

The Disasters of Leviathan: The Economic Crisis of Autarky in Spain, 1939-1959

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ABSTRACT

This article reflects on the causes of the acute crisis suffered by Spain during the decades following the victory of General Franco in the Civil War. It emphasises the incoherence of the totalitarian economic model that was imposed, particularly with respect to the objective of autarky. It also highlights the insufficient economic training of the bureaucrats and the active role of military commanders in the design of economic policy, including General Franco, who lacked any sort of economic or historical knowledge.

Je sais qu'il importe que les hommes élevés en pouvoir soient plus éclairés que les autres; je sais que les fautes des particuliers ne peuvent jamais ruiner qu'un petit nombre de familles, tandis que celles des princes et des ministres répandent la désolation sur tout un pays.

Jean-Baptiste Say¹

1. Introduction

It is common knowledge that Leviathan is a monster that appears in different passages of the Bible. Leviathan was also used by the English political philosopher, Thomas Hobbes, as the title of the book in which he describes what he conceived to be the proper structure of the State, which although not absolutist, should

¹ Say, *Traité d'économie politique*, p. 35.

have a very great deal of authority. Almost in the same period in which John Locke was advocating the need for a limited, democratic state with division of powers, Hobbes defended the existence of a strong state as a way to overcome the fratricidal tendencies of human beings, summed up in the famous phrase: "man is a wolf to man".

I have used the terrible monster of Hobbes's vision to draw the reader's attention to what I consider to be the principal cause of the deep and long-lasting crisis suffered by the Spanish economy during the 1940s: the totalitarian Franco regime. I should add that this idea is shared unanimously by the most respected researchers and intellectuals specializing in this period, despite neo-Francoist efforts to clean up the dictator's image.

2. Ignorance and contempt for economics

The leaders of the victorious side in the Civil War, and specifically General Franco himself and one of his closest friends and most influential advisors, Admiral J. A. Suanzes, despite their military background and lack of economic training, had their own ideas regarding Spain's economy and economic history. Furthermore, Franco considered himself to be a remarkable theorist. He had his own ideas, which were, let us add, unfortunately inappropriate. They were based on the idea that Spain had failed economically because of a disastrous 19th century, immersed in civil conflict and internal disputes as a consequence of liberal ideology, the weakening of the State's power, centrifugal tendencies driven by particularistic nationalisms and the incapacity of the middle classes to carry out their historical task of industrialising the country. It is true that liberal capitalism had failed, although the arguments for this thesis were not intellectually sophisticated: "Today we are witness to the ruin of the demo-liberal regime, the failure of parliamentary institutions, the catastrophe of an economic system rooted in political liberalism. These well-known truths, which only an imbecile could fail to see,

have naturally influenced the political and economic ideologies on which we have based the programme of our nationalism and syndicalism".²

There was a desire to restore the tradition of the glorious years of Imperial Spain, the eternal Spain of the Catholic Monarchs and the Emperors. Faced with free-thinking ideologies and corrosive influences from abroad, it was necessary to return to traditional thought, Catholic fundamentalism and a patriotic essence. Uniting the interests of all producers within the same business system was the only way to confront the Marxist ideology of class struggle; the weakness of the liberal state was to be combated by instituting a totalitarian state; the backwardness of Spain in the concert of nations and the humiliation of 1898 would be overcome by the recovery of the Empire. The Falange poet, Federico de Urrutia, the author of the once famous *Romance de Castilla en Armas*, summarised it as follows: "This is our final leitmotiv. To be what we were after the shame of what we have been. To kill the old soul of the liberal, decadent, Masonic, materialist and Frenchified 19th century and to impregnate ourselves with the spirit of the imperial, heroic, sober, Castilian, spiritual, legendary and chivalric 16th century".³

With regard to the economy, the objective was to industrialise the country. Industrialisation was not sought as an end to itself, but as a means to convert Spain into a military power capable of carrying out the imperial project. Industrialisation should be a national achievement, dispensing with the international capitalism that had eroded Spain's resources during the 19th century. A closed and autarkic development had to be achieved.

Farming, which despite Franco's agricultural propaganda had been relegated to a secondary position, had to develop in subordi-

² Our translation of *Doctrina e historia de la revolución nacional española*, p. 41. This publication, with the sub-heading, *Bases de la revolución nacional*, is not very well-known but compiles the fundamental cornerstones and thought of the so-called New State.

³ Our translation of a passage by Abella, *La vida cotidiana durante la Guerra Civil. La España nacional*, p. 109.

nate fashion in order to achieve a self-sufficient food supply for the nation. How can economic independence be achieved and a policy of imperial expansion carried out if a country cannot first achieve food self-sufficiency?

The New State that emerged after the war had to assume the responsibility of undertaking this historical task. The role of entrepreneurship and private property was yet to be defined. In spite of some essentially propagandistic revolutionary proclamations, it soon became clear that the private property of the means of production and free enterprise were respected, although with certain limitations.

In the countryside, private property in land was fully respected, despite the repeated promises of the Falange and the syndicalist JONS to carry out a radical agricultural reform: "There is still much to be done to ensure a genuine and fruitful Spanish economy, and the New State will wring the neck of the alarming and tremendous agricultural problem that exists today by expropriation of the landowners".⁴ We know, however, that the collectivist promises of the Falange programme, such as the creation of "large syndicate farms" or redistributive "economic and social land reform" were never carried out. Nevertheless, the freedom of action of landowners was limited, in some cases severely. The New State, through the Ministry of Agriculture or the numerous agencies created for this purpose, including the Servicio Nacional del Trigo (National Wheat Service), the Instituto Nacional de Colonización (National Institute for Land Exploitation) and Comisaría General de Abastecimientos y Transportes (Government Agency for Supply and Transportation), enacted an endless list of laws that restricted the "business" freedom of farmers: programmes that affected private property (without consent from the owners), large-scale transformation projects for irrigation like the Law of Large Irrigable Areas, the compulsory sale of products to the State at fixed prices, the establishment of mandatory

⁴ *Doctrina e historia de la revolución española*, p. 46.

areas for crops and farming activities and the allocation of quotas of raw materials and equipment. The whole sector was subject to absolute control over its international activities. Imports were subject to a strict system of authorisations and consisted solely of state trade. Income from exports was the object of a selective predation as a result of the arbitrary exchange rates fixed for the peseta. In short, an excessively meticulous system of intervention was created, which, far from stimulating production, can be considered as the main cause of the chaos experienced by the agricultural sector in the 1940s.

In the case of industry, state intervention was much more intense. From the outset, the State became a corporation. The “failure” of private enterprise, according to the governors of the Franco regime, necessitated the creation of state companies that were directly responsible for developing the principal industrial sectors and particularly those relevant to strengthening the Spanish armed forces. The National Institute for Industry was the organisation created to carry this project out. However, in addition to its direct involvement, the State also enacted abundant legislation in order to regulate and control private industrial activity: from regulations designed to limit foreign capital and companies to those regarding the establishment or expansion of industries, price fixing, or the establishment of quotas and controls with respect to foreign trade. Curiously, the weight of traditionalist thought among the group of individuals that made up the National Movement was often visible, highlighting the lack of internal coherence with respect to economic approach: “Craft industry – the living legacy of a glorious guild system – will be fostered and efficiently protected, as they are a complete projection of human people in their work and represent a mode of production that is distinct from capitalist concentration and Marxist collectivism”.⁵

The regulation of the labour market was of common interest to both agriculture and industry. In this respect, two elements should be considered. First, the representative and democratic labour union

⁵ *Doctrina e historia de la revolución española* (our translation), p. 31.

organisations that were characteristic of the Republic were replaced by a vertical trade union structure whereby owners and workers were grouped according to industry in the same organisation. Second, the State assumed total control over working conditions, salaries and wages, and working hours.

The commanders of the Franco regime simply assumed that the State, i.e. the policy makers and the bureaucracy, was capable of adopting the appropriate decisions at all times in order to ensure the economic development of the country. This is a matter of immense significance. The New State restricted and controlled private industry for the sake of an allegedly superior national interest. And the New State believed that it had the capacity to define this national interest and to adopt the appropriate measures to achieve it: "The New State will be constructive, a creator. It will supplant individuals and groups, and the ultimate sovereignty will reside in the State and only the State. The only interpreter of how much universal essence there is in the people is the State, and within it this essence will attain its fullness. Furthermore, the State is responsible for all policies regarding politics, culture and the economy..."⁶

Once the State had dogmatically established that it was the sole interpreter of the national interest and was responsible for all economic policies, it took a leap into the unknown, and with the same dogmatism the New State declared that it would carry out this economic task. However, it is obvious that the State was not an unearthly and omniscient being; the State was formed by specific individuals: military personnel, senior officials, the directors of the public agencies and state corporations. Was the strong determination of the Francoist authorities sufficient to convert these people into expert economists? Obviously, such an assumption is impossible to accept. However, the Spanish economy functioned this way for twenty years. The State – that is, politicians and bureaucrats, people with no economic knowledge – controlled the economic fate of Spain, exercising an undisputed and irresponsible power.

⁶ *Doctrina e historia de la revolución española* (our translation), p. 45.

3. Spanish economists and Francoist totalitarianism

With the exception of the period of splendour of the Escuela de Salamanca,⁷ Spain has never been noted for its economists or for making any noteworthy contributions to economic science. During the first third of the 20th century, some figures emerged who, although not known internationally, were well trained and conducted studies and reports of undeniable quality. They included Antonio Flores de Lemus, Luis de Olariaga, Gabriel Franco, Manuel de Torres, José María Zumalacárregui, Francisco Bernis, Olegario Fernández Baños, José Antonio Vandellós, Agustín Viñuales, Román Perpiñá, Enrique Rodríguez Mata, José María Tallada, Jesús Prados Arrarte and Ramón Carande.⁸ In the words of Francisco Comín: “The Spanish economists of the first third of the 20th century had excellent theoretical and empirical training and were able to gain a precise understanding of the economic reality of their time. Furthermore, they advised the government, designed the most important economic reform projects and carried out valuable studies on the Spanish economy”.⁹ The same was true for other scientific fields and in the general preparation of the bureaucracy. A good part of this human capital was lost owing to repression and exile. In economics in particular, there was significant regression. In 2008, Manuel Martín Rodríguez and Eloy Fernández Clemente published *Sesenta economistas académicos del exilio*, an account of the economists who fled from Spain in 1939 and their professional work in their adoptive countries, in many cases of great merit.¹⁰

The majority of the politicians and top economic officials in the 1940s were military personnel, engineers and lawyers. The few in-

⁷ The main reference here is still the work of Marjorie Grice-Hutchinson, *Early Economic Thought in Spain, 1177-1740*.

⁸ For more on this matter see Enrique Fuentes Quintana, *Economía y economistas españoles*.

⁹ Francisco Comín, *Hacia la economía dirigida y protegida a pesar de las críticas de los economistas*, p. 941.

¹⁰ Included in the work directed by Enrique Fuentes Quintana and coordinated by Francisco Comín, *Economía y economistas españoles en la Guerra Civil*.

fluent economists – Higinio Paris Eguilaz, Antonio Robert, Manuel Fuentes Irurozqui – can be classed, with no exaggeration, as neo-mercantilists. The most prominent economists before the Civil War vanished from the scene: some died (Bernis, 1933; Flores de Lemus, 1941; Fernández Baños, 1946), others went into exile (permanently in the case of Gabriel Franco; until 1948, in the case of Agustín Viñuales). Those who continued to exercise their profession – Olariaga, Manuel de Torres, Perpiñá, Fernández Baños, until his death in 1946, Viñuales after his return from exile in 1948 – did so in secondary technical or political positions, far removed from high-level responsibility. José Larraz, the only exception, worked in the Ministry of Finance only briefly, due to his clear incompatibility with the economic policy of the Franco regime. Manuel de Torres, as indicated by other authors, published a few early criticisms of the interventionist policy, although they made very little impact. Salvador Almenar clearly expresses the situation: “The lives of the Spanish economists during the war and the immediate post-war period, as in other professional fields related to politics, were often punctuated by an alternating succession of postures, fears, flights, detentions, imprisonments, purges and, depending on each case, incorporation into a new position or exile”.¹¹

Manuel Jesús González forthrightly expressed the effects of the multiple, repeated purges: “The effect was surely that sought: to create a climate of ideological terror in the administrative spheres. The uniform conformity with the warrior and official ideology of the victorious side was partly a result of this fear and partly of the mythical capacity of the strong emotions generated by the war”.¹²

Zumalacárregui, a solidly educated economist who supported the Franco regime, considered that the State should intervene in the economy provided that it had the “technical capacity and effi-

¹¹ Salvador Almenar, *Principales orientaciones del análisis económico en España: teorías, aplicaciones y políticas (1931-1939)*, pp. 69-70 (our translation).

¹² Manuel Jesús González, *Los asesores económicos del gobierno durante el franquismo de guerra*, p. 12 (our translation).

ciency".¹³ This required the assistance of institutes for economic analysis employing competent experts capable of advising the government. In this sense, we should remember that, as well as dispensing with the economists, the Franco regime also eliminated or slowed down the main institutions of economic studies, which had reached a high level of technical competence during the years prior to the Civil War: the Centro de Estudios Económicos de Valencia (Centre of Economic Studies of Valencia), the Servicio de Estudios del Banco de España (the economic research department of the Bank of Spain) and the Institut d'Investigaciones Econòmicas (Institute of Economic Studies) of Barcelona. If we take into account that Spain adopted a typically fascist economic model and closed the door to the economic thought that was flourishing in the most advanced and democratic countries, the panorama was bleak. In these circumstances, how could one imagine that the State would be capable of adopting the right measures to direct the economy? By chance?

Keynes himself was criticised for implicitly assuming that advanced capitalist countries had sufficiently competent governors to manage monetary and fiscal policies that were capable of regulating the cycle. Keynes based this assumption on the existence of an extensive layer of the population educated in economics in all of these countries. If we think of England, the number of economists and government officials who were well trained in economics during the two centuries previous to Keynes more than justifies the optimism of his *General Theory*.¹⁴ However, in the case of Spain what made Franco and his companions believe that their country had sufficiently educated people not just to manage economic policy but to create a new economic system?

For it should be remembered that Franco claimed, no less, that the national-sindicalist revolution had generated essential changes

¹³ Quoted by Salvador Almenar, *Principales orientaciones del análisis económico en España*, p. 65 (our translation).

¹⁴ This matter is addressed in several essays compiled by Robert Skidelsky, *The end of the Keynesian era*.

in the economic conceptions that until then had dominated the entire world¹⁵. Where did such absurd and dangerous ideas come from? One cannot help setting the epigraph to this article against the words of Richard Cobden, the liberal economist, pacifist, anti-militarist, and supporter of free trade: “Warriors and despots are generally bad economists and they instinctively carry their ideas of force and violence into the civil politics of their governments. Free trade is a principle which recognizes the paramount importance of individual action”.¹⁶ In 1936, along the same lines, Germán Bernácer warned of the risks of economic warfare when he claimed that economic conflict and military conflict have more in common than is generally believed.

In actual fact, the economic approaches of the Franco regime were very crude and had no relation to economic science. They were based on a blind faith in authority, the sanctioning capacity of the State (including the death penalty for economic crimes) and ignorance of economic science; what Manuel Jesús González called “supremacy of voluntarism and the idea of serving higher objectives than the so-called laws of economic behavior”.¹⁷ Maybe the best example of this blind faith in the power of the State as opposed to economic laws can be found in the *Fuero del Trabajo* (Labour Code), the first fundamental law of the New Franco State, which in point V states that the State will “discipline” prices. A voluntarism, as we can see, that was loaded with hormones.¹⁸

It is unbelievable, and somewhat embarrassing, to recall the bril-

¹⁵ In a statement to the journalist Manuel Aznar, Franco said: “I can announce that the experience of our war will seriously influence all the economic theories defended until recently as if they were dogmas,” in F. Franco, *Palabras del Caudillo de 1942*, p. 504 (our translation).

¹⁶ Quoted by Nicholas Edsall, *Richard Cobden. Independent Radical*, p. 186.

¹⁷ Manuel Jesús González, *Los asesores económicos del gobierno durante el franquismo de guerra*, 2001, p. 20 (our translation).

¹⁸ It is well known that the attempts to “discipline” prices were futile. The 1940s were the years of the black market, and fixed prices were systematically tampered with. *El último caballo*, the Edgar Neville film made in 1950, includes a couple of scenes in which black marketeering is shown as absolutely usual and customary in Madrid at that time: one related to barley and the impossibility of purchasing it at the fixed price, the other to the black market in penicillin.

liant economic ideas of General Franco and his fanciful appraisals of Spain's natural wealth, which were published in the works of several authors. At the risk of being repetitive, let me provide examples of the General's extravagant and destructive ideas. In 1938 he said: "Spain is a privileged country which can be completely self-reliant. We have everything necessary to live and our production is sufficiently abundant to ensure our subsistence. We have no need to import anything".¹⁹ In his New Year's Eve speech of 31 December 1939, the General surprised the nation with an announcement about Spain's fabulous natural underground resources: "gold in enormous quantities" and "a fabulous amount of oil shale and lignite". As we can see, the idea that Spain could and should aspire to economic autarky came before the economic disorder brought about by the Second World War, and therefore did not respond to any external influence, as the General and his collaborators were later to allege, but to the conviction that achieving autarky was the correct thing to do. At that very time, Bernácer wrote: "The people have sought to achieve nothing less than an autarky, reducing the world to its borders and dispensing with the rest of humanity. Reality has taken revenge of this mad dream with one of the most violent crises".²⁰ It is more than likely that Franco did not know who Bernácer was.

In 1938, Román Perpiñá, then reserve lieutenant in the "national" army, was alarmed by the economic opinions expressed by the high-ranking officials of the General's government, considering it "highly dangerous to use the term autarky as an emblem and as a device for designing the economic policy of the New State (...) it would be merely a new word for old clichés and our deep-seated economic policy." As was pointed out by Salvador Almenar, from whom the reference has been taken, this was his last expression of non-conformity with respect to the new course of the nation.

Franco's gullibility did not improve with time. In 1940 he belie-

¹⁹ F. Franco, *Palabras del Caudillo 1938*, p. 263 (our translation).

²⁰ Quoted by Salvador Almenar, *Principales orientaciones del análisis económico en España*, p. 68 (our translation).

ved that he had struck the best deal in history when he bought a patent to produce gasoline from river water and a blend of herbs and secret ingredients from an Austrian con man named Albert Elder von Fileck. José María López de Letona, Minister of Industry between 1969 and 1973, remembers this anecdote regarding Franco: “Meanwhile, something that attracted my attention was the interest that he showed in the absurd case of the inventor of the ‘water motor’, whom all the reporters were interviewing, inviting him to give a ‘demonstration’. It took me a lot of hard work to convince him that it was just a homemade experiment and we were not in danger of losing a valuable patent for Spain. But Franco, who was distrustful by nature, feared that this was a new case of Spanish genius that would end up relinquishing the exploitation of an invention to a foreign country, even though his own compatriots showed apathy and lack of interest”.²¹

4. Technical incompetence and conflict of interest

But it is not just a question of technical incompetence. It is also a matter of loyal service to the State and of honour. Why should these politicians and officials be motivated by high ideals and public interest? Why would they not use their privileged positions to further their own interests or those of their families and friends? Many years ago Jean-Baptiste Say warned: “Un gouvernement ne peut agir que par procureurs, c’est-à-dire par l’intermédiaire de gens qui ont un intérêt particulière différent du sien, et qui leur est beaucoup plus chère”.²² Franco’s New State was characterised by technical inade-

²¹ Testimony of José María López de Letona in Á. Bayod (coordination, compilation and prologue), *Franco visto por sus ministros*, p. 212 (our translation).

²² J.-B. Say, *Traité d’économie politique*, p. 192. This fundamental idea is referred to, without explicit mention of its source, in many works on the theory of agency. Neither S.A. Ross (1973), nor M.C. Jensen and W.H. Meckling (1976), nor A. Shleifer and R.W. Vishny (1997), three prestigious works on this theory, cites J.-B. Say. Adam Smith too had clearly referred to a theory of agency in the field of private enterprise. Of the works cited here, only Jensen and Meckling acknowledged their intellectual debt with the au-

quacy and high levels of corruption. But Fraile has clearly explained this: "Under the assumption that the individual agents who make up the State are maximisers of their own utilities, the willingness of the income generators (politicians and bureaucrats) to grant them depends on the difference between the cost of generating them (disutility of consumers/voters) and the gains from selling them (monetary and non-monetary support from the groups benefited by the politician/bureaucrat). Naturally, the smaller the political responsibility of the income generators, i.e. the dependence on voters to retain their position, the greater the inclination of the State administration to grant favours to interest groups".²³ Franco's politicians and bureaucrats, who did not depend on voters' decisions, could use, in addition to the traditional instruments, the many mechanisms of intervention that they themselves had created for their own benefit.

5. Rudimentary mercantilism

It is important to remember that the autarkic policies, as well as reducing welfare, were harmful in other and perhaps more serious ways. In 1848, John Stuart Mill remarked: "But the economical advantages of commerce are surpassed in importance by those of its effects which are intellectual and moral. It is hardy possible to overrate the value, in the present low state of human improvement, of placing human beings in contact with persons dissimilar to themselves, and with modes of thought and action unlike those with which they are familiar. Commerce is now what war once was, the principal source of this contact".²⁴ Richard Cobden held the same view: "I believe that the physical gain will be the smallest gain to humanity from the success of this principle. I look farther; I see in

thor of *The Wealth of Nations*. Schumpeter (1939) highlighted the importance of the separation between ownership and management in the evolution of the capitalist system.

²³ Pedro Fraile, *La retórica contra la competencia en España*, p. 27 (our translation).

²⁴ J. S. Mill, *Principles of Political Economy*, Book 3, Chapter 17.

the Free Trade principle that which shall act on the moral world as the principle of gravitation in the universe, drawing men together, thrusting aside the antagonism of race and creed and language, and uniting us in the bonds of eternal peace... I believe that the effect will be to change the face of the world, so as to introduce a system of government entirely distinct from that which now prevails. I believe that the desire and the motive for large and mighty empires – for gigantic armies and great navies – for those materials which are used for the destruction of life and the desolation of the rewards of labour will die away”.²⁵

Many years ago Manuel Jesús González published a work on the economic system of the early Franco period, “Neomercantilismo en Madrid”,²⁶ in which he conducts an in-depth analysis of two works by Higinio Paris Eguilaz and Antonio Robert, both highly prestigious authors during the post-war years.²⁷ If we judge the theoretical revolution of the Franco regime in terms of the economy based on the contributions of these two writers, we can see that this revolution constituted a giant step backwards in terms of economic science, taking Spain back to the mercantilist age.

The economic ideology of the Franco regime was not even inspired by the father of modern protectionism, namely Friedrich List, a German, who was philosophically liberal and supported free trade. In his *National System of Political Economy* (1841), which vindicates the prominent role of the State and the primacy of the Nation over individuals, while he did favour protectionism it was for exclusively historical and political reasons. If I were English, says List, I too would be a follower of the theories of Adam Smith, but I am German and Germany is far behind. And the only way to be able to compete

²⁵ R. Cobden, *Free Trade with all Nations*.

²⁶ Manuel Jesús González, *Neomercantilismo en Madrid*.

²⁷ These works were *Un nuevo orden económico* by Higinio Paris Eguilaz, published in Madrid in 1942 by Editora Nacional, and *Un problema nacional. La industrialización necesaria* by Antonio Robert, published in 1943, also in Madrid, by Espasa-Calpe. Higinio Paris was a member of the Technical Board of Spain and the Council of the National Economy; Antonio Robert was Director General for Industry.

with England in conditions of parity is to implement a transitory protectionist economic policy, until Germany catches up with England in terms of its industrial capacity.

List criticised the mercantilist system harshly: the error of this system, in his opinion, was to consider protectionism as desirable in the long term. For List, protection and State intervention were requirements that derived from the historical circumstances in which the supreme interests of the Nation were immersed. From a more human perspective, he admitted that the ideal scenario would be to seek increasingly close relationships, through free trade, promoting peace among nations until a universal union was attained.

For the Franco government officials, unlike List, and like the most rudimentary mercantilists, such as the 17th-century French economist Antoine de Montchrétien, protectionism was a necessary and permanent system of economic reality: a passionately nationalistic protectionism with xenophobic currents, reminiscent of the hot-headed imprecations of the French mercantilist against those whom he described as “foreign leeches” and with boastful displays of self-sufficiency that had very little to do with the reality of an impoverished country. Curiously, in 1936 Vicente Sevillano Carvajal published a book with the expressive title *La España... ¿de quién? Ingleses, franceses y alemanes en este país* [“Spain...whose? The English, the French and the Germans in this country”], which speaks of the “sucking effect” of foreign investment and calls for its nationalisation.²⁸ Montchrétien’s “leeches” were attacking once again.

These approaches can be seen in detail in the writings of Higinio Paris Eguilaz, a doctor-turned-economist who had a remarkable influence on the configuration of the economic system of the Franco regime. It is worth remarking, in passing, that the fact that he was a doctor does not mean he could not have been a good economist. We should remember that John Locke, François Quesnay and Clément Juglar were doctors and great economists. This, however, is not the

²⁸ Quoted by P. Fraile, *El pensamiento económico entre las dos repúblicas*, p. 1007 (our translation).

case of Higinio Paris. Paris formed part of the Technical Board of Spain, which can be considered as Franco's first government, and later he was a member of the Council of the National Economy, but as was indicated by Manuel Jesús González and as Paris himself openly acknowledged, his economic knowledge was "rather scanty". Paris admits that his knowledge of economics and economic theory was indirect, having been acquired through reading the odd handbook. Nor did he have any knowledge of economic history. Nevertheless, despite this lack of analytical and historical knowledge, Paris resolutely maintained the thesis that liberal capitalism was incapable of withstanding cyclical crises and that the market was inefficient. The conclusions are excessively categorical for someone with such feeble theoretical and historical knowledge.

Paris's ideological prejudices too were of decisive importance. He considered that liberalism and laicism represented "the denial of all spiritual values" and "a brutal disdain for human dignity," and he considered labour as a "good". In an intellectual somersault, Paris declared that the solution lay in "overcoming" an out-dated system with a new, totalitarian, unitary, imperial and religious State. Economic policy should have the ultimate objective of increasing the power and grandeur of the Nation, using all the human force available. And he added: "These aims can only be reached through the State management of production, distribution and also, to some extent, of consumption".²⁹

He shared the old mercantilists' negative opinion of consumption: "The absolute need is to create and maintain at all costs a heroic climate, without which it is very difficult to prevent the population from falling en masse into materialist aberrations, in the belief that the sole objective is to increase the enjoyment of material goods, a fatal error which, as history illustrates, always leads to a dissolution of the Nation and to the people falling victim to foreign invasions". It is evident that Paris had not read Adam Smith, or if he did he re-

²⁹ H. Paris Eguilaz, *Un nuevo orden económico*, p. 150 (our translation).

jected the ideas of the great Scottish economist. In *The Wealth of Nations*, Smith criticised the emphasis that the mercantilists placed on production: "Consumption is the sole end and purpose of all production; and the interest of the producer ought to be attended to, only so far as may be necessary for promoting that of the consumer. The maxim is so perfectly self-evident, that it would be absurd to attempt to prove it. But in the mercantile system, the interest of the consumer is almost constantly sacrificed to that of the producer; and it seems to consider production and not consumption as the ultimate end and object of all industry and commerce".³⁰

It is striking how, even at the end of the 1950s, Franco's Minister of Agriculture, Cirilo Cánovas, considered the consumption of imported food products by the Spanish population as an inadmissible extravagance. Speaking of foreign trade and national consumption he declared: "We cannot afford the luxury of investing the currency that the country needs in order to advance the economic development now under way in consumption goods or perishable goods".³¹

Paris also shared the fanciful view of Spain's natural wealth and advocated its nationalisation, even by force, in order to achieve the Nation's independence. Even more forcefully he defended the need to implement a programme of imperial expansion: "to liberate by force ... those resources of our own territory that are dominated by foreign capital ... and even exercise influence over other territories outside the Nation which have been subjected until now to the dominance of other nations with less historical justification".³²

For the rest, Paris was convinced that everything could be achieved through the adequate exercise of authority. A central controlling body would have the knowledge necessary for: "statistical data evaluation; monetary and credit policy; investment management, both of the State and official entities and the private sector; organisation

³⁰ A. Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations*, Book, IV; Chapter VIII.

³¹ C. Cánovas, *La agricultura y el desarrollo económico de España* (our translation).

³² H. Paris, *Un nuevo orden económico*, p. 176 (our translation).

of production into its different aspects; transport; pricing policy; foreign trade and international payments; price and wage increases; social security and issues relating to the length of the work day and general working conditions".³³

Antonio Robert was an engineer and the Director General for Industry. He too had been infected with this strange optimism regarding Spain's natural wealth. The country contained "genuine carboniferous treasures" and the lack of oil was no problem as the fabulous reserves of coal shale and lignite compensated for it. His favourable assessment of Spain's human resources, both employers and adequately prepared employees, was also singular. Autarky was an intermediate objective, for which the "subordination of economic development to political requirements" had to be achieved. Particularly striking was his trust in the actions of a resolute leading minority. Spain could become as industrialised as Germany, where "all it took was for a few men to come into power who had a clear idea of what they proposed, so that in seven years forced labour was eliminated, normality was restored, autarkic industries were founded, and eventually a formidable war machine which crossed almost all the borders of Europe was created".³⁴

The mercantilism of the Franco regime was a more rudimentary version, more political and less economic (in the sense that it was less analytical and more counterproductive). We should remember that Keynes, who called for state intervention, defended in his *General Theory* what he regarded as the sound aspects of mercantilist thought. Although we will not address these issues here, suffice it to say that Keynes believed that mercantilist policies could have been justified at that time by the objective of reducing domestic interest rates (fostering internal investment and employment) and by their capacity to increase foreign investment.³⁵

³³ H. Paris, *Un nuevo orden económico*, p. 254 (our translation).

³⁴ A. Robert, *Un problema nacional. La industrialización necesaria*, p. 148 (our translation).

³⁵ J. M. Keynes, *The General Theory of Employment, Interest and Money*. See Book VI, Chapter 23: "Notes on Merchantilism, the Usury Laws, Stamped Money and Theories of Under-consumption."

The mercantilism of the Franco regime was not so refined. Matters such as those indicated by Keynes were resolved directly by the national-syndicalist model with government decisions: interest rates were established by decree, as were the money supply, the volume and destination of investments, and the exchange rate.

The Franco regime also took a mercantilist approach on other issues, such as wage policy. For Thomas Mun, the most prominent English mercantilist because he was criticised by Smith, the achievement of a favourable balance of trade depends on low internal wages as a result of an abundant workforce and a growing population.³⁶ In this regard the Franco regime was mercantilist: long hours and low wages. And for population, the regime's obsession with raising the birth rate is well-known.

It is not surprising that Franco had a blind faith in the principle of authority, in unquestioning obedience to orders. He had been educated according to this principle since early childhood and from the age of 15, when he entered the military academy, this had become his mode of conduct. In short, his experience in life had taught him that everything consists in giving and taking orders. As the slogan of the Falange goes: "Orders are to be obeyed with no excuses or pretexts". The country's economy, which he regarded as a national intendancy, would function in the same way as the military intendancy, which in his opinion functioned well.

6. Persistence in error

The autarkic convictions of General Franco and his most loyal collaborator, Admiral Luis Carrero Blanco, remained firm, despite their evident failure. In the years prior to the Stabilisation Plan, according to Ángel Viñas, both men opposed liberalising reforms, with their attendant risks in the political sphere.³⁷ On 15 March 1957, the

³⁶ T. Mun, *England's Treasure by Forraing Trade*.

³⁷ Á. Viñas, *En las garras del águila*, pp. 322-323.

newly-formed Commission for Economic Affairs, a government innovation, held its first meeting. Franco participated, opposing all attempts at economic liberalisation, declaring that the basic problem of the Spanish economy was the chronic trade deficit and proposing a strategy of cutting foreign currency expenditure to the minimum. In his delusions he continued to defend the idea of replacing imported raw materials with domestically produced substitutes. At the meeting he enlightened his ministers with the idea of exploiting guayule from Huelva as a substitute for rubber imports, which would represent a huge saving of foreign currency – yet one more of the General's fanciful notions.

Meanwhile, Carrero Blanco issued a document entitled *Introducción al estudio de un plan coordinado de aumento de la producción nacional* ("Introduction to the study of a coordinated plan to increase national production"), in which he reaffirmed Spain's great economic potential: "Once all the technical and labour resources have been exhausted and the whole of Spain's exploitable area has been put into maximum production, we will talk about whether Spain is rich or poor". "A sensible economic policy should seek to erase the import of consumer goods as quickly as possible, because this has a negative effect on our balance of payments". Going by the old autarkic formula, the Franco government sought growth in agriculture, industrial import substitution, market reserves, protectionism and, of course, restrictions on consumption (by others). What had to be avoided was "a situation where we would not have the necessary amount of currency to satisfy all of the country's demand for liquid fuel".³⁸

Manuel Jesús González very fittingly summarizes the nature of the economic advisors of the Franco regime: "They lacked any specific training as economists. They did not understand the concept of opportunity cost, distrusted the market and proceeded to mimic Germany and Japan, principally with the laudable desire to construct an industrial and powerful nation".³⁹

³⁸ Quoted by Á. Viñas, *En las garras del águila* (our translation).

³⁹ M. J. González, *Neomercantilismo en Madrid*, p. 142 (our translation).

The authorities, who fully identified with the approaches and objectives of the government, believed themselves to be infallible. González points out: "In short, if something was not going well, the ideas could not be considered to be wrong. It was believed that individuals were to blame: either entrepreneurs who did not conform to the wishes of the top politicised officials; or the general public seeking their own personal benefit, blind and deaf to the State guidelines and tendentially distrustful of the excellences of a State understood as something other than a group of people with more power but not necessarily more knowledge than the rest".⁴⁰

In other papers of mine I have given examples of these claims of infallibility. General Franco himself believed that the problems of supply scarcity, shortages and the black market were caused by the evil actions of individuals, and there was not the slightest doubt in his mind regarding the appropriateness of the government's economic policy. In a speech to the *Asamblea de Labradores y Ganaderos* (Farmers and Livestock Raisers Assembly) in Seville in 1947 he said: "This is why I am asking rural Spain to collaborate by taking measures, necessary measures, essential measures, to put an end to this regime of shortages so that this culture of greed does not spread to the Spanish countryside, from the city or through speculators; we must eradicate this greed and desire for rapid wealth, which goes against Christian fraternity and the Catholic sense of our country, which in the end all of us must pay for at the hour of our death".⁴¹

The same occurred in the case of the failed *Ley de Colonización de Grandes Zonas* (Law for the exploitation of large irrigable areas), which was intended as a national-syndicalist agricultural reform. Guillermo Castañón, an agricultural engineer who held various important positions in the National Institute for Land Exploitation, had no doubt about the cause of the failure. In his opinion the law was perfect, and if things were not going well it was due to the ignorance

⁴⁰ M. J. González, *Neomercantilismo en Madrid*, p. 142 (our translation).

⁴¹ F. Franco, *Palabras del Caudillo al clausurar la II Asamblea Nacional de Hermandades en el Palacio de Oriente* (our translation).

or evilness of the landowners: "Only complete incomprehension, based on ignorance of the objectives laid down and desired by the Law, or worse still, deliberate reluctance to cooperate with the endeavours to make Spain great, can obstruct its achievement".⁴²

7. Conclusion

In conclusion, what I have sought to describe in this article is the fundamental idea on which the so-called national-sindicalist economic system was based: namely, that the State could and should be the key player in the economic development of the country. It was an idea without the slightest theoretical or historical basis, and its implementation had extremely painful consequences for the majority of the Spanish population.

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⁴² G. Castañón, *El Instituto ha comenzado las grandes colonizaciones* (our translation).

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