Abstract

In this paper we analyse fiscal revenues in Spain with a long-term view. The chosen period is the Franquist era and the transition to democracy (1940-1980). We were interested not only in the quantitative aspects of their evolution but in qualitative ones too. The analysis of all available fiscal revenues data series shows new evidence for Spanish budget deficit. It is normally said that Spanish finances have been scarce since ever. Moreover, Spanish taxation system was regressive. In spite of it all, in Franquist era there was a decade of rapid and steady economic growth. Did public finances development especially contribute to this economic growth? It is said that public expenses did not hinder economic growth, but what about revenues? In a thorough examination, it can be seen that tax revenues collected exceeded revenues forecast throughout Franquist era. This meant deficit was lower than estimated. Instead of taking advantage of that situation, Finance Ministries made another decision. They viewed as more appropriate to achieve a reduction of the fiscal burden by giving tax-exemptions, helping, therefore, to jeopardise long-term economic growth.
1. Introduction

In the Franquist era (1939-1975) Spain was constituted in a dictatorship. Politic matters were dominated by the decisions of the Chief of State, Francisco Franco. It was said to be more an authoritarian regime than a fascist state (Linz, Tussell). In economic matters dominated some kind of liberal economic philosophy, as we shall see.

The study of the estate budget is a very attractive field in which one can observe the fiscal projects and results of the Spanish finances. It is known that the Spanish budget during the Franquist era showed a permanent trend toward deficit. The exceptions were scarce, only between 1952 and 1965. In spite of that, industrialization and economic growth came throughout sixties.

The general frame of this policy was the economic liberal ideology. Deficits were caused not for applying Keynesian policies but for any other cause, which will be the aim of this paper.

Budgetary balance was the general rule pursued during the majority of the period. Only in the last sixties this rule began to fade. Minister of Finance Monreal Luque (1969-1972) thought it had to be subject to any other and more important economical questions like providing public services.

Therefore, public expenditures were not quantitatively important in comparison with other countries. Their importance became bigger since the period 1958-1964 (Comín, 1986). Minister of Finance Navarro Rubio (1957-1964) tried to make revenues and expenditures meet, by reducing the level of the seconds. But in 1957 fiscal reform had to increase revenues in order to process economic demands. In fact, it is clear that this concern for infrastructural expansion was responsible for the tax reforms of 1957 and 1964 (Gunther, 1980, 67). The way to reach that goal was always made by pursuing balanced-budget policies. Therefore, budgets that were produced were undistinguishable from “classical liberal”.
So, Spanish economy had a surplus period in which one wonders what could have done ministers of Finance for good. Was it possible to reduce fiscal burden, with this revenue surplus? Certainly it was, but it can be observe that Minister of Finance Navarro Rubio, like Minister of Finance Villaverde between 1900 and 1908 took another decision. Both gave tax-exemptions.

Furthermore, it is surprising that not with a surplus context, but also in a deficit context, there were so many tax-exemptions (Fuentes Quintana, 116). Barciela (1994) saw this in the forties and Díaz Fuentes (1994) stated that there have been more tax-exemptions between 1951 and 1954. Gunther (1980) said that some policies were adopted in order to reward supporters of the regime. However, how these economic priorities were set, is not clear yet. Next, we will try to go deeper into this subject through the analysis of the budgetary data series.

In the first section of the paper we present the methodology used for the analysis. In second place we stop at the correct interpretation of these findings.

2. The data series

We wish to find all available revenues data series in order to compare the three budgetary phases in which budgetary processes are divided. These phases are budgeting, settlement and collection. In the first, budgets are planned. The second phase gathers the amount due to the Estate, that is, the register of entries in the system. The third phase shows the effective collected revenues.

The second phase data series are the most used because of their best accessibility. Besides, they are enough for the study of the budgetary management (Comín, 1985). Nevertheless, the analysis of all of three data series phases, provide a splendid overview of the purpose of the Government. This way it is possible to compare fiscal plans to effectively done fiscal actions.
There are several sources for these data. We have reviewed summarily all of them. We used “Información Estadística del Ministerio de Hacienda”, the annual budgets offered by the “Anuario del Instituto Nacional de Estadística” and the “Estadísticas de las Cuentas del Estado” offered by the Instituto de Estudios Fiscales.

On one hand, we need to deflate data series in order to get real series per capita. For this matter we have used the GNP deflator, market prices. Because of the lack of this deflator from the official sources, we had to use other author’s estimations, as Carreras, Prados and Rosés (2005) GNP deflator’s estimation. This estimation is used because it is the most updated one.

On the other hand, we need to get the data series in per capita terms. To do so, we have used the Nicolau (2005) population series because of their relevance.

With regard to expenditures, we have chosen the second phase data series. The reason for the chose of one-phase data series is that we only wanted a measure to compare them with revenues. The second-phase data series satisfied best our requirements, as it was said for revenues.

3. Fiscal revenues through the Logarithmic Variation Rate (LVR)

To evaluate the evolution of several data series, we will use the Logarithmic Variation Rate. This way trends disappear. We take, therefore, the logarithmic first differences in real per capita data series. Moreover, logarithmic transformation offers a homogenisation of the variance and makes easier the interpretation of the first differences. So neperian logarithmic first differences of a set of a data series may be interpreted as a growth rate, which is called Logarithmic Variation Rate (LVR).

This LVR is used to value growth differences in each data series. We analyze the increases or decreases of collected revenues variation rates and their implications.
In order to better understand the LVR different budget phases’ chart, we have also approached a trend line. This line is especially necessary when biennial budgets were in force. This line, therefore, help us to better follow the management of the budgets.

Analysing these trend lines, we see that collected revenues growth rates were placed below budget growth rates in the first half of the forties. After the second half up to 1960, happened the opposite; the collected revenues growth rates were higher than the budget growth rates. In the fifties, budget growth rates kept the same pattern while collected revenues growth rates decreased. In the seventies, there were little differences between both rates.

Chart 1. Real per capita series of budget and collected revenues (%LVR)

This chart was made with INE data, which cover a data set up to 1977 fiscal reform; Información Estadística only covers up to 1975. If we analyze the data series, we can check the following. From 1951 there was a continuous increase in collected revenues, produced after the collapse of that series in 1945-46. There was a new falling in the revenues rate in 1972 but it was recovered in 1978.
With this chart it is possible to see the effects of the realized politics. Nevertheless we cannot understand what is behind these effects unless we analyze what the ministers of Finance wished to make.

4. Fiscal revenues in the three budgetary phases

In a still unpublished paper I discussed the evolution of fiscal ideas of the ministers of Finance. In forties and fifties they tend to adopt a more classical view of the economy. Last ministers of Finance of the Franquist Era had assimilated some Keynesian ideas. One of them can be even considered a full-fledged Keynesian. These Keynesian ideas were gradually adopted since sixties, not before. Anyway it took a little to take them clearly into a real fiscal policy. An example of this transition to Keynesianism it can be found in the, among others, the balanced equilibrium rule, which was changing in its importance.

If we go farther and pay attention not only to the evolution of the equilibrium rule, but to other aspects of this transition to Keynesianism, we obtain new hypothesis that opens new questions. In particular, we wish to analyze the relationship between collected and budgeted revenues. The more important fiscal reforms of the studied period were made in 1940, 1957, 1964 and 1977, as said above. The 1940 reform was determinant to recover the collected revenues. The 1957 reform is normally accepted as a preparation of economy’s liberation. To do so, it was very important to achieve an increase in the revenues collection. The 1964 reform seems to be an adjustment of the fiscal system in order to put into practice the Spanish First Social and Economic Development Plan (A Plan for the guidance of a centrally planned economy). At last, 1977 reform, the first one of the democratic era, was qualitatively different from those franquist reforms.

Next we will analyze fiscal revenues in order to go deeper into the basis of all those reforms from their original approach. To attend these questions, we have to observe in first place how the total budgetary revenues are in real per capita terms.
Chart 2 shows the above mentioned series in the three fiscal phases: budget, register and collection. We also compare them to the registered expenditures.

**Chart 2. Fiscal revenues in their three budgetary phases: budgeting, register and collection. Fiscal expenditures in registration phase (real per capita series. base = 1970)**

An examination of each of the series clearly demonstrate that the settlement phase series goes, all along the period, higher than the collection phase series. This is not a rare phenomenon, because the amounts settled but not collected are, by definition, greater in any certain year. A more striking fact is that the collected incomes are bigger than the budgetary ones. Moreover, this fact happens most of the considered years. Now, if we compare the settled expenses series, we can check how well is the adjustment of this series to the budgetary phase series. So, gathering all together, we have the following. If public budget is a limit to public expenses, and we want to increase the last, it should be enough to increase the first. But things were not so easy. We stop here this discussion in order to go deeper before into a related question: the analysis of fiscal revenues, that is, direct and indirect taxes. These fiscal series are shown in the Chart 3.
In this Chart, made with INE data series, we can clearly observe two periods, which are very different. They go from 1940 to 1958 and from 1958 henceforth. In the first stretch, the direct and indirect taxes budget, in real per capita terms, increases with a lower rate than the increase of the other stretch. There is a little increase in the indirect taxes near 1940 caused by the 1940 reform. In 1945 there is a slowdown both in budgetary and collected revenues because of the post-war situation.

In the second stretch, after the 1957 fiscal reform, it is clear the increase of both budget and collection revenues in both direct and indirect taxes. Moreover, the collected revenues series goes higher than budget series. Nevertheless, as it is evident, budget growth rate is not the same for the different kinds of taxes. Certainly, indirect taxes are budgeted higher than direct taxes. That is a very important matter, because that means that ministers wanted indirect taxes to grow; it was not a result by chance but on purpose. And it is not what it was said by ministers’ speeches.

The 1964 fiscal reform confirmed the above mentioned for the 1957 fiscal reform, that is, indirect taxes were still increasing. However, as the time goes by, and the new
keynesian ideas are being assimilate, that trend line changed its path and became smoother. The direct taxes line, then, was growing faster.

Finally, with the 1977 fiscal reform became clear that the gap between indirect and direct taxes was being reduced because of the increase in the direct taxes budget.

Once we have seen the behavior of fiscal revenues series, we will try to understand those numerical results. This is to what we devote the remainder of the paper.

5. The revenues collected exceeded revenues forecast

We have checked the several deviations of collected revenues to the budgeted ones. As ministers of Finance were the persons in charge for that economic policy, we wish to analyze some issues related to this fact. We want, also, to take up again the discussion of that matter left above: the revenues as a limit to the public expenses.

So, the questions we would like to answer are the following: In first place, whether ministers of Finance were aware of that excess in the collected revenues. In second place, whether it was known which the nature of this excess was. That is, if revenues collected came from small budgets or not. In third place, whether this excess was unexpected or not. In this case, would be worth to adjust the budgeted revenues to the collected revenues every year? And finally, whether this excess could have helped to benefit economic situation.

For this task, we have constructed, by way of illustrating, the Budgetary Deviation Index (BDI). This index shows the difference between the collected revenues for year i, and the budgetary revenues for that year i, this way:

\[ \text{BDI}_i = \frac{(C_i - B_i)}{B_i} \]

So, we get Chart 4. In this Chart it is showed the excess in collected revenues, calculated as said all along the studied period.
As expected, collected revenues exceed budgetary revenues most of the years of the period. Only with the exceptions of the years 1945-1951, 1970, 1972 and 1978-1979, in the rest of the period, (30 of the 40 years) collected revenues exceeded budgetary revenues. In some cases these excesses meant a gap of 30% of the budget. In other cases the gap went around the 20% one year and the 10% of the budget every other year. This is a normal effect caused by the biennial budgets, as was mentioned above.

5. 1. Ministers of Finance were aware of this “beneficial” situation

In this section, we will try to answer the first question raised before, about the awareness of the situation by the ministers of Finance. We steered to the annual
ministers´ speeches given in the Cortes. Some of those speeches were given in order to report the budgetary situation; they had to explain which kind of measures would be adopted. We have to add that probably, Cortes members were willing to hear pleasant news about economic situation, and ministers wished, also, to give those good news to have bigger probabilities of having the annual budget approved.

If we analyze ministers´ speeches, we will see that, certainly, ministers were aware about the excess of collected revenues. Moreover, they discussed about it.

Minister Benjumea (1941-1951) seemed not surprised when, in 1943 for the first time, explained the budgetary situation. He considered the level of collected revenues as acceptable. He showed, indeed, how collected revenues exceeded budgetary ones.

In 1951 began to grow quickly the collection rate, exceeding even more the budget revenues. Gómez del Llano (1951-1957) explained that budgets were calculated with pessimism, lower than wished, maybe in order to achieve easier the budgetary balance. Because of that, this Minister had a great satisfaction when collected revenues exceeded budgetary figures.

Navarro Rubio (1957-1965) saw very content that collected revenues exceeded budgetary forecasts. He knew it and commented collected revenues´ evolution in the past. That took him to say in a very optimistic way that “the rigidity of the fiscal system is finally broken; barriers that made impossible the revenues increases were removed”. As data given in Chart 4 reveals, collected revenues increased greatly, indeed.

Espinosa San Martín (1965-1969) stated, as Gómez del Llano did, that budgets were carefully calculated. That was the reason for the excess in revenues collection. Anyway, he though fiscal system was effective, therefore.

We have seen how reduced seemed to be budgets, according to some ministers. Maybe ministers did not see the potencial in the fiscal system, but they were aware of that.

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1 The first Cortes after the Civil War were in 1943.
increases and, furthermore, satisfied with the results. But that only was a temporal relief in a general deficit context.

5.2. About the nature of the revenues collection excess

Ministers might think that this was a normal situation, or, on the contrary, they might think that calculations were wrong. Ministers´ opinions will be explained next. Gunther (1980, 124) considered that excess as an underestimation of revenues. This could have helped to have a financial cushion for the economy.

Benjumea just mentioned taxpayers´ patriotism so long as they paid all contributions in time. That would be the reason why collected revenues grew in a larger proportion.

Gómez del Llano supposed that increase in revenues was the normal consequence of a great success of bringing fraud under control.

Navarro Rubio said that the collection excess was due to the good results get by the 1957 fiscal reform, a reform performed by himself and described exactly as an anti-fraud reform.

So, according to some franquist ministers of Finance, reasons for excesses were, in short, the following: the flexibility of fiscal system to the national income and the achievement in bringing the fraud under control. Anyway, we cannot rule out some other reasons for that excess in which ministers could have never thought, for instance, the lack of human and statistical resources in the Civil Service. That could have implied a smaller control of the forecasts.

What about the convenience of adjusting the budget to the collection? Technically, the collection excess was a permanent imbalance never corrected, but unfortunately, ministers did not consider doing such thing. In any case, increasing the budget (to the level of collection) was not a matter that liberal ideology would have approved. And liberal ideology was prevailing all along the Franquist era, almost right to the end.
5.3. Arrangement of some extra revenues

Anyway, collection excesses were, after all, extra revenues, susceptible of taking advantage of them by using them in a certain way. Did ministers of Finance express any opinion about that?

Minister Benjumea, after noticing that collected revenues exceeded revenues forecast, announced, without it supposing causality, that the Government would dispense with an industrial tax, because “the Government has decided that it is important to foster that sector, removing fiscal barriers”. Actually, that fiscal measure was a really important one for that time; the tax allowance amounted 400 millions pesetas (almost 2,5 millions euros). The year after, Benjumea also said that there would be more tax-exemptions in order to develop national industry.

Navarro Rubio explained in 1958: “our economy has exceed forecasts in 7500 million pesetas. That would help financing autonomous bodies. In 1960 that excess was devoted to the stimulation of the economy. Moreover, he would increase some tax exemptions in order to use the tax as a mean of income redistribution.

For Espinosa San Martín the revenues´ increases proved the fiscal system efficiency. And that was essential faced with the need of increasing public expenses.

In conclusion, collected revenues excesses were actually known by the ministers of Finance, ascribed to a well-executed policy. The excess had its finality; it helped to foster economy in the short term by, among others, sacrificing some revenues with tax exemptions.

6. Conclusions

In this paper we have analyzed different revenues data series from Franquist era. We have not only seen numeric data, but their qualitative background and their legislative changes, which affected them.
It became obvious some time ago that one of the most overwhelming problems in the Ministry of Finance was the budget deficit. With this research, is it apparent the seriousness of this problem; public revenues did not equal public expenses, despite the fact collected revenues were bigger than budgeted revenues.

Prudence seemed to be one of the watchwords that prevailed behind every action related to the preparation of the budget. We could also check that collected revenues followed the path marked by the estimated revenues. Besides, last exceeded first ones.

Once seen that, we wished to focus the analysis on the main actors, which determined the evolution and approach of budget policy.

It has been showed, in first place, that ministers were aware of the situation in which revenues collected exceeded estimated ones. In second place, we showed that this effect was ascribed to the ministerial department well-executed policy, but it also can be ascribed to the lack of means in the budgetary policy management.

In spite of the existence of that deviations and its knowledge, ministers did not adjust budget to the collected revenues each year. Anyway, liberal ideology did not promote an increase in expenses, so it was worthless to increase budgeted revenues, at least until 60’s.

Although deficit was not a good feature of the economic management, the excesses over estimated revenues, could have helped to perceive a little bit worse the economic situation. The reason is that this fact implied to bear a smaller deficit than that that would have bore, ceteris paribus, in other case.

That excess, as we have seen, would be used to take measures in order to alleviate the economic situation. Ministers took advantage of the situation, among others, not increasing taxes or giving some tax exemptions.

Insofar as this is certain, it has to be admitted that Spanish economy could have weaken by those measures. Those measures could have determined the course of the economic
development, both in surplus and deficit periods. In short, they could have jeopardized, in a certain way, economic development in the long term.

References


