Indecent Proposal: Exposing the 1959 Stabilization Plan of Spain

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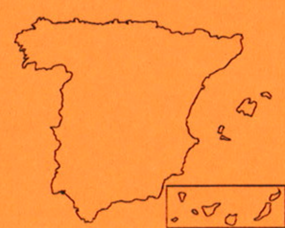

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PROJECT TITLE: **INDECENT PROPOSAL: EXPOSING THE 1959 STABILIZATION PLAN OF SPAIN**

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"Spain must not be left at the margin of these integrating movements, otherwise the nation would more and more become a backward province of Europe."

Alberto Ullastres
Ministerio de Comercio de España

Introduction

Immediately following World War II, at a time when many Western European economies were enjoying tremendous prosperity, Spain pursued policies of different orientation. The country was experiencing rising difficulties and displayed many features akin to those of a less-developed country. One half of the labor force was employed in the primary sectors of agriculture, industry and fishing. The infant mortality rate (IMR) was over 60 per 1,000 (Salmon 23).[1] Hundreds of Spanish villages were isolated and without paved roads, power or water. Large-scale industry was non-existent. Labor was largely unskilled, productivity per man hour low, and agricultural tools and methods were antiquated. Those lucky enough to be employed in the informal urban job market faced exploitation by employers, low salaries, flagrant abuse of child labor and no accident insurance.

By 1973 Spain had finally gotten off the starting blocks. A building boom gave the country a new face, business and industry expanded at a rapid rate, and a new network of highways linked all major cities. At the same time, education levels boosted productivity by strengthening human capital, technology and medical care advanced considerably, and per capita income rose to its highest point in Spanish history (Crow 233). In a matter of decades the country succeeded not only in rebuilding its war-ravaged industries, but in making them efficient as well. Thanks to the planning of a new school of economists and under the watchful eye of Francisco Franco, Spain was transformed from an autarkic, inward-looking state into an extroverted, modified capitalist economy.

Initial credit for the remarkable success that propelled Spain into the European economy

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[1] The IMR for France during the same period was 44, and for the United Kingdom: 36. (OECD, World Development Report, 1979. Paris: OECD, 1980.)

was almost universally attributed to the Stabilization Plan of 1959. Recently, though, critics have argued that external conditions were the underlying reasons for Spain's economic "miracle". Others, eager to discredit the fascist regime, believe the period of rapid expansion in nearly all sectors from 1960 to 1973 wasn't a miracle at all, but simply the result of hard work, sacrifice and determination.

While the Plan achieved some of its original goals, other economic conditions of the early 1960's were less dependent on the Plan than is generally claimed. The Plan did indeed accomplish its bid to stabilize the economy; but instead of immediate success, the result was an immediate year-long recession. Such a reaction was expected given the drastic jolt to the economy, but many of the policy actions had undesirable consequences. And in many cases the modifications of these actions were more likely responsible for promoting growth of the economy. The result of the Stabilization Plan was not capitalism, but a further evolution of private enterprise coupled with direct state intervention.

My thesis is to challenge the long-held belief that this decisive government action was the single most crucial event in the economic development of Spain. Despite being widely advertised as such, the Stabilization Plan marked neither the first nor the most significant break with autarky, and it did not actually initiate market capitalism. I will show that the Plan was a consequence of Spain's evolution from earlier attempts at opening the economy, most notably the acceptance of U.S. loan extensions and the Pact of Madrid defense agreement. My methodology discusses the major policies of the Stabilization Plan in terms of their impacts on the pace and direction of growth, structural change and international economic relations. The analysis looks specifically at the Plan's three broad goals of restricting internal demand, reducing domestic inflation, and correcting the balance of payments; problems that had plagued Spain in the previous decade.

I acknowledge that the Stabilization Plan heralded a significant change in Spanish economic policy and most importantly the end of autarky. The Plan laid the foundation for the new policy-makers to liberalize the conduct of international trade, promote tourism, actively seek and receive official external credits, and to create favorable conditions in order to attract private foreign capital (Baklanoff 26). But the visibility of this single policy action obscures other elements which provide just as plausible answers, with just as much certainty, to the question of what established Spain as a market power. In may be said that the Plan's chief importance was supplying Spain with a new mentality and a new attitude toward its role in the international economic community. Did the Stabilization Plan really establish capitalism and fuel the Spanish economic miracle of the 1960's and 1970's? The evidence would suggest that it did not.

I. Autarky

Long before the government used "Spain is different" as its advertising slogan for the 1992 Summer Olympic Games in Barcelona, many wondered about the motives of the Franco regime. That Spain adopted an inward-looking economic strategy, while most Western European nations took advantage of the post-WWII boom by expanding production and trade, reflects the sentiment that Spain is different. Spain's behavior can be better understand against the backdrop of previous events. While it was widely used as a major commercial trading post throughout its turbulent history, socially and geographically Spain has often been viewed as more different than similar to its European neighbors. With the Pyrenees Mountains to the north, the Atlantic Ocean on the west, and the Mediterranean Sea on the east, Spain is effectively cut off from France and the rest of Europe. The isolationist mentality is not only imposed upon Spain, but is also assumed by her, as attested to by the 1565 decree of Phillip II that Spanish universities must cease all cultural contacts with learning institutions in the rest of Europe. This behavior perpetuates the vision of self-sufficiency and superiority inherent in Spanish policy. But the country's attitude towards the world was not confined to just Europe nor to the 16th century. Spanish philosopher Ortega y Gasset described this hermitization of the Spaniards as "a phenomenon which does not refer especially to religion nor to theology nor to ideas, but to the totality of life" (Baklanoff 5).

The most recent tide of isolation began after Spain's humiliating loss at the hands of the United States in the Spanish-American War. The subsequent loss of Spain's remaining non-African colonies (Cuba, Puerto Rico, and the Phillippines) induced the authorities to alter the nation's development strategy. The earliest phase of autarky (1939-50) included measures aimed at the goal of industrial self-sufficiency, and which reflected both Spanish nationalist ideology and events abroad. More specifically the autarky consisted of an industrialization strategy of import substitution over the export-oriented posture of which mining was the leading growth sector (Baklanoff 6). During this stage of extreme self-sufficiency, only those imports deemed critical and non-substitutable were allowed to supply the needs of a highly protected domestic industry. The funding for these imports came largely from the earnings of a few Spanish exports. But this source was not enough to offset the low purchasing power of the Spanish public and its almost exclusive production for a limited market. Other difficulties arose from technological backwardness and the small emphasis on specialization in production, the sum of which resulted in either a zero or even negative growth rate throughout the 1940's (Lieberman 355).

By the end of the second World War and faced with mounting costs and severe raw material shortages, Spain continued its policy of import substitution. The foremost problem was one of sheer physical survival as the country's leaders had to feed and find jobs for an economy exhausted by its own Civil War and through its alliance with the Axis powers in WWII. This development strategy of the late 1940's and early 1950's was still based on forced import-substitution and tended to raise productivity costs in several ways. First, mandatory use of more expensive home-produced inputs (in comparison with cheaper foreign-made alternatives for supplying raw materials, intermediate goods, and equipment) raised the unit costs of both industrial and agricultural enterprises. The excessive protection also insulated national markets from external competition. Incentives to improve the quality of domestic production were then weakened considerably (Baklanoff 17).

Clearly rejecting laissez-faire principles, in retreat since the end of the 19th century, the pervasive interventionist apparatus was aimed at establishing complete control over the economy. Controls were imposed on wages, prices, trade, and agricultural output. Restrictions were also placed on imports, foreign exchange and investment controls. By manipulating these mediums, the Franco administration sought direct state participation in all aspects of the economy (Salmon 2). These autarkic policies in the first half of the 20th century had fashioned the economy into one lacking competition and being generally dominated by small businesses using cheap labor and traditional technology.

While autarky may very well have been a necessity during World War II, why did Spain continue these policies after the War? Around 1951, with reconstruction nearly completed and the U.N. economic sanction lifted, Franco could have opted for an externally-oriented development strategy. The economic recovery of Europe at the same time, and the subsequent establishment of a largely multilateral and liberalized system of trade and payments would have given Spain the opportunity to participate in the expanding regional economy. Instead of directing national resources toward comparative advantage, through greater specialization and international exchange, Spain continued on its autarkic track until July of 1959 (Baklanoff 15).

Spain's fate may have been more in synch with the rest of Europe's turn to the free market had it not been for Franco's alliance with the Axis powers. After the defeat of Mussolini and Hitler, Spain suffered the humiliation of political ostracism. In December of 1946 a United Nations resolution demanded replacement of the Spanish regime by one "deriving its authority from the governed" and requested the member nations to withdraw diplomatic recognition (Baklanoff 18). Consequently, economic as well as diplomatic sanctions were sponsored by the Soviet Bloc, France and Mexico. Early in 1947, the U.N. imposed an embargo on Spanish goods that would not be rescinded until 1951.

An equally devastating blow was the April 1948 decision of the joint committee of the U.S. Senate and House not to include Spain in the European Recovery Program, or Marshall Aid as it was commonly called. Without outside assistance to reconstruct and with such hostile international attitudes toward Spain, the country's policy makers had no choice but to adopt an autarkic course. Set against external events that imposed the most extreme constraints on the balance of international payments, Spain chose a mobilization system that resembled a war economy (Baklanoff 18). It appeared to be in Spain's best interest to be as strong and independent as possible.

History has often posited that Spanish autarky was initiated by external events over which Spain had little or no control (Baklanoff, 14). For instance, isolation from foreign markets during WWII, fear of invasion (which extended to building a railroad track wider than that used in the rest of Europe so that France could not drive through the Pyrenees), closing of Spanish frontiers, exclusion from participation in the Marshall Plan, and the imposition of 4-year U.N. sanctions (terminated in 1951 thanks in large part to an influential U.S. lobby) are all readily blamed for the imposition of autarky.

Yet assertions that external conditions were the principle motivating factors conceal the truth. Ostracism and isolation in the international market meant autarky was a political choice; only a liberalization of the fascist regime--which Franco seemed utterly determined to resist--might have widened the economic options by making Spain respectable in the eyes of potential creditors (Carr, Dictatorship to Democracy 56). The implementation of autarkic tendencies had been a prime objective of economic groups for more than 50 years, and was a favored policy instrument of the Army. Self-sufficiency was also a favored instrument of the Falange, the fascist movement modeled after the armies of Italy and Germany and, after the Church and Army, the third "family" characteristic of the Franco years (Harrison 121). Although Franco never granted the Falange exclusive power, his forbidding of political parties ensured that the "movimiento" always had the Caudillo's ear. The influence exerted by the Falange gradually declined in importance, but it nevertheless exercised crucial leverage during the Franco years.

Spain's failure to adopt a liberal economic stance at this time must be attributed to internal politics and "various constituencies supporting the nationalist interventionist structure that characterized the corporate state from 1939 to 1959" (Baklanoff 15). Distortions in relative costs and prices were the result of multiple exchange rates, bilateral trade agreements, strict licencing of imports, allocation of raw materials and detailed controls of prices, industrial investment and employment. Further, firms owned by the Spanish government were often exempted from these controls and received preferential treatment in capital markets. That the inherited autarkic framework still existed after World War II was due partially to necessity, and partially to the government's reluctance. Embracing liberalization would have meant loss of control, and more significantly adopting new technology and knowledge and enduring the long and costly processes of restructuring its sectors--namely agriculture, industry and trade.

Agriculture

Among the most pronounced features of the Franco regime during its founding years was the strident advocacy of rural values against those of urban Spain. It was an appalling contrast: half of the regime dedicated itself to pulling Spain into the industrialized age, as the other half fought to protect and promote agricultural while ignoring technology and advance . In other words the government's attitude, even though the rest of Western and Central Europe had already undergone its industrial revolution, was of primacy of agriculture and a distrust of the progress implied by industrialization (Harrison 127).

Franco's obsession with self sufficiency in agriculture led to an over-concentration on traditional crops with traditionally low levels of productivity. Since it became more profitable to grow a commodity with a price guaranteed by the government, that crop was over-grown and other crops became almost nonexistent. Hence, while some crops almost disappeared, or certainly declined in volume, others were in huge surplus and rotted in storage sheds because of the imposition of price floors. One notable case of this phenomenon was the wheat market. By attempting to create a market protected by government price floors, a black market emerged in 1950 which was larger than the official market. A government agency was charged with guaranteeing wheat prices and buying up and storing entire wheat harvests, presumably to protect cereal growers and keep down the price of bread. But the plan backfired when the government cut back on its wheat purchases. Farmers now had a choice: sell for the official unrestricted price, or get rid of their harvest on the black market. By selling his or her wheat harvest on the black market, a farmer could get 3 to 4 times what he would receive in the official, un-subsidized market (Harrison 128). [Figure 1]

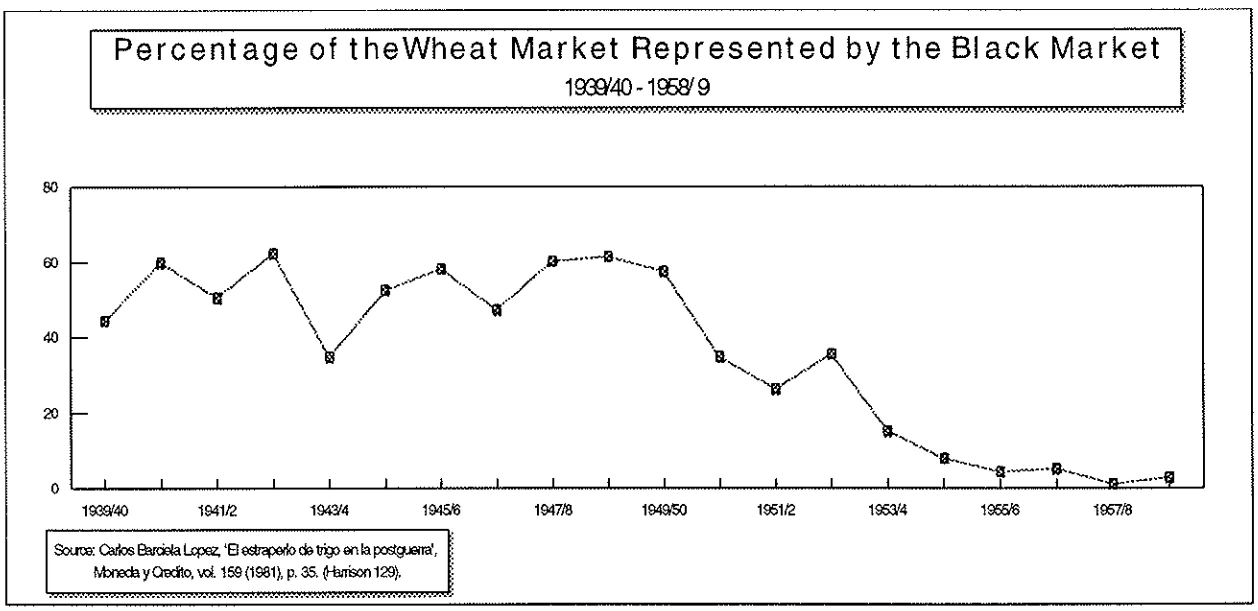

Figure 1

Nothing better illustrated the inconsistencies of the Franco regime in its policy of improving traditional agriculture than its belated and half-hearted attempts to eradicate the twin evils of minifundism and latifundism (Harrison134). The wars of Reconquest gave the Spanish land tenure system the dualistic features that are still in force today: an excessive number of small and fragmented land holdings in the northern and coastal Mediterranean regions (*minifundismo*) and the survival of *latifundios*, once the exclusive property of the aristocracy and church, in the central, western and southern provinces.

In relation to the rest of Western Europe, both minifundios and latifundios exhibited low productivity levels. This probably owes in part to the small number of family farms of 10-50 hectares which predominated in France and which constituted the type of holding best suited to be operated as a family enterprise on the basis of modern, mechanical methods of productivity (Lieberman 10). As long as their estates contained an almost perfectly elastic supply of agricultural laborers, landlords lacked the incentives to invest their profits in the purchase of more efficient agricultural machinery. Under one type of reform program, farmers were encouraged to consolidate their *minifundios* and were extended credit should their amount of land fall below the minimum. Results were criticized for not being ambitious enough. In 1962, Spain still possessed 34.9 million plots of land below one hectare in size, most of them located in Old Castile, Galicia and the northern littoral (Harrison 135).[2] The government was even less successful in its efforts to do away with latifundism. The one measure it did enact (in 1953) was never enforced; the government actively did nothing to reform the latifundism system.

[2] According to Lieberman, p. 10, the Agrarian Census of 1962 listed 1,368,545 land ownership units with a size of less than 2 hectares. These units represented 45.5% of all land ownership units in the country, but only 2% of its total area.

These attempts, half-hearted as they were, reflected the government's changing attitude in favor of industrialization at the cost of agriculture. A reason for this fundamental shift may have something to do with the waning Spanish interest in agriculture as rural to urban migration increased. Perhaps Franco gave up trying to irrigate the modest 41% of Spain's arable land.[3] Or maybe the tide in the rest of Europe taught him that manufacturing and urbanization were more profitable and faster growing. Germany was especially influential, so its industrial revolution was probably seen as the ideal model. At any rate, Franco initiated an aggressive program of industrialization, as shown by his new motto"Progress at all costs" (Harrison 127).

This discussion of agriculture versus industry is really part of a more general argument over whether an underdeveloped country should try to achieve progress in a variety of different directions simultaneously or instead focus its entire efforts dramatically on certain key sectors. The answer to this issue concerns differences of opinion about the future of international markets for primary agricultural products as opposed to industrial and manufactured products (Gill 95). The regime apparently wrestled with this question and decided that markets for the latter were more promising. While exactly what prompted this mentality is not clear, it proved to be a wise move. After a huge surge formed in 1951, agricultural production stagnated over the rest of the decade, while industry and trade eventually spawned and showed continuous progress. [Figure 2]

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[3] The figure of 41% of arable land is based on Spain's total land area of 123,400,000 acres.

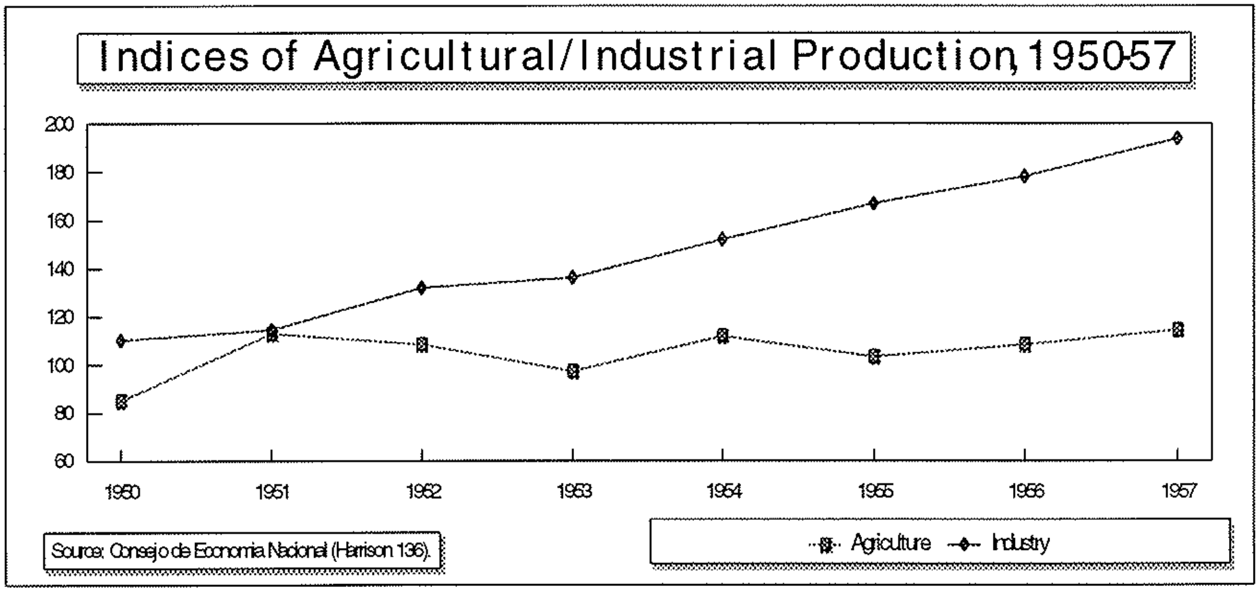

Figure 2

Industry

Only in 1950 did the index of general industrial production rise above its level of 1929. This slow recovery was retarded by a combination of low morale, lack of foreign assistance and raw materials, disruption of markets and scarcity of credit. The regeneration was even more tardy in agriculture, as the general level of production remained below its late 1920's level until 1958 (Carreras 1989). Per capita income was another measure not regaining its pre-Civil War level until the 1950's. A glace at the table shows that it took Spain 17 years to recover its pre-Civil War standard of living and quarter of a century to regain the pre-Depression standard of living (Baklanoff 5):

Spain Real Per Capita Income (1953=100)

1929	9,007
1935	8,520
1940	5,789
1952	8,550
1954	9,310

State participation in the economy manifested itself in the formation of a series of state companies, mostly under the umbrella of the holding company, Instituto Nacional de Industria (INI). Support for the INI was guaranteed under the 1939 Law for Protection of National Industry, which gave the state the power to license industrial equipment (Baklanoff 16). Under this provision every form of investment in the country required the government's approval. The law also enabled firms who had been established for a certain time to block entry or expansion of competitors. These features deterred investment by foreign enterprises in the Spanish economy. As a consequence, the INI hampered the ability of more efficient enterprises to enlarge their market shares at the expense of the less efficient.

It is difficult to ascribe specific effects to the INI, but it has been widely criticized for promoting new enterprises that were defined as "in the national interest". For example, programs under the INI were given better treatment compared with private firms, were given easier access to credit at lower interest rates, fiscal incentives, favorable exchange rates, and reductions in import quotas for purchasing essential raw materials and equipment abroad (Baklanoff 15). Combined with a repressive political system, the INI and in general the restrictive economic regime denied civil liberties across sectors and squashed initiative (Salmon 2).

Besides the creation of the powerful INI, Franco also relied on the policy of licensing industrial investment, exchange controls and other direct supervision of external economic transactions. Because industrial permits were often subject to favoritism and other corrupt procedures, it was usually more profitable for businessmen to bribe an official from the Ministry of Industry (the arm of the government charged with regulating licenses) than to pay attention to markets and cost efficiency (Fontana 83).

Spanish industry was characterized by an extreme dualism: a few large oligarchical firms controlling a large number of atomized marginal plants using backward technology. A 1953 study revealed that 9 of the 338 coal mining operations accounted for 55% of total coal production; that 14 of 511 electric power companies provided 71% of electrical production; and that 10 of the 40 steel-producers were responsible for 82 of the steel production. Similar cases and degrees of concentration could be found in other industries as well (Harrison 122).

But criticism of the monopolistic nature of Spanish enterprises could just as easily be directed toward the proliferation of uneconomically small shops that made up the remainder of industrial production. As shown by a brief example, the individualistic characteristics of Spanish businesses may be the true obstacle to efficient production. During 1958, there were almost 700 pharmaceutical plants, more than 500 publishing houses and over 700 canning factories. The capital of half of the canneries were under $10,000 and each employed fewer than 25 workers (Baklanoff 20). The 1958 census showed that 88% of industrial enterprises surveyed employed five or fewer workers (Ibid 20).

It is not clear whether the smaller factories were always the least efficient, but it can be inferred from economic theory that inefficiency is more likely to be found in smaller businesses than in larger, incorporated firms. The sheer number of small factories, then, must have contributed in some way to the declining productivity across the economy. Even in many rapidly developing sectors, textiles for example, smaller companies still dominated.

The restrictive methods themselves were not the only factors to hinder growth in the 1940's and 1950's. Spain's interventionist regime constituted a major impediment to efficient development. Appointing members of the Falange and other supporters to high economic posts generated problems when the appointees were not qualified. The existence of a large bureaucracy created inevitable corruption at all levels. For instance, detailed economic decisions were routinely made by civil servants who generally lacked the economic training that would be necessary to make these decisions as efficiently as the market could. Further, they often had financial interests of their own in the outcome of those decisions, giving rise to bribes and favorites. The results of such a poorly-operating system were immediately evident in the levels of production, and in the fact that for twenty years the dictatorship operated at an almost constant deficit.

After several years of stagnation following WWII, the Franco regime presided over an impressive expansion of the economy, particularly in the industrial sector, with monetary stability and an increase in foreign trade.[4] From 1951 to 1954, Spain experienced considerable expansion in electricity, iron and steel, chemicals and metalworking industry, especially finished capital goods. This latter category included machine tools, textile machinery, agricultural equipment, engines, locomotives, trucks and electrical equipment. The expansion in turn

[4] An idea of the magnitude of this stagnation can be shown by the fact that only 18% of the economically active population in 1950 was involved in industry, while almost 50% remained in agriculture (Salmon 2).

allowed for vital imports of foodstuffs, raw materials, capital goods and accumulation of stocks (Harrison 132). In the arena of trade, however, the behavior of imports and exports reflected the sluggishness that was more frequently associated with the earlier autarkic period. Between 1950-51 and 1957-58, the country's export/GDP and import/GDP ratios never exceeded 5%, an extremely low figure for an industrializing nation (Harrison 37).[5]

Trade

Undoubtedly the dominant feature of the Spanish economy in the decade or so following the Civil War was a sharp reduction in international trade (Harrison 124). In 1950, already three years after the War, trade constituted only 5% of GNP (Salmon 2). Faced with mounting shortages of foodstuffs and basic supplies, Spain could have resorted to borrowing abroad in order to finance imports. But Spain's fascist rule, its alliance with Germany and Italy, and its restrictive policies did a poor job of reflecting a changed attitude. Foreign aid was not an option. Only after the Pact of Madrid--the defense agreement affording Spain $625 million worth of aid in exchange for allowing U.S. military bases on Spanish soil--in 1953 was a more concerted effort made to promote trade and international transactions. In the meantime prices rose and internal inflation persisted, reaching a rate of 23.1% in 1950 and 1951 (Harrison 131). Imports fared even worse than exports, since autarkic development was centered around a policy of rapid industrialization based on import substitution. Decisions to trade were guided not by regard for consumer demand, but by the desire for self-sufficiency.

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[5] Estimates around the same time reveal an exports/GDP ratio of 11.5% in France; and over 15% in Germany. Imports/GDP for France, 9.4; Germany, 12.5 (OECD, World Development Report, 1979. Paris: OECD).

Direct controls over international affairs included the initial imposition of high tariff barriers, which made Spain one of the most highly protected nations during the period between the Civil War and WWII. These barriers were replaced in 1939 by the introduction of quantitative restrictions on imports, including import licensing, and exchange controls to regulate the level and composition of imports. Direct trade controls tried to speed up the substitution of home production for imports, especially in industries concerning defense. Domestic investors who benefitted from official incentives were required to purchase raw materials, intermediate goods, and capital equipment in Spain whenever these goods were officially determined to be available locally. Being "available locally" usually meant at higher prices and with compromised quality.

A large part of this effort to regulate the flow of imports and exports was the creation of a classification system. On the export side, 15 groups of products were established with rates ranging from 10.95 to 21.90 pesetas to the dollar (Baklanoff 63). Imports were classified into 9 groups with rates ranging from 11.22 to 27.38 pesetas to the dollar (Ibid 63). After maintaining a fixed overvalued parity rate for 9 years, the exchange authorities in effect implemented a progressive devaluation of the peseta through multiple currency rates. Exporters who were allowed to convert their foreign exchange receipts at increased rates (such as 21.9 to the dollar) got special incentives, while other exporters, those who were obliged to convert at low rates, were penalized.

On the other hand, importers who qualified for low rates of exchange (such as those who paid only 11.22 pesetas to the dollar) received in effect an official subsidy, while other importers (those required to pay higher rates for the privilege of requiring foreign currency) were penalized.

As a result, increasingly overvalued exchange rates penalized exporters and subsidized importers who were fortunate enough to get access to foreign currency (Baklanoff 16). The fixed parity of 11.22 pesetas to the dollar from 1939 to 1948 was well below the equilibrium rate.

The tide turned after 1953, when rapid expansion of public and private investment induced a sharp rise in wholesale and retail prices and a deterioration in the balance of payments. The pull of excessive internal demand, coupled with measures that discouraged production for markets abroad, such as an overvalued exchange rate structure, led to stagnation in exports between 1951 and 1958, while value of imports doubled.

The structure of the economy described here corresponds roughly with the characteristics of a fascist economy. For while the means of production, with a few notable exceptions, were in private hands, the allocation of resources was largely determined by central directive from the Spanish government. The market mechanism of allocating scarce resources--labor, capital, natural resources, foreign exchange--by price was generally replaced by bureaucratic administrations (Baklanoff 21).

An insightful perspective on the specific Spanish experience comes from historian Dr. Estape, who noticed that

> *"in Spain, protectionism never resigned itself to be functional, modest, conditional protectionism. It had to be Protectionism in capital letters."* He goes on to explain that *"when there developed exceptional circumstances during which self-sufficiency was imposed by a state of necessity, there was no hesitation to have recourse to a certain ideology with the main aim of converting it into Autarky, also in capital letters."*
>
> (Lieberman 22)

Impending Doom

A decade after WWII ended, it seemed so too had Spain's potential for extended growth. In 1956 a host of serious problems was introduced to the Franco regime. Student-staged uprisings throughout the country exposed the inadequacy of education, while workers launched strikes in search of increased wages to compensate for the cost of living increases. This labor unrest manifested itself mostly in the industrial regions of Madrid, Bilbao and Galicia. Inflation had been on the rise and was at 9.1%, and would reach 15.5% by 1957 (Baklanoff 17). [Figure 3]

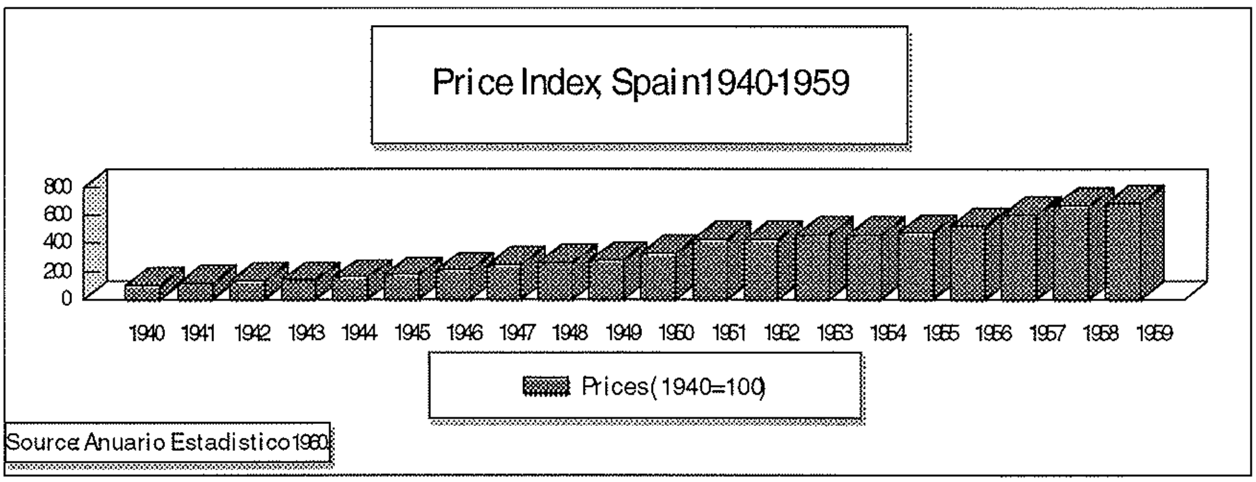

Figure 3

Finally, a severe citrus frost wiped out a third of the crop and threatened to augment unemployment in Andalucia. The trade balance was transformed from a surplus of $70 million in 1951 to a deficit of nearly $300 million in 1958, and by June 1959 Spain's net official foreign reserves registered a $4 million deficit (Baklanoff 21).

The relative deterioration of its economy in the late 1950's forced Spain's leaders to conclude that a change in economic policy was imperative (Lieberman 355). Faced with the possibility of national bankruptcy, the Minister of Trade recommended a package of strict austerity measures, including the possible reimposition of rationing, a practice which had been abandoned 1951.

Breaking the Shackles of Autarky

The first opportunity for Spain to break out of its autarkic rut did not occur with the Stabilization Plan of 1959. The initial chance came 19 years earlier in 1940, when the U.S. offered to extend several million dollars to reconstruct following the Civil War. For many reasons, not the least of which was uncertainty about the future and the fact that Spain allied with Axis powers, Franco refused. Most critics feel that acceptance of this aid was not even an option at that time. On December 10, 1948 Winston Churchill spoke out against the continued ostracism of Spain, to no avail. His argument was that Spain knew more freedom than those countries behind the iron curtain. The only country to agree was Argentina, whose quasi-fascist government of Juan Peron lent $264.3 million between 1947 and 1949 (Harrison 125). Spain continued on its course of protectionism and rejection of laissez-faire principles until 1950.

The first distinguishable and irrevocable chance for the country to launch itself into the world market came from a U.S. loan of $25 million in 1951. Spain's Catholicism and staunch anti-communist stance impressed the U.S. "Spanish Lobby", which petitioned the White House for grants of economic aid to the Franco regime. While formally bound by the U.N. Resolution of 1946, the Truman administration did not oppose credits granted to the Spanish government by U.S. commercial banks (Harrison 126).

The implications of this aid are difficult to overestimate, since it marked the first in a series of moves by Franco to align his nation with the rest of the world. When Spain was given the opportunity to accept the deal, she invariably elected to follow the path of economic development despite the social costs. The significance of the loan was more far-reaching than the dollar amount, and has been compared to a garden sprinkler fertilizing a desert. The 1950-52 loan of $62.5 million marked a watershed in Spain's postwar international economic relations, allowing an opening up of the economy to liberal and outside forces in the mid 1950's (Harrison 126).

The next display of willingness to embark on capitalism came in July of 1951, when Franco shuffled the cabinet in an effort to improve international relations, especially with the U.S. and Vatican (Harrison 123). The new cabinet was in search of price stability (after the rampant inflation of the previous year), further increases in industrial productivity levels, regularization of inputs, and a strengthening of the gold/currency exchange reserves depleted during the Civil War (Harrison 132).

The most decisive break in Spain's isolation came in 1953 with the Pact of Madrid defense agreement. In return for allowing the U.S. to establish military bases on Spanish soil, Spain received substantial economic aid (estimated at $625 million between 1951 and 1955). The amount may not have been that significant in other country's terms, but it triggered an enormous snowballing effect in the economy in the mid 1950's (Harrison 138). And after exposing the falsehoods of import-substitution, the aid provided a means by which to finance imports.

Notwithstanding the considerable economic achievements of the period 1951-6, much at least an indirect result of increased foreign investment, liberal reforms carried out during this time were half-hearted and almost completely uncoordinated. This criticism questions Franco's supposed vision of capitalist-integration, and sees the administration as "a disorganized, inefficient and notoriously corrupt bureaucracy" (Harrison 123). By the middle of the decade, Spain's economic situation was deteriorating rapidly, as shown by recurring inflation and the exhaustion of foreign reserves (Harrison 123). The long-standing system of autarky was doomed to fail faced with a previous decade of economic stagflation, growth of a strong black market and the rationing of foodstuffs (Harrison 122).

By 1956 the limitations to autarky were exposed, and Franco had no choice but to admit that his agenda of self-sufficiency was starving the economy (Carr, Modern Spain 156). With the low share (5%) of consumer manufactures in Spain's total imports in 1959, it was clear that the country's potential for import substitution industrialization was virtually exhausted. Spain had neither the resource base nor a large enough internal market to continue developing in isolation:

"A moment had finally arrived in which the desire for industrialization must be reconciled with the conditions industrialization demanded" (Carr, Modern Spain 156).

To deal with these difficulties, Franco decided to re-shuffle his cabinet, this time in 1957. The "sacking" of Franco's men responsible for the stagnant growth of the 1950's constituted a turning point in post-Civil War Spanish economic history, and served as a prelude to the Stabilization Plan of 1959.

The primary question posed by the government in determining the appointment of the new economic advisors was, "How could Spain avoid impending doom following decades of economic staticism?" Pressure for liberalization came from pragmatists within the regime who were more interested in moving Spain into the Common Market than in adhering to an obsolete ideologue. Conceivably any of three different schools could have gotten the nod to draft a plan to save the country. The first group consisted of established Falangists, who adhered to fascist principles and intended to rearticulate policies that had consistently failed in the past. Their proposed measures would have included a mix of import substitution, various mechanisms of protectionism and exchange rate management.

The second school was made up of the younger economists, or 'Structuralists'. These policy-makers feared rapid industrialization and maintained doubts about the effectiveness of fiscal and monetary tools to generate economic growth and stability. They argued that, in open competition with industrialized Europe, backward Spain would be seriously damaged (Harrison 123). They attacked the economy and the structure of industry, while in favor of agrarian reform, progressive taxation and the redistribution of income.

In the end Franco chose the third group, a new school of economist who were dubbed 'technocrats' and included many members of the pervasive Catholic lay group Opus Dei. These technocrats were the most visible group, and included among their ranks Minister of Industry Gregorio Lopez Bravo, Economic Planning Minister Lawrence Lopez Rodo, and Minister of Commerce Faustino Garcia Monco (Irwin 135). Despite their high ideals, the new economic ministers lacked a coherent strategy in the two years before the Plan. They possessed no blueprint for policy change and entertained little thought of implementing a stabilization program until prompted to do so by the IMF.

II. The Stabilization Plan

From the first few months of 1959, it was imperative that something be done to combat inflation and to avoid impending bankruptcy. Franco himself, with his vague ideas about economics, probably expected the country could muddle through. If anything he realized the need for action but didn't anticipate any major changes in foreign or domestic policy, just a tightening and adjusting of the present system. When Minister of the Economy Navarro Rubio introduced the preliminary draft of the Plan in June, 1959 , Franco did not at first have the slightest confidence, fearing that somehow subversive forces would enter. After some debate, the Opus Dei cabinet members and like-minded colleagues managed to convince Franco that some sort of fundamental revision of the current policies was needed (Payne 63).

The official Stabilization Plan, underwritten by foreign aid, emerged in the form of a memo following visits and recommendations from the O.E.E.C. and I.B.R.D. on July 12, 1959. Its authors decided that the growing inflationary pressures and other inherited impurities must be ridded in order for the functioning of a modern, post-modern economy. The Plan was modeled after the French Stabilization Plan of 1957 and was characterized by deflationary and tight monetary policies embracing the following (Salmon 24):

1.) Restrictions on private sector lending

2.) A reduction in public spending and lending to the public sector

3.) Increased prices for public services

4.) Higher interest rates

5.) Devaluation of the peseta and repeal of the multiple exchange rate system

6.) Directives to liberalize foreign investment and trade

Restricting Demand

The chief goal of internal policy targeted in the Plan sought to restore financial stability by carrying out a number of monetary and fiscal measures designed to restrict demand and limit inflation. While the goal of restricting demand was recognized as imperative, and almost obvious, the administration was unsure how to approach it. After initial hesitation, Franco gave the new program his full endorsement and declared a balanced budget for the public sector as a whole. This effort resulted in price increases of up to 50% for transport and public utilities. Taxes on tobacco and petrol, both state monopolies, were raised to further decrease domestic demand. Finally, the regime hoped to limit private investment by raising the interest rate at which banks could lend from the central bank. The discount rate was raised from 5% to 6.25%, and other interest rates were raised correspondingly.

Limiting Inflation

Rapid growth of monetary demand at a time of serious supply constraints, brought about to some extent by a foreign exchange bottleneck, increased pressure on resources. Inflation was consequently a major problem throughout the autarkic period. Prices tripled between 1940 and 1950, remaining well over 20% during most of the decade, and doubled between 1950 and 1960 (Lieberman 27). Along with raising the discount rate and balancing the budget, the Plan proposed measures which targeted and sought to eliminate once and for all the excess internal demand which had been the source of inflation in the first place. In accordance with the policies designed to cut back on domestic demand, the policy-makers decided the overall deficit of the public sector, which would have reached 18.7 billion pesetas in 1959, should be reduced to just 13.4 billion pesetas (OECD 1960 10). Public sector expenditures were also cut, from 81.7 billion pesetas in 1959 to 80 billion pesetas in 1960 (Ibid 10).

Other efforts toward stabilizing price levels and eliminating indirect consequences of the inflationary period were aimed at dismantling the existence of a body of controls, regulations and state interventions--most of which adversely affected economic activities.

Use of Banks in Limiting Inflation

A conventional way for the regime to achieve price stability was by placing strict limits on bank lending practices. A ceiling of 163.6 billion pesetas was imposed for the total credit granted by banks to the private sector in 1959. Financed through U.S. aid, banks could finance only 9.4 billion pesetas, down from 13.4 billion the year before (Baklanoff 9). And in no case could the increase in total debts of public sector to the Central Bank in 1959 exceed 3.4 billion pesetas, compared to 11.1 billion in 1958 (Ibid 9).

The power and importance of banks from the autarkic periods through the early 1960's is difficult to overestimate. Given their responsibilities it is clear why Franco should want to loosen the grip that banks exerted over the economy. Especially significant were the periods after the Civil War and World War II, when banks served the crucial purpose of restructuring. Decades were primed by large building projects, mainly through INI-controlled firms, which equaled large public investments. The rapid growth of these and other public expenditures aided by the slow growth of revenue meant large deficits throughout the public sector.

Financing for these projects was arranged directly or indirectly by expansion of money supply and mostly through money creation by the Bank of Spain (Baklanoff 17). The reason for financing INI projects in the first place was not because of the established success of the banking system, but because investors had no other resources for funds. In the absence of a well-developed capital market, INI funding relied mainly on the national treasury and more often on the Bank of Spain (Ibid 16).

Along with industry, most Spanish entrepreneurs and businesses were also highly dependent on the banks. The economic reality that such economic weight was concentrated in Spain's five largest banks (*los cinco grande*)--Bilbao, Vizcaya, Hispano-America, Espanol de Credito and the Banco Central--was a subject of heated debate among economists and journalists alike throughout the 1950's and 1960's. These mixed banks promoted new industries by providing indefinitely renewable short-term credit and underwriting securities on the capital market. Owing to this dependence, most of the large private enterprises in Spain were tied to one of the mixed banks. In 1957 *los cinco grande* held 64% of the nation's private deposits and 49% of total deposits (Tamames 177). The Stabilization Plan must be seen as an effort to sever these ties between industry, business and banks.

However one regards the importance or legitimacy of the banks during autarky and throughout the miracle years, the bank as a symbol of power certainly was key player in the break with staticism. Economist J. Prados Arrarte has even gone as far as crediting banks with transforming the economy, from

> "*...autarkic, interventionalist and supposedly one that was in the common good to one that was liberal, neocapitalist and oriented toward the profit motive virtually without changing those who have directed it.*"
>
> (Baklanoff 19)

Correcting Balance of Payments

The external aspect of the Stabilization Plan was intended to correct the balance of trade deficit. Objective number one was to establish a new gold parity of the peseta, set forth by the Decree-Law of July 21. This long name for the Plan repealed the Law of February 9, 1939, which had allowed the government to use multiple exchange rates. The new law set a single unified exchange rate of 60 pesetas to the dollar. This new parity fixed the monetary unit to 0.0148 grams of gold, and adhered Spain to the gold-exchange system established by the Bretton-Woods agreement (Lieberman 203). Although the peseta had in reality fluctuated between 56-60 to the dollar for the previous two years, its measure represented a 42.9% devaluation from the official rate of 42 pesetas to the dollar.

A second goal to remedy the troubled balance of payments problem involved dismantling existing controls and reducing the amount of trade subject to bilateral tariffs. According to the World Bank, lowering tariffs would a.) help reduce production costs for industries that have to use imported goods, b.) direct scarce funds for new investment into more productive channels, and c.) would discourage high-cost, inefficient enterprises and thereby improving Spanish industry's competitive position (IBRD 17). By radically modifying the import system, the Plan tried to introduce a much greater degree of flexibility in the international operation of the economy and in particular to eliminate the elements of rigidity abounding in trade. Foreign policy consisted of a campaign to break down the West's hangover quarantine against Hitler's passive ally Franco, and to win acceptance as an equal partner among European neighbors (Irwin 135). Besides devaluing the peseta and liberalizing imports, the Plan also introduced certain token legislation designed to make Spain a more attractive location for foreign businesses. Prior to 1959, foreign investment was kept at bay by severe exchange controls on the transfer abroad of earnings and repatriation of capital and by a general provision that limited foreign participation in Spanish enterprises to 25% of common stock (Baklanoff 17). One introduced measure proposed that restrictions imposed on the participation of foreign capital be reduced and that *in principle*, restrictions on the repatriation of capital be eliminated (Italics mine) (Presidencia del Gobierno, 1959 17). This reform allowed for the repatriation of dividends, capital and assets, and offered substantial incentives and guarantees to investors. [Figures 4&5]

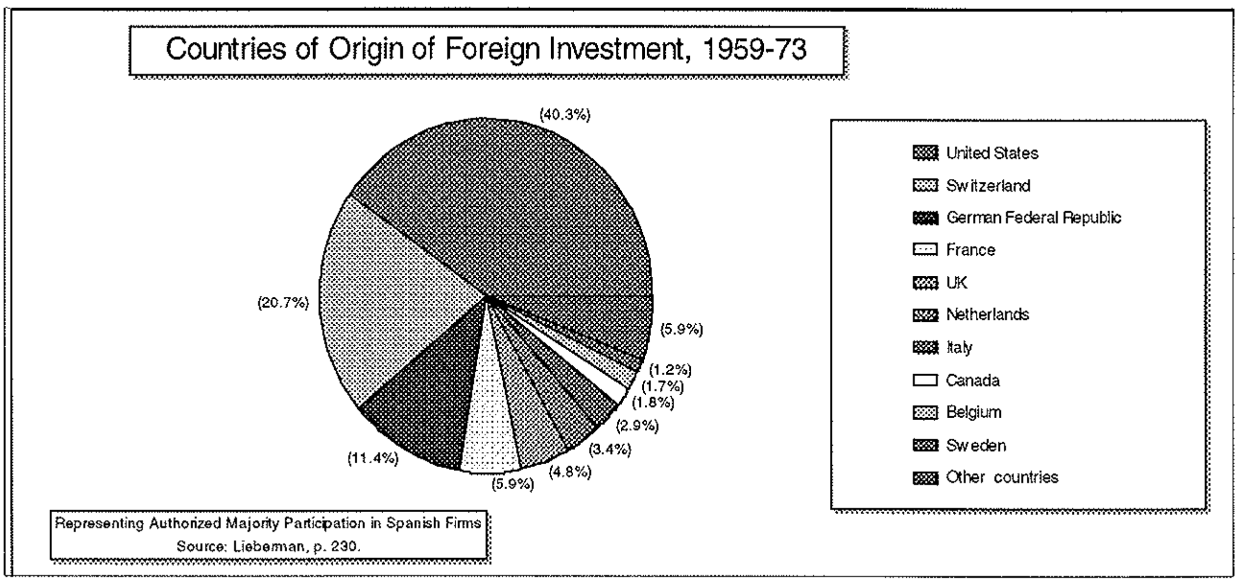

Figure 4

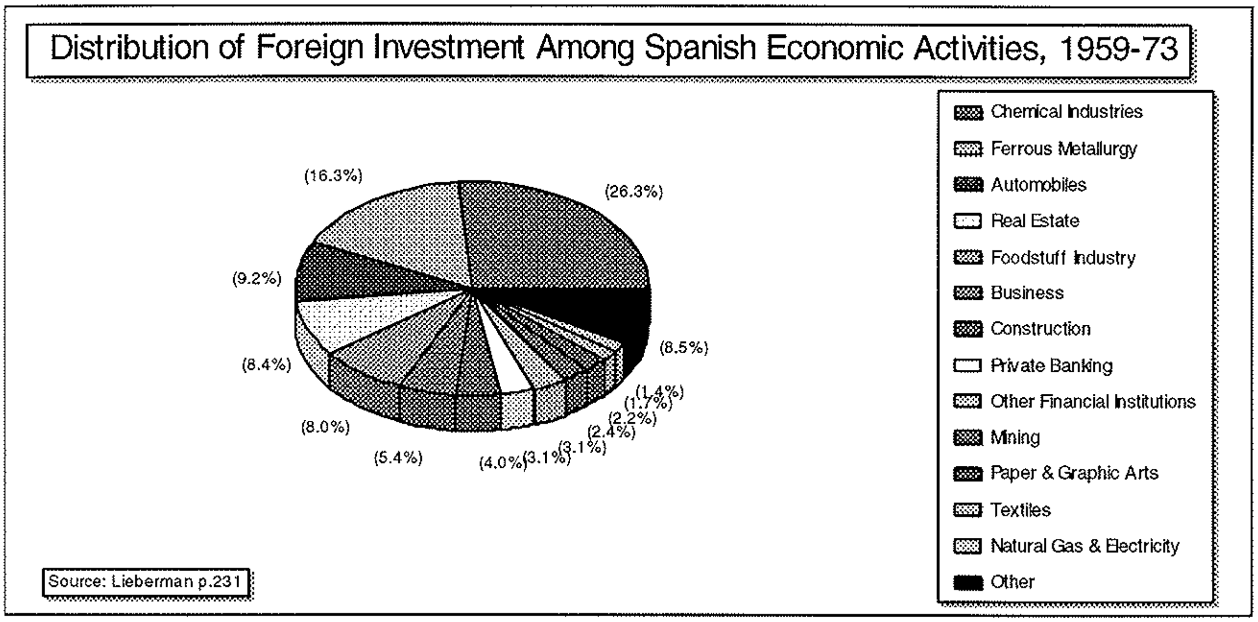

Figure 5

III. Short Term Conditions After Stabilization Plan

Because criticism of the country's economic performance was generally tolerated, charges against government policies were nothing new. Most policy criticism at the time was aimed at the Development Plans after 1963, and the issue of their influence on the spectacular growth after 1963 has long been a point of debate. But the Stabilization Plan was also a target of the same accusations. Among the strongest was that the plans distorted the Spanish boom which was a mere reflection of the simultaneous European boom. Just as valid was the charge that the propaganda of the regime, pouring out its statistics of growth and expansion, was no yardstick for economic development. The resulting figures did not constitute proof of a "prosperity based on 'Franco's peace', but merely reflected the inevitable spurt that industrialization brings to any backward economy" (Carr, Modern Spain 157).

A. Demand Components

A1. Growth

The rate of growth during the 1960's and early 1970's was certainly unprecedented, but was actually a continuation of a growth spurt begun in the 1950's, seemingly coinciding with the Pact of Madrid. Those who believe that development began with the Plan need only look at the GDP growth rates and the beginning of rural-urban development. The Plan was the first piece of formal legislation, but earlier growth throughout the 1950's is clearly documented [Figure 6]:

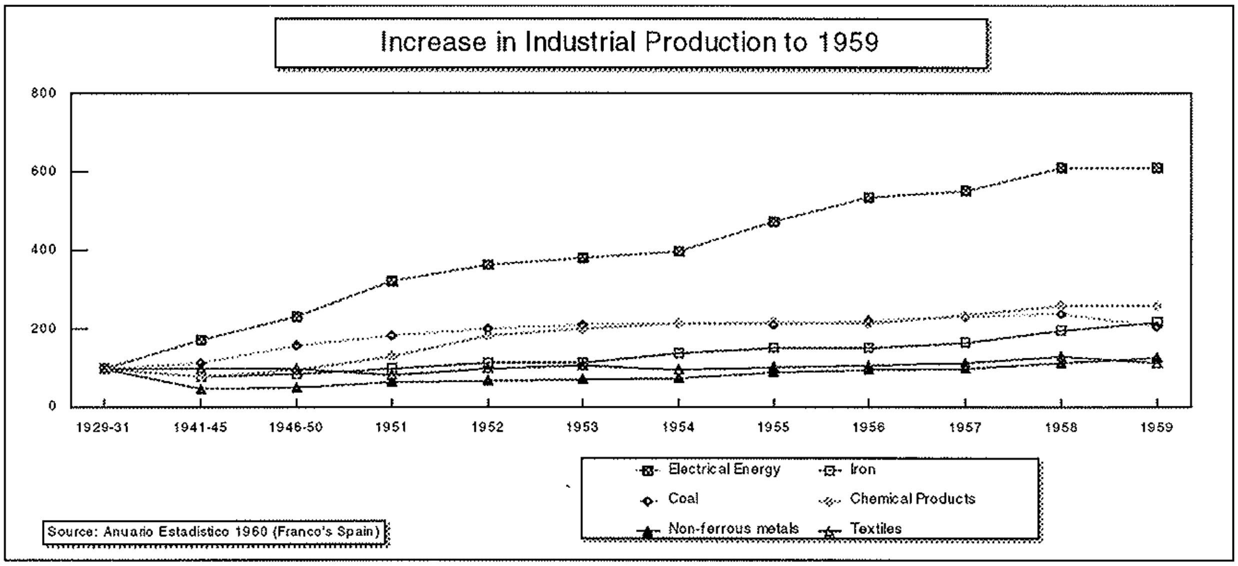

Figure 6

Real GDP experienced a slump in 1959, falling that year by 2.5%. By the mid 1960's real GDP had doubled in real terms, growing at an average rate of around 7% (Salmon 4). To put this figure into perspective, Spain achieved a yearly average of just 2.8% during the first two decades (1939-1959) of the Franco regime (Lieberman 212). This growth of the economy obviously correlates with the imposition of the Plan and greatly improved resource reallocation. This reallocation of capital, land and labor, which appears almost universally in developing countries, occurs in response to demand. But much of the rapid and accelerated growth after 1959 also reflects opportunities for trade and the favorable conditions in the rest of Western Europe. Greater competition within the E.E.C. and rest of the world, the international transfer of technology and modern managerial techniques, and improvements in the quality and quantity of equipment all had enormous impacts on the reallocation of resources and growth at large. Labor productivity and increased investment in human capital, which will be discussed in greater detail under the "Employment" section, are other factors contributing to the decisive growth rate.

[Figure 7]

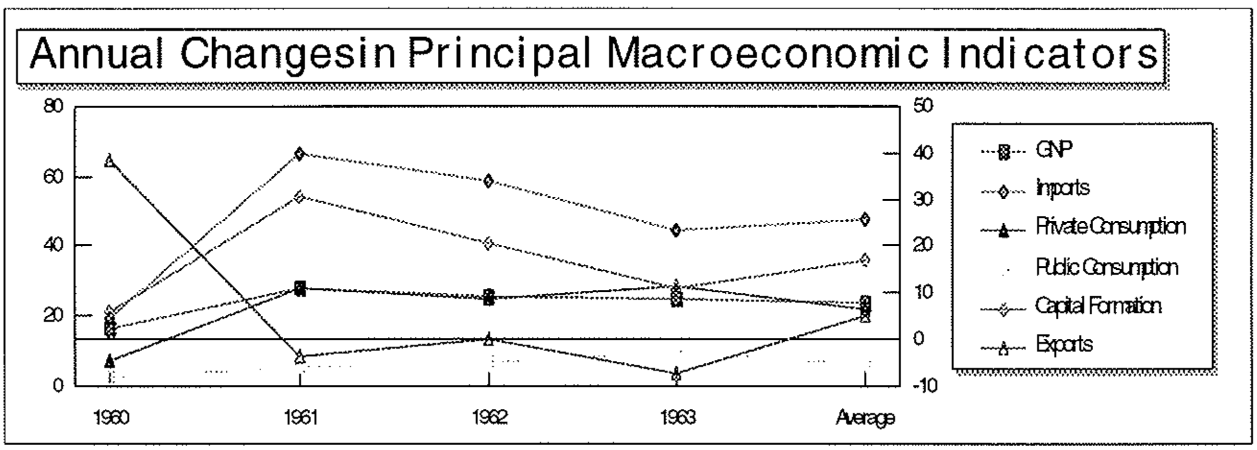

Figure 7

A2. Demand

The principle method chosen by the policy-makers for stimulating the economy was the channeling of increased funds to the private sector. This was accomplished through the official credit institutions; these measures were undoubtedly correct in principle, but their influence on actual effective demand was substantially reduced by administrative and other delays. Clearly this method of pouring investment into the private sector was not sufficient, neither to shorten the period of deficient global demand nor to stimulate a speeding pace of recovery (OECD, July 1961, p. 8). The reason for this is that the Spanish economy had been geared for many years to function with important deficits of the public sector. The substantial reduction of these deficits was not compensated, in the period under review, by a significant increase of other demand factors. In fact, private investment demand remained relatively low during this period.

A3. Inflation

One way to halt inflation is to cut back on the amount of credit extended to investors. This is exactly what Spain accomplished with its credit ceilings and price increases. Inflation tumbled as domestic demand fell condiderably. Instead of instantly stabilizing the economy, however, the immediate result was a correction in the balance of payments coupled with a severe recession. This recession was probably inevitable since by definition stabilizing the economy implies cutting down runaway prices. It may be argued that the policy makers had no way of predicting how severe the recession could be, and therefore didn't plan on such a drawn-out affair. The recession was acknowledged by the government as a necessary evil, a mere growing pain, of industrialization and closer alignment with the rest of Europe. During 1959, however, unemployment rose by 34.7% over the previous year's level, national income diminished by 0.3% and per capita income fell by 1.1% (Lieberman 207).

Though the record unemployment levels by most measures constitued more than just "growing pains," such a dramatic jump in the discount rate as well as the imposition of a credit ceiling and other austerity measures trying to decrease domestic demand should have produced a longer slump. The fact that such measures did not trigger a long drawn-out recession but were followed by an 'economic miracle' was due largely to factors exogenous to the Plan (Baklanoff 3). That is, the growing international economy provided a market for Spanish goods and employment for Spanish emigrants (who then sent money home). Tourist earnings increased by nearly 100% as tourism became the leading sector. Growth in this sector increased employment and income, in turn contributing to the growth of transportation and industry through the multiplier effect. The paradox in this case is evident: the shortcomings of the Plan were redeemed by favorable reactions to these failures.

Recovery from this brief but harsh recession was characterized by a large increase in private investment. Despite the regime's claims that the Stabilization Plan spurred investment through its restrictive grip on banks, quite the opposite is more likely. True, increased private investment during the early 1960's was partially dependant upon the lending practices of mixed banks and of the Bank of Spain. Advocates reason that as a result of the restrictions on credit extended to both private and public sectors, private investment had necessarily increased. Their logic flows somewhat like this: such a noted increase in investment took place after limiting the amount of credit, so the Stabilization measures must have been responsible. What the officials fail to make known, however, is that the conditions initially imposed on bank credit in 1959 were relaxed and the global ceiling abolished in 1960 when the cabinet discovered that instead of stabilizing the inflation problem, the difficulty of achieving credit was stifling the economy (OECD 1962 12). The credit reports for the following years, with lag, were most certainly reflecting the reversal of the original contractionary measures, not any favorable effects from the original restrictive banking actions. While the conditions of the early 1960's may have been the results of a handful of government policies, presumably the Stabilization Plan wasn't one of them.

It is conceivable that the recession could have lasted several more years had the government not revoked the actions in took in the original Plan. What would have happened if the Plan's original restrictive measures had not been altered in 1960? The issuing of government bonds, the increase of funds put at the disposal of official credit institutions and re-discount guarantees for pre-financing by commercial banks of loans would not have taken place. Instead of instilling in the people an optimistic attitude towards the future, which was partially responsible for the recovery, the difficulty of attaining credit would become so frustrating that the recession would perpetuate itself. And had the discount rate remained at over 6%, instead of first being reduced to 5.75% in April 1960 and finally to 5% in June 1961, the credit shortage may have been insurmountable (OECD 1963 9).

Again, the ineffectiveness of initial policy actions necessitated their reversal through the creation of more liberalized banking standards a year later. Any success attributed to these original actions is extremely difficult to confirm since the 1960 Development Programs were in effect for a longer period of time and probably more influential than those proclaimed a year earlier. Lags between the imposition of a policy and actual results may range from a quarter to a year or more. The inability to correlate the causes of the Plan with the "effects" on credit of the early 1960's questions claims that the directives aimed at restricting demand and inflation contributed to the increased investment. Yes, these policies ultimately contributed to the growth of investment, but they may very well have deepened the recession if the original Plan was not altered.

Newly-implemented measures expanding credit to private undertakings in a reasonably short time played a significant role in this respect through the official credit institution. The government conveniently avoided criticism of the ineptness of the Plan's credit policies by claiming it was impossible in many cases to determine if the dismantling of some controls had been successful. Whether or not "impossible" is the correct term, Franco made clear that although part of the existing network of administrative and physical controls had proved inefficient, the forging of more efficient and direct instruments for driving the economy would necessarily need time and effort. Such a claim should be seen as an admission of guilt, or at least of side-stepping the blame. If some policies of the Plan didn't work the way they were intended, "Asi es la vida, and better luck next time!" Favorable results, however, whatever the primary intention, were readily adopted as "effects" of the government objectives. By announcing that some of the policies may take a while to materialize, the government could appear successful in every one of the Plan's endeavors, save the ones that "need time to prove".

Prices stabilized in 1960 thanks to demand-reducing elements. Aggregate demand fell with the decreased access to credit. This contractionary policy (with lag) brought inflation down and steadied prices. Prices rose the following year, however, when a contradictory plan was enacted. Devaluing the peseta meant that foreign demand for Spanish goods increased, and consequently imports for Spaniards became more expensive. Logically this argument would seem to suggest lower internal demand. But now that goods from abroad cost more, the country stimulated domestic demand by substituting Spanish products for imports. Two policies that were supposed to work together to simultaneously prompt lower demand and depress prices actually contributed to inflated costs. At the same time technological innovation was advancing agriculture, and 1961 featured a particularly good harvest. This combination of policy effects and improved agricultural production, which rose by 5.1% in 1961, led to prices of 151.3 (1955=100) in December of 1961, up from 147.4 in June 1961 (OECD 1962, p.10).

A4. Private Consumption

Initiation of the stabilization program had a temporary depressant effect on some industries and in certain areas, including private consumption. Consumption increased thanks to longer working hours and consequently higher incomes, but only after several years. Per capita income in 1959-60 fell for the first time in more than a decade, declining about 1.5% in 1960. The rise in individual income resumed again,though, and eventually grew from $317 in 1960 to over $1,500 in 1975 (Crow 371). A growing number of Spaniards were able to eat better and purchase more consumer durables. Televisions, radios, fridges and washing machines, far beyond the reach of the average Spaniard following the second World War, were now commonplace. For every 1,000 inhabitants, 98 owned an automobile in 1973 compared with only 10 in 1960; 175 owned a telephone in 1973, compared with just 56 in 1960; and 179 owned a television set in 1973, compared with only 5 in 1960 (Baklanoff 59).

Family consumption advanced at an annual rate of 6.6% during 1961-71. And as *Figure 8* shows, purchases of consumer durables grew almost twice as fast, by a cumulative 12.8%. Although total family expenditures in real terms rose by 90%, consumer durables grew considerably by 243%. During the phase of accelerated growth, the difference in the level of living between rural and urban dwellers was substantially narrowed, and the absolute number of Spaniards who lived in genuine poverty declined (Baklanoff 60). Remittances from family members abroad also helped Spaniards buy more as Spain entered a stage of mass consumption.

B. Sectoral Composition

Growth of national product in the early 1960's was matched by structural and spatial change within the Spanish economy. The fact that Spain underwent profound restructuring of its economy is evidenced by the changing distribution of the working population and the changing sector profile. Part of the increase in GDP can be accounted for by the increase in the percentage of the working age population in services and industry and a decrease in the percentage of the population employed in agriculture.

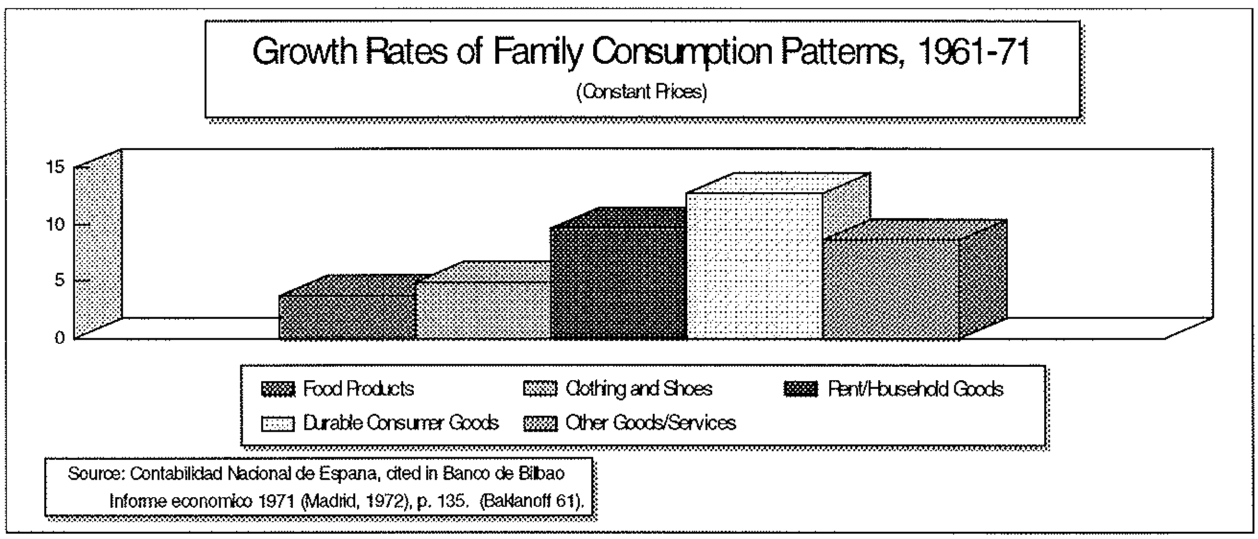

Figure 8

B1. Agriculture

The immediate effects of the Plan on agriculture are difficult to gauge, mostly because there were no policies specifically aimed to improve the lot of the farmer. Indifference best describes the regime's attitude towards agriculture, but there were still several consequences of the Plan which provoked adverse reactions. For example, the proportion of the labor force in services decreased at the expense of agriculture. Tourism was growing extremely rapidly and accounted for much of the shift towards the service sector, but the proportion of the labor force in agriculture also fell as a result of increased rural-urban migration. Some of this migration was prompted by increased investment in housing and construction, and in making urban living generally more attractive to rural residents. But the flow out of agriculture was also affected by the wage freezes resulting from the Plan's policy to restrict demand and cut down on spending. Energy consumption switched from coal to oil, and capital took the place of labor. Private investment in agriculture fell dramatically as foreign investors were enticed with incentives to build factories and offices in the industrial regions.

Another reason for the decline in foreign investment, as suggested by the regime, was the poor cereal crop harvest of 1960. This decrease in private investment was especially undesirable, since the agricultural sector had absorbed a very low proportion of total fixed investment over the previous several years[6]. Another possibility for the low investor interest in agricultural productivity was the administration's virtual indifference towards agricultural productivity. This ignorant attitude is completely contrary to the one the government adopted at its inception when it proclaimed the primacy of agriculture and wanted nothing to do with industry. Exactly when and why the regime reversed its position on industry is cause for much speculation.

That the sector of the economy employing 45% of the population and accounted for more than half the value of exports shows that the issue either wasn't addressed or that it was caused by the planners' lack of vision (OECD, 1961 11). A policy that may have encouraged higher

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[6] The level of total fixed investment in agriculture was estimated at around just 10% (Irwin 162).

productivity is the extension of credit and the provision of medium and long-term loans. A series of such policies was enacted in 1960 to make up for the error caused by decreasing bank credit, but the amount going towards agriculture continued to stay low.

Although the 1960 crops were historically poor, those of 1959 were excellent. This creates a convenient scapegoat for the policy-makers. The immediate perception of the Plan was aided by a successful agriculture harvest, while the recession could be blamed in part on the poor 1960 crops. The apparent success of the Plan in terms of foreign exchange was even more visible thanks to the success of cereal and citrus crops. The combined increase of improved domestic crops and a drought in many other parts of the world allowed Franco to exert pressure on food prices and to reduce import requirements. At the same time, the surplus citrus crop led to an increase in exports.

The 1960's saw a consumer boom as Spain's pattern of consumption and its way of life became nearer the European model. This evolution included better and more innovative technology as well as increased demand for commodities as meat products. Responding to changes in consumer demand, the livestock industry emerged as the most dynamic component of agriculture. Between 1960 and 1974, livestock increased from composing 18% of agriculture to 39%, and meat production more than tripled from 572,000 metric tons to 1,824,000 tons (Baklanoff 58).

What if the excellent crop year of 1959 had instead produced a poor harvest? Assuming a harvest like that in 1960 had taken place a year earlier, Spain would likely have had to import more grains, and exports would have been out of the question. The trade deficit probably would have been insurmountable if more subsidies had been given to agriculture. And most crushing to the regime, two bad harvests in a row would have seriously tarnishing the Plan's reputation of achieving instantaneous success.

B2. Industry

Industrial production dropped in almost every sector during 1959 and 1960, the first two years of the plan's imposition. Especially hard hit were steel and iron, which had already suffered from falling domestic demand. This decrease was offset by buoyant demand in exports of iron ore and cotton textiles. Once again the Plan's reputation was saved by foreign demand. The several-year period following the Plan meant re-adjustment and financial consolidation for many industrial firms. Largely responsible for this development were the increased flows of raw materials, equipment and semi-finished products, all supposed results of import liberalization and the disappearance of speculative demand. The result was decreased labor unit costs resulting from lower wages and a cut-back in the amount of hours worked (OECD 1961).

The initial sluggishness experienced by industry was given a simple explanation by the policy-makers: the slowdown had already begun in early 1959 and if any worsening had occurred, it was an inevitable result of stabilization. The disappearance of high internal demand--accompanied by a substantial deficit in the public sector--caused the level of production to fall. This fall in production had a secondary effect on demand for consumer goods by influencing employment and wages (OECD, 1960 10).

Within a few years gradual improvements were being made in many sectors, however. Consumption of electrical power rose 14% between January and May of 1960 (Payne 123). A striking expansion took place in 1961 as evidenced by a 21% gain in steel and 30% rise in automobile production. The favorable trend in electricity continued as it rose from 6.4% in 1959 and 1960 to 11.6% (OECD 62). Synthetic materials replaced many traditional products and the composition of production changed towards the greater importance of capital goods industries: metallurgy, construction materials, chemicals and transport equipment.

The relaxation of protective policies at the end of the 1950's contributed to the economic miracle, characterized by rapid industrialization fueled by cheap energy. Inefficient production structures were still sustained by protectionism, however, while innovation continued to be repressed by extensive government intervention (Salmon 22). To be sure, the character of Spanish industry was halfway between that of a newly industrialized country and an advanced industrial one, with a comparative advantage often based on the relatively low labor costs in traditional industry. Public policy measures, developed within the rapid growth of the early 1960's, further emphasized the concentration on traditional industry by investing in its increased capacity. At the same time the measures gave little attention to stimulating innovation and technological development (Baklanoff 26).

As stated earlier, the INI played a central role in the autarkic-statist phase from 1939 to 1959. Since the opening of the market-oriented, export-led strategy initiated during the Plan, there had been considerable debate in Spain regarding the function of public enterprises in economic development of the country (Baklanoff 35). In the service of the new political economy of Spain, the INI was charged with promoting large-scale and high technology firms, and merging enterprises capable of competing in both national and international markets. To the extent that INI could fulfill these aims, it preempted multinational enterprise from an unacceptable intrusion in the economy. Instead of prohibiting foreign participation except under the strictest conditions, the pattern followed during the autarkic phase, the re-vamped INI strategy aimed at maximizing the foreign contribution of technology and of managerial and marketing expertise. Foreign equity, meanwhile, was still limited to a minority share in joint ventures (Baklanoff 36).

Rather than maintaining the visible ambiguity between agriculture and industry, Franco could have clearly defined the role of public enterprise and the conditions under which it could operate. Labor flexibility and mobility could have been a Plan directive. By promoting rural-urban migration and perhaps subsidizing education to reduce the number of unskilled laborers, the administration may have created an environment in which industry was free to turn its resources to the most productive uses. Finally, instead of imposing a ceiling on the amount of credit being extended by banks, the regime would have been wise to move in the other direction and increase the availability of funds that could finance private industrial expansion and to deal with special issues such as regional development and tourism (IBRD 33).

B3. Tourism

Revenues derived from tourism nearly doubled from 1959 to 1960, and continued to rise until 1966. By 1965 Spain had outpaced France to become the world's leading tourist country, with net international tourism revenues of $3.216 billion (Baklanoff 73).[7] The accelerated growth of the service sector, and the infrastructural transformation related to it, was clearly the

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[7] Spain clearly dwarfed the rest of Europe in terms of international tourism by 1965. Spain's nearest European rivals during that year were France ($2.390 billion), Italy ($2.373 billion), Germany ($2.183 billion), the United Kingdom ($1.672 billion) and Switzerland ($1.369) (Baklanoff 73).

consequence of a development engine dependent on tourism as its major source of fuel (Roman 114). [Figure 9]

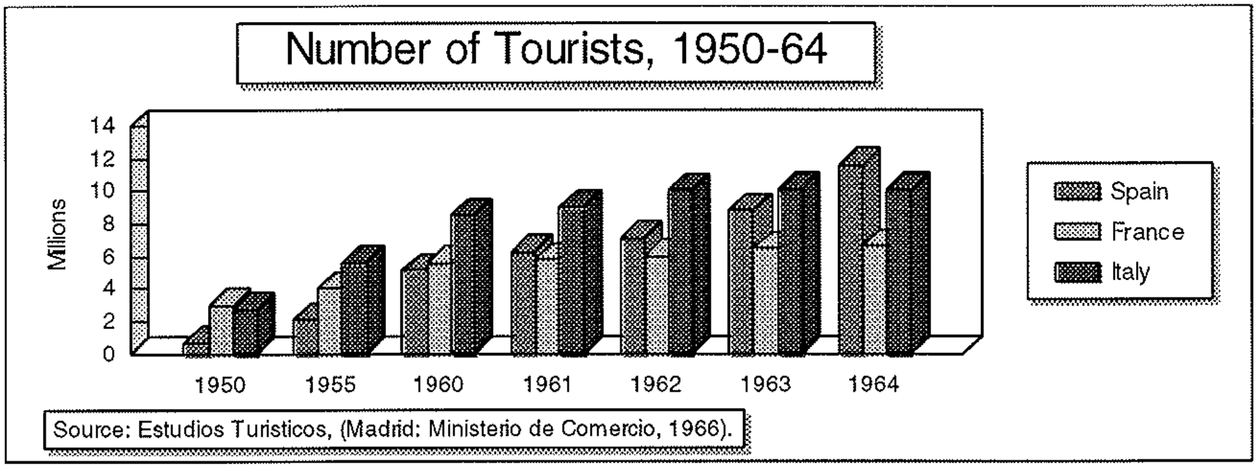

Figure 9

The catalyst for this growth of the tourism industry has been the source of much speculation. Obvious answers are the miles hundreds of miles of coastline and the Mediterranean sun. But Spain also offers the beauty and variety of scenery and architecture and a host of folklore and fiestas. The large increase in capacity of air transport and the fall in air fares also placed Spain within easy access of Western Europe.

Romantic beaches and famous cuisine are certainly other factors making Spain so attractive, but the devaluation of the peseta in 1959 was undoubtedly the overwhelming reason for the flood of foreigners to Spain. As prominent Spanish economist Antonio Goxens Duch puts it:

> *"Our tourist industry has developed exclusively because of our comparatively low prices. It is not our sun, our good hotels, our good roads or even our monuments or museums that account for our tourism. Our tourism will disappear fast if our prices rise to a par with Italy and France, for with the equalization of prices we will discover*

that the quality of our tourist facilities is inferior in general to theirs."

(Roman 42)

A statistical study on the impact of devaluation and revaluation on tourist earnings by the IMF seems to support this assertion. The report found good evidence that tourist receipts are very sensitive to the price factor (Baklanoff 72).

But how aware of this study was the regime? Experts have pointed out that the goals outlined in the Stabilization Plan appear to have been dictated also by "the recognition of the vast possibilities inherent in the international flow of tourism" (Roman 40). What "recognition of the vast possibilities inherent...of tourism"? Tourism was nurtured, but not as the prime motivator of the Plan. Only after the policy makers realized the effect the devaluation was having on tourism did they concentrate their efforts on an aggressive (foreign and domestic) tourism campaign. [Figure 10]

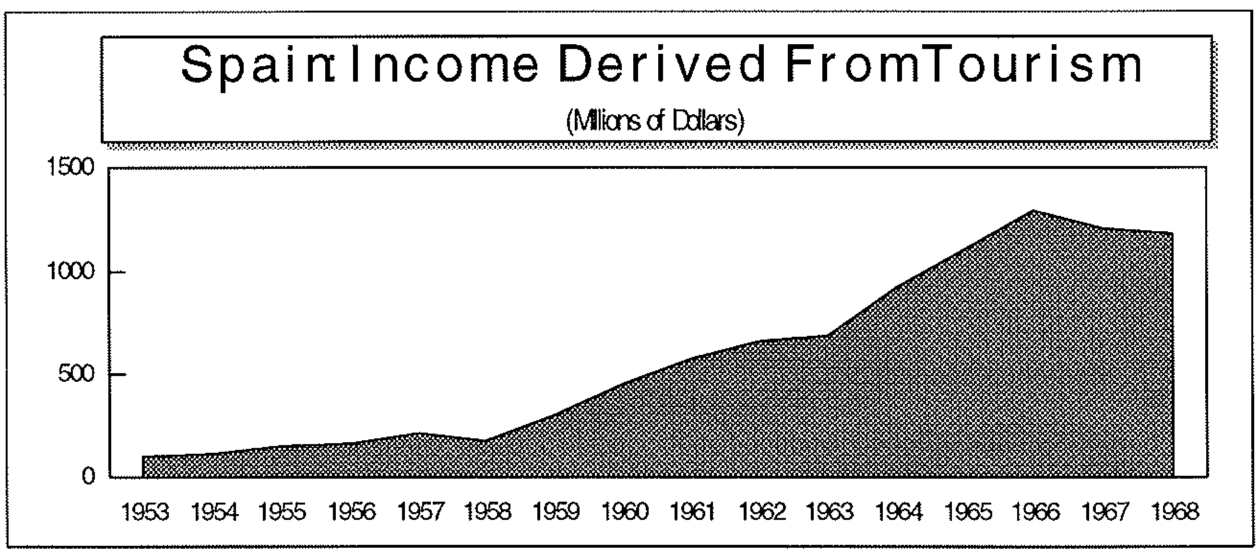

Figure 10

However spectacular the increase of tourism, there were a few holes in the attractive superstructure (Crow 377). The massive flow of foreigners went beyond all expectations of the newly-formed Ministry of Information and Tourism. Quality of hotels and restaurants declined. Intense real estate speculation and irresponsible and unaesthetic planning were just a couple of the forms of exploitation. A huge labor drain was created as skilled professionals, carpenters and electricians took their talent with them to the coasts, bringing shortages in the rest of Spain. Low-earning laborers were forced to migrate to the coast so they could work long hours under little protection. Tourism promoted regional disparities by favoring sunny Andalucia, Catalonia and the Canary Islands over the weather-uncertain Galicia. But the working class in those regions benefitting most from tourism--Andalucia, Catalonia--saw little of the money generated by tourists. Since the majority of tourism began to be financed by private initiative, mostly concentrated in hotels and resorts, it was the construction and real estate complexes who benefited the most (Crow 377).

B4. International Trade

1. Balance of Payments

For the three pre-stabilization years (1956 to 1958), Spain's international liquidity was severely hampered by deficits in the basic balance. The basic balance had shown a deficit of $156 million in 1958, but Spain's balance of payments improved dramatically after imposition of the Plan. By 1959 the country registered a surplus of $70 million (Harrison 132). This surplus was accumulated entirely during the last 5 months of the year. In the following year, the current account balance, which had shown deficits for both 1958 and 1959, registered a surplus of $361 million, and the basic balance showed a $20 million surplus (OECD, 1960 8). Net holding for gold and foreign reserves, which had shown a deficit immediately before the introduction of the Plan, rose to $108 million by 1959-60 (Baklanoff 26).

By 1961 Spain had paid off all official short-term debts and built up an important reserve of foreign exchanges amounting to $700 million in 1961 (Baklanoff 34). There are several reasons for this surplus. Contraction of domestic demand following the Plan made imports less necessary, while the once-desired industrial products could now go abroad as exports. In the case of worker migration, the favorable foreign market was willing to accept Spain's surpluses. Even though the agricultural sector saw a decrease in crop quality in 1960, the success of the 1959 harvest played largely in the agricultural export market and contributed to the foreign reserve increase. [Figure 11]

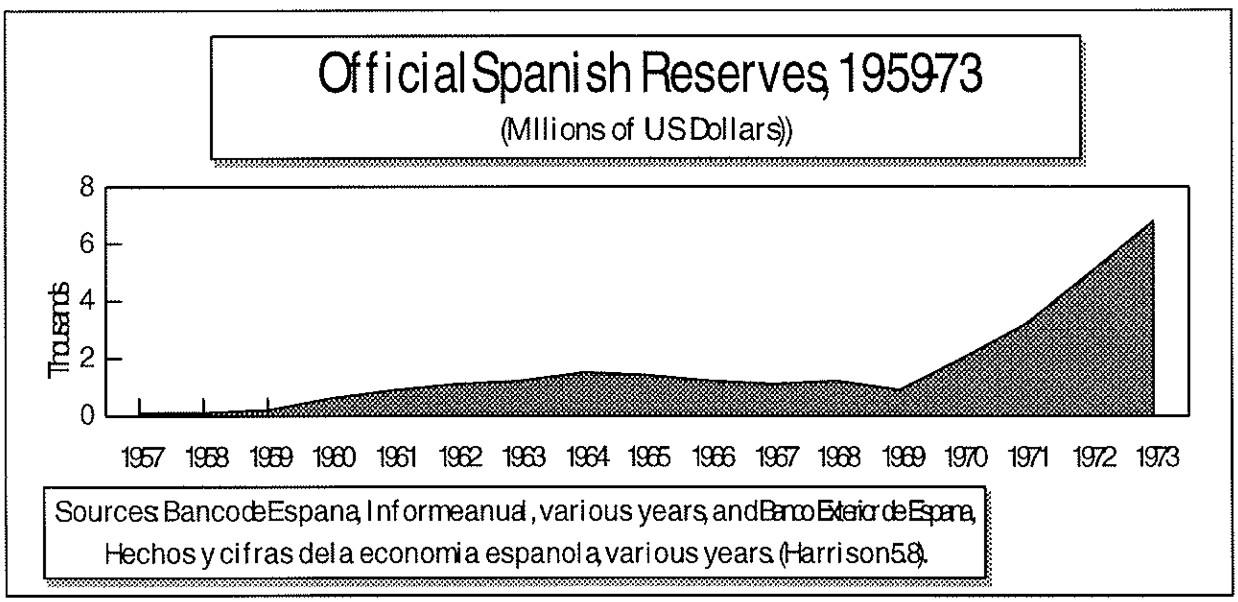

Figure 11

On a more long-term basis, the balance of payments aided restoration of internal financial stability. This stability was realized in the establishment of a realistic rate of exchange. Benefits of a changeover into liberal and multilateral foreign trade and payments also contributed to a more stable economic climate. If anything reflected the effect of the exchange differential, it was the tourist boom. Funds pouring into the country payed off tremendously for Spain and helped establish a sound financial record (OECD, 1960 25).

After 1959 Spain's commercial policy was designed to achieve one major objective: liberalization of imports and the promotion of exports, especially new lines of manufactured products. Spain maintained four principal import categories in accordance with its commercial regime: liberalized imports, global quotas, bilateral trade, and state trading. Most imports, including raw material semi-manufactures, machinery and chemicals, were classified as liberalized goods and could be brought into the country free of quantitative restrictions (Baklanoff 33). Both imports and exports, visible and invisible, grew appreciably in relationship to GNP since the Plan. The Common Market's share in Spanish commerce expanded as well. The rise in E.E.C. exports to Spain from $186 million in 1957-58 to $1,592 million in 1970-71--an increase of 756%--suggests Spain had finally emerged as an important market for the E.E.C.

It would be unrealistic to portray any factors of the Plan as being independent of one another; microeconomic flexibility and macroeconomic performance were self-reinforcing. The low unemployment facilitated both the widespread acceptance of technology and organizational change and the redeployment of labor. Increased levels of demand made investment in new plants and equipment easier to finance (and justify). And the increase in market size, resulting from international economic integration, accomplished the same. Together, labor mobility and buoyant investment raised productivity and led to a rapid rise in the living standard. The inflationary pressures preceding the Plan were further eased by the opening of markets to international competition, whereby prices in world trade rose (over 1950 to 1973), at a rate of only half that in domestic markets. This in turn made it possible for macroeconomic policy to permit or sustain high levels of demand. A climate of confidence was created which further increased the incentive to invest (OECD 21).

2. Exports

The ability of a country to transform its export structure toward a concentration of industrial goods is one of the most notable indices of successful economic development. That is exactly what Spain accomplished within a decade and a half. Spanish exports in the 1950's consisted mainly of olive oil, wine, citrus fruit and other Mediterrenean agricultural products, along with raw minerals. Together these two categories accounted for 67% of exports in 1959, but by 1973 traditional agricultural products made up only 33% of total export goods (Baklanoff 68). Manufactured goods were meanwhile increasing, and accounted for 67% of total export value in 1973. Instead of citrus fruits and olive oil, principal consumer manufactures now included iron and steel products, chemicals, shoes, automobiles and apparel. The policy directive that raised prices of certain government commodities is responsible for decreased interest in industrial goods. This decreased demand freed up resources to ship goods abroad.

Once again, though, very favorable conditions in foreign markets created the market for and acceptance of Spanish goods. The pairing of low demand and favorable external conditions must have both been present to achieve the higher exports. The combination of the two appears to have stimulated the notable rise of textiles, iron and steel products, as well as other manufactures. Devaluation measures produced phenomenal 65% growth in exports of goods and services. This jump in foreign exchange earning signaled the beginning of Spain's export-led development pattern. The devaluation of the peseta in July 1959, together with the import liberalization measures noted above, enhanced significantly Spain's competitive posture in foreign markets. Beyond these measures, designed to affect the cost-price structure of internationally traded goods, Spain introduced the official export promotion incentives of export subsidies, export insurance and export credit (Baklanoff 34). [Figure 12]

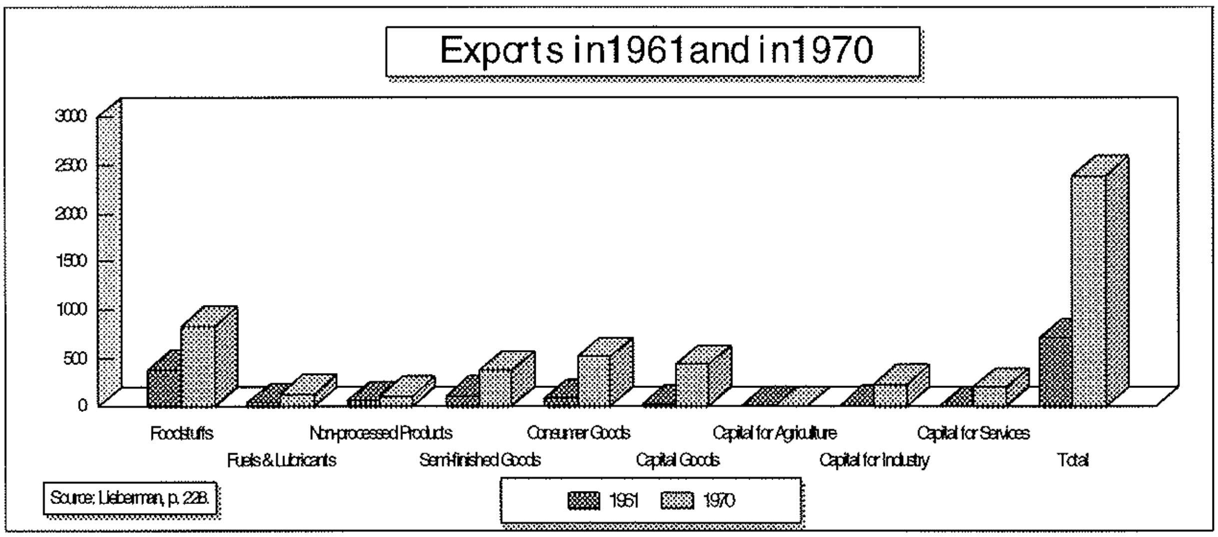

Figure 12

3. Imports

The temporary reduction of imports immediately after the Plan relied on the succession of a good and bad harvest of cereals and other crops. Policies of import quota relaxations were also essential. However, most of these policies were enacted after the Plan when the planners discovered they either hadn't gone far enough or had been overly strict in setting the controls.

Once the public's confidence was restored following the recession, fixed investment began to rise as well. The most significant proof of this growth was a strong demand for credit and the trend of imports, which had been climbing sharply since September 1960. The rise of imports occurred despite the relaxed but ever-present system of quotas and the introduction of a 25% tax on half of all imports (OECD, 1960 7). [Figure 13]

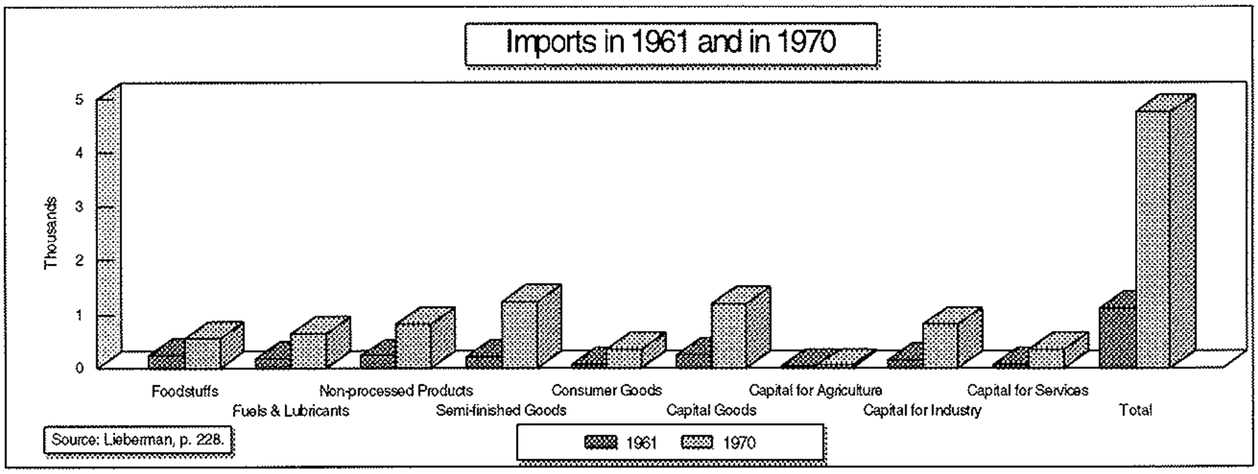

Figure 13

Another factor affecting the reduction of imports was the recession and its ensuing recovery. It is doubtful the regime anticipated that the Plan would 1.) cause a severe recession and 2.) that this recession would initially lessen imports and then increase them to help the balance of payments. Most of the reduction in imports took the form of raw materials such as steel and iron (OECD, 1961 27).

This growth of imports was not only a response to increased demand for raw materials and capital goods, however, but also partly to the purchasing of agricultural products in order to make up for the shortcomings of domestic production. The shortage of raw materials and semi-finished inputs which marked the late 1950's disappeared after 1959. The growth of imports was associated with rapid industrialization and rising incomes. Industrial raw materials, semi-finished and finished goods consequently represented 75% of total imports. Imports rose from 7% of GNP in 1960 to 17% in 1970 (Salmon 2). If the Plan's objectives to satisfy internal demand and stimulate private investment in industry were indeed as successful as we would be led to believe, then there should not have been shortcomings in domestic production. Any plan would have been successful, as long as implemented by the government with some type of official air and some intention of enforcement. Both imports and the demand for credit were made more dynamic since 1960 (OECD, 1962 6). In the three year span from 1961 to 1963, import growth averaged 32% per year (Baklanoff 27).

C. Resources

C1. Credit

The most important development in the field of credit in the years following the implementation of the Plan was the expansion of bank credit to the private sector. Together, the Bank of Spain and commercial banks increased the amount flowing toward private projects by 20%, or 32 billion pesetas (OECD, 1962 7). To understand the increase in investment demand one must look beyond private demand for credit, which was consistently strong. More likely, the increased demand arose out of abandonment of extremely cautious attitudes prevalent during the recession. The recovery of normal rates of production in most sectors also led to increased faith in the credit system. Trust in banks was fueled by price increases, which called for greater amounts of money to finance more expensive products. This revival of private investment was aided not by policies in the Plan, but thanks to relaxation of conditions imposed on bank credit in 1960 and the absolution of global ceiling on bank credit.

The effect of the discount rate set by the Plan does not appear to reveal an immediate effect between it and the amount charged to borrowers. But while the banks were able to hold out initially, they were soon forced to translate the higher price to the lender (show stats). Whether or not the discount rate policy was the main catalyst, by 1961 the government had reduced its indebtedness to the Bank of Spain by 6.1 billion pesetas. (OECD 1961, p.10). The Plan had repercussions in the credit market by encouraging banks to show much greater caution in to whom they granted credit. This reversal of attitude was decisive but also contradictory. If banks were more hesitant to lend, how could they spur investment?

C2. Capital

The total net inflow of private long-term capital was $106 million in 1960 compared to $45 million in 1959. A goodly part was due to repatriation of Spanish-owned capital and higher lending to private firms. Investment after 1959 was aimed primarily at tourism, without regard for structural reorganization of a dual economy. The concentration of investment in hotels, housing, roads and urbanization required higher capital coefficients, which led to a higher capital/output ratio.

Under Franco 60% of industrial capital was controlled by government investment by way of INI (much of it steel and shipbuilding). Foreign investment--including subsidiaries of multinational companies, purchases of shares through the Spanish stock market and loans to enterprises--financed 10% of the country's gross fixed capital formation and 20% of capital formation in industry throughout the 1960's (Baklanoff 37). Rapid and accelerated growth was associated with greatly improved resource allocation, the international transfer of modern technical and managerial methods, and greater competition. The explosive increase of foreign exchange availability was a necessary condition for the expansion and renewal of the nation's capital stock in the post-stabilization era.

Beginning in 1960, gross capital formation accounted for 15.9% of GDP, and grew rapidly over the decade, especially in the next several years (Lieberman 215). This increase in capital formation was partially a result of the savings efforts made by Spaniards, as well as foreign capital inflows. While a certain number of growth-agents have generally been identified to explain the growth of capital in the early 60's--including skills, stocks of knowledge, productive capacity of the labor force--growth is surely more a result of the preceding decade. American aid, demand generated by the Korean War, good harvests and a marked improvement in Spanish human capital more effectively brought about the industrial take-off occurring after the Plan (Gonzalez, 1979 311).

C3. Labor and Human Capital

Certainly one of the crucial elements in explaining Spain's economic momentum in the 1960's is the phenomenal growth of labor productivity. General productivity increased by over 6% annually, led by a yearly average of 7.7% in the manufacturing sector (Baklanoff 61). But the majority of the GDP growth rate derives from increased capital formation rather than labor. Labor's quantitative contribution totaled only 6%, while capital formation explains 67% of GDP growth rates from 1960 to 1973 (Payne 62).

Although labor's share of economic growth during the miracle years was relatively small, advances in human capital became increasingly visible and should be credited with at least a fraction of the 27% residual. [8] The plight of the working class moved considerably up the economic ladder during the post-stabilization period. A more powerful middle class resulted in greater attention being paid to health of the worker. Because Spain was able to keep down its population growth rate to just over 1%, most of its national savings could be invested in production and capital stock rather than being diverted to meet the needs of a growing population (housing, jobs, health, education, etc.). Vast improvements were still made in human capital, however. Increased investments in human capital was reflected in comprehensive systems of education and training were developed. This investment is reflected in school enrollment ratios rising by 43% during 1960-73, and in the working population literacy rate growing from 91% in 1960 to 96% in 1973. These and other demographic variables signaled the emergence of a healthy economy after 1959.

Unemployment following the Stabilization Plan rose slightly in 1959-90, due to a fall in industrial production and building activity and the poor harvests of 1960. Like many other statistics, the unemployment rate must be interpreted with care. Large discrepancies exist between the official unemployed and the number of workers who registered to receive unemployment relief. For instance, government records reveal that out of the 200,000 applying for compensation in December of 1960, only 130,000 were deemed officially unemployed

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[8] The residual is the portion of the GDP growth rate not attributable to measurable increases in physical inputs.

(Harrison 133). This deviation can be partially blamed on a series of new measures that gave incentives to apply for unemployment because of a greater monthly check. Another advantage was the extension of an employee insurance program. Employees in many sectors were now ensured two years of unemployment benefits should they be fired. This made it more expensive to terminate workers, so employers thought twice about hiring in the first place.

Another complication in collecting unemployment figures was the wide-spread existence of the Spanish submerged labor market. Many of those registered as unemployed--even today--are actually working as wait staff at restaurants, laborers, etc. Because certain occupations are not taxed and invisible to the government, some employees receive regular wages in addition to collecting regular unemployment benefits. This practice is far from isolated, but is especially prevalent in Spain.

Concurrence of a recession in Spain coupled with wage freezes and pronounced labor shortages in other OECD member countries (especially Germany, Switzerland and the Netherlands) resulted in a dramatic increase of worker emigration. The volume of emigration during the period from 1960 to 1966 accounted for 20% of Spain's agricultural labor force and 12.5% of the non-agricultural working class (Graham 122). As with the unemployment numbers, an exact figure is uncertain. Estimates have placed the flight of Spaniards from 1959 to 1965 at around 1 million, but difficulties are compounded since many left as Spain as tourists but accepted jobs abroad. The Spanish authorities did little to prevent workers from leaving, and the Plan does not appear to have enacted any directives to slow the migration. Rather, the Plan actually encouraged emigration by imposing policies which made it easier to leave the country and look for work. But by supplying unemployment benefits resulting from a series of legislative actions over several years, the government actively tried to discourage the flight of skilled workers (OECD, 1961 15).

It is ironic that measures designed to reduce inflation (wage freezes for example) led to unemployment, which led to mass emigration, which in turn caused money to flow back and fund imports thanks to remittances by these foreign workers. Still, several sectors did record a gradual increase in employment in 1960 and 1961 following the recession. Especially noted are gains in mining, cement, chemicals and paper. [Figure 14]

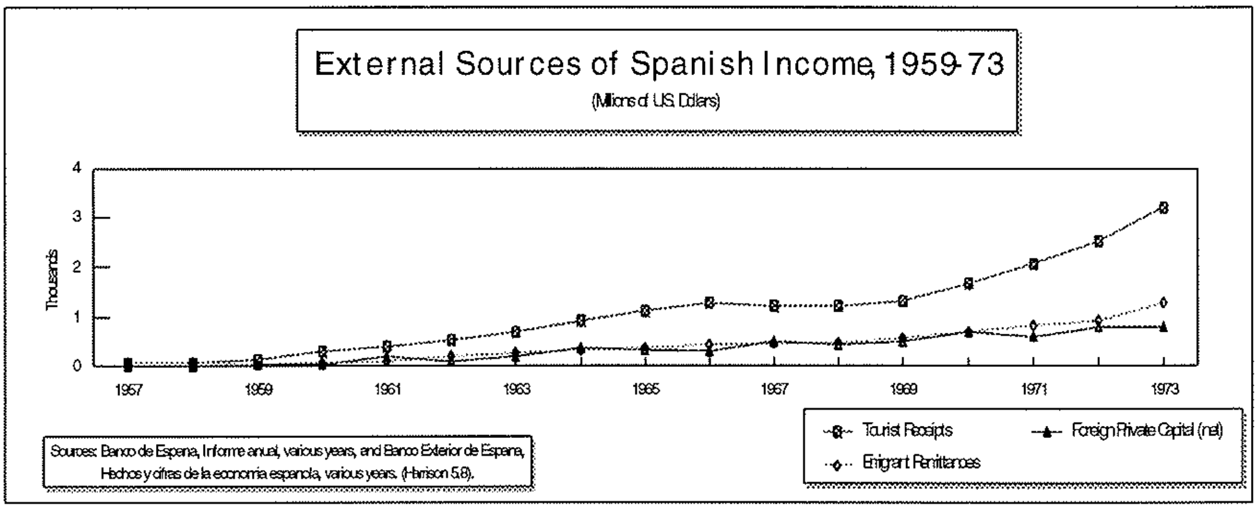

Figure 14

By 1962 the wages of agricultural workers were generally rising, while total earnings in some cases had fallen. Why? Lower harvests were one reason for the falling wages. Despite falling wages in some cases, by no means was this the trend in the post-stabilization period. According to a Ministry of Agriculture study, agricultural wages rose by 269% during 1957-67 (Graham 158). With the younger generation's growing attraction to urban life, many farmers resolved to sell off their land.[9] The mass exodus of rural laborers brought a huge increase in labor costs, resulting in the substitution of capital for labor.

Industrial wages began to increase following the recession, but this can scarcely be attributed to any of the Plan's motives. But the Plan had little to do with improvements in these fields. The majority of education reforms were built into the 4-year Development, not the Stabilization Plan. resumption of normal working hours was one contributor to increased wages. Wages increased due to new collective bargaining agreements, which concerned about 800,000 workers. (OECD, 1962 10).

D. Spain and the European Community

There is little question that the Stabilization Plan was penned with some vision of inclusion into the European Community. Spain formally required admission into the Community on February 9, 1962, with the hope of thus becoming a part of mainstream European development. But the reaction of existing members was reflected by a comment made to a reporter in Paris: "It is all very well for Spain to decide that she is ready for us, but do we need Spain?" (Crow 355). After all, what assets did she have to offer? Her main exports of olives, olive oil, citrus fruits and wine conflicted with those of France and Italy. Admission was denied, but a preferential trade agreement was reached on June 29, 1970 (Baklanoff 74). The agreement was made because its absence would have most certainly hindered growth and adversely affected

[9] Especially affected were the cereal producing regions of Old Castile and Leon. The number of farms in the province of Burgos dropped by 39% in the ten years surveyed (Harrison 158).

political relations. Furthermore, it was in the E.E.C.'s best interest to encourage Spain to continue in its policy of economic liberalization, made possible in 1959 with Europe's support.

The agreement established a six-year transitional period within which Spain would gradually remove most of the obstacles to trade. In return Spain was granted concessions designed to diminish the trading disadvantage she faced within the E.E.C. market. Of particular concern were the economies of Greece, Turkey, Italy and Israel. Since many of these countries were producing identical exports, Spain was often left behind. Some of the included items in the trade concessions were a 40% tariff reduction on citrus fruit (the most important agricultural exports) and a 50% reduction for certain wines, fruits, vegetables and preserves.

It is difficult to deny that the Plan influenced the preferential trade agreement of 1970. Only after the Members witnessed Spain's efforts were they willing to dangle in front of it the possibility of admittance, or at least of some sort of trade pact. So there is some validity to the Plan's influence on E.E.C. negotiations. But to argue that the Plan then eventually enabled E.E.C. admittance is absurd. Spain did not achieve full membership status until 1985, more than 25 years after the Plan was introduced. If the Plan alone really deemed membership feasible, then why did it take so long, and why was it so difficult for Spain to advance beyond the initial 6-year transitional stage allowed for by the 1970 agreement?

An obvious possibility--or rather, reason--for the wait was the unfavorable political climate of Spain during the 1960's and 1970's. That is not to say that Franco hindered development. But it is surely no coincidence that many Member countries would not even seriously consider Spanish inclusion until the establishment of a democratic government. So while the Plan was a symbolic economic stepping stone, nothing could have been accomplished until the political resolution of the death of Franco in 1975.

IV. Long-Range Conditions after the Stabilization Plan

Once the Plan was in place, the 7% growth rate was made possible in part by the inflow of foreign capital, absence of domestic competition (INI), liberalization of import restrictions, provision of credit to the private sector through official credit institutions, and banking law reform. Other factors included the installation of social and economic infrastructure (3 4-Year Economic and Social Development Plans), and the rising level of income itself, as well as the suppression by the government of a number of the rigid controls of earlier years (OECD, Problems of Development 71).

Prices that began rising shortly after the devaluation of the peseta continued into the 1960's. An uncontrolled process of inflation raised the industrial wage rate and promoted substitution of capital for labor at such an unprecedented speed--and without corresponding upgrading of existing labor force--that the rate of profits in industry declined throughout the development experience from 1960 to 1967. There was also additional bargaining power of labor because of emigration and resulting depletion of the labor force. All these feedback effects upon the industrial wage rate sustained the rate of capital goods imports facilitated by the foreign exchange obtained from tourism and worker's remittances (Roman 15).

Two basic problems continued to face Spanish industry in the 1960's. First, many firms were too small to operate efficiently. And since many firms were insufficiently mechanized, much of industry had a low productivity an high costs due to inflation, low capital, uncertainty about the future and the fact that foreign exchange shortages limited access of firms to imports of raw materials. Only by reversing these conditions could growth take place.

Rapid accumulation of capital in the decade of the 60's was accompanied by major migrations of Spanish workers from the primary to the secondary and tertiary sectors. The industrial expansion was made possible by large imports of raw materials, fuels and capital equipment. While the value of capital goods exports made up only 3% of the aggregate value of exports in 1961, by 1970 that figure had risen to more than 18% of all the value of exports (Lieberman 227). The exportation of manufactured capital goods had also expanded rapidly in the course of the decade, growing from $84.5 million in 1961 to $510.6 million in 1970 (Lieberman 228). [Figure 15]

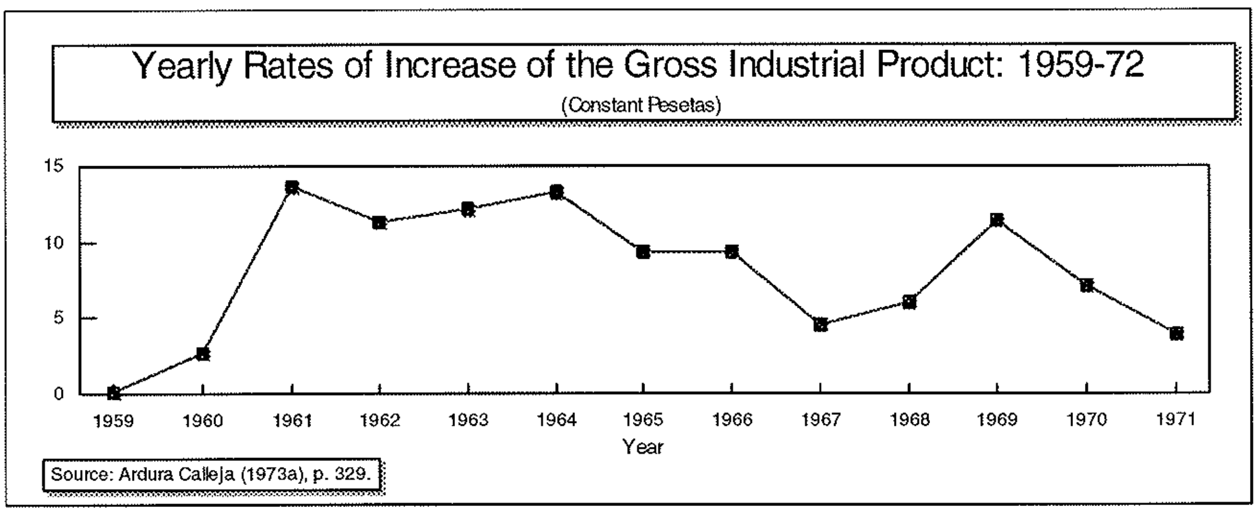

Figure 15

The remarkable growth of the economy is clearly documented by both growth and changing composition of GDP. Spain's 7% growth rate from 1959 to 1971 was surpassed only by Japan[10], and growth in value added led to a real term growth rate of 9.4% (Salmon). By 1974 Spain took on a markedly different appearance, as evidenced by the Figure 17. Total output in 1974 was 2.8 times greater than it had been in 1960, industrial production increased nearly fourfold; service sector output was nearly 3 times larger; and agricultural production was 1.6 times greater (Baklanoff 56). [Figure 16]

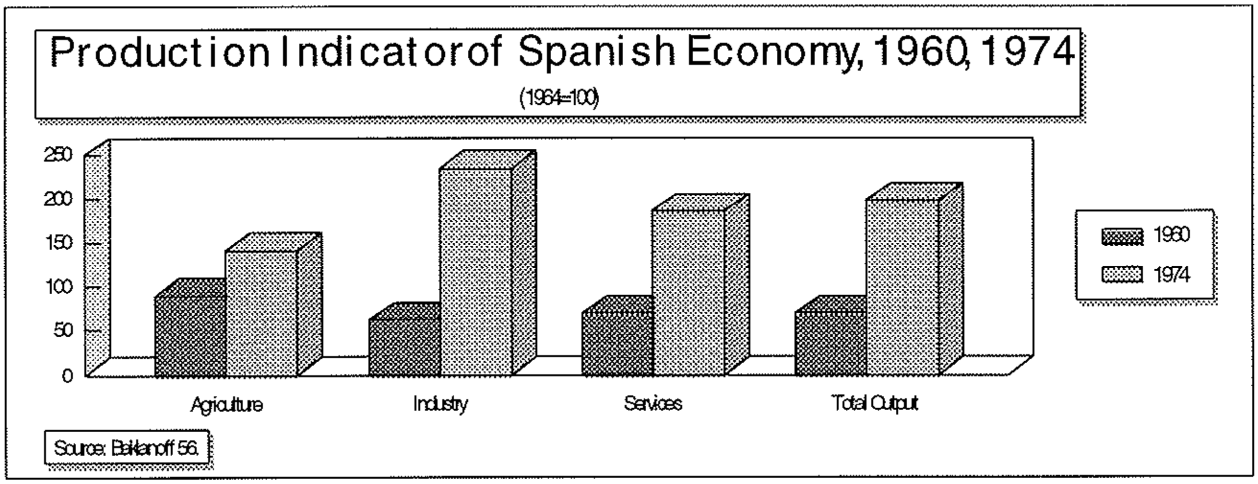

Figure 16

The most salient features of the evolution of Spanish economy in the 1960's were the rapid growth of foreign trade and foreign investment (Lieberman 1982). In general, increased foreign investment has been accepted as an integral part of the process of modernization, liberalization and integration into the world economy. However spectacular the growth of foreign investment, in comparison with other OECD countries Spain's level was almost nonexistent in the 50's, very small in the 60's, and increasing dramatically in the 1970's and 1980's (Salmon 19).

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[10] Japan's GDP was growing at around 9% for the same period from 1959 to 1971 (World Tables).

Foreign investment into Spain from 1960 to 1974 totaled over $7.6 billion in net private long-term capital from abroad comprising real estate investment ($4,972 million), direct investment ($2,106 million) and portfolio holdings ($566 million) (Payne 43). By 1973 1 out of every 5 jobs was financed through foreign investment (Carr, Dictatorship to Democracy 94). The problem with this, however, was that the industrial Basque zone received only 10% of this investment (Payne 127). The majority of foreign dollars went to the Mediterranean and southern coasts to build infrastructure supporting tourism.

The share of imports (dollar value) entering Spain under the liberalized regime more than doubled from 38% in 1960 and 1961 to 78% in 1972 and 1973 (Baklanoff 33). Direct controls associated with autarky (quotas and bilateral or state trading) had largely given way to a system of import tariffs in the 1970's. The stepped-up growth of the Spanish economy in the 1960's, together with the measures liberalizing commodity trade, transformed Spain into a respectable market for Atlantic community exports (Baklanoff 72). Exports rose from 10% in 1960 to 15% in 1970 (Salmon 6).

During Franco's time, Spain was raised to the highest level of prosperity in its history, and was converted into the 9th industrial nation of the world. Franco's economic legacy solved some of the problems of Spain, but ignored many others. Besides inflation, unemployment and a rise in terrorism, outward and visible signs of a weakening in the tightly structural state, there were serious basic flaws in the economy itself. As Nietzsche once remarked, what has not happened is in the long run more important than what has (Crow 384). The plain fact was that Spain was caught in the midst of powerful economic and political currents flowing in from all over Europe. No miracle at all, but the hard work and sacrifice of the people deserve even greater credit. Had the public not responded to the Plan and its incentives, nothing would have been accomplished. From 1960 to 1974 the average annual growth rate exceeded 7%. The sectors growing fastest were manufacturing, with 9.2%, construction at 8.7%, services at 7.1% and primary sector averaged only 3.4% (Baklanoff 54). [Figure 17]

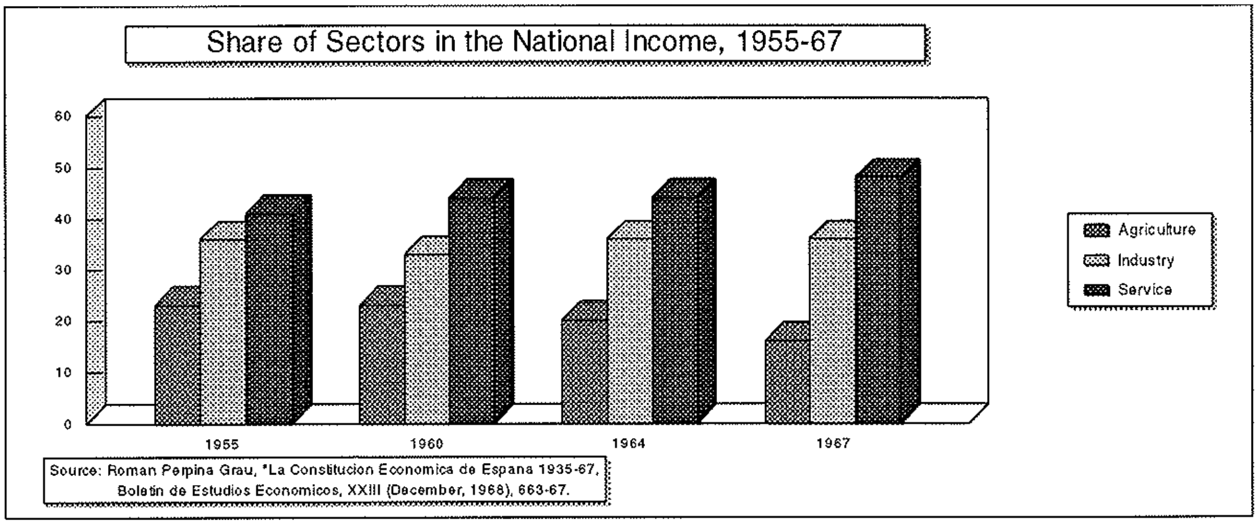

Figure 17

Criticisms of the Plan

For those who still maintain that the economy of Spain in the early 1960's unfolded exactly as the technocrats predicted, what exactly was it they had predicted? Did they predict that a relative depletion of the labor force connected with emigration and the internal wage rate would come to be determined by the level of wages in the rest of Europe? Probably not, and if so then why did they exert seemingly ad hoc rather than well though-out controls? Comparing effects, it appears the achievement of domestic controls over prices was not as vital for the future of economic growth as were the crowds of tourists and foreign exchange that flooded the country after 1959. Since no particularly aggressive advertising campaign had been launched which distinguished it from those of the 1950's, it can be reasonably inferred that any growth in tourism then was a result of other factors, especially the devaluation of the peseta. It was surely considered a possibility that tourism may bloom with the devaluation of the peseta, but it was only the combination of this bargain vacation and the prosperity of other countries that can account for Spain's rapid emergence as the premier tourist destination in the world.

But even if Franco did envision such an expansive tourist boom, he still could not have foreseen the degree to which Germany, England and France would want to frolic on her beaches. For these reasons the tourist boom was an unanticipated result of the Plan. And since tourist receipts were probably the most decisive element of Spain's future economic growth, how much significance did the Plan contribute to tourism?[11]

The Stabilization Plan was implemented to halt the inflationary process domestically and to improve the deficit in the balance of payments. Yes, inflation was momentarily stopped and the deficit improved, but what followed was a decade of economic expansion propelled by large inflows of foreign exchange.

Possible Results of the Structuralists

It is clear that economic growth is never so automatic and self-reinforcing that a country can't, for example by unwise economic policies, succeed in getting itself off the track once on it (Gill 33). What would have occurred had the Structuralists, rather than the Opus Dei technocrats, been appointed to the cabinet in 1957?. The three 4-year plans of Economic and Social Development, generally considered to have been ineffective due to the existence of large,

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[11] Annual tourist receipts totaled $3.2 billion by 1973.

inefficient public sector, which diverted attention away from institutional reform and an efficient reallocation of resources.

Regardless of which ideological group devised the policies, the tools should have been geared toward reallocating resources-capital, land and labor in response to patterns of demand and opportunities for trade. These tools should shift resources from low production to higher production. A consequence of this shift is the redistribution of income, an issue which was viewed differently by the Opus Dei cabinet than it was by Structuralists. Because the former were convinced that redistribution of income would slow growth by halting investment, the distribution of income may have looked very differently if the Structuralists had written the Plan. For instance, government expenditures may have been more focused on regional disparities, and a progressive tax structure may have been imposed.

Establishment of Capitalism?

Despite the policies enacted, problems stemmed directly from these limitations, and Spain was never really opened to the market. Even after legislation to overhaul outdated tariff structures and import restrictions, price and exchange controls still dominated. For example, industrial regulation, trade protection and fake agricultural supports were still the order of the day during the 1960's. Corruption was everywhere, and the official syndicates established to provide strong worker protection rights often did so in the best interest not of the workers, but the employers. There is no doubt that the economy opened up after the Plan and made Spain more *eligible* for E.C. admittance in the eyes of the Members, but it is a stretch to assert that in doing so market capitalism was established.

It was all well and good to project an attitude of capitalistic intent, but it appeared that the government leaders who favored the development of a "market economy" continued to understand this term to apply to an economy in which the government assumed an active role in extending aid to a select group of private entrepreneurs (Lieberman 223). After denouncing autarky and staticism and permitting limited liberalization, Franco still fought any basic alteration to the last. The Caudillo always opposed the idea of a United Europe and publicly attacked 'Europeanism' as late as 1961. The next year, following the lead of Britain, Denmark and Norway, Spain applied for membership into the European Community.

This is not to say that public sector primacy was not sometimes warranted. Government rather than a laissez-faire approach seems to have reflected a linking of economic and political objectives, economic development being seen as the road to national and international power. And there is the difficulty of securing necessary capital through private channels when faced with the heavy demands of such capital-intensive industries as the railroads (Gill 54). In the case of Japan, for example, it appears doubtful whether completely unassisted private parties would have been up to the daunting task of setting the extremely backward country on the right path.

After the Plan protectionism remained alongside new forms of intervention. Under *accion concertada*, a firm was allowed to enter negotiations with the Minister of the Interior, the Minister of Industry or the Minister of Agriculture. In return for the firm's promise to attain certain government-mandated production levels or other goals, the government would offer financial and additional types of aid according to each particular arrangement. This joint relationship between the private sector and government, usually for a limited duration period of 4 to 8 years, was just another form of excessive protection which continued to distort market prices

(Solomon 4).

> *"To my mind "*, writes Frederick Pike, *"the fundamental problem facing Spain...a problem that at least limited it is the famous europeizar versus espanolizar debate...arose from disagreement about the role that capitalism should play in the nation's future. This ambivalence toward the market economy was to continue until 1959, when Spain changed its course toward Europeanization."*
>
> (Baklanoff 7)

Ambivalence towards capitalism may have been reduced, but this did not mean that capitalism was now in place as the rule of the day. In fact, in light of developments later on in the decade, one begins to wonder if the authors of the Plan even attempted to establish any entity resembling capitalism. For as much as the original directives of the Plan boasted of nurturing industry, subsequent decrees spawning from the Plan enlarged the sphere of bureaucratic discretion and proved that the government was still rejecting the implementation of a free market system. For instance, the Decree of 1775/1967 reinstated the requirement of government permission for the installation, expansion or movement of certain industrial plants (Lieberman 218). The net effect of this action was to restrict free competition and give more discretionary powers to government administrators.

Conclusion

When writing about economic planning in 1966, Sir Arthur Lewis observed:

> *"The fundamental task of [economic] planning is to release the energies of the people so that they may do what needs doing to raise the rate of economic growth. Industrialists are to build factories, farmers are to adopt new technology; labor is to move to new jobs, research workers are to find new solutions. The planner's job is to find out what stands in the way of these productive decisions, and to introduce measures which make such decisions more likely...The government cannot by itself, or through its officials, raise the growth rate from 3 to 5%. The government can persuade, threaten or induce; but in the last analyses it is the people, who achieve"*
>
> *(Okun 156).*

This statement accurately describes the role of the government policies, and is accurate in Spain's case as well. The 1959 Stabilization Plan marked a turning point in the economic history of Spain. One stroke of Franco's pen limited credit, removed physical controls, opened the country to foreign investment, froze wages, and incurred a drastic devaluation (Carr, Dictatorship to Democracy 54). Along with trying to raise rapidly the productivity of Spanish firms, the reformers of 1959 also believed that fascism had unwisely distorted the economy. Because public decision makers minimized the importance of economic efficiency, their reaction against the effects of pervasive government regulation of the 1940's and 1950's has been compared to Adam Smith's reaction to the mercantilist controls in his time (Lieberman 216). Perhaps the single largest reason for the Plan's success was due not to specific directives, however, but to the fact that the government seemed determined to put an end to inflation and to orient the economy towards liberalization, that a series of coherent and far-reaching measures had been adopted and presented to the public, and finally that international organizations gave practical proof of their confidence in the success of stabilization, all of which made the public certain that the undertakings would be successful.

It is legitimate to question the significance of such planning other than as a political mechanism of pretension intended for an audience usually accustomed to the thought of someone being in charge. Spanish historian Raymond Carr suggests that, after the struggle of the 1940's, the relative well-being of the sixties was so welcome that few wished to challenge a regime which took credit for its creation. In other words, "the apathy of satisfaction replaced the apathy of privation" (Dictatorship to Democracy 170).

In addition to the misguided belief that the Stabilization Plan was the most decisive contributor to the 'economic miracle', the biggest misconception about the Plan was that it firmly planted capitalism in Spain. The Plan did not abolish fascism and lead to a market economy; rather, there had been a further evolution of corporate capitalism permeated by state interventionism, or *accion concertada.* Factor markets were inflexible, the system of taxation remained poorly developed and industries and industrial tools were antiquated.

The economic growth of Spain could not have been achieved by legislation, administrative regulation, or coercion, and without the accompaniment of high material incentives. The possibility of higher individual earnings is the fuel of economic growth, whether in the form of profits, salaries, wages and higher forms of incomes, or otherwise. Therefore, the test one needs make when determining the extent of capitalism established in Spain by the Stabilization Plan, is how effective were the incentives to make decisions that could result in economic growth? This combination of lacking incentives, reluctance to execute certain actions (the refusal to redistribute income, for example, because of the perceived regional inequalities it would create), and the existence of direct controls dispute the claim that the Plan established market capitalism (Meier 185).

It may be regarded as dangerous to generalize about the effectiveness of this Plan. What I am arguing, though, is not that it was ineffective or unwarranted, but that the Plan itself was not the only nor the most important avenue towards the expansion of Spain throughout the 1960's and early 1970's. It has been said that if the process of economic modernization is characterized by a systematic effort to implement more efficient ways of production and distribution, then Spain did not start modernizing until the 1960's (Lieberman 7). While this may be an accurate statement, modernization wasn't instantaneous upon the Plan's imposition. Instead, the progress achieved before 1959 built up the necessary resources and enabled that modernization to be realized.

Despite its weaknesses, which doubtless any set of policies would display, some sort of legislation was inevitable if the dramatic transition from autarky to liberalization was to occur. However, even if the Stabilization Plan could be causally linked--through regression analysis, for example--to the 'economic miracle', we cannot ignore that the dynamic expansion of the world economy was a necessary condition for the accelerated development. For it was interaction with the international economy, and especially those economies of the U.S. and E.C., that presented Spain with "surging markets for its products, sent it tourists by the millions, invested in its factories and real estate, and employed a goodly share of its surplus manpower" (Baklanoff 55). It is time to stop perceiving the Stabilization Plan of 1959 as the lone gunman responsible for propelling the Spanish economy into the twentieth century.

Appendix

Figure

Percentage of Wheat Sales Represented by the Black Market, 1939/40-1958/9

1939/40	44.36
1940/1	59.74
1941/2	50.53
1942/3	62.35
1943/4	35.03
1944/5	52.71
1945/6	58.12
1946/7	47.44
1947/8	60.15
1948/9	61.4
1949/50	57.33
1950/1	34.78
1951/2	26.43
1952/3	35.8
1953/4	15.21
1954/5	8.11
1955/6	4.38
1956/7	5.12
1957/8	1.05
1958/9	2.81

Source: Carlos Barciela Lopez, 'El estraperlo de trigo en la postguerra', Moneda y Credito, vol. 159 (1981), p. 35. (Harrison 129).

Indices of Agricultural and Industrial Production, 1950-57

	Agriculture	Industry
1950	85.26	110.14
1951	112.85	114.49
1952	108.56	131.88
1953	97.07	136.23
1954	111.91	152.17
1955	103.34	166.66
1956	108.35	178.26
1957	114.75	194.2

Source: Consejo de Economia Nacional (Harrison 136).

Price Index, 1940-59

1940=100

1940	100
1941	118.2
1942	130
1943	145.1
1944	156.1
1945	173.2
1946	207.8
1947	243.8
1948	261.1
1949	279.4
1950	329.7
1951	423.5
1952	427.1
1953	457.5
1954	459.8
1955	477.7
1956	521.3
1957	608.4
1958	668.2
1959	682.3

Source: Anuario Estadistico 1960

Countries of Origin of Foreign Investment Representing Authorized Majority Participation in Spanish Firms: 1959-73

Countries	% of Total
United States	40.3
Switzerland	20.7
German Federal Republic	11.4
France	5.9
UK	4.8
Netherlands	3.4
Italy	2.9
Canada	1.8
Belgium	1.7
Sweden	1.2
Other countries	5.9

Source: Lieberman 230.

Distribution of Foreign Investment Among Spanish Ecnomic Activities: 1959-73

Activities	% of Total
Chemical Industries	26.3
Ferrous Metallurgy	16.3
Automobiles	9.2
Real Estate	8.4
Foodstuff Industry	8
Business	5.4
Construction	4
Private Banking	3.1
Other Financial Institutions	3.1
Mining	2.4
Paper & Graphic Arts	2.2
Textiles	1.7
Natural Gas & Electricity	1.4
Other	8.5

Source: Lieberman p.231.

Spain: Annual Changes in Principal Macroeconomic Indicators, 1960-63 (%)

	1960	1961	1962	1963	1960-63 Average
Gross National Product	2.2	11.2	9.3	8.7	7.9
Imports	4.8	39.9	34.1	23.2	25.5
Private Consumption	-4.5	11	8.8	11.3	6.6
Public Consumption	2.2	5.5	6.8	9.7	6.1
Capital Formation	5.8	30.6	20.6	11	17
Exports	64.6	8.5	13.1	3.8	20

Source: Baklanoff, p.26

Increase in Industrial Production to 1959

	Electrical Energy	Coal	Non-ferrous metals	Iron	Chemical Products	Textiles
1929-31	100	100	100	100	100	100
1941-45	171	111	47	79	76	98
1946-50	230	156	51	84	95	98
1951	319	182	63	100	129	81
1952	362	198	67	113	183	99
1953	380	209	71	112	199	105
1954	395	212	75	135	214	96
1955	471	208	89	150	217	101
1956	534	220	96	152	214	106
1957	551	230	100	165	233	113
1958	610	238	111	195	258	128
1959	610	206	125	216	259	114

Source: Franco's Spain, p. 59. (Anuario Estadistico 1960).

Number of Tourists Visiting Spain and Tourist Receipts, 1951-1960

Year	Number of Tourists (thousands)	Official Receipts ($ million)
1951	1,263	n.a.
1952	1,485	n.a.
1953	1,710	94.1
1954	1,952	90.0
1955	2,522	96.7
1956	2,728	94.8
1957	3,187	76.9
1958	3,594	71.6
1959	4,195	158.9
1960	6,113	296.5

Source: Ibid 20

Spain's Foreign Trade in 1961 and in 1970 (in US $ million)

	Imports				Exports			
	1961		1970		1961		1970	
		% of Total		% of Total		% of Total		% of Total
Foodstuffs	226.2	20.71	553.1	11.65	381.4	53.76	832.4	34.85
Fuels & Lubricants	178.1	16.31	630.4	13.28	41.9	5.91	131.1	5.49
Non-processed Products	215.6	19.74	805	16.96	68	9.59	110	4.61
Semi-finished Goods	196	17.94	1218	25.66	109.5	15.44	370.5	15.5
Consumer Goods	46.5	4.26	336.7	7.09	84.5	11.92	510.6	21.38
Capital Goods	230	21.07	1204	25.36	24.1	3.4	433.9	18.17
Capital for Agriculture	15	1.37	40.1	0.84	0.2	0.03	5.4	0.23
Capital for Industry	152.2	13.93	810.9	17.08	16.9	2.28	229.2	9.6
Capital for Services	62.7	5.74	353	7.44	7	0.99	199.3	8.34
Total	1092.3	100	4747.1	100	709.4	100	2388.5	100

Spain: Selected International Economic Transactions and Official Foreign Reserves, 1957-73 (MILLIONS OF U.S. DOLLARS)

Year	Exports	Imports	Tourist Receipts	Emigrant Remittances	Foreign Private Capital (net)	Official Reserves
1957	476	856	74	51	13	106
1958	486	801	69	53	15	66
1959	503	750	138	48	42	199
1960	745	697	296	66	40	541
1961	749	1,048	385	116	207	892
1962	800	1,438	513	211	107	1,067
1963	786	1,799	679	258	214	1,158
1964	1,005	2,076	919	319	368	1,508
1965	1,019	2,778	1,105	362	322	1,396
1966	1,308	3,300	1,292	420	302	1,215
1967	1,419	3,200	1,210	452	502	1,090
1968	1,667	3,242	1,213	463	437	1,151
1969	1,994	3,865	1,311	562	481	887
1970	2,483	4,357	1,681	674	697	1,972
1971	2,978	4,577	2,054	809	602	3,234
1972	3,507	6,070	2,511	905	795	5,006
1973	5,040	8,640	3,216	1,268	795	6,800

Sources: Banco de Espana, Informe anual, various years, and Banco Exterior de Espana, Hechos y cifras de la economia espanola, various years (Baklanoff 66).

The Industrial Revolution of the 1960's

Yearly Rates of Increase of the Gross Industrial Product: 1959-72 (constant pesetas)

Year	% Rate
1959	0.2
1960	2.7
1961	13.6
1962	11.3
1963	12.2
1964	13.3
1965	9.4
1966	9.3
1967	4.5
1968	6
1969	11.4
1970	7.1
1971	3.9

Source: Lieberman, p. 213.
Ardura Calleja (1973a), p. 329.

Spain: Changes in Employment, Productivity, and GNP, by Sector, 1960-74

Sector	Labor Force 1960	Labor Force 1974	Annual Rate of Change, 1960-74		
			Employment	Productivity	Output Growth
Agriculture & Fishing	41.7%	23.1%	-3.5%	6.9%	3.4%
Industry	31.8%	36.8%			
Manufacturing	24.7%	27.1%	1.5%	7.7%	9.2%
Construction	7.1%	9.7%	3.4%	5.3%	8.7%
Services	26.5%	40.2%	3.8%	3.3%	7.1%
Total	100.0%	100.0%	90.0%	6.2%	7.1%

Evolution of Spain's Gross Domestic Product, 1959-73

Year	Average Increase (%)
1959	-2.5
1960	0.2
1961	11.4
1962	10.3
1963	6.6
1964	6.1
1965	6.3
1966	8.5
1967	5.5
1968	6.5
1969	8.4
1970	5.9
1971	4.9
1972	8.4
1973	8.5

Source: Servicio de Estudios del Banco del Bilbao, Informe economico, 1982 (Bilbao, 1983), p. 237

Share of Sectors in the National Income (Percentage)

Year	GNP	Agriculture	Industry	Service
1955	100	23	36	41
1960	100	23	33	44
1964	100	20	36	44
1967	100	16	36	48

Source: Lieberman 34

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