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THE 1959 STABILIZATION PLAN (*)

On July 21, 1959, a decree signed by the Spanish Head of State, General Francisco Franco, gave the official go-ahead for a plan to reorganize the Spanish economy. The Spanish government subsequently submitted this plan to the International Monetary Fund (IMF) and to the Organization for Economic Cooperation and Development (OECD). The measures contained in the document were soon to become known as the Stabilization Plan, although at no time was this their official name.

For many observers, this plan indicated a fundamental change of direction in the Franco regime's economic philosophy. In coming down firmly in favor of the free market economy and the liberalization of foreign trade, the Stabilization Plan represented an about-turn in Spanish economic policy as defined during the previous two decades. Many people, both in Spain and abroad, hoped that these economic changes would soon be followed by changes in political institutions.

The present case describes the background, conception and development of the 1959 Stabilization Plan.

Political Context

The Franco regime began with the Spanish Civil War. In July 1936, certain sectors of the army, supported by a minority of the civil population, rebelled against the government of the Second Spanish Republic. The uprising was only partially successful, dividing the country into two opposing factions and sparking off a civil war that lasted until April 1939. The ideological beliefs held by the two sides were later to be mirrored in World War II. Germany and Italy supported the "National" side with arms and military forces, while the

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Soviet Union sided with the Republican government. The Western democracies took a position of strict neutrality. In spite of this, the Republican government had the support of sympathizers from the Western democracies, who formed the so-called International Brigades.

However, the Spanish Civil War was not simply a war fought between opposing ideologies. Religious factors contributed to the complexity and bitterness of the conflict, so much so that General Franco presented it as a "crusade" against Communism. Separatist tendencies in Catalonia and the Basque Country added to the complexity. These regions had been granted special autonomy statutes during the Second Republic and, realizing that the continuation of self-government depended on the survival of the Republican government, they supported the "loyalist" cause wholeheartedly.

The Civil War ended in April 1939, after three years of fighting, with the victory of Franco's National forces. Franco himself had been proclaimed Head of State in November 1936 by the Nationalists. The end of the war brought the establishment of a totalitarian regime and a single party created from the fusion of a number of extreme right-wing parties that had supported the National uprising. The old "class-based" trade unions were dissolved to create a "vertical" trade union that brought together both workers and employers. The media were censored.

During World War II, Spain proclaimed itself non-belligerent. However, due to ideological proximity, it favored the Axis powers. When these were defeated in 1945, Spain was ostracised by the Western powers and the Franco regime was formally condemned by the United Nations in 1946. Furthermore, Spain was excluded from the Marshall Plan, aimed at promoting the reconstruction of Europe with the financial help of the USA. Nevertheless, the onset of the Cold War brought with it a more tolerant attitude on the part of the international community towards the Spanish regime. The most visible signs of this thaw were the return of the ambassadors (1951), the Concordat with the Holy See (1953) and the economic and military agreements with the USA (1953).

Economic Policy: Industry and Agriculture

The Spanish economy was in a shambles by the end of the 1930s. Partly, this was due to the consequences of the Civil War: *per capita* income did not return to its pre-Civil War level until 1954 (22,000 pesetas in 1953 prices). However, Spain's economic backwardness in comparison with neighboring countries was an age-old problem. There were a great number of causes, although the fact that the 19th century had been spent in almost constant civil war made it particularly difficult for Spain to fully take part in the industrial revolution. All the same, the first third of the 20th century was relatively prosperous, thanks to a combination of factors: the political balance brought about by the restoration of the monarchy, the end of the colonial problem, and Spain's neutrality during World War I. The 1920s were especially prosperous, but the Great Depression of the 1930s coincided with the formation of the Second Republic, creating insurmountable problems for the fragile Republican government.

After the end of the Civil War, whether because of circumstances imposed by external factors or because of the tenets held by the regime, Franco's economic policy was clearly oriented towards autarky and self-sufficiency. The foreign currency reserves, substantial before the beginning of the Civil War, had been used up by the Republican government in financing the war effort. Therefore, the regime immediately implemented a detailed system of import quotas. The "*Instituto Nacional de Industria*" (INI), a state holding

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company, was set up in 1941. Its aim was to "develop and finance, as a service to the nation, the creation and rebuilding of our industries, especially those whose prime goal is to solve the problems caused by the defense of our country and those which are aimed at developing Spain's economic self-sufficiency, offering a safe and attractive investment opportunity for Spanish investors". The INI, a replica of the Italian "Instituto per la Reconstruzzione Industrialle" (IRI), was conceived by Juan Antonio Suances, who was also its president for several years. Suances was an engineer who greatly admired the "Caudillo" (Franco), with whom he shared the ideal of autarky; his task was to put this ideal into practice in the industrial sector.

To accomplish its objectives, the INI acquired a leading presence in the iron and steel industry, automobile manufacturing, air transport, shipbuilding, mining and other capital-intensive activities that were unattractive to private investors. This program was basically financed by issuing bonds which, in spite of their low interest rates, were bought primarily by savings banks, which were forced by law to invest 45% of their assets in "Ministry of Finance-approved" securities.

From 1939 onward, as a means of attaining the goal of self-sufficiency, policies aimed at protecting national industries were implemented; these included high customs duties, trade quotas and a strict and complex series of currency controls. From 1939 to 1948, the official exchange rate was held at 11 pesetas per U.S. dollar. Given the fact that this parity was less than the real exchange rate in the international currency markets, the system was complemented with special accounts which all exporters and importers had to use. These accounts were credited with the equivalent value of the foreign currency obtained by exports and debited with the equivalent values in payment for imports.

In 1948, a multiple rate system was adopted which established different parities for the peseta according to the specific class of goods to be exported or imported. In December 1948, the exchange rates for imported goods ranged between 44.13 and 100.32 pesetas per pound sterling, and between 44.13 and 88.26 pesetas per pound for exports. The mean exchange rate for that year was 113.20 pesetas per pound sterling (1).

The regime hoped that it would be possible to base this policy on a number of agricultural products which were traditionally competitive in international markets. The agricultural sector had played an important role within the Spanish economy at the outbreak of the Civil War. This was still true, though to a lesser degree, at the end of the 1960s. Most of the unirrigated arable land had traditionally been used for growing cereals, olives and grapevines, although the proportion of land farmed with these crops relative to the total amount of land farmed was gradually diminishing. Irrigated land was mainly used to grow vegetables and fruits, usually those that were most competitive in foreign markets.

Low productivity was a recurring problem in the Spanish agricultural sector; in many cases, farms were either too small *("minifundismo")* or too large *("latifundismo")*. The Second Republic had developed an agricultural reform project aimed particularly at solving the latter problem, but the Civil War blocked any further progress. Since 1939, the new regime had attempted to improve the productivity of Spanish agriculture by colonization laws. These laws were aimed at increasing the acreage of irrigated land, with the corresponding infrastructure (dams, canals and irrigation channels) being built by the state.

(1) Ramón Tamames, *Estructura Económica de España*, Madrid, Alianza Editorial, Sixteenth Edition, 1985, pp. 496-498.

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