

## The implementation of the Agreement

### Birth of the Economic Agreement

In 1876, after the second and last Carlist War, the Fueros were abolished but not completely. By the Law of 21st July 1876, Antonio Canovas del Castillo imposed the obligation for the provinces to make a contribution to the Treasury and to send men to the Army. A year later, due to the refusal of the Deputations to fulfil these obligations, Canovas announced the substitution of the Foral Deputations by Provincial Deputations, which were, to start with, of the same condition as the ones in the rest of the Spanish State. Canovas had to solve the problem of how to make the Provinces effectively pay their taxes in a State where there was no administrative structure nor accurate statistics in order to assure the fulfilling of the obligation. The provisional solution was to reach an agreement with the Provincial Deputations, made up by lenient men who were unwilling to obey the Law of 21st July. By virtue of the reached agreement, the Deputations assumed the payment of the amount the Ministry of the Treasury could have supposedly collected by its own means. Therefore, the Deputations were in charge of the collection of the main taxes, in force at that time, which were included in the agreement. The validity period of the agreement was of eight years. This agreement was to be named Economic Agreement, due to the fact that in the preamble of the Decree of 28th February 1878 which implemented it, there was a reference to the obligation that the Provinces were included within the “economic agreement” of the nation.

As for the Deputations to be able to pay the due amount, it was required that they had the capacity to collect the agreed taxes, together with some duties, which were authorised in the Agreement, though, since before the war, the Deputations were collecting them. From this confused beginning, the Deputations had been able to maintain their particular status and also to adjust the new system to the changing circumstances of the State. In fact, In Bizkaia, after the Second Carlist War there was an intense demographic and economic increase, particularly on the banks of the Nervión.

The incipient process of mining extraction, which started during the pre-war period, burst a few years later. The expansion of the mining industry required new public works, i.e. trains and railroads or an enlargement of the harbour. The Deputation subsidized the railroads but, before the war, it had already financed its own railroad system, the Ferrocarril Minero de Triano, which gave service to the most productive mines at that moment. This railroad system, the only one of public ownership in Spain at the time, and the income it produced, allowed the Deputation not to collect any agreed tax for a period. It should be noted that from the end of the 19th century to the beginning of the 20th century, the mining extraction industry and the exportation of iron mineral to England, Belgium and Germany were at its peak. In addition, iron mineral was also sold to the local iron

industry, and Altos Hornos de Bilbao, La Vizcaya and La Iberia, merged in 1901 into Altos Hornos de Bizkaia, S.A.

## **The subsequent new agreements or “renewals”**

The Economic Agreement, which was initially brought in for the short-term, was renewed for the first time in 1886. The changes to the Central Treasury meant amendments had to be made to the Agreement, but the system soon proved to be sufficiently flexible to be able to implement them. Thus, after the 1886 renewal, the agreement was successively renewed in 1894, 1906 and 1926.

The reason for these renewals was down to the obvious advantages of the agreement: the Ministry for the Treasury collected secure and immediate resources without incurring any type of expenses; as long as the Provincial Councils continued with their tax management and paid religiously, as was the case.

On the other hand, the Deputations were still executing a wide range of competences, in most cases by virtue of the Economic Agreement, so they could maintain a high level of autonomy. For instance, their public employees were elected by themselves, they had the control of the accounts and budgets of the local entities and they didn't have to inform of their own accounts and budgets to anybody (nor to the Ministry of the Governance, nor to the Court of Auditors). Besides, they were in charge of a wide provincial road network and each territory had their own provincial police force (in Bizkaia and Alava, the Miñones and in Gipuzkoa the Miqueletes), they financed the provincial welfare service, they gave grants for Fine Arts studies, they supported professorships, as the one in Basque language at the Instituto Vizcaino, Farm schools and so on. Summing up, the maintenance of the system was based not only on the mutual interest of both parts but also on the efficiency the Deputations showed in the execution of their competences, which was supported by the good results they obtained. The fact that the new mass political parties of the end of the 19th century and the beginning of the 20th century criticized the administration carried out by the monarchist that used to have the control of the Deputations didn't mean they were against the Economic Agreement system as such. When these parties, socialist or nationalist, had a significant representation in the Deputation of Bizkaia, as a matter of fact, they did change some particular aspects concerning the administration but these changes never brought along a crisis of the agreed regime on the whole.

After the first renovation of the Agreement in 1886, it had to be amended again, in 1893 because of several measures of reform implemented by German Gamazo, which finally led to the negotiation of a new Agreement the following year. From that moment, in 1894, the Ministry of the Treasury declared openly and officially the respect for the “economic and administrative independence” of the Deputations. By the nineties, the system settled down. In 1898, due to the war in Cuba and as a

response to the demands of the Ministry to raise the Quota by means of some fix percentages of increase, the Deputations negotiated the payment of a Gift, just for that year, preventing the Quota from increasing in the following years. In 1900, as a consequence of the tax reform by Fernandez Villaverde, the Agreement was partially amended in order to agree a new tax figure, the Utilities Tax, which was mainly a tax on business profits. On this occasion, not only a new tax was added to the already agreed ones but also a clause was established by virtue of which the Basque companies set up so far, which operated in the rest of the State, had to pay taxes only to the Foral Deputations and not to the Ministry.

The more industrial and dynamic the Biscayan economy was, the stronger relation it had with the rest of the State. As a consequence, many companies started to have problems with their taxes as the Ministry was willing to tax on their profits generated in Common Territory, although it was impossible. A new Agreement was reached in 1906, and its validity was for a longer period than the usual one as it was signed for twenty years, with a little increase in 1916, after the first ten years of validity.

During the First World War (1914-1918), Spain was a neutral country and so, benefited from a high demand of products that the warring economies couldn't produce. This was the reason why prices remarkably rose. At the same time, some sectors of the Biscayan economy, i.e. maritime transport or iron and steel industry, obtained the highest ever seen profits. In such a way that, the Quota, which was agreed in 1906 in a completely different economic situation, was not then in line with the great economic benefits which were being obtained.

Although the Triano railway was not so profitable as before and even made losses due to the progressive decline of the mines it was giving service to, the Deputation of Bizkaia had huge collections from the Utilities Tariffs. The results were obvious: schools in suburbs were founded, the expenses on roads increased, the duties on basic and essential goods were lowered, new cultural institutions were set up and financed, i.e. the Sociedad de Estudios Vascos/Eusko Ikaskuntza, Euskaltzaindia and so on. All these factors provoked a situation, at the time of signing a new Agreement in 1926, which made difficult for the Deputations to put forward the poverty of the territories- traditional justification of the foral specificity- in order to pay a proportionally small Quota. During those twenty years (1906-1926), population and richness had remarkably increased and, therefore, the Ministry made an attempt to collect in an alternative way, leaving the Quota aside, which consisted in collecting part of the Tariffs from the companies which operated in the Common territory, though their domiciles were settled in the Basque territories.

## **The abrogation**

Following the Spanish Civil War, the Economic Agreement was repealed for Bizkaia and Gipuzkoa as the winning side considered them to be “traitor provinces”. However, the Agreement continued to be in place in Álava and Navarra throughout Franco’s dictatorship.

During the following ten years after the last renovation, from 1926 to 1936, problems occurred continuously between the Deputations and the Ministry of Finance; problems which became more serious during the Second Republic and the process of discussion of the Statute of Autonomy. When the political obstacles were apparently removed, the fiscal ones turned up. In fact, during the summer of 1936 the discussion about the autonomous Treasury and its relation with the Economic Agreement was suspended without a solution. In July, General Franco raised his troops against the Second Republic and a bloody civil war started. The Deputation of Bizkaia continued its work of tax collection while the new Basque Government, organized in the autumn of 1936, was fully concentrated on the field of economic policy.

Franco’s troops took over Bilbao on the 19th of July 1937. In a few days (the 23rd of the same month), the Decree, which abolished the Economic Agreement with Bizkaia and Gipuzkoa, nor with Alava nor with Navarre, was published in the Official Gazette. This derogation was not only provoked by a wish of revenge but also because of the fact the Agreement was supposed to be too advantageous for Basque taxpayers. Moreover, it should be noted that the ones who finally won the war had an enormous necessity of income for the battle, so they chose the most immediate way: the abolishment of the Economic Agreement and the mere and forced establishment of the Central Treasury in Bizkaia.

This Decree brought several consequences in addition to the loss of the own Treasury. It caused the lack of maintenance of most of the provincial roads, because the competence was conferred to the corresponding Ministry which clearly meant roads were abandoned, the closing down of schools, and the dissolution of the provincial police forces, Miñones and Miqueletes.

Although immediately after the war, there were some attempts to restore the Agreement, being much stronger in the seventies, none of them succeeded. The institutional prejudice or fear of potentially autonomous Treasuries with solid economic resources, in a context of a fully centralised and hierarchical State, as Franco’s dictatorship was, explains to some extent the failure of the different attempts.

A few days before Franco died, the setting up of a special Commission for the study of a particular regime for Bizkaia and Gipuzkoa was approved. However, this was not the channel used for the restoration of the Economic Agreement. The political reform process, within the framework of the 1978 Constitution, meant not only the

mere derogation of the 1937 Decree but the constitution of the Basque Country into an Autonomous Community.