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ORGANIZING STATE INTERVENTION IN AN AUTHORITARIAN STATE: FROM FASCIST IMPORT SUBSTITUTION TO FRENCH DEVELOPMENTALISM IN POSTWAR SPAIN

CORNEL BAN[1]

ABSTRACT. The economics of the authoritarian regime of Francisco Franco in Spain are often narrowed to a bespoke form of fascism. This paper suggests that this regime's rather inchoate economic regimes were in fact a series of experiments that blended varieties of statism and liberalism. Thus, a form of import-substitution industrialization colored by Italian fascist features (1939-1959) lasted fifteen years longer in Spain than in the country of importation. In contrast, a local version of French developmentalism (1964-1975) was largely in sync with what was being tried in France at the time. However, this French developmentalist template imbued with fiscal Keynesianism was layered with liberal economic projects, particularly in the monetary policy arena. But while fascist import substitution (the so called "autarky") collapsed mostly due to its internal problems, Spain's translation of French developmentalism was associated with economic growth and was only extensively damaged by the crisis of the global capitalist core ushered by the 1973 oil shock. Critically, while in the symbolic terrain of Spanish politics the liberal economic projects that accompanied the local translation of French developmentalism were always associated with reformist and even "dissident" elite circles, the stigma of developmentalism' association with the core elites of authoritarianism removed developmentalism as a source of alternatives to the liberal economic reforms ushered by Spain's transition to liberal democracy in the late 1970s and early 1980s.

Keywords: Keynesianism, developmentalism, fascism, Spain, indicative planning

Introduction

A classical case of semi-peripheral development that joined the capitalist core during the 1990s, Spain is a challenging case for many scholars. Perhaps the most interesting episode is that of Spain's engagement with economic modernization under the fascist and developmentalist periods of the Francoist dictatorship

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(1939-1975). Indeed, until the Nazi military disaster became apparent in 1943, the Spanish political order instituted by the nationalist victory in the Civil War was a single-party State with powerful totalitarian tendencies of fascist inspiration. After 1943, Francoism reacted to the Nazi military decline and slowly morphed into a bureaucratic-authoritarian state with a rubber Parliament and a strong executive remarkable for its limited pluralism. The economic order instituted by the regime was at first shaped by a local translation of interventions inspired by Italian fascist import substitution industrialization, an economic regime that in Spain survived the defeat of Nazism/fascism and extended well into its terminal crisis at the end of the 1950s. Then, until its demise in 1975, the Francoist regime adopted France's brand of developmentalism ("indicative planning") while applying select Ordoliberal ideas imported from Germany.

What structured authoritarian Spain's experiments with extensive state intervention and what powered their collapse? This article addresses these questions by historicizing the roots of these experiments. To this end, it bridges between strands of scholarship published in disciplines that are usually not made to speak to each other in the study of the Franco regime: political economy, history of economic ideas and economic history.

The main argument resulting from the analysis is that authoritarian Spain's translation of the economic institutions and policies associated with Fascism and then French indicative planning in the context of a predominantly agrarian economy faced hard external limits and domestic constraints that exposed the resulting economic regimes to varying degrees of instability. Overall, while the fascist economic experiment ended in abject failure, the developmentalist one was more successful in macroeconomic (albeit less so in social) terms and laid the foundations of Spain's current industrial development. Its extensive dismantlement was caused by simultaneous political collapse and the 1973 crisis of the global capitalist core. In turn, the end of developmentalism ushered in forms of embedded neoliberalism whose suspicion of the positive role of the state in the economy was magnified by the association of developmentalism with authoritarianism in the eyes of the democrats who got to rule Spain since the death of Franco in 1975. As recent research showed (Ban 2016), this put important limits on how post-authoritarian economic reforms were discussed in Spain during the 1980s and 1990s, with arguments in favor of (neo-)developmentalism being made with greater difficulty than in countries that did not experience authoritarianism. Indeed, like in post-communist Europe, developmentalism remained tainted by authoritarianism for decades after the demise of the authoritarian order.

In terms of organization, the article starts with a background section of Spain's experience with 19th and early 20th century capitalism, dwells on the early economic experiments of the Franco regime and then focuses on its crisis, reforms and eventual collapse.

Liberalism, mercantilism and capitalism in Spain

Spain's experience with the rise of 19th century capitalism was born from military trauma and the crisis of its outdated institutions. Indeed, most of the Spain's economic decline began in the early 19th century and coincided with the destruction of Spain's budding industries by invading French armies (1808-1814). The decline was compounded by the cutting of cheap gold inflows from Latin America as a result of successful independence movements there (1810-1826). In addition to these geopolitical shocks, Spain's economy continued to be weighed down by an ineffective banking sector and an administration unable to push the tax reforms that had enabled many European states to launch industrial development in the second half of the 19th century. The crisis was magnified by internal problems. Large expanses of land were inefficiently exploited in the mortmain regime, and the guild system paralyzed industrial initiatives. The negative role of these structural economic factors was further magnified by the endurance of an ossified semi-feudal social structure well into the late 19th century. As a result of these factors, Spain went from being a middle economic power to an underdeveloped state in less than a century.

The death of the conservative king Ferdinand VII in 1833 ushered in liberal socio-economic reforms. Powered by the ideas of French, British and German liberalism, the state elites of mid-19th century Spain abolished the guilds, liberalized the legal regime of agricultural land, and introduced civil and commercial legislation. These measures laid the foundations for Spain's gradual transformation from a semi-feudal agricultural economy with weakly integrated local markets, into a capitalist one with a national market. Yet this budding capitalist economy was deprived of domestic private or public capital and had a weak internal demand. To address these constraints, Spanish policy elites turned to foreign capital to finance capitalist development (Vives et al 1969; Harrison 1978).

The sluggish growth of local industries opened up fierce debates about the role of the state in the economy. As a result, Spanish economic policy oscillated between mercantilist (1833-1849) and laissez-faire (1841-1869) periods. During the 1870s, the mercantilists began to definitively unseat classic liberals by institutionalizing their ideas in a broad protectionist coalition that encompassed conservative capital and socialist industrial labor[2].

By the late 1880s, the institutions, policies and ideas of mercantilism definitively triumphed and shaped Spain's road to capitalist development (Galvez Munoz 2001; Fuentes Quintana 2001; Jarregui and Ruiz-Jimenez 2005). Consequently, Spain went off the gold standard and, during the first quarter of

[2] The protectionist capital included the mill-owners of Barcelona, steel-owners in Bilbao and mine-owners in Asturias.

the 20th century, it became the most closed and interventionist economy of the capitalist world (Fuentes Quintana 1986). "Infant" industries (particularly the Catalan ones) were protected via import quotas and high tariff walls (the stiff Tariff Act of 1906 was in force until 1960!). Spain's industrial distressed goods were guaranteed to be purchased by government agencies. After 1917, the state set up special banks to provide industrial expansion with generous loans. This neo-mercantilist paradigm survived several political regime types: constitutional monarchy (1874-1923), dictatorship (1923-1930) and liberal republic (1930-1939) (Harrison 1978; Balaguer and Cantavella-Jorda 2004; de la Escosura 2005; Junquito 2006). Yet neo-mercantilism did not breed autarchy, because Spanish governments' economic modernization plans depended heavily on foreign industrial investment (Tortilla 2000)[3].

Modest growth and deep recessions in 1908 and 1911 increased the gap between Spain and Northern Europe. Rather than grow under Spain's expensive protectionist walls, industrialization slowed down in this country, just as it was booming in other parts of Europe. Foreign investors responded to Spain's low levels of private internal demand by concentrating their capital in export mining and subsidized public services (railways, utilities), often by importing equipment and manpower from abroad.

To a considerable extent, the failure of industrialization in Spain was due to the fact that industrialists faced difficult structural constraints: a neo-mercantile state unable to expand the fiscal base to provide cheap credit for industrial development, and a deflationary monetary policy that kept interest rates above international levels to attract scarce foreign capital[4]. Moreover, the government targeted its scarce resources away from industrial credit and towards land disentailment programs (Tortella 1969; 2000). All this opened the field to contestation by radical challengers to the macro structures of Spain's economy.

From military developmentalism to Franco

The exploration of radical economic alternatives began when Spain's wobbly parliamentary regime was terminated by a *coup d'etat* in 1923. Until the Second Republic was proclaimed in 1930, Spain experienced its first attempt at import substitution industrialization under the dictatorship of general Miguel Primo de Rivera. This (weak) military regime (*dictablanda*) adopted an expansionary

[3] For overviews of the modern economic history of Spain see Harrison (1978: 54-58), Jimenez (1987) and Carr (1982).

[4] Spain proved that monetary stability could be maintained without the gold standard. During the heyday of the Gold Standard, Spain preserved the stability of its finances with inconvertible paper money by running low budget deficits, keeping interest rates above international levels and managing high trade surpluses. The only exception was the Spanish-American War of 1999.

monetary policy, launched a debt-financed unprecedented expansion of public works, and generously funded "industrial champions." Boosted by the global boom of the 1920s, industrial growth averaged 5.5 percent a year, industrial production boomed and Spain developed modern highway, irrigations and electric grid systems. Industry become more diversified during this period as well, with automobiles and aircraft construction cutting new economic niches for Spanish industry (Velarde 1973; Carreras 1984; Maluquer 1987; Harrison 1985).

By staying off the gold standard, Spain avoided the worst excesses of the Great Depression. After 1932, its exports did face collapsing external demand, but Spain had been less export-dependent than other semi-peripheral European states so it suffered less. Owing to an increase in public expenditure, consumption was stabilized after 1933. What is more, very few Spanish banks failed, and the run on the peseta that took place in the middle of the Credit Anstalt crisis was weak and short-lived (Bernanke 1995; Martin-Acena 1992; Temin 1993; Tortella and Palafox 1984). Spain's avoided financial crisis, because the military regime did deficit spending development by borrowing from local banks. Thus, the central bank could act effectively as a lavish lender of last resort by turning debt into cash.

However, Spain's political crisis was greater than its economic challenges. By adopting an ambitious political, social and cultural agenda, the left-leaning governments of the Second Republic (1931-1935) faced massive and militarized resistance. The Spanish civil war broke out in 1936[5] throwing a mosaic of social forces into a violent vortex and wreaked havoc with the Spanish economy at a time when other capitalist states were experiencing economic recovery from the Great Depression. The conflict dramatically reconfigured the politics and the economy of Spain, pitting the "two Spains" – created by more than a century of liberal reforms, labor conflicts and neo-feudal reaction – against each other. On the Republican side was a motley assortment of proletarians (industrial and agricultural workers), secular bourgeoisie (entrepreneurs, professionals, intelligentsia), and regionalists (natives of the Basque country and Catalonia of all socio-economic stripes). Against this coalition fought a variegated assortment of actors ('the nationalists') who mobilized against the Republic along such fault lines as class (large bank, manufacturing and agricultural interests, high-ranking civil servants, rentiers), ideology (the social-revolutionary fascists of the Falange, conservative intellectuals, monarchists) and religion (the Church, practicing Catholics of all classes) **(**Beevor 1982; 2006; Graham 2002; Preston 1978; Gunther 1984; Payne 1961).

During the war, the economy dropped by 6 percent a year on average (Carreras 1984). By its end in 1939 Spain's GDP was at half its 1929 level. Entire

[5] The conflict began in July 1936, following the attack on the mainland by the joint forces of the Navarre army corps and of the colonial army of Spanish Morocco.

industries had been reduced to rubble, the Spanish gold reserves ended up in the Soviet Union, and the country's infrastructure of communications and transport was severely disrupted (Beevor 2005). Agricultural production reached its 1929 levels only in 1950 (Carreras 1984). Since most of the tens of thousands of Spain's Republican emigrés were young, active and skilled, the country saw a dramatic shortage in talent. To make matters worse, the outbreak of World War II disrupted Spain's traditional trade relations, while Nazi Germany showed little interest in propping up the economy of its ideological ally (Harrison 1995).

The Nationalists won the conflict in 1939 and instituted an authoritarian political regime headed by the military leader of the military *putch* of 1936, General Franciso Franco Bahamonde. The new regime put an end to Spain's experience with competitive democratic institutions, multiple parties and interest groups for the next four decades. At the same time, as the regime launched ambitious state-led industrialization plans that experienced intriguing hybridizations over time.

The Francoist political system

At the top of the political system in Spain during this period system was Franco himself (Chief of State or *Caudillo*) and his close circle of trusted friends and relatives. The rest of the system was highly centralized and completely dominated by the executive power. The *Caudillo* and his inner circle held the right to appoint the members of the Council of Ministers, the Spanish executive branch. The custom was to appoint ministers known for their moderate views inside each faction of the governing social coalition, with no single faction being allowed to amass a disproportionate amount of power. The Chief of State also appointed the head of the Parliament (*Cortes*), whose legislative powers were strictly symbolic. Franco's closest advisors were Nicolas Franco, his brother, and Ramon Serrano Suner, his brother-in-law.

This institutional matrix was as much a legacy of Fracoism as it was a reaction to it. The extreme level of power concentration at the cabinet level in the ministry of finance and the flows of academic economists in economic policy bureaucracies were both features of the Franco years that survived transition to democracy. To a considerable extent this was due to Spain's murky break with the Francoist past and to the transition governments' shortage of prominent economists with professional dossiers untainted by the institutions of Fracoism. By contrast, centralism and intramural authoritarianism were powered as much by electoral strategy as by the perception of factionalism as a cause of the Republican quagmire and of the subsequent fascist victory in the civil war. By 1982, these institutional factors converged to weaken the case for a non-neoliberal alternative after 1982.

Until the German military disaster became apparent in 1944, the political order instituted by the nationalist victory in the civil war was a single-party state with powerful totalitarian tendencies of fascist inspiration (Linz 1964; 1978; 2000**;** Linz and Jerez Mir 2003; Payne 1987; Tusell 1988; Mir 2009)[6]. But after this date, Francoism was an authoritarian state with a nominal legislative power[7] and a powerful and centralized executive[8], yet one marked by "limited pluralism," the absence of ideocratic tendencies, a general disinclination to public political mobilization, and a leadership marked by predictable limitations (Linz 1964; 1978; 2001). Other scholars also remarked on its classism and the fact that its political representation outside the Franquist coalition was mostly pro-forma (Gunther 1980).

Although the new regime did not have a homogenous ideology, Franco and his clique had a set of strong beliefs. They all rejected class conflict and income redistribution, and emphasized national unity guaranteed by an authoritarian state. This led them to reject competitive politics embodied in political parties and independent interest groups as a form of undermining national unity. (Anderson 1970). Since universal suffrage was regarded as threatening to national unity and to conservative Catholic doctrine, the legitimacy of this system rested on its claims to be a guarantor of Spain's Catholic civilization, on the historical position of Franco as savior of Spain's unity ("original acquisition" of authority) and the citizens' representation in a system of "organic democracy" composed of the Family, the Municipality and the Syndicate (Gunther 1980: 36).

In theory, the system denied class conflict, organizing labor and capital interests in vertical rather than horizontal "syndicates" that were grouped by

[6] The single-party in question was *Falange Española Tradicionalista y de las Juntas de Ofensiva Nacional-Sindicalista* (FET-JONS).

[7] The *Cortes* was not a real legislature. Its members were not elected directly by the citizens. Instead, its membership was constituted by appointees of the corporatist "syndicates," local government bodies, universities, the Supreme Court and various cultural institutions. After 1967, in a minor concession, the law allowed for the direct election of a number of "Family" representatives by the vote of 16 million Spaniards who were either "heads of households" or married women. Even so, the Council of Ministers answered only to the Chief of State, and not to the Cortes. The *Cortes* had no decision-making authority of its own, and its approval of laws could only be exercised "without prejudicing the powers of the Chief of State". The evisceration of the legislative capability of the Cortes was ensured by two constitutional norms: the prohibition of factions inside the *Cortes* (which eliminated the possibility of coalitional politics necessary for a minimal debate) and the right of the Chief of State and the Council of Ministers to control the daily agenda of the Cortes (Gunther 1980).

[8] In practice, as long as it had Franco's backing, the Council of Ministers would adopt decisions without consulting the *Cortes*, which was expected to rubber-stamp the results.

sector (rather than by class interests). All laborers, management and capital owners in a specific sector or profession were compulsorily grouped in a single "syndicate" supervised by the state as the guarantor of national interests (Gunther 1980). The result was the formation of 26 vertical syndicates for separate economic branches (Anderson 1970: 67). Beginning with 1951, shop stewards were elected directly by workers and were protected by threats of arrest with workers' strikes. This allowed the election of myriad leftists in this position during beginning with the late 1960s as well as the establishment of informal (and illegal) communist and socialist horizontal labor organizations.

It was only through these vertical forms of organizations that private claims could be legally expressed. After 1958, labor and capital won a bit more autonomy within the syndicates and were able to do collective bargaining between "social sections" (labor) and "economic sections" (capital), thus ending a period when the Ministry of Labor would set the wages for the whole economy (Anderson 1970: 68)[9]. However, the sections remained controlled by central syndical headquarters (whose members were appointed by Franco himself), while the lower levels were controlled by Falange militants.

In this institutional environment, there were no autonomous labor and business organizations, strikes were illegal, and independent unions were banned[10]. In compensation, workers received job security, unemployment compensation, pensions, sickness benefits, paid vacations and training. By contrast, business got a much better deal in exchange for losing the right to independent organization. Large corporations, especially banks, could access the higher echelons of decision-making directly, via appointments to economic policy positions, and indirectly, though audiences to the Council of Ministers and Franco's inner circle itself (Payne 1987; Gunther 1980; Holman 1993).

From Autarky to Constrained Liberalization: Capitalist Development in Franco's Spain

Import Substitution Industrialization (1939-1959)

During early Francoism (1939-1959) Spain pursued an import substitution industrialization strategy led by the state, reliant on the forced suppression of labor cost increases and self-limited by a weak fiscal base (Anderson 1970; Donges 1971; de Escosura 1994; Fuentes-Quintana 2001).

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[9] The Falange held a great deal of influence in the syndicates, and between 1940 and 1958, it controlled the Ministry of Labor, the institution that dictated the wages and working conditions for the entire country.

[10] As late as 1974, the attempt to set up independent labor unions was punishable by prison terms of up to 20 years.

As suggested earlir in the article, import substitution industrialization was hardly a completely new policy paradigm in Spain. Some policies had precedents in the previous dictatorship (1923-1930), when Primo de Rivera's military regime sought to achieve economic self-sufficiency in a more forceful state-led industrialization (e.g. the establishment of "strategic industries") and corporatization of the business sector. The *dirigiste* bent of these measures had deeper roots than the military tradition. During the 19th century Spain had emulated the French administrative and bureaucratic system while developing a higher education for state managers molded on the French *grandes ecoles* that produced an interventionist bureaucratic ethos with regard to economic policy (Anderson 1970: 56).

But unlike the relatively modest government interventions of the neo-mercatile era, under Franco the Spanish government committed much greater resources to direct public investment. Generous fiscal incentives, low interest rates, protection against foreign competition, and expropriations required for plant expansion ensured a business climate favorable to domestic firms. Inward-looking, the new paradigm demanded that the exchange rate regime foster domestic production, rather than exports. Overall, it was a local translation of Italian fascism in economic terms. As a result, the Spanish government set seven groups of exchange rates for imports and five rates for exports until 1957. To the same end, the regime kept marginal income taxes low, and as a result of state-controlled corporatism and labor repression, industrialists were constantly reassured that wages would remain low (Tortella 1994: 363; Poveda 1975). In effect, strikes were illegal and, until 1958, wages were set by government decree, although fringe benefits were extensive. This was not a Spanish idiosyncrasy either. The Dutch used this policy until the 1960s and the same mechanism was in place in France until the 1950s. Yet while in the Netherlands and France wage controls were regarded as temporary measures to ensure full economic recovery from wartime devastation, in Spain they were permanent. Moreover, like in the case of East Asian authoritarian developmentalism, Spanish labor repression and the "syndical" industrial organization guaranteed low labor costs (Anderson 1970).

The central tool of the new industrialization policy was the establishment of a public holding company in 1941 (the Institute of National Industry/*Instituto Nacional de Industria* or INI) molded onto the Italian fascist template. The basic function of INI was to launch new industrial branches where private firms were loath to act, and to challenge private monopolies with the establishment of new firms. The importance of INI in the economy or direct price supports for agriculture should not be overstated as a sign of "autarchy", however. Outside of Germany, Belgium and Scandinavia state-led industrialization was common in the postwar years. Moreover, in relative terms, at the height of the industrialization drive in 1960, public industrial investment in Spain, a country with a declared import substitution development paradigm, was, at 15 percent of total industrial development, much smaller than in countries with a liberal model like Austria (47%), the UK (32%) or France (31%) (Anderson 1970: 40).

Until 1957, the INI was financed directly with grants from the national government[11] and targeted its industrialization efforts at a long list of industrial branches deemed strategic by the state[12]. While managed industrial credit kept the costs of capital low for targeted industries, the state boosted domestic demand through massive railway infrastructure and the irrigation systems (Anderson 1970).

Monetary policy during this period was expansive. The government increased the budget deficit to pay for its industrialization, money supply was steadily increased, and the inflation rate averaged 13.7 percent between 1939 and 1959 (Lakauskas 1978). Yet expansionary monetary policy was not carried out, as in Western Europe, through the corresponding increase of state revenue. While Italy's state budget was 21 percent of GDP and Britain's was 33 percent, the figure in Spain was frozen at 14 percent as a result of a self-imposed cap on the expansion of state budgets relative to GDP (Comin 1996). This created major problems, as the costs of the expected expansion were concentrated in high budget deficits and foreign currency loans, transforming this developmental model into a ticking time bomb. This weak fiscal state came to haunt the regime.

Basically, the industrial expansion expected by the regime did not happen. Between 1946 and 1950, industrial production grew by 10 percent, relative to increases of 70 to 100 percent in other Mediterranean countries (Italy, Greece, Yugoslavia) (Carreras 1984). And even as production grew after 1950, productivity figures remained very low, and Spanish exports began to decrease just as the economy began to grow after 1950 (Gonzales 1979**:** 47-48; Velarde Fuertes 1973: 484). As a result of weak industrial competitiveness, Spain's exports remained dominated by citrus, wine and olive oil, which brought only modest export revenues. The small domestic market and the limited access to foreign markets meant that the industry had narrow limits of expansion and was starved of new technological innovations. Chronic shortages in fuel, energy and raw materials weighed down productivity and consumption (Carr and Fusi 1979: 52).

Most importantly, since industrialization depended on expensive technology imports, any major drop in Spain's agricultural exports raised the

[11] Between 1941 and 1954, INI owned 12 firms, held a dominant share in 27 and a minority share in 12 (Anderson 1970: 39).

[12] The list included steel, aluminum, hydropower, shipbuilding, fertilizers, air transport, telephone communications and autos.

specter of bankruptcy against the background of a generally underperforming economy. This happened in 1956, when Spain's citrus crop of 1956 dropped to half of its 1955 level, leading to a catastrophic balance of payment problem that brought in external intervention from the Washington institutions. With a total of 40 million dollars left in the state's foreign currency accounts, this underfunded ISI model came to the brink of bankruptcy (Lieberman 1995: 47). The situation was complicated further by student riots, miners' strikes, and an emerging clerical opposition. This led to a cabinet reshuffle in 1957 that put an end to ISI and inaugurated a period of economic liberalization.

Limited Liberalization (1959-1964)

In 1957 the Spanish cabinet saw a shift in the center of power from ISI towards economic liberalism. The key new figures were conservative *Opus Dei* technocrats known for professionalism and commitment to the regime. The new holder of the Commerce portofolio was Alberto Ullastres, a young economist known for his joint research projects with German liberal economist Friedrich von Stackelberg. The head of the influential Office for Economic Coordination and Programming was Laurenao Lopez Rodo, a conservative Catholic administrative law professor, who adapted some of Keynes' ideas to the Spanish context, and who was the protégé of Admiral Luis Carrero Blanco, Franco's right hand man.

The new government devalued the peseta and began to run the printing press to pay for ongoing expenses. A dramatic decrease in purchase power led to more social unrest in Asturian mines and Basque foundries, "forcing" the regime to kidnap and court-martial the strike organizers. In 1958, minister Rodo used growing social unrest to convince the *Caudillo* that more economic liberalization would stabilize public finances and reduce the incidence of social unrest, by both making the average Spanish wealthier and avoiding the tax hikes that Franco's backers disliked (Fuentes Quintana 1991). The drafting of the reform policy package known as the Stabilization Plan involved Spain's young generation of neo-Keynesian, developmentalist and ordoliberal academic economists and technocrats, as well as the direct advice of an IMF delegation stationed in Madrid for a few months.

After seven months of preparation and drafting, Spain unveiled its Stabilization Plan on June 30, 1959. The plan's objectives were threefold: to take the necessary fiscal and monetary measures required to restrict demand, and to contain inflation. The deflationary measures quickly arrested the growth in inflation and balancing the budget deficit. The plan enabled Spain to avert a possible suspension of payments to foreign creditors holding Spanish currency.

Gold and foreign exchange reserves went from almost zero to over 1 billion. In a year, Spain's balance payments ran a surplus of half a million dollars. The devaluation of the peseta led to a significant increase in Spanish exports and quadrupled tourism receipts, with the number of tourists nearly doubling from 3 million in 1958, to almost 6 million in 1961[13]. Other aspects of the reform were more interventionist. The "mixed banking" of the ISI era was terminated, commercial and investment banking were separated, and the central bank was nationalized.

Another pillar of reform concerned trade and foreign capital flows. For the first time since 1920, Spain allowed for some liberalization of trade. The entry costs of foreign investment were reduced, as the licensing of foreign capital participation in the capitalization of Spanish firms was lifted, on the condition that such participation did not exceed half of the total capital. The government lifted restrictions on the repatriation of earnings from foreign investment and the principal involved. The elimination of many restrictions on exports led to imbalances in Spain's external position, and by 1961 Spain had the same current account deficit as in 1957. Yet with the receipts from tourism added to exports, Spain ran a surplus in 1961.

Although it was dramatic by Spanish standards, trade liberalization remained modest. A 1962 federal US Federal Reserve reports maintained that Spain still had the most protectionist trade regime in OECD in 1961[14]. Thus, the government maintained barriers to entry on "strategic" industrial sectors and limited trade liberalization with those countries that allowed the convertibility of Spain's net earnings, which had originated in commercial exchange with them (Lieberman: 52). Also, imports were liberalized only for goods judged not to harm domestic development[15]. To shield Spain's banks from international competition, foreign banks were not allowed to enter the country. This ban remained in force until 1978[16].

In late 1959 and throughout the 1960s, domestic demand and output fell in tandem. The resultant economic slump and reduced wages led approximately 500,000 Spanish workers to emigrate in search of better job opportunities in

[13] Spanish exports grew from 498 million in 1958 to 759 million in 1961. For more detailed data see Report on Spain of the Board of Governors of the US Federal Reserve, November 29, 1962 (on file with the author).

[14] Report on Spain of the Board of Governors of the US Federal Reserve, November 29, 1962.

[15] The decree-law no. 10 of 1959 maintained the requirement of individual import licenses on non-liberalized imports and capped their aggregate value.

[16] The Spanish financial system was non-competitive internationally and poorly diversified. Spanish banks were small, highly regulated and had extremely weak deposit bases, loan portofolios and economies of scope (Acena 2009: 43-46).

other West European countries. As the export sector failed to act as an engine of growth, the government loosened credit conditions and allowed for salary increases to restart aggregate internal demand. Fortunately for the government, the ensuing contraction of internal demand was compensated by a doubling of migrant remittances (over 100 million in 1961), U.S. economic aid (100 million annually between 1959 and 1961), and the growth of U.S. expenditures on military installations in Spain. Foreign aid took the form of US$75 million in drawing rights from the IMF, US$100 million in OEEC credits, US$70 million in commercial credits from the Chase Manhattan Bank and the First National City Bank, US$30 million from the Export-Import Bank of the United States, and funds from United States aid programs. Total foreign backing amounted to US$420 million (Gonzales 1978; Fuentes Quintana 1990).

After a year-long stagnation in 1960, the economy began to expand. The liberalization of imports and FDI facilitated the modernization of Spain's outdated industrial base by increasing imports of capital goods and technology transfers. The effects of the liberalization measures were compounded by more effective protocol for the creation of new industries. During the 1960s, these developments enabled Spain's transformation into an industrial country and led to its first boom in industrial exports.

Luckily for the government, the external environment was favorable. The European Community absorbed Spain's exports and excess labor. Spanish net migration to Europe and the total dollar value of remittances quadrupled between 1960 and 1961. The state's involvement in tourism promotion and a booming and more socially egalitarian Europe combined to nearly quadruple earnings from tourism between 1961 and 1964 (Gonzales 1979: 286). Boosting domestic demand, the money spent in Spain by the average tourist more than doubled between 1958 and 1964, and the total number of foreign visitors grew from 3.2 million in 1957 to 14 million in 1964 (Gonzales 1979: 286). The boom in migrant remittances and earnings from compensated for expanding commodity trade deficits.

French indicative planning a l'espagnole (1964-1975)

The liberal orientation of the Stabilization plan was not hegemonic, hoever. During the postwar period, French indicative planners argued that one of the functions of government should be the early identification of oversupply, bottlenecks and shortages so that state investment could be used on time and in concert with investors to preempt the occurrence of market disequilibria (Ban 2016). In most of the developing world, similar attempts to challenge the neoclassical synthesis with a heavier dose of Keynesianism led to development economics (Hirschman 1984: 17-24). These ideas resonated in Spain, where a form of French developmentalism emerged from the work of a group of scholars close to Franco's inner circle[17]. The most prominent Spanish indicative planner was Laureano Lopez Rodo, an *Opus Dei* technocrat, professor of administrative law and protégé of admiral Carrero Blanco, Franco's right-hand man (Anderson 1970: 103-118; Gunther 1980). Between 1962 and 1973, as head of the Spanish Planning Commission (*Comisaria del Plan de Desarollo*), Rodo and his team of technocrats crafted and managed Spain's French-inspired "development plans" layered with a strong dose of postwar modernization theory from the World Bank at a time when the World Bank was not yet an institution structured by neoclassical orthodoxy.

Triggered by a 1962 IBRD (the leading financial arm of the World Bank group) report revised by Opus Dei minister Lopez Rodo and inspired by French indicative planning, Spain adopted several development plans between 1963 and 1973. Although the 1962 IBRD report urged the government to make the Spanish economy more market friendly by deregulating the economy, it nevertheless did not suggest a "neoliberal" course. Rather, IBRD asked the government to increase the size of the public budget relative to GDP and to "make markets" by taking a more coordinated approach to industrial development (IBRD 1963). This did not mean a return to ISI industrial policy either. While basically all industrial firms had been considered of national interest after 1939, now only select sectors and subsectors judged by technocrats to have a pull effect on the rest of the economy were to receive government support (Lieberman 1995).

The plans were managed by a new "superministry" called the Planning Commission (*Comisaria del Plan*), and their main objective was to "raise rapidly the productivity of Spanish firms in order to obtain an outward displacement of the economy's production possibility frontier" (Lieberman 1995:73). To achieve this, the plans established partnerships (*accion concertada*) between government planners and the CEOs of selected industrial sectors. Also the Finance Ministry had to negotiate budget policy with the *Comisaria del Plan*) (Gunther 1980: 71-78; 216-221).

Like French "quasi contracts", *accion concertada* tended to replace free-market economic competition with a combination of discretion and political

[17] Rodo's main works on economic policy included *Administración Pública y las transformaciones socio-económicas*, Madrid, 1963 and *Política y Desarrollo*, Madrid, Aguilar, 1970. See also his *Memorias. El principio del fin*, Plaza & Janés/Cambio 16, Barcelona, 1992. Among the advocates of this approach in academic economics were Fabian Estape, Agostin Cotorruelo and Javier Irastorza (Fernandez Diaz 1983: 818).

competition (Gonzales 1979: 321). Essentially, the CEOs pledged to attain certain production and productivity levels within periods that ranged from 4 to 8 years, in exchange for direct monetary subsidies, low-interest government credits, import duty exemptions, and tax cuts. Industrial coordination was accompanied by state guarantees for the stabilization of the domestic financial sector that financed this development. When in trouble, the Bank of Spain orchestrated discreet bailouts, takeovers and mergers (Pons 2001). Market-making interventionism consolidated Spanish banks; their deposits, loans and profit, measured by the coefficient of variation, were higher in 1962-74 than in 1940-62 (Acena et al 2009: 45).

In the more interventionist spin put on the Keynesian intellectual legacy by French planners, they saw a way to salvage the state-led development project from the attacks of Spanish liberals and neoclassical synthesizers[18]. Instead, the then dominant conservative reading of neo-Keynesianism was frontally attacked by a team of economists and administrative law professors who, though marginalized by the Spanish economics elite, had a great deal of political backing. This team translated French ideas about indicative planning for Spanish consumption and gave Spain a replica of French development plans for about a decade (Perez 1997: 73; Tamames 1989).

The Spanish indicative plan was market-friendly, promoting increased competition among firms and raised external competitiveness of Spain's industry, a feat to be achieved by providing the coordinated information necessary to better guide the choices of firms in a mixed economy. This technocratic ideology was subordinated to a wider economic nationalist one, in which the stigma of economic backwardness legitimized an enduring emphasis on economic modernization through the state's rationalization of market relations. Also, like the neoclassical synthesizers, Spanish planners were "pro-business" and saw the state as facilitator of a more competitive private sector. Moreover, both saw industrialization as the only means to break Spain's underdevelopment. Yet the ideas with which the indicative planning school diagnosed the economic crisis of Spanish ISI drew precisely on those insights of Keynes' *General Theory* that had been challenged by the advocates of the Spanish neoclassical synthesis. The planners had little consideration for monetary policy, or for the endorsed discretionary state-directed credit allocation as the prerequisite for a "take-off" in comprehensive industrialization (Anderson 1970: 164-167; Gonzales 1980; Fernandez Diaz 1981; Perez 1997: 70-75).

[18] Yet despite some initial overtures in this direction in mainstream economics reviews like *Revista de Economia Politica* and *De Economia*, this did not lead to a robust Spanish tradition of development economics (Almenar 2001: 496).

Spanish developmentalist planners were strongly Keynesian. As argued by Sophia Perez (1998), the planners adopted the strong orthodox Keynesian thesis that monetary policy may not affect the endurance of liquidity traps (i.e. the internal demand for money is horizontal, so that further injections of money into the economy will not lower interest rates. This ran counter to the Spanish neoclassical synthesizers' qualification of Keynesian economics with the so-called Pigou effect thesis which claimed positive effects for monetary policy in an economy caught in the liquidity trap. To this end, the planners attacked the ideas of neoclassical synthesizers by showing that their orthodox 1959 Stabilization Plan led the economy into a liquidity trap responsible for severe disinvestment in the private sector (Anderson 1970: 103-117; Perez 1997: 68-73). Consequently, the planners advocated bold state stimulation of internal demand and showed only moderate concern for the inflationary costs of this strategy, a position Rodo defended even as the development plans were losing steam in France in the early 1970s.

Easy industrial credit entailed more state intervention than the neoclassical synthesis allowed for and came at the cost of inflation rates that hovered around twice the OECD average during the 1960s (Alesina 1987). But, the need for monetary stabilization was mitigated by the adoption of another French planning idea: selective credit would maximize productivity growth. As Sophia Perez pointed out, "the idea that monetary expansion could be used as a forcing mechanism on the rate of growth required that such monetary expansion be channeled into those types of productive investments that would maximize productivity growth over the medium term and minimize the damage of domestic inflation to the economy's competitiveness" (Perez 1997: 72). In practice, the state would manage these credit flows by using a set of consistent numerical projections of the economic future without specific incentives for their fulfilment (as was the case in Soviet-style central planning). This idea was buttressed by the phenomenal growth rates of France after 1945 despite high inflation rates.

One of the ideas of Spanish indicative planning that survived the neoliberal revolution was that of "industrial champions." Like their French counterparts, Spanish indicative planners struggled to embed liberalised trade principles in nationalist interventionist ideas, without lapsing either into the socializing and autarkic economic agenda of radical left projects, or into the low-inflation export-led growth strategy embraced by postwar Germany. The state was expected to facilitate export competitiveness by increasing the level of industrial specialization in the private sector and by focusing public assistance on a few firms of "international dimensions" (Perez 1997: 70-72; Cohen 1977; Hall 1997; Loriaux 1991).

The emphasis on state assistance to large firms was based on the French planning idea that the absorption of technological and managerial progress linked to higher productivity could not be done in small and medium enterprises. This view ran counter to of American neo-classical theorists' tendency to assert the superiority of small firms due to their supposed greater flexibility. In this causal narrative, the state was to serve as "crutch and prod in the transformation of industry away from an insular world in which small-scale production and intercompany connections slowed change toward an international market place in which a more modern industry composed of hierarchically-managed giant corporations could compete with its counterparts" (Zysman 1983: 168-69).

The policy influence of the planners was greater than that of any other school of thought during the 1960s, and their grip on policy institutions between 1964 and 1974 coincided with a growth rate of around 6% a year. Neoclassical synthesizers like E.F. Quintana pointed out that the development plans slowed down growth by showing that the growth rate between 1959 and 1964 was greater than during the period of development plans (1964-1975) (Quintana 1993: 28-29).

The main problems of indicative planning as a heterodox reading of Keynesianism were that it had a faint footprint from Spain's leading economic departments and research institutes and its support in the state depended on patronage. Once its patron, admiral Carrero Blanco, was assassinated in 1974 by ETA hit men, indicative planning disappeared almost instantly as a coherent school of thought. Yet, some of the planners' ideas survived the demise of Keynesianism and were subsequently used to establish the neoliberal project itself.

Still, during the indicative planning years, Spain had the highest economic growth in OECD. Industrial output grew in double digits per annum, and industrial employment saw unprecedented increases, turning Spain into an urban industrial country. By 1973, Spain was Europe's fifth industrial economy. Most Spaniards saw significant increases in purchase power and standards of living. Yet the political and economic costs of the three Spanish development plans were high. Economically, it drained the budgets of a country whose leadership vetoed tax increases. During the first year of the first indicative plan alone, budget expenditures increased by 20 percent (Lieberman 1995: 81). Macroeconomic imbalances posed another challenge. Industrial modernization was powered by a growth in technology imports, which was greater than the country's capacity to export. Thus, after 1965, Spain began to run external deficits on current account and inflation levels rose by almost 2 percentage points above the OECD average[19]. Even before the oil shock hit in the fall of 1973, Spain was already running double digit inflation (14%).

[19] OECD calculated that to cover its 1966 current account deficit, Spain needed to increase exports three times faster than imports (OECD 1969: 6).

The End of Francoist Developmentalism

The terminal crisis of the capitalist order shaped by Bretton Woods' embedded liberalism had immediate repercussions in Spain. As markets bet aggressively against an overvalued dollar in 1969, they saw incentives in investing in the undervalued currencies of countries with strong growth and low debt like Spain.

As a result of these system-level changes, Spain saw a boost in credit, inflationary pressures and a deteriorating balance-of-payments sheet. Between 1971 and 1973, Spain's hard currency reserves grew by 500 percent, encouraging more speculation on the peseta (Andreu et al 2006: 282). Declaring that the economy was "overheated," the ministry of finance intervened to "cool" the upward cycle by increasing the discount rate to the high levels used by France during the late 60s and early 70s. But while Spain's balance of payment markers (with the exception of the current account) saw important surpluses, the high interest rates attracted foreign portfolio investments. In turn, these facilitated a spectacular inflation growth from 1.6 in 1970 to 8.3 in 1971. Before the first oil shock hit, Spain's inflation was at 14 percent, almost double the average of the previous fifteen years (7.8 percent)[20]. But, like in postwar France, Spain's high inflation was accompanied by high growth rates (almost 8 percent in 1973), full employment and high savings simultaneously, a virtuous cycle that cemented the stability of the Francoist economic regime reorganized by French developmentalism[21].

What broke this virtuous cycle was a global price shock. OPEC's decision to drastically increase the price of oil in October 1973 cost Spain 3 percent of GDP[22]. This put its external deficit in the red for the years to come and increased inflationary pressures even further. But while other countries tried to cope with the resulting fall in demand by using countercyclical policies at the cost of a further deterioration in inflation and deficit figures, the Spanish government allowed the central bank to tighten monetary policy. In effect, the central bank adopted official targets for money stock growth using inflation targets above Germany's conservative levels. Fiscal policy made things worse by merely

[20] Although the decision of the US to go off gold and devalue the dollar created incentives for even tougher market speculation on the peseta, the authorities decided to defend the currency by maintaining the peseta-dollar peg, thus resisting the worldwide trend towards the managed float regime.

[21] In 1973 Spain had a real growth rate of 8 percent, unemployment at 2 percent and a record 6 billion dollars in its hard currency reserves.

[22] At 67 percent of the total energy consumption, Spain's oil dependence was higher than the OECD average.

simulating a stimulus. While the US counter-cyclical package in 1975 mobilized 11% of budget expenditures in 1975, in Spain this figure for 1974 was a paltry 0.2 %. Even more suggestively, in 1975, a particularly tough year for levels of demand, the public budget was executed with a surplus of 3.4 percent, more than twice the adjustment Greece was asked to do by the Troika in 2011-2-14. This happened despite the fact that Spain had the highest savings and credit ratings in the Mediterranean (Tovias 1984: 162-154). Yet the costs of the attempts made by the central bank and by the ministry of finance to pass the costs of adjustment to the population could not survive the meltdown of authoritarianism that took place two years after the shockwaves of the OPEC price hike hit Spain, OECD's worst oil-guzzler (IEA 1981)[23].

Unfortunately for the government, the external environment deteriorated as well. Falling demand in European Economic Community after the 1973 oil shock led to falling exports, tax receipts from agricultural exports, tourism and migrant remittances, a shift from surplus to deficit in the current account, worsening inflation, and balance of payment problems. Puzzlingly, during the next year, the government shifted to a more explicit deflationary policy, with a balanced budget and interest rate increases topping the list. By the end of the year, inflation was cut from 21% in 1974 to 12%, just two points above the OECD average. But the stabilization of prices further depressed production levels, which led to deteriorating public finances, and especially to serious balance of payment problems. Most importantly, however, the government took an even more authoritarian system to keep labor down. As demand in Western Europe decreased and given the lack of a counter-cyclical macroeconomic policy in Madrid, Spanish industry saw a massive collapse in orders. In turn, this caused a further slowdown of growth, from 6 percent in the early 1970s to 1.1 percent in 1975 in an external environment marked by a collapse of Spain's external economic emergency engines: immigrant remittances and tourism.

The combination between the economic effects of the 1973 oil shock, the death of Franco in 1975, and the ensuing collapse of authoritarianism made this development model entirely unsustainable. The writing was on the wall for the regime in socio-economic terms. Indeed, Franco's political successors embraced liberal democracy, dismantled developmentalist institutions and during the 1980s their Socialist adversaries ruled over one of Europe's first embedded neoliberal experiments.

[23] In 1973, Spanish imports if oil accounted for almost 70 percent of energy consumption. As late as 1978, the import of oil represented 28 percent of total Spanish imports.

Conclusions

The intellectual and institutional legacy of Franco's Spain did wither away completely. The high degree of centralization of economic policy institutions was reproduced by the Socialist government and contributed to the smooth diffusion of the ideas of the central bank throughout the government. The developmentalist idea that the government was responsible for increasing the country's external competitiveness by investing in industrial champions lived on as well. Rather than represent a complete break with the past, the Spanish transition looked more and more like a historical palimpsest (Ban 2016).

To understand this legacy we need to understand the metamorphoses of the economic regimes that structured economic and political life during the Francoist dictatorship. This article suggests that rather than narrow Francoism to some historical form of fascism, we may be better off conceptualizing it as a series of experiments in which (predominantly) statist and some market-oriented projects coexisted in tension with each other. While a form of fascist import-substitution industrialization lasted twenty years longer in Spain relative to Italy as the dominant project, the shorter French developmentalist interregnum (1964-1975) was associated with a more successful form of economic modernization while sharing the policy stage more with liberal economic projects, particularly in the monetary policy arena. Indeed, while fascist import substitution (the so called "autarky") collapsed mostly due to its internal problems, Spain's translation of French developmentalism was extensively damaged by the crisis of the global capitalist core ushered by the 1973 oil shock.

One should not read into this finding an opportunity for the tempting counterfactual that a compromise between the liberal democracy that came after 1977 and developmentalism *a l'espagnole* would have given Spain the superior form of neo-developmentalism that one saw in Korea after the end of dictatorship. The reasons for this are relatively straightforward: all over Europe developmental experiments (including the French one) experienced extensive decline in the 1970s under the hammer of the manifold crises of the capitalist system and of the Keynesian ideas that underpinned the Bretton Woods system. Some would be tempted to speculate on what would have happened if the viable parts of developmentalism would have been salvaged in the transition to democracy, as in Korea, with arguably better results (Ban 2018). Yet post-authoritarian Korea's success at marrying political liberalism and developmentalism during the 1990s was based on external political enablers particular to this critical US ally. Democratic Spain would perhaps been better off with a democratic form of neo-developmentalism but for a country habituated with looking across the Pyrenees for inspiration and legitimation this scenario was perhaps not entirely realistic in political terms.

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