

**The Political Economy of Conditional Foreign Aid to
Spain, 1950-1963: Relief of Input Bottlenecks, Economic
Policy Change and Political Credibility**

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Abstract

This thesis advances our understanding of the effects of foreign aid programmes in the Spanish economy during the 1950s. It does so by concentrating on three aspects.

First, it considers the contribution to economic growth of aid-financed goods by relieving input bottlenecks. Results from an input-output analysis downplay the alleged importance of aid in increasing Spanish output by providing raw materials and other inputs.

Second, it discusses the extent to which foreign donors influenced Spanish economic policy-making. Based on original archival sources from both recipient and donors, it is argued here that the United States was particularly ineffective at imposing its economic policy agenda. Surprisingly, the best way to increase the likelihood of the adoption of economic policy reform was not to exercise outright leverage but to provide further unconditional aid disbursements. The analysis of the involvement of the International Monetary Fund and Organisation for European Economic Co-operation to underwrite the 1959 Spanish Stabilisation Plan suggests that the multilateral organisations were acutely aware of the overriding importance of a true commitment to the reforms by the local policy-makers. Rather than relying on formal conditionality, they ascertained such commitment by monitoring the internal support for the reform programme whilst carefully avoiding any instance that may jeopardise the cohesion of the domestic pro-reform coalition.

Third, the dissertation motivates a ‘credibility hypothesis’ under which the American aid-for-bases programme improved the political credibility of the regime and with it private businesses’ expectations. A range of both qualitative and quantitative evidence, of which the use of financial market data is paramount, supports the hypothesis. This result contributes to solving the puzzle of Spanish economic history during a period that sees the resumption of economic growth after a stagnant first decade under Franco’s rule despite very limited policy change.

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List of Abbreviations Used

AGA	Generic Archive of the Spanish Administration
AIMF	Archive of the International Monetary Fund
BoE	Archive of the Bank of England
CCC	Commodity Credit Corporation
CIM	Contract-Intensive Money
DDM	Dividend Discount Model
ECA	European Cooperation Administration
EMH	Efficient Markets Hypothesis
ENSIDESA	Empresa Nacional Siderúrgica (National Steel Industry)
Eximbank	Export-Import Bank of Washington
Exp.	Expediente (folder), in Archive of the Spanish Ministry of Foreign Affairs
FOA	Foreign Operations Administration
FRUS	Foreign Relations of the United States
FSPF	Foreign Service Post Files
FY	U.S. Fiscal Year (e.g., FY1952 runs from 1 st July 1951 to 30 th June 1952)
GRDS	General Records of the U.S. Department of State
IBRD	International Bank for Reconstruction and Development (World Bank)
ICA	International Cooperation Administration
IEME	Instituto Español de Moneda Extranjera (National Foreign Exchange Institute)
IMF	International Monetary Fund
JCS	U.S. Joints Chiefs of Staff
Leg.	Legajo (record), in Archive of the Spanish Ministry of Foreign Affairs
MAE	Archive of the Spanish Ministry of Foreign Affairs, Renovated Series
MSA	Mutual Security Agency
NACP	National Archives at College Park, Maryland
NATO	North Atlantic Treaty Organisation
NSC	U.S. National Security Council
OECD	Organisation for Economic Cooperation and Development
OEEC	Organisation for European Economic Cooperation
PL480	Public Law 480
RFAA	Records of U.S. Foreign Assistance Agencies, in U.S. National Archives
RG	Record Group, in NACP
U.N.	United Nations
U.S.	United States of America
USOM	U.S. Operations Mission

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Chapter 1. Introduction

- 1.1. The historiography of foreign aid programmes to Spain
- 1.2. The analysis of the effects of foreign aid programmes in the wider literature
- 1.3. What are the questions this dissertation addresses?
- 1.4. Limitations of scope and relevance

1.1. The historiography of foreign aid programmes to Spain

In August 1950 the United States Congress earmarked \$62.5 million to be loaned to Spain. The Spanish regime of General Francisco Franco, having been excluded from the Marshall Plan, was to become a recipient of American aid. The door to substantial American financial assistance to Spain would eventually be open wide with the signing in September 1953 of three executive agreements covering defence, economic co-operation and technical assistance. The Pact of Madrid, as the agreements were soon known, committed the Americans to provide economic and military aid in return for the use of military bases in Spanish territory. This bilateral aid would not be the only foreign assistance granted to Spain during the 1950s. Most notably, at the end of the decade Spain would benefit from multilateral aid provided by the International Monetary Fund and the Organisation for European Economic Co-operation to underwrite the economic policy reforms envisaged in the Stabilisation Plan of July 1959.

How did these foreign aid programmes affect Spanish economic growth? Although this question has attracted some attention in the historiography, no monograph covers the effects of foreign aid in the Spanish economy and answers have thus far been based on limited evidence. Accounts of the effects of the American aid programme have focused on the contribution of aid as a provider of inputs and capital goods. Given the wide-ranging bottlenecks in the Spanish productive structure, it is argued that even a relatively limited amount of aid-financed goods may have had significant multiplier effects.¹ Other authors, however, argue that American aid contributed very little towards economic growth.² The debate between optimists and pessimists about the incidence of aid-financed goods in the Spanish economy has certainly not been facilitated by the

¹ J. Clavera *et al.*, *Capitalismo español: de la autarquía a la estabilización (1939-1959)* (Madrid: Edicusa, 1973), vol. 2, p. 70; A. Viñas *et al.*, *Política comercial exterior en España (1939-1975)* (Madrid: Banco Exterior de España, 1979), vol. 2, pp. 742, 788, 793-99 and E. Fanjul, 'Papel de la ayuda americana en la economía española,' *Información Comercial Española*, no. 577 (September 1981), 159-65.

² R. Tamames, *La República. La Era de Franco* (Madrid: Alianza, 1986[1974]), p. 222 and F. Guirao, 'The United States, Franco, and the Integration of Europe,' in F. H.

lack of a formal quantification of such claims about multiplier effects of aid-financed imports.

Unlike the economic aspects of Spanish-American relations, the diplomatic ones have continued to attract most of the attention in the literature.³ However, the voluminous historiography on the diplomatic negotiations between the U.S. and Spain contrasts with a scarcity of treatments of the relations between the parties during the implementation phase of the aid programme. Accounts of the foreign relations of Spain have only very marginally reflected on the donor-recipient relationship.⁴ This is especially regrettable because a second common argument about the effect of the American aid programme relates to the American influence over Spanish economic policy-making and hence indirectly on the Spanish economy. In fact, there are significant disagreements in the literature over the extent to which the U.S. exercised pressure to render Spanish economic policies less interventionist and as to the effectiveness of the Americans in inducing policy change.⁵

Heller and J. R. Gillingham (eds.), *The United States and the Integration of Europe. Legacies of the Postwar Era* (New York: St. Martin's Press, 1996), p. 91.

³ B. N. Liedtke, *Embracing a Dictatorship* (London/New York: Macmillan/St Martin's Press, 1998) and A. Jarque Íñiguez, «*Queremos esas bases*». *El acercamiento de Estados Unidos a la España de Franco* (Alcalá: Universidad de Alcalá, 1998). The classic study is A. Viñas, *Los pactos secretos de Franco con Estados Unidos. Bases, ayuda económica, recortes de soberanía* (Barcelona: Grijalbo, 1981).

⁴ F. Termis, 'Los límites de la «amistad estable». Los Estados Unidos y el régimen franquista entre 1945 y 1963,' unpublished Ph.D. dissertation (Universidad Nacional de Educación a Distancia, 2000), provides little evidence on the economic aspects of Spanish-American relations.

⁵ Clavera *et al.*, *Capitalismo español*, p. 256 detect no significant pressure from the U.S. to change Spanish policy-making. A much more vigorous and effective involvement of the U.S. in inducing policy change is reported in R. Pardo, 'La política exterior del franquismo: aislamiento y alineación internacional,' in R. Moreno Fonseret and F. Sevillano Calero (eds.), *El Franquismo. Visiones y Balances* (Alicante: Universidad de Alicante, 1999), p. 108n and F. Portero Rodríguez and R. Pardo, 'Las relaciones exteriores como factor condicionante del franquismo,' *Ayer*, no. 33 (1999), pp. 216-17.

As to the multilateral aid episode, the extensive literature on the 1959 Stabilisation Plan accords great importance to external factors in the adoption of the economic policy reforms. The stabilisation 'had to be undertaken in Spain from overseas,' as put famously by the Minister of Commerce Alberto Ullastres.⁶ The literature simply notes the decisive role played by the multilateral organisations in the shaping of the Stabilisation Plan through both technical and financial help but the particulars of the argument are not always sufficiently explained.⁷ The contribution of multilateral organisations in the formulation of policy change has yet to be more solidly documented, a shortfall that this dissertation seeks to remedy.

Each of these bilateral and multilateral aid episodes is typically discussed separately in the existing literature. However, common to the existing literatures on both the bilateral and the multilateral aid episodes is the limited evidence available. As noted above, analyses of the contribution of aid-financed goods to economic growth lack any quantification of, for example, multiplier effects of aid. Similarly, our knowledge about the relationship between donor and recipient relies on a very limited documentary base. Foreign aid is seen as one of the explanatory variables of the economic growth process that characterises the 1950s yet there is surprisingly little discussion as to *how* it contributed.⁸

⁶ E. Fuentes Quintana, 'El Plan de Estabilización económica de 1959, veinticinco años después,' *Información Comercial Española*, nos. 612-13 (August-September 1984), p. 30.

⁷ J. A. Biescas, 'España y las organizaciones económicas internacionales: el FMI y el Banco Mundial (1958-1993),' in M. Varela Parache (coord.), *El Fondo Monetario Internacional, el Banco Mundial y la economía española* (Madrid: Pirámide, 1994), p. 292. Representative of the state-of-the-question is A. Viñas, 'Franco's Dreams of Autarky Shattered. Foreign Policy Aspects in the Run-up to the 1959 Change in Spanish Economic Strategy,' in C. Leitz and D. J. Dunthorn (eds.), *Spain in an International Context, 1936-1959* (New York: Berghahn Books, 1999), pp. 299-318.

⁸ G. Tortella and S. Houpt, 'From Autarky to the European Union: Nationalist Economic Policies in Twentieth-Century Spain,' in A. Teichova, H. Matis and J. Pátek (eds.), *Economic Change and the National Question in Twentieth-Century Europe* (Cambridge: Cambridge University Press, 2000), p. 146. The role of American aid is also briefly reviewed in J. Harrison, 'Towards the Liberalisation of the Spanish Economy, 1951-9,'

Consequently, the general literature is inevitably vague about the role of foreign aid programmes in Spanish economic history.⁹ The absence of a heated debate on the economic effects of the foreign aid programmes in Spain should not mislead us into the impression that a coherent and well-founded interpretation is readily available in the literature. On the contrary, the lack of such discussion is simply the result of our limited knowledge about the effects of foreign aid programmes on the Spanish economy. Moreover, and despite the subdued nature of the existing debate, there are non-compatible views on issues such as the impact of aid in alleviating production bottlenecks or the degree of influence that foreign donors exercised over Spanish economic policy-making. These and other claims will be discussed at length in the appropriate chapters, which provide a more comprehensive review of the existing literature related specifically to the research question addressed in each chapter.

The possible existence and nature of links between the aid programmes and Spanish economic growth is particularly relevant since the initial stages of the aid programmes coincide roughly with an acceleration of economic growth in Spain. Real *per capita* income, which had remained stagnant throughout the 1940s, almost doubled between the dates of 1950 and 1963 that comprise our

in C. Holmes and A. Booth (eds.), *Economy and Society: European Industrialisation and Its Social Consequences. Essays Presented to Sidney Pollard* (Leicester: Leicester University Press), p. 109.

⁹ C. W. Anderson, *The Political Economy of Modern Spain* (Madison, Wisc.: University of Wisconsin Press, 1970); J. Donges, *La industrialización en España. Políticas, logros, perspectivas* (Barcelona: Oikos-Tau, 1976), p. 40; M. J. González, *La economía política del franquismo (1940-1970). Dirigismo, mercado y planificación* (Madrid: Tecnos, 1979), pp. 182-98 and M. J. González, 'La autarquía económica bajo el régimen del General Franco: una visión desde la teoría de los derechos de propiedad,' *Información Comercial Española*, nos. 676-77 (December 1989-January 1990), pp. 19-31. For an overview of the literature see J. Harrison, *The Spanish Economy in the Twentieth Century* (London: Croom Helm, 1985), pp. 133-34 and L. Prados de la Escosura and J. C. Sanz, 'Growth and Macroeconomic Performance in Spain, 1939-1993,' in N. Crafts and G. Toniolo, *Economic Growth in Europe Since 1945* (Cambridge: Cambridge University Press, 1996), pp. 363-69.

period of analysis.¹⁰ In fact, the two most widely entertained effects of foreign aid programmes to Spain, namely the relief of bottlenecks by aid-financed goods and foreign donors' influence in the reorientation of economic policy, relate to the very core of explanations given for the resumption of economic growth during the mid-Francoist period.¹¹

The 1950s have come to be seen as a 'hinge decade' in which economic policy shifted very gradually towards freer and less rigid norms.¹² However, there is a stark contrast with the very limited and slow policy change that even the most optimistic concede and the marked improvement in economic performance during the decade. Moreover, recent contributions have been increasingly dismissive of the alleged gradual relaxation of interventionist policies.¹³ Given the 'painstaking evidence' of substantial economic growth during the 1950s despite burdening economic policies, it has been argued that

¹⁰ Per capita Gross Domestic Product measured in 1990 Geary-Khamis dollars stood at \$2,356 in 1950 compared to \$2,300 in 1940 and increased to \$4,414 by 1963. See L. Prados de la Escosura, *Spain's Gross Domestic Product, 1850-1993: Quantitative Conjectures. Appendix*, Universidad Carlos III de Madrid Working Paper No.95/06.

¹¹ J. Catalan, 'Sector exterior y crecimiento industrial. España y Europa (1939-1959)', *Revista de Historia Industrial*, no. 8 (1995), pp. 99-145.

¹² J. L. García Delgado, 'La industrialización y el desarrollo económico de España durante el franquismo,' in J. Nadal, A. Carreras and C. Sudrià (comps.), *La economía española en el siglo XX. Una perspectiva histórica* (Barcelona: Ariel, 1987), pp. 164-89.

¹³ A series of studies have found little change in the level and discretionary nature of state intervention throughout 1951-1957. The issue of industrial licences has been analysed by L. Pires, 'La regulación económica en las dictaduras: el condicionamiento industrial en España y Portugal durante el siglo XX,' unpublished Ph.D. dissertation, (Universidad Complutense de Madrid, 1999); foreign exchange licensing studied by E. Martínez, 'Sector exterior y crecimiento en la España autárquica,' *Revista de Historia Económica*, vol. 19, special issue (2001), pp. 240-45; for the general attitude of the Instituto Nacional de Industria (INI)[National Institute of Industry] see A. Gómez-Mendoza and E. San Román, 'Competition Between Private and Public Enterprise in Spain, 1939-1959: an Alternative View,' *Business and Economic History*, vol. 26, no. 2, (Winter 1997), pp. 696-708 and E. San Román, *Ejército e Industria: el nacimiento del INI*. (Barcelona: Crítica, 1999)

scholars 'should be looking for those elements that could explain this evidence rather than limiting themselves to hammer again and again at the mass of obstructionist measures then in place.'¹⁴ Any interpretation of the economic history of the 1950s, whether it incorporates the effects of foreign aid programmes or not, needs to address this fundamental puzzle.

Before we embark on our study, let us first step back and consider some methodological issues so as to provide a sound theoretical underpinning to the exercise and place it in the context of the wider literature.

¹⁴ F. Guirao, *Spain and the Reconstruction of Western Europe, 1945-57* (London/New York: Macmillan/St. Martin's Press, 1998), pp. 203-05.

1.2. The analysis of the effects of foreign aid programmes in the wider literature

The question of whether foreign aid contributes positively, negatively, or not at all to economic growth in recipient countries is not easily addressed. Regression analyses of economic growth on aid inflows usually suffer from omitted variable bias and other misspecifications resulting from the varied links through which aid may affect variables which in turn may affect economic growth. If we are to move inside the ‘black box’ that regression-based analysis would at best provide and derive more tractable research questions, we need to be specific about the transmission mechanisms through which foreign aid programmes may influence economic growth. As argued by a recent survey of methodological in analyses of country-wide effects of aid, ‘[w]e would be far better advised to analyse aid’s impact by examining the various links in the chain running from aid to growth more carefully.’¹⁵ The use of the phrase ‘political economy’ in the title of this dissertation signals the intention to consider a variety of transmission mechanisms through which foreign aid may have affected economic growth.

Economic historians have typically been aware of the multifaceted effects of foreign aid and have thus been more careful about specifying the transmission mechanisms through which foreign aid affected the macroeconomic performance of the recipient countries. In fact, the literature on the Marshall Plan is a good example of the wide range of issues that analyses of the economic effects of foreign aid programmes may consider. It has long distinguished between ‘direct’ and ‘indirect’ effects of foreign aid programmes. By ‘direct’ we refer to the impact that the availability of aid-financed raw materials or other inputs may have on the recipient’s production. Similarly, aid may directly increase the productive capacity by supplying capital goods, technology, or reconstructing infrastructure.¹⁶ But the literature has also been keen in noting that there are further and ‘indirect’ effects of aid on the recipient’s economy. Thus, the

¹⁵ H. White and J. Luttk, ‘The Countrywide Effects of Aid,’ World Bank Policy Research Working Paper no. 1337 (1994), p. 29.

¹⁶ K. Borchardt and C. Buchheim, ‘The Marshall Plan and Key Economic Sectors: a Microeconomic Perspective,’ in C. S. Maier (ed.), *The Marshall Plan and Germany* (New York: Berg, 1991), pp. 410-51.

literature has paid increasing attention to aspects such as the diffusion of American management models to Western Europe that was promoted by Marshall planners.¹⁷ One of the most widely discussed of these indirect effects of foreign aid programmes in the recipient's economy is the possibility that the recipient country be obligated to reform elements of its economic policy by the donor. The rationale for the donor to do so is to ensure that the recipient adopts policies more conducive to economic growth. This is in the interest of the donor even if its ultimate goal is not the improvement in the economic performance of the recipient country *per se* because it decreases the chances that the recipient would permanently require the donor's assistance and improves the likelihood of repayment of loans. To the extent that the donor may be successful in affecting the policy-making of the recipient and that the economic policies thus adopted affect the environment in which economic agents make their decisions, the foreign aid programme would have an indirect impact on the recipient's economy.

In fact, a significant part of the debate and disagreements in the literature about the economic effects of the Marshall Plan has concentrated on the issue of American ability to influence the economic policy-making process among recipient countries.¹⁸ Although this question has been at the centre stage of the

¹⁷ For an overview see M. Kipping and O. Bjarnar, *The Americanisation of European Business. The Marshall Plan and the Transfer of U.S. Management Models* (London: Routledge, 1998).

¹⁸ C. S. Maier, 'The Politics of Productivity: Foundations of American International Economic Policy after World War II,' *International Organization*, vol. 31 (Autumn 1977), pp. 607-33 already refers to American persuasion rather than through outright pressure. More emphatic is Milward: 'Marshall aid was not in fact important enough to give the United States sufficient leverage to reconstruct Western Europe according to its own wishes,' A. S. Milward, *The Reconstruction of Western Europe, 1947-1951* (London: Methuen, 1987 [1984]), p. 469. For collections of seminal contributions on the Marshall Plan see C. S. Maier, *In Search of Stability: Explorations in Historical Political Economy* (Cambridge: Cambridge University Press, 1987); C. S. Maier (ed.), *The Cold War in Europe* (New York: Markus Wiener, 1991) and B. Eichengreen (ed.), *The Reconstruction of the International Economy, 1945-1960*. Elgar Reference Collection. Growth of the world economy series, vol. 5 (Cheltenham: Elgar, 1996).

discussion on the European Recovery Programme for at least two decades, views on this topic could hardly be more conflicting.¹⁹ Case studies of American attempts at exercising pressure to influence domestic policies of European Recovery Programme recipient countries have typically shown that the U.S. enjoyed a very limited bargaining power.²⁰ In fact, the mainstream literature has since the mid-1980s conceded that Americans fell short from achieving all their policy objectives and has emphasised the necessary co-operation of Europeans in shaping the postwar Western European economies.²¹ Yet, the case is by no means closed. A more relevant question is to ask not whether the U.S. was able to impose the entirety of its agenda on Europe, but whether specific policy options would have been adopted at all in the absence of American pressure. In particular, the hypothesis that American leverage, stemming directly from the Marshall Plan, was at least partly responsible in influencing the outward orientation of Western European economies has yet to be fully explored.²²

¹⁹ Contrast the previous excerpt from Milward with the following one: 'American control over economic policy was extensive. [...] Conditionality played an important role in shaping the effects of American aid,' B. Eichengreen and M. Uzan, 'The Marshall Plan: economic effects and implications for Eastern Europe and the former USSR,' *Economic Policy*, no. 14 (1992), pp. 47, 72.

²⁰ P. Burnham, *The Political Economy of Postwar Reconstruction* (London/New York: Macmillan/St. Martin's Press, 1990); C. Esposito, *America's Feeble Weapon: Funding the Marshall Plan in France and Italy, 1948-1950* (Westport, Conn.: Greenwood Press, 1994) and C. Esposito, 'Influencing Aid Recipients: Marshall Plan Lessons for Contemporary Aid Donors,' in B. Eichengreen (ed.), *Europe's Postwar Recovery* (Cambridge: Cambridge University Press, 1995), pp. 68-90.

²¹ See, for example, M. J. Hogan, *The Marshall Plan: America, Britain, and the Reconstruction of Western Europe, 1947-1952* (Cambridge: Cambridge University Press, 1987).

²² B. Eichengreen, *Reconstructing Europe's Trade and Payments. The European Payments Union* (Manchester: Manchester University Press, 1993) and H. Berger and A. Ritschl, 'Germany and the Political Economy of the Marshall Plan, 1947-52: a Revisionist View,' in B. Eichengreen (ed.), *Europe's Postwar Recovery*, pp. 199-245.

The Marshall Plan is an inevitable milestone that is often seen as the beginning of the 'era of foreign aid'.²³ Similarly, the literature on the Marshall Plan provides us with a useful starting point as to how approach our general question. The importance and difficulty of addressing indirect transmission mechanisms from foreign aid to economic growth in the recipient country is borne out in that literature. It is worth emphasising that there are two different causal links involved in the argument about the significance of American pressure. First, the leverage that aid confers the donor has to induce policy-reform, and secondly, those policy changes have to induce economic growth. Clearly, even if policy may have changed, it may well be possible that such change was not due to conditionality. Therefore, to substantiate the first link we need a case study of the political economy of decision-making and ultimately a judgement on the likely policy scenario in the absence of the foreign aid programme.²⁴ Under certain restrictive assumptions, this question can be explored econometrically.²⁵ However, a case-study approach is potentially a

²³ R. E. Wood, *From Marshall Plan to Debt Crisis. Foreign Aid and Development Choices in the World Economy* (Berkeley: University of California Press, 1986). The explicit reference to drawing lessons from the Marshall Plan continues to be irresistible. See, for example, J. B. De Long and B. Eichengreen, 'The Marshall Plan: History's Most Successful Adjustment Programme,' in R. Dornbusch, W. Nölling and R. Layard (eds.), *Postwar Economic Reconstruction and Lessons for the East today* (Cambridge, MA: MIT Press, 1993), pp. 189-230 and P. Collier and D. Dollar, 'Does Africa Need a Marshall Plan?,' *Cambridge Review of International Affairs*, vol. 14, no. 1 (Autumn-Winter 2000), pp. 123-34.

²⁴ White and Luttik, 'The Countrywide Effects of Aid', p. 72.

²⁵ L. Dicks-Mireaux, M. Mecagni and S. Schadler, 'Evaluating the Effect of IMF Lending to Low-Income Countries,' *Journal of Development Economics*, vol. 61 (2000), pp. 495-526 use a control-group methodology in which, essentially, the experience of countries which did not undergo IMF-sponsored adjustment programmes is used to derive what would the likely policy path of those countries that did undertake IMF-supported programmes. Assuming identical policy reaction functions, and that reforms are triggered by reaching threshold levels of some macroeconomic variables, the authors estimate a policy counterfactual which is then compared to the policies actually followed

useful approach to this question. Historical research can in fact provide one of the most in-depth methods of analysis of the political economy of policy-making, as it can make use of sources which are unavailable to the contemporary observer.

Before we move further let us clarify some definitions. As noted above the Marshall Plan is usually regarded as the commencement of foreign aid in its modern form. Yet, 'foreign aid' has today a particular official meaning that is much more restrictive than the common use of the phrase at the time of Marshall aid. As defined by the Development Assistance Committee of the Organisation for Economic Co-operation and Development, 'overseas development assistance' refers to 'grants or loans undertaken by the official sector with promotion of economic development or welfare as main objectives and at concessional financial terms (if a loan, at least 25 per cent grant element).'²⁶ Even more precise and narrow definitions in which only the concessional element of loans is taken into account are also common in the literature.²⁷

This definition is not as watertight as it may at first appear. The limit to loans and grants excludes sales in domestic currency that may have otherwise diverted foreign exchange from the recipient country. More importantly, determining that a transfer is exclusively or primarily driven by altruistic reasons is always questionable. Strictly speaking, much of American bilateral assistance during the Cold War, including the Marshall Plan, would not qualify under this definition given its ultimate political motivation of containing and providing a viable alternative to communism. Even grants of surplus commodities may be driven by the interest in protecting the world market position of domestic producers that may happily engage in *de facto* dumping so as to prevent the flourishing of foreign competitors. In short, the problem with the current official definition is its reliance on the *true* motivations of the donor as the yardstick to consider a particular flow of resources 'official development assistance.'

and thus the policy-effects specific to the presence of IMF-supported programmes are claimed to be isolated.

²⁶ OECD, *Development Co-operation. 1992 Report* (Paris: OECD, 1992), p. A-99.

²⁷ C. C. Chang, E. Fernández-Arias and L. Servén, 'Measuring Aid Flows: a New Approach,' World Bank Policy Research Working Paper no. 2050 (1999).

Thus, inevitably, there are different meanings of foreign aid and ways of measuring it.²⁸ By ‘foreign aid’ we will refer to official transfers of resources from the donor to the recipient economy irrespective of whether the purpose of the donor was primarily to enhance the economic development of the recipient or such interest in strengthening the recipient’s economy stemmed from a wider geo-political motivation. In a sense, we have adopted the broad definition of ‘foreign aid’ that was common at the time of our study, the 1950s. It was precisely to get rid of the connotations of including less altruistic types of aid that the term ‘overseas development assistance’ was later coined as a substitute for ‘foreign aid’.²⁹ A more extended discussion of a working definition of foreign aid for our purposes will be undertaken in Chapter Two below.

Further explanation of the concept of ‘conditionality’ is also warranted. In the literature, conditionality is often defined as the linking of the disbursement of aid, either in grant or loan form, to the adoption of economic policy measures by the recipient government.³⁰ The widespread use of policy-based lending by donors has led to a burgeoning theoretical and empirical literature on whether aid increases the likelihood of the adoption of policy reform by the recipient countries.³¹ Moreover, the findings from cross-country analyses in the literature suggest that aid enhances economic growth only if the recipient countries enjoy a relatively sound economic management environment.³² Therefore, the question

²⁸ C. Lancaster, *Transforming Foreign Aid. United States Assistance in the 21st Century* (Washington, D.C.: Institute for International Economics, 2000), pp. 9-10.

²⁹ O. Stokke, ‘Aid and Political Conditionality: Core Issues and State of the Art,’ in O. Stokke (ed.), *Aid and Political Conditionality* (London: Frank Cass, 1995), pp. 3n, 5n.

³⁰ R. Cassen, *Does Aid Work? A Report to an Intergovernmental Task Force* (Oxford: Clarendon, 1986), p. 70.

³¹ P. Mosley, ‘A Theory of Conditionality,’ in P. Mosley (ed.), *Development Finance and Policy Reform* (London: St. Martin’s Press, 1992), p.129. A. Casella and B. Eichengreen, ‘Can Foreign Aid Accelerate Stabilisation?’, *Economic Journal*, vol. 106 (May 1996), pp. 605-19 suggest that this is an empirical issue and construct a model in which foreign aid may accelerate or postpone policy reforms.

³² P. Mosley, J. Harrigan and J. Toye, *Aid and Power* (London: Routledge, 1995), 2 vols.; P. Boone, ‘Politics and the Effectiveness of Foreign Aid,’ *European Economic Review*, vol. 40, no. 2 (1996), pp. 289-329; C. Burnside and D. Dollar, ‘Aid, Policies,

of whether donors can influence the economic policy of the recipient becomes crucial and has led to a substantial research effort to analyse theoretically and empirically the tying of foreign aid to the adoption of policy reform.³³

These studies caution about the danger of assuming that donors would enjoy an effective leverage —the capacity to impose a viewpoint over the recipient's— simply because the threat to withhold aid disbursements is at their disposal. The most important contribution of this literature is to focus on the time-inconsistency of the logic behind conditionality. This time-inconsistency arises from the fact that a recipient that agrees to undertaking policy reform as a condition for the disbursement of aid may reverse the reform in the event of discontinued aid flows. After all, one must confront the question of why, if the policies the donor advocate are welfare enhancing, had they not been adopted by the recipient country *motu proprio* in the first place? The only way to escape the time-inconsistency problem of conditionality is if the aid programme affects the policy-making equilibrium of the recipient country and shifts it to another equilibrium where it prompts the recipient to follow a different policy. The lesson drawn by the international organisations that experimented with conditional foreign aid is that rather than forcing reforms, a successful aid programme in bringing reform is one that changes the underlying parameters of the policy-making game so that the resulting equilibrium is altered.³⁴ For our purposes, this literature highlights the necessity of paying closer attention and

and Growth,' *American Economic Review*, vol. 90, no. 4 (September 2000), pp. 847-68 and D. Dollar and J. Svensson, 'What Explains the Success or Failure of Structural Adjustment Programmes?', *Economic Journal*, vol. 110 (October 2000), pp. 894-917.

³³ M. Gutián, 'Conditionality: Past, Present, and Future,' *International Monetary Fund Staff Papers*, vol. 42, no. 4 (December 1995), pp. 792-835; special conference issue of *Journal of International Development*, vol. 9, no. 4 (June 1997); P. Collier *et al.*, 'Redesigning Conditionality,' *World Development*, vol. 25, no. 9 (September 1997), pp. 1399-1407; T. Killick *et al.*, *Aid and the Political Economy of Policy Change* (London: Routledge, 1998) and J. Svensson, 'When is Foreign Aid Policy Credible? Aid Dependence and Conditionality,' *Journal of Development Economics*, vol. 61, no. 1 (February 2000), pp. 61-84.

³⁴ World Bank, *Assessing Aid. What Works, What Doesn't, and Why* (Washington, D.C.: Oxford University Press, 1998).

documenting the alleged influence of foreign donors over domestic economic policy-making.

It is worth emphasising that in the definition of conditionality given above the term often refers to economic policy conditions only. These are of the utmost interest but by no means the only conditions that may be attached to aid. ‘Commercial conditions’ requiring the recipient to purchase the goods directly from the donor rather than from a third party, or stating the exchange rate at which transactions would be computed, are straightforward. ‘Political conditions’ may also be attached to aid programmes. In particular, the recent literature refers to ‘political conditionality’ as the donors’ demands that the recipient country democratises its political regime and safeguards human rights.³⁵ In the context of the Cold War, however, this narrow use of the term political conditionality needs to be expanded to accommodate a wider set of political conditions that were then part and parcel of the donor-recipient relationship. For example, the granting of military base rights to the donor can be seen as an inseparable political condition attached to the aid programme.

This acknowledgement of the variety of types of conditions attached to aid is relevant because simply looking at the effect of policy-based conditions in changing the recipient’s actual policies may not capture the total effect of aid programmes in shaping policy making. For example, in a recent review of foreign aid effectiveness the World Bank suggests that overseas-trained officials and professionals have often played a key role in bringing about policy reform.³⁶ This suggests that the way in which aid is disbursed may have policy effects even if outright leverage and economic policy conditionality may have been ineffective. In fact, because the manner in which aid programmes are conducted varies from case to case, this literature calls for the case study as a very valuable methodological approach.³⁷ Once again, historical case studies may prove particularly fruitful given the availability of a documentary base often inaccessible for more recent episodes. The phrase ‘conditional foreign aid’ in the

³⁵ Stokke, ‘Aid and Political Conditionality,’ p. viii.

³⁶ World Bank, *Assessing Aid*, p. 55.

³⁷ S. Devarajan, D. Dollar and T. Holmgren (eds.), *Aid and Reform in Africa* (Washington, D.C.: World Bank, 2001), p. 4.

title of this dissertation aims to highlight that we will be referring not only to economic policy conditions but also to the *modus operandi* or wider range of conditions under which foreign aid was furnished.

Let us now specify which are the questions addressed in this dissertation.

1. 3. What are the questions this dissertation addresses?

This dissertation aims to improve our understanding of the impact of foreign aid in the Spanish economy by examining individual transmission mechanisms through which aid affected the Spanish economy. Concentrating on some aspects inevitably implies that other possible links are neglected. However, by focusing on defined and tractable research questions the aim is to provide a depth of analysis that would not be possible in a study that would attempt a comprehensive review of all possible effects of foreign aid programmes in the Spanish economy.

Prior to making any assessment about the effects of foreign aid in the Spanish economy, we need to be precise about what programmes we are talking about. Thus, it is necessary to ask the question '*what were the amounts of foreign aid received?*' This question, which will be the sole focus of Chapter Two, had not been fully answered in the literature and the chapter provides the modest contribution of producing the most complete picture of aid disbursements available in a form that enables the discussion of the effect of aid-financed goods in relieving bottlenecks.

Once this has been accomplished we are in a position to examine a widely entertained claim in the existing literature, namely that despite its limited extent foreign aid had a considerable direct impact in the Spanish economy by providing essential imported goods. Hence, '*what was the effect of foreign aid in relieving input bottlenecks in the Spanish economy?*' will be discussed in Chapter Three with the help of the input-output methodology. Thus, this chapter advances the literature by providing a quantification of an existing argument in the literature.

The dissertation then pays closer attention to the political economy of the bilateral aid episode. Chapter Four asks '*what were the conditions attached to American aid?*' The motivations of the donors and recipients are discussed within this chapter, as the conditions attached are inevitably part of the outcome of the bargaining between the two parties. Although the chapter serves primarily as background to the following ones it modestly contributes to our knowledge of

the negotiation process between Spain and the U.S. by making use of some archival sources previously not exploited.³⁸

The dissertation then moves on to examine the consequences of the circumstances under which aid was granted. Chapter Five asks '*to what extent did American leverage contribute to policy change in 1950s Spain?*' The focus of the chapter is therefore to investigate the extent to which American influence attempted to modify Spanish economic policy and how successful it proved. Although the literature had speculated about this question, the documentary evidence previously available was very limited. A contribution of Chapter Five is therefore to expand this documentary base.

Chapter Six explores the political aspects of the conditions under which the bilateral aid programme was established. An indirect transmission mechanism running from the aid programme to an improvement in the political credibility of the Franco regime and with it business sentiment, investment and economic growth is suggested. By investigating '*the credibility effects of the American aid programme*,' Chapter Six advances the literature by outlining and exploring a question that has not been previously asked in the context of the historiography of American aid to Spain. Its originality also lies in its use of financial market data and in particular the application of the event-study methodology, which has not been a common tool in economic history.

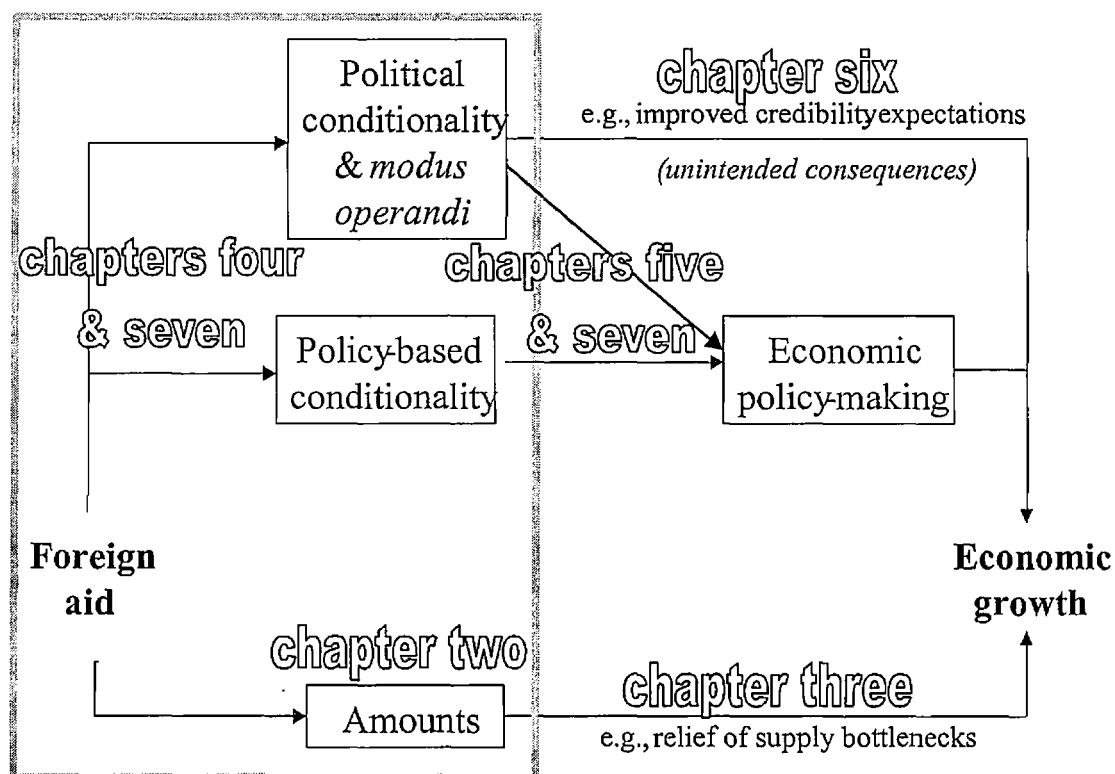
Chapter Seven moves on to discuss the multilateral aid episode and the contribution of multilateral donors to the adoption of economic policy reform. The use of archival holdings of multilateral organisations such as the International Monetary Fund and the Organisation for European Economic Co-operation allows a focus on the donor-recipient relationship. This is not only absent in the Spanish historiography of the economic effects of the aid

³⁸ In particular, among American sources it should be noted how the Records of U.S. Foreign Assistance Agencies (Record Group [RG] 469 in the National Archives) had not been previously used in connection with the aid programme to Spain. Similarly, substantial documentation not found in the Decimal Files of the General Records of the Department of State (RG 59) was located in the Records of the Foreign Service Posts of the Department of States (RG 84), an equally under-researched source for the study of American-Spanish relations.

programmes but can also be of interest to those concerned with the relations between donors and recipients in general.

The questions that this dissertation addresses are therefore driven by both issues specifically raised in the Spanish historiography that have been given little empirical support, and by general methodological considerations. Figure 1.1. below provides the overall structure of the thesis in diagrammatic form.

Figure 1.1. Diagram of overall thesis structure



As to the time-period considered, the initial year marks the beginning of American official assistance to Spain, while 1963 marks the end of the initial ten-year period for which the bilateral agreements were signed in 1953. In fact, although the agreements would be renewed subsequently, from 1963 onwards aid will cease to be of a similar scale to that granted during the years 1953-1963. Although American military aid would continue in time, Spain would soon be deemed too rich to benefit from official financial assistance. During the years from 1950 to 1963 Spain received the bulk of foreign aid that she would eventually receive. The periodisation chosen also allows for a discussion of both the bilateral and multilateral aid episodes, enabling us to explore some elements of the relationship between recipient and donors that would be difficult to understand if we were to remove the interconnectedness between the two programmes from our analysis.

Before we proceed with addressing these questions let us first emphasise the limits of this dissertation.

1.4. Limitations of scope and relevance

As noted above, it should be emphasised that this dissertation makes no claim of an encyclopaedic discussion of *all* possible effects of foreign aid programmes in Spain or all aspects of the relationship with the donors. Some topics are necessarily touched upon only in a limited way. For example, the possible inflationary consequences of heavy counterpart funds releases in the 1960s or the long-run effects of the technical assistance programmes that enabled Spanish professionals and officials to travel to the U.S. fall among those issues that are only briefly discussed given the limited time-period covered. Socio-economic effects, such as how the organisation of firms that engaged with the American contractors in the building of the bases was affected, are not discussed.

This dissertation is not a growth accounting exercise in which the purpose is to compute a counterfactual which would give us an idea of Spanish economic growth during the period in the absence of all possible effects, direct and indirect, of the aid programmes. The discussion of the indirect effects of the foreign aid programmes aims to elaborate on the ultimate enabling causes of growth and thus help our understanding of economic growth during the period considered in light of the puzzle that the decade of the 1950s constitutes in the literature.

As such, this dissertation aims primarily to be relevant to students of Spanish postwar economic history. There are, however, issues of relevance to a wider readership. Firstly, it highlights the usefulness of case studies when examining specific transmission mechanisms, and vindicates historical research as it provides a most seasoned analysis of decision making. The nature of the case also prompted us to consider a further transmission channel through which aid may have affected economic growth, namely via improving the political credibility of the regime and enhancing the expectations of private economic agents. This is, of course, contingent on the particulars of our case study and no claim at generalising this can be made, but it highlights the importance of looking at cases individually.

This dissertation may also be useful for the wider literature on the economic impact of foreign aid programmes. A rigorous look at the concepts of leverage and conditionality and the circumstances under which a donor can effectively induce policy change in the recipient country may be informative for

the Marshall Plan literature. Moreover, given the dictatorial nature of the Spanish regime and the low *per capita* income of Spain at the time, the case study presented may be instructive for research on other foreign aid recipients. Given that foreign aid is primarily a post-1945 phenomenon, as economic history increasingly discusses the second half of the twentieth century, foreign aid episodes will be encountered more frequently by historians. On one hand, history can but benefit from an awareness of the theoretical literature. On the other hand, the detail that historical sources avail may similarly contribute to our understanding of the relationship between donor and recipient countries by raising issues insufficiently addressed in the existing theoretical literature.

Chapter 2. What were the amounts of foreign aid received by Spain in 1950-1963?

Index

- 2.1. Introduction
- 2.2. First aid: Eximbank loans
- 2.3. Pact of Madrid: Defence support
- 2.4. Agricultural surpluses: Public Law 480
- 2.5. Other aspects (counterpart funds, military aid, other lending) and summary of American aid programme to Spain
- 2.6. Multilateral aid at the time of the Stabilisation Plan

Abstract

This chapter presents the amounts of aid that Spain received. The purpose is to establish clearly the picture of how much was received and, especially, the timing and composition of disbursements across the range of (American) aid programmes. In doing so, it complements existing estimates of aid-financed goods in the literature.

2.1. Introduction

The purpose of this chapter is to provide an estimate of the amounts of aid disbursed to Spain throughout the period 1950-1963. It focuses on the American aid programme since this was by far the largest component of all foreign aid received by Spain, loans from other countries being too isolated and too little to constitute an 'aid programme.' A section at the end of the chapter discusses the idiosyncrasies of the multilateral aid episode.

As noted in the introductory chapter above, the starting date of our analysis, 1950, marks the first official assistance from the United States to Spain, whilst closing our period in 1963 coincides with the expiration of the ten-year agreements signed in September 1953 between Spain and the U.S. Although the defence agreement was renewed, from 1963 the U.S. ceased the provision of economic aid to Spain and subsequently restricted its aid programme to military assistance only.

The purpose of reconstructing the amounts of American aid to Spain is to provide a consistent estimate of aid actually received in Spain broken down by the type of aid-financed goods and at regular time intervals. Although there is a general agreement in the literature as to the total amount of aid furnished, approximately \$1,500 million over the period considered here, many of these estimates are too aggregative, either by type of commodity or over time.¹ This helps to explain the discrepancies existing in the literature when citing the total amount of aid Spain received: they simply refer to different things. Once we take into account that figures are usually produced for cumulative periods and the inclusion or not of all the numerous aid programmes, they do not appear so disparate and it is possible to reconcile to some extent the discrepancies reported.

¹ \$1,690 million according to R. Rubottom and J. C. Murphy, *Spain and the United States since World War II* (New York: Praeger, 1984), pp. 44-45. Rubottom was an official at the U.S. Operations Mission (USOM) in Madrid during the mid-1950s. A. Viñas *et al.*, *Política comercial exterior en España (1931-1975)* (Madrid: Banco Exterior de España, 1979), p. 798 provides the figure of \$1,523 million. Henceforth, all dollar figures refer to U.S. dollars.

The best breakdowns available are in the annual reports of the Bank of Spain and in a 1960 article published in *Información Comercial Española*.²

The recalculation of the amounts of aid to be undertaken here will expand the coverage hitherto available in the literature both in time and by providing a systematic breakdown. The purpose of the exercise is not to present a more detailed account of aid disbursements for its own sake, but rather to allow the exploration of an existing claim in the literature about the importance of aid-finance goods in relieving bottlenecks in the Spanish economy. Unless we provide a coherent estimate at regular intervals of commodities imported financed through aid, we would not be in a position to assess the relevance of such arguments.

Before we engage in detailing the amounts of aid through the numerous programmes, we should pause and think about what we want to report. Our aim is to provide a comprehensive analysis but also to provide comparable figures and make sense of some of the arguments endorsed in the literature, so that we need to report the amounts under meaningful categories. For a start, this means to establish a clear definition as to what we should consider as 'aid.' Any estimate will, in any case, depend on what definition of aid is used, an issue not often addressed in the existing literature but necessary if we are to construct an economically sensible estimate. Similarly, although most aid linked to the Pact of Madrid finally reached the country, it is important to distinguish between amounts authorised by the U.S. and the goods actually received in Spain. There are four different stages at which we could look into aid. In most programmes, the U.S. Congress will first earmark sums available to Spain. Specific purchases will then have to be authorised by the relevant agency on request of the Spanish government, which would subsequently grant sub-authorisations to Spanish

² Banco de España, *Informe sobre la evolución de la economía española en 1959* (Madrid: Banco de España, 1960), p. 63 does not provide a breakdown of goods financed with the amounts of aid reported. The article 'Cooperación Económica Hispano-norteamericana,' published in April 1960 in *Información Comercial Española* provides the most detailed and comprehensive classification of the aid programmes. For our purposes, its main shortcomings are that it covers up to 1959 only and does not decompose the goods financed with Eximbank loans or which sectors were receiving the capital goods financed under the defence support rubric of the American aid programme.

importers. Finally, the goods will have to be delivered. It is precisely the last stage in which we are most interested and given that, as we will see later, there were significant time lags between the two, there is a need for a clear distinction in this sense.³

In what follows we have considered that any long-term capital flow where the beneficiary is the government of Spain (or where the government is involved in it by guaranteeing the repayment) should be labelled as 'aid.' This obviously combines three very different forms through which capital movements took place, namely outright grants, loans, and sales of American goods for pesetas. Whilst there is no doubt about considering grants as aid, the last two may be contentious. In fact, it is currently a common practice to estimate the concessional component of loans as the true amount of aid furnished.⁴ A similar argument could be made about the sales of American goods for Spanish pesetas. However, in both cases it is the total amount that represent the true contribution of goods to the Spanish economy from the dollar area. Moreover, if we were to exclude these as aid we would not be in a position to assess the 'relief of bottlenecks' argument, since its implicit rationale is the importance of the foreign exchange gap. Thus, we have included the total amount of loans and sales for pesetas as aid.

Economically meaningful reporting also suggests that rather than providing an endless list of specific commodities we present the data as concisely as possible whilst being informative. Thus, we have initially grouped aid-financed goods into three main categories: foodstuffs, inputs, and capital goods. Because the focus of this chapter is to present the data in a way that would enable us to assess the merits of the arguments put forward about the impact of aid, and in particular on the 'relief of bottlenecks' argument, it seemed unnecessary to split 'foodstuffs' into any further headings, such as wheat, barley, etc. Further

³ It is important to make this distinction clearer than what it is done in the literature. It is often the case that a 'table of imports financed with aid' turns out to provide the data on authorised imports rather than actual disbursements, as in Viñas *et al.*, *Política comercial exterior*, vol. 2, p. 791.

⁴ As done by the Development Assistance Committee of the Organisation for Economic Cooperation and Development (OECD). OECD, *Development Co-operation. 1992 Report* (Paris: OECD, 1992).

explanation is required on the categorization of inputs and capital goods. Particular classes of inputs (coal, cotton, and fertilizer) were selected for the potentially high bottlenecks effect. Capital goods were split according to the industry in which they were being incorporated. Since capital goods, by enhancing the productive capacity of the economy may be seen as having the most lasting effect we have provided a more detailed breakdown than for inputs and have selected: equipment that will enhance the infrastructure of the country (such as rolling stock and other equipment for the railways), agricultural machinery, capital goods allocated to the steel industry, equipment for the electricity generation sector and a residual category.

The selected time unit for analysis is also a problem. American sources and literature use as time unit the American fiscal year (hereafter FY), which runs from 1st July to 30th June (i.e., FY1956 starts 1st July 1955 and ends 30th June 1956). In contrast, Spanish sources and literature often refer to calendar years. To enhance the comparability and usefulness of the data presented an effort has been made to provide the amounts of aid in a way that both calendar and fiscal year measures may be obtained.

The recalculation of the aid figures also draws on sources hitherto little used. In particular, the quarterly reports from the Spanish *Comisión para el desarrollo de los acuerdos con Norteamérica* [Committee for the development of the agreements with North America] have been located and extensively used.⁵ Similarly, American official sources which had previously been little used in the Spanish historiography have been gathered to complete the picture of the disbursements of aid-financed goods.

The remainder of this chapter provides a set of tables of aid disbursements under categories which are kept throughout our review of all elements of the American aid programme. For a narrative about the origin of the American aid programme to Spain, the reader is referred to Chapter Four below.

⁵ The Spanish National Library holds issues 1 (covering from 26th September 1953 to 30th June 1954), 5 (covering 1st April to 30th June 1955) and therefore quarterly until the last two issues, no. 37 (covering 1st April to 30th June 1963) and no. 40 (providing cumulative figures up to 31st May 1964) with the exception of the missing issues nos. 7 and 17. The *Comisión* was dissolved by Decree 967/1964.

2.2. First aid: Eximbank

Throughout the years 1950 to 1963 the Export-Import Bank of Washington (Eximbank) was involved in loans to Spain under three different rubrics.⁶

The first corresponded to the role of the Eximbank as ‘agent for the Director for Mutual Security in establishing and administering credits for Spain in an amount not exceeding \$62.5 million authorised under the General Appropriation Act of 1951.’⁷ This was the arrangement made when the first American official assistance to Spain was voted by the U.S. Congress in August 1950. Harry S. Truman, President of the U.S. signed it into law instructing that the \$62.5 million appropriated by Congress were to be lent to Spain under the operation of the Eximbank.⁸ The \$62.5 million were allocated in a total of 38 loans to Spanish concerns. All loans were issued at 3% p.a. interest rate, were to be repaid in 40 semi-annual payments starting after 5 years from the initial disbursement and were guaranteed by the government of Spain. The episode is well known in the literature, in particular the clashes between Spanish and Eximbank officials that resulted in the delay of the authorisation and

⁶ The Eximbank, originally created in the midst of the New Deal with the aim to promote American exports and hence employment, would become much more active as an integral part of postwar American foreign economic policy. See R. M. Rodriguez (ed.), *The Export-Import Bank at fifty: the international environment and the institution's role* (Lexington, Mass.: Lexington Books, 1987).

⁷ Export-Import Bank of Washington, *Fourteenth Semiannual Report of the Eximbank, covering January-June 1952* (Washington, D.C.), p. 27.

⁸ Details of beneficiaries of credit appear on sources such as H. Villar Serraillet, ‘El capital público exterior a largo plazo y la economía española,’ *Boletín de Estudios Económicos*, vol. 20, no. 65 (May-August 1965), p. 543 and Instituto de Estudios Fiscales, *Datos básicos para la historia financiera de España (1850-1975)*, vol. 2 (Madrid: Ministerio de Hacienda, 1976), p. 528. However, the Eximbank *Semiannual Reports to Congress* are preferred not only because of its original nature but also because they enable us to follow disbursements closely. Details of individual loans are given in Table A.1 in Appendix A below.

disbursement of credits.⁹ However, Viñas does not follow the disbursements of the loan beyond 1953. A breakdown of disbursements at regular intervals of time and by goods financed is provided in Table 2.1 below. The table has been constructed by classifying, using the categories discussed above, each of the loans provided according to the type of goods financed and then following the disbursements of each of the 38 loans through the Eximbank *Reports to Congress*. The table shows the lengthy time that took for the credit line to be fully used.

⁹ A. Viñas, 'La primera ayuda económica norteamericana a España,' in *Lecturas de Economía Española e Internacional (50 Aniversario del Cuerpo de Técnicos Comerciales del Estado)* (Madrid: Ministerio de Comercio, 1981), p. 86.

Table 2.1. Breakdown of disbursements under Eximbank \$62.5 million credit line (in thousand dollars)

Commodities	1951(I)	1951(II)	1952(I)	1952(II)	1953(I)	1953(II)	1954(I)	1954(II)	1955(I)	1955(II)
FOODSTUFFS	7,222	-	-	-	-	-	-	-	-	-
Coal	-	2,733	762	-	-	-	-	-	1,756	41
Cotton	4,980	20	-	-	-	-	-	-	-	-
Other inputs	3,029	471	-	-	-	-	-	-	-	-
SUBTOTAL INPUTS	8,009	3,224	762	-	-	-	-	1,756	41	-
Equipment for infrastructure	496	936	2,222	2,724	868	656	42	168	150	-
Agricultural machinery	681	1,719	874	1,151	2,158	432	260	8	-	-
Steel industry machinery	-	-	-	1	2	410	362	257	362	-
Electricity ind. equipment	710	626	1,078	810	1,428	2,507	868	183	113	-
Other capital goods	-	-	808	2,684	1,904	1,880	1,676	804	1,241	-
SUBTOTAL CAPITAL GOODS	1,887	3,281	4,982	7,370	6,360	5,885	3,208	1,420	1,866	-
TOTAL	17,118	6,505	5,744	7,370	6,360	5,885	4,964	1,461	1,866	-

Table 2.1. continued

Commodities	1956(I)	1956(II)	1957(I)	1957(II)	1958(I)	1958(II)	1959(I)	1959(II)	CUMULATIVE
FOODSTUFFS	-	-	-	-	-	-	-	-	7,222
Coal									5,292
Cotton									5,000
Other inputs									3,500
<i>SUBTOTAL INPUTS</i>	-	-	-	-	-	-	-	-	13,792
Equipment for infrastructure	-	-	-	-	-	-	-	-	8,262
Agricultural machinery	-	-	-	-	9	-	-	-	7,292
Steel industry machinery	468	663	572	436	-	256	10	-	3,799
Electricity ind. equipment	38	-	-	-	-	-	-	-	8,361
Other capital goods	472	1,144	227	242	44	-	404	-	13,530
<i>SUBTOTAL CAPITAL GOODS</i>	978	1,807	799	687	44	256	414	-	41,244
TOTAL	978	1,807	799	687	44	256	414	-	62,258

Source: Export-Import Bank of Washington, *Semianual Report to Congress*, various issues.
 Note: The Roman numerals indicate the semester of the calendar year.

Outside the \$62.5 million line of credit, the Eximbank granted to the government of Spain a loan to purchase cotton for \$12 million in January 1952 and another one for the same amount in April 1953. Some sources in the literature do not refer to these loans, perhaps not considering them aid because the loans were formally granted to six private Spanish banks.¹⁰ The government of Spain was, however, the ultimate guarantor of the operation and thus we will include them as aid. Table 2.2 below uses the Eximbank *Reports to Congress* to track the disbursements under these loans.

Table 2.2. Disbursements of the Eximbank cotton credits (in thousand dollars)

	1952(I)	1952(II)	1953(I)	1953(II)	1954(I)
Authorised	12,000 (3 Jan 1952)		12,000 (9 April 1953)		
Disbursed		11,965		6,558	5,131

Source: Export-Import Bank, *Semiannual Report to Congress*, nos. 14 to 18.

A more vigorous second phase of lending by the Eximbank took place from the mid-1950s onwards. It started in July 1954, involving now the Eximbank's own funds and not limited to a special provision, as had been the case with the \$62.5 million line of credit.¹¹ The annual breakdown for this second phase of Eximbank lending follows in Table 2.3. below.

¹⁰ Notably J. J. Rovira Sánchez-Herrero, 'La ayuda estadounidense,' in Centro de Estudios Tributarios, *Las inversiones de capital extranjero en España*, vol. 1, (Madrid: AGESA, 1960). The first loan bore an interest rate of 2.65% p.a. whilst the second one was 3.5% p.a. They were both granted under the guarantee of the Bank of Spain and repayable in 18 months.

¹¹ Details in Table A.2 in Appendix A below. Rovira, 'La ayuda,' or J. J. Rovira, 'La ayuda Americana,' *Cuadernos de la Escuela Diplomática*, vol. 1 (1960), pp. 59-127 and G. Fernández de Valderrama, 'España-USA, 1953-1964,' *Economía Financiera*, no. 6 (1964) pp. 14-51 provide the data on authorisations but not on actual disbursements.

Table 2.3. Breakdown of disbursements under Eximbank second phase of loans (Eximbank's own resources)

Commodities	1956(II)	1957(I)	1957(II)	1958(I)	1958(II)	1959(I)	1959(II)	1960(I)
Agricultural machinery	-	-	-	-	-	-	-	-
Steel industry machinery	-	90	-	69	-	219	-	8,697
Electricity ind. equipment	7,018	-	1,032	3,088	2,416	10,330	9,534	9,454
Other capital goods	-	-	342	43	-	-	-	-
TOTAL	7,018	90	1,374	3,200	2,416	10,549	9,534	18,151

Table 2.3. continued

Commodities	1960(II)	1961(I)	1961(II)	1962(I)	1962(II)	1963(I)	CUMULATIVE
Agricultural machinery	-	1,452	2,904	1,601	783	391	7,131
Steel industry machinery	2,370	737	-	6,463	6,202	6,009	30,856
Electricity ind. equipment	3,969	6,037	3,969	10,514	5,720	5,480	78,561
Other capital goods	-	3,558	2,161	13,445	1,219	1,032	21,800
TOTAL	6,339	11,784	9,034	32,023	13,924	12,912	138,348

Source: Export-Import Bank of Washington, *Semiamual Report to Congress*, various issues.

2.3. Pact of Madrid: Defence support

The executive agreements signed in September 1953 envisaged aid in two forms, military and economic or ‘defence support.’ Every year the U.S. Congress would vote a Mutual Security Act (MSA) including appropriations for individual countries.¹² The amounts appropriated for Spain are detailed in Table 2.6 below. The table also provides the value of goods actually shipped into Spain, information which is not usually provided in the literature.¹³ In order to construct the following table we used the reports of the *Comisión* above mentioned, which detail the status in terms of disbursement for each of the authorizations through which aid was being disbursed. Thus, by following each of the approximately 400 authorisations through time, we are able to provide a relatively accurate estimate of disbursements by type of commodity. In particular, we can provide a greater level of detail for capital goods than previously available.¹⁴ In our reconstruction we classify the capital goods according to the industrial sector they are allocated to. This will enable us, in Chapter Three below, to rehearse some arguments about the contribution of aid-financed capital goods to specific industries.

¹² The U.S. agency originally in charge was the Mutual Security Agency. Its functions were subsequently transferred to the Foreign Operations Administration, then to the International Cooperation Administration and finally to the Agency for International Development.

¹³ For example Rovira, ‘La ayuda’, Fernández de Valderrama, ‘España-USA’, or Viñas *et al.*, *Política comercial*.

¹⁴ The April 1960 article in *Información Comercial Española* provides great detail for foodstuffs (13 subcategories) and for inputs (26 categories) but no such disaggregation for capital goods.

Table 2.4. Breakdown of disbursements under defence support (in thousands of dollars, per calendar year)

Commodities	1954	1955	1956	1957	1958	1959
FOODSTUFFS	-	362	17,519	14,035	2,053	3,540
Coal	-	4,054	2,334	6,467	7,457	6,620
Cotton	15,623	45,621	25,186	1,639	24,072	5,500
Other inputs	6,397	10,641	6,217	21,370	23,807	15,740
<i>SUBTOTAL INPUTS</i>	<i>22,020</i>	<i>60,316</i>	<i>33,737</i>	<i>29,476</i>	<i>55,336</i>	<i>27,860</i>
CAPITAL GOODS	1,224	21,714	27,625	16,907	16,440	9,590
Shipments	113	3,779	2,859	6,183	5,368	3,520
TOTAL	23,357	86,171	81,740	66,601	79,197	44,510

Table 2.4. Continued

Commodities	1960	1961	1962	CUMULATIVE to 31 st May 1964
FOODSTUFFS	8,440	27,590	2,730	74,900
Coal	6,900	1,480		31,500
Cotton	4,420	-		122,100
Other inputs	3,230	1,820		81,900
<i>SUBTOTAL INPUTS</i>	<i>14,550</i>	<i>3,300</i>	<i>-</i>	<i>235,500</i>
CAPITAL GOODS	11,770	14,070	8,800	147,900
Shipments	2,440	4,670	440	30,000
TOTAL	37,200	49,630	11,970	488,300

Sources: *ICE* for years 1954-1959 and Comisión Delegada para el seguimiento de los Acuerdos con Norteamérica, *Informe sobre el desarrollo de la ayuda*, various issues for 1960 onwards.

Defence support disbursements also lagged considerably behind authorisations. However, because authorisations were produced on a fiscal year basis, it makes more sense to use disbursements on a fiscal year basis in order to establish the extent of such lags. Table 2.5 below provides the data on defence support authorisations and disbursements arranged in fiscal years. It also shows the industries that received the capital goods. The reader may also note that for some groups of goods the cumulative disbursements exceeds the actual authorised values. The reason for this is that occasionally an authorisation to import a certain good was allowed to be used to import goods other than those earmarked initially. For example an authorisation to purchase coal may end up being used partly to purchase coal and partly to purchase other materials. We have also included technical assistance in this table, since the data available on procurements was in fiscal year form.¹⁵

¹⁵ OECD, *Technical Assistance and the Economic Development of Spain* (Paris: OECD, 1968), p. 40 provides data for disbursements under the American technical assistance programme.

Table 2.5. Defence support authorised and disbursed amounts (in thousands of dollars per fiscal year)

Commodities	FY1954			FY1955 ^a			FY1956			FY1957			FY1958		
	Auth.	Disb.	Auth.	Auth.	Disb.	Auth.	Auth.	Disb.*	Auth.	Disb.	Auth.	Disb.	Auth.	Disb.*	
<i>FOODSTUFFS</i>	-	-	6,000	-	6,500	1,210	18,500	11,600	7,000	21,248					
Coal	1,225	-	6,190	1,547	1,700	2,659	7,965	1,997	13,193	7,493					
Cotton	15,000	14,222	49,000	22,980	20,500	31,458	-	7,495	15,784	6,867					
Other inputs	13,775	2,536	4,500	9,044	2,900	4,949	27,535	17,274	14,172	20,084					
<i>SUBTOTAL INPUTS</i>	<i>30,000</i>	<i>16,758</i>	<i>56,690</i>	<i>33,571</i>	<i>25,100</i>	<i>39,066</i>	<i>35,500</i>	<i>26,766</i>	<i>43,149</i>	<i>34,444</i>					
Equipment for infrastructure	16,000	5,220	768	9,000	6,309	5,000	8,050	838	4,698						
Agricultural machinery	8,452	3,330	4,228	5,800	3,331	5,000	1,883	2,007	3,108						
Steel industry machinery	8,012	-	-	626	1,401	-	5,641	-	182						
Electricity ind. equipment	12,196	5,400	1,154	8,000	295	4,500	10,222	999	3,916						
Other capital goods	8,432	330	50	2,974	1,435	500	10,835	1,006	2,831						
<i>SUBTOTAL CAPITAL GOODS</i>	<i>53,092</i>	<i>-</i>	<i>14,280</i>	<i>6,200</i>	<i>26,400</i>	<i>12,771</i>	<i>15,000</i>	<i>36,631</i>	<i>4,850</i>	<i>14,735</i>					
Shipments	1,300	-	4,230	1,576	-	3,353	-	3,869	-	2,371					
Technical assistance	608	270	800	320	2,000	1,100	1,000	740	1,304	1,000					
TOTAL	85,000	17,028	85,000	41,667	60,000	57,500	70,000	79,606	56,303	73,798					

Table 2.5. Continued

Commodities	FY1959			FY1960			FY1961			FY1962			FY1963			CUMULATIVE	
	Auth.	Disb.	Auth.	Disb.	Auth.	Disb.	Auth.	Disb.	Auth.	Disb.	Auth.	Disb.	Auth.	Disb.	Auth.	Disb.	
<i>FOODSTUFFS</i>	2,850	1,858	10,450	7,198	32,000	27,590	-	-	3,428	-	2,745	83,300	76,877				
Coal	8,500	12,566	3,300	8,309	1,480		3,292					42,073	39,343				
Cotton	15,150	25,000	4,550	3,511	-							119,984	111,533				
Other inputs	15,119	24,167	4,006	10,083	1,820		-					82,007	89,957				
<i>SUBTOTAL INPUTS</i>	38,769	61,733	11,856	21,903	-	3,300	-	3,292				-	224,064	240,833			
Equip. infrastructure	2,679	5,191	2,000	1,722	365	2,300	4,330	603				1,187	45,432	30,828			
Agricultural machinery	3,614	6,136	6,157	2,944	910	6,080	830	5,133				7,315	36,100	40,158			
Steel industry machinery	-	556	3,204	-	-	30	-	150				187	11,842	8,147			
Electricity ind. equipment	708	364	3,542	-	-	-	-	1,231				1,159	35,345	18,341			
Other capital goods	1,025	11,817	7,291	6,603	1,675	5,660	7,954	14,486				8,617	31,187	61,884			
<i>SUBTOTAL CAP.</i>	8,026	24,064	22,194	11,269	2,950	14,070	13,114	21,603				18,015	159,906	159,358			
Shipments	355	1,433	500	170	50	4,670	386	779				193	6,821	18,414			
Technical assistance	1,239	1,120	1,100	900	900	850	1,500	1,500				-	10,451	7,800			
TOTAL	51,239	90,208	46,100	41,400	35,900	50,480	15,000	30,602	-	20,953	504,542	503,282					

Notes and sources:

^a: FY1955 includes the so-called McCarran amendment, which earmarked \$55 million to be provided to Spain in the form of agricultural produce on top of the \$30 million of defence support which Congress initially earmarked for Spain. ^{**}: It was not possible to reconstruct disbursements as of 30th June of 1956 and 1958, thus the data reported represents that of the nearest point in time available (31st March for each year). The consequence of this is biasing downwards the receipts for FY1956 and FY1958 and upwards those of FY1957 and FY1959 reported. The cumulative is not affectedSource: Comisión Delegada del Gobierno para el seguimiento de los Acuerdos con Iberoamérica, *Informe sobre el desarrollo de la ayuda Americana*, various issues.

2.4. Agricultural surpluses: Public Law 480

The provision of agricultural surpluses to Spain under the American aid programme, as in the McCarran amendment noted in Table 2.5, had actually started even before the signing of the Pact of Madrid in 1953. Already in September 1951, a wheat sale to the government of Spain was arranged under the Commodity Credit Corporation (CCC), an American government agency. Spain was to purchase wheat for a value of \$20 million which was to be paid in pesetas at an exchange rate of 42.50 pesetas/dollar.¹⁶ The sale of wheat under the CCC and the McCarran amendment were not going to be the only means through which American agricultural surpluses were shipped to Spain. In the following years, the U.S. used extensively the Public Law 480 (PL480) for this type of sale, which contributed not only to alleviate the situation in Spain but also to provide foreign markets for the American farmer. PL480 was intended as a sales programme in which American agricultural surpluses would be exchanged for local currencies to be used by the American legations in the field. Exceptions to this are sales under title IV of the law, which were long-term credit sales but denominated in dollars and titles II and III which involved no sale as they were full donations, in one case for emergency purposes (title II) and in the other channelled through private American non-profit organisations (title III).¹⁷

With the exception of the dollar sales (title IV), Spain received agricultural surpluses through all mechanisms envisaged in PL480. The agreements totalled \$506 million dollars, though disbursements fell slightly short of that figure. The available data is provided in Table 2.6 below.¹⁸ Unfortunately, data on disbursements is relatively limited. The reports from the *Comisión* only included PL480 activities at the very end of the period and it was not possible to

¹⁶ Banco Hispano Americano, *La situación económica en 1956* (Madrid: Banco Hispano Americano, 1957), p. 31.

¹⁷ E. N. De Blois, *12 Years of Achievement under Public Law 480* (Washington, D.C.: U.S. Department of Agriculture, 1967), pp. 1-14.

¹⁸ Details of the sales agreements entered upon Spain and the U.S. under PL480 are provided in Fernández de Valderrama, 'España-USA,' pp. 47-49.

locate all the 'Semiannual reports to Congress on activities under PL480,' and those available did not report actual disbursements by country and commodity.¹⁹

It is important that when we do the final breakdown by economic categories we bear in mind that although all PL480 involved sales of agricultural surpluses, for our purposes we should distinguish between foodstuffs and inputs, since cotton would have to be included in this latter category.

Table 2.6. Amounts disbursed under PL480 (in thousands of dollars)

	1955	1956 ^a	1957 ^b	1958	1959	Cumulative to 1959	Cumulative to May 1964 ^c
Foodstuffs	8,642	10,300	18,923	4,839	13,700	56,404	82,500
Cotton	7,324	7,907	17,804	26,445	16,740	76,220	121,200
Other inputs ^d	-	59,637	39,487	60,720	55,030	214,874	268,100
Shippings	421	3,093	4,389	2,339	2,790	13,032	16,200
Total	16,387	80,937	80,603	94,343	88,260	360,530	488,000

Notes:

^a: excludes sale of \$2,582,000 wheat to be resold to Switzerland.

^b: excludes sale of \$1,862,000 wheat to be resold to Switzerland.

^c: we know the cumulative amounts disbursed but not actual disbursements over calendar years 1960-1962. In further calculations we will assume that the disbursements took place throughout those years evenly.

^d: 'oil' has been placed under the category of inputs (instead of foodstuffs) since this was cottonseed oil primarily for industrial use.

Sources: 'Cooperación Económica Hispano-norteamericana,' *Información Comercial Española* (April 1960) for data up to 1960. For total cumulative values the 40th and last report of the *Comisión* provides data on disbursements by goods under PL480. *Comisión Delegada del Gobierno para el Desarrollo de los Acuerdos con Norteamérica, Informe sobre el desarrollo de la Ayuda Económica (hasta el 31 de mayo de 1964)*.

¹⁹ For example, U.S. Congress, House of Representatives, 85th Congress, Document no. 50, *Fifth Semiannual Report on Activities carried on under Public Law 480, 83rd Congress, as amended, outlining operations under the Act during the period July 1 through December 31, 1956* (Washington, D.C: U.S. Congress, 1957).

Under Title III of PL480, social assistance in the form of agricultural surpluses such as powder milk and other dairy products was also granted to Spain. The distribution was coordinated by the National Catholic Welfare Conference in the U.S. and by the Catholic organisation *Cáritas* in Spain. Table 2.7 below shows the amounts disbursed under this scheme.

Table 2.7. Social assistance disbursed by National Catholic Welfare Conference-*Cáritas* (PL 480 Title III donations) in million dollars, fiscal years^a

	1955	1956	1957	1958	1959
Foodstuffs	12,451	17,004	16,669	19,718	6,159
	1960	1961	1962	1963	Cumulative
Foodstuffs	6,902	4,467	5,147	3,062	91,579

Notes:

^a: in further calculations of total aid on a calendar year basis it will be assumed that the disbursements given here were evenly spread across the first and second semester of the fiscal year, thus enabling us to impute a value for the calendar year.

Source: De Blois, *12 Years of Achievement under Public Law 480* , p. 97.

2.5. Other aspects (counterpart funds, military aid, other lending) and summary of American aid programme to Spain

This section reviews other elements of the American aid programme and discusses why they have been included or excluded in the calculation of aid.

Defence support aid generated a counterpart fund in pesetas – a mechanism well known as it mirrors that of the Marshall Plan. The Spanish government was required to pay in pesetas the equivalent value of dollars received, using for that purpose a specified exchange rate of 35 pesetas per dollar.²⁰ During the first five years, 60% of counterpart funds of defence support was for base construction, and a further 10% was for U.S. government expenses in Spain. The remaining 30% would be allocated for development projects. Agricultural surpluses sold under PL480 also involved counterpart funds, 50% of which were for development programmes.²¹

However, counterpart funds are not ‘aid,’ as it is the Spanish government that puts these pesetas at the disposal of Americans. Including them in our calculation would mean accounting twice for the value of aid since we will include first the dollar value of goods, say shipped under title I of PL480 and then their peseta value. Moreover, the Americans did not press the Spanish government to finance particular projects with the Spanish share of those funds, which was in any case relatively limited. In the early years most of the counterpart funds were devoted to the construction of the military bases. As late as the end of 1958 projects that aimed directly at improving the Spanish economy had only received a fraction of the counterpart funds generated. Out of the 23,093 million pesetas deposited with the Bank of Spain by that date, there

²⁰ From 1958 onwards 90% of defence support counterpart funds was made available for development projects. The exchange rate was increased to 42 pesetas/dollar on April 1957 and to 60 pesetas/dollar in July 1959. Fernández de Valderrama, ‘España-USA,’ p. 24.

²¹ The McCarran amendment had its own terms: \$20 million being a loan, \$24 million a grant and the remaining \$11 million giving rise to counterpart funds, computed at 38.95 pesetas/dollar and available for the U.S. government expenses in Spain. PL480 sales were computed at 38.95 pesetas/dollar. Baldrich, ‘Balance,’ p. 37.

were 10,875 million unspent and projects for Spanish use had only benefited with 3,648 million pesetas.²²

Similarly, in our calculations of aid we have not included military aid. This type of assistance took the form of deliveries of military end-items to the Spanish armies. Authorisation through FY1959 amounted to \$407 million, with actual deliveries being \$315 million, although it has to be emphasised that these figures value second-hand equipment at acquisition cost and thus overstate the actual amount received.²³ Moreover, it seems reasonable to assume that most of these military items would not have been bought by Spain had she been made to pay for them. For these reasons we have excluded military aid in our account. In any case, and given that the data are available, it is reported in Table A.3 in Appendix A below.

It must be noted that, unlike economic aid that came to an end after 1963, military aid continued to be forthcoming subsequently. It is also relevant to note that in the case of military aid all disbursements were in the form of outright grants, with no element of loans or sales involved.²⁴

²² Banco de España, *Informe sobre la evolución de la economía española en 1958* (Madrid: Banco de España, 1959), pp. 139-40. The Bank of Spain held approximately 95% of counterpart pesetas generated and, together with the quarterly reports from the *Comisión Delegada del Gobierno para el seguimiento de los Acuerdos con Norteamérica*, its widely circulated annual reports for 1957 onwards provide the best breakdown of counterpart disbursements.

²³ A. P. Whitaker, *Spain and the Defence of the West: Ally and Liability* (New York: Harper, 1961), p. 240. The reference quoted, and which I have not been able to locate, is U.S. Department of Defence, Office of the Assistant Secretary of Defence, International Security Affairs, *The Military Assistance Program: Programs and Deliveries by Area and Country, Fiscal Years 1950-1960*, release of February 26, 1960.

²⁴ S. Chavkin, J. Sangster and W. Susman, *Spain: Implications for United States Foreign Policy* (Stamford, Conn.: Greylock, 1976), pp. 34-44. This volume sponsored by several Democrat Senators in the mid-1970s is the best source for military aid and, in general, provides an excellent breakdown of aid programmes.

It has also been decided not to include in the calculation of aid the amounts of dollars that were raised through the dollar-peseta programme.²⁵ This programme, organised between the Spanish government and the American private firm World Commerce Corporation was in practice an official parallel market for pesetas, organised and supplied with currency by the Ministry of Commerce. Its purpose was to attract the business of supplying foreigners travelling to Spain with pesetas, by providing a exchange rate which, although below the prevailing rate in the free market of Tangiers, was above the official level. Although it raised substantial amounts of dollars, it was decided not to include these as aid given that no involvement from the American authorities took place.²⁶

We have also omitted from our calculation of total aid the repayments to the Eximbank for maturing loans. The reason for not doing so is that the available data, which are provided in Table A.4 in the appendix below, are very limited. Moreover, deducting such repayments from the total aid disbursements would have required us to assign those values to a particular type of good.

The final programme that we have included in our calculation is the lending under the Development Loan Fund, intended by the American administration to exemplify the shift from aid in grant to loan format. Table 2.8 below reports the loans under this facility.

²⁵ M. J. Asensio, 'El proceso de apertura exterior de los cincuenta y el arancel de 1960,' unpublished Ph.D. dissertation (Universidad de Zaragoza, 1995) pp. 299-301.

²⁶ Estimates suggest that close to \$260 million were raised during 1953-1957, Viñas *et al.*, *Política comercial exterior*, vol. 2, p. 824.

Table 2.8. Details of Development Loan Fund credits

Date authorised	Authorised amount	Interest rate
5 Jun 1959, RENFE	\$14,900,000	3.50% p.a.
29 Jun 1960, ISODEL	\$350,000	3.50% p.a.
22 Aug 1960, UNESA	\$1,840,000	5.75% p.a.
Total	\$17,090,000	

Source: Fernández de Valderrama, *España-USA*, p. 51.

Because we have only incomplete data on disbursements of this loan we will need to make an assumption about disbursements to incorporate DLF loans in our final estimate of aid. We have assumed that disbursements took place during 1960.²⁷

We are now in a position to summarise the extent of American aid to Spain through the different programmes, namely the Eximbank (EIB label in tables below) \$62.5 million credit line, the Eximbank cotton credits, the Eximbank second phase of lending, the CCC sale of wheat, defence support, the technical assistance programmes within defence support, the agricultural sales under PL480, the donation of foodstuffs through PL480(title III) (distributed by *Cáritas*) and the loans by the DLF. Table 2.9 below provides a breakdown by programme whilst Table 2.10 immediately below presents the data arranged by categories of aid-financed goods.

²⁷ As reported in 'Cooperación Económica Hispano-norteamericana,' *Información Comercial Española* (April 1960), no disbursements had taken place by 31st December 1959.

Table 2.9. Summary of disbursements of American aid by programme, 1951-1962 (in thousands of dollars)

	1951	1952	1953	1954	1955	1956	1957	1958	1959	1960	1961	1962	CUMUL. 1951-1962	
EIB \$62.5 m	17,118	12,249	13,730	10,849	3,327	2,785	1,486	300	414				62,258	
CCC	20,000												20,000	
Cotton loans	11,965	6,558	5,131										23,654	
EIB 2 nd phase					7,018	1,464	5,616	20,083	24,490	20,818	45,947		125,436	
Defence support				23,357	86,171	81,740	66,601	79,197	44,510	37,200	49,630	11,970		480,376
Defence support (Tech. Assist.).			135	295	710	920	870	1,060	1,010	875	1,175	750		7,800
PL480					16,387	80,937	80,603	94,343	88,260	42,490	42,490			488,000
PL480 (III) (Cáritas)					6,225	14,728	16,836	18,194	12,938	6,531	5,684	4,808		85,944
DLF										17,090				
TOTAL	37,118	24,214	20,423	39,632	112,820	188,128	167,860	198,710	167,215	128,676	119,797	105,965	1,310,558	

Sources: as in tables 2.1 to 2.8 above.

Table 2.10. Summary of disbursements of American aid by goods financed, 1951-1962 (in thousands of dollars)

	1951	1952	1953	1954	1955	1956	1957	1958	1959	1960	1961	1962	CUMUL. 1951-1962
FOODSTUFFS	27,222	-	-	-	-	15,229	42,547	49,794	25,086	30,178	23,670	41,973	16,236
Cotton	4,980	11,985	6,558	20,754	52,945	33,093	19,443	50,517	22,240	19,413	14,993	14,993	271,914
Coal	-	3,495	-	1,756	4,095	2,334	6,467	7,457	6,620	6,900	1,480	-	40,604
Other inputs	3,029	471	-	6,397	10,641	65,854	60,857	84,527	70,770	20,972	19,562	17,742	360,822
SUBTOTAL INPUTS	8,009	15,951	6,558	28,907	67,681	101,281	86,767	142,501	99,630	47,285	36,035	32,735	672,340
CAPITAL GOODS	1,887	8,263	13,730	10,317	25,000	37,428	19,857	22,356	30,087	53,350	34,888	54,747	311,910
Shipments				113	4,200	5,952	10,572	7,707	6,310	3,496	5,726	1,496	45,572
Technical assistance				135	295	710	920	870	1,060	1,010	875	1,175	750
TOTAL	37,118	24,214	20,423	39,632	112,820	188,128	167,860	198,710	167,215	128,676	119,797	105,964	1,310,557

Sources: as in tables 2.1 to 2.8 above.

Overall the data provided are as accurate as is possible with the sources that have survived and bearing in mind that the purpose of the exercise is to proceed to assessing interpretative arguments on a firm basis. The figures presented are stronger for cumulative amounts, either temporal or encompassing groups of commodities. There is an inevitable margin of error even when the authorisations have been followed individually. In certain cases the heading given to a particular authorisation meant that it was unclear as to the actual goods, in particular it was difficult to ascertain the industry of destination of capital goods. Similarly, while in some instances the cost of freight was separated from the goods themselves on other occasions the transportation costs were included in the authorisation. Thus, in the latter case the true value of goods was biased upwards. The procedure here has been to report the value of shippings whenever known since it was not always possible either to assign a particular type of commodity to which those freights corresponded or alternatively to deduct from all those authorizations that included shipping the cost of transportation.

Finally, it may be informative to report the percentage of the aid that was disbursed in the form of grants, loans, and sales for pesetas. Some of the items are straightforward to categorise: Eximbank and DLF were loans; the purchase of wheat through the CCC a sale, while PL480 title III-donation were grants. Defence support and PL480 title I have a more complex treatment. In the case of defence support, these generated counterpart funds, which can be considered as either a sale, when the Spanish government deposits pesetas at the disposal of the American government, or a grant, when the counterpart pesetas are to be used for general development projects of the Spanish economy. The proportion that was available for American use and thus considered sale was originally 70% (grant 30%) but from FY1959 this figure was reduced to 10% (grant 90%).

In the case of PL480 title I the counterpart pesetas were either at the disposal of the American government, and thus a sale, or lent to Spain for 40 years at 3% p.a. The percentages changed for each sale agreement: 50% loan in the first agreement, 60% loan in the second, then 70% loan in the third and

subsequently reduced to 45% in the remaining agreements.²⁸ Once all these particulars are taken into account, the calculation gives the following result, as reported in Table 2.11 below.

Table. 2.11. Breakdown of total American aid according to concessional element
(cumulative values at 30th June 1963, million dollars)

	Amounts disbursed	Percentage of total
Grants	380	29
Loans	472	36
Sales	459	35
Total	1,311	

Source: as in tables 2.1 to 2.8.

²⁸ Baldrich, 'Balance,' p. 39 and Asensio, 'El proceso de apertura exterior de los cincuenta,' p. 290.

2.6. Multilateral aid at the time of the 1959 Stabilisation Plan

There are many contrasts between the American aid that Spain received throughout the period 1950-1963 and the multilateral aid that Spain enjoyed in 1959 to support the Stabilisation Plan. In July 1959 it was announced with great fanfare that Spain was to have at her disposal a large financial cushion to support her through the difficult moments in the balance of payments that the introduction of some trade liberalisation measures were expected to cause. The figure was trumpeted to be as high as \$544 million. However, on closer inspection the amount of 'new' funds available to the Spanish government was much smaller. This is well known in the literature and, for the sake of clarity, we have transcribed the breakdown of the \$544 million and reproduced it in Table 2.12 below. This breakdown will help to guide us through a discussion of the actual funds made available to Spain.²⁹

Table 2.12. Foreign aid announcements in July 1959
in support of the Stabilisation Plan

	in millions of dollars
International Monetary Fund (IMF)	75
European Monetary Agreement (EMA)	100
Pool of private American banks	71
European governments	45
U.S. government	
Eximbank	30
Defence support	40
Agricultural surpluses (PL480)	60
Counterpart fund releases	123
Subtotal U.S. govt.	353
TOTAL	544

Source: taken from J. Sardà Dexeus, 'El Banco de España (1931-1962)', in F. Ruiz Martín *et al.*, *El Banco de España. Una historia económica* (Madrid: Banco de España, 1970) and reprinted in M. Varela Parache (coord.), *El Fondo Monetario Internacional, el Banco Mundial y la economía española* (Madrid: Pirámide, 1994), p. 481.

²⁹ Data for this section has been taken from Sardà, 'El Banco de España,' and J. Muns, *Historia de las relaciones entre España y el Fondo Monetario Internacional 1958-1982* (Madrid: Alianza, 1986), pp. 36-51.

The first element in the table is the \$75 million made available by the IMF. This corresponded to drawings for a total amount of \$50 million and the arrangement of a stand-by loan facility for \$25 million, both approved by the IMF on 17th July 1959. The stand-by arrangement was renewed in August 1960 but no drawings were made on it and was cancelled, at the request of the Spanish government, in March 1961. Soon after, in April 1961, Spain repaid the \$50 million that had initially been drawn. Thus, this \$50 million from the IMF can be considered as multilateral aid, despite the relatively short term in which it was repaid. Moreover, it should be noted that the \$50 million drawing was made against the quota of Spain, which was set at \$100 million out of which \$10 million had been paid in gold upon becoming a member of the Fund.

The second row in Table 2.12 above reports \$100 million to be lent to Spain by the Organisation for European Economic Cooperation through the European Monetary Agreement. It was agreed that \$75 million would be at the immediate disposal of Spain and the further \$25 million would become available in February 1960 provided the Managing Board of the EMA submitted a favourable report. In the event, Spain repaid her drawings of \$24 million by the beginning of 1961 cancelling the credit line altogether. Simultaneously, Spain cancelled the credit line for \$71 million that had been made available by a pool of American banks and which was never utilised.

Reading down the table we encounter \$45 million to be provided by several European governments. This amount was the extent of short-term debts that Spain had on her bilateral trade agreements with several OEEC member countries who agreed not to demand immediate payment of those balances and consolidated the debts.

A similar re-labelling of previously committed funds was undertaken to arrive at the figure of \$353 million that the U.S. was to provide to underpin the stabilisation operation. It involved including in the calculation the programmed amounts of American assistance to Spain during FY1960. Thus, the figures reported in Table 2.12 above do not represent further allocations from the Eximbank, defence support or PL480, but the values that would have been made available to Spain in any case. Moreover, the figure was inflated by announcing that the equivalent of \$123 million of the unspent balance of counterpart pesetas for American use was to be lent to Spain. Including this as aid is doubly

misleading because those counterpart pesetas had originated from deposits from the Spanish government.

It is clear therefore that looking at the multilateral aid episode of 1959 from the standpoint of the additional availability of goods that this aid permitted, the amounts were minimal and for a very limited period.

This should not be interpreted as an attempt to diminish the overall importance of these credits and facilities in underpinning the whole stabilisation programme of 1959. On the contrary, this first glance at the operation can but whet the interest in examining further the relationship between aid donors and Spain in respect to the Stabilisation Plan, a topic which will be discussed at length in Chapter Seven below.

Let us now proceed to use the estimates of aid disbursements elaborated in this chapter and evaluate some of the existing claims about the direct impact of the aid-financed goods in the Spanish economy.

Chapter 3. What was the effect of foreign aid in relieving input bottlenecks in the Spanish economy?

Index

- 3.1. Introduction: why focus on input bottlenecks?
- 3.2. Theoretical considerations when analysing input bottlenecks
- 3.3. Estimating the effect of aid in alleviating input bottlenecks
- 3.4. Conclusion

Abstract

This chapter explores the hypothesis put forward in the existing literature that American aid during the 1950s, despite its relatively modest amount, allowed the Spanish economy to overcome serious shortages of necessary imported inputs. The argument has not been explored in quantitative terms hitherto and the chapter contributes to the literature by applying standard input-output analysis to examine the bottlenecks hypothesis. It concludes that accounting for this effect would not have reduced substantially the (fast) rates at which the Spanish economy was growing. This, however, should not be interpreted as dismissive of the overall effects of aid in Spanish economic growth and underlines the importance of looking at other transmission mechanisms through which aid may have affected economic growth indirectly, which will be the focus and main contribution of the remainder of the thesis.

According to what Camilo [Alonso Vega] has told me, the best thing that the Americans did for us was empty the Madrid bars and cabarets of whores, since they almost all marry American sergeants and GIs.

General Francisco Franco in private, as quoted in P. Preston, *Franco: A Biography* (London: Harper Collins, 1993), p. 627

Given the wide range of bottlenecks that threatened the Spanish economy, an increase in imports, even of not a large amount in absolute terms, would have immediate effects on domestic production provided that those imports were directed to the goods in shortest supply.

J. Clavera et al., *Capitalismo español: de la autarquía a la estabilización (1939-1959)* (Madrid: Edicusa, 1978), p. 254

3.1. Introduction: why focus on input bottlenecks?

The historiography of foreign aid programmes to Spain, and in particular of the direct economic effects of American aid during the 1950s, lacks agreement as to the extent of the effects of aid-financed goods in the Spanish economy. On one hand, many authors were quick to note the relatively limited amounts of aid that Spain enjoyed.¹ The Spanish government and (government controlled) press wasted no opportunity to call for larger aid amounts from the United States.² As the initial quote suggests, these complaints did reflect, at least partly, the opinion of many Spanish policy-makers. From a Spanish point of view, it was not only the actual amounts that were disappointing but also the composition of the goods financed with aid. The bias towards agricultural produce came to be particularly resented. The Spanish commercial attaché in Washington went as far as to report

¹ A. Baldrich, 'Balance y efectos económicos de la ayuda norteamericana,' *Moneda y Crédito*, vol. 61 (June 1957), pp. 27-56. This view was an integral part of the classic study on the Spanish-American base agreement, A. Viñas, *Los pactos secretos de Franco con Estados Unidos: bases, ayuda económica, recortes de soberanía* (Barcelona: Grijalbo, 1981), p. 315.

² Unsigned document 'Economía española y ayuda americana,' 11th July 1956. Archive of the Spanish Ministry of Foreign Affairs [henceforth MAE], Leg. 4615, Exp. 15. In the press, see for example *Ya*, 6th February 1958, or *ABC*, 23rd June 1963. The latter newspaper underlined that Spain had barely received \$3.75 per person per year.

the ‘little or zero value of the new agricultural surpluses programmes offered.’³ The view that the American aid programme had financed an unfortunate mix of commodities would in fact be a common theme in the subsequent literature.⁴

On the other hand, it has also been argued that, despite the limited amount of aid, its direct impact on Spanish economic growth may have been substantial given the severe bottlenecks that afflicted the Spanish economy.⁵ From a very early stage, the Spanish historiography was prone to highlight the importance, in particular, of the provision of raw materials for Spanish industry under the aid programme.⁶ The Bank of Spain, although it conceded that the initial amounts of aid were ‘certainly modest,’ emphasised the good use to which aid had been put and argued that the ‘multiplier effects’ of aid-financed goods were already noticeable.⁷ The second of the opening quotes in this chapter exemplifies this argument. However, the literature has so far failed to provide estimates of the alleged importance of aid financed goods in relieving supply bottlenecks.⁸ Thus, in the absence of further quantification of these claims, the

³ José Antonio Giménez-Arnau [Director-General of Economic Cooperation at Spanish Ministry of Foreign Affairs], as quoted in letter from Ambassador Areilza to Minister of Commerce Arburúa, Washington, D.C., 31st December 1954. MAE, Leg.4615, Exp.15.

⁴ R. Tamames, *La República. La Era de Franco* (Madrid: Alianza, 1986), p. 222. More recently F. Guijao, ‘The United States, Franco, and the Integration of Europe,’ in F. H. Heller and J. R. Gillingham, *The United States and the integration of Europe: legacies of a postwar era* (New York: St Martin’s Press, 1996), p. 91.

⁵ J. Sardà, ‘Prólogo,’ in J. Clavera *et al.*, *Capitalismo español: de la autarquía a la estabilización (1939-1959)* (Madrid: Edicusa, 1978) and J. L. García Delgado, ‘Crecimiento industrial y cambio en la política española en el decenio de 1950. Guía para un análisis,’ *Hacienda Pública Española*, no. 100 (1986), p. 292.

⁶ J. J. Rovira, ‘La ayuda estadounidense,’ in Centro de Estudios Tributarios, *Las inversiones de capital extranjero en España*, vol. 1 (Madrid: AGESA, 1960), p. 165 already emphasised the importance of aid in the provision of very important raw materials for industry, highlighting cotton for the textile industry.

⁷ Banco de España, *Memoria leída en la Junta General de Accionistas (10 y 24 de abril de 1955)* (Madrid: Banco de España, 1955), p. 68.

⁸ E. Fanjul, ‘Papel de la ayuda americana en la economía española,’ *Información Comercial Española*, no. 577 (September 1981), pp. 159-66. Fanjul provides a theoretical discussion of gap models as a justification of the possibly large multiplier

economic historiography of the period has inevitably been careful and vague.⁹ Further attention to this issue is warranted given the existing disagreements on the extent to which an alternative allocation of aid-financed goods may have had a larger impact on the Spanish economy. In fact, the bias towards the provision of foodstuffs and raw materials was publicly justified by the American officials as a way of enhancing the overall contribution of aid to economic growth:

Although it was the Spanish and American government's intention when starting the aid programme to focus on the provision of industrial equipment, the great need of raw materials by existing industries to maintain their output growth rates ended up determining the massive financing of these products after the first year of the aid programme.¹⁰

Irrespective of whether other factors were more significant in determining the allocation of aid, a topic discussed in Chapter Five below, this raises the point that there existed an optimum allocation of goods given a particular aid level. It is also interesting to contrast this statement with the suspicion voiced by some Spanish authors, already before the American aid programme gathered momentum, that aid allocations would not be driven by what was in the best interest of the Spanish economy.¹¹

The chapter addresses two issues. It quantifies the effect of aid-financed goods in relieving input bottlenecks and then asks whether an alternative allocation of commodities would have had a larger direct contribution in alleviating those bottlenecks. In other words, the chapter will judge alternative aid allocations according to the criterion of their effects in easing shortages of

effects of easing the foreign exchange gap but does not undertake the empirical exercise is to estimate such effects.

⁹ J. Harrison, *The Spanish economy in the Twentieth Century* (London: Croom Helm, 1985), pp. 133-34.

¹⁰ E. B. Shearer, 'Significado para España de la ayuda económica norteamericana,' *Revista de Economía Política*, vol. 10, no. 3 (September-December 1959), p. 996. Shearer was an official with the U.S. Operations Mission in Madrid.

¹¹ "Will the government of the U.S. be willing to channel aid in the most favourable way for Spain? We doubt it." E. Fuentes Quintana and J. Plaza Prieto, 'Perspectivas de la economía española,' *Revista de Economía Política*, vol. 4, nos. 1-2, (May-September 1952), p. 112.

inputs, what we refer to as input bottlenecks. The focus on input bottlenecks stems primarily from the emphasis that such claims have received in the literature and alternative criteria to judge the direct contribution of aid-financed goods to the Spanish economy are of course possible. Let us, therefore, provide a brief overview of other possible criteria under which to judge the direct contribution of aid-financed goods to the Spanish economy.

A common first indicator to gauge the extent of an aid programme is comparing it to the Gross Domestic Product (GDP) of the recipient economy.

Table 3.1. American aid as a percentage of GDP

Year	Aid disbursed as % of GDP	Distribution of aid disbursed (in %)*			Year	Aid disbursed as % of GDP	Distribution of aid Disbursed (in %)*		
		Inputs	Foodstuffs	Capital Goods			Inputs	Foodstuffs	Capital Goods
1951	0.45	22%	73%	5%	1958	1.19	35%	50%	13%
1952	0.50	26%	62%	12%	1959	1.56	41%	42%	16%
1953	0.27	51%	0%	49%	1960	1.21	31%	33%	35%
1954	0.41	69%	0%	30%	1961	1.19	15%	57%	25%
1955	0.51	58%	22%	18%	1962	0.89	16%	33%	49%
1956	1.12	35%	50%	11%	1951-1962	1.0	29%	42%	26%
1957	1.62	19%	56%	23%	1954-1958 ^a	1.2	34%	46%	17%

Notes and sources:

* : percentages do not add up to 100 since when available shippings have been accounted separately, as well as technical assistance programmes.

^a : 1954-1958 corresponds to the first five-year period after the signing of the 1953 Spanish-American agreements. It is also a period of interest as it is immediately before the adoption of the 1959 Stabilisation Plan.

See Chapter Two above for sources of aid disbursements, which lagged considerably from appropriations.

As presented in Table 3.1 above, aid to Spain during the 1950s averaged approximately 1% of GDP, far below the average 2.5% of GDP that Marshall Plan recipients enjoyed.¹² As in Chapter Two, by considering disbursements

¹² All GDP figures and deflators are taken from L. Prados de la Escosura, 'Spain's Gross Domestic Product, 1850-1993: Quantitative Conjectures. Appendix,' Universidad Carlos III Working Paper No.95/06 (1995). Aid in dollars has been converted into pesetas using the average exchange rate for imports as calculated by J. M. Serrano Sanz and M. J. Asensio, 'El ingenierismo cambiario. La peseta en los años del cambio múltiple,' *Revista de Historia Económica*, vol. 15, no. 3 (1997), pp. 545-73 for 1950-1958 and the

rather than authorisations, the picture that emerges is one in which aid becomes more forthcoming towards the end of the 1950s. This should be stressed since it contradicts the view in some of the existing literature that, by the end of the decade, the reduction of American aid exacerbated the difficulties in the balance of payments that ultimately led to the Stabilisation Plan in 1959.¹³ According to that literature ‘the stimulating effect of American aid soon evaporated.’¹⁴ Because the stimulus that aid is supposed to be providing is the alleviation of supply bottlenecks, this argument is particularly difficult to reconcile with the picture of increasing aid deliveries.

One direct impact that aid could have had is in reconstructing the infrastructure of the Spanish economy. However, if we compute all capital goods that were devoted to infrastructure, see Tables 2.1 and 2.5 above, only \$11 million (or 3.1%) of all aid-financed capital goods were allocated to such projects. Moreover, the Spanish Civil War had finished long before the American aid programme and, in fact, it had caused little damage to overhead physical capital.¹⁵ American aid could not have been crucial for the reconstruction of Spain after the Civil War.

A second direct effect of aid in the Spanish economy stems from the provision of capital goods under the aid programme. Machinery is not an input incorporated into the production of other goods but rather it enhances the productive capacity of the economy. Aid-financed capital goods may have

official unified exchange rate for 1959-1963, as reported in J. Aixalá, *La peseta y los precios* (Zaragoza: Prensas Universitarias de Zaragoza, 1999). For American aid to Marshall Plan countries see J. B. De Long and B. Eichengreen, ‘The Marshall Plan: History’s Most Successful Structural Adjustment Program,’ in R. Dornbusch, W. Nölling and R. Layard (eds.), *Postwar Economic Reconstruction and Lessons for the East Today* (Cambridge, Mass.: MIT Press, 1993), pp. 189-230.

¹³ M. J. González, *La economía política del franquismo (1940-1970)* (Madrid: Tecnos, 1979), p. 36.

¹⁴ J. Fontana and J. Nadal, ‘Spain, 1914-1970,’ in C. M. Cipolla (ed.), *The Fontana Economic History of Europe. Contemporary Economies*, vol. 6, part 2 (Glasgow: William Collins Sons, 1976), p. 513.

¹⁵ J. Catalan, *La economía española y la segunda guerra mundial* (Barcelona: Ariel, 1995), Ch. 2.

helped to alleviate a situation in which the absence of those capital goods was the constraining factor in output. Some authors are particularly optimistic about this impact.¹⁶ However, it seems unlikely that aid-financed capital goods were of crucial importance. Aid-financed capital goods constitute a small portion of all aid-financed goods (see Table 3.1 above). Crucially, they also represented a relatively small fraction of total net investment as shown, for the years before the 1959 Stabilisation Plan, in Table 3.2 below.

Table 3.2. Contribution of aid-financed capital goods to net investment, 1952-1958

	Total net stock of capital (million of 1990 pesetas)	Net investment (increase in total net stock of capital) (million of 1990 pesetas)	Aid-financed capital goods in current pesetas (using exchange rate for imports)	Aid-financed capital goods in 1990 pesetas (using Prados' deflator BPGDPMP8)	Contribution of aid-financed capital goods to net investment if all aid had been devoted to purchase capital goods (%)	Contribution of aid to net investment if all aid had been devoted to purchase capital goods (%)
1950	13,547,136					
1951	13,802,076	254,940	59	1,690	0.7	13.0
1952	14,226,996	424,920	264	7,548	1.8	5.2
1953	14,691,804	464,808	432	11,878	2.6	3.8
1954	15,365,043	673,239	345	8,991	1.3	5.1
1955	16,226,046	861,003	884	21,806	2.5	11.4
1956	17,231,605	1,005,559	1,288	29,564	2.9	14.8
1957	18,288,428	1,056,823	795	16,165	1.5	12.9
1958	19,467,185	1,178,757	971	17,707	1.5	13.4

Sources: Prados de la Escosura, *Gross Domestic Product* and A. Cubel and J. Palafox, 'El stock de capital de la economía española, 1900-1958,' *Revista de Historia Industrial* (1997), pp. 113-46.

Even in the extreme case that aid had been devoted in its entirety to the purchase of capital goods it would still constitute a relatively modest figure. This reflects the substantial increase during the 1950s in the rate of accumulation of physical capital, which took place primarily in the private sector –a point to which we will return at length in Chapter Six. It is conceivable that those relatively small amounts allowed for the import of machinery with higher

¹⁶ R. R. Rubottom and J. C. Murphy, *Spain and the United States Since World War II* (New York: Praeger, 1984), p. 21.

productivity than domestic capital goods. However, it appears more difficult to argue that it had a dramatic immediate impact, especially if we consider the type of projects into which those capital goods were incorporated. To explore this argument we can descend to the level of the industries that received these goods, for example to the electricity generation sector.

It is commonplace in the Spanish historiography that electricity shortages during the early Francoist period were severe and substantially hindered output growth.¹⁷ In this setting, foreign aid may have contributed, for example, by providing machinery that was incorporated into power plants that increased the production of electricity and hence contributed to ease the constraint. Electricity producers received, in fact, the largest share of capital goods, about \$100 million (or 28.3%) of all capital goods financed with aid. It is, however, noteworthy that the bulk of this was received in the latter stages of the aid programme. In the years 1952 to 1958 it only received \$30 million of the almost \$100 million that would ultimately be received, as shown in Table 3.3 below.

Table 3.3. Aid-financed capital goods assigned to electricity generation, in thousands of dollars

1952	1953	1954	1955	1956	1957	1958
1,336	1,888	3,935	1,154	295	17,241	4,947
1959	1960	1961	1962	1963	1952-1963	1952-1958
4,540	15,049	9,781	19,116	19,626	98,908	30,796

Sources: as in Tables 2.1 and 2.5 above.

If we also consider that these capital goods were incorporated into projects with an especially long construction period (power stations), it seems difficult to argue that foreign aid helped to relieve the constraint that low electricity production may have represented. Moreover, it appears that electricity

¹⁷ J. Castañeda and J. L. Redonet, 'Incidencia de las restricciones eléctricas sobre la economía nacional,' in J. Velarde (sel.), *Lecturas de Economía Española* (Madrid: Gredos, 1969), pp. 397-421.

shortages were no longer a problem by the mid-1950s.¹⁸ It is also worth noting that there is a significant difference between authorised capital goods assigned to utilities (\$138 million) and actual disbursements (\$100 million). This could be compatible with a view that this industry did not require so much imported machinery after all and hence the relinquishing of authorisations that had been originally granted to it. Let us emphasise that our argument is not that the relaxation on the constraint on electricity was of no importance to the Spanish economy, but rather that foreign aid played no role in this alleviation.

That aid-financed capital goods arrived relatively late and that they were primarily directed to projects of a long gestation period is further exemplified by the case of capital goods destined to the *Instituto Nacional de Industria* (INI) steel mill *ENSIDESA*.¹⁹ Overall, the small amounts devoted to the import of capital goods and the lengthy process of construction make it difficult to believe that the effect of aid in contributing *directly* to the expansion of fixed capital could have been extensive.

In any case, those suggesting that aid had a significant direct impact on the Spanish economy have not tended to rely on 'reconstruction' or 'import of capital goods' as the crucial aspect of the direct effects of aid. The more widespread view is that aid proved to be crucial in alleviating a general foreign exchange shortage, which is seen as the most severe restriction in the entire early Franco period and in particular of the 1950s.²⁰ Most accounts are, however, not

¹⁸ C. Sudrià, 'Un factor determinante: la energía,' in J. Nadal, A. Carreras and C. Sudrià (eds.), *La economía española en el siglo XX. Una perspectiva histórica* (Barcelona: Ariel, 1987), p. 333 does not report electricity shortages after 1955.

¹⁹ Approximately 50% of those capital goods that we have classified as assigned to the steel industry were allocated to *ENSIDESA*, the other 50% to *Altos Hornos de Vizcaya*. *ENSIDESA* would only start production in the 1960s. See Dirección General de Cooperación Económica, *Informe sobre el desarrollo de la ayuda económica*, various issues números.

²⁰ J. Catalan, 'Reconstrucción, política económica y desarrollo industrial: tres economías del sur de Europa, 1944-1953,' in L. Prados de la Escosura and V. Zamagni (eds.), *El desarrollo económico de la Europa del Sur: España e Italia en perspectiva histórica* (Madrid: Alianza, 1992), pp. 377-78. For strong views on the foreign exchange gap as

very clear nor explicit about the modelling of the transmission mechanism through which the availability of foreign exchange had such significant repercussions for the Spanish economy.²¹ Let us provide a short discussion of how to provide measurements of such claims.

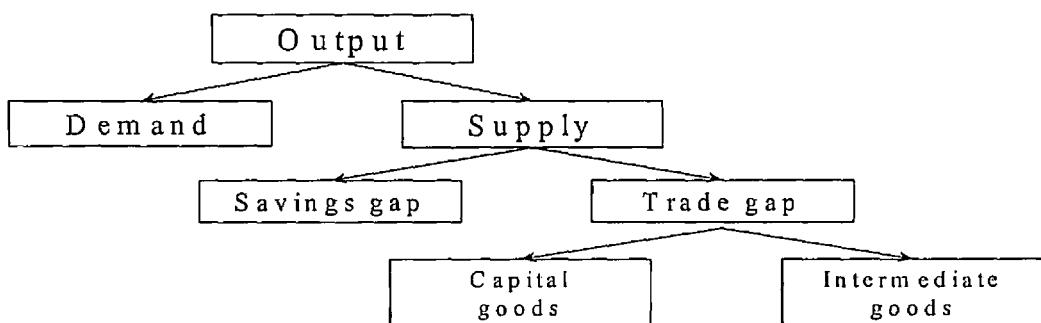
the most crucial bottleneck see the editorials of *Información Comercial Española*, for example 'El sector exterior' in no. 333 (May 1961), p. 15.

²¹ E. A. Díaz Berenguer, 'La ayuda americana a España durante los años cincuenta y sesenta con especial referencia a la P. L. 480,' unpublished Ph.D. dissertation (E.T.S. Ingenieros Agrónomos, Universidad Politécnica de Madrid, 1982) is another optimistic account of the resolution of the foreign exchange constraint by aid, in this case emphasising the role played by agricultural surpluses.

3.2. Theoretical considerations when analysing input bottlenecks

The instinctive idea that greater effect can be achieved by concentrating on where aid is most needed can be formalised by using so-called 'gap models'.²² These models are based on the idea that output in the economy is limited by one binding constraint. Overall output is below its potential and easing the binding constraint will lead to increases in output since there are idle resources in the economy. In the original two-gap models output is constrained because either there existed investment opportunities but insufficient savings to fund them (the savings gap) or because the exports of the country were inadequate to purchase the required imports (the foreign exchange or trade gap). The most constraining of these gaps sets the potential maximum output.²³

Figure 3.1. Gap-modelling the recipient economy



Source: H. White, *Aid and Macroeconomic Performance* (London: Macmillan /St. Martin's, 1998), p. 96.

Figure 3.1 depicts the nature of the gap-modelling exercise, which provides a quantity clearing model so that output is constrained by the binding element of the constraints at each level. Output is first constrained by the smaller of either demand or supply. Then, assuming the supply constraint is binding,

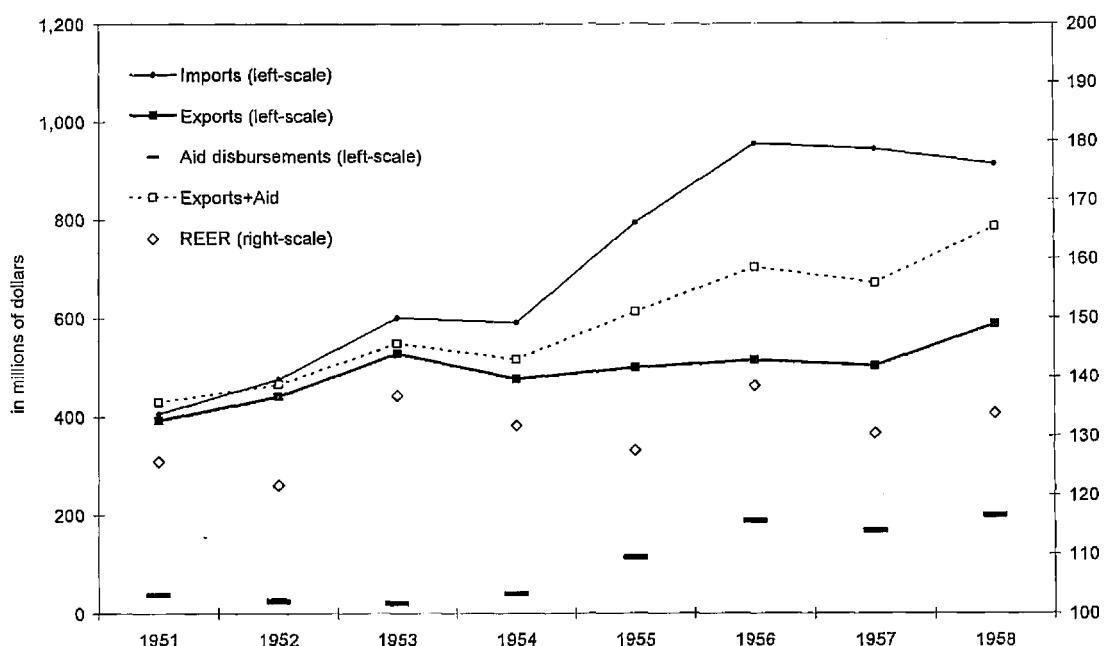
²² L. Taylor, 'Gap models,' *Journal of Development Economics*, vol. 45 (1994), p. 17 and references therein for a review of the literature on gap-models

²³ A model incorporating a third fiscal gap, reflecting that if the government fixes public sector borrowing the availability of government savings may be a tighter constraint on total investment than domestic savings, is discussed in E. L. Bacha, 'A Three-Gap Model of Foreign Transfers and the GDP Growth Rate in Developing Countries,' *Journal of Development Economics*, vol. 32, no. 2 (April 1990), pp. 279-96.

maximum output would be constrained by the most constraining of the savings, trade and fiscal gap. Within the trade gap, we can think of capital goods and intermediate goods as two separate constraints of which the most binding will ultimately determine the level of output attainable.

Gap-modelling is useful for both its practical applications and the insights it provides. One such is the issue of fungibility. Aid is said to be fungible if the aggregates that were supposed to increase (imports or investment) do so by less than the value of the aid inflow.²⁴ Given that aid was provided in the form of commodities there can be no talk of fungibility in the case of American aid to Spain. Yet, if access to resources from the dollar area is the key, then it could be possible to speak of 'dollar fungibility.' In other words, aid may have substituted for imports that would have been financed with export earnings.

Graph 3.1. Current account and aid receipts, 1951-1958



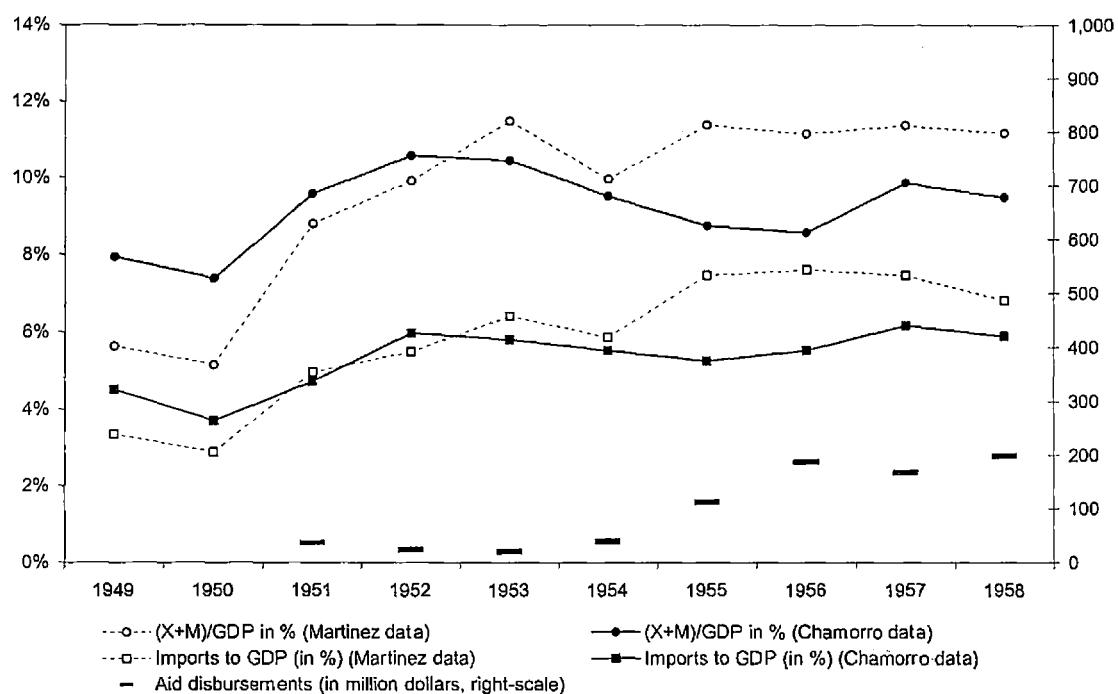
Sources: Imports and exports in thousand dollars (left-hand side scale) from E. Martínez Ruiz, 'Las balanzas de pagos de la autarquía. Una revisión,' Universidad Carlos III Working Paper 98-23 (1998); aid in thousand dollars as in Table 2.14 above, and real effective exchange rate (REER)(right-scale) as calculated by Serrano Sanz and Asensio, 'El ingenierismo,' p. 578 is the nominal effective exchange rate multiplied by the evolution of (weighted) relative prices of Spain and trading partners and indexed at 100 for the post-1959 Stabilisation Plan value.

²⁴ White, *Aid and Macroeconomic Performance*, p. 20.

Although casual inspection of Graph 3.1 cannot settle the issue of fungibility, it is worth noting some features revealed by the graph. Increases in exports and imports appear to be difficult to explain away by either the index of export competitiveness or by changes in the availability of aid. The structure of a highly regimented Spanish foreign trade and its dependence on agricultural exports help to explain the pattern. In any case, and whether this was due to fungibility, to its limited extent or to a combination of both, American aid did not allow a substantial increase in import intensity. As shown in graph 3.2 below, the ratio of imports to GDP stagnates below 8% during the period 1955-1958, paradoxically when aid becomes more forthcoming. Thus, the degree of openness of the Spanish economy during the 1950s remains at very low levels, reaching a peak at 11% in 1953, again, before aid became substantial. A word of caution about the reliability of this trade data is, however, mandatory. In fact, previous estimates of Spanish foreign trade key statistics had shown the stagnation in real terms of imports throughout the period 1953-1958.²⁵

²⁵ A. Tena, 'Comercio exterior,' in A. Carreras, *Estadísticas históricas de España. Siglos XIX-XX* (Madrid: Fundación Banco Exterior, 1989), pp. 327-62. More recent estimates of the balance of payments, Martínez, 'Las balanzas', have not achieved higher levels in various indices of reliability of the figures (basically contrasting data from Spanish sources with the major trading counterparts' data shows serious discrepancies, especially for the 1950s).

Graph 3.2. Openness of Spanish economy, 1949-1958



Sources: Martínez, 'Las balanzas,' and S. Chamorro *et al.*, 'Las balanzas de pagos de España del período de la autarquía,' *Información Comercial Española*, no. 502 (1975), pp. 161-87.

Secondly, from a theoretical perspective there is little point in arguing that the foreign exchange gap was binding under a situation in which the exchange rate is fixed and overvalued, hampering exports. This self-imposed gap could be resolved by policy. Still, we may be interested in knowing whether aid proved to be a cure of a self-inflicted ailment. Similarly, strictly speaking causality runs from aid to gap and not *vice versa*. Transfers from the donor will be accounted as imports without the corresponding matching exports, thus worsening the figures on current account balance. In other words, in an accounting sense 'the aid itself creates the gap.'²⁶ Thus, it is not very helpful to suggest that American aid was important because otherwise the gap would have been too big. This type of statement is common in the general literature, and also on the Spanish case: 'from 1955 onwards, American assistance was vital to

²⁶ H. White and J. Luttk, 'The Countrywide Effects of Aid,' World Bank Policy Research Working Paper 1337, Washington, D.C. (1994), p. 31.

resolve the balance of payments situation.²⁷ Let us now return to the main issue of how to capture the effects of the use of aid-financed goods as inputs.

An activity that does not cater exclusively to final demand, should be expected to induce attempts to utilise its outputs as inputs in some new activities. This is the forward linkage effect. Similarly, an activity that employs significant amounts of intermediate inputs from other activities, should be expected to induce attempts to supply these inputs through expanding domestic production. This is the backward linkage effect. Thus, only forward linkage effects should be considered when studying the impact of aid-financed goods in relieving input shortages. After all, an imported good (aid-financed or otherwise) may be incorporated into the production process but would not generate an increase in the domestic production of the inputs that were required into its production.

This is the spirit in which input-output analysis has entered the discussion about the effects of aid programmes, such as in the Marshall Plan literature.²⁸ The input-output methodology, by providing a picture of the inter-sectoral relationships within an economy, offers a simple way of measuring such linkages. The exercise involves comparing the actual vector of final demand $[D]$ with a counterfactual final demand $[D']$ in the absence of aid-financed goods.²⁹ Using the basic equations of the input-output methodology (see Figure 3.2. below), the exercise can be expressed as follows:

$$(eq.3.1) \quad [D'] = [I-A][X'] \quad cf. \quad [D] = [I-A][X], \quad \text{where } [X'] = [X] - [Aid]$$

²⁷ M. J. Asensio. 'El proceso de apertura exterior de los cincuenta y el arancel de 1960,' unpublished Ph.D. dissertation (Universidad de Zaragoza, 1995), p. 309.

²⁸ De Long and Eichengreen, 'The Marshall Plan,' examine the coal bottleneck for the Italian economy using a 14-sector input-output table.

²⁹ We are ultimately interested in the sum of the elements of vectors D and D' since this sum equates GDP under the assumption that no inventories are kept.

Figure 3.2. Input-output analysis

Sectors			Final demand	Total output
x_{11}	x_{12}	x_{1n}	D_1	X_1
x_{21}	x_{22}	x_{2n}	D_2	X_2
...
x_{n1}	x_{2n}	\dots	D_n	X_n
Factors of production			F_1	F_2
Total output			X_1	X_2
			\dots	X_n

Notes: Leontief's input-output model gives us three identities to work with:
 $[X] = [A][X] + [D]$; $[D] = [I-A][X]$; $[X] = [I-A]^{-1}[D]$, where $[D]$ is the vector of final demand (which by assuming that no inventories are kept equates to GDP), $[X]$ is the vector of total output, $[A]$ represents the technical coefficients matrix where $c_{ij} = x_{ij}/X_j$, $[I-A]$ is usually referred to as Leontief's matrix and $[I-A]^{-1}$ is Leontief's inverse.

In matrix form, the exercise is represented in equation 3.2:

$$(eq.3.2.) \quad \begin{pmatrix} d_1 \\ d_2 \\ \dots \\ d_N \end{pmatrix} = \begin{bmatrix} a_{11} & a_{12} & \dots & a_{1N} \\ a_{21} & a_{22} & \dots & a_{2N} \\ \dots & \dots & \dots & \dots \\ a_{N1} & a_{N2} & \dots & a_{NN} \end{bmatrix} \begin{pmatrix} x_1 \\ x_2 \\ \dots \\ x_N \end{pmatrix}$$

will be compared to

$$\begin{pmatrix} d'_1 \\ d'_2 \\ \dots \\ d'_N \end{pmatrix} = \begin{bmatrix} a_{11} & a_{12} & \dots & a_{1N} \\ a_{21} & a_{22} & \dots & a_{2N} \\ \dots & \dots & \dots & \dots \\ a_{N1} & a_{N2} & \dots & a_{NN} \end{bmatrix} \begin{pmatrix} x_1 - aid_1 \\ x_2 - aid_2 \\ \dots \\ x_N - aid_N \end{pmatrix}$$

where aid_N represents the amounts of aid-financed goods that would have been produced by sector N of the Spanish economy if those goods had been domestically produced.

It can be shown that a change in the j -th element of $[X]$ affects $[D]$ depending on the value of the sum of the j -th column of $[I-A]$ and is usually referred to as the 'forward linkage' of the j -th sector.³⁰ In other words, by calculating the forward linkage for each sector of the economy and cross-referencing them with the amounts of aid we will be in a position to represent graphically how much the actual allocation of aid-financed goods deviated from the optimum.

It should once more be emphasised that the relevance of our measure of linkages is contingent on the criterion under which we are judging the impact of aid-financed goods, namely the effect of aid-financed goods in relieving input bottlenecks. In other words, if we were to shift our focus from the effect of aid in relieving input bottlenecks to other possible supply effects of aid, we would need to reconsider the tools and measurements used. For example, the forward linkage calculated captures 'direct' effects only. Let us clarify this point with an example. A forward linkage of the steel sector would be in the production of machinery which uses steel as an input. A backward linkage would be in the production of coal that is incorporated into steel. These are the 'direct' linkages defined above. However, the increased production of machinery would generate of itself backward linkages as it demands paint, rubber, chemicals, and other inputs needed in the production of the machinery. These are indirect effects which are not captured in the 'direct' linkages. However, they are not of interest in our exercise because the variable we are interested in examining, the vector of final demand, is unaffected. There are of course other variables on which we could have focused our attention and it is always possible to construct alternative indicators of the relationship between sectors of an economy.³¹ The usefulness of such indicators will necessarily depend on the argument under consideration.

³⁰ P. Yotopoulos and J. B. Nugent, 'A Balanced-Growth Version of the Linkage Hypothesis: A Test,' *Quarterly Journal of Economics*, vol. 87, no. 2 (May 1973), pp. 157-71.

³¹ For a review of criticisms to the linkage measure used here see P. Yotopoulos and J. B. Nugent, 'In Defense of a Test of the Linkage Hypothesis,' *Quarterly Journal of Economics*, vol. 90, no. 2 (May 1976), p. 334 who remind us that it should be 'no surprise that interdependence in an economy can be measured in a number of different ways.'

Irrespective of the possibility of constructing other linkage indicators, there are obvious limitations in using such a simplified model of an economy as input-output analysis. Among these, the most relevant for our discussion is the assumption of non-substitutability between inputs, which leads to fixed technical coefficients in production. This assumption most likely leads to overstating the output effects of particular inputs, and hence the output effects of aid-financed goods.³² Given that much of the literature has emphasised the impact of aid in relieving bottlenecks this bias *à la* Fogel in the methodology would strengthen results that show a limited impact of aid via this transmission mechanism. As such, input-output analysis will provide an upper-bound estimate of the effects of aid in alleviating input bottlenecks. Moreover, while backward linkages can be interpreted more safely, forward linkages cannot be said to be causal in that sense, but rather are, to use the existing phrase in the literature, ‘permissive’ of further expansions of output.³³

Bearing these shortcomings in mind, it should however be emphasised that, to the best of my knowledge, no use whatsoever of input-output analysis in the context of the Spanish literature on the impact of aid has been undertaken hitherto and that as such, the exercise below constitutes an original contribution to the Spanish historiography.

³² As Eichengreen puts it, ‘[t]here is no doubt, however, that input-output analysis with its assumption of fixed coefficients overstates the output effect of additional raw material supplies.’ Eichengreen, ‘Mainsprings,’ p.19.

³³ Assuming fixed technical coefficients to increase the output of, for example, steel, requires an increase in the supply of inputs such as coal used in the production of steel. Once steel is produced it may be incorporated into other goods but could also be simply left unused. L. P. Jones, ‘The Measurement of Hirschmanian Linkages,’ *Quarterly Journal of Economics*, vol. 90, no. 2 (May 1976), p. 325.

3.3. Estimating the effect of aid in alleviating input bottlenecks

This section uses the 28-sector input-output table for the Spanish economy in 1954 to undertake the exercise described above.³⁴ The first step is to compare the aid-financed goods to the output of the 28 sectors in the input-output table and to consider which sector would have been the likely producer of the aid-financed goods. We then equate the aid-financed goods with a reduction in the output of that particular sector and consider the impact on the vector of final demand according to equation 3.2 above. We thus capture their forward linkage because those goods would not have been available by the Spanish economy to use as inputs in the absence of the aid programme.

The assignments are relatively straightforward and are shown, as well as some explanation of the residual categories, in Table 3.4 below. In the exercise the matrix of technical coefficients, [A], as well as the relationship between total output, [X], and final demand, [D], are obtained from the input-output table for 1954 and assumed constant through the time-span of our exercise.³⁵ In other words, the possibility that the structure of the economy may have changed as a result of the availability of aid-financed goods is ruled out by assumption. We also assumed no fungibility.

³⁴ A. Alcaide *et al.*, *La estructura de la economía española: tabla input-output* (Madrid: Instituto de Estudios Políticos, 1958). The table does not provide a separate entry for imports.

³⁵ Nominal GDP from Prados de la Escosura, 'Gross Domestic Product,' was used as the time-series for [D]. Using the assumption of fixed relationship between [X] and [D] from the 1954 input-output table the imputed time-series for [X] was calculated.

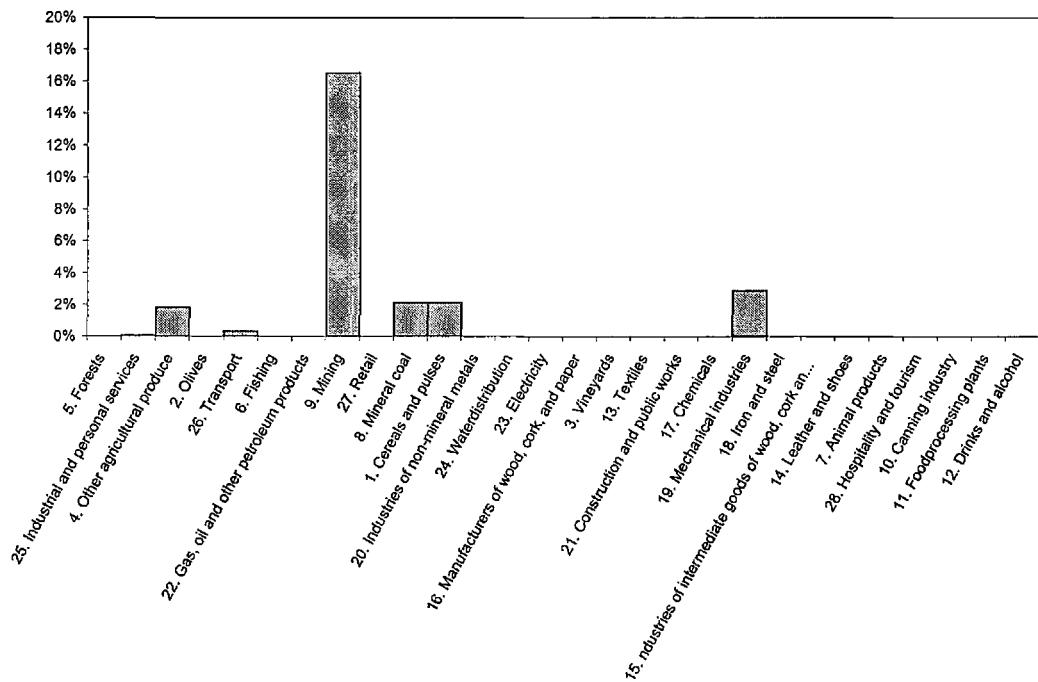
Table 3.4. Aid disbursements as output from Spanish sectors

Commodities	Sectors	Aid-financed goods (in million \$)												
		1951	1952	1953	1954	1955	1956	1957	1958	1959	1960	1961	1962	1951-1962
Foodstuffs	Cereals and pulses (no.1)	27.2	-	-	-	15.2	42.6	49.8	25.1	30.2	23.7	41.8	16.2	271.9
Cotton	Other agric. produce (no. 4)	5.0	12.0	6.6	20.8	52.9	33.1	19.4	50.5	22.2	19.4	15.0	15.0	271.9
Coal	Mineral coal (no. 8)	-	3.5	-	1.8	4.1	2.3	6.5	7.5	6.6	6.9	1.5	-	40.6
Other inputs	Minning (no. 9)	3.0	0.5	-	6.4	10.6	65.9	60.9	84.5	70.8	21.0	19.6	17.7	360.8
Capital goods	Mechanical ind. (no. 19)	1.9	8.3	13.7	10.3	25.0	37.4	19.9	22.4	30.1	53.3	34.9	54.7	311.9
Technical assistance	Indus. services (no. 25)	-	-	0.1	0.3	0.7	0.9	0.9	1.1	1.0	0.9	1.2	0.8	7.8
Shipings	Transport (no. 26)	-	-	-	0.1	4.2	6.0	10.6	7.7	6.3	3.5	5.7	1.5	45.6
	TOTAL	37.1	24.2	20.4	39.6	112.8	188.1	167.9	198.7	167.2	128.7	119.8	106.0	1,310.6

Notes and sources:

^a: wheat was the largest item within foodstuffs; ^b: most of these other inputs were non-ferrous minerals; ^c: although aid authorizations included details of the industry of destination (electricity, steel industry, etc.), it was not possible to ascertain which Spanish sector would have produced those capital goods and were thus assigned as output of sector 'mechanical industries'; ^d: whenever available the value of aid spent in shipping services has been identified. For discussion of sectors see Alcaide *et al.*, *La estructura de la economía española*, pp.100-06.

Graph 3.3. Aid as a percentage of total output by sector, cumulative 1951-1962



Graph 3.3 above complements Table 3.4 by relating aid-financed goods to the total output of equivalent goods produced by the Spanish economy. The large proportion that aid-financed goods represent of the output of sector nine in this graph is probably due to the excessively aggregative nature of the 'other inputs' category used here (see Table 3.5 below for a list of sectors in the input-output table used). Note however, that by assigning the 'other inputs' to the output of sector nine we are biasing upwards the overall impact of these goods via forward linkages, since all other sectors that produce the goods that had been bundled together with minerals in the 'other inputs' category are to the right on the graph. Having identified the inputs that the Spanish economy had at its disposal due to American aid, we proceed to estimate their impact on production using input-output analysis. This depends on the value of the forward linkages associated with the sector of the Spanish economy that would have been the most likely producer of the aid-financed goods. Table 3.5 below reports the value of those forward linkages for the 28 sectors of the Spanish economy.

Table 3.5. Forward linkages by sector

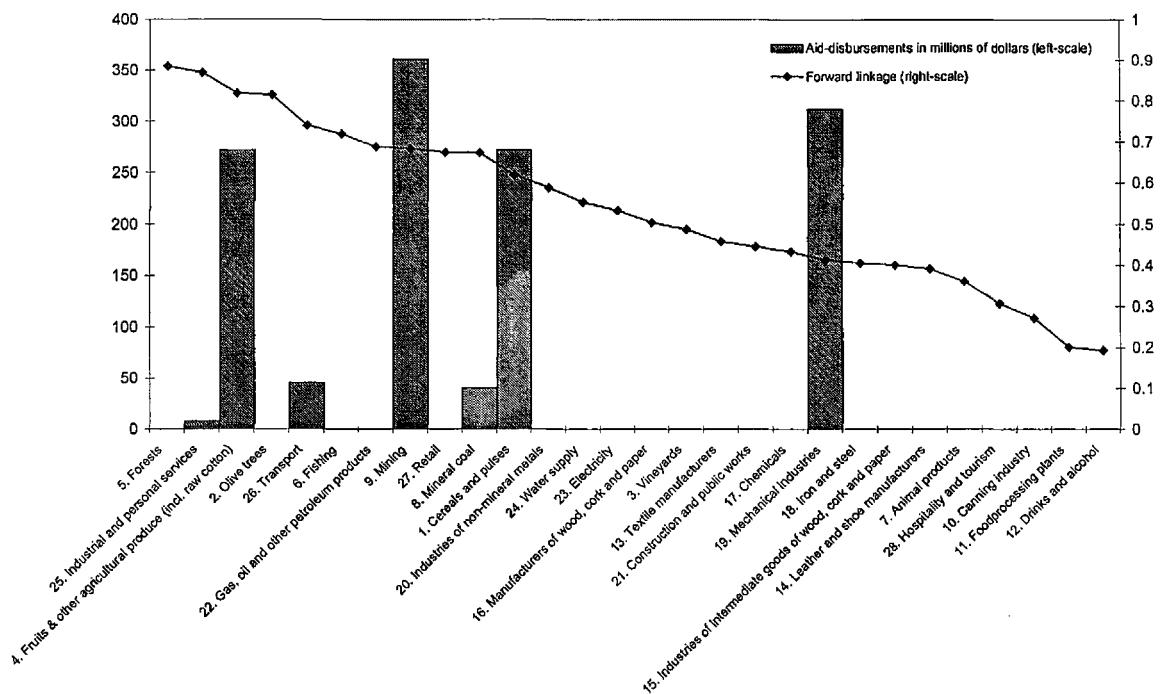
Sector	Forward linkage
5. Forests	0.89
25. Industrial and personal services	0.87
4. Fruits & other agricultural produce (incl. raw cotton)	0.82
2. Olive trees	0.81
26. Transport	0.74
6. Fishing	0.72
22. Gas, oil and other petroleum products	0.69
9. Mining	0.68
27. Retail	0.67
8. Mineral coal	0.67
1. Cereals and pulses	0.62
20. Industries of non-mineral metals	0.59
24. Water supply	0.55
23. Electricity	0.53
16. Manufacturers of wood, cork and paper	0.50
3. Vineyards	0.49
13. Textile manufacturers	0.46
21. Construction and public works	0.44
17. Chemicals	0.43
19. Mechanical industries	0.41
18. Iron and steel	0.41
15. Industries of intermediate goods of wood, cork and paper	0.40
14. Leather and shoe manufacturers	0.39
7. Animal products	0.36
28. Hospitality and tourism	0.31
10. Canning industry (except canned meat)	0.27
11. Foodprocessing plants	0.20
12. Drinks and alcohol	0.19

Source: the forward linkage of sector j is the sum of elements in column j in the matrix $(I-A)$. Calculations based on Alcaide *et al.*, *La estructura de la economía española*.

The weighted average of the direct forward linkage for the economy as a whole, using the shares of sector total output by the economy-wide total output as weights, was calculated to be 0.52. Thus, all aid that was disbursed in the form of goods that had a higher than 0.52 forward linkage would have higher than average multiplier effects.

Graph 3.4 below shows these sectors arranged in decreasing order according to the forward linkage as well as the amounts of aid disbursed.

Graph 3.4. Forward linkages and aid disbursements by sectors, 1951-1962



Source: see text.

In Graph 3.4 aid disbursements would have had a more significant effect in relieving input bottlenecks the further to the left they had been. This confirms the view that an alternative distribution of goods would have had a higher impact on the Spanish economy. It also confirms that raw materials, and in particular cotton, would have been a better use of the aid allocations, always judged by the criterion of easing input shortages. This view of the importance of aid-financed cotton featured already, as we have seen, in some of the early discussions about the aid programme.³⁶

Table 3.6 below provides the results of the counterfactual exercise outlined in Equation 3.2. To address the argument that although the imports financed with American aid did not have high forward linkages, they freed foreign exchange which may have been used to purchase other goods with higher multiplier effects, Table 3.6 shows the effect on national income had all aid been goods with a greater linkage effect.

³⁶ See footnote 6 in this chapter.

Table 3.6. Contribution of aid-financed relief of input bottlenecks to economic performance

	1951	1952	1953	1954	1955	1956	1957	1958	1959	1960	1961	1962	1952-1963
Actual GDP growth, $(D_t - D_{t-1})/D_{t-1}$ as %	33.9	7.8	6.5	14.3	11.6	14.9	17.2	15.0	4.8	3.9	15.1	16.7	11.5*
Aid as % of total output, $[X_t - (X_t - Aid)]/X_t$ as %	0.24	0.15	0.11	0.21	0.56	0.78	0.67	0.78	0.67	0.64	0.52	0.39	0.55
1 st counterfactual: actual aid deliveries, ^a $(D'_t - D_t)/D_t$ as %	-0.29	-0.18	-0.12	-0.27	-0.72	-0.96	-0.87	-1.01	-0.83	-0.71	-0.60	-0.41	-0.63
Weighted average forward linkage of aid-financed goods (=ΔD/Aid)	0.64	0.66	0.55	0.69	0.68	0.64	0.65	0.68	0.64	0.58	0.60	0.56	0.63
2 nd counterfactual: all aid as cotton, ^b $(D''_t - D_t)/D_t$ as %	-0.37	-0.23	-0.18	-0.32	-0.87	-1.23	-1.09	-1.21	-1.05	-1.00	-0.81	-0.61	-0.79
Maximum percentage of actual GDP growth accounted for the relief of input bottlenecks by aid- financed goods (2 nd counterfactual)	1	3	3	2	7	8	6	8	22	25	5	4	7

Notes and sources:

*: annualised GDP growth rate, 1952-1963; ^a : this first counterfactual aims to capture how much smaller would have GDP been (D') in the absence of aid-financed inputs, using the formulae described in equation 3.2 above; ^b : the second counterfactual calculates how much smaller would have GDP been had all amounts of aid been used to procure cotton (a good with much higher forward linkage) as this was in fact a large component of the aid programme and can be argued that it would have been feasible to increase allocations of this good.

Sources as in tables 3.1 to 3.5.

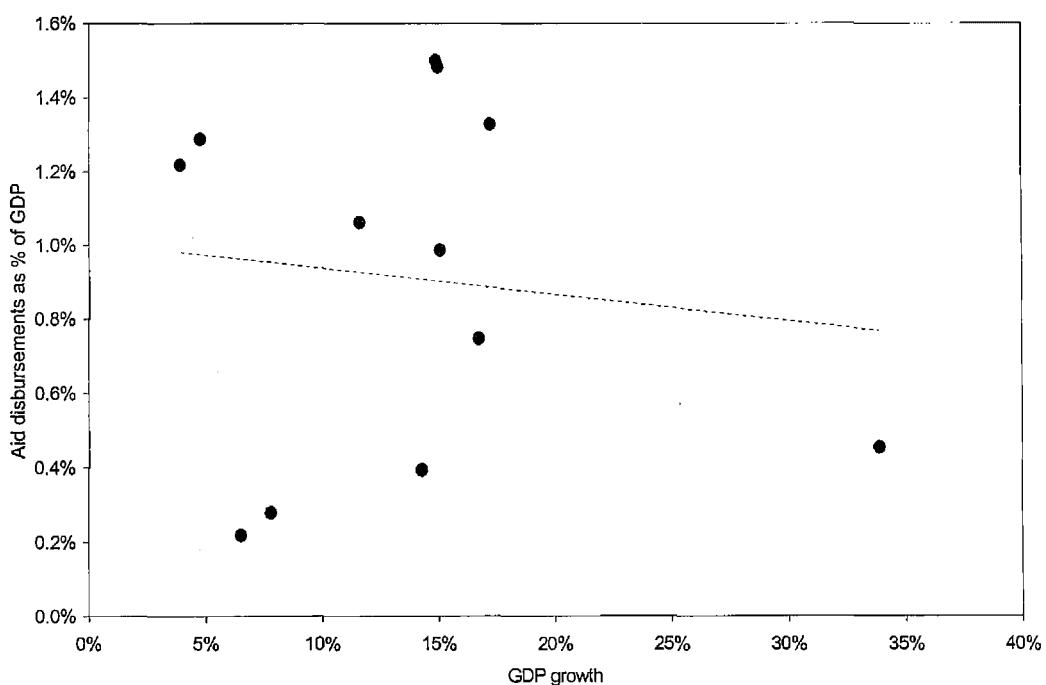
The results from this exercise suggest that, with the exception of the years 1959 and 1960 in which the Spanish economy was in recession, the contribution of aid-financed goods to Spanish economic growth by providing additional inputs was relatively limited. Over the 1952-1963 time period, accounting for the forward linkage effect of aid-financed goods explains less than a tenth of actual GDP growth. Spain would have obviously benefited had she received aid in a similar fashion as other Marshall Plan recipients. However, it is worth noting that the difference would have been made by the increased level of aid rather than from higher forward-linkage goods. In fact, the overall distribution of Marshall aid was not too dissimilar to that of American aid to Spain.³⁷

³⁷ A. S. Milward, *The Reconstruction of Western Europe, 1947-1951* (London: Methuen, 1987[1984]), p. 101 provides the breakdown of Marshall Plan as follows: tobacco, 4.4%; fuel, 15.5%; cotton, 14.0%; other inputs, 18.8%; food and fertilisers, 32.1%; machinery, 14.3%. As noted in Table 3.1 above, Spain received 26% of aid as capital goods, 42% as foodstuffs and 29% as inputs, of which cotton was the largest component.

3.5. Conclusion

Accounting for the relief of input bottlenecks suggests that the Spanish economy could have grown at similar rates even in the absence of American aid during the 1950s. This discussion does not necessarily imply that all has been said about the role of foreign aid in Spanish economic growth. The naïve reading of the counterfactuals undertaken may be that the Spanish economy could have grown at similar rates in the absence of aid. We believe that this is not the end of the story, and that there is more to it than simple relief of supply bottlenecks. However, any explanation provided will have to come to terms with the findings of this chapter. Graph 3.5 below shows the lack of correlation between the amounts of aid and economic growth, a finding that is not surprising given our analysis of the limited effects of aid in relieving input bottlenecks.

Graph 3.5. Correlation between aid disbursed and GDP growth, 1951-1962



Sources: as in Table 3.1 above.

Note: Eliminating the outlier to the far right (33% of GDP growth and 0.5% aid as percentage of GDP for 1951) the single regression line gained a positive slope although the R^2 was still less than 0.05. Using the 1- and 2-lagged variable for aid disbursements as a percentage of GDP showed an even weaker correlation.

Although this only shows a lack of correlation and should not be interpreted in causal terms, it may be insightful as to where to find possible

connections between aid and growth. In other words, our analysis needs to be consistent with the findings in these graphs, that is, were we still to pursue the argument that the amounts were of paramount importance we would need to explain what counterbalancing forces are driving the results in graphs 3.5-7 above. Alternative, we may pursue a line of argument in which if aid is to affect economic growth it is not primarily through the actual amounts but due to the very fact that aid was granted in a particular manner. This latter point should make us look into the conditions attached to aid, and the effect of those.

It should be emphasised that there is nothing in the different channels to be examined in this dissertation that makes them mutually exclusive. Given its pre-eminence in the existing Spanish historiography, a review of the direct effects, with particular emphasis on the relief of input bottlenecks was felt necessary. But failing to shift our focus and to move on to other transmission mechanisms through which aid may have affected Spanish economic growth would be to 'remain trapped in 1960s growth models.'³⁸

³⁸ H. White, 'The Macroeconomic Impact of Development Aid: A Critical Survey,' *Journal of Development Studies*, vol. 28, no. 2 (January 1992), p. 207.

Chapter 4. What were the conditions attached to American aid?

Index

- 4.1. From ostracism to *rapprochement*
- 4.2. The supply of aid
- 4.3. The demand for aid
- 4.4. At the negotiations' table
- 4.5. The outcome of the negotiations

Abstract

Prior to discussing the effects of foreign aid conditionality on Spanish policy-making we must be clear about how we think about conditions, and what were the conditions attached to aid as set out *de jure*. The chapter considers, for the bilateral aid episode, four main headings: the supply of aid, the demand for aid, the bargaining between the parties, and the outcome of the negotiations. The bilateral negotiations between Spain and the United States is a well researched topic which is approached here from the somehow novel angle of focusing on the discussion about the conditions under which the aid was to be granted. The main purpose of this chapter is to provide the necessary background for the subsequent discussion in Chapters Five and Six, and therefore an overview of the negotiation is briefly presented.

4.1. From ostracism to *rapprochement*

This chapter inquires about the terms on which American aid to Spain was granted. The purpose is to provide a meaningful context in which to interpret the American attempts at influencing Spanish economic policy in Chapter Five and to examine the political credibility effects of the American support in Chapter Six. The subject of American-Spanish relations up to the signing of the Pact of Madrid in 1953 is, in fact, much discussed in the literature.¹ This is unsurprising given that the hope for ‘a peaceful withdrawal of [General Francisco] Franco’ gave way to the signing of bilateral agreements covering defence and economic aid within the span of very few years. As a contemporary analyst put it, Spain had gone ‘from United Nations outcast to United States partner.’² Published monographs include detailed discussions of issues such as the bureaucratic formulation of American policy towards Franco’s Spain,³ the role of Anglo-American relations in such process,⁴ or the problems for the U.S. in reconciling its new policy toward Spain with North Atlantic Treaty Organisation (NATO) commitments.⁵ Several unpublished dissertations deal with the general

¹ The classic accounts are, using public information, A. P. Whitaker, *Spain and the Defense of the West. Ally and Liability* (New York: Harper, 1961) and, using Spanish archival material for the first time, A. Viñas, *Los pactos secretos de Franco con Estados Unidos. Bases, ayuda económica, recortes de soberanía* (Barcelona: Grijalbo, 1981).

² ‘Franco’s Foreign Policy: From U.N. Outcast to U.S. Partner,’ *World Today*, vol. 9, no. 12 (December 1953), pp. 511-21. On 12th December 1946 the United Nations passed a resolution recommending the recall from Madrid of the ambassadors of U.N. member states as well as debarring Spain from membership of any U.N. agencies. The resolution was adopted with the support of all major powers. See J.A. Lleonart Anselem, *España y O.N.U.*, vol. I (1945-46) (Madrid: CSIC, 1978) and subsequent volumes (II-V) for developments up to 1950.

³ T. J. Lowi, ‘Bases in Spain,’ in H. Stein (ed.), *American Civil-Military Decisions: A Book of Case Studies* (Birmingham, Ala.: University of Alabama, 1963), pp. 668-705.

⁴ Q. B. Ahmad, *Britain, Franco and the Cold War 1945-1950* (New York: Garland, 1992); J. Edwards, *Anglo-American relations and the Franco question, 1945-1955* (Oxford: Clarendon Press, 1999).

⁵ J. Edwards, ‘Circumventing NATO: Spain, Drumbeat and NATO,’ in B. Heuser and R. O’Neil (eds.), *Securing Peace in Europe, 1945-1962: Thoughts for the Post Cold War Era* (London: Macmillan, 1992), pp. 159-72.

formulation of American policy towards Franco's Spain,⁶ or with specific aspects of it, such as the role of Spain within the wider Cold War,⁷ of the American Congress,⁸ or that of public opinion in the U.S.⁹ Similarly, the agreements with the U.S. feature in Spanish works which, although not monographs, deal with the issue at length.¹⁰

As new (mainly American) archival sources have become available, there has been a recent revival in the interest on the topic.¹¹ Among the revisions that this literature has put forward is a more balanced view of the bargaining position of the parties: Spain is no longer seen as being forced to sign whatever the Americans suggested.¹² However, it is unfortunate that contributions to the

⁶ R. W. Gilmore, 'The American Foreign Policy-Making Process and the development of a Post-World War II Spanish Policy, 1945-1953: A Case Study,' Ph.D. dissertation, (University of Pittsburgh, 1967); S. B. Weeks, 'United States Policy Towards Spain, 1950-1976,' Ph.D. dissertation (American University, Washington, D.C., 1977).

⁷ R. B. Jones, 'The Spanish Question and the Cold War 1944-1953,' Ph.D. dissertation, (University of London, 1987); F. G. Balch, 'The United States and Spain, 1945-1953: A Study in the Evolution of the Cold War,' Ph.D. dissertation (Tufts University, 1963).

⁸ A. J. Dorley, 'The Role of Congress in the Establishment of Bases in Spain,' Ph.D. dissertation (St. John's University, New York, 1969).

⁹ S. C. Bengal, 'The Unites States and Spain, 1939-1946,' Ph.D. dissertation (Fordham University, New York, 1959).

¹⁰ M. Espadas, *Franquismo y Política Exterior* (Madrid: Rialp, 1988) and A. Marquina, *España en la política de seguridad occidental, 1939-1986* (Madrid: Ed. Ejército, 1986)

¹¹ Liedtke, *Embracing a dictatorship*, based on the author's thesis, B. N. Liedtke, 'International relations between the U.S. and Spain: economics, ideology and compromise,' Ph.D. dissertation (London School of Economics, 1996) published as B. N. Liedtke, *Embracing a dictatorship* (New York: St Martin's Press-Macmillan, 1998), and A. Jarque Íñiguez, «*Queremos esas bases*. *El acercamiento de Estados Unidos a la España de Franco*» (*Alcalá: Universidad de Alcalá-Centro de Estudios Norteamericanos, 1998*). Similarly, B. N. Liedtke, 'Spain and the United States, 1945-1975,' in P. Preston and S. Balfour (eds.), *Spain and the Great Powers in the Twentieth Century* (New York: Routledge, 1999), pp. 229-44 discusses mainly the negotiations leading to the Pact of Madrid.

¹² Liedtke, *Embracing a dictatorship*, p. 4. This contrasts with Viñas, *Los pactos*, which heavily criticised the agreements for their imbalance. The overall tone in Viñas echoes

literature have not engaged with each other.¹³ Liedtke and Jarque do not interact (though they arrive at similar conclusions) and it is even more unsatisfactory that neither of the two actually discuss the more revisionist findings of Guirao.¹⁴

This chapter therefore addresses, and to a limited extent complements, the existing interpretations in the literature on the role of conditionality in the signing of the agreements between Spain and the U.S. The chapter is organised around the following questions –which, to facilitate comparisons, are the same questions to be addressed in Chapter Seven about the multilateral aid episode:

- What were the motives of the U.S. in granting aid and its attitudes as to the attachment of conditions to it (the supply of aid)?
- What were the motivations of Spain in requesting aid (the demand for aid)?
- What role, if any, did discussions on conditionality play during the negotiation process?
- What was the outcome of the negotiations (i.e., the formal conditions, policy-based, political, and other, resulting from the negotiations)?

The contribution of this chapter to the literature of the American-Spanish relations up to 1953 is limited to a refocusing of the topic. It rearranges available material, archival and otherwise, in a way that concentrates on two aspects of the American-Spanish *rapprochement* that have not featured highly in existing accounts: the ambiguous assessment by the U.S. of its interest in Spanish economic policy-making and the Spanish yearning for a durable long-term commitment of U.S. assistance.

the instruction that Franco allegedly gave his negotiators: ‘in the last resort, if you don’t get what you want, sign anything they put in front of you. We need that agreement.’ As quoted in J. M. de Areilza, *Diario de un Ministro de la Monarquía* (Barcelona: Planeta, 1978), p. 45. Areilza was Spanish Ambassador in Washington from 1954 to 1960.

¹³ In particular, the work of F. Guirao, ‘Spain and European Economic Cooperation, 1945-1955. A Case Study in Spanish Foreign Economic Policy,’ Ph.D. dissertation, European University Institute, 1993, chapter 4, is not addressed by recent contributions to the literature such as Jarque, *Queremos esas bases* and Liedtke, *Embracing a dictatorship*.

¹⁴ Guirao, ‘Spain and European Economic Cooperation’, Chapter 4.

Other topics which the literature has discussed at length, and where a sort of consensus has been reached, will only be briefly reviewed. Among the latter is the role of American Congress or the efforts to finance a *Spanish lobby* that would press for pro-Spanish policies in Washington. The vigorous lobbying by high Spanish officials in Washington such as José Félix de Lequerica, a former Foreign Minister, probably added little to a change of policy that was largely dominated by events outside the control of the Franco regime.¹⁵ Given the dislike of Lequerica in the State Department, to some extent the American change in policy was adopted 'despite Lequerica's efforts rather than because of them'.¹⁶

Let us then turn to discuss the American position, focusing, as noted above, on the extent to which Spanish economic policy-making and attempts at influencing it featured in their approach.

¹⁵ A more optimistic view about the decisiveness of the *Spanish lobby* in modifying American policy can be found in M. J. Cava Mesa, *Los Diplomáticos de Franco. J.F. de Lequerica, temple y tenacidad (1890-1963)* (Bilbao: Universidad de Deusto, 1989). This author also provides details of the several hundred thousand dollars spent in this venture (pp. 345-47).

¹⁶ Memorandum of conversation between Mariano Yturralde, Director General of Economic Affairs, Spanish Ministry of Foreign Affairs and Theodore W. Achilles, State Department, by the Theodore W. Achilles, Director of the Office of Western European Affairs, Washington, 24th January 1950, *Foreign Relations of the United States* (henceforth *FRUS*), 1950, III, p. 1556. Pro-Spanish elements existed in the American Congress before Lequerica's mission to Washington. For example, the O'Konsky amendment in March 1948 to include Spain in the European Recovery Program was approved in the House of Representatives and only overruled by presidential initiative.

4.2. The supply of aid

In 1947, as the prospect of cooperation with the Soviet Union evaporated, American foreign policy became increasingly driven by the doctrine of containment sponsored by George F. Kennan, head of the Policy Planning Staff at the Department of State. In short, the doctrine of containment suggested that dialogue could never curtail Soviet expansionism and pressed for the necessity of building a firewall around the Soviet Union. American policy towards Spain was accordingly reviewed. In October, the Department of State reached the conclusion that security considerations required that policy toward Spain be modified with a view to an early normalisation of relations and, in December, the National Security Council (NSC) issued its 'Report on U.S. Policy toward Spain' (known as document NSC 3).¹⁷ The purpose of NSC 3 was, in the words of U.S. Under-Secretary of State Robert Lovett, 'to quit kidding ourselves as to our interest in Spain and to reorient our policy in relation thereto'.¹⁸ NSC 3 was, if grudgingly, approved by President Harry S. Truman and became official U.S. policy in January 1948.¹⁹

The underlying rationale behind this change of policy was the geo-strategic importance of Spain. The Iberian Peninsula provided an excellent location for naval bases near the straits of Gibraltar while the high central plateau could serve as a springboard in medium-range air operations.²⁰ By mid-

¹⁷ A. Kasten Nelson (ed.), *The State Department Policy Planning Staff papers, 1947-1949*, vol. 1, (New York: Garland, 1983), pp. 124-28.

¹⁸ Minutes of the 4th meeting of the National Security Council (NSC), 17th December 1947, reproduced in D. Merrill (ed.), *Documentary History of the Truman Presidency*, vol. 23 (Bethesda, Md.: University Publications of America, 1998), p. 248.

¹⁹ Acheson, in his memoirs, gives precisely the example of Truman's dislike of Franco as an example of the president's deep-seated beliefs. D. Acheson, *Present at the Creation* (London: Hamilton, 1970), p. 169. As recalled by Paul Nitze, who had replaced George Kennan as head of the Policy Planning Staff, as late as 1952 Truman still had outbursts when he appeared determined to veto the new U.S. policy towards Spain, P. H. Nitze, *From Hiroshima to Glasnost: At the Center of Decision: A Memoir* (New York: Grove Weidenfeld, 1989), p. 83.

²⁰ L. Farnsworth, 'Spain in Western Defense,' *Foreign Affairs* (July 1953), pp. 648-62, analyses in detail Spain's strategic importance.

1947 the U.S. Joint Chiefs of Staff (JCS) had already voiced their interest in the Iberian Peninsula considering that, of potential areas of interest for development of bases, rights from Spain were 'the most essential.'²¹ American military planners argued that the U.S. 'should furnish economic aid to Spain as soon as feasible in order to strengthen her capacity for military resistance.'²²

It should be emphasised, however, that the change in policy was not an all-out endorsement of military views. At first, it was limited to attempting a revocation of the U.N. General Assembly 1946 resolution and NSC 3 simply called for a 'normalization of U.S.-Spanish relations, both political and economic' without mentioning a possible aid programme.²³ Opposition from Truman and influential sectors in public opinion formation made the articulation of the policy change not an easy task. The U.S. was also aware that rapprochement with Spain could upset its Western European allies, not only because of the strong anti-Francoist sentiments in Western Europe but also because of the suspicion that if they secured bases in Spain the Americans would retreat behind the Pyrenees in the event of hostilities.²⁴ For this reason, American diplomats stressed the need of a political and economic overhaul of the Spanish regime for NSC 3 to be activated.²⁵

In fact, although this may at first appear paradoxical, the military reappraisal of the importance of Spain was the closest that the U.S. came to sponsoring an uprising against Franco. If Spain was essential from a strategic point of view and the Franco regime was the only obstacle in securing American interests, this provided a rationale for working towards Franco's ousting. The U.S. even consulted with the British on whether they would cooperate in such moves. Eventually, it was concluded that there was considerable uncertainty

²¹ Joint Strategic Survey Committee, 29th April 1947, *FRUS*, 1947, I, p. 747.

²² As quoted in Liedtke, 'International relations,' p. 47. The *Drumbeat* report of August 1947, formally 'The Soviet Threat Against the Iberian Peninsula and the Means to Meet It,' is also discussed by Edwards, 'Circumventing NATO,' p. 164.

²³ *FRUS*, 1947, III, p. 94.

²⁴ 'Foreign Military and Economic Assistance,' prepared by the International Security Affairs Committee, Washington, 8th August 1951, *FRUS*, 1951, I, p. 374.

²⁵ Culbertson to the Secretary of State, Madrid, 26th December 1947, *FRUS*, 1947, III, p. 1098.

about the type of regime that would succeed Franco and opening Pandora's box in such a way was deemed to be too risky a policy.²⁶

However, the new American policy toward Spain was as unsuccessful as the previous one, since it neither brought Spain into the U.N. nor prompted any substantial political or economic change within Spain. Consequently, from the beginning of 1949 the Department of State conducted another review of U.S. economic policy toward Spain. On 13th April 1949, Dean Acheson, U.S. Secretary of State, informed the Embassy in Spain of the decision to 'no longer object in principle to [the] filing [by Spain] of applications with [the] Eximbank for credits.'²⁷

News about Soviet atomic capability in September 1949 and the outbreak of the Korean War in late June 1950 contributed to a reassessment of American national security policy, by now guided by National Security Council directive (NSC) 68. The change in policy toward Spain could only accelerate. The communist scare had swept across much of the West and attitudes towards Franco's Spain changed accordingly. This change was not limited to military circles. *The Economist*, for example, hitherto fiercely anti-Francoist, now thought support to Franco to be justified because 'if [Spain] is not propped up, it will collapse into Communism.'²⁸

A not too dissimilar line of thinking had been taking shape among American diplomats. The American *Chargé d'Affaires* in Spain, Paul Culbertson worried that although economic breakdown in Spain was by no means certain, it was 'clearly [a] possibility' which would 'seriously affect Spanish political stability with no immediate alternative to replace Franco which could control situation.'²⁹ Culbertson emphasised that such an eventuality was 'not in our

²⁶ Liedtke, 'International relations,' p. 40.

²⁷ Acheson to the Embassy in Spain, Washington, 13th April 1949, *FRUS*, 1949, IV, p. 735.

²⁸ *The Economist*, 'The Deal with Franco,' 25th August 1951, p. 434. Contrast with its earlier dwelling on its repulse of dealing with Franco's Spain (3rd April and 22nd May 1948) and confident that 'as the Communist threat to Western Europe recedes Franco's *raison d'être* will disappear,' 16th October 1948, p. 613.

²⁹ Culbertson to Acheson, Madrid, 17th February 1949, *FRUS*, 1949, IV, p. 730.

interest' and suggested that Spain had access to Eximbank loans.³⁰

American attitudes in relation to the political and economic conditions which would be required from Spain as a prerequisite for any agreement changed accordingly. In February 1948 Culbertson had informed the Spanish Foreign Minister, Alberto Martín Artajo, that although the U.S. was not ready to grant credits now, these would be possible 'if the Spanish government gave concrete signals of their intention to progress towards greater economic efficiency and democratic liberalization.'³¹ However, this official position contrasts with the private acknowledgement that Franco may have well realised that not only there was little to be gained from political liberalisation, it could well be counterproductive for the Franco's government aim of securing American assistance:

Praise of their regime by many visiting Americans, especially the military minded, have moreover encouraged a feeling that they are a better financial risk with a 'strong' government than with one 'weakened' by reforms 'encouraging to troublemakers.'³²

The U.S. Congress, which had been significantly pro-Spanish since the discussions of the European Recovery Program, resumed its pressure on the Executive to provide support to Spain irrespective of political developments in the Franco regime. The encouragement to liberalise politically the Franco regime, it was felt in the Department of State, was being 'neutralized' by the attitude and statements of the American military and staunch pro-Spanish politicians such as Senator Pat McCarran.³³

From 1949 onwards political liberalisation demands were permanently dropped by the U.S.³⁴ There was little doubt that economic aid to Franco would strengthen his regime but by now this was precisely the objective of U.S. policy. The question then was how to ensure that the economic aid to be furnished made the greatest contribution to Spanish economic rehabilitation. The issue of

³⁰ *Ibid.*

³¹ Note by Culbertson, Madrid, 2[?] February 1948, *FRUS*, III, p. 1023.

³² Culbertson to Acheson, Madrid, 14th February 1949, *FRUS*, 1949, IV, pp. 727-29.

³³ Culbertson to Acheson, Madrid, 3rd October 1949, *FRUS*, 1949, IV, p. 761.

³⁴ Viñas, *Los pactos secretos*, p. 115 *et seq.*

economic policy conditions to be attached to this assistance was therefore inevitably raised.

The potential benefits of attaching economic policy conditionality

The Americans were conscious of the potential importance of attaching policy conditions to aid disbursements both in using conditionality as a substitute for collateral and in maximising the impact of aid. In mid-1949 the instructions given to the American representatives in Madrid were to make it 'quite clear to Spanish authorities' that economic policy reform was a 'prerequisite [for] obtaining financial assistance from the U.S. Government.'³⁵ Acheson stressed that economic policy conditions were necessary because both the Department of State and the Eximbank 'have most serious doubts and reservations at present time as to Spanish capacity to make repayment,' saw the critical economic situation in Spain as clearly self-inflicted and called for policy conditionality:

You should make it quite clear to Spanish authorities that general demonstration of capacity and willingness to make more effective use of Spain's own resources is prerequisite obtaining financial assistance from U.S. Government.³⁶

In the same communication, Acheson went on to outline three necessary reforms in the Spanish economic policies relating to the adoption of a realistic unitary exchange rate, the removal or moderation of barriers to foreign investment in Spain, and the progressive reduction in scope of the I.N.I. (Instituto Nacional de Industria –National Industry Institute). Similar language was in fact used when discussing the prospects of aid with Spanish officials.

In November 1949, a representative from Spain, the Count of Marsal, was received by Theodore Achilles, Director of the Office of Western European at the Department of State. Achilles went through the need to rectify Spanish policy on exchange rates, 'excessive controls over imports, the influence of the INI, and

³⁵ Acheson to the Embassy in Spain, Washington, 13th April 1949, *FRUS*, 1949, IV, p. 736.

³⁶ *Ibid.*

the restriction of 25% on foreign investment and the treatment of such investment as for instance in the case of Barcelona Traction Company.³⁷

The emphasis on economic policy change as a prerequisite for assistance was a strong feature of the letter from Acheson (and cleared with Truman) to the Chairman of the Senate Committee on Foreign Relations, Senator Tom Connally, in January 1950. The letter was distributed to the press with the intention of indicating the changes in policy toward Spain, primarily that political objections to the Franco regime were no longer to be raised. The text was also very clear about the prospect of economic assistance. It stated that Spain could apply for Eximbank credits emphasising the need to ensure that there was a 'reasonable prospect of repayment.' The letter also regretted the 'little action' of the Spanish government in simplifying policies such as the exchange rate system or the export and import controls. In short, Acheson complained about the Spanish government's slowness in 'taking constructive steps to promote its trade and to attract foreign investment.'³⁸

There was little indication up to mid-1950 that such demands for economic policy change would be dropped by the Americans. If anything, it appeared that Truman had regained some of the ground lost in his anti-Franco policy. On 30th March 1950, Truman in a press conference equated Franco's regime with Hitler's and Stalin's.³⁹ In private, as late as mid-June 1950, Truman found the National Security Council policy towards Spain 'decidedly militaristic and in my opinion not realistic.'⁴⁰ This will change with the outbreak of hostilities in the Korean peninsula on 23rd June 1950. The Korean War is usually seen as a turning point at which Truman's struggle to contain postwar military spending finally buckled. In terms of American policy toward Spain, many commentators have similarly noted the turning point around the Korean War,

³⁷ Memorandum of conversation between Count of Marsal, Marquis of Nerva, Achilles, Randall and Dunham, by William B. Dunham of the Office of Western European Affairs (State Department), Washington, 1st November 1949, *FRUS*, 1949, IV, p. 763.

³⁸ Acheson to Connally, Washington, 18th January 1950; *FRUS*, 1950, III, pp. 1554-55.

³⁹ 'There isn't any difference between the totalitarian Russian government and the Hitler government and the Franco government in Spain. They are all alike.' in Merrill, *Documentary History of the Truman Presidency*, vol. 25, p. 45.

⁴⁰ Truman to Acheson, Washington, 16th June 1950, *FRUS*, 1950, III, p. 1562.

suggesting that it ‘shifted the [American] priority from political to military considerations.’⁴¹ In particular, it was to lead to the gradual dropping of the demand for economic policy reform as a prerequisite for the provision of aid.

The first substantial change that took place was the approval on August 1950 of the \$62.5 million loan to Spain to be administered by the Eximbank. Only in April a similar vote had been lost in Congress.⁴² Although it is true that the President reluctantly signed the bill including the appropriation for Spain, as the military situation in Korea continued to deteriorate he would not be in a position to stop the evolution of the new policy toward Spain, NSC 72, to which in June 1950 he had opposed. On 4th November 1950 the U.S. supported the UN General Assembly vote in favour of nullifying the 1946 Resolution excluding Spain.⁴³

By January 1951, Acheson agreed that the ‘potential military value of Spain’s geographic position grows steadily in direct proportion to the deterioration of the international situation’ and conceded that it was ‘necessary to incorporate Spain into the strategic planning for [...] our national security.’⁴⁴ Most significant of all, in his comments on the new policy toward Spain (NSC 72/2), the Secretary of State had dropped any mention of the economic policy conditions that Spain needed to satisfy to receive aid. On the contrary, he worried that the ‘longer we delay before seeking Spanish cooperation, the more we

⁴¹ Whitaker, *Spain and the Defense of the West*, p. 38.

⁴² To earmark \$50 million for Spain under the European Cooperation Act. Vifas, *Los pactos*, p. 55.

⁴³ Guiarao refines the argument of the importance of the Korean War as a turning point in American policy toward Spain, suggesting that as a result of the conflict the Americans felt their policy towards Spain freed from reaching a previous consensus with its European allies, Guiarao, ‘Spain and European Economic Cooperation,’ pp. 282, 294. Similarly, the fact that the deterioration of the military situation in Korea peaked towards the end of 1950 with China’s involvement in December and that in any case the process of policy formulation in the U.S. did involve a considerable period of time may contribute to help explain why the change in policy is more visible in early 1951 than in mid-1950.

⁴⁴ Draft report by Acheson to the NSC, Washington, 15th January 1951, *FRUS*, 1951, IV, p. 773.

encourage [...] the Spaniards to place an exorbitantly high price on their cooperation.⁴⁵

Secretary of Defence George C. Marshall advocated that the American government's attitude toward Spain should 'reflect more of a sense of urgency in securing our objectives.'⁴⁶ The JCS argued that the coalition of Western powers to fight communism in Europe would be 'greatly strengthened' by the inclusion of Spain and that measures should be 'immediately initiated by the United States to make Spain one of our military allies.'⁴⁷ The clout of the military had become so important that despite numerous warnings from the Department of State about the impracticability of a policy attempting to force Spain into NATO (NSC 72/3) the revised statement of policy (NSC 72/4) still aimed at 'early Spanish participation in the North Atlantic Treaty.'⁴⁸

When Acheson wrote to the Ambassador-Designate to Spain, Stanton Griffis, the briefing included the usual complaints about Spanish economic policy on the treatment of foreign investors, exchange rates, and exchange controls. However, these were now 'subjects which you may discuss with Spanish officials.'⁴⁹ The American military recognised the French and British opposition, but were determined in seeing through the new American policy toward Spain and only conceded on pursuing a bilateral arrangement rather than bringing Spain into NATO.⁵⁰

The consensus reached in Washington by Congress, Defence and State would prove insurmountable opposition for the President to overcome. At the time of accepting a further revision of U.S. policy toward Spain (NSC 72/6), Truman stated that he 'would not let [his] personal feelings override the convictions of you military men.'⁵¹ By this date, the military had already been granted permission to send a senior figure for exploratory talks with Franco on

⁴⁵ *Ibid.*, p. 774.

⁴⁶ Marshall to the NSC, Washington, 29th January 1951, *FRUS*, 1951, IV, p. 783.

⁴⁷ Study by the JCS, Washington, 15th January 1951, *FRUS*, 1951, I, p. 66.

⁴⁸ Statement of Policy by the NSC, Washington, 1st February 1951, *FRUS*, 1951, III, p.789. President Truman approved it on 2nd February, becoming official U.S. policy.

⁴⁹ Acheson to Griffis, Washington, 6th February 1951, *FRUS*, 1951, IV, p. 793.

⁵⁰ Study prepared by the JCS, Washington, 13th April 1951, *FRUS*, 1951, I, p. 77.

⁵¹ 19th July 1951, as quoted in Liedtke, *Embracing a dictatorship*, p. 106.

the possibility of establishing military bases in Spain.⁵² As a result of those early talks it was agreed that the U.S. would send two teams, one to focus on military matters and one on economic issues, to survey the country during the summer of 1951.

The earlier concern of Acheson about the advisability of lending to or assisting a regime which was following a self-destructive economic policy had now given way to a calculation in which the price of acquiring bases dominated policy formation. Aid was the '*quid pro quo* [...] our chief bargaining weapon in negotiations with the Spanish Government.'⁵³

It is important to emphasise that the abandonment of that early concern about the importance of Spanish economic policies did not derive from a revised analysis of its premises but rather from an increased sense of urgency in achieving the immediate goal of securing base rights. Analysts for the American administration continued to argue that for an aid programme to have its maximum impact, Spanish economic policies would require modification. Professor Sidney Sufrin, head of the economic mission sent to Spain in the summer of 1951 expressed his fears that 'we might end up just sinking money in Spain' and suggested budgetary and monetary discipline if the Spanish economy was to grow steadily.⁵⁴ For years to come, the Americans would remain acutely

⁵² Admiral Forrest Sherman arrived in Madrid on 16th July 1951 and met Franco in order to assess the prospects of engaging in negotiations with Spain to secure base rights. Sherman was thoroughly optimistic about such prospect. Viñas, *Los pactos*, pp. 92-114.

⁵³ Acheson to the Embassy in Spain, Washington, 23rd June 1951, *FRUS*, 1951, IV, p. 849.

⁵⁴ Sufrin's diary, part 4, Madrid 1st October 1951, in Spain, Country Files of Harlan, 1949-1953, Deputy Assistant Administrator, Economic Cooperation Administration (ECA), Records of U.S. Foreign Assistance Agencies, 1948-1961 [henceforth RFAA], Record Group 469 (entry 66, box 3), National Archives at College Park, MD. (NACP). Citations of records in the National Archives of the United States follow the guidelines provided by the repository itself (www.nara.gov/publications/leaflets/gil17.html, 10th February 2000), albeit entry and box numbers are also given here to facilitate locating the records. Liedtke, *Embracing*, p. 136. Liedtke emphasises that Sufrin's trip to Spain was close to disastrous, and that he did not succeed in freeing himself from the influence

aware of the limited impact that aid might have and therefore realised that Spanish policies were of the utmost importance for economic and political stability within the country.⁵⁵

However, requiring the overhaul of Spanish economic policy as a precondition for any American involvement was no longer on the cards. This was also the perception of many informed observers. An example may serve to illustrate this point. In April 1952 H. M. Treasury was asked by the Americans for a British view on a possible application by Spain for membership of the International Monetary Fund (IMF). Upon request from the Treasury, the Bank of England provided tentative estimates on the possible quota in the Fund for Spain. A futile exercise according to the Bank, which in its transmittal letter to the Treasury, expressed its view that Spain would be 'unlikely to make any move towards joining an international organisation like the Fund if there is any risk of a snub for their exchange or other financial practices' and felt that 'the Spaniards might well hope to get more out of the Americans by direct assistance under Military Aid, etc, and to see what they can get in this field before considering joining the Bretton Woods institutions.'⁵⁶

However, there were discrepancies as to whether the promise of aid ought to be used exclusively as a way of securing base rights. Those greatly fearing possible Communist threats, endorsed outright support in the hope that Franco would return favours. The newly appointed American Ambassador to Spain, Stanton Griffis, in a similar fashion to members of the Spanish lobby in Congress, complained to the Secretary of State that '[i]f the U.S. government wants starvation and a trend towards communism in Spain, they are going to get

of INI people and had difficulty gathering independent data. A reading of Sufrin's diaries shows, however, that he did meet with personalities across the board.

⁵⁵ '[I]n our opinion, it remains true that general policies and programs of the Spanish government will have a more important total impact on Spanish future developments than the U.S. aid program in itself.' Airgram from Gulik, Foreign Operations Administration (FOA), Washington to Madrid U.S. Operations Mission (USOM), 11th December 1954, in Office of the Director, Office of European Operations, Geographic Files, 1953-54, RFAA, RG469 (entry 337, box 141), NACP.

⁵⁶ 'IMF-Spain,' letter from L. F. Crick (Bank of England) to F. W. Essex (H.M. Treasury), 25th April 1952, BoE, OV61/4.

it very quickly with their present indecision.⁵⁷ As we will see below, during the negotiations this would prove a fault line in American policy, as had previously been the case with the demands for political liberalization.

With this outlook the U.S. entered the negotiations with Spain in 1951. Let us now review the attitude with which the Spanish entered the negotiations.

⁵⁷ Griffis to Acheson, Madrid, 24th April 1951, *FRUS*, 1951, IV, p. 815.

4.3. The demand for aid

The prospect of foreign aid represented a sought-after opportunity for the Spanish regime. Economically, Spain was in dire straits. In 1950 real output per capita was at pre-Civil War levels, and sheer hunger and bottom-rock living standards prompted sporadic civil unrest in the cities of Madrid and Barcelona.⁵⁸ Imbued with this grim picture, some researchers have stated that Spain's main foreign policy goal was the receipt of American aid. Thus, for example, it has been argued that Franco's main interest in a *rapprochement* with the U.S. was 'understandably centered around obtaining financial and economic assistance to overcome the deplorable state of the Spanish economy.'⁵⁹ However, this misses an important point about the circumstances in which the Spanish regime was willing to be the recipient of aid. The ultimate Spanish goal appears to be recognition by the international community, a final seal of approval for the Franco regime. Consequently, the type of aid that Franco was considering ought to be devoid of any strings:

[I]f that help were conditioned by blackmail, we should refuse it and pursue our unchanging aims alone, although more slowly.⁶⁰

Policy was ultimately decided by Franco himself and an extremely limited circle around Franco himself, with his aide Luis Carrero Blanco, Under-Secretary of the Presidency, playing a significant role.⁶¹ Within this inner circle

⁵⁸ Per capita consumption of meat and wheat in 1950 was half of pre-Civil War. In Madrid there were demonstrations complaining about the lack of food, while in Barcelona the rise of tram fares in February 1951 led to a general strike and the reversal of the rise in fares by the government, S. Balfour, *Dictatorship, Workers, and the City* (Oxford: Clarendon Press, 1989), p. 22.

⁵⁹ C. Collado Seidel, 'U.S. Bases in Spain in the 1950s,' in S. W. Duke and W. Krieger (eds.), *U.S. Military Forces in Europe. The Early Years, 1945-1970* (Boulder, Co.: Westview Press, 1993), p. 287.

⁶⁰ Franco's declarations as quoted in Guirao, 'Spain and European Economic Cooperation,' p. 274.

⁶¹ From the American records, the limited room for manoeuvre even for ministers is clear. The Foreign Minister, for example, did not even feel authorised to give the go ahead to the arrival of American negotiators without previously consulting Franco.

of advisors to Franco the shift in American policy toward Spain was seen as the vindication that since 1945 they had all along been right in their ‘wait-and-see policy,’ an attitude based on the hope that in due time the world would come to realise the virtue of the Franco regime in having been the first to fight and win over communism.⁶² Culbertson had grasped it back in 1948:

Franco and [the] Spanish authorities seem convinced [that] Spain [is] strategically so important [that] we will of necessity, in our own interest, not only accept [the Franco] regime as is but will extend economic and military aid.⁶³

The Spanish leaders were willing to sacrifice little other than dropping the press campaigns accusing the Western powers of conspiring against Spain. Franco was happy to accept the Argentine aid that Spain had been receiving since the accession of Juan Domingo Perón to the Argentinean presidency in 1946, which allowed Spain some foodstuffs and propaganda and came with no strings attached.

The coming negotiations with the U.S. were seen as primarily of a politico-military nature. Carrero warned about the danger that the Spanish society was now ‘willing to go through anything as long as it betters their life quickly,’ in direct reference to the fact that some groups might be willing to

MacVeagh to the Department of State, Madrid, 1st April 1952, *FRUS*, 1952-1954, VI, part 2, p. 1829. The problem therefore is the lack of documentation by Franco, a point raised by Viñas, *Los pactos*, and Guirao, ‘Spain and European Economic Cooperation,’ p. 266, who highlights how even L. Suárez, ‘Francisco Franco y su tiempo,’ vol. 5 (Madrid: Fundación Nacional Francisco Franco, 1984), despite benefiting from privileged access to the private papers of Franco must rely on Viñas’ study.

⁶² J. Tusell, *Carrero. La eminencia gris del régimen de Franco* (Madrid: Temas de Hoy, 1993), pp. 180, 193, 213. Tusell, who enjoyed privileged access to the private papers of Carrero, underlines the involvement of Carrero in formulating policy toward the U.S. and in the negotiations with the Americans.

⁶³ Culbertson to the Secretary of State, Madrid, 24th March 1948, *FRUS*, 1948, III, p. 1029.

make concessions to the Americans in exchange of aid and, to prevent any such temptations, he suggested putting an end to 'the softness of our diplomacy.'⁶⁴

As one would expect in a regime that had so recently been ostracised, there was also a strong sense of suspicion about the American intentions.⁶⁵ The Spanish authorities had displayed, in fact, 'great expectations' of Marshall aid and engaged in a 'diplomatic offensive' to attain membership.⁶⁶ However, the ideological basis of the Marshall Plan made it inconceivable in 1947-48 for the U.S., and not only Europe, to accept Spain unless the Franco regime was removed from office.⁶⁷ In the absence of Franco's willingness to step down the Spanish authorities' expectation to join in the European Recovery Programme was unjustified and the response to the announcement of the Marshall Plan an unnecessary effort. Most important, it must be stressed that even if political demands had been dropped, there is no clear indication that the Spanish authorities would have seriously considered anything but cosmetic changes in their economic policies. Guirao, however, argues that '[h]ad the Truman administration not made economic assistance [in 1947-48] conditional on political transformation, Spain might have anticipated economic stabilization and

⁶⁴ Carrero to Franco, 24th January 1950, as quoted in Tusell, *Carrero*, pp. 195, 199. Carrero recommended replacing Martín Artajo as Foreign Minister with Lieutenant-General Juan Vigón. Franco did not dismiss Martín Artajo but placed the negotiations under the control of Vigón. *Nota en relación con la actual situación política* (note directed to Franco), 4th April 1951, as quoted in Tusell, *Carrero*, p. 202.

⁶⁵ 'They deal with us out of fear of the soviets, but they dislike us; when they do not need us anymore, they will try to destroy us.' Carrero to Franco and Artajo, undated, as quoted in Suárez, 'Francisco Franco,' vol. 5, p. 110.

⁶⁶ F. Guirao, *Spain and the Reconstruction of Western Europe, 1945-57* (London/New York: Macmillan/St. Martin's Press, 1998), p. 107.

⁶⁷ In this point Guirao modifies the previous consensus that Spain had been excluded from the Marshall Plan out of European initiative, see A. Viñas, 'El Plan Marshall y Franco,' *Historia 16*, no. 64 (August 1981), pp. 27-42. As Guirao puts it, 'it is difficult to believe that the Department of State could have ever considered Spain joining the Marshall Plan when its initiative to remove Franco from power was being discussed with the British until the end of July 1947.' Guirao, *Spain and the Reconstruction of Western Europe*, p. 59.

liberalization by a decade.⁶⁸ Guirao effectively argues that the ‘will to join the Marshall Plan shows, in itself, that isolation was not the aim of Francoist economic policy’ and, certainly, the absence of foreign resources in 1947-48 made the adoption of foreign exchange controls more likely.⁶⁹ Yet, even if ‘isolationism’ was not an end in itself, this should not prompt us to conclude that the acceptance of the philosophy of economic policy that inspired American efforts was on the verge of being sincerely endorsed by the Spanish decision-makers.

From late 1948, the Spanish representatives in Washington, headed by the controversial Lequerica, had perceived the possibility that aid may be de-linked from political considerations yet given under economic conditions. Lequerica regarded this as unacceptable. Lequerica thought that the foremost objective of any dealings with the Americans was to underline that the approach to the U.S. was a pure political effort and not simply a mere ‘economic bargain.’ He believed that any suggestion about economic policy reform should be met with a complaint about undue interference in internal affairs. Otherwise, what he saw as the ‘hostility’ that I.N.I. men displayed when discussing economic policy matters would only antagonise the Eximbank. At times, Lequerica overstated the extent of the differences in views between the I.N.I. people and himself. A point that illustrates this is the interview between Achilles and the Count of Marsal in late 1949 that we have already referred to above. Lequerica had been particularly critical of the Count of Marsal’s visit to Washington and his treatment of the question of Eximbank loans.⁷⁰ Presumably, Lequerica felt that by discussing the Eximbank issue, the Count of Marsal was giving the impression that Spain was after all willing to get into the details of an economic bargain. The record of the conversation as drafted by the Americans help us to clarify this. When questioned by Achilles about the lack of Spanish applications for Eximbank

⁶⁸ *Ibid.*, p. 114.

⁶⁹ *Ibid.*, p. 122.

⁷⁰ The correspondence between Lequerica and Martín Artajo is reviewed in Cava, *Los Diplomáticos*, pp. 257, 314-17, 335. For obvious reasons, this type of open criticism is very rare in the Spanish records. Lequerica, having been Minister and confidant of Franco’s support enjoyed himself liberties unheard of for other officials.

loans despite the withdrawal of political objections, the Count of Marsal replied emphasising that if such an offer was set ‘simply as cold banking proposition, devoid of any warmth or cordiality, he felt Spain would not wish to risk the presentation of applications.’⁷¹

However, Lequerica had some grounds for complaint. The attitudes of Juan A. Suanzes, Chairman of I.N.I. (1941-1963) and Minister of Commerce and Industry (1938-1939, 1945-1951), and his men appear to have lacked consistency. On occasions they went as far as making offers of economic policy reform. In response to Acheson’s letter to Connally in January 1950, Suanzes told the Americans of his ‘total agreement’ with the need to liberalise the Spanish economy and highlighted that such measures were ‘already under discussion.’⁷² Similarly, officials of the Chase National Bank stated that the Spanish representatives with whom they negotiated a \$25 million loan in February 1949 were now ‘willing to remedy objectionable economic practices and policies in order to qualify for further private or official United States loans.’⁷³ But were these offers genuine? Researchers that have studied the private papers of Suanzes have concluded that he consciously attempted a ‘*mise en scène* of deceptive cooperation’ motivated by Suanzes’ ‘attempt to obtain U.S. financial assistance.’⁷⁴ Although this claim relates specifically to I.N.I. attempts at appearing to be cooperating with private concerns, it would be surprising if a deceptive strategy was not used when addressing the Americans, especially given the fact that the rationale for the strategy was precisely to persuade the Americans to furnish aid.⁷⁵

⁷¹ Memorandum of conversation Count of Marsal, Marquis of Nerva, Achilles, Randall and Dunham, by Dunham, Washington, 1st November 1949, *FRUS*, 1949, IV, p. 765.

⁷² Culbertson to Acheson, Madrid, 24th January 1950, 611.52/1-2450, Decimal Files, Central Files, General Records of the Department of State (G.R.D.S.), Record Group 59 (RG59), NACP.

⁷³ Culbertson to Acheson, Madrid, 14th February 1949, *FRUS*, 1949, IV, p. 729.

⁷⁴ A. Gómez-Mendoza and E. San Román, ‘Competition between Private and Public Enterprise in Spain, 1939-1959: An Alternative View,’ *Business and Economic History*, vol. 26, no. 2 (1997), p. 707.

⁷⁵ Perhaps Suanzes’ deceptive tactics in 1950 may have stemmed from his interpretation of the earlier failure of Spain to secure Marshall Plan aid, for which the Ministry headed

The Spanish were particularly concerned with the terms of the Benton Amendment of the Mutual Security Act (M.S.A.), which stipulated that free enterprise and free labour union movements ‘where suitable’ were to be encouraged, whilst cartel and monopolistic practices discouraged ‘to the extent that it is feasible.’⁷⁶

The Spanish Ministry of Foreign Affairs undertook an assessment of the opportunities that the M.S.A. provided Spain as well as the possible conditions under which aid would be forthcoming. It noted, firstly, that unlike Eximbank credits, the M.S.A. could provide an ‘indefinite’ flow of funds which could be appropriated year after year, and, secondly, that the American Embassy had indicated that even the Spanish restrictions on trade unions would not constitute an insoluble problem.⁷⁷ The Spaniards received direct indications that the possibility of aid would not be linked to the adoption of specific economic policy reform from officials at the highest level. Paul Porter, head of the M.S.A. in Europe, visited Madrid in the last days of 1951. The result of that visit was that...

... the [g]eneral impression given by local versions of [the] Porter statement is that [a] bilateral pact will be signed shortly, military and economic missions will be here this month, [and] no strings [will be] attached to [the] aid.⁷⁸

by Suanzes had prepared an extremely detailed ‘Import Programme.’ The programme, which Guirao, *Spain and the Reconstruction of Western Europe*, Chapter Four analyses in great detail was, however, nothing more than ‘an import shopping list of goods the Ministry of Industry and commerce would have wanted to purchase had it had the resources’ (p. 66), which expressed no resolutions as to economic policy.

⁷⁶ See *FRUS*, 1952-1954, VI, part 2, p. 1782n.

⁷⁷ Note for Martín Artajo, 17th January 1952, Archive of the Spanish Ministry of Foreign Affairs, Renovated Series [henceforth MAE], Leg. 4615, Exp. 15.

⁷⁸ Griffis to Acheson, Madrid 9th January 1952, in Director of Administration, Administrative Services Division, Geographic Files 1948-53, RFAA, RG469 (entry 236, box 286), NACP. Porter was clearly of the opinion that internal changes ‘cannot, of course, be expected to come quickly’. Porter to the Mutual Security Agency, Paris, 7th January 1952, *FRUS*, 1952-1954, VI, part 2, p. 1782.

Confirmation of this view was provided by the Americans whenever necessary. The Spanish Foreign Exchange Institute (*Instituto Español de Moneda Extranjera* -IEME) dependent upon the Ministry of Commerce but based in the Bank of Spain, expressed concerns about the possibility that the Americans would demand free convertibility for repatriating profits with a consequent drain of foreign exchange reserves. The IEME feared that possible liberalising commitments would prove extremely costly. For example, they estimated that the stabilisation of the peseta 'would require no less than \$500 million.'⁷⁹ The Spanish sought confirmation from the Americans about the extent of a possible requirement to liberalise the foreign exchange regime. The Americans happily provided such reassurance that 'Spain [was] not expected to make all necessary adjustments immediately.'⁸⁰

With the understanding that the economic reform clauses were to be interpreted in a lax way, the Spanish side felt comfortable enough. Including them in the agreements would do no harm. In fact, given Arburúa's taste for economic liberalism and that his new position as Minister of Commerce gave him overall responsibility over the conduct of the economic negotiations there was no reason why he would oppose such clauses. Perhaps this helps to explain the complaints by the Ministry of Foreign Affairs about the attempts of Commerce to deal 'exclusively' about the economic aspects of the negotiations.⁸¹ Presumably, had the Ministries of Foreign Affairs and of Industry not been given the assurances on the lack of intention by the Americans to push hard for economic policy reform, the disagreements between Commerce and the other Ministries would have surfaced more prominently.

Some elements in or close to power may nevertheless have been truly convinced that the possibility of foreign aid gave a window of opportunity for economic policy reform. Manuel Arburúa, Chairman of the Banco Exterior and

⁷⁹ Minutes of meetings of the Executive Commission for M.S.A. loan, as quoted in Viñas, *Los pactos secretos*, p. 156. The statement in the text was made by Manuel Vila, General Manager of IEME, on 16th February 1952.

⁸⁰ MacVeagh to Acheson, Madrid, 4th May 1952, in Director of Administration, Administrative Services Division, Geographic Files 1948-53, RFAA, RG469 (entry 236, box 286), NACP.

⁸¹ Navasqués to Martín Artajo, 24th April 1952, MAE, Leg. 4048, Exp. 22.

who would become Minister of Commerce in July 1951, wrote two articles in February 1950 arguing that foreign aid to Spain would help her both in the reconstruction effort and to diminish intervention.⁸² Declarations such as those of Martín Artajo to the *New York Times* on 27th March 1949 suggesting that American capital would ‘enjoy profitable opportunities and would be safe in Spain’ may be interpreted as subtle hints at the possibility of a more flexible regime for American foreign direct investment. However, when members of staff in the Spanish diplomatic mission in Washington suggested the convenience of practical measures to enhance the international profile of the regime, such as the suspension of the judicial intervention in the Barcelona Traction case, this was ignored and policy did not change.⁸³ A similar fate would meet any report that suggested adaptive change, even in ‘somehow vague terms.’⁸⁴ There were disagreements within the Spanish administration on how to argue most effectively the Spanish case but it seems that the differences were of a strategic rather than a substantial nature.

Together with an absence of political or economic conditions, the Spanish authorities were also interested in securing a long-term commitment by the Americans.⁸⁵ Aid was to be part of that commitment and it was of the utmost importance to avoid the impression that aid was to be granted as a price or rent to be paid for the use of military bases. The regime depended upon the support of the armed forces and could not risk giving the impression of any loss of

⁸² *Arriba*, 9th and 25th February 1950, as quoted in Guirao, ‘Spain and European Economic Cooperation,’ p. 275.

⁸³ Cava, *Los Diplomáticos*, p. 309.

⁸⁴ Report by Pedro Prat de Soutzo, Marquis of Prat, Director of American Policy at the Ministry of Foreign Affairs, 1st August 1949, MAE, Leg. 3599, Exp. 44, as quoted in Viñas, *Los pactos*, p. 40. The quote refers to the passage of Prat’s report advising for a freer commercial policy.

⁸⁵ Prat de Soutzo, who had been present at the Franco-Sherman interview in July 1951, told the British Embassy in Madrid shortly after the interview that the agreements could be signed within two or three months. Liedtke, *Embracing a dictatorship*, p. 119.

sovereignty in the coming negotiations. The Americans soon realised that this caused the Spaniards certain ‘anxiety.’⁸⁶

The characteristic feature of the Franco regime during the 1950s with regards to aid was that it did not adapt itself to pressure in order to secure foreign aid.⁸⁷ If it had been willing to do so, it would have received American support at a much earlier date. As was the case with the Americans, for the Spanish side the economic programme was meant to have limited and subordinated objectives. Political recognition and military considerations (need to preserve sovereignty and provide materiel for the armed forces) were to be paramount.

Let us now focus briefly on the negotiation process between Spain and the U.S.

⁸⁶ John Wesley Jones, former Chargé d’Affaires and Counsellor of Embassy, to Acheson, Madrid, 21st March 1952, in Director of Administration, Administrative Services Division, Geographic Files 1948-53, RFAA, RG469 (entry 236, box 286), NACP.

⁸⁷ Jarque, *Queremos esas bases*, p. 365.

4.4. At the negotiations' table

From the review of the positions of the two sides, it will be no surprise that economic policy conditions were to be virtually absent in the agenda for these negotiations. A brief review of the negotiations is, however, a necessary background for subsequent chapters, especially for Chapter Six on the credibility effects of bilateral American aid on the Spanish private business community.

The negotiations lasted longer than expected. At several points in time it was rumoured that they were about to be concluded. In January 1952 the American press speculated that U.S. officials expected that the negotiations would soon be concluded.⁸⁸ Even those taking part underestimated the length of negotiations ahead.⁸⁹ As we will see, much of this delay was related to two topics: (a) the Spanish demands for military end-items, and, (b) the discrepancies between a *quid pro quo* approach favoured by the State Department and the long-term alliance that the Spaniards aimed to achieve. Let us first review some other arguments for the delay that the literature has suggested. These include the opposition of Western powers, the change of administration in the U.S., and the concentration by the Spanish on signing the Concordat with the Vatican.

Britain's Labour government appeared to be militantly anti-Franco. Prime Minister Clement Attlee and Foreign Secretary Ernest Bevin had records of outspoken opposition to Franco dating back to the Spanish Civil War.⁹⁰ However, the reasons for the British reluctance to accept the agreements between the U.S. and Spain were not simply ideological. The British, who had continued to trade with Spain, were traditionally dependent on citrus imports from Spain

⁸⁸ E.g., *The New York Times*, 16th January 1952, or Griffis to Acheson, Madrid 17th January 1952, Director of Administration, Administrative Services Division, Geographic Files 1948-53, RFAA, RG469 (entry 236, box 286), NACP.

⁸⁹ 'Target date for signing of bilateral agreements and thus activation of mission is January 15 [1953]. This considered most realistic estimate by all concerned with negotiations here.' George F. Train, head of the American team negotiation the economic agreements, to MSA, Madrid, 10th December 1952, in Director of Administration, Administrative Services Division, Geographic Files 1948-53, RFAA, RG469 (entry 236, box 286), NACP.

⁹⁰ The Ambassador in the United Kingdom to Acheson, London, 24th January 1951, *FRUS*, 1951, IV, p. 779.

and were her trading partner of preference and Britain had not decreased trade with Spain as much as she could have.⁹¹ The Foreign Office also feared that the commercially aggressive American businessmen threatened the privileged position that British businesses enjoyed in the Spanish market.

To some extent, British opposition to the American-Spanish *rapprochement* was exaggerated by elements within the State Department opposed to the new policy. As late as December 1951, after the interview between Franco and Admiral Sherman had taken place, an official from the Bank of England reported that, despite the pressure from the military. ‘the State Department have cold feet at the size of the commitment and are secretly glad at European opposition to any large-scale help to Franco.’⁹² According to this observer, Franco was similarly bent on exaggerating the importance of Britain’s resistance to the Spanish-American agreements. Franco feared being blamed for the delays of an aid programme which had been much-rumoured to be imminent and ‘attempted to insure against thus by circulating the report that the British have been intervening to block the loan.’⁹³ British opposition, moreover, decreased after the electoral victory of Sir Winston Churchill in October 1951. Churchill, mistaken in his belief that Franco had not entered World War II out of sympathies for the allies, favoured closer ties with Spain.⁹⁴

It has also been often argued that, especially towards the final stages in the summer of 1953, the Spanish delayed the signing of the agreements in order to give precedence to finalising the Concordat with the Vatican.⁹⁵ As Guirao convincingly argues, this view implies that by then the agreements were finalised, which appears not to be the case.⁹⁶ In fact, diplomatic exchanges

⁹¹ Ahmad, *Britain, Franco Spain*, p. 162.

⁹² Report by J. M. Stevens, 31st December 1951, in Bank of England Archive [hereafter BoE], OV61/4.

⁹³ ‘Visit to Barcelona, Madrid and Tangier, 17th May-22nd August 1953,’ by Turner, BoE, OV61/4.

⁹⁴ Edwards, *Anglo-American relations*, esp. pp. 104, 107, 124. Preston, *Franco*, p. 425.

⁹⁵ Viñas, *Los pactos*, p. 180 and R. Rubottom and J. C. Murphy, *Spain and the United States since World War II* (New York: Praeger, 1984), p. 24. Rubottom was an official with the USOM Madrid in the mid-1950s.

⁹⁶ As argued by Guirao, ‘Spain and European Economic Cooperation,’ p. 321.

during the summer of 1953 highlight the significant differences that still existed between the parties.⁹⁷

The impact of the change of American administration has also traditionally been overstated in the outcome of the negotiations.⁹⁸ The personal attitudes of Eisenhower and the newly appointed Secretary of State, John Foster Dulles, towards the Franco regime were much friendlier than Truman's.⁹⁹ The possibility of a breakdown in the negotiations with Spain was present even after the inauguration of Eisenhower as President. Spanish bases were still on the agenda, but there was no sense of urgency.¹⁰⁰ In fact, if Eisenhower did not have an ideological bias against the Franco regime as Truman had, he was extremely aware that there was a price beyond which the bases in Spain were not worth obtaining:

Mr Potofsky [a trade union leader] came to see me. [He] opposes any thought of dealing with Spain -quite bitter about it. Insists that for every advantage we would obtain we could lose so many friends as to suffer a net loss. There is a definite chance he is completely right, particularly if our efforts to deal with Spain place another early drain on our scarce items and raw materials. All these erstwhile enemies and near-enemies want the 'world' and sometimes they are close to arrogant in saying what they will not give as quid pro quo.¹⁰¹

Spain had been favoured over Morocco as a site for bases for both geographical and political reasons. Once base rights were secured in Spain, Eisenhower noted the advisability of 'ceasing all base development in Morocco and making the Spanish bases alternative to the final two that we had intended to

⁹⁷ Franco to Eisenhower, San Sebastián, 22nd August 1953, *FRUS*, 1952-1954, VI, part 2, p. 1950.

⁹⁸ Rubottom and Murphy, *Spain and the U.S.*, p. 25.

⁹⁹ Dulles had actually acted as legal counsel of the Franco-controlled Bank of Spain in a suit in 1938 brought against the Federal Reserve Bank of New York (seeking compensation for a sale of Bank of Spain silver carried out by Republican-controlled), R. W. Pruessen, *John Foster Dulles. The Road to Power* (New York: The Free Press, 1982), p. 123, as noted by Guirao, 'Spain and European Economic Cooperation,' p. 317.

¹⁰⁰ Guirao, 'Spain and European Economic Cooperation,' p. 318.

¹⁰¹ R. H. Ferrell (ed.), *The Eisenhower Diaries* (New York: W. W. Norton, 1981), p. 196.

build in the Moroccan area.¹⁰² This may be an indication that bases in French Morocco were being pursued as a contingency plan in case negotiations with Spain failed.¹⁰³

Delays in the conclusion of the negotiations were working against Spanish interests. The strategic importance of bases in Spain was diminishing as progress was being made in American military programmes capable of delivering long-range atomic weapons independently of forward bases on foreign soil (B-52, Polaris, inter-continental ballistic missile).¹⁰⁴ Similarly, the securing of base rights in French Morocco and the Azores by the Americans and the stabilisation of the military front in the Korean War would decrease the urgency of the American military build-up. Finally, the death of Stalin in early March 1953 led to some confusion within the American administration as to the extent to which it was in the interest of the U.S. to give the new Soviet leadership the option of ending confrontation.¹⁰⁵ In short, with the benefit of hindsight it is tempting to 'explain' the 'inevitability' of the agreements. However, it is not that difficult to imagine why things may have gone wrong even after the inauguration of Eisenhower as president. Let us then focus on two further elements that help to explain the delay in concluding the negotiations, the Spanish demands for military assistance and the importance for the Spanish of securing a long-term commitment from the Americans.

The issue of military end-items was a cause of concern for the Americans, who did not want to infuriate other NATO countries to which the U.S. had promised priority in the delivery of military goods. Although the Spanish interest on military end-items had been made obvious as early as

¹⁰² Ferrell, *Eisenhower Diaries*, p. 254.

¹⁰³ As late as June 1953, Rubottom, who was to join the economic mission of the M.S.A. in Madrid as Deputy Director, was briefed in Washington that if Spain overreached, the U.S. would simply 'walk away from the table.' Rubottom and Murphy, *Spain and the U.S.*, p. 27.

¹⁰⁴ T. Hoopes, 'Overseas Bases in American Strategy,' *Foreign Affairs* (October 1958), p. 76. The author had been Under-Secretary of the Air Force in the Truman administration.

¹⁰⁵ W. W. Rostow, *Europe after Stalin: Eisenhower's three decisions of March 11, 1953* (Austin: University of Texas Press, 1982), pp. 69-70.

Sherman's visit in July 1951 by Franco himself, the State Department held on to its interpretation that base-rights could be obtained 'without giving such end-item aid.'¹⁰⁶ It proposed that military end-item aid beyond training purposes 'should be postponed for future consideration.'¹⁰⁷

The chief Spanish negotiators for the economic talks, Minister of Commerce Manuel Arburúa and Jaime Argüelles, Under-Secretary of Economic Affairs at the Ministry of Foreign Affairs, urged the State Department to reconsider its position. Arburúa candidly stated that it was 'essential [...] to give the Spanish military what they needed in the way of equipment,' much to the Americans' surprise that the Minister of Commerce 'should make such a strong plea in behalf of the military.'¹⁰⁸ Argüelles insisted to the Americans that '(a) the position of the Spanish government depends on the support of the army and (b) that the army would not be satisfied to see a base agreement executed unless it was given sufficient equipment.'¹⁰⁹ The Americans consequently suggested an increase in the share for military aid of the maximum figure that Washington allowed negotiators to offer at that time, which was set at \$125 million.¹¹⁰ They similarly offered technical and military training programmes instead of military end-items. The Spanish military showed no interest in such training, leading the Americans to infer that it was prestige rather than real military capability that the Spaniards desired.¹¹¹

¹⁰⁶ Deputy Director of the Office of European Regional Affairs to the Assistant Secretary of State for European Affairs, Washington, 6th February 1952, *FRUS*, 1952-1954, VI, part 2, p. 1798.

¹⁰⁷ Acheson to the Secretary of Defence, Washington, 11th February 1952, *FRUS*, 1952-1954, VI, part 2, p. 1802.

¹⁰⁸ Memorandum of conversation between Arburúa and Jones, by Jones, Madrid, 16th May 1952, *FRUS*, 1952-1954, VI, part 2, pp. 1851-52.

¹⁰⁹ Record of a Meeting Between United States and Spanish Representatives, Madrid, 5th July 1952, *FRUS*, 1952-1954, VI, part 2, p. 1861.

¹¹⁰ Interim guidance for the negotiations was the paper known as DMS D-7, issued on 20th March 1952 by the Interdepartmental Working Group on Spain, *FRUS*, 1952-1954, VI, part 2, p. 1824.

¹¹¹ Liedtke, *Embracing a dictatorship*, p. 122.

It took time, however, for the Americans to realise that they could not get the agreements with the amounts of aid they were offering, no matter how this was sliced.¹¹² Similarly, it was a while before the Americans realised that the minimum military aid required by the Spanish could be lowered significantly if the Americans committed in principle to long-term support and there was no apparent loss of Spanish sovereignty.¹¹³ Such a commitment was in fact beyond the powers of the negotiators who felt bound by NATO priorities and future congressional appropriations and helps to explain the slow progress made between July 1952 and August 1953.

Despite reports in July 1953 from the new American Ambassador in Madrid, James C. Dunn, that 'Spaniards are anxious for early conclusion negotiations,'¹¹⁴ Franco wrote to Eisenhower in August in a worried but firm tone. Franco complained that American negotiators are 'at times forgetful that [the pact] is a question of a momentous negotiation in a common interest and not of the hiring of certain services' and, elsewhere in his letter, asked for details about the 'aid towards the equipping of our armies,' emphasising the importance of this point by suggesting that until this is added the 'whole structure of the agreements will not be completed.'¹¹⁵ Franco wanted a specific commitment as to military aid and simultaneously an open-ended commitment from the Americans as to the wider economic assistance programme. Whilst the itemising of military end-items to be delivered would help to appease the Spanish military, stating a definite figure of economic aid might appear as a price tag for loss of

¹¹² Only in May 1953 the NSC recognised the need to provide 'continuing aid to Spain over a period of several years totalling approximately \$465 million,' see documentation on *FRUS*, 1952-1954, VI, part 2, pp. 1937-47.

¹¹³ Liedtke, *Embracing a dictatorship*, p. 167.

¹¹⁴ Dunn to Acheson, Madrid 2nd July 1953, in Office of the Director, Office of European Operations, Geographic Files 1953-1954, RFAA, RG469 (entry 337, box 43), NACP.

¹¹⁵ Franco to Eisenhower, San Sebastián, 22nd August 1953, *FRUS*, 1952-1954, VI, part 2, pp. 1950-51. Guirao interprets Franco's letter as a complaint about the 'unwillingness of the U.S. Government to specify what they would do to assist the Spanish armed forces and economy,' Guirao, 'Spain and European Economic Cooperation,' p. 319. It is of relevance to the argument put forward here to emphasise the different nature of the complaint in relation to military and to economic aid.

sovereignty; this ought to be avoided at all costs. Judging by these exchanges, Franco appeared to be particularly concerned with satisfying the armed forces, which perhaps he regarded as the only pressure group that could conceivably topple him.

In contrast, the Department of State had always favoured a strict *quid pro quo* approach to the negotiations. As William Dunham, in charge of the Spanish Desk at the State Department put it:

We still think that negotiations for economic assistance should not precede military negotiations [...] because we still lean, to some extent, toward the idea of using the promise of economic assistance as a carrot to attain our military objectives.¹¹⁶

Dunham conceded that this view was being abandoned even within the State Department. The principal reason was that Congress kept weakening the State Department policy. On 18th October 1951, the Senate voted to include an amendment specifying \$100 million for Spain.¹¹⁷ This had not been requested by the executive, who saw it as undermining their efforts in the negotiations.¹¹⁸ In fact, this was precisely what the State Department was trying to avoid.

The American military were more responsive to the Spanish desire to establish a general commitment based on reciprocity and trust. The JCS,

¹¹⁶ Dunham to Jones, Washington, 30th January 1952, *FRUS*, 1952-1954, VI, part 2, p. 1794.

¹¹⁷ Acheson to the Chairman of the House Appropriations Committee, Washington, 19th October 1951, *FRUS*, 1951, I, p. 428n. This practice was to be continued by Congress, rolling over undisbursed amounts from previous years and earmarking further appropriations for Spain. By the time the agreements were concluded in September 1953 Congress had earmarked \$225 million. See *FRUS*, 1952-1954, VI, part 2, p. 1949.

¹¹⁸ Memorandum by the Deputy Director of Mutual Defence Assistance, Department of State, to the State Department Member of the Military Assistance Advisory Committee, Washington, 21st November 1951, *FRUS*, 1951, IV, pp. 853-54. 'Since aid mentioned as *quid pro quo* will be our chief bargaining weapon in negotiations with the Spanish Government, we plan to make every effort to forestall any Congressional action which would require such aid to be given before we have obtained the desired military facilities.' The Acting Secretary of State to the Embassy in Spain, Washington, 18th September 1951, *FRUS*, 1951, IV, p. 852.

however, favoured the latter approach and were ready to agree that 'military relations between the United States and Spain should be on a continuing friendly basis.'¹¹⁹ The Americans were in a difficult legal position as they could not guarantee future appropriations by Congress and stuck to the hard bargaining approach for some time with the consequence of delaying the negotiations. The Embassy in Madrid, the head of the military survey team sent to Spain during the summer of 1951, General August W. Kissner, and the JCS were all seen by officials in the Department of State as too soft on Spain and unaware of the need for a *quid pro quo*. Acheson complained that the Embassy in Madrid was giving the impression to Spaniards that aid would aim at a wide-ranging overhaul of the Spanish economy, instead of the limited programme that was in mind.¹²⁰ According to Liedtke, the State Department stalled the negotiations when they realised that General Kissner, head of the U.S. military negotiating team, had shown the Spanish the agreement in principle to long-term provision of military and economic aid.¹²¹

In the event, the successful termination of the agreements relied on satisfying both the State Department that a good bargain had been struck and the Spaniards that the commitment to Spain would go beyond the amounts of aid agreed at the time of signing. In this sense, one of the main reasons for the delay in the conclusion of the negotiations was the slowness of the Americans to realise that the minimum figures suggested by the Spaniards could be significantly lowered if a long-term commitment was made. Ambassador Lincoln MacVeagh, who had replaced Griffis in February 1952, was quick in emphasising that what the negotiations needed to be successfully concluded was a more dignified treatment of Spain by the U.S. He quickly realised that 'Spain is by no means so anxious to receive our aid as we are to get something by giving it' and was convinced that 'a modicum of attention to their pride is worth many

¹¹⁹ Liedtke, *Embracing a dictatorship*, p. 159.

¹²⁰ Acheson to the Embassy in Spain, Washington, 2nd May 1952, *FRUS*, 1952-1954, VI, part 2, p. 1847.

¹²¹ Liedtke, *Embracing a dictatorship*, p. 127.

dollars.¹²² MacVeagh believed that Spain did not require a fully-fledged military alliance with the U.S. but simply 'a statement for the purpose of public opinion.'¹²³ The Americans were also slow at picking up the importance that appearances had for the Franco regime. Only in March 1953 did the Americans suggest that the use of bases by Americans in the event of peace or war without consultation with the Spaniards could be incorporated in a secret clause.

The final breakthrough in the negotiations, which as we have seen in Franco's letter of late August 1953 were by no means finalised, appears to have come after the Americans decided to inform the Spanish of their intentions to provide \$465 million through fiscal year 1957.¹²⁴ On 11th September the Spanish Foreign Minister met with Ambassador Dunn and, upon being informed him of the text of the note in which the \$465 million figure was given, he suggested that discussion of the signature date could take place in their next meeting, scheduled for 16th September.¹²⁵ Martín Artajo reported to Dunn that Franco and the Spanish Cabinet, which met on 11th September, received 'very favorably' the news.¹²⁶

In summary, the delay in closing the negotiations was not related to the attachment of policy conditions. The Spanish always insisted on the need to avoid the appearance of a hard-bargain and to be reasonably assured of the long-term commitment of the U.S. toward Spain. The agreements were not signed until the appearances in terms of sovereignty and promises of military aid were enough to satisfy the Spanish military.

¹²² MacVeagh to the Department of State, Madrid, 25th July 1952, *FRUS*, 1952-1954, VI, part 2, p. 1868.

¹²³ Liedtke, *Embracing a dictatorship*, p. 164.

¹²⁴ Guirao, 'Spain and European Economic Cooperation,' pp. 321-22.

¹²⁵ Dunn to Acheson, Madrid, 14th September 1953, 711.56352/9-1453, Decimal File, Central Files, GRDS, RG59, NACP.

¹²⁶ Dunn to Acheson, Madrid, 17th September 1953, 711.56352/0-1753, Decimal File, Central Files, GRDS, RG59, NACP.

4.5. The outcome of the negotiations

Much has been said about the general conditions that Spain agreed to by signing the agreements with the U.S. on 26th September 1953. Of the three agreements signed between Spain and the U.S. on 26th September 1953, the Economic Assistance Agreement dealt with economic policy conditions most extensively. The other two, the Defence Agreement and the Mutual Defence Assistance agreement were of a military nature.

The Economic Assistance Agreement committed the Spanish to general principles such as the 'establishment of a sound economy' and expanded this commitment in ten articles. The Spanish government agreed to 'stabilize its currency, establish or maintain a valid rate of exchange, balance its government budget as soon as practicable, create or maintain internal financial stability, and generally restore or maintain confidence in its monetary system.' Spain also agreed to 'discourage cartel and monopolistic business practices' and 'to encourage competition.' Similarly, Spain was to assist the United States in 'reporting on labor conditions.' Of a more specific nature was the provision under which Spain was to agree with the U.S., 'as soon as feasible,' the convertibility of pesetas accumulated by American nationals and companies.¹²⁷ The Defence Agreement also called for the Spanish to take action to ensure that their commercial policy complied with the requirements of American legislation on not dealing with nations that were threatening world peace –in reference to trade with the Soviet bloc.

These conditions were in such stark contrast to the practices in Spain that Spanish agreement appears to be 'remarkable.'¹²⁸ Had they been enforced the economic policy reform implied would have been dramatic. However, such conditions were also stated in extremely vague terms. This vagueness ensured that even the pro-autarkic Falangistas in Spain could be reconciled with such

¹²⁷ For the text of the agreements see 'Agreements Concluded with Spain,' *The Department of State Bulletin*, 5th October 1953. For an analysis of the text of the agreements see Rubottom and Murphy, *Spain and the U.S.*; Viñas, *Los pactos*; S. Tacconi, 'Acuerdos y convenios de España con los Estados Unidos de América,' *De Economía*, nos. 37-38 (September-December 1955), pp. 601-35 and G. Fernández de Valderrama, 'España-USA, 1953-1964,' *Economía Financiera*, no. 6 (1964), pp. 14-51.

¹²⁸ Rubottom and Murphy, *Spain and the U.S.*, p. 32.

provisions.¹²⁹ Moreover, we have already noted that both parties had come to the agreements with the understanding that such was not going to be the case. The inclusion of the economic policy conditions in the text of the agreements was driven primarily by the need to satisfy certain pieces of American legislation, such as the Benton amendment or the trading with the enemy provisions –a situation which was known to the Spaniards.¹³⁰ In Chapter Five below we will explore the issue of the extent to which these conditions were enforced.

If there is one area where the Americans drove a hard bargain, it was on commercial conditions. Even the military agreements (Defence Agreement and Mutual Defence Assistance agreement) included specific commercial conditions, especially the tax exemptions that all American operations were to enjoy in Spain.¹³¹

In a document separate from the Economic Assistance Agreement the exchange rate at which to calculate the amount of pesetas was fixed at 35 pesetas per dollar, a figure closer to the black market rate than to the official average exchange rate.¹³²

Similarly, the percentage of counterpart funds to be used by the Americans was fixed at 70% (60% to finance the base construction programme plus 10% for administrative expenses in the country). This compares with Marshall Plan recipients, who enjoyed 90% (as opposed to 30% in the Spanish case) of counterpart funds to be used for the development of the recipient's economy. Other episodes of American aid, Eximbank, and especially PL480

¹²⁹ It did require though, great spinning to argue, as the famous economist Juan Velarde did in the falangista newspaper *Arriba* in the aftermath of the conclusion of the agreements that 'they did not marvel at that obscure, confused and anti-scientific concept of free enterprise, nor a condemnation of the so-much castigated state interventionism.' As quoted in Viñas, *Los pactos*, pp. 264-65.

¹³⁰ Resumen de la situación actual de la ayuda de los Estados Unidos, undated, in MAE, Leg. 3172, Exp. 10.

¹³¹ Tacconi, 'Acuerdos,' p. 611.

¹³² Fernández, 'España-USA,' p. 24. On 12th April 1957 the exchange rate was increased to 42 pesetas per dollar, and on 21st July 1959 to 60 pesetas per dollar. At the time of signing, the Tangiers market for pesetas situated the dollar at approximately 43 pesetas per dollar. See Viñas, *Los pactos*, p. 268.

sales, would also have commercial conditions that do not appear especially favourable to Spain, as discussed in Chapter Two above. Despite the American fears throughout the negotiation that these terms may prove unacceptable for Spain, the issue proved to be very low in the priorities of the Spanish negotiators.¹³³ The Spanish negotiators had initially suggested that the complex system of multiple exchange rates would be applicable. While American pressure succeeded in ensuring that a single exchange rate would be used, the Spanish were saved from public embarrassment by relegating the agreement on the exchange rate to a secret note. Note that the actual build-up of counterpart funds is a commercial condition while the actual disbursement of the counterpart funds may be considered as a policy-based condition since the donor has to give its consent before disbursements from such funds are made.

Most notable is the fact that no political liberalisation was demanded from Spain. Spain was re-admitted into the Western world without having to make any concessions about the nature of its political regime. It was a victory for Franco, because the agreement had been reached on his terms, without sacrificing his regime, without ‘opening his fist’ as he would himself note.¹³⁴ Franco had secretly conceded significant sovereign rights,¹³⁵ but had also achieved the promise of military end-items to please the Spanish military as well as the recognition that the American aid to Spain was not a hard bargain but truly the manifestation of acceptance and support by the U.S. of his regime.

The overriding proximate aim of the Spanish negotiators throughout the process was twofold: to avoid the *impression* of loss of sovereignty and to ensure the delivery of American military end-items to the Spanish armed forces. The Spanish regime achieved both. At the end, this issue was only resolved with the inclusion of secret clauses in the agreements which guaranteed that ostensibly the

¹³³ There is little documentary evidence of the Spanish concern with this issue. Even Viñas, *Los pactos*, pp. 267-68, who argues that the Spanish ‘paid great attention to this issue,’ can only unveil an internal document of the Ministry of Foreign Affairs dated 12th April 1957 but no evidence of such preoccupations at the time of the negotiation.

¹³⁴ Jarque, *Queremos esas bases*, p. 358.

¹³⁵ Vifias, *Los pactos*. It was obvious that the stationing of American bases in Spain gave little hopes for neutrality in the event of war in Europe. The location of the bases near densely populated areas was also an act of sheer irresponsibility.

bases were formally under Spanish command but the Americans were allowed their use to launch offensive attacks by simply informing the Spanish government.¹³⁶ Similarly, the Americans only committed to the defence of Spain insofar as the bases were concerned. This wording enabled the formalisation of the accords as executive agreements that, unlike treaties, would not need congressional approval.

It was clear, however, that the agreements meant a military alliance in everything but name. As Harold Stassen, Director of the M.S.A., told the Senate Foreign Relations Committee: 'you cannot really defend Spain without defending the U.S. bases. You cannot defend the U.S. air bases without defending Spain.'¹³⁷ The Defence Agreement and the Mutual Defence Assistance Agreement provided for the granting of base rights on Spanish soil to be used 'jointly with the Government of Spain.' The bases were to remain 'under Spanish jurisdiction' and a secret note made it clear that the bases will remain 'under Spanish flag and command.' The Americans committed to provide an unspecified amount of military aid for a period of 'several years.'

There was no reference in the text of the agreements as to the amounts of aid to be furnished. Franco's letter to Eisenhower in August 1953 reveals clearly that vagueness about amounts of economic aid was in fact in the interest of the Spanish regime, since otherwise it would have undermined the objective of portraying the agreements as a major alliance based on mutual trust and reciprocity. The Americans, however, committed themselves to the principle of ongoing aid to Spain. It is difficult to imagine how could it have been otherwise. As Senator J. William Fulbright put it, the American presence in Spain could only expect to 'tie the hand of the [American] administration' into providing further aid in the future.¹³⁸ Hence, substantial amounts of aid would be at the

¹³⁶ Viñas, *Los pactos*.

¹³⁷ Declarations made on 18th July 1954, as quoted in J. Durá, *U.S. Policy Toward Dictatorship and Democracy in Spain, 1931-1953. A Test Case in Policy Formation* (Sevilla: Arrayán, 1985), p. 344.

¹³⁸ Remarks of Senator Fulbright before Congress, as quoted in Rubottom and Murphy, *Spain and the U.S.*, p. 72.

disposal of Spain through programmes outside the consideration of the agreements signed in 1953, such as the sale of agricultural surpluses.

The agreements also provided for the delivery of technical assistance and the funding of training of Spanish officials. We will explore the workings of this element of the aid programme in Chapter Five below.

However, the agreements were also a victory for the Americans. Although dealing with Franco meant that the United States government 'had to swallow its pride,' the U.S. enjoyed a substantial military gain with a relatively limited aid programme. Bases in Spain provided significant cost reduction.¹³⁹ The mutual understanding that this relationship was a long-term commitment helps to explain why the Spaniards would in the future agree to the deployment of atomic submarines and planes in Spain, a point which had not been explicitly discussed in the negotiations.

This emphasis on the bargaining power of Spain given by Liedtke and Jarque and, to a great extent here, coincides with the conclusions drawn in the recent literature on U.S. intervention in Third World countries, which has made researchers qualify the 'bipolar' nature of the Cold War given the influence exerted by supposedly weak countries.¹⁴⁰ It therefore conflicts with those that see the culmination of the agreements as a 'subordinated' association or accounts that want to use it explicitly as an example of semi-peripheral status and becoming a 'satellite/client state and political and ideological agent of the hegemonic U.S.'¹⁴¹ This stress on Spanish bargaining power would not surprise

¹³⁹ J. W. Cortada, *Two Nations over Time. Spain and the United States, 1776-1977* (Westport, Conn.: Greenwood Press, 1978), p. 222. See also S. S. Kaplan, 'American Military Bases in Spain,' *Public Policy* (Fall 1974) for an assessment of the military value of the facilities on Spanish soil.

¹⁴⁰ Z. Karabell, *Architects of intervention: the United States, the Third World, and the Cold War, 1946-1962* (Baton Rouge: Louisiana State University Press, 1999), p. 225, examines the cases of Italy, Greece, Cuba, Guatemala, Lebanon, Iran, and Laos.

¹⁴¹ M. F. Tayfur, 'Semiperipheral development and foreign policy: the cases of Greece and Spain,' Ph.D. dissertation (London School of Economics, 1997), p. 228. A. Viñas, 'Spain, the United States and NATO,' in C. Abel and N. Torrents, *Spain: conditional democracy* (Beckenham: Croom Helm, 1984), p. 41.

readers of the loosely called ‘new’ cold war history and its more sceptical view on the alleged omnipotence of the superpowers.¹⁴²

In dropping political considerations as a prerequisite for the granting of assistance, American policy toward Spain was in line with its stance toward right-wing dictators worldwide.¹⁴³ However, the change of policy toward Spain appears to have been marked crucially by strategic considerations and external shocks. This view, resonant of traditional realist interpretations of the Cold War, contrasts with recent revisionist accounts that changes in the dominant group within the Truman administration even before the outbreak of the Korean War provide a better explanation for the militaristic approach finally pursued by the U.S.¹⁴⁴

The inclusion of vague economic policy conditions in the text of the agreements did not find opposition from any side and was a small concession to the gallery rather than the manifestation of any serious discussion. The U.S. was not interested in economic policy-making in Spain *per se*, relegated this issue throughout the negotiations and concentrated on achieving its goal of securing base rights for the minimum price tag possible. Its own earlier analysis indicating that trends in Spanish economic policy-making were of the utmost importance for stability in Spain was sidelined the moment the negotiations became a possibility. How the premises of those analyses resurfaced once the Americans established bases in Spain and how it translated into pressure for policy change, we will see in Chapter Five.

¹⁴² J. L. Gaddis, ‘On Starting All Over Again: A Naïve Approach to the Study of the Cold War,’ in O. A. Westad (ed.), *Reviewing the Cold War* (London: Frank Cass, 2000), p. 31.

¹⁴³ D. F. Schmitz, *Thank God they are on our side* (Chapel Hill: University of North Carolina Press, 1999).

¹⁴⁴ B. O. Fordham, *Building the Cold War Consensus. The Political Economy of U.S. National Security Policy, 1949-51* (Ann Arbor: University of Michigan Press, 1998).

Chapter 5. To what extent did American leverage contribute to economic policy change?

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Abstract

This chapter deals with *de facto* conditionality, the effect that the strings attached to American aid reviewed in chapter four actually had on Spanish policy-making. The topic has attracted only limited attention in the literature, leading to a somewhat confused picture in the existing historiography, which will be reviewed in the first part of the chapter. The chapter contributes to the literature by providing a documentary based account of the interactions between the two sides, the Spaniards and the Americans, in respect to discussions about policy-making.

5.1. Introduction

Compared with the abundant literature on the negotiations that led to the Pact of Madrid, relations between Spain and the U.S. after the signing of the agreements have attracted little attention. There is still no monograph on the period 1953-1963 and studies of postwar Spanish-American relations focus heavily on the run up to the 1953 agreements.¹ As such, discussions of the influence of the Americans in Spanish economic policy-making are very limited, yet often contradictory. The first part of this chapter is therefore a review of the existing historiography.

Although broad-ranging interpretations of the period under General Francisco Franco's rule pay significant attention to the change in economic policy during the 1950s, they typically skip over the possible effects of American influence on such changes.² They usually state briefly the absence of any 'rectification, conversion, nor adaptation' on the part of the Spanish regime to reach the agreements with the U.S., though this refers specifically to political change rather than economic policy.³ Even monographs on Spanish foreign policy under Franco highlight the imbalance of the agreements but fail to discuss the possible leverage of the U.S. in Spanish domestic economic policy-making, or simply mention *in passim* that '[t]he problems of economic liberalisation and liberalisation of the regulation of foreign investment continued to be a bilateral battleground.'⁴ Typically, chronological accounts of the foreign relations of Spain focus on the Pact of Madrid during the early 1950s, but when discussing

¹ B. N. Liedtke, 'Spain and the United States, 1945-1975,' in S. Balfour and P. Preston (eds.), *Spain and the great powers in the twentieth century* (New York: Routledge, 1999), pp. 229-44.

² J. Tusell, *La España de Franco* (Madrid: Historia 16, 1989), pp. 129-51 and S. G. Payne, *The Franco Regime, 1936-1975* (London: Phoenix Press, 2000 [1987]), pp. 417-20.

³ J. P. Fusi, *Franco* (Madrid: El País-Aguilar, 1995 [1985]), p. 132.

⁴ A. Marquina, 'La política exterior,' in J. Andrés-Gallego et al., *España actual. España y el mundo (1939-1975)*, Historia de España, vol. 13.3 (Madrid: Gredos, 1995), p. 472 and M. Espadas Burgos, *Franquismo y política exterior* (Madrid: Rialp, 1988), pp. 197-200.

the mid- and late-fifties they tend to shift their attention from the relations with the Americans to other issues such as the decolonisation of Morocco.⁵

Yet, the question was of clear importance to many writers which, lacking access to primary materials could but speculate on an answer to the contribution of American leverage to Spanish economic policy change. Based on the publicity of American representations to the Spanish government, it was argued that the Americans were increasingly ‘urging a liberalization of economic policy in Spain.’⁶ American views on economic policies were tentatively viewed as having ‘influenced decisively [...] the new government’s approach’ since, for these authors, the slightly reformist economic policy of the 1951 government ‘can only be explained if, more or less informally, there was an existing commitment of foreign aid.’⁷ However, instances of alleged direct American influence were very rarely identified.⁸

In fact, those suggesting the possible importance of American aid in inducing policy change concede that there were ‘no relevant efforts to demand the Spanish government a greater liberalisation of its economic policy.’⁹ This constitutes a puzzle for a literature that, taking as a departing point the traditional view on the imbalance of the agreements, expected the weak Spanish bargaining

⁵ C. R. Halstead, ‘Spanish foreign policy, 1936-1978,’ in J. W. Cortada (ed.), *Spain in the twentieth-century world* (Westport, Connecticut: Greenwood Press, 1980), pp. 41-96 and R. Caldúch Cervera, ‘La política exterior española durante el franquismo,’ in R. Caldúch (coord.), *La política exterior española en el siglo XX* (Madrid: Ed. Ciencias Sociales, 1994), pp.107-56.

⁶ C. W. Anderson, *The political economy of modern Spain* (Madison: University of Wisconsin Press, 1970), pp. 91-92.

⁷ J. Clavera *et al.*, *Capitalismo español: de la autarquía a la estabilización (1939-1959)*, (Madrid: Edicusa, 1973), pp. 42n, 49n.

⁸ Balfour argued that the tram fares rise in Barcelona in February 1951 was ‘the latest in a series of price increases that had followed the first liberalization measures urged by the U.S. government in exchange for its recent \$62.5 million loan to Spain.’ S. Balfour, *Dictatorship, workers and the city. Labour in Greater Barcelona since 1939* (Oxford: Clarendon Press, 1989), p. 23.

⁹ Clavera *et al.*, *Capitalismo español*, p. 71.

power to translate into significant leverage of the Americans over Spanish policy-making.¹⁰

The puzzle is not always clearly grasped. For example, it is stressed how the 1953 agreements ushered in ‘an ideological and economic turnabout’ that is contrasted with how the ‘early Francoist legislation had strictly controlled foreign investment on nationalist principles.’¹¹ However, as these authors in fact note, this policy was only changed in the 1960s. The contrast between Spanish and American ways is so profound that it cannot fail to be noted: ‘[b]eyond the high-sounding rhetoric, there were practical conditions, in terms of establishing a realistic exchange rate for the peseta, balancing the state budget, restoring confidence in the financial system, all of which struck at the very existence of his cherished system of autarky,’ as emphasised by Preston.¹² Though Preston is quick to note that these conditions would only mean changes ‘in the medium to long term’ it is apparent from the previous quote that it is not clear whether American leverage did matter to change Spanish economic policy or not, nor through which mechanism. Similarly vague is González’s treatment of this issue, arguing that ‘the philosophy that inspired the *sine qua non* conditions to receive aid define a line of continuity on the side of the U.S. since its change of policy towards Spain.’¹³ The implicit solution to the internal inconsistency in the accounts given by Carr and Fusi, Preston and González is that American leverage manifested itself with a lag, that by 1959 it was yielding results. In this chapter we will explore the American-Spanish interaction throughout the 1950s to illuminate this point.

¹⁰ A. Viñas, *Los pactos secretos de Franco con Estados Unidos: bases, ayuda económica, recortes de soberanía* (Barcelona: Ed. Grijalbo, 1981).

¹¹ R. Carr and J. P. Fusi, *Spain: dictatorship to democracy* (London: George Allen & Unwin, 1979), p. 58.

¹² P. Preston, *Franco* (London: Harper Collins, 1993), p. 624.

¹³ M. J. González, *La economía política del franquismo (1940-1970): dirigismo, mercado y planificación* (Madrid: Tecnos, 1979), p. 198. In a section entitled ‘The role of the United States in the formulation of the policy and ideological change’, pp. 182-98, he provides in fact an account of the early change in American policy towards Spain, rather than an account of the influence in policy-making. González’s is arguably the standard text on political economy of Spain during the Franco years.

At worst, the existence of *de jure* conditions attached to American aid is confused with *de facto* conditionality. American economic aid, it is argued, ‘helped directly to the relaxation of autarky due to aid being linked to liberalisation and anti-inflationary conditions and recommendations.’¹⁴ Even more forceful is the following quotation from another recent survey:

The [1953] agreements facilitated the acquisition of raw materials and foodstuffs at low prices and were decisive in attracting foreign investments. They also forced the relaxation of autarky, the ‘new economic policy of Minister of Commerce Manuel Arburúa,’ and initiated the process of international integration and co-operation. They imposed a more realistic exchange rate, a certain budgetary balance and more economic rationality to avoid the excessive inflation that the inflow of American dollars may cause.¹⁵

Such statements are, however, not given further attention and very little effort has been made to document the alleged American leverage. Lack of solid documentary evidence is perhaps the only common feature of the different interpretations thus far reviewed. There are, of course, notable exceptions.¹⁶ Viñas *et al.* explore the role of American policy in Spanish approach to the OEEC, yet without access to American documentation suggest ‘when the government of Washington releases the documentation of the period we could know with precision the internal arguments of the American administration.’¹⁷ To some extent, this chapter can be seen as taking Viñas’ suggestion up. Guirao emphasises how the Spanish requested assistance as a prelude to trade and

¹⁴ R. Pardo, ‘La política exterior del franquismo: aislamiento y alineación internacional,’ in R. Moreno Fonseret and F. Sevillano Calero (eds.), *El Franquismo. Visiones y balances* (Alicante: Universidad de Alicante, 1999), p. 109.

¹⁵ F. Portero and R. Pardo, ‘Las relaciones exteriores como factor condicionante del franquismo,’ *Ayer*, no. 33 (1999), pp. 216-17.

¹⁶ In particular, A. Viñas *et al.*, *Política comercial exterior en España (1931-1975)* (Madrid: Banco Exterior de España, 1980), vol. 2, especially pp. 830-68 and F. Guirao, ‘Spain and European economic cooperation, 1945-1955. A case study in Spanish foreign economic policy,’ Ph.D. dissertation, European University Institute, 1993, pp. 330-40. For a summary of the arguments see F. Guirao, ‘The United States, Franco, and the integration of Europe,’ in F.H. Heller and J.R. Gillingham (eds.), *The United States and the integration of Europe* (New York: St. Martin’s Press, 1996), pp. 79-102.

¹⁷ Viñas *et al.*, *Política comercial exterior*, vol. 2, p. 854.

payments liberalization and how the Americans turned these requests down, resulting in a slow down of the speed at which the reforms could proceed.¹⁸ Similarly, for Viñas *et al.* the Americans are seen as ‘impeding’ and ‘frustrating’ the change in policy as exemplified by the Spanish request to join in the OEEC in 1956.¹⁹

Thus, it is unsurprising that those wishing to be on safer grounds simply refer to this topic in as vague terms as possible. A recent introductory text on early Francoism, after noting that the arrival of American aid allowed for importing capital goods and inputs, deals with the leverage issue by simply stating that ‘[w]ith these measures Francoism embraced the liberal capitalist ideology.’²⁰ There is a similarly calculated vagueness in stating that the 1953 agreements did have a positive effect ‘by beginning the process of opening up the economy to the outside world.’²¹ It is unclear whether this relates to the increased aid-financed imports, the arrival of American contractors and other investors or to a relaxation of Spanish foreign economic policy. A recent survey on the very topic of the abandonment of autarkic policies in Spain, has disappointingly little to say over the relationship between policy-making and American influence, simply mentioning ‘the onset of Spanish-American co-operation’ as one of the three causes for the resumption of growth in the 1950s.²² Authors synthesising the period sometimes avoid the discussion simply by commenting that the Spanish government ‘did not comply with the totality of the content of the liberalisation intentions contained in the agreements signed with the U.S.’²³

The purpose of this chapter is to examine the extent to which American influence stemming from its aid programme contributed to policy change in

¹⁸ Guirao, ‘The United States, Franco, and the integration of Europe,’ p. 92.

¹⁹ Viñas *et al.*, *Política comercial exterior*, vol. 2, p. 849.

²⁰ A. Cazorla, ‘Early Francoism, 1939-1957,’ in J. Alvarez Junco and A. Shubert, *Spanish history since 1808* (London: Arnold, 2000), p. 272.

²¹ J. Grugel and T. Rees, *Franco’s Spain* (London: Arnold, 1997), p. 167.

²² *Ibid.*, p.146. The other two sources of growth noted are the pull of Europe’s growth and the gradual loosening of the most extreme autarkic policies.

²³ J. P. Fusi and J. Palafox, *España: 1808-1996. El desafío de la modernidad* (Madrid: Espasa Calpe, 1997), p. 344.

Spain, thus filling in a gap in the existing literature. We will follow the distinction made in the introductory chapter between policy- and political-conditionality (conditions targeting economic policy reform and other strings that did not have that specific aim). Section Two of this chapter provides a chronological account of the role of policy conditionality in Spanish-American relations after the successful conclusion of the Pact of Madrid in 1953. Section Three considers a wider range of levers through which the U.S. may have affected the domestic policy-making process, which we referred to as the *modus operandi* of the aid programme in the introductory chapter. As discussed in the introductory chapter, this distinction aims to help us in making a judgement on the overall effect of an aid programme on the recipient's policy-making. This is so because conditions other than those strictly aimed at changing domestic economic policy may in fact have an impact on the domestic policy-making. This distinction is not only theoretically advised but may help to explain why, as argued in the literature, '[t]he very programme of economic policy, initiated in 1951 and consolidated in 1957-1959, could not have even been outlined without such [American] aid.'²⁴ Similarly, it has also been argued that American support to Spain succeeded in 'strengthening the position of economic liberals within the Spanish cabinet.'²⁵ These views may then be reconciled with an ineffective direct policy conditionality, as the Americans may have influenced Spanish economic policy-making in other indirect ways.

²⁴ Clavera *et al.*, *Capitalismo español*, p. 70.

²⁵ J. Harrison, 'Towards the liberalization of the Spanish economy, 1951-9,' in C. Holmes and A. Booth (eds.), *Economy and society: European industrialisation and its social consequences. Essays presented to Sidney Pollard* (Leicester: University of Leicester Press, 1991), p. 109.

5.2. Policy conditionality in the American aid programme after the Pact of Madrid

5.2.1 Attempts at exercising leverage in good times, 1953-1956

After the signing of the Pact of Madrid in 1953, the relationship between the Spanish and American governments developed into a comfortable one. Perhaps the high tide of this calm was marked by the trip on 1st November 1955 of John Foster Dulles, first U.S. Secretary of State ever to visit Madrid. Most of the two-hour meeting with Franco was spent on discussing world affairs. Bilateral issues focused on the coming decision of the United Nations to consider Spanish membership, the discussion of the American aid programme being relegated to a secondary importance.²⁶ Dulles was ‘particularly appreciative of the extraordinary degree of co-operation’ displayed by the Spaniards and did not raise even a single concern in relation to the economic agreements. On the contrary, the Secretary of State volunteered that the U.S. ‘fully understood the problems which the [base] construction programme had produced’ and, himself, mentioned the ‘inflationary aspects of the expenditures for construction.’²⁷ Not even lip service was paid by the U.S. Secretary of State to the necessity that Spain reformed her economic policy. Dulles, oblivious to the increasing pressure within the American administration to cut aid expenditures, went out of his way to state that the U.S. hoped ‘to continue a modest but nevertheless substantial economic aid programme for Spain.’²⁸

To some extent, the language in the Dulles-Franco meeting reflects the platitudes usually exchanged between officials at the highest level, but it also captures the mutually satisfactory state of Spanish-American relations. Franco could but thrive in the new international prestige that his regime had obtained,

²⁶ Spain was accepted into the U.N. in December 1955 as part of a package deal in which some states of the Soviet bloc were included. Only one of the seven-page memorandum was devoted to cover the discussion on the American aid programme to Spain. Memorandum of conversation Franco-Dulles, Madrid, 5th November 1955, FRUS, 1955-1957, XXVII, p. 547.

²⁷ *Ibid.*, p. 551.

²⁸ *Ibid.*, p. 552. *The New York Times* would on 16th November 1955 comment John B. Hollister’s [Director of International Cooperation Administration, successor of the Foreign Operations Administration] plans to cut U.S. economic aid by 20%.

and the subsequent peace reflected at home. The Americans generally considered the agreements 'a hard bargain' which offered the U.S. 'very favourable terms.'²⁹

There were, of course, unresolved issues. Spanish officials outspokenly complained about the insufficient amounts of aid granted, especially in comparison with Marshall aid recipients.³⁰ The press served as a loudspeaker for these claims.³¹ Given that official Spanish-American meetings never showed the degree of victimisation that the Spaniards publicly portrayed, these utterances appear to reflect primarily Spaniards' attempts at securing the continued support of the American Congress for their cause.³²

These demands put the American administration in an uneasy position. On one hand, they were vigilant not to 'raise false hopes' that the U.S. was prepared 'to do more to strengthen the Spanish economy than is presently the case.'³³ This fitted within the overall attitude of the administration to foreign aid.

²⁹ 'Programme descriptions for Spain,' S. H. Van Dyke to D. A. FitzGerald, Washington, 17th June 1955, in Geographic Files of the Director, 1948-55; Office of Director; RG469 (entry 181, box 26), NACP.

³⁰ Martín Artajo at Fordham University, New York, 16th April 1956, argued that the aid was insufficient and stated that he had requested the U.S. to cover the complete re-equipping of the Spanish army; quoted in J.L. Shneidman, *Spain & Franco, 1949-59* (New York: Facts on File, 1973), pp. 123, 167.

³¹ *The New York Times*, 14th February 1955. Certain circles added that these complaints were 'natural and legitimate,' *Chicago American*, 16th February 1955.

³² For example, Martín Artajo's meetings with American officials at the very time of his incendiary Fordham speech reveal that neither he had made such requests nor the tone of the meetings was other than cordial. See Memorandum of conversation, Washington, 10th April 1956, *FRUS, 1955-1957, XXVII*, pp. 563-67.

³³ The Embassy in Madrid was reprimanded since it was 'not an approved primary objective of the U.S. Government to strengthen the Spanish economy in and of itself.' Dulles to Embassy in Madrid, 25th October 1954, Washington, in Geographic Files, 1953-54; Office of European Operations, Office of the Director; RG469 (entry 337, box 141), NACP. Joseph Dodge [President's Special Assistant and head of the Council on Foreign Economic Policy] was determined, in December 1954, to avoid leading 'foreign countries to expect a great deal more from us than we could or would provide,' as quoted in W. W. Rostow, *Eisenhower, Kennedy, and foreign aid* (Austin: University of Texas Press, 1985), p. 106.

Although during the Eisenhower administration foreign economic policy would be transformed from a ‘trade-not-aid’ to a ‘trade-and-aid’ philosophy, the change was to be a slow one.³⁴ Throughout most of the 1950s, therefore, the American foreign economic programme is marked by the fiscal conservatism of Eisenhower and his Secretary of the Treasury, George M. Humphrey.³⁵

On the other hand, the question of what economic objectives arose from the military interest was ‘highly complex and fluid,’ as serious economic deterioration ‘would impair U.S.-Spanish joint interests.’³⁶ The vagueness of the commitments the U.S. had undertaken had American officials worried that their position be interpreted as ‘an open end commitment for continuing U.S. economic assistance.’³⁷ At the highest level, it was decided that this interest required the U.S....

to grant Spain that minimum amount of additional economic aid necessary to insure internal stability in Spain so that the use of our bases there would not be jeopardised by civil disorders in Spain.³⁸

³⁴ B. I. Kaufman, *Trade and aid. Eisenhower's economic policy, 1953-1961* (Baltimore: Johns Hopkins University Press, 1982), p. 7. Proponents of more vigorous aid, such as Walt Rostow and Max Millikan from MIT, would not get the upper hand until the late 1950s. See also K. C. Pearce, *Rostow, Kennedy, and the Rhetoric of Foreign Aid* (East Lansing: Michigan State University Press, 2001) and Rostow's own account in Rostow, *Eisenhower, Kennedy*, pp. 58-151.

³⁵ Kaufman, *Trade and aid*, p. 30. Humphrey would criticise the aid programme to Spain as suffering from ‘sloppy thinking,’ demanded that it ought to be ‘much more businesslike,’ and that, in any case ‘our representatives must clearly know the limits to which they were authorised to go.’ National Security Council Discussion, Washington, 3rd May 1956, *FRUS, 1955-1957*, XXVII, pp. 569-71.

³⁶ Van Dyke to FitzGerald, Washington, 17th June 1955, in Geographic Files of the Director, 1948-55; Office of Director; RG469 (entry 181, box 26), NACP.

³⁷ ‘United States policy toward Spain,’ Acting Secretary of State to Dodge, Washington, 7th October 1955, *FRUS, 1955-1957*, XXVII, p. 544.

³⁸ This was the position of Eisenhower himself, ‘Memorandum of Discussion at the 248th Meeting of the National Security Council,’ Washington, 12th May 1955, *FRUS, 1955-1957*, XXVII, p. 537.

Those responsible for implementation were baffled by a policy that directed them to provide some support for Spain's efforts to meet its most pressing economic problems but did not specify the character or extent of assistance considered appropriate. A similar vagueness applied to American goals in relation to influencing Spanish economic policy-making and the means to achieve those goals. The stake the Americans now had in Spain inevitably implied that there were 'a number of aspects of Spanish economic policy which are of direct concern to the U.S.' yet the policy implementation guidelines called for 'considerable caution [...] in pressing for changes' as they feared that pressure 'would be resented.'³⁹

Therefore, Spanish officials were not feeling any type of pressure from the Americans to change economic policy. In fact, the only issue of Spanish economic policy raised by the Americans was the regulation of foreign investment.⁴⁰ That this was the only question to be raised by the U.S. echoed the 'trade-not-aid' philosophy that characterised the Eisenhower administration of that moment.⁴¹

This lack of attempts at exercising leverage is unsurprising. In fact, the very same reasoning that would prompt the U.S. to be willing to get Spain out of its most pressing economic problems would mean that it had no intention in providing a dollar more than necessary and if stability politically and economically was there, why do so. This somewhat ambiguous position

³⁹ Van Dyke to FitzGerald, Washington, 17th June 1955, in Geographic Files of the Director, 1948-55; Office of Director; RG469 (entry 181, box 26), NACP.

⁴⁰ Van Dyke to Hollister, Washington, 10th April 1956, in Geographic Files of the Director, 1948-55; Office of Director; RFAA, RG469 (entry 181, box 26), NACP. For a report on Hollister's meetings with Spanish authorities, Lodge to Dulles, Madrid, 24th July 1956, in Geographic Files of the Director, 1948-55; Office of Director; RFAA, RG469 (entry 181, box 26), NACP.

⁴¹ The Randall report, to serve as the basis of foreign economic policy from FY1954 onwards, emphasised as guidelines the termination of aid, encouragement of private investment abroad, currency convertibility, and trade liberalisation. Hollister, a reputed 'trade-not-aid' proponent, had been appointed to direct the foreign aid programme because he was seen as much more conservative than his predecessor Harold Stassen, a member of the Republican party's liberal wing, Kaufman, *Trade and aid*, pp. 24, 52.

compares with a much more straightforward stance from the Spaniards: they simply wanted as much as possible. To get as much as they could they would have to play up the severity of the situation. This is not to say, however, that there were no disagreements about how best to proceed.⁴² These were, in fact, bitter times for the Spanish officials, which saw how the Americans were effectively withholding aid disbursements over minor disagreements which were only resolved if agreed upon American terms. One such stern negotiation involved the counterpart formula for the \$55 million in McCarran amendment.⁴³ Overall, the American bargaining position was strong. The Americans protracted the negotiations on the programming of allocated aid, for example FY1954 aid, the first year after the signing of the agreements, was only announced on 29th April 1954, and simply ignored Spanish demands for changes in the disposition of the counterpart funds.⁴⁴ In fact, they had managed to impose their will in matters such as the terms in which the McCarran amendment was to be implemented.⁴⁵

⁴² José Antonio Giménez-Arnau [Director-General of Economic Cooperation at Spanish Ministry of Foreign Affairs] complained about Lequerica's view that further lobbying of Congress would be counterproductive in achieving a higher FY1955 appropriation, J.A. Giménez-Arnau to Arburúa, Madrid, 16th August 1954; Spanish Ministry of Foreign Affairs Renovated Series [henceforth MAE], Leg. 4615, Exp. 4. Spanish archival material presented in this dissertation derives from the MAE and the General Archive of the Administration [henceforth AGA]. Research in the Historical Archive of the Bank of Spain and to the Archive of the Presidency of Government proved less time-effective. The first because it lacked a catalogued system identifying records with material on the American aid programme, the second because the request for access to material resulted in being granted authorisation to consult a very limited number of files which made no substantial contribution.

⁴³ Eventually, it was agreed to split McCarran counterpart pesetas as follows: \$20 million loan, \$24 million as grant and \$11 million at the disposal of ICA. A exchange rate of 38.95 pesetas/\$ was also agreed upon. Unsigned note, 11th February 1955; MAE, Leg. 4615, Exp. 15.

⁴⁴ Argüelles to Rubottom, Madrid, 2nd December 1955, in MAE Leg. 4615, Exp. 15.

⁴⁵ The McCarran amendment read that '95% of the foreign currencies generated hereunder shall be used to strengthen and improve the civilian economy of Spain',

This situation was to characterise the first two and a half years after the signing of the agreements, right up to mid-1956. As this was a period of relative bonanza and stability, the conflict of interests and internal contradictions of this *ad hoc* policy would not manifest themselves. Let us see how the issue of the possibility of exercising American leverage over Spanish economic policy-making evolved in less placid times.

5.2.2. Attempts at exercising leverage bygone in not-so-good times, 1957-...

Following wage increases of 20% in February and a further 10% in November 1956, American officials were busily engaged in the exercise of assessing the inflationary risks in Spain. They expected a 50% increase in prices for 1957 and feared that the inflationary threat would 'become increasingly serious during 1957.'⁴⁶ Although the concern with inflation had been an early one for those in charge of the American aid programme to Spain, when the much talked 'fear that inflation would develop' presented itself, it left the Americans uncertain as how best to proceed.⁴⁷

In the first place, and given that inflation had not escalated to runaway levels, the Americans worried that the base construction programme would almost inevitably be portrayed 'as major factor in public attribution of cause.'⁴⁸ Ambassador John Davis Lodge warned about these repercussions, noting that the

Congressional Record, Senate, 14th August 1954, p. 13778. This would have left ICA with \$2.75 million at its disposal, not the \$11 million agreed upon with the Spaniards.

⁴⁶ 'Inflation in Spain: magnitude and significance,' by R. Holben, Madrid, 27th December 1956, in Subject Files, 1948-57; Office of African and European Operations; RFAA, RG469 (entry 379, box 98), NACP.

⁴⁷ E. L. Williams [Director of U.S. Operations Mission (USOM)- Spain] to FOA, 26th October 1954, in Geographic Files, 1953-54; Office of European Operations, Office of the Director; RFAA, RG469 (entry 337, box 141), NACP. The quote is from Eisenhower, referring to the Spanish aid programme. National Security Council Discussion, Washington, 3rd May 1956, *FRUS*, 1955-1957, XXVII, p. 569.

⁴⁸ As recognised to Hollister by Spanish Ministers Martín Artajo, Arburúa, Planell [Industry] and Cavestany [Agriculture]; Hollister to FitzGerald, Madrid 22nd July 1956, in Subject Files, 1948-57; Office of African and European Operations; RFAA, RG469 (entry 379, box 98), NACP.

press had already started blaming the rise in prices to the presence of 'large number of 'foreigners', understood by public to refer to U.S. personnel.'⁴⁹

The Spanish argument about inflation was that the base construction programme had diverted resources from the civilian economy and hence driven prices up. However, it was difficult to see how this could have had overall inflationary pressures. The Americans reiterated that the amounts of resources imported into Spain under the various economic aid programmes was 'six or seven times greater' than the amount of resources consumed in the military base programme.⁵⁰ Moreover, the base construction programme continued to experience delays.⁵¹ Difficulties were being experienced by suppliers in matching the specifications and way the Americans worked and by the Spanish government in furnishing all necessary land free of charge to the U.S.⁵² Similarly, the use by Americans of only counterpart pesetas and the scaling down of the overseas base construction programme also contributed to a fairly limited and slow pace.⁵³

⁴⁹ Lodge to Dulles, Madrid, 11th November 1955, GRDS (RG59), Decimal File, 711.56352/11-1155, NACP.

⁵⁰ Lodge to Martín Artajo, 5th October 1956; MAE, Leg. 7741, Exp. 3.

⁵¹ It took approximately a year for the first contract (Torrejón de Ardoz air base), *Economía*, 15th September 1954. Part of the press suggested that the delays were due to Spanish disappointment with the meagre funds of aid furnished, see articles by J. Creach, *Le Monde*, 13th March 1955, or D. Pearson, *Washington Post*, 13th March 1955.

⁵² W. G. Bowman, 'Spanish bases reach construction stage' in *Engineering News-Record*, June 2, 1955. This would help explain episodes such as the one reported by *The Economist*, 30th October 1954, p. 396, reported that in September 1954 the Americans invited tenders for 30,000 tonnes of cement. No Spanish firm bid, despite Spain's annual production of almost 3 million tonnes.) Bowman, 'Spanish bases reach construction Stage' suggests that it already owned the great bulk of the land, so did not plan for an expenditure of upwards of \$20 million of the extra parcels.

⁵³ Developments in long-range fighter planes and missiles led the American military to downgrade the strategic importance of the bases, reducing the number of bases originally planned from 8 or 9 to 4 and slowing down construction D. A. Quarles [U.S. Air Force Secretary] during a hearing before the House Committee on Appropriations in February 1956, as quoted in Shneidman, *Spain & Franco*, p. 168.

The American administration was aware that ultimately the inflationary threat could only be averted 'by Spanish budgetary action.'⁵⁴ This provided a rationale for exercising pressure on Spanish government, as instability might jeopardise the Franco regime and with it the bases.

The occasion to step up the attempts at leverage was the Spanish request for an additional \$30 million in defence support for FY1957. John B. Hollister, Director of ICA, was briefed before his scheduled meeting with Spanish Foreign Minister Alberto Martín Artajo on 20th November 1956 to 'urge a careful appraisal of [the Spanish government] general fiscal capacity.'⁵⁵ A letter from Lodge followed, requesting the Spanish government to specify what were 'the internal fiscal and monetary measures [that] have been taken and are contemplated to minimise the inflationary threat.'⁵⁶ For the first time, the Americans not only raised the issue of freeing of foreign investment, but overall Spanish economic policy.

The Spanish government met at the highest level and decided on sending a letter to the Embassy outlining the economic steps to meet the inflationary problem.⁵⁷ The note emphasised the desire for liberalisation of the economy but also their position that they did 'not wish [to] make detailed statements.'⁵⁸ The response by the Spanish government was judged by the Americans to leave much to be desired as the Spaniards provided 'few quantitative measures and many generalisations, and that when quantitative data are offered, they are sometimes inconsistent.'⁵⁹ Spanish officials would insist in calling for more aid to end the

⁵⁴ Van Dyke to FitzGerald, Washington, 17th June 1955, in Geographic Files of the Director, 1948-55; Office of Director; RFAA, RG469 (entry 181, box 26), NACP.

⁵⁵ FitzGerald to Hollister, Washington, 16th November 1956, in Geographic Files of the Director, 1948-55; Office of Director; RFAA, RG469 (entry 181, box 26), NACP.

⁵⁶ Lodge to Martín Artajo, Madrid, 23rd November 1956; MAE, Leg. 7741, Exp. 3.

⁵⁷ H. Byngton [Chargé of American Embassy in Madrid] to Dulles, Madrid, 30th March 1957, GRDS (RG59), Decimal File, 852.00/3-3057, NACP.

⁵⁸ Summary of note in Lodge to Dulles, Madrid, 8th April 1957, GRDS (RG59), Decimal File, 852.00/4-857, NACP.

⁵⁹ Embassy despatch by Richard S. Aldrich [Counselor of Embassy for Economic Affairs and Director of USOM], Madrid, 12th December 1956, in Subject Files, 1948-57; Office of African and European Operations; RFAA, RG469 (entry 379, box 98), NACP.

inflationary pressures.⁶⁰ The Spanish response was simply to step up their strategy of emphasising the ‘seriousness of the Spanish economic situation and the likelihood of political repercussions’ in the absence of further aid.⁶¹ There were no clear signs that things might change in the way the Spanish government conducted its economic affairs and the extent to which it will employ effective anti-inflationary measures, despite some promises to the contrary.⁶²

The reaction within fiscally conservative circles in Washington was to toy with ‘the idea of using the additional \$25 million as bargaining leverage for assurances on internal reforms’ and in particular ‘assurances on inflation control’.⁶³ To prevent the recurrent fact that Congress would appropriate amounts to Spain in excess of those suggested by the executive, the report proposed ‘putting the Congress on notice that we will increase the aid level, if necessary, and if the Spanish undertake inflation control measures.’⁶⁴ The Spaniards were informed that the U.S. ‘felt strongly that the Spanish Government itself was not taking sufficient steps to bring the inflation under control,’ and, hinting at withholding aid, that the U.S. ‘would be more sympathetic to a request for increased aid if Spain would undertake the necessary measures of self-help.’⁶⁵ This could not be a credible strategy. The same report that eagerly endorsed the use of strict policy conditionality was convinced that the crisis in

⁶⁰ Views of Spanish Commercial Attaché (Vallaure), Washington, 9th November 1957, GRDS (RG59), Decimal File, 852.00/11-956, NACP.

⁶¹ As put by Ullastres and Castiella; Lodge to Dulles, Madrid, 29th August 1957, GRDS (RG59), Decimal File, 711.56352/8-2957, NACP.

⁶² Martín Artajo to Byngton, 7th January 1957; MAE, Leg. 7741, Exp. 3. Martín Artajo pledges that reduction in fiscal expenditures and increases in discount interest rates were being studied.

⁶³ Report on Consultation Madrid, Lisbon, and Paris, February 7-22, 1957, by H. K. Lennon, in Geographic Files of the Director, 1948-55; Office of Director; RFAA, RG469 (entry 181, box 26), NACP.

⁶⁴ *Ibid.*

⁶⁵ Hollister to Eisenhower, Washington, 27th June 1957, in Geographic Files of the Director, 1948-55; Office of Director; RFAA, RG469 (entry 181, box 26), NACP.

Spain was 'more serious than even Embassy despatches indicate,'⁶⁶ This prompted the usual corollary that the effect 'on our base rights is unpredictable since the political direction, if matters should get out of hand, is also unpredictable.'⁶⁷ Although the reporter may have got carried away with the language, it is true that some instability developed throughout 1956-1957. The first attempt at institutionalising a regime that had no clear constitution led to unexpected frictions as the *Falange* party tried to regain a share of power that it had previously lost.⁶⁸ Similarly, there was renewed labour unrest and all the uncertainties involved in a change of government, especially if it is not simply a substitution of persons as was the February 1957 cabinet reshuffle, in an autocratic regime.

In such circumstances, attempts at exercising direct leverage were little more than wishful thinking. The Embassy in Madrid certainly thought so, conceding that Spanish co-operation 'will be determined by our willingness to extend military and economic aid in sums exceeding current commitments.'⁶⁹ The increasing current account problems, rising prices, and political uncertainty prompted Homer Byington, Chargé of Embassy in Madrid, to argue that the '[o]nly escape open from the exceedingly grim prospect of inflation and shortages appears to be U.S. economic aid.'⁷⁰ Lodge concurred and favoured increased aid in the form of agricultural commodities and raw materials 'before economic crisis expected next fall comes upon us, and we find our large investment in [Spain's] strategic advantages placed in jeopardy.'⁷¹ The

⁶⁶ Report on Consultation Madrid, Lisbon, and Paris, February 7- 22, 1957, by H.K. Lennon, in Geographic Files of the Director, 1948-55; Office of Director; RG469 (entry 181, box 26), NACP.

⁶⁷ *Ibid.*

⁶⁸ Fusi, *Franco*, p. 148 *et seq.*

⁶⁹ 'Spanish foreign relations in 1956', by R. A. Johnson [Counselor of Embassy], Madrid, 4th January 1957, in Spain, Madrid Embassy, Classified General Records 1953-1963, FSPF, RG84 (entry 3167B, box 5), NACP.

⁷⁰ Byington to Dulles, Madrid, 17th January 1957, in Subject Files, 1948-57; Office of African and European Operations; RG469 (entry 379, box 99), NACP.

⁷¹ Lodge to Dulles, Madrid, 7th August 1957; GRDS (RG59), Decimal File, 852.00/8-757, NACP.

Ambassador conceded that the U.S. was in a classical hold-up problem and that 'our only practical alternative is to continue on a year-to-year basis using military and economic aid [...] to secure effective operation of the bases.'⁷² Lodge, despite finding the Spanish 'unreceptive,' urged for increases in the aid allocations to Spain 'as soon as possible.'⁷³

Lodge was similarly unwilling to press the Spanish government, arguing that 'it would be counter-productive to insist on further detailed assurances.'⁷⁴ When, following the unification of exchange rates at 42 pesetas by the Spanish government in April 1957, the State Department and ICA wanted to review upwards the exchange rate at which counterpart funds are calculated, Lodge predictably opposed such attempts. He argued that 'such precipitate action would be extremely unwise' since 'the gravest damage to U.S. security could be inflicted through hasty, over-legalistic disputes over issue of relatively minor importance.'⁷⁵

This was so for the sake of the 'continued stability' in the country, as the briefing for Dulles in his second visit to Spain in December 1957 emphasised.⁷⁶ The visit, though cordial, saw Franco raising the issue of insufficient aid and the dissatisfaction with the 90% counterpart arrangement. Dulles promised 'to look into this problem.'⁷⁷ Franco's demands reflected a renewed confidence by the Spaniards, who had consequently stepped up their demands for aid. Minister of Commerce Alberto Ullastres, for example, had been crystal clear when

⁷² Lodge to Dulles, Madrid, 4th May 1957; GRDS (RG59), Decimal File, 852.00/8-757, NACP.

⁷³ Lodge to Dulles, Madrid, 29th August 1957; GRDS (RG59), Decimal File, 711.56352/8-2957, NACP.

⁷⁴ Lodge to Dulles, Madrid, 4th April 1957; GRDS (RG59), Decimal File, 852.00/4-957, NACP.

⁷⁵ Lodge to Dulles, Madrid, 22nd April 1957; GRDS (RG59), Decimal File, 711.56352/4-2257, NACP.

⁷⁶ Briefing book for Dulles' visit to Spain on 20th December 1957, in folder visits, Records relating to Spain 1956-1966, Lot Files, Europe (I), Bureau of European Affairs, Country Director for Spain and Portugal, RG59 (entry 5295, box 6), NACP.

⁷⁷ Memorandum of conversation Dulles-Franco, Madrid, 20th December 1957, *FRUS*, 1955-1957, XXVII, p. 596.

demanding that Spain needed 'a great deal more' in aid because otherwise 'political and social problems for both Spain and the U.S. bases are bound to arise. He said the real guardian of the American bases is the Spanish people, and they are hungry and poorly clothed.'⁷⁸

The American response to this 'all-out attempt' to substantially increase the amounts of aid is a good example of how the U.S. was to give up attempts at exercising direct leverage over Spanish economic policy-making.⁷⁹

The extension of FY1957 defence support allocation is representative. When Brundage, Director of Bureau of the Budget, complained to Dulles that he 'understood they had made commitments to put their financial house in order and sees no evidence of it,' Dulles said that this further allocation was 'important irrespective of that'.⁸⁰ Hollister, who on 25th April 1957 had not recommended further allocations for FY1957 'until sufficient evidence had been developed that the Spanish Government was undertaking the necessary self-help steps' was, by late June, endorsing such allocations despite recognising that 'the Spanish government has not announced any new measures to bring their inflation under control'.⁸¹

On 27th January 1958 a \$69.1 million sales agreement under Public Law [PL] 480 was concluded. As the Embassy in Madrid had long emphasised, PL 480 was a perfect match for the Spanish aid programme as the Spaniards were already interested in this form of supply of agricultural surpluses.⁸² The

⁷⁸ Report on a Conversation with Minister of Commerce Ullastres, by Milton Barall [Counsellor of U.S. Embassy], Madrid, 24th October 1957, GRDS (RG59), Decimal File, 852.00/10-2457, NACP.

⁷⁹ Lodge to State Department, Madrid, 31st January 1958, *FRUS*, 1958-1969, VII, p. 697.

⁸⁰ Brundage to Dulles, Washington, 25th June 1957, *FRUS*, 1955-1957, XXVII, p. 582.

Brundage managed to reduce the amount requested by Dulles from \$25 to \$20 million.

⁸¹ Hollister to Eisenhower, Washington, 27th June 1957, in Geographic Files of the Director, 1948-55; Office of Director; RFAA, RG469 (entry 181, box 26), NACP.

⁸² As manifested by Spain's purchases in pesetas through the Commodity Credit Corporation. Williams to FOA, 26th October 1954, in Geographic Files, 1953-54; Office of European Operations, Office of the Director; RG469 (entry 337, box 141), NACP. PL 480, enacted on 10th July 1954 in the midst of a relatively sharp recession and falling prices for agricultural produce, would become a favourite of American administrators as

Americans increased the tempo of their provision of agricultural surpluses through PL 480 sales. Additional defence support allocations were frequently announced: \$20 million on 29th June 1957 on top of \$50 million for FY1957, with a further \$15 million for FY1958 on 25th March 1958.

The Americans advised that the defence support counterpart formula was revised and would provide 90% for Spanish uses, and a further PL 480 sale of cotton was agreed.⁸³ The counterpart formula on PL 480 sales had already been altered and the portion to be used by Spain raised to 70% from FY1957.⁸⁴ The Spaniards escaped also the application of the Cooley amendment on PL 480 sales.⁸⁵ Similarly, Spain resisted pressures to end its practice of reselling aid-financed cotton to Spanish producers at a profit.⁸⁶ The Eximbank resumed its loan programme to Spain by approving on 18th June 1958 a \$24.5 million loan whilst the Development Loan Fund announced on 31st December 1958 its first two loans to Spain totalling \$22.6 million. All these explain the build up in aid allocations and disbursements that we saw in Chapter Two.

The ICA was now expecting to furnish \$120 million a year until 1963 and even these estimates were questioned within the American administration as optimistic and considered 'doubtful that Spain will be able to stand on its own by 1963.'⁸⁷ For FY1958, the American executive estimated an overall programme of approximately \$175 million.⁸⁸ Compare this with the \$30 million requested for FY1955 and the \$28 million requested by the Administration for FY1956.⁸⁹ It they could point to the dollar equivalent of those sales to the aid recipients and simultaneously please Congress at home, Rostow, *Eisenhower, Kennedy*, pp. 94-95.

⁸³ 'United States economic aid,' by Thompson, 25th March 1958; GRDS (RG59), Decimal File, 852.00/3-2558. Lodge to State Department, Madrid, 11th February 1958, *FRUS*, 1958-1960, VII, p. 704.

⁸⁴ Lodge to Artajo, Madrid, 5th October 1956, in *FRUS*, 1955-1957, XXVII, p. 576.

⁸⁵ Memorandum of conversation, 28th November 1958, in *FRUS*, 1958-1960, VII, p. 720. The Cooley Amendment to the PL480 provided that up to 25% of the sales proceeds be made available for loans to foreign and U.S. private investors.

⁸⁶ Corry to ICA, Madrid, 17th April 1957, in Subject Files, 1948-57; Office of African and European Operations; RG469 (entry 379, box 99), NACP.

⁸⁷ Intelligence Report, 7th August 1958, in *FRUS*, 1958-1960, VII, pp. 718-19.

⁸⁸ Including PL 480 sales. 'Progress report on Spain by OCB,' Washington, 3rd October 1957, *FRUS*, 1955-1957, XXVII, p. 586.

FY1955 and the \$28 million requested by the Administration for FY1956.⁸⁹ It is difficult, therefore, to agree with the characterisation of the bargaining position, on economic matters, of the Spanish regime in the Franco-Dulles 1957 meeting as 'weak.'⁹⁰

With a sense of defeatism, the American Embassy referred to how 'the Spanish have rejected [...] the conditions we tie to our aid programme.'⁹¹ Under-Secretary of State, C. Douglas Dillon candidly told the Spanish Ambassador in Washington, José M. de Areilza, that their aim was 'not to insist on acceptance of any unilateral conditions.'⁹² The Americans were to give up completely on the idea of influencing directly economic policy in Spain:

It is very difficult to influence this situation from abroad, and past experience indicates that direct bilateral insistence by the U.S., either as a requirement for aid or on other bases, is not a particularly useful approach.⁹³

Although the situation did not get completely out of hand, the intimation of a serious potential inflationary and stability risk left the Americans uncomfortable. The Spaniards were getting more aid than what they had, by now, come to expect. If this situation had confirmed the Spaniards in their strategy, it could but prompt a revision within the American camp.

⁸⁹ Though Congress eventually extended those figures by \$55 million for FY1955 (McCarran amendment) and by \$22 million for FY1956. Acting Secretary of State to Dodge, Washington, 7th October 1955, *FRUS*, 1955-1957, vol. XXVII, p. 544.

⁹⁰ Viñas *et al.*, *Política comercial exterior*, vol. 2, p. 782.

⁹¹ Barall to Armstrong, Madrid, 11th December 1957, in folder 1957 General Economic, Records of the Spanish and Portuguese Desk Officers, 1942-1955, Lot Files Europe (II), RG59 (entry 1400, box 9), NACP.

⁹² Memorandum of conversation, 28th November 1958, in *FRUS*, 1958-1960, VII, p. 720.

⁹³ Biddle to Dean Rusk [U.S. Secretary of State], 'Spain: transition to international development,' Madrid, 20th July 1961, in 'folder 500 US Aid to Spain', Spain, Madrid Embassy, Classified General Records 1953-1963, FSPF, RG84 (entry 3167B, box 11), NACP.

That the U.S. objectives with regard to Spain were 'not at all clear' had long been recognised at high-levels within the American administration.⁹⁴ The numerous changes in the running of the foreign aid programme had not helped to establish a clear policy line.⁹⁵ Officials criticised the myopia of a policy aimed at simply 'keeping the ship afloat.'⁹⁶ Increasingly, they questioned whether the U.S. should not look to an economic objective with 'validity of its own.'⁹⁷

The new overall approach of the American administration to foreign economic policy, embodied in the Eisenhower Doctrine and the enactment of the Development Loan Fund, called for an expanded role to be played by foreign aid and the wider aim of long-run development in replacement of defence support.⁹⁸ It is therefore unsurprising that economic growth *per se* was increasingly seen as an objective to be achieved by the Spanish aid programme. As we saw in Chapter Two, the emphasis was now put on delivering a lot more capital goods.

Spain would eventually feel the new approach to American foreign economic policy but this did not affect the Americans' stance on not requiring

⁹⁴ Stassen to H. Struve Hensel [Assistant Secretary of Defence], Washington, 29th December 1954, in folder 1954 OCB, Records of the Spanish and Portuguese Desk Officers, 1942-1955, Lot Files Europe (II), RG59 (entry 1400, box 3), NACP.

⁹⁵ FitzGerald, a senior American official, criticised these as driven by a 'mistaken belief that persistent and intractable problems of substance could be resolved by a radical change in the form of the organisation.' D. A. FitzGerald, 'Musical chairs in the foreign-assistance programme,' press release, 16th November 1962, as reprinted in D.A. Baldwin, *Foreign aid and American foreign policy. A documentary analysis* (New York: Praeger Publishers, 1966), p. 136.

⁹⁶ Barall to Lodge, 7th November 1957, in folder Briefing Books, Records of the Spanish and Portuguese Desk Officers, 1942-1955, Lot Files Europe (II), RG59 (entry 1400, box 8), NACP.

⁹⁷ 'Memorandum for the members, OCB Working Group on Spain' by O. Holder [OCB Staff], 3rd November 1959, in folder OCB working file October-December 1959, Records relating to Spain 1956-1966, Lot Files, Europe (I), Bureau of European Affairs, Country Director for Spain and Portugal, RG59 (entry 5295, box 5), NACP.

⁹⁸ E. Conteh-Morgan, *American foreign aid and global power projection* (Aldershot: Gower, 1990), p.162 and R. Edgerton, *Sub-cabinet politics and policy commitment: the birth of the Development Loan Fund* (Syracuse: Inter-University Case Programme, 1970).

her to comply with policy reform.⁹⁹ In fact, the main impact of this reorganisation of the American foreign aid programme was rendering Spain ineligible to qualify under the new Agency for International Development, which programmes now focused on underdeveloped areas. Spain was put under the concept of 'token eligibility' to receive AID support.¹⁰⁰ Despite attempts by the American Embassy in Madrid to sweeten this bitter pill, the new policy was there to stay.¹⁰¹ The success of the 1959 Stabilisation Plan, ensuring price stability and the resumption of growth, was music to the ears of the Americans. Despite a lack of direct leverage, they were 'quite satisfied with the arrangements' as a State Department official put it when the Spaniards first suggested a study of changes that should be made in the renewal of the defence agreement due to lapse in 1963.¹⁰²

In the event, in January 1963 the Spaniards invoked the consultation procedure to renegotiate the Defence Agreement. The Spanish attempted to increase the strategic importance of the bases for the U.S., for example permitting the basing of nuclear-armed Polaris submarines in the base of Rota,

⁹⁹ The Rostow-Millikan proposition adopted by the Eisenhower and subsequent administrations failed to emphasise the effect of internal government reforms on economic development abroad and gave too much credit to the role of aid; Kaufman, *Trade and aid*, p. 10.

¹⁰⁰ Biddle to Rusk, Madrid, 31st August 1961, in 'folder 500 US Aid to Spain', Spain, Madrid Embassy, Classified General Records 1953-1963, FSPF, RG84 (entry 3167B, box 11), NACP.

¹⁰¹ When McLaughling [Deputy Director of AID] informed López Rodó [Technical Secretary-General of the Presidency] on 9th March 1962, the strident reaction of Carrero and Franco to the news prompted Robert H. McBride [Chargé of Embassy in Madrid] to implausibly argue that such were only McLaughling's 'personal views' and not reflected American policy. See López Rodó's own understated account in his memoirs, L. López Rodó, *Memorias*, vol. I (Barcelona: Plaza & Janés, 1990), pp. 321-22.

¹⁰² Memorandum of conversation between Kohler, Beigel, Areilza and Rovira, Washington, 28th June 1961, in folder 320 memos of conversation, Spain, Madrid Embassy, Classified General Records 1953-1963, FSPF, RG84 (entry 3167B, box 8), NACP.

and unexpectedly offering to establish bases in Spanish Sahara.¹⁰³ The negotiations, which will not be discussed here, reflected a strong American bargaining position and led to a simpler arrangement in which the economic aid programme was scrapped and the only *quid pro quo* for the use of the military bases would be solely in the form of military aid.¹⁰⁴ Let us now discuss the American attempts at indirectly influencing Spanish economic policy-making throughout the decade of the 1950s.

¹⁰³ 'Briefing paper for the President's press conference,' 24th January 1963, in folder briefing memos 1963, Records relating to Spain 1956-1966, Lot Files, Europe (I), Bureau of European Affairs, Country Director for Spain and Portugal, RG59 (entry 5295, box 4), NACP. McBride to State Department, Madrid, 17th December 1961, in 'folder 050 Rusk', Spain, Madrid Embassy, Classified General Records 1953-1963, FSPF, RG84 (entry 3167B, box 8), NACP.

¹⁰⁴ Liedtke, 'Spain and the U.S.A., 1945-1979,' p. 240.

Our present procedure gives us neither adequate information on which to form a judgment, influence over Spanish policy, a defensible position with the Congress nor, for that matter, the moral righteousness of ignoring a discreditable regime. I have come to believe that US interest would be better furthered by establishing an ECA mission in Spain which could exercise a positive influence on Spanish policy.¹⁰⁵

5.3. The role of political conditionality and the *modus operandi* of the American aid programme in bringing about domestic policy change

5.3.1. Initial attitudes, 1953-56

The quote that precedes this section captures the conclusion drawn by American administrators over the attempts at exercising direct leverage over Spanish policy makers by withholding Eximbank loans. Overruled by politico-military considerations, officials conceded the failure and, as the quote suggests, advocated more traditional diplomatic means to deal with the Spaniards. This could only busy the Americans at employing channels other than aid to influence the Spaniards.

That the Ministers of Commerce, Army, Navy, Air Force were all invited before the Foreign Minister did not escape the Spaniards.¹⁰⁶ These visits had specific and limited goals in mind. Admiral Salvador Moreno, Minister of the Marine, upon returning from the U.S. in June 1955 said that what he had seen in his trip had 'convinced him that the first step necessary in the modernization of the Spanish Navy is the training of personnel.'¹⁰⁷ The trip was deemed a success by the Americans since it served to lower Spanish demands for deliveries of

¹⁰⁵ Paul R. Porter to Bissell, Washington, 23rd May 1951, in Country Files 1950-51; ECA, Office of the Deputy Administrator; RG469 (entry 24, box 3); NACP.

¹⁰⁶ 'Spanish Ambassador's suggestion regarding possible visit to the United States of the Spanish Foreign Minister,' 1st December 1954, in Records of the Spanish and Portuguese Desk Officers, 1942-1955, Lot Files Europe (II), RG59 (entry 1400, box 4), NACP.

¹⁰⁷ 'Spanish Navy- Reaction of Minister of Marine and members of his party to their recent visit to U.S. (10 May- 7 June),' 20th June 1955, in Records of the Spanish and Portuguese Desk Officers, 1942-1955, Lot Files Europe (II), RG59 (entry 1400, box 4), NACP. Handwritten on the margin was 'trip was well worth the cost.'

military end-items, which, as we saw in Chapter Four, was the cause of some frictions between the Americans and their NATO allies.

The Americans also aimed to use technical assistance programmes as part of their overall strategy. These programmes were initially seen as cheaper substitutes for the delivery of end-items –as advocated to the Spanish military ministers in Washington. Civilian technical assistance programmes gathered pace throughout the decade, some being dedicated to the training of Spanish bureaucrats and policy-makers. Although this may be expected to lead to more liberal minded officials, effects on policy-making would most likely only manifest themselves in the long run. If we are to focus on the pre-1959 period there is little evidence that the participants in technical assistance programmes played a substantial part in the unfolding of economic reform in the late 1950s. Most of the 200 or so Spanish participants in this programme annually were, in fact, affiliated to technical ministries.¹⁰⁸ Thus, it appears safe to conclude that the possible impact of these programmes on the formulation of policy in Spain would be of more relevance to a period after the one we are considering.

A further item of American concern was the treatment of foreign direct investment. The Americans quickly realised that there were two currents of opinion within the Spanish government on the issue of freeing the foreign investment regime, limited to a maximum of 25% capital participation. The Embassy was also aware that hopes of any changes in the near future to ease foreign investments were ‘unduly optimistic.’¹⁰⁹ The Americans were aware of Minister of Commerce Manuel Arburúa’s orthodox economic policy agenda. It was no coincidence that he would be the first non-military Spanish minister to be invited to the U.S.:

¹⁰⁸ Up to 1963 a total of 2,000 Spaniards participated in technical assistance programmes in the U.S. Of these only 150 were in programmes aimed to improve Public Administration (less than those from the Ministry of the Air Force; Industry and Mining topped the table with nearly 1,000 participants). Figures in Fernández de Valderrama, ‘España-USA,’ p. 45.

¹⁰⁹ Airgram by Rubottom, Madrid, 15th March 1954, in Geographic Files, 1953-54; Office of European Operations, Office of the Director; RFAA, RG469 (entry 337, box 141), NACP.

Department is well aware of Arburúa's leadership in Spanish Government towards a more liberal economic policy in Spain and a more pro-western orientation of Spanish policy in general. Brief courtesy call by Arburúa on President would contribute more than anything else to success his visit and encouragement of pro-western elements in government here.¹¹⁰

We will return to discuss this visit of Arburúa in April 1954 at length in section 5.3.3 below. Arburúa's connections with New York bankers and open ambitions made him the perfect man for Americans to bet on for the reform of the regime at least in economic policy terms. Arburúa himself cultivated this role, letting it be known that he shared American criticisms.¹¹¹ This type of interaction with the Spanish government provided the Americans with a fairly good knowledge of internal politics within the Spanish regime. It was clear to the Americans that the split in the Spanish cabinet over freeing foreign investment was mirrored on many other policy issues. Throughout the years 1953-1956 the American diplomatic effort concentrated on following very closely events within the Spanish regime, fine-tuning their knowledge of the internal policy making process within the Spanish administration and getting to know the pro-reform elements within the Spanish government.

5.3.2. Coming to terms with a deadlock, 1957-...

Despite the lack of assurances on anti-inflationary policies from the Spanish government, the intrinsic interest of the U.S. in the stability of the country contributed to ever increasing amounts of American bilateral aid. In section 5.2.2 above it was argued that the Americans gave up attempting to exercise direct

¹¹⁰ Dunn to Dulles, Madrid 29th March 1954, in Geographic Files, 1953-54; Office of European Operations, Office of the Director; RFAA, RG469 (entry 337, box 141), NACP.

¹¹¹ Disappointment about aid disbursements 'would strengthen the hand with Franco of elements unsympathetic to the agreements with the U.S. and to Mr Arburúa's efforts to liberalize Spain's economic regime.' Memorandum of conversation Gulik-Bogdan, 26th April 1954, in folder 1953-54 Agreements General, Records of the Spanish and Portuguese Desk Officers, 1942-1955, Lot Files Europe (II), RG59 (entry 1400, box 3), NACP.

leverage. This, however, does not imply that the U.S. gave up attempting to influence Spanish policy-making via other means. This section explores those indirect attempts.

The U.S. was willing to grant aid beyond the established amounts on the assumption that ‘favourable U.S. action on the Spanish request for additional aid could strengthen the position of the more pro-U.S. members of the Cabinet.’¹¹² This was done on the assessment that there was ‘considerable subsequent evidence that the economy-minded bloc in the Spanish cabinet was attempting to supply the U.S. with such assurances but had failed to override the opposition of the more expansion-minded bloc in the cabinet.’¹¹³ The lack of specific measures from the Spanish to put their financial house in order was...

...not surprising, however, in view of the strong divisions within the Spanish Cabinet over the type of stabilisation measures needed which to date apparently have prevented any effective decision by the Government as to such measures.¹¹⁴

The Americans perceived the struggle within the Spanish cabinet as sufficiently important to justify basing their policy around attempts at influencing the outcome of that clash. The Embassy was particularly vocal about the potential power of using the aid programme indirectly to shape Spanish economic policy, and, in particular, the response to the inflationary and current account crises that were developing.¹¹⁵ Advocating further aid to Spain was ‘to strengthen our influence with the new Spanish Cabinet.’¹¹⁶ Aid disbursements were crucial because...

¹¹² ‘Additional FY1957 aid for Spain –Political and economic implications,’ Elbrick to Murphy, 18th January 1957, in Records of the Spanish and Portuguese Desk Officers, 1942-1955, Lot Files Europe (II), RG59 (entry 1400, box 7), NACP.

¹¹³ Hollister to Eisenhower, Washington, 27th June 1957, in Geographic Files of the Director, 1948-55; Office of Director; RG469 (entry 181, box 26), NACP.

¹¹⁴ Despatch by Aldrich, Madrid, 12th December 1956, in Subject Files, 1948-57; Office of African and European Operations; RG469 (entry 379, box 98), NACP.

¹¹⁵ Byington to Dulles, Madrid, 17th January 1957, in Subject Files, 1948-57; Office of African and European Operations; RG469 (entry 379, box 99), NACP.

¹¹⁶ Hollister to Eisenhower, Washington, 27th June 1957, in Geographic Files of the Director, 1948-55; Office of Director; RG469 (entry 181, box 26), NACP.

...with adequate support from the U.S. in form of direct aid [...] Franco may find it practicable to continue along present path of Government policy toward a fuller rapprochement with the Western world.¹¹⁷

Demanding detailed commitments from the Spaniards was unnecessary and perhaps counter-productive since it was in the U.S. interest to promote the pro-reformers. The very provision of aid was believed to have an impact on the policy adopted.

On 12th April 1957 the Spanish government announced a new unitary exchange rate system. Although the modification of exchange rates in April 1957 had been less of a readjustment than it would appear, the Americans believed Ullastres when he told them that his ultimate objective was complete unification but asked them to recognise that 'immediate changes would be politically difficult.'¹¹⁸ Ullastres also asked them not to request a change in the existing 35 pesetas to the dollar exchange rate applicable for counterpart funds purposes. In the analysis of the Embassy, this plea...

...should be given most careful consideration. Our general impression is Economic Minister is trying hard for sound economic policies. If we immediately follow attempt to unify exchange rate with demand for higher rate for PL480 sales and counterpart generation, believe we will provide undesirable opportunities for potentially dissident members of cabinet to criticise new policies.¹¹⁹

Once more, we see the careful hand of the Americans in trying to tilt the balance in favour of pro-reformers but no pressure had really been exercised to achieve that outcome. The Americans were also receptive enough to normalise for past Spanish habits and thought that the 1957 developments 'by Spanish standards [the Spanish government] has made progress in this [anti-inflationary] direction in a very short time.'¹²⁰

¹¹⁷ Byington to Dulles, Madrid, 17th January 1957, in Subject Files, 1948-57; Office of African and European Operations; RG469 (entry 379, box 99), NACP.

¹¹⁸ Corry to ICA, Madrid, 17th April 1957, in Subject Files, 1948-57; Office of African and European Operations; RG469 (entry 379, box 99), NACP.

¹¹⁹ *Ibid.*

¹²⁰ Hollister to Eisenhower, Washington, 27th June 1957, in Geographic Files of the Director, 1948-55; Office of Director; RG469 (entry 181, box 26), NACP.

But this was not going to be the big break, the move from promises of aid and then reform to reform and then aid or at least reform and aid simultaneously. The Americans felt they could not push it. That break was going to come in the form of a stabilisation plan announced by the Spanish authorities in July 1959 and concluded in co-operation with the IMF and OEEC. Let us now examine the relationship between the U.S. and Spain in relation to that plan.

The U.S. was supportive of a reform programme. The U.S. was concerned that 'without steps of this kind, Spanish reliance on United States' support for the expansion of the economy would not be reduced.'¹²¹ It was clearly in the interest of the U.S. to avoid a situation where the Spanish economy 'deteriorate to the point where other countries would have to come in for a bailing operation.'¹²² The U.S. saw in the involvement of international organisations the possibility of 'greatly increased leverage to influence Spanish economic policies in desirable directions.'¹²³ These international organisations did not suffer from the conflict of interest that, in their own admission, now pervaded the American policy and limited its room for manoeuvre. The Americans, in short, wanted Spain 'to work out an economic reform programme with OEEC and IMF and then consider how it might be possible to help Spain carry out the programme.'¹²⁴

¹²¹ These were words addressed to José M. de Areilza [Spanish Ambassador in Washington], 'United States Economic Aid,' by Thompson, 25th March 1958, GRDS (RG59), Decimal File, 852.00/3-2558.

¹²² As a Spanish source told Barall, Madrid, 23rd January 1959, in folder 320 memos of conversation, Spain, Madrid Embassy, Classified General Records 1953-1963, FSPF, RG84 (entry 3167B, box 5), NACP.

¹²³ 'U.S. Mutual Security programme for Spain, FY1961,' by Lodge, Madrid, 16th October 1959, in folder OCB working file October-December 1959, Records relating to Spain 1956-1966, Lot Files, Europe (I), Bureau of European Affairs, Country Director for Spain and Portugal, RG59 (entry 5295, box 5), NACP.

¹²⁴ Memorandum of conversation between Christian A. Herter [U.S. Secretary of State] and Selwyn Lloyd [British Foreign Secretary Lloyd], Paris, 29th April 1959, in 'OEEC 1959-1961', Spain, Madrid Embassy, Classified General Records 1953-1963, FSPF, RG84 (entry 3167B, box 11), NACP.

To the credit of the Americans, they did not interfere much with the process. Even when concerned that the delay of the adoption of the plan would damage the needed confidence of economic actors they were cautious in pressing for the conclusion of the negotiations:

[It is] essential that sufficient time be taken to obtain satisfactory results [in the] Madrid negotiations. But once this substantive stage [is] passed, [we] suggest [the] U.S. [to] exert all necessary influence to minimise [the] time needed for [the] mechanics and politics of OEEC processing.¹²⁵

They were also willing to make concessions on issues of substance to please the OEEC. Thus, for example, just before the final go-ahead to the 1959 Stabilisation Plan, there was a point of disagreement between the OEEC and American policy on the extent of multilateralisation that would be required from Spain. The Americans were expected to push for greater multilateralisation and not agree with the regional integration process that OEEC favoured. Per Jacobsson, Managing Director of the IMF, informed the OEEC that higher multilateral quotas would need to be agreed with Spain if the Americans were to give the support to the deal. The issue raised some problems between the OEEC and IMF delegations, eagerly awaiting the wire from the Americans.¹²⁶ In the end, the telegram from Washington implied a reliance on the IMF's judgement, stating that 'the U.S. government would probably accept what Per Jacobsson found reasonable.'¹²⁷

The U.S. regarded the IMF and OEEC as a substitute for exercising a leverage which itself had renounced by dealing in Franco's terms and considered acceptance of OEEC's agenda on regional integration to be a lesser evil. In this sense, the Spanish experience fits in the complex overall evolution of American foreign economic policy towards integration during the 1950s, which has been characterised as American policymakers realistically accepting modifications of

¹²⁵ Armstrong to Herter, 15th June 1959, in 'OEEC 1959-1961', Spain, Madrid Embassy, Classified General Records 1953-1963, FSPF, RG84 (entry 3167B, box 11), NACP.

¹²⁶ Per Jacobsson [Managing Director of the IMF in 1956-1962] Diary [henceforth PJ Diary], Entry for 21st June 1959: 'It was agreed that we should wait for the U.S. telegram,' and 22nd June 1959: 'we waited for a telegram from Washington,' 23rd June 1959: 'no wire yet from the U.S.A.'

their original plans and accepting European integration as a second best to achieve their goals.¹²⁸ In the case of Spain, the Americans had effectively ‘outsourced’ the task of directly pressing for policy change in Spain to the international organisations:

[E]xperience in Spain shows that advice and pressure of an international organisation is the most effective way of influencing the direction of basic economic policies. U.S. efforts to improve Spanish development planning should, therefore, be directed to an important extent toward fostering Spanish participation in international organisations.¹²⁹

Still, the Americans would continue to be a risk factor for the successful implementation of the plan because, ultimately, ‘if this [stabilisation] programme is permitted to fail in such a manner as to engender political instability, NSC objectives will be in serious danger.’¹³⁰ The Embassy would continue to worry about the length of the crisis, possible second thoughts of Franco on stabilisation and disagreements among the pro-reformers well into 1960.¹³¹ To the credit of the Americans, they kept themselves at a distance, though it should also be noted that they were not asked for further aid.¹³² Fortunately for the success of the

¹²⁷ PJ Diary, Entry 24th June 1959.

¹²⁸ F. Romero, ‘U.S. attitudes towards integration and interdependence: the 1950s,’ in F. H. Heller and J. R. Gillingham (eds.), *The United States and the integration of Europe* (New York: St. Martin’s Press, 1996), p. 105.

¹²⁹ Biddle to Rusk, ‘Spain: transition to international development,’ Madrid, 20th July 1961, in ‘folder 500 US Aid to Spain’, Spain, Madrid Embassy, Classified General Records 1953-1963, FSPF, RG84 (entry 3167B, box 11), NACP.

¹³⁰ ‘U.S. Mutual Security programme for Spain, FY1961’ by Lodge, Madrid, 16th October 1959, in folder OCB working file October-December 1959, Records relating to Spain 1956-1966, Lot Files, Europe (I), RG59 (entry 5295, box 5), NACP.

¹³¹ Lodge to Herter, Madrid, 23rd September 1959, GRDS (RG59), Decimal File, 852.00/9-2359; ‘Views of Spanish Bankers on Implementation of the Stabilisation Plan,’ by Barall, Madrid, 17th August 1959, GRDS (RG59), Decimal File, 852.00/8-1759; and ‘Current Public Reaction to Spanish Stabilisation Plan,’ by E. Shearer [USOM-Spain], Madrid, 9th October 1959, GRDS (RG59), Decimal File, 852.00/10-959.

¹³² Economic Summary for Spain, Fourth Quarter 1959, by F. Weaver, Madrid, 12th January 1960, in ‘Spain Quarterly Economic Reports 1959-1961’, Spain, Madrid

reforms, the recession that followed the adoption of the plan was short-lived and milder than expected. Much to the relief of the Americans the stabilisation plan was a success. A success that vindicated those who had sponsored the American policy to Spain: ‘Our policies in Spain and for Spain have been the catalysts of its present evolution into the modern society of nations.’¹³³

The effectiveness of this type of moves should not be overstated. The argument made here agrees that they acted as a catalyst, but the decisiveness of this external factor should not be exaggerated. That there were elements within the Spanish administration that had been particularly keen on advancing a liberalising agenda in economic policy had been evident since the late 1940s and increasingly so throughout the 1950s. Pro-reformers, in fact, appear in the Spanish government as a result of the 1951 cabinet reshuffle, long before these American attempts at influencing Spanish policy-making. Similarly, the pace of the reform programme did not accelerate after Arburúa’s replacement. Arburúa, in whom the Americans had invested substantial ‘diplomatic capital’ and who would eventually be dismissed among widespread rumours of corruption. Much of what the Americans did was providing photo opportunities for pro-reformers, and ultimately for Franco.¹³⁴ The importance of appearances, that had prolonged the negotiations in 1952-53, were now fully understood by the Americans:

A favourable statement from a foreign statesman that can be quoted by the press and radio is sometimes worth more to the Spanish Government than a real achievement that cannot be translated into propaganda terms.¹³⁵

This all suggests that the direction that Spanish economic policy was taking throughout the 1950s was primarily driven by internal dynamics within the Spanish regime. External support may have been a necessary but not a

Embassy, Classified General Records 1953-1963, FSPF, RG84 (entry 3167B, box 11), NACP.

¹³³ Dillon [Acting Secretary of State] to Eisenhower, 4th June 1959, in *FRUS*, 1958-1960, VII, p. 728.

¹³⁴ ‘United States Loans and the Stabilisation Plan,’ by Barall, Madrid, 23rd October 1959, GRDS (RG59), Decimal File, 852.00/10-2359, NACP.

¹³⁵ ‘Intelligence Report,’ 7th August 1958, in *FRUS*, 1958-1960, VII, p. 711.

sufficient condition.¹³⁶ This is not to say, however, that the American attempts at influencing Spanish economic policy-making made no difference whatsoever.

The agreements with the U.S. had positive effects for the long-term development of economic policy-making in Spain, in that advocates of autarky could no longer use the siege mentality in support of their views. Aid disbursements contributed to removing the excuse that autarky had been imposed from the outside. Crucially, the absence of strict policy conditionality attached to such disbursements disarmed critics of freer policies who had always been prompt to argue that aid in such terms was equivalent to a ‘loss of sovereignty.’ Substantiating this point calls for evidence of critics of the reform programme and what were their claims *at the time*, as well as the weight attached to those criticisms by the ultimate policy-makers, about which further research would be most welcome. In the absence of Franco’s personal papers, we know that the number two of the regime, Admiral Luis Carrero, Under-Secretary of the Presidency, was particularly susceptible throughout the 1950s to criticisms about loss of sovereignty that the American programme.¹³⁷ We also have evidence in the form of pro-autarkic press reactions. For example, at the very time of Arburúa’s visit to Washington in April 1954, the newspaper *La Vanguardia* issued an editorial with the revealing title of ‘No Financial Gibraltares’ in which it opposed any change in the regulation of foreign investment.¹³⁸ Even at the time of the Stabilisation Plan there were still reactions which complained about the ‘lost independence’ that the Plan implied because of the conditions from the IMF and OEEC that Spain had accepted.¹³⁹ Whether genuine or cynical, these critics

¹³⁶ A. Viñas, ‘Franco’s dreams of autarky shattered,’ in C. Leitz and D. J. Dunthorn, *Spain in an international context, 1936-1959* (New York: Berghahn Books, 1999), p. 312.

¹³⁷ Viñas *et al.*, *Política comercial exterior*, vol. 2, p. 992 *et seq.*

¹³⁸ As reported in *The Economist*, 9th October 1954, p. 137.

¹³⁹ Editorial of magazine *SP*. By 1959 the pro-reformers were already in a position of enough power to order the seizure of the publication by the censorship. E. Tertsch, [Spanish Economic News Service] to Per Jacobsson, Madrid, 6th July 1959, in Archive of the International Monetary Fund, Central Files, C/Spain/810 Mission, Jacobsson, Ferras and Staff, June 1959.

were not given further ammunition by instances in which the Americans blatantly exercised direct leverage over the Spanish policy makers.

So far we have been discussing the arguments about the U.S. promoting policy reform, yet we saw in the introduction to this chapter that there were also claims that the Americans may have actually delayed the adoption of reforms. Let us review the two episodes most commonly used to support that argument.

5.3.3. Putting a spoke in the wheels of reform?

The first is the alleged request by Arburúa in April and November 1954 for American assistance in order to liberalise Spanish trade and proceed towards integration in the OEEC/EPU.¹⁴⁰ Arburúa, however, did not visit Washington in 1954 with a well prepared programme of trade and economic liberalisation but with further requests for aid, backed up by a multiplicity of arguments, one of which was that Spain was anxious to liberalise but could not do so without aid. It is true that Arburúa had vaguely raised the issue of economic policy. The record of the conversations kept by the Americans included that according to Arburúa:

‘j. Spain is most anxious to stabilize its currency, liberalize trade and in particular to serve foreign investments in the country in order to encourage further investment along the lines accepted in the Economic Aid Agreement. However, its ability to do these things depends upon its foreign exchange position, which continues extremely tight. Until Spain is in a better position on foreign exchanges, it would not be practical for it to take substantial steps to liberalize further.’¹⁴¹

This, the only place where Arburúa discussed the possibility of economic policy reform was the tenth of a total of twelve points raised, which focused mostly on demanding further aid disbursements, needed according to Arburúa to offset the adverse effect of the recent drought and freeze that had affected Spanish cash crops. Arburúa’s comments to American officials can hardly be characterised as serious liberalisation proposals. That the Spanish government’s

¹⁴⁰ ‘The lack of assistance postponed Spain’s full incorporation into those [OEEC/EPU] despite the Spanish government’s intention to move towards freer and multilateral trade;’ Guirao, ‘Spain and European Economic Cooperation,’ p. 344. Similar argument in Guirao, ‘The United States, Franco, and the integration of Europe,’ p. 92.

¹⁴¹ ‘Discussion of Spanish Minister of Commerce with U.S. officials,’ by Gulik, April 1954, Washington, in *FRUS*, 1952-1954, VI, 2, pp. 1973-76.

anxiety to liberalise was not the important aim of Arburúa can be grasped by simply reading the memorandum of the conversation with Stassen, in which there is no mention of liberalisation whatsoever but, of course, the request for further aid is discussed.¹⁴² The Americans did not reject proposals for liberalisation since the vague comments raised in one meeting do not qualify as such.¹⁴³ Much the same can be said about the meeting between Arburúa and Stassen in the autumn of 1956. These meetings also did not represent a discussion about the reorientation of Spanish economic policy but concentrated on the programming of American aid disbursements.

Rather than an all-out trade liberalisation programme, rumours had it that what was going on behind the scenes were attempts at freeing foreign investments in Spain. In striking contrast to the above-mentioned article in *La Vanguardia*, the fortnightly *Economía* was fully supportive of allowing in foreign investment more freely. This latter publication, perhaps naively or militantly, had 'assumed' that discussion would have inevitably touched upon 'the need to consolidate the spirit that informed the agreements' and argued that 'the realisation of the agreements means in many instances a considerable transformation of certain socio-economic orders'.¹⁴⁴ As we know, Arburúa's meetings in 1954 with American officials never got to a point of substance in relation to the freeing of foreign investment either. In March 1954 the American Ambassador had publicly asked for a 51% foreign ownership to be allowed, to which Arburúa had replied that Spain could not afford the foreign exchange to finance such a high percentage. As an outside observer noted, this 'is not, of course, a logical argument and is only used as an excuse, for a high level of U.S. investment would obviously be to Spain's advange economically and would itself produce increased foreign exchange' but was simply an indication 'that Spain intends to retain her control'.¹⁴⁵ Arburúa, though probably sincere about

¹⁴² Memorandum of conversation Stassen-Arburúa, 20th April 1954, Washington, in *FRUS*, 1952-1954, VI, part 2, pp. 1976-77.

¹⁴³ Cfr. F. Guirao, *Spain and the reconstruction of Western Europe, 1945-1957* (London/New York: Macmillan/St. Martin's Press, 1998), p. 183.

¹⁴⁴ *Economía*, 12th June 1954, 15th November 1955.

¹⁴⁵ 'Spain,' by MacGillivray, 21st May 1954, Bank of England Archive, OV61/5.

his intentions to open up the Spanish economy was also cautious and felt that he could not afford to appear to give in to pressure.¹⁴⁶

The second major episode in which the Americans allegedly retarded the adoption of the multilateralisation process by ignoring Spanish requests for aid in order to join the OEEC was the letter of Martín Artajo to Lodge of 31st August 1956. The letter is reproduced almost in its entirety by Viñas *et al.*, who highlight how it specifically requested \$200 million to the U.S. in order to allow Spain to offset the strain that joining the OEEC would cause in its balance of payments.¹⁴⁷

It is plausible that, as the literature suggests, these Spanish requests ‘fell on deaf ears.’¹⁴⁸ However, Martín Artajo’s letter is surprisingly elusive in the American sources.¹⁴⁹ Nor did Martín Artajo refer to this letter when, in February 1957, he sent Areilza the following instructions:

Among the matters discussed with the Director of ICA with negative results during my visit to Washington last April, it is worth stressing now the request for structural aid to enter the OEEC. Given that we ought to decide on the position of Spain with regards to such organisation by 31st July, I ask you to bring before Mr Hollister again this issue of the American government attitude on this point.¹⁵⁰

¹⁴⁶ FitzGerald to the Director of FOA, Washington, 4th February 1955, in Geographic Files of the Director, 1948-55; Office of Director; RFAA, RG469 (entry 181, box 17), NACP.

¹⁴⁷ Viñas *et al.*, *Política comercial exterior*, vol. 2, pp. 849-54.

¹⁴⁸ A. Viñas, ‘Franco’s dreams of autarky shattered,’ in C. Leitz and D. J. Dunthorn (eds.), *Spain in an international context, 1936-1959* (Oxford: Berghan Books, 1999), p. 302.

¹⁴⁹ None of the American holdings consulted for this research contained the letter or documents in which such letter was discussed. The American Embassy in Madrid, for example, when discussing the economic developments in retrospect of the entire year of 1956 does not mention this. ‘Spain –Economic and Financial Review for the 4th Quarter, 1956,’ American Embassy in Madrid, 14th February 1957, GRDS (RG59), Decimal File, 852.00/2-1457, NACP.

¹⁵⁰ Artajo to Areilza, Madrid, 23rd February 1957; MAE, Leg. 5883, Exp. 4.

Areilza replied as follows:

In the conversation that took place in Washington last April we referred to our request for structural aid to enter the OEEC only by the way and without specifying at any rate, as the minutes of the meetings reflect. I take good note of your instructions to bring up the issue now.¹⁵¹

Whether or not Martín Artajo's letter reached the Americans, the latter interpreted the Spanish approach in a similar fashion to Areilza.¹⁵² The Americans were nevertheless acutely aware that they would eventually be asked to contribute to the bill for Spanish accession to OEEC membership:

[The] Government of Spain has made no formal request here for U.S. financial assistance in joining OEEC-EPU. However, we [are] aware [that the] Spanish view assistance as necessary element in effective membership (one of [the] first official statements [to] this effect [was] made in June 1955 by [the] representative chief [of the] Spanish mission to OEEC. He mentioned [the] need for \$120-170 million before Spain could risk abandonment [of] bilateral payments arrangements).¹⁵³

In fact, the question of 'whether the U.S. was likely to assist Spain financially in joining the OEEC' was repeatedly put before the U.S. representative at the OEEC.¹⁵⁴ The American position on financial assistance to help Spain into the OEEC would soon need to be decided:

Spain has not, as yet, raised this question in such a way that we have had to state whether we intend to provide such assistance. It is highly likely that

¹⁵¹ Areilza to Artajo, Washington, 25th February 1957; MAE, Leg. 5883, Exp. 4.

¹⁵² It is not unheard of that the Spanish prepare a note for the Americans and this is never delivered. Lodge reported F. Castiella [Spanish Minister of Foreign Affairs] as saying how 'the Cabinet wished him to deliver to me [a note]. He had [the] note before him but said he had convinced Cabinet that he should not deliver this note.' Lodge to State Department, Madrid, 11th February 1958, in *FRUS*, 1958-1960, VII, p. 700.

¹⁵³ Aldrich to ICA, Madrid, 24th May 1956, in Subject Files, 1948-57; Office of African and European Operations; RFAA, RG469 (entry 379, box 98), NACP.

¹⁵⁴ C. Burke Elbrick [Assistant Secretary of State] to Hollister, Washington, 28th May 1956, in Geographic Files of the Director, 1948-55; Office of Director; RG469 (entry 181, box 26), NACP.

we shall have to make known our position on this question in the near future.¹⁵⁵

Given that the U.S. saw it as ‘highly advisable to make Spain a full member [of the OEEC]’ and worried that ‘[w]hen the Spanish Foreign Minister was here he seemed to take it for granted that his country would become a member,’ an instinctive reaction of Hollister was to suggest to Dulles that, ‘if you have a good opportunity, you raise with the important countries mention of Spain’s membership in the OEEC.’¹⁵⁶ However, the U.S. remained silent as to its willingness to provide financial assistance.¹⁵⁷ A primary reason was an obvious attempt at shifting the financial burden of assistance to Spain to the OEEC. They thus preferred to see the Spanish themselves approach directly the multilateral organisations.¹⁵⁸ This position was similarly reinforced by the increasingly held view within the American administration that international organisations might be better suited at exercising leverage over the Spaniards. Events in 1956-1957 had shown attempts at direct bilateral leverage to fail. The Americans, having concluded that ‘[w]hat is important is the degree of influence on Spanish economic policies,’ were eager ‘to see OEEC influence exercised on Spanish policies in order to encourage greater economic and social stability.’¹⁵⁹

¹⁵⁵ *Ibid.*

¹⁵⁶ Hollister to Dulles, Washington, 1st May 1957, in Subject Files, 1948-57; Office of African and European Operations; RFAA, RG469 (entry 379, box 98), NACP.

¹⁵⁷ When, while discussing Spain in June 1956, ‘the OEEC Secretariat pointed out [the] possibility [of] Spain obtaining EPU special resources from [the] U.S.’ the ‘U.S. observer [remained] silent.’ Perkins to ICA, Paris, 21st June 1956, in Subject Files, 1948-57; Office of African and European Operations; RFAA, RG469 (entry 379, box 98), NACP.

¹⁵⁸ Dulles to Embassy in Madrid, Washington, 12th September 1957, in Subject Files, 1948-57; Office of African and European Operations; RG469 (entry 379, box 99), NACP.

¹⁵⁹ Emphasis in the original. The ultimate goal was nevertheless unchanged: ‘Greater stability would contribute to the security of U.S. military bases.’ ‘Spain in the OEEC,’ Perkins to ICA, 3rd September 1957, in Subject Files, 1948-57; Office of African and European Operations; RG469 (entry 379, box 99), NACP.

Martín Artajo's letter to Lodge of 31st August 1956 is probably only useful in saying something about the formulation of policy within the Spanish administration rather than about the possible retarding element in the U.S. This is not to say that Spain was not interested in joining the OEEC. In fact, there was increasing talk of a 'continued lively interest' of Spain in that organisation.¹⁶⁰ What we want to emphasise is that this lively interest was not a well prepared programme but rather the initial steps to join. This would take time, not because the Americans refused the aid, but because the internal politics of Spain did not permit a faster pace. There would be continued statements from individual Spanish officials as to their personal inclination towards membership of the OEEC and of the usefulness of an independent agency making a study of the Spanish economy.¹⁶¹ By then Spain was moving towards these organisations that we will review in detail in chapter seven. What interests us here, however, is the Spanish-American relationship on this issue and it can only be concluded that there is no evidence that the U.S. retarded the entrance of Spain into the OEEC.

The episode probably reflects the lack of a cogent and clearly defined Spanish foreign economic policy. This was certainly the case on several issues. For example, from April to June 1956, the American administration was first informed of the Spanish requests that 'a greater portion [of aid be] devoted to capital goods' only to be told in June that 'a larger part [should] be devoted to the procurement of raw materials.'¹⁶² Examples of contradictions in Spanish officials' dealings with the U.S. did not end with the arrival of the new 'pro-reform' Ministers. Not long after Ullastres' insistence on deliveries of aid with

¹⁶⁰ Madrid Embassy to State Department, 14th February 1957, GRDS (RG59), Decimal File, 852.00/2-1557 HBS, NACP.

¹⁶¹ Areilza as quoted in 'IMF study of Spanish economy,' GRDS (RG59), Decimal File, 852.00/1-758 and Jaime Alba [Counselor of Spanish Embassy] as quoted in 'Spanish request for IMF study of Spanish economic situation,' 22nd January 1958, GRDS (RG59), Decimal File, 852.00/1-2258, NACP.

¹⁶² Memorandum of conversation Martín Artajo-Dulles, Washington, 10th April 1956, in *FRUS*, 1955-1957, XXVII, p. 565; Rovira to Garnett, Washington, 12th April 1956; MAE, Leg. 4615, Exp. 15 and Martín Artajo to Lodge, Madrid, 21st June 1956, in *FRUS*, 1955-1957, XXVII, p. 574.

an ‘immediate’ impact, Navarro Rubio said that ‘Spain wanted long-term loans more than any other kind of aid.’¹⁶³

The crucial break to come was in endorsing reform prior to or at least simultaneously with aid disbursements. That break was not directly imposed by the U.S., but it is difficult to argue that it was hindered on the basis of the two episodes just reviewed. As we have seen in section 5.3.2 above, it also seems most likely to have been facilitated by the conduct of the U.S. in its relations with the international organisations in the run up to the 1959 Stabilisation Plan.

¹⁶³ ‘Some views of Minister of Finance Navarro Rubio,’ by Barall, 24th March 1958, GRDS (RG59), Decimal File, 852.00/3-2458, NACP.

5.4. Conclusion

This chapter has shown that the contribution of American aid conditionality to economic policy change in Spain was very limited. When direct pressure was trusted to bring about policy reform, such as in the early stages of the Eximbank loans at the beginning of the decade and in late 1956, the American authorities quickly felt powerless and retracted their approach.

The Spaniards were reluctant to give ‘the appearance that the Spanish action resulted from pressure’ –a position which marked Spanish attitudes towards the Americans from the early stages of the rapprochement.¹⁶⁴ This remained throughout the 1950s a *sine qua non* of any foreign policy for the Spanish government. Appearances of undiminished sovereignty and full control over its policy were essential for a dictatorial regime that derived part of its legitimacy by asserting national independence. As the Spanish Ambassador in Washington, Mariano de Yturralde, would put it to Rusk in his first contact with the Kennedy administration, ‘any attempt to put pressure on Spain had always been counterproductive.’¹⁶⁵

Could the Americans have exercised greater direct leverage over Spanish economic policy-making? This chapter has shown that the Americans were unable to escape their overriding military interests in their policy formulation. By virtue of the military base network in Spain, the U.S. ‘acquired a more than a passive interest in what was going on in Spain.’¹⁶⁶ As an American official questioned by Congress would put it, ‘this aid programme [to Spain] is very closely connected with the base programme.’¹⁶⁷ It was recognised by the State Department and other agencies of the American administration that once military

¹⁶⁴ ‘Conversation with Propper de Callejon [new Chargé in Washington],’ by Dunham, 22nd September 1949, in Top Secret file, Records of the Spanish and Portuguese Desk Officers, 1942-1955, Lot Files Europe (II), RG59 (entry 1400, box 10), NACP.

¹⁶⁵ Memorandum of conversation Rusk-Yturralde [new Spanish Ambassador in Washington], Washington, 7th February 1961, in *FRUS*, 1961-1963, XIII, p. 990.

¹⁶⁶ Dillon [Acting Secretary of State] to Eisenhower, 4th June 1959, in *FRUS*, 1958-1960, VII, p. 727.

¹⁶⁷ Elbrick before the Senate Appropriations Committee, 29th July 1957, as quoted in Shneidman, *Franco & Spain*, p. 195.

programmes were under way they would prove difficult to stop.¹⁶⁸ Moreover, and in contrast with standard accounts that assume that a ‘lagged leverage’ was at work in the 1959 stabilisation operation, the bargaining position of the Americans, if anything, deteriorated throughout the decade.

The Americans did, however, try to influence the policy-making environment in indirect ways. Pro-reform elements within the Spanish government were encouraged and probably benefited from American support by pre-empting criticisms from autarkic elements. The contribution of Americans was the conscious attempt at not damaging these elements. Beyond that, they too were constrained by their military involvement. This will be useful to bear in mind when we look at the multilateral aid episode.

Paradoxically, unconditional aid disbursements contributed positively to the reform whilst a more strict approach to aid conditional on the adoption of reforms in fact would have reduced the likelihood of the reform. As such, this historical case study supports the literature that suggest that the effectiveness of conditionality would depend on each scenario and cannot be blindly advocated *a priori*.¹⁶⁹ However, the extent of American influence in shifting the balance should not be exaggerated. There appears to be an autonomous origin in the desire for sounder economic policies among certain Spanish circles. There is an internal *crescendo* in favour of reform.

Yet, it cannot be argued that American aid delayed the adoption of reforms. On the contrary, by consciously stepping aside from the negotiations between Spain and the multilateral organisations and only coming in at the end to underwrite the announcement of the Plan, the U.S. may have contributed to promote the simultaneity of reform and aid which was to be the characteristic feature of the 1959 Stabilisation Plan. The chapter has shown that the American administration was acutely aware of the conflict of interests in their policy and increasingly came to see the appearance of multilateral donors as a chance for

¹⁶⁸ C. J. Pach, *Arming the free world: the origins of the United States military assistance program, 1945-1950* (Chapel Hill: University of North Carolina Press, 1991), pp. 230-32.

¹⁶⁹ See for example, P. Mosley, J. Harrigan, and J. Toye, *Aid and power* (London: Routledge, 1991), vol. 1, esp. ch. 3.

increased leverage over the recipient. We will explore such an episode in Chapter Seven below, when discussing the conditionality around the multilateral aid that was granted in support of the 1959 Stabilisation Plan.

Finally, it should be emphasised that this chapter has not attempted to provide a comprehensive review of all possible indirect effects of the aid programme. Even within the realm of indirect effects of the aid programme on policy-making it may be suggested that a further topic for research is the possible effect that aid-induced economic growth had in altering the domestic policy-making equilibrium and hence contributing to policy change. Similarly, the chapter has only given brief coverage to the implementation of commercial conditions, touched upon only to the extent that they could contribute to our argument about effects on the domestic policy-making and bargaining strength of the parties. In the next chapter we will concern ourselves with a possible indirect impact of the very fact that American support was granted to Spain on the business community.

Chapter 6. Credibility effects of the American aid programme: did it change private agents' expectations?

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- 6.2. The credibility hypothesis: a theoretical rationale
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Abstract

This chapter explores the effect that the granting of bilateral American aid had on Spanish business sentiment. It suggests that the American backing of the Franco regime provided a 'commitment technology' that solved reputational problems, which would have otherwise hindered the resumption of growth. This 'credibility hypothesis' is both theoretically motivated and then confronted by a range of available evidence, of which the use of financial assets market data is paramount.

Men of liberal thought and ability do not want to associate themselves with the Régime. [...] Spain today, that is the business world of Spain, has no confidence in the conduct of the economy of Spain.

Paul T. Culbertson, American chargé in Spain to the Secretary of State, Acheson. Madrid, 20th June 1950, *FRUS*, 1950, III, pp. 1564-65

Spain is to receive an economic aid, which volume is not in our view the most important, but the influence that it could have on the normal development of our economy.

Editorial of *Economía*, 30th September 1953

[O]ne important factor underlying the confidence in the future is the psychological reaction to the U.S. agreement. I say 'psychological' because it is the potential effects of the Agreement which has made the impact rather than the assistance itself (for this, although welcome, is a mere 'drop in the ocean' in the light of Spain's requirements), i.e., the very fact that an agreement of any sort has been concluded with the U.S.A. as representing an end to Spain's isolation and an indication of U.S. Government confidence in the future stability of the country [...].

Excerpt from report by G. J. MacGillivray, 21st May 1954, Bank of England Archive, OV61/5

6.1. Introduction

This chapter is concerned with one particular indirect effect of the American bilateral aid programme on the Spanish economy. In the words of our initial quotes, we are asking if one of the influences of American aid was an improvement in the confidence of Spanish businesses that Culbertson noted in the above quote was lacking in the late 1940s. In particular, we have in mind the possibility that the American bilateral aid programme was interpreted by economic agents as contributing to the final consolidation of the Franco regime with the subsequent reduction in uncertainty, as the initial quote from the Bank of England official suggested. We will refer to this as the ‘credibility hypothesis.’

The importance of credibility aspects in the practical world has led to a substantial effort in economic theory to incorporate it explicitly in theoretical models. It is precisely the potential importance of credibility issues as an ultimate cause for private capital formation that is usually presented to motivate the theoretical literature.¹ Given the crucial role that is assigned to investment in old and new growth models alike, and, as we will see in more detail in Section 6.3 below, the substantial growth of private investment that takes place in the 1950s, the search for explanations of what facilitated such investment is not trivial.²

That business confidence improved in the 1950s, perhaps as early as the return of Ambassadors to Madrid in 1950, has been suggested in the literature.³

¹ A. Drazen, *Political Economy in Macroeconomics* (Princeton, N.J.: Princeton University Press), p. 101 and R. Bates *et al.*, *Analytic Narratives* (Princeton, N.J.: Princeton University Press, 1998). For a book-length treatment of these issues see T. Persson and G. Tabellini, *Macroeconomic Policy, Credibility and Politics* (Harwood Academic Publishers, 1991).

² Investment is particularly important in the case of endogenous growth models, but even so in a Solow-type model. See J. Temple, ‘Equipment investment and the Solow model,’ *Oxford Economic Papers*, vol. 50, no. 1, pp. 39-62.

³ F. Comín, ‘Sector público y crecimiento económico en la dictadura de Franco,’ in P. Tedde de Lorca (ed.), *El estado y la modernización económica*, Ayer no. 21 (Madrid: Marcial Pons, 1996), p. 174 and P. Fraile, ‘Industrial Policy under Authoritarian Politics, the Spanish Case,’ in J. Foreman-Peck and G. Federico (eds.), *European Industrial Policy* (Oxford: Oxford University Press, 1999), p. 240, point at the importance of expectations although do not provide any further discussion. M. J. González, ‘La

To some extent, it is commonplace to note that the end of Spanish isolation implied that during ‘the 1950s few continued to expect a quick collapse [of the Franco regime].’⁴ However, little effort has been devoted to provide evidence of its link to the episode of American aid.⁵ Therefore, one of the contributions of this chapter is to furnish evidence for such a link. The remainder of the chapter is devoted first to filling in the logic of the so-called credibility hypothesis, and, secondly, to exploring some evidence that will refute or support its interpretative power.

autarquía económica bajo el régimen del General Franco: una visión desde la teoría de los derechos de propiedad,’ *Información Comercial Española*, nos. 676-77 (December 1989-January 1999), pp. 19-31 is mainly concerned with providing a theoretical justification of the importance of looking at property rights rather than an empirical examination.

⁴ K. Medhurst, *Government in Spain. The Executive at Work* (Oxford: Pergamon, 1973), p. 25. *The New York Times* sceptic about the agreements throughout, argued that ‘[o]ne of the clear facts that Americans must face is that if we go ahead with this arrangement, we will be helping to perpetuate Franco in power [...]’ editorial, 30th August 1953, as quoted in in J. Durá, *U.S. Policy Toward Dictatorship and Democracy in Spain, 1931-1953. A Test Case in Policy Formation* (Sevilla: Arrayán, 1985), p. 354.

⁵ E. Spitäller and M. Galy, ‘Spain, Landmarks in Economic Development, 1939-92,’ IMF Working Paper 92/78 (Washington, D.C., 1992), p. 2 suggest it but do not go any further.

6.2. The credibility hypothesis: a theoretical rationale⁶

In this section, we explore, in simple game theoretical terms, a rationale for the effectiveness of American aid in enhancing the credibility of the government and making investment profitable.⁷ It should be stressed that the exercise is undertaken primarily for heuristic purposes. This is the spirit under which game theory has made a breakthrough in the analysis of institutions, both in economic history, and in international relations.⁸

At the most basic level, any regime, and *a fortiori* an authoritarian one, needs to resolve the paradox that a government strong enough to enforce property rights is also able to confiscate its citizens' wealth, and thus might discourage private economic activity.⁹ This source of credibility problem stems from time- inconsistency in the government's strategy (its optimal *ex post* strategy differs from its *ex ante* strategy). Private economic agents will recognise the government's incentive to renege and will not believe the government in the

⁶ A paper drawing from Sections 6.2 to 6.4 below was published as O. Calvo González, '¡Bienvenido, Míster Marshall! La Ayuda Económica Americana y la Economía Española en la Década de 1950,' *Revista de Historia Económica*, vol. 19, special issue (2001), pp. 253-75.

⁷ Our analysis will be of a non-cooperative nature, as opposed to cooperative game theory in which it is assumed that the agreements reached between the players are binding. Were we to assume binding contracts we would precisely be interested in what makes those contracts binding. For this reason we restrict to non-cooperative game theory. For definitions and explanation of these issues see D. M. Kreps, *Game Theory and Economic Modelling* (Oxford: Clarendon Press, 1990), p. 9.

⁸ D. C. North, 'Institutions,' *Journal of Economic Perspectives*, vol. 5 (1991), pp. 97-112, and especially A. Greif, 'Microtheory and recent developments in the study of economic institutions through economic history,' in D. Kreps and K. Wallis (eds.), *Advances in Economics and Econometrics*, vol. 2 (Cambridge: Cambridge University Press, 1997), pp. 79-113 and J. Hovi, *Games, threats, and treaties, understanding commitment in international relations* (London: Pinter, 1998).

⁹ See B. R. Weingast, 'The Economic Role of Political Institutions, Market-Preserving Federalism and Economic Development,' *Journal of Law, Economics and Organizations*, vol. 11, no. 1 (1995), pp. 1-31.

first place.¹⁰ However, the incentives faced by an autocratic government, will depend on how long it expects to hold on to power. A long-lived autocrat does not have the same temptations for looting than a short-lived or unstable one.¹¹

Credibility may also be running low due to other problems such as the recognition that policies followed are inconsistent and would ultimately need to be abandoned, due to imperfect or asymmetric information about the true intentions of the government, or the uncertainty regarding the predictability of the government's agenda.¹² The bottom-line is that resolving commitment problems raises the predictability of the government and thus it encourages economic activity.¹³

Recent literature on postwar European economic growth, and in particular on the effect of aid programmes, has focused on commitment issues that may help to explain the resumption of private economic activity and investment. In particular, it has been argued that the provision of Marshall aid conditioned to the undertaking of institutions such as the European Payments Union enabled

¹⁰ P. R. Agénor and M. P. Taylor, 'Testing for Credibility Effects,' IMF Working Paper 91/110 (Washington, D.C., 1991), p. 3.

¹¹ M. C. McGuire and M. Olson, 'The Economics of Autocracy and Majority Rule: The Invisible Hand and the Use of Force,' *Journal of Economic Literature*, vol. 24, no. 1 (March 1996), pp. 72-96 and M. Olson, *Power and Prosperity. Outgrowing Communist and Capitalist Dictatorships* (New York: Basic Books, 2000).

¹² The literature makes the distinction between credibility of policy-makers (sometimes referred as reputation) and credibility of a policy. Credibility of a policy is defined as the expectation that the policy will be carried out, while credibility of the policy-maker is defined as the expectation that the policy-maker will act as he announced. This distinction aims to capture the possibility that under certain circumstances even a totally credible policy-maker will not be able to undertake a particular policy due to external shocks, A. Drazen and P. Masson. 'Credibility of Policies versus Credibility of Policymakers.' *Quarterly Journal of Economics*, vol. 109, no. 3 (1994), pp. 735-54.

¹³ A very similar argument to the interpretation of the effects of the settlement after the Glorious Revolution by D. C. North and B. R. Weingast, 'Constitutions and commitment, evolution of institutions governing public choice in seventeenth-century England,' *Journal of Economic History*, vol. 49, no. 4, pp. 802-32.

Western European countries credibly to commit to increased levels of openness to intra-European trade.¹⁴

This appears to emphasise the role of conditionality in bringing about change in the recipient country. Yet, as we saw in Chapters Four and Five above, the effect of American leverage over Spanish economic policy-making was very limited. Is it still possible to think of a ‘credibility hypothesis’ in the case of American aid to Spain? To answer this question we need to re-examine the structure of incentives of the donor.¹⁵

The U.S., by virtue of committing itself to setting up bases in Spain, could not avoid an interest in the political and economic stability of the country. It was, as we have seen in Chapter Five above, a limited interest. Yet, for that purpose, the U.S. was willing ‘to provide the minimum additional aid that would guarantee internal stability in Spain so that the use of our bases is not jeopardised by civil disorders’.¹⁶ It was as if the Spanish government signed a *de facto* insurance policy underwritten by the U.S. against possible instabilities. Thus, the argument hinges not on the amounts of aid granted but rather on the commitment that the Americans towards Spanish economic stability, explicit in the text of the agreements signed in 1953 and, crucially, implicit through the base construction programme.¹⁷

¹⁴ B. Eichengreen, *Reconstructing Europe's Trade and Payments/ The European Payments Union* (Manchester: Manchester University Press, 1993); B. Eichengreen, ‘Institutions and Economic Growth,’ in N. Crafts and G. Toniolo (eds.), *Economic Growth in Europe Since 1945* (Cambridge: Cambridge University Press, 1996), pp. 38-72 and H. Berger and A. Ritschl, ‘Germany and the Political Economy of the Marshall Plan, 1947-52: A Re-revisionist View,’ in B. Eichengreen (ed.), *Europe's Postwar Recovery* (Cambridge: Cambridge University Press, 1995), pp. 199-245.

¹⁵ J. Svensson, ‘When is foreign aid policy credible? Aid dependence and conditionality,’ *Journal of Development Economics*, vol. 61 (2000), pp. 61-84.

¹⁶ Memorandum of the 248th meeting of the National Security Council, Washington, 12th May 1955, in *Foreign Relations of the United States, 1955-1957*, vol. XXVII, p. 539.

¹⁷ Although referring to some years later, the reaction of Senator J. William Fulbright, Chair of the Senate Foreign Relations Committee to his visit to the Spanish bases in 1969 is perhaps informative of the extent of the American commitment. Fulbright suspected that ‘in “cooperating” with the Franco government the American military had

It was, crucially, a commitment that was well understood by observers and the public at large. In the words of *The Economist*, '[n]ow that the Americans have an interest in the country, it is reasonable to assume that they will help it get out of the most serious economic difficulties'.¹⁸ The Pact of Madrid contributed to securing the Spanish government and, to a certain extent, tied its hands. By doing so, it rendered the Spanish economic market place more secure and reduced uncertainty about the future. In other words, it secured property rights more effectively and encouraged investment.¹⁹

This argument shares the concern with the role of property rights enforcement in some of the existing literature.²⁰ However, González suggests that, through deregulation and liberalisation property rights became better defined during the 1950s and thus contributed to capital accumulation and economic growth, an argument that hinges on *actual* policy change. Our thesis is different since it suggests that the change in expectations was not primarily prompted by deregulation and liberalisation but by the way in which the American support was established, which committed the Americans to ensuring stability in Spain. The 'credibility hypothesis' to be explored here suggests that credibility was enhanced not so much because the American aid programme was a promoter of policy reform, but rather because it guaranteed stability. Neither was its role limited to providing 'resources that came also to expand the production possibilities frontier of the Spanish economy,' but crucially it also proved to be an enabling factor that allowed the economy to move towards that

made a de facto commitment to defend the autocratic regime against enemies both external and internal' and was appalled at discovering that the annual joint American-Spanish military manoeuvres were such that the 'scenario for these exercises was a domestic insurrection in which the American military intervened to save the Spanish government,' R. B. Woods, *Fulbright: a biography* (Cambridge: Cambridge University Press, 1995), p. 511.

¹⁸ *The Economist*, 17th April 1954.

¹⁹ Particularly if an investment involved large sunk and irreversible fixed costs. See A. K. Dixit, 'Investment and Hysteresis,' *Journal of Economic Perspectives*, vol. 6, no. 1 (1992) and R. S. Pindyck, 'Irreversibility, Uncertainty, and Investment,' *Journal of Economic Literature*, vol. 26, no. 3 (September 1991), pp. 1110-48.

²⁰ González, 'La autarquía.'

frontier.²¹ This argument is much in line with the spirit of the recent empirical literature connecting political credibility and economic growth, which emphasises the importance of stability and predictability of the policy environment.²²

What sort of threats to the stability of Spain may have American support helped to reduce? The lack of major political crises and instability during the 1940s would appear to indicate that the Franco's regime enjoyed solid foundations throughout. There were, however, numerous underlying factors that could have plagued the early years of the Franco regime with insecurity.

During World War II the changes in the attitude of Spain, which turned from neutral to non-belligerent (in support of the Axis), to moral belligerence, and eventually back to neutrality provided for enough uncertainty during the years and the immediate aftermath of the war as to the implications of such alignment with the Axis. Moreover, in 1944-1945 the guerrilla war by the so-called 'maquis'—many Republican veterans of the Spanish Civil War and World War II—intensified.²³ In the event, the 'maquis' achieved little more than temporary disruptions in isolated rural areas but it is difficult to see these events as not increasing the uncertainty surrounding the ultimate viability of the Franco regime. In fact, as we have seen in Chapter Five above, the Americans came closest to sponsoring an uprising against Franco as late as 1947, prompted by their reassessment of the strategic value of Spain's geographical position. The economic conditions inside Spain were so poor that demonstrations as late as the 1951 strike in Barcelona were primarily the cause of discontentment with living standards that were yet to surpass those of 1935.

With the benefit of hindsight we also know that the disunity of the Spanish anti-Franco opposition grew as the 1940s progressed, contributing to the strengthening of Franco's hold on power. That there are numerous and complex factors other than the American support to Franco that help to explain the

²¹ *Ibid.*, p. 40.

²² S. Borner, A. Brunetti and B. Weder, *Political Credibility and Economic Development* (New York: St. Martin's Press, 1995).

²³ S. Serrano, *Maquis: historia de la guerrilla antifranquista* (Madrid: Temas de Hoy, 2001).

improvement in the political credibility is not, however, contradictory to the credibility hypothesis, since the latter does not claim any sort of exclusivity for the role of American support. Still, it noteworthy how many of those factors are intertwined, and in fact, American support may be regarded as playing a role in some of them. For example, the reversion of Don Juan de Borbón, the Pretender to the throne, to Francoist collaboration has been interpreted in the light of the changes in Spanish-American relations: “[i]n the final years of the decade [1940s] the Pretender saw only too well that the intensifying Cold War, with its promise of American-Spanish *rapprochement*, was making Franco’s hold on power increasingly secure.”²⁴

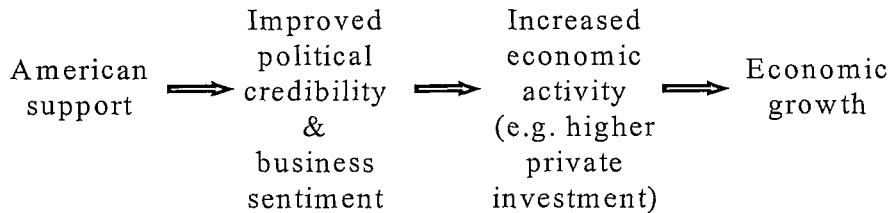
Probably the most serious threat remained the possibility of a military uprising against Franco. The greatest source of dissent within the military was found among the high command. This stemmed from the way in which Franco had reached to power. Franco had in fact been made supreme commander of the Nationalist Army in September 1936 for the purpose of defeating the Republic in a vote among the high-command, whose members could not have envisaged that Franco would become regent for life upon the end of the hostilities. The pro-monarchic position of some of the highest-ranking military and their discontent with the links between the government and the *Falange*, made the possibility of a monarchic restoration sponsored by a military *coup* against Franco a common rumour during the late 1940s.²⁵ This helps to explain the importance placed by Franco in ensuring that the outcome of the negotiations with the U.S. produced a satisfactory result for the military.

Let us then review the claims that need to be substantiated if the credibility hypothesis is to have any explanatory power. Figure 6.1 below puts the hypothesis in its crudest, graphical terms.

²⁴ D. J. Dunthorn, *Britain and the Spanish Anti-Franco Opposition, 1940-1950* (Basingstoke: Palgrave, 2000), p. 165.

²⁵ P. Preston, *The Politics of Revenge. Fascism and the Military in Twentieth-Century Spain* (London: Unwin Hyman, 1990), pp. 137-42. The death of many of the generals sufficiently senior to be able to show dissent to Franco in the late 1940s and early 1950s (e.g., Orgaz in 1946, Queipo de Llano and Varela in 1951, Yagüe, Monasterio and Ponte in 1952 and Solchaga in 1953) must have also contributed to the reduction in uncertainty felt by the Franco regime.

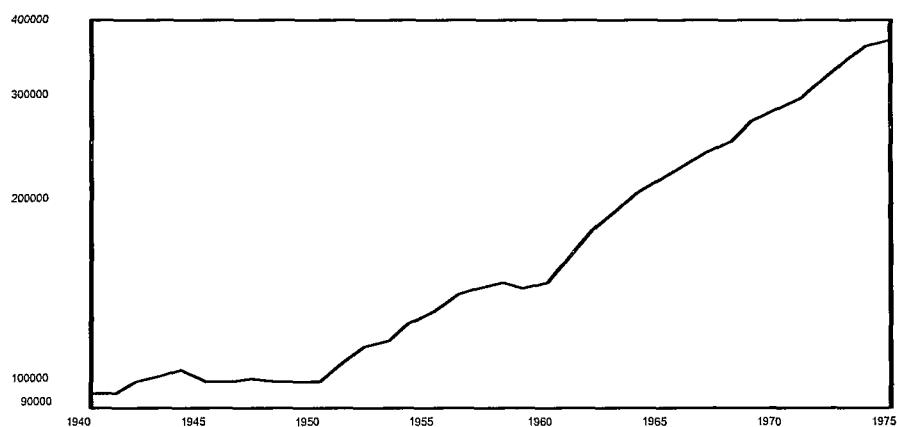
Figure 6.1. The ‘credibility hypothesis’ in diagrammatic form



It should be emphasised that Figure 6.1 does not imply that the only cause for the improvement in business sentiment was the American aid programme. As noted in the introductory chapter, there were policy elements that changed during the early 1950s, in particular after the cabinet reshuffle that took place on 18th July 1951. This makes it even more pressing to fine-tune when exploring the claim that American support had an effect on Spanish investors’ perceptions of the future. Thus, the bulk of this chapter will be devoted to investigate what in terms of the diagram depicted in Figure 6.1 above is the first left-hand side arrow of causality. Validating this causal link is crucial, since it could well be the case that the argument holds for the second and third arrows yet the origin of improved business sentiment could be due to other factors, such as changes in government policies or regulatory framework that may be unrelated to the support received from foreign donors. Let us first rehearse the evidence available that supports the right hand side elements (going right-to-left) of Figure 6.1.

Recent estimates of output measures for the Spanish economy show a significant increase in economic growth during the decade of the 1950s. This compares notably with the stagnation that Spain suffered throughout the 1940s. Graph 6.1 below displays this information.

Graph 6.1 Real per capita GDP, 1940-1975
(in million of 1980 pesetas, log scale)

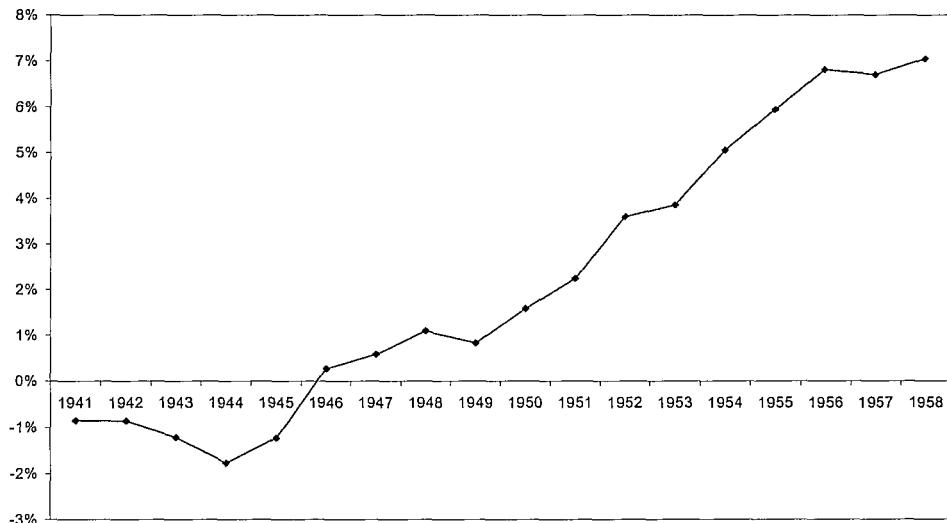


Source: L. Prados de la Escosura, 'Spain's Gross Domestic Product, 1850-1993: Quantitative Conjectures. Appendix,' Universidad Carlos III Working Paper No.95/06 (1995).

The role that private investment played in this resumption of growth was substantial, increasing from an average of 8.7% of gross national income in 1941-1949, to 15.2% in the period 1950-1958.²⁶ Graphs 6.2 and 6.3 below, capture the continuous acceleration in the growth of physical capital accumulation by private agents in the Spanish economy.

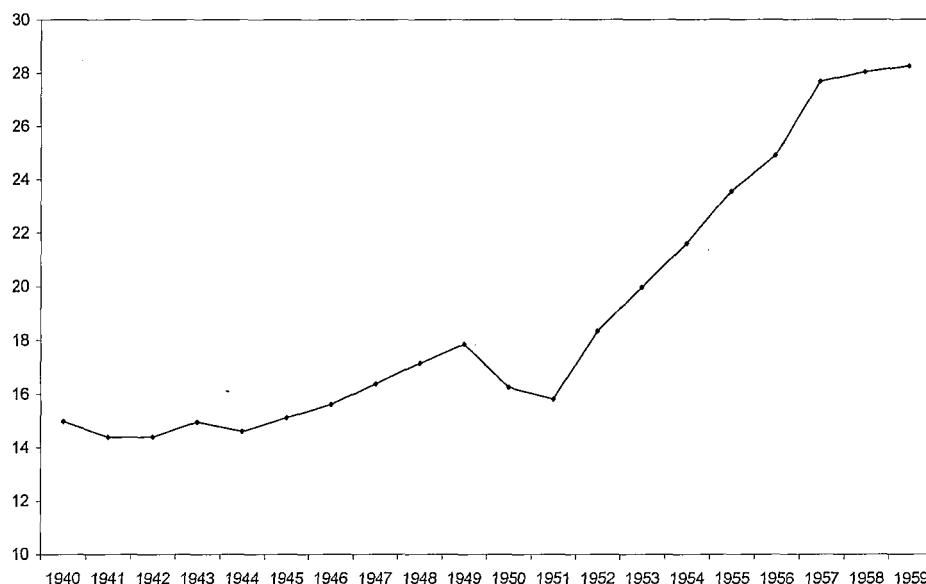
²⁶ Based on A. Carreras, 'Gasto Nacional Bruto y Formación de Capital en España, 1849-1958, primer ensayo de estimación,' in L. Prados de la Escosura and P. Martín Aceña (eds.), *La nueva historia económica en España* (Madrid: Tecnos, 1985), pp. 17-51.

Graph 6.2. Annual growth of real private net stock of capital, 1940-1958



Source: based on. Cubel and J. Palafox, 'El stock de capital de la economía española, 1900-1958,' *Revista de Historia Industrial* (1997), pp. 113-46.

Graph 6.3. Real capital disbursed by operating firms, 1941-1959
(in millions of 1940 pesetas)



Source: based on X. Tafunell, 'Asociación mercantil y Bolsa,' in A. Carreras (ed.), *Estadísticas históricas de España. Siglos XIX y XX* (Madrid: Fundación Banco Exterior, 1989), pp. 465-91 and Prados de la Escosura, 'Gross Domestic Product.'

Obviously, the fact that graphs 6.2 and 6.3 above could be easily reconciled with the hypothesis entertained does not necessarily imply that this

spurt of growth in private investment was causally linked to the granting of American aid. Still, it is useful to note that no rebuttal of the hypothesis comes from these readily available indicators. The two right-hand side causal relationships suggested in Figure 6.1 (between improved expectations and increased investment, and the latter to economic growth) would appear to be solidly established within the literature. The empirical growth literature supports the link between political credibility and economic growth and it would appear to be reasonably safe to assume that such basic relationships hold in our case.²⁷

The ‘credibility hypothesis’ is also of potential relevance to the Spanish historiography. In particular, it could contribute to the explanation of two existing puzzles in the current literature. The first one relates to the anomalous behaviour of private investors throughout the 1940s, a decade in which profits sky-rocketed to unprecedented levels, yet investment in productive activities was not stimulated by the prospect of easy returns.²⁸ Secondly, the argument to be explored here may contribute to our understanding of the vigorous resumption of economic growth during the 1950s that we have seen in Graph 6.1 above, despite the persistence of the majority of interventionist and regulatory policies that are usually charged with the sluggish growth during the 1940s.²⁹

Let us now turn to discuss ways in which we may find evidence that will refute or support this line of argument.

²⁷ S. Knack and P. Keefer, ‘Institutions and Economic Performance, Cross-Country Tests Using Alternative Institutional Measures,’ *Economics and Politics*, vol. 7, no. 3, pp. 207-27.

²⁸ X. Tafunell, ‘Los beneficios empresariales en España, 1880-1981. Estimación de un índice anual del excedente de la gran empresa,’ *Revista de Historia Económica*, vol. 16 (1998), pp. 707-46. For a less aggregated analysis, as well as an exposition of the paradoxical simultaneous existence of high profits and low investment, see J. M. Lorenzo Espinosa, *Dictadura y dividendo: el discreto negocio de la burguesía vasca* (Bilbao: Universidad de Deusto, 1989), especially pp. 233-35.

²⁹ See footnote 14 in the introductory Chapter One above.

6.3. Initial evidence: how ‘credible’ and relevant is the credibility hypothesis?

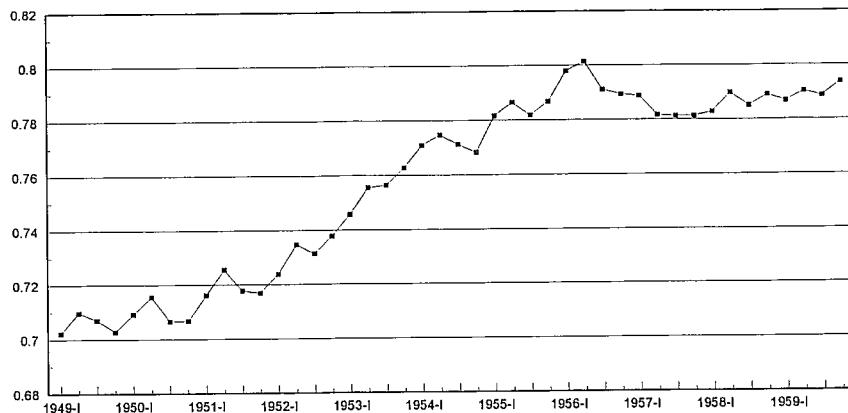
This section is concerned with providing evidence that will help us establish the explanatory power (or lack of it) of the line of argument exposed above. The task will ultimately involve the need to pin down expectations of Spanish businessmen and investors. Measuring economic agents’ expectations is not a straightforward task. Cross-sectional studies tend to measure credibility by constructing subjective indices of business confidence, typically based on either the informed opinion of experts (as in the country risk indicators) or by direct surveys of the business perceptions on the government. Although the explanatory power in cross-country growth regressions may be high, this avenue is clearly not open for historical research.

A recent contribution to the literature is precisely an objective measure of the security of property rights.³⁰ The proponents of this measure highlight that individuals make a choice as to in which form hold their money balances. The underlying idea is that particular types of money (deposits, etc) require more enforcement of contracts by the government than others, they are *contract-intensive*. The contract-intensive money (CIM) indicator is thus said to reflect the extent to which societies can capture the potential trades that are intensive in contract enforcement and property rights.³¹ Graph 6.4 below shows the CIM indicator plotted for the 1950s.

³⁰ C. Clague *et al.*, ‘Contract-Intensive Money, Contract Enforcement, Property Rights, and Economic Performance,’ *Journal of Economic Growth*, vol. 4, no. 2 (1999), pp. 185-211.

³¹ Defined as $(M2-C)/M2$, where M2 is a broad definition of the money supply and C is currency, Clague *et al.*, ‘Contract-Intensive Money,’ p. 188.

Graph 6.4. Contract-Intensive Money indicator, 1949-1959



Sources: data from P. Martín Aceña, *Una estimación de los principales agregados monetarios en España, 1940-1962* (Madrid: Banco de España, 1989).

That this CIM indicator may be a true measure of country-wide risk and not simply of banking risk is, to some extent, justified given the stability in the Spanish banking system of the period.³² However, although the CIM increases coinciding with the intensification of the American backing of the Franco regime (thus supporting the view that business confidence improved as its result), there are several problems interpreting this graph. Firstly, it is difficult to gauge the true significance of the increases. This indicator may not only be a measure of enforceability of contracts but also be affected by GDP, financial depth, inflation, etc. This is especially relevant as inflation in the early years of the 1950s is higher than during the middle years of the decade.³³ In the absence of a

³² P. Martín Aceña and M. A. Pons, 'Spanish banking after the Civil War, 1940-1962,' *Financial History Review*, vol 1, no. 2 (1994), pp. 121-38.

³³ The authors of the CIM suggest that inflation has a different effect on CIM depending on whether a country suffers hyperinflation (which drives people out of deposits and decreases CIM as people want cash to translate into purchases) or moderate inflation (which increases CIM as agents perceive that they can hedge against inflation via interest-earning deposits). Although the authors test that the overall results of their CIM data are not driven by inflation, this is done in a cross-country regression analysis fashion and thus it is not possible to rule out that for a particular country and a particular period the evolution of CIM does in fact depend on inflation. See Clague *et al.*, 'Contract-intensive money.'

watertight measure for business confidence, we will have to make use of a variety of evidence to capture the elusive business sentiment and the role that the American bilateral aid programme played.

Although there is anecdotal evidence similar to the initial quotes of this chapter, this is not always easy to interpret. The following excerpt provides an example:

Modesto Cañal, branch manager of the Banco de Vizcaya in Seville, said he was absolutely delighted at the successful outcome of the Spanish-American negotiations. [...] He] assured me that people in business and banking circles are enthusiastic [and] already confidence in the future has picked up, the peseta is strengthening, and everything points to continued improvement.³⁴

American sources refer to 'the reluctance of private capital to move into certain sectors of the economy' and contrast it to the vigorous investment in the late-1950s.³⁵ However, most of this evidence comes from American sources who were perhaps interested in showing such reaction. In fact, the more pro-Spanish elements within the American administration had always emphasised the necessity to buttress Franco for businesses to thrive and economic growth to resume in Spain.³⁶ Moreover, all items published by the Spanish press had to be previously cleared with the strict censorship. The repressive nature of the Franco

³⁴ Memorandum of conversation between Robert E. Wilson, U.S. Consul in Seville, and Modesto Cañal, Seville, 30th September 1953, Spain Madrid-Embassy, Classified General Records, 1953-1963, Foreign Service Post Files, National Archives at College Park.

³⁵ Report of Special Study Mission of Foreign Affairs Committee of the House of Representatives. December 1961. In MAE, Leg. 7741, Exp. 2. The passage refers to the early 1950s. Other foreign observers also noted an apathetic investment climate, see G. Clinton Pelham, *Economic and Commercial Conditions in Spain. May, 1951* (London: HMSO Overseas Economic Surveys, 1952), p. 4.

³⁶ 'Certainly I cannot, nor will I, defend dictators nor dictatorship. But I believe that almost every important business and thinking man in Spain today would be horrified if he felt that Franco would die tomorrow.' Stanton Griffis, *Lying in State* (Garden City, N.Y.: Doubleday, 1952), p. 297. Griffis was the first U.S. Ambassador to Spain since the U.N. recommendation to withdraw ambassadors from Spain in 1946 and held the position between March 1951 and January 1952.

regime, and in particular of its early period, makes it difficult to exploit sources which otherwise would have normally survived.

It is, to some extent, possible to read in between the lines of the press and other publications. For example, the annual reports of the *Banco Urquijo* for 1950 to 1953 were introduced by a very brief three-page statement. In any of those years the Bank gives the utmost importance to the possibility of American assistance to Spain, although it does not provide a discussion as to why it judges the possible event so relevant.³⁷ Once the agreements with the U.S. were signed, the analysis of that Bank as to the effects of the conclusion of the agreements included sentences such as the following one:

At the end of 1953, and perhaps due to the agreements with the U.S., we have seen a new trend [in the private sector] to build new and important power-stations.³⁸

Our theoretical framework helps to explain this comment particularly well. Large industrial projects are the type of assets that are more prone to be nationalised in the event of a change of policies or of regime altogether. Moreover, large sunk costs make it particularly important to enjoy stability. However, this very patchy evidence could hardly be conclusive. It is nevertheless relevant to note that, again, it does not refute the argument under study. Let us now discuss an alternative way of exploring the argument.

³⁷ Banco Urquijo, *Memoria*, in particular those corresponding to the activities of years 1950, 1951 and 1953.

³⁸ Banco Urquijo, *La economía española, 1952-53* (Madrid: Servicio de Estudios del Banco Urquijo, 1954), p. 30

All we point out now is, that this quality of interest-bearing will be valued in a certain way in a community in equilibrium, and that this is what is meant by the price of the securities in that community. [...] If a community is itself unstable and capital more or less insecure, the adjustment will probably be made at a higher rate of yield than if the community were stable and capital well protected.

Sir Robert Giffen, *Stock Exchange Securities: An Essay on the General Causes of Fluctuations in their Price* (London: 1877)

6.4. Improved sentiment: evidence from the trading floor

Asset prices can be used as a strong indicator of the sentiments of market participants because they are ultimately determined by people who are putting their money where their mouths are. The advantage of using financial market data is their availability, accuracy, completeness and that it will enable us to look more closely at particular instances where news relates to the programme of American support only, and thus allowing the possibility of disentangling this from the different effects that other contemporary events may cause, for example from the effects derived from policy changes (which may or may not be related to conditionality). Let us provide an overview of some of the financial markets that are potentially useful for our purposes.

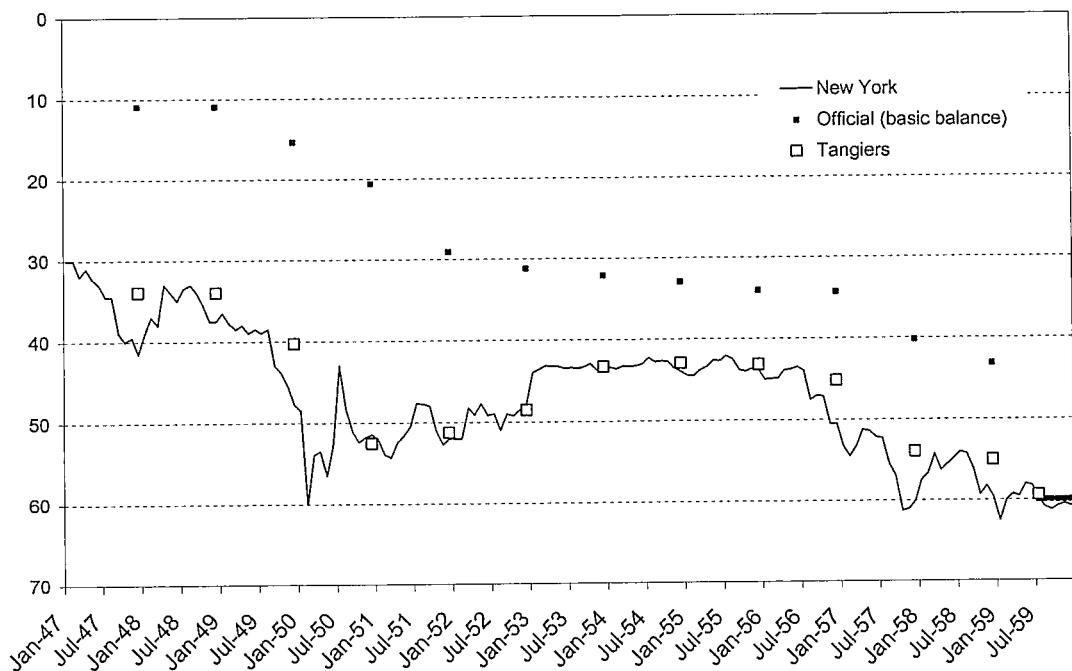
Given that Spain had in place a fixed-multiple-exchange-rate system throughout the period under analysis, the official market for pesetas cannot serve our purposes. However, there existed black markets for dollars in Spain and abroad. The more important of these was the one in the North African city of Tangiers. We can then look at the reaction of the peseta curb market for signs of improved confidence in the future of the Spanish economy.

The impact of the signing of the Pact of Madrid had a significant short-term effect. In September 1953 in Tangiers, the peseta was traded at 43.55 pesetas/dollar, dropping to 42.50 pesetas to a dollar in October.³⁹ Graph 6.5 below shows the evolution of the official exchange rate as well as data for the Tangiers market and for the New York peseta-dollar market.

³⁹ Banco de España, *Informe sobre la evolución de la economía española en 1957*

(Madrid: Banco de España, 1958), p. 137. Despite being an official source, it quotes the Tangiers exchange rate.

Graph 6.5. Official and unofficial exchange rates, 1947-1959 (pesetas per dollar)

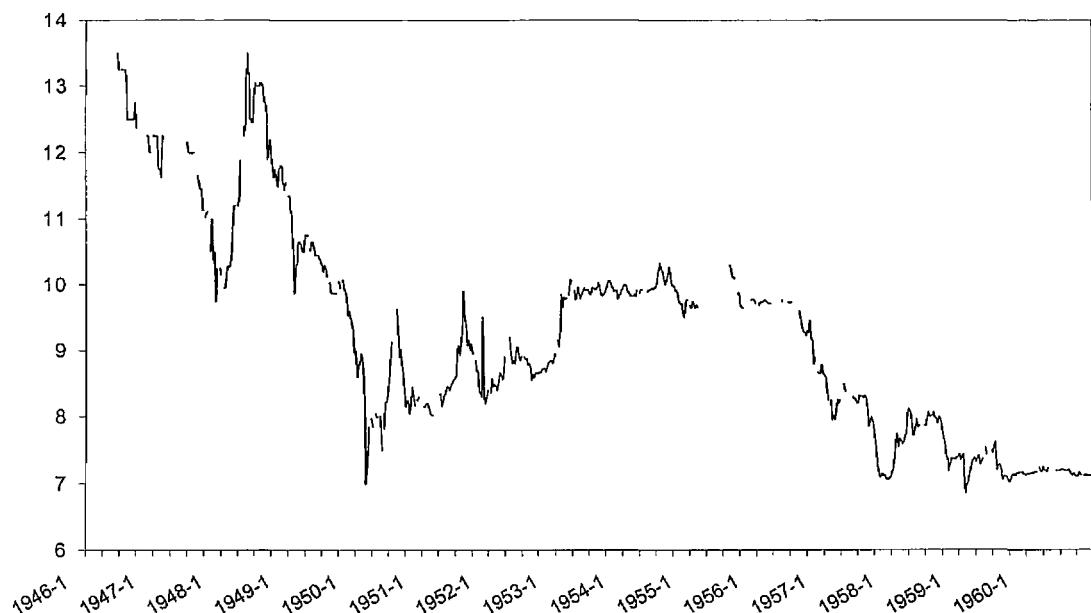


Sources:

Exchange rate in the market of Tangiers as quoted in J. Clavera *et al.*, *Capitalismo español: de la autarquía a la estabilización (1939-1959)*, (Madrid: Edicusa, 1973), p. 270; the official exchange rate for the multiple exchange rate period is the average for the basic balance constructed by J. M. Serrano Sanz and M. J. Asensio, 'El ingenierismo cambiario. La peseta en los años del cambio múltiple,' *Revista de Historia Económica*, vol. 15, no. 3 (1997), for 1950-1958 and F. Pick, *Black Market Yearbook* (New York: Pick's World Currency Report), several years, for the New York rate. See Tables A.5 and A.6 in Appendix below for data.

Even more detailed data has been collected for the Zurich market, which is presented in Graph 6.6 below.

Graph 6.6. Peseta rate in Zurich, 1946-1961 (in Swiss Francs per 100 pesetas)



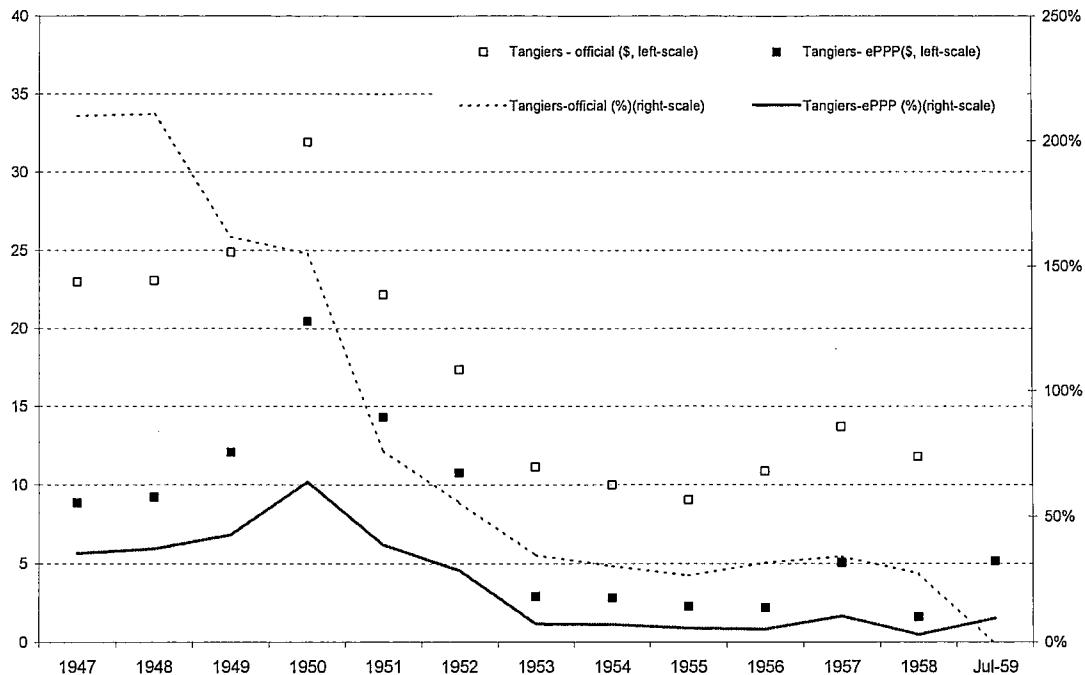
Source: weekly data provided by *Crédit Suisse*, as reported by *El Economista*.
See Table A.7 in the Appendix for data.

Although it is not possible to ascertain the volume traded in markets such as the Tangiers one (the New York and Zurich were significantly smaller), and thus it cannot be ruled out that erratic volume is driving the price of the peseta, Graphs 6.5 and 6.6 above show a similar pattern, giving us confidence that the evolution is not contingent on which unofficial market we select.

As in the previous graphs, four phases can be identified: up to 1950 there is a period of substantial instability in which the peseta is nevertheless steadily falling, from 1950 to 1953 there persists some instability but the peseta regains value, followed by a very stable three years after 1953 and a subsequent deterioration towards the end of the 1950s.

A more informative measure of the premium paid for the peseta on the unofficial market is given by the spread between the unofficial rate and the exchange rate that satisfies the Purchasing Power Parity (PPP) between the dollar and the peseta. This is shown in Graph 6.7 below.

Graph 6.7. Unofficial exchange rate premium, 1947-1959



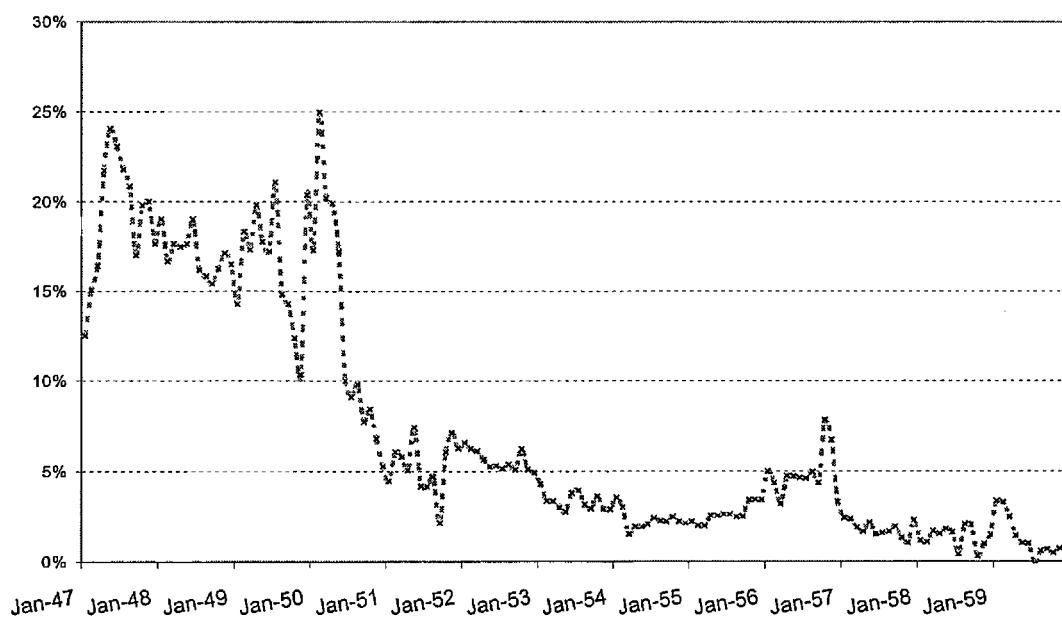
Sources: as in Graph 6.5 above and J. Aixalá, *La peseta y los precios* (Zaragoza: Prensas Universitarias de Zaragoza, 1999) for an estimate of the PPP exchange rate between peseta and dollar.

Because the PPP estimation is independent of official exchange rates and takes into account the different evolution of prices, Graph 6.7 shows that the reduction in the exchange rate premium from the early 1950s was not simply due to the hidden devaluation of the peseta during 1948-1952. The data, however, is only annual, not giving us much room for a detailed study of the market around specific points in time. For this reason any conclusions must be drawn with care. This is not the only shortcoming when using this information. Participants in this market may not be seen as representative of the average Spanish businessperson or investor. Not only foreigners operated in these markets, the Spanish government itself took part regularly in the unofficial Tangiers market, thus rendering the interpretation that price movements reflected the sentiment of private Spanish investors more doubtful.

A further indicator based on unofficial markets in Spain can be constructed. The price of gold (which was legal to own yet illegal to trade) in

dollars inside Spain is compared to the gold price in Zurich, so as to control for movements in the world gold price, and reported in Graph 6.8 below.

Graph 6.8. Spread of price of ounce of gold between Madrid (unofficial market) and Zurich markets (in %)



Source: Pick, *Black Market Yearbook*, several years. See Table A.8 in the Appendix for data.

The spread shown in Graph 6.8 displays a similar pattern to the other unofficial markets we have reviewed. This spread can be interpreted as the premium that Spanish agents were willing to pay for holding their wealth in a relatively easy to hide asset. As such, we can argue that a perceived improvement in the political credibility of the regime would be expected to show a decrease in such premium. However, the flight to gold would obviously reflect other pieces of information such as inflationary expectations or an expected devaluation, as in fact has been argued for the peak shown in late 1956.⁴⁰

Another asset that may be examined is Spanish government bonds.⁴¹ Graph 6.9 below reports the prices of some government bond issues that were

⁴⁰ Pick, *Black Market Yearbook*, 1963, p. 562 suggests that '[i]n 1956, gold smuggling into Spain increased substantially and in the first quarter of 1957 "imports," aided by high officials, soared to about \$500,000 a month, as the crowd "in the know" of the coming devaluation coldly commercialised this knowledge.'

⁴¹ We will restrict ourselves to Spanish debt traded inside Spain. There was a small proportion of government debt (approx. 76 million pesetas or 0.1% of total outstanding

consistently reported in the press, and can thus be regarded as benchmark bonds.⁴² The pattern seen in the other financial markets, with a deterioration of prices during the late 1940s, followed by an improvement in the early 1950s appears to be roughly replicated in this market.

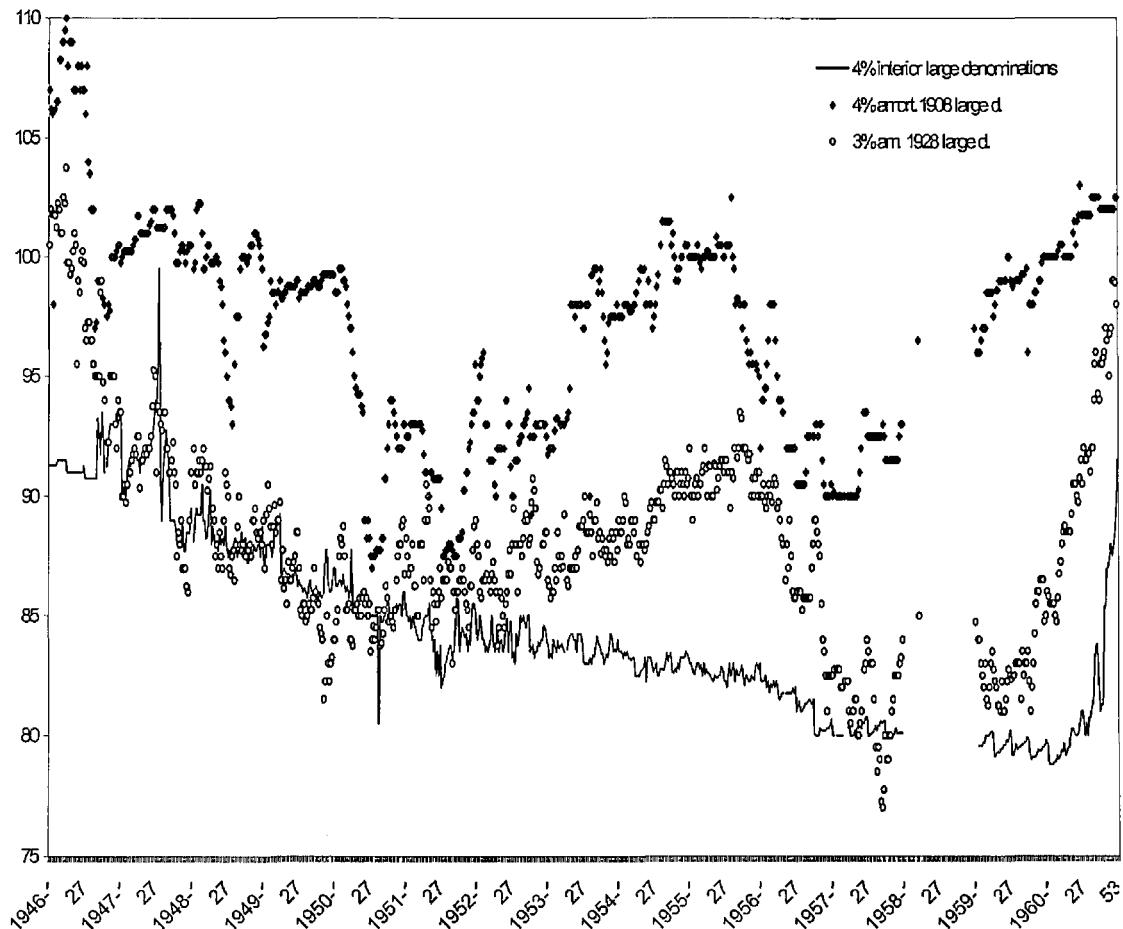
A shortcoming to bear in mind when analysing this data is that debt issued up until the late 1950s had the privilege to be pledged, the so-called *pignoración*, with the Bank of Spain for a percentage of the nominal value. In a sense, this ensured there was a floor in bond prices that would not be reached, as bondholders would be better off pledging the bonds for cash with the Bank of Spain. This, together with the usual caveat that inflationary expectations and other factors may well be driving the prices, should be borne in mind.

government debt) held by foreigners abroad. These were perpetuities at 4% p.a. with interest payable in sterling pounds in London, francs in Paris or marks in Berlin.

London. *The Stock Exchange Official Year-Book 1953*, vol. 1 (London: T. Skinner, 1954), p. 237 and *Stock Exchanges London and Provincial, Ten-Year Record of Prices and Dividends, 1944 to 1953 Inclusive* (London: F. C. Mathieson, 1954), p. 91 provide annual minimum and maximum but no other more disaggregated data or volume traded.

⁴² For information on debt issues and the secondary market up to 1951 see Banco de Bilbao, *Agenda Financiera 1951* (Bilbao: Banco de Bilbao, 1952). See Clavera *et al.*, *Capitalismo español*, pp. 310-11 for debt issues during the 1950s.

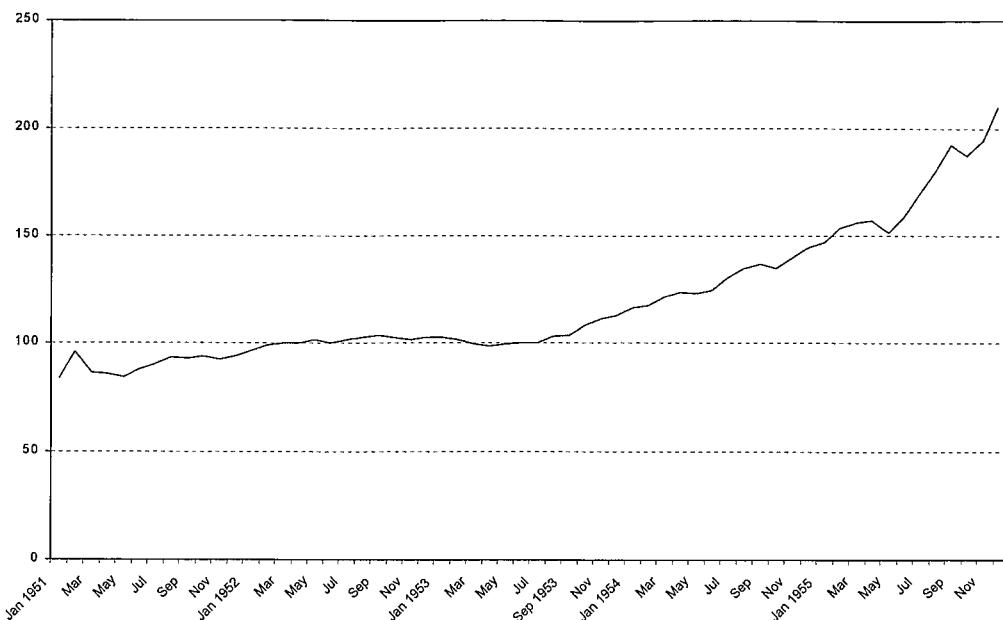
Graph 6.9. Price of selected Spanish government bonds
(Madrid trading), 1946-1960



Notes and sources: the issues reported here are the 4% perpetuity (pledgeable for 80% of nominal, outstanding amount in 1959: 9.6 billion [,000 million] pesetas), the 4% issue of 1908 (maturity 50 years, pledgeable for 90%, outstanding amount in 1950: 94 million pesetas) and the 3% issue of 1928 'tax-free' (maturity 70 years, pledgeable for 80%, outstanding amount in 1950: 1.9 billion pesetas). The total stock of Spanish government debt in 1950 was approximately 58 billion pesetas (approx. 30% of GDP). Debt issues through the 1950s would total approximately 38.5 billion pesetas.
See Table A.9 in the Appendix for data.

Let us now turn to the stock exchange. Casual inspection of the stock exchange real index, focusing on the period 1951-55 to try to capture the immediate impact of the announcements of American aid to Spain, in figure below suggests a significant change from a bear to a bull market precisely around the signing of the Pact of Madrid in September 1953.

Graph 6.10. Madrid stock exchange monthly price index
(in real terms, September 1953=100)



Source: Bolsa de Madrid, *Índices de Cotización*. This index, unlike the one provided by INE in *Boletín Mensual de Estadística*, deals with the issue of bonus shares (stock dividends), a common feature of the period. See J. Martínez de Ibarreta Osés, *La bolsa en España* (Madrid: Aguilar, 1962).

Contemporary observers were quick to suggest that the signing of the treaties was the most determinant cause of the strong reaction of the stock exchange.⁴³ Overall, both national and foreign analysts saw a positive effect on the stock exchange of the signing of the agreements. Significantly, the impact does not seem to have been a short-term one.⁴⁴ This shift from a bear to a bull market can be interpreted as a sign that investors were discounting future economic growth.⁴⁵ It was not only the stock exchange index that experienced a sustained rise. The turnover in the market for shares also increased significantly

⁴³ See the weekly *España Económica*, 10th October 1953, p. 815.

⁴⁴ T. E. Rogers, *Economic and Commercial Conditions in Spain. October, 1956* (London: HMSO Overseas Economic Surveys, 1957), p. 80, writing three years after the signing of the Pact of Madrid emphasised it as a cause for the still bullish stock market.

⁴⁵ R. Barski and J. B. De Long, 'Bull and Bear Markets in the Twentieth Century,' *Journal of Economic History*, vol. 50, no. 2 (1990), p. 269, suggest that even small changes in prospects for economic growth rates can justify large swings in the stock markets.

after the deal with the Americans had been reached. Annual volume traded in shares in the Spanish stock exchanges soared 46.7% in real terms in 1954, increasing a further 38.6% the following year.⁴⁶

Yet, neither should the claim of observers be taken at face value nor is Graph 6.10 above as user-friendly as may appear to be. Even if we could assign such a bear-to-bullish change to a shift in fundamentals, there is a danger in slipping into an analysis which is based simply on a series of unsatisfactory *ad hoc* interpretations of events in the stock exchange. The way to obtain relevant answers from stock data is not by plotting the data and then arriving at a formal or informal model that would explain it, but rather the reverse: assuming a particular model of how the stock exchange works, asking a particular question, and letting the data speak. Such a method will be outlined below.

⁴⁶ Instituto Nacional de Estadística (INE), *Boletín Mensual de Estadística*, various issues.

6.5. An event study analysis of the credibility hypothesis

6.5.1. Theoretical underpinnings of the analysis

Since prices of financial assets reflect the opinion of those trading in them about the future, we can talk of the information content of security prices. Using net present value calculations, we can derive a simple formula for valuing a perpetuity (as a stock in fact is) assuming a constant growth rate of dividends, g , and discount rate, r , as shown in equation 6.1 below.⁴⁷

$$(eq.6.1) \quad price = \frac{dividend}{r - g}$$

If the credibility hypothesis explained above has any explanatory power, we would expect that the reduction in uncertainty associated with the signing of the U.S.-Spanish agreements would lead to a decrease in the discount factor, thus affecting the price of securities. This theory of valuation presented is based on the weak form of efficient market hypothesis (EMH), which simply refers to the idea that the market will take account of all the existing available information in the formulation of prices.

Using stock exchange data is, nevertheless, likely to raise some concerns. Firms listed in the stock exchange were limited in number, biased towards large size and in general unrepresentative of the Spanish economy; however, of those taking part in the market, the sellers and buyers of the stock, it can be much more confidently be argued that they are closer to the well-informed Spanish investor of the time.

Stocks were (relatively) freely traded in the market. Although the market was burdened with regulations, they related to issues such as who could act as a trader or the level of commissions charged.⁴⁸ Furthermore, and unlike the foreign

⁴⁷ This is known as the dividend discount model (DDM) or Gordon model. It is much more difficult (and unnecessary for our exposition) to work with present-value relations when expected returns are time-varying, as the relation between prices and returns becomes non-linear. For the mathematical formulation see K. Cuthbertson, *Quantitative Financial Economics* (Chichester: John Wiley, 1996).

⁴⁸ J. A. Torrente Fortuño, *Historia de la Bolsa de Madrid*, vol. 3 (Madrid: Colegio de Agentes de Cambio y Bolsa, 1974).

exchange market of Tangiers, in the stock exchange the government was absent. The only interference of the government was via the regulation of the market, which remained relatively unaltered around the period of interest.

That firms were not allowed to distribute dividends freely does not appear to be of significance either. In order for dividend regulation and stock dividends or bonus share issues to be substantial problems in our analysis they would have had to preclude the realisation of capital gains through the sale of stocks.⁴⁹ Provided the market was sufficiently liquid and investors could sell their shares they would realise the capital gain and the outcome of valuation should not have been affected.⁵⁰

Having established more confidently the relevance of the data available, we can now proceed to derive a quantitative test of the hypothesis that the aid-for-bases American programme caused a significant change in business expectations. We will do so by using the so-called event study methodology. An event study is simply an inquiry into the response in equity pricing to news. If prices are expected to respond to news we need to establish that the observed price movements were in fact significant.⁵¹

⁴⁹ Martínez, *La bolsa*.

⁵⁰ In 1953 the Madrid stock exchange traded a volume of stocks which equalled approximately one thirtieth of its market capitalisation, *Bolsa de Madrid, Índices de cotización de acciones de la Bolsa de Madrid, 1941-1987* (Madrid: Bolsa de Valores de Madrid, Servicio de Estudios, 1988), pp. 9, 120-22. This turnover is approximately that of an emerging market such as Chile traded during the mid-1980s, R. Bootle (ed.), *Directory of World Stock Exchanges* (Cambridge: Woodhead-Faulkner for The Economist Publications, 1988), p. 76.

⁵¹ This method has not been prominent in the economic history literature yet. For an example of its use see H.-J. Voth, 'Stock Market Liberalization, the Cost of Capital and Economic Growth in Post-War Europe,' paper presented at the 61st Annual Meeting of the Economic History Association, Philadelphia, 26th-28th October 2001 (circulated previously as 'Convertibility, Currency Controls and the Cost of Capital in Western Europe, 1950-1999,' Universitat Pompeu Fabra Working Paper no. 552, May 2001, available at <http://www.econ.upf.es/deehome/what/wpapers/postscripts/552.pdf> as of 15th August 2001).

It is important to underline the similarities and differences between this approach and the search for turning points in financial time series that has become increasingly popular in economic history.⁵² The purpose of the search for turning points is to let the data speak for itself and not to impose preconceived breaks on it. Interpreting what causes the change in trends, the turning points, is, however, beyond the method –unless, of course, only one variable is driving the valuation of the financial time series. This is the reason why the search for turning points has mostly been used for wartime situations, where there was no identification problem as to the cause that is driving the results.⁵³ In our case, however, the increased security of the Franco regime derived from the American support is just one of the numerous factors that are driving stock valuations, or in fact all other financial indicators reported here.

A second point to note about the search for turning points procedure is that it cannot discriminate, when two events are too close to each other, whether it is the two of them that are causing the effect or only one of them. In our case study, for example, Admiral Sherman arrived in Madrid for talks with Franco on the possibility of a bases deal on 16th July 1951. This event conveys substantial information about the interest of the Americans, yet were we to find a turning point around that time in the financial time series we would be unable to differentiate its effect from that of the cabinet reshuffle in the Spanish government that took place on the 18th July 1951 and which was unrelated to Sherman's visit. Similarly, the search for turning points necessarily involves the establishment of an arbitrary period of time by which, if the increase in valuation is sustained, it is assumed that a turning point took place. The event study, on the

⁵² See in particular the Symposium: High Politics and Low Finance in vol. 60, no. 2 (June 2000) issue of *the Journal of Economic History* with articles by J. Wells and D. Wills, 'Revolution, Restoration, and Debt Repudiation: The Jacobite Threat to England's Institutions and Economic Growth,' pp. 418-41, N. Sussman and Y. Yafeh, 'Institutions, Reforms, and Country Risk: Lessons from Japanese Government Debt in the Meiji Era,' pp. 442-67 and B. S. Frey and M. Kucher, 'History as Reflected in Capital Markets: The Case of World War II,' pp. 468-96.

⁵³ K. L. Willard, T. W. Guinnane and H. S. Rosen, 'Turning Points in the Civil War, Views from the Greenback Market,' *American Economic Review*, vol. 86, no. 4 (September 1996), pp. 1001-18.

contrary, cannot help us identify what news were perceived to be more important by contemporaries since it does not pitch one event against another but can help us identify whether an event was something really unusual or not.

Moreover, for the search for turning points to be a meaningful exercise one requires a list of unambiguous events. Again, this may be the case with the outcome of battles but is not so straightforward in more intricate cases such as the hypothesis we are investigating. How should we, for example, interpret the U.S. securing military base rights in the Azores islands in the Autumn of 1951? This may indicate that the U.S. will no longer be so eager to reach an agreement with Franco or perhaps it reveals the strength of the interest in bases within the American administration.

The spirit of the event study methodology is to compare the observed returns of assets during the event-window (the time period where the news happen) with the normal returns that we would expect in the absence of news (estimated running actual returns observations during a period prior to the event using a particular estimation method). A test is then drawn to establish whether the difference between the observed and the predicted returns is significantly (in an statistical sense) different from zero. There are seven steps that can be identified in an event-study:⁵⁴

- a. Event definition
- b. Selection criteria and estimation window
- c. Normal and abnormal returns
- d. Estimation procedure
- e. Testing procedure
- f. Empirical results
- g. Interpretation and conclusions

⁵⁴ J. Y. Campbell, A. W. Lo and A. C. MacKinlay, *The econometrics of financial markets* (Princeton, N.J.: Princeton University Press, 1997).

6.5.2. An event study of the Pact of Madrid

We will now both discuss the theory and apply it to the event study of the announcement of the Pact of Madrid between Spain and the U.S. in which the Americans committed themselves to provide an unspecified amount of aid in exchange of the use of military facilities in Spain.

a. Event definition

One of the main problems of event-studies is to make precise the date in which the event was known to the public. It is usually difficult to know if the news reached the market in the day of the announcement or there was a lag, a feature that has led investigators to refine the method to allow for event-date uncertainty.⁵⁵

In our case we want to concentrate on the announcement of the signature of the agreements between Spain and the U.S., which took place on 26th September 1953. Of course, American support was not an overnight decision and it can be argued that the change in the attitudes of the U.S. to Spain had already changed by the summer of 1950, when the first loan was approved. Yet, the announcement of the agreements did have news content about the American support to Spain. As we have seen in Chapter Four above, up until the last moments there was the possibility that the negotiations could stall.

In fact, the advantage of the event study over the search for turning points is that we can isolate instances which unequivocally convey sufficient and exclusive information about the argument we are interested to explore. As we will shortly see, the signing of the agreements does meet those requirements.

The agreements were signed on 26th September, Saturday, and given that the Spanish market only traded Tuesday to Friday, the first day in which the response could have been felt was Tuesday 29th September. Given that there were three calendar days between the signing of the agreements and the opening of the market it seems appropriate to consider event date certainty on Tuesday 29th September.

⁵⁵ C. A. Ball and W. N. Torous, 'Investigating Security-Price Performance in the Presence of Event-Date Uncertainty,' *Journal of Financial Economics*, vol. 22 (1988), pp. 123-53.

It is important that we establish whether there was any other overlapping news that might have affected the market during those days. The days that we may want to consider critical are Friday 25th September (since perhaps the news might not have reached the market that day) to Tuesday 29th (since we may suggest that the market could have been reacting to news of this very day). To answer this we consulted the journal *Moneda y Crédito*, which provides a comprehensive list of all laws, decrees, government regulations and ministerial orders, etc, providing the date of their announcement. Out of the 153 items that the journal reported to have been announced over the months of July to September, none relating to 'stock exchange and finance' or 'general economic questions' were announced in the period 25th-29th September, where there were only three minor policy decisions pertaining to the method of importing vehicles (27th September), the amounts of subsidies in a particular cotton producing region (28th September), and the concession of a railway line between the *ENSIDES*A factory and a nearby village (28th September). Given that there was no other major market-wide news, it seems reasonable to think of our event-window as a clearly defined one.

Because the absence of other news, the *quasi ceteris paribus* situation provides us with a natural experiment in which the American support to Spain is the only impulse to be received by the securities market.⁵⁶

b. Selection criteria and estimation period

This simply refers to the question of what should be the sample. Our likely sample will cover all the market, since this is a market wide event.

The Madrid Stock Exchange provides a feasible test. However, the Madrid Stock Exchange (*Bolsa de Madrid*) only started to elaborate a daily index in 1963. Thus we will need to construct our own daily index. The task of selecting which stocks to include and which weights assign to them is one through which potential biases may be introduced. Thus, it seems appropriate to

⁵⁶ Because, as argued by Neal, securities markets provide the 'most sensitive seismographs of all' they can instruct us about the nature of those shocks, L. Neal, 'A Shocking View of Economic History,' *Journal of Economic History*, vol. 60, no. 2 (June 2000), p. 326.

use as a starting point a study by the Madrid Stock Exchange Research Department which constructs a monthly index (hereafter *Bolsa index*) from 1940 onwards.⁵⁷ For 1953 the *Bolsa index* includes 47 stocks, weighted according to their relative capitalisation on 31st December 1952. Their index of 47 stocks comprises 34,469 million pesetas (or 75.63%) out of the total market capitalisation of 45,574 million pesetas on 31st December 1952 (see Table A.10 in the Appendix for a list of stocks, the codes used in the tables and the sector of activity of each firm).

The data on stock prices have been gathered from the financial press, in particular the weekly *El Economista* and *España Económica*. Of these 47 stocks it has not been possible to find data on three: *Urbis*, *Cros*, and *Trasmediterránea*. *Urbis* is a very small stock and the *Bolsa* gives it a 0.06% weight in the index so the omission does not seem too important. *Cros* and *Trasmediterránea* are more puzzling cases, since they are given a relatively large weights (2.81% and 2.14% respectively). *Cros* was a chemicals producer and *Trasmediterránea* a ferry company, both traded regularly in the Barcelona Stock Exchange but, although tradable, only infrequently in Madrid. This leaves us with a 44-stock-index.

We therefore collected data for each stock to calculate daily returns for each stock for 120 days, our estimation period. The choice of estimation period is necessarily arbitrary. The figure of 120 days for the estimation period is one that seems to be reasonable in this type of study.⁵⁸ The estimation period is going to be 120 daily returns from immediately before. This raises the issue of the possibility that leaks took place and that the last days in the estimation period have already been affected by the news. As noted in Chapter Four above there were many instances in which the public perceived that the agreements were about to be finalised.⁵⁹ In Spain, the weekly magazine *El Economista* reported for the first time the possibility of a closing of the negotiations two weeks before

⁵⁷ Bolsa de Madrid, *Índices de cotización de acciones*.

⁵⁸ Campbell, Lo and MacKinlay, *The econometrics of financial markets*, p. 152.

⁵⁹ 'The U.S. is about to conclude a bilateral agreement with Spain' stated *The Economist*, 21st July 1951, p. 144. The *Fortnightly review of business and economic conditions* of the Bank of London and South America noted on 24th January 1953 the 'possibility of the early signature of the Mutual Aid agreement...', vol. 18, no. 426, p. 66.

the actual signature. It reported that it disagreed with the view of the majority that the signing would lead to a swift increase in stock prices. In a revealing editorial it suggests that agents are already discounting the event. However, it has been decided not to make any adjustment for these possible leaks. By not accounting for this possible discounting we are only biasing against the likelihood of finding a statistically significant reaction during the event window. The same reasoning can be applied to the choice of undertaking the event study on the announcement of the agreements as opposed to other previous dates. Because the announcement takes place at a later date, it is to be expected that part of the reaction of agents to the American *rapprochement* with Spain had already been discounted by then. The difficulty of identifying other instances in which we could ascertain that stock prices are responding to the underlying phenomenon of U.S. support to Spain (i.e., the difficulty of finding other events which had sufficient and exclusive news content about the U.S. support to Spain) makes the announcement of the agreements the most likely choice. In any case, it should once more be noted that if any bias is introduced it is to make it less likely to find a reaction.

We encounter at this point the first technical problem: thinly traded stocks. Many days some of the stocks did not trade, (and others we simply did not have information). In our total possible of 5,368 cells (122 days * 44 stocks) we have true prices for 4,111 of them (or 76.7%). Thus we need a method of 'filling in' those empty cells if we are to be able to calculate the daily returns on a comparable basis, i.e. using the same index. The days in which stocks were not traded had to be assigned a price in order to proceed with the estimation. We have chosen to report the price quoted on the immediate day that the stock had previously traded, in other words, the return on non-trading days would be zero.

The literature on methods of filling in data suggests a way of assigning the returns over a period to each of those non-trading days.⁶⁰ However, in the case of the 44-stock index, out of the 1,257 empty cells, 508 correspond to days in between trading days where there was no such price change at all, thus there is no return to be assigned in those days. The changes in prices do not tend to be

⁶⁰ R. Heinkel and A. Kraus, 'Measuring Event Impacts in Thinly Traded Stocks,' *Journal of Financial and Quantitative Analysis*, vol. 23, no. 1 (March 1988), pp. 71-88.

particularly high even after several days of non trading, and there is no indication that it was a run on stocks that tended to lead to lack of trading on a particular day. In fact, it is the opposite, not enough sellers, that is given as the reason in those occasions that the specialised press comments on a stock not trading.⁶¹

The 44-stock-index would constitute our first choice for an index for the relatively large number of stocks included. There are, however, possibilities in undertaking some sort of sensitivity analysis by withdrawing from the index those stocks that only traded very thinly during the estimation period. Of the 44 remaining stocks, three stocks did not trade on the event day leaving us with a 41-stock-index if we withdraw them.

Table 6.1 below reports the 44- and 41-stock index features, but also two further indices, which have been derived from the 44-stock-index, omitting those stocks that traded so thinly during the estimation period as to be traded on less than 50% of days (resulting in the 38-stock-index), and then excluding those stocks that traded less than 75% of days (resulting in the 27-stock-index).

⁶¹ By not distributing the returns among the non-trading days we may in fact be biasing upwards the standard deviation and thus reducing the chance of finding a statistical significance in the event return being different from the mean over the estimation period.

Table 6.1. Madrid Stock Exchange indices

	Bolsa index (47 stocks)	44- stock index	41- stock index	38- stock index	27- stock index
Total capitalisation in index (in million pesetas)	34,469	31,796	27,114	24,871	20,541
As % of market capitalisation (45,574 million pesetas)	75.6%	69.8%	59.5%	54.6%	45.1%
% of 'true-data-cells'		76.6%	78.0%	82.2%	92.4%
% of aggregate daily return obtained from 'true-data-cells'		84.5%	88.9%	90.7%	93.9%

Notes:

To obtain the «% of 'true-data-cells'» we compute the number of days each of the stocks included in the index did trade throughout the 121 days. «% of aggregate daily return obtained from 'true-data-cells'» has been obtained by computing for each day which stocks did not trade (and therefore the return implied is zero), using their respective stock weight to arrive at the actual share of imputed aggregate daily return (a.d.r.) These were then added throughout the period.

Table 6.1 above shows the expected trade-offs between decreasing the instances in which we need to fill in stock prices and market capitalisation and number of stocks included in the index. The weights used for the stocks in each of the indices have been derived from the original 47-stock-index. Whenever we reduced the number of stocks included the weights of those withdrawn stocks were assigned to the stocks that remained in the index proportionately. Table 6.2 below provides the details of the weights to be used.

Table 6.2. Composition of Madrid stock market indices

	Bolsa (47)	44-stocks	38-stocks	27-stocks	41-stocks
ESP	2.73	2.87	2.98	3.37	2.99
BTO	4.55	4.79	4.96	5.61	4.98
HIS	4.00	4.21	4.36	4.93	4.38
FEN	1.81	1.91	1.97	2.23	1.98
HES	6.63	6.98	7.23	8.18	7.26
IBE	10.24	10.78	11.16	12.63	11.21
NAN	0.76	0.80	0.83	0.94	0.83
SEV	3.20	3.37	3.49	3.95	3.50
UEM	1.94	2.04	2.11	2.39	2.12
RIF	2.69	2.83	2.93	3.32	2.95
MDF	1.59	1.67	1.73	1.96	1.74
PON	1.67	1.76	1.82	2.06	1.83
AHV	4.74	4.99	5.17	5.84	5.19
AUX	2.13	2.24	2.32	2.63	2.33
TEL	7.75	8.16	8.45	9.56	8.49
CAM	1.82	1.92	1.98	2.24	1.99
TAB	0.56	0.59	0.61	0.69	0.61
AGI	0.97	1.02	1.06	1.20	1.06
AZU	0.70	0.74	0.76	0.86	0.77
INM	1.91	2.01	2.08	2.36	2.09
ARA	1.01	1.06	1.10	1.25	1.11
ERT	3.66	3.85	3.99	4.51	4.01
CEP	6.48	6.82	7.06	7.99	7.10
FEF	0.59	0.62	0.64	0.73	0.65
SNC	3.17	3.34	3.46	3.91	3.47
NAV	1.15	1.21	1.25	1.42	1.26
MDM	2.65	2.79	2.89	3.27	2.90
EBR	0.96	1.01	1.05		
MER	0.53	0.56	0.58		0.58
URM	0.63	0.66	0.69		0.69
DRC	0.91	0.96	0.99		1.00
HCV	0.17	0.18	0.19		0.19
MMM	0.21	0.22	0.23		0.23
GUI	0.23	0.24	0.25		0.25
CAN	0.83	0.87	0.90		0.91
CEN	2.70	2.84	2.94		2.96
BEE	1.11	1.17	1.21		1.22
UFX	2.35	2.47	2.56		
CPL	0.35	0.37			
POP	0.46	0.48			0.50
RES	0.55	0.58			0.60
INS	0.16	0.17			0.18
CGI	0.13	0.14			0.14
REU	1.60	1.68			1.75
MED	2.14				
CRS	2.81				
UBI	0.06				
	99.99	100.00	100.00	100.00	100.00

c. Normal and abnormal returns

The purpose of the event-study is to derive estimates of the 'abnormal' returns during the event period and compare them with the normal returns obtained throughout the estimation period so as to determine, using a test statistic (the average abnormal return divided by the estimated standard deviation) to determine whether we can reject the null hypothesis that abnormal returns are zero. Therefore the model that is used in predicting the normal returns, in other words the yardstick with which to measure the returns obtained during the event period, is crucial to the outcome of the test.

Returns will be calculated on a daily basis since the literature tends to recommend strongly the use of daily return data to estimate information effects, 'with the possible exception of cases in which there is uncertainty about the date of the information release' which is not our case.⁶²

Daily returns are defined as the ratio of the increase in price to the previous price. The computation is straightforward, the only necessary adjustment being the dividends paid. For this information it was necessary to go to the *Boletín Oficial de Cotización de la Bolsa de Madrid* (Official Daily Listings of Madrid Stock Exchange) which provides details of how much was paid, net of tax, to the stocks and the precise date of payment.

Table 6.3 below shows the steps followed in order to incorporate the dividend payments in a comparable way to the return derived from price changes. Having obtained these payments, they were added to the daily return computed from price changes. Those stocks that are not in the list did not pay dividends through the estimation period and event window.

⁶² D. Morse, 'An Econometric Analysis of the Choice of Daily Versus Monthly Returns in Tests of Information Content,' *Journal of Accounting Research*, vol. 22, no. 2 (1984), p. 606.

Table 6.3. Computing the returns from dividends over the estimation period

Stock name	Net amount (pesetas)	Date paid	day no.	Previous day Price (%)	Nominal (pesetas)	Previous day Price (pesetas)	dividend as return % on previous day price
ESP	45	23 Jul	83	531	500	2655	1.69%
BEE	30.8	21 May	48	228	500	1140	2.70%
BTO	14	1 May	39	515	500	2575	0.54%
HIS	30.5	1 Jul	70	390	500	1950	1.56%
CEN	29	5 Aug	90	330	500	1650	1.76%
MER	29.53	15 Jul	78	173	500	865	3.41%
POP	21	27 Apr	36	218	500	1090	1.93%
POP	18.4	1 Sep	105	220	500	1100	1.67%
FEN	32.23	1 Jul	70	120	5000	6000	0.54%
CAN	15	1 Jul	70	119	500	595	2.52%
HES	25	1 Jul	70	210	500	1050	2.38%
IBE	27.5	1 Jul	70	194	500	970	2.84%
NAN	13.35	20 May	47	104	500	520	2.57%
SEV	15.26	15 Apr	29	107	500	535	2.85%
UEM	7.57	15 Jun	61	112	500	560	1.35%
RIF	23.25	10 Jun	58	543	50	271.5	8.56%
MDF	30	20 Jun	65	230	500	1150	2.61%
GUI	29.7	15 Jun	61	203	400	812	3.66%
PON	15	1 Jul	70	380	250	950	1.58%
AHV	30	1 Jun	54	181	500	905	3.31%
AUX	20	8 Jun	57	177	500	885	2.26%
MMM	48.9	15 Apr	29	158	1000	1580	3.09%
TEL	24.06	20 May	47	170	500	850	2.83%
CAM	20.8	8 Jun	57	150	500	750	2.77%
TAB	14.56	1 Jul	70	160	500	800	1.82%
AZU	22.5	1 Aug	89	117	500	585	3.85%
HCV	18.92	1 May	39	108	500	540	3.50%
DRC	18.25	11 May	44	139	500	695	2.63%
INM	12.5	1 Jul	70	118	500	590	2.12%
URM	15	4 Apr	24	482	300	1446	1.04%
ARA	26.85	1 Apr	24	172	500	860	3.12%
	18.42	15 Jul	78	140	500	700	2.63%
CEP	26.22	13 Apr	28	368	500	1840	1.43%
RES	16.22	15 Apr	29	119	250	297.5	5.45%
FEF	14.2	24 Aug	101	130	500	650	2.18%
SNC	45	15 May	46	289	500	1445	3.11%
NAV	18.96	15 Jun	61	116	500	580	3.27%
MDM	15	4 Apr	24	137	500	685	2.19%
INS	22.5	15 Jun	61	98	500	490	4.59%

Source: constructed with *Boletín de Cotización Oficial*.

d. Estimation procedure

There are two types of models that we can use in estimating the normal returns of stocks: statistical and economic. By statistical models we refer to those that simply assume that asset returns can be described by statistical means. Economic models rely on assumptions about agents' behaviour, allowing for restrictions on the parameters derived from, for example, the Capital Asset Pricing Model or the Arbitrage Pricing Theory. The simplest statistical model referred to in the literature is the constant-mean return model. The constant-mean return model is literally described in its name and assumes that event window returns above the mean calculated throughout the estimation period are abnormal.

Perhaps surprisingly, economic models have not been widely used, and empirical papers tend to focus on statistical models. In particular, most studies make use of the statistical market model. By the market model they simply refer to a relationship in which the returns of a particular stock depend on the returns of the market as a whole adjusted by a β coefficient which measures the responsiveness in the stock's return to changes in the market's return. Thus, a $\beta > 1$ stock implies that the stock is more volatile than the market. They estimate the parameters α and β for each firm, and then, with the overall market returns from the event window obtain the predicted return for individual stocks.

The R^2 in the estimation of the coefficients is interpreted as the percentage of variation in a stock's return that is due to market changes. The higher this R^2 , the more different would be results using the market model or the constant-mean return model.

The problem using the market model is that it focuses on the evolution of returns due exclusively to changes in firm-specific risk. This is so because the purpose may be estimating the effect of a merger announcement on stock prices, where it is important to control for a change in the market return. However, in our case controlling for market-wide changes would simply dilute the true effect in the reduction of systematic risk that may be associated with the American support. Using the market model will bias downwards the type of effect that we want to capture. This can be shown best with a simple example. Let us think of a market composed by two stocks only. These stocks' returns always move exactly the same (say 0.01% daily), and consequently the market's return is 0.01% too. If

we estimate the model we will obtain $\alpha=0$ and $\beta=1$. Let us now suppose that during the event, returns for both stocks jump to 0.02% (and obviously the market return jumps to 0.02%). Yet, if we calculate the estimated expected return this would be 0.02% ($= \alpha + \beta \cdot 0.02$) and thus the abnormal return would be zero.

The theoretical literature is clear about the recommendations: the market model performs well under a wide variety of conditions, and, in some situations, 'even simpler methods which do not explicitly adjust for market-wide factors [...] perform no worse'⁶³. Moreover, very similar judgements can be read in the recent literature. The use of the Capital Asset Pricing Model has 'almost ceased' in event studies, while that of the Arbitrage Pricing Theory has 'little practical advantage relative to the unrestricted market model'; in sum, 'there seems to be no good reason to use an economic model rather than a statistical model in an event study.'⁶⁴. Nevertheless, despite the original backing of mean-reversion by Brown and Warner, there has been a theoretical strand of the literature on event studies that emphasises the benefits of using regression based models.⁶⁵

However, the choice of model will also be driven by empirical matters. The potential improvement of the market model over the mean reverting one is that by removing the part of the return linked to market returns the estimated variance of the abnormal return is reduced. The increase in the ability to detect event effects will depend on the R^2 of the regressions. Table A.11 in the appendix below reports the Ordinary Least Squares estimation of the market model.⁶⁶

The extremely poor performance of Ordinary Least Squares in estimating the market model makes it clear that in this case it is not sensible to attempt such

⁶³ S. J. Brown and J. B. Warner, 'Measuring Security Price Performance,' *Journal of Financial Economics*, vol. 8 (1980), p. 205.

⁶⁴ Campbell, Lo and MacKinlay, *The econometrics of financial markets*, pp. 156-57.

⁶⁵ J. Cable and K. Holland, 'Regression vs. non-regression models of normal returns: implications for event studies,' *Economics Letters*, vol. 64 (1999), pp. 81-85 and J. Cable and K. Holland, 'Modelling normal returns in event studies: a model-selection approach and pilot study,' *European Journal of Finance*, vol. 5 (1999), pp. 331-41.

⁶⁶ $R_{it} = \alpha + \beta R_{mt} + \mu$, where R_{it} is the return of the i-stock and R_{mt} is the return on the market portfolio.

estimation with that technique, a point made in the literature.⁶⁷ Ultimately the choice of return generating models comes determined by the market-wide nature of our set up. This setting is in fact an unusual one in event-study literature.⁶⁸ In fact, in many papers discussing market-wide effects there is a tendency to find ways of splitting the sample into good- and bad-news, or their set-up is one in which it is possible to have more than one event.⁶⁹

Thus, unless we embark on significantly more complicated methods of robust estimation of the market model, it appears that the mean reversion should be preferred to the market model.⁷⁰ We will proceed by using a simple mean reversion model, which receives support in the literature.⁷¹

e. Testing procedure

The aim of the event-study is to employ a statistical test that will enable us to reject (or not), with some degree of confidence, the null hypothesis that the abnormal performance of returns during the event window is zero.

The basis of inference in this type of studies is usually a t-statistic. This test requires us to assume that the abnormal returns throughout the estimation

⁶⁷ J. A. Coutts, T. C. Mills and J. Roberts, 'Testing Cumulative Prediction Errors in Event Study Methodology,' *Journal of Forecasting*, vol. 14 (1995), pp. 107-15. I thank Professor Terry Mills for drawing my attention to this issue.

⁶⁸ Still, there are examples, such as J. Mutti, R. Sampson and B. Yeung, 'The Effects of the Uruguay Round: Empirical Evidence from U.S. Industry,' *Contemporary Economic Policy*, vol. 18, no. 1 (2000), pp. 59-63.

⁶⁹ M. Pincus, 'Stock price effects of the allowance of LIFO for tax purposes,' *Journal of Accounting and Economics*, vol. 23 (1997), pp. 283-308 and R. Hudson, K. Keasey and M. Dempsey, 'Share prices under Tory and Labour governments in the U.K. since 1945,' *Applied Financial Economics*, vol. 8 (1998), pp. 389-400.

⁷⁰ T. C. Mills, J. A. Coutts and J. Roberts, 'Misspecification testing and robust estimation of the market model and their implications for event studies,' *Applied Economics*, vol. 28 (1996), pp. 559-66.

⁷¹ Campbell, Lo and MacKinlay, *The econometrics of financial markets*, p. 154. In fact, Cable and Holland motivate their paper as a reaction against the 'current tendency to favour cruder but simpler mean- or market-adjusted returns models.' Cable and Holland, 'Modelling normal returns,' p. 331.

period are normally distributed, and that there is no event-induced change in the variance. In the case of a market wide phenomenon, we construct a portfolio representative of the market as a whole, on which we can employ the traditional t-test statistics.⁷² Formally, we obtain the returns for each time period (day) t for each stock i , R_{it} , which are then aggregated into the portfolio return for that day t , R_{pt} , as done in equation 6.2 below.

$$(eq.6.2) \quad R_{pt} = \sum_{i=1}^N x_i R_{it}$$

where $\sum_{i=1}^N x_i = 1$

and N is the number of stocks in the portfolio

It is then that the estimation of the excess return for the portfolio over the event window takes place as in equation 6.3:

$$(eq.6.3) \quad E(R_p) = \frac{1}{T} \sum_{t=1}^T R_{pt} = \bar{R}_p$$

And statistical inference based on the portfolio t-statistic for the abnormal return on event day, $\varepsilon_{p, event}$, derived as in equation 6.4:

$$(eq.6.4) \quad t = \frac{\varepsilon_{p, event}}{S(\varepsilon_{p, t})} = \frac{(R_{p, event} - \bar{R}_p)}{S(R_p)} \frac{\sqrt{T}}{\sqrt{T+1}}$$

where $S(R_p)$ is the historical standard deviation of the returns to the portfolio over the estimation period (1, ..., T)

This test will be Student-t distributed provided the abnormal returns, $\varepsilon_{p,t}$, are normally distributed and the variance of the return generating process remains constant. However, statistical inference is made difficult by two problems: non-normality of returns, and possible increase in variance of returns as a consequence of the event. These problems render the portfolio t-statistic

⁷² G. W. Schwert, 'Using Financial Data to Measure Effects of Regulation,' *Journal of Law and Economics*, vol. 24 (1981), pp. 121-58.

suggested above mispecified. Similarly, the clustering of events (i.e., the event falls on the same date for all of our stocks), makes cross-sectional dependence of stocks a potentially serious problem. Thus, for a test to be suitable in our set up, it needs to be well specified (i.e., it does not reject too often the null hypothesis when it is in fact true) under those three circumstances.

In sum, there are four statistical issues that need to be addressed satisfactorily to underpin the results of our event study:

- non-normality of abnormal returns
- event-induced shifts in the variance of returns
- event date clustering which may result in cross-sectional dependence of stocks' returns
- choice of return generation model (as discussed above)

The rank test is one of two non-parametric tests that are generally used in the context of event studies.⁷³ The idea behind using ranks is that we avoid the problems derived from skewness or other non-symmetries in the distribution of returns. For this reason, non-parametric tests are also sometimes referred to as distribution-free tests. However, cross-sectional dependence of stock returns would still need to be taken into account.

The spirit of the rank test is very similar to the portfolio test statistic. Instead of the difference between the actual and expected portfolio return in the numerator, it uses an aggregate of the differences between the actual and expected rank of stocks' abnormal returns on event day. The denominator is an estimate of the standard deviation of the numerator throughout the estimation period. In order to compute this test, we need to rank the returns for each of the i stocks for the entire data set (both estimation period and event window). Given the abnormal returns (generated from the constant-mean return generation model) for stock i , A_{it} , let us denote K_{it} as:

⁷³ J. J. Binder, 'The Event Study Methodology Since 1969,' *Review of Quantitative Finance and Accounting*, vol. 11 (1998), pp. 111-37 and A. C. MacKinlay, 'Event Studies in Economics and Finance,' *Journal of Economic Literature*, vol. 35 (1997), pp. 13-39.

$$(eq.6.5) \quad K_{it} = \text{rank}(A_{it})$$

Once this ranking has taking place we need to obtain the so-called standardized rank, U_{it} .⁷⁴ This is the value of the rank adjusted for the number of returns that are available for that particular stock (i.e., the number of days traded or non-missing returns, M_i), thus adjusting for thin trading, as shown in equation 6.6 below:

$$(eq.6.6) \quad U_{it} = \frac{K_{it}}{1 + M_i}$$

Not taking into account missing returns would result in the rank test being misspecified. Eq.6.6 yields order statistics of uniform distributions with an expected value of one-half. Table 6.4 below shows this exercise for event date.

⁷⁴ C. J. Corrado and T. L. Zivney, 'The Specification and Power of the Sign Test in Event Study Hypothesis Tests Using Daily Stock Returns,' *Journal of Financial and Quantitative Analysis*, vol. 27, no. 3 (September 1992), pp. 465-78.

Table 6.4. Ranking event day returns (29th September 1953)

	rank of event day abnormal return	No. of returns	Standardized rank
ESP	41	113	0.36
BEE	26	63	0.41
BTO	36	118	0.30
HIS	34	113	0.30
CEN	30	90	0.33
MER	6	62	0.10
POP	3	50	0.06
FEN	58	60	0.95
CAN	5	64	0.08
HES	35	119	0.29
IBE	85	120	0.70
NAN	2	108	0.02
SEV	95	119	0.79
UEM	10	121	0.08
REU	9	46	0.19
RIF	19	121	0.16
MDF	6	99	0.06
GUI	23	81	0.28
PON	74	118	0.62
AHV	3	116	0.03
AUX	9	114	0.08
MMM	2	73	0.03
TEL	2	121	0.02
CAM	38	121	0.31
TAB	83	96	0.86
AGI	16	100	0.16
AZU	43	116	0.37
HCV	2	62	0.03
DRC	5	79	0.06
INM	9	94	0.09
URM	18	77	0.23
ARA	27	105	0.25
ERT	4	117	0.03
CEP	6	119	0.05
RES	11	46	0.23
FEF	34	116	0.29
SNC	18	106	0.17
NAV	3	80	0.04
MDM	34	115	0.29
INS	17	50	0.33
CGI	9	51	0.17

These calculations are then carried out for each day in the estimation period. It is also necessary to consider the number of stocks that trade on each of

the days of our period. With this information we constructed the rank test, T_3 , according to formulae given in equation 6.7.

$$(eq.6.7) \quad T_3 = \frac{\frac{1}{\sqrt{N}} \sum_{i=1}^N \left(U_{i, \text{event}} - \frac{1}{2} \right)}{S(U)}$$

where $S(U) = \sqrt{\frac{1}{T} \sum_{t=1}^T \left(\frac{1}{\sqrt{N_t}} \sum_{i=1}^{N_t} \left(U_{it} - \frac{1}{2} \right) \right)^2}$

and N_t represents the number of non-missing returns in the cross-section of N -firms on day t .

Inferences can be made using the result that T_3 is asymptotically standard normal distributed.⁷⁵ A very important feature of the rank test, T_3 , is that it is well specified under event-date clustering because cross-sectional dependence is taken into account via the aggregation of the individual stocks ranks into a time series of portfolio mean ranks.⁷⁶ Results from simulation with data from other thinly traded stocks, as in our case, suggest that the rank test dominates the portfolio test statistic under a variety of circumstances and deals particularly well with small samples.⁷⁷

Given that the rank test does not rely on a symmetric distribution of returns and that it deals well with event date clustering, the only other situation that needs to be examined is whether event-induced variance shift may affect it. The generalised sign test is the preferred event study test under that circumstance.⁷⁸ We therefore now turn to discuss the sign test.

As with the rank test, the sign test is non-parametric in the sense that it only considers whether the abnormal returns are positive, zero, or negative, assigning values (+1, 0, -1). The generalized sign test, Z , assumes that the number of stocks that have positive abnormal returns on event date is binomially

⁷⁵ C. J. Corrado, 'A Nonparametric Test for Abnormal Security Price Performance in Event Studies,' *Journal of Financial Economics*, vol. 23 (1989), pp. 385-95.

⁷⁶ C. J. Campbell and C. E. Wasley, 'Measuring security price performance using daily NASDAQ returns,' *Journal of Financial Economics*, vol. 33 (1993), p. 88.

⁷⁷ Campbell and Wasley, 'Measuring security price performance', p. 83.

⁷⁸ C. Giaccotto and J. M. Sfiridis, 'Hypothesis Testing in Event Studies: The Case of Variance Changes,' *Journal of Economics and Business*, vol. 46 (1996), pp. 349-70.

distributed with probability p , a parameter that captures the proportion of positive abnormal returns during the estimation period.⁷⁹ Thus, for each stock the number of positive abnormal returns is obtained for the estimation period and then aggregated so as to determine the parameter p according to the formula in equation 6.8 below.

$$(eq.6.8) \quad p = \frac{1}{N} \sum_{i=1}^N \left(\frac{1}{T_i} \sum_{t=1}^{T_i} \varphi_{it} \right)$$

where $n_{it} = 1$ if $A_{it} > 0$, $= 0$ otherwise
and T_i is the number of days stock i trades

Equally on event day we compute the number of stocks displaying positive abnormal returns, w . Formally, Cowan's Z test is calculated according to the following formulae in equation 6.9.

$$(eq.6.9) \quad Z = \frac{w - Np}{\sqrt{Np(1-p)}}$$

Statistical inference is based on the result that w will for large samples be normally distributed with mean np and variance $np(1-p)$. However, potentially the most serious problem for this test is cross-sectional dependence as a result of event date clustering.⁸⁰ The rank test would be the preferred test statistic if it was possible to establish no event-induced variance changes. Unfortunately, the tests of this eventuality that the literature discusses are based on the market model.

Therefore, there are trade-offs in using the tests, and no single test emerges as the most powerful for all circumstances. In consequence, a variety of tests will be undertaken so as to provide some sort of sensitivity analysis of the results.

⁷⁹ A. R. Cowan, 'Nonparametric Event Study Tests,' *Review of Quantitative Finance and Accounting*, vol. 2 (1992), pp. 353-71.

⁸⁰ 'The sign test, [...] requires that the abnormal returns are independent across securities', Campbell, Lo and MacKinlay, *The econometrics of financial markets*, p. 172. This assumption is clearly violated when there is event-date clustering.

f. Empirical results

Table 6.5 below shows the results obtained for the portfolio t-statistic for the different indices constructed.

Table 6.5. Portfolio t-statistic of event study of the Pact of Madrid

	share of market capitalisation	Share of 'true data- cells'	Share of a.d.r. obtained from 'true- data-cells'	Event daily Return	average a.d.r. days 1- 120	Event excess return	daily returns std dev days 1- 120	t = excess / std dev
44-stock- index	73.5%	76.6%	84.5%	0.5432%	-0.0020%	0.5452%	0.002741	1.9894**
41-stock- index	65.1%	78.0%	88.9%	0.5650%	-0.0047%	0.5697%	0.002864	1.9890**
38-stock- index	59.5%	82.2%	90.7%	0.5392%	-0.0026%	0.5418%	0.002796	1.9378*
27-stock- index	54.6%	92.4%	93.9%	0.5642%	-0.0104%	0.5746%	0.003109	1.8480*

As expected, the abnormal returns on event date were found not to conform to a normal distribution (Jarque-Bera test value of 31.8), thus casting doubts about the specification of the t-statistic. Table 6.6 below reports the results for the different tests undertaken, always based on a set of abnormal returns generated by assuming constant-mean returns.

Table 6.6. Summary of event study results of Pact of Madrid

	29 th September 1953			
	44 stocks	41 stocks	38 stocks	27 stocks
Portfolio test statistic (t)	1.98**	1.98**	1.94*	1.85*
Rank test (T ₃)		-2.46**		-2.10**
Generalized sign test (Z)		3.20***		2.47**

Note: asterisks represent statistical significance as follows:
*=10%, **=5%, ***=1%.

The non-parametric tests were only carried out for the portfolios where all stocks traded on the event day, given that the formulation of the tests takes into account that the number of stocks in the portfolio may vary through time.

This also avoids having to make assumptions about missing prices by withdrawing the cells that are not filled in with true price data. Given that many stocks were thinly traded in our study, this constitutes an added advantage of the non-parametric tests.

The statistical evidence in favour of a reaction of the stock exchange to the news of the 1953 agreements appears to be quite solid. The preferred non-parametric tests show statistical significance at the 5% confidence level for both indices. This is interpreted as supporting the hypothesis that private agents' expectations changed as a result of the American backing of the regime exemplified by the signing of the Pact of Madrid. This is so especially if we consider that we have put ourselves in the extreme example of a one-day event window.⁸¹

g. Conclusions and shortcomings

There are two broad issues that we need to expand on further. Firstly, we want to analyse more carefully the theoretical basis on which the event study methodology is founded. This is particularly important, if we are to address effectively critics that may disagree with the view of financial markets as efficient. In other words, we need to ask the question of just how dependent is event-study methodology on the efficient market hypothesis? What if stock prices do not respond to changes in so-called fundamentals?

Event studies are based on the EMH in the sense that they *a priori* rule out the possible explanation that statistically significant abnormal returns may not be due to the incorporation of information into the price but rather to irrational 'fads and fashion'. Occasionally, writers have warned specifically about the consequences that pervasive anomalies in pricing would imply for event studies. However, both the 'fads' and 'efficiency' hypotheses of the

⁸¹ In fact, given the nature of the market, what we are capturing here is the price response within fifteen minutes of trading, since that was the time that each stock was open to trade. The degree of sensitivity analysis allowed here is also, comparable to the event studies in the current financial economics literature, see U. Bhattacharya *et al.*, 'When an event is not an event: the curious case of an emerging market,' *Journal of Financial Economics*, vol. 55 (2000), pp. 69-101.

functioning of markets ‘make exactly the same prediction about true news.’⁸² Accepting that market participants may trade on ‘noise’ does not necessarily imply that true information will be ignored.

In our particular event study we may also have a further line of defence against EMH sceptics. Given the very low *per capita* incomes and savings and the uneven distribution of income, most of the players in the Madrid stock market can be seen as ‘smart-money’ rather than ‘noise-traders’ (investors less than fully rational and with erroneous stochastic beliefs). Provided there was a sufficient number of buyers and sellers so that all participants in the market can be assumed to have been price takers, one of the apparent shortcomings of Spanish stock data (thinness of the market) might not be such a big liability as it appeared to be, especially if we see the noise-traders as driving the fads and bubbles.⁸³ To the extent that the anomalies in the efficient valuation of stocks are influenced by noise-traders and that *a priori* investors in the Spanish stock exchange would appear to be smart-money, the confidence in our methodology is strengthened.

Despite the shortcomings in the event study methodology, the method is useful. The rationale for the effect of the announcement of the agreements on stock prices is simple and the assumptions on which it is based on are openly stated. The event window is clearly defined, and the portfolio has a sufficient number of stocks to make conclusions statistically significant. There is an extensive literature on the methodology and, although the typical event study is firm- or industry-specific and thus the remedies are usually targeted at those, there is a body of literature which enables us to use statistical tests that deal with the violation of normality assumptions by the portfolio abnormal returns.

Another feature *a priori* strengthening the case for using the event-study method in our case is that the event was unscheduled. The empirical literature

⁸² L. H. Summers, ‘Does the Stock Market Rationally Reflect Fundamental Values?’, *Journal of Finance*, vol. 41, no. 3 (1986), pp. 596-97.

⁸³ J. B. De Long *et al.*, ‘Noise Trader Risk in Financial Markets,’ *Journal of Political Economy*, vol. 98, no. 4 (1990), p. 704. The term ‘noise traders’ comes from F. Black, ‘Noise,’ *Journal of Finance*, vol. 41 (1986), pp. 529-43, who characterised these investors as acting on noise as if it were information that would give them an edge.

suggests that scheduled announcements of news tend to have less persistent effects on financial returns, perhaps because agents can prepare a response strategy or because they may engage in searching for information as to the content of the news-to-be. In order for an event to be news it must be truly unanticipated, otherwise the market will already have taken into account the available information in the formation of prices and the event-study method will be misguided because the event-window can not be precise. This is the problem that event-study analysis faces with the effect of changes in regulation, which can be very difficult to date.⁸⁴

The particulars of our case study make it also difficult to quantify precisely the effect of the American support on the stock market. In single event processes, and assuming a strong form of the efficient market hypothesis, the increase in capitalisation during the event window can be interpreted as the discounted value of the increased future earnings for the companies traded. However, in our case the process in which we are interested took place over several years (roughly 1950-1953) and arguably part of the gains would have already been discounted by the time of our event study. The selection of an event date such as the signing of the agreements was to test whether even as late as September 1953 the market responded to such news. McCloskey's question 'how big?' would ideally be answered in the context of a growth modelling exercise involving the specification of a variable of political credibility within an investment function. However, the exercise is unlikely to be insightful not least because of the paucity of information available for such a modelling exercise.⁸⁵

A further issue we may want to raise in this section is the extent to which event studies can identify the cause of the abnormal returns. Is it improved earnings prospects or risk reduction? In other words, is the change in the valuation of the stock due to the effects of news on the expected value of future cash flows, or due to the effects of news on the discount rate applied? In the form

⁸⁴ Schwert, 'Using Financial Data.'

⁸⁵ For example, estimates of capital stock are only available on an annual basis. The limitations of such an approach can be seen in O. Calvo-Gonzalez, 'The Impact of American Aid in the Spanish Economy in the 1950s,' LSE Economic History Working Paper Series no. 47 (January 1999), appendices.

of the valuation model presented in Equation 6.1 above, is the change driven by changes in the expected dividend growth (g), on the discount rate (r) or on both?

In the event-study conducted above, the news was the announcement of the signing of the agreements in which the actual amounts of aid that Americans would furnish were unspecified. At the time of signing the 1953 agreements the extent of aid to be received was unclear. We thus suggest that the market captured a reduction in systematic risk, reacting to the general programme of aid rather than to the amounts of aid and interpret the event-study as supporting the credibility hypothesis.

That the changes in the observed valuations are driven by a change in the discount rate is important to validate the credibility hypothesis, as it may have been possible that such increases be driven by changes in the expected growth rate of dividends. In order to make inferences we depart from the premise that while the indirect effects that the credibility hypothesis captures may affect both g and r , direct effects such as the relief of input bottlenecks would only affect g . We will exploit further this line of argument by undertaking a similar event study of a previous announcement of aid for the Spanish economy, the so-called Franco-Perón alliance, and in particular the event to be studied is the announcement of the so-called Protocol, as well as developing a further measure of systematic risk, the equity-risk premium.⁸⁶

⁸⁶ The description that follows is based on R. Rein, *The Franco-Perón Alliance* (Pittsburgh: University of Pittsburgh Press, 1993), Chapter 3.

6.5.3. Event study of the Franco-Perón Protocol

This section provides the results of an event study of the Madrid stock exchange reaction to the news of the announcement of the disbursement of unconditional aid to the Franco regime by the Argentine government.

On 4th April 1947 the so-called Franco-Perón Protocol was announced in Madrid. This was a credit for 1,750 million pesos (4,600 million pesetas) for the import of Argentinean foodstuffs and raw materials. The credit, equivalent to \$425 million at official exchange rates, would be spread over four years and was hailed by Spanish officials as a substitute for Marshall dollars.⁸⁷ There was clearly an effort on the part of the Spanish government to exploit the announcement propagandistically and ample coverage was devoted to it by the press. On the 5th April there were 'spontaneous' demonstrations in front of the Argentinean Embassy in Madrid to give thanks for her generosity. This was not, however, the first Argentinean aid that Spain received. Since Perón's arrival at the *Casa Rosada*, he had promised economic aid to the Spanish representatives, which resulted in a credit that was rapidly exhausted in 1946 and 1947. The Protocol on which we are focusing is an extension of that programme, although significantly enlarged.

The announcement took place on 4th April, in the middle of the Easter holiday; the stock market only reopened on Tuesday 8th April. This seems to justify considering event date certainty on this day. It is more difficult, however, to be certain that no other major market-wide events took place throughout the period that the stock market was closed given that it remained so for an entire week.

Summing up, the reasons for focusing on this event are as follows: it was a substantial aid package that was announced, it was given sufficient publicity (similar to the one that would follow the 1953 agreements), and, crucially, the only conditions attached to the aid were of a commercial nature (that the monies would have to be spent in Argentine goods), in contrast with the *political conditionalities* which the American aid-for-bases agreement meant.

Having defined the event, and using the same estimation period (120 trading days) and method (constant-mean return) as for the event study of the

⁸⁷ Rein, *The Franco-Perón Alliance*, p. 90.

1953 Pact of Madrid, we have to consider the sample. The monthly index of the Madrid Stock Exchange comprised 38 stocks. Of those, 27 stocks have data on a relatively regular basis. The 9 stocks for which I do not have data are relatively small in the weighted index, their combined weight being 7.15% of the *Bolsa index*. Of these 27 stocks, two did not trade on the event day: *Telefónica* and *Unión y el Fénix*. *Telefónica* was in fact a heavily weighted stock (9.35% of the *Bolsa index*) and non-trading would appear disappointing. In fact, it did not trade for some 48 days of the estimation period, as it was undergoing a nationalisation process with one big price jump following the 48 days of inaction. Excluding it seems the best way to capture the movement of the market as a whole.

With regard to other possible biases, it must be noted that dividend data were not collected for this event study. Since dividend payments would increase some daily returns during the estimation period, omitting them would have a marginal effect in biasing downwards the mean-return and upwards abnormal returns, thus increasing (very marginally) the likelihood of rejecting our null hypothesis of no change in returns on event date. The event day is also the first day after a relatively long period of closure due to the Easter vacation, which may be seen as an unusual day in which high returns would be expected in any case. Again, this would only bias the results in favour of rejecting the null hypothesis.

Table 6.7 below shows the stocks that constitute the two indices constructed, for which information on daily prices was gathered for the immediate 120 trading days before the event.

Table 6.7. Composition of Madrid Stock Exchange market indices in 1947

	27-stocks	25-stocks
ESP	4.50	3.98
BEE	2.63	2.32
BTO	6.98	6.16
HIS	5.15	4.55
CEN	2.25	1.99
MER	1.54	1.36
HES	11.96	10.55
SEV	3.57	3.15
UEM	2.72	2.39
IBE	18.65	16.45
RIF	3.54	3.12
MDF	2.44	2.15
GUI	0.26	0.23
NAV	1.87	1.65
CAM	1.53	1.35
MDM	8.22	7.25
AGI	0.93	0.82
AHV	3.21	2.83
AZU	0.72	0.64
EBR	2.79	2.46
AUX	1.52	1.34
CEP	4.89	4.32
ERT	6.59	5.81
INM	1.00	0.88
URM	0.54	0.47
FNX		1.52
TEL		10.27
	100.00	100.00

Table 6.8 below shows the descriptive statistics, as well as the t ratios for event day, obtained for the two indices.

Table 6.8. Portfolio test statistics of event study of Franco-Perón Protocol

	share of market capitalisation	Share of 'true data- cells'	Share of a.d.r. obtained from 'true- data-cells'	Event day Return	Average a.d.r. days 1-120	Event Excess Return	daily returns std dev days 1-120	t = excess / std dev
27- stock- index	62.9%	90.4%	87.2%	1.421%	0.3827%	1.039%	0.0011	0.935
25- stock- index	55.7%	92.9%	94.5%	1.611%	0.3293%	1.281%	0.0086	1.479

The parametric t test was completed with two non-parametric tests, the rank test (T_3) and the generalized sign test (Z), computed using the formulae as detailed above. The results of these, as well as the portfolio t test, are reported in Table 6.9 below.

Table 6.9. Non-parametric tests of event study of Franco-Perón Protocol

	1947	
	27 stocks	25 stocks
Portfolio test statistic (t)	0.94	1.48
Rank test (T_3)		1.36
Generalized sign test (Z)		1.95*

Note: asterisks represent statistical significance as follows: * = 10%, ** = 5%, *** = 1%.

Only the sign test seems to show any statistical significance (and only at the 10% level). These results compare very unfavourably with the consistent statistical significance that was found when undertaking the 1953 event study which, for convenience are replicated (together with 1947 results) in Table 6.10 below.

Table 6.10. Summary of event study results

	1953				1947	
	44 stocks	41 stocks	38 stocks	27 stocks	27 stocks	25 stocks
Portfolio test statistic (t)	1.98**	1.98**	1.94*	1.85*	0.94	1.48
Rank test (T_3)		-2.46**		-2.10**		-1.36
Generalized sign test (Z)		3.20***		2.47**		1.95*

Note: asterisks represent statistical significance as follows:
* = 10%, ** = 5%, *** = 1%.

Source: own elaboration, as described in text above.

The results support the view that no statistically significant reaction took place in the pricing of equity after the announcement of the Franco-Perón Protocol, as opposed to the reaction that followed the signing of the Pact of Madrid. This is interpreted here as supportive of the view that the reaction in 1953 was due more to the conditions that were attached to aid than to the amounts of aid *per se*. Of course, this exercise cannot be taken as a *ceteris paribus* comparison, and it has obvious limitations. It could still be argued that the size of aid expected from the Americans may have been larger and that the agents were responding to that. The donor being different may also raise doubts, since it can be argued that the likelihood to default on the 'promise' of giving aid was not the same for the U.S. and for Argentina.

To pin down further the argument that the stock price reaction in 1953 was in fact a response to a perceived improvement in stability we now turn to estimate the equity risk premium.

6.6. Estimating the equity risk premium

Under the dividend discount model (DDM) the driving forces behind changes in a stock's market valuation are straightforward.⁸⁸ Put simply, the DDM sees the valuation of stocks as a function of two elements: dividend growth and the discount rate. These sources of change in valuation are clearly not mutually exclusive and it is not intended here to suggest so or to imply that expected dividend growth remain unaltered. It is however important to note that, if the expectations hypothesis outlined above has any merit, we would expect at least a decrease in the discount rate linked to a reduction in risk. If, on the contrary, the likely effect of aid had been exclusively through a direct impact on alleviating supply bottlenecks, we would expect not to see a change in the discount rate but only an increase in expected dividend growth. This is why we are interested in capturing a measure of risk in the market.

The equity risk premium is the extra return that investors expect from stocks over a (relatively) risk-free asset, usually government bonds. As such, it is an *ex ante* measure. In practice, however, the equity risk premium, rp , is usually approximated by an *ex post* measure of the average excess return during a specified historical period of the market's return, earnings to price, or E/P , over the return of government bonds, r .⁸⁹ Under the assumption of constant growth rate of earnings it can be shown that equation 6.10 below can be derived from the DDM:⁹⁰

$$(eq.6.10) \quad rp = E/P - r$$

⁸⁸ As originally discussed by M. J. Gordon, 'Dividends, Earnings, and Stock Prices,' *Review of Economics and Statistics*, vol. 31, no. 2 (May 1959), pp. 571-79 and M. H. Miller and F. Modigliani, 'Dividend Policy, Growth, and Valuation of Shares,' *Journal of Business*, vol. 34, no. 4 (October 1961), pp. 411-33.

⁸⁹ For a review of the theoretical literature on the equity risk premium see J. H. Cochrane, 'Where is the market going? Uncertain facts and novel theories,' NBER working paper 6207 (1997) and IMF, *World Economic Outlook 2000* (Washington, D.C.: International Monetary Fund, 2000), Chapter 3.

⁹⁰ H. Levy and D. Gunthorpe, *Introduction to Investments* (Cincinnati, Oh.: South-Western College Publishing for ITP, 1999), pp. 721-23.

An alternative method is to calculate the implied *ex ante* equity risk premium for year t (rp_t) as in equation 6.11 below.

$$(eq.6.11) \quad rp_t = (E/P)_t + g^e - r^e$$

Where g^e equals the expected GDP growth rate (approximated by a moving-average or fitting a regression line) and r^e is expected real interest rate (estimated similarly).⁹¹ The second method is, in principle, closer to the *ex ante* nature that the equity risk premium should indicate. Current applied research makes use of forecasts on inflation and GDP (assuming that earnings and dividends will grow at the same rate).⁹² However, this avenue is not available in our case since we do not have a data set of expected values of inflation and GDP. Wadwhani reports that using a ten-year trailing moving average for this purpose gives results which are unlikely to be significantly improved by more refined regression methods.⁹³ In our case, however, using such a method leads to expected real interest rates which are negative. Because of these difficulties with the 'forecast' methods of estimating the equity risk premium, we will report the excess returns formula for the equity risk premium as in equation 6.10 above.

The availability of a series of earnings for a large number of Spanish firms eased the exercise considerably.⁹⁴ Matching the firms from the Madrid Stock Exchange index provided by the *Bolsa* with information available from Tafunell we constructed a P/E ratio for the market as a whole, using the standard

⁹¹ S. Wadwhani, 'The U.S. stock market and the global economic crisis,' *National Institute Economic Review*, no. 167 (January 1999), pp. 86-105.

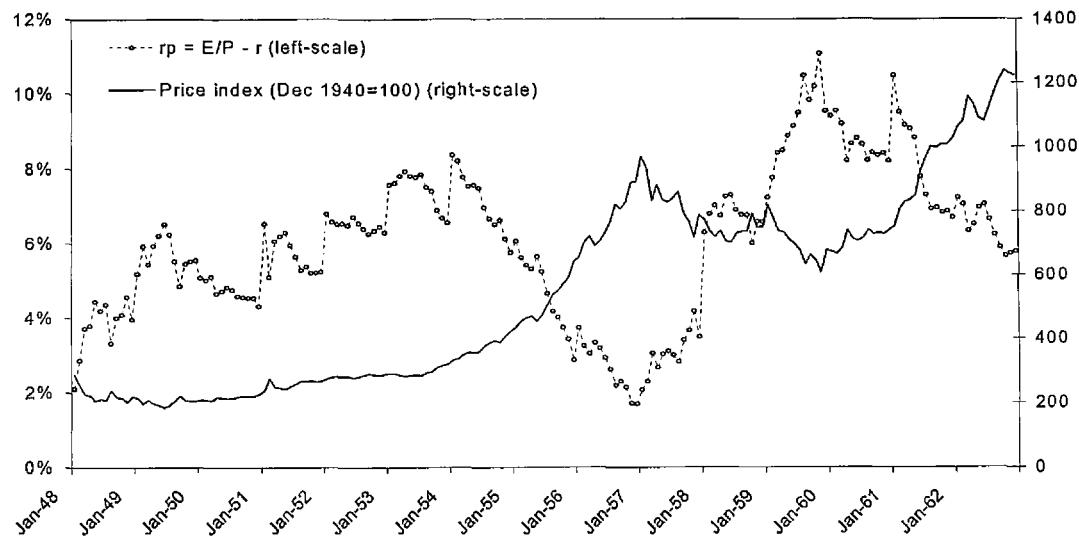
⁹² See IMF, *World Economic Outlook 2000*, Table 3.1.

⁹³ Wadwhani, 'U.S. stock prices', p. 88, emphasises the similar results that this simple method produces when compared to regression-based estimates as in O. J. Blanchard, 'The Vanishing Equity Premium,' in R. O'Brien (ed.) *Finance and the international economy*, vol. 7. The Amex Bank Review prize essays: in memory of Richard Marjolin (Oxford: Oxford University Press, 1993), pp. 23-39.

⁹⁴ X. Tafunell, 'Los beneficios empresariales en España,' Documento de Trabajo 9601, Fundación Empresa Pública (Madrid, 1996).

methodology.⁹⁵ Graph 6.11 produces the equity risk premium as the difference in E/P and bond yields (see Table A.12 in the Appendix for data).⁹⁶

Graph 6.11. The equity risk premium in the Madrid stock exchange, 1948-1962



Sources: Tafunell, 'Los beneficios,' and Bolsa de Madrid, *Índice*, and Instituto Nacional de Estadística, *Boletín Mensual de Estadística*. For availability of earnings data for stock-index firms see Table A.13 in the Appendix.

These results show a clear reduction of the equity risk premium in the mid-1950s. The evolution of the risk premium seems to be determined primarily by the price changes, which are dramatic both in late 1953 and early 1957, calling into question the utility of the estimation of the risk premium in our case

⁹⁵ Dividing total market capitalisation of stocks included in the index by the sum of total earnings of those stocks. The earnings used to calculate the P/E for year t are those from year t-1. FTSE, *FTSE International Guide to Calculation Methods for U.K. Indices* (<http://www.ftse.com>, version 3.0, January 1999), p. 31. It is possible to calculate other measures, such as a weighted average of the P/E ratios of stocks in which the weights attached to the P/E ratios of individual stocks mirror the weights of those stocks in the index. This exercise was undertaken but results did not differ significantly from the total market P/E.

⁹⁶ Instituto Nacional de Estadística, *Boletín mensual de Estadística*, various issues. The yield of the government bonds provided is an average of four debt issues (4% perpetuity interior; 3% amort. 1928; 4% amort. 15-Nov-1945 and 3.5% 1-Jan-1946), as reported in Instituto Nacional de Estadística, *Tercer Suplemento al Boletín Mensual de Estadística* (December 1950), p. 105.

study. This is particularly so since the risk-free asset that we use in the calculation is the Spanish government bond. Given the nature of the argument explored, no Spanish asset can be free of the political risk (which is country-wide), and since capital exports were forbidden, there is arguably no good substitute to use as a benchmark.

The short-lived nature of the changes detected in Graph 6.11, as in many other indicators, calls for some discussion. It may be argued that the reverse in the trends shown from 1957 indicates that whatever credibility effects the American support to Spain had were temporary. This would cast serious doubts on the validity of the argument, since the essence of the credibility hypothesis is long-term in nature. But, as emphasised throughout, a feature of the financial time-series is the multiplicity of shocks that affect them. The time-series were presented primarily as a first hurdle to see whether they would refute the hypothesis or not. That is why it was argued above that the event study methodology was needed if we were to ascertain the causal link between the American support and the enhanced business sentiment. As we will see in Chapter Seven below, the financial instability from 1957 onwards is associated with an eventful period of Spanish economic policy which it is reasonable to expect would affect the financial markets.

6.7. Conclusion

The evidence presented is supportive of the credibility hypothesis. As with any use of financial market data to infer agents' expectations, a strong disbelief in the efficient market hypothesis would cast doubts about the information content of stock prices and thus on the validity of the event study method. However, the analysis does not rely on one specific set of evidence, qualitative or quantitative, or on a particular statistical test. The evidence presented above is consistent even though each individual piece may suffer from its own shortcomings. Thus, original sources point to the responsiveness of Spanish private investors to the American *rapprochement* to Spain, yet it may be questioned whether their behaviour was in fact representative. The general pattern of private investment and financial indicators is consistent with the hypothesis and suggests the potential economic significance of the underlying process, yet does not help us isolate the driving forces behind the improved business sentiment. The event study allows us to show unequivocally that the Spanish business community responded to the Spanish-American agreements. However, given the nature of the hypothesis, the event study methodology cannot help us to quantify the precise impact of the improved political credibility deriving from the American support on investment and Spanish economic growth as expected by Spanish agents.

On the nature of the argument presented it should be stressed that the economic implications of the agreements were unintended consequences. As we saw in Chapter Four, each side entered the negotiations with other very concrete goals in mind. It should also be stressed that the argument here is not one in which the credibility effects of aid are weighed against its direct impact on, for example, resolving supply bottlenecks. The two are not mutually exclusive and no such attempt at weighing is made here. The aim has been the more modest one, yet still novel, of underpinning a link that theory suggests may be important. Although this is no growth-accounting exercise, the conclusion from this chapter affects the Spanish historiography in its search for explanations for economic growth during the 1950s, particularly if the actual economic policy change that took place throughout the decade is confirmed to have been limited.

The analysis presented here may also be informative for other studies of the effect of aid programmes. The emphasis on the incentive structure of the

donor and the nature of its commitment to the recipient has typically taken a back seat to the study of the direct impact of aid-financed goods or of the attempts by the donor at exercising leverage over the recipient countries. Even the revival of the literature on the Marshall Plan, with its emphasis on indirect institutional effects, has given pre-eminence to leverage and outright conditionality rather than to the commitment to the stability of the recipient countries.

On a methodological level, it has been argued here that the event study is a good method to proxy for the effect that the American support had on Spanish private investors' expectations. This was so because factors other than the hypothesis under study were certainly affecting any of the financial indicators available. Thus, a search for turning points would not have allowed us to discriminate between the multiplicity of potential contending interpretations that could have been given to individual turning points. Yet, discussion of these identification problems has not featured highly in current application of the search for turning points methods to economic history.

Chapter 7. Multilateral donors' leverage and its contribution to the adoption of economic policy reform

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- 7.1. Introduction
- 7.2. The motivations of the parties: supply and demand for multilateral aid
- 7.3. The involvement of the multilateral organisations in the 1959 Stabilisation Plan and outcome of the negotiations
- 7.4. Conditionality beyond the 1959 Stabilisation Plan: what was the role of the multilateral organisations in the implementation of reform?
- 7.5. Conclusion

Abstract

This chapter discusses the aid episode by which multilateral organisations provided aid to the Spanish government as part of the Stabilisation Plan launched in 1959. It analyses the interaction between the multilateral organisations and the Spanish government, focusing on the extent to which this aid was conditional on the adoption of policy change and the mechanisms through which donors may have affected the recipient. The chapter argues that the mechanisms through which international participation strengthened the pro-reform movement in Spain are not sufficiently discussed in the existing literature. It contributes to making good that shortcoming by using original sources, primarily from the multilateral organisations, providing a refinement as to the ways in which such organisations attempted to influence the adoption of the reform programme.

The stabilisation and liberalisation programme now being launched differs strongly from the economic plans which followed Spain's earlier major aid grant from the United States in 1953. The difference is that this time, rather than risk sending good money after bad, the U.S. credits of \$375 million are only being made available with a number of strings attached.

Economist Intelligence Unit, *Economic Review of Spain*, October 1959

7.1. Introduction

On 30th June 1959 the Spanish government addressed a memorandum to the International Monetary Fund (IMF) and the Organisation for European Economic Cooperation (OEEC) pledging a series of economic policy reforms. The memorandum, which became known as the Stabilisation Plan, represented an orthodox stabilisation programme with the goals of halting inflation and redressing the balance of payments difficulties as well as aiming at the internal and external liberalisation of the Spanish economy.¹ As highlighted by the initial quote, the above-mentioned multilateral organisations provided financial support which was to some extent conditional on the adoption of the reforms envisaged in the memorandum. But, just how tight were the strings attached to this multilateral aid? And what role did those strings and the multilateral donors in general play in the unfolding of the Stabilisation Plan? This chapter addresses such questions, or, in other words, the contribution of the multilateral aid programme to the adoption and implementation of the economic policy reform programme crystallised in the 1959 Stabilisation Plan.

Existing answers to those questions are often disappointingly vague. The general literature on Spanish international relations during the Franco period tends to focus on bilateral relationships, discussing the involvement of the multilateral organisations in the 1959 Stabilisation Plan only superficially.² Even

¹ Hence the emphasis of some authors, such as J. Sardà, in referring to the programme as the '1959 Stabilisation and Liberalisation Plan.' See 'Conversación con el profesor Sardà,' in M. Varela Parache (coord.), *El Fondo Monetario Internacional, el Banco Mundial y la economía española* (Madrid: Ed. Pirámide, 1994), p. 470.

² M. Espadas Burgos, *Franquismo y política exterior* (Madrid: Rialp, 1988), p. 222; R. Caldúch, 'La política exterior española durante el franquismo,' in R. Caldúch (coord.), *La Política Exterior Española en el Siglo XX* (Madrid: Ed. Ciencias Sociales, 1994), p. 128; A. Marquina, 'La política exterior,' in J. Andrés-Gallego *et al.*, *España Actual*.

accounts that focus specifically on the relationship between the Bretton Woods' institutions and Spain deal with these issues only marginally.³ There are, nevertheless, more detailed accounts and analyses of the relations between Spain and the OEEC, primarily because of the interest in explaining the evolution of the Spanish response to the wider and general process of European integration. As such, the interaction between the multilateral organisations and the Spanish authorities over an isolated policy instance, such as the 1959 Stabilisation Plan, does not represent their main object of study.⁴ Other authors focus on the consequences of economic liberalisation on the formulation of Spanish foreign policy, to some extent a mirror image of the object of study here: the effect of some foreign policy aspects on economic liberalisation.⁵

There is, however, an extensive literature dealing precisely with the 1959 Stabilisation Plan. There are excellent summaries and chronologies of the stabilisation policies adopted and succinct yet comprehensive sketches of the macroeconomic position of Spain at the time.⁶ There are also several

España y el Mundo (1939-1975) (Madrid: Ed. Gredos, 1995), pp. 517-22; F. Portero and R. Pardo, 'Las relaciones exteriores como factor condicionante del franquismo, *Ayer*, no. 33, 1999, p. 218; and R. Pardo, 'La política exterior del franquismo: aislamiento y alineación internacional,' in R. Moreno Fonseret and F. Sevillano Calero (eds.), *El franquismo. Visiones y balances* (Alicante: Universidad de Alicante, 1999).

³ For relations with the IMF see J. Muns, *Historia de las relaciones entre España y el Fondo Monetario Internacional 1958-1982* (Madrid: Alianza, 1986).

⁴ A. Moreno Juste, *Franquismo y construcción europea, 1951-1962* (Madrid: Tecnos, 1998) and M. T. La Porte, *La política europea del régimen de Franco, 1957-1962* (Pamplona: Ed. Univ. Navarra, 1992). Covering an earlier period, F. Guirao, *Spain and the reconstruction of Western Europe, 1945-57* (London/New York: Macmillan/St. Martin's Press, 1998).

⁵ V. Pérez-Díaz and J.C. Rodríguez, 'From reluctant choices to credible commitments: foreign policy and economic and political liberalization –Spain 1953-1986,' in M. Kahler (ed.), *Liberalization and foreign policy* (New York: Columbia University Press, 1997), pp. 193-233.

⁶ M. J. González, *La economía política del franquismo (1940-1970)* (Madrid: Tecnos, 1979); J. Clavera *et al.*, *Capitalismo español: de la autarquía a la estabilización (1939-1959)*, vol. 2 (Madrid: Edicusa, 1973); J. Sardà Dexeu, 'El Banco de España (1931-

autobiographical accounts of participants in the Stabilisation Plan.⁷ The latter have reinforced the long-running concern of the literature with the role of individual Spanish policy-makers in the shaping of the Plan.⁸ Although these accounts address the question of the contribution of international organisations to the formulation of the policy-change, they do so in an unsystematic and largely undocumented way resulting, as we will shortly see, in confusing claims about the role that conditional aid played in contributing to policy-change.

This is not to say that the participation of the multilateral organisations in the adoption of the 1959 Stabilisation Plan is not considered in these narratives. On the contrary, one of the most authoritative and extensively documented interpretations of Spanish foreign trade policy places great emphasis on the foreign dimension to the 1959 reform programme.⁹ In fact, the almost unanimous view accords great importance to external factors in the stabilisation. The stabilisation 'had to be undertaken in Spain from overseas,' as Minister of

1962),' in F. Ruiz Martín *et al.*, *El Banco de España. Una historia económica* (Madrid: Banco de España, 1970) and reprinted in Varela Parache (coord.), *El Fondo*, pp. 475-86.

⁷ A. Ullastres, 'La estabilización contada por un protagonista de excepción' in Varela Parache (coord.), *El Fondo*, pp. 463-74; M. Navarro Rubio: 'La batalla de la estabilización,' *Anales de la Real Academia de Ciencias Morales y Políticas*, no. 53 (1976), pp. 173-202 and *Mis memorias* (Barcelona: Plaza & Janés, 1991); and M. Varela Parache, 'El Plan de Estabilización como yo lo recuerdo,' *Información Comercial Española*, nos. 676-77 (Dec. 1989-Jan. 1990).

⁸ R. Sánchez Lissén, *El profesor Fuentes Quintana ante tres cambios fundamentales de la economía española* (Fundación Caixa Galicia, 1997). On Sardà's role see, for example, P. Martín Aceña, *El servicio de estudios del Banco de España, 1930-2000* (Madrid: Banco de España, 2000), pp. 152-60. González, *La economía política del franquismo*, p. 11, stresses the origin of his work as a study of economists and economic ideas contribution to policy change. The Stabilisation Plan has since been used a source of personal legitimacy for a group of 'belligerent economists [...] who had long advised on the right direction' for whom 'it will always be an honour to «to have been there»,' J. Velarde, 'La nueva política económica española y el Informe del Banco Mundial,' in Varela Parache (coord.), *El Fondo*, p. 323.

⁹ A. Vifías *et al.*, *Política comercial exterior en España (1931-1975)*, vol. 2 (Madrid: Banco Exterior de España, 1979), esp. chapters 7 and 8.

Commerce Alberto Ullastres famously put it.¹⁰ But the particulars through which this importance manifested itself are not always sufficiently explained. It is not uncommon simply to note the 'decisive role' played by the international organisations in the shaping of the Stabilisation Plan 'through both technical and financial help.'¹¹ Those who go further and give more details about the positive influence of the multilateral organisations in the stabilisation programme typically put forward two arguments.

The first argument hinges on the leverage that multilateral organisations allegedly had over the Spanish regime. Thus, 'pressure from the OEEC and IMF to introduce a stabilisation plan as a condition for joining both international institutions' is regarded as one of the three key elements that made reform possible.¹² Fuentes Quintana explicitly refers to the 'policy conditionality attached to the (financial and technical) aid' as one of three positive consequences of the involvement of multilateral organisations in the programme.¹³ Very similar views are expressed by González, who concludes that '[f]ortunately, Spain did not escape this type of [policy] conditions' under which the Bretton Woods institutions granted assistance.¹⁴ Implicitly, leverage stems from the desperate foreign exchange position that Spain suffered. Unmistakably, the argument is that the foreign exchange crisis led to Franco's 'grudging acceptance of the 1959 operation' after having 'reluctantly conceded defeat.'¹⁵ Some aspects of the publicised measures in July 1959 did in fact include statements of conditionality. Most notably, it was stated that '[b]efore the end of July 1959, Spain will, under the OEEC Code of Liberalisation, free at least 50%

¹⁰ E. Fuentes Quintana, 'El Plan de Estabilización económica de 1959, veinticinco años después,' *Información Comercial Española*, nos. 612-13 (Aug.-Sept. 1984), p. 30.

¹¹ J. A. Biescas, 'España y las organizaciones económicas internacionales: el FMI y el Banco Mundial (1958-1993),' in Varela Parache (coord.), *El Fondo*, p. 292.

¹² The other two are the 'threat of international insolvency' and the existence of a pro-reform committed group of high-level civil servants; G. de la Dehesa, 'Spain' in J. Williamson (ed.), *The political economy of policy reform* (Washington, D.C.: Institute for International Economics, 1993), p. 124.

¹³ Fuentes Quintana, 'El Plan de Estabilización económica,' p. 30.

¹⁴ González, *La economía política del franquismo*, p. 195.

¹⁵ Viñas, 'Franco's dreams of autarky,' pp. 306, 313.

of her private imports from quantitative restrictions.' The OEEC extended a \$100 million credit 'of which 75 million units of account will be available straightaway, the remainder on 1st February 1960, subject to satisfactory review by the OEEC.'¹⁶ Similarly, the Spanish authorities were required, 'no later than 31st March 1960, [...] submit new proposals to the Organisation with regard to a first extension of the list of liberalised products.'¹⁷

A second type of argument sees the role of the multilateral organisations as advisors. Sardà goes as far as to argue that, although financial assistance played a part in the brokering of the stabilisation programme, 'its role was less important than the unanimous nature of the international opinion which had made itself evident.'¹⁸ The IMF and OEEC staffs are seen as giving 'immense encouragement' to the modernising Spanish officials.¹⁹ Crucially, the multilateral organisations are seen not only as providers of 'efficient technical advice' but also as lending credibility to the reform programme because of the 'resonance given to the opinion of the international organisms.'²⁰ Thus, it is argued, 'it became possible to get accepted the ideas of a minority which were not fully understood by the majority.'²¹ In short, international experts 'would strengthen the hand of those reformist Spanish high officials who were trying to disseminate a minimum of economic rationality.'²²

Usually these two arguments are juxtaposed without further thought. Yet, the role of the multilateral organisations in each of these arguments is based on a

¹⁶ OEEC Press Release (Press/A(59)33), Paris, 20th July 1959; Historical Archive of the European Communities [henceforth HAEC], Organisation for European Economic Co-operation Fond [henceforth OEEC] 581.

¹⁷ OEEC Council, 'Special notification by Spain,' Paris, 6th July 1959, C(59)182; HAEC, OEEC 411.

¹⁸ J. Sardà, 'OECD as economic adviser. The example of Spain,' in *Essays in honour of Thorkil Kristensen* (Paris: OECD, 1970), p. 244.

¹⁹ Viñas, 'Franco's dreams of autarky,' p. 313.

²⁰ Fuentes Quintana, 'El Plan de Estabilización económica de 1959,' p.30.

²¹ Sardà, 'OECD as economic adviser,' p. 241.

²² Viñas, 'Franco's dreams of autarky,' pp. 310-12 compares the 'rationality' of the pro-reformers with the 'obsessions of Franco and Carrero Blanco' in their pursuit for autarky.

clearly different reasoning. The logic of the first argument is that the desperate foreign reserves situation gave leverage to the multilateral organisations, who were the only ones who could prop up the regime by providing loans. In contrast, the second argument of multilateral organisations as providers of 'intellectual credibility' to the reform assumes that the advice of international organisations was highly regarded across-the-board, not only by pro- but also by anti-reformers. As such, the logic of this argument contradicts the mainstream view that anti-reformers were 'deeply suspicious' of external influence and advice.²³

For these arguments both to be correct, a missing element in the explanation must be included. Much squaring is left to be done by the reader.²⁴ However, despite these shortcomings, there is little debate in the literature about the relationship between the multilateral organisations and Spain. A first aim of this chapter is therefore to spell out more fully the logic of these arguments.

It should also be stressed that the contribution of this chapter to the Spanish historiography is not an encyclopaedic discussion of the Stabilisation Plan. By focusing on one of its aspects, namely the role of the multilateral organisations in the brokering of the programme, it aims to provide a historical case study of conditionality in practice. This is relevant both to the Spanish historiography, as it aims to fill in a knowledge gap about the Stabilisation Plan, and to a wider literature on the effectiveness of conditionality. As noted in the introductory chapter, this has recently been a very active research area leading to a burgeoning theoretical and empirical literature. Significantly, the consensus has quickly evolved into one that emphasises how attaching policy conditions to aid disbursements may only improve the likelihood of the adoption of a reform in

²³ Viñas *et al.*, *Política comercial exterior*, vol. 2, pp. 990-1002. Viñas, 'Franco's dreams of autarky,' p. 315 recently rehearsed this view that 'mistrust of the international arena and Franco's sheer inability to cast off his own ideological shackles provided for continuous retrenchment.'

²⁴ Surprisingly, Viñas suggests that 'some elements of economic rationality had begun to penetrate General Franco's thinking by the end of 1957' and speaks of the 'acceleration of Franco's learning curve' in 1957-1959; Viñas, 'Franco's dreams of autarky,' p. 309. Not only is his analysis based on a *sui generis* interpretation of scant evidence, it is also at odds with his insistence on the reluctance and grudging acceptance of Franco to change policy.

cases where the recipient government was already committed to carrying through the reform.²⁵ This should prompt a (re)examination of past episodes of conditional aid disbursements.

The aim of the chapter is not, however, to undertake a mere reinterpretation of the 1959 Stabilisation Plan in the light of this new consensus on the effectiveness of conditional aid in promoting policy reform. First, this chapter also contributes to the Spanish historiography by using archival sources previously unavailable or little used.²⁶ Given the limited documentary base in existing discussions of the role played by the multilateral donors in inducing policy reforms, such evidence may help to enrich existing explanations. Secondly, the use of a language similar to that of the recent literature on conditionality should not be interpreted as an uncritical application of the concepts and findings of that literature but simply as a means to facilitate the dialogue between the historical case-study and theory.

To permit comparison with the bilateral aid episode already discussed, the chapter follows a similar structure to that of Chapters Four and Five above. It first discusses the motivations of donors and recipients, then reviews the negotiation process through which the multilateral organisations agreed to grant aid and the outcome of such negotiation, and finally studies the implementation phase.

²⁵ P. Mosley, J. Harrigan and J. Toye, *Aid and Power*, 2 vols. (London: Routledge, 1991) is an early example of this revisionist position on conditionality. Similar conclusions have been reached by the World Bank in *Assessing Aid* (Oxford: Oxford University Press, 1998), and most recently the IMF review of conditionality concluding that aid cannot buy reform and calling for a streamlining of conditionality; IMF, *Structural Conditionality in IMF-Supported Programmes* (Washington, D.C.: IMF, 2001) and other documents released in March 2001

(<http://www.imf.org/external/np/pdr/cond/2001/eng/overview/index.htm>).

²⁶ The Archives of the IMF [henceforth AIMF], opened to the public in November 2000, as well as the OEEC Fond in the HAEC and the personal diary of IMF Managing Director Per Jacobsson [henceforth PJ Diary]. To the best of my knowledge, the latter has not been previously used for the analysis of the Stabilisation Plan other than briefly in E. Jacobsson, *A life for sound money. Per Jacobsson, his biography* (Oxford: Clarendon Press, 1976), pp. 348-49.

7.2. The motivations of the parties: supply and demand for multilateral aid

The incentive structure of the IMF and the OEEC in granting financial assistance to Spain was different from that of the U.S. Unlike the Americans, the multilateral organisations had no overriding interest prompting them to pour endless financial resources to prop up what they believed was a badly managed economy. Although the U.S. had an obvious direct influence over the IMF, and indirectly over the OEEC, it could not decide policy for those organisations on its own and, perhaps most important, consciously restrained itself from doing so. In fact, as we saw in Chapter Five above, the Americans concluded that further improvements in Spanish economic policy were dependent on more forceful pressure than the U.S. itself could apply. The U.S. welcomed the involvement of the multilateral organisations with Spain, as they expected that they would be better suited to exercise pressure over the Spaniards. Therefore, the multilateral organisations would be under little pressure to provide financial assistance and enjoyed a position different from that of the U.S.

The multilateral organisations also had clear views as to what economic policies Spain should adopt. Of course, consensus between the two was not always present, a point which we will later see surfacing. However, by and large they agreed on a common set of diagnoses as to what was wrong with the Spanish economy and policy-making. The policies advocated to remedy the situation included a unified and fixed exchange rate, aiming for convertibility, easing foreign direct investment, the reduction of many internal controls and, to a certain extent, the multilateralisation of foreign trade. The multilateral organisations were willing to provide financial assistance if the Spaniards were to endorse such policies. To ensure that the reform programme would be implemented and thus ultimately to safeguard their resources, the multilateral organisations relied on attaching a number of strings to their offers of financial assistance. Some elements could be referred to as in-built conditionality, such as the impossibility of drawing from IMF resources before a unified exchange rate had been agreed with the Fund. Others implied the tying of future financial assistance to the continued implementation of reforms, such as the progressive liberalisation of foreign trade. By 1959, the OEEC and IMF had been involved in several stabilisation programmes, most notably in France and Turkey, featuring

all the elements above mentioned.²⁷ The 'aid with strings' formula appeared to have been tested and proved effective, justifying American hopes that the multilateral organisations could exert more forceful pressure on the Spaniards.

The motivation of the Spanish authorities in requesting aid from the multilateral organisations and their view on the possibility of it being tied to specific reforms is far more complex. Therefore, this section will focus on the Spanish position.

The completion of the agreements with the U.S. in 1953 and the incorporation into the United Nations in 1955, signalled in the Spanish administration the possibility of tapping in more resources from some of the specialist organisations of the U.N. Some authors suggest that dissatisfaction with the meagre amounts of American aid led the Spanish leadership to pursue the possibility of aid from other sources.²⁸ Thus, the warming towards international organisations and European regional organisations is sometimes depicted 'as an alternative to the dependence relationships with the U.S.'²⁹ Obviously, the prospect of aid was positively regarded:

Membership of Spain in the Fund-World Bank system (and provided we follow their orthodoxy) would be the opportunity to obtain amounts of aid that has not been possible to reach in the bilateral system with the U.S.³⁰

However, this appears to be more of an added bonus than a primary reason for the approach. The prospect of further aid was an *ad hoc* argument used erratically and referred to without much elaboration.³¹ In fact, the document

²⁷ H. James, *International monetary cooperation since Bretton Woods* (Washington, D.C./Oxford: IMF/Oxford University Press, 1996), pp. 103-08.

²⁸ Vifias, 'Franco's dreams of autarky,' p. 302.

²⁹ E. Barbé, 'Spain: the uses of foreign policy cooperation,' in C. Hill, *The actors in Europe's foreign policy* (Routledge, 1996), p. 119.

³⁰ J. M. Ruiz Morales [Chief of Negotiating Delegation before IMF and IBRD] to F. Castiella [Minister of Foreign Affairs], 14th July 1958; Archive of the Spanish Ministry of Foreign Affairs [henceforth MAE], Leg. 5910, Exp. 1.

³¹ For example, at times membership of the OEEC was supported as it would provide for aid outlays that would compensate the meagreness of American aid. Others it would be argued that it would lead to further American aid. For example, F. J. Elorza [Vice-

just quoted is unusual in its explicit reference to the possibility of larger amounts of aid to be received. This reference to the prospect of aid was made in a moment in which particular expediency was required. Spain had agreed with Greece and Italy to form a Mediterranean bloc that would secure an Executive Director seat for the group.³² This required that the membership be formalised before the Annual Meetings in the autumn. Infighting between the Ministry of Commerce and the Ministry of Finance over which Spanish official body was to represent Spain as 'Fiscal Agency' before the IMF and the Bank had resulted in the Council of Ministers delaying the approval of the membership agreement put before it on 20th May 1959.³³ Officials in the Ministry of Foreign Affairs complained about the attempts of Commerce to 'monopolise' the accession.³⁴ The trip of Alejandro Bermúdez, Director of the Spanish Foreign Exchange Institute (IEME) to Washington to arrange with American banks loans for the payment of the quota was particularly poignant for the Ministry of Foreign Affairs.³⁵ The Spanish Foreign Exchange Institute (IEME) which was under the

President of Spanish permanent delegation before the OEEC], 21st July 1956, as quoted in Viñas *et al.*, *Política comercial exterior*, vol. 2, p. 854n.

³² Unsigned note for Castiella, 'Fund-World Bank,' Madrid, 17th June 1958; MAE, Leg. 5908, Exp. 1.

³³ E. Domínguez Passier [Counsellor of Embassy in Washington] to Ruiz Morales, 8th April 1958; MAE, Leg. 5908, Exp. 1. Unsigned note for Castiella, 1st July 1958; MAE, Leg. 5910, Exp. 1.

³⁴ Ruiz Morales to Areilza, Madrid, 20th March 1958 and 22nd March 1958; MAE, Leg. 5908, Exp. 1. Unsurprisingly, the Ministry of Foreign Affairs favoured the Bank of Spain over the IEME. See unsigned note to Castiella, 'Fund-World Bank,' Madrid, 17th June 1958; MAE, Leg. 5908, Exp. 1 and unsigned note to Navarro Rubio dated 17th June 1958; MAE, Leg. 5910, Exp. 1.

³⁵ Areilza to Castiella, Washington, 10th June 1958; MAE, Leg. 5908, Exp. 1. The IMF quota had been agreed at \$100 million of which 10% had to be deposited in gold. The subscription of the 18% of the \$100 million World Bank shareholding represented less problems since the Bank was 'prepared to accept 756 million pesetas (\$1=42 pesetas).' M. M. Mendels [Secretary of the World Bank] to Jaime Alba [Minister Counsellor of Spanish Embassy in Washington], Washington, 11th April 1958; MAE, Leg. 5908, Exp. 1.

Ministry of Commerce was finally favoured over the Bank of Spain (as the Ministry of Finance preferred) on 4th July, thus clearing the way for the agreements to be signed.

In earlier internal discussions of reasons to approach the Bretton Woods institutions the prospect of aid is often marginal or simply not discussed.³⁶

Irrespective of the enticement that the prospect of aid may have provided, the Spanish administration increasingly favoured the approach to the multilateral organisations for its own sake. Economically, the benefits of belonging to the OEEC were particularly cherished, and politically, any further incorporation into international organisms was to be welcomed as further proof of the end of ostracism.³⁷ Spain had been included in the Green Pool, an early idea for the organisation of the European market for certain agricultural produces in 1951, and when this was incorporated in the OEEC in July 1954 it secured membership of all OEEC agricultural committees by virtue of an agreement signed in January 1955. Spain's reaction and ability to take advantage of the evolution of European cooperation in the field of agriculture provides an early example of Spanish willingness and interest in engage with European integration initiatives to further her economic and political goals.³⁸ Spain stepped up her approaches to these organisations, successfully negotiated an agreement to become associate-member of the OEEC in January 1958. Spain then applied for membership to the Bretton Woods institutions and, after a swift negotiation, became a member in September 1958.³⁹

Crucially, none of these agreements allowed Spain access to financial resources from the multilateral organisations. Spain paid up 10% of the \$100

³⁶ Juan José Rovira [Director-General of Economic Cooperation] to Arburúa, Madrid, 21st January 1957, in a communication that sketches the 'main reasons that advice incorporation into the [Bretton Woods] organisms' does not even refer to the prospect of foreign aid; MAE, Leg. 5908, Exp. 1.

³⁷ Moreno Juste, *Franquismo y construcción europea*, and Guirao, *Spain and the reconstruction of Western Europe*.

³⁸ F. Guirao, 'Spain and the Green Pool: challenge and response,' in R. T. Griffiths and B. Girvin (ed.), *The Green Pool and the origins of the common agricultural policy* (London: Lothian Press, 1995).

³⁹ Muns, *Historia de las relaciones entre España y el Fondo*, pp. 19-27.

million IMF quota assigned but this did not allow drawings from the Fund until exchange restrictions were lifted and the exchange rate parity agreed with the Fund. The Spanish authorities were acutely aware of this fact:

If we are to enjoy the benefits from the Fund [...] we ought to get used to the idea that our entire economic policy orientation needs to be transformed radically... [...] All this is called 'monetary stabilisation' and it is precisely one of the Fund's objectives to provide financial assistance to its members when it sees them determined to undertake such a programme.⁴⁰

Likewise, assistance from the World Bank was out of the question 'unless a financial stabilisation is achieved.'⁴¹ In the interim the Fund would conduct annual consultations with Spain under Article XIV (countries with exchange restrictions). The Fund could theoretically request a country engaged in negotiations with the Fund to modify exchange restrictions and agree on a parity, cancelling a country's membership of the Fund if a satisfactory agreement could not be reached.⁴² In practice this did not happen, and the first IMF mission arrived in Madrid in February 1959 to conduct consultations under Article XIV. A similar situation characterised the position of Spain in the OEEC. In fact, Spain's application for full membership had been discussed at length throughout

⁴⁰ Areilza to Castiella, 10th June 1958 and Areilza to Navarro Rubio, 11th June 1958; MAE, Leg. 5908, Exp. 1.

⁴¹ Aragonés to Navarro Rubio, Washington, 2nd December 1958; MAE, Leg. 5908, Exp. 3. Eugene Black [President of the World Bank] reiterated, somehow unnecessarily, that 'the Bank could contemplate lending significant amounts to Spain only as appropriate measures are taken and prove effective in stabilising the economy and improving the balance of payments.' Black to Navarro Rubio, Washington, 19th January 1959; MAE, Leg. 5908, Exp. 3. Per Jacobsson would later notice 'some bitterness' in Navarro Rubio's reference to his correspondence with Black and reflected on how the Bank had handled people 'the wrong way.' PJ Diary, Entry 22nd June 1959.

⁴² The Spanish authorities had noted that 'even before the parity was fixed, we undertake the obligation of not undertaking any modification to the exchange rate without prior knowledge by the Fund.' Enrique Domínguez Passier [Spanish Embassy in Washington] to Ruiz Morales [Director-General of Cultural Relations], Washington, 1st April 1958; MAE, Leg. 5908, Exp. 1.

1956 and 1957, but rejected since the OEEC concluded that Spain was not in a position to fulfil the multilateralisation of trade required from members. In short, nominal membership of the OEEC and IMF came with no rights as well as no policy obligations.

In such circumstances, discussions throughout 1958 with the OEEC about a plan to multilateralise trade did not lead to any results. However, it would not be long before 'the virtual exhaustion of all international reserves' would make the prospect of financial aid an attractive one.⁴³ The link between foreign exchange crisis, need for assistance to bridge the gap and involvement of the multilateral organisations in the Spanish situation is in fact a cornerstone of the traditional interpretation of the Plan. The literature expands on this point very graphically: 'By the summer [of 1959] Franco could not have paid for a month's supply of oil from his coffers, and he was crying out for a new loan.'⁴⁴ According to Minister of Finance Navarro Rubio's famous account, taking the opportunity of the routine IMF mission to Spain in February 1959, he requested an audience with Franco to persuade him to lift his opposition to further discussions with the IMF about a Stabilisation Plan. Franco thought this unnecessary and only agreed to his requests after Navarro Rubio's arguments that...

...we were heading for bankruptcy; the most authorised opinion of the country was in agreement to start a liberalisation process and opening of the economy, and that resistance by the government was a serious mistake, not only economically but also politically.⁴⁵

It is easy to get carried away by Navarro Rubio's account, dwelling on how, as foreign reserves 'dwindled ominously,' Spain was 'sick' and in need of a 'rescue operation.'⁴⁶ This is still a very powerful image in some of the

⁴³ Sardà, 'Conversación con el profesor Sardà,' p. 469.

⁴⁴ A. Lloyd, *Franco* (Garden City, N.Y.: Doubleday, 1969), p. 222.

⁴⁵ Navarro Rubio, 'La batalla de la estabilización,' p. 198.

⁴⁶ B. Crozier, *Franco: a biographical history* (London: Eyre & Spottiswoode, 1967), pp. 462-63.

literature.⁴⁷ Significantly, these characterisations paint a picture in which the Plan appears to be the outcome of an outside imposition: '[c]alling in foreign doctors implied a prior commitment to swallow whatever medicine was prescribed,' which would be 'hard to swallow and unpleasant,' yet, 'the doctors promised, if the patient did swallow the plan, there would be all manner of benefits.'⁴⁸ The policy changes requested from the multilateral donors are thus construed as undesired by the Spanish authorities.

There is no reason to doubt that the foreign exchange crisis was crucial in Franco's thought process.⁴⁹ A year after the adoption of the Stabilisation Plan, Franco commented to his cousin and confidant that without the stabilisation 'we were heading towards bankruptcy'.⁵⁰ The stabilisation effort instilled Franco

⁴⁷ 'It was only when the Finance Minister, Navarro Rubio, confronted Franco personally, impressed on him the absolute and urgent necessity of devaluing the peseta, and asked him how he would feel if ration cards had to be reintroduced, that Franco reluctantly gave in. The IMF plan was adopted...'; S. M. Ellwood, *Franco* (London: Longman, 1993), p. 180.

⁴⁸ Crozier, *Franco*, pp. 462-63. The medical metaphor was particularly irresistible: 'Franco and his advisers had realised at last that they had no choice. The realisation was borne in upon them by the diagnoses and prescriptions of teams of foreign and domestic specialists called to the bedside of the Spanish patient.' A. P. Whitaker, *Spain and the defense of the West: ally and liability* (New York: Harper, 1961), p. 200.

⁴⁹ Viñas *et al.*, *Política comercial exterior*, vol. 2, pp. 1022n, 1030, criticise Navarro Rubio for his unreliability. However, their criticisms are levelled at his portrayal of Ullastres and at some factual mistakes, such as confusion of dates. The substance of Navarro Rubio's account, how reluctantly Franco adopted the reform programme, is nevertheless fully incorporated in their analysis.

⁵⁰ F. Franco Salgado-Araujo, *Mis conversaciones privadas con Franco* (Barcelona: Planeta, 1976), p. 294. Access to Franco's personal papers may provide new evidence. However, even Suárez, who has had privileged access to those papers relies extensively on Sardà, 'El Banco de España,' and Navarro Rubio, 'La batalla de la estabilización.' See L. Suárez, *Francisco Franco y su tiempo*, vol. 6 (Madrid: Fundación Nacional Francisco Franco, 1984), chapters 1 and 5, though the latter makes more use of documentation from Franco's papers.

with 'fear.'⁵¹ He personally intervened in July 1959 to ask for higher wages for the military.⁵² Similarly, whilst supporting the proponents of Stabilisation in the cabinet, Franco gave little public endorsement of the operation until mid-1960, by when the benefits of the Plan appear unqualified.⁵³ In short, as the standard account of the 1959 Stabilisation Plan goes, the stabilisation was 'accepted as inevitable by Franco but unenthusiastically'.⁵⁴ The image of near-insolvency appears to have been similarly crucial in persuading many anti-reform elements of the necessity of the stabilisation effort.⁵⁵

Before we slip into assigning great bargaining power to the multilateral organisations and importance to the role of conditionality, let us analyse the argument put forward thus far. That the foreign exchange situation was unsustainable does not mean that the adoption of the overall reform package was, strictly speaking, inevitable.⁵⁶ Implicitly acknowledging this, it is common in the literature to refer to the exhaustion of the autarkic model and to play up the

⁵¹ Ullastres, 'La estabilización contada por un protagonista de excepción,' p. 465.

⁵² Suárez, *Francisco Franco y su tiempo*, vol. 6, p. 178n.

⁵³ In a 1959 end-of-year speech to the parliament he would refer to 'a well-thought stabilisation plan,' F. Estapé, *Sin acuse de recibo* (Barcelona: Plaza & Janés, 2000), p. 195. In speeches in the spring and summer of 1960, Franco would be more vocal about his endorsement of the goal of stabilisation, as noted by J. P. Fusi, *Franco* (Madrid: Taurus, 1995 [1985]), p. 169.

⁵⁴ J. Tusell, *La España de Franco* (Madrid: Historia 16, 1989), p. 168.

⁵⁵ At a meeting in January 1961 of the Government Delegate Commission for Economic Affairs in which some tension between pro-reformers and anti-reformers arose, 'Alonso Vega recalled how the stabilisation was absolutely indispensable because in the summer of 1959 we were running out of reserves.' The situation was no longer so desperate and hence Alonso Vega argued for toning down the policy. Reported in L. López Rodó, *Memorias* (Barcelona: Plaza & Janés, 1990), vol. 1, p. 257.

⁵⁶ '[T]he plans which [the technocrats] carried out were very much the only way out of the crisis,' J. Crespo MacLennan, *Spain and the process of European integration, 1957-1985* (Basingstoke: Palgrave, 2000), p. 22.

economic crisis.⁵⁷ This makes it more plausible to argue that 'there were not many alternatives [to the Stabilisation Plan].'⁵⁸ But, leaving aside the foreign exchange position for a moment, the type of crisis that the Spanish economy was undergoing in 1958-1959 was far from dramatic.⁵⁹ True, inflation had increased from 9% in 1956 to 15.5% in 1957 but the measures adopted during 1957 precluded higher figures.⁶⁰ Real per capita GDP growth had slowed down from 6% in 1956 to 2.9% in 1957 and 2.3% in 1958. But this can hardly be seen as a desperate situation for the Franco regime if we take into account that the same metric had averaged throughout the 1940s an annual growth of 0.4%.⁶¹ The peseta was devalued from 10.95 to 42 pesetas to the dollar in April 1957 and the rediscount rate was increased from 4.25% to 5% in July 1957. Most importantly, fiscal discipline in 1957 had been reinforced by a fiscal reform in December of that year which, among other elements, terminated funds from the budget to INI which now had to raise funds in the capital markets. Revenues increased in 1957

⁵⁷ 'Autarky had led to ruin and in 1957 Spain virtually lacked foreign reserves. To overcome this situation it was necessary to unify the exchange rate, undertake a Stabilisation Plan and reform our fiscal system,' F. Olivié, 'Apuntes para una historia de la política exterior desarrollada por España entre el 26 de febrero de 1957 y el 29 de octubre de 1969,' pp. 189-212 in L. Suárez (dir.) *Franco y su época. Actas Universidad Complutense de Madrid –Cursos de verano 1992* (Madrid: 1993), p. 203. Olivié was a high official at the Spanish Ministry of Foreign Affairs.

⁵⁸ Sardà, 'Conversación con el profesor Sardà,' p. 471.

⁵⁹ The American Ambassador John Davis Lodge, in a lecture given before the American Club in Madrid on 15th October 1959 summarises well the necessity to downplay the critical situation: 'Despite the Spanish economy had not reached a phase of crisis, and despite external and internal debt was much lower than that of many other countries, the government decided to undertake the corrective measures...'; General Archive of the Administration [henceforth AGA], box 36624.

⁶⁰ J. Maluquer de Motes, 'Precios, salarios y beneficios. La distribución funcional de la renta,' in A. Carreras (coord.), *Estadísticas históricas de España. Siglos XIX-XX* (Madrid, Fundación Banco Exterior, 1989), pp. 495-532 shows a 13.5% increase in the retail price index for 1958. The not uncommon situation of the 1940s, when the mark of 30% inflation was surpassed in 1941 and 1946, had been avoided.

⁶¹ L. Prados de la Escosura, *Spain's Gross Domestic Product, 1850-1993: Quantitative Conjectures. Appendix*, Universidad Carlos III de Madrid Working Paper No.95/06

and 1958 so issues of debt to finance deficit were reduced from 30% of total budget expenditures in 1956 to 16% in 1957 and 1% in 1958. Some isolated voices in the literature thus argue that the Stabilisation Plan came to solve 'problems that were already partly overcome'.⁶²

True, official reserves may have been close to being depleted. This reflected an unrealistic exchange rate expected to be devalued. Black market operations were common, with estimates of the turnover in the market of Tangiers alone ranging at \$200 million annually, smuggling into Spain was common as was flight of capital –an estimated \$300 million may have been held by Spaniards abroad by June 1959.⁶³ Despite rising number of tourists, official receipts from foreign travel kept falling.⁶⁴ Officially controlled financial institutions in Spain received 'probably three-fourths of the country's foreign

⁶² M. Rubio Jiménez, 'El Plan de Estabilización de 1959,' *Moneda y Crédito*, no. 105, June 1968, p. 29. The figures on budget deficit are in p. 23. The American Ambassador John Davis Lodge, in a lecture given before the American Club in Madrid on 15th October 1959, summarises well the necessity to downplay the critical situation: 'Despite the Spanish economy had not reached a phase of crisis, and despite external and internal debt was much lower than that of many other countries, the government decided to undertake the corrective measures [...],' General Archive of the Spanish Administration [henceforth AGA], box 36624.

⁶³ These were the estimates of the multilateral organisations, as discussed in Madrid between the OEEC and IMF delegations in June 1959; PJ Diary, Entry 21st June 1959.

⁶⁴ The increase of foreign visitors from 1.6 million in 1956 to 2 million in 1957 and to at least 2.4 million in 1958 hardly squared with foreign exchange earnings dropping from \$97 million in 1956, to \$77 million in 1957 and \$72 million in 1958. Minutes of sixth meeting, Spanish consultations, Madrid, 20th February 1959; AIMF, Central Files [henceforth C]/Spain/420.1 Exchange Restrictions Consultations - 1958, Minutes of Meetings. The OEEC had similarly asked if 'some explanation could be given' to the fall in net earning from travel in 1957 despite it having 'been a good tourist year.' Managing Board of the European Payments Union, 'Some questions to be put to the representatives of Spain,' Paris, 19th November 1958; HAEC, European Payments Union and European Monetary Agreement Fond [henceforth EPU/EMA] 68.

exchange earnings.⁶⁵ The Bank of England, for example, estimated that sterling transfers to the Spanish monetary area during 1955-1956 totalled £121 million whilst the Spanish Foreign Exchange Institute (IEME) only acknowledged receipt of £81 million.⁶⁶ In early 1959 the practice of under-invoicing and the retention of export proceeds abroad intensified, 'evidently in the expectation of a devaluation of the peseta.'⁶⁷

This situation may have forced some action as to the exchange regulation. But, why did an unsustainable situation in the foreign exchange reserves lead to the adoption of a comprehensive reform programme that implied internal liberalisation, opening to foreign investment, commitment to a balanced budget, and reduction of interventionism in the economy? Before attempting an answer to this question let us refer to Navarro Rubio's gripping account of his persuading of Franco and how the choice was presented before the Council of Ministers:

The Cabinet meeting was certainly difficult for proponents of the stabilisation. The Ministers of Finance and Commerce defended it firmly, but the minister of Commerce, as usual, would not volunteer data about the situation of the Foreign Exchange Institute. [...] The Minister of Finance asked him to speak up about our critical situation. [...] Prompted and authorised by this question, the Minister of Commerce, with everybody's attention, uncovered in moments of true suspense, that our situation was certainly critical. The Minister of Commerce had to listen to the reproaches of some ministers for not having kept them informed of the situation. He replied, with dignity, that he had wanted to bear the burden on his own. And in this atmosphere, close to desperate, the government finally approved the Stabilisation Plan.⁶⁸

Beyond Navarro Rubio's flamboyant style there is a more subtle 'rhetorical use' of the foreign exchange crisis to mobilise support for the reform

⁶⁵ Economic Summary for Spain, Fourth Quarter 1959, by F. Weaver, Madrid, 12th January 1960, in 'Spain Quarterly Economic Reports 1959-1961', Spain, Madrid Emb., CGR, 1953-1963, FSPF, RG84 (entry 3167B, box 11), NACP.

⁶⁶ 'Sterling balance of payments of the Spanish monetary area,' May 1957; Bank of England Archive [henceforth BoE], OV61/5.

⁶⁷ Minutes of sixth meeting, Spanish consultations, Madrid, 20th February 1959; AIMF, C/ Spain/420.1 Exchange Restrictions Consultations - 1958, Minutes of Meetings.

⁶⁸ Navarro Rubio, 'La batalla de la estabilización,' p. 202.

programme. Pro-reformers warned that 'by October [1959] there will be no money to pay for oil imports.'⁶⁹ Focusing on the foreign exchange bottleneck was a particularly suitable strategy. It fitted the Francoist official line that Spain's ailments stemmed from the loss of its gold reserve (shipped to Moscow by the Republican government during the Civil War) and lack of Marshall Plan funds.⁷⁰ The point is not to deny that such foreign exchange problems existed, but to highlight how peculiar it was that other alternatives less comprehensive than the Stabilisation Plan were not even considered. The 'menu' of policy choices had been carefully written so as to present no alternative to the running out of reserves but a fully-fledged orthodox reform programme.⁷¹

The rhetorical use of the foreign exchange crisis by pro-reform elements is supported by the fact that this was an argument overwhelmingly used internally rather than externally. There was in fact little discussion of amounts of aid with the international organisations themselves. The Spanish authorities did not use their presentations to the OEEC 'to plead its case for aid' but rather to impress upon the OEEC of the Spanish 'intentions to improve the economic situation.'⁷² For pro-reformers the provision of generous amounts of aid would enhance the credibility of the reform programme. Large amounts of aid, perhaps as much as \$500 million were necessary 'to permit this reorientation [in economic policy] to take place.'⁷³ But these large amounts were not calculated as the foreign exchange gap that needed to be filled. Rather, Ullastres argued to the

⁶⁹ Estapé, *Sin acuse de recibo*, p. 192. It was thus the 'spectre of the *gasógeno* [solid fuel for cars] what brought the Stabilisation Plan.'

⁷⁰ A. Viñas, *El oro de Moscú. Alfa y omega de un mito franquista* (Barcelona: Grijalbo, 1979).

⁷¹ Viñas *et al.*, *Política comercial exterior*, vol. 2, p. 968, note how the IEME suggested some mere modifications of the exchange rates, but 'these came to nothing.'

⁷² 'Observations at OEEC Annual Review of Spain' by C. S. Hinman, 17th March 1959 (the review took place in Paris on 12th March 1959), in 'OEEC 1959-1961', Spain, Madrid Emb., CGR 1953-1963, FSPF, RG84 (entry 3167B, box 11), NACP.

⁷³ 'Conversation with L. López Rodó [Technical Secretary-General, Ministry of Presidency],' by Milton Barall [Counsellor of Embassy for Economic Affairs], Madrid, 19th January 1959, in 'Memos of conversation, 1959-1961', Spain, Madrid Emb., CGR, 1953-1963, FSPF, RG84 (entry 3167B, box 11), NACP.

American representatives that it was of the 'utmost psychological importance' that the Americans provide a credit line as part of the aid package although...

...[n]either he [Ullastres] nor the Foreign Minister anticipated drawings against such a line of credit but they thought it would be extremely important in building up Spanish support for the measures agreed to.⁷⁴

The possibility that this was merely an attempt at securing ever larger amounts of aid from would-be donors should be discarded given how fluid and transparent was the communication between Ullastres and the Americans. In May 1959, he cheerily confided that the situation in the balance of payments was 'much better than had been anticipated and there is almost no trade deficit so far this year.'⁷⁵ Had Ullastres thought of the Plan primarily as a mechanism to fight a foreign exchange crisis this would have led to a reconsideration of policy options. On the contrary, Ullastres seemed pleased with the possibility that the Stabilisation Plan may be given credit for an outcome already on its way. In fact, Ullastres was slightly worried about the toughness of the OEEC in concluding the negotiations since he hoped that the plan could start being implemented by the end of June, 'which is a good time because of seasonality in the foreign exchange.'⁷⁶ It was important that the Plan appeared to have positive effects from the start even if its sponsors acknowledged that such success were partly due to other factors. Compare this with the tone of the standard narrative, in which 'the dramatic situation of foreign payments did not allow waiting much longer.'⁷⁷

Similarly, amongst pro-reform elements, developments such as the French franc devaluation and declaration of convertibility of many European currencies at the end of 1958 were seen rather as a 'unique opportunity for the government [...] to reorient itself economically without admitting that it has made

⁷⁴ 'Views of the Minister of Commerce on OEEC membership and economic stabilisation', by Barall, Madrid, 14th May 1959, in Spain, Madrid Emb., CGR 1953-1963, FSPF, RG84 (entry 3167B, box 11), NACP.

⁷⁵ *Ibid.*

⁷⁶ *Ibid.*

⁷⁷ Vifías *et al.*, *Política comercial exterior*, vol. 2, p. 1060. A recurring theme in their analysis is to highlight the deterioration of the Spanish foreign sector as a primary reason for the reorientation in economic policy (pp. 878, 890).

errors in the past.⁷⁸ Thus, they emphasised these aspects, like the foreign exchange crisis, not only because of their intrinsic relevance but because they were useful elements in their attempts at securing the reform of policy, for their rhetorical value.

The foreign exchange crisis cannot, strictly speaking, *inevitably* imply the adoption of a comprehensive orthodox stabilisation programme, including a balanced budget, fixed and credible exchange rate, liberalisation of trade, etc. Suggesting that the Plan was inevitable 'because by then it was the only possible remedy,'⁷⁹ is as fallacious as the claim, put forward by regime propagandists, that autarky was imposed and the regime had no other option during the 1940s and 1950s.⁸⁰

True, had the Stabilisation Plan not been adopted the outcome would have been different, and the type of sustained growth that the 1960-1973 period saw in Spain may not have been achievable had an alternative course of action been followed. However, this does not imply that alternatives did not exist. This aspect is insufficiently emphasised in the existing literature.⁸¹ Recognising that this was the case can only enrich the explanation as to why a particular course of action was followed. It prompts questions about the 'menu-writing' and why pro-autarkic elements were unable to suggest middle-of-the-road alternatives, which

⁷⁸ Memorandum of conversation Barall, A. Garrigues [lawyer and frequent intermediary between U.S. Embassy and Ullastres], E. Garrigues [Ministry of Foreign Affairs], Rovira, Count of Mieres [industrialist], J. Beltrán [Banco Urquijo] and J. Tejero [Banco Hispano-American], Madrid, 23rd January 1959 in Spain, Madrid Emb., CGR 1953-1963, FSPF, RG84 (entry 3167B, box 11), NACP.

⁷⁹ Viñas *et al.*, *Política comercial exterior*, vol. 2, p. 1055.

⁸⁰ In other words, 'events [...] could have, almost always, been different,' as has recently been emphasised in relation to the establishment and early activities of the *Instituto Nacional de Industria*; E. San Román, 'La gestación castrense del INI,' in A. Gómez Mendoza (ed.), *De mitos y milagros. El Instituto Nacional de Autarquía* (Barcelona: Edicions de la Universitat de Barcelona, 2000), p. 66. An example of this view of autarky as imposed from the outside is Suárez, *Francisco Franco y su tiempo*, vol. 6.

⁸¹ Cfr. L. Martí, 'Estabilidad y desarrollo,' *Información Comercial Española*, no. 500 (April 1975), pp. 42-57.

would advance our understanding of the adoption of the plan and the policy-making of the Franco regime.⁸²

Part of the answer to those questions may be related to the difficulty in ascertaining the extent of the growing numbers in pro-reform elements.⁸³ The lack of an open political market where ideas and policies could be discussed and the relative strength of parties weighed made any assessment about the backing of the stabilisation programme an enduring *incognita*. For many pro-reformers, it would ultimately prove 'surprising' that the stabilisation was carried through, since they believed that the forces in favour of maintaining the *status quo* were 'almost invincible.'⁸⁴ It is in this context that pro-reformers moved quietly and cautiously. The famous 'questionnaire' by the Ministry of Finance to survey several Spanish organisations has long been regarded in the literature as an exercise of affirmation rather than a genuine search for opinions.⁸⁵

Historians of the approach of Spain to European organisations have documented how the attitude of Spanish officials shifted throughout the 1950s, being increasingly in favour of integration and multilateralisation.⁸⁶ As early as July 1955 the Spanish delegation before the OEEC recommended an application for membership. The most powerful argument was the potential economic

⁸² C. W. Anderson, *The political economy of modern Spain* (Madison: University of Wisconsin Press, 1970), pp. 120-8 deals with this issue in relation to the January 1959 questionnaire on policy options submitted by the Ministry of Finance to several organisations within Spain.

⁸³ A full consideration of the questions about policy-menu writing and weakness of autarkic element lies outside the scope of this section (focused on the motivations of the Spanish government to request aid) and indeed of this thesis, and will not be pursued any further here.

⁸⁴ Fuentes Quintana, 'El Plan de Estabilización económica de 1959,' p. 35.

⁸⁵ Anderson, *The political economy of modern Spain*, p. 122 and González, *La economía política del franquismo*, p. 171.

⁸⁶ Guirao, *Spain and the reconstruction of Western Europe*.

benefits of expanded trade.⁸⁷ Similar views were held by Spanish officials dealing with the approach to the Bretton Woods institutions.⁸⁸

By mid-1956, observers detected a change in the attitude of Spanish officials towards multilateralisation and praise among Spanish officials for the European Payments Union.⁸⁹ The inflation resulting from the 1956 wage increases subsequently led to a 'general feeling that the government will have to take strong measures to arrest the inflationary trend.'⁹⁰ Similarly, there were 'many rumours among well-informed circles in Madrid of some modification in the rate for the peseta,' and in particular about the possible unification of exchange rates, a move which had previously been 'resisted on grounds of prestige and also because extensive and influential vested interests are involved.'⁹¹ This non-internal evidence indicating that a change of policy was on the cards before the cabinet reshuffle of February 1957 is important to put in perspective the argument that the reforms were undertaken by a 'liberal commando without infantry.'⁹² That no blueprint existed in February 1957 should not conceal the fact that the tide was already changing.⁹³

⁸⁷ Moreno Juste, *Franquismo y construcción europea*, pp. 96-129 provides a documented account of the early Spanish approach to the OEEC.

⁸⁸ Ruiz Morales to José Núñez Iglesias [Under-Secretary of Foreign Economy], Washington, 11th February 1957, sketches some unofficial contacts with the Bretton Woods institutions and states how he 'always awaits with interest the official request to prepare the membership application;' MAE, Leg. 5908, Exp. 1.

⁸⁹ 'Spain', by S. J. Turner, 7th June 1956; BoE, OV61/5.

⁹⁰ This was the view of the Vice-Governor of the Bank of Spain as transmitted to the Bank of England, 'Spain', by Turner, 20th December 1956; BoE, OV61/5.

⁹¹ It was expected that the pound be devalued to 125 pesetas. 'Spain', by Turner, 20th December 1956; BoE, OV61/5. In April 1957 the new rate for the pound was set at 117.6 pesetas, compared to the previous range of 30.66 to 106.9 pesetas to the pound.

⁹² González, *La economía política del franquismo*, p. 33.

⁹³ *Ibid.*, p.16 goes as far as arguing that the Plan was the 'unexpected outcome' of incorporating a new element in the cabinet, the Opus Dei technocrats, to preserve the balance of power within traditional Francoist 'families.' Ullastres later speculated about the reasons for his ministerial appointment noting that it was 'possibly influenced my specialisation in monetary matters of devaluation and stabilisation when nobody knew

This growing support for reform is especially relevant if we concur with the typical characterisation of Franco as a pragmatic arbiter, who 'almost always went for the majority of the ministers.'⁹⁴ Similarly, it is the more important if we see Spanish foreign policy as 'overall pragmatic, lacking idealism and focused on the survival of the regime as the ultimate objective.'⁹⁵

This is not to say that there was no opposition within the Spanish government to this policy by both autarkic elements and, surprisingly, by elements within the reformist camp. Disputes within the government between autarkic elements and reformers have long been the focus of the literature.⁹⁶

The issue of the divisions within the reform camp is one that is not often sufficiently emphasised. As already noted, 'litigation' between the Ministries of Commerce and Finance was long-standing.⁹⁷ In fact, there were many personal conflicts, amongst which the most discussed is the rivalry between Navarro Rubio and Ullastres.⁹⁸ Despite sharing a common long-term vision for Spanish economic policy, concerns about their individual success appear to have been

about these things and I had published on those issues;' quoted in López Rodó, *Memorias*, vol. 1, p. 91.

⁹⁴ López Rodó, *Memorias*, vol. 1, p. 85. On Franco as arbiter see Fusi, *Franco*, p. 128.

⁹⁵ J. M. Armero, *La política exterior de Franco* (Barcelona: Ed. Planeta, 1978), pp. 64-68. Cfr. Viñas, 'Franco's dreams of autarky,' still puts great weight on the ideological basis of Francoist foreign economic policy. Viñas tries to demonstrate the importance of Franco's personal ideology on economic matters as a driving force behind autarky, and further claims that such ideology remained untouched throughout Franco's lifetime. However, by showing that Franco's personal preferences apparently did not change at a time when foreign economic policy is changing line is changing, Viñas effectively undermines his very thesis that Spanish foreign economic policy can be explained by Franco's own ideology.

⁹⁶ Viñas *et al.*, *Política comercial exterior*, pp. 992-1036. See also Sardà, 'Conversación con el profesor Sardà,' p. 470.

⁹⁷ Ruiz Morales to Areilza, Madrid, 20th March 1958; MAE, Leg. 5908, Exp. 1.

⁹⁸ Personal confrontations affected not only politicians but also technical staff. Estapé, *Sin acuse de recibo*, p. 109, recalls, for example, how Luis de Olariaga despised Sardà, despite both being proponents of more liberal economic policies; J. Velarde, *Economistas españoles contemporáneos: primeros maestros* (Madrid: Espasa Calpe, 1990), p. 189.

overriding. Personal animosities were particularly important in a regime where power ultimately depended on Franco's personal intervention.⁹⁹

The ultimate example of infighting within the reform camp is Arburúa's opposition to the Stabilisation Plan.¹⁰⁰ As we saw in Chapter Five above, Arburúa had been, as Minister of Commerce, one of the early and leading voices in favour of a more liberal economic policy during the 1950s. Arburúa's dissatisfaction with the 1959 operation was, however, notorious. For example, an editorial of *SP* magazine, in which Arburúa had a personal interest, bitterly complained about the 'lost independence' and how the Plan implied giving up of 'control over the domestic economy,' prompting the issue to be seized by the censor at the personal intervention of Ullastres.¹⁰¹ Perhaps Arburúa, despite his pro-reform feelings, acted out of personal antagonism.¹⁰² In other words, Arburúa's first and overriding priority may have been not policy reform but his personal advancement within the regime.¹⁰³

⁹⁹ Fuentes Quintana, 'El Plan de Estabilización económica de 1959,' p. 28n attacks López Rodó for having 'expropriated Professor Torres' project [creation of an Economic Coordination and Planning Unit],' further arguing that this would have 'grave consequences for Spanish economic policy-making,' accusing López Rodó of diluting the reforms envisaged.

¹⁰⁰ Even Viñas *et al.*, *Política comercial exterior*, vol. 2, p. 871 recognise their surprise at Arburúa's opposition to the Stabilisation Plan. This is particularly revealing in a text otherwise referred to as 'excessively pro-Arburúa' by Fuentes Quintana, 'El plan de Estabilización económica de 1959,' p. 37n.

¹⁰¹ E. Tertsch [Spanish Economic News Service] to Jacobsson, Madrid, 6th July 1959; AIMF, C/Spain/810 Mission, Jacobsson, Ferras and Staff, June 1959.

¹⁰² Arburúa had been replaced amidst widespread accusations of corruption and perhaps saw in the publicity of those accusations an interested hand. Arburúa reportedly had ambitions to become Foreign Minister, F. de Rose [Chargé d'Affaires in Madrid] to C. Pineau [French Foreign Minister], Madrid, 4th September 1956; HAEC, French Ministry of Foreign Affairs [MAEF] 371. Of course, it could be alternatively argued that by 1959 Arburúa was not a reformer himself anymore.

¹⁰³ González, *La economía política del franquismo*, p. 299, claims that throughout the 1960s the reforms were stalled precisely because the accession to power of a group of politicians that aimed to maximise their power above everything else.

We may want tentatively to characterise someone that has those preferences as an 'egotist reformer.' The presence of such individuals would therefore make more likely the danger of conditionality hampering the reform programme. In Chapter Five above we argued that unconditional disbursements of American aid eased the position of pro-reform elements within the government as they could not be accused of selling out the sovereignty of the country. Conditional aid disbursements could have been played up by those in favour of the *status quo* as a loss of sovereignty that would have damaged the position of the pro-reformers. If our characterisation of 'egotist reformers' has any merit, the risk of playing up conditional assistance did not come exclusively from autarkic elements.

To conclude this section it should thus be emphasised that the motivation of the Spanish authorities in demanding aid was a complex one. It is important to emphasise that the Spanish government was *de facto* a coalition government, in which different groups regarded aid as beneficial for different reasons and perceived in a very different light the prospect of aid being tied to the adoption of particular policies. This heterogeneity of motivations is crucial in the analysis. This, however, is not a usual element in the theoretical analysis of the effectiveness of conditionality and foreign aid programmes. Combining 'egotist reformer' preferences with the existence of a coalition government can affect under which circumstances conditionality would be effective, ineffective or counterproductive for the adoption of the reform. It would do so by extending the range of variations in preferences, not to be limited only to donor and recipient but also within donor variation.¹⁰⁴

Some members of the coalition government came to accept the prospect of the Stabilisation Plan as a necessary evil to remedy the foreign exchange crisis. Pro-reformers were successful at avoiding giving the impression that their

¹⁰⁴ H. White and O. Morrissey, 'Conditionality when donor and recipient preferences vary,' *Journal of International Development*, vol. 9, no. 4 (June 1997), pp. 497-505. In White and Morrissey's model, conditionality may be counterproductive if it were to punish an otherwise reform-committed regime that had failed to fulfil a condition through no fault of its own. The presence of 'egotist reformers' would expand the range of situations in which conditionality can be counterproductive.

argument ran from the foreign exchange crisis to a need for aid, which in turn would come with strings attached imposing the Stabilisation Plan. Rather, they predominantly presented a line of argument in which the foreign exchange crisis led to a need for the Stabilisation Plan, in which foreign aid was to come as a bonus. By doing so they minimised possible accusations of giving way to external interests and loss of sovereignty –anathema in Spanish politics and one of the *raisons d'être* of the Franco regime. This was particularly true of public manifestations of pro-reformers. Ullastres' speech on Sunday 25th January 1959 thus puzzled an American observer:

Perhaps the most striking facet of the current situation in the view of the Spanish government, as illustrated by Ullastres, that corrective action can be taken only after Spain is assured of external assistance. This is diametrically opposed to the view of foreign observers that initial assistance can only be forthcoming in connection with economic reforms. Whether Spanish reaction to the tough approach expected of OEEC-IMF will take the form of hurt pride, retreat behind the banner of sovereignty and/or blandly generalised assurance –as in the case of past U.S. suggestions for an economic housecleaning- positive action is not yet clear.¹⁰⁵

But, were the OEEC and IMF to exercise such a 'tough approach'? Let us turn to discuss the negotiations between the multilateral organisations and the Spanish authorities.

¹⁰⁵ Weekly Economic Review no. 5, 23rd-29th January 1959, Madrid Embassy, by A. J. Cefaratti [Commercial Attaché], in 'folder 500 US Aid to Spain', Spain, Madrid Emb., CGR 1953-1963, FSPF, RG84 (entry 3167B, box 11), NACP.

7.3. The involvement of the multilateral organisations in the 1959 Stabilisation Plan and outcome of the negotiations

Before concentrating at length on the crucial negotiations that took place in 1959 let us recapitulate what the process of the Spanish approach to the multilateral organisations had been up to the end of 1958. As suggested by Spanish officials before the OEEC as early as summer 1955, the Spanish government unofficially approached the OEEC in 1956 with regards to a possible application for membership. This led to the establishment by the Council of the OEEC of a working party in March 1956 to study the prospects of a Spanish closer association with the organisation.¹⁰⁶ Although the conclusion was that Spain could not comply with full membership, it recommended further talks. Another working party was established to submit proposals defining the conditions under which the association of Spain with the OEEC might be developed. The working party was impressed with the frankness of Spanish authorities and recommended that the OEEC enter negotiations with Spain for a possible associate membership status. Such an agreement was finally approved by the Spanish Council of Ministers in December 1957 and signed in January 1958. Under the association agreement of January 1958 Spain was simply committed in principle to liberalise progressively and as quickly as her situation permitted, her trade and current payments with OEEC member countries. The agreements, however, reported no further practical gain before further negotiations specified the terms of such liberalisation. These negotiations were slow throughout 1958. Spain's initial proposals were deemed unsatisfactory by the OEEC. However, after securing membership of the Bretton Woods institutions in the autumn of 1958, the Spanish authorities intensified the contacts with all multilateral organisations.

This is a well-known process. As noted above, the participation of the multilateral organisations in the run-up to the stabilisation programme in 1959 has been stressed in the literature.¹⁰⁷ Despite initially noting the concern of the OEEC about the true commitment to reform within the Spanish government, that

¹⁰⁶ Events in this paragraph are described at length in Viñas *et al.*, *Política comercial exterior*, vol. 2, pp. 834-48, 855-67, 888-90.

¹⁰⁷ In particular see Muns, *Historia de las relaciones entre España y el Fondo* and Viñas *et al.*, *Política comercial exterior*, vol. 2.

aspect is quickly abandoned in the literature and the object of analysis becomes almost exclusively the balance of payments crisis. For these authors the OEEC reports are crucial because they uncover how bad the situation is. Similarly, it is argued that because they are external they have more credibility and hence some of the ideas endorsed are more easily accepted. In short, this is the advisor role that, as we noted above, ultimately proves unconvincing because there is no evidence to support the suggestion that an increasing number of decision-makers were influenced in that fashion. That pro-reformers consciously used this tactic or thought it effective does not prove its success.¹⁰⁸ More worryingly, the only evidence of 'changing minds' in decision-makers are those of Franco and Carrero, who are precisely those cited as the paramount examples of deep suspicion of external influence. Irrespective of the persuasiveness of that interpretation, the fixation with proving the importance of the balance of payments and the advisory role of the multilateral organisations overshadows certain aspects of their involvement which may be of importance.

What distinguishes the account of the negotiations that follows from the earlier literature is not primarily the documentary base, though partially different, but more importantly the questions underlying this narrative.¹⁰⁹ Who controlled the pace and agenda of the negotiations? To what extent were the reforms imposed? How aware were the multilateral organisations of internal support for the reforms? Thus, much more emphasis will be devoted here in following up the multilateral organisations' concern with monitoring the degree of commitment to reform in the Spanish administration. Similarly, more stress will be put on the restraint and flexibility displayed by the multilateral organisations.

¹⁰⁸ 'The intensification of the approach to the economic international organisms that Manuel Varela quickly endorsed, would become the transmission mechanism that, indirectly via the reports from such organisms, would allow the Spanish experts to triumph in Madrid over what the internal *mores* would not have always allowed to succeed.' Viñas *et al.*, *Política comercial exterior*, vol. 2, p. 872, see also pp. 890, 962, 964, 1019.

¹⁰⁹ As noted above, the Central Files of the IMF are now open to the public, which provide, with the OEEC fond at the HAEC a richer picture of the interactions between the parties than the thoroughly-edited official-use documents available to Viñas *et al.*, *Política comercial exterior*.

After concluding the association agreement, the OEEC did not put any sort of pressure on Spain to proceed towards full membership. Similarly, although it was up to the Fund to request Spain to communicate a proposed par value, rather than putting pressure on the Spanish the Fund thought it better to wait until the Spanish authorities desire for Fund's resources made them bring up the issue. Referring to the scheduled visit of IMF staff to proceed with the first consultation between the IMF and Spain, the Spanish Embassy in Washington emphasised this aspect:

The business of this mission may be limited to the consultations under Article XIV, but if the Spanish government wishes that some financial stabilisation plan be considered, the Fund would be willing to study it and if it was necessary to provide assistance. It all depends, therefore, on what our government wishes.¹¹⁰

The Fund, however, expected such a request. In fact, the IMF had indications that at least some elements within the Spanish government were willing to consider an overhaul of the economy:

[T]he Spanish Government would like to take advantage of this visit to discuss thoroughly the drawing up of a general plan, the application of which would put the Spanish economy in a position to allow a greater participation by Spain in the European organisations. Such a plan would have to refer to the measures we should have to take as well as to the necessary external co-operation to achieve these goals.¹¹¹

Thus, the Fund planned to use the Article XIV consultations "to sound out the Spanish authorities" on the matter of the par value.¹¹² However, it was far from certain that pro-reformers were in a majority position. Moreover, even if a majority of policy-makers had by then converted to the stabilisation credo, the

¹¹⁰ Aragonés to Navarro Rubio, Washington, 16th January 1959; MAE, Leg. 5908, Exp. 3. Emphasis in the original.

¹¹¹ J. Bastos [Director IEIME] to H. Merle Cochran [Deputy Managing Director, IMF], Madrid, 29th January 1959; AIMF, C/Spain/810 Mission, Ferras and Staff, February 1959.

¹¹² 'Spain – 1959 Consultations Briefing Paper,' approved by G. Ferras and Irving S. Friedman, 9th February 1959; AIMF, C/Spain/810 Mission, Jacobsson, Ferras and Staff, June 1959.

particulars of the programme could easily prove unworkable. As the Spanish Ambassador in Washington José María de Areilza wryly put it, the reformers 'are all unanimous; what they still have to do is agree.'¹¹³ Spanish pro-reform officials continued to lobby for an expansion of the IMF mission into a discussion of the 'application of economic plans that are absolutely necessary' and played up 'the extraordinary importance of the visit' and how it was a 'unique occasion.'¹¹⁴ The big question, however, was whether the pro-reformers were going to be able to outgun the opposition and successfully broker the operation:

[W]hat we have written does not go far enough in guessing what the real intentions of the Spanish government may be and in judging the degree of acceptance of economic reforms which may take place in the Cabinet and in such powerful non-Cabinet officials such as Suanzes. [...] I gather that the IMF team feels the same way, but it, too, is trying hard to assess what the real intentions of the government may be.¹¹⁵

The IMF staff report on the February consultations stated that 'the Spanish authorities agree with this view [on the need for a stabilisation programme] and are now engaged in working out a comprehensive stabilisation programme of corrective measures to be implemented in the near future.'¹¹⁶ However, Gabriel Ferras, Director of the IMF European Department and Head of the IMF Mission to Spain, had been surprised by the lack of decisiveness found in Madrid and reported that, despite the agitation in certain quarters, '[t]here was

¹¹³ Lodge [reporting on lunch attended by Ullastres, Navarro Rubio, Areilza, Cortina, Rovira, Aldrich, Barall and Lodge] to Dulles, Madrid, 30th January 1959, in Spain, Madrid Emb., CGR 1953-1963, FSPF, RG84 (entry 3167B, box 11), NACP.

¹¹⁴ F. Armijo [Director-General of Economic Relations] and Director-General of International Organisms to Castiella, Madrid 12th February 1959; MAE, Leg. 5908, Exp. 2.

¹¹⁵ Barall to E. J. Beibel, Madrid, 18th February 1959, in 'Aid to Spain (other countries)', Spain, Madrid Emb., CGR 1953-1963, FSPF, RG84 (entry 3167B, box 11), NACP.

¹¹⁶ Staff Report and Recommendations - 1958 Consultations,' approved by Ferras and Friedman, 22nd April 1959 (covering consultations 16th February-6th March); AIMF, C/Spain/420.1 Exchange Restrictions Consultations - 1958.

no such thing as a stabilisation programme.¹¹⁷ In fact, when Navarro Rubio finally told Ferras that Spain wanted to obtain the Fund's views on certain reforms, Ferras stayed in Madrid 'to be in a position to know whether the Spanish authorities have reached the stage at which a stabilisation programme can be concretely worked out.'¹¹⁸

Caution was similarly characteristic of the OEEC. Reflecting on the half-year up to April 1959, Hans-Karl von Mangoldt, Chairman of the Board of Management of the European Monetary Agreement, warned that 'the Spanish Government itself must first know somewhat better what it is able and willing to do.'¹¹⁹

In particular, judging Franco's position with regards to the programme was, and would continue to be, crucial. As such, it involved the authorities at the highest level. Gian Gaspare Cittadini Cesi, Deputy Secretary General of the OEEC, came to the conclusion that 'there was real support in the Spanish government [...] for a firm program of economic reforms' and that he 'felt that this attitude might also extend to Franco himself.'¹²⁰ The multilateral organisations were aware that the Spanish Council of Ministers had approved on 30th April the 'general lines of the programme' and noted how, 'we have been told that it holds the total support of General Franco.'¹²¹ They felt, however, that there continued to be 'a non-negligible room for discussion on many aspects of the programme.'¹²² The main points 'still not finalised' were 'the precise rate of exchange, and the initial list of liberalisation and global quotas.'¹²³

¹¹⁷ Ferras to Cochran, Madrid, 26th February 1959; AIMF, C/Spain/810 Mission, Jacobsson, Ferras and Staff, June 1959.

¹¹⁸ *Ibid.*

¹¹⁹ Von Mangoldt to Jacobsson, Munich, 1st April 1959; AIMF, C/Spain/420 Stabilisation Programme, 1957- July 6, 1959.

¹²⁰ Memorandum of conversation between OEEC and U.S. officials, 22nd April 1959, in 'OEEC, 1959-1961', Spain, Madrid Emb., CGR 1953-1963, FSPF, RG84 (entry 3167B, box 11), NACP.

¹²¹ C. Castoriadis to R. Sergent [Secretary-General of OEEC], 4th May 1959; HAEC, OEEC 581.

¹²² *Ibid.*

¹²³ J. D. Fay to Sergent, 15th May 1959; HAEC, OEEC 581.

By mid-May, the pro-reform ministers were privately boasting of the support that Franco had lent them:

In reply to a question, Ullastres stated that the stabilisation program concluded with the IMF and the OEEC had the absolute approval of the Chief of State. He said he had called on Franco the day before the last Cabinet meeting, about two weeks ago, to talk with him about the stabilisation program. The Chief of State made no comment, but the following day, in his regular roundup of developments of the preceding fortnight, which is the first item on the agenda of the Cabinet, Franco informed all the other Ministers of his firm support for the program and said it had the highest priority. [...] Ullastres added that he had told this to no one, but he felt the United States had the right to know.¹²⁴

The British Commercial Counsellor in Madrid similarly wrote on 19th May 1959 that Spanish officials emphasised that the Council of Ministers was 'fully behind the stabilisation programme, and alleged that Franco has made it plain to the Council that any Minister who fails to co-operate will be replaced.'¹²⁵ Ferras, however, still worried that despite the approval of the Ministers of Finance and Commerce of the Plan, 'it has not yet been specifically approved, as a whole, by the Cabinet.'¹²⁶

The issue of the endorsement of the programme by Franco, who ultimately had veto power, inevitably continued to be a Damocles' sword permanently hanging over the fate of the stabilisation effort. It was thus a relief for Per Jacobsson to find that, although Franco did not talk technicalities, 'it was clear he knew a lot about the programme.'¹²⁷ In fact, the entry in Per Jacobsson's diary of his visit to *El Pardo* palace to meet Franco captures well the importance

¹²⁴ 'Views of the Minister of Commerce on OEEC Membership and Economic Stabilisation', by Barall, Madrid, 14th May 1959, in Spain, Madrid Emb., CGR 1953-1963, FSPF, RG84 (entry 3167B, box 11), NACP.

¹²⁵ Quoted in 'Report of British Embassy in Spain on IMF-OEEC Negotiations', by Barall, Madrid, 20th May 1959, in Spain, Madrid Emb., CGR 1953-1963, FSPF, RG84 (entry 3167B, box 11), NACP.

¹²⁶ Ferras to Jacobsson, 29th May 1959; AIMF, C/Spain/420 Stabilisation Programme (Oversize file).

¹²⁷ PJ Diary, Entry 25th June 1959.

given by the multilateral organisations to ascertaining the commitment to reform within the Spanish government:

I asked Mr Franco if he was fully behind the program –Mr Ullastres said smilingly that Mr Jacobsson had put that question already twice to the Ministers. They had assured him that General Franco was fully backing the program –and now he put the same question again.

I explained that this was a most important question –that I had seen many technically good programs failing because the political backing was insufficient. Therefore, I had to put the question.

Franco –also smilingly- and probably a bit flattered because it was made clear that we considered his backing of the program essential –assured us that he was fully behind the program –that he would see to it that it was carried out –that he considered it in the interest of Spain.

My second point was: You will probably find that during the first months there will be difficulties –then it will probably be easier –but there will be complaints. They have to be taken coolly.

Franco: we have been used to take many things coolly –you need have no fears on that score.

And then we talked a bit about tapestries [...].¹²⁸

The multilateral organisations were acutely aware that Franco could at any time withdraw his support for the reform programme. It was a risk that therefore ought to be calculated and reinforced their attention to the position of pro-reformers within the Spanish government.¹²⁹ In the event, the multilateral organisations did not commit themselves until they trusted the intentions and the position of the reformers. Yet, it was a trust that the Spanish authorities had gained by delivering initial steps at stabilisation before the actual consultation with the multilateral organisations.

The February 1959 consultations gave Ferras and his team ample evidence of prior actions by the Spanish government. The Spanish authorities impressed upon the Fund staff how the fiscal reform of December 1957 had cut the budget deficit, which had been 13.6 billion pesetas in 1957, to 3 billion

¹²⁸ *Ibid.*

¹²⁹ 'The Ministers made a good impression –that was also the opinion of von Mangoldt. They knew their subjects; they had no need of calling in experts. Several times they referred to ideas they had about reforms in the future –that applied especially to the Minister of Finance. They spoke frankly –there was no question of withholding information and there was an evident desire to succeed with the programme.' PJ Diary, Entry 22nd June 1959.

pesetas in 1958, better than the original estimate of 11.9 billion. The Spanish authorities stressed that the Law of December 1958 on medium-term and long-term credit was designed primarily so that central bank advances to INI might eventually be terminated. This law represented, as emphasised by the Spanish authorities, a significant new departure in credit legislation. It not only extended its reach from commercial banks to official credit institutions, it also permitted a new type of government bonds which would not automatically be pledgeable in the Bank of Spain –the so-called ‘pignoración’.¹³⁰ The reference in the draft memorandum to the IMF and OEEC to the Spanish government intention ‘to continue with the progress initiated in 1957’ towards balancing the budget and credit restraint was not a mere platitude.¹³¹ The sheer length of negotiations, lasting several months in the case of the IMF and even longer in the case of OEEC-Spanish contacts, allowed the international organisations to ascertain the commitment to reform of first technicians, then ministers, and ultimately Franco himself. All these elements reinforced the trust relationship that was being developed.

The international organisations were in return very flexible. A good example is the acceptance by the IMF of the ceiling on commercial banks credit as one of the stabilising measures. Open market operations were out of the question since the central bank lacked a portfolio of securities. In fact, even if it had held such a portfolio, they would have been frustrated by the pledging (‘pignoración’) of the securities in the hands of the banks.¹³² Thus, ceilings on total discount and advances by commercial banks were to be part of the programme. This, Ferras noted, ‘is not an ideal monetary policy device, but given the impossibility of pursuing an effective open-market policy under the given

¹³⁰ Spanish consultations, Madrid, 16th-28th February 1959, Spanish consultations; AIMF, C/Spain/420.1 Exchange Restrictions Consultations - 1958, Minutes of Meetings.

¹³¹ Memorandum for the International Monetary Fund Mission, unsigned, 12th March 1959; AIMF, C/Spain/810 Mission, Jacobsson, Ferras and Staff, June 1959.

¹³² Of the total amount of Treasury paper outstanding with commercial banks (59.5 billion pesetas as of end of 1958) 47.4 billion pesetas were pledged. Minutes of first meeting, Spanish consultations, Madrid, 16th February 1959; AIMF, C/Spain/420.1 Exchange Restrictions Consultations - 1958, Minutes of Meetings.

circumstances, there is a need for such ceilings.¹³³ Not only were the ceilings a second best, the Spanish authorities 'lacked the necessary legal power to take such a measure' and ultimately had to rely on 'a gentlemen's agreement with the banks.'¹³⁴ It was therefore inevitable that much of the statement of the Spanish authorities in regard to credit policy and control of banking remained 'rather vague,' though Ferras did 'not think it necessary to get more definite commitments.'¹³⁵ Per Jacobsson recorded the discussion with Navarro Rubio on this issue as follows:

Mr Navarro thinks he needs a certain flexibility [on the question of rediscounting limits] He does not want the limit of 6.5 billion to be exceeded –but he must be able to tell industrialists and bankers that if something unforeseen would happen he has the freedom to act.

PJ: Could a suitable letter be written to that effect?

Navarro: Yes. (Ferras took a note).¹³⁶

This prompted the letter from Navarro Rubio to Jacobsson:

I am writing you this personal note in order to answer your fears that the general ceiling on bank credit to be imposed on the commercial banks in the stabilisation program might be frustrated by the banks resorting to large scale rediscount of commercial paper with the Bank of Spain. I wish to assure you that my policy will be to prevent this. We have ceilings now on rediscounts by the commercial banks at the Bank of Spain which amount in the aggregate to Pts 6.5 billion and in fact the rediscounts in the portfolio of the Bank of Spain are at this time well under Pts 6 million. While I do not feel able to take a formal commitment to hold the total strictly within the ceiling of Pts 6.5 billion, it is my firm intention to maintain severe restraint on rediscounts and not to allow any bank to exceed its ceiling except under conditions of exceptional need. I am sure that the whole stabilisation program will be accepted more readily if I am left in a position to give assurance to the business and financial community that sufficient flexibility has been left to me to cope with any emergency situations that might arise.¹³⁷

¹³³ Ferras to Jacobsson, 29th May 1959; AIMF, C/Spain/420 Stabilisation Programme (Oversize file).

¹³⁴ Minutes of ninth meeting, Spanish consultations, Madrid, 23rd February 1959; AIMF, C/Spain/420.1 Exchange Restrictions Consultations - 1958, Minutes of Meetings.

¹³⁵ Ferras to Jacobsson, 29th May 1959; AIMF, C/Spain/420 Stabilisation Programme (Oversize file).

¹³⁶ PJ Diary, Entry 23rd June 1959.

¹³⁷ Navarro Rubio to Jacobsson, Madrid, 25th June 1959; AGA, box 36624. Another letter from Navarro Rubio to Jacobsson from the same date expressed the Spanish

Beyond showing the flexible approach by the IMF this exchange highlights also how the Spanish pro-reformers did not welcome conditionality as a way of tying their hands.¹³⁸ Quite the contrary they appear to have been arguing that the best chance for reform laid with them and that some leeway would enhance the likelihood of their remaining in power.

Similar flexibility was followed by the multilateral organisations with regard to foreign investment. The Spanish suggested a new law in which there would be a distinction between productive and non-productive investment, and special permission was to be required if foreign ownership was to exceed 50% of shareholding. For the multilateral organisations 'both features were undesirable' and they made this clear.¹³⁹ Yet, they did not press the Spanish government to undertake any legal change prior to the announcement of the Stabilisation Plan.

The Fund's flexibility led it to accept some policies which otherwise it would not have endorsed. The import deposits, in particular, were singled out at the IMF Executive Board meetings by Executive Directors who were 'somewhat surprised to find advance deposits featuring in the program' and thought it 'strange to find such an unorthodox and dubious measure.'¹⁴⁰ A further example is the Spanish proposal to apply export taxes on goods such as oranges and import subsidies on items such as meat. The OEEC thought this 'the least satisfactory part' of the memorandum under preparation.¹⁴¹ Ferras similarly thought them 'regrettable,' but argued that its maintenance 'should not stand in

government intention to increase in the discount rate from 5% to 6.25% as well as pledging that the Bank of Spain 'will consider further increases.' *Ibid.*

¹³⁸ This has been suggested by the recent literature as one of the mechanisms through which conditionality may actually enhance the likelihood of the adoption of a reform programme. See footnote 25 above.

¹³⁹ Fay to Sergent, 15th May 1959; HAEC, OEEC 581.

¹⁴⁰ The first quotation corresponds to the Earl of Cromer, the second to B. N. Adarkar, IMF Executive Board Meetings/59/31, Washington, 17th July 1959; AIMF, C/Spain/420.1 Exchange Restrictions Consultations, 1958.

¹⁴¹ Fay to Sergent, 15th May 1959; HAEC, OEEC 581.

the way of an agreement with the Spanish authorities if, as is likely they consider it necessary.¹⁴²

Even where there appears to have been more watertight conditionality, namely the commitment to liberalise trade that we saw Spain undertook with the OEEC, there were obvious loopholes. The commitments were made at a time when the Spaniards had yet to approve a tariff reform. This prompted some concern from certain members of the OEEC, such as the Benelux members. The Spaniards got away with a mere reassurance that it was 'in no way the intention of the [Spanish] government to establish the new import duties in such a way as to jeopardise the effects of import liberalisation.'¹⁴³

The establishment of a new parity for the peseta, a cornerstone of the reform, was another element that reflected the attitude of the multilateral organisations. The topic has in fact attracted much attention in the literature, which often has given it a mysterious or entertaining tone.¹⁴⁴ Agreement to a 58 pesetas per dollar exchange rate had been given by the Spanish authorities by mid-May. However, Ferras and most members of the OEEC wanted a rate of 62 or even higher. Although Ullastres and Navarro Rubio considered that a rate of 60 would probably be preferable, they doubted it would be easily acceptable by the Spanish cabinet. Navarro Rubio indicated to Jacobsson that a figure higher than 60 would certainly not be agreed by the Cabinet.¹⁴⁵ The exchange rate was eventually fixed at 60. The Spanish authorities had a clear input to the decision.¹⁴⁶ The new parity had not being imposed by the multilateral

¹⁴² Ferras to Jacobsson, 29th May 1959; AIMF, C/Spain/420 Stabilisation Programme (Oversize file).

¹⁴³ Minutes of the 447th meeting of the Council, Paris, 27th and 28th July 1959. C/M(59)22; HAEC, OEEC 90.

¹⁴⁴ Estapé narrates the well-circulated story according to which Ullastres went to visit Franco to put forward the case that 'it was necessary to fix the rate at 58 pesetas. [...] Upon returning, Ullastres commented: «The general says that we put it at 60, that it's a round figure.» Estapé, *Sin acuse de recibo*, p. 193.

¹⁴⁵ PJ Diary, Entry 22nd June 1959.

¹⁴⁶ Ullastres summarised the process as follows: 'In meetings with the directors of the IMF, with American banks and the OEEC, they suggested a 63 pesetas/dollar exchange rate –the one in Tangiers, Geneva, etc. But I did not listen to them since it was not

organisations. As Navarro Rubio put it, the exchange rate was fixed at 60 'with the participation of all interested parties.'¹⁴⁷ It is worth noting that this was an intentional outcome.

In private, Jacobsson put it in the following terms to Hans-Karl von Mangoldt, chairman of the Board of Management of the European Monetary Agreement and head of the OEEC mission to Madrid in June 1959:

I went on to say that in exchange rate matters I wanted, whenever I could, to accept a rate proposed by the country itself. If the rate was clearly [an] unsuitable one would have to say so –but here, when no human being could say, for certain, whether the proper rate was 58, 60 or 62, I would not quarrel with the proposal of 60. Nobody can now say that it is the Fund that has forced Spain to devalue –its is their own proposal that has been accepted.¹⁴⁸

On Spanish public television, Jacobsson explained how stabilisation programmes 'can only succeed if there is the will to succeed in the countries themselves' and thus the 'Fund does not impose conditions on countries; they themselves freely have come to the conclusion that the measures they arrange to take –even when they are sometimes harsh- are in the best interests of their own countries.'¹⁴⁹ In the language of the recent literature on conditionality, the reform programme was 'owned' by the recipient's government: 'while the program itself was significant, the most important factor was the determination of the Spanish

necessary: such rate was inflated due to speculation, lack of confidence in the Spanish economy and other reasons. I proposed to the IMF and to Franco, who accepted it, a change of 60 pesetas, which appeared to me to be sufficient.' Ullastres, 'La estabilización contada por un protagonista de excepción,' p. 466.

¹⁴⁷ Navarro Rubio, 'La batalla de la estabilización,' p. 201.

¹⁴⁸ PJ Diary, Entry 23rd June 1959.

¹⁴⁹ Television interview at TVE, Madrid, 23rd June 1959, as quoted in James, *International monetary cooperation*, p. 109. The text of the interview can be found in MAE, Leg. 5908, Exp. 2. James finds this a 'surprisingly modern tone' and in fact opens his book by noting the similarities in the content of the interviews of Jacobsson to TVE in 1959 and by Michel Camdessus, then Managing Director of the IMF, to *Izvestiya* in 1993, p. vii.

government to put its house in order.¹⁵⁰ The IMF representatives wanted a stabilisation programme that was 'strong enough to inspire confidence at home and abroad,' but in reality showed utmost restraint in pressing for more stringent measures.¹⁵¹

Moreover the multilateral organisations were conscious of the coalition nature of the government and of who supported the reform. This was carefully weighed when choosing the reform layout and what was targetted. If not trying to tilt the balance towards pro-reformers, there was a conscious attempt not to do anything that would endanger the unity of the pro-reform coalition. The following letter from Ferras to Jacobsson exemplifies this sensibility:

As you know, one of the main deficiencies of the Spanish administrative structure lies in the extreme weakness of the Bank of Spain. The question is now being discussed in Madrid, but it unfortunately causes conflict between the two Ministers who are working hardest for stabilisation, the Minister of Finance and the Minister of Commerce. I am afraid that any effort on our part to bring about an early change in the system would only destroy the existing unity between the two Ministers and have the Spanish authorities committed to reforming both the organisation of the banking system and the instruments of monetary policy at their disposal.¹⁵²

Perhaps this exemplifies that the way in which the IMF and OEEC conducted themselves did matter. The IMF and OEEC appear to have affected the 'political sustainability' of the reforms.¹⁵³ Had they not been flexible enough the pro-reformers may not have decided to give it a go, had they appeared to be

¹⁵⁰ Statement from O. Paranaguá, Executive Director from Brazil. IMF Executive Board Meetings/59/31, Washington, 17th July 1959; AIMF, C/Spain/420.1 Exchange Restrictions Consultations, 1958.

¹⁵¹ Staff Report and Recommendations - 1958 Consultations,' approved by Ferras and I.S. Friedman, 22nd April 1959; AIMF, C/Spain/420.1 Exchange Restrictions Consultations - 1958.

¹⁵² Ferras to Jacobsson, 29th May 1959; AIMF, C/Spain/420 Stabilisation Programme (Oversize file).

¹⁵³ J. Nelson, 'The political economy of stabilisation: commitment, capacity and public response,' in R. H. Bates (ed.), *Toward a political economy of development* (Berkeley: University of California Press, 1988), pp. 80-130.

too pushy they may have jeopardised the chances of political survival of the pro-reformers by allowing them to be accused of selling out.

A subtle diplomatic sense prompted the OEEC and the IMF to agree on simultaneous missions at the proposal of the Spanish authorities. OEEC officials were opposed to such simultaneous missions but felt that they 'could not give a completely negative answer to the Spanish request.'¹⁵⁴ In fact, there appear to have been some frictions between the IMF and OEEC in relation to the multilateralisation of trade, as the existing literature notes.¹⁵⁵ However, overall there was a generally clear division of labour between the multilateral organisations. The World Bank, for example, having sent a team to visit Spain in October 1958, decided that it would not be effective to finance any projects before the economic policy-making had been sorted out and communicated to the IMF that it was the Fund's mission to contribute to the stabilisation.¹⁵⁶

This account has thus far paid very little attention to the discussion of the amounts of aid to be received by Spain. This is but a reflection of the negotiations. The provision of financial assistance was a *sine qua non* condition for the undertaking of the operation, yet discussions of this issue were very limited. By mid-May, Ferras had arrived at a figure of \$250 million as a likely total sum that was needed to cushion any trade imbalances during the first year of the programme.¹⁵⁷ The Spaniards worked with a provisional breakdown of IMF \$50 million, OEEC (European Monetary Agreement) \$60-\$70 million, private banks \$50 million, U.S. Treasury \$30-\$50 million.¹⁵⁸ Spanish pro-reform elements were satisfied with that position. Although the Spaniards would have obviously wanted as large amounts as possible, there was little bargaining over this matter. Only at the very end of June and beginning of July, as we will see

¹⁵⁴ J. P. Sallé to Cochran, Paris, 4th February 1959; AIMF, C/Spain/810 Mission, Jacobsson, Ferras and Staff, June 1959.

¹⁵⁵ Viñas *et al.*, *Política comercial exterior*, vol. 2, p. 1085.

¹⁵⁶ Discussion with Mr Lejeune of IBRD, 22nd December 1958; AIMF, C/Spain/801 Relations with Missions of Other Organizations in the Area of Fund Interest and Jurisdiction.

¹⁵⁷ 'Meeting on payments position,' note by Ferras dated 11th May 1959, and Fay to M. Quin, 15th May 1959; HAEC, OEEC 581.

¹⁵⁸ Areilza to Castiella, 22nd May 1959; AGA, box 36624.

below, do the Spanish authorities appear to have launched an offensive to secure further aid. And even then, the purpose was simply to enhance the credibility of the programme, as noted above.

This discussion of the role of the amounts of aid takes us to the issue of American support for the Stabilisation programme. It has been argued that the Americans were reluctant to give financial assistance to the Plan.¹⁵⁹ Why, if the Americans had an interest in the undertaking of the Stabilisation policies would they withdraw a support they had generously given before? The literature remains silent about this paradox. The apparent reluctance of the U.S. to commit funds to support the stabilisation programme has to be understood in the context of their acknowledgement that direct bilateral pressure had failed and that multilateral organisations might be more effective in inducing policy change in Spain.

This should not be confused with a lukewarm endorsement of the Stabilisation Plan. The American Embassy in Spain was as eager as anybody else to see the programme finalised, and hence called for Washington to 'exert all necessary influence to minimise time needed for mechanics and politics of OEEC processing, and to assure final Council approval on 17th July.'¹⁶⁰ The Americans were simply implementing a strategy to 'wait for Spain to work out an economic reform programme with the OEEC and IMF' and only then provide assistance.¹⁶¹ The Americans had, as early as April 1959, informed the OEEC that 'once the OEEC-IMF work with Spain had reached the point of developing a

¹⁵⁹ 'It was surprising that the State Department appeared not to be willing to support financially the programme.' Viñas *et al.*, *Política comercial exterior*, vol. 2, pp. 1106-07 and also pp. 953, 1067, 1114.

¹⁶⁰ P. Armstrong to Christian A. Herter [U.S. Secretary of State], Madrid, 15th June 1959, in Spain, Madrid Embassy, Classified General Records 1953-1963, FSPF, RG84 (entry 3167B, box 11), NACP.

¹⁶¹ Memorandum of Conversation, Selwyn Lloyd [British Foreign Secretary] and Herter, Paris, 29th April 1959, in Spain, Madrid Emb., CGR 1953-1963, FSPF, RG84 (entry 3167B, box 11), NACP.

programme of action, the U.S. would be prepared to give appropriate support.¹⁶² In fact, it was the Americans themselves that volunteered the new credits via the Eximbank. Per Jacobsson approached Douglas Dillon to impress upon him how it was politically important for Spain to be able to point to an American credit. Dillon immediately responded that 'Spain will get a substantial amount from the Eximbank, which can be announced at the same time.'¹⁶³ The only fresh money the Americans were willing to commit was via the Eximbank, as the State Department saw difficulties in securing funds from other outlays. The position of the U.S. appears thus to have been decided long before the visit by Ullastres to Washington.¹⁶⁴ The Americans, aware that the aid announcements were necessary mainly for publicity purposes, were therefore eager not to commit fresh funds and simply to repackage previously authorised funds. By pooling all resources from the OEEC, IMF, private banks, American defense support, PL480 sales, etc., in a single announcement the effect would thus be achieved. 'That ought to be politically impressive!' sneered Dillon at Jacobsson.¹⁶⁵ The press releases in 20th July 1959 therefore presented the total credits at \$375 million. The OEEC was granting \$100 million, the IMF \$75 million, private American banks \$70 million and the U.S. would provide \$130 million (although only \$30 million in Eximbank loans had not been previously announced).¹⁶⁶

Let us now discuss the involvement of the multilateral organisations in the implementation of the policy reforms.

¹⁶² Memorandum of Conversation, I. White [Deputy Assistant Secretary of State for European Affairs] and Cittadini Cesi, Washington, 22nd April 1959, in Spain, Madrid Emb., CGR 1953-1963, FSPF, RG84 (entry 3167B, box 11), NACP.

¹⁶³ PJ Diary, Entry 30th June 1959.

¹⁶⁴ The importance of this visit, and the 'capital interview' between Ullastres and Dillon, to secure the funds is thus exaggerated in Vifas *et al.*, *Política comercial exterior*, vol. 2, p. 1107.

¹⁶⁵ PJ Diary, Entry 30th June 1959.

¹⁶⁶ OEEC Press Release, Paris, 20th July 1959, Press/A(59)33; HAEC, OEEC 581.

In the Spanish case, as in others, the IMF did not hand over all its promised aid in one lump sum but it will dole it out piecemeal, as the prescribed reforms are carried out. The OEEC does likewise; its credit was to be made available in two instalments, and the second of these was approved only at the end of 1959, after it had made an independent survey of the progress of the Spanish economy. The two organisations thus hold watching briefs to see that the Spanish government lives up to the austerity programme it has adopted as a condition of the 'package loan'.

A. P. Whitaker, *Spain and the defense of the West: ally and liability* (New York: Harper, 1961), p. 204

7.4. Conditionality beyond the 1959 Stabilisation Plan: what was the role of the multilateral organisations in the implementation of reform?

As pledged in the memorandum of 20th July to the multilateral organisations, the Spanish authorities produced a first list of liberalised trade items within ten days of joining the OEEC, rendering 50% of its trade liberalised. In August, the Bank of Spain raised the discount rate, as promised by Navarro Rubio to Jacobsson, from 5 to 6.25%.¹⁶⁷ Imports, discouraged by a 25% advance deposit and by the elimination of the possibility of speculating with import licences, plummeted. Continuing budgetary discipline, a wage freeze, and increases in the prices of goods supplied by the state monopolies such as petrol or public transport contributed to curbing demand. Stocks soon accumulated and many businesses started to experience difficulties. From July to December 1959 a total of 18 government control agencies were eliminated. On 27th July a law regulating foreign direct investment was approved. The Plan, launched with much fanfare from the officially controlled press, proved a more bitter pill than perhaps many had anticipated. Demand for credit dried up to the extent that the credit ceilings set by the government for total private commercial credit were not reached.¹⁶⁸

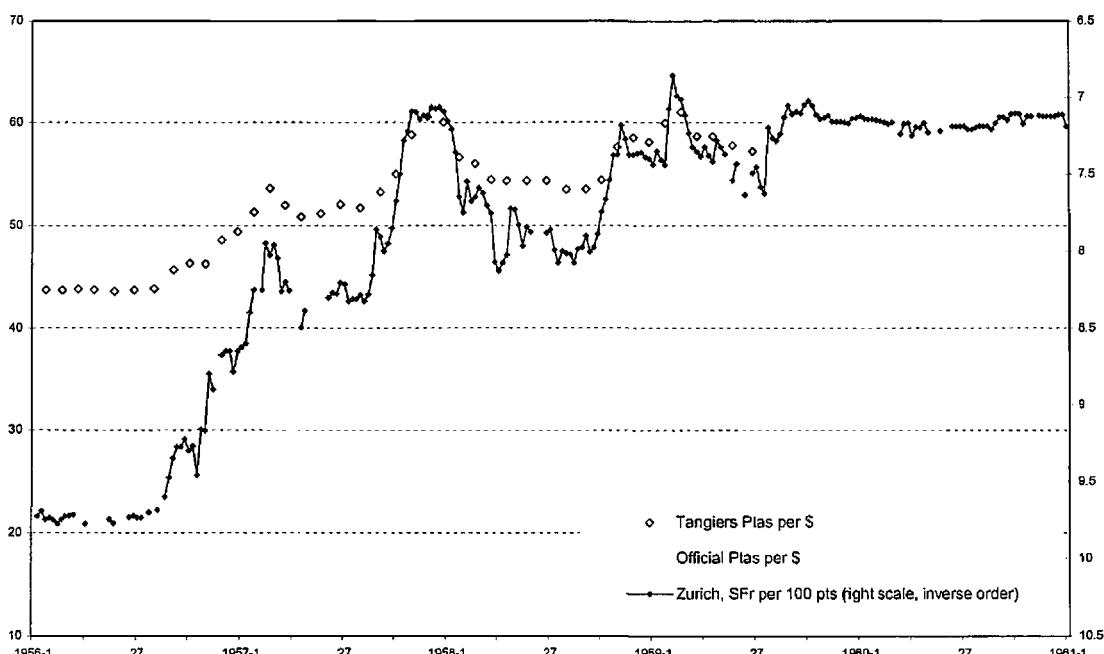
The multilateral organisations considered the economic developments since mid-July as being 'conducive to prudent optimism' and emphasised how

¹⁶⁷ J. M. Olarra Jiménez, *Medidas de política monetaria adoptadas en el periodo 1957-1973* (Madrid: Banco de España, 1974), p. 20.

¹⁶⁸ An excellent summary of policy measures adopted in the first two years after the programme is Banco Urquijo, *Stabilisation policy in Spain, 1959-1961* (Madrid: Servicio de Estudios del Banco Urquijo, 1961)

the evolution of the peseta exchange rate in the Tangiers black market was considered as 'satisfactory.'¹⁶⁹ As shown in Graphs 7.1 and 7.2 below, the contrast between the unofficial foreign exchange evolution after the 1957 and 1959 devaluations could not be more striking.

Graph 7.1. Peseta exchange rates in foreign markets, 1957-1961

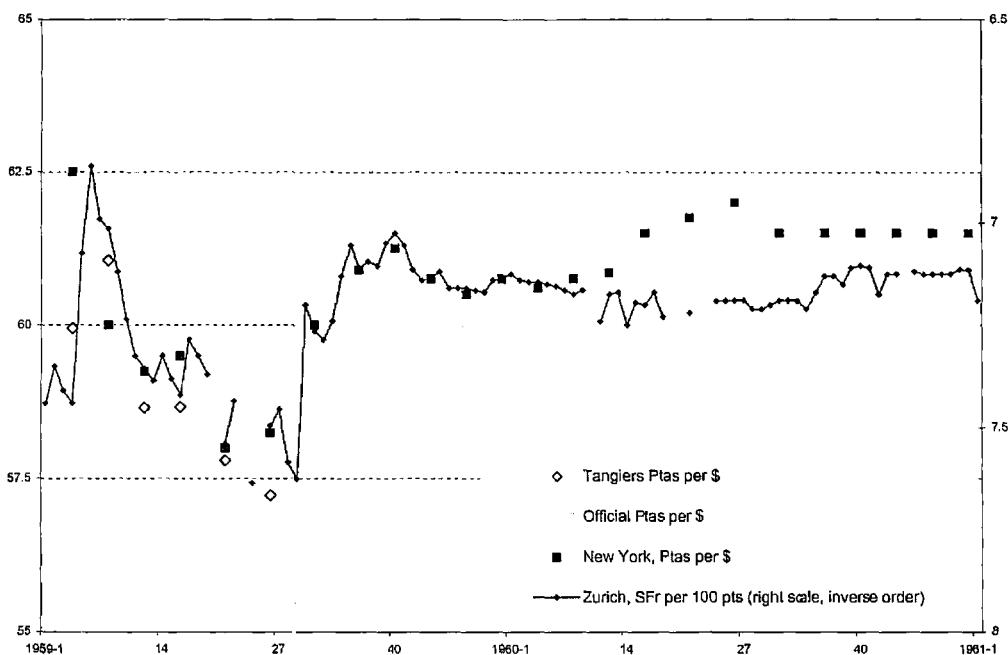


Notes: J. M. Serrano Sanz and M. J. Asensio, 'El ingenierismo cambiario. La peseta en los años del cambio múltiple,' *Revista de Historia Económica*, vol. 15, no. 3 (1997), p. 558 provide the average peseta-dollar rate concealed by the multiplicity of rates before (1956: 34.419, 1957: 40.043; 1958: 43.418; 1959I: 46.959).

Sources: together with the more common monthly Tangiers exchange rate system *Información Comercial Española*, June 1961, the graph includes the weekly swiss franc-peseta exchange rate in Zurich as quoted by *Crédit Suisse* and reported by *El Economista*, which allows us to capture better the decrease in volatility in the unofficial exchange rate after the Stabilisation Plan.

¹⁶⁹ The comment refers to Castoriadis' views. IMF European Office to Jacobsson and Cochran, Paris, 16th September 1959; AIMF C/Spain/420 Stabilisation Programme (oversize file).

Graph 7.2. Peseta exchange rates in foreign markets, 1959-1961



Sources: As in Graph 7.1 above and Pick, *Black Market Yearbook* (New York: Pick's World Currency Report), several issues.

The international organisations, however, kept a close eye on events. In late summer 1959, an official from the IMF, Ugo Sacchetti, visited Spain to report on the progress of the Stabilisation Plan.¹⁷⁰ Although the progress of the implementation of the Stabilization Plan was, 'on the whole, favourable,' Sacchetti highlighted that measures had been taken in a 'piecemeal fashion and rather slowly.' For example, global quotas had only recently been opened, the regulations on the operation of the exchange market had just been issued but not yet put into effect, and despite the Law on foreign investment being enacted on 27th July, the regulations were delayed until mid-September. More worrying was what Sacchetti felt was an 'excessive optimism' in the attitude of the authorities.

¹⁷⁰ All quotes in this paragraph are taken from 'Spain: stabilisation programme progress report,' by U. Sacchetti, 22nd September 1959; AIMF, C/Spain/810 Visit, Sacchetti, September 1959.

Navarro Rubio confidently told the IMF staff that the plan had taken 'a firm hold in the Spanish economy and that the public believes in it.' The Minister considered that the measures applied had been of such severity that they may have 'overshot the mark' and believed that 'something may have to be done in the near future to alleviate a situation of extreme monetary stringency.' Sacchetti, who thought the public was 'not fully convinced that the program is here to stay' worried that 'any such step may convince the public that this plan is another of the many attempts made in the past that did not last more than a few months.'¹⁷¹

Other foreign observers concurred in this view and noted how informed circles such as bankers feared that the Plan 'owing to indecision at the top, will lose its momentum before full success has been attained.'¹⁷² The Americans worried that despite the 'balance of payments deficit, price levels, and the budget seem to be under control' the general economic outlook was far from optimum 'because of the reluctance of the business community to make plans in the light of lack of clarity of government economic policy.' Unsurprisingly, this analysis led 'American observers to express the hope that OEEC/IMF visits will encourage the government to take necessary decisions and to find some way of communicating to the public a clear statement of the intentions of the government.'¹⁷³

Other Fund staff equally concluded that there was a 'wait-and-see attitude on the part of the public fostered by a lack of confidence in the determination of the government to make the new economic course stick.'¹⁷⁴ Similarly, they worried that little had been done to enhance the flexibility of the economy or to eliminate restrictive labour and business practices. However, maintaining the line adopted since the first consultations, their interpretation as to what 'pressure'

¹⁷¹ 'Spain: stabilisation programme progress report,' by U. Sacchetti, 22nd September 1959; AIMF, C/Spain/810 Visit, Sacchetti, September 1959.

¹⁷² 'Visit to Spain, October 1959,' by Turner, 6th November 1959; BoE, OV61/7.

¹⁷³ Frank A. Southard, Jr. [U.S. Executive Director at IMF] to Cochran, 18th November 1959; AIMF, C/Spain/420 Stabilisation Programme (Oversize file).

¹⁷⁴ 'Recent developments in Spain: what to do next?' A. Pfeifer to Ferras, 6th November 1959; AIMF, C/Spain/810 Mission, Ferras, December 1959.

should be put on the Spanish remained very soft.¹⁷⁵ Given the peculiarities of the Spanish situation, such a restrained approach was bound to continue to be the best way to induce policy change or prevent policy reversals.

The Spanish government was notably divided over the need to stabilise and, especially, to liberalise. These divisions exacerbated the difficulties that a regime such as Francoist Spain would have in credibly committing to the reforms. As a Bank of England observer acutely put it:

Of course the presence on the scene now of the OEEC and IMF makes a considerable difference but it does not alter the fundamental fact that the Cabinet is not united and that Franco is still at his old game of siding now with one side and now with the other. [...] There is a real risk that [Franco] may unexpectedly withdraw his support from the Ministers of Finance and Economy and plump for a dose of reflation.¹⁷⁶

The pro-reform Spanish politicians and officials were under pressure.¹⁷⁷ Even among the most ardent pro-reformers the 'shock effect of the stabilisation plan had been greater than expected'.¹⁷⁸ They were concerned over the extent of the slowdown in economic activity and showed their intentions to modify policy to make it less stringent. By the end of the summer, they were considering the

¹⁷⁵ 'The Spanish authorities should be told that the best hopes of again increasing activity and ending the present uncertainty is to carry out vigorously the basic reforms outlined in their stabilisation programme.' 'Recent developments in Spain: what to do next?' Pfeifer to Ferras, 6th November 1959; AIMF, C/Spain/810 Mission, Ferras, December 1959.

¹⁷⁶ 'Visit to Spain, October 1959,' by Turner, 6th November 1959; BoE, OV61/7.

¹⁷⁷ M. Navarro Rúbio, 'La batalla del desarrollo,' *Anales de la Real Academia de Ciencias Morales y Políticas*, no. 54 (1977), p. 198 refers to the attacks to the stabilisation policies in the Council of Ministers, which used to begin with a enumeration of all bankruptcies declared in the preceding week. Real per capita income fell by 2.7% in 1959. L. Prados de la Escosura and J. C. Sanz, 'Growth and macroeconomic performance in Spain, 1939-1993,' in N. Crafts and G. Toniolo (eds.), *Economic growth in Europe since 1945* (Cambridge: Cambridge University Press, 1996), p. 370.

¹⁷⁸ Comments by Sardà, 1st meeting with IMF officials on Exchange Restrictions Consultations 1960, Madrid, 23rd May 1960; AIMF, C/Spain/420.1 Exchange Restrictions Consultations 1960, Minutes of Meetings.

abolition of the advance deposit equivalent to 25% of the value of imports that had been introduced with the Plan in July. The advance deposits had come to be regarded as a 'relatively ineffective as a commercial policy measure' and therefore must have appeared to the reformers to be a good place to start giving signals to the market that the worst was over.¹⁷⁹ However, when Manuel Varela Parache, Technical Secretary-General of the Ministry of Commerce, confirmed to Fund officials that 'a change in this respect was in his mind' the IMF staff discouraged him as follows:

I told him that, apart from the danger that such a change may be interpreted in the sense that other similar relaxations may follow, the absence of safe indicators as to the direction in which the economy is moving suggested strongly that any action be delayed until a clear picture is obtained as to the trends in the various sectors of the economy.¹⁸⁰

However, the Fund staff took note and subsequently considered it one of their first concessions should they 'encounter strong pressure to 'undo' the stabilisation.'¹⁸¹ In fact, the advance deposits on imports were one of the very first measures to be repealed, in late January 1960. Whether the interaction between the multilateral organisations and the Spanish authorities was the crucial element in explaining this and other policy issues is arguable. In any case, the tone of the exchange is noteworthy. There was no outright pressure but rather a true exchange of opinions. Even a more conscious attempt at subtle diplomacy was displayed when the exchanges took place with elements that may not have been as convinced pro-reformers as was Varela. The following excerpt from Sacchetti's report is illustrative of the general attitude:

¹⁷⁹ Comments by Iranzo, 5th meeting with IMF officials on Exchange Restrictions Consultations 1960, Madrid, 25th May 1960; AIMF, C/Spain/420.1 Exchange Restrictions Consultations 1960, Minutes of Meetings.

¹⁸⁰ 'Spain: stabilisation programme progress report,' by U. Sacchetti, 22nd September 1959; AIMF, C/Spain/810 Visit, Sacchetti, September 1959.

¹⁸¹ 'There should be no harm in dropping this measure [importers' deposits] now that it has achieved its purposes.' 'Recent developments in Spain: what to do next?' A. Pfeifer to Ferras, 6th November 1959; AIMF, C/Spain/810 Mission, Ferras, December 1959.

Mr Sarda told me, on a confidential basis that a controversy is going on behind the façade as to whether or not to comply with the commitment (in the Spanish memorandum) not to issue government bonds with the clause that entitles the holder to pledge them as a collateral against loans. In the meeting with Mr Ortiz I did not raise directly this subject but I asked whether any internal order had been issued to the effect that the mentioned clause would be omitted.¹⁸²

The OEEC mission to Spain in early December 1959 concurred with the views from the Fund discussed above. It considered the stabilisation an 'outstanding success thus far' although also noted how the implementation of many measures had been 'slow or incomplete.' It advocated caution to the Spanish authorities despite recognising that the revitalisation phase might be due.¹⁸³

In response to the increase in the number of registered unemployed, which totalled 73,000 by mid-1959 and had increased to 91,000 by the end of the year, a system of unemployment benefit was introduced in February 1960.¹⁸⁴ The Spanish authorities kept the discount rate untouched until April 1960, when it was decreased from 6.25% to 5.75%. The purpose of this reduction was 'largely psychological,' to show the business community 'that the stabilisation effort was succeeding and that a beginning could be made with relaxing some of the more stringent measures.'¹⁸⁵

Industrialists were still 'hesitant to make definite business decisions for the future' and that '[u]ncertainty as regards the new tariff, the possibilities under the foreign investment regulations and the policies of the Ministry of Industry in

¹⁸² 'Spain: stabilisation programme progress report,' by U. Sacchetti, 22nd September 1959; AIMF, C/Spain/810 Visit, Sacchetti, September 1959.

¹⁸³ Report by the mission sent to Spain in December 1959 on the implementation of the Spanish Stabilisation Programme and its future problems, Paris, 28th December 1959, AMC(59)93; HAEC, EMA 111(1).

¹⁸⁴ For this and other statistical evidence see Rubio, 'El plan de estabilización de 1959.'

¹⁸⁵ Comments by Sardà, 2nd meeting with IMF officials on Exchange Restrictions Consultations 1960, Madrid, 23rd May 1960; AIMF, C/Spain/420.1 Exchange Restrictions Consultations 1960, Minutes of Meetings.

regard to new establishments.¹⁸⁶ Pro-reformers had the difficult task of persuading the business community that the reform was there to stay and that, despite the industrial slump in late 1959, the time for resuming investment had come. They maintained the adequacy of the stabilisation measures whilst recognising that the government may soon need to take more forceful measures to reactivate the economy. The future that was promised comprised stable prices, protection being lifted only very slowly and liberalisation of the economy proceeding at a very slow pace too.¹⁸⁷

The new tariff was announced and came into force in June 1960. By then the economic situation in Spain had improved significantly. Inventories were once again being reduced and production and investment resumed. In particular, the inflow of foreign exchange had 'far exceeded the original expectations.'¹⁸⁸ The foreign exchange reserves, which had declined from \$224 million at the end of 1955 to \$54 million by mid-1959, jumped to \$360 million by May 1960.¹⁸⁹ Ullastres took pains at explaining how the multilateralisation of trade had contributed to this outcome by improving Spain's terms of trade, as she was now

¹⁸⁶ Comments by Sardà, 1st meeting with IMF officials on Exchange Restrictions Consultations 1960, Madrid, 23rd May 1960; AIMF, C/Spain/420.1 Exchange Restrictions Consultations 1960, Minutes of Meetings.

¹⁸⁷ 'El Plan de Estabilización de la economía española: realizaciones y perspectivas,' speech of Ullastres at University of Barcelona, 4th April 1960, reproduced in J. Ros Hombravella (ed.), *Trece economistas españoles ante la economía española* (Barcelona: Oikos-Tau, 1975), pp. 53-79.

¹⁸⁸ Comments by Sardà, 1st meeting with IMF officials on Exchange Restrictions Consultations 1960, Madrid, 23rd May 1960; AIMF, C/Spain/420.1 Exchange Restrictions Consultations 1960, Minutes of Meetings.

¹⁸⁹ J. Catalan, 'Spain, 1939-1996' in M.-S. Schulze (ed.), *Western Europe: economic and social change since 1945* (London: Addison Wesley Longman, 1998), p. 358.

Although different sources show discrepancies in the figures, they all exhibit a similar trend. Data reported to the IMF report on the consultations in May 1960 states that 'the increase in holdings of gold and convertible currencies during the 11-month period June 30, 1959-May 31, 1960 was \$222 million.' 'Staff Report and Recommendations – 1960 Consultations,' 26th July 1960; AIMF, C/Spain/420.1 Exchange Restrictions Consultations – 1959/1960.

'not obliged to purchase from a particular country' to settle the bilateral trade and could thus get better prices.¹⁹⁰ It was important that the success be related to the package as a whole and to stress the importance of the trade multilateralisation. However, the bulk of this improvement was most likely due to the devaluation of the peseta to a realistic value.¹⁹¹ We will shortly return to other aspects related to the improvement of the foreign exchange position and an alleged abandonment of the reform programme. This will be necessary because, as in the analysis of the causes of the Plan, the literature has overly focused on the connection between foreign exchange reserves and the pace of reforms. Let us first summarise some aspects of the relationship between the multilateral donors and the Spanish authorities in the crucial first twelve months after the launching of the Plan.

The multilateral organisations kept to their previous style of contact with the Spanish authorities. They restricted contact to pro-reform elements, they never attempted to exercise any pressure and proved flexible enough so as to ensure that pro-reformers did not receive undue 'slaps on their wrists.' In short, they played a very limited role in affecting policy making in Spain after the adoption of the Stabilisation Plan.¹⁹² A notable exception to the way the multilateral organisations conducted themselves was the World Bank, which sent a much publicised 17-member mission that remained in Spain from March to

¹⁹⁰ 'El Plan de Estabilización de la economía española: realizaciones y perspectivas,' speech of Ullastres at University of Barcelona, 4th April 1960, p. 64. Ullastres, perhaps tellingly, does not provide any estimates as to the quantitative importance of this effect.

¹⁹¹ Only in the first five months of 1960 tourist receipts, unaffected by possible terms of trade effects, reached \$99 million whilst remittances amounted to \$20 million. During the amnesty for repatriation of capital (up to end-1959) some \$35 million were repatriated. 'Staff Report and Recommendations – 1960 Consultations,' 26th July 1960; AIMF, C/Spain/420.1 Exchange Restrictions Consultations – 1959/1960.

¹⁹² Viñas *et al.*, *Política comercial exterior*, vol. 2, p. 1141 agree on this characterisation. Of course, the difference between the view portrayed here and that of Viñas *et alia* is that, instead of a continuity, they consider this as a discontinuity for which they offer no explanation.

mid-June 1961 and drafted a lengthy report that was transmitted to the Spanish authorities in August 1962.¹⁹³

Building on the trust relationship between the pro-reformers and the multilateral organisations, the latter were updated regarding future policy measures as well as informed of the existing difficulties in implementing the reforms thus facilitating continued monitoring of the degree of commitment to reform within the Spanish government. For example, during the consultations that took place between Spain and the IMF in May 1960, López Rodó stated that they were 'attempting to achieve the elimination of the controls on establishment and expansion of industrial enterprises, but is meeting opposition from the Ministry of Industry and from established industries.'¹⁹⁴

Opposition from the Ministry of Industry was crucial given the existing system of prior licensing for all new industrial and commercial operations, as well as expansions of existing ones. In fact, the Ministry of Industry did exercise such blocking power. This is how an observer described the situation in late 1960:

[T]here is no difficulty in securing a permit for the import of say machinery [from the IEME]. However, firms proposing to extend or modernise their plant must secure the approval of the Ministry of Industry. If such plans are considered likely adversely to affect one of the nationalised industries delays will occur. The application may not actually be refused but it just does not make any progress.¹⁹⁵

The only concession of the Ministry of Industry throughout 1960 was to abolish the permits needed for establishing new industries or expanding existing

¹⁹³ A summary of the report was published by the Spanish government in 1963 and quickly became a best-seller. However, given the timing of events, it appears difficult to argue that it contributed much to the policy-making of the 1959-1962 period. See World Bank, *The economic development of Spain* (Spain: BOE, 1963) and Biescas, 'España y las organizaciones económicas internacionales,' pp. 297-99.

¹⁹⁴ Comments by López Rodó, 15th meeting with IMF officials on Exchange Restrictions Consultations 1960, Madrid, 31st May 1960; AIMF, C/Spain/420.1 Exchange Restrictions Consultations 1960, Minutes of Meetings.

¹⁹⁵ 'Visit to Spain. October-November 1960,' unsigned copy, 16th November 1961; BoE, OV61/7.

ones only in those cases that the amount spent did not exceed 2 million pesetas, where no imports of capital was involved and where no expansion had taken place during the preceding months. The Bank of England observer thought this 'so derisory as to be almost insulting.'¹⁹⁶ The slow progress was symptomatic of the ongoing fight between pro-reform and autarkic elements within the Spanish government. As Ullastres put it to the Americans, he was 'not alone in this particular Cabinet' and could 'not claim unique responsibility for Spain's economic policy.'¹⁹⁷

Progress may have been slow but it continued. In 1960 two new lists of commodities had been added to the products whose importation was free, and a fourth list was published in 1961, prompting the Minister of Commerce to declare that 70% of trade had by then been liberalised. This was slightly behind the schedule of what had been agreed with the OEEC, though this did not elicit a reaction from the latter.¹⁹⁸ Other external measures included the initial contacts with the General Agreement on Tariffs and Trade and the declaration of the foreign convertibility of the peseta in July 1961.¹⁹⁹ The official request to open negotiations with the European Economic Community in 1962 has also been interpreted as "part of the international component of stabilisation."²⁰⁰ This instance is of particular interest since it was the result of a calculus within the Franco government which only pursued it when other options were perceived as inadequate to sustain economic growth, and the choice to pursue with the

¹⁹⁶ 'Visit to Spain. May 1961,' unsigned copy, 7th June 1961; BoE, OV61/7.

¹⁹⁷ Biweekly Economic Review, by Aldrich, Madrid, 29th December 1960, in 'Spain Quarterly Economic Reports 1959-1961', Spain, Madrid Emb., CGR 1953-1963, FSPF, RG84 (entry 3167B, box 11), NACP.

¹⁹⁸ Viñas *et al.*, *Política comercial exterior*, vol. 2, p. 1132.

¹⁹⁹ It would finally become a part to it in July 1963. M. A. Díaz Mier, 'España-GATT: 25 años de historia,' *Información Comercial Española*, nos. 612-13 (Aug.-Sept. 1984), pp. 85-96.

²⁰⁰ F. Guirao, 'Association or Trade Agreement? Spain and the EEC, 1947-1964,' *Journal of European Integration History*, vol. 3, no. 1 (1997), p. 117.

approach to the EEC manifests the increasing importance of economic prosperity as a source of legitimacy for the regime.²⁰¹

That the implementation of the plan was slow was a common feature in all external reports commenting on progress. Yet, despite the slow pace they also noted the seemingly continuing nature of the process.²⁰²

The influence of INI was waning.²⁰³ This had significant repercussions for the industrial licences and foreign investment regulations. In March 1962 a ministerial order authorised foreigners to invest in Spanish shares and in May foreign investors were permitted freely to repatriate capital and to remit profits. A decree of November 1962 granted semi-automatic approval of foreign holdings of more than 50% in Spanish firms and, crucially, eliminated the licensing system for industrial and commercial concerns of either foreign or Spanish origin. Anti-monopoly and pro-competition measures were similarly enacted at the end of 1962.²⁰⁴ As one of the mushrooming business reports on Spanish legislation for prospective foreign investors put it, 'slowly, as its confidence increased and foreign exchange reserves began to build up, the government has begun further liberalising the rules affecting foreign

²⁰¹ F. Guirao, '«Solvitur Ambulando»: the Place of the EEC in Spain's Foreign Economic Policy,' in A. S. Milward and A. Deighton, *Widening, Deepening and Acceleration: the European Economic Community, 1957-1963* (Baden-Baden: Nomos), p. 347.

²⁰² This is true not only of reports made public but also the internal view within the multilateral organisations. For example, 'Spanish economic situation,' C. L. Merwin to Jacobsson, 6th August 1962; AIMF, C/Spain/420 Stabilisation Programme (Oversize file).

²⁰³ 'INI is no longer able to exert its former influence against modernisation of plant' reported the Bank of England observer. 'Visit to Spain. October-November 1961,' unsigned copy, 10th November 1961; BoE, OV61/7.

²⁰⁴ Viñas *et al.*, *Política comercial exterior*, vol. 2, p. 1136 highlight how these measures were at the heart of the 1959 initial memorandum to the OEEC and IMF and stress that the long delay in their implementation is proof of the reluctance that needed to be overcome.

investors.²⁰⁵ The reference to the soaring foreign reserves is of particular interest.

In fact, it has long been argued that the liberalising prospects of the 1959 programme were not fully realised because as soon as the reforms begin to yield fruits, vested interests successfully captured the reform programme.²⁰⁶ The mainstream view can be captured in the following quotation:

It was to be expected and feared that the ideas and interests of the old policy, humiliated and surrendered by the situation of external bankruptcy in 1959 that forced the acceptance of the Stabilisation Plan, would resurface as soon as the economy recovered. [...] Foreign exchange reserves kill the reformist wishes of Spanish governments of any political sign. This is what happened in Spain from 1961 onwards.²⁰⁷

This would have been, of course, what we would expect if the lack of foreign exchange had been a fundamental reason driving the adoption of the Plan. Recall that the foreign exchange crisis had been played up by pro-reformers as the reason to undertake the reform programme. Thus, it is unsurprising that those that see the adoption of the 1959 Plan 'out of necessity' are particularly keen on this view:

As soon as the urgency imposed by the external bottleneck disappeared and the balance of payments started to improve [...] the regime gave way in its attempts at enhancing the flexibility of the economy.²⁰⁸

At the very least, this confuses the reluctance to liberalise further of some groups such as the Ministry of Industry and INI with the 'regime' as a whole. In fact, the story of the years 1960-63 can be told as the defeat of INI. In that process the multilateral organisations appear to have done very little.

²⁰⁵ Business Europe, *The Spanish report* (Business International, 1962), p. 12.

²⁰⁶ González, *La economía política del franquismo*, pp. 299, 353-54. Foreign exchange reserves are shown to improve from \$589 million at the end of 1960 to \$891 million in 1961, \$1067 million in 1962, \$1158 million in 1963 and peaking at \$1508 million in 1964 (p. 309).

²⁰⁷ Fuentes Quintana, 'El Plan de Estabilización económica,' p. 39.

²⁰⁸ Viñas *et al.*, *Política comercial exterior*, vol. 2, pp. 1168, 1138. Contrast this with their own argument as referred to in footnote 204 above.

As far as this thesis is concerned, the reason to review the existing arguments linking foreign exchange reserves and the adoption of reforms has stemmed from the implicit leverage that it gave the multilateral organisations. The experience reviewed here suggests that the reasons for the much-discussed stalling of the reform around the mid-1960s ran deeper than a mere increase in the foreign exchange reserves.²⁰⁹ Nevertheless, a puzzle that further research needs to clarify may be highlighted. If the 'rhetorical use' of the foreign exchange crisis by pro-reformers did persuade Franco, why did not he withdraw his support after the storm had been weathered? As a research agenda the reader may consider the possibility that Franco's decision to go ahead with the plan might have been motivated by more than the immediacy of suspension of payments. Perhaps more fruitful would be to explore the evolution of the terms in which the delegation of authority from Franco to his ministers took place and how the latter were ultimately assessed.

²⁰⁹ For early expositions about the stalling of reforms in the mid-1960s see J. Ros Hombravella, *Política económica española (1959-1973)* (Barcelona: Ed. Blume, 1979) and L. A. Rojo, 'Panorama económico,' in J. Ros Hombravella (ed.), *Trece economistas españoles ante la economía española* (Barcelona: Oikos-Tau, 1975), pp. 157-78.

7.5. Conclusion

The experience of multilateral aid in the 1959 Stabilisation Plan is not one of strict conditionality. Formal conditionality was extremely limited and played, at best, a very limited role in mobilising support for the plan and none in its implementation. The American expectation that multilateral organisations would contribute to policy reform in Spain was only partially right. Contact between the multilateral organisations and Spain may have contributed to the adoption of reforms in Spain but not because of their greater effectiveness at exercising pressure.

As the case study shows, the virtue of the multilateral organisations was correctly to assess the willingness and strength of pro-reform elements. They did so by focusing on prior actions of the recipient during a long period of monitoring and by developing a trust relationship with pro-reform elements within the recipient government. They also carefully avoided any instance that might jeopardise the position of pro-reformers *vis-à-vis* autarkic elements and, similarly, consciously setting aside issues that might have put at risk the cohesion within the pro-reform group. Once the Stabilisation Plan was in place, the multilateral organisations again showed utmost restraint in their dealings with the recipient authorities so as not to jeopardise the chances of the success of the reform. The conscious goal of the multilateral organisations was the establishment of a relationship based on trust, rather than leverage. Formal conditionality had no significance in explaining the outcomes.²¹⁰

This is not to say, however, that foreign aid played no role in enhancing the credibility of the reform programme. The sheer size of aid available at the disposal of the Spanish government to defend the peseta parity must have contributed to buttressing the credibility of the parity. The involvement of the multilateral organisations was probably a necessary condition, if only because no policy-maker in Spain dared to accomplish the reform programme without a sufficient safety net in the form of financial assistance that would cover possibly

²¹⁰ Cfr. Sacchetti, in his recollections of the Spanish operation, emphasises the role of conditionality to ensure the programme would be undertaken. U. Sacchetti, 'El FMI y el programa español de 1959. Una perspectiva personal' in Varela Parache (coord.), *El Fondo*, p. 319.

very large initial trade deficits. The involvement of the multilateral organisations may have thus provided a stimulus to the shaping of the programme, but not because of the exercise of any sort of pressure from the multilateral organisations.

It is also difficult to see how the involvement of the multilateral organisations could have shifted the balance as drastically as is often claimed in the literature. Their role was limited and could not have substituted for the most important factor, that by 1957-1959 there existed pro-reform elements within the Spanish government that successfully pressed for the reform. The different outcomes in terms of policy reform achieved by the bilateral and multilateral donors do not stem from differences in the formal elements of conditionality attached to aid.

The chapter has also raised questions about the general explanations of the Plan itself. In particular, the *inevitability* of the reform programme and the *reluctance* of the leadership to the adoption of the plan are analytical categories that do not help the debate and may preclude the posing of questions that would yield a deeper understanding of this episode in Spanish economic history.

Finally, we may want to recapitulate some of the insights that the involvement of the multilateral donors in the Spanish 1959 Stabilisation Plan can provide to the wider literature on the use of foreign aid to induce policy reform. Our case study supports the view that replacing the assumption of a unified and benevolent government with that of a divided one may result in different policy recommendations.²¹¹ It equally supports recent theoretical literature on the political economy of conditionality that argues that it is key to realise the “centrality of conflict or heterogeneity of interests in understanding conditionality.”²¹²

²¹¹ M. Boycko, A. Shleifer, R. W. Vishny, ‘Second-best economic policy for a divided government,’ *European Economic Review*, vol. 40 (1996), pp. 767-74.

²¹² A. Drazen, ‘Conditionality and Ownership in IMF Lending: A Political Economy Approach,’ paper presented at the Second Annual IMF Research Conference, 29-30 November 2001 (<http://www.imf.org/external/pubs/ft/staffp/2001/00-00/pdf.drazen.pdf>), p. 42.

This heterogeneity of preferences within the recipient government not only refers to the coalition nature of the government but also to the possible existence of 'egotist reformers' who may value their personal success above that of the reforms. Similarly, the conscious exploitation of asymmetries in information and perceptions, the 'rhetorical use' of a particular crisis, adds a further layer of analysis to the role of crisis in inducing policy-reform.²¹³

²¹³ D. Rodrik, 'Understanding Economic Policy Reform,' *Journal of Economic Literature*, vol. 34, no. 1 (March 1996), pp. 9-41.

Conclusions

The impact of foreign aid in the Spanish economy has been treated with some ambiguity in the historiography. It has featured consistently among the issues raised in accounts of the Spanish economic revival of the 1950s, yet it is a topic that has received little further discussion. It has been claimed that foreign aid lent a breathing space to the autarkic policies by alleviating shortages in the Spanish economy during the mid-1950s, when in fact disbursements were very limited during that time. Aid disbursements increased towards the latter years of the decade, a fact that is not easily incorporated in the standard account that the increasingly desperate balance of payments situation prompted policy change. In fact, by the time the conventional account reaches the year 1959, foreign leverage, including American pressure which had thus far not featured in the story line, is credited with contributing to the adoption of particular economic policy reforms, such as the Stabilisation Plan adopted in July 1959. In short, discussions of the effects of foreign aid in the Spanish economy tend to be brought to the mainstream narrative of Spanish economic performance on an *ad hoc* basis, rather than being incorporated fully in the analysis in a consistent argument. The consensus view in the literature is in no way unanimous but the absence of conclusive evidence has only meant an even more disappointingly vague treatment of the role of foreign aid in the political economy of mid-Francoism.

This dissertation moves the discussion further by focusing on individual transmission mechanisms, both direct and indirect, through which the foreign aid programmes affected the Spanish economy. This allows a more in-depth analysis of some of the existing arguments in the literature, such as the role of American aid in relieving input bottlenecks and the contribution of Americans and multilateral organisations to the process of policy change. Inevitably, this implies that there are alternative questions that could be asked about the effects of the foreign aid programmes on the Spanish socio-economic fabric that escape this

dissertation. The criteria used to select the individual transmission mechanisms to be explored were relevance in the existing historiography and theoretical considerations.

The economics of foreign aid, and in particular recent literature on the use of conditional aid as an inducement for policy reform in the recipient country, suggests that we pay particular attention to the structure of incentives of the donor. This focus on the structure of incentives of the donor proved to have a parsimonious appeal to it. It helped us in interpreting why the attempts by the Americans at exercising leverage over the Spanish policy-makers failed. Thus, this dissertation not only uncovers much original archival evidence showing the ineffectiveness of American pressure but also provides a clear theoretical rationale for it.

The focus on incentives also helped us to structure and pursue the economic implications of the improved political recognition that the American *rapprochement* to Franco's Spain implied. The issues raised centred around the effect of an enhanced political credibility on the expectations of private economic agents and prompted the question of whether we could detect a reaction of Spanish business sentiment to the American involvement in Spanish affairs. The 'political conditionality' of the aid-for-bases agreements, that is, the way in which the Americans implicitly committed themselves to the stability of Spain, contributes to our understanding of both the failure of the American attempts at exercising leverage as well as the improved business sentiment and the reaction of Spanish private investors.

Similarly, we examined the role of multilateral donors in the 1959 Stabilisation Plan, providing an archival-based account of this little known, yet often regarded as significant, aspect of the stabilisation operation. The alleged importance of the multilateral organisations stems from the commonly held view that a foreign exchange crisis proved to be decisive in prompting the adoption of the Stabilisation Plan in July 1959. Such a crisis situation presumably increased the bargaining power of multilateral organisations leaving them in a better position to make their financial support of the stabilising operation conditional on the adoption of reforms by the Spanish authorities. However, the evidence mobilised here shows that no such crude bargaining approach took place. The multilateral organisations played a much subtler role in brokering the Plan,

primarily limited to consciously attempting not to undermine the more reforming elements within the Spanish government. Most stabilising policy initiatives were native rather than suggested, let alone imposed, from the outside, evidence that is conducive to the view that the 1959 Plan was the culmination, rather than the beginning of, a longer-standing process towards policy change. Our discussion of this aspect of the Stabilisation Plan suggests that understanding of the whole stabilisation operation would benefit from a fuller archivally based account than is currently available in the literature. Combining the conclusions drawn from both the bilateral and multilateral aid episodes, this dissertation shows that the process of economic policy change in Spain during the 1950s had very little to do with foreign pressure.

The contribution of aid-financed goods to the alleviation of bottlenecks was addressed using the standard input-output methodology. This exercise showed that the contribution of aid-financed goods to economic performance via the relief of input bottlenecks was very limited. By formally accounting for linkage effects, it provides more conclusive evidence than a simple comparison of aid-financed goods with actual imports, and underlines the view that the American aid programme provided very little direct relief.

Albeit not a growth-accounting exercise, the argument put forward in this dissertation has implications for the historiography of explaining the substantial resumption of economic growth in Spain during the 1950s. The double paradox of high-profits yet low-investment during the 1940s and the high-growth yet little policy-change during the 1950s is resolved perhaps. It should prompt further research on the effort to explain such performance, including better knowledge on the extent of actual policy-change and the role and determinants of private investment.

The conclusions drawn in this dissertation are obviously limited in geography and time to the case under study. Yet, the interplay between economics and history is by no means a one-way street, resulting in implications for a wider literature. In our discussions of the American attempts at influencing Spanish economic policy-making we realised the importance of the divisions within the Spanish government and argued that current models of the effectiveness of conditionality fail to take that aspect into sufficient consideration.

Focusing attention on the donor's incentives is in fact an insufficiently explored area of many other foreign aid programmes. The literature on the Marshall Plan, for example, has been preoccupied with reconciling the limited direct impact of the programme with its widely perceived importance. It has thus focused on the credibility effects of the programme, the argument being that it allowed Western European countries credibly to commit to market-friendlier and growth-conducive policies, such as a higher degree of intra-European trade, than would have been possible in the absence of Marshall Plan initiatives such as the European Payments Union. The most common rationale provided is, however, that the enticement of Marshall aid (and the threat of its withdrawal) proved decisive for engaging Western European governments. As such, this hypothesis has not been fully investigated and therefore has received no archival refutation or support. However, research has shown that American attempts at exercising leverage over domestic economic policy of the recipient countries systematically failed. The burden of proof thus appears to rest on those arguing that the promise of aid was effective in changing the foreign economic policy of Marshall Plan recipients. The discussion of the incentives of the donor suggests that other credibility effects may stem from the American commitment towards Western Europe that the Marshall Plan implied. Under this hypothesis the supply response need not be motivated by substantial economic policy change in the domestic or foreign spheres.

Similarly, Chapter Six provides a discussion of the advantages and drawbacks of the event study methodology, still little used in the economic history literature. In particular, a word of caution was raised as to the exclusive use of the search for turning points in financial indicators time series, given the problems of interpretation of the driving forces behind those turning points in complex historical analyses.

The interaction between Spanish officials and members of the multilateral organisations showed that the latter were acutely aware of their limited leverage and the importance of the commitment to reform of the Spanish government for the programme to succeed. The records show their words and actions display a surprisingly modern tone. 'Surprising' because those very international organisations would in later decades toy with the practice of strict policy conditionality and 'modern' because the recent literature has consistently argued

that 'aid cannot buy reform,' irrespective of the strict formal conditionality attached to aid programmes. Was the type of involvement of the multilateral organisations in the 1959 Spanish reforms the common practice of the day? How did these organisations come to believe in the effectiveness of conditionality in later years? Studies of the practice of conditionality by these institutions that benefit from the range of sources available to the historian are still few. The conclusions drawn in this dissertation may contribute to promote research in that direction.

Appendix

Table A.1. Loans under the Eximbank \$62.5 million credit line

Loan	Beneficiary	Purpose	Date of approval	Amount disbursed (\$)
52-1	Banco de España	Cotton	8 Feb 51	4,999,750
52-2	Id.	Fertilizer	8 Feb 51	3,499,583
52-3	Id.	Tractor and spare parts	8 Feb 51	3,444,929
52-4	Soc. Ibér. Nitrógeno	Fertilizer manuf.equip.	8 Feb 51	698,579
52-5	Banco de España	Wheat	15 Mar 51	7,221,777
52-6	Central Siderúrgica	Coal	5 Jul 51	3,495,451
52-8	RENFE	Railway equipment	19 Jul 51	8,262,894
52-9 ^a	Cía. E. Minas del Rif	Mining equipment	2 Aug 51	199,131
52-9B	Banco de España	Id.	2 Aug 51	1,136,629
52-9C	Cía. Min. Montañas Sur	Id.	2 Aug 51	221,961
52-9D	Agromán	Id.	2 Aug 51	163,374
52-9E	Banco de España	Id.	2 Aug 51	1,416,764
52-10	U. Eléct. Madrileña	Electrical equipment	2 Aug 51	2,337,909
52-11	AHV	Equip. for steel plant	9 Aug 51	3,799,654
52-13	ENESA	Floating power plant	16 Aug 51	727,912
52-14	Id.	Equip. for steam plant	16 Aug 51	1,032,452
52-15 ^a	Potásas Españolas	Mining equipment	23 Aug 51	1,499,089
52-15B	Minas de Almadén	Id.	23 Aug 51	86,555
52-16	EN Calvo Sotelo	Equip. for power plant	29 Nov 51	629,741
52-17	UNESA	Electrical equipment	6 Dec 51	1,970,971
52-18	Banco de España	Oack staves	17 Jan 52	474,155
52-19	Id.	Tin plate	24 Jan 52	1,995,759
52-20	EN Calvo Sotelo	Equip. for power plant	31 Jan 52	1,663,269
52-22	CEPSA	Steel plates for tanker	17 Jul 52	343,482
52-23	Banco de España	Farm machinery	31 Jul 52	2,990,312
52-24	Hidro Nitro Española	Ammonium sulphate plant	31 Jul 52	1,833,732
52-25	Arazábal	Agricultural machinery	21 Aug 52	159,000
52-26	Turrow Collieries	Development of mines	31 Dec 52	474,000
52-27	Fábrica de Mieres	Id.	31 Dec 52	850,317
52-28	Carbones de Langreo	Id.	31 Dec 52	129,517
52-29	Duro Felguera	Id.	31 Dec 52	722,946
52-30	Minas de Figaredo	Id.	31 Dec 52	367,542
52-31	Hulleras de Riosa	Id.	31 Dec 52	440,117
52-33	Frutos Españoles	Food processing plant	31 Dec 52	174,038
52-34	EN Elcano	Steel for tanker	31 Dec 52	499,982
52-35	Fluoruros	Fluorspar mining	7 Oct 53	399,148
52-36	Central Siderúrgica	Coal and coking coal	7 Oct 53	1,796,621
52-37	Ind. Subsid. Aviación	Automobile industry	30 Jan 57	103,642
			Total	62,262,684

Source:

Export-Import Bank of Washington, *Report to the Congress for the period ending June 30, 1959*, Part 2: 'Loan Operations as Agent for International Cooperation Administration and Others', pp. 170-73.

Appendix

Table A.2.. Details of second phase Eximbank loans

Loan	Beneficiary	Purpose	Date of approval	Amount disbursed, at 30 th June 1963 (\$)
568	Cía. Eléct. Langreo	Thermal power unit	15 Jul 54	1,031,108
574	Manuf. Met. Madril.	Steel mill equipment	14 Oct 54	159,198
705	Hidroeléctrica Esp.	Thermal power unit	7 Jul 55	7,018,523
579-1	INI	Steam boilers	15 Sep 55	887,571
579-3	EN Calvo Sotelo	Boiler unit	17 Nov 55	582,358
687-2	Gumersindo García SA	Diesel shovel	17 Nov 55	-
731-1	Nitratos de Castilla	Heavy duty compressors	23 Dec 55	-
AOFC-4	CEPSA	Ammonium sulphate plant	23 Feb 56	-
	752-1	SA Sanllehi	Knitting machines	10 May 56
	752-2	J Rossell SA	Id.	10 May 56
	752-3	Medias Sacma SA	Id.	10 May 56
	752-4	Manuf. Antonio Gassol	Id.	10 May 56
	752-5	F y F Marimón SA	Id.	10 May 56
	752-6	Hijos de M. Vallhonrat	Id.	10 May 56
	752-7	Miguel Gil SA	Id.	10 May 56
	752-8	Miguel Bosch SA	Id.	10 May 56
844	Jta. Energía Nuclear	Atomic research reactor	11 Oct 56	385,000
955	RENFE	Diesel locomotives	17 Oct 57	7,999,500
1000	UNINSA	Steel mill facilities	1 Apr 58	5,223,637
1017	Iberduero	Power generating equip.	12 Jun 58	8,226,820
1018	ENESA	Id.	12 Jun 58	14,445,390
1059	ENSIDES A	Steel mill equipment	15 Jan 59	3,840,087
1096	Abonos Sevilla	Fertilizer plant	21 Aug 59	6,985,752
1097	REPESA	Id.	21 Aug 59	9,180,290
1101	Firestone Hispania	Tyre manufacture equip.	24 Sep 59	382,113
1139	Térmicas Asturianas	Power generating equip.	11 Mar 60	7,946,356
1140	Sevillana de Elect.	Thermal power plant	11 Mar 60	8,175,504
1146	Iberia	Aircraft	24 Mar 60	10,857,142
1178	Ind. Subsid. Aviación	Engine manufact. Equip.	9 Jun 60	748,127
1225	AHV and Basconia	Electrolyt. tinning mill	28 Jul 60	4,063,467
1267	ENSIDES A	Rolling mill rolls	8 Sep 60	2,299,897
1338	José R. Mora-Figueroa	Irrigation pumps	10 Nov 60	137,500
1441	INI	Thermal power unit	26 Jan 61	7,396,102
1493	ENSIDES A	Iron and steel plant	9 Mar 61	12,268,725
1557	Bco. Cdto. Industrial	Capital goods	26 Apr 61	-
1561	AHV	Strip mill	4 May 61	-
1666	Tex. Reu. Algodoneras	Cotton ginning machinery	6 Jul 61	60,876
1694	J.E. Llaneza SA	Soil compactor	27 Jul 61	8,691
1974	Centrales Tér. Norte	Thermal power unit	12 Feb 62	10,103,594
8-1	Coop. Ag. Algodonera	Cotton ginning machinery	20 Mar 62	48,052
8-2	Coop. Ag. Guadalete	Id.	20 Mar 62	43,571
8-3	Cult. y Desmot. Algo.	Id.	20 Mar 62	48,880
8-4	Coop. Ag. Cordobesa	Id.	28 Mar 62	48,052
2021	Sevillana de Elect.	Thermal power unit	31 May 62	7,224,025
2026	Lagunas del Barbate	Reclamation project	7 Jun 62	598,379
2056	GES A	Power plant at Alcudia	27 Sep 62	-
5-18	Coop. Algod. 'Reyes'	Cottonseed oil mill	1 Oct 62	170,139
2073	ENESA	Thermal power unit	18 Dec 62	-
2074	ENSIDES A	Iron & steel facilities	18 Dec 62	-
5-26	Babcock & Wilcox	Vertical grinder	19 Dec 62	-
5-34	Coop. Ag. Cordobesa	Cottonseed oil mill	5 Mar 63	-
			Total	138,594,426

Source: Export-Import Bank of Washington, *Report to the Congress for the period ending June 30, 1963*, Part 2, pp. 64-67. Some loans were cancelled.

Appendix

Table A.3. Military aid disbursed, FY1954 to FY1963 (in thousands of dollars)

FY1954	FY1955	FY1956	FY1957	FY1958	FY1959
23,200	39,000	65,400	96,800	48,200	51,600
<hr/>					
FY1960	FY1961	FY1962	FY1963	CUMULATIVE	
60,700	51,800	20,700	26,500	524,000	

Source: Agency for International Development, *US Foreign Assistance and assistance from International Organizations: Obligations and Loan Authorizations, July 1, 1945- June 30, 1962*, and *Idem, US Overseas Loans and Grants from International Organizations, July 1, 1945-June 30, 1963*. The source is not generally that useful for other case because it shows authorization values 'with the exception of military assistance, where the annual data represent the value of goods delivered' (Foreword). Still, this raises the issue of valuation as discussed in the text.

Table A.4. Repayments on Eximbank loans (in thousands of dollars)

	FY1954	FY1955	FY1956	FY1957	FY1958
	53(2)	54(1)	54(2)	55(1)	55(2)
1 st cotton loan	1,046	10,911			
2 nd cotton loan		337	10,487	865	
\$62.5 million credit line			498		2,276
2 nd phase lending				86	2,808
					956
	FY1959	FY1960	FY1961	FY1962	FY1963
\$62.5 million credit line	3,119	3,120			
2 nd phase lending	1,874	1,503	2,562	2,876	7,850

Notes: the Eximbank reports first refer to repayments on the \$62.5 million credit line in June 1956 and stop referring to these after FY1960, although most certainly repayments of those loans proceeded normally.

Appendix

Table A.5. Exchange rate of peseta in New York (in pesetas per \$)

Jan-47	30	Jan-50	48.5	Jan-53	44	Jan-56	45	Jan-59	62.5	Jan-62	60.6
Feb-47	30	Feb-50	60	Feb-53	43.6	Feb-56	44.9	Feb-59	60	Feb-62	60.35
Mar-47	32	Mar-50	54	Mar-53	43.15	Mar-56	44.85	Mar-59	59.25	Mar-62	60.25
Apr-47	31	Apr-50	53.5	Apr-53	43.25	Apr-56	43.9	Apr-59	59.5	Apr-62	60
May-47	32.25	May-50	56.5	May-53	43.25	May-56	43.75	May-59	58	May-62	59.95
Jun-47	33	Jun-50	52.5	Jun-53	43.5	Jun-56	43.5	Jun-59	58.25	Jun-62	60
Jul-47	34.5	Jul-50	43	Jul-53	43.4	Jul-56	44	Jul-59	60	Jul-62	60
Aug-47	34.5	Aug-50	48.4	Aug-53	43.5	Aug-56	47.5	Aug-59	60.9	Aug-62	59.8
Sep-47	39	Sep-50	51.1	Sep-53	43.3	Sep-56	47	Sep-59	61.25	Sep-62	60
Oct-47	40	Oct-50	52.4	Oct-53	42.9	Oct-56	47.15	Oct-59	60.75	Oct-62	60.3
Nov-47	39.5	Nov-50	51.75	Nov-53	43.7	Nov-56	50.5	Nov-59	60.5	Nov-62	60.3
Dec-47	41.5	Dec-50	51.45	Dec-53	43.25	Dec-56	50.5	Dec-59	60.75	Dec-62	60.3
Jan-48	39	Jan-51	52	Jan-54	43.4	Jan-57	53.25	Jan-60	60.6	Jan-63	60.25
Feb-48	37	Feb-51	53.9	Feb-54	43.6	Feb-57	54.5	Feb-60	60.75	Feb-63	60.15
Mar-48	38	Mar-51	54.3	Mar-54	43.25	Mar-57	53.25	Mar-60	60.85	Mar-63	60.3
Apr-48	33	Apr-51	52.45	Apr-54	43.3	Apr-57	51.25	Apr-60	61.5	Apr-63	-
May-48	34	May-51	51.6	May-54	43.25	May-57	51.4	May-60	61.75	May-63	-
Jun-48	35	Jun-51	50.5	Jun-54	43	Jun-57	52.15	Jun-60	61.75	Jun-63	-
Jul-48	33.5	Jul-51	47.65	Jul-54	42.25	Jul-57	52.25	Jul-60	62	Jul-63	-
Aug-48	33	Aug-51	47.75	Aug-54	42.75	Aug-57	55.5	Aug-60	61.5	Aug-63	-
Sep-48	34	Sep-51	48	Sep-54	42.65	Sep-57	57	Sep-60	61.5	Sep-63	-
Oct-48	35.5	Oct-51	51	Oct-54	42.75	Oct-57	61.25	Oct-60	61.5	Oct-63	-
Nov-48	37.5	Nov-51	52.7	Nov-54	43.6	Nov-57	61	Nov-60	61.5	Nov-63	-
Dec-48	37.5	Dec-51	52	Dec-54	44	Dec-57	60	Dec-60	61.5	Dec-63	-
Jan-49	36.5	Jan-52	52	Jan-55	44.45	Jan-58	57.5	Jan-61	61.5		
Feb-49	37.75	Feb-52	52	Feb-55	44.5	Feb-58	56.6	Feb-61	61.5		
Mar-49	38.5	Mar-52	48.25	Mar-55	43.8	Mar-58	54.25	Mar-61	61.25		
Apr-49	38	Apr-52	49.1	Apr-55	43.4	Apr-58	56.25	Apr-61	61		
May-49	39	May-52	47.75	May-55	42.6	May-58	55.5	May-61	61		
Jun-49	38.5	Jun-52	49.15	Jun-55	42.7	Jun-58	54.75	Jun-61	61		
Jul-49	39	Jul-52	49	Jul-55	42.1	Jul-58	54	Jul-61	60.25		
Aug-49	38.5	Aug-52	51	Aug-55	42.5	Aug-58	54.25	Aug-61	59.95		
Sep-49	43	Sep-52	49	Sep-55	43.85	Sep-58	56.2	Sep-61	60.85		
Oct-49	43.85	Oct-52	49.25	Oct-55	44	Oct-58	59.3	Oct-61	60.35		
Nov-49	45.5	Nov-52	48.5	Nov-55	43.65	Nov-58	58.25	Nov-61	60.3		
Dec-49	47.75	Dec-52	47.7	Dec-55	43.85	Dec-58	59.6	Dec-61	61.15		

Source: F. Pick, *Black Market Yearbook* (New York: Pick's World Currency Report), several years.

Table A.6. Peseta-dollar exchange rates
(in pesetas per dollar unless otherwise stated)

	Tangiers rate	Official basic balance rate	ePPP	Spread Tangiers - official	Spread Tangiers- ePPP	Spread Tangiers- official (in %)	Spread Tangiers-ePPP (in %)
1947	33.93	10.95	25.06	22.98	8.87	210%	35%
1948	34.02	10.95	24.8	23.07	9.22	211%	37%
1949	40.27	15.38	28.2	24.89	12.07	162%	43%
1950	52.52	20.6	32.08	31.92	20.44	155%	64%
1951	51.27	29.11	36.96	22.16	14.31	76%	39%
1952	48.54	31.21	37.77	17.33	10.77	56%	29%
1953	43.3	32.16	40.39	11.14	2.91	35%	7%
1954	42.98	32.99	40.17	9.99	2.81	30%	7%
1955	43.16	34.11	40.89	9.05	2.27	27%	6%
1956	45.19	34.32	42.98	10.87	2.21	32%	5%
1957	53.95	40.24	48.89	13.71	5.06	34%	10%
1958	54.99	43.19	53.4	11.8	1.59	27%	3%
Jul-59	59.39	60	54.23	-0.61	5.16	-1%	10%

Notes and sources: ePPP stands for the exchange rate that satisfies the purchasing power parity, as calculated by Aixalá, *La peseta y los precios*.

Appendix

Table A.7. Exchange rate of peseta in Zurich(in Swiss Francs per 100 pesetas)

1946-1	1947-1	12	12.5	12.3	1948-1	10	10.3	10.2	1949-1	11.2	11.5	11.35			
2		2	12	12.5	12.3	2			2	11.2	11.5	11.35			
3		3	12	12.5	12.3	3	9.8	10.1	9.95	3	11	11.25	11.125		
4		4	12	12.5	12.3	4	9.8	10.1	9.95	4	10.9	11.15	11.025		
5		5	11.5	12	11.8	5	9.9	10.3	10.1	5	10	11	10.5		
6		6	11.5	12	11.8	6	10.1	10.5	10.3	6	9.5	10.25	9.875		
7		7	11.3	12	11.6	7	10.1	10.5	10.3	7	10	10.5	10.25		
8		8	12	12.5	12.3	8	10.1	10.5	10.3	8	10.1	10.6	10.35		
9		9				9	10.3	10.5	10.4	9	10.5	10.8	10.65		
10		10	12	12.5	12.3	10	10.6	10.9	10.8	10	10.5	10.8	10.65		
11		11				11	11.1	11.3	11.2	11	10.4	10.8	10.6		
12		12				12	11.1	11.3	11.2	12	10.3	10.7	10.5		
13		13	11.8	12.3	12	13				13	10.3	10.7	10.5		
14		14				14	11.1	11.3	11.2	14	10.5	11	10.75		
15		15				15	11.2	11.4	11.3	15	10.5	11	10.75		
16		16	11.3	11.8	11.5	16	11.8	12	11.9	16	10.5	11	10.75		
17		17				17				17					
18		18				18	12.3	12.5	12.4	18	10.4	10.65	10.525		
19		19				19	12.1	12.4	12.3	19	10.5	10.8	10.65		
20		20				20	12.9	13.2	13.1	20	10.5	10.8	10.65		
21		21				21	13.3	13.8	13.5	21	10.4	10.7	10.55		
22		22				22	13	13.5	13.3	22	10.3	10.6	10.45		
23		23				23	12.3	12.8	12.5	23	10.3	10.6	10.45		
24		24				24	12.3	12.8	12.5	24	10.3	10.6	10.45		
25	13	14	13.5	25		25	12.3	12.7	12.5	25	10.3	10.5	10.4		
26	13	13.5	13.3	26		26	12.6	12.9	12.8	26	10.2	10.5	10.35		
27		27	12	12.3	12.2	27	12.9	13.2	13.1	27	10.2	10.4	10.3		
28	13	13.5	13.3	28	11.8	12.3	12	28	12.8	13.3	13	28	10.1	10.3	10.2
29	13	13.5	13.3	29	11.8	12.3	12	29	12.8	13.3	13	29	10.2	10.4	10.3
30	13	13.5	13.3	30	11.8	12.3	12	30	12.8	13.2	13	30	10.15	10.35	10.25
31	13	13.5	13.3	31	11.8	12.3	12	31	12.9	13.2	13.1	31	10	10.25	10.125
32	12.5	13.5	13	32	11.8	12.3	12	32	12.9	13.2	13.1	32			
33	12	13	12.5	33			33	12.8	13.1	13	33	9.9	10.15	10.025	
34	12	13	12.5	34			34	12.5	13	12.8	34	9.75	10	9.875	
35	12	13	12.5	35	11.5	11.8	11.7	35	12.5	13	12.8	35	9.75	10	9.875
36	12	13	12.5	36	11.4	11.7	11.6	36	12.3	12.6	12.5	36	9.75	10	9.875
37	12	13	12.5	37	11.3	11.6	11.5	37	11.7	12.1	11.9	37	9.75	10	9.875
38	12	13	12.5	38	11.3	11.6	11.5	38	11.8	12.3	12.1	38	9.75	10	9.875
39	12.3	13.3	12.8	39	11	11.3	11.1	39	12	12.4	12.2	39			
40	12	12.8	12.4	40			40	11.8	12.3	12	40	9.9	10.2	10.05	
41		41	10.9	11.2	11	41	11.5	12	11.8	41	9.8	10.1	9.95		
42		42	11	11.2	11.1	42	11.3	12	11.6	42					
43		43	11	11.2	11.1	43	11.5	12	11.8	43	9.9	10.25	10.075		
44	12	12.5	12.3	44			44	11.3	12	11.6	44	9.8	10.1	9.95	
45		45	10.3	10.8	10.5	45	11.3	11.8	11.5	45	9.8	10	9.9		
46		46	10.9	11.1	11	46	11.5	12	11.8	46	9.7	9.95	9.825		
47		47	10.3	10.5	10.4	47	11.6	12	11.8	47	9.4	9.65	9.525		
48	12	12.5	12.3	48	10	11	10.5	48	11.6	12	11.8	48	9.5	9.7	9.6
49	12	12.5	12.3	49	9.5	10	9.75	49	11.4	11.7	11.6	49	9.45	9.55	9.5
50	11.8	12.3	12	50	10	10.5	10.3	50	11.3	11.6	11.5	50	9.35	9.5	9.425
51	11.8	12.3	12	51			51	11.4	11.7	11.6	51	9.2	9.4	9.3	
52		52	10.1	10.4	10.3	52				52	8.8	9.1	8.95		

Table A.7. Continued

1950-1	8.9		9.1		9.1951-1		1952-1			1953-1					
	2	8.5	8.7	8.6	2	8.1	8.2	8.15	2	8.32	8.4	8.36	2	9.1	9.2
3	8.65	8.9	8.78	3	8.1	8.2	8.15	3	8.57	8.57	8.57	3	9.02	9.1	9.06
4	8.7	8.9	8.8	4	8.1	8.3	8.2	4	8.4	8.5	8.45	4	9.27	9.37	9.32
5	8.9	9	8.95	5	8.15	8.25	8.2	5	8.45	8.52	8.49	5	9.75	9.95	9.85
6	8.8	9	8.9	6	8.1	8.2	8.15	6	8.42	8.5	8.46	6	9.6	9.7	9.65
7	8.55	8.7	8.63	7	8	8.12	8.06	7	8.35	8.45	8.4	7	9.77	9.85	9.81
8	8	8.2	8.1	8	7.95	8.1	8.03	8	8.47	8.55	8.51	8	9.72	9.82	9.77
9	6.75	7.25	7	9	7.95	8.1	8.03	9	8.62	8.7	8.66	9	9.77	9.82	9.795
10	7.1	7.3	7.2	10				10	8.65	8.65	8.65	10			
11	7.7	8	7.85	11	7.95	8.1	8.03	11	8.52	8.6	8.56	11	9.82	9.87	9.845
12				12				12	8.58	8.58	8.58	12	10.02	10.12	10.07
13	7.9	8.05	7.98	13	8	8.1	8.05	13	8.85	8.95	8.9	13	10	10.1	10.05
14	7.8	7.9	7.85	14				14				14			
15				15	8.3	8.4	8.35	15	9.1	9.2	9.15	15	9.85	9.95	9.9
16	8	8.1	8.05	16	8.12	8.2	8.16	16				16	9.72	9.82	9.77
17	7.95	8.05	8	17	8.17	8.25	8.21	17	9.15	9.25	9.2	17	9.8	9.9	9.85
18	7.95	8.05	8	18	8.33	8.33	8.33	18	8.9	9	8.95	18	9.9	10	9.95
19				19	8.35	8.35	8.35	19	8.75	8.85	8.8	19	9.8	9.9	9.85
20	7.97	8.05	8.01	20	8.45	8.45	8.45	20	8.85	8.85	8.85	20	9.75	9.82	9.785
21	7.4	7.6	7.5	21	8.42	8.5	8.46	21	8.75	8.85	8.8	21	9.85	9.85	9.85
22				22	8.4	8.4	8.4	22	9	9.1	9.05	22	9.87	9.92	9.895
23	7.75	7.9	7.83	23	8.47	8.47	8.47	23	9	9.1	9.05	23	9.9	10	9.95
24	8.15	8.3	8.23	24	8.47	8.55	8.51	24	8.85	8.95	8.9	24	9.87	9.95	9.91
25	8.15	8.3	8.23	25	8.52	8.6	8.56	25	8.85	8.85	8.85	25	9.9	9.95	9.925
26	8.25	8.4	8.33	26	8.55	8.6	8.58	26	8.87	8.95	8.91	26	9.9	9.95	9.925
27	8.45	8.65	8.55	27	8.57	8.65	8.61	27				27	9.82	9.9	9.86
28	8.7	8.9	8.8	28	8.95	9.1	9.03	28	8.85	8.95	8.9	28	9.82	9.87	9.845
29	9.05	9.2	9.13	29	9	9.15	9.08	29	8.82	8.9	8.86	29	9.9	10	9.95
30				30	8.85	9	8.93	30	8.85	8.9	8.88	30	9.92	9.98	9.95
31	10.2	10.5	10.4	31	9.05	9.15	9.1	31	8.75	8.8	8.78	31	9.9	9.95	9.925
32				32	9.25	9.35	9.3	32	8.75	8.85	8.8	32	9.9	9.95	9.925
33	9.5	9.75	9.63	33	9.9	9.9	9.9	33	8.7	8.8	8.75	33	9.95	9.95	9.95
34	9.2	9.4	9.3	34	9.5	9.5	9.5	34	8.5	8.6	8.55	34	10.02	10.02	10.02
35	8.8	9	8.9	35	9.3	9.45	9.38	35	8.6	8.67	8.64	35	9.92	10	9.96
36	8.95	9.1	9.03	36	9	9.15	9.08	36	8.55	8.62	8.59	36	9.83	9.88	9.855
37	8.75	8.85	8.8	37	9.1	9.2	9.15	37	8.62	8.7	8.66	37	9.8	9.86	9.83
38	8.6	8.7	8.65	38	8.95	9.05	9	38	8.65	8.65	8.65	38	9.83	9.88	9.855
39	8.3	8.45	8.38	39	9.05	9.15	9.1	39	8.62	8.67	8.65	39	9.85	9.9	9.875
40	8.05	8.25	8.15	40	8.9	9	8.95	40	8.65	8.7	8.68	40	9.9	9.95	9.925
41	8.2	8.3	8.25	41				41	8.63	8.69	8.66	41	9.95	10.05	10
42	8.2	8.3	8.25	42	8.8	8.9	8.85	42	8.71	8.71	8.71	42	10.02	10.1	10.06
43	8	8.1	8.05	43	8.6	8.75	8.68	43	8.7	8.75	8.73	43	10.03	10.08	10.055
44	8.1	8.2	8.15	44	8.7	8.7	8.7	44	8.7	8.75	8.73	44	9.95	10	9.975
45	8.4	8.5	8.45	45	8.3	8.45	8.38	45	8.65	8.7	8.68	45	9.93	9.96	9.945
46	8.3	8.4	8.35	46	8.3	8.4	8.35	46	8.74	8.78	8.76	46	9.87	9.92	9.895
47	8.12	8.22	8.17	47	8.25	8.35	8.3	47	8.77	8.85	8.81	47	9.88	9.93	9.905
48				48	9.25	9.75	9.5	48	8.8	8.87	8.84	48	9.9	9.93	9.915
49	8.2	8.3	8.25	49	8.27	8.27	8.27	49	8.85	8.85	8.85	49	9.75	9.82	9.785
50	8.25	8.35	8.3	50	8.15	8.25	8.2	50	8.75	8.85	8.8	50	9.83	9.86	9.845
51				51	8.25	8.35	8.3	51	8.85	8.9	8.88	51	9.84	9.87	9.855
52	8.1	8.25	8.18	52	8.4	8.4	8.4	52	8.95	8.95	8.95	52	9.89	9.94	9.915

Table A.7. Continued

1958-1	7.13	7.18	7.16	1959-1	7.43	7.45	7.44	1960-1	7.12	7.13	7.13	1961-1	7.16	7.22	7.19
2	7.18	7.24	7.21	2	7.3	7.4	7.35	2	7.13	7.15	7.14				
3	7.32	7.4	7.36	3	7.4	7.42	7.41	3	7.14	7.15	7.15				
4	7.6	7.7	7.65	4	7.42	7.46	7.44	4	7.14	7.15	7.15				
5	7.7	7.8	7.75	5	7	7.15	7.08	5	7.14	7.16	7.15				
6	7.5	7.6	7.55	6	6.82	6.9	6.86	6	7.15	7.16	7.16				
7	7.65	7.7	7.68	7	6.97	7.01	6.99	7	7.16	7.17	7.17				
8	7.6	7.7	7.65	8	7	7.03	7.02	8	7.17	7.18	7.18				
9	7.56	7.62	7.59	9	7.1	7.14	7.12	9	7.16	7.17	7.17				
10	7.6	7.65	7.63	10	7.22	7.25	7.24	10							
11	7.69	7.72	7.71	11	7.3	7.35	7.33	11	7.23	7.25	7.24				
12	7.73	7.78	7.76	12	7.34	7.37	7.36	12	7.17	7.18	7.18				
13	8.05	8.09	8.07	13	7.37	7.4	7.39	13	7.16	7.18	7.17				
14	8.1	8.15	8.13	14	7.3	7.35	7.33	14	7.24	7.26	7.25				
15	8.05	8.1	8.08	15	7.36	7.4	7.38	15	7.19	7.2	7.2				
16	8	8.05	8.03	16	7.41	7.43	7.42	16	7.19	7.21	7.2				
17	7.71	7.74	7.73	17	7.26	7.31	7.29	17	7.16	7.18	7.17				
18	7.71	7.75	7.73	18	7.31	7.34	7.33	18	7.21	7.25	7.23				
19	7.82	7.84	7.83	19	7.36	7.38	7.37	19							
20	7.95	7.98	7.97	20				20							
21	7.83	7.86	7.85	21	7.53	7.55	7.54	21	7.2	7.24	7.22				
22	7.85	7.9	7.88	22	7.42	7.45	7.44	22							
23				23				23							
24				24	7.61	7.66	7.64	24	7.17	7.21	7.19				
25				25				25	7.17	7.21	7.19				
26	7.86	7.9	7.88	26	7.47	7.52	7.5	26	7.17	7.21	7.19				
27	7.84	7.88	7.86	27	7.43	7.48	7.46	27	7.17	7.21	7.19				
28	7.96	8.02	7.99	28	7.57	7.6	7.59	28	7.2	7.22	7.21				
29	8.05	8.1	8.08	29	7.6	7.65	7.63	29	7.2	7.22	7.21				
30	7.95	8.05	8	30	7.1	7.3	7.2	30	7.17	7.23	7.2				
31	7.99	8.04	8.02	31	7.24	7.29	7.27	31	7.17	7.21	7.19				
32	8	8.04	8.02	32	7.27	7.3	7.29	32	7.17	7.21	7.19				
33	8.05	8.1	8.08	33	7.22	7.26	7.24	33	7.17	7.21	7.19				
34	7.95	8.02	7.99	34	7.1	7.16	7.13	34	7.2	7.22	7.21				
35	7.95	8	7.98	35	7.03	7.08	7.06	35	7.16	7.18	7.17				
36	7.88	7.92	7.9	36	7.1	7.12	7.11	36	7.12	7.14	7.13				
37	7.98	8.03	8.01	37	7.08	7.11	7.1	37	7.12	7.14	7.13				
38	7.95	8	7.98	38	7.09	7.12	7.11	38	7.14	7.16	7.15				
39	7.86	7.92	7.89	39	7.03	7.07	7.05	39	7.1	7.12	7.11				
40	7.73	7.76	7.75	40	7	7.05	7.03	40	7.09	7.12	7.11				
41	7.63	7.7	7.67	41	7.03	7.08	7.06	41	7.1	7.12	7.11				
42	7.52	7.56	7.54	42	7.1	7.13	7.12	42	7.14	7.21	7.18				
43	7.37	7.39	7.38	43	7.13	7.15	7.14	43	7.12	7.13	7.13				
44	7.35	7.4	7.38	44	7.12	7.15	7.14	44	7.12	7.13	7.13				
45	7.15	7.22	7.19	45	7.11	7.13	7.12	45							
46	7.25	7.3	7.28	46	7.15	7.17	7.16	46	7.11	7.13	7.12				
47	7.35	7.4	7.38	47	7.15	7.17	7.16	47	7.12	7.13	7.13				
48	7.37	7.38	7.38	48	7.15	7.17	7.16	48	7.12	7.13	7.13				
49	7.35	7.38	7.37	49	7.16	7.17	7.17	49	7.12	7.13	7.13				
50	7.35	7.37	7.36	50	7.16	7.18	7.17	50	7.12	7.13	7.13				
51	7.38	7.4	7.39	51	7.13	7.15	7.14	51	7.11	7.12	7.12				
52	7.39	7.41	7.4	52	7.13	7.14	7.14	52	7.11	7.12	7.12				

Source: Crédit Suisse, as reported in *El Economista*

Appendix

Table A.8. Price of ounce of gold in Madrid (unofficial market) (in \$),
price of ounce of gold in Zurich (in \$) and spread (in %)

	(Madrid)	(Zurich)	(Spread)		(Madrid)	(Zurich)	(Spread)
Jan-47	52	45.5	12.5%	Jan-50	52	43	17.3%
Feb-47	51.5	43.75	15.0%	Feb-50	54	40.5	25.0%
Mar-47	50	41.8	16.4%	Mar-50	49.5	39.5	20.2%
Apr-47	51.75	40.5	21.7%	Apr-50	49	39.25	19.9%
May-47	53	40.25	24.1%	May-50	45	37.25	17.2%
Jun-47	52	40	23.1%	Jun-50	45	40.5	10.0%
Jul-47	52.75	41.25	21.8%	Jul-50	44	40	9.1%
Aug-47	51.5	40.75	20.9%	Aug-50	43.25	39	9.8%
Sep-47	50	41.5	17.0%	Sep-50	42	38.75	7.7%
Oct-47	51.75	41.5	19.8%	Oct-50	41.5	38	8.4%
Nov-47	52.5	42	20.0%	Nov-50	41.75	38.9	6.8%
Dec-47	51	42	17.6%	Dec-50	42.5	40.25	5.3%
Jan-48	52.5	42.5	19.0%	Jan-51	44.75	42.75	4.5%
Feb-48	51	42.5	16.7%	Feb-51	45.25	42.5	6.1%
Mar-48	51	42	17.6%	Mar-51	43	40.5	5.8%
Apr-48	51.5	42.5	17.5%	Apr-51	44.5	42.25	5.1%
May-48	51	42	17.6%	May-51	43.75	40.5	7.4%
Jun-48	52.5	42.5	19.0%	Jun-51	42	40.25	4.2%
Jul-48	51	42.75	16.2%	Jul-51	42	40.25	4.2%
Aug-48	50.5	42.5	15.8%	Aug-51	42.5	40.5	4.7%
Sep-48	50.25	42.5	15.4%	Sep-51	41.25	40.37	2.1%
Oct-48	50.75	42.5	16.3%	Oct-51	41.25	38.75	6.1%
Nov-48	52.5	43.5	17.1%	Nov-51	42	39	7.1%
Dec-48	51.5	43	16.5%	Dec-51	41.75	39.13	6.3%
Jan-49	52.5	45	14.3%	Jan-52	41.75	39	6.6%
Feb-49	53.25	43.5	18.3%	Feb-52	41.5	38.9	6.3%
Mar-49	52	43	17.3%	Mar-52	40.75	38.25	6.1%
Apr-49	54.25	43.5	19.8%	Apr-52	39.75	37.5	5.7%
May-49	53.5	44	17.8%	May-52	39.85	37.75	5.3%
Jun-49	53.75	44.5	17.2%	Jun-52	39.5	37.4	5.3%
Jul-49	54.5	43	21.1%	Jul-52	39.75	37.7	5.2%
Aug-49	54	46	14.8%	Aug-52	39.75	37.6	5.4%
Sep-49	54.25	46.5	14.3%	Sep-52	39.25	37.25	5.1%
Oct-49	52.5	46	12.4%	Oct-52	40	37.5	6.3%
Nov-49	50.75	45.5	10.3%	Nov-52	39	37	5.1%
Dec-49	51.5	41	20.4%	Dec-52	39.4	37.45	4.9%

Table A.8. Continued

	(Madrid)	(Zurich)	(Spread)		(Madrid)	(Zurich)	(Spread)
Jan-53	39.5	37.8	4.3%	Jan-56	36.85	35	5.0%
Feb-53	38.6	37.3	3.4%	Feb-56	36.6	34.99	4.4%
Mar-53	38.5	37.2	3.4%	Mar-56	36.15	34.99	3.2%
Apr-53	38.15	37	3.0%	Apr-56	36.75	35	4.8%
May-53	38	36.95	2.8%	May-56	36.75	35	4.8%
Jun-53	38	36.55	3.8%	Jun-56	36.75	35.03	4.7%
Jul-53	38	36.5	3.9%	Jul-56	36.75	35.05	4.6%
Aug-53	37.75	36.55	3.2%	Aug-56	36.9	35.06	5.0%
Sep-53	37.5	36.4	2.9%	Sep-56	36.65	35.04	4.4%
Oct-53	37.25	35.9	3.6%	Oct-56	38	35.02	7.8%
Nov-53	36	34.95	2.9%	Nov-56	37.6	35.06	6.8%
Dec-53	36.25	35.2	2.9%	Dec-56	36.1	34.9	3.3%
Jan-54	36.5	35.2	3.6%	Jan-57	35.75	34.88	2.4%
Feb-54	36.25	35.15	3.0%	Feb-57	35.75	34.9	2.4%
Mar-54	35.6	35.05	1.5%	Mar-57	35.6	34.92	1.9%
Apr-54	35.85	35.15	2.0%	Apr-57	35.55	34.95	1.7%
May-54	35.8	35.1	2.0%	May-57	35.75	34.97	2.2%
Jun-54	35.85	35.1	2.1%	Jun-57	35.5	34.95	1.5%
Jul-54	36	35.13	2.4%	Jul-57	35.5	34.93	1.6%
Aug-54	35.95	35.13	2.3%	Aug-57	35.7	35.1	1.7%
Sep-54	35.9	35.1	2.2%	Sep-57	35.75	35.05	2.0%
Oct-54	36	35.1	2.5%	Oct-57	35.5	35.02	1.4%
Nov-54	35.9	35.1	2.2%	Nov-57	35.4	35.03	1.0%
Dec-54	35.85	35.08	2.1%	Dec-57	35.85	35.02	2.3%
Jan-55	35.9	35.1	2.2%	Jan-58	35.5	35.08	1.2%
Feb-55	35.8	35.08	2.0%	Feb-58	35.5	35.11	1.1%
Mar-55	35.8	35.08	2.0%	Mar-58	35.75	35.14	1.7%
Apr-55	36	35.08	2.6%	Apr-58	35.7	35.145	1.6%
May-55	36	35.08	2.6%	May-58	35.8	35.15	1.8%
Jun-55	36	35.05	2.6%	Jun-58	35.7	35.11	1.7%
Jul-55	36	35.05	2.6%	Jul-58	35.3	35.15	0.4%
Aug-55	35.95	35.05	2.5%	Aug-58	35.85	35.1	2.1%
Sep-55	35.9	34.99	2.5%	Sep-58	35.9	35.16	2.1%
Oct-55	36.25	35	3.4%	Oct-58	35.25	35.14	0.3%
Nov-55	36.25	35	3.4%	Nov-58	35.5	35.14	1.0%
Dec-55	36.25	35	3.4%	Dec-58	35.65	35.12	1.5%

Table A.8. Continued

	(Madrid)	(Zurich)	(Spread)		(Madrid)	(Zurich)	(Spread)
Jan-59	36.35	35.12	3.4%	Jan-62	3580	35.29	99.0%
Feb-59	36.3	35.1	3.3%	Feb-62	35.7	35.18	1.5%
Mar-59	36	35.1	2.5%	Mar-62	35.65	35.17	1.3%
Apr-59	35.65	35.13	1.5%	Apr-62	35.6	35.15	1.3%
May-59	35.5	35.13	1.0%	May-62	35.6	35.15	1.3%
Jun-59	35.5	35.14	1.0%	Jun-62	35.65	35.16	1.4%
Jul-59	35.1	35.15	-0.1%	Jul-62	35.65	35.17	1.3%
Aug-59	35.35	35.14	0.6%	Aug-62	35.5	35.18	0.9%
Sep-59	35.4	35.155	0.7%	Sep-62	35.5	35.2	0.8%
Oct-59	35.3	35.12	0.5%	Oct-62	35.55	35.185	1.0%
Nov-59	35.35	35.09	0.7%	Nov-62	35.45	35.16	0.8%
Dec-59	35.3	35.1	0.6%	Dec-62	35.4	35.17	0.6%
Jan-60	35.35	35.13	0.6%	Jan-63	35.35	35.15	0.6%
Feb-60	35.35	35.12	0.7%	Feb-63	35.36	35.17	0.5%
Mar-60	35.3	35.15	0.4%	Mar-63	35.41	35.19	0.6%
Apr-60	35.35	35.17	0.5%	Apr-63	-	-	-
May-60	35.35	35.16	0.5%	May-63	-	-	-
Jun-60	35.4	35.17	0.6%	Jun-63	-	-	-
Jul-60	35.45	35.22	0.6%	Jul-63	-	-	-
Aug-60	35.65	35.35	0.8%	Aug-63	-	-	-
Sep-60	37.75	35.45	6.1%	Sep-63	-	-	-
Oct-60	38.5	36.6	4.9%	Oct-63	-	-	-
Nov-60	38	35.9	5.5%	Nov-63	-	-	-
Dec-60	37.8	35.85	5.2%	Dec-63	-	-	-
Jan-61	37.8	35.8	5.3%				
Feb-61	36.25	35.22	2.8%				
Mar-61	36	35.24	2.1%				
Apr-61	36.15	35.3	2.4%				
May-61	36	35.24	2.1%				
Jun-61	35.9	35.24	1.8%				
Jul-61	36	35.3	1.9%				
Aug-61	36.1	35.36	2.0%				
Sep-61	36.08	35.35	2.0%				
Oct-61	36.1	36.36	-0.7%				
Nov-61	35.75	35.33	1.2%				
Dec-61	35.8	35.28	1.5%				

Source: F. Pick, *Black Market Yearbook* (New York: Pick's World Currency Report), several years.

Appendix

Table A.9. Selected bond trading data

Perp.	1908	1928	Perp.	1908	1928	Perp.	1908	1928	Perp.	1908	1928				
1946-1	91.3	107	100.5	1947-1	93.5	99.75	93.5	1948-1		1949-1	87.5	96.25	89		
2	91.3	106.2	102	2	90	100	90	2	88.15	99.5	92	2	87	96.75	87
3	91.3	106	101.8	3	90	100.3	90	3	89	99.75	90.5	3	88	96.75	89.25
4	91.3	98	101.8	4	90.5	100.3	90.5	4	89.5	102	91	4	88	97.25	90.5
5	91.3	106.2	101.8	5	90	100.3	89.75	5	89.25	102.3	91	5	88	97.5	89.5
6	91.3	106.5	101.3	6	91	100.3	90.5	6	89.25	102.3	91.5	6	88	99	88.75
7	91.5	106.5	102.3	7	91.5	100.3	91	7	89.25	102.3	91	7	87.5	98.5	88
8	91.5	108.3	102	8	91.25	100.3	91	8	90.5	101	91.5	8	87.75	98.5	88.75
9	91.5	108.3	101	9	91.5	100.3	91.5	9	89	99.5	92	9	88.75	98.5	89.65
10	91.5	109	101	10	91.5	100.5	91.75	10	89	99.5	91.25	10	88.75	98	88.5
11	91.5	109	102.5	11	91.75	100.8	92	11	88.25	100	91.25	11	88.75	98.5	89
12	91.5	109.5	102.3	12	91.75	100.8	91.75	12	88.35	100.5	90.25	12	89	98.5	89
13	91.5	110	103.8	13	91.5	101.8	92.5	13	89.5	100.5	90.75	13	89.25	99	89.75
14	91	108	99.75	14	91.5	101.8	92.5	14	90.25	99.75	91.25	14	86.75	98.25	86.5
15	91	109	99.75	15	91	101	90.35	15	88	99.75	89.5	15	86.75	98.25	87.75
16	91	109	99.25	16	91.5	101	91.5	16	88.75	99.75	89.5	16	87	98.5	86.15
17	91	109	99.5	17	91.5	101	91.5	17	88.25	99.75	89	17	86.85	98.5	86.5
18	91	107	100.3	18	91.5	101	91.75	18	88	100	87.5	18	86.75	98.75	85.5
19	91	107	101	19	91.5	101	92	19	88	100	88	19	86.75	98.75	87.25
20	91	107	100.5	20	92	101	91.75	20	87.75	99.75	87	20	86.75	98.75	86.5
21	91	108	95.5	21	91.75	101	92	21	88.5	99	88.5	21	86.6	98.75	86.5
22	91	108	99	22	92	101.4	92	22	88	98.75	87.5	22	86.75	98.75	87
23	91	107	98.5	23	92.25	101.5	92.5	23	88.25	98	87	23	86.6	98.75	87.25
24	91	108	99.85	24	92.5	102	93.75	24	88	96.5	89	24	87	98.75	87.5
25	91	107	100.3	25	93	102	95.25	25	88.75	96	91	25	86.75	99	88.5
26	91.25	107	99.75	26	94	102	95	26	88	95	90.5	26	86.25	99	88.5
27	90.75	106	97	27	93.5	101.3	91	27	87.5	94	90	27	86.5	98.25	87
28	90.75	108	96.5	28	95.5	101.3	93.75	28	87.75	94	87	28	86.25	98.5	85.25
29	90.75	104	97.25	29	99.5	101.3	93.5	29	87.5	93.75	86.75	29	86.25	98.5	85
30	90.75	103.5	97.25	30	90.5	101.3	93	30	87.5	93	87.5	30	86	98.5	85.5
31	90.75	102	96.5	31	89	101.3	92.75	31	88	87.7	87.75	31	86.15	98.5	85.5
32	90.75	102	96.5	32	91.25	101.3	93.5	32	88.25	95.5	86.5	32	86	98.5	84.75
33	90.75	102	95.5	33	92	101.3	93.5	33	88.25	97.5	88	33	85.75	98.75	85
34	90.75	97	95	34	92.75	102	92	34	87.5	97.5	88.75	34	86.25	98.75	85.5
35	90.75	97.25	95	35	92	102	92	35	87.75	97.5	90	35	86.5	98.75	85.25
36	93.25	99	95	36	91	102	91	36	88	99.5	88	36	86	98.75	85.25
37	92.5	99	95	37	89	102	91	37	88.5	100	87.75	37	86	99	85.75
38	91.75	99	98.5	38	89	102	91.5	38	88	100	88	38	86	99	87
39	93.5	99	99	39	89	101.8	92.25	39	88.25	100	87.6	39	86.25	99	86
40	92.5	98.25	94.75	40	89	101	91	40	88.25	100	87.5	40	85.75	98.75	85.6
41	91	98	94	41	88.75	99.75	90.5	41	87.25	99.75	87.75	41	85.75	98.75	85.5
42				42	88	99.75	87.5	42	87.25	100	87.75	42	86	98.75	84.5
43	91.25	97.5	92.25	43	87.9	99.75	88.5	43	88	100.5	88	43	85.75	99	84.25
44	92.5	98	92.25	44	87.9	100.3	88	44	87.5	100.5	87.5	44	85.85	99.25	84
45	93	97.75	95	45	88	100.5	89	45	87.5	100.5	89	45	86	99.25	81.5
46	93	100	95	46	89	100.5	87	46	88	101	89	46	87.75	99.25	82.25
47	93	100	95	47	87.75	100.3	87	47	87.75	101	89.5	47	87.75	99.25	85
48	93	100	95	48	87.75	99.75	87	48	87.75	101	88.5	48	86.4	99.25	83
49	93	100	93	49	88.5	100.3	86.25	49	88	100.8	88.25	49	86	99.25	82.25
50	93.5	100.3	92	50	88.5	100.5	86	50	88	100.5	88.5	50	86	99.25	83
51	93	100.5	94	51	88.5	100.5	89	51	87.5	100	88.5	51	86.25	99.25	83.25
52	93.25	100.5	93.5	52	89.5	100.5	91	52	88.75	99.5	88	52	87	99.25	84

Appendix

Table A.9. Continued

	Perp.	1908	1928													
1950-1	87	98.5	84	1951-1	85	92.5	88.25	1952-1	84	94	88	1953-1	83.8	91.75	86.5	
2	86.25	98.5	84.75		2	85	92.5	87.5	2	84.25	94	87.5	2	83.25	92	86.25
3	86.25	98.5	85.25		3	84.75	92.5	86.75	3	85	95	86	3	83.4	92	85.75
4	86.5	99.5	87.5		4	85	93	87	4	84.5	95.5	85.75	4	83.25	92	86
5	86.5	99.5	88.25		5	84.5	93	87	5	84	95.75	86.5	5	84	92	86
6	86.25	99.5	88		6	85	93	88	6	84	96	86.5	6	83.75	92.75	87
7	86.75	99	88.75		7	84.75	93	86.25	7	83.5	93	86.5	7	83.5	93.25	86.5
8	86.25	99	87.5		8	84.5	93	86.25	8	83.75	93	86.75	8	83.95	93.25	88.5
9	86	98.75	85.25		9	84.25	93	85	9	83.5	93	88	9	83.65		87.5
10	86.25	98	85.25		10	84	93	85	10	83.75	91.5	86.5	10	83.75	93	87
11	85.75	97.5	85.5		11	84	93	88	11	84	91.5	86	11	83.85	93	87.5
12	86	97	84		12	84	93	88	12	85	91.5	86.75	12	83.6	93	87.05
13	87.75	97	84		13	84.5	92.75	88	13	84	91.5	87.25	13	83.5	93	89.25
14	85.35	96	83.75		14	84.75	91.75	86.5	14	83.5	90.5	86.5	14			
15	85.25	95	85.25		15	85	91	89	15	84	90	86	15	83.6	93.25	86.5
16	85.25	94.5	85.25		16	85	91	90.5	16	84.5	92	83.75	16	84	93.5	86.25
17	85.35	94.25	85.5		17	85	90	89	17	83.5	92	84.5	17	84.15	94.5	87
18	85	94.25	85		18	85.5	90	89.5	18	83.95	92	86	18	84.25	98	87
19	85	94.25	85.75		19	84.5	91	86.5	19	84	92	85.75	19	84.25	98	87
20	85	93.75	85		20	84.5	91	84.5	20	83.5		85	20	84	98	87
21	85.1	93.5	85.75		21	83.5	90.75	86	21	83.75	92	84.5	21	84	97.5	87.5
22	85	89	86		22	84	90.75	85.5	22	84.5	94	85.5	22	83.5	98	87
23	85	89	85.5		23	82.5	90.75	84.75	23	84.9	94	86	23	84.25	98	87.75
24	85	88.25	85.75		24	83.5	90.75	85.5	24	83.5	93	86.75	24	84.25	98	88.75
25	85	89	85		25	82.5	90.75	86	25	84.5	93	87.75	25	84.25	98	88.75
26	85	88.25	85.5		26	83.75	90.75	87	26	84.75	91.25	86.75	26	84	98	88.75
27	85	87.5	83.5		27	82	89.5	85.75	27	83.25	90	88	27	83.1	97	89
28	85	87	84		28	82.25	87.5	86.5	28	83.5	90	89.5	28	83	97	90
29	85	87.5	84.55		29	82.5	87.5	86.5	29	83	91.5	88	29	83	98	88.5
30	85	87.5	84		30	83	87.75	86.5	30	84.25	91.5	88	30	83	98	88.5
31	85	87.75	84.5		31	83.25	87.75	86.5	31	83.75	91.5	86	31	83	98	88.5
32	85	87.75	85.25		32	83.5	88	87.25	32	84.25	92.25	88	32	83.25	90	89.25
33	80.5	87.75	85.25		33	83.75	88	87	33	85	92.5	88	33	83	99.25	88.5
34	85	87.75	83.75		34	83.75	88	87	34	84.75	92.5	87.5	34	83.35	99.25	87.5
35	84.75	88.25	83.85		35	83	87.75	83	35	85	93	88.25	35	83.3	99.5	89
36	84.75	88.25	84.25		36	83.5	87.5	86	36	84.65	93	89	36	83.75	99.5	89
37	85	90.75	85.25		37	84.5	87.5	85.25	37	84.5	93.25	89.25	37	84.15	99.5	89.75
38	85.15	90.75	86.25		38	85.75	87.5	86	38	85	93.5	89	38	83.85	98.5	88.25
39	85.75	92	85.75		39	85.65	88.25	86	39	85	94.5	88	39	83.75	99	88.5
40	85.5	93	84.75		40	83.5	88.25	86.5	40	83.5	92.5	88.25	40	83.4	99.5	87.6
41	85	94	85		41	84.25	88.25	86.5	41	83.6	89.25	89.75	41	83.45	98.5	88.25
42	85	94	85		42	84.5	88.5	87	42	83.8	92.5	90.75	42	83	97.5	87.75
43	85	94	84.75		43	84.3	90.25	86.5	43	83.25	92.5	90.25	43	83.15	96.5	87.5
44	85.25	93.5	84.5		44	84.1	90.25	86	44	83.5	93	89.5	44	83.4	95.5	87.75
45	85.15	93	85.25		45	84.25	91	85.5	45	83.5	93	87.25	45	83.25	96	87.25
46	85.5	92.5	86.5		46	83.5	91	85.25	46	83.9	93	86.75	46	83.75	97.25	88.25
47	85.25	92	87.5		47	84	92	84.5	47	83.75	93	87	47	84.25	97.5	87.5
48	85.5	92	88		48	83.8	92.25	86.25	48	84	93	93	48	84.15	97.5	88.5
49	85.5	92	88		49	85	93	86.25	49	84	93	88	49	83.5	97.5	88.25
50	85	92	88.75		50	85.5	93.5	87.75	50	84.6	93	88	50	83.6	97.5	87.25
51	86	93	89		51	85.5	93.5	88.75	51	84.5	93	88.5	51	83.5	97.5	88.5
52	86	93	86.75		52	85	95.5	89	52	84	92.5	88.5	52	84	98	87.75

Appendix

Table A.9. Continued

Perp.	1908	1928	Perp.	1908	1928	Perp.	1908	1928	Perp.	1908	1928
1954-1	83.5	97.5	89	1955-1	83	100	92	1956-1	82.25	92	90
2	83.5	97.5	88.5	2	83	100	90	2	82.25	94	90
3	83.5	97.5	88.5	3	82.65	100	89	3	82.25	94	90.5
4	83.25	97.5	89	4	82.55	100	90	4	82.5	94.5	89.75
5	83.5	98	90	5	82.75	100	90.5	5	82	94.5	89.5
6	83.35	98	89.75	6	83	100	90.75	6	82.25	95.5	90
7	83.5	98	88	7	83	100.5	90	7	81.8	96.5	90.5
8	83.25	98	88.25	8	82.75	100	90.5	8	82.15	98	90
9	83.25	97.75	88	9	82.95	99.75	90.5	9	82	98	89.75
10	83.15	97.75	89	10	82.5	99.5	91	10	82.25	98	90.5
11	83.25	97.75	89	11	83	100	91.25	11	82	98	90.75
12	83.25	98	88.5	12	82.55	100	92	12	82.25	96.5	90.5
13	82.5	98	89	13	82.75	100	91.15	13	82	95	89.5
14	82.5	98.5	87.5	14	82.6	100.3	90	14	81.5	94	89.75
15	82.5			15	82.6	100.3	91.3	15	81.5	94	89
16	82.5	99	88	16	82.45	100	91.25	16	81.75	94	88.25
17	82.7	99.5	87.25	17	82.35	100	90	17	81.75	93.5	88
18	82.75	99.5	88	18	82.25	100	90	18			
19	82.85	99.5	88	19	82.5	100	91.35	19	81.75		86.5
20	83.25	99.5	87.75	20	82.4	100	91.25	20	81.75	92	88
21	82.25	98	88	21	82.4	100.9	90.25	21	81.75	92	87
22	83.25	98	88.5	22	82.5	100.5	90.75	22	81.75	92	89
23	83.25	99	88.75	23	82.5	100.5	91.25	23	81.75	92	87.5
24	83.25	98	89.5	24	82.85	100.5	91.5	24	81.95	92	86
25	83	98	89.75	25	82.75	100.5	91.5	25	81.75	92	85.75
26	82.65	97	89	26	82.3	100	91	26	82	92	85.75
27	82.8	97.5	89	27	82.25	100	91.5	27	81	90.5	86
28	83	98	89.75	28	82	100.5	91.5	28	81.2	90.5	86
29	82.5	98.75	89.75	29	82.4	100.5	91	29	81.4	90.5	86
30	82.5	99.25	89.75	30	83	100.5	91	30	81	90.5	86
31	82.75		90.25	31	82.5	100.5	89.5	31	81	90.5	85.25
32	82.75	100.5	90.25	32	82.75	102.5	91	32	81.15	90.5	85.75
33	82.75	101.5	89.5	33	83	100	90.75	33	81.3	90.5	85.75
34	82.75	101.5	90.5	34	82.25	99.5	92	34	81.3	91	85.75
35	83	101.5	91.5	35	82.75	98		35	81.4	92.5	85.75
36	83.45	101.5	91.25	36	82.5	98.25	91.6	36	81.5	92.5	85.75
37	83.1	101.5	90.5	37	82.5	98.25	92	37	81.4	92.5	85.75
38	83.35	101.5	91	38	82.65	98	93.5	38	81.3		87
39	83.45	101.5	91	39	82.9	98	93.25	39	81.5	92.5	88
40	82.65	100.5	90.75	40	82.4	97	92	40	80	92.5	89
41	82.6	101	90.5	41	82.1	98	92	41	80	93	89
42	82.8	100	90	42	82.5	98	92	42	80	93	88.5
43	82.65	99	91	43	82.4	96.5	91.75	43	80	92.5	88
44	83	99.5	91	44	82.25	96	91.5	44	80.3	93	87.5
45	82.75	99	90	45	82.25	95.5	91.75	45	80.2	93	85.5
46	83.25	99.5	90.5	46	82.5	96	90	46	80.2	91.5	84
47	83.25	100	91	47	82.35	95.5	90.75	47	80.2	90.5	83.5
48	83.25	100	90.5	48	82.3	95.5	90	48	80.2	90	82.5
49	83.25		90	49	82.9		90.75	49	80.3	90	81
50	83.5	100.5	91	50	83	95.5	91	50	80.3	90	82.5
51	83.4	100.5	90.5	51	82.75	95.25	90	51	80.4	90	82.5
52	83.25	100.5	90.75	52	83	95	91	52	80.65	90.5	82.5

Appendix

Table A.9. Continued

1958-1	1959-1	80.2	97	84.75	1960-1	79.6	100	86	1961-1	91.5	102.5	98
2		2				2	78.8	100	85.8			
3		3	79.55	96	84	3	78.8	100	85.5			
4		4	79.6	96	84	4	78.8	100	85.5			
5		5	79.55	96	83	5	78.8	100	85.5			
6		6	79.7	96.5	82.5	6	78.9	100	85.5			
7		7	79.7	97	82	7	78.9	100	85			
8		8	80	97	83	8	79.15	100	84.75			
9		9	80	97	81.5	9	79	100	85.75			
10		10	80	98.5	81.25	10	79.1	100.3	86.75			
11		11	80.1	98.5	82	11	79.4	100.5	87.25			
12	80.3	96.5	85	12	80.15	98.5	83	12	79.3	100.5	88	
13			13	80.15	98.5	83.5	13	79.65	100.5	88.5		
14			14	79.15	98.5	82.75	14	79.15	100	88.75		
15			15	79.15	97.5	82.25	15	79.3	100	88.5		
16			16	79.3	98	82	16	79.5	100	88.5		
17			17	79.3	98.6	81.25	17	79.5	100	88.5		
18			18	79.3	98.6	81.25	18	80	100	88.5		
19			19	79.45	99	81	19	80.25	100	89.25		
20			20	79.45	99	82.25	20	80.25	100	90.5		
21			21	79.6	99	81	21	80.1	101	90.5		
22			22	79.6		81	22	80	101.5	90.5		
23			23	79.8	99	81.5	23	80	100.5	90		
24			24	79.75	99	82.25	24	80.1	101.5	89.75		
25			25	80	100	82.75	25	80.55	101.8	90.75		
26			26	80.2	100	82.5	26	81	103	91.5		
27			27	79.2	99	82.35	27	81	101.8	90.5		
28			28	79.2	99	82.5	28	80.5	101.8	92		
29			29	79.4	98.75	82.5	29	80	101.8	91.5		
30			30	79.6	99	83	30	80.5	101.8	91.5		
31			31	79.4	99	83	31	80	101.8	91.75		
32			32	79.5	99	83	32	80.75	101.8	91.75		
33			33	79.5	99	83	33	80.75	101.8	91		
34			34	79.6	99	81.5	34	81.25	101.8	92		
35			35	79.6	99.25	83.5	35	81.3	102.5	92		
36			36	79.7	99.25	82.5	36	83	102.5	94		
37			37	79.7	99.25	83	37	83.75	102.5	95.5		
38			38	79.9		83	38	83.8	102.5	96		
39			39	79.9	99.5	83.5	39	82.5		94.25		
40			40	79.25	96	82.25	40	81	102.5	94		
41			41	79	98	81	41	81.25	102	95.5		
42			42	79.1	98	82	42	81.3	102	95.5		
43			43	79.1	98	83	43	85.25	102	95.75		
44			44	79.1	98	84.25	44	85.5	102	96		
45			45	79.2	98.5	85.5	45	87	102	97		
46			46	79.4	98.5	86	46	87	102	96.5		
47			47	79.35		86	47	87.5	102	95		
48			48	79.35	99	86.5	48	88	102	96.75		
49			49	79.5	99	86.5	49	87.5	102	97		
50			50	79.5	99.75	86.5	50	87.9	102	99		
51			51	79.6	100	84.75	51	88.5	102	99		
52			52	79.8	100	85	52	89.5	102.5	98.9		

Source: as reported in *El Economista*

Table A.10. List and code of stocks in 1953 Madrid Stock Exchange Index

Code	Company	Sector
ESP	Banco de España	Banking
BTO	Banco Español de Crédito	Banking
HIS	Banco Hispano Americano	Banking
FEN	Unión Eléctrica Fenosa	Electricity
HES	Hidroeléctrica Española	Electricity
IBE	Iberduero	Electricity
NAN	Saltos del Nansa	Electricity
SEV	Sevillana de Electricidad	Electricity
UEM	Unión Eléctrica Madrileña	Electricity
RIF	Minas del Rif	Mining/Steel
MDF	Manufacturas Duro Felguera	Mining/Steel
PON	Minerosiderúrgica de Ponferrada	Mining/Steel
AHV	Altos Hornos de Vizcaya	Mining/Steel
AUX	Construcciones Auxiliares de Ferrocarril	Mining/Steel
TEL	Telefónica	Telecommunications
CAM	CAMPSA (Monopolio de petróleos)	Chemicals/Oil
TAB	Tabacalera	Food
AGI	El Aguila	Food
AZU	Azucarera General Española	Food
INM	Inmobiliaria Urbanizadora	Building
ARA	Industrias Aragonesas	Chemicals/Oil
ERT	Explosivos	Chemicals/Oil
CEP	CEPSA	Chemicals/Oil
FEF	FEFASA	Chemicals/Oil
SNC	SNIACE	Chemicals/Oil
NAV	Construcciones Navales	Transport
MDM	Metro de Madrid	Transport
EBR	Ebro	Food
MER	Banco Mercantil e Industrial	Banking
URM	Urbanizadora Metropolitana	Building
DRC	Dragados	Building
HCV	Hidrocivil	Building
MMM	Manufacturas Metálicas Madrileñas	Mining/Steel
GUI	Los Guindos	Mining/Steel
CAN	Hidroeléctrica del Cantábrico	Electricity
CEN	Banco Central	Banking
BEE	Banco Exterior de España	Banking
UFX	Unión y el Fénix	Sundry
CPL	Portland Valderribas	Building
POP	Banco Popular	Banking
RES	Unión Resinera Española	Chemicals/Oil
INS	INSA	Sundry
CGI	Compañía General de Inversiones	Sundry
REU	Reunidas de Zaragoza	Chemicals/Oil

Table A.11. Ordinary Least Squares estimation of the market mode

OLS	n = 120					no. obs.	n = only trading days				
	alfa	Prob	beta	Prob	R-squared		Alfa	Prob	beta	Prob	R-squared
ESP	0.089	0.05	0.084	0.61	0.00	112	0.001	0.05	0.087	0.64	0.00
BEE	0.138	0.10	0.107	0.72	0.00	62	0.003	0.10	0.173	0.76	0.00
BTO	0.023	0.57	-0.051	0.73	0.00	117	0.000	0.57	-0.052	0.73	0.00
HIS	0.069	0.15	0.029	0.87	0.00	112	0.001	0.16	0.012	0.95	0.00
CEN	0.090	0.00	0.105	0.13	0.02	89	0.001	0.00	0.120	0.21	0.02
MER	0.008	0.91	0.159	0.55	0.00	61	0.000	0.93	0.366	0.53	0.01
POP	0.038	0.09	0.002	0.97	0.00	49	0.001	0.19	0.012	0.93	0.00
FEN	0.026	0.67	0.607	0.01	0.06	59	0.000	0.87	0.994	0.02	0.09
CAN	0.028	0.39	-0.244	0.04	0.03	63	0.000	0.77	0.008	0.97	0.00
HES	-0.066	0.37	1.908	0.00	0.30	118	-0.001	0.41	1.921	0.00	0.30
IBE	-0.014	0.81	1.860	0.00	0.39	118	0.000	0.82	1.861	0.00	0.39
NAN	0.057	0.28	0.755	0.00	0.12	109	0.001	0.25	0.807	0.00	0.13
SEV	-0.004	0.95	1.197	0.00	0.14	118	0.000	0.98	1.201	0.00	0.14
UEM	-0.047	0.51	0.506	0.05	0.03	120	0.000	0.51	0.506	0.05	0.03
REU	0.024	0.79	0.685	0.04	0.03	45	0.002	0.36	1.847	0.04	0.09
RIF	0.055	0.60	2.088	0.00	0.20	120	0.001	0.06	2.089	0.00	0.20
MDF	-0.060	0.37	0.662	0.01	0.06	98	-0.001	0.29	0.842	0.00	0.07
GUI	0.003	0.97	0.341	0.15	0.02	80	0.000	0.94	0.427	0.19	0.02
PON	0.055	0.40	1.548	0.00	0.27	117	0.001	0.36	1.562	0.00	0.27
AHV	-0.119	0.23	2.400	0.00	0.27	115	-0.001	0.21	2.470	0.00	0.28
AUX	-0.013	0.69	0.185	0.12	0.02	113	0.000	0.66	0.192	0.12	0.02
MMM	-0.017	0.88	0.977	0.02	0.05	72	-0.001	0.78	1.460	0.02	0.07
TEL	-0.016	0.64	0.169	0.18	0.01	120	-0.016	0.64	0.169	0.18	0.01
CAM	0.013	0.87	1.248	0.00	0.13	120	0.000	0.87	1.248	0.00	0.13
TAB	-0.002	0.98	-0.095	0.83	0.00	97	0.000	0.88	0.101	0.85	0.00
AGI	0.050	0.39	0.581	0.00	0.06	99	0.001	0.39	0.658	0.01	0.07
AZU	0.033	0.70	-0.284	0.37	0.01	115	0.000	0.69	-0.288	0.38	0.01
HCV	0.000	0.99	0.237	0.38	0.01	61	-0.001	0.61	0.504	0.31	0.01
DRC	0.050	0.53	0.514	0.08	0.02	78	0.000	0.73	0.717	0.14	0.02
INM	-0.049	0.54	1.198	0.00	0.13	93	0.000	0.80	1.628	0.00	0.17
URM	-0.031	0.65	0.348	0.17	0.02	76	-0.001	0.65	0.460	0.21	0.02
ARA	-0.057	0.56	0.660	0.07	0.03	104	-0.001	0.31	1.034	0.01	0.06
ERT	0.026	0.71	1.158	0.00	0.15	116	0.000	0.62	1.187	0.00	0.15
CEP	0.044	0.52	1.873	0.00	0.33	118	0.000	0.58	1.890	0.00	0.33
RES	-0.027	0.77	0.634	0.07	0.03	45	-0.002	0.50	1.503	0.14	0.05
FEF	-0.233	0.09	2.724	0.00	0.20	115	-0.002	0.10	2.762	0.00	0.21
SNC	-0.095	0.25	1.998	0.00	0.27	105	-0.001	0.13	2.232	0.00	0.31
NAV	0.089	0.21	0.168	0.52	0.00	79	0.001	0.23	0.504	0.19	0.02
MDM	-0.062	0.57	0.649	0.10	0.02	114	-0.001	0.60	0.668	0.11	0.02
INS	-0.004	0.98	0.446	0.34	0.01	49	-0.001	0.75	1.607	0.25	0.03
CGI	-0.016	0.72	-0.269	0.09	0.02	50	0.000	0.75	-1.238	0.02	0.11
UFX	0.074	0.29	-0.130	0.61	0.00						
EBR	0.052	0.65	-0.051	0.90	0.00						
CPL	0.021	0.77	0.446	0.10	0.02						

Appendix

Table A.12. Madrid stock exchange variables, 1948-1962

	Bond yield	Earnings (lagged)	Price index (Dec 1940= 100)	capitalisation	E/P	P/E	rp = E/P - r
Jan-48	3.78%	1251	289.1	21266.2	5.9%	17.0	2.1%
Feb-48	3.78%	1251	256.1	18837.1	6.6%	15.1	2.9%
Mar-48	3.77%	1251	227.2	16713.3	7.5%	13.4	3.7%
Apr-48	3.80%	1251	224.1	16486.0	7.6%	13.2	3.8%
May-48	3.79%	1251	206.6	15198.6	8.2%	12.1	4.4%
Jun-48	3.77%	1251	213.5	15707.6	8.0%	12.6	4.2%
Jul-48	3.79%	1251	208.7	15350.1	8.1%	12.3	4.4%
Aug-48	3.77%	1251	240.0	17656.4	7.1%	14.1	3.3%
Sep-48	3.77%	1251	218.9	16101.2	7.8%	12.9	4.0%
Oct-48	3.79%	1251	215.9	15883.5	7.9%	12.7	4.1%
Nov-48	3.79%	1251	203.7	14986.0	8.3%	12.0	4.6%
Dec-48	3.77%	1251	220.1	16192.4	7.7%	12.9	4.0%
Jan-49	3.77%	1552	215.3	17348.2	8.9%	11.2	5.2%
Feb-49	3.78%	1552	198.7	16007.5	9.7%	10.3	5.9%
Mar-49	3.78%	1552	209.1	16844.6	9.2%	10.9	5.4%
Apr-49	3.74%	1552	199.2	16051.8	9.7%	10.3	5.9%
May-49	3.75%	1552	193.6	15594.2	10.0%	10.0	6.2%
Jun-49	3.82%	1552	186.4	15015.7	10.3%	9.7	6.5%
Jul-49	3.84%	1552	191.2	15404.9	10.1%	9.9	6.2%
Aug-49	3.84%	1552	206.0	16597.3	9.3%	10.7	5.5%
Sep-49	3.84%	1552	221.8	17867.9	8.7%	11.5	4.8%
Oct-49	3.84%	1552	207.5	16714.1	9.3%	10.8	5.4%
Nov-49	3.84%	1552	206.0	16595.7	9.4%	10.7	5.5%
Dec-49	3.82%	1552	205.8	16578.7	9.4%	10.7	5.5%
Jan-50	3.81%	1652	209.2	18613.5	8.9%	11.3	5.1%
Feb-50	3.88%	1652	208.9	18585.1	8.9%	11.2	5.0%
Mar-50	3.85%	1652	207.6	18465.0	8.9%	11.2	5.1%
Apr-50	3.86%	1652	218.3	19416.9	8.5%	11.8	4.6%
May-50	3.86%	1652	216.5	19263.0	8.6%	11.7	4.7%
Jun-50	3.87%	1652	213.7	19012.1	8.7%	11.5	4.8%
Jul-50	3.85%	1652	215.9	19208.7	8.6%	11.6	4.8%
Aug-50	3.88%	1652	219.6	19535.2	8.5%	11.8	4.6%
Sep-50	3.84%	1652	221.4	19694.5	8.4%	11.9	4.5%
Oct-50	3.86%	1652	221.2	19682.9	8.4%	11.9	4.5%
Nov-50	3.85%	1652	221.5	19707.8	8.4%	11.9	4.5%
Dec-50	3.83%	1652	228.1	20295.0	8.1%	12.3	4.3%

Table A.12. Continued

Bond yield	Earnings (lagged)	Price index (Dec 1940= 100)	capitalisation	E/P	P/E	rp = E/P - r	
Jan-51	3.85%	2291	238.5	22077.5	10.4%	9.6	6.5%
Feb-51	3.86%	2291	276.5	25593.1	9.0%	11.2	5.1%
Mar-51	3.84%	2291	250.0	23139.3	9.9%	10.1	6.1%
Apr-51	3.82%	2291	247.2	22884.7	10.0%	10.0	6.2%
May-51	3.88%	2291	243.4	22533.0	10.2%	9.8	6.3%
Jun-51	3.87%	2291	252.0	23324.4	9.8%	10.2	6.0%
Jul-51	3.89%	2291	259.6	24026.9	9.5%	10.5	5.6%
Aug-51	3.92%	2291	269.0	24895.2	9.2%	10.9	5.3%
Sep-51	3.89%	2291	267.1	24721.2	9.3%	10.8	5.4%
Oct-51	3.92%	2291	271.1	25089.6	9.1%	11.0	5.2%
Nov-51	4.08%	2291	266.2	24638.8	9.3%	10.8	5.2%
Dec-51	3.92%	2291	270.0	24994.2	9.2%	10.9	5.2%
Jan-52	3.95%	2844	275.9	26464.0	10.7%	9.3	6.8%
Feb-52	3.94%	2844	281.8	27030.0	10.5%	9.5	6.6%
Mar-52	3.94%	2844	283.4	27184.4	10.5%	9.6	6.5%
Apr-52	3.95%	2844	282.7	27123.0	10.5%	9.5	6.5%
May-52	3.95%	2844	284.0	27240.1	10.4%	9.6	6.5%
Jun-52	3.95%	2844	278.1	26680.8	10.7%	9.4	6.7%
Jul-52	3.95%	2844	282.6	27105.7	10.5%	9.5	6.5%
Aug-52	3.94%	2844	287.0	27527.9	10.3%	9.7	6.4%
Sep-52	3.94%	2844	290.7	27883.8	10.2%	9.8	6.3%
Oct-52	3.94%	2844	288.5	27677.5	10.3%	9.7	6.3%
Nov-52	3.94%	2844	285.5	27392.6	10.4%	9.6	6.4%
Dec-52	3.94%	2844	289.9	27811.8	10.2%	9.8	6.3%
Jan-53	3.95%	3601	292.0	31267.0	11.5%	8.7	7.6%
Feb-53	3.95%	3601	291.0	31162.1	11.6%	8.7	7.6%
Mar-53	3.94%	3601	286.4	30671.6	11.7%	8.5	7.8%
Apr-53	3.95%	3601	283.2	30323.5	11.9%	8.4	7.9%
May-53	3.95%	3601	286.2	30653.4	11.7%	8.5	7.8%
Jun-53	3.94%	3601	287.3	30769.1	11.7%	8.5	7.8%
Jul-53	3.94%	3601	285.6	30587.0	11.8%	8.5	7.8%
Aug-53	3.94%	3601	294.1	31495.2	11.4%	8.7	7.5%
Sep-53	3.94%	3601	296.8	31786.4	11.3%	8.8	7.4%
Oct-53	3.95%	3601	310.4	33246.1	10.8%	9.2	6.9%
Nov-53	3.94%	3601	317.1	33956.2	10.6%	9.4	6.7%
Dec-53	3.94%	3601	320.7	34344.9	10.5%	9.5	6.5%

Table A.12. Continued

	Bond yield	Earnings (lagged)	Price index (Dec 1940= 100)	capitalisation	E/P	P/E	rp = E/P - r
Jan-54	3.94%	4408	333.7	35845.2	12.3%	8.1	8.4%
Feb-54	3.94%	4408	338.2	36329.7	12.1%	8.2	8.2%
Mar-54	3.94%	4408	350.6	37657.4	11.7%	8.5	7.8%
Apr-54	3.95%	4408	357.8	38437.2	11.5%	8.7	7.5%
May-54	3.94%	4408	356.9	38338.4	11.5%	8.7	7.6%
Jun-54	3.94%	4408	359.5	38616.6	11.4%	8.8	7.5%
Jul-54	3.94%	4408	376.8	40470.6	10.9%	9.2	7.0%
Aug-54	3.94%	4408	387.5	41621.1	10.6%	9.4	6.7%
Sep-54	3.94%	4408	393.2	42234.4	10.4%	9.6	6.5%
Oct-54	3.94%	4408	389.1	41797.3	10.5%	9.5	6.6%
Nov-54	3.94%	4408	408.4	43868.3	10.0%	10.0	6.1%
Dec-54	3.94%	4408	423.9	45534.3	9.7%	10.3	5.7%
Jan-55	3.94%	4862	435.8	48654.0	10.0%	10.0	6.1%
Feb-55	3.94%	4862	456.0	50909.5	9.5%	10.5	5.6%
Mar-55	3.94%	4862	465.9	52017.1	9.3%	10.7	5.4%
Apr-55	3.94%	4862	471.0	52589.9	9.2%	10.8	5.3%
May-55	3.94%	4862	454.9	50796.7	9.6%	10.4	5.6%
Jun-55	3.94%	4862	474.7	52999.7	9.2%	10.9	5.2%
Jul-55	3.94%	4862	507.2	56626.3	8.6%	11.6	4.6%
Aug-55	3.91%	4862	539.1	60195.9	8.1%	12.4	4.2%
Sep-55	3.90%	4862	550.6	61480.0	7.9%	12.6	4.0%
Oct-55	3.90%	4862	570.5	63697.4	7.6%	13.1	3.7%
Nov-55	3.91%	4862	594.4	66366.0	7.3%	13.7	3.4%
Dec-55	3.91%	4862	643.5	71855.0	6.8%	14.8	2.9%
Jan-56	3.91%	6084	655.4	79684.7	7.6%	13.1	3.7%
Feb-56	3.91%	6084	699.8	85088.1	7.2%	14.0	3.2%
Mar-56	3.91%	6084	721.0	87667.1	6.9%	14.4	3.0%
Apr-56	3.91%	6084	692.2	84166.5	7.2%	13.8	3.3%
May-56	3.92%	6084	705.5	85783.6	7.1%	14.1	3.2%
Jun-56	3.92%	6084	731.9	88991.2	6.8%	14.6	2.9%
Jul-56	3.92%	6084	766.7	93222.5	6.5%	15.3	2.6%
Aug-56	3.92%	6084	820.7	99790.7	6.1%	16.4	2.2%
Sep-56	3.91%	6084	807.3	98160.2	6.2%	16.1	2.3%
Oct-56	3.92%	6084	827.1	100570.1	6.0%	16.5	2.1%
Nov-56	3.93%	6084	889.2	108111.1	5.6%	17.8	1.7%
Dec-56	3.93%	6084	892.0	108451.5	5.6%	17.8	1.7%

Table A.12. Continued

Bond yield	Earnings (lagged)	Price index (Dec 1940= 100)	capitalisation	E/P	P/E	rp = E/P - r
Jan-57	3.93%	7393	970.9	123393.3	6.0%	16.7
Feb-57	3.93%	7393	936.1	118964.3	6.2%	16.1
Mar-57	3.94%	7393	833.7	105958.2	7.0%	14.3
Apr-57	3.93%	7393	882.7	112185.5	6.6%	15.2
May-57	3.94%	7393	836.9	106353.4	7.0%	14.4
Jun-57	3.93%	7393	828.2	105252.8	7.0%	14.2
Jul-57	3.93%	7393	840.6	106823.6	6.9%	14.4
Aug-57	3.94%	7393	861.4	109476.0	6.8%	14.8
Sep-57	3.94%	7393	793.6	100856.9	7.3%	13.6
Oct-57	3.94%	7393	767.2	97497.9	7.6%	13.2
Nov-57	3.93%	7393	718.5	91317.7	8.1%	12.4
Dec-57	3.91%	7393	787.7	100102.0	7.4%	13.5
Jan-58	3.91%	10192	772.6	99984.2	10.2%	9.8
Feb-58	3.92%	10192	736.3	95283.8	10.7%	9.3
Mar-58	3.93%	10192	720.3	93218.2	10.9%	9.1
Apr-58	3.94%	10192	737.6	95458.5	10.7%	9.4
May-58	3.93%	10192	704.7	91195.4	11.2%	8.9
Jun-58	3.93%	10192	702.1	90861.5	11.2%	8.9
Jul-58	3.93%	10192	728.3	94256.2	10.8%	9.2
Aug-58	3.92%	10192	737.4	95432.6	10.7%	9.4
Sep-58	3.93%	10192	737.1	95396.3	10.7%	9.4
Oct-58	3.93%	10192	792.6	102581.6	9.9%	10.1
Nov-58	3.93%	10192	749.8	97033.5	10.5%	9.5
Dec-58	3.92%	10192	750.4	97111.1	10.5%	9.5
Jan-59	3.93%	12486	817.7	111917.8	11.2%	9.0
Feb-59	3.93%	12486	780.8	106864.7	11.7%	8.6
Mar-59	3.93%	12486	739.0	101142.3	12.3%	8.1
Apr-59	3.94%	12486	734.2	100483.9	12.4%	8.0
May-59	3.94%	12486	711.8	97426.3	12.8%	7.8
Jun-59	3.93%	12486	698.5	95600.5	13.1%	7.7
Jul-59	3.93%	12486	679.8	93043.8	13.4%	7.5
Aug-59	3.93%	12486	633.3	86672.6	14.4%	6.9
Sep-59	3.93%	12486	663.3	90788.3	13.8%	7.3
Oct-59	3.93%	12486	646.1	88423.2	14.1%	7.1
Nov-59	3.92%	12486	608.6	83292.0	15.0%	6.7
Dec-59	3.92%	12486	678.3	92831.7	13.4%	7.4

Table A.12. Continued

	Bond yield	Earnings (lagged)	Price index (Dec 1940= 100)	capitalisation	E/P	P/E	$r_p = E/P - r$
Jan-60	3.92%	13102	673.7	98383.7	13.3%	7.5	9.4%
Feb-60	3.92%	13102	666.6	97341.0	13.5%	7.4	9.5%
Mar-60	3.91%	13102	684.8	99997.4	13.1%	7.6	9.2%
Apr-60	3.91%	13102	740.8	108181.2	12.1%	8.3	8.2%
May-60	3.91%	13102	714.0	104273.3	12.6%	8.0	8.7%
Jun-60	3.91%	13102	706.1	103109.4	12.7%	7.9	8.8%
Jul-60	3.90%	13102	715.8	104530.3	12.5%	8.0	8.6%
Aug-60	3.90%	13102	741.5	108280.5	12.1%	8.3	8.2%
Sep-60	3.90%	13102	728.6	106402.4	12.3%	8.1	8.4%
Oct-60	3.89%	13102	733.0	107040.6	12.2%	8.2	8.4%
Nov-60	3.89%	13102	729.3	106498.8	12.3%	8.1	8.4%
Dec-60	3.89%	13102	741.9	108338.9	12.1%	8.3	8.2%
Jan-61	3.89%	15781	753.2	109792.4	14.4%	7.0	10.5%
Feb-61	3.89%	15781	808.0	117780.4	13.4%	7.5	9.5%
Mar-61	3.89%	15781	829.8	120953.7	13.0%	7.7	9.2%
Apr-61	3.90%	15781	835.2	121736.5	13.0%	7.7	9.1%
May-61	3.90%	15781	850.7	124004.6	12.7%	7.9	8.8%
Jun-61	3.90%	15781	926.9	135114.9	11.7%	8.6	7.8%
Jul-61	3.91%	15781	966.4	140869.7	11.2%	8.9	7.3%
Aug-61	3.90%	15781	1001.0	145913.3	10.8%	9.2	6.9%
Sep-61	3.90%	15781	998.0	145480.3	10.8%	9.2	6.9%
Oct-61	3.91%	15781	1009.3	147118.7	10.7%	9.3	6.8%
Nov-61	3.90%	15781	1006.3	146690.2	10.8%	9.3	6.9%
Dec-61	3.89%	15781	1024.1	149279.0	10.6%	9.5	6.7%
Jan-62	3.89%	17173	1062.9	154557.9	11.1%	9.0	7.2%
Feb-62	3.89%	17173	1081.1	157194.1	10.9%	9.2	7.0%
Mar-62	3.89%	17173	1156.1	168111.3	10.2%	9.8	6.3%
Apr-62	3.89%	17173	1136.5	165252.6	10.4%	9.6	6.5%
May-62	3.89%	17173	1089.5	158417.0	10.8%	9.2	7.0%
Jun-62	3.89%	17173	1080.9	157176.7	10.9%	9.2	7.0%
Jul-62	3.89%	17173	1122.2	163179.1	10.5%	9.5	6.6%
Aug-62	3.89%	17173	1167.7	169792.2	10.1%	9.9	6.2%
Sep-62	3.89%	17173	1208.6	175735.0	9.8%	10.2	5.9%
Oct-62	3.89%	17173	1238.5	180081.2	9.5%	10.5	5.6%
Nov-62	3.88%	17173	1229.5	178775.5	9.6%	10.4	5.7%
Dec-62	3.88%	17173	1224.0	177984.5	9.6%	10.4	5.8%

Sources: Tafunell, 'Los beneficios;' Bolsa de Madrid, *Índices*, and Instituto Nacional de Estadística, *Boletín Mensual de Estadística*.

Table A.13. Availability of earnings data for stocks included in Madrid Stock Exchange Index, 1946-1963

Year	(a) Number of firms in Bolsa index	(b) Of which data on earnings available	(c) Total capitalisation of column (b) firms as a percentage of capitalisation of column (a) firms
1946	33	33	100
1947	38	37	99,60
1948	39	38	99,56
1949	40	39	99,09
1950	47	47	100
1951	48	47	99,67
1952	48	47	97,86
1953	47	46	99,64
1954	47	46	99,62
1955	50	48	99,71
1956	53	49	97,96
1957	58	54	98,48
1958	58	54	98,48
1959	60	54	98,11
1960	61	54	97,52
1961	70	57	96,05
1962	71	57	95,84
1963	74	60	94,65

Sources: Tafunell, 'Los beneficios empresariales,' and Bolsa de Madrid, *Indice*.

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Ministry of Commerce Fonds

AIMF, Archive of the International Monetary Fund

Central Files

BoE, Bank of England Archive

Overseas Department Files, OV61 Records relating to Spain, 1922-77

HAEC, Historical Archive of the European Communities

OEEC, Organisation for European Economic Cooperation Fonds

EPU/EMA, European Payments Union/European Monetary Agreement Fonds

MAEF, French Ministry of Foreign Affairs microfilms

MAE, Archive of the Spanish Ministry of Foreign Affairs (Archivo del Ministerio de Asuntos Exteriores, Serie Renovada)

NACP, National Archives at College Park, Maryland

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