Vasco tasas; EUSTAT:EPRA: Tasa de actividad y paro OIT de la población de 16 y más años según Territorios Históricos (%).

²⁵² For example, the figure of the Basque Country was 116.1 in 1996, when the Spanish average was 100. Informe Económico-Financiero de las Administraciones Territoriales 1998, 295.

²⁵³ The overall budget (total), about 737 billion pesetas (about 4.4 billion euros) of the Autonomous Basque Country in 1998, was 7.5 percent of the sum total of the budgets of the autonomous regions. The public debt was 344.5 billion pesetas (less than 2.1 billion euros), being the sixth region on the list of the “most in debt” regions in Spain. Catalonia (6 million inhabitants) was top, having four times more public debt than the Basque Country (2 million inhabitants). Informe sobre la financiación de las Comunidades Autónomas. Ejercicio 1997, 137; El País 1.3.2000, 19; Aja 1999, 113; public debt in the Basque Country was 13.7 percent of GDP in 1998. The public deficit in the region was then only 0.3 percent. Noticias de Euskadi 1998:4.

²⁵⁴ In 1997, 5.2 percent of all foreign private investment in Spain was directed to the Basque Country. Op. cit., 9.

²⁵⁵ Only the regions of Madrid and Catalonia were ahead of the Basque Country in investments made in other countries. *Ibid.*

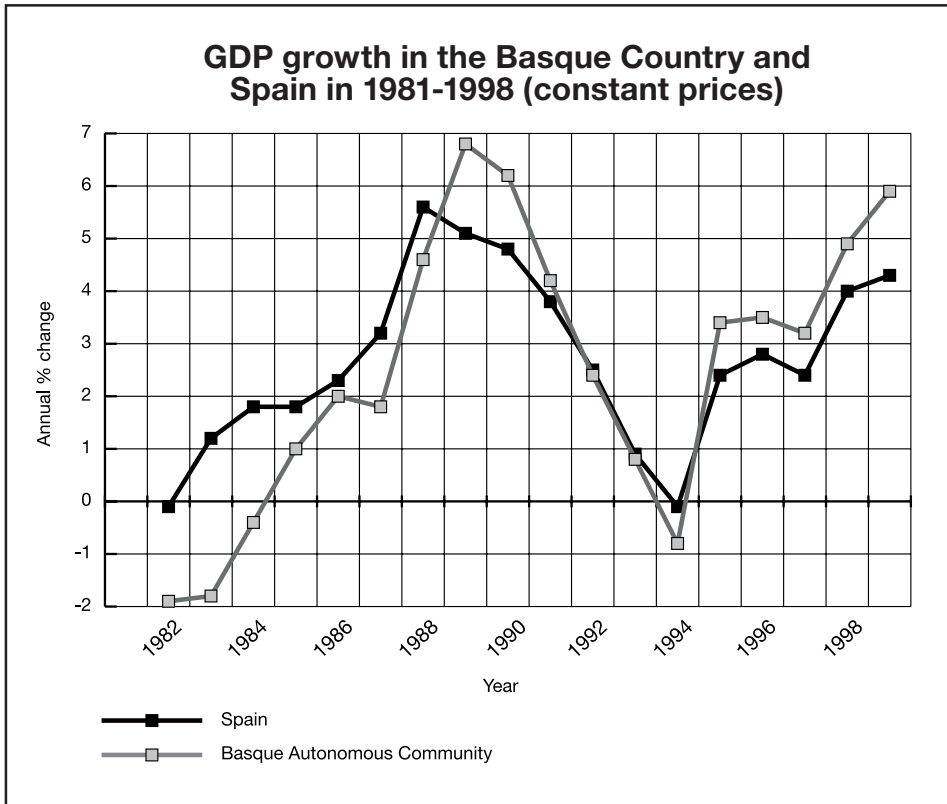


Figure 10. The GDP of the Basque Country and Spain in 1981-1998

Source: INE Cuentas económicas. Contabilidad regional de España. Base 1986 & 1995. Producto Interior Bruto a precios de mercado. Precios corrientes. (<http://www.ine.es/inebase/cgi/um?M=%2Ft35%2Fp010&O=inebase&N=&L=>)

and in Spain 2.5). A revealing piece of information is that in 1998 the investment in research and development was 1.2 percent of GDP, when the Spanish average was 0.8. Approximately a quarter of the budget of the regional government was spent on education, the larger spending per capita in education and health being an example of the larger budgetary potential of the region.²⁵⁶

If we compare the economic structures of the Basque Country to the overall picture in Spain in the late 1990s, it is significant that the proportion of the Basque GDP represented by the primary sector is relatively low. The Basque Country was not a big producer and exporter of vegetables and fruit, like many others parts of Spain. It produced 80 percent of all the engine parts produced in Spain, 70 percent

²⁵⁶ Noticias de Euskadi 1998:9.

of all industrial electronics, and 40 percent of domestic electronics, however.²⁵⁷ The consumption level remained lower than in other communities, mainly because of the relatively low level of public spending. However, the regional administration tried to increase consumer demand by its own policies. Despite the high unemployment rate, the proportion of earned income was, historically, high in the GDP of the Basque economy.

The economic cooperation between the Basque Country and Navarra was hindered by disagreements concerning the relations between the autonomous communities at national level. The Basque economy still suffered from the basic problem of the Spanish “non-institutional” federalism in the 1990s,²⁵⁸ there being no mechanisms for the relations between the regional governments of the 17 autonomous communities.²⁵⁹ The border between Spain and France, together with the political, administrative, cultural and societal reality of the historical Basque Country affected the profile of the economy on both sides of the border.²⁶⁰ Border cooperation was not easy for technical reasons, such as the different rail gauge and bureaucracy. At state level, there had also been problems in fishing.²⁶¹

On the other hand, when Spain became a member of the EC/EU, the customs border between Spain and France disappeared; many jobs were lost temporarily in the border region, because the traditional border trade ceased, but new jobs were created in other sectors and areas within the region.²⁶² Many entrepreneurs moved to the coastal areas of the Basque Country or to the emerging innovation centres. With the help of the EU, the industry of the region was diversified in the 1990s. The Basque Country was entitled to receive funding from the EC/EU structural funds reserved for supporting the economic and social renewal of regions in difficulty, then the objective 2 and 5b programmes.²⁶³ Particular objectives were to reduce pollutant emissions caused by industry, diversify the regional economic structure, and promote rural tourism.²⁶⁴ In the European context, the image of the Basque Country was still linked to industry in 1998, the proportion of the industry component of the regional GDP (37 percent) being higher than the EU average (30 percent).²⁶⁵ The per capita GDP was practically at the level of the EU average,²⁶⁶ but the unemployment rate (17.8 percent in 1998) exceeded the

²⁵⁷ Noticias de Euskadi 1998:9.

²⁵⁸ Colomer 1998.

²⁵⁹ The senate did not turn out to be a useful channel for discussions or negotiations between the state and the autonomous regions. Aja 1999, 38–39; Díaz López 1985, 252.

²⁶⁰ Raento 2002.

²⁶¹ *Ibid.*

²⁶² Raento 1997, 244–245; Raento 2002, 96.

²⁶³ Nowadays they are included in the target programme 2. EU-rahoituksen opas 2000, 3.

²⁶⁴ *Ibid.*

²⁶⁵ El País Semanal 18.10.1998.

²⁶⁶ The EU average was represented by the figure 100, and the Basque Country’s figure was 99. EUSTAT: EUROSTAT 1998.

community average (10.1 percent).²⁶⁷

After a somewhat uncertain period, the geographical location of the Basque Country in the continental context turned out to be an asset for attracting significant transit traffic in the 1990s. This development saw the road network improve with EU funding,²⁶⁸ which emphasized the role of the Basque Country as a transit area between the industrial centres of Central Europe and the most important metropolises on the Iberian Peninsula even further. Transport from Portugal and other parts of Spain uses the main roads and railways of the Basque Country. The Basque Country also has good connections with the coastal areas and metropolises of Cantabria and Catalonia.²⁶⁹ In 1998, 94 percent of the products passing through the port of Bilbao were heading to or coming from external markets.²⁷⁰ The port was then second in Spain's foreign trade after Algeciras, which indicated that Madrid and Saragossa, together with South-West France and Northern Portugal, had become linked to the Basque economy.²⁷¹ The better communications attracted increasing interest from transport companies in the region. Because of this, a need for new infrastructure and useful know-how had become major challenges at local level.

2.2. The politico-economic roots of the PNV

2.2.1. Traditionalism and bourgeoisism

When we look at the reasons for the emergence of Basque nationalism, the changes in the Basque economy and their societal effects come up. In order to understand them, one needs to know the reasons for changes. Basque nationalism began at the end of the 19th century in a difficult combination of traditional and bourgeois elements. A new industrialized society was established as the old social system of the Basque Country faced a crisis. The old society's link with the PNV was still to influence its political and politico-economic definitions. Two factors underlying the early history of the Basque nationalism can be distinguished: (i) the relationship between the central government and the Basque Country, especially the question of the economy and the *fueros* before 1839, and (ii) industrialization and society from the middle of the 19th century onwards. The broad question of national identity enters my analysis only when it has motivated or affected the use of politico-economic power.

One historical fact in the relationship between the central government and the Basque Country is that the Spanish kingdom, formed under Castilian leadership, was not traditionally dependent on the limited resources of the peripheral Basque Country. The only exceptions to this were iron production and shipping, the two

²⁶⁷ Figure 7 & EUSTAT:EUROSTAT 1998.

²⁶⁸ For example, the Guichet programme.

²⁶⁹ Raento 2002, 96.

²⁷⁰ Noticias de Euskadi 1998:2.

²⁷¹ Raento 2002, 96–97.

pillars of the region's economy.²⁷² The harbours of the Basque Country were an important route for the wool export of inland Castile.²⁷³ The mountainous Basque provinces were an ethnically and culturally distinct region, with a strategically important location, being Castile's gateway to the Pyrenees. However, Castile remained a weak central power for a long time, and the Spanish kings one after another committed themselves to respect the Basque laws, i.e., the *fueros*,²⁷⁴ and the provinces enjoyed extensive freedom.²⁷⁵ It is important to note, as William A. Douglass and Jon Bilbao underline, that "the Basques were not citizens of a reign of Castile; they were citizens of a land that had accepted the king of Castile as its sovereign".²⁷⁶ In practice, this meant that the Basque loyalty to the Castilian kings depended on "the monarch's respect for local autonomy and tradition as formalized in the *fueros*".²⁷⁷ The *fueros*, consisting of a collection of local laws and customs together with special economic and political liberties,²⁷⁸ established the basis for the economic and political activities in the Basque provinces, and practically made it a free-trade area with a customs border with the rest of the kingdom.²⁷⁹ Nonetheless, the Basque Country was not a united entity; the *fueros*, in fact, emphasized the sovereignty of the provinces.

Although the economic resources of the provinces were limited, the mobility of the Basques was considerable. Primogeniture prevailed, but the oldest child was obliged to finance the schooling of the other children. Because of this, many Basques were clerics, seamen or mercenaries.²⁸⁰ Despite the fact that farming was modernized and blacksmithing work and forging were developed in the region at the end of the 18th century, the economic situation was difficult, particularly in the rural areas. This led to a growing contrast between the countryside and the cities. The inheritance laws led the farmers to incur debts. Normally, land had to be sold to pay these debts, which, together with the growth of population and years of crop failure caused a dramatic

²⁷² Douglass & Bilbao 1975, 49–50 & 67.

²⁷³ Particularly to Flanders. Douglass & Bilbao 1975, 57.

²⁷⁴ The name of the *fueros* comes from Latin, *forum*. Puig y Scotoni 1986, 38.

²⁷⁵ Aja 1991, 173.

²⁷⁶ Douglass & Bilbao 1975, 63.

²⁷⁷ *Ibid.*

²⁷⁸ HYPL:Pohjanheimo 1996, 20; HYHL: Jalas 1992.

²⁷⁹ Even Tocqueville noticed this fact in the 1830s, referring to it in the first part of *De la Démocratie en Amérique*. Tocqueville 1981, 188; the Basques were exempted from military service, but they had to maintain the border and patrol the coast. García de Cortázar & González Vesga 2000, 345; for the *fueros*, see also Larrazábal Basáñez 1997, 31–79.

²⁸⁰ Basque fishermen were whaling as far away as near Newfoundland. Basques played an important role in Castile's overseas conquests and in the administration of these possessions. Douglass & Bilbao 1975.

decline in the number of land-owning farmers in the 18th century.²⁸¹

All Basque provinces had their own representative institutions, a popular assembly, the *Juntas generales*, or legislature.²⁸² The position of the Basque aristocracy did not resemble the feudal system, but was more like a clan system.²⁸³ The Catholic Church had a strong position in the Basque Country, and its influence on local politics was significant.²⁸⁴ The Basque Country also differed from its neighbouring areas linguistically, Basque-speaking people accounting for 54 percent of the population in the Basque provinces of Spain. The conflict between the Spanish and the Basque language, Euskara, was minimal till the end of the 18th century.²⁸⁵

The crisis of the *fuero* system was part of the crisis of the Old Spanish regime; the fact that the province of Guipúzcoa decided to join the republic of France during the war of Spain and the French national convent (1793–1795) was an important impetus for the crisis.²⁸⁶ After the war, Vizcaya and Guipúzcoa refused to pay taxes and supply soldiers to Spain; the ruling Bourbons of Spain then started an extensive campaign against the *fueros*. The situation culminated in 1804 when royal troops occupied Vizcaya and their commander ousted the provincial council. The relations between the Basques and the central government deteriorated markedly during the so-called Carlist wars (1833–1840 and 1872–1876). In the Spanish context, these were civil wars between the Carlists, i.e., supporters of Don Carlos, who was the brother of Ferdinand VII, and the liberals, led by Isabella II. The wars, in which the Carlists were defeated, took place to a great extent in the Basque provinces, where the majority of the rural population supported the Carlists. The cities, however, supported the liberals. The *fueros*

²⁸¹ Emigration from the countryside to small inland towns created a new group of craftspeople. Eibar, Mondragón and Placencia are examples of this type of urban centre. Heiberg 1989, 28–30; for the historical background of the demographic evolution and its consequences in the Basque Country, see Fernández de Pinedo 1974.

²⁸² See, for example, Douglass & Bilbao 1975, 105; the most famous is the assembly of Vizcaya, which had its meetings under the old oak-tree of the town of Guernica (*Gernika*).

²⁸³ In the 16th century, a privilege was included in the *fueros* of Vizcaya and Guipúzcoa, according to which all their inhabitants were considered noble.

²⁸⁴ An example of famous Basques is the founder of the Society of Jesus, Ignacio de Loyola (1491–1556) and Juan Sebastián Elcano. Puig i Scotoni 1986, 41; the church was the only institution in the Basque Country after the first half of the 16th century that used Euskara, both in writing and speech. Op. cit., 21.

²⁸⁵ Sullivan 1988b, 13. I have used the Spanish version of Sullivan's book, which was originally published in English. See Sullivan 1988a.

²⁸⁶ Guipúzcoa decided to replace the arrangement by which the Spanish crown announced its respect for the *fueros* with an agreement with the French Republic. Granja, Beramendi & Anguera 2001, 31.

were cut short by law in 1839, after the first Carlist war ended.²⁸⁷

In the second Carlist war (1872–1876), the setting was similar to the first: liberalism against traditionalism represented by the Carlists; the cities against the countryside. The situation was even more complicated than in the previous war, because there were also some people from the urban middle class and craftsmen among the ranks of the Carlists. On the other hand, the previous unanimous support for Carlism in the rural areas no longer existed. Consequently, men were dragooned into the Carlist troops.²⁸⁸ The central government abolished the *fueros* and the customs border definitively in 1876.²⁸⁹ The political alignment intended to restore the *fueros*, the so-called *fuerosismo*, had its roots in the 1870s and 1880s; at the end of the second Carlist war. The defence of the *fueros* united all the political forces in the Basque Country.²⁹⁰

At that time, the Basque Country was facing an unavoidable change: a crisis in the structure of the old society and the emergence of a new one. In the middle of the 19th century, a period of intense industrialization started in the Basque Country, particularly in the city of Bilbao. Iron, which was exported, triggered the industrial revolution in the region. In the area of Vizcaya, there was plenty of iron, wood and water-power, but not enough workers to meet the needs of the rapidly growing industry. Because of this, increasing numbers of people moved to the region from other parts of Spain. Industrial ship-building and metallurgy developed in the Basque Country, which rapidly emerged as an important industrial centre of Spain, and in European terms.²⁹¹ In Vizcaya, the developing economy benefited from the new financial institutions, which became significant on a national scale.²⁹²

The traditional social structure changed in the Basque Country when the rural population moved to work in factories, and people from Álava and Navarra moved to the coast in search of jobs. The population of Vizcaya grew at the end of the 19th century, whereas that of the inland provinces remained practically unchanged. Hostile reactions towards workers from other regions appeared, particularly among the original Basque-speaking population. Nationalism grew as a reaction of the

²⁸⁷ *Ley de 25 de octubre de 1839 sobre los Fueros*. Documentos para la historia del nacionalismo vasco 1998, 23; Mieza y Mieg 1984, 119–121.

²⁸⁸ See the article by Manuel Montero published in *El Correo* 19.3.2000; for an extensive account of Carlism and its history, see Canal 2000.

²⁸⁹ *Ley de 21 de julio de 1876 sobre los Fueros*. Documentos para la historia del nacionalismo vasco 1998, 24.

²⁹⁰ Corcuera Atienza 1979, 581.

²⁹¹ The ship-building industry of the region developed rapidly and specialized in steamships. Vicens Vives 1959, 668 & 691.

²⁹² *Op. cit.*, 729 & 732; after Spain had lost Cuba in 1898, many returnees moved to the Basque Country as well. The capital they brought with them rapidly started to make an impact in the regional economy.

middle classes in the face of the pressures of social change.²⁹³ In Spanish politics, some sectors of the middle class eschewed the political push for a constitutional monarchy. In the Basque Country, this politically excluded and frustrated group consisted of middle-class people and the rural population. Representatives of big business in the Basque Country, who favoured monopolies in the economy, were not a part of this group. Thanks to caciquism and the consequent monopolisation of political representation, the upper middle class in the Basque Country was able to benefit practically exclusively from the economic agreement (*concierto económico*), which was granted to the region in 1878 after the abolition of the *fueros*.²⁹⁴ At that time, it was possible to distinguish the difference between big business and the provincially defined middle class.

Hobsbawm, who has recognized the existence of different kinds of nationalism, includes Basque nationalism in the ethnic group which affect “populations living on large territories or even in dispersion, and lacking a common polity”,²⁹⁵ and in the case of the Basques he also refers to the concept of proto-nationalism.²⁹⁶ The cultural-historical background of the Basque provinces, and the state borders which are not consistent with this background, support his argument. Hobsbawm’s definitions still need to be refined. Firstly, following the ideas of Benedict Anderson, an anthropologist and scholar of nationalism, we may note that the nationalistic ideas responded to questions that the new ideological constructions of the 19th century, bourgeois liberalism and Marxism, were not able to answer.²⁹⁷ Basque nationalism, like the concept of mentality, comes down to the question of people reacting to structures which are imposed from the outside and which condition their actions.

Secondly, Corcuera Atienza sums up the most important reasons for the emergence of Basque nationalism as economic change and the final abolition of the foral system.²⁹⁸ The Spanish ruling class was unable to become the leading national class in the 20th century; moreover, it had become detached from the national reality. In the Basque Country, as well as in Catalonia, the lower middle

²⁹³ Corcuera Atienza 1979; Hobsbawm 1994, 44–45 & 74–75; the PNV was, according to Hobsbawm, also an answer to the fear of the spread of socialism. He does not explain the later influence of the upper middle-class on the PNV’s policy and actions. Op.cit., 153–154.

²⁹⁴ Corcuera Atienza 1979, 581; the economic agreement had previously (1878) been a new kind of political and historical formula for regulating the politico-economic relations between the region and the central government, whose significance as a legal cornerstone in that relationship cannot be underestimated. It was a way of creating certain principles which must be respected by the political leadership in its economic policy. An entirely different issue is how big business dominated the political power in the Basque Country in practice in the 1870s, and benefited most from this arrangement.

²⁹⁵ Hobsbawm 1992, 64.

²⁹⁶ *Ibid.*; for “proto-nationalism” see op. cit., 46–79; Anderson discusses nationalism as particular cultural artefacts. Anderson 1991, 4.

²⁹⁷ See *ibid.*

²⁹⁸ Corcuera Atienza 1979.

class challenged this reality and showed signs of frustration with its own position. Despite the universal male suffrage, it felt excluded from power in the 1870s.²⁹⁹ In the Basque Country, political “Basque” identity was seen as the antithesis of the liberals’ intention to impose their own Spanish nation. For various reasons, a large proportion of Basque society identified the defence of their own interests with the defence of the old regime. The *fueros* were tied to traditionalism and religion. In this situation, “Basqueness” emerged, and was therefore experienced as the antithesis of liberalism.³⁰⁰

The historically strong cultural identity of the Basque Country was at work in various strata of the society, not just among the middle class or the rural population. Although the political attitude and reasoning of the representatives of big business followed that of Spanish nationalism, that group did not want its pro-Basque attitude to be called into question. The representatives of big business marketed a picture of themselves as “the true defenders of the Basque Country”³⁰¹ with pleasure, which succeeded in gaining the economic agreement for the region. Even though this group had already abandoned fuerism in the 1870s, it did not want to leave the defence of the legitimacy of the *fueros* in the hands of just anybody. Simultaneously, the growing nationalism in Europe and cultural romanticism also reached the Basque Country. The upper middle classes in the urban areas, the great majority of whom did not speak Basque any longer, began to show an interest in the traditional Basque culture and language. However, politics and nationalism were used to foster traditional culture and folklore at the same time. The first manifestation of Basque nationalism became apparent just as the old Basque Country was disappearing. The crises of society were a result of industrialization and the disappearance of the foral system. The strong influence fuerism had on the PNV later relates to this combination. The PNV’s interpretation of the *fueros* changed, however, into an imaginative one, and did not simply follow the idea that the fuerism of the Basques was an antithesis of Spanish liberalism.

According to Sabino de Arana (1865–1903), the father of Basque nationalism and the founder of the PNV, the salvation of the Basque Country from the danger of secularization, capitalism and “mixture of races” was only possible through political independence. He considered that the Basque provinces had been independent before 1839 through their *fueros*.³⁰² For him, true fuerism was separatism. In 1895, Arana founded the first political grouping, which later became

²⁹⁹ Corcuera Atienza 1979

³⁰⁰ Op. cit., 581.

³⁰¹ Op. cit., 582; the Hobsbawm book, which is a general account of nationalism, does not consider the PNV’s complex relationship with the bourgeois elements of Basque society. Hobsbawm 1992, 119–120.

³⁰² Granja, Beramendi & Anguera 2001, 84 & 89.

the moderate Basque Nationalist Party, the PNV.³⁰³ Arana's political activity took place when the Basque Country was becoming wealthy; the iron produced there, particularly in the province of Vizcaya, was sold profitably to Britain, and the leading industrialists of the Basque coast were the most homogenous and powerful group of industrial proprietors in Spain in the early 20th century.³⁰⁴ This new wealth was still not distributed equally; though this did not mean that the region had been exploited economically. The Basque Country had become a centre of capitalism, where many parts of society, such as farmers and petit bourgeoisie felt they had suffered from these economic changes. These groups became the foundation of the supporters of the PNV and its executive group.³⁰⁵ The PNV adopted ideas which opposed economic liberalism. It saw that the industrial revolution in the region happened "against the region's own laws", since the *fueros* would not have allowed the export of iron.³⁰⁶ For example, Hobsbawm's view that the PNV consciously abandoned the interests of big business in the Basque Country which were associated with the pan-Spanish monarchy and that the PNV was responding to the fear of the spread of socialism,³⁰⁷ is insufficient. Hobsbawm deals with big business in the Basque Country as a politically homogenous group³⁰⁸ without taking into account the later influence of the business elites, particularly that of the ship-owners, on the PNV and its policy. Nor does he consider the interest of big business in the Basque Country in using "Basqueness" to legitimize its own power. The local businessmen were certainly not willing to be accused of serving simply the interests of Spanish or international capitalism.

In the early years of Basque nationalism, its basic ideas consisted of opposition to liberalism and caciquism, strong Catholicism and nation-centred thinking. Later, an independence movement called *bizkaitarrismo* followed, which stressed the interests of Vizcaya over other provinces; Arana complemented this tendency with his ideas about uniting all the Basque provinces into a confederation. He saw the threshold question for the "Basques' freedom" as to regain "purity of blood",

³⁰³ Its predecessor was Euzkeldun Batzokija, established in 1894, which defined itself as a "recreational society" (*sociedad de recreo*). Documentos para la historia del nacionalismo vasco 1998, 8.

³⁰⁴ Zirakzadeh 1991, 21.

³⁰⁵ Díez Medrano 1999, 2.

³⁰⁶ See the interview with the leader of the PNV, Xavier Arzalluz, in the book by the journalist Tom Burns Maraño. Arzalluz explains how the Basque nationalists saw the "representatives of liberalism" follow the interests of Madrid instead of the regional ones, by monopolising iron production and exporting it. Burns Maraño 1997, 216; see also the pseudonym, Vicente Copa, on the fact that the Basque Country was not ever, not even in the 19th century, an object of economic exploitation. This is not often indicated in political discussion. Copa 1989, 11.

³⁰⁷ Hobsbawm 1992, 119.

³⁰⁸ Op. cit., 140–141.

because without it the political control of the region had no meaning.³⁰⁹ “Racial purity” also required that the immigrant workers originating from other regions and their socialist organizations be fought. Arana stated indirectly, however, that, apart from the nationalists, the socialists were the only ones to oppose electoral caciquism and all forms of exploitation of the poorest. This did not mean, however, that the nationalists were profoundly anti-capitalist at the grass-roots level, and definitively not in their leadership.³¹⁰ The socialists were not, according to Arana, a potential political alternative to the patriotic working-class population, since they did not accept the nationalist doctrine and they were “anticlerical”. Consequently, Arana’s objective was to create a nationalistic trade organization.³¹¹ Interestingly, the PNV also warned that socialist rule would mean higher taxation in urban areas and on industrial property.³¹²

In the course of time, the policy of the PNV developed and its political demands were partly replaced by more pragmatic ideas, which originated with the few but wealthy new bourgeois supporters of the party. The Basque Country was economically dependent on the Spanish domestic market, so it was more profitable to strive for autonomy.³¹³ Simultaneously, the party experienced many changes. The group called *euskalerriacos*,³¹⁴ which was formed by upper middle-class people who were close to industry and who represented fuerism, affiliated with the party in 1898. Their influence became apparent in 1902–1903. The so-called “Spanish” period and a change in Arana’s political thinking was the result of a long-term evolution.³¹⁵ The bourgeoisie that supported the PNV and were firmly entrenched in its hierarchy needed a legal party to lobby for its interests.³¹⁶ This regionalist tendency was motivated by the economic welfare of the Basques and the Basque Country, and the economic arrangements.³¹⁷ While regionalism gained strength in Arana’s thinking, the need for the organisational development

³⁰⁹ According to Arana the independent province of Vizcaya should fully implement the old laws, as well as old traditions and customs, which would ultimately require complete isolation of the euskarian race (*raza euskeriana*). This would make the race “immune to foreign influence”. *Documentos básicos para la historia del nacionalismo vasco* 1998, 8.

³¹⁰ Corcuera Atienza 1979, 511.

³¹¹ The first nationalist syndicate was founded in 1911. *Op. cit.*, 9.

³¹² *Op. cit.*, 496–497.

³¹³ *Op. cit.*, 530, 538 & 555; Zirakzadeh 1985 & 1991, 111–144.

³¹⁴ Granja, Beramendi & Anguera 2001, 86 & 286; Pablo, Mees & Rodríguez Ranz 1999, 46–47.

³¹⁵ Arana, however, claimed that this was not the case. Corcuera Atienza 1979, 513.

³¹⁶ *Op. cit.*, 589.

³¹⁷ *Op. cit.*, 540; a long-term, 25-year arrangement, which included the annual share of tax revenue to be paid to the state, was mentioned in the programmes for electoral cooperation drafted by the PNV in 1903. *Op. cit.*, 501–502 & 526; Sabino de Arana’s regionalist tendency also included external relations: the Basques of Bidasoa were sympathized with more than previously, and the other regionalist movements in Spain, especially the Catalanian nationalism, were addressed more clearly.

of the party grew. Arana increasingly stressed the federal party structure, based on the four Basque provinces (Vizcaya, Guipúzcoa, Álava, Navarra) and the sovereignty of the party assembly (*asamblea de afiliados*). His goal was that the assembly should approve a party platform,³¹⁸ which would consolidate the image of the PNV as a legal political party. The most important thing for the bourgeoisie supporters of the party was that the political movement had a viable and legal organisation.

The first political programme of the PNV (1908) included the declaration that the most important goal was to achieve the complete restoration of the *fueros* in the Basque Country.³¹⁹ There was a juxtaposition of alignments within the party even then, one for independence and the other, a more moderate one, for autonomy. Scholars have considered this historical dichotomy as a historical guarantee of the organizational unity of the party: strongly differing interpretations of Arana's ideology and political writings were left aside.³²⁰ The nationalistic bourgeoisie was more interested in leading the PNV than reformulating Arana's doctrine. The passiveness of the middle-class in formulating theoretical definitions meant that the traditional elements, despite all the pragmatism, remained in the political programmes and publications of the PNV.³²¹ The inability of the bourgeois members of the party to define their own nationalistic ideology therefore had important and far-reaching consequences.³²²

Before and during the First World War, the PNV acquired a leading political position in Vizcaya, and its support grew significantly in other Basque provinces of Spain. In 1917–1919 the party aimed, for the first time in its history, at achieving regional autonomy for the whole Basque Country of Spain. The PNV assumed an extremely moderate role in order to secure the support of the other Basque political groups and even the monarchists in the Basque Country.³²³ After the First World War, the region experienced a new economic boom. The nationalist trade union of the Basques (*Solidaridad de Obreros Vascos*; SOV) refused to join the general strikes that spread all over Spain, which consolidated the image of the Basque nationalists as defenders of social order and national wealth. In the early 1920s, Basque nationalism even adopted features suggesting the influence of the political left. The military coup of general Primo de Rivera in 1923, however, forced the PNV and all other parties to isolate themselves from politics. Only the declaration of the Second Republic of Spain in 1931 made the activities of

³¹⁸ Corcuera Atienza 1979, 539–540.

³¹⁹ Manifiesto del PNV aprobado en la Asamblea de Elgoibar 18.10.1908. Documentos para la historia del nacionalismo vasco 1998, 51–53.

³²⁰ Sullivan 1988b, 19.

³²¹ Corcuera Atienza 1979, 587.

³²² Op. cit., 589–591.

³²³ The PNV, at that time called the CNV (*Comunión Nacionalista Vasca*), adopted regional autonomy as its goal. Politically, the party had become a defender of the interests of the whole nation (*nación*). Pablo, Mees & Rodríguez Ranz 1999, 119–120.

political parties possible again.³²⁴

In 1932, the PNV adopted the idea of constitutional autonomy,³²⁵ and moved ideologically from the right towards the political centre.³²⁶ During the time of the Second Republic (1931–1936), the PNV was the indisputable leader of the nationalist front in the Basque Country, and became the most important party of the region.³²⁷ The PNV had become a movement of the masses, a communal party with a totalitarian political persuasion. Its internal structure followed the basic partition of the four historical Basque provinces of Spain, that is, it maintained a regional council in each.³²⁸ The leading organ of the party was called *Euskadi Buru Batzar* (EBB). The PNV had its catholic trade union, renamed *Eusko Langile Alkartasuna/Solidaridad de Trabajadores Vascos* (ELA-STV)³²⁹ behind it.

The Basque Autonomy Statute, formulated by the Spanish popular front, was approved in a referendum in the Basque Country in November 1933.³³⁰ However, it had to wait for the approval of the Spanish parliament. The PNV had previously rejected the offers of cooperation from the radical leftist groups,³³¹ but when the Spanish Civil War started in 1936, the party was obliged to choose. The PNV decided to support the popular front government of Madrid, and in October 1936 the Spanish parliament approved the Autonomy Statute for the Basque Country. The PNV formed the first regional government with the support of the popular front, and adopted a moderate government platform. The regional government was led by a president – or in Basque, *lehendakari* – José Antonio Aguirre. The Basque Country, the centre of the metal industry in Spain and a nationally important place of business for notable financial institutions, did not experience the same social revolution as other parts of Spain during the Second Republic. The Catholic

³²⁴ The party was an ally of the republican-socialist block, and participated in the formation of a new administration in 14.4.1931. Pablo, Mees & Rodríguez Ranz 1999, 195–208.

³²⁵ At the time of the inauguration of the Second Republic of Spain (1931), the PNV briefly maintained a cooperative relationship with the Carlists, and committed itself to the goal of making the Basque Country an ecclesiastical state (the so-called Declaration of Estella). The strong reaction within the PNV, however, led it cancelling the decision. Granja & Pablo 2000, 178.

³²⁶ Tusell 1999, 138; Granja & Pablo 2000, 177.

³²⁷ The PNV won the general elections in the Basque Country in 1931 (in coalition with the Carlists), 1933, and 1936. By then, the party consisted of several political, professional and cultural organisations.

³²⁸ That is, Araba Buru Batzar (ABB), Bizkai Buru Batzar (BBB), Gipuzko Buru Batzar (GBB), and Napar Buru Batzar (NBB).

³²⁹ The ELA-STV did not, however, bring ideologically working-class elements to the PNV, and the party did not turn out to be a revolutionary movement. Fusi 1984, 60.

³³⁰ In Álava, however, the number abstaining was high. Op. cit., 175.

³³¹ After the electoral victory of the popular front in the general elections of 1936, the PNV gave its support to Manuel Azaña, when he was elected prime minister, and later president of the republic. Viñas 1999, 117.

Church also maintained its position there.³³² The Aguirre government fled the country after the troops of General Francisco Franco captured Bilbao in June 1937; thanks to the decision of the Basque nationalists, the industrial complex of Vizcaya was handed over to Franco intact. The same year, Franco abolished the economic prerogatives of Vizcaya and Guipúzcoa, which had supported the Republic, but preserved the economic agreements of Álava and Navarra,³³³ wanting to reward the latter for opposing the political actions of the Basque nationalists and the Republican side during the war.³³⁴

Under Franco's rule (1939–1975), Spain experienced an energetic and systematic cultural harmonization and unification policy, which was linked to the intention of centralizing and unifying regional legislation.³³⁵ In those days, the Basque nationalists in Spain had to opt for exile, underground activity, or prison. They long hoped that the Allies would remove Franco from power after the Second World War. Although the leadership of the PNV, exiled in France, lost strength, the Basque nationalists continued determined resistance on the cultural front.³³⁶ After the Second World War, a considerable economic expansion started in Spain, and, a second industrialization process began in the Basque Country in the 1950s,³³⁷ the region becoming the destination of unprecedented migration from other parts of Spain.³³⁸ The strengthening of the alignment that supported regional autonomy was linked to economic developments within the PNV in the 1950s, since the industry of the region was dependent on the export trade of Spain.³³⁹ This was used to justify autonomy as being the only way of politically and economically integrating the Basque Country into the rest of Europe.

Franco's policies radicalized Basque nationalism.³⁴⁰ In 1959, Euskadi Ta

³³² Fusi 1984, 26; Viñas 1999, 113; while Aguirre was already in exile, he criticized the policies of the Second Republic for having extremely little tolerance and lacking a social programme. Tusell 1999, 138; the German Condor legion bombed Guernica on 26 April 1937. Viñas 1999, 124; *Documentos para la historia del nacionalismo vasco* 1998, 16; see Raento & Watson 2000.

³³³ Payne 1985, 209; Larrea Angulo 1991, 11; see also Aguilar 1998, 9–11.

³³⁴ Corcuera Atienza 1985, 55–89.

³³⁵ Fusi 2000, 257.

³³⁶ The death of President Aguirre in 1960 provoked a strong popular reaction in the Basque Country, which did not, however, become violent. See the article by the historian Manuel Montero in *El Correo* 26.3.2000; Granza Sainz, Mees & Rodríguez Ranz 2001, 237–238.

³³⁷ García de Cortázar & González Vesga 2000, 614–616.

³³⁸ The Basque culture and language, Euskara, survived, to a great extent owing to the work of the representatives of the Basque church, and cultural life as well as scholars. The anti-Franco opinions grew stronger in the 1960s in the ranks of the Basque clergy. *Documentos para la historia del nacionalismo vasco* 1998, 8 & 14–17.

³³⁹ Granja Sainz, Mees & Rodríguez Ranz 2001, 208.

³⁴⁰ Clark 1979, 153–187; Jáuregui Bereciartu 1981; Sullivan 1988b; Payne 1975.

Azkatasuna or ETA was founded.³⁴¹ It later defined itself as the movement of the national liberation of the Basques.³⁴² Third-world liberation movements of the 1960s were an exemplar for ETA, which adopted the idea that the Basque Country was a region “occupied” by Spain and France and that it was in the position of a “colony” from Arana’s ideology.³⁴³ From 1968 onwards, the organization adopted violent struggle as its way of action, by which it aimed to free the Basque Country from Franco’s dictatorship. Franco’s answer to ETA’s armed struggle in the Basque Country was a strongly oppressive policy.³⁴⁴ After the death of Franco (1975), when political party activities were allowed, the PNV returned to public life, again becoming the most important Basque party. In the general elections of 1979 there were new Basque parties on the political scene as well, the most significant of them being Herri Batasuna (HB),³⁴⁵ markedly more radical than the PNV.

The Spanish Constitution of 1978 was the first to recognize the historical background of the administration of Basques and, significantly, it was born of the consensus between the most important parliamentary groups instead of being imposed on the country by some ruling political force. The PNV reacted to the final version by counselling its supporters to abstain in the referendum on the constitution.³⁴⁶ The radical HB voted against it. In the Basque Country, only 30.8 percent of the electors voted for the constitution. The abstainers accounted for 55.3 percent, and 10.5 percent of the people entitled to vote voted against.³⁴⁷ Therefore, calculated by percentage, the Basque Country has been interpreted as not having accepted the new constitution. It is important to note that the differences between the provinces were significant, reflecting the internal diversity of the region. The strongest support for the constitution came from

³⁴¹ ETA was formed as an association by some students in the catholic university of Deusto (Bilbao). Jáuregui Bereciartu 1981.

³⁴² In Spanish *Movimiento vasco de liberación nacional* or MVLN. For its structure, see Mata López 1993 or Núñez Seixas 1999.

³⁴³ Jáuregui Bereciartu 1981.

³⁴⁴ In 1973, ETA killed admiral Carrero Blanco, who led Franco’s government and was his intended successor, in a bomb attack in Madrid. One of the most famous examples of Franco’s reprisals was the so-called trial of Burgos in 1970, at which several members of ETA were sentenced to death. This trial grabbed the headlines outside Spain, and was strongly opposed in the Basque Country. When Franco died (1975), there were about 400 Basque nationalists in the prisons in Spain, and about 500 in exile in Southern France. Moreover, many of them lived in the countries of Latin America. See Fusi 2000, 258–259.

³⁴⁵ At that time, the situation was already characterised by a multi-party system. Llera Ramo 1994; Fusi 2000, 260.

³⁴⁶ García de Cortázar & González Vesga 1999, 631; Powell 1999, 253.

³⁴⁷ Montero 1998, 110; López de Juan Abad 1998, 177.

Álava, and the weakest from Guipúzcoa.³⁴⁸

The PNV thought that to accept the legality of the constitution would have meant giving up important political objectives.³⁴⁹ The reason was the indeterminacy of the constitution in defining the future rights of the Basque Country.³⁵⁰ The attitude of the party can also be analysed in the light of events at the end of the 1970s: after having recognized the special position of the Basque Country and Catalonia, the central government, in offering other regions the possibility of gaining autonomy, simultaneously sought to equalize the differences between them.³⁵¹ On the other hand, the conclusion of the historians Pablo, Mees and Rodríguez Ranz is that (1) the PNV was simply frightened, because the decision to support the constitution would have been unprecedented in the history of the party. The PNV explained its opposition beforehand by recalling that Basques had not voted for any other Spanish constitution or basic law and that the PNV did not intend to this time either. The PNV also (2) possibly underestimated the constitution because it did not believe that the future autonomy statute would really give broad powers to the region.³⁵² This was certainly based on the “hollowness” of the powers of the temporary autonomous administration, the Basque General Council (*Consejo General Vasco*; 1978–1980),³⁵³ and the fact that it was led by the Socialists at the outset.

The Basque government in exile in France, where it had enjoyed diplomatic status, decided to dissolve itself once the Basque Autonomy Statute came into force in December 1979.³⁵⁴ This statute, approved in the Basque Country the same year by referendum and applied since the beginning of 1980, was elaborated on

³⁴⁸ In Guipúzcoa, the Constitution was supported by 27.8 percent of the electors, 13 percent voted against, and the abstainers accounted for 56.6 percent. In Vizcaya, 30.9 percent voted for, 9.4 percent against, and abstentions accounted for 55.4 percent. In Álava, 42.3 voted for, 11.4 percent against, with 40.7 percent abstaining. In Navarra, the Constitution was supported by 50.4 percent, 11.3 percent voted against, and 33.4 percent abstained.

³⁴⁹ If the objectives of the party had been achieved, the Basques would have been entitled to decide on the political structure of the region. The abstention was explained in the name of EBB. Nota del EBB del PNV ante la Constitución española (1978). Documentos para la historia del nacionalismo vasco 1998, 157–159. Barbería 1996, 425–426; Corcuera Atienza 1998, 145.

³⁵⁰ Conversi 1997, 145; Barbería 1996, 425–426; Corcuera Atienza 1998, 225–228.

³⁵¹ The minister for the regions, Clavero, was personally responsible for drafting Article 151 of the Constitution, which allowed the other regions to first have a referendum on the transfer to autonomy, and then on the approval of the autonomy statute. Bassets 1996, 423; Prego 1999, 83.

³⁵² The EBB stressed that the real substance of “historical rights” cannot, in practice, be estimated beforehand. Pablo, Mees & Rodríguez Ranz 2001, 365–366.

³⁵³ Garaikoetxea 2002, 52.

³⁵⁴ Fusi 2000, 269.

the basis established in the Constitution of 1978.³⁵⁵ When we assess the roots of the PNV economic policy before the current Autonomy, it is first of all surprising how ideologically the party used the *fueros*, which historically were not a means to political independence, but economic autonomy. The complex influence of both traditionalism and bourgeois ideas on the party's ideology can be distinguished particularly through economic policy issues such as the economic agreement. Secondly, though the PNV quickly harnessed those issues to further its own policy, this did not mean that there was only one congruent party line on whether the economic well-being of the Basque Country required full independence or regional autonomy. The fraction that strove for independence emphasized that Franco's system exploited the Basque Country economically; the more refined argument was that the tax revenue collected in the region was not returned in proportion in the form of public investment. Those who advocated an autonomous Basque Country thought that since the regional economic structures had become extremely dependent on the Spanish national economy and its development since the 1950s, full independence would not have been a sound or successful solution economically. The European integration was also touched upon in internal party discussions; in exile, the party supported possible rapprochement of Spain with the rest of Europe. From a historical point of view, European integration was both a political and an economic question for the PNV. When pondering the issue of the most beneficial solution for the region, the bourgeois influence can again be seen to have affected the party line. These ambiguities and even contradictory elements were all present when a new historical chapter began with the introduction of regional autonomy. These questions should be further analysed, so that the internal networks, pressures, and their manifestations can be fully understood.

2.2.2. The attitude of the PNV towards the economic policy issues in the Statute of Autonomy

The attitude of the PNV towards the emerging autonomy, and particularly to its politico-economic implications, and the party's objectives concerning the regional politico-economic powers, must be investigated for several reasons. This will help us to understand the economic policy of the regional government in the early 1980s, as well as the very different opinions about it within the party itself. It also tells us about the political adaptability and capacity of the PNV, and its rapid activation in economic policy. When the PNV announced its position on the new Constitution (1978), it committed itself to participate in the negotiations and the implementation of the future statute of autonomy, referring explicitly to its politico-economic clauses.³⁵⁶ This clearly shows the underlying pragmatism of the party's behaviour. The most important factors underlying the party's position were

³⁵⁵ The gradual extension of the powers began; its powers are also wide-ranging in the EU context. Montoro 1998, 94.

³⁵⁶ *Nota del EBB del PNV ante la Constitución española (1978)*. Documentos básicos para la historia del nacionalismo vasco, 157–159; Prego 1999, 76.

(1) the external pressure directed at the PNV, and (2) the historical opportunity that opened up for the party to seek exclusive politico-economic powers for the region.

Firstly, (1) concerning the external pressures, Zirakzadeh notes that the representatives of big business who supported the aims of the PNV explained that autonomy was a prerequisite³⁵⁷ for stopping the economic tailspin in the late 1970s. Zirakzadeh also points out that the local business world also seemed to have more or less accepted that the Basque Nationalist Party might lead the region in the near future.³⁵⁸ Decentralization was demanded on the basis of the inefficiency of the central government, and because the Basque Country was a net payer in the national taxation in the 1970s. The corporate world thought that the state actually hindered it from making a profit and long-term investment.³⁵⁹ They noted that there was an opportunity to make changes in the labour market, something that the most libertarian *euskalerriacos* supported.

The assessment of the situation by the Basque businessmen was similar to that of the PNV: the new regional government could have far-reaching powers in economic policy, and the restoration of some kind of economic agreement was close. The PNV rapidly adopted a policy by which the economic agreement was described as a lifeline for the Basque economy,³⁶⁰ but why did the local businessmen support the PNV? In the eyes of Basque businessmen, the PNV was more attractive than the Socialists (PSE-PSOE), who recognized the severity of the economic situation in the region, but stated their concern about potential misapplication of the possible future powers in regulating taxes, and emphasized the economic solidarity between the various regions of Spain.³⁶¹ This did not interest the local corporate world, which had seen the impressive average annual growth of of 7.75 percent in the Basque economy in the 1960s and early 1970s become negative by the end of the 1970s. Above all, Basque industry hoped for flexible and efficient regional economic policy, because the overall economy was extremely difficult and getting worse. Something that Zirakzadeh does not state clearly in his analysis is the interesting fact that, in comparison to the Franco era, industry suddenly emphasized the regional level, thinking that its economic problems could best be solved by the leaders and administration of the regions themselves.³⁶² The comments of those businessmen calling for labour market reforms as much as for a liberalized open economy, suggest that, despite a long period of growth, the Spanish government had been incapable of creating a stable macroeconomic policy to sustain growth. External economic issues such as oil

³⁵⁷ Zirakzadeh 1991, 106; Deia 17.6.1977.

³⁵⁸ Zirakzadeh 1991, 103.

³⁵⁹ Op. cit., 105–107.

³⁶⁰ See, for example, the interview with the PNV parliamentarian Josu Elorriaga, from Vizcaya. Deia 10.5.1979.

³⁶¹ See the article of Paxto Unzueta. El País 17.10.1979.

³⁶² Cf. Sánchez Recio & Tascón Fernández 2003.

crises affected the Spanish economy greatly and it suffered from stagnation in the 1970s. Macroeconomic stability was needed to start structural reform. In conclusion, the PNV received support from many distinguished sectors of Basque corporate life, but not all. The party, however, did not come into power simply with the help of businessmen in trouble.

Secondly, (2) at the end of the 1970s, the PNV was offered an opportunity to become an active player in regional politics to benefit from its political position and to influence the substance of the future Autonomy Statute. The passive attitude adopted by the Socialists in the Basque Country in drafting the details of the statute underlined the historical picture of the PNV's activity even further.³⁶³ The efficiency of the PNV as a political movement could not be questioned, as the party had already proved its ability to achieve political power during its early history. With the transition to democracy and a representative parliamentary system, the need to be profiled as a pragmatic, active and multifaceted defender of the rights of the Basque Country put further political pressure on the PNV. The party succeeded in including an additional provision (*Disposición Adicional*) in the draft text of the statute: "The acceptance of the system of autonomy established in this Statute does not imply that the Basque people waive the rights that as such may have accrued to them in virtue of their history and which may be updated in accordance with the stipulations of the legal system."³⁶⁴ The PNV did not want to resign its own model for the political regime of the region.³⁶⁵ For my investigation, it is an important and essential piece of information that the PNV, which had confirmed its position as the leading political force in the Basque Country in the general election in spring 1979, was simply better able to enhance its interests concerning the Autonomy Statute and the economic agreement.³⁶⁶ Contemporary opinion was that the bilateral negotiations between the Prime Minister Adolfo Suárez (*Unión del Centro Democrático*, UCD) and the PNV's Carlos Garaikoetxea, who had become the leader of the temporary Basque General Council in 1979, were in a

³⁶³ The cooperative body of Basque parliamentarians (*Asamblea de Parlamentarios Vascos*) had agreed that all the political parties in the region could participate in the negotiations on the statute. On the basis of the preparatory work of the Basque General Council, the parliamentarians appointed 17 members as the representatives of the Basque Country (*Ponencia*): five from the PNV, five from the PSE, three from the UCD, two from the EE, and one representative from the ESEI and the AP each. The PNV parliamentarians gave their individual approval to the draft version on 29.12.1978. Oña Gómez & García de Vicuña Peñafiel 2000, 179. The HB abstained, on its own account, from the negotiations. López de Juan Abad 1998, 212–213 & 237.

³⁶⁴ The translation published in *Euskal Herriko Autonomia Estatutua* 1983, 188.

³⁶⁵ The PNV wanted to assure that it was not giving up its own view concerning the political regime of the Basque Country. Onaindia 2000, 54–55; López de Juan Abad 1998, 241; Pablo, Mees & Rodríguez Ranz 2001, 377.

³⁶⁶ The PNV was given the presidency of the council, which it had wanted. The party's president, Carlos Garaikoetxea, was appointed to this task. López de Juan Abad 1998, 238; Prego 1999, 84–85.

Province	Electoral roll	Votes cast	Yes	No	Blanks	Voids
Álava	174,930	110,609 (63.23%)	92,535	10,023	6,363	1,688
Guipúzcoa	507,002	302,847 (59.73%)	278,399	12,290	9,018	3,140
Vizcaya	883,609	507,980 (57.49%)	460,905	25,216	16,038	5,821
TOTAL	1,565,541	921,436	831,839	47,529	31,419	10,649
% of electoral roll		58.86	53.13	3.04	2.01	0.68
% of votes cast			90.28	5.16	3.41	1.16

Table 1. Results of the Referendum for the Basque Statute of Autonomy (October 25, 1979)

Source: BOE n° 269, 9 November 1979;

http://www.congreso.es/constitucion/elecciones/referendos/ref_p_vasco.htm

key position to prepare for the approval of the Statute and find solutions to the problematic questions.³⁶⁷ In the referendum on the Statute organized in the Basque Country in October 1979, the combined turnout of the provinces was 59.8. Of those who voted, 90.2 percent voted for the Statute, 5.2 percent against and 4.6 percent abstained (*Table 1*).³⁶⁸ The support for the Statute was strong.

The third section of the Autonomy Statute (*Estatuto de Autonomía*)³⁶⁹ concerns the finance and property of the autonomous region, which has its own autonomous economy and property. Article 41.1 explains how “tax relations between the State and the Basque Country shall be regulated by the traditional system of

³⁶⁷ The negotiations between the central government and the Basque representatives were complicated by the chapters in the draft version that were in contradiction with the Constitution. The PNV maintained the attitude that the statute would be a minimum definition for autonomy. Fusi 1984, 181 & 281; López de Juan Abad 1998, 238 & 244; El País 24.10.1999. Calvo Sotelo 1990, 105; Garaikoetxea 2002, 87–112.

³⁶⁸ The abstention rate was 40.2 percent. The PNV, the PSE, the ESEI, the EE, the UCD, the PCE/EPK, Partido Carlista (PCE-EKA), the ORT, and the PT were in favour of approving the statute. The communist LCR/LKI and the EMK as well as the radical HB encouraged voters to abstain. The conservative AP Alavesa and the PPA, like the radical right voted against. Documentos para la historia del nacionalismo vasco 1998, 159; Oña Gómez & García de Vicuña Peñafiel 2000, 180; Prego 2000, 94.

³⁶⁹ EA:BOE 1986, 19–21; LPV 1991, 75–102; Aja 1999, 87; Oña Gómez & García de Vicuña Peñafiel 2000, 180.

the Economic Agreement or Conventions”.³⁷⁰ Important for the future was that according to Article 41.2.a:

“The competent Institutions of the Historic Territories may maintain, establish and regulate, within their own territory, the tax system, bearing in mind the general tax structure of the State, the tax rules contained in the Economic Agreement itself for co-ordination, fiscal harmonisation and collaboration with the State, and those to be issued by the Basque Parliament for the same purposes within the Autonomous Community. The Economic Agreement shall be approved by law.”³⁷¹

The part concerning the jurisdiction of the Basque Country, which explains how economic policy will be carried out in practice “in accordance with the general planning of the Economy”,³⁷² is a good example of a flexible formulation in the Statute. Such formulations made the completion of the negotiations possible. At the same time, it was open to various interpretations, and extremely political.³⁷³

The attitude towards economic policy questions also developed and evolved within the PNV itself. Accentuation of the regional politico-economic powers was also influenced by some representatives of the *euskalerriacos*, who had strong views on social policy: the labour legislation of Franco restricted employers too much, and the regulated internal market limited the freedom of action of the middle class and, consequently, the development of the Basque economy.³⁷⁴ This was seen to be particularly harmful for the industrialized Basque Country. Zirakzadeh points out that there were also emerging intentions to liberalize social and economic policy, as well as the *euskalerriacos* aiming to improve the historical position of the middle class in Basque politics.³⁷⁵ However, he does not mention that these changes in the economic policy of the PNV were rapid, and its politico-economic position was formulated very quickly; it must be remembered that the conclusions of the party conference in 1977 were still considered by some

³⁷⁰ LPV 1991, 96; English language from Euskal Herriko Autonomia Estatutua 1983, 184; The economic agreement of Navarra is called *Convenio*.

³⁷¹ LPV 1991, 96; English translation from Euskal Herriko Autonomia Estatutua 1983, 184; The Socialists and the UCD also emphasized that the agreement was always only valid after a law has been passed on it. The PNV emphasised that it was a political agreement. See Deia 3.5.1978.

³⁷² Article 10.25. English translation from Euskal Herriko Autonomia Estatutua 1983, 171.

³⁷³ Garaikoetxea 2002, 127–128.

³⁷⁴ Zirakzadeh 1991, 119.

³⁷⁵ Zirakzadeh thinks that the most prominent person within the party in that sense was Juan Beitia, who represented the new, 1960s generation of the *euskalerriacos*. He regarded the regional government as a historical opportunity, but also emphasized the restoration of the *fueros*, from the view-point of restoring the position of the Basque middle-class at the same time. The EBB, however, did not support Beitia’s ideas. See op. cit., 118–119; Pablo, Mees & Rodriguez Ranz 2001, 355.

members as “socialist”.³⁷⁶ I think it is important that the *euskalerriacos* group and the parts of the Basque middle-class that supported the party still did not form a uniform group in composition or thinking. The views of big industry and the small and medium size enterprises were, however, temporarily unanimous, because of the conjunctures of the economy. There were more company-specific than sectional interests and opinions in Basque industry.³⁷⁷ At that time, there was no such thing as a united regional interest group for business either.

In its own statements, the PNV capitalized on the fact that the Basque taxpayers’ money was not returned to the region in the form of public investment.³⁷⁸ The region was a net payer in the Spanish budget. The rapid economic decline at the end of the 1970s and early 1980s consolidated the view current among the nationalists that the Basque Country was economically discriminated against. On the other hand, the Basque industry was facing a structural change after the hefty public industrial subventions of Franco’s years and the regulated domestic market prices disappeared. The emerging regional administration was to react to this situation. As all this demonstrates, the politico-economic pressures on the PNV were significant. It was the dominant political force in the region, and in the Basque General Council it obtained the role of the leading regional exponent in economic policy questions.³⁷⁹ It was openly perturbed when the intention to restore the economic agreement did not seem to proceed during the years of the pre-autonomy administration.³⁸⁰ The PNV wanted to avoid the possible political risk inherent in that situation; it defended returning the economic agreement to all the Basque provinces, since sustainable economic development was a prerequisite for a solid regional administration.³⁸¹ Broad economic autonomy was thus visibly linked to the question of political stability in the region, the question of politico-economic power emerging as an important element of the PNV strategy.

³⁷⁶ It stressed solidarity and referred to the nationalisation of big business. Garaikoetxea considers these so-called progressive policies a result of the general political atmosphere in Spain at the time. Garaikoetxea 2002, 26; the interview with the minister of justice and economy, Sabin Intxaurre Mendibil of 18.8.1998. HGV 2001, 1491; the interview with the *lehendakari* Carlos Garaikoetxea of 23.7.1998. Op. cit., 104; Asamblea de Pamplona, marzo de 1977. Documentos para la historia del nacionalismo vasco 1998, 151–153.

³⁷⁷ The interview with the minister for industry (1980–1983) and vice-*lehendakari* for economic issues, Javier García Egotxeaga, of 25.6.1998. HGV 2001, 162.

³⁷⁸ See, for example, Payne 1991; CD/PNV: Comunicados: Aberri Eguna 1978 & 1979.

³⁷⁹ Cf. Ajuriaguerra’s (PNV) objectives when the mixed commission started its work. López de Juan Abad 1998, 100.

³⁸⁰ Garaikoetxea 2002, 65; the members of the temporary pre-autonomy administration understood that they were going to be criticized soon, because their administration remained devoid of power. In any case, the political parties were able, at least in theory, to practise policies that would make it possible to create a common institutional structure for the region. Historically, it had never had one before. Garaikoetxea 2002, 52; the interview with the minister for industry, Javier García-Egotxeaga of 25.6.1998, HGV 2001, 163.

³⁸¹ Garaikoetxea 2002, 56.

The inchoate strategy of the PNV must also be seen in the light of the comments made by the rising political force, the PSOE. Although the socialists urged politico-economic autonomy for the Basque Country, they saw how the provinces were put in a very strong bargaining position for future negotiations on the economic agreement and the *cupo* with the help of the PNV.³⁸² They criticized the PNV for interpreting the negotiation process of the Statute as recognition of its policy by the state; according to them, the PNV also had a tendency to present the Statute as a political agreement between itself and the state,³⁸³ and to regard the content of the agreement as renegotiable, in case the political violence ceased.³⁸⁴

While the Constitution of 1978 and the Autonomy Statute of 1979 meant that pluralism in Spain had come to signify economic and politico-economic pluralism as well,³⁸⁵ it was already clear when the new autonomy came into force in 1980, that the scope and extent of regional politico-economic powers would be determined by political agreements between the central and regional representatives.³⁸⁶ The economists considered the model established in the Constitution as clear: public expenditure had been decentralized; next it would be time to decentralize taxation, in other words, revenue.³⁸⁷ Politically, this was a more difficult question. In Spanish politics, the atmosphere was rapidly changing, and not positively for the goals of the PNV. At the turn of the decade, the UCD suffered increasingly from internal disputes, the political position of Suárez's government was not strong, and the main opposition party, the PSOE, had abandoned its previous defence of federalism. The Socialists now favoured legislation that would harmonize the process of decentralization. The line of the central government was to unify the formation of autonomous regions and to ensure that no region would be left with a lower status.³⁸⁸

The relation between the PNV and the new autonomy was also basically ambiguous, due to the wording of the Constitution, the judgement the Constitution gave to the question of sovereignty³⁸⁹ and the extension of autonomous regions to

³⁸² See, for example, *El País* 17.10.1979.

³⁸³ *Onaindia* 2000, 51 & 55–57; *El País* 24.10.1999.

³⁸⁴ See the statement of Arzalluz in 1979. Pablo, Mees & Rodríguez Ranz 2001, 378–379.

³⁸⁵ Tusell 1999, 178.

³⁸⁶ See, for example, Hierro 14.3.1980.

³⁸⁷ Gallastegui & Gallastegui 1984, 16.

³⁸⁸ For example, *Deia* 20.6.1980; *El Correo* 20.6.1980; *La Gaceta del Norte* 25.6.1980; for the public discussion on the LOFCA, see *Deia* 25. & 26.6.1980; *Diario Vasco* 25.4.1980.

³⁸⁹ In the hands of the PNV, the *fueros* had become a title used for a different kind of autonomy in the latter part of the 1970s in comparison to the other regions of Spain. Arzalluz (PNV) emphasizes that “for the Basques, the *fueros* were a degree of political power and its availability; it was never connected to the integrity of the Spanish crown”. Corcuera Atienza sees that the PNV proceeded successfully until the negotiations on the statute, with an alternative idea in which the king would not have been linked to the *fueros*. “The autonomy would have thus been created on a more federalist basis.” Corcuera Atienza 1998.

other parts of Spain. Some party activists, however, openly supported the statute³⁹⁰ and even had high hopes for autonomy. Some members of the *euskalerriacos* group actually considered the creation of a regional administration as an opportunity to advocate middle-class principles and to enhance regulatory reform and free-market values in the Basque Country.³⁹¹ Institutionally, the regional parliament was seen as a significant future source of power as well as a channel for political influence by many members of the PNV. At the same time they understood that the common political will of the central government and the regional leadership would largely dictate how the statute would be interpreted.³⁹²

When we assess the question of the role of the economic agreement for the PNV, it must be kept in mind that in the PNV's ideology the Basques' right to self-determination was older than any economic arrangement or agreement between the Spanish crown and the Basque Country.³⁹³ The economic agreement was originally a secondary goal in the PNV strategy in comparison to the question of sovereignty. The attitude of the PNV towards the autonomy defined in the Constitution still contained an economic dimension, which in practice reveals the motives behind the party's later active role in the process of restoration of the economic agreement. Simultaneously, when the PNV declared the *fueros* a symbol of the previous, imaginary independence of the region and strengthened its self-image as a defender of the *fueros* in the late 1970s,³⁹⁴ it presented the idea of returning the economic agreement as comparable to the restoration of *fueros*.³⁹⁵ The way of presenting politico-economic independence as an ideologically significant achievement and as part of the "liberation of the Basque Country"³⁹⁶ has its roots in the need to show within the party how successful the road to political autonomy could be. Equally, it was actively denied that the economic agreement was a privilege for the Basque Country. The agreement was even presented as a technical arrangement, and it is remarkable how seldom the political will of the interlocutor, i.e., the central government, in public was referred to. For all these reasons, the negotiations for the economic agreement and the regional politico-

³⁹⁰ El País 24.10.1999.

³⁹¹ See Zirakzadeh's analysis of this. Zirakzadeh 1991, 118–120.

³⁹² Garaikoetxea admitted publicly (1979) that the political future of the Basque Country did not look easy in this respect; guessing that it might become even more difficult than the negotiations on the statute were. See the speech by Garaikoetxea in Guernica on 16.12.1979, when the legal powers were transferred from the Basque government in exile to the Basque Council. Documentos para la historia del nacionalismo vasco 1998, 160.

³⁹³ Corcuera Atienza 1998, 288.

³⁹⁴ Corcuera Atienza has emphasized how the new institutions and the administrative structure in the Basque Country enjoyed the support of the majority of the population of the region. Corcuera Atienza 1998, 223 & 230; the task of *fueros* would be to guarantee the materialization of democracy in the Basque Country with the Constitution. Op. cit., 228.

³⁹⁵ Deia 10.6.1978, 11.6.1978, 18.2.1979 & 10.5.1979; El Correo Español 11.6.1978; Diario 16, 12.6.1978.

³⁹⁶ The article written by Andoni Olabarri (PNV). Deia 3.5.1978.

economic legislation grew into characteristically PNV-bounded projects and, like the Autonomy Statute, were to a great extent political successes for the party. All this reveals how rapidly the PNV, once in power, was able to re-direct its policies, show pragmatism and actually deliver *realpolitik* in its decisions and behaviour. It also shows the internal complexities of the party. At the end of the 1970s, the position of the PNV was influenced by diverging views on questions like economic policy. The diversity of those visions was not diminishing, as I will demonstrate in the next chapter.

From my empirical point of view, it is crucial to note that just as the Council transferred the powers to the new institutions at regional level, there was a visible (i) ideological element, as well as (ii) a pragmatic one in the actions of the PNV. (iii) Moreover, since the problems in the regional economy and the influence of the business elites affected the actions of the PNV, the conclusion here is that the party was already deeply engaged in the economic policy when the regional government was formed for the first time in 1980, and started to strive for and use its powers.

3. THE ECONOMIC POLICY OF THE REGIONAL GOVERNMENT 1980–1998

In this chapter I use Elton's and Foucault's empiricism to explicate the economic policy of the regional governments as a historical process: (1) when and how politico-economic power was used; (2) what the changes were that took place in it, and (3) how the PNV's and the Basque Country's internal power structures influenced it. It is important to demonstrate the tactical decisions of the ruling party when it exercised its power. This empiricism is a prerequisite for the analysis of the PNV as the principal politico-economic power in the Basque Country.

The government platforms and political target programmes have not been a starting-point for my analysis. The reason is that in Basque politics, as in Spanish politics in general, the way a new government presents its political agenda is more announcement-like.³⁹⁷ However, the regional governments had been coalition governments since the middle 1980s which had to define their economic policy even more clearly; a change in government platform required consensus and the approval of all parties concerned. Importantly, the change to coalition governments showed up in the PNV's electoral programmes as better-identified economic policy questions and promises. This material change in Basque politics eventually became more visible in the decisions taken by the regional government and in statements and comments by the representatives of government parties than in their programmes. The electoral and political programmes of the PNV cannot and must not be ignored here. In the end, I am still analysing the PNV's action once in power.

The pre-autonomy administration, or the Basque General Council, that existed in 1978–1980 had only limited powers and was mainly a supervisory body, although the PNV had been given the treasury portfolio by that time.³⁹⁸ Despite the fact that the political achievements of the pre-autonomy administration were modest and a disappointment to all the political parties in the Basque Country, it cleared the way for future self-government.³⁹⁹ The Basque autonomy extended gradually when the central government transferred powers to the regional administration in 1980–1998. The politico-economic powers of the regional government grew, but at the same time some of that power was again transferred to the provincial institutions. The PNV contributed visibly to regional law-making concerning the internal financing system of the region in the 1980s, which reinforced the role of the provinces in tax collection, public finance and public control of the economy.

The agreements between the different levels of administration were an obvious factor in the implementation of the administration in the Basque Country, as

³⁹⁷ For example, Bar 1988, 111–112.

³⁹⁸ Mesa 2000, 49 & 53; the PNV's Juan María Ollora from Álava was responsible for the treasury and fiscal affairs in the Basque General Council; for the PNV's economic policy goals, see Hoja del Lunes 1.9.1979, El País 17.10.1979 & Deia 17.10.1979.

³⁹⁹ Mesa 2000, 56–57.

they were in the Spanish autonomous regions as a whole.⁴⁰⁰ In the 1990s, the far-reaching autonomy in economic policy guaranteed the functioning of the financial administration in the region in any case, creating the conditions for economic prosperity when the general economic outlook became brighter from the mid 1990s onwards. The economic and social consequences and changes caused by Spain's membership of the EC (1986–) would constitute a subject in itself. In this chapter, I assess that question only in general terms, and consider the EC/EU-membership as a part of the history of the Basque government's economic policy-making and how it affected the fundamentals and substance of that policy, concentrating on the use of politico-economic power.

In the studies by Spanish scholars, the history of the current autonomous regions since 1980 has normally been divided into two periods: that characterized by the conflicts between the different levels of administrations (1979–1984), and the time of delegation of responsibilities (1984–).⁴⁰¹ The political history of the Basque Country and the history of its politico-economic power are in general more fine-grained and do not in every aspect follow that development and periodization. A new era has been seen as starting in Basque politics along with the closer political cooperation between the PNV and the Basque Socialists (PSE), which changed from regional parliamentary cooperation to the regional governmental coalition in 1986. The transfers of power also form their own chronology. The responsibilities of the regional government in economic policy grew bigger which called for new operational abilities from the PNV as the leading regional power. In this chapter I consider that dynamic action, my objective being to see it as a process in which the party had to make choices, cooperate with other parties and form coalitions.

3.1. The beginnings of the economic policy

3.1.1. Deliberations of the Basque Economic Agreement

The PNV, which took the leadership of the new regional administration in 1980, was a powerful participant in economic policy for several reasons: (1) it was the major political force in the region, (2) it received support from the Basque business elites, and (3) it acted as the major defender of the region's economic interests. On the other hand, the worsening economic outlook in the Basque Country led to growing pressures and expectations from various sections of society; the PNV was supposed to meet these politico-economic claims just as the new administrative structures were to be built.

The PNV received 38.1 percent of the votes (25 seats out of 60) in the regional elections of March 1980. The radical HB came second with 16.5 percent (11 seats),

⁴⁰⁰ See, for example, the case study on social politics Gómez Uranga & Etxebarria 2000, and Mondragon 1998, 221.

⁴⁰¹ Mondragon leans here on the analysis by R. Agranoff (1993) and F. Morata (1991). Mondragon 1998, 221.

and the PSE-PSOE third with 14.2 percent (9 seats).⁴⁰² When the representatives of HB did not participate in the parliamentary business, the PNV had an absolute majority in the 60-seat regional parliament.⁴⁰³ The PNV formed the first regional government and Garaikoetxea was nominated the first *lehendakari* on 9 April 1980.⁴⁰⁴ Given its electoral support, the position of the first PNV-led single party minority government was relatively stable, but the challenges were still great and numerous. Garaikoetxea stated that the most important goal of his cabinet was to end the economic crises by modernizing industry.⁴⁰⁵ The economic situation in the region was dire; as many as 3,922 bankruptcies affecting 127,792 employees were registered in 1980. The annual economic growth was -2.7 percent, where the corresponding figure for Spain was 1.5 percent. The official unemployment figure was 12.8 percent (the Spanish average 11.4), but in reality it was estimated as nearly 17 percent.⁴⁰⁶ The economists called for significant investment from the regional government to enhance technology and development, develop the educational system, re-organize industry and take firm leadership in the economy in order to win the battle against economic recession.⁴⁰⁷ At the same time, however, it was pointed out that economic crises were not the best moment to concentrate on starting structural adjustment.⁴⁰⁸

The fact that the regional government, together with the regional parliament, had to start creating regional economic laws, elevated the position of economic policy in the PNV agenda even more. This situation was important when the new premier, Garaikoetxea, chose his cabinet, the aim being to guarantee the greatest possible economic expertise. The internal differences of the PNV in economic policy questions appeared almost concurrently.⁴⁰⁹ Those different views concerned means of supporting the economy as well as the question of who would finally exercise politico-economic power in the Basque Country. Although the negotiation of the economic agreement was a primary objective for the party and the regional government led by it, the economic policy decisions did not automatically follow

⁴⁰² The EE got 9.8 percent (6 seats), the UCD 8.5 (6 seats), the right wing AP 4.8 (2 seats) and the Communists (PC) 4 percent (2 seats). Table 2.

⁴⁰³ The number of parliamentary seats was raised to 75 in 1984. Llera Ramo 1998, 414.

⁴⁰⁴ Esteban & López Guerra 1982, 181; López de Juan Abad 1998; Prego 1999, 85; Arroyo 2000.

⁴⁰⁵ For example, according to Fusi, at the time of the general election of 1979, the Basque Country was about to collapse socially and economically. This was a result of terrorism, political frustration and the still open question of police authority, which remained confused in 1978–1979. Fusi 1984, 214.

⁴⁰⁶ Figure 10; Zirakzadeh 1991, 105; Soto 1998, 197.

⁴⁰⁷ Economists, like so many others in the region, criticised the regional government particularly for its lack of leadership. Pérez de Calleja Bastarrechea 1984, 81 & 100.

⁴⁰⁸ For example, the statement of the economist Victor Serna. Deia 24.5.1980.

⁴⁰⁹ On this, see the discussion on the newspapers. Deia 21. & 25.6.1980; ERE, number 9, 11.11.1979; the varying views were less apparent in the EBB's declarations of Aberri Eguna. See, CD/PNV: Comunicados Aberri Eguna 1981 & 1982.

the views of the different interest groups influencing the party. The policy line taken by the administration was soon considered too liberal by many in the PNV. In conclusion, the strong government position did not guarantee peaceful times in adumbrating economic policy.

The leading exponents of industry and business supported the new government, but were concerned about the deteriorating economic outlook and even demanded that the Spanish central government should direct special funding to resuscitation.⁴¹⁰ The public subsidies the local industry hoped for were no longer part of the UCD-led central government's liberal politico-economic thinking. In fact, their goal was to end the large subsidies, which had been typical of the economic policy of the Franco years when the only aim was to grow production capacity not to intensify investigation and development work.⁴¹¹ Garaikoetxea's cabinet adopted the policy of directing the subventions only to dynamic sectors such as the electronics industry. The regressive sectors such as metallurgy were not to receive anything. The power in the regional government was in the hands of people who had a liberal view on industrial growth and how to direct it.⁴¹² As Zirakzadeh points out, the region's business community was divided as to the right solutions, as was the PNV itself. The government's strict prioritization in its subsidy policy was criticised by both sides.⁴¹³ The situation was seen to become even worse because of these decisions. The thinking of the regional government, which was based on the idea of reducing public subsidies, was still parallel to the policies that the UCD central governments had adopted in the late 1970s.⁴¹⁴ Naturally, they were tied to the intention of changing the structures of the Spanish economy and thus moving closer to the framework of its Western European neighbours. Garaikoetxea and his cabinet followed that same philosophy which saw foreign trade as the cornerstone of regional economic growth. It also included pushing for more power, and maintaining that power at the regional level rather than decentralizing it to the provinces. The representatives of the PNV in the provincial governments, who significantly were also mainly members of the *euskalerriacos* wing of the party, did not see the regional government as doing enough to help

⁴¹⁰ Zirakzadeh 1991, 105–107.

⁴¹¹ Industry minister Javier García-Egotxeaga's interview of 25.6.1998. HGV 2001, 164; the strong economic growth of Spain in the 1960s hindered seeing the real problems of its economy, and the distorting nature of state subsidies. They were not directed to modernizing the structures of Spanish industry, but to increasing its production volume. Salmon 1991, 5.

⁴¹² I.e., the so-called *euskalerriacos* wing of the party. It was opposed to the so-called *aranaists*, who maintained a negative attitude towards industrialization. Zirakzadeh 1991, 119–120.

⁴¹³ Interview with the industry minister Javier García-Egotxeaga of 25.6.1998. HGV 2001, 162; Deia 21.6.1980; The Economist 11.2.1978, 90; 23.9.1978, 100; 13.9.1980, 53 & 81–82; 10.10.1981, 83–84.

⁴¹⁴ The Economist 18.8.1979, 64; the article by the minister García-Egotxeaga published in Actualidad Económica 16.4.1981.

	1980	1984	1986	1990	1994
Party	% of votes (seats)				
PNV	38.1 (25)	42.0 (32)	23.7 (17)	28.5 (22)	29.3 (22)
EA	–	–	15.8 (13)	11.4 (9)	10.1 (8)
EE	9.8 (6)	8.0 (6)	10.8 (9)	7.8 (6)	–
HB	16.5 (11)	14.6 (11)	17.5 (13)	18.3 (13)	16.0 (11)
PSE–EE	14.2 (9)	23.1 (19)	22.1 (19)	19.9 (16)	16.8 (16)
AP/PP	4.8 (6)	9.4 (7)	4.9 (2)	8.2 (6)	14.2 (6)
UCD/CDS	8.5 (2)	–	3.5	0.7	–
PCE/IU	4.0 (1)	1.4	0.6	1.4	9.0 (6)
UA	–	–	–	1.4	2.7 (5)

Table 2. The results of the regional elections in the Autonomous Basque Country 1980–1994.

Source: GV/EJ: Archivo de resultados Electorales. Departamento de Interior, Dirección de Procesos Electorales y Documentación (http://www1.euskadi.net/emaitzak/datuak/indice_c.asp).

the small and medium-size businesses in their provinces.⁴¹⁵ They represented provincial aspirations for power, but were also significantly representatives of the middle-class, which traditionally supported the PNV.

The key figures in Garaikoetxea's cabinet, such as minister for the economy and the treasury Pedro Luis Uriarte, minister for industry Javier García-Egotxeaga and minister for trade and tourism Carlos Blasco de Imaz were characteristically technocrats with close ties to the business world and were professionally respected, though not entirely politically independent as has been occasionally suggested.⁴¹⁶ Although the selection of cabinet ministers was not always applauded by the ranks of the PNV,⁴¹⁷ it has been estimated that it made Garaikoetxea's first term in

⁴¹⁵ Zirakzadeh here emphasises the influence of the local entrepreneurship on the PNV. Zirakzadeh 1991, 141; cf. Vizcaíno Monterola 1984, 71. Also the Basque businessmen, which started to unionize and organize themselves at regional level, stressed the role of the small and medium size businesses.

⁴¹⁶ See, for example, the interview with treasury minister Uriarte of 24.7.1998. HGV 2001, 313 & 343. Uriarte says that the PNV's leadership was not pleased to know he took politically independent economists to work in his department.

⁴¹⁷ El Correo 26.3.2000; Zirakzadeh 1991, 140–141; Lucas Murillo de la Cueva 1990, 226.

office politically easier despite the gloomy economic outlook.⁴¹⁸ His ministerial choices were supported in the Basque Country even by the UCD and the right-wing Alianza Popular (AP).⁴¹⁹ The PNV-led regional government received the backing of other parties in the regional parliament in 1980 and, for example, the first budget was approved unanimously.⁴²⁰ Significantly, in the parliament's economic and fiscal affairs committee, led by a representative of the PNV, only the Socialists actively advocated the opposition policy at that time.⁴²¹

The work of the regional government was complicated because it had to simultaneously, (i) proceed with the creation of regional administrative structures, (ii) resuscitate the local economy, particularly industry and (iii) act as the politico-economic trendsetter. The weak political position of Suárez's government was the reason that the central government did not seem to start the transfers of power at all in 1980.⁴²² There also were economic reasons for this. In the division of politico-economic powers⁴²³ based on the Constitution, the central government had a clear economic edge in the situation where the taxes collected by the state were used as basis for the tax collection of the region and the provinces.⁴²⁴ For example, Álava, which was the only Basque province which had maintained the economic agreement, paid a portion of its tax revenue to the central government, but it was not in proportion to the real cost of the public sector maintained by the state in that province. Those costs would fall with the transfers of power and, according to the plans of the regional government, the new economic agreement was to tackle that issue.⁴²⁵

The work of finding a solution was commenced by restarting the negotiations, which had been at a standstill since the time of the Basque General Council.⁴²⁶

⁴¹⁸ El Correo 26.3.2000.

⁴¹⁹ Zirakzadeh 1991, 140.

⁴²⁰ Interview with the treasury minister Pedro Luis Uriarte of 24.7.1998. HGV 2001, 334. He describes the launching of the regional institutions as a rewarding but difficult task. Arroyo 2000, 30–31; Presupuestos Generales de Comunidad Autónoma del País Vasco para 1981. Ley 8/1981 de 16 de julio. BOPV 48/29.07.1981

⁴²¹ Memoria Txostena 1980–1981 (I), 33, 38 & 49; Memoria Txostena 1981 (II), 50–51.

⁴²² Garaikoetxea 2002, 128.

⁴²³ Articles 148.1 and 149.1. CE:BOE 88–93.

⁴²⁴ Here it was a question of the difference between the estimated (*atribuible*) and the real (*obtenible*) tax accrued. Beldarrain Garin 1998, 12.

⁴²⁵ See the interview with the treasury minister, Pedro Luis Uriarte of 24.7.1998. HGV 2001, 318–319.

⁴²⁶ The negotiations on the economic agreement were started within a month of the new regional government's appointment; these negotiations were started in the mixed committee (*La Comisión Mixta Negociadora del Concierto Económico*), of which both treasury ministers were members. Lámbarri Gómez & Larrea Jiménez de Vicuña 1994, 43–44; the province's representatives on that committee had already participated in the negotiations which started in the pre-autonomy years, the time of the Basque General Council. El Correo & Deia 16.5.1980.

Though it was politically important for both sides to agree on this issue,⁴²⁷ it was difficult according to Uriarte to assure the other party that it was not a question of “ancient arrangement or a privilege”.⁴²⁸ The *cupo* issue caused problems on both sides.⁴²⁹ The PNV representatives saw that it was finally Suárez himself who pushed through the model they proposed, against the opposition and views of the other members of his cabinet.⁴³⁰ In previous times, the provinces had to deliver to the central government all that tax money remaining after their financial commitments were met. In the new system it was to be agreed annually between the Basque Country and the central government how much the actual cost of the remaining State services in the region and State spending programmes such as foreign affairs or defence was. The portion of the Basque Country corresponded to its estimated percentage of the Spanish economy and was settled at 6.24 percent, the amount the region was supposed to contribute annually to the central government’s kitty.⁴³¹

The regional government’s negotiations had not only to solve technical problems, but also face the tense political relations and competition between the Basque provinces. Treasury minister Uriarte was aware that the goal set by the Basque negotiating team would be difficult to achieve, since the new arrangement was to cover all three provinces. However, it would not be technically similar to that in force in Álava, so that the new enlarged autonomy would be reflected in the taxation. The new arrangement must not worsen Álava’s position in comparison to its previous one either.⁴³² The political importance of Álava in this context can be explained by remembering that since the PNV’s support was there not nearly as

⁴²⁷ See the interview with treasury minister Pedro Luis Uriarte, in which he states that this issue is a priority for both parties. Deia 4.7.1980.

⁴²⁸ Deia 2.2.1981; Deia 26.6. & 4.7.1980; the arguments for this also underlined that the Basque taxpayers would continue to pay their taxes after an agreement was reached. See the comment of the economist Ernesto Lejeune. Deia 2.6.1981.

⁴²⁹ For example, El Correo 11.9.1980 & Deia 11.9.1980.

⁴³⁰ The economic agreement’s political significance was revealed in this situation, where it still was not clear whether it would be approved by the Spanish parliament. Garaikoetxea indicated to King Juan Carlos bilaterally that the monarch’s visit to the Basque Country would not be a success before the agreement was approved. The King postponed his visit. Barbería 1996, 424–429; Fusi 1984, 231–232; Garaikoetxea 2002, 96; the parliament’s discussion on the LOFCA also delayed these negotiations. For a contemporary assessment of the situation, see Deia 5.7.1980.

⁴³¹ Article 53. of the Economic Agreement refers to this question, but article 7 of the Cupo approved by law in 1988 includes the percentage. LPV 1991, 440–441; Ley del Estado 44/1988 de 28 de diciembre; see the interview with treasury minister Pedro Luis Uriarte of 24.7.1998. HGV 2001, 318–319.

⁴³² Interview with the treasury minister Pedro Luis Uriarte of 24.7.1998. HGV 2001, 317.

strong as in Vizcaya,⁴³³ its activists in Álava had a lot to lose in these negotiations. But the PNV had to continue in order to maintain its political credibility by seeking implementation of article 41.1 of the Constitution, which stipulates the economic agreement be based on the foral system.

The ministers finally signed the economic agreement on 29 December 1980.⁴³⁴ The economic part of the agreement came into force from the beginning of 1981, although it only became legal after the Spanish parliament had approved it in April 1981.⁴³⁵ The law covering the agreement applied for 20 years ending in 2001. It confirmed the relations between the two sides in taxation law and was to be followed immediately by the agreement on *cupo* that would define what the Basque Country had to pay to the State.⁴³⁶ Uriarte considered that the agreement surpassed the expectations of the Basque negotiators. However, the difficult negotiations had convinced them that it was more important to assure the political power and potential gained for the regional institutions than the short-term financial benefit or underscoring the political victory.⁴³⁷ Significantly, after the signing of the agreement, the Basque representatives maintained a businesslike approach and generally underlined the value of political negotiations rather than ultimatums in their public appearances.⁴³⁸ This showed an understanding that the relations between the regional and State levels were heavily dependent on the political will of the sides and therefore extremely vulnerable. In fact, the agreement was a major politico-economic achievement for the PNV. It appeared retrospectively to be a positive thing for the Basque side that the agreement was reached before 1981 when an attempted military coup took place and the Law for the Harmonisation of the Autonomic Process (LOAPA) was approved by the Spanish parliament.⁴³⁹ It would have been relatively more difficult for the Basque side to negotiate an advantageous agreement in those circumstances, but I will discuss that later.

The economic agreement is a negotiated arrangement between two institutional entities, which must be approved by a law that functions as a legal sanction against

⁴³³ In the regional elections in 1980, the PNV received 40.1 percent of votes in Vizcaya, but in Álava only 30.2 percent. GV/EJ: Archivo de resultados electorales. Departamento de Interior, Dirección de Procesos Electorales y Documentación. Elecciones Parlamento Vasco 1980. (http://www1.euskadi.net/emaitzak/datuak/indice_c.apl)

⁴³⁴ These negotiations were started on 16.10.1979. For a round-up and an assessment on the negotiations see La Gaceta del Norte 18.10.1981.

⁴³⁵ Larrea Angulo 1991, 9; Ley 12/1981 de 13 de Mayo BOPV no. 25; Beldarrain Garin 1998, 151–204; for a general analysis of the economic agreement, see Lambárri Gómez & Larrea Jiménez de Vicuña 1995.

⁴³⁶ Beldarrain Garin 1998, 19; BOPV no. 25, 1008; the *cupo* of 1981 was finally 38.596 million pesetas; Article 48. LPV 1991, 438–439.

⁴³⁷ Interview with the treasury minister Pedro Luis Uriarte of 24.7.1998. HGV 2001, 324–325.

⁴³⁸ Op. cit., 324; see, for example, El Correo Español 30.12.1980.

⁴³⁹ Interview with the treasury minister Pedro Luis Uriarte of 24.7.1998. HGV 2001, 323.

any breach of contract. A basic characteristic of the agreement is the unilateral risk which it creates. In other words, since the amount of agreed *cupo* always depends on the expenditure decisions taken by the State, the Basque institutions alone are responsible for their good or bad fiscal administration and policy.⁴⁴⁰ In theory the Basque provinces might not have been able to achieve their goals in tax collection in a difficult economic situation to pay their contribution to the State's expenditure. With the exception of Álava, which had also maintained its economic agreement during the Franco years, the Basque provinces had technical problems in carrying out their duties at first.⁴⁴¹ The provincial parliaments (*Juntas Generales*) and governments (*Diputaciones*) have their powers in the two main areas of tax policy: (i) the right to regulate taxes, which would gradually extend according to the transfers of power and (ii) authority concerning all phases of tax collection. The provinces' right to regulate taxes, outlined in the economic agreement since 1981 applied to (1) income tax, (2) property tax, (3) corporate tax, (4) inheritance tax and (5) indirect taxes.⁴⁴² The agreement does not cover issues of regional questions or sharing the tax burden belonging to the State's authority. The text of the agreement defines who is subject to its fiscal regulations. Income tax affects actual persons with their domicile in the Basque Country – and within that the actual persons living in the provincial councils' tax levy district. Corporate taxes are imposed on those companies whose place of assessment is the Basque Country and at least 25 percent of whose business operations or sales takes place there.⁴⁴³ The agreement was also based on the general system of Spanish regional financing (LOFCA), in so far as the latter does not violate the agreement.⁴⁴⁴

Naturally, the economic outlook in the Basque Country in the early 1980s made tax collection difficult, and the political and economic risks were high. Still, the Basque negotiators considered the arrangement clearly achieved more politically and economically than the general financing model for the autonomous regions, since the Basque Country was no longer bound to the incomes and expenditure policies of the Spanish state.⁴⁴⁵ They were also aware that the *cupo* arrangement, by which the region paid for the actual cost incurred by the State administration,

⁴⁴⁰ Lámbarri 1994, 91; the interview with the treasury minister Pedro Luis Uriarte of 24.7.1998. HGV 2001, 326.

⁴⁴¹ Interview with the treasury minister Fernando Spagnolo de la Torre of 5.8.1998. Op.Cit., 710–711.

⁴⁴² Consequently, the right to *regulate* concerned most of the taxes collected in the region and which belong to the Spanish tax system. Lámbarri 1994, 92; Beldarrain Garin 1998, 22–23.

⁴⁴³ Larrea Angulo 1991, 23.

⁴⁴⁴ For example, the basic principles of autonomy in economic policy mentioned in the LOFCA, such as solidarity, coordination and sufficient financing, also affected the arrangements based on agreements such as the Basque case. Larrea Angulo 1991, 24.

⁴⁴⁵ The interview with the treasury minister Pedro Luis Uriarte of 24.7.1998. HGV 2001, 326–327.

meant that the system was exceptional in the European context and even beyond.⁴⁴⁶ When taxation is considered, the Basque Country hence became a model for other national tax regimes. In a broader sense, all the models of federalism determine the model of fiscal federalism, in other words a decentralized system of financing guaranteeing sufficient economic resources at various levels of authority.⁴⁴⁷ In the Basque case, the procedure, however, was that the existence of the regional politico-economic powers or its right to its own financing was recognized first. The authority itself was transferred only later. The regional government underlined the flexible nature of the 1980 agreement, and that all political groups in the region supported its restoration.⁴⁴⁸ Even the central government recognized that this politico-economic solution was beneficial for the Spanish domestic policy.⁴⁴⁹

The regional government's view was that the functionality of the economic agreement was especially linked to its historical background. The agreement of 1980 had some resemblance to that of 1878, which followed the abolition of the *fueros*,⁴⁵⁰ the main difference being that the new agreement was legally and politically tied to the Autonomy Statute. As such it was one part of a normative entity, but also an agreement between two legal parties.⁴⁵¹ Through the new agreement, the Basque Country became a macro-level taxpayer which started to deliver a stipulated annual disbursement to the State. It came down to a question of agreeing on public revenue and administrative decentralization. Through its own incomes, tasks requiring public spending were also developed in the regional administration. These tasks produced agreements between the central and regional governments concerning the transfers and delegation of powers.⁴⁵² The agreement also created portions to be financed for the authority the Autonomy Statute

⁴⁴⁶ The interview with the treasury minister Pedro Luis Uriarte of 24.7.1998. HGV 2001, 324.

⁴⁴⁷ Larrea Angulo 1991, 10; Oates 1972.

⁴⁴⁸ Larrea Angulo 1991, 11; Moreno del Río 2000, 135–136.

⁴⁴⁹ For example, La Gaceta del Norte 18.10.1981; the agreement created a situation in which the state's and the Basque Country's systems of taxation co-existed. Beldarrain Garin 1998, 20.

⁴⁵⁰ Larrea Angulo 1991, 11. The agreements, which applied to all the Basque provinces were reached in 1878, 1887, 1893, 1906, 1925, and 1936.

⁴⁵¹ The economic arrangement in the 19th century confirmed that the Basque Country belonged under the tax levy. The decentralization of the tax collection was not therefore a consequence of the decentralisation of public expenditure, but a political and technical issue. *Op. cit.*, 76–77.

⁴⁵² The compensation for the expenditure, carried out by the regional administration, was realised via the *cupo*. The basic principle was that the compensation to the Basque Country was proportional to other region's similar costs, and the calculated benefit was added. *Ibid.*

recognized.⁴⁵³ However, the detailed agreement on *cupo* was left to be negotiated in the near future; it was still recognized by the Basque side that the agreement commenced an evolution which would theoretically lead to a situation where the sum of *cupo* could be zero. In that case, the remaining State level spending would be up to the regional authority to finance.⁴⁵⁴

The institutional changes concerning the taxation system are always economic policy decisions with long-term effects. Thanks to the economic agreement, funds which had previously been delivered to the State kitty now started to circulate within the regional economy. Garaikoetxea later considered that this also helped the Basque Country in the difficult situation of the early 1980s.⁴⁵⁵ In 1982–1983 there was a slight upturn in the Basque Country's GDP, approaching the Spanish average.⁴⁵⁶ The economic policy goals of the Spanish central government were to control the unemployment figures, de-regulate short-term interest rates, redirect the production of the industrial sectors in crisis and speed up the negotiations for Spanish EC membership.⁴⁵⁷ The economic review of the Bank of Spain listed the main problems in the economy as low economic growth and the partial failure in the fight against inflation before the 1982 Spanish general elections. The balance of payments, however, had begun to look brighter and the job loss was slowing.⁴⁵⁸ While the main economies of Western Europe had accommodated to the situation of the early 1980s, a similar process in the Spanish national economy was still underway, so that the liberalization of the financial market already begun suffered considerable delay.⁴⁵⁹

3.1.2. The creation of the regional structures of politico-economic decision-making

In order to understand the changes in the power structures of the Basque Country in the 1980s, it is important to realize that the regional government was originally

⁴⁵³ It was technically an improved version of Álava's agreement in 1952. The new agreement did not include social security, which was technically and politically a complex issue. Op. cit., 77–78.

⁴⁵⁴ The methodology of the economic agreement was built on the idea that the *cupo*'s sum might be zero, or start even with a plus. The transfer of power in health care was to mean a significant cash flow to the regional administration's revenue. VAT was also to have a similar influence. Larrea Angulo 1991, 79.

⁴⁵⁵ Garaikoetxea 2002, 108; this view was shared by other parties as well. See the interview with Marcelino Oreja (AP), ABC 29.12.1980.

⁴⁵⁶ Vizcaíno Monterola 1984, 57; for the GDP in the Basque Country and Spain see Figure 10.

⁴⁵⁷ It also included the continuation of a moderate policy on salary increases and the continuation of the tax reform.

⁴⁵⁸ The central bank considered the growing deficit, to be the worst problem, due to lack of control over inflation. Soto 1998, 127.

⁴⁵⁹ Sáez Lozano 2000, 37–39.

given a relatively strong institutional position in its relationship with the regional councils. Garaikoetxea's government tried to make it even stronger.⁴⁶⁰ During the first two years of the new autonomous administration (1980–1981), the roles of the main players in the Basque economic policy, the *lehendakari*, the regional government and parliament and a new organ, the labour market council (*Consejo de Relaciones Laborales*), became clearer.⁴⁶¹

Their position as governing institutions for the whole autonomous region was raised in relation to that of the historical institutions of provinces, i.e., the councils and parliaments or assemblies.⁴⁶² The intention was to make the common regional institutions as modern as possible in contrast to the administration of the Franco era and to generate a modern administrative culture for it. The opportunity beckoned since the number of people working in the pre-autonomy administration had remained very low and consisted in practice of the members of the Basque General Council.⁴⁶³ There also was a strong political will to start a new period in the regional administration, not least in the PNV.

Ultimately, the *lehendakari* is responsible for the economic policy of the regional government. His position resembles the position of the Spanish prime minister (*presidente del gobierno*). He is also the leader of the institutional aggregate of the region and the statutory representative of the state authorities in the Basque Country. The role of the *lehendakari*, who is elected by the regional parliament,⁴⁶⁴ is strengthened by the history of his official rank, its legitimacy in the institutional and symbolic level being similar to that of the Catalan regional president (*el president de la Generalitat*).⁴⁶⁵ The *lehendakari*'s role is therefore closer to a head of state than a prime minister. Institutionally it is described by the rationalized and clearly bounded nature which was to characterize the whole new Basque regional administration. The incumbent *lehendakari* is not allowed to occupy other public offices or confidential post at the same time, or positions in the corporate sector or industry, or carry on a trade. The only exception is

⁴⁶⁰ Garaikoetxea's government proposed a version of the LTH in 1982–1983, which would have strengthened the position of the regional government. Oña Gómez & García Vicuña Peñafiel 2000, 187–188.

⁴⁶¹ All the powers except those of the council for labour market affairs, are regulated in the law concerning the Basque administration (*Ley de Gobierno*) approved in June 1981. The Autonomy Statute regulates only the basic structure of the administration, and the regional parliament's task was to legislate on the details. *Ley de Gobierno*, 30.6.1981. LPV 1991, 103–132; BOPV n° 46/1981.

⁴⁶² Aja 1999, 184; Oña Gómez & García de Vicuña 2000, 187–188; see Figure 3.

⁴⁶³ Interview with the minister of industry, Javier García-Egotxeaga, of 25.6.1998. HGV 2001, 163.

⁴⁶⁴ He is appointed by the king of Spain. *Ley de Gobierno*. Article 4. LPV 1991, 105.

⁴⁶⁵ The PNV and the CiU's idea on history is that the Constitution of 1978 returned the legality of the Second Republic. The other regions closely followed the administrative structure of Catalonia and the Basque Country. Onaindia 2000, 49.

the membership of the regional parliament.⁴⁶⁶ The *lehendakari* is responsible for relations with the central government, other autonomous regions and the internal institutions of the Basque Country.⁴⁶⁷ He leads and coordinates the function of the regional government, defines the government platform and both appoints the cabinet members (*consejeros*) or ministers as well as removing them from office and sets out their tasks. Moreover, he coordinates the implementation of the government platform and the decisions taken by the cabinet and its committees.⁴⁶⁸

It is also important to understand the role of the *vice-lehendakari* (*vicelehendakari*) and the changes it experienced. He is appointed by the *lehendakari*, who also defines his duties.⁴⁶⁹ When the role of the *lehendakari* became a more political one, the *vice-lehendakari* was responsible, in close cooperation with the minister for economic policy and treasury and the coordination of the work of the cabinet and particularly coordination of the budget papers. The *vice-lehendakari* was heavily involved in the decisions on public spending and, from the beginning, his position had significant politico-economic weight. It even increased in the following cabinets, since the holders of this office were also responsible for regional economic planning.⁴⁷⁰

Every cabinet member heads his or her own ministry-like department. The law on regional government (*Ley de Gobierno*), which also specifies its politico-economic powers, stipulates that the cabinet introduces government bills to the regional parliament and implements the national laws in the region according to the Constitution. The law provides (Article 18.h) that the government prepares the budget and presents it to the regional parliament for its approval. The cabinet also controls the administration of public services (article 18.ñ), which in practice concerns those public corporations and companies that depend on the regional

⁴⁶⁶ Ley de Gobierno. Article 3. LPV 1991, 104–105.

⁴⁶⁷ The laws and regulations approved by the regional parliament are published by the *lehendakari* in the Official Journal of the Basque Country, and in the Official Journal of Spain. The *lehendakari* can also dissolve the regional parliament on the regional government's authority. Ley de Gobierno. Article 7. LPV 1991, 106.

⁴⁶⁸ He also signs the decrees issued by the regional government, and is responsible for their publication. Ley de Gobierno. Article 8. Op. cit., 106–107; the same law also lays down the procedures should *lehendakari* resign or be suspended from office. Articles 9.–11. Op. cit., 107–108.

⁴⁶⁹ Estatuto de Autonomía. Article 19. Op. cit., 96.

⁴⁷⁰ The *vice-lehendakari* in the early 1980s was normally responsible for a particular portfolio. He also participated in negotiating the economic agreement. See the interview with the *vice-lehendakari* and minister for labour, Mario Fernández Pelaz of 23.10.1998. HGV 2001, 85; a separate post of *vice-lehendakari* was created in 1986, when the PSE formed a coalition government with the PNV. Oña Gómez & García de Vicuña 2000, 189.

administration according to the Constitution or the Autonomy Statute.⁴⁷¹ The actions of the regional government and its members are ultimately defined by the political program and the policy of the party or parties in government.⁴⁷² Beside the cabinet meetings, economic policy questions were dealt with separately in the ministerial committee for economic policy (*Comisión Económica*), which was not, however, a steering committee concentrating on technical questions. It formed the first of the government meetings where economic questions were dealt with.⁴⁷³

The internal power relations of the Basque Country were balanced so that the number of members of the regional parliament – 60 in 1980–1984, and 75 from the regional elections of 1984 onwards – is not determined by the number of inhabitants, but according to the number of members on the regional councils elected by the municipalities.⁴⁷⁴ Consequently Vizcaya, the most populous province and the power-base of the PNV, was not over-represented, but the significantly less populous and politically more demanding region for the party, Álava, was. As a result of this, the political voice of Álava which included historical antagonism to Vizcaya, influenced the regional parliament within the PNV, thus influencing the decision-making. The *lehendakari*, Garaikoetxea, originally had high expectations, particularly concerning the role of the regional parliament, and this attitude can be seen as reflecting the general views within the PNV at that time.⁴⁷⁵ The legislative powers of the parliament have developed greatly, since the provinces must follow its rules for the tax levy and for coordination and harmonization cooperation in their taxation.⁴⁷⁶ The parliament also has legislative authority over the savings banks (*Cajas de Ahorro*) of the provinces, the region's internal commerce and other trade arrangements. In the end, the existence of legislative powers makes the difference between political and administrative autonomy,⁴⁷⁷ consequently, it facilitated economic policy-making at the regional level from the beginning of autonomy.⁴⁷⁸

⁴⁷¹ Articles 16.h and 16.j. (Ley de Gobierno). LPV 1991, 110–111; in economic policy questions the same procedure is valid as in other cases: the minister presents the decrees of his own area of responsibility for the government's approval (Article 26.3.), and also prepares the government bills in that area (Article 26.8.). Appointments are also among the regional government's powers. Op. cit., 113.

⁴⁷² Lucas Murillo de la Cueva 1990, 187

⁴⁷³ For the question of founding a separate, technical economic policy committee was taken up again in 1993, in the context of the general administrative reform. Mesa 2000, 266.

⁴⁷⁴ Aja 1999, 89.

⁴⁷⁵ El Correo 26.3.2000.

⁴⁷⁶ Estatuto de Autonomía. Article 41.2^a. LPV 1991, 96.

⁴⁷⁷ Aja 1999, 94.

⁴⁷⁸ For the regional parliaments committees, and the approval of the Basque Country's budget, see Estatuto de Autonomía. Article 41. LPV 1991, 96–97; Reglamento del Parlamento. Articles 123.–126. Op. cit., 172–174.

Although the PNV's representatives who supported a modern and liberal economic policy were in majority in the regional government, parliament and the provincial institutions in 1980–1981, the opinions on how to make the economic recovery possible varied greatly within that group. The biggest differences still concerned the Garaikoetxea cabinet's intention to coordinate industrial policy in the provinces as well. The economic policy disputes in the Basque Country were strongly dissenting opinions between the representatives of the *euskalerriacos* group, which was divided not just between the regional and provincial levels, but also between the provinces. In many cases there were disputes between incompatible personalities. Most significantly, it naturally reflected the tension between the new regional administration and the province's historical institutions. In the provincial parliaments and councils, many of the PNV activists saw Garaikoetxea and his cabinet ministers' approach as "interventionist" or "socialistic".⁴⁷⁹ In reality, the regional government enhanced the interests of the local business in many ways, effectively negotiating the economic agreement, trying to preserve industry by identifying the industries that could be saved, and establishing a law concerning the purchasing collectives which covered many significant sectors of the Basque economy.⁴⁸⁰ After having acquired regional power, the PNV's differing internal views on economic policy and contradictory provincial interests based on unequal wealth were becoming more pressing in the public discussion.

The capitalist and free-marketeer spirit of the regional government was not limited to the way it acted, but was also introduced into its inner functions. The structure of the new regional administration was manifestly rationalized and it adopted strict budget rules.⁴⁸¹ The representatives of the new administration, many of whom came from the business world, argued that from now on the same amount of tax money gave better results and "more efficient administration".⁴⁸² They would not just be more sensitive to regional interests and needs, but their goals and criteria for action also evidenced the corporate world's influence.⁴⁸³ One of the main objectives was to try to avoid the historical characteristics of the Spanish central government, such as inflexible structures and hierarchical order.⁴⁸⁴

⁴⁷⁹ Zirakzadeh 1991, 141; Acha Ugarte & Pérez Nieves 1998, 92–93.

⁴⁸⁰ "Ley de Cooperativas", 1/1982, de 11 de febrero. BOPV A12.2 17.03.1982.; Aja 1999, 92; the law was redefined in 1993. Ley 4/1993, BOPV nº 93/1993, 5934–6026; purchasing collectives such as Mondragón, had a traditionally strong position in the Basque economy and corporate life. Their business potential was good, because many invested in new technologies and training of human resource at an early stage. Oña Gómez & García de Vicuña Peñafiel 2000, 198.

⁴⁸¹ Interview with the treasury minister, Pedro Luis Uriarte, of 24.7.1998. HGV 2001, 330–331.

⁴⁸² Deia 2.6.1981.

⁴⁸³ For example, the interview with the minister for industry, Javier García Egotxeaga, of 25.6.1998. HGV 2001, 163.

⁴⁸⁴ Espanjan hallinto. Diktatuurista demokratiaan 1996, 12.

Personal relations became an important way for politicians and functionaries when they wanted to achieve desired objectives within the administration.⁴⁸⁵ This was no surprise taking into account the population scale of the region.

The regional government reinforced the rules of the national economy by creating the separate council for regional labour relations (1981) already mentioned, which also institutionalized the negotiations between the labour market organizations in the Basque Country. This was a viable solution for the PNV since the biggest trade union in the region, the ELA-STV, thus had better ways to influence labour market relations and the national economy. In the early stage of the autonomy, the government also created consultative committees which included trade union representatives to facilitate the work of economic planning. The economic policy committee of the regional parliament naturally took an essential role. However, it was clear that the roles of various consultative committees would change according to the number of parties in government. The later changes in the composition of the cabinet affected the work of these committees. In the one-party cabinets the PNV had primarily to take its own internal differences and to a less extent the other parties' policy definitions into account. Significantly, it intended to respond these factors with its own strategy and decisions.

3.2. Troubled waters

3.2.1. The PNV and the nationwide LOAPA law

The Constitution of 1978 started an unforeseen regionalisation process in Spain. Article 151 fast-tracked autonomy for the historical regions of the Basque Country and Catalonia access to, but five more, Andalusia, Galicia, the Canary Islands, Navarra and the Valencian Community, then obtained almost the same status as the two most prominent historical regions by 1982. The rest of the autonomous regions were to take a slower route to gaining autonomy with lesser powers according to Article 143. The central government tried to bring some organisation in this process and the UCD government and the PSOE agreed in summer 1981 that all opportunities to harmonize the autonomy process should be capitalized on.⁴⁸⁶ The Law for the Harmonization of the Autonomic Process (*Ley Orgánica de Armonización del Proceso Autonómico*; LOAPA) was approved in June 1982 by the Spanish parliament. Although it was an attempt to prevent the non-historical

⁴⁸⁵ Interview with the minister for industry, Javier García-Egotxeaga, of 25.6.1998. HGV 2001, 163.

⁴⁸⁶ The negotiations between Suárez and the PSOE leader González on the agreement on the autonomous region's development, the so-called *El Pacto Autonómico*, took place in spring 1981. It was signed on 31.7.1981, and included the principles for the control of the autonomous region's development and the process of decentralization. These ideas were transformed almost unchanged to the LOAPA, approved by the Spanish parliament in June 1982. Calvo Sotelo 1990, 104; Ysás 1998, 75.

regions achieving their power,⁴⁸⁷ it was also a major national level political challenge for the PNV and the Basque regional government. For the political objectives of the PNV, it was worrying news in a situation where the transfers of powers depended on political agreements. This law worsened inter-governmental relations and in practice the transfer of authority stopped entirely.⁴⁸⁸ Where *cupo* had not been negotiated it was to be determined by an estimation. Within the circles of the PNV, this was publicly announced to be economically better for the central government.⁴⁸⁹ In the atmosphere created by the LOAPA, there were few signs of being able to advance in the negotiations in the immediate future.

If the LOAPA was not a result of sudden political actions, nor was the agreement between the major political parties in Spain without politico-economic implications. The section of the agreement concerning economic policy questions was intended to re-interpret the Basque Country's economic agreement; something which the Basque government and the PNV considered alarming.⁴⁹⁰ The mutual political understanding of the UCD and the PSOE was realigned in the LOAPA. Before that, the central government had been undermined, for example, by the way Andalusia had obtained greater autonomy than the central government would have preferred to deliver in 1981.⁴⁹¹ One of the underlying reasons for the law was the unsuccessful military coup of February 1981 and the intention to maintain the functional and operative premises of the central government.⁴⁹² The regional nationalist parties were strictly against the law, but could only vote against it in the Spanish parliament without any results. However, the law had to remain on hold, because the autonomies submitted a complaint to the Constitutional Court, which gave its verdict a year later (1983). The Court said that the LOAPA

⁴⁸⁷ Magone 2004, 118–119.

⁴⁸⁸ Figure 4.

⁴⁸⁹ Deia 2.6.1981.

⁴⁹⁰ Interview with the vice-*lehendakari* and minister for labour, Mario Fernández Pelaz, of 23.10.1998. HGV 2001, 80.

⁴⁹¹ Magone 2004, 120.

⁴⁹² Prime minister Leopoldo Calvo Sotelo has denied that the LOAPA would have been a gesture towards the group's responsible for the unsuccessful military coup. Calvo-Sotelo 1990, 104; according to vice-*lehendakari* Mario Fernández Pelaz, it was a direct result of that particular event. Interview with the vice-*lehendakari* and minister for labour, Mario Fernández Pelaz, of 23.10.1998. HGV 2001, 82–84; see also Ysás 1998, 75; the minister for the interior in Suárez's government, Martín Villa recalls that when he was appointed minister in September 1980, he proposed consultations between various political forces in order to coordinate the development and functions of the autonomous regions as well as decentralisation. Martín Villa 1984, 185 & 188.

included regulations that contravened the Constitution,⁴⁹³ and that the law made interpretations of the Constitution the exclusive right of the Court itself.

Despite the court decision, this law had had time to direct the process of autonomy and the restrictions it would have created were taken into account in those autonomies which were established during 1981. By the time the Court handed down its decision many of the issues of the LOAPA were already outdated. The statement made by the then PNV member of the Spanish parliament, Marcos Vizcaya, during the parliamentary debate concerning the LOAPA was emblematic: the law was “unnecessary since it won all the battles before it was even passed”.⁴⁹⁴ Leopoldo Calvo Sotelo, the Spanish prime minister after Suárez in 1981–1982, considered that the law virtuously ended the situation which had been created by the “dramatic Autonomy Statute negotiations”⁴⁹⁵ of the Basque Country and Catalonia. According to him this could have been repeated in every later case. Calvo Sotelo also criticised the way in which the national parties concentrated on one particular autonomy statute to raise their support in that region during the negotiations.⁴⁹⁶

The basic attitude of the PNV to this law was negative, both ideologically and substantially. The PNV interpreted the LOAPA as the central government’s way of trying to limit the process of autonomy and the transfer of powers by defining limits from its own standpoint.⁴⁹⁷ The sociologist Luis Moreno, who has studied the process of regionalisation, underlines the contradiction which was formed by the untimeliness of the LOAPA and the elements of harmonization it included; it was simply a “political impossibility”.⁴⁹⁸ In his view, the assertion of the structure of autonomous regions could no longer be based simply on the criteria specified by the central government at that stage.⁴⁹⁹ Moreover, since the basic centralist structure of the Franco system remained almost untouched, the regional parties saw the LOAPA as a practical demonstration of a new, emerging centralism. The cases which the central government had taken to the courts at the beginning of the 1980s

⁴⁹³ The verdict considers the law to include seven sections which are in contrast to the Constitution; moreover, eight other sections are partly in contrast with it. La sentencia del Tribunal Constitucional 76/1983 del 5 de agosto 1983. BOE Suplemento al núm. 197, 18 de agosto 1983, 29–66; according to Moreno, this decision confirmed a federalist reading of VIII section of the 1978 Constitution. Moreno 1997, 81. According to Powell, the Constitutional Court still accepted in principle the uniformity of different autonomies as a finality. Powell 1999, 255; see also Almunia 2002, 148; Prego 2000, 149–153.

⁴⁹⁴ Cited in Calvo Sotelo 1990, 117; see also the interview with minister of labour and cabinet minister Javier Caño Moreno 20.7.1998. HGV 2001, 38.

⁴⁹⁵ Calvo Sotelo 1990, 117.

⁴⁹⁶ Op.cit., 107; for vice-*lehendakari* Mario Fernández Pelaz’s interpretation on the UCD’s policy, see his interview of 23.10.1998. HGV 2001, 82.

⁴⁹⁷ Calvo Sotelo considered it to be his own achievement, having reached an agreement with the PSOE on the current number of autonomous regions. Prego 2000.

⁴⁹⁸ Moreno 1997, 81.

⁴⁹⁹ *Ibid.*

where the functioning of the autonomous regions' institutions was questioned also suggested this. Interestingly, the regional nationalist parties like the PNV even considered the LOAPA to be contrary to the European integration process.⁵⁰⁰ The statements of Calvo Sotelo are proof that the central government was not far away from intending to limit autonomy uniformly. The LOAPA was, both in spirit and in practice, against the further development of the autonomous regions.⁵⁰¹ It would have restricted the future transfers of powers by political agreements in advance, ensured the best possible result from the central government's point of view, and regulated the development of the autonomous communities in the long term.

The PSOE pressured the UCD government, which negotiated on the Basque *cupo* for 1982–1986 at the same time. The socialists proposed that in the Basque case, when the transfers of powers were negotiated, other negotiation procedures and different negotiating teams should be used from those mentioned and regulated in the Basque Autonomy Statute. This caused vigorous opposition in the PNV.⁵⁰² The PSOE also emphasized strengthening the state's tax planning and coordination as well as the financial balance between the regions. This was politically useful rhetoric for the PSOE in Spanish politics, but also brought it into confrontation with the PNV. When the PSOE won the general elections in 1982, the PNV's relations with the new government could not become automatically better than during the immediately preceding years. Although the dialogue between the two cabinets was difficult,⁵⁰³ Garaikoetxea's government reached a consensus with the PSOE to the effect that in the future structural change in industry must be carried out only by helping some sectors, such as the electronics industry.⁵⁰⁴ This demonstrates how Garaikoetxea's cabinet basically saw the Basque economy's development and structural change as possible only if the link with Spanish commercial life was easy and was enhanced even further. The objective of Garaikoetxea's government was the economic progress of the Basque Country.

The socialist politician and long-time minister in the central government, Joaquín Almunia, later stated that because of the LOAPA the small nationalist parties lost their confidence in the new PSOE government's policy concerning autonomy. He admitted that the LOAPA went too far politically: concern over the

⁵⁰⁰ The aftermath of the LOAPA was long, even overlapping with voting for the EC membership. The regionalist parties considered that since current EC member states had transferred more powers to autonomous regions, the LOAPA was against the European trend. Quintanilla Navarro 2001, 193; the EC was at that time politically a clearly positive thing for the PNV, responding to the party's definition of the national state as a non-functional power structure. Op. cit., 194–195.

⁵⁰¹ Rivera 1998, 89.

⁵⁰² Egin & Deia 7.7.1981; La Gaceta del Norte 13.7.1981.

⁵⁰³ See the interview with the vice-*lehendakari* and minister for labour Mario Fernández Pelaz of 23.10.1998. HGV 2001, 84.

⁵⁰⁴ Zirakzadeh 1991, 141–142.

political stability of Spain led to “badly chosen methods and instruments”⁵⁰⁵ and influenced the political atmosphere for many years. Because of the LOAPA, the PNV’s long-term political commitment to developing autonomy via the Autonomy Statute weakened. According to Garaikoetxea, at that stage the PNV had already started to look for “other attributes of self-government”.⁵⁰⁶ This cannot necessarily be seen in its economic policy, but it must be remembered that the PNV was prodded into this type of thinking by the institutional and political situation in the Basque Country in the early 1980s. It had a strong hold on power in the regional and provincial administrations as well as the most important city and community councils.⁵⁰⁷ The policy of the PNV appeared to be beneficial in a situation where the central government pushed the LOAPA forward and the ETA terrorist attacks increased as the organization tried to aggravate the already difficult domestic political situation.⁵⁰⁸ The transfers of powers to the Basque Country had ceased⁵⁰⁹ and the Basque Country did not follow the general trend for the PSOE government to continue to transfer powers to the other regions.⁵¹⁰ The LOAPA proved to be politically useful for the Basque Nationalist Party. The majority of voters there considered the PNV as a “centrist” political party. The fear that the recently gained economic agreement would fall flat influenced Basque politics to the advantage of the PNV. The political opposition in the region nevertheless blamed the PNV for stigmatizing the new regional institutions according to its own objectives. It must be remembered that the PNV traditionally aimed to present itself as a party which would be the “heart of the Basque state”⁵¹¹ and as more than just a political movement defending the ideology of some social group. The opponents of the PNV saw it as trying to create a regional administration by “supplementing its own insufficiencies”.⁵¹² In fact, the PNV secured its political power through the institutional structures which were being developed. This situation was still new for the party and led to growing differences between the views of the PNV activists in the regional administration and the party machine.

⁵⁰⁵ Almunia 2002, 148.

⁵⁰⁶ Garaikoetxea 2002, 149–150.

⁵⁰⁷ In the municipal elections of 1983, the PNV’s total share was 39.2 percent in Vizcaya, 40.2 in Guipúzcoa and 38.6 in Álava. GV/EJ: Archivo de resultados electorales. Departamento de Interior, Dirección de Procesos Electorales y Documentación. Elecciones Municipales 1983. (http://www1.euskadi.net/emaitzak/datuak/indice_c.apl)

⁵⁰⁸ In the Basque Country, the opposition accused the PNV of “monopolising” the decentralization process in the early 1980s. Onaindia 2000, 62–63 & 80.

⁵⁰⁹ Figure 4.

⁵¹⁰ Magone 2004, 124.

⁵¹¹ For the opposition’s criticism of the PNV, see Onaindia 2000, 59–60.

⁵¹² Op. cit., 63.

3.2.2. The politico-economic dimensions of the Law of Historical Territories

In November 1983, the regional parliament approved the Law of Historical Territories (*Ley de Territorios Históricos*, LTH).⁵¹³ This law was in many ways a turning point in the politico-economic history of the Basque Country. The passage of the law and its economic consequences had substantial implications on Basque politico-economic history. The scholars' interpretations of these events, however, have significant disparities. Very seldom have the differing comments of contemporaries been extensively analysed and compared. The politico-economic goals of the provinces and their effect on the PNV's policies in this case in particular have not been emphasized. The institutional point of view must be complemented according to the thinking of Elton and Foucault by an analysis that takes into account the internal power relations of the Basque Country. This is also a way to investigate PNV's strategy in this particular situation.

The LTH that had long been drafted was meant to regulate the division of powers between the regional government and the provincial councils. It was to contain the model for the internal system of financing by distributing the right to levy tax between those institutions. The provincial councils' historical right to tax collection was maintained in the Autonomy Statute, and the economic agreement emphasized the role of the provinces when it ordered the regulation of the taxes to be transferred to them. The internal disagreements of the PNV affected the drafting of the LTH and the parliamentary proceedings concerning that law. The model for regional financing and the financial management became a political tool in a situation where the rival internal views concerning the power of the party surfaced. The large-scale changes the PNV had experienced, such as moving from exile to public political life and the need to be re-organized as well as become responsible for collective political risks, had increased the internal tensions in the party. These factors also influenced the restoration of the organisational and political tradition within the party itself.⁵¹⁴

In the LTH, the PNV activists in Álava⁵¹⁵ wanted a solution that would make the province less dependent on the regional structures. The political anticipation concerning Álava had already been apparent during the negotiation of the economic agreement, but now the leadership of Vizcaya and Guipúzcoa, which were in the

⁵¹³ *Ley de "Relaciones entre las Instituciones Comunes de la Comunidad Autónoma y los Organos Forales de sus Territorios Históricos."* "LPV 1991, 251–275; Ley 27/1983, BOPV n° 182/1983.

⁵¹⁴ Pérez-Agote sees this organisational crisis as the main reason for the PNV's problems in the early 1980s. Pérez-Agote 1987, 121 & 123.

⁵¹⁵ As the most important of them, the provincial council head Emilio Guevara (PNV), who was considered as the PNV's, but not the regional government's, best expert on the economic agreement in the early 1980s. Interview with the treasury minister Pedro Luis Uriarte of 24.7.1998. HGV 2001, 334.

hands of the PNV, also underlined their politico-economic autonomy.⁵¹⁶ The regional government led by Garaikoetxea did not, however, support that type of confederal model⁵¹⁷ and was finally defeated in this battle.⁵¹⁸ The Basque council of public finances (*Consejo Vasco de Finanzas Públicas*) was to elaborate detailed instructions on the distribution of resources and the premises for participation in common projects. In practice, the provinces were given considerable autonomy in their management of finances and the details of their tax collection.

The relations between the leader of EBB, Xavier Arzalluz, and *lehendakari* Garaikoetxea worsened during the parliamentary proceedings of the LTH.⁵¹⁹ Relations in the PNV between the two tendencies that had traditionally co-existed – one supporting regional independence and the other more autonomy-friendly – became tense. There were also disputes between conservative and progressive trends in ideas. In this context, the PNV activists in the regional government who pushed the interest of large industries and the cabinet's own power to direct the local economy were confronted with party colleagues who sat in the provincial institutions and represented the foralist and small and medium size business related wing of the PNV.⁵²⁰ Significantly, the opinions of the *euskalerriacos* were also split on this occasion.

Until now, analysis of the LTH and the dispute concerning it has seen, first of all, signs of (1) a power struggle between *the traditional aranaists and the euskalerriacos*.⁵²¹ This ideological point of view, which is also linked to economic policy visions, is evidenced by the fact that Garaikoetxea emphasised a clear political direction which would be supported by economic and fiscal policies,⁵²² not provincially fragmented policies. His critical attitude and that of his treasury minister, Uriarte, became obvious at an early stage. Garaikoetxea's statements calling the LTH a temporary arrangement irritated the leadership of the PNV. The leadership of the provinces called his opinions centralist. Correspondingly, other parties in the Basque Country considered the views of Garaikoetxea and his cabinet members strange since the supremacy of the PNV was seen to be based on the existence of the provincial councils. Garaikoetxea's thinking contravened the PNV's traditional and ideological idea of economic agreement as a traditional right of the historical

⁵¹⁶ HGV 2001, 333–335.

⁵¹⁷ Onaindia 2000, 81.

⁵¹⁸ The first section concerns the authority of the common institutions. The second explains that of the provinces, and its decrees concern the central Basque fiscal administration and the fiscal offices of the provinces (or the historical regions), and the division of resources between them. LPV 1991, 251–276; Copa 1989, 22.

⁵¹⁹ Onaindia 2000, 84–85.

⁵²⁰ De Esteban & López Guerra 1982, 181.

⁵²¹ Zirakzadeh 1991.

⁵²² Garaikoetxea was worried about the extensive authority given to the provinces to enhance economic development in their own area by whatever means they chose. The interview with the *lehendakari* Carlos Garaikoetxea of 23.7.1998. HGV 2001, 119.

provinces. The PNV activists who criticized Garaikoetxea saw him endangering the foundation of the party ideology, while his supporters thought that he was simply trying to make the regional administration more functional. According to the cabinet members, a “nation” could not be built on provincial or decentralized basis, though foralism would require this. Their interpretation was that the historical rights were “modernized” by the Autonomy Statute.⁵²³

From the point of view of the PNV, the provinces were to be secured politically, so that the party would begin to prepare itself for possible loss of the regional government. It must also be remembered that since the death of Franco there had been no coalition governments in Spain, either central or regional. Although the PNV later showed pragmatism in forming coalitions at different levels of administration, the idea of a coalition government was probably not considered at this stage. Without overemphasizing it, this may partly explain the EBB’s simplified way of seeing the struggle for power at that time.

The LTH fault-finding group within the PNV, lead by Garaikoetxea, set the scene for a more active internal discussion on foralism.⁵²⁴ Its supporters considered that it had clearly recognizable characteristics, one of them being the institutions of the historical territories which were basically representative bodies. The most hard-line supporters of foralism hoped that the provincial institutions would gain more power and that reciprocal co-operation would have a central role in Basque politics. There were also foralists in the ranks of the UCD and the conservative AP. The UCD had already emphasized during the negotiation of the economic agreement that the provinces had an important role and that the regional government’s task was to act as a “referee”.⁵²⁵ According to the vision of the foralists, the implementation of the Autonomy Statute would mean giving significant powers to the provinces. In the situation of the early 1980s, the *fueros* still faced the unavoidable problem that Basque society was different from what it had been in the latter part of the 19th century when the first economic arrangement was created. For practical reasons, foralism could not therefore be implemented as such, although some of its supporters hoped so.⁵²⁶

Garaikoetxea wanted clearly defined limits to the powers and economic resources of the provinces, because he was afraid that the rivalry between them, which had already surfaced in the Basque council of public finance, would lead to an unwise economic policy. Extensive powers would also easily lead to contradictory

⁵²³ Interview with the minister of labour and the minister in the cabinet, Javier Caño Moreno, of 20.7.1998. HGV 2001, 41.

⁵²⁴ Copa 1989, 25–28; for Garaikoetxea foralism was a disruptive factor in the Basque Country. The interview with the *lehendakari* Carlos Garaikoetxea of 23.7.1998. Op. cit., 118.

⁵²⁵ The article by Senator Martin Fernandez Palacio (UCD). Deia 3.5.1980.

⁵²⁶ This view was however in contrast with the idea promoted by the Basque nationalists on the *nation*, and against the traditional nationalist thinking. The latter included administrative-technical approach and trust that the “light” application of the *fueros* would offer the best circumstances for good governance. Copa 1989, 28–30.

and competing economic policy decisions between the different levels of administration.⁵²⁷ The EBB counter-argument was that the actions of the party itself would guarantee harmonious functioning of the system and a consensus between the provinces, and eventually the maintenance of one coherent line in economic policy.⁵²⁸ The party thus took some of the power to itself and the result of the LTH was that a party-bounded system was implemented. The supporters of Garaikoetxea claimed that the interpretation of the law cannot be dependent on the referee role of some political party or the power relationship the law itself had made possible. The legislation must be generically applicable in all situations. Garaikoetxea stated that the institutions could not be dependent on one party only.⁵²⁹ Although this problem was institutional, the dispute concerning it was political and even appeared within one political party, the PNV.⁵³⁰ The culmination of this issue was that in order to approve the LTH in the regional parliament, the PNV's leader, Arzalluz, joined forces with the conservative AP.⁵³¹ Because of the internal situation of the PNV Garaikoetxea announced his willingness to resign in 1983 although he did not carry out his threat then.⁵³²

Secondly (2) it was, as the sociologist Alfonso Pérez-Agote has pointed out, a question of a *dispute between two groups*: those who wanted to (i) decentralize power through political institutions which contained the idea of a strong regional administration disconnected from the party's grip; the other group aimed to (ii) decentralize power through the party which would create decentralized institutions led by the party.⁵³³ In the early 1980s, an accelerated race was taking place within the PNV between these two views which prioritized the institution they governed. The executive body, the EBB, was levelled with a strong regional government that aimed for a version of LTH which would have given it a powerful position in relation to the provincial institutions in economic policy issues. The historically significant thing was that the regional government, which was out of reach of the PNV's party discipline, meant in practice the initiation of a new political class in the Basque Country. The party was also aware that if a person who was not fully under the control of the party was appointed as *lehendakari*, that person would control the party from the government.⁵³⁴

⁵²⁷ Interview with the *lehendakari* Carlos Garaikoetxea of 23.7.1998. HGV 2001, 118 & 120–121.

⁵²⁸ Garaikoetxea 2002, 210–211.

⁵²⁹ Op. cit., 211 & 236.

⁵³⁰ Uriarte's successor as treasury minister, Joaquín Ochoa Sarachaga, claimed later that the "brutal confrontation" linked to the parliamentary procedure of the LTH, was not repeated on any other occasion during the period of my thesis. Interview with the treasury minister, Joaquín Ochoa Sarachaga, of 12.6.1998. HGV 2001, 652.

⁵³¹ Onaindia 2000, 87.

⁵³² Oña Gómez & García de Vicuña Peñafiel 2000, 187–188.

⁵³³ Pérez-Agote 1987, 125–126.

⁵³⁴ *Ibid.*

It is important to note that the strong need to centralize political decisions in the hands of the EBB, which seemed to be at work within the PNV, emerged in the situation the PNV surprisingly found itself in the early 1980s. When the Basque Country, with the rest of Spain moved to democracy and representative parliamentarism, a contradiction existed between the PNV's populist and traditionally democratic structure and the government responsibilities it had received. Seen from within the PNV, the politically safest solution was to tie the substantial regional politico-economic powers transferred to the region and negotiated via the economic agreement to the party as effectively as possible. The power-sharing, which would have been best from the economic and financial point of view, and was promoted by Garaikoetxea and his ministers, must take second place. What has not been indicated in the previous studies is that fiscal federalism became reality within the Basque Country through the internal decentralization. The amount of tax revenue that was now in the hands of the provincial councils made the temptation to direct public subventions to the community, real. The approach of Pérez-Agote is partly linked to a strategic point of view, but not a sufficient one for a historian.

My approach utilizes the thinking of Elton and Foucault to produce a third (3) viewpoint: the LTH law shows in a practical way the *power of the provinces* within the PNV and in Basque politics. Taking into account the internal power structures in the Basque Country, as Elton and Foucault stress, it is clear that not even profound political development in the region would easily change the real *power relationships* between the provinces. The whole strategy of the PNV, including economic policy, was linked to this fact. As during the negotiation of the economic agreement,⁵³⁵ finance minister Uriarte stressed that the development model according to the Autonomy Statute presumed that the common regional institutions must be strengthened. Such a version of the LTH law that would strengthen the provincial institutions would mean losing a political line gained in the negotiations of the economic agreement.⁵³⁶ This argument was not however effective within the PNV, where various sectors were strongly predefined according to the provinces. The LTH law thus had a strong link with the internal centre-periphery struggle characteristic of Basque politics.⁵³⁷ The power of one of the internal alignments, *bizkaitarrismo*, which is named after Vizcaya province, became apparent. In this situation, the *bizkaitarrismo* stationed itself with all its power against the line defended by the regional government and its premier, Garaikoetxea.⁵³⁸ The power of the *lehendakari*, the highest leader in economic policy in the region, was not questioned by the opposition, but by his own party,

⁵³⁵ For example, La Gaceta del Norte 30.11.1980.

⁵³⁶ Interview with the treasury minister Pedro Luis Uriarte of 24.7.1998. HGV, 2001, 335.

⁵³⁷ Llera Ramo 1994, 17; for the *bizkaitarrists'* relations to Garaikoetxea, see his interview of 23.7.1998. HGV 2001, 112.

⁵³⁸ Interview with the treasury minister Pedro Luis Uriarte of 24.7.1998. Op. cit., 338.

in which he had lost his leading position. The *bizkaitarrismo* wing of the party particularly criticized Garaikoetxea, since he no longer participated in the weekly meetings of EBB, and he was accused of autocracy.⁵³⁹

My argument is supported by the fact that in the case of the LTH law the business elites stood out markedly according to their provinces. It had been thus at the time of the formation of the PNV, but in the 1980s, the rapid post-war industrialization of all the provinces, not just Vizcaya, was visible in the partition between the industrial Basque circles. This reveals how some businessmen would not comply with everything the *euskalerriacos* of the regional government proposed. In the higher living standard province of Álava, the PNV had to be adroit in gaining the support of the centre-right voters, and economic policy was always important in that struggle. The *euskalerriacos* with their ideas of further regional industrialization were able to recruit immigrant politicians in Álava for leadership posts.⁵⁴⁰ Further industrialization was seen as benefiting the whole Basque Country. However, different views within the *euskalerriacos* group were not limited to the question of choosing between a *laissez-faire* or more concentrated regional government intervention in industry; it was even linked to the question of maintaining the special status of Álava in economic policy. Additionally, it was more important for the *euskalerriacos* of that province to have a strong party on which to lean on than support a strong regional government which might favour other poorer provinces economically and financially and would not take the special economic policy needs of Álava into account. The differences in the economic wealth and structures of the provinces thus prevailed the economic policy positions of the PNV. In Álava, the PNV could only defend the special economic and historical status of the province. In conclusion, this reveals the internal power structures and economic policy tensions of the Basque Country.

Elton's view requires that one additional aspect also be included. Administrative history explains how the LTH was an important step in the institutional development of the region, but was also the underlying reason for many completely new problems. As a result of the LTH, (i) the region had a middle-level administration, unlike the other autonomous communities.⁵⁴¹ It was also to a great extent a financial administration. Since the provincial councils preserved their historical structures, political tensions were appearing between them and the regional government. Moreover, tensions existed between provinces which were different in terms of economic wealth. The support of the PNV also varied greatly between provinces, which did not make things easier in the relations between the councils. (ii) The relations between the various parts of administration were in the hands of collegial organs. The economic policy issues were dealt with first of all in the Basque Council of Public Finances, then again in the regional parliament. The transfers from the regional government to the provinces were discussed in a mixed

⁵³⁹ Zirakzadeh 1991, 142.

⁵⁴⁰ Op. cit., 139.

⁵⁴¹ *Administración intermedia*. Aja 1999, 99 & 242.

commission (*La Comisión Mixta de Transferencias*). Disputes concerning these transfers were to be dealt in a separate administrative organ to be established in the future.⁵⁴² No wonder the members of the regional government also saw the LTH as an institutional problem⁵⁴³ and that the regional administration lost plenty of its previous rationalized nature. Elton's theory, which includes administrative history in political history analysis, reveals the philosophy of the LTH: the law created a situation where the competing internal structures of the Basque Country were heavily concentrated in the core of the administration. Moreover, the PNV was increasingly obliged to try to adapt these complex interrelations and overlaps.

After the approval of the LTH, the economic and fiscal policy scene remained problematic. The regional government accused the provinces of not following a law that "favoured them".⁵⁴⁴ These disputes were directly linked to politico-economic power; for example, Vizcaya carried out its own industrial projects to the regional government's annoyance.⁵⁴⁵ The latter intended to explain in public, with the help of economists, what the economic consequences of this state of affairs were.⁵⁴⁶ At the same time, when it considered that the Basque economy did not yet fulfil the criteria of a decentralized system of finance in the Spanish context,⁵⁴⁷ an economically efficient decentralized public sector did not even exist within the Basque Country. The regional government's opinion was that this imbalance would lead to negligent regional level spending, where decisions were not taken on the basis of economic criteria and the debit-side would increase rapidly.⁵⁴⁸ This situation was further worsened by the economic outlook.⁵⁴⁹ The economic recession strained the public sector heavily and its margin for manoeuvre and genuine opportunities to revitalize the economy were few. In addition, in 1983–1984 it became obvious that the previous years' subventions dedicated to

⁵⁴² Copa 1989, 23. He referred to the provincial councils' tendency to mediate their disputes in a particular conference (*Conferencias de Diputaciones*) in the 19th century, and the way the anti-LTH people intended to polemicize relations between the provincial councils.

⁵⁴³ Interview with the treasury minister, Joaquín Ochoa Sarachaga of 12.6.1998. HGV 2001, 650 & 652.

⁵⁴⁴ The interview with the treasury minister Fernando Spagnolo de la Torre, of 5.8.1998. Op. cit., 704.

⁵⁴⁵ *Ibid.*

⁵⁴⁶ See, for example, the works of the María Carmen Gallastegui and Inmaculada Gallastegui, where they ask whether the Basque Country's internal financial administrations fulfil the criteria of good governance or not. Gallastegui & Gallastegui 1984, 16–17 & 20.

⁵⁴⁷ There were no transfers of power in 1983–1984. See Figure 4.

⁵⁴⁸ The question of the administration's independence is linked to the control of public incomes (revenue). The central government's control in a system of decentralized public incomes was seen here as unnatural to the decentralisation process. Gallastegui & Gallastegui 1984, 29.

⁵⁴⁹ Op. cit., 73–74.

re-direction of the Basque industry had not achieved the expected results.

Garaikoetxea understood the Basque economy's dependence on the evolution of the Spanish economy and in order to guarantee investment and additional public financing his goal was to maintain good relations with the Spanish business elites as well as with the central government. This infuriated his opponents even more and the criticism from within the PNV at the provincial level was strident. The party activists wanted the regional government to help small and medium size business' interests more.⁵⁵⁰ Garaikoetxea and his cabinet were caught in cross-fire which was distinctively politico-economic in nature. My conclusions here are based purely on analysis in terms of the history of politico-economic power. It is a fact that the political line of the EBB won, but it is more important to notice that the party – and more precisely the EBB – took a strategic decision and chose a particular direction for the future internal institutional development in the Basque Country. The PNV now defended a political line which would lead to the provinces acting like members of a federation and a structure that could be called fiscal federalism. The need for an arbitrary institution to deal with the disputes between the regional government and the provinces thus became apparent. After all, historically this again was not such an unexpected turn. Taking into account the structure of the PNV and the political process that had started after the death of Franco, the strategic choices of the EBB were few. Had it taken the regional government's side in this dispute it would have taken certain risks concerning its own powers and the overall support of the PNV. Since the decision of the EBB was not to start skating on thin ice, economic policy had to take second place.

3.3. The economic policy of the coalition governments

Despite the internal tensions, the PNV won the regional elections of spring 1984 overwhelmingly receiving 42 percent of votes and 32 seats in the regional parliament.⁵⁵¹ Garaikoetxea formed a new one-party minority government in April, but by the next autumn it was already clear that the single-party government could not continue its work.⁵⁵² The situation in the regional parliament, which now had 75 seats, was deadlocked. In December, Garaikoetxea started negotiations with the PSE, which had 19 seats, on parliamentary cooperation.⁵⁵³ However, only a couple of weeks later he renounced office at the request of the EBB and the party chose the moderate José Antonio Ardanza as his successor.⁵⁵⁴ Ardanza was then premier of the provincial council of Guipúzcoa, but had also been a

⁵⁵⁰ Zirakzadeh 1991, 142.

⁵⁵¹ See Table 2.

⁵⁵² See the interview with the vice-*lehendakari* and minister for labour, Mario Fernández Pelaz of 23.10.1998. HGV 2001, 87.

⁵⁵³ Op. cit., 88–89.

⁵⁵⁴ Lucas Murillo de la Cueva 1990, 228–229.

businessman.⁵⁵⁵ In spite of the difficult beginning, Ardanza rapidly established himself as *lehendakari* and stabilized the position of his government. He was also able to reach an agreement with the Socialists on parliamentary cooperation.⁵⁵⁶ On the other hand, this limited freedom of action of his cabinet and the PNV in comparison to the previous years. The PNV had to take into account that the Socialists also had their own historical spheres of influence in the region. The PSE enjoyed strong support, especially in Guipúzcoa. The PSE also had a close relationship with the main Socialist trade union confederation of UGT, although in the Basque Country it was not nearly as strong as the nationalist trade unions. For the PSE it was naturally an asset that the PSOE had taken over the central government. In Basque politics, the strengthening role of the Socialists and its historical consequences can be seen through the point of view of Elton and Foucault, which emphasizes the power structures. This also offers an insight into the limits of the growing Socialist power in the region.

The deepening crisis in Basque industry speeded up the growth of unemployment in the region.⁵⁵⁷ The significance of the industry of the Basque Country in the overall picture of the Spanish economy had slightly diminished: in 1984; the Basque industry's proportion of the Spanish total was 9.9 percent, where in 1975 it had been 10.22 percent.⁵⁵⁸ One of the last decisions of the Garaikoetxea government aimed to enhance communication in the labour market by establishing a new council for economic and social policy issues (*Consejo Económico y Social*) in November 1984⁵⁵⁹ which took over the role of the council for regional labour relations. The latter had already institutionalized the negotiations between the industrial unions and the associations of employers. This new body consisted of 28 members from the labour market organizations and interest groups from Basque commercial and social life. It also included a number of independent, special experts. Its purpose was to participate in drafting government bills and to act as an economic and social policy lobby. The institution consulted the regional government and the parliament in economic policy issues with a view to reconciling the visions of the various interest groups. The council's task was to participate in public sector economic planning, and the regional government had to deliver a report to it on the regional economic situation and its own economic policy regularly.⁵⁶⁰ Foucault's model of analysis helps us to see that the essential change the council brought was its role as an initiator and developer of projects in economic policy as well as a body for the follow-up and analysis of the cabinet's economic policy. This shows again how the PNV government was constantly

⁵⁵⁵ See, for example, Almunia 2002, 279.

⁵⁵⁶ *Ibid.*

⁵⁵⁷ The contemporary view was that in reality industry jobs had decreased in 1975–1983 no less than 24.5 percent. Vizcaíno Monterola 1984, 58.

⁵⁵⁸ García-Egoecheaga Manzano 1984, 114; see Figure 9.

⁵⁵⁹ Ley 4/1984, BOPV n° 207; LPV 1991, 241–250.

⁵⁶⁰ *Op. cit.*, 241–243.

intending to build bridges to commerce and aid its interests.

Economic policy coordination in the regional government was made more effective by further developing the role of the vice-*lehendakari*, which changed from general political coordination towards more economic policy and budgetary coordination. Garaikoetxea's minister of industry, García-Egozteaga Manzano, was appointed the new vice-*lehendakari* and was specifically responsible for economic policy issues (*Vicelehendakari de Asuntos Económicos*).⁵⁶¹ According to the treasury minister in Ardanza's first government, Fernando Spagnolo de la Torre, the government's most important economic policy challenges in 1985 were (1) to resolve the dispute between the government and the provincial councils over the provision of collected taxes in that year; (2) to create a solid basis for the relationship between these two levels of administration; (3) to start the transfers of power according to the LTH to the provinces; (4) to respond to the problems caused by the economic crises, and (5) to adapt the taxation procedures to the recently introduced value-added tax (VAT).⁵⁶² All these issues promised difficult times again for the regional government. One additional factor complicating the situation further was that although the LTH transferred taxation powers to the provinces, more than half of the tax revenue was under the authority of the regional government. The government tried to resolve this situation by a separate law (*Ley de Aportaciones*) which specified a system for dividing resources.⁵⁶³ The biggest problems in the application of the LTH were linked to the powers in industrial policy where Vizcaya intended to be particularly active.⁵⁶⁴ The conflict between the cabinet and the provinces was related to the allocation of tax revenue and the political choices made there more than anything else.⁵⁶⁵ This made attempts at policy coherence difficult.

In the 1985 budget, Ardanza's government adopted two main lines: developing infrastructures and streamlining industry.⁵⁶⁶ The industrial policy remained a polemic issue because in the metallurgy and shipbuilding industries which were

⁵⁶¹ He had to answer for the unity of the regional government's economic policy and for budgetary control. Mesa 2000, 109–110.

⁵⁶² Interview with the treasury minister, Fernando Spagnolo de la Torre, of 5.8.1998. HGV 2001, 702.

⁵⁶³ Ley 7/1985. BOPV no. 219, 28.10.1985; the law, approved in 1985, required that about 65 percent of the revenue belonged to the regional government, 35 percent to the provincial councils and 20 percent to the city and municipal councils. Interview with the treasury minister, Fernando Spagnolo de la Torre of 5.8.1998. HGV 2001, 703.

⁵⁶⁴ See interview with the minister for industry and commerce José Ignacio Arrieta Heras of 26.6.1998. Op. cit., 447.

⁵⁶⁵ Interview with the treasury minister, Fernando Spagnolo de la Torre, of 5.8.1998. Op. cit., 704.

⁵⁶⁶ Op. cit., 709; for example, the session of 28.6.1984 at the Commission of Economy and Treasury of the regional parliament. PV:SC:CEHP: 02\06\02\03\0002; the session of 13.3.1985 of the same commission. PV:SC:CEHP: 02\06\02\03\0008.

traditionally pillars of the Basque economy, the job losses continued to be heavy.⁵⁶⁷ The structures of industry were also to be modernized since it looked increasingly probable that Spain would soon become a member of the EC. In general, since the competitiveness of Spanish industry was known to be weaker than that of its West European neighbours, it was feared that the economic depression would only accelerate if the country joined the EC. While the traditional sectors of industry in the Basque Country reduced production, the regional government strove for an answer to the situation in special industrial projects. These were meant to enhance the establishment of new industrial sectors, create new jobs, and reform the production system. One of the most ambitious projects was the ZUR (*Zona de Urgente Reindustrialización*)⁵⁶⁸ created to help the industry cluster which was situated on the bank of the Nervión River in Bilbao. The regional government cooperated here with the PSOE central government, which included this project in its own economic policy priorities in 1985. The primary aim was to attract new industry to the area and give new work to those who were laid off. The results of the sub-projects of ZUR were uneven: some of the companies that moved to the area brought high technology but needed less workforce.⁵⁶⁹ The services sector was thus not able to develop at a sufficient speed.

After the transfers of power, the regional institutions were substantially responsible for the design and implementation of the projects concerning structural and commercial policy intended to improve the economic outlook. They were not just managing the strategy but also the execution, which however stumbled over particular projects.⁵⁷⁰ The regional institutions adopted a line that favoured sectoral projects and subsidies. This could still not substantially improve the growth of new small and medium size business in the Basque Country, one reason being the predominant model of family business that invested modestly in outside services.⁵⁷¹ The growth of demand for services remained low in the 1980s. In 1985, the GDB of the Basque Country was 6.1 percent of the total Spanish GDP; industry and construction still covering about 48 percent even as regressive sectors, and the services sector was nearly 50 percent of the Basque GDP. The corresponding figures for Spain were 32 percent and almost 62 percent.⁵⁷² In the

⁵⁶⁷ See, for example, the EE's bill on industrial re-conversion and Minister García-Egozteaga's reply in the regional parliament. PV:DS II Legislatura, Núm. 14. 22.3.1985, 1–37.

⁵⁶⁸ The ZUR projects were launched in many parts of Spain, such as Madrid and Catalonia. See Velasco Barroetabeña & Plaza Inchausti 1998, 409.

⁵⁶⁹ Altogether 76,000 million pesetas (456 million euros). Oña Gómez & García de Vicuña 2000, 202.

⁵⁷⁰ Plaza Inchausti & Velasco Barroetabeña 1999.

⁵⁷¹ Uriarte Santamaría 1984, 130.

⁵⁷² Agriculture and fishing was slightly more than 2 percent. At state level, the figures were: agriculture and fishing 6.4, industry 26.5, construction 5.6, and services 61.5 percent. Tamames & Rueda 1998, 526.

Basque Country, industry was still an important employer and there seemed to be few signs of an immediate change in that respect.

Spain signed the treaty of accession to the EC in June 1985. The impact of the EC and later EU membership on Spanish society and economy was strong,⁵⁷³ though its economy cannot be said to have been isolated from the context of the Western European countries during the years prior to accession.⁵⁷⁴ On the eve of EC membership in 1985, the Spanish parliament approved the VAT law that meant replacing some regulations in the revenue laws with new ones. The Basque economic agreement was changed as well.⁵⁷⁵ Membership also affected *cupo*, which was still a subject of negotiation, through VAT; in practice the regional administration's tax revenue would increase. The negotiations between the two governments concerning VAT were again extremely difficult. Finding a solution to this issue was of the utmost importance for the continuation of cooperation between the PNV and the PSE.⁵⁷⁶ The Basque treasury minister Spagnolo de la Torre was personally involved in these negotiations and considered the original position of the PSOE government that VAT could not be decentralized, as a major infraction against the economic agreement, a view he brought up explicitly in his public statements.⁵⁷⁷ The PNV indicated to the PSOE that this issue endangered the functionality of its cooperation with the Socialists at regional level. Finally, the central government had to cave in to the regional government since it did not want to re-negotiate the economic agreement which Spagnolo de la Torre systematically invoked.

If the economic outlook was bleak when regional autonomy was introduced, it was also so when Spain joined the EC at the beginning of 1986. There was no sign of a rapid improvement. One reason for the low growth in industrial production was the poor prices of the products of Basque industry. This was particularly true in the case of metal industry products.⁵⁷⁸ The economic outlook was complex and even paradoxical, because the period of 1985–1990 was a time of recovery in the Spanish economy. The GDB in the Basque Country grew strongly in 1987 and

⁵⁷³ For the economic consequences of EC membership, see the work of the economists Tamames and Rueda. Tamames & Rueda 1998, 535–560.

⁵⁷⁴ For example, García Delgado emphasises that the economic developments in Spain after Franco's death should be seen in the light of the previous economic policy and history, without forgetting the continental context. García Delgado 1996, 240.

⁵⁷⁵ The regulations concerning luxury tax and company acquisitions had to be changed. Beldarrain Garin 1998, 43–46.

⁵⁷⁶ See the interview with the treasury minister, Fernando Spagnolo de la Torre, of 5.8.1998. HGV 2001, 705.

⁵⁷⁷ El Diario Vasco 10.6.1985, and the interview with the treasury minister Fernando Spagnolo de la Torre of 5.8.1998. HGV 2001, 706; for the central government's position on the possible decentralisation of the VAT, and how that position changed, see El Correo 12.4.1985.

⁵⁷⁸ The average rise in industrial product prices was 344 percent in 1983. See García-Egotxeaga 1984, 114.

1988.⁵⁷⁹ The unemployment did not decline, because structural change decreased the number of jobs in the latter part of the 1980s.⁵⁸⁰ The economic growth did not represent new jobs, but a growing workload for those who maintained their jobs. So far no real modernization had been achieved in industry and the potential for growth in the services sector was not augmented, nor was the supply of services diversified.⁵⁸¹ This latter fact was extremely important for the business and industry services sectors. The regional administration still did not believe in possibility of improving the situation via tourism. It simply did not have experience of this since during the previous decades the industrial areas of the coast experienced mainly business travel. Recreational tourism was not seen as a solution because of the gloomy image of the Basque Country as a region of sunset industry. All in all, the Basque Country had lost its central position in Spain's international trade by the end of the 1980s and, despite its location, was in immediate danger of being displaced in the national as well as the continental context.⁵⁸²

While the internal situation of the PNV remained difficult, Ardanza was compelled to order new regional elections in November 1986. The PNV now had to compete with the splinter party *Eusko Alkartasuna-Solidaridad Vasca* (or Basque Solidarity; EA). Garaikoetxea had helped found the party, which defined itself as a nationalist and social-democratic party.⁵⁸³ The PSE became the biggest party (19 seats), though the PNV (17 seats) still received more votes than any other party. At first the Socialists tried to cooperate with the EA (13 seats), but when this did not succeed Arzalluz, the leader of PNV, agreed on political cooperation with the PSE.⁵⁸⁴ This agreement enabled cooperation between the two political groups at every level of Basque politics. According to the socialist Llera Ramo, this policy⁵⁸⁵ signified the end of the previous “politics based on confrontation,

⁵⁷⁹ Euskadi en el Proyecto Europa 1991, 280; see Figure 10.

⁵⁸⁰ Figure 8.

⁵⁸¹ Oña Gómez & García de Vicuña Peñafiel 2000, 202–203.

⁵⁸² Euskadi en el Proyecto Europa 1991, 268–269.

⁵⁸³ The EA approved its first programme only in spring 1987. Ideologically, the EA was more radical than the PNV, and its goal was more explicitly a united, independent Basque Country and the recognition of its sovereignty. *Programa de Eusko Alkartasuna. Congreso Constituyente, abril 1987*. Documentos básicos para la historia del nacionalismo vasco 1998, 166–168; Acha Ugarte & Pérez-Nievas 1998; after the 1986 regional elections, the EA and the PSE negotiated on the possibility of forming a coalition government, with Garaikoetxea as *lehendakari*.

⁵⁸⁴ For the agreement of cooperation, see *El Correo* 28.2.1987.

⁵⁸⁵ This faction was later (1988) named “Spirit of Arriaga”, which refers to the Arriaga theatre in Bilbao, where the PNV held an extraordinary general assembly in January 1988. It has been also called “autonomous philosophy”. The idea was that in order to be a Basque, one did not have to be a Nationalist. See the speech by Arzalluz of 9.1.1988. Documentos para la historia del nacionalismo vasco 1998, 168–170; for contemporary descriptions, see Onaindia 2000, 87 & Almunia 2002, 270.

artificial one-party majorities and isolation”.⁵⁸⁶ Political cooperation became closer in 1986 when the PNV and the PSE formed a governmental coalition. Except for a short break in 1990–1991, this political alliance continued in the form of various coalition governments until summer 1998. The governmental coalition gave both parties an opportunity to develop their own theoretical and ideological definitions of the policy. Extension of political cooperation to all levels of the administration in the Basque Country meant that a new way of seeing and understanding politics had been introduced to the region.⁵⁸⁷ The Socialists had now a stronger position in the Basque administration and were more strongly present in Basque politics. The coalition government, which was the first of its kind in Spain since the death of Franco, was not free of internal tensions. In the end, the scholars have claimed that this situation strengthened and practically confirmed the end of the first phase of political transition in the Basque Country when it moved to democracy after the death of Franco.⁵⁸⁸

The PSE, which had become an important factor in Basque politics in the 1986 regional elections⁵⁸⁹ also hoped to influence the regional economic policy via its cooperation agreements. The gradually emerging new administration structure which had a clear legal basis made this theoretically possible. However, the PNV, which maintained the portfolios of *lehendakari* and the treasury minister in Ardanza’s second cabinet was not willing to hand over power that easily. This was particularly the case in economic policy issues. The Socialists obtained, the posts of economic planning and education, among others, but the PNV named established professionals in the most important posts in the cabinet and most importantly maintained control of economic and fiscal policy.⁵⁹⁰

In general terms, the economic policy of the regional government followed the direction indicated by Garaikoetxea’s cabinets, and the Basque government intended to revitalize the local economy in cooperation and in parallel with the central government. One factor which hindered the intentions of the PSE to change the direction of the regional economic policy was the persistence of the region’s economic problems. The first coalition government therefore represented continuity in its economic policy,⁵⁹¹ the main target of its budgeting being further infrastructure development and the modernization of industry.⁵⁹² The Socialists thought that the EBB intended to be the major power by trying to change the

⁵⁸⁶ Llera Ramo 1994, 18.

⁵⁸⁷ Rivera 1998, 90–91; Llera Ramo 1998, 418–419.

⁵⁸⁸ Rivera 1998, 90–91.

⁵⁸⁹ See Table 2.

⁵⁹⁰ Oña Gómez & García de Vicuña Peñafiel 2000, 189; Lucas Murillo de la Cueva 1990, 228.

⁵⁹¹ Interview with the treasury minister, Fernando Spagnolo de la Torre. HGV 2001, 708–709.

⁵⁹² *Ibid.* The names of the programmes of economic revitalization could change. For example, *El Plan de Relanzamiento Empresarial*, PRE.

nature of the regional government more towards a body of civil servants.⁵⁹³ This claim needs to be assessed, since it is linked to the question of power structures and their complexity in the Basque case. Keeping in mind the events that led to the departure of Garaikoetxea in terms of Foucault's analysis of power makes it apparent that many of the original powers of the cabinet were actually transferred elsewhere. On the other hand, the extensive powers of the autonomous community affected its public administration so that it had a more stable and professionalized civil service. The rapid incrementalism in its establishment also led to politicisation of its high levels.⁵⁹⁴ The way the EBB openly defended the treasury ministers and their positions in their negotiations with the central government representatives shows us how the party tried to be the guarantor of the economic agreement and its substance. Another thing is that the PNV treasury ministers unavoidably gathered growing know-how on fiscal policy and revenue issues from the early years of the administration onwards. To some degree, their image and professional profile changed during the 1980s towards a more senior functionary type. However, this did not actually mean that they were politically independent. Some of them had worked in the regional administration since the beginning and belonged to a new class of professionals in regional financing and economic policy issues. The newspapers and programmes of the PNV reveal that the party deliberately referred to their role as distinguished professionals and then backed them in public. Interestingly, the party programmes developed to gradually include more detailed, sometimes even technically coloured economic policy thinking and goal-setting in the 1980s. The main economic policy questions and objectives listed in the political manifestos and communiqués of the PNV were also obvious in the public appearances of the treasury ministers. All this gives us a complex but firm picture of the power relation between the PNV and its executive organ and the regional government treasury ministers.

Since the Basque Country was a region that suffered a structural change, it was allowed to use public subsidies again in 1988 and a large industry program was started, especially to assist the heavy industry of Bilbao.⁵⁹⁵ The European Social Fund, which aimed to assist among other things employment and entrepreneurship, contributed 3.4 billion pesetas (20.4 million euros) altogether to Basque government projects in 1986–1989. These included the projects targeted to enhance re-employment, and the proportion of the community funding rose

⁵⁹³ According to Onaindia, a change took place in the image of the regional government in a more bureaucratic direction, and he emphasises the more civil servant role of the ministers. Here he also mentions the way some of them, after their political careers, ended up as leaders of public companies in the region. Onaindia 2000, 91.

⁵⁹⁴ Magone 2004, 129–130.

⁵⁹⁵ It lasted 36 months, and investments of the value of 37.000 million pesetas (about 222 million euros) were subsidized with 5,000 million pesetas (about 30 million euros). Marzo 1994, 48.

almost to the half of the total.⁵⁹⁶ The region also received community aid for its agriculture and fishing industry which were meant to develop rural tourism, and the appropriate schooling and training. The fishing industry, which was only a fraction of the Basque economy but had an important role in traditional Basque culture, was also in decline. The problem of the Basque fishing fleet, which had only a small role in Spain's fishing industry, was its relatively strong presence in EC waters. The Basque government also financed the modernization of the fishing fleet.⁵⁹⁷ The region also received aid from the community structural funds, though the target programs in question were relatively small in their effect (target programs 2 and 5b).⁵⁹⁸

The PNV and the PSE government coalition was consolidated when health care was transferred to the region in 1987.⁵⁹⁹ The social and health costs in the Basque Country were now covered partly from state funding (the social security levy) and partly from Basque tax revenue.⁶⁰⁰ This resulted in a significant cash flow from the central government to the regional administration⁶⁰¹ and one positive consequence of the increase in local tax revenue was diminished pressure on borrowing. In the long term, this was instrumental to progress, which meant that the accumulation of debt could not become as bad a problem as in other autonomous communities, not even in difficult times. The decision on meeting health system expenses also enhanced the still unfinished negotiations on *cupo*. It is interesting to see how the Basque Country achieved the same health care powers many years later than Catalonia (in 1981), or the stronghold of the Socialists in Spain, Andalusia (in 1986).⁶⁰² The PSOE did not want wilfully to make any concessions to the PNV; the Basque Country was not able to obtain the powers in question until the Socialists started to gain better positions in the regional power structures. This again confirmed how the decisions on the transfers were politically motivated and not so much related to financial management. An additional proof of this was that the transfers of authority were not necessarily followed by cost cuts or reductions in the central government structures.

⁵⁹⁶ The regional development of the Basque Country was funded, for the costs of geographic and sectoral structural adjustment or development projects at an average level of 50 percent. Marzo 1994, 65.

⁵⁹⁷ Deia 28.11. 1986; For more information on the events of 1986 concerning the Basque fishing industry and what its role in the economic relations between Spain and France was, see Clark 1987, 11–25.

⁵⁹⁸ These were later included in the target 2 program. EU-rahoituksen opas 2000, 3.

⁵⁹⁹ Interview with the treasury minister, Fernando Spagnolo de la Torre, of 5.8.1998. HGV 2001, 706.

⁶⁰⁰ Almunia 2002, 280–281; instead of the calculated proportion of 6.24, which was used in the economic agreement and the *cupo*, the state spending on health-care in the Basque Country had been only about 5.4 percent. Interview with the treasury minister, Fernando Spagnolo de la Torre, of 5.8.1998. HGV 2001, 706.

⁶⁰¹ Larrea Angulo 1991, 79.

⁶⁰² Rico, Fraile & González 1998, 186; Andalusia had been a stronghold of the Socialists since the late 1970s. Montabes Pereira & Torres Vela 1998, 21.

3.4. The agreement on *cupo*

The *cupo* agreement which was achieved after long negotiations in 1987 was itself a major economic policy achievement for the regional government. It was important not just for the sake of the stability of Basque public finances but also for the political standing of Ardanza's cabinet and the regional political atmosphere. The delay was due to differences of opinion concerning the details of *cupo*.⁶⁰³ Consequently, Spain's preparation for the EC membership⁶⁰⁴ and the lack of *cupo* had hindered the implementation of the economic agreement and retarded the transfers of power. The temporary public finance arrangements had also created a conflict situation in Basque politics.⁶⁰⁵ The agreement of 1987 replaced all the previous temporary arrangements of 1981–1987 based on estimated amounts; it included a definitive accounting method and brought financial stability. The *cupo* specified the *proportion* of every unit of accounting that was agreed and also defined the amount which the regional government would pay to the central government's kitty for those administrative structures it would still maintain in the region; in other words, authority that had not been transferred to the regional government under the *cupo* arrangements.⁶⁰⁶ Along with *cupo*, the central government would not suffer economic loss if the regional tax receipt was less than expected. After the *cupo* arrangement the impact of the economic policy of the regional government would be even stronger in the Basque economy.

Moreover, the *cupo* agreement included the remission of the debts from the years 1981–1986, and agreeing on the basis of calculation for the next five years.⁶⁰⁷ The significance of the new *cupo* was in the fact that it complemented and reinforced the Basque economic agreement technically and politically. The agreement was economical for the region; this caused criticism in the Spanish opposition and public envy in the ranks of the CiU, the dominant party in Catalonia. However, the Basque administration and local parties understood that the economic agreement had already given the region an advantage over the central government in their bilateral economic relations in that the details of *cupo* must always be defined in bilateral negotiations and the central government could not decide it unilaterally. The Spanish parliament was given only the opportunity to approve or reject the negotiated result. The PNV was aware that in this pattern it had the additional advantage that in these parliamentary proceedings the big national parties had

⁶⁰³ Lámbarri Gómez & Larrea Jiménez de Vicuña 1994, 184.

⁶⁰⁴ El Correo 12.4. & 26.4.1985.

⁶⁰⁵ Almunia 2002, 277; interview with the treasury minister, Fernando Spagnolo de la Torre, of 5.8.1998. HGV 2001, 704–705.

⁶⁰⁶ It is also simultaneously a “machinery of solidarity” on the behalf of the state, since the agreement also defines the state's share of those public expenditure items, which do not belong to the regional government. Larrea Angulo 1991, 79 & 105; interview with the treasury minister, Fernando Spagnolo de la Torre, of 5.8.1998. HGV 2001, 704–705.

⁶⁰⁷ The regional parliament was now able to close the public accounts of the previous years (1981–1985) at once. Memoria Txostena 1987–1988, 43.

to take into account their electoral base in Basque politics.⁶⁰⁸ Depending on the power balance at the time, the PNV might reap the benefit of the internal tensions of the major parties. Understandably, this situation in which the role reserved for the Spanish parliament was clearly defined did not please all the political groups either nationally or in the Basque Country. The left-wing nationalist party EE in particular criticized the settlement system between the provincial councils and the regional government, which was established in the agreement. The reason was that according to the LTH, the Basque council of public finances had the right to decide the relative size of payments of the provinces, instead of the regional parliament. This matter was examined even by the Constitutional Court of Spain.⁶⁰⁹ The situation was clarified in 1988, when a Court of Auditors subordinated to the regional parliament was finally established.⁶¹⁰

It was apparent that *cupo*'s calculated value, which functions as a vertical repair method, would decrease as the funding of the powers transferred to the region grew.⁶¹¹ The Basque government was at last, thanks to *cupo*, capable of carrying out long-term as well as short-term economic planning.⁶¹² One surprising consequence at this stage was that those power transfers which had not been realized became suddenly more relative in comparison to the complete economic agreement. The Basque economy worked the same way as in previous periods in history: the share of the basic funding, which was derived from expenditure was as big as in other parts of Spain. The complementary financing was derived from income, which in the case of the Basque Country was to be determined in relation to the government revenue collected in other regions.⁶¹³ Other factors such as European integration also emphasized the role of taxation and its regulation. In

⁶⁰⁸ For the long negotiations on the *cupo*, see El Correo 15.10.1986, La Gaceta del Norte 17.10.1986, and El Diario Vasco 4.10.1987; on the PNV's point of view see, for example, Deia 27.10., 26.11. & 4.12.1987; on the EE's criticism of the way the PNV carried out the negotiations, see El Diario Vasco 18.11.1987.

⁶⁰⁹ The EE would have wanted to negotiate the annual settlements from the provinces to the regional government, according to their share of the public service costs of maintenance and public investment, paid to the central tax office of the Basque Country (*Hacienda Central de la Comunidad Autónoma*). El Correo 14.10.1986, El Diario Vasco 16.10. & 7.11.1987; Copa 1989, 58–59.

⁶¹⁰ *Tribunal Vasco de Cuentas Públicas*. Ley 1/1988. LPV 1991, 223–240; the Court of Auditors is not an institution mentioned in the Statute of Autonomy, but it was anticipated in Article 65 of Ley 12/1983 de Principios Ordenadores de la Hacienda General del País Vasco. BOPV no. 99, 6.7.1983; Article 30 of the LTH. BOPV no. 182, 10.12.1983.

⁶¹¹ The *cupo* changed methodologically from the version in Álava's Franco era agreement: in no longer defining every item (payment) of the provincial tax levy. These items are defined by other variables, which are sources of funding for the provincial council and the whole Basque Country, i.e., exist in the state budget as well. Lámbarri Gómez & Larrea Jiménez De Vicuña 1994, 44.

⁶¹² Copa 1989, 53–55.

⁶¹³ Larrea Angulo 1991, 99.

the relations between the central and regional government, the agreement on *cupo* helped achieve a more stable basis in 1987–1988.⁶¹⁴ The *cupo* system also facilitated economic integration between those two levels of administration and guaranteed the implementation of the solidarity principle incorporated in the Constitution.⁶¹⁵ On the other hand, the politico-economic powers of the Basque Country and the question concerning their limits became more significant for Spain.

Despite these politico-economic leaps, the economic crises in the Basque industry deepened. The problem of unemployment was difficult to resolve when alternative production areas were lacking, since the labour force was not being directed to other sectors. Moreover, industry could not modernize rapidly with the help of new technology and automatisations, since investment in research and education or training remained low.⁶¹⁶ This was a general problem in the Spanish economy, where the investment did not traditionally go into upgrading the technology of companies, but tended to take advantage of the low labour costs. That tradition was partly a heritage from the Franco years, but was even strengthened by the increasing amounts of foreign investment, which were also directed to speculative sectors such as the construction industry.⁶¹⁷ When the Spanish economy was starting to show signs of take-off, the Basque economy and industry saw very little improvement.

In addition to the transfers of power in 1987,⁶¹⁸ which included health care, there was agreement concerning the transfer of powers in employment administration and job training.⁶¹⁹ The Basque Country remained dependent on the export trade and needed companies to bring jobs and tax revenue. The central government did not however invest as much as the Basque government wished in communications and harbours, which remained under its control.⁶²⁰ The regional government and provincial councils aimed to cooperate⁶²¹ in modernizing the road network so that transit communications would be strengthened. The telecommunication network and the supply of gas were also improved to reduce the costs of the

⁶¹⁴ Fusi 2000, 270–271.

⁶¹⁵ The latter is based on the fact that the *cupo* defined the Basque Country's *contribution as a region* which retains and uses fiscal capacity, in line with the general state economy – not on a minor or a superior scale – and as the other autonomous regions do.

⁶¹⁶ Pérez de la Calleja Bastarrechea 1984, 100–102.

⁶¹⁷ Magone 2004, 190.

⁶¹⁸ For example, the PSE politician, José María “Txiki” Benegas, later emphasised how these transfers were to the credit of the prime minister González. Benegas 2002; for the development of the transfers at that time, see Figure 4.

⁶¹⁹ The basic problem was how to adapt the main principles of the economic agreement to the Spanish system of social security, which remained to be funded at the state level (the so-called *caja única*). Almunia 2002, 284.

⁶²⁰ For criticism of the central government, see, for example, Copa 1989, 307.

⁶²¹ In 1989, a joint project called *Europa-93* founded by the regional government and the provincial councils.

local business world. In the face of the protracted economic depression and local opposition pressure – particularly from the nationalist parties, the EA and EE,⁶²² taxation became finally the most important instrument in economic policy. The provinces concentrated on attracting investment by applying tax incentives; the Basque policy-makers recognized that the Basque Country was now following a different fiscal policy line from the central government.⁶²³ Importantly, the EBB had been publicly advocating the use of tax incentives as an efficient available instrument.⁶²⁴

Simultaneously, the role of taxation was further underlined politically and technically by the supranational economic integration. It is noteworthy that when Spain prepared itself for the EC membership it was already obvious that becoming a part of the internal market also meant changes in taxation and fiscal legislation.⁶²⁵ The PNV and the regional government considered that the central government had not actually delivered the rights to taxation, but that the Basque provinces originally had those rights and the Constitution of 1978 had only recognized their existence. The economic agreement from 1981 and the *cupo* of 1987 were agreements between the central government and the Basque provinces concerning the coverage of the costs incurred by the remaining state administration. It was thus not a question of delivering constitutional rights or sovereignties within the Constitution as in a federal system. For the PNV, the right to regulate taxes was fundamentally a way of using the legal and historical powers which applied in the provinces. Consequently, tax regulation was linked to the status of the region. This background must be kept in mind when a historian analyses the decision to regulate taxes. One of the underlying reasons behind those decisions was the simplistic view of the PNV that only the legal rights of the Basque provinces were to be applied.

In the regional government, the PNV kept the more political portfolios where the Socialists were responsible for more practical sectors. Both parties soon recognised that one of the major problems in their coalition government was their inexperience in real cooperation. The administrative structures also remained to be strongly linked to the PNV.⁶²⁶ The cooperation between the two parties helped to stabilize the institutional development of the Basque Country considerably

⁶²² BOVP 1987 B-IV-31, BOVP 1988 B-IV-54 & B-IV-83; Memoria Txostena 1987–1988, 157, 163 & 169.

⁶²³ Interview with the treasury minister, Fernando Spagnolo de la Torre, of 5.8.1998. HGV 2001, 711.

⁶²⁴ CD/PNV: Comunicados: Aberri Eguna 1985, 3.

⁶²⁵ According to Beldarrain Garin, seen from the regional government's point of view, the economic agreement was still an one between the state and the authorities responsible for tax levy (i.e., the provinces), not delivery of constitutional authority or sovereignties in the framework of the 1978 Constitution as in federalism. Beldarrain Garin 1998, 101–102.

⁶²⁶ Interview with the minister for the economy, Juan Atienza Serna, of 6.7.1998. HGV 2001, 784–785.

and, by the end of the decade, important laws like those concerning the public sector's functions and harmonization, coordination and cooperation in fiscal issues were approved in the regional parliament.⁶²⁷ In spite of these developments, in 1988 the EBB complained in public that the advent of the Socialists in the Basque government had not significantly improved economic coordination with the central government.⁶²⁸ The representatives of the PNV were annoyed by the tough line adopted by the PSOE ministers on such issues as regional differences in taxation.⁶²⁹

Although in Basque politics the EA then had a significant role as a recognized challenger to the PNV, the Socialists considered the EA a more insecure alternative.⁶³⁰ The PSE thus did not actively seek an alternative coalition partner. The regional government gave the Socialists larger access to Basque society than ever before,⁶³¹ their asset being the working dialogue and cooperative connection with their party colleagues in the central government. Still, where fundamental issues of the Basque Country's politico-economic power as the economic agreement or *cupo* were discussed at the negotiating table with the central government, it was the PNV representing the regional government, not the PSE.

Spain's EC membership started an evolution in public finance which was originally described as a slowing increase in public expenditure and entrenchment at the annual level established during the 1986–1988 period. The process was even enhanced by the economic boom in Spain at the end of the 1980s. The economic growth was not, however, uniform between sectors or regions. The central government was also obliged to seek solutions to the challenges brought by the EC membership, such as increasing competition in foreign exports, the problems of agriculture, negligible increase in industrial productivity efficiency and only slowly decreasing unemployment.⁶³² The result was that the public deficit kept growing despite the upswing in the economy. The time of economic speculation was also linked to social problems in the form of worsening relations between the Spanish government and the trade unions.⁶³³ The labour market remained unchanged during the 1980s.

The marked increase in unemployment exacerbated social tensions in the

⁶²⁷ Ley 6/1989 de 6 de julio "Función Pública Vasca". BOPV no. 144, 28.7.1989; Ley 3/1989, de 30 de mayo "Armonización, coordinación y colaboración fiscal". BOPV no. 109, 9.6.1989.

⁶²⁸ CD/PNV: Comunicados: Aberri Eguna 1988, 8.

⁶²⁹ For example, El Correo 18.9.1988.

⁶³⁰ Interview with the minister for the economy, Juan Atienza Serna, of 6.7.1998. HGV 2001, 785.

⁶³¹ Almunia 2002, 282.

⁶³² European Economy 1995.

⁶³³ García de Cortázar & González Vesga 2000, 637–638.

Basque Country while the market economy flourished in the region.⁶³⁴ The financial institutions – the commercial banks as well as the public savings banks which were in the hand of the regional administration – had been practically the only sector making profits during the difficult years of the early 1980s. The two big banks of the region, the *Banco Bilbao* and the *Banco Vizcaya*, merged in 1988, becoming the BBV (*Banco Bilbao Vizcaya*). Simultaneously, the regional government launched talks concerning the possible fusion of the provinces' savings banks, which resulted in the creation of one larger entity in every province instead of the previous two.⁶³⁵ In practice, these public financial institutions were under the control of the PNV and the EA but, owing to the internal problems of the PNV, this issue was also handled in the EBB.⁶³⁶ The public discussion then continued with the possibility of creating one large financial entity by merging all three. This project did not proceed since the political parties whose representatives sat on the boards of those institutions could not agree. It is necessary to understand that these major changes in the Basque banking sector took place before the mergers and obligatory re-organisations of banks all over Spain which was to a great extent a consequence of the economic depression cycle of early 1990s. The Basque banking sector had nevertheless started to consolidate itself before that.

Despite the practical and political problems of the re-organisation among the public financing institutions, it was an economic policy victory for Ardanza's cabinet and the PNV. The politico-economic power of the party and the determination of the then treasury minister, Alfonso Basagoiti, as well as his good personal relations with the leadership of the BBV bank enabled the Bilbao stockmarket to remain independent.⁶³⁷ Finally, the influence of the Socialists was limited in all these arrangements, just as in the regional government's budgets during the years of Basagoiti.⁶³⁸

The economic policy objectives of Ardanza's government were intended to enhance social cohesion and to increase social solidarity by defining a minimum wage and improving the social services network.⁶³⁹ Several reasons for this policy can be found. The political programme of the PNV in 1987 included a

⁶³⁴ Montero 1998, 117; the decrease in the population in the Basque Country was historically a new phenomenon.

⁶³⁵ In Vizcaya *Bilbao Bizkaia Kutxa* (BBK), *Álava Caja Vital-Vital Kutxa*, and Guipúzcoa *La Kutxa*. Oña Gómez & García de Vicuña Peñafiel 2000, 204.

⁶³⁶ Before the merger, the savings banks in Vizcaya were under the control of the PNV; in Guipúzcoa both were under the control of the EA, while in Álava one was controlled by the PNV and the other one by the EA. See the interview with the treasury minister, Alfonso Basagoiti, of 15.6.1998. HGV 2001, 848–849.

⁶³⁷ The Bilbao stock market was founded in 1890. Salmon 1991, 160; Basagoiti has since explained that the changes in the banking sector were possible in the latter part of the 1980s because the necessary regional administrative structures had already been created. Interview with treasury minister Alfonso Basagoiti of 15.6.1998. Op. cit., 849 & 851.

⁶³⁸ Interview with treasury minister Alfonso Basagoiti of 15.6.1998. Op. cit., 858–859.

⁶³⁹ Oña Gómez & García de Vicuña Peñafiel 2000, 203.

definition that emphasized the promotion of the values of a welfare society.⁶⁴⁰ The consequences for the individual and families of unemployment were highlighted and the economic policy decisions were justified by appeal to the fight against unemployment in the region. The scope of the social security was linked to this process. The party programme mentioned social welfare when public spending was planned,⁶⁴¹ an approach which has been called “welfare nationalism” by scholars.⁶⁴² The reasons behind it, however, have not been thoroughly analysed before. My argument is that it was not a coincidence but a conscious choice, based on particular conclusions drawn by the party. The PNV was obliged to find an answer to the ideological challenge from the moderate Basque nationalism represented by the EA,⁶⁴³ including strong economic policy features. The EA listed the defence of the region’s economic freedom among its objectives. It also declared its commitment to the traditional social democratic policy goals in its party programme, including the fight against poverty and the redistribution of wealth. The self-definition of the EA which was made to a great extent in economic terms was a consequence of the party’s need and willingness to find its place in the Basque political scene. First and foremost, it wanted to differentiate itself from its closest rival, the PNV.

The economic dimension should not be however underlined too much in the ideology of the EA; the party was mainly situated on the centre-left at its inception.⁶⁴⁴ The differences in economic policy issues between the PNV and the EA were not finally crucial. The heterogeneous background of its founders⁶⁴⁵ and the more communal view of the Basque economy generally influenced the EA’s economic policy orientation. The EA adopted a more positive attitude towards European integration from the beginning. According to the EA, it was more

⁶⁴⁰ CD/PNV: Nacionalismo para el 2.000 – 2.000 erako Abertzaletasuna. Bases Políticas y Programa. Asamblea Nacional Extraordinaria, Zestoa 3–5.7.1987, 293–295 & 321–322; for the “social welfare’s legitimacy as an item of public expenditure” see also Programa electoral. Por una Euskadi mejor. Elecciones generales ‘93, 87–101.

⁶⁴¹ CD/PNV: Nacionalismo para el 2.000 – 2.000 erako Abertzaletasuna. Bases Políticas y Programa. Asamblea Nacional Extraordinaria, Zestoa 3–5.7.1987, 321–322.

⁶⁴² “*El nacionalismo del bienestar*”. Núñez Seixas 1999, 166.

⁶⁴³ For the PNV’s ideological answer to the EA, see, for example, CD/PNV: Comunicados: Aberri Eguna 1987; Acha Ugarte & Pérez-Nievas 1998, 93–97.

⁶⁴⁴ Acha Ugarte & Pérez-Nievas 1998, 96.

⁶⁴⁵ Significantly, there were both modernists and traditional *arabists* among them. Op. cit., 93.

beneficial to the Basque Country if the cooperation crossed the national borders.⁶⁴⁶ The EA took an active role in economic policy issues in the regional parliament, as was shown in the form of numerous private members' bills it proposed on economic policy issues.⁶⁴⁷ The role of welfare state and the definitions linked to it can be explained by the societal development of Spain and its autonomous regions as well as the effects of the European integration process. We must not forget the situation concerning the transfers of powers in the latter part of the 1980s either when the transfer of health care was negotiated – it was important for the PNV to stress the role of the social sector and to try to increase political pressures on the Socialists in its relations with the central government and in the region as well. After this transfer, the economic policy responsibility of the regional government, and thus the PNV, was again increased since the regional administration was responsible for public services in the Basque Country to a significant extent. The need of the PNV to compete effectively with the Socialists and the EA splinter group led to a programme stressing welfare issues; this was also again as much a consequence of the PNV's social sensitivity.

3.5. The quest for new economic policy solutions

In the regional elections of 1990, the PNV won back its position as the leading party (22 seats) whilst the PSE's support fell (16 seats). The PNV eventually benefited from the years of the first coalition government (1986–1990) more than the Socialists, who considered that the cabinet had been identified with the persona of *lehendakari* Ardanza.⁶⁴⁸ The PNV also took care not to hand over political power to the PSE in the latter part of the 1980s. The PNV built up first a coalition government with the EA and the EE, while Ardanza continued as *lehendakari*. In economic policy, the new government ambitiously set the goals of creating a Basque central bank,⁶⁴⁹ integrating municipalities more closely with the regional and provincial economic arrangements, and enhancing the integration of

⁶⁴⁶ The differences between the EA and the PNV have been thought to originate in the different institutional positions of the parties rather than ideological differences. The EA received 10.9 percent of the votes in the regional elections of 1986, gaining 13 seats in the regional parliament. The party was popular, particularly in Guipúzcoa and outside the autonomous region in Navarra (Garaikoetxea's home province). In the elections of 1988, it got 15.8 percent and in 1990 only 11.3 percent of the votes. In the regional elections of 1994 its support decreased again, amounting to 10.1 percent. Table 2; Núñez Seixas 1999, 131.

⁶⁴⁷ See, for example, Memoria Txostena 1987–1988.

⁶⁴⁸ For the PNV's and the administration's relations and linkages, see the interview with the minister for the economy and PSE politician, Juan Atienza Serna, of 6.7.1998. HGV 2001, 781–782 & 801.

⁶⁴⁹ It remained one of the goals of the PNV during the 1990s. CD/PNV: Programa electoral. Por una Euzkadi mejor. Elecciones generales '93. EAJ-PNV, 18.

the town councils into the work of the Basque council of public finances.⁶⁵⁰ The PNV kept the treasury portfolio,⁶⁵¹ while the post of the minister of the economy and planning, given to the EA, was deprived of authority.⁶⁵² The relations between the PNV and the EA remained tense, and the PNV attempted to ally itself with the PSE in the municipalities so that the EA's position would decline in Guipúzcoa, its strongest power-base.⁶⁵³

This experimentation between the moderate Basque nationalist parties failed and the regional government resigned in late 1991, to be replaced by a government coalition of the PNV, the PSE and the EE. Later this became a two-party coalition when the Socialists and the EE merged (1993).⁶⁵⁴ The PNV again got the politically most significant posts: *lehendakari*, minister assisting the *lehendakari*, the treasury and finance, minister for industry and energy and minister of the interior. The previous treasury minister, José Luis Larrea Jiménez de Vicuña (PNV), continued and the PNV also took the post of first vice-*lehendakari*, responsible for the economy.⁶⁵⁵

The beginning of the 1990s was gloomy in the Spanish economy, 1991–1995 being worse than the EC/EU average.⁶⁵⁶ GDP grew by an average of 1.3 percent and inflation by 5.6 percent, while the corresponding figures for the EU were 1.5 and 4.1 percent. Unemployment in Spain fell –0.5 percent and in the EU –0.4 percent. The increase in productivity in Spain was only 1.8 percent whilst the EU average was 2.0 percent.⁶⁵⁷ In Spain the consequences of the loss of autonomy in budget policy became more apparent in 1992–1993, when the international developments and therefore problems in export trade led to a new economic depression. In the face of decreasing tax revenue the public expenditure in particular had an impact on the growing public deficit. At the moment of deepest recession, public expenditure reached a historical 49.7 percent of the GDP. The public deficit also reached a record figure of 7.5 percent in 1993 and its burden on the economy was significant. The ratio of public debt was almost 59.8 percent in 1993.⁶⁵⁸ The Spanish economy's dependence on foreign investment had also grown rapidly

⁶⁵⁰ Mesa 2000, 120; for the process of forming the government, see Deia 23.1.1991.

⁶⁵¹ José Luis Larrea Jiménez de Vicuña, who had been a close aid of the previous ministers, Fernando Spagnolo de la Torre and Alfonso Basaigoiti, was appointed treasury minister.

⁶⁵² Mesa 2000, 122; for a good analysis of the politico-economic powers of the other political parties in the Basque Country, see Mauleon 1993.

⁶⁵³ Mesa 2000, 121.

⁶⁵⁴ Montero 1998, 117.

⁶⁵⁵ Mesa 2000, 125.

⁶⁵⁶ The European Union was founded by the Treaty of Maastricht signed in February 1992, which came into force from the beginning of 1993. Kempainen 1999, 2.

⁶⁵⁷ Tusell 2000, 59.

⁶⁵⁸ European Economy 1995, 10.

since joining the EC.⁶⁵⁹ Just as the pressures on economic structures grew, the government of prime minister González had less room for manoeuvre since the PSOE's support diminished continuously.

When the prolonged economic recession of the 1990s began in Spain, its social consequences began to show even more clearly in the Basque Country. The high unemployment there had not decreased, even during the previous economic boom (1985–1990).⁶⁶⁰ The analyst of *The Economist* claimed that the Basque Country in 1992 experienced the biggest industrial turmoil since the period of 1975–1982, which had already caused the disappearance of about 100,000 industrial jobs.⁶⁶¹ The steel industry urgently needed for complete overhaul of its production infrastructures. An example of the structural changes that sector lived through is the crucial metallurgy company *Altos Hornos de Vizcaya* (AHV), which had a history of almost a hundred years and employed 13,500 people in 1972. In the 1990s it was replaced by *Acería Compacta de Bizkaia* (ACB), which employed 380 people. The protests of the metal trade unions did not affect this development.⁶⁶² The unions claimed that the Basque businessmen, as a result of their short-term thinking, had left the trade unions and the regional government alone in their fight for the Basque economy and in the search for solutions.⁶⁶³

The Basque government started several regional programs and special initiatives which aimed to create a new, high-tech industry in the ruins of the old heavy-industry. This strategy in which the regional government tried to coordinate with the provincial councils also sought to create a new model for economic development, investment in technology and modernization of infrastructure being

⁶⁵⁹ In 1986–1992 imports continuously outgrew exports. *The Economist* 25.4.1992, 9–10; *The Economist* 21.8.1993, 38.

⁶⁶⁰ See Figure 8.

⁶⁶¹ *The Economist* emphasised the need to further streamline and intensify the local steel industry, referring to the theories of the economist Michael Portier, according to which the region should concentrate even more on some strong sectors, like the production of value-added steel products, machinery components, and foodstuffs. *The Economist* 25.4.1992, 9–10; see also Portier 1998.

⁶⁶² Another economically significant and historical company which closed down was *Euskalduna*. Its workers held a protest march, so-called “*Marcha de Hierro*” all the way to Madrid in 1992. The last blast furnace of the AHV company was decommissioned on June 1996. Oña Gómez & García de Vicuña Peñafiel 2000, 204–205; for the coverage of the protest march in the Finnish media, see Helsingin Sanomat 2.11.1992.

⁶⁶³ The attitude of businessmen has, however, been explained by the threat caused by terrorism. Oña Gómez & García de Vicuña Peñafiel 2000, 204–205; Pérez de Calleja 1991; for an exceptionally good defence of the 1980s economic policies of the Basque regional government, see Alaez Aller & Bilbao Ubillos 1993.

given preference.⁶⁶⁴ So that the isolation of the Basque Country could be avoided, in the Spanish as well as in the continental context (the EU) new economic policy models and means were needed. However, in the difficult economic situation, the provinces' independence in tax regulation promoted more daring tax incentives for companies.⁶⁶⁵

In the Basque Country, the economic depression was still accompanied by the problem of political violence. Although Uriarte had already defined terrorism as "a serious problem" in the early 1980s and a considerable obstacle to political and social normalisation of the region,⁶⁶⁶ there was no general public discussion concerning the economic consequences of terrorism before the Socialists entered the regional government.⁶⁶⁷ Only then was the EBB forced to speak out more openly on the political violence.⁶⁶⁸ In the early 1990s, the economic consequences of terrorism were practically a taboo as a public talking-point and discussing it was considered as exaggerating the problem.⁶⁶⁹ The political leadership, however, encountered the economic consequences of terrorism repeatedly when seeking new approaches to the economic depression.

The representatives of Basque business life were conscious of the threat the terrorism posed to the economic recovery and entrepreneurship, and how political violence exacerbated the effects of recession and made matters worse;⁶⁷⁰ in practice it deferred incoming investment, and hindered the decrease in unemployment.⁶⁷¹ They considered that the reasons for the gloomy economic outlook of the early 1990s, apart from cyclical fluctuations, were decreased private investment, political instability and the harassment of businessmen. ETA ran a protection racket to finance its operations.⁶⁷² Local firms which neglected to pay were subjected to

⁶⁶⁴ Giraldez 1992; Programmes like *Plan 3R (Plan de actuación extraordinaria para empresas industriales en dificultades)*, *Plan Garapen*, *Plan General de Tecnología e Innovación* aimed to improve competitiveness and to help the industrial companies in trouble; the technology centres (*Parque Tecnológico*) were also created in every province: Zamudio in Vizcaya, Miramón Guipúzcoa and Miñano in Álava. Oña Gómez & García de Vicuña Peñafiel 2000, 205–206.

⁶⁶⁵ For a contrary opinion, see Zubiri 2000, 108–109.

⁶⁶⁶ Uriarte Santamaría 1984, 153.

⁶⁶⁷ The EBB briefly discussed this issue in the statement by Aberri Eguna in 1988. CD/PNV: Comunicados: Aberri Eguna 1988; see the interview with the minister for the economy, Juan Atienza Serna, of 6.7.1998. HGV 2001, 784.

⁶⁶⁸ CD/PNV: Comunicados: Aberri Eguna 1988, 2–3 & 7.

⁶⁶⁹ For the public comments on the subject, see the independent Bilbao daily *El Correo's* economics journalist Ignacio Marco-Gardoqui's comment of 28.5.1996. *Nuevos Extractos de la Real Sociedad Bascongada de los Amigos del País*, 1998, 35.

⁶⁷⁰ Vizcaíno Monterola 1984, 61.

⁶⁷¹ Uriarte Santamaría 1984, 152–154.

⁶⁷² Oña Gómez & García de Vicuña Peñafiel 2000, 205. ETA's financing had been based on the so-called revolutionary tax (*impuesto revolucionario*), kidnappings and donations since the 1970s. For the kidnappings of businessmen see, Sullivan 1988b, 315.

malicious damage. In the 1980s and 1990s ETA caused fear in the corporate world with kidnappings which produced ransom money.⁶⁷³ Despite its pronouncements, ETA's hostility towards businessmen was not directly a consequence of its left-wing ideology, but rather a result of its constant need for money.⁶⁷⁴ In the ranks of ETA and radical nationalists it was, however, understood that harassment of big business also included the essential elements of an ideological battle.⁶⁷⁵ There was no direct economic background to the political violence in the Basque Country in the 1980s and 1990s, nor did the changes in the region's wealth essentially affect the intensity of the political violence and terrorism.⁶⁷⁶

There are no detailed figures concerning the negative effects the political violence had on the Basque economy over the years. The direct or indirect economic consequences of terrorism were difficult to estimate,⁶⁷⁷ but the political violence was known to have affected the decisions of individual companies not to invest in the Basque Country; it was even suspected to have been among the reasons behind the closure of some big companies.⁶⁷⁸ In these cases, thousands of jobs were involved. The regional government consequently believed that the disappearance of political violence could positively affect economic development in the Basque Country. The small size of the Basque Country, its economy, and its limited human and financial resources even magnified the effects of the problem.⁶⁷⁹ Moreover, its economy was particularly vulnerable because of the prolonged recession and was difficult to revitalize. The question of the Basque Country's image as a regressive industrial region posed the special problem for all the revival policies of making the region more attractive to investors.⁶⁸⁰ While the threat of terrorism did not make this task any easier, it did lead to all the economic

⁶⁷³ In most cases, the victims of these kidnappings were representatives of the wealthy industrialist families. Prego 2000, 354–355; Oña Gómez & García de Vicuña Peñafiel 2000, 205; only in the 1990s did ETA start to kidnap officials and, instead of ransom money, pressured the state to move ETA's imprisoned members from the prisons in other parts of Spain to the Basque Country's prisons. Prego 2000, 355.

⁶⁷⁴ Sullivan 1988b, 296–299; for the Finnish media, see Helsingin Sanomat 15.4.1996 & 27.7.1996.

⁶⁷⁵ The newly-founded Basque business interest group CONFEBASK's leader took note in the early 1980s of how the radical nationalists tended to use the faults in the actions of some company, which had been extorted by ETA, "as excuses for characterising the whole societal system as unjust". Vizcaíno Monterola 1984, 61; Sullivan 1988b, 274; Confebask 2003.

⁶⁷⁶ See Abadie & Gardeazabal 2003.

⁶⁷⁷ For example Plaza 2001; analysis of the economic effects of terrorism is extremely difficult. See the work of OECD in 2002. Lenain, Bonturi & Koen 2002; Abadie & Gardeazabal 2002.

⁶⁷⁸ Oña Gómez & García de Vicuña Peñafiel 2000, 204–205.

⁶⁷⁹ Vizcaíno Monterola 1984, 60–61.

⁶⁸⁰ For example, the economic development of the Basque Country of France is facilitated by the region's more stable political situation in comparison to the Basque Country of Spain. Raento 2002, 100.

policy decisions which could improve things.

There are no documents which would demonstrate that the problem of terrorism was one of the reasons behind the growing use of tax incentives in the Basque provinces in the early 1990s, or at other times. If we take into account the statements of the politicians and the political and electoral programmes of the PNV as well as the scale of the region's economic difficulties, it is hard to believe that it did not influence the economic and tax policy-makers on some occasions. It is also difficult to show that it had nothing to do with those decisions. In historical analysis the tax incentives therefore probably had a political connection with the additional economic burden caused by terrorism.

The moderate Basque nationalist and major Spanish national parties alike suffered in the early 1990s from a severe credibility gap which brought additional pressures to finding new alternatives in regional economic growth. No representatives of the parties had been able to offer real economic or political solutions for the Basque Country and the extended powers did not signify real economic recovery or the disappearance of social tensions. One of the only positive things for the PNV was that the EA was no longer capable of increasing its support at the expense of the Basque Nationalist Party. However, unemployment reached a new record of 25 percent in the Basque Country in 1994, worse than in the previous recession of 1984 when it peaked at 22.3 percent.⁶⁸¹ Besides, the different working-hour adjustments and stand-downs affected a great number of employees. The overall image of the Basque economy was extremely complex; the Basque steel industry was even used elsewhere in Europe as an example of a sector kept alive purely by public subsidies.⁶⁸² The regional administration certainly intended to ameliorate the effects of the industry's structural adjustment by redirecting production to alternative industry sectors. In the hope of quick solutions, it facilitated large-scale industrial projects in 1993 and 1994 which finally were not implemented because of their economically precarious nature. Examples of such projects included factories to produce aircrafts parts and vehicles. Despite the crisis in the Basque economy, it remained more open than many of its neighbours.⁶⁸³ That openness only had to be utilized to attract investment so that new companies would replace the disappearing industrial structures. The easiest way to do this had been tax incentives. However, the need for a change in economic policy thinking was becoming obvious. The regional change in industry and production

⁶⁸¹ In 1994 the unemployment rate in the Basque Country was 25 percent, and 23.8 percent in 1995; see Figure 8.

⁶⁸² *The Economist* 3.7.1993, 12.

⁶⁸³ Lámbarri 1994, 89; the deputy-minister of the treasury Carlos Lámbarri pointed out that the economic agreement provided the regional government with practically all the economic policy instruments that every state has in practice, the only exception being monetary policy, which remained exclusively with the Spanish central government in the early 1990s. *Op. cit.*, 91; cf. also CD/PNV: Programa electoral. Por una Euzkadi mejor. Elecciones generales '93. EAJ-PNV.

in the Basque Country increasingly emerged as the key factor in returning to the path of economic growth and revitalizing entrepreneurship or adding variety to production.⁶⁸⁴ Nonetheless, the obstacles in accepting that reality and adapting to it were substantial.

Basque and Spanish politics were more clearly connected in the early 1990s. It turned out to be politically beneficial for the PNV that the PSOE increasingly suffered from internal problems and the worst recession in Spanish post-war history decreased the Socialists' elbow room. Surprisingly, a consequence was that the PNV and the Basque government led by the party found itself in a good negotiating position in economic policy issues at both state and Basque Country level. This was apparent in 1992 when the economic agreement was renegotiated for 1992–2001. This trend accelerated after the general elections of 1993, when the PSOE became more dependent on the regional parties' support in the Spanish parliament. The CiU of Catalonia and the PNV in particular saw their role becoming more important.⁶⁸⁵ They were easier allies for the PSOE than the United Left (*Izquierda Unida*, IU) since they did not want major changes in foreign or economic policies. When the importance of the PNV grew in Spanish politics, even the possibility that the party would participate in the Spanish central government, holding the portfolio of minister of industry, was discussed in public in July 1993. However, this did not come to fruition.⁶⁸⁶

The Socialist had been able to stay in power in Spain since 1982, because of their ability to maintain the regional alliances, broad support, an ability to regenerate ideologically and the least possible internal cohesion. The policy of the opposition parties traditionally had less effect on the PSOE.⁶⁸⁷ In this respect the situation changed in the 1990s: the main opposition party, the centre-right *Partido Popular* (PP) had a greater choice of political weapons to hand because of the deep recession. The obvious strengthening of the PP also increased the Socialists' willingness to stay in the Basque government. In spite of the fusion of the PSE and EE in 1993, the Socialists were losing ground in the Basque Country.⁶⁸⁸

The economic agreement for the Basque Country was renegotiated in 1993 between the central and regional governments, since Spain had increasingly to adapt its economic structures to the requirements set by the advancing European

⁶⁸⁴ Cf. EUSTAT: Comercio Exterior 1998, 14.

⁶⁸⁵ The Economist 12.6.1993, 55–56; Helsingin Sanomat 31.5.1993.

⁶⁸⁶ According to the PNV's long-time parliamentarian in the Spanish parliament, Iñaki Anasagasti, the PNV was offered the portfolio of minister for industry and energy in the negotiations. However, his interpretation is that the offer was not a serious one. Anasagasti 2004, 139–155; Montero 1998, 118; Helsingin Sanomat 8.6.1993.

⁶⁸⁷ Martínez Sospedra 1996, 273

⁶⁸⁸ Llera Ramo 1998, 425.

integration and especially the emerging European monetary union (EMU).⁶⁸⁹ In the agreement of 1993, the Basque economic arrangement was accommodated to the internal EU market regulations.⁶⁹⁰ The powers included this agreement and its normative content were also updated. The role of the economic agreement and its economic potential in the context of the dark economic outlook of the early 1990s takes shape when we see that it already covered 86.5 percent of all state taxation.⁶⁹¹ This revised agreement gave the Basque Country the opportunity to decide independently on the details of company taxation. The provinces responsible for the tax levy established substantial company tax concessions which were called “tax holidays”.⁶⁹² While the underlying reason for this was the deep, persistent economic recession, these measures put the regional administration on a collision course with the EU institutions. The European Commission had already started investigating the Basque provincial tax regulations in 1988 and decided in 1993 that the regulations were equivalent to state subsidies and therefore against article 92.1 of the EU treaty (later article 87.1). The representatives of the Basque Country pointed out that the Commission decision did not spell out whether these regulations could also possibly be interpreted as state aid on other grounds; for example, because they changed the taxation of some company within one state.⁶⁹³ The regional government saw this decision as recognizing the existence of the Basque system of taxation, and thus as a political victory.⁶⁹⁴ The regional government also intended to simultaneously clarify the situation via closer fiscal coordination within the autonomous community.⁶⁹⁵

The regional elections of October 1994 underscored the fragmentation characteristic of Basque politics. The provincial borders increasingly determined the support for the parties.⁶⁹⁶ The Socialists lost more ground, which was also a result of the scandals in the party at state level, such as the case of non-police hit

⁶⁸⁹ See the presentation by the treasury minister, José Luis Larrea Jiménez de Vicuña, on the regional parliamentary committee on the economy, treasury and the budget, 14 February of 1992. PV:DC/CEHP 14.02.1992, 18–38; *The Economist* 12.6.1993, 55–56.

⁶⁹⁰ Lámbarri 1994, 92.

⁶⁹¹ *Ibid.*

⁶⁹² So-called *vacaciones fiscales*.

⁶⁹³ These regulations were finally abolished in the economic agreement for 1997–2001. The incentives were then allowed to all the companies operating in the region. Zubiri 2000, 192.

⁶⁹⁴ See the presentation by the treasury minister, José Luis Larrea Jiménez de Vicuña, on the regional parliament’s committee on the economy, treasury and the budget, 12 June 1991. PV:DC/CEHP 12.06.1991, 9–28; Muguruza Arrese 1997, 31.

⁶⁹⁵ See the presentation by the treasury minister, José Luis Larrea Jiménez de Vicuña, on the regional parliament’s committee on the economy, treasury and the budget, 12 June 1991. PV:DC/CEHP 12.06.1991, 28.

⁶⁹⁶ Llera Ramo 1998, 427–428.

squads that had been used against ETA and party in-fighting.⁶⁹⁷ Moreover, in the Basque Country the PSE-EE coalition did not succeed politically. The PNV won the elections, but the PP particularly strengthened its position.⁶⁹⁸ In late 1994 the PNV's Ardanza formed a new coalition government with the EA and the PSE-EE. As in the previous years, the PNV kept the most significant institutional and financial administration portfolios.⁶⁹⁹ The government included only one post of vice-*lehendakari* which involved economic policy powers;⁷⁰⁰ the treasury minister, to which Juan José Ibarretxe (PNV) was appointed. His task was to be accountable for the general and sectoral coordination of the government. The internal legal and economic control was united and the department led by him also got strategic tasks linked to economic policy.⁷⁰¹ The aim was to strengthen the coherence of the actions of the government and refine the economic policy direction. Ardanza wanted to set clear goals in order to extend the autonomy in economic policy in future negotiations with the central government. In pursuance of the adoption of the economic policy objectives, the coalition government parties agreed on extensive modernization of regional administration, the intention being to reduce the size of the government and its departments.⁷⁰²

The decreasing support for the PSE-EE did not leave it without its own economic policy planning on issues such as the resuscitation of Vizcaya and Bilbao. It also aimed to change the image of the city and the entire Basque Country,⁷⁰³ but in spite of the significant economic projects of the early 1990s, like that to revitalize Greater Bilbao,⁷⁰⁴ the Socialists did not succeed in upsetting the dominance of the PNV in Basque public finance and economic policy. The minister for the economy in Ardanza's cabinet, Juan Atienza (PSE), had limited powers and the PNV was not yet devoted to enhancing the cooperation between state, regional

⁶⁹⁷ The growing problems of the Spanish Socialists were also explained in the Finnish newspapers. See, for example, Helsingin Sanomat 11.6.1994, 25.9.1994, 31.7.1995 & 26.4.1996.

⁶⁹⁸ Table 2.

⁶⁹⁹ Mesa 2000, 132.

⁷⁰⁰ See, for example, PV:SC:CEHM: 05\06\02\03\0023. The session of the regional parliament's committee on the economy, treasury and the budget of 28.5.1997.

⁷⁰¹ Interview with the vice-*lehendakari* and treasury minister, Juan José Ibarretxe, of 21.12.1998. HGV 2001, 1478.

⁷⁰² However, taxation and public administration were put into the same department, which, with the department of industry, was the largest one in the regional administration. Mesa 2000, 131–133.

⁷⁰³ The minister for the economy, Juan Atienza Serna, commented on this question forcefully in public. El Correo 18.5.1990.

⁷⁰⁴ See the interview with the minister for the economy, Juan Atienza Serna, of 6.7.1998. HGV 2001, 793–795; EU funding was channelled for example to the construction of the Bilbao metro, and other projects which aimed to modernize the infrastructure; according to the Socialists, these in particular created conditions for the later economic growth and its rapid effects in the Basque Country.

and provincial levels, preferring the private sector to take the lead. Interestingly, the PNV increasingly concentrated on finding new solutions to the recession in sectors like culture or tourism and travel. According to the Basque anthropologist, Joseba Zulaika, the idea of building a Guggenheim museum in Bilbao was based on the possibility of changing the image of the whole region with the help of a cultural artefact.⁷⁰⁵ The museum, which was designed in the early 1990s and was built in Bilbao, was intended to be distinct from the old economy and to modernize the public image of the region. Contrary to what many thought, it was not the first but certainly one of the most visible urban projects in the region and was a crucial part of the revitalization of Greater Bilbao.⁷⁰⁶ The Socialists did not support the project being financed by Vizcaya; considering the scale of the project it was surprisingly not discussed in the plenary session of the regional parliament until other parties requested it.⁷⁰⁷ The cabinet members responsible for treasury and taxation did the financial preparation work for this project and the leadership of the PNV gave its approval.

Though the museum in the first place concerned Bilbao and Vizcaya, it became a part of the economic and political history of the entire Basque Country. This large-scale project was economically big even in the EU context and a great economic risk. It was one step more towards the new economy, to which the technology parks of the Basque Country were also leading the way.⁷⁰⁸ It would be wrong to imagine that there was no tourism in the Basque Country or in Bilbao before an attraction like the Guggenheim, but it was mainly business travel and the regional and local administrations were not able or willing to utilize it.⁷⁰⁹ The local leaders lacked experience in marketing their own region, especially leisure tourism, which was not helped by the industrial deprivation and the threat of political violence.⁷¹⁰

The determination of the PNV was manifested when the regional government prepared a list in 1995 for the regional parliament concerning the transfers of powers not yet carried out, but which it would concentrate on in its strategy. The list included full authority concerning the granting of credits and banking, insurance, public credit and dealings in securities. Moreover, social security remained on the list, but the state was anxious to keep it and not give it to the region.⁷¹¹ The arguments of the regional government were (i) that the necessary administrative structures had been created and that the remaining authority not

⁷⁰⁵ Zulaika 1997, 93.

⁷⁰⁶ Plaza 2000.

⁷⁰⁷ PV:PLENO 21.2.1992 04\08\03\00\0025.

⁷⁰⁸ Plaza Inchausti & Velasco Barroetabeña 2001, 101; Plaza Inchausti & Velasco Barroetabeña 1999, 847–848.

⁷⁰⁹ Plaza 2000, 266–267.

⁷¹⁰ Op. cit., 266.

⁷¹¹ Informe prioridades de negociación de las transferencias pendientes. BOPV nº 40 & 43–44/1995.

transferred was becoming a structural problem. (ii) The economic consequences were two-fold: (a) the economic agreement could not be applied to all parts of public sector and (b) the overlapping of administrations and their contradictory measures would produce uneconomical decisions in public finance.⁷¹² This report considered that many of the political decisions needed were already included in the Autonomy Statute. According to the regional government, there were hardly any substantial reasons not to proceed. The main economic consequence of the delay was that the economic agreement could not be applied to all the possible sectors of public finance.⁷¹³ In the end the regional government justified its position by economic policy arguments and factors that led to such problems as a public deficit. This matter, dependent on political agreement, could not however proceed with unilateral definitions of policy; there were no transfers in 1995.⁷¹⁴

3.6. Pragmatism and the creation of matrices for economic growth

The economic growth in the Basque Country finally improved somewhat in 1994–1995. Despite the slight decrease in unemployment in 1995, when the figure was 23.8 percent, only some new jobs were permanent.⁷¹⁵ The long economic crisis had left its marks on the Basque economy: where the regional GDP had been 30.5 percent over the Spanish average in 1980, in 1995 the figure was only 15.7 percent. The growth of GDP in 1994–1996 when there were clear signs of a new economic boom was among the lowest in Spain and manifestly below the national average.

On the eve of the 1996 general elections, the PNV argued cogently that the political and administrative distinguishing features of the Basque Country enabled larger growth figures than in other autonomous communities at a time of economic take-off.⁷¹⁶ The PNV, which had been heavily involved in the creation of the regional administrative structures and in that process advanced its own interests, reserved an important role for the public sector in its economic policy strategy. The key question here was to firmly control public spending and revenue.⁷¹⁷ According to the electoral programmes and public statements, the fiscal policy had become again budget policy when the PNV underlined long-term planning and economic direction.⁷¹⁸

The winner of the 1996 general election was the PP, lead by José María

⁷¹² BOPV n° 40/1995, 1862.

⁷¹³ *Ibid.*

⁷¹⁴ See Figure 4.

⁷¹⁵ Oña Gómez & García de Vicuña Peñafiel 2000, 207.

⁷¹⁶ CD/PNV: Euskadirekin. Programa Electoral. Elecciones Generales 1996. EAJ-PNV, 25. 1996, 25.

⁷¹⁷ CD/PNV: Programa electoral para las elecciones autonómicas 1994. EAJ-PNV, 30.

⁷¹⁸ *Op. cit.*, 30–31; the budget deficit in Spain (5.9 percent) was one of the main economic policy issues during the electoral campaign of 1996. See, for example, *The Economist* 24.2.1996, 52.

Aznar, ending the long period of socialist ascendancy (1982–1996) in Spain. The electoral victory of the PP was narrower than expected and it did not achieve an absolute majority. Like its predecessor, it needed parliamentary support from the small regional parties.⁷¹⁹ Once Aznar reached an agreement with the CiU and the Canarian Coalition (*Coalición Canaria*, CC) on that issue, he was no longer necessarily dependent on the support of the PNV. There was however perceivable support for the agreement within Aznar’s government.⁷²⁰ Aznar negotiated with the PNV on three occasions during spring 1996, and gave his Basque interlocutors to understand that he was prepared to “respect the economic agreement, and further develop the Basque autonomy within the Statute of Autonomy”. He was not, however, going to abandon the principle of social security funding to be maintained at state level (*caja única*).⁷²¹ The PNV’s interpretation of this approach was that Aznar was influenced by the national trade unions, the UGT and CCOO, which remained in a minority position in the Basque Country. On the other hand, Aznar wanted to maintain good relations with the trade unions in order to reach agreements with them on labour market issues. The PNV’s analysis was that in the end the trade unions prevented the most economical and efficient transfer of power – which was even mentioned in the Autonomy Statute – from being carried out.⁷²² The centrality of the economic policy issues in these negotiations can be seen in how Aznar delegated the negotiations to his minister of the treasury, Rodrigo Rato. The contracting parties agreed that the central government would transfer powers to the Basque Country in certain questions, which then happened in the next economic agreement (1997) in terms of wider taxation powers.⁷²³

Despite the result, these negotiations concerning parliamentary support were described as difficult.⁷²⁴ The PP did not need the PNV’s support in the end, and historically Aznar’s party was not an easy partner for the Basque Nationalist Party. In the ranks of the PP there were still many previous politicians from the right-wing AP, and the PNV was aware of the PP’s doubts considering the powers

⁷¹⁹ The PP was generally expected to achieve a position in the parliament where it would not be so dependent on the support of the regionalist parties, like the PSOE government. Aznar was also believed to be anxious to avoid such a situation. *The Economist* 17.2.1996, 46–48; *The Economist* 24.2.1996, 52; *Helsingin Sanomat* 5.3.1996 & 6.3.1996.

⁷²⁰ The active person in this situation was the new minister for the interior, Jaime Mayor Oreja. He had been a member of the Basque regional parliament and started his political career in Basque politics, first in the right-wing AP and later in the PP, founded in the 1980s. At one stage, he was also leader of the PP’s representation in the Basque Country.

⁷²¹ Prego 2000, 330.

⁷²² Anasagasti 2004, 209 & 212.

⁷²³ Aznar explains to the journalist Victoria Prego how he reminded the PNV’s leader, Arzalluz, about being involved as a civil servant in the negotiation of the Basque economic agreement in the early 1980s. Prego 2000, 330.

⁷²⁴ The PNV’s parliamentary groups leader, Anasagasti, saw the main problem as the “mutual prejudices and lack of will”. *Ibid.*; the historian García de Cortázar emphasises exactly this agreement in the PNV’s history of the 1990s. García de Cortázar 1998, 425–432.

of the autonomies. In the end, the PNV committed itself only to supporting Aznar in the inauguration of his government; in the future it would consider case by case whether it would support the government. The differing assumptions of these negotiating parties are manifested in the way the PNV analysed the agreement over parliamentary support, from an economic and financial point of view. Whereas for the PP there was a strong domestic policy element included; within the PP there was a willingness to establish good communication with the PNV.⁷²⁵

The PNV was forced to cooperate with the PP mainly because the latter enjoyed growing support among Basque businessmen.⁷²⁶ In the Basque Country, it was more difficult for the PNV to compete with the centre-right PP in economic policy issues than it had been with the Socialists. On the other hand, this made things easier for cooperation in economic policy between those two parties.⁷²⁷ This situation was nonetheless sensitive and difficult for the Basque Nationalist Party; a revealing proof being the way in which the EBB explained in public how this cooperation was possible. It tells us how the EBB wanted to underplay the ideological disharmonies and give preference to the economic policy goals of the party. This new cooperation was believed to offer opportunities to extend the regional tax collection powers. The EBB justified the political agreement with economic policy arguments, saying it was defending the taxation rights of the Basque provinces so that they could “levy more” in the future.⁷²⁸ The EBB especially stressed the right to regulate income and company taxation. It also claimed that this cooperation with the PP would diminish the problems the Basque provinces had with the Commission services and improve the cooperation between the Basque Country and Navarra in fiscal issues. The EBB explained that the centre-right *Unión del Pueblo Navarro* (UPN), which was firmly against the unification of these two communities, affected the PP’s views on Basque politics without which the PP could have been politically closer to the PNV. This argument was intended to make it easier for the PNV activists to understand the cooperation. The leader of the PNV, Arzalluz, explained the situation in public so that Aznar was only asked to respect the existing agreements rather than make new ones.⁷²⁹ Here Arzalluz referred consciously to the historical background of the economic agreement. The regional government emphasized that the negotiations

⁷²⁵ The ministers Mayor Oreja and Alvaréz Cascos succeeded in influencing this through their personal views. Granja & Pablo 2000, 155–156; Tusell 2004, 143; Anasagasti 2004, 214 & 240.

⁷²⁶ In the case of the CiU, the growing support for the PP in Catalonia also had influence. The PP’s support grew significantly among the local businessmen. The Economist 17.2.1996, 46–48.

⁷²⁷ The Economist 28.5.1994, 48–49.

⁷²⁸ Alderdi Berriak n° 0, 18.4.1996.

⁷²⁹ The Economist 16.11.1996, 55–56; the Spanish journalist Victoria Prego emphasises the nationalists’ “pragmatic” approach to this situation in which it was possible to achieve benefits for the Basque Country only by supporting the new government in its inauguration. Prego 2000, 330.

of 1996–1997 included the updating of the agreement on European integration; the role of taxation had become more relevant in the countries which were preparing themselves for the third phase of EMU and the common currency was approaching.⁷³⁰ The vice-*lehendakari* and treasury minister Ibarretxe had two major goals in the negotiations with his interlocutor, minister Rato: the right to regulate income tax and special taxes.

The political agreement enabled the revised economic agreement to cover a period of five years (1997–2001).⁷³¹ This was economically the most beneficial agreement and result for the Basque side so far.⁷³² The new agreement strengthened fiscal autonomy, since the provincial councils were entitled to regulate income tax (*IRPF*) and to collect and administer the so-called special taxes such as those on petrol, tobacco and alcohol as well as insurance premiums in their area.⁷³³ After the 1997 agreement, tax collection was in practice centralized in the Basque Country so that only the revenue from VAT such as import duties, taxation of state officials, earned income and capital taxation were maintained in State hands.⁷³⁴ According to *lehendakari* Ardanza, the Basque Country was like a member state of the EU in fiscal matters thanks to this agreement.⁷³⁵

The economic agreement of 1997 and how it was reached is an example of the pragmatic approach of the PNV; the ideological differences did not prevent the party from taking advantage of the willingness showed by the PP to start political cooperation. Simultaneously, the PNV was in the regional coalition government with the Socialists. One example of the pragmatism of the PNV was that the question of terrorism, or how to resolve the problem of political violence, was not especially included in the political agreement between the two parties.⁷³⁶ Symptomatic of the PNV's policy was that it cooperated with the PP-led central government while this cooperation could not take place in the Basque Country with the regional representatives of the PP. In Basque politics, the PNV even tried actively to “trivialize” the PP and the political centre-right it represented as a political alternative.⁷³⁷

⁷³⁰ Interview with the vice-*lehendakari* and treasury minister, Juan José Ibarretxe of 21.12.1998. HGV 2001, 1480–1481.

⁷³¹ The Economic Agreement, May 27, 1997.

⁷³² For example, the PSOE's Almunia describes cooperation with the PNV in the 1990s as fruitful for the latter. Almunia points out that Aznar's views on the structure of autonomous regions had to change in a situation where he needed the support of the regionalist parties. Almunia 2002, 415.

⁷³³ The regional government was represented by the vice-*lehendakari* and treasury minister, Juan José Ibarretxe (PNV). Oña Gómez & García de Vicuña Peñafiel 2000, 198; PV:SC:CEHM: 05\06\02\03\0023. The session of the regional parliament's committee on the economy, treasury and the budget of 28.5.1997; Moreno Portela 1998, 317–319.

⁷³⁴ Mella Marquéz 1998, 366.

⁷³⁵ El País 24.10.1999.

⁷³⁶ The Socialists stressed this question particularly when they criticised the agreement. Almunia 2002, 286.

⁷³⁷ Granja & Pablo 2000, 156–158.

Strategically, the actions of the PNV were closely linked to the relationship between the centre and the periphery; in other words, the PNV resolutely defended the economic interest of the Basque Country. It aspired to maintain strong, bilateral relations with the new PP government, facilitating an agreement biased toward economic policy with the central government and dispatching its own interest and dominance in Basque politics. Political exploitation of the economic agreements remained the property of the PNV. Via the political agreement of 1996 the PNV went even further in its cooperation with the PP than the CiU of Catalonia. The Economist speculated that the PNV might be able to influence the PP politically even more in the future.⁷³⁸ The timing of the PNV's tactics was good, because at the same time, the PP implemented an overall modernization of the system of autonomous financing (LOFCA)⁷³⁹ which granted the autonomous regions in general the right to regulate income and inheritance taxes on a contractual basis. This reform aimed to tackle the problems that occurred particularly in the regional public finances.⁷⁴⁰ As a result of this national reform, all the autonomous communities were now responsible for one part of their income for the first time. It was also the first time regions other than the Basque Country and Navarra were to be given powers over the regulation of certain taxes. Nonetheless, the central government still had a leading role in the LOFCA system, the state keeping the right to regulate the capital base available. The revision of the Basque economic agreement therefore took place in the context of a wider economic reform carried out by the Spanish central government. After this, the system of regional financing had detectable features of fiscal federalism.⁷⁴¹

The stability of the state finances is normally measured by the borrowing requirement.⁷⁴² According to the statistics of the Bank of Spain, the public

⁷³⁸ The Economist 4.5.1996, 48–49.

⁷³⁹ The general system of financing, the LOFCA. In 1996 the law of 1980 on regional financing was changed. Ley Orgánica 3/1996. BOE n° 313/1996, 38648–38652; Ley 14/1996, BOE n° 315/1996, 39064–39084; see also Anasagasti 2004, 238.

⁷⁴⁰ Tax reform in Spain 1999, 12–13; this arrangement was later (2000) criticised by the central government itself, since this could offer an opportunity to create tax paradises within the country. The central government explained the growing wealth of the Basque Country by its special fiscal status. See, for example, ABC 9.7.2000. The daily ABC, which was close to the central government, used the ministry of treasury and statistics as sources in its article.

⁷⁴¹ Aja 1999, 110–125 & 239. In the science of comparative law, different models have been tried to establish federalist system of finance; the most common systems are in practice mixed ones, which still include certain basic criteria. The most important is that different parts of the federation are given sufficient financing. In other words, the federation cannot pressure them financially.

⁷⁴² The gross borrowing tells us how much new loan is taken, and the nett borrowing the difference between the instalments of the new and the old loans, i.e., the increase in the loan stock. The gross borrowing is influenced by how long the state's loan period is: rapid circulation keeps gross borrowing high, although nett borrowing is small. Ranki 2000, 117.

borrowing of the Basque Country was at its height during the recession years of 1992–1995 when the annual net borrowing averaged 50 billion pesetas (about 30 million euros). The net borrowing in 1996 was only 33 billion pesetas (about 20 million euros) and by 1998 it had practically ceased.⁷⁴³ This demonstrates how the economic depression of the early 1990s, and the regional structural change strained public finances in the region long after the economic boom started in 1996. The debts of the Basque administration resulted from the large public investments and the diminution in tax revenue.⁷⁴⁴ The take-off of the Spanish national economy had its impact in the Basque Country too, which meant fewer pressures for public spending. The Basque government's public deficit of 4.0 percent in 1993 became a surplus of 2.8 percent in 1998.⁷⁴⁵ It is important to notice that, in comparison to other autonomous communities, public borrowing was never the major problem for the Basque Country that it was for many other regions in Spain.⁷⁴⁶ For the state finances this was a worrying question when the country was preparing itself for membership of the new euro. The economic boom of the middle 1990s, however, changed the situation. The central government's tax revenues started to grow, interest rates began to drop and debt-servicing costs fell, which meant a falling budget deficit.

The changes that took place in Spanish politics had their effect on the work of Ardanza's coalition government, though it remained in office for the whole 1994–1998 term. The PSE kept losing support in the region, which then again increasingly affected its relations with the PNV.⁷⁴⁷ One important reason for the Socialists' inability to greatly influence the position of the PNV as the dominant force was the PNV's link with the most powerful trade union in the Basque Country, the ELA-STV. This made the PNV socially more open and receptive than the dominant party of Catalonia, the moderate nationalist CiU.⁷⁴⁸ In Basque politics, the Socialists were thus never able to become established as the challenger as they were in Catalonia.⁷⁴⁹

Many factors in Basque politics made the things difficult for the PSE-EE.

⁷⁴³ The public sector's funding need was at its height in 1993, after which it decreased. In 1997, a budget surplus was achieved (0.5 percent of the Basque Country's GDP). EUSTAT: Cuentas de las Administraciones Públicas 1998, XXIII.

⁷⁴⁴ See the comments of the treasury minister Larrea Jiménez de Vicuña on the regional government's strategy in borrowing made at the regional parliament's committee on the economy, treasury and the budget, 23.9.1992. PV:DC/CEHP 23.09.1992, 33–41. A progress report was presented by the vice-*lehendakari* and treasury minister, Juan José Ibarretxe, in the same committee in 22.3.1995. PV:DC/CEHP 22.03.1995 9–24.

⁷⁴⁵ EUSTAT: Cuentas de las Administraciones Públicas 1998, XXIII.

⁷⁴⁶ The Economist 12.7.1997, 46–47.

⁷⁴⁷ For Felipe González's comments, for example, on the GAL, see Prego 2000, 295–302.

⁷⁴⁸ Martínez Sospedra 1996, 312–313 & 320.

⁷⁴⁹ Soler Llebaria 1998, 232–233.

The party was not the only one striving for support among working-class voters, – so did the PNV, the EA, the radical HB and the United Left (*Ezker Batua / Izquierda Unida*, EB-IU). Despite the several projects which were realized partly in cooperation with the central government and aimed at rescuing Basque heavy industry, the employment rate continued to fall, especially in densely populated Vizcaya. The impression of ineffective economic policy, inability to use the regional government position effectively and the prolonged industrial crises turned out to be more detrimental to the PSE than to the PNV.⁷⁵⁰ The PNV's politico-economic credibility was preserved despite the difficult times, because of factors like the strong image of its treasury ministers as intransigent defenders of the region's rights and welfare. According to the EBB, this also allowed cooperation with the PP. The PNV successfully maintained the central-periphery tension in economic policy issues. Additionally, it had working relations with the trade unions in its main political arena, the Basque Country. Elton's and Foucault's analysis suggests that the historically determining factor was the successful strategic change in the 1990s: beside the continuous defence of regional economic interests, a process was launched within the PNV in order to create a new image for the whole region. The role of the services sector was introduced more strongly to the economic thinking of the PNV and tourism was seen as a key issue. Via the economic solutions which were to a great extent the results of the PNV's inner workings, deeper and structural changes with a new strategic component started to operate in the Basque economy and industry, which enabled the region to take advantage of the economic boom of the 1990s better than it did in the 1980s in a similar situation.

Simultaneously with this development, the PNV's desire to cooperate with the Socialists diminished. The uninterrupted leadership of the PSOE at the state level had nourished this cooperation since 1982.⁷⁵¹ At the regional level, the PNV worked in the coalition government with the PSE and successfully made the Socialists jointly responsible for policy decisions. During the years of González (PSOE), the PSE was in many ways an easier partner for the PNV than the right-wing AP, the most important issue naturally being the question of increasing the autonomous region's powers. The problems the AP and later the PP faced in Basque politics, especially in the 1980s, can be explained by examining the way the regionalist parties like the PNV which were close to it in the political spectrum, traditionally enforced their own identity specifically in relation to the conservative party active

⁷⁵⁰ In the electoral and political programmes of the PNV in the 1990s, the question of abolishing unemployment and improving the social security, was high on the economic policy agenda. See, for example, CD/PNV: Juntos hacia Europa – Elkar-Lanean Europarantz. Asa,blea General 11–12.1.1992. Balance ponencias, 66; CD/PNV: Asamblea Programa electoral. Por una Euskadi major. Elecciones generales '93. 29–33.

⁷⁵¹ Martínez Sospedra 1996, 272–273.

in the region.⁷⁵² However, Aznar succeeded in strengthening the centre-right image of the PP in the Basque Country as well,⁷⁵³ where the party intended to win the votes of those who had supported the centrist UCD which disappeared in the early 1980s. In the 1990s support for the PP showed that it was to be reckoned with in regional politics.⁷⁵⁴ Correspondingly, the support for the PNV in the region did not grow very much after the mid 1990s. The visible role of the party in the revitalization projects in Vizcaya helped it to maintain its position, but it was not getting stronger in the regional elections. The cooperation with the Socialists, like the fear of losing votes, led the Basque Nationalist Party to make budgetary compromises in social policy issue; for example, in pensions. On the other hand, the party itself saw these decisions as matched with its “welfare nationalism” and bringing in more votes from different segments of Basque society.⁷⁵⁵ In the mid 1990s, the relations between the PNV and the EA showed signs of convergence, which also worried the Socialists. The PSE was neither keen to see the PNV expressing ideas of strengthening cooperation between all the Basque nationalists in the name of the “nation-building” and presenting that as a key to solving the problem of political violence.⁷⁵⁶

In the summer of 1998, the leadership of the PSE decided that the “radicalization” of the PNV made cooperation between these two parties impossible.⁷⁵⁷ The falling PSE support and its internal tensions did not make things easier for the party,

⁷⁵² Op. cit., 270; on the other hand, the UA, a small province-linked party in Álava, was characteristically an anti-nationalist political party. Its support however decreased after the PP won the general elections of 1996. Llera Ramo 1998; one reason for this was the PP’s ability to get rid of the historical burden linked to its role as the political heir of the right-wing AP. This happened in the Basque Country, too the reason being the PP’s policies in the central government. The PP was also seen in Basque politics as a centre-right party. For the UA’s relation to the provincial identity of Álava, and its antagonism to Basque nationalism, see Raento 1999a, 226–227.

⁷⁵³ Tusell compares Aznar to Suárez’s (UCD) way of acting. Tusell 2000.

⁷⁵⁴ Table 2; Granja & Pablo 2000, 156–157.

⁷⁵⁵ In relation to Spain and its autonomous regions, the Basque Country’s budget of 1998 was characterized by the large portion of funds directed to capital transfers and guaranteeing the basic living standard. See the sessions of the regional parliament’s committee on the economy, treasury and the budget of 13.11.1997 & 17.12.1997. Memoria Txostenak 1994–1998, 102–103.

⁷⁵⁶ See, for example, Onaindia 2000; for a historical analysis of the PNV policies and their main changes concerning political violence, see García de Cortázar 1998.

⁷⁵⁷ Since 1995 the nationalist-led trade unions, the ELA and the LAB, had supported the idea of replacing the Autonomy Statute with another instrument defining the status of the Basque Country. The discussions between the PNV and the HB were intensified in the spring and summer of 1998. The PSE-EE left the regional government officially on 30.6.1998. At that time the regional parliament, on the initiative of the nationalist parties and the left-wing IU/EE, discussed whether the Spanish Constitution binds the regional parliament. Domínguez Iribarren 2000, 409–411; see also Mesa 2000, 279–280.

which in the end considered that new policy definitions were necessary before the regional elections in autumn 1998. In reality, the PSOE's electoral defeat in 1996 had crucially diminished the Socialists' ability to influence the PNV;⁷⁵⁸ the problems of the PSOE were felt more strongly at regional level than during the previous years. Additionally, the political agreement between the PP and the PNV in 1996 was especially problematic for the PSE, which was supposed to successfully represent the regional interests from the regional government, but had to face the fact that the PSOE was forced to oppose cooperation between the PP and the PNV in opposition in the Spanish parliament.⁷⁵⁹ The PNV was exploiting the political will of the PP under the nose of the Socialists.⁷⁶⁰

In the end, we must not forget that the coalition governments and the many years of cooperation between the Basque Nationalist Party and the PSE did not change the rigorous regionalist policy objectives of the Basque nationalists. This was particularly the case on issues like the economic agreement, the extension of rights in tax collection and obtaining all the powers included in the Autonomy Statute. The PSE had at the same time maintained the view that the economic agreement was necessary for the region, but must not distort competition or increase the economic differences between the autonomous communities. In practice this enabled the PNV to exploit it politically, and the party managed to present the economic agreement as an essential part of its political project.

It was worrisome for the economic policy goals of the PNV that the mutual understanding of 1996 did not last long. This happened despite the fact that the relations with the PNV in 1996–1998 were the personal responsibility of the first vice prime minister, Francisco Alvaréz Cascos, who was known to have good relations with the PNV.⁷⁶¹ These relations deteriorated during 1997, because views on the ways of ending the problem of political violence differed greatly.⁷⁶² The historically most significant outcome of the political cooperation between the PNV and the PP was the Basque economic agreement for 1997–2001. On top of that, the transfers of power carried out by the central government before the regional elections of 1998 were modest.⁷⁶³ This did not however become the major issue in the Basque economic policy discussion, mainly owing to the economic boom, which began in earnest after the mid 1990s.⁷⁶⁴ This meant growing tax revenues

⁷⁵⁸ Almunia 2002, 288.

⁷⁵⁹ For an analysis of the events in the fiscal and economic policies in the Basque Country in 1996–1998, see *El País* 9.9.1998.

⁷⁶⁰ Aznar later described this political will as “goodwill”, and not “dictated by a numerical necessity”. Montero 1998, 118–119; Prego 2000, 329–330.

⁷⁶¹ Granja & Pablo 2000, 156; within the PP, the role of Alvaréz Cascos was not seen as successful. *Cinco Días* 2.11.1999.

⁷⁶² For the different views of the PP and the PNV on how to proceed on this issue, see Granja & Pablo 2000.

⁷⁶³ Figure 4.

⁷⁶⁴ Jiménez 2000.

and increased the regional wealth. It also decreased the relative importance of the still pending transfers.

From 1996 onwards the parameters of the Basque economy showed signs of an starting economic boom and the growth rate of the regional economy was 2.5 percent. In 1997 GDP grew at a rate of 4.4 percent, and in the following year as much as 5.2 percent, nearly twice the European average.⁷⁶⁵ However, the inflation rate in 1998 was already 2.3 percent, clearly exceeding both the Spanish (1.4 percent) and the EU inflation rate (1.3 percent).⁷⁶⁶ Significantly the proportion of the public sector in the national economy fell in 1993–1998 as other sectors grew more rapidly.⁷⁶⁷ However, the regional government offered financial support to industry and companies in growing numbers in 1997–1998 via programs like ELKARGI or EZTEN, a fund offering risk financing.⁷⁶⁸ All these included the objective of enhancing permanent entrepreneurship in the Basque Country. The third Guggenheim museum in the world opened its doors in Bilbao in October 1997.⁷⁶⁹ By 1998, the museum had proved to be an economic and political success for the PNV, its economic effect extending beyond Greater Bilbao and Vizcaya. The museum was considered in many quarters of the Basque society as an economic project more than a showcase for modern art.⁷⁷⁰

Despite the slightly positive economic situation in 1997–1998, the biggest politico-economic problems of the regional government were associated with the EU. The tax regulations of the early 1990s in the Basque provinces had not been bypassed in the European Commission where the dossier was the remit of the commissioner for competition, Karel van Miert.⁷⁷¹ The Commission considered from the start of the investigations that the regulations in question amounted to state aid and distorted competition. The fiscal experts in the Basque government considered the idea of “regional state aid” baseless for various reasons. Firstly, questioning the differences in taxation between the provinces and regions was seen as surprising in the context of the EU, where the Basque representatives did not see even a minimum of coordination and where the member state’s legislation

⁷⁶⁵ GB/EJ: *Economía Vasca* 1998, 8.

⁷⁶⁶ The official Spanish inflation rate was 1.4 in 1998, and the EU average rate was 1.3 percent. *Op. cit.*, 12.

⁷⁶⁷ EUSTAT: *Cuentas de las Administraciones Públicas* 1998, XXII.

⁷⁶⁸ Velasco Barroetabeña & Plaza Inchausti 1998, 415–416.

⁷⁶⁹ *El Correo* 20.10.1997; McNeill 2000, 489.

⁷⁷⁰ Onaindia refers here to the important role of Laskurain in this project. Onaindia 2000, 94–95.

⁷⁷¹ The European Commission intervened again in the spring of 1999 by stating that certain actions of the Basque provinces can be compared to state aid in their tax levy, and concerning certain companies. Moreover, it was a question of incentives given to new companies which started their business in the Basque Country. Van Miert admits this was politically an extremely difficult case. He points out that such cases are more common in EU member countries with a federalist or closely similar state structure. Van Miert 2000, 59–60; *El Correo* 29.11.1998, *La Rioja* 17.11.1998 & 3.12.1998.

included distorting regulations and means.⁷⁷² They also emphasized that on tax issues the EU had adopted the position that all the differences in fiscal matters could be allowed as long as they did not affect financial services. Ultimately, the Basque side considered that the interpretation of the Commission would have been different if it was a question of a state instead of a region. Van Miert stressed that the Commission did not question the normative right of the Basque government and the provinces in fiscal issues. In the exercise of that power, however, the EU treaties, including their regulations concerning the state aid given to the companies and its different forms, had to be complied with.⁷⁷³

The Basque government used this case as an example when it argued that the autonomous regions must have greater influence in the EU.⁷⁷⁴ In its political programs, the PNV admitted that since European integration meant in practice enforced harmonization in taxation issues, the economic agreement must also be compatible. Simultaneously however, the demands for direct participation in European decision-making on these issues increased. The question of the representation was systematically linked to economic and fiscal policies in the programs and texts of the PNV.⁷⁷⁵ That line did not make things easier in the disjointed relations between the PNV and the PP.

Since the economic agreement of 1993, the Basque Country had had the right to regulate and collect almost all the direct taxes. In the Spanish context, the importance of indirect taxes, which then remained in the hands of the central government, grew. As van Miert stressed, the case of the Basque tax incentives revealed how the EMU highlighted the role of taxation, since it was one of the few direct ways to influence the economy which was left in the hands of the member states.⁷⁷⁶ At the same time it is true that when the Basque autonomy extended in economic policy, its political leaders increasingly had to take into account the limits of that politico-economic power set by a larger politico-economic aggregate, the EU. Moreover, since the details of this dispute touched the regulations of the LTH and the question discussed in the early 1980s of the right of the provinces to decide on the details of taxation, this case was politically difficult for the PNV. Here again the subject at issue was the division of powers between the regional institutions and the provincial institutions based on the foral system and the consequences of that decentralization.

In autumn 1998 Basque politics entered a new period when the nationalist parties held discussions on political cooperation and the political alliance between the PNV and the Socialists ended. The basic political composition largely created

⁷⁷² El Mundo 17.12.1998 & Correo 17.12.1998; Zubiri 2000, 245.

⁷⁷³ See the article written by Van Miert published in El País 5.5.1999.

⁷⁷⁴ Deia 18.11.1998.

⁷⁷⁵ CD/PNV: Elecciones Europeas 1994, 39–40; for an indirect way of expressing this, see also Anasagasti 2004.

⁷⁷⁶ See also the interview with the vice-*lehendakari* and treasury minister, Juan José Ibarretxe, of 21.12.1998. HGV 2001, 1479–1480.

by the PNV was facing changes. The cease-fire declared by ETA in September before the regional elections of the following month caused changes in the political scene as well as in the region's economic life.⁷⁷⁷ It brought obligatory changes to all the parties in Basque politics.⁷⁷⁸ From a politico-economic point of view it was becoming clear that the 1990s change in the strategy of the PNV was seen in the Basque Country as successful revitalization projects strengthening the politico-economic position of the party. The Guggenheim museum had been an individual large-scale public investment that included public-private cooperation; it had also been a hazardous project in economic terms. In 1998 the economic boom and its rapid growth rates were a fact in both the Spanish and the Basque economy. Although the Basque Country's proportion of Spanish GDP had fallen since 1980, its role in Spain's foreign trade had increased. The Basque Country was no longer a region of sunset industries and in danger of economic displacement. The structural change was however still going on.

Elton's and Foucault's empirical model of analysis helps us to recognize the PNV's way of using its politico-economic power strategically by setting clear objectives and goals. The economic agreement and *cupo* had been realized within the regulations of the Statute of Autonomy, but the negotiations were dictated by the political will of the parties. Consequently, the Basque Country in 1998 had the most extensive politico-economic powers of all the Spanish autonomous regions, not just in theory, but also in practice. On the other hand, the limits of those powers had become more apparent in that the central government did not bend in the issue of decentralizing social security, the region had the taxation and the revenues in its own hands to a great extent and, the developments in the relations between the PP and the PNV in 1996–1998 did not facilitate further negotiations on these issues or new transfers of power. The EU Commission had challenged some of the tax regulations of the provinces, which would not have been possible without the region's internal political structures constructed by the dominant political force, the PNV. In 1997, the Basque economic agreement had already been modified to follow the EU regulations better, but the pressure from the Commission's side did not seem to end so easily. In conclusion, my research reveals how the main characteristics of the regional government's economic policy and exercise of power in that field were strongly linked to the interests of the PNV in 1980–1998.

⁷⁷⁷ The article of economist and academic Roberto Velasco. *El País* 23.10.1998.

⁷⁷⁸ The declaration of Lizarra enabled the political cooperation between the various tendencies in Basque nationalism for the first time in history. For a historical analysis of the PNV's policy in the late 1990s, see Granja & Pablo 2000.

4. THE PNV AS A RULING POLITICO-ECONOMIC PARTY

4.1. Regionalism, populism and capitalism

The PNV as a ruling party from 1980 to 1998 must be considered in terms of its previous history. That history influenced the PNV and thus cannot be ignored; it helps to understand such abstractions as the *fueros*, and how and why they were included in the strategy of the PNV. The definitions and course of the PNV's economic policy and use of power were related to certain operational, target-oriented and ideological characteristics which cannot be understood without placing them into a historical context. My thesis reveals that the main emblematic factors in the actions of the PNV on economy were (i) regionalism; e.g., the party's pursuit of the well-being of the Basque Country, (ii) capitalism, in other words enhancement of the market economy and (iii) populism or a sufficiently popular policy. These components became integrated and interconnected in the use of the politico-economic power of the PNV.

Instead of recreating a picture of the history of the PNV's tradition in regionalism, capitalism and populism, I now consider their manifestations and meaning in the actions of the party. Since I examined the history of the Basque government's economic policy in the previous chapter, it is easy to recognize that the PNV pursued a policy intended to gain benefits for the Basque Country, especially in fiscal policy issues. However, applying Elton and Foucault's ideas, it becomes important to recognize the strategy underlying that policy. Aja, who has discussed the structure and evolution of the Spanish State of Autonomies in comparative law, concludes that the regionalist parties like the PNV enhanced the decentralization of powers in Spain considerably, although they did not form a major political grouping when the Constitution of 1978 was drafted and approved.⁷⁷⁹ The consequences and dimensions of the PNV strategy therefore require further analysis to create a structured picture of the equation formed by regionalism, capitalism and populism.

Having established this, I will move on to the role of the EBB in this process. The EBB's decisions concerning the provinces reflect the evolution of its powers (i) with relation to the regional government as well as (ii) the complex relationship between the EBB and foralism which included ideological factors and their instrumentalization. This has not so far been sufficiently investigated. These are important questions and only through a proper analysis it is possible to create a synthesis of their historical effects and to fully understand the actions and strategy of the PNV economic policy.

Regionalism was manifested earlier in the party's history as an effort to get the voice of the region heard in relation to the central government. This goal

⁷⁷⁹ Aja 1999, 190 & 277.

was tied closely to economic questions and, in the Basque Country, was seen as especially underlining the position of the provinces. In the name of that aim and the economic benefit of the Basque Country this was also preparedness to make political agreements with ideologically various political; the events of the mid 1990s showed this well enough. The decisions were even explained and rationalized with economic policy arguments. In the PNV's use of power, regionalism differed from nationalism, especially in the actual use of power. By gaining more taxation powers, the region was better equipped to carry out public investment for its own benefit. The economy of the Basque Country was seen in realistic terms, its dependence on the economy of Spain and particularly the evolution of its export trade being identified and recognized. Here lies the difference between the PNV and the other moderate Basque party, the EA. The latter emphasized the Basque economy as an independent unit and tied its economic policy more clearly to the question of full independence. The PNV was cautious in this respect in 1980–1998: national, special characteristics were taken abroad in a populist way to support ideologically a policy that remained pragmatic. This predominantly meant emphasizing the uniqueness of the economic agreement and its special characteristics, such as the right to regulate taxes. The decisions themselves reveal that the dependence of the Basque economy on the foreign trade of Spain was not ultimately questioned.

In historical terms, it is significant that regionalism came to be part of the PNV's policy very early, at the beginning of the 20th century.⁷⁸⁰ Its growing importance was then linked to the extension of relations with the Catalan nationalists, the goal being to obtain support from them in the Spanish parliament in Madrid in proportion to the political forces representing the central government.⁷⁸¹ The *euskalerriacos* wing and thus the middle-class supporters of the party were particularly in favour of having close relations with the Catalan nationalists, who correspondingly represented the interests of their region's own industry. Sabino de Arana also foresaw that the Basque nationalists might need the support of Catalonia's nationalist circles when facing the Country's Central power.

In the long run, regionalism benefited both the *aranaist* and the *euskalerriacos* wing politically since it strengthened the cooperation and common policy maintained with the nationalist-minded bourgeoisie. The importance of regionalism lay in the fact that the representatives of the *euskalerriacos* group were able to practice politics that did not aspire to independence, within a party that supported independence. Likewise, it was possible for the PNV to ally itself in the best possible way at various times, as was also the case in the cooperation with the bourgeoisie. The political and economic goals of the *euskalerriacos* were therefore strongly apparent in the actions of the PNV.⁷⁸² The PNV's policy was in all but name, as Corcuera Atienza states, antithetical and opposed to its own

⁷⁸⁰ Corcuera Atienza 1979, 476–477.

⁷⁸¹ Op. cit., 473.

⁷⁸² Op. cit., 476–478.

ideology, and particularly to Arana's.⁷⁸³ The way the party activists understood their own party's policy also changed rapidly during the 20th century. Regionalism and the importance of economic policy were thus by no means minor factors in the history of the PNV before autonomy was established in 1979.

From the beginning of autonomy, the PNV was aware of the fact that developments in national politics would reflect on the Basque politics and the economic policy of the party in power in the region. As I demonstrated in the previous chapter, the PNV's answer to this was regionalism, or strong defence of the interests of the Basque Country. Importantly, this policy did not suffer when the *euskalerriacos* started to gradually lose ground in the party, the PNV consistently defending the transfer of powers to the region which would be able to solve its own economic problems in the best possible way. Moreover, the PNV was ready to maintain an appropriate, pragmatic approach to the central government, even ignoring the possible contradictions between these actions and the political cooperation relationship maintained in regional politics. As a defender of regional interests, it was possible for the PNV to act for example in the negotiations concerning VAT in the 1980s in a way that would not have suited the PSE. In the name of regionalism, the PNV considered itself no less than a defender of a right which was even established in the laws concerning the economic agreement.⁷⁸⁴ The PNV practically made it a question of a confidence motion. This same pattern was repeated in early 1997 when the economic agreement was updated. In public, the PNV acted in the name of the regional interests, but also intentionally underlined the role of the regional coalition government where the PNV and the Basque socialists worked together.⁷⁸⁵ A revealing instance was the way PSE had to state in public that the Socialists were not questioning the Basque system of finance when they were under severe political restraints concerning the PNV-PP cooperation in economic policy.⁷⁸⁶

Basically, the PNV's use of politico-economic power was a defence of capitalism.⁷⁸⁷ Populism had been characteristic of the party since its foundation, but it often also led to contradictions with its essentially conservatism. The political programme of the PNV included "economic benefits" that it started to exploit early among various groups of voters. The Basque nationalism which emerged from the pressures for change as a reaction to industrialization, made its attitude towards industrialization more positive under Arana's leadership. The influence of the *euskalerriacos* grew simultaneously, but the introduction of new methods did not mean that the political goals defined by Arana, such as independence for

⁷⁸³ Corcuera Atienza 1979, 476.

⁷⁸⁴ Interview with the treasury minister, Fernando Spagnolo de la Torre of 5.8.1998. HGV 2001, 714.

⁷⁸⁵ Deia 21.2.1997, El Correo 21.2.1997 & 25.2.1997.

⁷⁸⁶ Deia 19.2.1997 & El Diario Vasco 21.2.1997.

⁷⁸⁷ See, for example, the interview with the treasury minister Fernando Spagnolo de la Torre of 5.8.1998. HGV 2001, 719.

the region, were changed.⁷⁸⁸ The coalition of *aranaists* and *euskalerrriacos* within the PNV did not mean that those groups could be integrated into a united party structure at the beginning of the 20th century.⁷⁸⁹ It was politically profitable for the PNV in many cases to treat the central government of Madrid as a representative of the Basque Country and to try to negotiate an economic agreement with it. It was thus possible to unite the populism, radicalism and on opportunism that all appeared within the PNV under the umbrella of regionalism.

This equation of traditionalists, bourgeoisie as well as conservative elements and tendencies interacting was not an easy one for the PNV itself. The internal social-economic debate was more difficult for the PNV than for many other parties.⁷⁹⁰ At the time of Franco's death, there were in the ranks of the PNV both those who demanded nationalization of economic structures and those who promoted a traditional market economy and even hard-line free-marketeters. The plans for nationalization appeared even in the conclusions of the party meeting of March 1977.⁷⁹¹ The PNV ultimately still supported the central government's policy intended to stabilize the economy of Spain, foster a market economy, and converge with other western European countries.⁷⁹² The slightly anti-capitalistic rhetoric was never acted on by the PNV once in power. The PNV redefined its policy goals in 1977 by (1) seriously considering obtaining regional autonomy for the Basque Country, (2) leaning on the so-called historical rights stripped away from the Basque provinces with the *fueros* system and (3) uniting all these provinces under one regional political structure. The PNV issued as non-specific as possible a definition of future self-government based on the system of *fueros* beforehand⁷⁹³ This was also linked to the Basque Country's internal regionalism and centre-periphery tensions and had its effect on the use of politico-economic power in the 1980s and 1990s as I have shown.

In conclusion, the pragmatic approach to the economic and economic policy questions and the advancement of capitalism can be thus traced long back to the previous history of the party. In applying Elton and Foucault's argument about the use of power, the key questions are how regionalism and capitalism were linked

⁷⁸⁸ Corcuera Atienza 1979, 458.

⁷⁸⁹ Op. cit., 478.

⁷⁹⁰ Support for full independence was strong, particularly in the PNV's council in Vizcaya, and caused heated disputes in the late 1970s. The confederative structure of the party exacerbated a situation in which these problems were seen as an internal matter for the Vizcayan party council, which should also resolve it alone. Garaikoetxea 2002, 74-75; Pablo, Mees & Rodríguez Ranz 2001, 367.

⁷⁹¹ Garaikoetxea 2002, 26; many contemporaries interpreted the PNV's definitions of policy as "socialistic". For example, the minister Sabin Intxaurreaga Mendibil indicated this in his interview of 18.8.1998. HGV 2001, 1491.

⁷⁹² The so-called agreements of Moncloa (*Acuerdos de Moncloa*). Garaikoetxea 2002, 46-47.

⁷⁹³ Op. cit., 25-26.

in the PNV's exercise of power and how they affected and coloured those actions. The PNV promoted capitalism and public-private cooperation in the Basque Country. My view is that the question of how regionalism and capitalism were connected to populism should be examined not only generally but also through such basic concepts of Basque history as the *fueros* and economic agreements. This is in line with my empirical approach and explains the complex way the *fueros* were intertwined in the PNV's use of power.

My next step is to consider the relationship between the majority version of fuerism within the PNV and the actual *fueros* themselves, how the PNV immobilized them to help its policy and ideology, and what the consequences were. This will help to understand both the PNV's internal economic policy disputes as its way of keeping the *fueros* and economic agreement as part of the political rhetoric and the exercise of power.

4.2. The main concepts of the Basque Country's economic history instrumental in the PNV's policy

The historical roots of the PNV are manifest in the party's way of underlining the importance of the *fueros* and the economic agreement. For example, it differentiated itself from the moderate Basque party, the EA, and the radical HB in the 1980s and 1990s.⁷⁹⁴ This fact alone demands further investigation of the role of these roots in the contemporary history of the PNV. It can be difficult to understand how the use of power in the last decades of the 20th century could have been affected by the *fueros*, which were not simply old but also difficult to re-establish in a contemporary market economy. Reasons for this must be sought in the earlier history of the PNV. It is important to understand that even in the times of Arana the propaganda of the PNV was a special mixture of traditional anti-capitalism and middle-class influences; maximizing the "common excellence" of the Basques became the party's objective.⁷⁹⁵ Arana's view of industrialization changed rapidly into the more complex notion that nationalists must strive to transfer the industry and capital into the Basque people's own hands. The problem was not finally capitalism itself, but that it was foreign capitalism, not "Basque capitalism".

Financial resources had a decisive role in a Basque Country changed by the industrial revolution. Sufficient funding was also a pre-requisite for efficient circulation of the nationalists' own ideology and propaganda. In fact, the future success of Arana's political project depended on this crucial factor. This attitude towards industrialization forced the PNV to change its policy at an early stage and introduce a new criterion to its supporters' political thinking. The heavy industrialization of the region was a demonstration of "the superiority"⁷⁹⁶ of the

⁷⁹⁴ Moreno del Río 2000, 201, 222 & 246.

⁷⁹⁵ Corcuera Atienza 1979, 472.

⁷⁹⁶ Op. cit., 476

Basques. The national economy of the Basque Country was made not merely into an instrument but a symbol of the regional uniqueness of the Basque Country.⁷⁹⁷ This meant however intensification of the tendency where the countryside idyll was in Corcuera Atienza's words even more "a utopian affirmation of nationalist virtues and a critical reaction to the not nationalized province of Vizcaya".⁷⁹⁸ Using this in its ideology was also possible in the future,⁷⁹⁹ but it was hardly adequate in seeking support in the cities as well as the countryside. Since Basques faced great changes, the political programme of the PNV had to be economically tempting. It found the answer in the *fueros* and the economic agreements.

4.2.1. The significance of *fueros* to the PNV

*Fueros*⁸⁰⁰ once formed the foundations of the economic and political activities in the Basque Country and in practice made the Basque provinces a free-trade area that had a customs border with the rest of the kingdom.⁸⁰¹ As the events surrounding the LTH law showed, the meaning and importance of *fueros* to the political views of the PNV became urgent in the organization of the internal financial administration of the Basque Country in the 1980s.⁸⁰² The *fueros* still occupied the political debate, appearing particularly in the political vocabulary of the representatives of the PNV.⁸⁰³ The symbolic value of *fueros* remained strong in Basque politics but, in 1980–1998, political standpoints influenced the aspects of the *fueros* and the system based on them which were significant on particular occasions. The political and economic significance accorded to *fueros* was, and still is, unspecific and is linked to the political agenda and aims.⁸⁰⁴ Firstly, *fueros* must not be confused with the Basque Country economic agreements. Secondly the Spanish term *fuerosismo*, i.e., fuerism (or foralism, *foralismo*), was used at the beginning of the 19th century less to refer to a compilation of privileges than as

⁷⁹⁷ Moreno del Río 2000, 201.

⁷⁹⁸ Corcuera Atienza 1979, 468.

⁷⁹⁹ Elorza emphasises the PNV's nature as a basically urban political movement, but which is linked to the countryside: "while the party, in the 1980s, offered a technocratic system for the management of the region's economy, it unavoidably defended the rural society". Elorza 2001, 408.

⁸⁰⁰ The term *fueros* comes from Latin: *forum*. Puig y Scotoni 1986, 38; Aja 1991, 173.

⁸⁰¹ Basques were exempted from military service, but were responsible for the coast and frontier of their region. García de Cortázar & González Vesga 2000, 345; for the mobility of the Basques, see Douglass & Bilbao 1975.

⁸⁰² The LTH law. LPV 1991, 251–275 .

⁸⁰³ The PNV leader Arzalluz explains in the Burns Marañón interview (1997) how the PNV's nationalism has "two stronger feet: God and the *fueros*". See Burns Marañón 1997, 212.

⁸⁰⁴ Corcuera Atienza is critical of *fueros* and the way they have been exploited in Basque politics. See Corcuera Atienza 1998.

institutions and regulations as an expression of “an original political structure”.⁸⁰⁵ *Fueros* naturally included a clear politico-economic element and the economic interest implied made them a useful political instrument for the PNV.⁸⁰⁶

The relevance of the *fueros* to the politico-economic reasoning of the PNV appears in their historical background. The law of 1839 abolished *fueros*, but also gave certain rights to the provincial councils; the Spanish Government defining them only later in 1852–1853.⁸⁰⁷ From then on, the councils were left only with the financial administration or management, but they also became an essential factor in the direction of the Basque economy. The structure of the regional administration changed with the evolution that started from the law first abolishing the *fueros*: the provincial councils, previously only executors of the decisions taken by the provincial general assemblies, moved now to the forefront of the regional administration. They were only responsible for financial management, but among their tasks was the supervision of town councils. The economic responsibility transferred to the provincial councils was however unrelated to the original fuero-based system.⁸⁰⁸ Gregorio Monreal Cía’s study reveals that the central government did not want to transfer *legislative* powers to somebody else, in this case to the Basque Country and the provincial councils. Nonetheless, the central government maintained the control of the bourgeoisie, thus preserving a free economy in the Basque Country.⁸⁰⁹ It can be said that the protectionism practised by the Spanish crown allowed the monopoly of the Basque bourgeoisie. The wealthiest of the bourgeoisie benefitted both politically and economically. This politico-economic power is linked to the concept of neo-fuerism (*neofuerismo*), which is different from the original *fueros*.

The qualified survival of the system of *fueros* up to the 1870s resulted only from the idea of constitutional integrity which was inherent in it,⁸¹⁰ in which respect it was coincident with Spanish conservatism. *Fueros* however became an instrument in a situation where the political right in Spain started to push hard in the latter part of the 19th century to strengthen the centralized power. In the Basque Country, the right transformed into Carlism and in the long run partly converted to Basque nationalism.⁸¹¹ In Spain, the old regime of Bourbons (*Antiguo Régimen*) had a different attitude towards *fueros* from the new right of the 19th century. The Bourbon era central government representatives never impugned the legality of

⁸⁰⁵ *Un cuerpo político singular, and el cuerpo de provincia*. Herrero de Miñón 1995, 8.

⁸⁰⁶ The interview with Professor Rafael Mieza y Mieg in 1999.

⁸⁰⁷ Mieza y Mieg 1984, 133.

⁸⁰⁸ *Op. cit.*, 133–134; Corcuera 1985 & 1979, 91–92; Conversi 1997, 47; during the LTH procedure entirely contrary views appeared. See, for example, *Diario Vasco* 29.11.1983.

⁸⁰⁹ Monreal Cía 1974.

⁸¹⁰ Mieza y Mieg 1984, 128–129.

⁸¹¹ The survival of the *fueros* and how the central government intended to abolish them explains why Carlism, which was theoretically a nation-wide movement in Spain, got a strong foothold in the Basque provinces. Conversi 1997, 46; Canal 2000, 241–242.

fueros in their politico-constitutional argument or when they opposed the foral regions on some particular issue. The newer, revolutionary idea of the nation which gained strength in the 19th century did not accept the existence of separate political structures within the nation. In the Basque Country, the defenders of *fueros*, who before the nationalists consisted particularly of Carlists, saw *fueros* and the foral institutions as substantive parts of a historical constitution. For them *fueros* represented consistency and historical identity.⁸¹²

The concept of historical rights (*derechos históricos*) belongs to the terminology of Basque political history as well. The defenders of *fueros* referred to the recognition of diversity of political structures which were found in the structure of a state. The central government and the so-called Spanish political alignment offered a region like the Basque Country decentralization of administration with the help of their ideologies. Representatives of fuerism demanded recognition of a politico-institutional exception when they discussed the historical rights.⁸¹³ Spanish legal historian Miguel Herrero de Miñón's claim is that Carlism, which dominated among the population in the Basque countryside, was led to the political camp of Basque nationalism by these diverging conceptions of the status of institutions and the political structure that regulated and legitimated them.⁸¹⁴ This was however hardly the only reason for these developments. One must remember that only the representatives of big industry in the Basque Country benefitted from the new economic agreement (1878–) since their tax burden was lightest. The countryside and small towns in particular suffered from the pressure caused by the new industry and taxation. Therefore, “Basques lent their support to any movement which opposed centralism” as a reaction to the abolishment of *fueros* according to Daniele Conversi.⁸¹⁵ Conversi does not however discuss how the PNV utilized this aspect of the *fueros*.

Fueros were instruments and symbols of economic self-government,⁸¹⁶ but the Basque provincial *fueros* were by no means identical, varying between regions and, even more importantly, not conforming to the intention of creating a united Basque Country.⁸¹⁷ Nor were *fueros* purely an instrument of democracy: the power in the region was ultimately in the hands of propertied classes and the suffrage

⁸¹² Mieza y Mieg 1984.

⁸¹³ Herrero de Miñón 1995, 19.

⁸¹⁴ On the other hand, he considers that these diverging opinions still inhibit the emergence of an effective Spanish “supernationalism”. This nationalism would be an integrating project, but would respect the specific characteristics of different nationalities. Op. cit., 20.

⁸¹⁵ He links this to the popularity of Carlism in the Basque Country. Conversi 1997, 47.

⁸¹⁶ *Ibid.*

⁸¹⁷ Fusi 1984, 173; correspondingly, the recognition given by the king that all Basques were noble by birth, was originally interpreted as a way to obtain Basque support for the crown. It was not part of any racial theories concerning the Basques.

was more limited than in most other parts of Spain.⁸¹⁸ Sabino de Arana changed the Carlist goal of restoration of the *fueros* into something totally different, a demand for the Basque Country's complete detachment from Spain. Arana called for the restoration of *fueros* because he believed that they had at one time been an effective instrument of Basque self-government. According to Arana, *fueros* could in the future work as a means to an end, which for him was independence. Arana's concept of *fueros* was based on political calculation and had little to do with the Carlist demands for regional rights to impose duties or the exemption of Basques from the military service conceded by the Spanish monarchs.⁸¹⁹

The linkage between the *fueros* and the PNV can be traced back to Carlism, although it was originally the main political enemy of Arana. During its first years of existence, the PNV had difficulty in gaining ground in the countryside of Vizcaya, where the defence of the traditional Basque culture and the associated rural romanticism were not adequate in themselves to attract people to support the party. Since the population in the countryside was poor and supported Carlism, the PNV had to evolve an economic programme that would pander to them. *Fueros* and the protectionist model⁸²⁰ which they represented became an instrument Arana needed. The *fueros* became an essential concept for Arana for that matter, references to economics or economic policy are very few in his political writings. The customs borders, which were included in the *fueros*, had particularly benefited an economically prominent group in the Basque provinces, where the disappearance of the *fueros* was seen as an economically back-breaking loss.⁸²¹ This trend toward using the *fueros* politically was strengthened when Basque nationalism lost some of its support in the urban areas in the early 20th century and continued with strong political imposition in the rural areas. The party, which had changed its name to *Comunión Nacionalista Vasca* in 1916, achieved electoral victories in 1917 and 1918, especially in rural areas. According to Elorza, Basque nationalism had already adopted a line that a farmer was not just a potential voter, but a recipient of political benefits in a situation where the party was setting its

⁸¹⁸ The general suffrage, which applied only to male citizens, came into force in Spain in 1890. Sullivan 1988b, 13; Fusi 1984, 190.

⁸¹⁹ Sullivan 1988b, 15.

⁸²⁰ In the interview with the journalist Burns Marañón, the PNV's leader, Arzalluz, states how the industrial revolution created a new leading economic group which had an anti-*fuero* attitude: "since the *fueros*, as a protectionist system, did not allow commerce on a large scale". Arzalluz emphasises that "the interests of the representatives of big business and Madrid were congruent", because he thought the *fueros* allowed only the export and import of particular products. "Liberalism thus broke the previous economic arrangement and the actions of the representatives of the capital brought workers and immigrants to the region, whose economic position was weak." Arzalluz admits, however, that the *fueros* did not mean anything for workers in difficult living conditions; however, he stresses that in the Basque Country "the Socialists, as well as the Nationalist movement opposed the collusion of big capital (*Neguri*)". Burns Marañón 1997, 216.

⁸²¹ Sullivan 1988b, 14.

sights on rising to power in the provinces.⁸²²

The PNV, which was cognizant of its power, sought a clause in the Constitution at the end of 1970s which would say that the status of the Basque Country would confine itself to the restoration of the historical rights abolished in 1839 and 1876. The PNV saw that this would have meant the “restoration of the historical sovereignty” of the Basques and enabled the recognition of the right of self-determination. The PNV’s reading was that the monarchy and the structure of the state “had made an exception”⁸²³ in the case of the Basque Country and the *fueros* had given the region a “distinct status” and sovereignty.⁸²⁴ The right was therefore recognized but not given; in other words, a transfer of powers had not been involved as in a federal system. Accordingly it was a question of the PNV’s interpretation of the *fueros*. The compilers of the Constitution emphasized that there was only one sovereign power and that the statutes of self-governance could not be automatically considered as constitutional manifestations.⁸²⁵ The PNV’s negative attitude towards the 1978 Constitution came down to a question of the possible limits to the reading of historical rights.⁸²⁶

The idea of restoration of *fueros* remained on the PNV’s political agenda and, during the autonomy established in 1979, the party foregrounded it in its economic policy.⁸²⁷ When the constitutional basis of that autonomy was created, the demand to regain the *fueros* was heard in the political statements of the PNV.⁸²⁸ What the independent Bilbao daily *El Correo*’s political columnist pen named Vicente Copa, called “the tragedy of the Basque foralism” included an answer to the question of what prevented the return of *fueros* to the Basque provinces at the beginning of the 1980s. Firstly, certain characteristics of the foral system such as the customs did not sit easily with the new democratic administration. The Constitution of 1978 allowed the existence of *fueros* only when they were not contrary to the Constitution. Secondly, *fueros* had been customary law. The special nature of each case should be investigated in order to prove that they were

⁸²² Elorza 2001, 211–212.

⁸²³ In this case the party received support from the leftist Basque party, the EE. López de Juan Abad 1998, 160; Arzalluz particularly supported additional wording in Article 2 of the Constitution, concerning the recognition of “the original sovereignty of nationalities”. Tusell 1999, 168.

⁸²⁴ A text which would give sovereignty to the people of Spain was to be included in the Constitution. The government considered that that recognition and safeguarding of the Basques’ historical rights should be included in the Constitution, in order to maintain unitary sovereignty. The PNV did not want to accept a constitution which would not recognize another basis of sovereignty. Fusi 1984, 214; Martín Villa 1984, 180; Burns Marañón 1997, 212.

⁸²⁵ Tusell 1999, 170.

⁸²⁶ Pablo, Mees & Rodríguez Ranz 2001, 366.

⁸²⁷ This happened especially with the LTH law.

⁸²⁸ Corcuera Atienza 1998.

established.⁸²⁹ Moreover, it would have been politically difficult to realize. These practicalities meant that the *fueros* continued to be mentioned in particular as ideological elements which also meant that the PNV was able to get the maximum political mileage out of them.

The way *fueros* were linked to the political programme and politico-economic thinking of the Basque nationalists at an early stage can be compared to the PNV's bid for the votes of the working class. The ideas of improving working conditions came into Arana's political thinking via Christianity. This was not socialism, with which the founder of Basque nationalism had bad, not to say non-existent relations. *Fueros* consequently became instruments of the nationalistic rather than economic policy of the PNV. The economic interest of *fueros* made them still a useful tool for nationalists. At a time of economic change, such as the rapid increase in iron exports, the representatives of the PNV invoked the *fueros*, which would not have allowed its export. Since the emergence of *fueros* as one of the cornerstones of the PNV's approach was partly due to the political pragmatism at the end of 19th century, it must not be confused with the liberal fuerism which had links with Carlism.

The representatives of the PNV still tended in the period of my thesis to underline how *fueros* were non-politicized in the 1870s and the "originally temporary intended" economic agreements were part of the intention to wind back the previous self-governance.⁸³⁰ Here it is a question of interpretation of history. The PNV's way of defining the political structure of the Basque Country by referring to *fueros* and historical rights left it unclear what kind of political structure it was really seeking. Although in some situations it had been a question of the PNV's fear of the political consequences, this impreciseness allowed the party room for political manoeuvre in difficult times and also allowed party unity to be maintained. Besides, the PNV aspired for the largest possible support among the voters in the Basque Country. Establishing politico-economic laws in the region in the early 1980s meant that fuerism and the tendency which supported the role of strong provincial institutions won in the party. At the same time it caused internal pressures that finally led to the establishment of the EA, after which *fueros* were even more a part of the political ideology of the PNV and its supporters' identity. The EA emphasized the historical rights from the beginning in its programmes. In the period covered by my thesis, fuerism coloured the politics of the PNV in practice, so that the party endorsed a strong role for the provinces. The Basque Socialists correspondingly supported strengthening the common institutions of the region. The regional representation of the AP, later the PP, came out for the provincial institutions to the exclusion of the regional government both because

⁸²⁹ Copa 1989, 27; Vicente Copa was the pseudonym of José Antonio Zarzalejos, who later became chief editor of the nation-wide monarchist newspaper ABC; see Garaikoetxea 2002, 336.

⁸³⁰ See the interview with the treasury minister, Juan José Ibarretxe, of 21.12.1998. HGV 2001, 1479.

of fuerism and because it opposed the growth of the powers of the autonomous community in relation to the central government.⁸³¹ In conclusion, the use of *fueros* to help in politics included clear political goal setting in many parts of the Basque political spectrum. It had still its most concrete historical consequences via the dominant role of the PNV.

4.2.2. Economic agreement

When the representatives of the PNV publicly urged to recognition of their own sovereignty and the self-governance of the Basque Country, they invoked the region's characteristics and national identity, in which they also included the economic agreement.⁸³² The economy pertains to the Basque Country's national identity as the Basque provinces had had a leading position in Spain's economy since the latter part of the 19th century.⁸³³ The Basque economy was called fragmented at an early stage, even though after the abolition of *fueros* it was more clearly interconnected with the Spanish economy. The economic agreement had its own influence on the economic prospects and social changes in the region. The PNV has made them, like *fueros*, instruments to help its policy-making by accentuating the central-regional agreement configuration they contain. In this respect, the economic agreement relates to the populist tradition of the PNV.

In the view of the PNV the Basque self-determination is an earlier factor than the economic agreement or any agreement between the king of Spain and the region.⁸³⁴ The economic agreement was therefore a secondary goal in the PNV strategy in comparison to the question of sovereignty. The active role of the PNV in the process leading to restoration of the economic agreement, however, demonstrates its significance to the party and the representatives of the economy supporting it. The PNV's attitude towards the autonomy described in the Constitution of 1978, also included an economic policy dimension. The PNV was the leading economic policy exponent at the Basque General Council,⁸³⁵ even if all other parties in the Basque Country supported the restoration of the economic agreement. The PNV was criticised because it interpreted the negotiation of the Autonomy Statute as recognition by the state of its own policy definitions and of its way of presenting the statute as a political agreement⁸³⁶ with the Spanish state

⁸³¹ The minister for the economy, Luis Atienza Serna (PSE), in his interview of 6.7.1998. HGV 2001, 792.

⁸³² The PNV did this in the context of the Barcelona Declaration in 1998, together with the CiU, and the BNG of Galicia. Aja 1999, 16–17; see also Documentos para la historia del nacionalismo vasco 1998, 156.

⁸³³ Conversi sees the Basque Country and Catalonia as the “regions that have been at the vanguard of the Spanish economy.” Conversi 1997, 257.

⁸³⁴ Conversi 1997, 288.

⁸³⁵ Cf. the objectives of Ajuriaguerra (PNV) when the mixed commission starting its work. López de Juan Abad 1998, 100.

⁸³⁶ Onaindia 2000, 51 & 55–57; El País 24.10.1999.

whose the substance could be even re-negotiated once the political violence had ceased.⁸³⁷ The Autonomy statute (1979) was after all a political success-story for the PNV. At the turn of the decade, the PNV heightened its image as the defender of *fueros*.⁸³⁸ The economic agreement negotiation process and the regional law-making in economic policy became characteristically PNV projects.

The Basque economic agreement, like the question of the PNV's relationship to politico-economic power, has been a mere curiosity in the majority of history studies. Nevertheless, the economic agreement constitutes a part of the Basque Country's institutional, political and economic history.⁸³⁹ The descriptive or contractual way of presenting the agreement hides the notion that it would have been an automatic agreement and that the parties would have spoken the same language without any problems.⁸⁴⁰ One of the difficulties a historian faces in dealing with the agreement as well as the *fueros*, is that the agreements with the provinces were not similar. A proof of the linkage between the economic agreements and the Basque Country's social and economic history is, according to Eduardo J. Alonso Olea, that the biggest changes in the arrangement in 1878–1937 happened in the case of Vizcaya, the province which went through the biggest economic, political and social changes in the entire Basque Country during that period of time.⁸⁴¹ The economic agreement was one of the underlying factors, since it facilitated the growth of capital and therefore prepared the way for further investment in the industry within as well as beyond the region.

The history of the economic agreements includes the particular problem discussed by Alonso Olea that the agreements can be understood as (1) one unique agreement which was regularly renewed or (2) as several agreements that followed each other, but were related to the same matter. The starting point of Alonso Olea's study is the idea of an agreement that was re-negotiated in 1878–1937. He therefore uses the singular form, *agreement (Concierto Económico)*. It is important to note this question and the possible political implications behind the terminology when a historian discusses the use of politico-economic power. Though the economic agreement of the Basque Country was updated and modified during the period covered by my thesis, and the newspapers even spoke about different economic agreements according to the year in which it was augmented, the basis was always the agreement of 1980. This agreement also covered the whole autonomous

⁸³⁷ The statement by Arzalluz in 1979. Pablo, Mees & Rodríguez Ranz 2001, 378–379.

⁸³⁸ Corcuera Atienza emphasises how the institutions and administrative structures established by the Autonomy Statute enjoyed the support of the majority in the Basque Country. Corcuera Atienza 1998, 223 & 230. Cf. the results of the referendum on it. According to Corcuera Atienza, the role of fuerism should be to guarantee the realization of democracy in the Basque Country, as the Constitution does. Op. cit., 228.

⁸³⁹ The most significant example of this is the doctoral thesis by Eduardo Alonso Olea, *El Concierto Económico (1878–1937)*. Alonso Olea 1995.

⁸⁴⁰ Op. cit., 14.

⁸⁴¹ Op. cit., 15.

community. Therefore, the singular form of the word is the only historically sound form in referring to the years 1980–1998. The representatives of the PNV used both the singular and plural forms; this simply reflects party politics and leans to the user’s own version of history.

The system of prerogatives constituted by the *fueros* and abolished definitively in 1876⁸⁴² had deteriorated during its final stage. In 1878 it was replaced by economic pacts or agreements agreed with the provinces, which allowed the provincial councils to carry out tax collection and determine the quota or *cupo* of taxes that every province had to return to the Central Government. The revamping of the pacts was realized in the negotiations between the representatives of the provinces and the State. The surplus funds stayed in the coffers of provincial councils. Historians have drawn contrary conclusions about whether the economic agreements created a so-called fiscal paradise in the Basque Country. It is clear that the proportion of taxes paid by the local commerce and industry in the 1890s remained low as their wealth expanded rapidly. The economic agreement was also an exception from the way the Basque provinces were integrated into the legal and institutional entity of the rest of Spain.⁸⁴³ Here it was related to the centralization of the modern state being “connected with the need to strengthen its power to extract revenue”.⁸⁴⁴ These agreements ameliorated the punitive nature of the 1876 law, but they were also the long-expected response to the wish of the middle-class in Basque towns to adjust the *fueros* system, which did not allow the region to integrate economically with the domestic market. Those parts of *fueros* in particular which forbade creating a modern economic system in the Basque Country should be changed.

The economic agreement still did not include anything other than politico-economic powers and the provincial councils were blatantly the representatives of the financial administration. However, their position in the local administration was strong and the provincial assemblies lost their previous power completely.⁸⁴⁵ The economy was in general considered as a component of the region’s own identity, because the Basque tax system had a special character in 1878–1937. In practice the last remnants of the old *fueros* system were finally preserved in the economic agreements.⁸⁴⁶ I can only refer to Alonso Olea: “institutionally foralism disappeared, but in fact it remained”.⁸⁴⁷ The normative capacity decreased, but

⁸⁴² The law was drafted by the government of Antonio Cánovas del Castillo. While the Spanish parliament discussed this law, he referred to the law of 1839, which he thought included the elements that could be used to “solve the problems of the constitutional unity of the Spanish monarchy”. The law of 1876 followed the same rationale. This transition therefore began in 1839. Mieza y Mieg 1984, 123.

⁸⁴³ Fusi 1984, 161–162.

⁸⁴⁴ Moravcsik 2001, 169.

⁸⁴⁵ Mieza y Mieg 1984, 119–121.

⁸⁴⁶ Fusi 1984, 162.

⁸⁴⁷ Alonso Olea 1995, 18–19.

also became incommensurable. The provincial councils were no longer under the rule of the assemblies, nor was the State able to control them and their budgeting since the governor (*El Gobernador Civil*) designated by it did not have power to intervene in the council's work as in other regions of the country which belonged to the common taxation system.⁸⁴⁸ Thanks to this arrangement, the councils were not just collecting state taxes in the region instead of the state itself, but also had their own levies and charges, including the regulations pertaining to them. The economic agreement eventually became a means for the councils to maintain their services and politico-economic power instead of a substitute for the *fueros* or even an end itself.⁸⁴⁹

When the economic agreements were to be re-negotiated or adjusted to the changes made in the state fiscal system in the following years, the newspapers in the Basque Country and the provincial councils were keen to take up the question of *fueros* and the defence of the tradition they embodied.⁸⁵⁰ Even the legality of the State's actions concerning economic agreements could be raised in political statements. These agreements, like *fueros*, became part of the political rhetoric of the PNV. Historically seen, Basque nationalism rose to protest against the economic and social change in the Basque Country sealed by the economic agreements. The PNV was, however, already interested in managing the tax surplus left in the region's own hands in the early 20th century, thanks to the same economic agreement and also in maintaining that situation for the future. As Palafox Gamir has shown, the PNV defended import duties which increased the profitability of local industry, raising them during the first decades of the century. At that time the party in economic policy was a defensive political movement which found support among the leading Basque businessmen in order to gain more fiscal benefits and import tariffs. The economy of the region during the first period of industrialization was still controlled by the wealthier bourgeoisie, who in numerical terms were the smallest group in society. It represented a liberal worldview, favoured the central government and supported a free market economy. On the other hand, it aimed to maximize its economic benefit which led it to demand import duties.⁸⁵¹ Palafox Gamir suggests that this was the reason why the PNV did not present a modern political programme at the regional or state level before the Second Republic.⁸⁵² In any case, it tells us that the PNV's use of power was influenced by the Basque and particularly Vizcayan economic elites.

The findings of Palafox Gamir must be seen through the economic history of the Basque Country. After the end of the Carlist wars, a significant amount

⁸⁴⁸ Alonso Olea 1995, 18–19

⁸⁴⁹ Op. cit., 383–384.

⁸⁵⁰ The agreements were re-negotiated in 1886, 1906, 1916 and 1926. Some changes were made in the context of the overall modifications in the state's system of taxation in 1888, 1889, 1894, 1900, 1913 and 1920. Fusi 1984, 165.

⁸⁵¹ Palafox Gamir 1989.

⁸⁵² Op. cit., 35–36.

of capital and investment accumulated in the province of Vizcaya.⁸⁵³ During the first period of industrialization, the most significant profits in the Basque industry were achieved by the foreign companies which had invested in the region. Most of those profits were invested in the mining industry in other parts of Spain. The leading sector of the second phase of industrialization was the iron and steel industry, which started in the Basque Country in the 1880s. This was not so much because of the profits made from exporting minerals, but the superior quality steel ingots produced by the Bessemer process, which made the Basque Country's steel competitiveness rise in comparison to that of its neighbouring region, Asturias. The State also lowered the taxation on iron.⁸⁵⁴ The iron production of Vizcaya in 1881–1895 was about 80 percent of the entire Spanish production. The consumption of iron in the Basque industry rose in contrast to steel exports, the capital invested originating from the business circles of Bilbao and Madrid as well as from the Basque business elites involved in the colonial trade. The new steel industry companies were followed by rapid growth in shipbuilding, which was pressed by the coasting trade and the trade with overseas colonies. By the turn of the century, the Basque Country had become the second largest financial centre in Spain after Madrid and Basque businessmen were the most dynamic and significant group of entrepreneurs on the Iberian peninsula. After Catalonia, the Basque Country was the second most industrialized region in Spain.⁸⁵⁵ When the export markets for Bessemer steel decreased, the Basque industry concentrated on the domestic market.⁸⁵⁶ Basque industrial enterprises benefited economically from the First World War. During the dictatorship of Primo de Rivera (1923–1930) state procurements softened the effects of the economic recession in the Basque industry and compensated for the decrease in the iron exports resulting from international advances in technology.

In the long-term, the Basque provincial councils succeeded in strengthening the economic arrangement as an *agreement*, although this was not necessarily the result of a conscious policy.⁸⁵⁷ The situation was advantageous for the Basque Country economically since the tax revenue of the provincial councils grew while their annual payment to the central government remained the same during an agreement period. The funds for these accounts were collected by imposing taxes on consumption and movement of goods, in other words by indirect taxes. The cost of the collection of payments and constructing the road network were also deducted from these sums. Because of the economic agreement, the per capita direct taxes were lower in the Basque provinces than elsewhere in Spain. This

⁸⁵³ Alonso Olea 1995, 33.

⁸⁵⁴ *Op. cit.*, 32.

⁸⁵⁵ González Portilla 1981, vol. I, 156–157.

⁸⁵⁶ Alonso Olea 1995, 34–35; consequently, investment concentrated on the machining of metallurgical products.

⁸⁵⁷ *Op. cit.*, 23; for example, during the dictatorship of Primo de Rivera, the provincial councils faced problems in their negotiations with the central government.

system created savings; at the same time the Basque Country was industrialized under the leadership of the industry sector which produced engine components and was capital intensive. The growing salary costs of the Basque companies were balanced by the continuous oversupply of labour and the fact that the critical Spanish market remained highly regulated.⁸⁵⁸

The development by which the economic agreements were becoming significant for the national identity was further speeded up by Franco's decision to abolish the economic agreements of Vizcaya and Guipúzcoa in 1937, but leave the agreements of Álava and Navarra in force.⁸⁵⁹ The peaking of the economy in the Basque national identity can be accounted for by the central government remaining weak for a long period while the differences between the Basque provinces increased, so that the historical development affected the administrative and political development and identity. *Fueros* contributed to the establishment of their own identity, but were connected via the recognition given to them by the Spanish kings to the Spanish state structure. The Basque Country had never diverged constitutionally or administratively from the rest of Spain, although it is likely that there was rivalry between these two. The uniqueness of the Basque Country was therefore not based on political or administrative isolation.⁸⁶⁰ The economy regulated by *fueros* was important in this context. The economic agreements were linked to the region's wealth and financial management. The PNV wholeheartedly committed itself to the policy goal of supporting the restoration of the economic arrangement in the political transition period of the 1970s. This was made even easier since Franco's actions eventually gave the economic agreements symbolic status. Just as the regional autonomy was introduced, they became a part visible of the political agenda of the PNV and a cornerstone of its economic policy and strategy. As the previous chapter reveals, it also became one of its greatest successes. In sum, despite the complexity of the framework formed by the economic agreements and *fueros*, the PNV used it skilfully.

4.3. The strategic role of the party council, EBB

As the history of the Basque Government's economic policy in 1980–1998 reveals, the PNV used proportionately more significant powers than its vote (about 23–42 percent) in the regional elections would have suggested.⁸⁶¹ In other words, its relative strength remained greater than any other political group in the region. Even in 1986–1990, when the Socialists had more seats in the regional Parliament – but had received still less votes – than the PNV, the latter was able to keep the portfolios of *lehendakari* and finance minister to itself. At that time the PSE and the PNV also had the same number of ministers in the Basque government. What

⁸⁵⁸ Domínguez Martín 2002, 221–223.

⁸⁵⁹ Payne 1985, 209; Fusi 1984, 176–177.

⁸⁶⁰ HYML: Raento 1993, 151.

⁸⁶¹ Table 2.

was the reason for this? How did the rule and the revenue remain in the hands of the PNV during all those years? In the previous chapter I have demonstrated the existence of the PNV's strategy. Having now examined the historical components of that strategy, it is time to concentrate on the question of who ultimately used that strategy and power. The empiricism of Elton and Foucault and their arguments concerning the power structures suggest that a historian should seek the answer by analyzing the role and position of the party executive, the PNV's national council, the EBB, and the factors linked to it.

Firstly (1) we must note that the EBB had a clear *position* in the organization and the internal division of powers in the PNV. At the end of 1970s, the EBB was given the supreme authority when the national assembly of the party (*Asamblea Nacional*) was to decide on the party programme. The extensive autonomy of the party councils in the provinces was actually a way of adapting the party structure to the needs of the Basque Country. The PNV had to be able to respond to the divergent political and economic circumstances of the provinces and the expectations of the voters in that regard. The party structure also helped the EBB to strengthen its position during the time of autonomy. If the PNV has been sociologically a communal party during its history, politically it has aspired to be a model of state structure. Its internal structure imitated the tripartite division of powers in a state. The PNV, in its very early stages resembled the core of the confederate state that it presented as a model for the sovereign Basque Country of the future.⁸⁶² A communal party became "a party state" by the 1930s according to the historian, Granja Sainz.⁸⁶³ This idiosyncrasy manifested itself during the years of the Second Republic as well as within the period of my study. In this structure assemblies represented legislative power, its institutions of settlement judicial power and the councils with the EBB at the head a certain kind of Government, e.g., executive power. The party rules approved in 1977 continued this traditional model.⁸⁶⁴ The confederative model of the PNV gave the provinces even representation in the party assembly regardless of the differences in the party's local support and where the independent status of the party councils influenced the autonomy statutes of 1931 and 1979 and thus the whole structure of the regional administration.⁸⁶⁵

The PNV's communal nature enabled the party to go beyond merely regional parliament-centred policy. The pole position of the PNV within the Basque Country in the parliamentary elections of Spain in 1977 was based on its "social presence

⁸⁶² Granja Sainz 1995, 150.

⁸⁶³ The PNV's party programme of 1933 resembles, according to Granja Sainz, more a constitution than the political programme of a party. Op. cit., 151.

⁸⁶⁴ Nonetheless, the party was no longer identified with the country (*país*), the "people" was replaced by "membership", and instead of "municipalities and regions", it mentioned "municipal and regional organisations". Op. cit., 153; see Figure 2.

⁸⁶⁵ Granja Sainz 1995, 153.

and the strong identity of its supporters”⁸⁶⁶ This same (2) *social sensitiveness* was channelled up to the EBB. Even in difficult times, it showed adaptability and its early actions consisted of a mixture of orthodoxy, pragmatism, democracy, radicalism and the ability to differentiate essential from non-essential and to capitalize on opportunities. All this enabled different and even strongly diverging tendencies within the party to co-exist side by side.⁸⁶⁷ In practice this meant that the business elite could have an effect on the PNV policy, though that policy had strong ideological roots.

(3) The EBB actively sought more powers and was willing to *compromises* on other issues. The events of the early 1980s are an example of this. The internal disputes of the party then led to more direct centralization of decision-making in the PNV. This was contrary to the party’s democratic character, which was based on the role of the party assembly.⁸⁶⁸ The internal crises and the extra pressure caused by the political risk-taking tightened the relations between those who supported the concentration of powers and the representatives of the populist tradition. While the alignment which was led by party president Arzalluz did not originally advocate a decentralized party structure, the regional government’s role would be to merely coordinate the actions of politically strong provinces. He aimed to create a strong party and a relatively strong regional government which would however be subordinate to the party. When this failed because of the opposition from Garaikoetxea’s cabinet, the EBB intended to strengthen the provincial institutions. In practice, the EBB acted “against its own ideology” on this question, as Pérez-Agote has remarked.⁸⁶⁹

In Foucault’s power analysis, the use of power is always “an action upon an action”.⁸⁷⁰ In fact, in economic policy the PNV obviously trespassed on the regional government, apart from the years 1980–1982. Once Ardanza had succeeded to the regional presidency, he and the whole government had also to take the fact that the PSE’s leader Ramón Jáuregui sat in the coalition governments into account, whereas the PNV’s party leader was not a member of the government. However, though the regional finance ministers were, even during the years of the coalition governments, often willingly considered in public as technocrats, they were still members of the PNV or were close to it. For example, their argument concerning the economic agreement resembled the way the EBB acted.⁸⁷¹ The EBB could also openly come down on the side of the finance ministers. Comparing the manifestos of the PNV and the statements of the finance ministers about the economic policy goals shows a lot in common and in some cases the symbolism was very similar.

⁸⁶⁶ Pablo, Mees & Rodríguez Ránz 2001, 246.

⁸⁶⁷ Op. cit., 250.

⁸⁶⁸ Pérez-Agote 1987, 122.

⁸⁶⁹ Op. cit., 125–126.

⁸⁷⁰ Foucault 1982, 220.

⁸⁷¹ See, for example, the interview with the treasury minister, Fernando Spagnolo de la Torre, of 5.8.1998. HGV 2001, 714.

Despite the symbolism, the EBB's actions and the PNV's more generally revealed a way of seeing single economic policy questions pragmatically, sometimes even liberally.⁸⁷² Such issues were ultimately analyzed on purely economic criteria. The comment of the finance minister of the 1980s, Spagnolo de la Torre, is in this respect characteristic: "One thing is your belief in your own position, another thing is the way to act in the economic world, and it's necessary to reconcile both viewpoints."⁸⁷³ In sum, when different economic policy views were accommodated and arranged under the leadership of the EBB and when policy coherence was a goal, nationalism normally had to give way to regionalism.

Pragmatism also appeared in the fact that (4) the EBB had if not an economic policy strategy, at least clear *goals* concerning the economy since the times of the pre-autonomy. The PNV considered it should be involved in the coordination of all decision-making on the Basque economy, including the public savings banks. During the pre-autonomy, the PNV wanted the opinion of the Basque General Council to be asked in all questions concerning the state's tax collection in the region.⁸⁷⁴ Since the public finances were in the hands of the central government at that time, the PNV aimed to start the negotiations on the restoration of the economic arrangement quickly. In the Basque General Council the PNV consciously adapted the role of economic policy standard-bearer. Despite the limited power of that institution, the historical road of regional economic policy began there.

Economic policy goals emphasized social responsibility. An example of this was the policy on the public savings banks; this included not merely capitalism, but also ideas concerning the responsibilities of society. The project of uniting the savings banks in the Basque provinces led to plans to create a central bank for the Basque Country. This issue was particularly topical during the years of the treasury ministers Spagnolo de la Torre (1985–1988) and his successor Basagoiti (1988–1991). To make it a successful project, the future bank was considered to need sufficient authority.⁸⁷⁵ The question of controlling the credit policy of the Basque savings banks was current during Basagoiti's incumbency and at the time of economic boom in Spain. He saw it as the business of the regional government to address this issue.⁸⁷⁶ The PNV was willing to use the power relating to the savings banks and was clearly aware of their social and economic implications. The savings banks' share of all credits and savings in the Basque Country in the

⁸⁷² Moreno del Río 2000, 201.

⁸⁷³ "Una cosa son tus creencias en lo propio y otra cosa es la forma de actuar en el mundo económico, y lo necesario es compatibilizar ambos enfoques." The treasury minister, Fernando Spagnolo de la Torre, in his interview of 5.8.1998. HGV 2001, 715.

⁸⁷⁴ Moreover, the council should participate in the fiscal administration at regional, provincial, and municipal level. López de Juan Abad 1998, 286-287.

⁸⁷⁵ Interview with the treasury minister, Fernando Spagnolo de la Torre, of 5.8.1998. HGV 2001, 716.

⁸⁷⁶ Interview with the treasury minister, Alfonso Basagoiti, of 15.6.1998. Op. cit., 854–855; see also The Economist 18.9.1993, 95–96.

1980s and 1990s was estimated to be normally about half the total.⁸⁷⁷ Basagoiti stressed during his period in office the authority the Statute gives to the region to regulate public banking in its area.⁸⁷⁸ The view of the PNV on a central, regional financial institution that would support the public sectors role was also dealt when discussing the EC/EU.⁸⁷⁹

(5) In politically and economically difficult periods, the EBB was also obliged to seek further support for its policy, the place it chose for this being *Vizcaya and Bilbao*; the traditional power-base of the party. In the difficult period of internal party disputes of the early 1980s, the EBB leaned visibly on the support of *bizkaitarrismo*. This strong connection had clear implications in the PNV's exercise of politico-economic power, since, despite the serious economic troubles, Vizcaya was not allowed to lose its place in the context of the Basque national economy in the 1980s and 1990s. The links between the party and the province were based on history since the local party council, the BBB, had rapidly become the nucleus responsible for carrying on the politics of the PNV in an early stage.⁸⁸⁰ Its role in the party was also significant during the period covered by my thesis when it increased its powers in relation to the other provincial party councils, the GBB and the ABB. This strong bond also caused problems when the PNV-led Vizcaya was actively exercising provincial level industry policy through its own projects against the will of the regional government. All this disrupted the work of the Basque council of public finance.

Consequently, the special status of Vizcaya was also a resource. For example, treasury minister Basagoiti obviously had good relations with the business elites of that province,⁸⁸¹ which helped him in implementing the important changes concerning the savings banks in the 1980s. As I have previously demonstrated, the fiscal policy issues remained firmly in the hands of the PNV in the regional government and in Vizcaya, the most important industrial area. The influence of the PNV can be seen as culminating under the period of the last Ardanza government (1994–1998) when the management of economic policy was intensified and horizontal power was centralized in the hands of the vice-*lehendakari* and treasury minister, Ibarretxe. He combined not just economic and fiscal policy

⁸⁷⁷ Interview with the treasury minister, Fernando Spagnolo de la Torre, of 5.8.1998. HGV 2001, 716–717.

⁸⁷⁸ Cinco Días 31.3.1990; Basagoiti referred to Article 11.2 of the Statute.

⁸⁷⁹ Euskadi en el Proyecto de Europa 1991, 30–31.

⁸⁸⁰ In the party council of Vizcaya, Bizkai Buru Batzar (BBB), which was the first to be founded (1895), the characteristic trace of the life in *batzokis* was visible: it was open to all, but almost an isolated, mystic cell. The original goal of the party was to organize itself like a “federation of the batzokis”, which however turned out to be difficult to achieve because the Nationalistic movement, led by Arana, was not yet a political party in the current sense of the word. Corcuera Atienza 1979, 413–414 & 425–426; the role of Arana, the movement's founder, was still important, however. Op. cit., 428–431 & 448–449.

⁸⁸¹ Interview with the treasury minister Alfonso Basagoiti of 15.6.1998. HGV 2001, 846.

experience but also theoretical know-how and a strong political background.⁸⁸² Consequently, during his period in office the Basque Country acquired even more taxation powers and its politico-economic powers became considerably greater. The PNV thereby exploited the power structures emphasized by Elton and Foucault⁸⁸³ in its economic policy in order to push forward the party's own strategy.

(6) The sixth explanation of the PNV's strength can be found in its intention to continuously *represent different parts of Basque society*.⁸⁸⁴ The *euskalerriacos* saw the region's autonomy as a historical opportunity to re-organize the relations between the middle-class, trade organizations and the government by following the rules of the market economy.⁸⁸⁵ However, they actively enhanced the ability of the party to function via different interest groups; for them, economy was the helpful instrument of a wider policy. Although this alignment had a leading position in the early 1980s and was criticized within the party itself for promoting the interests of big business, the party was always able to further strengthen its positions in the trade unions. The ELA, closely linked to the PNV, had a growing proportion of all the trade union members in Basque Country, increasing from 25 percent to 40 percent in 1982–1986, mainly at the Socialist-led UGT's expense.⁸⁸⁶ Interestingly, the image of the PNV in public remained rather neutral concerning the trade unions, although it openly welcomed their existence.⁸⁸⁷ In the regional government, the PSE was mainly responsible for public services; this did not mean that the PNV did not understand their political potential. It seemed to have realized during the 1980s how much it could help its own political project by securing the citizens' living standards and addressing the unemployment problem in real terms.⁸⁸⁸ It particularly did not want to present itself as a party linked only to the interests of big business. Its ideological and economic policy answer, as I have explained, has been "welfare nationalism" since the late 1980s. Interestingly, this line was adopted and decided on by the leadership of the party. This demonstrates that the weakening power of the *euskalerricos* group within the PNV did not mean a corresponding weakening of pragmatism in economic policy decisions.

The history of the regional government shows how PNV economic policy activity was related to the influence that the business world had on the thinking of

⁸⁸² Ibarretxe was the PNV's candidate for the post of *lehendakari* in the regional elections of 1998.

⁸⁸³ Foucault 1980, 142.

⁸⁸⁴ Acha Ugarte & Pérez-Nievas 1998, 98–99.

⁸⁸⁵ Zirakzadeh 1991, 119–120.

⁸⁸⁶ The UGT's percentage declined from 19 to 15, and the CC.OO, which had close relations with the communists, remained at 20 percent. The fourth trade union in the Basque Country was the LAB, led by the radical nationalists. Onaindia 2000, 64.

⁸⁸⁷ See Moreno del Río 2000, 201.

⁸⁸⁸ See the interview with the treasury minister, Fernando Spagnolo de la Torre, of 5.8.1998. HGV 2001, 716.

the EBB and thus the party. Moreover, the PNV intended to gain a leading position among the Basque nationalists and in Basque politics; the economic policy issues were foregrounded in this political process. If the PNV instrumentalized the economic agreement in its own image-making, for example, so that the largest possible support could be achieved in the region, it was also building a picture of the Basque Country's ability to obtain all the rights it was entitled to. At the same time it remained a means for the local business elites to achieve the power in economic policy to meet the needs and interests of the local business world. The businessmen believed this was the only way out of the worsening economic recession. The influence of the business world was also automatic via the persona of Garaikoetxea who became party leader in 1977 and had a strong business background. Ardanza had also been working in the private sector.

Likewise, it was important for the EBB's politico-economic power that (7) the strategy and tactics applied led to *prosperity and success*, as various negotiations of the economic agreement or the Guggenheim museum did. In line with Foucault's idea concerning the role of strategy in the exercise of power, EBB statements and the political programmes of the PNV continuously monitored the current situation of power transfers. This became even apparent during the difficult economic times of the early 1990s; the PNV still had to define new policies so that the unemployment problem could be solved, and the party's representatives, as well as the cabinet ministers, actively pointed out that greater authority would facilitate this.⁸⁸⁹ The PNV aimed to acquire the powers in employment not yet transferred; the opportunity to guarantee people's living standards and to keep pace with the EU average were linked to the continuing lack of power and the way that power would be used in the region. Having negotiated the economic agreement and the *cupo*, it was not politically difficult for the PNV to argue that it would fully use the authority granted. The way in which the role of the public sector was exploited as an instrument for the PNV in its work for the good of the region is interesting.

The power of the PNV was also legitimized by stressing simultaneously in public how the regional administration had become more responsible for the consequences of its actions in gradually increasing its power. The regional government's economic policy was described in terms of continuity and constant effort to reform the internal administrative structures. The primary goal was to create an image of the PNV's exercise of politico-economic power as a long-term project which should not be disrupted either. Moreover, the goal was to further increase well-being in the region. The political publications listed such things as combating social marginalisation and displacement and putting the people first as successes. At the same time, the continuity of the economic policy process of the PNV was linked to the continuation of the transfers of authority and that the regional administration was ready to receive and wield them. In other words, the PNV had a clear strategy behind its actions and behaviour, and when the

⁸⁸⁹ See treasury minister Juan José Ibarretxe's interview of 21.12.1998. HGV 2001, 1480–1481.

party explained in public it did so increasingly in economic terms. However, during the 1990s the criticism of the central government's economic policy and its effects on the regional economy decreased markedly. It was no longer blamed for the structural problems, the underlying argument being the PNV's ability to comprehend the needs and problems of the Basque economy better.

What were the consequences of this strategy? All the factors I have explained contributed to the fact that in Basque politics, the power of the EBB was significant, particularly in relation to the regional government. It must have come as a surprise to the party that the way the economic agreement developed into a political project of the moderate Basque nationalists and the strong regionalist policy line in economic issues actually consolidated the first regional governments' negotiating position with the central government and, importantly, with the provinces as well. At the latest, the LTH tangibly indicated how the PNV's dominant, even monopolistic position, did not mean that a common economic policy approach existed or was even emerging within the party.⁸⁹⁰ Economic recession and the differing views of the local businessmen and the regional administration's representatives on the ways to revitalize the economy were not the only economic policy problems of the regional government. Something which was still possible in the negotiations on the economic agreement was not repeated in the elaboration work of the LTH. The principle of strengthening the region's position in its relation to the central government was not incorporated in that law and the system it created. Interestingly, this corroborates Elton's point that decision- and policy-making were separate from the administration. The EBB, and the party in general, was to always break new ground in the most important and difficult issues. As Aja points out, ultimately there was a dialogue between the parties in power, not the governments.⁸⁹¹ The difference between power and the institutions stressed by Foucault is also seen here in that power relations were close to the institutions, but the EBB decided to follow the safest and best strategy. The intention was to maintain politico-economic power in the hands of the party, which was deemed easiest in the provinces rather than the region. A consequence was that while the provinces gained power and the internal financing system resembled fiscal federalism, the city administrations were economically subordinate to the provincial institutions. This meant continuous controversies over public financing between Vizcaya and Bilbao⁸⁹² and even as internal differences within the PNV. The party was in power at both levels.

As Foucault states, this situation between the different levels of administration was not however static; individuals, i.e., politicians, influenced it. Ardanza, who had been the head of the provincial council of Guipúzcoa and also worked in the corporate world, achieved some stability in the longer term,⁸⁹³ reducing the

⁸⁹⁰ Rivera 1998, 90–91.

⁸⁹¹ Aja 1999, 201.

⁸⁹² Cava Mesa 2000.

⁸⁹³ See, for example, Almunia 2002, 279.

in-fighting by leading the regional administration without challenging the power-structures of the party. Consequently, he even managed to increase the powers of the *lehendakari*. This did not mean that the power of the EBB decreased. Although the internal disputes of the 1980s whittled away the powers of the PNV in the long term, its strong administrative touch made it an easier coalition partner for the PSE than the EA, which was seen as an insecure choice among the Socialists. This again helped the public image of the PNV, which wanted to maintain its position and be the main Basque nationalist party to be reckoned with.⁸⁹⁴

The politically unstable second legislature (1984–1986), which was to end prematurely, was a time of institutional entrenchment in spite of everything. This was also an advantage for the political goals of the PNV and the party executive EBB. The development of the departments of the ministers was linked to the hierarchy and multi-level nature of the power transfers: (i) first there were transfers from the central government to regional government; (ii) from the regional government to the provincial administrations and (iii) again from the provinces to the regional administration. As a consequence of this, the regional government departments grew like topsy. The number of departments was lowest during the first Ardanza cabinet.⁸⁹⁵ During the succeeding years, the administrative procedures were further established and the reaction of the PNV to the Socialists' accession to the regional government and the challenge of the EA was to control such important political issues as the taxation and public funds even more.⁸⁹⁶ Interestingly, Ardanza's cabinets claimed, despite the consolidation of the LTH, that leadership in economic policy belonged to the regional government, and the provincial administrations were to assist it in that task.⁸⁹⁷ On the other hand, the regional governments tried hard to streamline their own economic policy-making structures and coordination.

According to the views of the cabinet minister the regional parliament was the basis for the political power in the Basque Country and the common regional institutions should be above the provincial councils and parliaments. The role of the regional government was to be the political leader. The roots of this thinking can also be found in the camp of the Socialists who placed their party leader in the regional government, partly to reinforce their weight in a cabinet dominated by

⁸⁹⁴ The EA's political programme, which included radical, but still democratic ingredients, did not make its cooperation with the PNV or the radical HB easy. Garaikoetxea 2002, 276.

⁸⁹⁵ Mesa 2000, 108–110.

⁸⁹⁶ Ardanza appointed the earlier minister of industry, Egoetxeaga, as the vice-*lehendakari* and the minister of the economy. Egoetxeaga was one of the most important *euskalerriacos* members of Garaikoetxea's cabinet. Lucas Murillo de la Cueva 1990, 228–229. The PSE minister's proportion of the total regional government's budget exceeded that of the PNV ministers. Mesa 2000, 115.

⁸⁹⁷ “*Órganos de apoyo.*” See the interview with the treasury minister, Fernando Spagnolo de la Torre, on 5.8.1998. HGV 2001, 704.

the PNV.⁸⁹⁸ In taxation and the management of public funds power existed outside of the regional government and importantly, upwards, which confirms Foucault's theory on power relations and overlap in the exercise of power. The historical influence and the role of the EBB in the creation of this situation was important. It also greatly benefited from this process during the period of my thesis.

All these factors were crucial; the position of the EBB within the party organisation was clear, its social sensitivity and readiness to compromise in order to bolster its position were good assets; it also had clear goals in economic policy, it was strongly linked to Vizcaya and its business interests, and it was still eager to represent different social groups. Finally, local finance ministers could always rely on the support of the EBB and they were the architects of many economic policy achievements. The strategic role of the EBB was by no means weak.

4.4. The PNV's use of politico-economic power and the Basque provinces

4.4.1. Relations under tension

Since the beginning of the new autonomy, the PNV, which had become the leading party on the Basque political scene, had to face the fact that the social and economic structures in Vizcaya, Guipúzcoa and Álava were different and sometimes even antagonistic and contradictory. The historically and politically disparate development of the provinces had created a pluralism which in turn produced a variety of local identities.⁸⁹⁹ This continued to reverberate in the politico-economic power relationships and the struggle that took place; this struggle was also in some cases similar to the internal power struggle of the PNV. The internal heterogeneity of the Basque Country was on display within the PNV and its internal, rival economic and social visions were a *fait accompli* in the 1980s and 1990s. Foucault's reasoning suggests that politico-economic power in the Basque Country became a cluster of relationships which the party and the EBB aspired to coordinate. However, the tense relationships between the provinces made this task difficult.

For example, the representatives of the PNV in Álava⁹⁰⁰ hoped both on account of the new economic agreement and the LTH law for a solution that would help to make the province even more self-contained. The political tensions in Álava repeatedly came to light. At the same time the PNV strove for a stronger position in that province, something that proved difficult, its support remaining at 30 percent. The regional councils of Vizcaya and Guipúzcoa also emphasized the

⁸⁹⁸ Interview with Economic Minister Juan Atienza Serna of 6.7.1998. HGV 2001, 795.

⁸⁹⁹ HYML: Raento 1996, 203.

⁹⁰⁰ The most important was the leader of the provincial council, Emilio Guevara (PNV). Interview with the treasury minister, Pedro Luis Uriarte, of 24.7.1998. HGV 2001, 334.

politico-economic autonomy of the provinces.⁹⁰¹ The regional governments led by Garaikoetxea did not support that kind of solution, but tried to control the provinces economically from the regional administration.

For the regional government, the dispute over the LTH law signified a worrying trend in economic policy coordination. This was exacerbated by the PNV's way of exploiting the *fueros* in its political programmes in very general terms only. For the provinces it was therefore easy to invoke the party's definition of policy. It was essential for the future economic policy of the provinces that their traditional right to tax collection be preserved in the Statute of Autonomy. The economic agreement of 1980, which highlighted the role of the administration of the provinces, transferred the right to regulate the taxes to them. The councils of the provinces were therefore administratively and economically the most significant repositories of the historical rights which the PNV underlined in its rhetoric and capitalized on politically. The provinces also became the most significant users of those rights.⁹⁰² The LTH was to regulate the division of powers between the regional government and the three provincial councils, as well as including a model for the Basque Country's internal system of financing by distributing the power to impose tax. This law only strengthened the politico-economic position of the provinces in the 1980s when they were able to decide on the regulation of taxes as well as the use of the tax revenue.

The influence of the provinces on economic policy only became clear at the latest when the European Commission started to investigate the tax subsidies at the provincial level where the core issues were the special corporate tax credits for investment or business start-ups provided by the Basque authorities and the fiscal residence shifts produced by those benefits. The economic consequences of these shifts were linked to the changes in resource allocation involved since revenue effects stemming from other taxable bases, such as personal income tax or indirect taxes, were also to benefit the region.⁹⁰³ According to the PNV, the provinces' "right" to regulate taxes was recognized, *not given* by the Spanish state. It then was not transferred to the communitarian level when Spain joined the EC/EU. The PNV stressed that the EC/EU could not question this historical right of the provinces. The only way to find a solution for such problem according to the party was for the region to have its voice heard better in the EC/EU by letting the Basque representatives participate in the work of the EU when the issues which were its responsibility were being dealt with. However, the statements of the PNV and the members of the regional government were not precise; they indicated however that in practice the regional political leadership would represent the provinces.

The PNV's actions enabled the provinces' institutions and its own party

⁹⁰¹ Interview with the treasury minister, Pedro Luis Uriarte, of 24.7.1998. HGV 2001, 333–335.

⁹⁰² Onaindia 2000, 80–81.

⁹⁰³ Joumard & Varoudakis 2000, 43.

councils to influence the regional government. Basque economic policy was thus characterised by provincial interests and the relationship between the regional government and the provinces developed into an extremely sensitive one. My analysis of the use of power also reveals that the EBB's attitude towards the provinces and their administrations varied in the 1980s and 1990s, depending on the objectives of the EBB. These actions sometimes seemed contradictory and their motives and outcomes have not been thoroughly assessed so far. They still offer a window on the analysis of the party strategy and how it was implemented.

The clearest example of the EBB's and the whole party's strong relationship and bond with the provinces can be found in Vizcaya and its administrative capital, Bilbao. These were historically important places for the party and in 1980–1998, as during the previous times in its history, it was here that the PNV enjoyed its strongest support. Greater Bilbao also remained a centre of regional economic and political power. The Guggenheim museum opened in fall 1997 and crystallized the politico-economic problems of the 1980s and 1990s. It was part of a bigger project aggregate which was not exceptional in the European context. However, it testifies to the need to turn the problems of the outdated economic structures of Vizcaya to its advantage and that the appropriate political decision be taken. It was also an indication of innovativeness and the PNV's economic policy, which favoured special projects, and the party's determination to use the regional politico-economic powers positively: a significant public investment was carried out at the provincial level with the blessing of the EBB.

During the time covered by my thesis, Bilbao suffered from the same prolonged economic depression as the rest of the region. The city leadership was trying to find a way out of this impasse. After the opening of the Guggenheim museum, its name was used to explain not just cultural but also economic, political and even societal factors. By 1998, economists and journalists were using the concept of *el efecto Guggenheim*, or the Guggenheim effect, when they wanted to refer to the positive economic outlook of the Basque Country. The role of the PNV and its leadership, the EBB, had been crucial in this process, which importantly concerned its power-bases, Vizcaya and Bilbao. I will analyse this process later.

For the reasons I have explained, Vizcaya and Bilbao, despite the prolonged economic recession and the crises of the traditional heavy industry, were easier locations for the PNV's exercise of politico-economic power than Álava and to a lesser extent Guipúzcoa. Support for the party remained low, particularly in Álava. Support for the PNV in Vizcaya was also more evenly spread between the social groups and the whole province was socially more coherent than other provinces. The provincial council of Vizcaya, where the PNV had a significant position in the 1980s and 1990s, also differed from the other provinces' administration through its greater size.⁹⁰⁴ The PNV had therefore a larger politico-administrative machinery at its disposal than elsewhere.

The political weight of Álava and the practical problems the PNV suffered as

⁹⁰⁴ Mesa 2000, 97 & 266.

a result came out during the negotiations on the economic agreement. The Basque side was not just concerned to define the technical details of the agreement, but to maintain the inter-provincial political relations. A particular objective was to maintain both Álava's and the other provinces' independence in taxation.⁹⁰⁵ The administrative capital of the Basque Country, Vitoria-Gazteiz, had been the centre of a diverse province, which for many reasons was not politically easy for the PNV. Álava was historically defined by its own identity, but as a region it was internally less integrated. Its relationship with Vizcaya was full of historical tensions which the PNV had to take into account. The politico-economic symbolic value of Álava was not low due to the economic agreement maintained by Franco.

With the establishment of the autonomous community, Vitoria-Gazteiz became a new centre within the autonomous region and even in its own province. The identity of Vitoria-Gazteiz included indications of setting of boundaries with its environment⁹⁰⁶ and negative attitudes towards Bilbao. This eased of the pace of the growing political power of the PNV in that city, as in other parts of Álava. This was not a new phenomenon, there having been reservations in Vitoria-Gazteiz concerning the economic and industrial development of the Bilbao region since the latter part of the 19th century.⁹⁰⁷

In any case, the platform of the PNV in Álava leant on economic issues. This was partly for historical reasons; we must note that in the early 20th century, when the economic agreement was once again re-negotiated, all the political forces in Álava strongly backed the continuity of that arrangement. After the Spanish Civil War, the maintenance of that agreement made this issue very important. After the death of Franco it was politically advantageous for every party to advocate respect for Álava's economic agreement and interests. Moreover, it is important to understand that the PNV's propagandist view on the rural idyll which it appealed to from its early existence did not politically help it in Álava or Vitoria-Gazteiz, since the so-called *vitoreanismo*, or Vitorianism, historically shunned rural culture.⁹⁰⁸ The difficulties the PNV experienced in Álava can be best described by pointing out that the party started to secure its position in that province and outside of Vitoria-Gazteiz only during the Second Republic.⁹⁰⁹

At the beginning of the current autonomy, the PNV tried to openly support Vitoria-Gazteiz, the newly chosen administrative capital of the region, but the increasing influence of *bizkaitarrismo* in the PNV during Garaikoetxea's second term did not facilitate the PNV's relations with Álava.⁹¹⁰ Neither did this help the

⁹⁰⁵ Interview with treasury minister Pedro Luis Uriarte of 24.7.1998. HGV 2001, 317.

⁹⁰⁶ Rivera Blanco 1990, 23.

⁹⁰⁷ Op. cit., 31–32; the same anti-Vizcaya spirit characterized the centre-right provincial party *Unidad Alavesa* (UA) in the 1990s. Significantly, foralism had an important role in its background. Martínez Sospedra 1996, 316.

⁹⁰⁸ Rivera Blanco 1990, 27–28.

⁹⁰⁹ Op. cit., 23–24.

⁹¹⁰ See the interview with the *lehendakari* Carlos Garaikoetxea of 23.7.1998, HGV 2001, 112.

relationship of the party with Guipúzcoa.⁹¹¹ In conclusion, the power of the PNV in Vizcaya brought problems in other Basque provinces in some sense; the most obvious example of this being Álava, where the support for the PNV did not rise very high. In Guipúzcoa, its main political rival in the 1980s was the Socialists, who established a firm foothold in San Sebastián. Then again, the EA splinter generally group took some of the backing of the PNV in Guipúzcoa. The PNV however tried actively to take into account that Guipúzcoa's small and medium size companies had different interests from those of big business' in Vizcaya.

4.4.2. Congruent interests – Vizcaya and Bilbao as an example

The province of Vizcaya and the city of Bilbao in general have a special status in the history of the PNV and the history of its exercise of politico-economic power is no exception. The leadership of the party as well as the regional government had an obviously strong relationship to them in 1980–1990, despite the intentions of the province to pursue its own industrial policy.⁹¹² On the other hand, Vizcaya suffered during that whole period from a deep and prolonged economic crisis and was a living example of shutdown of the old economic structures. However, the support for the PNV in the region did not change radically. The party had supporters there not just in the middle-class, but also enjoyed solid support in other social groups, something which prevented the other parties seriously challenging the PNV in that area.

The leadership of traditional heavy industry in Vizcaya differed from the other business elites in the Basque Country during the first and the second industrial revolution. It was clearly the leading group among the Basque businessmen and maintained strong family business characteristics. There was something in Vizcayan capitalism which resembled the Basque traditions: the role of family was strong and the task of the eldest son particularly was to continue the business.⁹¹³ As I have explained, early in the history of the PNV some of the upper middle-class in Vizcaya started to support the party; this again changed the general views of the PNV concerning industry and its relation to economic growth. Many of the ship-owners in Bilbao openly embraced the PNV. By the time of the Second Republic, the party had been able to achieve backing even among the industrial workers of Vizcaya of whom a significant number were not Basque by birth.⁹¹⁴ In all these groups, the support for the PNV was transferred from one generation to another during the 20th century and Vizcaya was a powerful presence in the ideology of the party. Bilbao, the cradle of the PNV, remained understandably at

⁹¹¹ Like an antithesis to the PNV's and Vizcaya's strong bond, the EA and the HB were both strongly present in Guipúzcoa. Martínez Sospedra 1996, 316.

⁹¹² For example, treasury minister Basagoiti's background was linked to Vizcaya. See, for example, the interview with the treasury minister, Alfonso Basagoiti, of 15.6.1998. HGV 2001, 846.

⁹¹³ Cava Mesa 2000, 19.

⁹¹⁴ Granja Sainz 1995, 149.

the heart of party policy. This makes analysis of the political events in Bilbao in 1980–1998 necessary in order to understand the PNV strategy. That strategy was, as Foucault argues in his writings,⁹¹⁵ locked into the regional power relations and ultimately created the dominant position of the PNV in Basque politics in 1980s and 1990s.

My research approach is threefold: (1) First I explain what developments led to the adoption of a new economic policy and its implementation. (2) Secondly, I demonstrate the congruence of the regional government and Bilbao city administration's interests, one result of which was the museum project. (3) Thirdly, I explain the rapid economic change that took place in the economy, what the role of the new economic policy was in this and what the so-called Guggenheim effect meant to Vizcaya and the rest of the Basque Country.

(1) The economic development of Bilbao followed the general direction of the regional economy in the period covered by my thesis, because most of the heavy industry in Vizcaya was located in greater Bilbao. In the early years of autonomy, the new democratic administration of the city was taking shape and the political groups criticized each other for authoritarian actions.⁹¹⁶ The PNV took the lead in the city administration and a balanced budget was achieved by the early 1980s when it gained more of the public revenue. The taxation became more efficient, the budgeting more precise and the spending was rationalized. The city administration at that time was characterised by modernization and concentration on its finances.⁹¹⁷ However, the Socialists and the EE criticized the PNV for inflexible and authoritarian administration. In practice, this criticism was directed at the PNV's way of not accepting or taking into account the proposals and ideas of other political parties.⁹¹⁸ The political independence of the PNV was based on its strong majority position, political methods and the general atmosphere in the region. The party was still aware of the problems this situation involved. Various working groups were created to support the work of the city council and, the separate four-year plan was adopted to help the administration and to improve the PNV's relations with other parties.⁹¹⁹

At the beginning of the 1980s, Bilbao suffered from the growing problems of the region's heavy industry and a housing shortage, traffic problems and a crisis in its school system. The main reasons for these problems were the economic recession that affected the whole Basque Country as well as mistakes made in urban planning in previous decades. In order to ease the situation, the city council organized meetings with the representatives of the provincial council of Vizcaya in the regional government.⁹²⁰ The political alliance between the PNV and the

⁹¹⁵ Foucault 2000b, 348.

⁹¹⁶ Cava Mesa 1999, 29.

⁹¹⁷ *Op. cit.*, 30–31.

⁹¹⁸ *Op. cit.*, 33.

⁹¹⁹ *Op. cit.*, 40–43.

⁹²⁰ *Op. cit.*, 24–26.

PSE which started at the regional level also became apparent in the Bilbao city council.⁹²¹ Industrial peace in the city government improved, but its relations with the provincial council of Vizcaya remained difficult, the reason being that the provincial council was responsible for deciding on the financing of the city, the main feature of the Basque system of finance, which in practice restricted its economic elbow room.

Heavy industry had been the mainstay of the economy of the city up to the 1980s. The Spanish EC membership meant in practice that the shutdown of that industry would accelerate; in Bilbao this felt like the end of the old economic system. By the end of the decade, the city's borrowing became a real threat to its development.⁹²² The underlying reason for this was the system established in LTH law by which the provincial councils had strengthened their positions and served the interests of their province in the first place, and the regional government only after that. However, the financing of cities originated largely from the regional government. Cities which represented the local level in the Basque Country and whose financial needs grew continuously were placed further away from their economic resources in the administration because of the LTH. In the Basque Country, the governing bodies of the cities generally hoped for more flexible means of funding.⁹²³ There was no consensus within the PNV on this matter and the then mayor of Bilbao, José María Gorordo (PNV), openly shifted the blame for borrowing onto his own party at the end of the 1980s. He explained his opinions by indicating how the regional government and the provincial council controlled practically all the economic resources of the city. The 1985 regional law on the division of financing (*Ley de Aportaciones*) established a system where the role of the provincial councils clearly exceeded the city and municipal level.⁹²⁴ According to Gorordo, the problem of city debts was therefore impossible to solve at city level.⁹²⁵ Although the idea of making Bilbao into a future original metropolis emerged during his mandate, the priority was then given to finding a solution to the financial problems. In any case, in the late 1980s a new kind of development plan was made for Bilbao (*Plan General de Ordenación Urbana*), financed by the regional government, the Council of Vizcaya and Bilbao city council.⁹²⁶ The dominating position of the PNV at various levels of administration, and the

⁹²¹ The success of the EA in the regional elections of 1987 weakened the PNV's position in the regional administration, as it did in the city leadership in Bilbao, though the main stronghold of the EA was Guipúzcoa. Cava Mesa 1999, 61–62 & 82–83.

⁹²² The city's borrowing was increased in the 1980s by large land purchases. However, many of these areas were re-sold, and did not remain in the hands of the city; this was important when large-scale construction projects were undertaken in the 1990s. Op. cit., 43.

⁹²³ Op. cit., 104–105.

⁹²⁴ See the interview with the treasury minister, Fernando Spagnolo de la Torre, in 5.8.1998. HGV 2001, 703.

⁹²⁵ Cava Mesa 1999, 69.

⁹²⁶ Op. cit., 72–73.

decision to give Vizcaya and Bilbao priority were crucial factors in the creation of this arrangement.

In Bilbao and its neighbouring areas, a relatively short economic boom was experienced at the beginning of the 1990s, but political violence darkened the shadow of the city's economic malaise. Although ETA did not strike in Bilbao, companies moved away for fear of terrorism. In the problems of the Basque Country and Bilbao, it was not just a question of differing economic policy views; at the local level the developments which started at the end of 1970s and continued into the 1980s were believed to be leading the region's economy and society to complete collapse.⁹²⁷ The decrease in population and the change in the relative economic importance of Bilbao were statistical facts. In the case of Bilbao, the intangible term "mental recession" was also used and the economic and social crises of Bilbao finally meant that the whole image of the city was to be modernized. A transitional stage in the administration of the city started in 1991 when the fight against the problem of public borrowing was started by intensifying economic planning, re-organizing the administration and capital base and financing arrangements as well as tightening control of borrowing. Atienza (PSE), the regional government's minister for the economy, was involved in starting a revitalization project for Bilbao. He emphasized the opportunity to utilize EU funding in the projects targeted at improving the communications network and infrastructure.⁹²⁸ However, there were problems resulting from his restricted powers and the distrust shown by the representatives of the PNV on the city council and the regional council of Vizcaya. Furthermore, the idea of supporting Bilbao was not unanimously supported within the PSE. In the end, the responsibility for the project was given to a private consulting firm,⁹²⁹ so that the public-private cooperation in this case resulted from lack of political leadership. To assist the revitalization of Bilbao and create a joint strategy, a separate association was created in May 1991, called Bilbao-Metropoli 30 (BM-30).⁹³⁰ Its objectives were to reinforce planning for the future, to publicize it and to assist the city in its international relations. The association was also to carry out research and even represent the city on special occasions. This association, dedicated to issues of urban planning and public administration, hoped to enhance the restructuring of the industry and redirect the economy, as well as turn Bilbao into a centre offering modern services. The founding fathers of BM-30 were public and private sector

⁹²⁷ Nuevos Extractos de la Real Sociedad Bascongada de los Amigos del País 1998 (I), 12–13.

⁹²⁸ El Correo 18.5.1990; the interview with the minister of the economy, Juan Atienza Serna of 6.7.1998. HGV 2001, 793–795.

⁹²⁹ Andersen Consulting. Esteban 2000, 89 & 99–100.

⁹³⁰ Egin 10.5.1991.

organizations and private individuals.⁹³¹ The city leadership aimed at saving Bilbao from the economic tailspin, something which seemed unstoppable; a new kind of city was to replace the old Bilbao, in which more and more companies and factories were closing down.⁹³² The city fathers had also been actively seeking a role for Bilbao in the context of European cities since the beginning of the 1990s. There were several cooperative networks to choose from but, more importantly, the city tried to identify itself again.⁹³³

In 1992 various levels of government agreed on cooperation for the Bilbao metropolitan area when the Spanish Ministry for Public works, the Basque Government, the Vizcaya regional council and the Bilbao city council started the Bilbao Ría-2000 joint venture.⁹³⁴ The idea of helping Bilbao and Vizcaya was not however received with enthusiasm among the Basque socialists.⁹³⁵ The economic policy of the city of Bilbao in the 1990s was a mixture of efforts to revitalize and strategically change the economic existing structures towards a tertiary sector economy. Active marketing and lobbying was involved. The Guggenheim foundation's interest in the Basque Country and Bilbao was confirmed when the representatives of the region were ready to invest a significant amount of money in the project. The anthropologist Zulaika, who has studied Bilbao and this project, stresses how the problem in this procedure was mainly the way in which Bilbao was intended to revive, and how the interest of the Guggenheim foundation, which had its own financial problems, was aroused: "by donating 2,000 million pesetas [12 million euros] of public money to Wall Street when the region was suffering from unemployment of 25 percent". With that money "a private museum located in New York was kept afloat".⁹³⁶ From the start, the project included an element of significant financial risk-taking. The museum, like the other projects in the area, was a positive step toward economic redirection, but did not alone provide a reasonable basis or opportunity to start talking about a new economic policy for the regional or other governments. My intention is to trace the strategy of the PNV in its use of power.

⁹³¹ World Urban Economic Development 1999, 2; the revitalization of greater Bilbao was also followed in the 1990s by the Deusto University's Instituto Deiker, with the criteria defined for this purpose: *El sistema de Indicadores de Revitalización del Bilbao Metropoli*. These were used to analyse the process of the revitalization according to four main criteria: the quality of human resources, internationalisation (i.e., the region's integration in international economic structures), the development of the IT society, and sustainable development. *Indicadores Estratégicos de Revitalización: Comparación del Bilbao Metropolitano con las Areas Metropolitanas del Estado 1999*; for the strategy of Bilbao Metropoli-30, see *Plan estratégico para la Revitalización del Bilbao Metropolitano 1997*.

⁹³² Cava Mesa 1999, 106.

⁹³³ Zulaika 1997, 108.

⁹³⁴ Cava Mesa 1999, 117; Esteban 2000, 116.

⁹³⁵ *El Correo* 30.10.1991, 22.1.1992 & 7.2.1993

⁹³⁶ Zulaika 1997, 227.

For my own analysis it is important to see how the strategy of the PNV changed and, as the geographer Donald McNeill points out, this was seen locally in the form of actual projects.⁹³⁷ The new economic policy intended to solve the socio-economic problems of Bilbao first of all formed part of the objective of changing the image of the city completely in the short term. The city-level decisions to redefine strategic planning via institutions like the BM-30 happened just as the leadership of the PNV was increasingly worried about the bystander role of the Basque Country as the preparations for the several international events in Spain in 1992 such as the Olympic games in Barcelona, the World Expo in Seville and the role of Madrid as the cultural capital of Europe passed it by.⁹³⁸ Zulaika emphasizes how difficult it is to demonstrate what really happened within the party concerning its role in the Guggenheim project. The prominent role of the PNV in this is still historically clear.⁹³⁹ My analysis, which takes into account the different levels of administration and the party's parallel structures, shows how the party was facing a double challenge. Its strongest power-base, Bilbao and Vizcaya, needed quick solutions and politically the party was expected to demonstrate its capabilities with all the powers granted to the regional level. Since Vizcaya was demographically and economically the most important part of the region, changing its economic direction would also have the biggest impact. The same effect could not be achieved via Guipúzcoa or Álava. The need for image-raising was also most urgent in Bilbao, which was in a state of economic and social degradation. All these reasons had their effect when the party was deciding to take the political and economic risk inherent in that particular project. Doing nothing to stop the decline of Bilbao and Vizcaya would have also had its own obvious political consequences. This ambitious project was thus started and the EBB approved the agreement to be made with the Guggenheim foundation in December 1991.⁹⁴⁰ The objective was clearly to remake Bilbao and Vizcaya again and restart the Basque economy.

In the Vizcaya provincial council it was the counsellor of treasury, Juan Luis Laskurain, also a member of the EBB, who was responsible for this project. Having consulted the EBB, he decided that this project would be good for the economy of Bilbao. The project idea had also already been approved by those responsible for the city's urban planning. Only a few months later, the project was announced to the regional government's culture minister, Joseba Arregi (PNV).⁹⁴¹ The fact that the preparation work was done by the treasury and that the department of culture was kept aside till the capital-base was provisionally agreed upon does not alone prove that the project was PNV-linked, though it has been used to back that argument.⁹⁴²

⁹³⁷ McNeill 2000, 491.

⁹³⁸ Zulaika 1997, 27.

⁹³⁹ *Op. cit.*, 27 & 31.

⁹⁴⁰ *Op. cit.*, 197 & 199.

⁹⁴¹ *Op. cit.*, 141.

⁹⁴² Zulaika, for example, does that. *Op. cit.*, 187 & 189.

As I have explained in the previous chapter, the treasury remained firmly in the hands of the PNV. The procedure used in this case indicates the intention of the PNV to control the significant politico-economic risks of this project. A revealing detail of the power of the PNV in the Basque context is that it made the provisional decision to finance the museum with the funds from the provincial council.⁹⁴³ When Laskurain later defended (1996) the solution for Bilbao's and the Basque Country's socio-economic problems being found in cultural life, he stressed how it was not a question of something "contrary to economic life" and that these two were integrated.⁹⁴⁴ He still admitted that the economic-cultural sector was a "great unknown"⁹⁴⁵ and in the mid 1990s its contribution to Basque GDP was only 3 percent. This reveals the scale of financial risk involved in this project and the decision-makers' awareness of this. Still, the ministers and representatives of the PNV unanimously presented this as a consequence of the regional powers and that they were being used for the benefit of the region and would start a new period in its economy.

Importantly, Laskurain's statements indicate how the city leadership had taken a political decision to stop the prolonged economic recession,⁹⁴⁶ thinking this was congruent with the views of the regional government. The events of the early 1990s also reveal how a change took place in the regional government's relations with Bilbao; this has been called "channelling of liability" to the city by Pedro Ugarte.⁹⁴⁷ The *lehendakari*, Ardanza, the region's highest representative, was also involved in this project in public. Arregi, the culture minister, stated that in the negotiations of this project he represented "a country which was in a deep economic crisis, and whose particular problem was terrorism".⁹⁴⁸ All this demonstrates how this project had a strong basis in the mutual interests of different levels in the Basque Country and where the PNV was politically powerful.

Zulaika calls the Guggenheim museum a politico-economic agreement produced by the leading politicians of the PNV.⁹⁴⁹ The partners in the coalition government, the Socialists, were informed in detail only when the planning work had already long been in hand. Their concerns were related to the financial risk of the project; their pressure led to changes in the final agreement made between the Basque administration and the Guggenheim foundation. Arregi also demanded

⁹⁴³ Zulaika 1997, 35–37.

⁹⁴⁴ None of the new projects which aim at economic development could ignore the cultural sector; he referred here to the report by Xavier Dupuis, published by UNESCO on this subject. Laskurain 1996, 14.

⁹⁴⁵ *Nuevos Extractos de la Real Sociedad Bascongada de los Amigos del País* 1998 (I), 15–16; vrt. Plaza 2000, 266–267.

⁹⁴⁶ Zulaika 1997, 61.

⁹⁴⁷ Ugarte 1999, 143.

⁹⁴⁸ Zulaika 1997, 151, 153 & 175.

⁹⁴⁹ *Op. cit.*, 217; see also Guggenheim Magazine 1997, 8–9.

those changes be made before he would sign the agreement.⁹⁵⁰ The Socialists implied on several occasions that this was not their idea. The other parties in the region publicly criticized the PNV for starting this; the differing views of the Socialists also emerged on the only occasion when the project was discussed in the plenary of the regional parliament in 1992.⁹⁵¹ The other parties could not attack the main objective of this project, but took notice of the province chosen by the PNV for this large-scale effort to change the image of the autonomous community and the lack of coordination between the government parties. In this pattern, the most active participant was still the PNV.

The Guggenheim museum, which was the third in the world, opened its doors in Bilbao in October 1997.⁹⁵² First of all, this project can be seen as a result of the deep economic problems of Bilbao and the whole of Vizcaya as well as the need for a structural change and reconstruction of its economy. Secondly, it was an example of local and regional level innovativeness,⁹⁵³ and thirdly an example of the economic policy of the dominant political force, the PNV, which actively sought for solutions to the prolonged economic recession in the early 1990s. The outcome was a success and the PNV saw it as demonstrating its own ability to act for the good of the region. This project was also considered as an example of the contradictions inherent in the economic policy of the party. The PNV aimed to develop the regional economy from its own structures and used the regional institutions only when the project was already launched. In a certain sense, this project continued the pattern of the PNV actions where special projects made possible by local tax revenue were used to trigger economic changes. In conclusion, the Guggenheim museum was seen by many contemporaries in the Basque Country more as an economic project than a showcase of modern art.⁹⁵⁴ My thesis corroborates this notion. More importantly, the history of the implementation of this project clearly reveals how politico-economic power existed outside of the administrative structures. It also shows how adroitly the PNV used the various levels of the administration in realizing its own strategy.

4.4.3. The Guggenheim effect

The economic and social effect triggered by the Guggenheim museum soon became apparent in Vizcaya and other parts of the region as well. The term *Guggenheim*

⁹⁵⁰ Zulaika 1997, 179 & 181–182.

⁹⁵¹ PV:PLENO: 04\08\03\00\0025 21.02.1992.

⁹⁵² ETA tried to sabotage the museum's inauguration, without success. McNeill 2000, 489; see also Helsingin Sanomat 18.10.1992 & 19.10.1992.

⁹⁵³ Examples of this combination of economic and cultural interests can be found in other parts of Europe. Every project is still unique in economic terms. McNeill 2000, 491; for an institutional perspective on the urban economy, see also Lambouy & Moulaert 1998; for old and new urban policy schemes of the 1990s in Bilbao see Rodríguez 1998.

⁹⁵⁴ Onaindia notes counsellor Laskurain's role in this project. Onaindia 2000, 94–95.

*effect*⁹⁵⁵ was introduced in the newspapers to describe the new economic and social rise in the city of Bilbao. It was soon applied to the economic upturn in the entire Basque Country; outside of Vizcaya its economic impact was more limited and the economic turn-around was also based on the growing adaptation of the Basque industry to the new technologies.

The museum was financed by 35 enterprises from various sectors, and 14 other companies and societies supported it with additional funding. Moreover, it had a looser connection to 52 other companies. The capital base of the museum was therefore considered broad. In practice, the financial aid in the first year of activity exceeded 700 million pesetas (4.2 million euros). The self-sufficiency of the museum 12 months after the opening was 67 percent, as against the original estimate for the first year of only 45 percent. During that period it generated almost 4.5 billion pesetas (about 27 million euros) via purchase tax, income tax and company tax for the Basque fiscal administration. The first statistics concerning the economic effect of the museum were published in autumn 1998. During the first 12 months the museum received about 1,360,000 visitors. The profit in that year was 24.043 billion pesetas (almost 145 million euros), exceeding the cost of realization, which was 23.5 billion pesetas (over 141 million euros).⁹⁵⁶ It was a successful investment already. The economic risk-taking had still been considerable in this project. During the first year, the museum became a symbol of the economic resurgence of Bilbao. Thanks to the museum, the income of the city from tourism multiplied, growing by 28 percent in 1998. Bilbao had become a popular place for congresses and seminars with the help of other large-scale building projects.⁹⁵⁷ All this affected the image of the Basque Country.⁹⁵⁸

The museum soon took its place in the history of Bilbao and marked a new start in the local economy; this building with its original appearance was soon obvious in the news concerning the whole region. Guggenheim actually brought along a markedly different tone. During the first six months after opening, the city received twice as many tourists as expected. The real economic and social effects of museum in the Basque Country were to a great extent unexpected. Bilbao itself was on the brink of a new economic boom and the shutdown of traditional heavy

⁹⁵⁵ *El efecto Guggenheim; el fenómeno Guggenheim*. See, for example, *Expansión* 21.10.1998.

⁹⁵⁶ *Impacto de las Actividades de la Guggenheim Bilbo Museoaren fundazioa en Euskadi* 1998, 4; *Expansión* 21.10.1998.

⁹⁵⁷ For example, the modernization of Bilbao's art museum Museo de Bellas Artes. *El País* 2.10.1998.

⁹⁵⁸ During the first 12 months after opening, there were more than 8,500 newspaper articles, 60 percent in the foreign press. *Expansión* 21.10.1998; *El Mundo* 24.10.1998; for the Finnish newspapers, see *Helsingin Sanomat* 18.10.1997; for the psychological effect, see the interview with the director of the museum, Juan Ignacio Vidarte. *El País* 11.10.1998; *Onaindia* 2000, 56–60.

industry seemed to have ended.⁹⁵⁹ The image of Bilbao started to change, receiving publicity in the entirely new context of modern art and architecture. The positive economic situation brought new challenges to the economic policy-makers. As Laskurain had emphasized two years before (1996), other cultural projects in the Basque Country were to be utilized and maintained as the regional administration and educational institutions had to prepare themselves to meet the needs of this service sector. The training and development of human resources was the task of the higher education institutions in the region. Laskurain admitted this was a real challenge for the region.⁹⁶⁰

The signs of the emergent economic boom were clear in the Basque economy by 1998. The growth of GDP in the region was 5.2 percent, whilst elsewhere in Spain it was only higher in the Balearic Islands. The growth of industry was no less than 6.2 percent. However, the employment grew only 2.3 percent and remained under the medium level which was 3.4 percent. The unemployment rate (17.8 percent) dropped below the Spanish average (20.8 percent). The touchstone of the Spanish economic expansion, growth in productivity, again increased significantly in the Basque Country, being 2.8 percent where the Spanish average was only 0.5 percent.⁹⁶¹ The visible psychological change in the Basque economy and the economic take-off had several causes, including the general economic outlook in the EU, the integration process and the preparation of the countries which formed the Euro-zone. The low producer prices in Spain, and particularly in the Basque Country, also facilitated the rapid growth. The long-term policies of the regional government combined in the continuous marketing of the region, its emerging new image started to produce results and new companies began to arrive and invest after many years of stagnation. Neither did the entrepreneurs move away from the region in numbers as they had done under the threat of terrorism. ETA's unilateral ceasefire, declared in September 1998, was believed in political as well as business circles to have given the regional economy a better outlook.⁹⁶²

The economic and politico-economic developments in Bilbao in the 1980s and 1990s were not without repercussions in Europe. Historically, the underlying cause is the lateness of the economic depression; since the shutdown of the earlier economic structures continued during the first half of the 1990s. It also took place in tragic economic and social circumstances when the region suffered from political instability and the problem of terrorism persisted; in that sense it was an exceptional case in the EU context. Apart from this, Bilbao itself had lost some of

⁹⁵⁹ The strongest effect was on metallurgical basic industry, production of special steels and domestic electronics and ship-building. Ugarte 1999, 147; for the positive economic outlook the museum offered for the future, see Tellitu, Esteban & Carrera 1997.

⁹⁶⁰ *Nuevos Extractos de la Real Sociedad Bascongada de los Amigos del País* 1998, 30–31.

⁹⁶¹ *España 1998 Memoria sobre la situación socioeconómica y laboral* 1999, 67–70.

⁹⁶² For example, the article written by Manu Álvarez, published in *El Correo* 4.7.1999; *El Semanal* 20.2.2000 and that written by professor Roberto Velasco, published in *El País* 23.10.1998.

its traditional leadership role during the 1980s.⁹⁶³

The question of the economic consequences of political violence comes up again when the effects of the museum are analysed. Interestingly, this issue was dealt with by the newspapers in the context of Guggenheim, especially after the ETA ceasefire in September 1998, but in a markedly more open manner than before.⁹⁶⁴ This question was also raised in analysis of the effects of the museum by economists.⁹⁶⁵

Significantly, the Guggenheim museum project was a catalyst which facilitated the modernization of an extensive urban centre. It not only brought tourists to the area but also expanded the demand for services and consequently helped the tertiary sector across the region; this development was particularly important for the local hotel and catering service providers. The project was good for the welfare of the region. These changes in the economic structures of the Basque Country and the fact that the whole region enjoyed an economic boom in 1998 were politically beneficial for the PNV. At that time the party took politico-economic leadership in terms of real actions.

In sum, the exercise of politico-economic power of the PNV from 1980 to 1998 was distinguished by regionalism, populism and capitalism. From early on in its history the party skilfully utilized concepts like the *fueros* and the economic agreement in its policy. Importantly, the PNV originally succeeded in gaining support using an economically attractive programme, not with romanticism. The party's actions in the 1980s and 1990s followed that pattern and tradition. Within the power structures of the Basque Country, the PNV often had to deal with mutually antagonistic forces. Foralism, without defining it in detail, and its symbolism, was one response to that reality. In the end, the PNV did not try to dismantle the powers of the provinces, since they were needed to carry out large-scale projects at the provincial level like the Guggenheim museum. That extravagant project was meant to boost the regional economy and to demonstrate the willingness of the party to use its powers in a popular way. Moreover, the project was certainly capitalistic.

⁹⁶³ Ugarte 1999, 150–151; El País 1.6.1999.

⁹⁶⁴ See, for example, El País 11.10.1998, and El Correo 19.12.1999.

⁹⁶⁵ See, for example, Plaza 2002.

5. THE INCREASE IN POLITICO-ECONOMIC POWER AND ITS LIMITS

In this chapter, I consider the question of the increasing authority of the Basque Country in the finance and economics and its limits. Moreover, I investigate the federalist traits of the Basque Country in that respect, and how this question is closely linked to the strategy of the PNV. My intention is not to try to contribute to the legal or political discussion of the power structures of the Spanish State of Autonomies. This is not the point of my study, nor is it my task as a historian. My analysis concentrates on the characteristics of the growing politico-economic power of the region and how the limitations of its use became apparent by the end of the period under consideration. The historical analysis of the actions of the PNV naturally offers an insight into the evolution of the State of Autonomies. The major developments in the Spanish tax system in the 1980s and 1990s are also natural parts of this framework.

In 1980–1998, Spain and the Basque Country were no exception to the rule that public spending increased because of social welfare. Since this general trend is, however, “often cited as a measure of power of the state”,⁹⁶⁶ the concepts of federalism and fiscal federalism in the case of the Basque Country are important to political history. What are their manifestations and implications in this case? And what are the problems of the use of these particular concepts in this context? These are important questions that have not previously been dealt with in studies on contemporary Basque political history. The point of my analysis is to explain how all this interlocks with the way the PNV managed the regional economy.

In this chapter, I also demonstrate how the politico-economic powers of the PNV at its height simultaneously met the ceiling imposed by the EC/EU regulations. The effect the European integration had on the PNV was not inconsiderable historically, as Clark points out.⁹⁶⁷ The extremely complex relationship between the party and the integration was apparent in its use of politico-economic power. I shall explain this challenge from a historical angle here.

5.1. The road to fiscal federalism in the Basque Country

Through the economic agreement and the cupo, the Basque Country had its own, largely independent economy in the 1980s and 1990s. An increasing amount of local tax revenue remained in the region and benefited its economy through public investment. Although Spain is not strictly a federal state, its system of autonomous regions, and particularly the Basque Country, had some federalist economic characteristics, particularly fiscal, with the transfers of powers in the 1990s. As the OECD studies indicate, “until 1997, the decentralisation process was rapid but was characterised by imbalance between tax assignments and

⁹⁶⁶ Moravcsik 2001, 169.

⁹⁶⁷ Clark 1987.

expenditure functions” in Spain.⁹⁶⁸ In any case, the relative proportion of the central government’s taxable income and wealth decreased, which was particularly true in the case of the Basque Country, which in practice had the greatest autonomy of all the Spanish autonomous communities in 1998, especially in taxation. Its powers were the best example of fiscal federalism in Spain.

Economic theories of federalism have traditionally sought to determine the optimal distribution of public economic functions between different levels of government, and to create a functional rationale for these various powers to intervene in the economy.⁹⁶⁹ Without going further into the debate which centres on whether centralization is “better than” decentralization, it is necessary to keep in mind the argument of the PNV representatives that the regional government was better able to manage matters such as social welfare and employment. The underlying argument was linked to the budgetary opportunities of the regional administrations. Moreover, in the case of the Basque Country, both an external (the context of the autonomous regions of Spain) and an internal dimension (within the Basque Country) of fiscal federalism can be recognized.⁹⁷⁰

As I have explained in the previous sections, the region had a relatively strong position in economic policy issues externally, especially in fiscal policy when dealing with the central government. Internally, the financial arrangements of the Basque Country resembled a federal system: the provinces were given powers in taxation and regulation, which is infrequently delegated by an administration to an institution at a lower level.⁹⁷¹ This alone was enough to make the Basque Country a politico-economically significant region in the 1980s and 1990s. Despite these rights, the regional government was still the institution leading the negotiations with the central government, naturally in co-ordination with the representatives of the provinces. The PNV, thanks to its regionalist policy, its long-time dominance, and the know-how it brought along turned out to be a tough negotiator with the central government. On the other hand, the fact that the provinces had extensive powers and resources led the provincial councils to intervene often in the economic problems through subventions.

When the emerging fiscal federalism is analysed historically, we see that in the Basque case, the tax incentives were to be replaced by policies leading to a successful structural change in the regional economy during the 1990s. Although the regional government increased restraint on expenditure and fiscal discipline, the local tax revenue was still the key to economic change together with the changes that took place in the strategy of policy-makers. In the context of the autonomous regions of Spain, the economists pointed out that the version of fiscal

⁹⁶⁸ Joumard & Varoudakis 2000, 8.

⁹⁶⁹ Coglianese & Nicolaidis 2001, 277.

⁹⁷⁰ For fiscal federalism in Spain, see Jourmand & Varoudakis 2000, 35–46; for the general theory of fiscal federalism see Oates 1972.

⁹⁷¹ Interview with the treasury minister, Fernando Spagnolo de la Torre, of 5.8.1998. HGV 2001, 712.

federalism implemented was still not theoretically ideal. The result was a model with important differences in spending responsibilities and in revenue autonomy among the autonomous communities. This fact is related to an institutional factor that cannot be ignored in discussing the federal nature of the Basque Country and other autonomous communities of Spain. Despite the fact that the position of the Basque Country and the Spanish State of Autonomies had characteristics reminiscent of a federalist system, there were also clear differences, one of them being that in a federal state its members have equal powers. The federalist features introduced by the LTH law did not produce that situation.

In the political discussion on integration, the functionality of a federalist system is related to preserving the identity of its members. If we take a politico-economic point of view, we can see that in the case of the Basque Country, it was historically a question of solving national problems. Broadly understood, all the political models of federalism decree a system of fiscal federalism, i.e., a decentralized model of financing which guarantees sufficient economic resources for the various levels of government.⁹⁷² In the case of the procedure in the Basque Country was that the existence of the regions' politico-economic powers (i.e., their own financing) was recognized first; and this power was transferred only later. It was known that the division of politico-economic powers would develop in the future; in any case, the economic agreement reached in 1980 was considered by the Basques to be a flexible arrangement. The fact that all the political parties in the region supported the restoration of the arrangement was also seen as its particular advantage.⁹⁷³

It is important to understand that the economic agreement of 1980 created a clear legal and political basis for the developments of the following years. The agreement started a period of change in the region both financially and historically. Where the 19th century economic arrangements had contributed to the situation in which the group of local industrial proprietors, the group paying the least taxes got richer and the country-side got poorer, the agreement of 1980 guaranteed local financing to a regional administration capable of carrying out its own budgetary and economic policy. The signs of the functionality and entrenchment of the system were quick to come to light. Despite the economic crises in the region, especially the political problems linked to the LTH (and thus to the internal structures of the PNV), the budget of the regional governments was balanced during the third term of 1986–1990.⁹⁷⁴ The project of building the Guggenheim museum in Bilbao in the 1990s was a good and perhaps the most symbolic example of the opportunities the Basque Country had gained at regional level; it was a large-scale public investment, a public-private cooperation project

⁹⁷² Larrea Angulo 1991, 10.

⁹⁷³ *Op. cit.*, 11; see also Moreno del Río 2000, 135–136; Even the central government stated publicly that it was a good solution to the political situation in Spain. For example, *La Gaceta del Norte* 18.10.1981. Beldarrain Garin 1998, 20.

⁹⁷⁴ Mesa 2000, 266.

and financed by local taxpayers. While the budgets of the regional government do not tell the whole story and are problematic sources because the powers increased gradually, the *cupo* and its development is a useful tool for a historian. Ultimately, it demonstrates how the economic arrangement was not mere theory. The total *cupo* changed significantly over the years.

Taking into account the structures discussed by Elton and Foucault, the history of fiscal federalism in the Basque Country is linked to economic and political developments in Spain and how the political structures changed. In the period 1982–1993, the PSOE had an absolute majority in the Spanish parliament, and was not dependent on the support of the regionalist parties. This led to a concentration of powers and did not encourage the emergence of elements of political pluralism. The decentralization process was nevertheless one of the few areas where political pluralism developed quickly. Because of the rivalry between the regions, the central government was facing significant political pressures. However, there was considerable will to slow this process and even reverse it in the 1980s. The LOAPA even included the idea of co-ordinating elections in all regions to coincide with the general elections and electoral periods.⁹⁷⁵ The regional elections offered the opposition parties an opportunity to challenge the party in power at regional level from the start, and to embrace partisan politics with a more comprehensive programme and political agenda. In the Basque Country, Catalonia, Andalusia and Galicia, the different timing of the regional and general elections gives the voters the opportunity to vote for different parties according to the level of representation. The regional and municipal elections also always take place at different times in these regions. In other regions of Spain, the regional elections overlap with the municipal elections, and in the 1980s and 1990s this worked to the advantage of the party in power in Madrid, because of the effectiveness of nation-wide campaigning.⁹⁷⁶

After Spain had become a member of the EC, the central government was able to start a long-term structural adjustment process, in other words, to redirect industrial production and to liberalize the trade in goods and various sectors of production. This process was further encouraged and facilitated by the Spanish membership of the European monetary system (EMS) in 1989, the ratification of the Maastricht agreement in 1992, and the creation of the EMU. The PP, which rose to power in 1996, continued with the liberalization of the economy, its goal being to get Spain to join the common currency without problems. The future direction was therefore clear. Despite the benefits of the EC/EU membership, such as structural funds and the national interregional compensation fund, which was introduced later, the stabilization of the economy was delayed, and the decrease in the economic differences between the regions slowed, then stopped, and even started to grow again.⁹⁷⁷

⁹⁷⁵ Colomer 1998, 44 & 47.

⁹⁷⁶ Op. cit., 45.

⁹⁷⁷ Domínguez Martín 2002, 284–285.

Foucault's ideas about the technologies of power help us to further examine the question of fiscal federalism and its links to the exercise of power by the PNV. Interestingly, the PNV was able to introduce the concept of fiscal federalism into the political debate in the Basque country, and it is important to understand how this was linked to the party's dominance in the treasury and the way its regional representatives handled that portfolio. As I have demonstrated, the fiscal and financial experts of the regional government, ideologically close to the PNV, belonged to a new generation of politicians and high-level officials in the region. The treasury minister of Ardanza's cabinet in 1994–1998, Ibarretxe, was a PNV activist and an expert in fiscal federalism.⁹⁷⁸ Ibarretxe was given the task of modernizing and developing the horizontal economic and legal control in the government at the same time, through his role as the vice-*lehendakari*. The internal efficiency of the government was considered to have improved, and the new department had a significant strategic role in the administration.⁹⁷⁹ The aim of the PNV was no less than to streamline and develop the common administrative structures. The other element in this development was the accumulating know-how of the PNV-led administration in fiscal policy. This was combined with the party strategy, which aimed at gradual extension of the powers in regional financing. The events of 1996–1997, when Ibarretxe negotiated with Rato, his counterpart, proved how strongly the PNV had been able to utilize the government, make it an instrument for the party and was using the technologies of power, as Foucault would put it. At that time, the power of the PNV was more obvious than ever.

The context of fiscal federalism also reveals how the PNV reacted in the framework of the autonomous regions. Surprisingly, the reaction can be traced by analysing its thinking in relation to the EU, where the principle was to seek to strengthen the independent role of the Basque Country. The PNV and the regional government it led did not simply aim to meet the real challenge the Commission services had created in fiscal issues, but also wanted to stress the powers of the Basque Country and its position in relation to other autonomous regions of Spain.⁹⁸⁰ This was not just a result of the power policy of the PNV. It was also enforced by the internal situation of Spain, where the autonomous regions increasingly competed for the economic and legislative resources granted by the central government in the 1980s and 1990s.⁹⁸¹ Thus in 1980–1998 they no longer competed for labour, but for companies and for the investment and jobs those businesses would bring with them. The behaviour of the PNV in defence

⁹⁷⁸ Interview with treasury minister, Juan José Ibarretxe, of 21.12.1998. HGV 2001, 1477; Ibarretxe's expertise was also apparent during the negotiations between the PP and the PNV in spring 1996. Anasagasti 2004 194–195.

⁹⁷⁹ At the same time, a new commission on economic issues attached to the regional government was created to increase economic planning. Interview with the treasury minister, Juan José Ibarretxe, of 21.12.1998. HGV 2001, 1478–1479.

⁹⁸⁰ Anasagasti 2004, 238; Raento 1996, 251 & Raento 2002, 107; Raento & Watson 2000.

⁹⁸¹ Colomer 1998, 51.

of regional economic and economic policy interests was also influenced by the fact that the autonomous regions did not have the opportunity to influence public administration policies and policy-making at the national level.⁹⁸²

A standard definition of federalism envisages the combination of self-rule and shared rule. The autonomous communities of Spain were allowed to develop self-rule in certain domains, but in others were to share rule with the central government, which could exercise some constraints on further autonomous legislative and executive decisions. The most obvious deficiency of the Spanish State of Autonomies, however, was linked to the question of shared rule at the national level during the 1980s and 1990s. The autonomous communities could hardly contribute to the formation of national public policy, given the lack of appropriate institutions.⁹⁸³ In the Basque Country, this led the PNV to take a more regionalist and bilateral approach, which finally became one of the determinants of its policy.

Federalism and complex institutional settings for governance are closely related to each other.⁹⁸⁴ The economic policy aspects of federalism require efficient administrative structures in order to be functional. In the case of the Basque Country, the relation between the central and regional administrations was balanced when the basic administrative structures in the area developed expeditiously in the 1980s and 1990s and had a solid legal basis. Nonetheless, the organisational side of the common regional administration was not extensively regulated in the legislation,⁹⁸⁵ and was consequently provisional to some degree in the 1980s. Powers, especially in economic policy, were transferred to the provinces, and back again to the regional level. This process and the existence of a provincial level administration (provincial councils and parliaments) must have affected the functions of the regional administration, and this structural development was seen, for example, in public spending.

⁹⁸² Colomer 1998, 50.

⁹⁸³ *Ibid.*

⁹⁸⁴ Peterson & O'Toole 2001, 300.

⁹⁸⁵ Adela Mesa, from the UPV university in the Basque Country, has analysed the developments in the regional administration, stressing that the Autonomy Statute and Ley de Gobierno do not discuss it sufficiently. Mesa 2000, 265.

5.2. The PNV and European integration

5.2.1. From an ideological to an institutional relationship

Spain's road to the EC was long.⁹⁸⁶ It had already officially applied for the membership in the summer of 1977, but the actual negotiations only started in February 1979. Spain signed the accession agreement in June 1985. The membership of the EC, later the EU, brought great changes to the Spanish economy and society,⁹⁸⁷ although it cannot be said that its economy was isolated from the framework of Western European economies in the years before membership.⁹⁸⁸ Spain's membership was facilitated by its national economic outlook at that time. Along with membership, the national economic policy in Spain changed, its new building blocks being the economic integration and convergence as well as trying to achieve the living standards of other member countries.⁹⁸⁹ The transitional periods given to Spain varied according to the sector concerned. However, Spain rapidly became one of the countries that was able to use the funding and support offered by the EC/EU the most efficiently.

Spain's membership also sealed the structural change in the Basque economy in the 1980s. The imminent consequences membership had on the regional economy arose from adapting the production structures to the new reality of more severe competition in many sectors of industry, the result of the disappearance of border tariffs. The industry of the Basque Country, which at that time relied to a large extent on export products, but which was not used to competition, found the EC membership an additional problem. The change was particularly hard, first of all, because its production structures were unbalanced. It had concentrated on metallurgy and was dependent on highly standardized products. Moreover, the local industry used old-fashioned technology, and research and development was limited. The large number of small enterprises had little investment capacity. The service sector was under-developed, its destiny linked to the development of local industry. Within the EC, the Basque Country was classified as a regressive industrial region; this, however, allowed it to receive regional funds.

No wonder the location of the Basque Country was seen as problematic at the time, since it was feared that the strengthening of the Mediterranean "corridor"

⁹⁸⁶ After the treaty of Rome (1957), Spain's interest in European integration grew. In 1962, it formulated its first application for membership, which was, however, rejected in Brussels on the basis that there was no democratic government in the country. The crucial phase in the negotiations on membership started in June 1983 and was completed in spring 1985. Bernecker 1998, 22.

⁹⁸⁷ For the economic effects of the EC membership in Spain, see, for example, Tamames & Rueda 1998, 535–560.

⁹⁸⁸ For example, García Delgado underlines that the development of the Spanish economy from 1975 till 1986 should be analysed keeping the economic policy and outlook of the Franco years in mind. García Delgado 1996, 240.

⁹⁸⁹ Bernecker 1998, 24.

(for example, Catalonia and Valencia) would exacerbate the economic isolation of the of the region. However, the capacity of the harbours in the Basque Country and elsewhere in Northern Spain was recognized, and were seen as facilitators of and channels for trade flows. At the end of the 1980s, the Basque Country and Asturias, which was also known for being an industrial region of the North, were described in the European context as regions with a continuously negative employment trend. Their unemployment rate exceeded the European average, the GDP per capita was almost 20 units lower than the European average, and the growth in productivity per capita was particularly low.⁹⁹⁰ The fishermen of the Basque coastal villages especially felt the effects of the EC membership. Fishing was limited and regulated by species as well as by fishing waters. In 1985–1992 alone, before the economic recession, the Basque fishing fleet decreased from 748 boats to 548.⁹⁹¹ The end of the border trade with France also meant heavy losses in income for many small and medium-sized companies in the Basque Country.⁹⁹²

The European social fund, created for the promotion of employability and entrepreneurship funded Basque regional government projects in 1986–1989, the amount of joint financing being about 3.4 billion pesetas (20.6 million euros). The community funding targeted at the projects for unemployed people was almost a half.⁹⁹³ The regional development in the Basque Country was supported by funding about half the cost of structural development projects targeting particular geographical areas or sectors. The Basque Country also received funding from the Community funds for agriculture and fishing. The objectives included helping create employment opportunities beyond agriculture, such as tourism in the rural areas, enhancing education and training, and maintaining the fishing industry.⁹⁹⁴ Still, the region only benefited from a relatively small portion of the structural fund target programmes.⁹⁹⁵

The EC membership had a great effect on budgeting and the structure of the budget, not just at state level, but also at the level of the Basque regional government. Certain incomes, like customs revenue, were left out, but the proportion of payments from structural funds was listed in the credits, and again in the debits. Moreover, export subsidies to agriculture, intervention purchasing and storage were transferred to an intervention fund, separate from the budget.⁹⁹⁶ On the eve of EC membership in 1985, the Spanish parliament approved a law on VAT, which replaced some earlier fiscal regulations. The Basque economic

⁹⁹⁰ Euskadi en el Proyecto Europa 1991, 269 & 275.

⁹⁹¹ However, the biggest fall in the number of ships was to take place in the early 1990s. Marzo 1994, 39–44.

⁹⁹² Raento 2002, 100.

⁹⁹³ Marzo 1994, 65.

⁹⁹⁴ For the defence of the fishing industry, see CD/PNV: Programa electoral para las elecciones europeas 1994, 44–46.

⁹⁹⁵ Such as 2 and 5b (later including target 2). EU-rahoituksen opas 2000, 3.

⁹⁹⁶ Cf. Ranki 2000, 121

agreement was also modified, and its articles concerning luxury tax and company acquisitions were changed.⁹⁹⁷ Through VAT, the membership would also go to affect the future *cupo*, still under negotiation. Consequently, the amount of revenue which would remain in the Basque Country was going to increase.

The effects of EC membership were not limited to the Basque economy and the regulations on finance, but extended to the PNV itself. The party had to commit itself, to reflect on the positive and negative aspects of the membership. As Clark has demonstrated, the PNV voters were among the strongest supporters of Spain's membership of the Community in the mid-1980s, but they were also "found to be the most pessimistic of all partisan groups about the effects of entry into the EC, especially on economic areas like inflation and unemployment"⁹⁹⁸ Clark sums up this attitude as "strong support for the abstract principle of European unification tempered by pessimistic realism as far as the actual impact of the EC is concerned."⁹⁹⁹ The negative aspects of EC membership were related to the increasing unemployment and the further deterioration of the old economic structures.¹⁰⁰⁰ In a situation where very few, if any, alternative routes for economic development were discussed, this complex approach is understandable. The reflection and ideological reaction of the PNV was under way: the serious danger of the region being rapidly economically isolated in the Spanish and continental context was highlighted in its political programme, approved at the party conference in summer 1987, the first one since 1977. Combatting unemployment was the main objective of the party. It also claimed the transfer of powers on communications, routes and harbours to the region,¹⁰⁰¹ so that foreign trade flow and transit traffic would go through the Basque Country, bringing income. It was also hoped that the EC would provide funding for the modernization of the road network. According to its own documents, the party was fully aware of the diverse and complex relationship between trade and the adjustment process. In the case of the Basque Country, trade would be a trigger for adjustment; it would also make the adjustment less expensive for the public sector. Trade was seen as an integral part of the adjustment process itself.¹⁰⁰²

For the PNV, the EC meant an opportunity to build stronger economic ties with the Basque Country of France. The party also had expectations of using the integration process to achieve full recognition for the political independence

⁹⁹⁷ Beldarrain Garin 1998, 43–46.

⁹⁹⁸ Clark 1987, 4.

⁹⁹⁹ *Op. cit.*, 5.

¹⁰⁰⁰ *Op. cit.*, 4–5.

¹⁰⁰¹ CD/PNV: Nacionalismo para el 2.000 - 2.000 erako Abertzaletasuna. Bases Políticas y Programa. Asamblea Nacional Extraordinaria, Zestoa 3–5.7.1987, 142 & 210–211.

¹⁰⁰² CD/PNV: Nacionalismo para el 2.000 - 2.000 erako Abertzaletasuna. Bases Políticas y Programa. Asamblea Nacional Extraordinaria, Zestoa 3–5.7.1987, 164; CD/PNV: Programa electoral para las elecciones europeas 1994, 82–83. The position of the PNV on this question even included strong anti-protectionist elements.

of the Basque Country. The PNV considered that the integration process made achieving its political goals possible without a direct political confrontation.¹⁰⁰³ The regionalist and nationalist parties, like the PNV and the CiU, sought to replace the state structures with a European entity that would lean on the recognition of nations without states.¹⁰⁰⁴ The role of the European parliament was significant in this context, because its members are elected by the EU citizens, and it is therefore a genuinely representative and sovereign institution. Since it was seen as the real representative of the citizens, these parties supported the idea of giving it an even more powerful role.¹⁰⁰⁵

Historically, since the attitude of the PNV towards European integration was positive, Spain's treaty of accession to the EC thus had a generally positive reception in the ranks of the party, although, as Clark has pointed out, PNV supporters were also the most critical in the region concerning the effects of membership. The ideologically biased approach to the EC was revealed in the strong reaction of the PNV to the Single European Act of 1986. The PNV like the other regional parties in Spain, originally had high expectations concerning the act, which they thought should have taken integration to a new level. The attitude was soon superseded by open criticism: according to the PNV, the member states did not want to give the community institutions the necessary powers.¹⁰⁰⁶ The positive tone was restored by modifications to the Treaty in Maastricht in 1992.¹⁰⁰⁷ In the PNV programmes in the 1990s, the effects of the European integration were linked to the divergent character of the Basque national economy. Along with the changes caused by the EC/EU, the real adaptability of the Basque Country's economy became more apparent as did its structural problems, and its strengths, such as the high level of education of its population.¹⁰⁰⁸ In the overall picture of the PNV's attitude to European integration, economic policy was subordinate to the need to achieve collective recognition of the Basque Country, and not just through decentralization.¹⁰⁰⁹ Still, the question of developing regional autonomy further was linked to the EU.¹⁰¹⁰

The EU was linked to the strategy and goal-setting of the PNV's political programmes and the statements of the EBB. With the EU, the party could

¹⁰⁰³ CD/PNV: Programa electoral para las elecciones europeas 1994, 7; Quintanilla 2001, 139.

¹⁰⁰⁴ CD/PNV: Programa electoral para las elecciones europeas 1994, 9; Quintanilla 2001, 140.

¹⁰⁰⁵ CD/PNV: Programa electoral para las elecciones europeas 1994, 5–6; Quintanilla 2001, 140.

¹⁰⁰⁶ Nacionalismo para el 2.000 - 2.000 erako Abertzaletasuna. Bases Políticas y Programa. Asamblea Nacional Extraordinaria, Zestoa 3–5.7.1987, 48.

¹⁰⁰⁷ Quintanilla 2001, 198.

¹⁰⁰⁸ CD/PNV: Comunicados: Aberri Eguna 1997, 7.

¹⁰⁰⁹ Op. cit., 9.

¹⁰¹⁰ CD/PNV: Comunicados: Aberri Eguna 1998, 6.

defend the cuts in the public sector and the decreasing the role of the state, and even reduce the public subventions in the national economy.¹⁰¹¹ Then again, the European integration was used to demand relevant powers for a future regional central bank which, with the support it could offer, would be necessary for the public sector in the Basque Country in the context of the integrating Europe.¹⁰¹² In other words, the Basque central bank was seen as an answer to the needs of the regional economy in the early 1990s at a time when the Spanish peseta, like so many currencies in Europe, was going through difficult times. The underlying goal was to make the Basque Country stronger and more independent in the European context, which was mainly an economic context for the PNV. The party also saw this as a way of stressing the “unique” role of the Basque Country in the context of the autonomous regions, and emphasizing its powers in comparison to the other regions. In short, this followed the regionalist strategy of the party.

Within the PNV, there were strong expectations of interregional cooperation at European level. In that sense, there were similarities to the political agendas of the other regionalist parties in Spain, and the EC was seen from the start as a factor crossing the national borders and the state level. This was positive for the policy of parties like the PNV and the CiU. They saw the nation states as slowing down the evolution of the European institutions, and obstructing them from becoming genuinely supranational organs.¹⁰¹³ The PNV, like the CiU, regarded European integration and regionalisation as parallel and complementary processes.¹⁰¹⁴ However, the PNV rapidly started to stress that the Spanish autonomous regions did not acquire the same means to influence the Spanish policy-making in relation to the EC/EU, as, for example, the *Länder* of the Federal Republic of Germany. In practice, the EC membership meant changes to regions like Catalonia and the Basque Country, which had considerable power and were heavily dependent on foreign trade, while offering new kind of opportunities to economic integration.¹⁰¹⁵ It still took some time for the PNV to adapt itself to this reality. Moreover, the fact that the regions of Spain lacked the opportunity to have their representatives by the side of the Spanish politicians and central government officials in the EU meetings, when their powers were discussed, remained a major question in the political statements of the PNV from 1986 onwards.¹⁰¹⁶ Interestingly, the political regionalism that the PNV represented still considered this a politico-economic problem. The PNV continued to demanded that the region should be able to open

¹⁰¹¹ CD/PNV: Comunicados: Aberri Eguna 1997, 7 & Aberri Eguna 1998, 5.

¹⁰¹² Euskadi en el Proyecto Europa 1991, 30.

¹⁰¹³ Op. cit., 48–50.

¹⁰¹⁴ Trias i Vidall de Llobatera 1997, 118; see. CD/PNV: Programa electoral elecciones europeas 1994, 15– 16.

¹⁰¹⁵ Copa 1989, 318–319.

¹⁰¹⁶ CD/PNV: ... y ahora Europa. El Proyecto del Partido Nacionalista Vasco en Coalición Nacionalista 1989, 29–30; CD:PNV: Programa electoral para las elecciones europeas. 1994. EAJ-PNV, 40; El Mundo 1.12.1997 & 2.12.1997.

its own representation in the EU.¹⁰¹⁷

The PNV wanted political benefits for itself and the Basque Country in the political and economic context of the EC/EU, by bypassing the state level if possible. The party thought that although the Basque Country was not given the opportunity to directly influence the issues in which it would have liked to be involved, the participation of Spain in the EC/EU would make it more difficult to maintain its internal institutions and the power balance between them fully intact in the long run. On the other hand, the integrity of the community legislation could suffer if the implementation of laws was in the hands of regional or local officials, not EU member states. The regional governments were not parties in the EC/EU treaties or the transfers of sovereignty they incorporated. From the legal point of view, an important step in the “formalisation” of the relations between the regional entities or other instances beyond the signatories was the participation of the regions in the work of ministry councils as representatives of their country.¹⁰¹⁸ Autonomous regions, such as the Basque Country and the Åland Islands,¹⁰¹⁹ also have their own legislative powers. In relation to other international agreements, the EU treaties have been instrumental in realizing limited transfers of sovereignty to the EU, which functions through its institutions. The relationship between the PNV and the EU, however, is that the Union is ultimately seen as a creation of the agreements made by sovereign states. The legality is therefore based on the allocation of authority.

5.2.2. The PNV and the economic policy challenge of the integrated Europe

Previous studies on the Basque economic and political history have pointed out that the EC/EU membership and the increased economic competition it brought was a major political challenge to Basque nationalism and particularly for the ruling party, the PNV. A profound analysis of the changes it caused in the thinking and policy of the Basque Nationalist Party is still needed to understand some of its decisions and actions. We must wonder why it focused so much on getting the voice of the autonomous region heard in Brussels. In other words, why did they make such a great effort on this? By answering these questions, my thesis will shed new light on the contemporary history of the Basque Country.

It is important to start with the fact that after Spain became a member of the EC, the situation of the primary sector in the Basque Country became worse, and improving the competitiveness and ensuring the growth of the service sector became important for the economy of the region. Not surprisingly, the PNV stressed the importance of the private sector and the responsibility of the public sector in trying to make the business environment in the region as attractive as

¹⁰¹⁷ CD/PNV: Programa electoral para las elecciones europeas 1994, 12–13; The Economist 18.9.1993, 95–96.

¹⁰¹⁸ Bermann & Nicolaidis 2001, 486.

¹⁰¹⁹ See Autonomies in the European Union 2002, and Hufvudstadsbladet 29.8.2001 & 1.7.2002.

possible. The party programmes and platforms show clearly how the corporate sector was regarded as the cornerstone of the economy all through the 1980s and the 1990s.¹⁰²⁰ The party underlined that the needs of the private sector were also to be met by higher and professional education.¹⁰²¹ The PNV's complex attitude towards the European integration was only increased when the central government argued that since the heavy industry in other member countries was more competitive, the industrial complexes of the autonomous communities like the Basque Country or Asturias should not be subsidized and kept alive artificially.¹⁰²² However, the Basque economy still remained heavily dependent on industry, and the service sector grew slowly. As I have explained, the attitude of the ranks of the PNV and the power of *bizkaitarrismo* within the party, did not make it easier to accept this situation.

What made the Basque Country an exceptional entity in the EC context was its ability to regulate taxes, not only to collect and manage tax revenue.¹⁰²³ This also made the politico-economic position of the region difficult and sensitive, and the EC membership was to affect the local tax regulations more rapidly than perhaps expected, and not through further modifications of the economic agreement or the *cupo*. The first conflict between the European Commission, the guardian of the *acquis communautaire*, and the Basque Country had already arisen in 1988,¹⁰²⁴ as I have explained.¹⁰²⁵ Interestingly, when the representatives of the Basque government took this dispute on, they did not concentrate so much on the fact that attracting companies to the Basque Country took place at times of economic recession; not even in public. Instead, they based their arguments on more technical and legal grounds.¹⁰²⁶ The regional government and the provinces changed the terms of the debate to concern the whole Basque system of finance, explaining how the Commission's logic would lead to the system harming the Internal Market.¹⁰²⁷ This included the implication that these regulations could be seen as belonging to the fiscal legislation of a state. However, the geographical borders of the region were not the same as the state borders, nor did these regulations extend to all

¹⁰²⁰ CD/PNV: Comunicados: Aberri Eguna 1998, 4–5.

¹⁰²¹ CD/PNV: Comunicados: Aberri Eguna 1997, 11–12.

¹⁰²² Interview with the long-serving minister of industry, Jon Azua Mendia, of 8.7.1998. HGV 2001, 487.

¹⁰²³ Oña Gómez & García de Vicuña Peñafiel 2000, 198.

¹⁰²⁴ Muguruza Arrese 1997, 28–29.

¹⁰²⁵ The Commission started to take action against the regulations of Basque provinces that allowed tax incentives to companies doing business in their area. According to the Commission, the benefits favoured companies, and improved their competitive position. These regulations allowed a company to enjoy tax incentives only if it had its domicile in the Basque Country. Zubiri 2000, 192.

¹⁰²⁶ *Ibid.*

¹⁰²⁷ Muguruza Arrese 1997, 27.

the taxpayers of a particular area.¹⁰²⁸ This led to a procedure which took several years. The Commission finally handed down its decision in 1993.¹⁰²⁹ For the historical analysis, the essential point here is how the arguments of the parties did not change after the late 1980s: the Basque representatives saw this issue through the system of taxation, whereas the Commission services saw it through tax and tax collection, which had created a distortion of competition, in other words, a tax benefit.

This serious conflict concerning the Basque tax regulations needs to be assessed using the statements and programmes of the PNV to understand the decisions taken by its representatives in the regional administration. An important question is the role of the PNV when the decision to use tax benefits was taken. How did it influence all this? This is essential information, since the Commission's actions reveal how the politico-economic powers of the Basque Country had reached their limits. In explicating this, we must not forget the complex attitude of the PNV and its supporters to the EC and its impact on the region. Significantly, the PNV had committed itself to taking the local fiscal legislation into account as a tool for enhancing and promoting private investment in the Basque Country in the 1987 party programme. The party promised to go even further and "take advantage of devices that would attract investments to the region".¹⁰³⁰ Economically, the PNV's thinking was that increasing investment in the provinces would increase the revenue from indirect taxes, particularly VAT, in the long run.

As I have demonstrated in the chapter on the economic policy of the regional government, the PNV-led regional administration was under growing pressure to use its powers in tax regulation in the 1980s. The PNV had been ostentatiously blaming the central government for many of the region's economic woes at the beginning of the decade. Some local businessmen even saw it as being characteristic of the one-party governments of the PNV.¹⁰³¹ As Garaikoetxea's cabinet ministers emphasized how the Basque economy, because of its limited size, was particularly dependent on the economic outlook of Spain and its export trade, the ministers stressed the role of the price level in exports and the growing expenses caused by delayed liberalization of financial markets.¹⁰³² This illustrates the point of view of the regional administration, which was trying to combat the criticism of the local business world. The economic policy remained linked in

¹⁰²⁸ Thus they were against the treaty, because they did not extend to all tax payers.

¹⁰²⁹ Scheme of tax concessions for investment in the Basque Country. The Official Journal of the European Communities L134, 3.6.1993, 25.

¹⁰³⁰ CD/PNV: Nacionalismo para el 2.000 – 2.000 erako Abertzaletasuna. Bases Políticas y Programa. Asamblea Nacional Extraordinaria, Zestoa 3–5.7.1987, 170–171.

¹⁰³¹ Vizcaíno Monterola 1984, 55.

¹⁰³² This was explained by emphasizing the continuing dependence of the Basque economy on the outlook of the Spanish economy and foreign trade. The role of the price level in exports was significant and the delays in the liberalization of financial markets increased costs. Uriarte Santamaría 1984, 127–129.

essence to industry and big local firms, although the businessmen regarded the measures of the regional government as too little too late. A politically painful argument was that the powers gained by the region were not fully utilized to solve the situation. This point of view was shared by both small and medium-sized companies and big business.¹⁰³³ In addition, the business elites were fully aware of the effect caused by the fear of political violence.¹⁰³⁴ This particular problem was also tackled by trying to make the region more inviting for the corporate world, and a place where it was profitable to invest.¹⁰³⁵

To a certain extent, the PNV, which had not organized a party conference since 1977 (before 1987)¹⁰³⁶ and was operating without an updated platform, was capable of using such issues as the LOAPA as political and economic threats in the Basque Country. In fact, in the middle of the 1980s, the region gained advantages like the *cupo*, and the economic outlook in Spain should have offered better prospects for the Basque Country as well. This was not, however, the case. The structural problems of the Basque economy hindered its recovery, and the PNV was facing competition not just from the Socialists, but also from the EA. All these parties concentrated on the problem of unemployment and the severe social problems it caused. This complex of pressure influenced the policies of the PNV. Concrete results were to be achieved in directing the economy, and rapidly. The “tools” already were available. The PNV had to demonstrate its dynamic grip by using the powers it had been demanding to be transferred to the region. However, the Basque administration was fully aware that the EC was proceeding towards harmonization of taxation.¹⁰³⁷ Taxation was significant in the economic policy of the PNV, because subsidizing industry would no longer be possible after the sectoral transition periods. Finally, the PNV must have understood that the structures of the Basque economy could not be changed hastily. This last point turns out to be important historically. Although the Internal Market was believed to be beneficial for the Basque Country in the long term, the PNV and its supporters saw the consequences of the EC membership as potentially harmful for the region’s well-being at that stage. In sum, the attitude of the PNV was confused.

¹⁰³³ Vizcaíno Monterola 1984, 71.

¹⁰³⁴ See Copa 1989, 303 & 307–308.

¹⁰³⁵ Euskadi en el Proyecto Europa 1991, 270.

¹⁰³⁶ According to Ross, the electoral victories of the PNV first gave it the initiative to negotiate on the content of the autonomy statute on behalf of all Basques, and thus a political hold on institutions in the region. It also brought problems for the party. Traditionally, the PNV had attended to the strong ideological identification of its supporters in situations where it was able to gain power in the elections. This was a new situation for the party. It went to the first election without an electoral programme, and after the 1977 party conference did not organize any until 1987. Ross 1996, 491–492; CD/PNV: Nacionalismo para el 2.000 – 2.000 erako Abertzaletasuna. Bases Políticas y Programa. Asamblea Nacional Extraordinaria, Zestoa 3–5.7.1987.

¹⁰³⁷ Copa 1989, 322–323.

This overall picture was made even more complicated by taking into account developments in Spain itself. As I have already explained, EC membership started a new period in the state finances, the first stage being characterized by deacceleration of public expenditure. It had already stabilized by 1986–1988. This development was facilitated by the economic boom of the late 1980s. The PSOE government was still forced to find solutions to the challenges the EC brought, such as increasing competition, problems in the agricultural sector, low growth of efficiency in industry, and the slowly decreasing, but still relatively high unemployment rate. Consequently, the public deficit grew in spite of the economic expansion.¹⁰³⁸

Bilbao had already lost its position in Spain as an economic centre to cities like Madrid and Barcelona at the beginning of the 1990s; seen from the Basque Country, the Mediterranean coastal region had become more important than the Atlantic coast. The Basque Country was still largely dependent on foreign trade and particularly exports. In the long term, the internal market continued to offer benefits and opportunities for companies in the Basque Country, as can be seen in the trade statistics for 1997–1998, when the export trade through the Basque Country increased rapidly. The competitiveness of the economic structures was still the Achilles' heel of the Basque Country. Interestingly, there seems to have been no difficulty within the PNV in realizing and accepting the fact that globalization was increasingly affecting the Spanish and Basque economies. The dependence of the region and its economic structures on the external market was not going to shrink. For the same reason, the party emphasized in public the importance of the EMU and the process of preparing the economy for the common currency, the euro. These would only ease the economic relations with such market areas as Germany or France. In a similar way, the openness of the Basque economy was seen as an advantage. The programmes of the PNV reveal, however, that it was fully aware of how the common currency would also test the adaptability of the local economy.¹⁰³⁹ In sum, the PNV realized and recognised the long-term benefits of the integration and convergence. It even advocated this process.

So that the complexity in the PNV's attitude towards the European integration and its effects on the exercise of power can be fully understood, it is important to underline that the EC/EU had an influence on the regional economy because it meant fiercer competition, while the region was unable to profit from the Community funding in the same way as the poorest regions in Spain did. The support programmes of the regional government in the 1980s were, however, followed by industrial support measures such as EKIMEN, but the EC/EU imposed strict limits on them. The electoral programmes of the PNV show that its aim had been to make the region attract investment, foreign or domestic, since the late 1980s. The policy of the party is clear. The means to achieve this, however, developed over the years, as I have already demonstrated in this work.

¹⁰³⁸ García de Cortázar & González Vesga 2000, 637–638.

¹⁰³⁹ CD/PNV: Comunicados: Aberri Eguna 1997, 6 & Aberri Eguna 1998, 4.

By the end of the period covered in my study, the biggest political challenge to the Basque government and the PNV was the restrictions created by the EU's competition legislation, not by the pending transfers of authority. To conclude, it is apparent that the deepening EU integration led to a historical change. It became more important to participate in decision-making in the EU institutions, or at least in the Spanish institutions dealing with EU matters, than to exercise power in one's own region, not just in the Basque Country but in all the autonomous communities. Without getting into the discussion of what the real opportunities for the Basque Country and other autonomous communities were in participating in Spanish opinion-making, it is important to note that the PNV started outspokenly to advocate more direct representation of the Basque Country in Brussels.

The PNV had to adapt its use of politico-economic power to the confines set by the European integration. This was a difficult task, since it had long been openly advocating Spain's membership and it saw not only both political and long-term economic benefits in that issue. In practice, the party even continued to work to enhance the integration process. As I have demonstrated, the Basque Country had gained the greatest powers in taxation in comparison to the other autonomous regions. The PNV's role as the ruling party was to try to adapt those powers to the new EC/EU framework. Finally, the biggest challenge to the PNV's exercise of politico-economic power in 1998 was the EU and its internal market regulations. This was a dilemma the party tried to solve by its strategy of continuously seeking regional benefits, but without great success. Simultaneously, when the PNV advocated the stronger presence of the autonomies in the Spanish EU decision-making, it tried to maintain the distance that the Basque Country had in comparison to the other autonomous communities in powers. If new institutions or structures were to be created within the Spanish administration, the PNV saw the danger of losing its bilateral relationship with the central government. The limits the EC/EU set on the exercise of power in economic policy hit the PNV and its strategy hard. In this section, I have demonstrated how the PNV tried cut this Gordian knot by underlining the restrictiveness of the Basque Country's politico-economic powers. Where the historical perspective on fiscal federalism reveals how the party operated adroitly in a developing administrative environment, the same analysis of the party's actions in the continental framework demonstrates how difficult it was for the PNV to try to combine economic policy and power policy objectives. The European integration was for the PNV, among other things, a major power policy challenge.

6. CONCLUSIONS

As I explained at the beginning of my thesis, the PNV's use of politico-economic power has not previously been analysed in depth. However, it is an essential question in the history of the party. My analysis is based on sources which have not been fully utilized so far. The principal questions of my thesis were to recognize the use of that power, in other words, the actions, to understand which factors influenced this and what their effects and consequences were. I have sought to find out how the PNV worked in one policy sector, taking into account the earlier history of the PNV and its complexity as a dominant regional party.

Above all, the history of the PNV's use of power reveals the existence of a strategy which was linked to particular objectives. This strategy and the decisive actions of the PNV increased the regional politico-economic powers. Although not all the powers listed in the Basque Statute of Autonomy had been transferred until 1998, the Basque administration still collected and regulated most of the taxes then, and its budgetary powers were greater than ever before.

While the powers in economic policy extended, their limits also became more obvious. The biggest challenge to the economic policy of the PNV in 1998 was the ceiling created by the EU regulations. This did not make the party's already complex relationship to the European integration easier at all, but was a major problem for its strategy.

The analysis of the 1980–1998 period also reveals how the party and its executive council, the EBB, partly took the role which could have belonged to the regional government. The EBB and the party in general backed the treasury ministers and other representatives of the PNV in the regional government. It also openly supported the conciliatory role of the Basque council of public finances from the latter part of the 1980s onwards. However, it also took politico-economic decisions, such as the LTH and building the Guggenheim museum. It acted as the catalyst in the regional power structure.

Through its use of politico-economic powers, the PNV strengthened its political position and no other party, including the Basque Socialists, were able to seriously challenge its position as the leading regional political force and the leading guardian of the treasury in the regional government.

The PNV tried to maintain good relations with the Basque business elites by maintaining a strong regional economic policy. It tried to promote the regional businesses, for example, by closing the gap between the educational system and business and industry. This did not mean that the leading party and the regional business elites always agreed on the ways to enhance economic growth in the region. It was also difficult for the PNV to maintain a neutral line in the crossfire of demands from the various economic sectors of the Basque Country. In the end, the PNV used the powers it had, such as the ability to allow tax incentives, to foster economic life. The party wanted to develop the economy and make it competitive. At the same time, it did not want to dismantle the welfare state. The public sector was to continue to provide certain basic services in the policies of the party. The public sector was also a good tool for the PNV, since defending the

welfare state was a good way to attract votes from different social groups.

Historically, it is important to note that even during the most difficult times of economic crisis and prolonged depression it was difficult to seriously challenge the PNV in economic policy issues. If it did not seem to have alternative answers or new ideas, neither did anybody else in the region. However, it sought to maintain an active role despite its internal discords. My thesis also reveals the extent to which the PNV was a prisoner of its own (1) economic policy roots and (2) power structures. Elton's theory of political history and Foucault's analysis of power played a crucial role in this part of my analysis.

Firstly, (1) these roots were linked to a conservative way of thinking which was only one problem more during the economic crises of the early 1980s and early 1990s. On the surface, the party worked to make the region attractive in the eyes of investors, but this was insufficient in a situation characterized by a prolonged economic depression and structural problems. My point is that the PNV did not easily or automatically start to look for solutions to the structural changes outside the traditional sectors of the economy. I have explained how neither the party's way of thinking or the regional policy process changed overnight, and were hampered by the party's own behaviour.

However, my empirical historical study shows that when the attitudes started to change within the PNV itself, it began to take the necessary decisions, and considerable economic and political chances. It took the biggest chance in Vizcaya, the province where its political foothold was the strongest. On the other hand, the province and its administrative capital, Bilbao, were living examples of the end of a period of economic history. In any case, the change in the PNV's own thinking was an important factor in the process of economic revival of the Basque Country in the 1990s. This is not underlined in the own statements of the party, since it would have undermined its own concept of its continuous and dynamic search for solutions. Ultimately, the party, however, decided to start promoting the creation of jobs at the other end of the production chain.

The economic policy roots of the party became visible in the way it transferred powers to the provinces, which was linked to the question of its own internal power structures. Before drawing any conclusions on this, it is necessary to note that the position of the PNV in relation to tax incentives was two-fold: (i) tax incentives were a quick way of trying to attract investment and facilitate business life in the region. Importantly, this did not require any major changes in the economic thinking within the party, nor any big choices either concerning which industry sectors to subsidize and which not. Since visions of the way of directing structural adjustment in the region and about which industries to subsidize and which not varied significantly, it is necessary to point out that the incentives did not cause this type of internal controversy. The delicate choices between different sectors were partly avoided, and the issue of promoting the competitiveness of local industry was still involved in the economic policy. The tax incentives were also a relatively inexpensive way to influence the economy. (ii) The question of tax incentives also reveals the influence of the political and structural traditionalism within the party, as the provinces used the historical powers they had re-gained. In this context, the link with the party's ideology is obvious. This exercise of power included one of

the essential elements in the PNV's argument that, as a local political movement, it knows how best to help the local economy, and once in power, is also prepared to use the power it has.

My study reveals how the traditionalists had a strong influence on the PNV's economic thinking. Naturally, the party emphasized ideas, such as that the views and priorities of business must be taken into account in the educational and training systems, and that the public sector must participate in the investment in research and development. Still, there was an obvious need for regional politico-economic leadership, and the re-direction of the region's economy became practically unavoidable. The decisions taken by the regional government and the political statements and programmes of the PNV show that the party's strategy was still focussed more on gaining further powers than really carrying out expensive structural changes. The possibility of solving the economic problems were categorically linked in the party manifesto and the government platform to the issue of the powers not yet transferred to the region. Consequently, the strategy produced results in the long term, as the situation concerning the powers available and the emerging economic boom in 1998 demonstrated.

Secondly, (2) the politico-economic history of the 1980s and 1990s demonstrates how the provinces remained the cornerstones of the PNV's use of power. Its priorities did not change. The party made a strategic choice in the early 1980s (the LTH law) and followed it faithfully. Another thing is how these economic sub-regions, as well as the differences and relations between the provinces, affected the party. My conclusion is that they complicated many projects, and occasionally forbade or at least hindered certain measures. In this respect, my results are parallel to the observations made by Plaza in discussing the industrial policies in the Basque Country in the 1990s.

The history of the PNV's use of power offers a new perspective on the recent history of the party and its nature as a regional, moderate nationalist political movement. This type of empirical historical analysis provides tools for the construction of a solid historical profile of the PNV. In other words, it helps to answer the question of what the PNV was like behind its ideologically coloured rhetoric, including economic policy, something not studied before on this scale. Naturally, the focus of my analysis also offers information on the PNV's ways of operating and on factors that ultimately affect its actions. It tells us how important it is to analyse actual historical experience. In the case of the PNV, the historian should not forget to consider what the party *did*, not just what its activists said. This was clearly one of the objectives of my study.

My empirical point of view reveals that, in matters concerning economy, the PNV was, first of all, an aspirant to and defender of regional powers and rights, as well as actively exploiting those powers in the 1980s and 1990s. It was also a pragmatic realist in its politico-economic decisions: the role of the Basque Country in the foreign trade of Spain was recognized, and this factor was seen as beneficial for the regional economy. It is notable that the influence of the *euskalerriacos* did not disappear along with Garaikoetxea, although it did decline within the party. The PNV did not question these economic links or their existence, but even tried to enhance and facilitate them. As I have pointed out, trade and international

economic links were seen as an integral – and inexpensive – part of the regional adjustment. The underlying forces in the Basque case were structural, and it must be understood how they interacted with the cyclical developments during the time period of my study. The PNV recognized the role of the service sector, but it can be seen in its political platforms and electoral programmes of the 1990s that it still considered that only by helping the industry, the other end of the production chain could be enforced. Before the big projects in Vizcaya and elsewhere in the Basque Country in the 1990s, the idea of services tilted more towards business services than other service sectors. Therefore, the links of the PNV to the region's traditionally strong industry cannot be questioned essentially in the time period of my analysis.

The gradually widening politico-economic powers are a historical fact of the years 1980–1998. At the same time, the historian can see that the PNV followed the tactic of continuously and systematically emphasizing the Basque Country's own financing system in public, and that the region became economically a complex where the role of the central government in directing the regional economy had diminished. The Basque Country's small national economy invested its own public funds, i.e., taxpayers' money, in its own infrastructures. The region's own administration was able to effectively carry out public-private cooperation.

The dilemma of the PNV was still that when it consciously trivialized the central government's role in the economic policy in the region, it linked the question of better economic direction to the transfers not yet realized. In any case, the fact that the region had extremely extensive powers gave the PNV the opportunity to underline the differing nature of the autonomous region. As the party demanded that the representatives of the Basque Country be allowed to participate in EU decision-making about its authority, it sought to emphasize the special status of the region.

Tax revenue, its management and regulation remained at the centre of the PNV's interest and was the linch-pin in the party's relationship to the politico-economic power. During the period discussed in my thesis, the PNV increasingly kept the regional treasury portfolio, and its representatives gathered considerable know-how and expertise in taxation and monetary management. They were difficult negotiators for the central government; their professionalism could hardly be impugned, and in the 1990s, their expertise in fiscal federalism became obvious. This happened simultaneously with the extension of the region's taxation powers. The historically elusive concept of the treasury ministers' public image was part of a wider framework in which the PNV skilfully used the economic agreement and the *cupo* in its political statements. It consciously portrayed them as distinctive marks of the Basque Country's autonomy. In this respect, my thesis explained how the economic agreement was continuously and successfully presented in the Basque media in the 1980s and the 1990s as a characteristically PNV-led project. This process was a part of the PNV's strategy.

Making a historical balance of political actions is always difficult. It is extremely difficult to appraise how successful the structural change still underway in 1998 was in the Basque Country. The concept of successful structural adjustment is not for the historian to decide. Moreover, it must not be confused with how the

PNV capitalized politically on the redirection of the local economy. This was done in a similar way as it capitalized politically on the issue of the economic agreement. It is safer for the historian to keep to fact that the decisions of the PNV concerning the regional system of finances caused difficulties for the regional government in its economic and fiscal policy, and was not the best solution from the economic point of view. On this occasion, the economic policy responded to political priorities, and not to an economic rationale. However, the PNV also made major politico-economic decisions possible in the determined way in which, for example, the Guggenheim project was carried out. It is another matter that it was the party, more precisely the EBB, and not any of the local institutions, that ultimately used power in that particular case. The power structures of the PNV were the key factor in its use of power, and its history cannot be understood without realizing that. Elton's and Foucault's ideas, therefore, provided necessary and functional analytical tools.

In conclusion, my empirical study demonstrates that the PNV was certainly a capitalistic and regionalist political movement and user of power in the period covered by my thesis. I thus conclude by suggesting that this historical assessment of the PNV's use of politico-economic power in 1980–1998 is a story about strategy, regionalism and revenue.

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