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CENTRAL INTELLIGENCE AGENCY

18 March 1949

INTELLIGENCE MEMORANDUM NO. 145

SUBJECT: Political Repercussions of the Economic Situation in Spain

1. The deterioration of the Spanish economy, in part a consequence of the worst drought in the past century, has now advanced to such a point that, unless it is relieved substantially before January 1950, Franco may be faced with a military coup d'etat led by high-ranking officers of his own army.

2. In recent years Spain has been producing about 90 percent of its (irreducible) cereal requirements; for the past two years the remaining 10 percent (principally wheat) has come from Argentina. Because of the inability of Spain to live up to its commitments, it now appears that no more Argentine wheat will be forthcoming during 1949. Should Spain be unable to secure foreign wheat, the urban populace would find itself on the verge of starvation at any time after the end of 1949. Under these circumstances, police and security forces would be hard-pressed to maintain order.

3. Because of hydroelectric power shortages, virtual paralysis obtains in all branches of Spanish industry. Most factories are now able to operate at one full day a week or less, and there is little prospect of early improvement.

Spanish law meanwhile requires that workers be paid full wages even though the business or industry employing them is unable to operate full time. This drain on firms' financial resources has caused an increasing number of business failures and has compelled the Government to establish a special agency to share the financial burden. The banking structure has been weakened by the extension of a considerable volume of credits for the continuance of uneconomic business operations.

4. Lack of foreign exchange, particularly dollars, has curtailed purchases of raw materials and equipment, necessary not only to rehabilitate but also to operate industry and the transport system. Deterioration of the railroad system is so great that transport is seriously crippled.

Note: This memorandum has been reviewed by analysts of the Intelligence Organization of the Department of State.

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The multiple peseta exchange system imposed in December 1948 has failed to stimulate foreign trade, which is now nearly at a standstill. Dollar exchange currently being made available is negligible.

5. The Government will exhaust every possible means, of which few remain, to improve the economic situation through attempting such expedients as: increasing available foreign exchange; implementing existing bilateral trade agreements and concluding new ones; changing or simplifying the variable peseta exchange system; utilizing all or a part of Spain's gold reserves. It is not expected, however, that such expedients will suffice.

The need for outside financial assistance for the purchase of food and other essential goods, therefore, will become more pressing. In its efforts to become eligible for such aid the regime may be expected to make both political and economic concessions among which may be attempts to:

a. Modify its whole import-export system and the variable peseta exchange.

b. Give equal and more liberal treatment to foreign suppliers and shippers.

c. Permit present and prospective foreign investors to withdraw a portion of their earnings, and decrease the limitations on the proportions of foreign capital and personnel allowable in Spanish enterprises.

d. Make formal assurances of freedom of religion and cessation of persecution of Protestant sects.

e. Give the appearance of liberalizing its policy toward the opposition and former members of the Republican Government and army.

f. Give wide publicity to some unimportant "free election" as evidence of new political freedom in Spain.

6. It is estimated that if the Government is unsuccessful in its attempts to secure financial assistance from abroad, the degree of deterioration after approximately nine months will be such that Franco will be faced with a military coup d'etat. Such action would probably occasion some disorders, but the number of die-hard Franco supporters in the Falange and Army is not considered sufficient to lead the country to a state of civil war. In case of a coup, Franco would probably accept the inevitable and resign, leaving a junta to control the country under martial law. There is a reasonable likelihood if this happens, that after an interim period, the Monarchist faction of the Army would succeed in placing the pretender, Don Juan, on the throne.

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