



**Radboud Universiteit Nijmegen**

Master thesis:

**How do economic theories and economists inform policies in  
various institutional settings?**

*A historical analysis of the pension system in Spain*

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## **Abstract**

It is said that economists are the most influential social scientists in public policy. However, their power is sometimes ambiguous and varies across different institutional settings and according to concrete policies.

This work looks at the Spanish public policy that receives the greatest amount of state resources, the pensions.

First, it provides a historical analysis of the birth and development of the pension system. In doing so, it argues that the system was created under a fascist regime and its basic foundations come from an authoritarian party, highly interventionist and protectionist. Furthermore, this essay will claim that although democracy brought some reforms, they were not able to change the foundations of the structural problems of the system.

Second, the work will follow the framework of Hirschman-Berman (2014), to analyse the economists' influence in this historical process. It argues that this influence was completely marginal due to path dependencies, the fixated relationship between Spanish politics and technical economic knowledge and the perception that the pensions are a societal issue instead of an economic issue.

**Key words:** pensions, Social Security, public-policy, economists, economic policy, economics.

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## 1. Introduction

Nowadays, economics is everywhere and, in the last decades, we have witnessed *the ubiquitous rise of economists* (Markoff and Montecinos, 1993). Every social scientist knows that at a political level, economics is the most influential of the social sciences (Hirschman and Berman, 2014). Although, some authors have said that European economists have a prominent position in politics, transforming economic knowledge into economic policy (Frey et al, 1992). Most economist think that “*such influence is extraordinarily limited, when it exists at all.*” (Hirschman et al, 2014, p. 779). Therefore, it seems that economics and hence economists’ power is rather ambiguous.

Previous literature has shown interest in this matter and looked into the question of how economists influence public policy. Some examples are Valdés (1995) and his research regarding the Chilean case during Pinochet’s government or Siegfried (2010) in his book “*Better Living Through Economics*” that reviewed the economists’ influence in several concrete policies, like the American pensions.

However, does this power differ in different institutional settings? Does it change according to each concrete policy? Does it depend on the actors involved? When do economists have more influence, when the policy is considered a technical issue or on the contrary if it is highly politicized?

Fourcade (2009) states: “*Economic knowledge gets entrenched with different force across countries, in different places and institutions, and for different purposes, and its very substance can also differ in subtle ways*” (2009, p. 261). Thus, when analysing economists’ influence in public policy, it is crucial to frame it within a concrete institutional setting, and even better within a concrete public policy. Since, following Fourcade’s reasoning, the results from previous research in diverse institutional settings cannot be always extrapolated.

According to Hirschman and Berman’s framework (2014) economists may influence public policy through three different mechanisms, which are: achieving *professional authority*, acquiring an *institutional position* and establishing a *cognitive infrastructure*, both by creating a *style of reasoning* or concrete *policy devices*.

Christensen (2017) uses this framework, while studying how some concrete countries established market-oriented tax reforms. This author assures that “*the varying*

*degree of market-oriented reform to an important extent reflected the historical institutionalization of economic expertise in state bureaucracies.*” (2017, p. 3) Thus, in this case, Christensen gives the most relevancy to Hirschman’s “*institutional position*”, defending that economists will influence policy through the public bureaucracies, but not only that, at the same time, he is assuming that when economists inhabit these public institutions, they have an impact “*on the spread of ideas and policies*” (2017, p. 11) and thus, following Hirschman’s “*cognitive infrastructure*” mechanism.

Yet, is this the case for Spain? Or is this the case when discussing a pension system? This piece of work will study how economists’ influence works and has worked regarding a very concrete and relevant public policy in a specific institutional setting: the pension system in Spain.

Pensions in Spain have been a historically delicate point for discussion. At this moment, there are almost nine million pensioners, almost 20% of the Spanish population while the OECD average was 16,8 % in 2017 (World Data Bank, 2019), which in political terms mean nine million votes. Has the system been managed following technical criteria or on the contrary, following ideological and political motives? Has the incompetence of the economists led the Spanish Social Security to its structural deficit? Has the same incompetence led the reserve fund to have less than 15% of what it used to have? In sum, do economists have real influence in Spanish public policy? And more concretely, in Spanish pensions?

In the next section I will clarify the differences among the pension systems that coexist today, afterwards, I will present the characteristics of any welfare system according to the Esping-Andersen (1990) regimes, with special attention to the Spanish case. Section four will be focused on the historical view, analysing the evolution of the Spanish pension system and the economists’ influence on it since the beginning of the 20th century. Finally, I will use the framework of Hirschman-Berman (2014) to clarify what has been the economists’ influence.

## **2. The taxonomy of the pension systems. How does a pension system work?**

The simplest way to classify a pension system is according to its funding. In this way, Bar and Diamond (2009) explain the three possible options: fully funded, partially funded and pay-as-you-go (PAYG):

The fully funded system is based on savings. The contributions are invested in assets, accumulating them. Therefore, the final pension would be in consonance with the payments that the contributor has done during his working life plus the accumulated interests. In this case, if there is no redistribution across generations, each generation is constrained by its own past savings.

The other possibility is a PAYG system run by the state. Contrarian in nature, the state taxes the working population to pay the pensions of the retired generation. Therefore, the contributions are immediately used to fund the benefits of the current beneficiaries with the state's guarantee that the current workers will be paid by future generations. This system allows the redistribution across generations, sharing the risks.

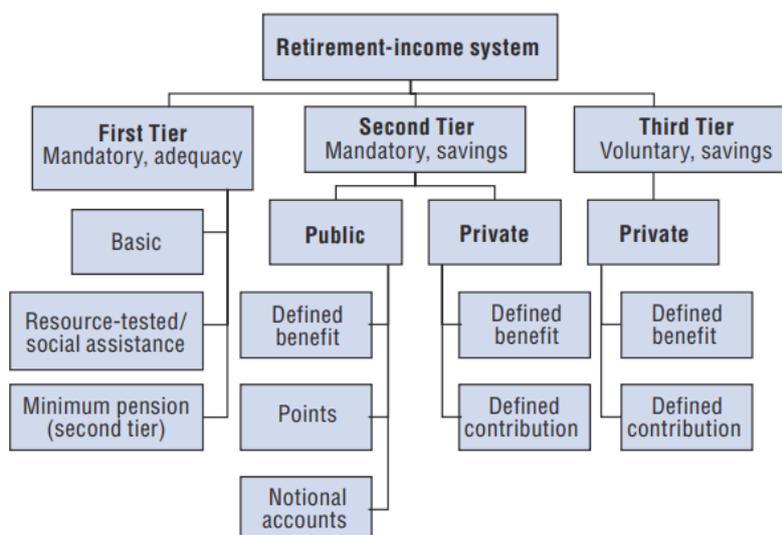
The partially-funded system is a combination of both, paying benefits by combining current contributions, returns on assets and their sale.

However, classifying pension systems is not always that simple, many different systems coexist today and each of them has concrete specifications. For that reason, the OECD's (2017)<sup>1</sup> defines any pension system by the relationship between contributions and benefits. The taxonomy that the OECD uses is shown in figure 1.1.

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<sup>1</sup> Annual report: *Pensions at a Glance 2017*

**Figure 1.1. Taxonomy: Different types of retirement-income provision**



Source: OECD, 2017. *Pensions at a Glance 2017*.

According to this taxonomy, every pension system within the OECD counts with two mandatory tiers. The first, an adequacy part, is designed to ensure a minimum standard of living to every pensioner, every country in the OECD counts with this tier. The second, an earning-related part, is designed to achieve a standard of living when retired, similar with the one had during the working life.

The first tier, in order to prevent old-age poverty, is fully covered by the public sector. There are mainly three types:

**Basic:** this form consists of two different options: a benefit paid to anyone without having any relationship with any contributions made or a benefit paid solely based on the number of years of contributions. Eighteen OECD countries use this basic pension or one with similar effects, for instance, Ireland, Netherlands, U.K or Sweden.

**Minimum:** these pensions can refer to the minimum of a specific contributory scheme or the minimum of all used schemes combined. The value of the benefit only takes into account pension income (it is not affected by savings income). Fifteen OECD countries use this minimum pension, for example, France, Italy, Portugal, Poland or Spain.

**Social assistance:** these plans pay a higher benefit to poorer pensioners and a reduced one to better-off retirees. The value of this benefit usually depends on income

from other sources or on both income and assets. In the end, all countries have general social safety-nets of this type, such as Finland, Canada, Belgium or Denmark.

Regarding the second tier, the one designed to assure certain acquisition power, Ireland and New Zealand are the only two countries that do not have a mandatory one, either public or private. For the remaining ones, they all fit within four different schemes:

***Defined benefit:*** these are the plans provided by the public sector (except for Iceland, Netherlands, and Switzerland that are private and mandatory) and the retirement income depends on the number of years contributing and individual earnings. Eighteen countries use this scheme, for instance, Spain, Portugal, Finland, Austria or U.K.

***Points:*** In this system, the workers gain points based on each year earnings. When they retired the points are multiplied by a pension-point value and they are converted into a pension payment. Only four countries use this system France, Estonia, Germany, and Slovakia.

***Defined contribution:*** These contributions flow into an individual account, the accumulation of these contributions plus the investment returns are converted into pension income at retirement. These plans are compulsory in ten countries like Sweden, Norway, Denmark, Chile or Australia.

***Notional-accounts:*** also called notional defined contribution plans are designed to mimic the *defined contribution* schemes. The contributions are recorded in an individual account and a rate return is applied. The account is notional, so the balances exist only on the books of the managing institution. At retirement age, the capital is converted into a stream of pension based on life expectancy. Five countries use this system, which are: Italy, Latvia, Norway, Poland, and Sweden.

As it can be seen the second tier pension schemes are not mutually exclusive. For example, Sweden and Norway have public notional-accounts and private defined contributions and Estonia and Slovak Republic a public points scheme and private defined contributions.

### 3. Classification of the Spanish Welfare State.

The Spanish pension system is funded as a PAYG system, with a minimum pension in the first tier and a defined benefit in the second one. Hence, the pension is proportional to the number of years being a contributor. How would you classify this pension system?

According to the Esping-Andersen typology (1990), the most widespread way of classifying any welfare system, there are three different possible regimes in which any welfare system could fit. Those three regimes are:

The “*liberal welfare state*” in which the universal transfers and its social insurances are modest, and that is why the state encourages the market competences over its own. Relevant examples of this typology are Canada or Australia.

The second regime-type is the conservative and “*corporatist welfare states*” (also called Continental). These systems have a historical corporatist-state legacy and were typically shaped by the Church. Hence, the system is committed to the traditional family values, giving to the state a subsidiary role by which it only intervenes when the family capacity is exhausted. The “*state is perfectly ready to displace the market as a provider of welfare*” (1990, p. 27). Thus, the private sector plays a marginal role. Nations like France, Germany and Italy suit this regime.

Finally, the “*social-democratic welfare states*” promote equality. All strata of the civil society are covered by one universal insurance system and, thus, the state “*crowds out the market*”, making the system a “*peculiar fusion of liberalism and socialism*” (1990, p. 29). For this regime, the Scandinavian countries are the ones that suit best, even though they have “*crucial liberal elements*”.

One of the most important criticism that this book received is that it did not include the Mediterranean countries (Spain, Portugal, and Greece) (Leibfried, 1992; Castles, 1995) yet, subsequent papers did. Years after the book, Esping-Andersen included Spain in the corporatist model (Esping-Andersen, 1997), and Katrougalos (1996) argued that the Mediterranean countries “*do not form a distinct group but rather a subcategory*” (1996, p. 43) of the corporatist model, and Soede and Vrooman (2008) included the Spanish pension system in the corporatist group because “*the state dominates in the*

*provision of pensions... which is fully provided by the state with a PAYG system... in line with Esping-Andersen's account of corporatists regimes"* (2008, p. 25).

On the contrary, there are authors who defend that the Mediterranean countries have their own characteristics and because of that, they form their own special regime that has been called the Southern Rim (Arts et al, 2002) or the Middle Way<sup>2</sup> (Moreno, 2001). Ferrera (1996) assures that this welfare system is characterized *"by a peculiar mode of political functioning which distinguishes it not only from the highly homogeneous, standardized and universalistic welfare states of northern Europe, but also from the more fragmented continental systems"* (1996, p. 29). This system has a strong relationship with Catholicism and the Church, with communist subcultures, as well as with political clientelism, political corruption, and partisan penetration. Moreover, the system is highly dualistic, which means that there are some highly protected groups while others are unprotected. Moreno (2001) extended this analysis by stating that Spain is the best representation of this combination and it is a Middle Way between the corporatist and the social-democratic model.

In the next section, a historical analysis of the evolution of the pensions' policy is carried out. This will try to explain how the Spanish pensions system become what it is now and to what extent did economists influence the outcome.

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<sup>2</sup> *"via media"*

## **4. The evolution of the pension system in Spain**

### **4.1. Background and prelude**

In order to understand the evolution of the Spanish Welfare State, I will begin by contextualizing the country through its economic growth patterns. Following Prados de la Escosura (2003) work, it is possible to identify three different growth periods: 1850-1950, 1951-1974 and 1975-2000, with an annual average growth rate of 1,34%, 6,42% and 3,03% respectively. These should be kept in mind as I proceed with the analysis.

With the exception of the civil war years (1936-1939), it can be said that during the first period (1850-1950), the Spanish economy witnessed a continuous long-term growth, even though there were cyclical oscillations in which the growth rate differed from the long-term tendency (Prados, 2003). However, despite the institutional stability that existed at that time, the growth rate was timid. During the Restoration, the most probable reasons of the subtle growth rate were the nationalist involution, the protectionism and isolationism together with the interventionism and high regulation of the economic activity (Prados, 2003).

On the contrary, the second period (1951-1974) coincides with the critical Stabilization Plan (1959), which it will be discussed later on this work. Before the plan, the Spanish industrialization depended almost exclusively of the intern demand. But that situation was inverted with the reforms of 1959 (Prados, 2003). The liberalization of the Spanish economy and the openness and slow integration of the country into the international community broke with the moderate growth tendency and started an exceptional growth phase that would last until the beginning of the Oil crisis.

From 1975, Spain witnessed exceptional historical events: the end of the dictatorship and the resulting democratic transition. At the beginning, these deteriorated the economic growth but after they were assimilated the democratization of the country led to a vigorous growth by the end of the century (Prados, 2003). Having provided this necessary background, I will turn to the analysis.

The Spanish industrial revolution did not begin until the second third of 19th century. It was late, incomplete, full of imbalances and unequally disseminated across the country (Vilar, 1990). This fact is probably one of the reasons why Spanish policy-makers did not pass any law to protect workers before 1900. However, other European countries

did it way before: Switzerland 1877, Germany 1884, Austria 1887, Norway 1894, England 1897 or France 1898 (González, 2015). That first law was the industrial accidents law of 1900.

It settled the first steps towards an institutionalization of social provision. Although it is not a universal old age pension, it is an important antecedent for it. As Valverde (1987) said, cited by González (2015, p. 15)<sup>3</sup>:

*“no sign allowed to foretell [...] the universalization process of the Social Security that was going to be produced further on”*

Between 1900 and 1919 the role of the state regarding Social Security was mainly related to promote the volunteer welfare prevision among the working class. Mutual business insurances were created and their nature was private and voluntary. Furthermore, in 1908, the state created the National Institute of Insurance<sup>4</sup> (INP) to promote voluntary retirement pensions among the working class (Comín and Díaz, 2005) and to prepare and manage a system of social insurances and old age pensions (Guillén, 1990).

With the mobilization of the working class, the first nationwide strike in 1917 and the Russian Revolution occurring, the obligatory nature of an old age social insurance appeared in the political landscape as a social pacification instrument. These situations ended up with the INP in charge of drafting the project that will lead to the implementation of the first mandatory Spanish social insurance.

## **4.2. The birth of the Spanish old age pensions during the Bourbon Restoration.**

It was not until March 1919 when the first mandatory social insurance was established. The Old Age Insurance<sup>5</sup> was design for industrial workers (not public ones) between 16 and 65 years old and whose wage was not higher than four thousand pesetas<sup>6</sup> a year.

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<sup>3</sup> *“ningún indicio permitía presagiar [...] el proceso de universalización de la seguridad social que se iba a producir más adelante.”*

<sup>4</sup> Instituto Nacional de Previsión

<sup>5</sup> Retiro Obrero Obligatorio

<sup>6</sup> 4.000 ptas in 1919 would be 8.502,65€ in 2019. Following the inflation calculated by the Spanish Bank (Maluquer, 2013), the conversion rate of 166'39ptas per euro in 1999, and the inflation rate 51,9% since 1999 to 2019 (INE, 2019).

The insurance was simple, homogeneous and respected the concept of horizontal equity among workers, it was thought as a minimum insurance against poverty and not as a mean to maintain the purchase power (Terán, 2006). The benefits were proportional to the age of the individual and the moment in which he started to contribute to the system (Celatini et al, 2007). The concept of capitalization was, to some extent, present. There was a specific contribution made by the employer, the state and, finally the worker himself. Nevertheless, there was no individual accounting and the workers were treated homogeneously.

There were no economists playing a role, it was mainly governed by jurists and sociologists. The creation of the INP was heavily influenced by Maluquer, considered one of the founding fathers of the social insurances in Spain and, everything was framed within the government of Antonio Maura, a conservative jurist (Guillen, 1990).

Therefore, the politics of this period of the Spanish history are ruled by jurists within politics. Economists are not present at all. As Linz (1981: 373) states, cited by Guillen (1990, p. 89) the Restoration (1874-1931) was:

*"a period of parliamentary politics in which the leading personalities, consisting mostly of lawyers with oratorical abilities and inside knowledge of the machinery of the State and administration, governed with considerable independence from real constituencies and interests, thanks to their control over the electoral machine."*

### **4.3. The Spanish Dictatorship. Old age pensions during Franco's regime.**

By the mid-30s, most of the Spanish workers, including the public employees, were secured with a mandatory pension program promoted by the state (Celentani, 2007).

In 1936, during Spanish Second Republic (1931-1939), a failed coup signals the start of the Spanish Civil War (1936-1939). After three years of conflict the national bloc defeated the republicans in April 1939, the war ends and thirty-six years of repressive dictatorship followed until the death of Franco in 1975.

#### **4.3.1. The Old Age Subsidy and the Mandatory Insurance for Old Age and Invalidity.**

In September 1939, the new Spanish government under the authority of Francisco Franco, changed the previous Old Age Insurance (1919) for the *Old Age or Invalidity Subsidy*<sup>7</sup>. This change was crucial and settled the basis of the system that Spaniards know today. The previous scheme of capitalization changed to a PAYG.

This change of paradigm was carried out following the Labour Jurisdiction (*Fuero de los Trabajadores*) written in the middle of the civil war in 1938. It was copied almost literally from the *Labour Charter* (1927) of the Italian fascism (Mesa, 1994). This jurisdiction was a hybrid between two state regimes, one Corporatist-Traditionalist and another Corporatist-Fascist, the first followed by the catholic sectors and the second by the Falangists (Moreno et al, 1992).

The new system's organization remained similar to the previous one, but without the capitalization concept playing a role. Now, the pensions were fixed and covered every salaried worker within sixteen and sixty-five years old with a maximum annual wage of six thousand ptas<sup>8</sup>. At this moment, it was mainly funded by the employer and the employee with a small contribution from the state (Egozcue, 1996). Because it was aware that the subsidy was not enough, the government encouraged and promoted other ways to secure retirement through private means, for example the mutualities and savings banks (Celentani, 2007).

The system and the funding organization was in the hands of the National Institute of Prevision (INP) now framed within the competences of the Ministry of Labour. The administration of the Ministry of Labour and the INP was given by Franco to the members of the Falangist party, the only party. Their ideology maintained that the state has the responsibility to regulate both social and economic relations (Moreno et al, 1992). Everything was shaped within an autocratic economy, highly protectionist.

The minister of labour and the director of the INP was Joaquín Benjumea Burín an engineer and Spanish politician during Franco's government.

Later on, in 1947, the subsidy was changed to the *Old Age and Invalidity Mandatory Insurance*<sup>9</sup> popularly known as SOVI. It had similar characteristics and it was

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<sup>7</sup> Subsidio de Vejez o Invalidez

<sup>8</sup> 6.000 ptas in 1939 would be 8.244,39€. Following the inflation calculated by the Spanish Bank (Maluquer, 2013), the conversion rate of 166'39ptas per euro in 1999, and the inflation rate 51,9% since 1999 to 2019 (INE, 2019).

<sup>9</sup> Seguro Obligatorio de Vejez e Invalidez.

developed by the same actors. Now, every industrial employee with an annual wage below eighteen thousand ptas.<sup>10</sup> was equally treated by this insurance. It did not have a general coverage, so the only possible beneficiaries were the economically weak workers (Martínez, 2001). Concurrently, the Ministry of Labour continued promoting the existence of the mutualities, a private way for the workers to secure the retirement pension.

Therefore, by 1950, the existent system had two pillars that would last until the end of Franco's regime. First private employees, under a certain wage limit, were covered by the SOVI and the public employees were also covered but by another normative frame, known as *Clases Pasivas* (Boldrin et al, 2001). The second pillar, for both private and public employees, was the possibility to accept to join a private retirement plan given by the mutualities which, even with a private nature, were under control of the government.

#### **4.3.2. Law of basis of the Social Security<sup>11</sup> of 1963.**

The second period of the Francoist regime started with the signature of the Stabilization Plan (1959) and it is when the isolationism ends. From 1957, professional economists and academic economists started to gain political power and entered public institutions like the ministry of commerce, of taxation and the Spanish Bank. Their objective was the creation of a “new policy” [*nueva política*] that would integrate Spain in the international institutions, ending forever with the preceding isolationism. At the same time, they aimed for the liberalization of trade, the end of the strong interventionism and the improvement of Spanish economy at a macroeconomic level (Fuentes, 2005).

In 1963, after the establishment of the basis for a PAYG system, the Spanish government passed a law affecting the SOVI. Its objective was to unify all the different insurances that existed at the moment: health assistance, social services, unemployment insurance, retirement pension (SOVI), and others (Comín, 2010).

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<sup>10</sup>18.000 ptas. in 1947 would be 8.955,83€. Following the inflation calculated by the Spanish Bank (Maluquer, 2013), the conversion rate of 166'39ptas per euro in 1999, and the inflation rate 51,9% since 1999 to 2019 (INE, 2019).

<sup>11</sup> *Ley de bases de la Seguridad Social.*

The intention was to get closer to other European systems that had started way before. But the formal disposition lead to a huge failure of the system. In Comín (2010, p. 36)<sup>12</sup> words:

*“(The system) was overcome by the historic inertia, the interest groups and the discoordination of the economic policy of the authoritarian regime. After 1963, the politic manipulation of contributions and benefits was emphasized... eroding the balance of the financial system... In practice, the francoist Social Security was far from being similar to the Social Security systems of the democratic Europe.”*

This law structured the Social Security but, instead of having one General Regime in order to achieve the aim of unifying everything, it created different Especial Regimes (more than fifty). This meant the creation of many especial treatments to concrete privileged sectors that were close to the fascist regime and those with very strong trade unions (Boldrin, 2001). Therefore, the contributions of each worker were not homogenous and that is why the unification was not possible.

Regarding the contributions, both the employee and the employer were still the main financial resource, with almost no state contribution (0,2%) (Comín, 2010).

Due to the corruption and manipulation that existed, there was financial instability in the system since the beginning and, in the end, it was transform into a propagandistic institution. As Comín (2010, p. 37)<sup>13</sup> explains:

*“The political directives were imposed to the actuarial criteria (in the determination of contribution and benefits) and to the profitability principle.”*

The contributions were not proportional to the final benefit (the pension was calculated in function of the last working wage), the tariffs were too small for a PAYG system, there were too many especial regimes that created equity problems, there was a lack of financial resources and the maximum wage limit to join the system that existed in the SOVI was eliminated. On top of that, the reserve fund of the social security was not

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<sup>12</sup> *“Se impusieron inercias históricas, las presiones de los grupos de interés y la descoordinación de la política económica del régimen autoritario. Tras 1963, se acentuó la manipulación política de las cuotas y las prestaciones de la seguridad social... erosionando el equilibrio financiero del sistema. ... En la practica la seguridad social del franquismo estuvo lejos de parecerse a los sistemas de seguridad social de la Europa democrática.”*

<sup>13</sup> *“Las directrices políticas se impusieron a los criterios actuariales (en la fijación de cotizaciones y prestaciones) y al principio de rentabilidad.”*

managed according to profitability criteria. Instead, it was used to fund state investments and expenses (Comín, 2010).

All this fraudulent system was managed and motivated by the Ministry of Labour headed by Jesús Romero Gorriá, a Spanish entrepreneur who studied law and who was always very close to the authoritarian regime.

#### **4.3.3. Economic reasoning during Franco's regime. Where is it?**

What can be concluded about this authoritarian period in the Spanish history are mainly two ideas:

First, the welfare system did not achieve its objective. It was broke almost since the beginning with a structural deficit and with a very scarce cover "*the pension system remains under the subsistence level*" (Egozcue, 1996, p. 11)<sup>14</sup>. The first period of the dictatorship was overcome by ideological reasons setting economics aside. As Moreno and Sarasa (1992) explained, Franco's government was highly dominated by a catholic and conservative paternalism, the state had a catholic vision towards social matters. Meaning that it was the state who had to take care of the citizens. At the same time, the Falangist party gave a lot of weight to the role of the government which, according with their vision, should intervene in economic and social issues, "*the economy must be dependent on morals*"(Moreno and Sarasa, 1992, p. 11)<sup>15</sup>.

Second, the system ended up being a mean of propaganda. It was based on ideological motives with the only objective of favouring the regime's political agenda. It did not modify in a significant way the precarious situation of the Spanish old age citizens: there was almost no financial role on behalf of the state, there was arbitrary aid given to sectors close to the regime, industrial reconversion programmes (with anticipated retirements or reductions in the employer contributions), state investments, arbitrary annual revalorizations and the reserve funds were funding state investments that decapitalised the system (Comín, 2010). Thus, it failed to achieve its main objective, the creation of a unified Social Security system (Egozue, 1996).

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<sup>14</sup> "[el] sistema de pensiones... se mantienen por debajo del nivel de subsistencia"

<sup>15</sup> "la economía debía estar supeditada a la moral."

All of this evidences the lack of economic insights. Indeed, as Moreno and Sarasa (1992, p. 19)<sup>16</sup>

*“The Francoist period bequeathed a meagre welfare system inspired by corporatist and conservative principles. Based on patronage by nature and subsidiary, partly by the private initiative and the family, it was more preoccupied about “incentivising” the worker’s labour discipline that to obtain equity within the productive system. The assistance system was self-configured, as a savings mandatory instrument for the workers, contributing to the violent capital accumulation process. Finally, the Francoist corporativism, was not only conservative, but also despotic: repression was the most profusely mean used by the leading elites for the compliance of their strategic ends.”*

Therefore, even though the Stabilization Plan (1959) was a great step towards the institutionalization of economics and the recognition, at least to some extent, of the professional authority of the field. The pension system was completely left out of that institutionalization process and although it was obviously benefited by the economic growth and the macroeconomic balances achieved, the Social Security was not managed under economic standards.

#### **4.4. The hope for democracy. The Spanish Transition.**

After Franco’s death on the 20<sup>th</sup> of November of 1975, Juan Carlos I is proclaimed King of Spain, as Franco had decided before his death. Just after that, Adolfo Suarez was the politician charged with the task of establishing the conversations between the different parties that already existed, and the ones that would participate in the first democratic elections since Franco’s regime started. In June 1977, the elections were celebrated and Adolfo Suarez is ratified as the president of Spain. In December 1978, the Spanish Constitution was approved signalling the beginning of a new democratic era for Spain (Preston, 2001).

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<sup>16</sup> *“El franquismo legó un sistema de bienestar raquítico e inspirado en principios corporativistas conservadores. Clientelista por naturaleza y subsidiario en parte por la iniciativa privada y de la familia, estuvo más preocupado por “incentivar” la disciplina laboral de los trabajadores que por procurar la equidad dentro del sistema productivo. El Sistema asistencial se configuró, asimismo, en un instrumento de ahorro forzoso para los trabajadores, coadyuvante en el proceso de acumulación violenta de capital. Finalmente, el corporativismo franquista, además de conservador, fue despótico: la represión fue el medio más profusamente utilizado por las élites dirigentes para el cumplimiento de sus fines estratégicos”*

Those years are known as the Spanish Transition, full of political instability. However, it was the opportunity for Spain to converge with the rest of the European countries that embraced the welfare system in a better way.

#### **4.4.1. Law of collection and inspection of the Social Security and Law of Institutional Management of the Social Security, Health and Employment<sup>17</sup>.**

With the entrance of Spain in the democratic path, the government had the opportunity to end with all the patronage, corruption and politic interests that surrounded the Social Security system. In 1978, two laws were passed: Collection and Inspection of the Social security and Institutional Management of the Social Security, Health and Employment.

The main objective of these reforms was the simplification and rationalization of the management, reorganizing all the existing entities to make the system efficient (Comín, 2010). All the previous managing bodies were grouped in five different organisms. Two of these were: The National Institute for the Social Security (INSS) was in charge of the pensions while the General treasury of Social Security (TGSS) was in charge of managing the resources and improving the economic and financial administration (Guillen, 1997)<sup>18</sup>. This reorganization meant the end of the INP (an organism that played a crucial role during Franco's regime), as well as the end of the labour mutualities. Furthermore, as the Moncloa Pacts established, there was a democratization of the Social Security, its budget was now under control of the parliament. At the same time, other social agents like the trade unions, business associations and public administrations started to participate in the decision process (Comín, 2010). Finally, there was a significant increase in the benefits which together with higher transfers of money from the state budget to help with the funding of the Social Security, improved the progressivity of the system.

The minister of Health and Social Security that was in charge of these reforms was Enrique Sánchez de León Perez. He was a jurist, under the government of Adolfo Suárez.

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<sup>17</sup> *Recaudación e Inspección en la Seguridad Social y Gestión Institucional de la Seguridad Social, la Salud y el Empleo.*

<sup>18</sup> In addition to these, there was another organism for Health, another one for Employment and a last one for the social services.

#### 4.4.2. Too focused on democratization to think about economics

With democracy, Spanish society demanded more social spending and a modernized Social Security. The political instability of the time made the government act fast towards that objective. The number of covered workers significantly increased and the benefits too, even though there was still a global economic crisis. This situation made the Spanish public spending increase, generating public deficits (Comín, 2010). The public spending designated to pay the pensions as a percentage of the GDP was in 1974 the 21,7%, in seven years, in 1981, it had already increased to 25,5% (Moreno et al, 1992).

However, Suarez was not strictly focus on solving these matters. As Bermeo (1994, p. 601) explains, the success of the Spanish transition was due to *“a reform sequence that delays deep structural adjustment until after the consolidation of democracy was assured ... the party that won the first democratic elections concentrated on consolidating democracy.”*

In this period, economics and economists began to play a more relevant role, influencing and creating economic public policies. Yet, this transition period was not primarily focused on the economy but much more in politics, in democratization (Bermeo, 1994).

Even though the Social Security was obviously benefited from the macroeconomic policies that were trying to gain economic stability (Moncloa Pact), the Ministry of Labour was still far from being ruled by economists. As Comín (2010, p. 41)<sup>19</sup> explains, the Social Security reforms during the Spanish transition were totally insufficient:

*“There was some historical “servitudes” that complicated the reforms. The vices ingrained in the inherited Francoist “system” complicated the transition towards a democratic Social Security... the organization of the new Social Security system had to be made hastily, without being able to correct the inherited malpractices, and the spending increased rapidly.”*

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<sup>19</sup> *“Se encontraron algunas «servidumbres» históricas que dificultaron las reformas. Los vicios arraigados en el «sistema» heredado del franquismo dificultaron la transición hacia la Seguridad Social democrática.” ... “la organización del nuevo sistema de Seguridad Social hubo de hacerse precipitadamente, sin que pudieran corregirse las malas prácticas heredadas, y los gastos aumentaron rápidamente”*

Therefore, it was difficult for the government to face all the *vices ingrained*: the patronage, the lack of homogeneity in the system, the insufficient income and the deficits, in sum, all the inefficiencies of the system during Franco's regime.

#### **4.5. The Spanish democracy. Towards Convergence.**

The Spanish transition and democratization process has been deeply studied (Pereira et al, 1993; Bermeo, 1994). It has been defined as a dual transition: after the first democratic elections, Suarez focused on consolidating the democracy, while after the second elections, Felipe Gonzalez from the PSOE focused on the economic reforms. That is the reason why the Spanish transition was a total success (Bermeo, 1994).

The Spanish Socialist Workers' Party (PSOE) won the second democratic elections in 1982, obtaining the needed majority in order to conduct the structural economic reforms, not only regarding the Social Security but the whole economy. Even though the PSOE was, and still is, a center-left wing party, it had to make structural reforms that were not always accepted by the civil society. Felipe Gonzalez, the newly elected president was the man in charge of facing the powerful trade unions of the time. Yet, his power and party unity would not be threaten due to his absolute majority in the congress (Bermeo, 1994).

Felipe Gonzalez would govern Spain from 1982 until 1996 in four different terms, the first two with absolute majority. In order to carry out all the needed structural reforms, he was assisted by "*market-oriented PSOE technocrats*" (Bermeo, 1994, p. 620). Economists were playing a crucial role. The same young economists who wrote the Stabilization Plan (1959), together with newly trained economists, returned to design the new reforms and to face the economic liberalization. At that time, there was "*a formidable consensus in the technocratic community. Foreign economist from international lending institutions reinforced this consensus*" (Bermeo, 1994, p. 620).

Regarding the welfare system and concretely the Social Security, there was a universalization course in process and the increase of state's spending was unstoppable. For instance, the number of pensioners increased 31,6% between 1976 and 1982 while the contributors to the system, only increased by 0,04%. That is why, in 1981, the public spending was 150% higher than in 1975 (Guillen, 1997). These skyrocket figures were unsustainable and they triggered the first hard structural reforms of the Social Security during Felipe González's administration.

#### **4.5.1. Law of Urgent Measures for the Rationalization of the Structure and Protecting Action of the Social Security<sup>20</sup>.**

The first reform was done in July 1985 and it had a clear objective: containing the out of control public spending. It was an unpopular measure, even more coming from a left-wing party. Its restrictive character can be seen in the following changes: first, the minimum period of contribution in order to have the right to benefit increased from ten to fifteen years; second, the formula to calculate the quantity of the benefit changed from the last two years of salary to the last eight years and third, the number of special regimes was significantly reduced (Guillen, 1997; Celentani, 2007). However, to compensate these restrictions, the law foresaw the revalorization of the pensions according to every year's inflation (Comín, 2010).

The funding of the system was still mainly contributory: the employee was contributing with a 4,9% of his salary, while the employer with a 24,4%. At that time, the employer's contribution was one of the highest in Europe (Guillén, 1997).

Driving these unpopular measures was not that difficult, for the government had great autonomy, due to its majority in the congress. Thus, it could impose the neo-liberal decisions taken by their technocrats (Moreno et al, 1992; Egozcue, 1996).

#### **4.5.2. Law of Non-Contributory Pensions of the Social Security<sup>21</sup>.**

The civil society continued to pressure the government. The unions and organized professional groups of the social sector wanted the state to take care of the most needed parts of society (Egozcue, 1996). Therefore, contrary to the initial aim of the first reform (1985), in 1990 the government passed the Law of Non-Contributory Pensions of the Social Security, creating a universal and solidary system. This meant that every person older than sixty-five years without resources would have the right to a pension. This made the universality of the system official. Every Spanish citizen had the right to social protection on behalf of the state (Egozcue, 1996). Moreover, the public institutions were obliged by law to fund the Social Security. Thus, since 1990 the funding of the non-contributory pensions was undertaken by systematic transfers from the state to the Social

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<sup>20</sup> *Medidas urgentes para la racionalización de la estructura y de la acción protectora de la Seguridad Social.*

<sup>21</sup> *Ley de Pensiones No Contributivas de la Seguridad Social*

Security (Comín, 2010). It was not the employees or employers directly who funded the pensions but the public budget.

Nonetheless, as Egozcue (1996, p. 254)<sup>22</sup> pointed out:

*“The establishment of a non-contributory pension system goes against the reinforcement of the contributory nature on the 1985 reform. It reaffirms the mixed nature of the pension system... It universalizes the protection at the expense of reducing its intensity.”*

Therefore, the first attempt to rationalize the system and stop the unsustainable public spending was fading. The public spending designated for pensions increased from 5,76% in 1980 to 8,14% in 1992. The average pension increased 3,57 times in the same period, and the number of pensioners increased by 48% between 1980 and 1992 (Guillen, 1997). Furthermore, the reaffirmation of the system as a mixed one provoked dysfunctions and ambiguities in its management and funding. This emphasizes the rationality and fiscal crisis of the system (Egozcue, 1996). The situation is well summed up by Celentani (2007, p. 51)<sup>23</sup>:

*“They did not tackle any of the sustainability problems, and the economic crisis of the beginning of the nineties clearly showed that the current financial situation of the Social Security system was very delicate”*

#### **4.5.3. The definitive institutionalization of economics?**

The first two terms of the government of Felipe González were focused on deep economic reforms that tried to change the structural foundations of the Spanish economy. These reforms were heavily opposed by the main trade unions of the country and the workers protested with different general strikes. Nonetheless, the PSOE had the control of the Spanish congress due to two consecutive absolute majorities which made González capable, to some extent, of carrying out on the economic reforms (Bermeo, 1994).

Within the first government of Felipe González (1982-1986) there was a 41% of economists which, at first sight, gave hope for the definitive institutionalization of

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<sup>22</sup> “El establecimiento de un sistema de pensiones no contributivas se opone al refuerzo de carácter contributivo de la reforma de 1985. Reafirma el carácter mixto del sistema de pensiones. ... Universaliza la protección a costa de reducir la intensidad protectora.”

<sup>23</sup> “No atacaron ninguno de los problemas de sostenibilidad del sistema, y la crisis económica de principios de los años noventa puso claramente de manifiesto la delicada situación financiera corriente del sistema de Seguridad Social.”

economic knowledge within the political and institutional structures. The government's economic program was given to an "*erudite technocracy*" (Moreno, 1990, p. 63). Miguel Boyer Salvador was the head of the economy ministry and the most powerful minister of González's government (Moreno, 1990). Felipe González gave to an economist the management of the Spanish economy and he had enormous power and autonomy (Cuevas, 2017). As it is obvious, his influence was strong in most part of the other ministries, including the labour and Social Security.

Joaquín Almunia Amann, a jurist, was the head of the ministry of labour and Social Security from 1982 to 1986. Before that, he was responsible for the economy of the most powerful union UGT (1976-1979). While he was minister, he had to face that union during the reforms. He was against the Marxist wing of the PSOE and embrace social democracy.

After Boyer's resignation in 1985, Carlos Solchaga Catalan, ministry of Industry and Energy, is chosen to occupy Boyer's seat. He was the one who could guarantee the continuity of Boyer's political economy (Powell, 2001). As his predecessor, he was also an economist and became the head of the ministry until the end of Felipe Gonzalez's third term in 1993.

To sum up, the first two terms of the government of Felipe Gonzalez government while he had absolute majority, were heavily focused on rebuilding, liberalizing and the Spanish economy opening to the international community. For that reason, there was an important position for economists in the public institutions ruled by the government. Yet, it is important to highlight that unions had a tremendous power to influence political agenda, not only with direct influence in the government but also by mobilizing the workers towards general strikes. It is because of this, that the PSOE reforms mostly planned by economic technocrats could not be fully implemented.

#### **4.5.4. Toledo Pact and the new reforms for the viability of the system**

In 1996, Felipe Gonzalez abandoned the government after almost fourteen years in power. The Spanish society decided that it was the time for a change in politics and in March 1996, Jose Maria Aznar won the elections. The new president came from the other relevant Spanish party, the Partido Popular (PP). This political party is defined as a liberal- conservative, with elements of Cristian democracy (Hloušek et al, 2016) and occupied the center-right political spectrum.

As it has been explained, the reforms of 1985 and 1990 did not solve the sustainability problems of the system and the state's expenses were still unmanageable. The concerns about the viability of the system came to scene again, not only because of the increasing expenses, but also due to the monetary stability that was demanded by the European Union (Comín, 2010). In 1994, congress approved, with unanimity, the creation of the Toledo Pact (*Pacto de Toledo*)<sup>24</sup>. The special committee in charge for writing the report was formed by experts, academics, and representatives of the civil society like the unions (Celentani, 2007). Their task was to evaluate the financial sustainability of the system and to indicate the needed reforms. The final report was exceptionally accepted by every party in the congress (with the residual opposition of Izquierda Unida United Left) and by the unions and the employers' associations. All of them wanted to maintain alive the public pension system, since its viability with a PAYG structure instead of capitalization was never questioned (Alarcón, 1998; Chulia, 2000).

The report had fifteen recommendations and some of them were crucial in order to find additional resources. Some of the most relevant ones were: 1) clarification and distinction of the funding sources. The contributory pensions should be funded by contributions to the Social Security while the public budget should fund the non-contributory pensions and the universal services (health and social services). 2) Constituting a reserve fund with the surplus. 3) Reducing all the regimes to only two; the General Regime for employees and the Self-employed Regime. 4) Extension of the retirement age. 5) Automatic indexation of the pensions (Comín, 2010).

In July 1997, after an agreement with the biggest unions (U.G.T.<sup>25</sup> and CC.OO.<sup>26</sup>) and following the Toledo Pact, congress passed the Law of Consolidation and Rationalization of the Social Security system<sup>27</sup>. Its main purpose was to achieve the financial balance of the system while reinforcing its contributory nature, its equity and its solidarity.

Therefore, the core idea of the reform was the distinction between the contributory and non-contributory side of the Social Security (Alarcón, 1998). Consequently, the point was that the contributory part of the system was perfectly capable of being funded by the

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<sup>24</sup> *“Report for the analysis of the structural problems of the Social Security system and the main reforms that will have to be undertaken”*

<sup>25</sup> General Union of Workers (Unión General de Trabajadores)

<sup>26</sup> Workers Commissions (Comisiones Obreras)

<sup>27</sup> *Ley de Consolidación y Racionalización del Sistema de Seguridad Social*

contributory pensions. Yet, the state should be in charge of funding the non-contributory pensions, the health assistance and other social services (Alarcón, 1998). Besides this, the contributory arm of the system was going to be capable of funding mainly due to two new changes established in the law: first, the extension of the period that computes the regulatory base for the final pension (from eight to fifteen years) and, second, the modification on the percentages that were applied to that regulatory base<sup>28</sup> (Comín, 2010).

Therefore, besides the straight forward cut that meant that the period to calculate the pension was extended from eight to fifteen years, the health assistance, social services and the non-contributory pensions were taken out of the system because it was impossible to fund them through the contribution of the workers.

Thus, what did the Toledo Pact establish? Comín (2010, p. 46)<sup>29</sup> says:

*“The Toledo Pact, therefore, maintained the “mixed system” of social protection, that combined the public provision (based on the PAYG system, with both contributory and non-contributory benefits) with the private provision (the complementary and voluntary insurances based in the capitalization.)”*

In 2004, the PSOE comes into power again with José Luis Rodríguez Zapatero as president. The economic crisis was devastating the world in 2008 and there was the need for more reforms. Thus, in 2011, after the second revision of the Toledo Pact, the unions and business associations signed a severe agreement with the government that became a law in August 2011 (Comisiones Obreras, 2011).

This reform established, again, a series of cuts and restrictions in order to assure the viability of the system. The gradual extension of the retirement age from sixty-five to sixty-seven years old was the most significant. In addition, in order to establish the quantity of the final pension, the new regulatory base changed and started to be calculated in relationship with the last twenty-five years of work (instead of the previous fifteen). There was also an important new feature, the sustainability factor<sup>30</sup> starting in 2027. Its

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<sup>28</sup> For example, before the law fifteen years contributing to the system gave you the right to 60% of the regulatory base, this reform made it 50%.

<sup>29</sup> *El Pacto de Toledo mantenía, por tanto, el «sistema mixto» de protección social, que compaginaba la provisión pública (basada en el sistema de reparto, con las dos alternativas de prestaciones contributivas y no contributivas) con el suministro privado (la aseguración complementaria y libre basada en la capitalización)*

<sup>30</sup> This means, a revision of the pension each five years by comparing the life expectancy of the people with 67 years old at the moment of the revision and the life expectancy with 67 years in 2027. This revision will be held each 5 years (Ley 27/2011).

objective was the reduction of the received pension with regards to the increasing life expectancy (Comisiones Obreras, 2011).

During Zapatero's first term (2004-2008), the minister of Labour was Jesús Caldera, a sociologist. However, it is true that Zapatero reinforced the economic office during his government and he had an active relationship with the Spanish Bank (Ahedo, 2018). Furthermore, during his second term, there was an economist in charge of the ministry of labour and hence, in charge of the reform. Valeriano Gomez was an economist from the Complutense University of Madrid and was specialized in Labour economy. He was a key-actor in the signature of the agreement.

#### **4.5.5. Depoliticising economic matters? Probably not**

The PP government was more politicize and hierarchical than the previous governments of Felipe Gonzalez which had a greater proportion of academics. This is due to the process of accumulation of power within the structures of the PP by which the closer you are to the power within the party the best for your personal-political interests (Villena, 2014).

Moreover, a relevant leader of the main economic think tank in Spain, FEDEA<sup>31</sup>, assured that Spanish political economy is very much ideologized and depends on interest groups and political parties (Ahedo, 2018).

Following these ideas, Sotiropoulos (2004) highlights the politicization of the Spanish public administration, both in the high and low part of the bureaucratic hierarchy. In the last decades the presence of economist in the governments has slightly increased (from the 167 ministries that governed Spain between 1977-2005, a hundred had university education and only twenty-five of them were economists (Rodríguez-Teruel and Blondel 2011)). Ahedo (2018, p. 125-126)<sup>32</sup> explains:

*“In Spain, the politic logic prevails and the technical logic is controlled by the executive power. On the one hand, high state technicians have an important role in the state's functioning, but without a clear professional independence and with political*

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<sup>31</sup> Foundation of Applied Economic Studies. Fundación de Estudios de Economía Aplicada

<sup>32</sup> *“En España la lógica política predomina y la lógica técnica es controlada por el ejecutivo. Por una parte, los altos técnicos estatales o de elite tienen un importante papel en el funcionamiento del Estado, pero sin una clara autonomía profesional y con sesgos de vinculación política. ... En España es el poder ejecutivo el que gestiona la incorporación de la lógica técnica de una manera exclusiva y dentro de su estrategia política.”*

*biases. ... In Spain, the executive power manages the inclusion of technical logic but in an exclusive manner and within the political strategy.”*

Ahedo (2018, p. 128-129)<sup>33</sup> ends:

*“In Spain, debates about economic policy shows a low integration between the political-democratic rationality and the technical rationality. The executive power manages, from its political strategy, the way in which the technical logic participates in the decision process, and the tendency has been towards a technocracy of academic-politician economists.”*

The conclusion is that economists within the Spanish government have no real independence and, thus, they cannot work as real technicians. Their influence is bias due to their political ideas and it is the government in place who chooses which technicians can participate in the political arena. When Ahedo (2018) says that the tendency is *towards a technocracy of academic-politician economists* what is saying is that it is not possible to have academic-economists working in the government as independent technicians but academics who are politicians with no independence from the party.

#### **4.6. The state of things. What is happening now?**

In 2011, it is the turn, again, for the PP to come to power with Mariano Rajoy as the president, who would govern until the end of 2018 when Rajoy was dismissed through a censure motion. During the first term (2011-2015) the PP had absolute majority in the congress, and thus they had the opportunity to carry out structural reforms before the age of the average voter increase even further. Yet, Rajoy’s government only carried out slight reforms that did not change the structural problems of the system.

In 2013, the government passed a law in order to regulate the sustainability factor and the revalorization index. By this measure, the sustainability factor is overtaken to 2019 instead of 2027 and the pensions are no longer index with regards to the inflation (Ley23/2013). In 2016, the government revise the Toledo Pact and proposed new reforms.

Therefore, how much has the system changed since Spain became a democracy?

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<sup>33</sup> *“En España el sistema de debate sobre políticas económicas muestra una baja integración entre la racionalidad político-democrática y la racionalidad técnica. El gobierno ejecutivo gestiona, desde su estrategia de poder político, la forma en que la lógica técnica participa de la toma de decisiones, y la tendencia ha sido hacia una tecnocracia de economistas académicos-políticos”*

If we compare the situation before the democratic consolidation, with Felipe Gonzalez winning the elections 1982, and the last reform of 2013, we get a clearer picture about the tendency of the system. Before the reform of 1985, Spaniards could retire at the age of sixty-five, their regulatory base, used to calculate their final pension, was computed according to the last two years of salary. Furthermore, in order to a 100% of the regulatory base they needed at least ten years of contribution. Lastly, the health assistance and the social services were covered by the Social Security. Now, Spaniards retire with sixty-seven years old, their pension is computed with regards to the last twenty-five years of work, to have the right over the full pension they have to contribute for at least thirty-seven years and the health assistance is covered by the public budget, meaning, by general taxes. Thus, the truth is that Spaniards have been seeing their pensions reduced for the last thirty years.

In the meanwhile, Spain has one of the highest contribution rates of its kind. The Spanish mandatory public pension system is funded by the contributors to the Social Security, that is by employees and employers. The general rate that a regular worker pays to the Social Security is 4,7% of his wage, if we add what has to be paid by the employer we get a total rate of 28,3%<sup>34</sup> (Ministerio de Trabajo, 2019).

In return, the Spanish population counts with one of the most generous public pension systems of the OECD. This statement can be proved by looking at the gross replacement rate<sup>35</sup> of the mandatory public pensions. The Spanish rate is 72.3% for any income given (OECD, 2017) while, the average for the OECD for an average income, is only 40.6% (OECD, 2017). Looking only at the European continent, the cradle of the welfare state, Spain has the fifth greatest public pension, only after Italy, Austria, Luxemburg, and Portugal (OECD, 2017). If we take into account the mandatory private part, in which the state “makes you save”, the OECD’s mean for the average income goes up to 52,9%, still quite lower than Spain. Yet, taking this into account we found that both, Netherlands and Denmark are better than Spain (OECD, 2017). Although Spanish pensions are comparatively high, they have been decreasing for the last thirty years.

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<sup>34</sup> In addition, to this rate three other concepts must be added to the Social Security contribution, even though it is not directly related to pensions: the unemployment rate, the FOGASA (Wage Guarantee Fund) rate, and the vocational training rate. Therefore, this means an extra 6,3% for the employer and 1,65% for the employee, reaching a final rate of 36,25 % (Ministerio de Trabajo, 2019).

<sup>35</sup> This indicator measures the relationship between the last salary (pre-retirement) and the first received pension (post-retirement). Thus, it shows the extent to which the regime preserves individual living standards as today’s new workers eventually move from work into retirement (Whiteford, 2006)

Is this public replacement rate sustainable? The system is now facing an important demographic problem that is only expected to get worse. The Spanish population, as the European, is increasingly ageing. Spain has the highest European life expectancy, 83 years old in 2016 (World Bank, 2019). This means that the dependency rate<sup>36</sup> has been growing. In 1988 it was 19,93%, in 2018 it was already 29,61% (INE, 2019), this is expected to increase by 2048 to a percentage between 45 and 60 (AIReF, 2019). This will mean that the relationship of two workers for each pensioner that exist today will become a 1:1 relationship.

Furthermore, this new demographic situation brings funding unbalances that generate financial problems in the system. To beggung with, the AIReF<sup>37</sup> estimates a current structural deficit in the Social Security of between 1,3% and 1,5% of the GDP (AIReF, 2019), this means between 15.700 and 18.100 million of euros each year. In addition, the pensions are the highest budget allocation of the Spanish public spending that, in 2018, it was the 10,1% of the Spanish GDP (Ministerio de Hacienda, 2019) but, this expenses are expected to increase in the next 30 years up to 13,5% of the GDP (AIReF, 2019). Finally, another illustrative figure is the situation of the Reserve Fund<sup>38</sup>, which was created in 2000 in order to face exceptional circumstances. In 2011, the best year of its history, had 66.815 million of euros. However, in 2017 the fund had only 8.095 million of euros left (Ministerio de Trabajo, 2019). In that year, for example, there was a withdrawal of 7.100 million of euros in order to pay the two extra-pays of the pensioners, in July and December.

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<sup>36</sup> This ratio measures the relationship between people older than 64 years old (inactive) and people aged between 16-64 years old (active). Therefore, it gives insight regarding of people of nonworking age, compared with the number of those of working age, as higher it is, more people is depending on the working population.

<sup>37</sup> Independent Authority of Fiscal Responsibility. (Autoridad Independiente de Responsabilidad Fiscal)

<sup>38</sup> The Reserve Fund was officially created in 2000 but the idea came up in the first Toledo Pact conversations of 1995. It was thought as a tool to use when special circumstances, mainly deficits, appeared in the Social Security system. Not like in other countries in which it has a sterilizing function. The idea did not come from economists in particular but in the first Toledo Pact reunions that, as Celentani (2007) explains they were mainly formed by experts from the public administrations, social agents like the unions, some academics and politicians.

## 5. And while everything was happening, where were the economists?

Do economists have political authority in Spain? Have they conquered the institutions and influenced policy through them? Have they built a cognitive infrastructure for Spanish policy-makers?

After the historical analysis, we are in conditions to answer these questions. I will do so, following the framework of Hirschman and Berman (2014).

Hirschman and Berman (2014) argued that economists may influence public policy through three main mechanisms: First, the *professional authority*, which regards to the overall status of economics as a field, and that is “*historically and geographically variable*”. Second, the *institutional position*, that makes references to the presence of economists in policymaking institutions. Economists may work as advisors or may influence policy directly if they hold positions of high responsibility. Finally, *cognitive infrastructure*, this makes reference to the *style of reasoning* used in policy making and includes economic concepts like growth, efficiency or incentives. It also refers to the way in which policy-makers think about problems, make causal assumptions or approach an issue. This category also includes the so called *policy devices* which are used to produce knowledge and devices to make choices, establishing formal and rational procedures for it. The importance of this mechanism resides in the way in which policymakers approach problems using a concrete economic style even if they ignore specific recommendations.

### 5.1. Institutionalization of the economic knowledge in Spain

When and where has economic knowledge made its appearance in Spain? The first economic faculty of Spain was created in 1943, called the Faculty of Political and Economic Science in Madrid. Most of the key economic actors of Spanish policy came from this faculty. In contrast, the Faculty of Economic Science of the Autonomous University of Barcelona born in 1968. Yet, for some reason, there was a tendency for the graduates from Madrid to go into the public institutions and to get involved in politics while the ones from Barcelona to go to private companies, many of them settled in the city (Fuentes, 2005)

Fuentes (2005) assures that any future influence in political economy would have been impossible without the creation of the Faculty of Political and Economic Science of Madrid:

*“(The faculty) will decisively contribute to consolidate in our University skills that allow to offer the Spanish society the professional economists that it been demanding for a long time” (2005, p. 70)<sup>39</sup>*

Before that, there was an almost imperceptible structure of scientific communication, an inexistent but growing institutionalization of the economic knowledge and no more than a dozen of economic chairs all over the country, shared among law faculties and engineer schools (Fuentes, 1999).

That first faculty had to deal with the Spanish economics of the time, interventionist and autocratic. As explained by Fuentes (1999), in order to create a modern and scientific faculty it was necessary to avoid any old-fashioned influence from the regime. The new faculty was a success and it was established under the neoclassic and marginalist foundations of the time. The degree paid special attention to the study of basic microeconomics (General Equilibrium Theory, Theory of Production, price formation, Consumer Demand Theory), the study of money and credit, international trade and complementary courses such as public finance, economic history, economic policy, mathematics and statistics (Fuentes, 1999).

Regarding the economic knowledge available in the country, the neoclassical economy was already well-establish. Different economist assured that to understand the history of economic thought in Spain it is indispensable to understand the influence of the Lausanne School, neoclassic and marginalism since the beginning of the 20th century (Fuentes, 1999). By the beginning of the 30s, the most important work of Marshall was already translated into Spanish as well as the work of Walras and Pareto. The Spanish economists of the time were very well aware of the neoclassic principles of economic theory and that is why they were so critical about the political economy of the time (Comín, cited by Fuentes, 1999).

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<sup>39</sup> *“contribuiría decisivamente a consolidar en nuestra Universidad unas facultades que permitieran ofrecer a la sociedad española los economistas profesionales que ésta demandaba desde mucho tiempo atrás.”*

In addition to this, the new Keynesian ideas had an important impact in Spain, as Almenar recognise (Fuentes, 1999) from 1936 the most important books of Keynes were translated into Spanish, his work started influencing important Spanish economists.

Therefore, there were economic theories and ideas to pick by the government and policy-makers since the beginning of the 20th century. There was, as well, a new faculty in the Spanish capital in order to develop and implement the existing economic knowledge into the Spanish reality.

However, that knowledge was not taken into consideration nor implemented, at least not until the final period of the Francoist regime. This situation could be due to the historical dynamics and path dependencies, Spain has indeed an interventionist history. Prados (2003) explains how the isolationism and interventionism during the Restoration (1874-1931) was one of the reasons why the Spanish economic growth was not higher, even with the strong political stability of the time. After that, and as explained before, Franco was highly protectionist and interventionist following the Falangist and Catholic ideas. Therefore, these dynamics, which lasted more than a century, could have badly influence the extent to which economic ideas have the ability to enter and influenced the political arena. It would not be until the end of the regime, with the first democratic government, that economic knowledge did slightly appear in the public debate and political spheres.

Yet, conquering the academia did not mean being able to influence policy. Therefore, when can we see economists influencing public policy? And through which mechanisms?

## **5.2. Stabilization Plan**

The first sight of economists in the Spanish political landscape was the Stabilization Plan (1959). As many economists have assured, it was an inflexion point for Spanish politics and economics (Perdices de Blas, 2010).

The Stabilization Plan meant the liberalization of the economy, it aimed for macroeconomic balances and the progressive integration of the country in the international community. How was this possible in the frame of a fascist regime, with an autocratic and interventionist nature? Alberto Ullastres Calvo and Navarro Rubio were the two main personalities that made it happened. Ullastres studied law in Madrid, and

became professor of Political Economy and Public Treasury in that same Faculty. After being a professor, in 1957 he became minister of commerce (1957-1961) during Franco's regime. According to his interview<sup>40</sup> (Perdices de Blas, 2010) the autocratic political economy was exhausted and it was creating an uncontrollable inflation. This opinion was shared by many other ministries, among them Navarro Rubio, the public treasury minister.

Ullastres, that has a very strong influence in economic matters and Joan Sardá, who was the main member of the Spanish Bank, created an advising council compound by "technicians" with strong economic knowledge. This council had all the ideas and planned all the Stabilization route, giving Ullastres the strength to convince Franco about the plan, "*Ullastres had the ability to convince the unique elector, meaning, Franco.*" (Perdices de Blas, 2010, p. 226).

Thus, the Stabilization plan was not only crucial for the stability of Spain, it meant the start of the modernization of the Spanish economy and helped the political transition that would come with Suarez (Perdices de Blas, 2010).

Consequently, Fuentes (2005) assures that the Stabilization Plan was a collective collaboration among the Ministry of Public Treasury, the Ministry of Commerce and the Spanish Bank. These institutions were formed by a group of economists, from the faculty of Madrid and therefore, these professionals were in crucial positions within the policy-making institutions. As explained before, these academics had an economic *cognitive infrastructure* based on neoclassic economics, which due to their positions of power would influence policy and the economy. Finally, at this moment, we can also see the *professional authority* of economics. The plan was prepared by economists who wanted to modernize their country's economy and the leading authorities, like Franco, were well-aware that they were the only ones with the needed technical capacities.

### **5.3. Moncloa Pacts**

The most relevant Spanish economists agree that the next opportunity for economists to shine were the Moncloa Pacts, after Franco's death and with Suarez as the main political actor (Perdices de Blas, 2010).

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<sup>40</sup> Perdices de Blas (2010) reunites in his book "la hora de los economistas" [the time for economists] forty interviews to the most influential Spanish economists.

The Moncloa Pacts meant the consensus of every political party to restructure and modernize the Spanish economy, to implement the needed structural reforms and crucial to stabilize the Spanish economy (Calvo-Sotelo, 2011). The principal measures were designed to achieve economic health, macroeconomic equilibriums and the total rebuild of the antique fiscal system, making it closer to Europe.

One of the most relevant actors in this process was Enrique Fuentes, head of the Ministry of Economy (1977-1978) during Suarez's government and one of the economist in charge of the Stabilization Plan (1959). To show the new relevancy of the profession he said on TV: *"it has come the time for economics"*<sup>41</sup> and he presented himself as a technician *"without active political vocation"*<sup>42</sup> (Calvo-Sotelo, 2011, p. 82, 87) finally opening the arena for economic technicians.

As many others, Fuentes came out from Madrid's university. In one of his interviews (Perdices de Blas, 2010) he stated that a committee of economic experts was working close, including him, with Suarez. Among them important economist of the Spanish history like Joan Sardá and Luis Angel Rojo. They were periodically writing useful reports for the government.

However, Fuentes confirms Bermeo's (1994) thesis saying that the first part of the transition, with Suarez, was focused on reforming politics and not economics. *"It does not seem that it was the moment to do economics. The government set the basis for a miraculous political reform"* (Perdices de Blas, 2010, p. 209)<sup>43</sup>

Yet, the core of economists within the public institutions lead by Enrique Fuentes, knew that there was a difficult crisis with strong imbalances that required immediate action: *"fighting against inflation was not a political option but a matter of survival"* (Fuentes, 2005, p.14).

However, as explained, being a technician in the government was not an easy task. Fuentes says:

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<sup>41</sup> *"Ha llegado la hora de la economía"*

<sup>42</sup> *"Sin vocación política activa"*

<sup>43</sup> *"No parece que fuese el momento para hacer algo de economía. El gobierno sentó las bases de una milagrosa reforma política"*

*“I entered the government as an economist, as a technician. I lived every day in a purgatory, with obstacles, restrictions. In short, it was about me not succeeding to much”* (Perdices de Blas, 2010, p. 215)<sup>44</sup>.

With regards to Social Security, one of the main points asked during the negotiations was an urgent reform of the Social Security. The agreement included deep transformations of the public spending, fiscal policy and the aim to look for a higher social participation in the functioning of the Social Security (Calvo-Sotelo, 2011). In addition, the pacts established that the contribution from the state to the social expenses should increase (Egozcue, 1996).

Luis Gamir Casares was the Secretary of State of the Social Security under the authority of Enrique Sánchez de León Pérez the minister of Health and Social Security. Gamir came out of Madrid’s university and although he was not a leading actor of the institutions, he had a lot to do with the restructuration of the Social Security in 1978, which dissolved the INP and the mutualities to make room for a more rationalize system. Therefore, he had an important role creating the INSS<sup>45</sup> which manage the pensions and the General Treasury which manage the Social Security accounts (Perdices de Blas, 2010).

In short, in this transition period, economists were again present in institutions, Enrique Fuentes Quintana was the head of them, and most of them, if not all, came out from Madrid’s University. However, as Bermeo explained (1994) and Fuentes (2005) confirmed, this period was more focus on democratization than on economic structural reforms. Regarding the Social Security and the pensions, there was an important reform (1978) aiming for the restructuration of the Social Security organisms. However, there was no economists in the first line, the economic reforms needed were not accomplished and the skyrocketing expenses were not controlled.

#### **5.4. Felipe Gonzalez and the beginning of democracy**

The Moncloa Pacts were not only important to face the hard crisis of the Transition, but to established the basis for Felipe Gonzalez’s economic reforms. In that moment, it is possible to appreciate how the economic knowledge conquered the

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<sup>44</sup> *“Entré en el Gobierno como un economista, como un técnico. Convivía todos los días en un purgatorio, con cortapisas, frenos. En definitiva, se trataba de que no prosperase demasiado”*

<sup>45</sup> National Institute of Social Security

institutions, with Miguel Boyer as the minister of economy. Even though Felipe Gonzalez was the leader of the PSOE, a left-wing party, his government carried out “*neoliberal*” measures and his economic programme was “*less to the left than the Moncloa Pacts*” (Perdices de Blas, 2010).

When Gonzalez’s came to power, Boyer was the head of the ministry of economy, there was the need to finally liberalize, modernize and restructure the Spanish economy. For that reason, economics and economists had a strong *professional authority*, they were the ones who had to lead the country through the needed reforms. Boyer, who studied at Madrid’s university, had almost complete autonomy to take the needed decisions regarding the Spanish economy. As explained by Moreno, the economic issues “(were) *given to the party’s erudite technocracy (first Boyer, then Solchaga)*” (1990, p. 63)<sup>46</sup>.

The measures taken by Boyer and later by Solchaga were based on the neoclassic insights learned in Madrid: liberalizing the markets, opening the trade, international integration, aiming for economic growth, etc. Their policy had a clear “*neoliberal nature*” and it was based on a contention of wages and a monetary policy focused on reducing inflation (Moreno et al, 1992). This shows the influence that economists had was mainly through their *institutional position* in first line of the government.

Regarding Social Security, the PSOE government went against the strong unions and passed the law of 1985, which meant significant cuts in the pension system. There were indeed economists within the public institutions and these believed, even though they were from a left-wing party, that an expansionist policy was not viable, instead their main principle was to “*grow and later redistribute*” (Egozcue, 1996, p. 252). That is why, in that period, there were important cuts, not only the reform of 1985 but the one of 1990.

Therefore, the pension reforms were framed in the context of a more general macroeconomic strategy that economists had as their main objective. Since their aim was to control inflation, to reduce deficits and imbalances, to liberalize and open the economy, an expansionary pensions policy would not have made any sense, so the objective, following a neoliberal agenda, was macroeconomic stability.

In short, in this period, economists were powerful. They had *professional authority*, they were in first line of the public institutions, occupying *institutional*

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<sup>46</sup> *es entregado a la tecnocracia ilustrada del partido (primero Boyer, luego Solchaga)*

*positions*, and not only advising but directly implementing public policy. Most of them, like the minister Boyer and Solchaga, who studied at Madrid's Faculty of Economic Science with a profound understanding of economic knowledge.

### **5.5. A consolidated democracy.**

With the consolidation of the democracy and a democratize Social Security, the stability of the system came to scene again. The Toledo Pact was a designed to take out the pensions of the public debates and face the sustainability problems of the system. The committee created that was formed by experts from the public administration, academics and social agents like the unions (Celentani, 2007). The following revisions were mainly conformed by members of the parliament (Barrios, 2004) with no direct input from economists independent of the decision process.

During Aznar's government (PP), there were less economic experts in the government (Rodríguez-Teruel and Blondel, 2011) and it was more hierarchical, based on the party's structure and closeness to Aznar.

With PSOE's government, there was a more independent Ministry of Economy, Pedro Solves and a group of leading economists wanted to follow a more sustainable growth model (Royo, 2009).

In short, all along the recent Spanish history, it is possible to identify the three mechanisms described by Hirschman and Berman (2014). The most prominent one has been the *institutional position*, starting in the Stabilization Plan (1959) and with a very important relevancy during the government of Felipe Gonzalez. With this positioning, as explained by Christensen (2017), comes the *cognitive infrastructure*. The economists placed in the institutions come with an economic framework and with analytical tools obtained in the university. This cognitive infrastructure influences important government personalities. The *professional authority* has been identified in key moments of the recent Spanish history and coincide with the increase of institutional positioning. During the Stabilization plan and at the time when Felipe Gonzalez wanted to reform the whole economy, the professional authority of the field was clear and the ruling governments knew that economists were the only technicians with the needed capabilities to conduct those reforms.

Focusing again on the pension system, the reason why there has been no economist influencing, planning or managing the pensions is because it has never been perceived as an economic issue and thus, there was no need for economists. Instead, it has been conceived as a societal issue, more related to political and partisan ideology than to economics. The significant reforms taken (for example 1985 or 1990) were restrictive measures in order to maintain the system alive. There were never strong debates about its nature, which was never questioned.

In this case, the economic knowledge has been a marginal element and never the priority. Within the Social Security, economists have not occupied top bureaucratic positions, that are the ones more likely to influence policy making (Halligan 1995). Economists have almost never been in first line of the decision process, and they have always had to report back to their party leaders.

Christensen (2017) explains that the influence of economists depends crucially on their position within state bureaucracies and what he called “*bureaucratic autonomy*” in which “*bureaucrats independently formulate preferences about policy goals and solutions*” (p. 15). Yet, this has not been the case in Spanish politics regarding pensions.

Technicians and experts in Spain have been dependent on political interest from the party in power (Ahedo, 2018). The economists’ placed in the institutions never had real professional independence and have been very much bias by political interests. The politic-logic overcomes the technical one and the latter is controlled by the executive power.

*“In Spain, the executive power manages the incorporation of the technical-logic in an exclusive way and within a political strategy.”* (Ahedo, 2018, p. 126)<sup>47</sup>

I would argue that after 2008 crisis and in this new period of political instability where the parties represented at congress have more than doubled in less than a decade, economy is still a marginal matter. It has lost part of its professional authority, the one that, for example, existed during Gonzalez’s government. The economic problems that the Spanish society is struggling with are more politicized and ideologized than ever and the economic knowledge is always dependent on the party’s will.

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<sup>47</sup> “*En España es el poder ejecutivo el que gestiona la incorporación de la lógica técnica de una manera exclusiva y dentro de su estrategia política*”

## 6. Final conclusions

This paper has explained how the Spanish pension system was born and how it developed. The historical analysis shows that the basic nature of the current system was established under a fascist regime following their Christian and corporatist ideals. The most common characteristics were the patronage, the corruption and the manipulation of the system to benefit the needs of the regime. With democracy, there were significant reforms in order to rationalize and democratize the system and to make it sustainable over time. The left-wing party, led by Felipe Gonzalez, carried out neoliberal reforms, led by technocratic economists that were aware of the unsustainability of the system. At this time, there was the aim to rationalize and restructure the system, but there was never the intention to change its basic foundations or even question them. In the present moment, the Spanish society is trapped in a system, that due to its solidarity, its structure and the inversion of the demographic pyramid is pushing the system against the ropes.

With this analysis, it was possible to isolate the influence that economists had. Thus, it is possible to conclude several things: First, that the main channel of influence for economists in Spain has been *institutional positioning* which, in turn, has developed an economic *cognitive infrastructure* (Christensen, 2017) specially during Felipe Gonzalez's political rule. Second, it is possible to identify several historical moments in which the *professional authority* of the economists and economics has been significant and even crucial for the Spanish future, for instance, the Stabilization Plan (1959) and the beginning of Felipe Gonzalez's government in which independent professional economists, technicians, from the Complutense University of Madrid modernized the economy.

Yet, it is important to differentiate between the history of the Spanish political economy and the history of Social Security. In the former section, we have seen how economists were present in crucial moments of the Spanish political economy. For example, during the modernization and liberalization of the economy, the economic growth, the openness of the country and the aim for macroeconomic balances. For this reason, the Social Security has been benefited.

However, if we focus the analysis on the pension system, we can conclude that: first, the influence of economists has been completely marginal. The technicians did not have real independence and were always "coerced" by the executive power and the

political party. Second, due to the interventionist history of Spain, the path dependencies of the country could have badly influence the extent to which economic ideas have the ability to enter and influenced the political arena. And third, the pension system has not been understood as an economic issue but a societal issue. Thus, since it has not been interpreted in economic terms there has been no need for economic reasoning.

Therefore, could we attribute the current instability and fragility of the pension system to the lack of economic expertise? The answer is clearly yes. Since the system has not been perceived as an economic issue, it has not been managed following economic criteria. The universality and solidarity of the system has overcome all financial constraints and economic concerns and the health of its funding has never been the priority. Furthermore, I would claim that the reforms taken have only been patches to make the system last longer.

Different countries have treated the issue in different ways and following economic standards. Future research can look at countries like Denmark, New Zealand, Australia or Switzerland in order to try to find the structural reforms needed in Spain to make the pension system sustainable over time.

Finally, with this work I tried to contribute to the needed debate in Spain regarding the sustainability of the pension system and to rethink the role that economists must have in the future to come. For that, I encourage Spanish policy-makers to reconsider the current relationship that exists between economists and policy in Spain and to question the foundations of the biggest and most elemental public policy, the pensions.

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