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SUMMARY

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Except for its manpower resources and actual or potential exportable surpluses of certain strategic minerals, the Spanish economy at the present time presents an almost unrelieved picture of stagnation and deterioration. In brief, the main weaknesses characterizing Spain's economy are the following:

- 1) Depression of agricultural production as compared to civil war, which has had the effect of reducing exports and domestic consumption and has given rise to the need to import substantial quantities of foodstuffs. Spain before the civil war was self-sufficient in basic foods.
- 2) Depreciation and deterioration of the transportation, mining, and most manufacturing sectors as a result of the inability to maintain plant and equipment for two decades.
- 3) Greatly reduced worker productivity as a result of depressed consumption levels, state-enforced "feather bedding practices," and general underemployment.
- 4) Administrative inefficiency and corruption.
- 5) Repressed inflation of large dimensions which is becoming increasingly difficult to contain, and which may at any time erupt into open inflation.
- 6) General misallocation and misuse of scarce resources as a result of militant economic nationalism and unrealistic appraisal of the economy's limited indigenous capabilities.

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II B.

The deterioration of the Spanish economy began at least two decades ago. Long retarded in its industrial development, Spain found itself even then, before the advent of the world depression, unable to absorb the annual increment to its labor force.

Under conditions of domestic tranquility, Spain might possibly have succeeded in the early thirties in the formidable struggle to insulate its economy from the spreading impact of the international trade collapse, to maintain its productive equipment properly, and to check the growing unemployment.

Instead of internal peace, however, it experienced the apocalyptic sequence of a violent social revolution with all its traumata of strikes, riots, boycotts, lock-outs, land-seizure, military counter-revolution, civil war reprisal and exhaustion. The pacification of Spain by the Franco forces had barely been achieved when World War II broke out.

Economically prostrate, Spain was compelled by the Allies' control of the seas and their power to shut off essential supplies at first to non-belligerency and later to neutrality, in spite of its pro-Axis orientation. As a neutral, Spain traded with both Allies and the Axis and actually developed a small export surplus, but the total volume of its trade was small, and it could not import the machinery, equipment, raw materials and other producers goods needed to halt and reverse the disinvestment process which had been initiated in the early thirties. The bitter realization of the extent of its dependence on foreign sources of supply during the war, the postwar international shortages of critical materials and manufactures, and its political isolation have thus greatly reinforced the Franco regime's inherent predilection to dirigism and autarchy. The economic nationalism which characterized Spain long before Franco has consequently been exaggerated and sanctified to such a degree and officially so identified as a cardinal precept of the regime that it is difficult to see how the Franco Government can change its economic program without subverting itself. This is the meaning of its complex multiple exchange and import licensing system, its obdurate curbs on private foreign capital, its comparative neglect of agriculture, and its ambitious industrial development schemes, with their long range aim of virtual self-sufficiency.

Agriculture and forestry with an active labor force of some 51 percent of the total labor force traditionally provided the Spanish economy 65-75 percent of its export proceeds, and was thus the main source of the capital equipment and industrial raw materials needed to maintain the rate of industrialization. Self-sufficient in foodstuffs before the civil war, Spain experienced a deterioration of its agriculture in the

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last fifteen years which, combined with the large growth of its population, compelled it to divert a large share of its foreign exchange to the import of basic foods, particularly cereals. It would thus appear that the reconstruction of agriculture should be the primary concern of the Spanish Government. While to some extent the recovery of agriculture has been impeded by factors beyond the control of the Franco regime -- the loss of natural markets during World War II, the world-wide shortage of fertilizers in the early postwar periods, severe postwar droughts, the loss of draft animals and the destruction and damage to farm structures as a result of the civil war -- to a greater degree the fault lies with the regime itself. Confronted with a reconstruction task of Herculean proportions in agriculture, mining, transportation, and manufacturing, it has in effect concentrated the greatest part of its energies, with mixed success, on the expansion of a few basic industries such as electric power, cement, and heavy industry.

While it has poured billions of pesetas into its state-owned development corporation, the Instituto Nacional de Industria (I.N.I.) to carry out an industrialization program that is unbalanced and beyond the resources of the economy at the present time, the regime has spent annually less than 1 percent of its national budget on agriculture. It has fallen behind the pre-civil war rate of reclaiming arid land by irrigation projects. Its price policies and the way they have been administered by a corrupt bureaucracy have sustained a black market which still flourishes today and encourages the diversion of agricultural production from essential cereals to industrial crops such as cotton, tobacco and esparto and to less essential foodstuffs such as meat, fruits and vegetables. This two-fold misallocation of depleted agricultural resources has thus aggravated the seriousness of the decline in general agricultural production due to drought, fertilizer shortage and poor transport.

Every sector of the Spanish economy suffers today from the prolonged inability of the country to maintain its capital resources intact. In certain fields -- mining, electric power, manufacturing -- indexes of total output exceed pre-civil war levels as a result of the concerted effort of the Franco Government to increase the pace of industrialization. But even within these sectors, with the exception of electric power, increases in output of many key products have not recovered their prewar levels. Where production levels surpass those of prewar they have been achieved at a staggering cost of labor input. Nor do the indexes of physical output reflect the deterioration of quality that is inevitably the consequence of improvisation, substitution of inferior materials, diminished labor productivity, and poorly devised price controls. The effect of these factors may be readily seen in those areas where the Spanish Government has been most successful: electric power, cement, coal, and steel. Despite the tremendous emphasis placed

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upon the development of hydro power, the average annual increment of capacity (59,000 kw) in the period 1940-48 was roughly 34 percent less than in the period 1931-35 (89,000 kw). Approximately 15 percent of total real investment is embodied in hydro projects whose huge construction requirements in reservoirs, dams, spillways, etc. have absorbed a large part of the total cement production. Yet the whole hydro program has suffered immensely from transportation difficulties, inefficiency of construction labor and supervisory personnel, and the unavailability of certain installation machinery, and critical materials which have meant long periods of delay before additional power became available. And despite the increase in electric power generated, roughly 75 percent above the volume in 1935, demand for power is still greatly in excess of supply, particularly in the seasonal periods when the reservoirs are low. Rainfall is always a critical factor in Spain, and the prolonged droughts of the postwar years have considerably reduced the effectiveness of the huge hydro program on Spanish industry.

The drive to expand hydro-electric power has been intensified by the inability of the Spanish economy to import the one million or so tons of high grade coal and coke it normally obtained abroad. The Franco Government has persisted in its endeavor to increase indigenous coal production, and has effected a production rise of 60 percent. This figure was reached in 1945 and 1946. Despite continued emphasis, by means of additional incentives and much higher pay this peak has not been surpassed since then. At the peak of production, it was estimated that 20 percent more workers could be employed, but there has been a continual shortage of miners and the absenteeism rate is notoriously high. The increase in coal production has been achieved at a labor input proportionately greater than in the pre-civil war years and the quality of coal, never too high, has dropped considerably as a result of poor washing practices, and the tapping of low grade veins. Coal production probably still remains the most serious bottleneck in the Spanish economy, and the iron and steel industry and the rail transportation system have suffered thereby. The remarkable thing is that production increases have been achieved at all. The depreciation of mining equipment, the inability to import new machinery and pit props in sufficient volume, and the increasing deterioration of the transport system have been apparently offset by the greater input of labor which, however becomes ever more difficult to sustain as safety measures and working conditions continue to deteriorate.

Increases in capacity of blast furnaces and cement plants have permitted expansion of output, but, despite the pronounced emphasis of the Franco regime on such development, the rate of growth in both these industries has been considerably below the pre-civil war period. Blast furnace capacity increased at an average annual rate of about 14 percent in the period 1929-35 and only about 5 percent per year in the years 1940-48. Cement capacity increased at an annual rate of 140,000 tons

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in the 1929-45 period as compared with an annual increment of 20,000 tons in the postwar period. Pig iron output in 1950 surpassed the 1935 level but was still significantly below the peak production of 1929. Steel production also surpassed the 1935 level but was substantially below the 1929 and 1930 levels.

In other fields of mining and manufacturing output the levels of production so far attained have generally been below the 1931-35 levels, and in some highly important sectors, such as textiles and chemicals, greatly below 1931-35 levels. In great measure, the paucity of foreign exchange resources and the necessity for diverting a large part of them to imports of cereals and other foodstuffs has prevented the Spanish Government from importing the raw materials necessary to expand industrial output. To a substantial extent, too, the effect on electric power of the droughts and the shortage of coal have impeded manufacturing. But these bottlenecks have, on the other hand, concealed the impact of the general disinvestment process that has characterized the economy for twenty years. To the extent that plant and equipment operates at 40 or 50 percent of capacity and is idle for long periods, the actual effect of depreciation and obsolescence is masked. Only the less antiquated and more efficient equipment will be used and what is carried on the books as idle capacity may when put to the test of sustained operation turn out to be fictitious.

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Nowhere in the Spanish economy is the failure to maintain capital equipment and to replace machinery more in evidence than in the transportation sector. On January 1, 1950 there were approximately 10 percent fewer steam locomotives and freight cars and 50 percent fewer passenger cars than in 1935 in service in the State-owned railroad system. In 1948, it was estimated that 35 percent of the locomotives in operation were 45 years old or older. It is estimated that annual track replacement should be 270 kilometers per year. In the ten year period, 1940-49 average track replacement was 66 kilometers per year, with almost none replaced in 1936-39. The accumulated cross-tie deficit is estimated at 4 million. In 1949, for the first time, the normal tie replacement rate of 2 million per year was reached. With an accident rate ten times higher than that of the U.S., with major overhaul machinery and equipment in poor condition, with grave deficiencies in signal and switching equipment it is no wonder that the average commercial velocity of freight trains in 1949 was only 12.6 kilometers per hour compared to 17.4 in 1930, and that passenger train velocity was 35.6 kilometers per hour in 1949 compared to 43.5 in 1930.

The merchant fleet was larger by 29,000 tons in 1949 than in 1935 but still not as large as in 1932, and consists in large part of old ships of obsolete design. The number of commercial vehicles is larger now than it was in 1935 but imports during the postwar period were far below the estimated 13,000 vehicles needed annually to replace worn-out equipment. Seventy-five percent of the trucks in operation in 1948 were 15 years old or older.

The limited industrial expansion that has occurred has thus been in effect at the expense of agriculture, transportation, the whole infra structure of the economy -- housing, road network, farm structures, ports and harbors, and within manufacturing industry such as textiles, chemicals and metallurgy, and within mining, such as iron ore, copper, lead. In short, the partial development of a few sectors has been achieved at a cost of depreciation and deterioration in all the other sectors.

But in a fundamental sense it is the primary resource, manpower, of the economy that has depreciated the most. Consumption per head of food and clothing has declined at least a third on the average and for the urban working classes and fixed income groups it has probably declined more than 60 percent. A housing deficit of 500,000 dwellings was estimated in 1950 and according to Spanish housing authorities, 37 percent of total existing housing in 1948 was "unhealthy."

Reports from Spain continually stress the hardships of the urban population and the need of workers to find extra part-time jobs to supplement their income from their normal positions.

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But the deterioration of morale and physical well-being is not apparently limited to the urban population. In the extractive industries the high rate of absenteeism is continually being deplored officially. In agriculture while hectareage cultivated to crops and yield per hectare are still below pre-civil war figures, the agricultural labor force is believed to exceed the ratio it bore to the total active population in 1930. In the manufacturing industries frequent complaints are reported over the compulsory retention of labor in slack periods, and padded payrolls in normal periods. The tragic experience of the last two decades has left its mark on the Spanish labor force and has no doubt accentuated certain traits, i.e., "soldiering," resistance to new techniques, listlessness which marked it even before the Franco regime. Spilling out greatly reduced worker productivity, they are naturally come by in a stagnant economy characterized by a surplus labor force.

The effects of declining consumption levels have been aggravated by a steadily growing suppressed inflation since 1935. In its origins the inflation is basically the result of certain real factors which have together diminished the total supply of goods and services in the face of a rapidly growing population. The inflation has been fed, however, by the monetary and fiscal policies of the government. The combination of real and monetary factors has worked to build up an inflationary potential that grows each day more difficult to contain.

Even in its very best years, the Spanish economy was characterized by a relatively low rate of savings. Its normal savings capacity permitted even with the help of foreign capital only relatively small accretions to its productive structure. To repair the devastation of the civil war alone it would probably have taken the normal savings of many boom years. The reconstruction effort necessary to restore Spain's national wealth to its pre-civil war position, to make up the accumulated deficits of capital plant and equipment and stocks of industrial raw materials of the war and postwar periods was certainly far beyond the normal savings capacity of a population whose national real income in 1939 was 3/4 or less of what it had been on the average in the 1931-35 period. The total Spanish national income never recovered its prewar levels in the post-civil war years, and has fluctuated around a level roughly 9 percent less than the 1929-35 average. Real income per head in the period 1940-49 has been roughly 20 percent less than in the 1929-35 years.

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Without new foreign private investment capital, the normal level of voluntary savings is inadequate for the reconstruction and expansion schemes projected by the Spanish Government. The consequence has been "forced" savings at the cost of financial instability and greatly reduced consumption levels which have affected probably three-fourths of the Spanish people.

The remarkable point about the Spanish inflation is neither its severity nor its duration, but the fact that it has continued to remain repressed. For even with the inflationary shock which the Korean war imparted to all the economies of Western Europe, the rise of some 26 percent in wholesale prices and 8 percent in the cost of living in Spain, even allowing for the probable inaccuracy of the indexes, is not too far out of line with the increases that have been registered in Western Europe.

The potential disruptive power of the inflationary forces up to now more or less successfully repressed, should not, however, be minimized. Since 1940, in addition to the monetary "overhang" inherited from civil war financing, the accumulation of inflationary pressure as a result of deficit financing, public investment programs, and pyramiding costs has reached a critical phase which may soon turn into open, runaway inflation, in the absence of sound corrective measures and large scale United States economic aid.

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