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INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

REPORT OF MISSION TO SPAIN


Department of Operations
Europe, Africa and Australasia.
REPORT OF MISSION TO SPAIN

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REPORT OF MISSION TO SPAIN

I. Background

1. Last spring the Bank agreed to send a small mission to Spain in the autumn after Spain had become a member of the Bank. Membership formalities were completed on September 15. A mission consisting of Messrs. Demuth, Kamarck and Franco-Holguin thereupon visited Spain from October 19 to November 1. The purposes of the mission were to establish first contacts with the government, to obtain a general impression of the main features of the economy, and to consider with the government how the Bank might most usefully assist in the development of the economy.

2. Since the return of the mission from Spain, the Bank has received a letter from the Minister of Finance in which he indicates the interest of the government in working out the basis on which Spain might obtain credits from the Bank.

3. The mission did not attempt to make, nor does this report attempt to present, a thorough economic analysis of the Spanish situation. The object of the report is rather to describe in broad terms the general structure of the economy, the current economic and financial position and the main obstacles to further development, in order to provide a basis on which the Bank can decide what steps it should take next in its relationship with Spain.

II. Political Situation

4. The political situation in Spain appears stable. Although Generalissimo Franco, the Chief of State, is said not to have any wide popular support, there appears to be no substantial opposition to him. Most observers to whom the mission talked expressed the view that the Spanish people wanted, above all else, to avoid any further civil conflict. Certainly the mission nowhere sensed any feeling of tension or of impending change.

5. Who will eventually succeed Franco, and how the succession will be accomplished, are at present unanswerable questions. The country is legally a monarchy, but without a king. Quite possibly, the old royal family may return, but even those so believing are not clear which member of the royal family is likely to achieve the throne or the extent of the authority he may wield. Although 66 years of age, Franco is still vigorous and he comes from a long-lived line. It is conceivable, therefore, that constitutional provision for the succession may still be made...
while Franco is in power. Failing that, however, there appears to be no good ground for prophesying what may happen.

6. In addition to being Chief of State, Franco is the leader of the Falange, the fascist-type party which is the only legal political party in the country. While its influence has greatly decreased, some residue of its outlook still remains in economic policy: particularly the use of the syndicates (compulsory economic organizations of employers and workers) to administer a myriad of government controls on economic life; a lack of cordiality towards foreign investment; and a great emphasis on economic self-sufficiency.

III. Main Features of the Economy

7. The Spanish economy, broadly speaking, is in the same class as Southern Italy, Yugoslavia, Greece and Turkey: per capita product is around $300 equivalent. The Spanish population numbers almost 30 million people. According to the official figures, the rate of population increase is less than 1% per year. Judging from the large size of families, however, it is difficult to give credence to this figure unless emigration considerably exceeds the official estimate of under 50,000 per year.

8. In general, the mission was favorably impressed by the economic capacity of the Spanish people. They appear to be intelligent, hard-working, enterprising, and well-endowed with mechanical skills. So far as the mission could judge, the top civil servants in government and the leaders in banking and industry rank in ability with those of other European Mediterranean countries.

A. Physical Resource Base

9. Spain is well-endowed in several respects. It has a warm, sunny climate, suitable for the production of sub-tropical crops. It has, along its coastal plains, good agricultural lands with ample rainfall. Its rivers, flowing through mountainous terrain, provide substantial hydroelectric and irrigation potentialities. And its sub-soil contains important deposits of coal, iron ore, copper pyrites, zinc and lead.

10. On the debit side, however, is the fact that nearly half of the country consists of the central plateau where rainfall is scarce, irrigation is difficult and deforestation and erosion have taken a serious toll. Except where irrigated, the land in this central plateau is very poor for agricultural production. The richest deposits of iron ore, copper, lead and sulphur have already been exhausted or are close to exhaustion. And there are no known commercially exploitable oil resources.

B. Agriculture

11. Spain is still primarily an agricultural country. About half of the working population is engaged in agriculture; it accounts for about
a quarter of the gross national product and over half of Spanish exports.

12. The major crops are, in order of value of output: cereals (principally wheat), livestock for meat, fruit, milk, vegetables, potatoes, wine and olives. Olives and olive oil (of which Spain is the world's largest producer), citrus fruits and wine are among the country's principal exports.

13. About 4.5 million acres of land are under irrigation and these are among the most productive areas in the country. The government is making strenuous efforts to expand irrigation; it has under way two large projects designed to increase the irrigated acreage by 20% as well as other smaller projects. The mission visited both of the large projects. A substantial section of the Badajoz project, in Western Spain (250,000 acres), is already in production and the results appear impressive. The larger Monegros project in Northeastern Spain (675,000 acres) is still in the early stages of construction, but the impression of the mission was that the work was not being well coordinated and that as a result the project was likely to prove unnecessarily costly.

14. The mission did not have opportunity to investigate the government's agricultural policies with any care, nor has it been able to find any adequate analysis of them. There does seem to be general agreement, however, that, except for the Badajoz and Monegros schemes, agriculture has not received the attention and support it deserves. For example, very little appears to have been done to improve farming methods on existing farms. While there has been some increase in agricultural equipment, it is still unusual to see a tractor on a farm and Spanish farms, as a whole, have fewer tractors than Greek farms do. Over 60% of the wheat harvest is threshed by hand. Consumption of fertilizers has increased as compared to the pre-Civil War period (i.e., pre-1936) but it is still very small. There has been some talk of land reform and of consolidating farms but very little action has been taken. And the government's agricultural price policies are not easily comprehensible. For example, wheat, a net import, is kept above world market price levels while olive oil, an important export, is kept below.

C. Industry

15. Industry, which is located mostly in the north and around Barcelona, is quite varied, with production said to be about evenly divided between consumer and capital goods. Textile manufacturing and food processing are the principal consumer goods industries. But in addition, Spain produces significant quantities of iron and steel, aluminum, cement, chemicals, many different kinds of machinery, automobiles and trucks, ships, electric equipment, etc. According to official estimates (the reliability of which the mission is unable to gauge), industry as a whole employs about 18% of the active working population and
produces about 25% to 30% of the gross national product. In addition, minerals production accounts for another 2% of GNP and provides Spain's second most important category of exports (after agriculture).

16. Much of Spanish industry operates with obsolete equipment, a good deal of it dating back to before the beginning of the Civil War in 1936. On the other hand, a substantial number of new plants have been built in recent years, including one of Europe's most modern steel mills at Aviles, one of its biggest oil refineries, ship-building works, automobile and truck factories, and several large chemical and fertilizer plants. According to official figures, industrial production grew by 30% from 1953/54 to the end of 1957; during the same period, electric power production is said to have grown by 40%.

17. A leading role in this recent industrial growth has been played by the Instituto Nacional de Industria (I.N.I.), a government-owned holding company set up in 1940 on the pattern of I.R.I. in Fascist Italy. I.N.I. operates both through the establishment of wholly-owned subsidiaries and also through participation, usually as a majority and in a few cases as a minority partner, with private enterprises. Its investments give it a stake in almost every branch of Spanish industry (including power), as well as in the operation of the Spanish airlines, the shipping industry, international radio and cable lines, hotels and inns, and the tourist transport business. It has become the biggest single economic entity in the country, with total assets valued in the neighborhood of 60 billion pesetas -- say over $1 billion equivalent. Its companies employ around 200,000 workers, or about a tenth of the total industrial work force. Its funds have almost all been supplied by the government or, as in 1958, by direct borrowing from the central bank.

18. Evaluation of the contribution of I.N.I. to the Spanish economy is difficult; it would require not only analysis of the merits of the individual projects which I.N.I. has promoted and in which it has invested but also a judgment as to the effect of I.N.I. activities upon the growth and modernization of private industry. A few general observations, however, can be made. On the one hand, the mission was told that, before the advent of I.N.I., Spanish industrialists tended to be overly cautious and not sufficiently enterprising; I.N.I.'s initiative has introduced a much-needed dynamic force into the economy. Moreover, some of the projects which it has undertaken, often over vigorous opposition, have proved highly beneficial; an outstanding example is the construction of thermal plants designed to reduce Spain's overdependence on hydroelectric facilities which periodically fall short of meeting the country's power needs because of droughts.

19. On the other hand, a number of I.N.I.'s projects appear questionable. For example, the new Aviles steel plant, just now coming into production, while it is said to be technically one of the most advanced in the world, is generally reputed to be excessively costly;
reportedly it is sited badly, its port facilities are inadequate, and it is so designed that it depends unduly on imported ore and fuel rather than on domestic materials close at hand. One I.N.I. shipyard visited by the mission, recently constructed and already being expanded at considerable expense in foreign exchange, was operating at only partial capacity because of a shortage of imported raw materials; at the same time, older competing private shipyards were also operating at only partial capacity for lack of sufficient materials and were unable to obtain the foreign exchange necessary to modernize their facilities.

20. Because of I.N.I.'s past achievements, and because of the close personal tie between its vigorous, expansionist president and the Chief of State, I.N.I. exercises considerable political influence. Indeed, one of the basic weaknesses in the present Spanish economic picture is the absence of any effective external review of I.N.I.'s investment program in the light of the total investment resources available to the country, and in particular of the effect of I.N.I.'s program upon the private sector.

D. Public Utilities

21. Transport. The Spanish railways are in poor shape with over-age tracks and equipment. Train schedules are slow and even so are frequently not met. In 1957 there were an average of two accidents a day caused by broken rails. On the other hand, the road system seems quite satisfactory, at least for the present small amount of road traffic. The air services also appear to be good. It is perhaps significant that none of the industrialists to whom the mission talked mentioned transportation difficulties as constituting a major problem.

22. Power. Most of Spain's power facilities are privately owned, although recently I.N.I.'s investments in this field have become of increasing importance. There has been a substantial expansion of power facilities since World War II; the average yearly increase in output has amounted to roughly 10%. While there are still periodic shortages of power, usually due to drought, the mission received the impression that the situation is not at present critical. However, in anticipation of the investment needs which will be required as the economy grows, government representatives indicated to the mission that they regarded additional power projects as having a high priority.

E. External Accounts

23. Spain is still fairly isolated economically from the rest of the world; exports amount to only around 6% of GNP. Her foreign trade turnover, according to the official statistics, is only about as large as Yugoslavia's, although the Spanish population is 70% larger.

24. Spanish exports have remained, for the last four years, at under $500 million equivalent annually; as already noted, they consist mainly of agricultural products and minerals. Recorded net tourism earnings in 1957 were over $70 million equivalent and emigrant remittances about $40 million. U.S. aid received totaled around $160 million.
imports, at about $830 million, are about what one would expect: oil, cotton and other raw materials, machinery and equipment, and miscellaneous foods.

25. Spain maintains a comprehensive foreign exchange control and the bulk of her trade takes place under bilateral trade agreements. The distorting effects of past and present exchange practices are commented upon briefly at a later point in this report.

F. External Public Debt

26. The Bank has not yet received full data on Spain's external public debt. According to the mission's present information, as of June 30, 1958, it was roughly as follows:

<table>
<thead>
<tr>
<th>Foreign Currency Obligations</th>
<th>Debt Outstanding in Millions of Dollars Equivalent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sterling 4% perpetual bonds 1882</td>
<td>8</td>
</tr>
<tr>
<td>U.S. government loans - Ex-Im and I.C.A.</td>
<td>91</td>
</tr>
<tr>
<td>German credit</td>
<td>14</td>
</tr>
<tr>
<td>Argentine credit</td>
<td>16</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>129</strong></td>
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</tbody>
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<table>
<thead>
<tr>
<th>Optional Currency Obligations</th>
<th>Debt Outstanding in Millions of Dollars Equivalent</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. government loans payable in dollars or pesetas at option of Spain</td>
<td>156</td>
</tr>
</tbody>
</table>

27. The total annual service charges (on the foreign currency obligations) come to $10-11 million a year, or about 2% of total current foreign exchange earnings. However, it should be noted that, as pointed out later in this report, available free gold and foreign exchange reserves, as of September 30, 1958, amounted to only about $5 million and, as of the same date, Spain had an over-all net debit position of $14 million equivalent in her bilateral payments accounts.

G. Foreign Investment

28. Foreign-owned enterprises play a minor role in the Spanish economy. Special permission of the government is required before foreign investors can acquire more than 25% ownership of any new Spanish company or more than 25% of any increase of capital in a company that they may already own. In the last two years permission to surpass the
25% limit has been freely given for new companies, provided majority control remains in Spanish hands. Pressures previously exerted against foreign-owned companies established before the 25% rule was enacted appear to have eased; these companies now have little trouble in getting permission to increase their capital and for their owners to maintain their previous share.

IV. Recent Economic History

A. 1940-1950

29. Spain recovered very slowly from the extensive damage caused to the economy during the Civil War (1936-39). Although maintaining the status of a non-belligerent during World War II, her openly declared sympathy for the Axis powers resulted in only a restricted flow of materials being let through the allied blockade. On the other hand, Spain was able to sell her minerals to both sides (?) at high prices. With the proceeds, she repaid her Civil War debt to Italy and Germany and built up her exchange reserves, from near zero at the end of the Civil War, to about $100 million at the end of World War II.

30. Spain was not, it will be remembered, a participant in the European Recovery Program. While her neighbors in Europe rebuilt and expanded their productive plant, with the assistance of substantial United States grants, Spain's economy moved forward only haltingly. By the end of 1950, her agricultural and industrial production had probably not yet recovered fully to 1936 levels and inflation was endemic. By this time, wholesale prices had gone up to seven times the level of 1936. Controls were exercised over almost all aspects of the economy.

B. 1951-1955

31. From 1951 on, with favorable prices for Spanish mineral exports and the beginning of some help from the United States, the rate of recovery accelerated rapidly but the economy remained under control. U.S. non-military aid amounted to $63 million in 1950/51, $12 million in 1951/52 and 1952/53, $107 million in 1953/54 and $161 million in 1954/55. While it is difficult to be precise, by 1954/55 agricultural output probably had reached the pre-Civil War level and industrial output probably had surpassed it. With wholesale prices increasing at the comparatively slow rate of 3% per year, Spain had a fairly stable price situation for the first time since 1936. At the same time, gold and dollar reserves grew satisfactorily to a high point of $220 million by the end of 1955.

32. During 1955, however, the pace of investment increased to such an extent that it began to exceed the real resources available and prices rose by 5%.
C. 1956 to Date

33. There have been important developments over the past few years, both favorable and unfavorable.

34. As a result primarily of U.S. aid and of a large investment effort, production and per capita income have grown rapidly. Although the official figures with respect to industrial production are suspect -- the weighting of the index is not accurate -- industrial production may have increased by as much as 8% per annum or more. Agricultural production also appears to have grown somewhat, judged by the increased use of fertilizers and mechanical equipment; this increase, however, is not reflected in the official figures, probably largely because the additional output was absorbed through additional consumption by the peasants. The growth in production appears to have substantially ameliorated the unemployment and underemployment problem with which Spain has long been plagued. While full effective employment is not in sight, skilled labor is in short supply and even unskilled labor seems to have considerably improved job opportunities. One measure of the extent of the economic boom is the estimated increase in per capita income from around $240 in 1951 to around $300 in 1957.

35. But this progress was achieved at the cost of a renewal of serious inflation, which in turn has affected Spain's balance of payments and reserve position very adversely, has resulted in a substantial overvaluation of the peseta, and has caused, or forced continuance of, grave distortions in the economy which are now hampering further growth.

36. In 1956, the government deficit was twice that of the previous year; it amounted to around 15 billion pesetas (roughly U.S. $300 million equivalent) or about one-quarter of total government expenditures. This deficit was, for the most part, financed indirectly by inflationary borrowing from the central bank. With this creation of central bank money, the private banking system was also able to expand its loans and investments rapidly. Consumption was boosted by a succession of wage and salary increases which culminated in a 30-40% general wage and salary increase decreed by the government throughout the economy in November 1956. The resulting inflationary pressures found two outlets: prices rose by 15% in 1956 and the balance of payments deteriorated. In spite of the continuance of U.S. aid at the rate of $160 million a year, Spain lost $60 million in reserves.

37. Early in 1957, a new cabinet was put into office. The new Ministers of Finance and Commerce, supported by the Bank of Spain, succeeded in having the government adopt a number of measures designed to bring the situation under control. Current government expenditures were held down, taxes were increased, the private banks were persuaded to slow down the growth in their loans and investments, etc. These measures sufficed to prevent any acceleration of the inflation but not
to stop it. Official price indices again rose by 15% and another $60 million of reserves was lost.

38. Additional measures were taken in 1958, in particular the adoption of a budget which, had it been carried out as planned, would have resulted in no deficit financing. This budget provided for the financing of all current expenditures and probably over half of public capital expenditures out of tax receipts and most of the remainder of the capital expenditures out of non-inflationary borrowing. To accomplish this result, however, there was eliminated from the budget any provision for government financing of I.N.I. investments, which in 1957 had amounted to roughly 8 billion pesetas (U.S. $160 million equivalent); I.N.I. was directed to raise in the private market whatever investment funds it might need, presumably largely through selling shares in its subsidiary enterprises. This device, unfortunately, did not succeed, probably partly because the private market was not prepared to absorb this amount of financing and partly because I.N.I. had no real desire to dispose of those of its holdings which were most profitable and therefore most readily saleable. In the event, while minor amounts were raised in the market, I.N.I. succeeded in borrowing from the Bank of Spain in 1958 (presumably as a result of government pressure on the Bank of Spain) just about the same amount as I.N.I. had obtained from the government itself in 1957. Accordingly, even though the government itself is likely to have no need to resort to inflationary central bank finance this year, the I.N.I. borrowing from the Bank of Spain (which amounts to roughly half of what the government borrowed from the Bank of Spain in 1957) remains as a serious source of inflation.*

39. As a result of the government's policies, the inflation seems to have slowed in 1958. The rate of increase in the price indices is, however, still around 10%. Despite an increase in U.S. aid to $220 million in 1957/58, Spain's foreign exchange reserves by the end of September 1958 had dropped another $40 million, leaving a total holding of $60 million (net of pledged gold). Most of this is held by the Bank of Spain and is not legally usable by the foreign exchange authorities; the mission was told that the available free reserves amount to only $5 million.**

* There is also a potential inflationary threat in the large amount of borrowing power available to the commercial banks at the Bank of Spain based on their deposit of government bonds, issued prior to the new cabinet, as collateral. This unused line of credit amounts to 12 billion pesetas.

** To make the payments required for accepting membership in the Fund and Bank, the Spanish Government had to borrow $12 million from American banks. Although the loan is not secured, it is understood that it is to be repaid by Spain's drawing on the IMF.
40. As already noted, Spain had an over-all net debit position of $14 million equivalent in her bilateral payments accounts at the end of September; this is an improvement over the end of 1957 when the net debit position was $41 million.*

41. Exports have not grown at all over the last four years. In spite of the industrial growth during this period, exports of manufactures (which were mainly textiles) have fallen. Imports have steadily grown from $610 million in 1954 to $860 million in 1957. Net earnings from tourism reached a peak of $110 million in 1955. Since then, with the impact of renewed inflation, although the number of tourists has continued to increase, the official receipts have steadily dropped to $73 million in 1957.

D. Distortions in the Economy

42. The inflationary and balance of payments pressures which, as described above, have characterized the Spanish scene for most of the past two decades, probably abetted to some degree by the Falangist mentality, have led to the imposition of a myriad of controls over almost every aspect of the economy; as a result, the economic picture is so distorted that it is difficult to form an accurate judgment of Spain's real potentialities.

43. For one thing, it seems to be universally agreed that the peseta is overvalued at the official exchange rate of 42 to the U.S. dollar. Although multiple exchange rates were officially abandoned in April 1957, when the peseta was devalued from 36 to 42 to the dollar, a system of premiums and taxes has since been used which has much the same effect. This system is so operated that production of a particular commodity for export, or the consumption of a particular import, is encouraged or discouraged depending upon the Spanish credit or debit position in her various bilateral payments agreements. Plants have to buy not the raw material they want but the particular materials which happen to be available. Even worse, every plant the mission visited was operating at under-capacity because insufficient foreign exchange had been allocated to it to buy necessary raw materials or semi-finished products. The result, of course, has been to reduce output, to increase costs of production and to weaken the competitive position of Spanish goods in the international market.

44. There are also various domestic controls that distort the economic distribution of resources. For example, iron, steel, coal, aluminum, copper, etc., are allocated by the government to make sure that vital national requirements are met. There are thriving black markets in all of these; the mission was informed by

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* The change consists mainly in an increase in Spanish holdings of French francs, Turkish liras and Egyptian pounds.
official sources that probably 20% of the iron and steel is distributed through the black market.

45. Most products are under official price control; this has little effect on many of them but it means going through, or taking action to avoid, administrative red tape for every price change.

46. Where the price controls are effective, the consequences are often even more unfortunate. For example, rents are controlled and are near pre-1936 levels; as a result, despite a severe housing shortage, private investment in housing is inhibited and the government has to carry out a large program of house-building. Similarly, olive oil prices have been kept low, probably to help hold down the urban cost of living. The result has been to reduce the supply of olive oil sold by the peasants even though urban consumption of edible oils has increased. As a consequence, edible oil imports have grown from zero in 1954 to over $45 million in 1957 and the government has felt it necessary to enact legislation providing for compulsory planting of olive trees.

47. Altogether, while there has been some improvement in the last two years, there still seems to be an extraordinary amount of government regulation of economic life. Too much of the ability and creative energy of private citizens is expended in contesting or circumventing the government economic controls.

E. U.S. Aid

48. U.S. aid has been given to Spain under a variety of arrangements: sales of surplus agricultural commodities,* Export-Import Bank loans, and economic aid grants under the heading of "Defense Support." The total of this economic aid was $895 million to the end of June 1958. The U.S. air bases in Spain are likely to continue to be important for at least a few more years until the long-range missiles take over; indeed, they may even assume added importance if the U.S. air bases in Morocco are given up in response to pressure from the Moroccan Government.

49. Because of the U.S. need for the Spanish bases, and because the U.S. Congress has insisted on inserting a provision in recent foreign aid legislation stipulating the amount of U.S. assistance which must be extended to Spain, the U.S. has little bargaining power in influencing Spanish economic and monetary policies. The ICA mission in Madrid expressed the hope that the Bank and Fund, not operating under these handicaps, might be able to take the lead in persuading the Spanish Government to improve its policies.

* These sales are made for pesetas pursuant to arrangements under which part of the proceeds are loaned to the Spanish Government with provision for repayment in pesetas or dollars at Spain's option and the remainder are used for U.S. expenditures in Spain.
50. One other impact of the U.S. aid deserves mention. In addition to economic aid the U.S. also has provided equipment and arms to modernize the Spanish armed forces. The Spanish Minister of Finance told the mission that, as a result, he encountered difficulty in holding down defense expenditures which absorb over a third of the ordinary budget and which have gone up by 70% since 1954.

V. Possible Bank Assistance to Spain

51. The continuance of inflation with its adverse impact on the economy and the balance of payments is, in the view of the mission, the most important economic problem facing Spain at this time. The other important economic policy needs -- changing the emphasis in economic development between industry and agriculture, freeing the economy from hampering internal and external controls, and securing a realistic rate of exchange -- are all bound together with the execution of a successful stabilization program.

52. From a narrow lender's point of view, Spain might be considered creditworthy for a strictly limited amount of lending even if the inflation is not stopped. But such loans would be of limited value as compared to the contribution the Bank would make if it could effectively help Spain -- preferably in cooperation with the Fund -- to formulate and carry out a monetary stabilization program. The mission believes that such a program, by eliminating the wastes and distortions due to inflation, should make possible a rapid growth in the Spanish economy. Also, with stabilization, Spain's creditworthiness should be considerably greater than it is now.

53. There are important forces within the Spanish Government which recognize both the need and desirability of a stabilization program and understand what such a program involves. These forces include the new Ministers of Finance and of Commerce and the management of the Bank of Spain. They have been strong enough in the last two years to make progress in restraining inflationary pressures and their objective is to achieve stability. It was at least partly to obtain external assistance in moving toward this objective that this group successfully promoted Spanish membership in the Bank and Fund.

54. On the other hand, there are strong opposing forces, with Mr. Suances, President of I.N.I., as perhaps the most forceful exponent of expansion at whatever cost. The mission was told that the influence of Suances with the Chief of State was waning, but it had no way of verifying this report and, even if true, Suances doubtless still wields considerable power. Measures to achieve stability would probably be opposed, too, by some who would fear the political repercussions of labor unrest should those measures result in an increase of unemployment.

55. On balance, however, the mission feels that there is at least a reasonable chance that the Bank and Fund working together, with the
cooperation of the U.S. Government, could tilt the scales sufficiently to get the support of the Chief of State for a sound economic program. Spain's entrance into the Bank and Fund is regarded as an important achievement for the government, the prestige of both institutions is high, and there appears to be a willingness to listen to what they have to say. Furthermore, Spain's room for maneuver is getting limited with the run-down of her free foreign exchange reserves. The rise in prices since the last round of wage increases has probably wiped out a major part of the improvement or relief it may have afforded to the workers. If prices continue to rise, it will become politically necessary to raise wages again and this will set off another upward spiral.

56. The continued availability of U.S. aid to Spain for some time to come should make the execution of a stabilization program much easier than it would otherwise be. This aid and the investment of counterpart funds would, of course, have to be coordinated with the rest of the stabilization program. Informal discussions with representatives of the U.S. Government in Madrid and Washington indicate that they would be receptive to working with the Bank to this end.

VI. Recommendation

57. The mission accordingly recommends that the Bank should inform the Spanish Government that:

1. Consideration by the Bank of any appreciable lending is conditional upon the undertaking by Spain of an appropriate stabilization program; and

2. If so requested by the Spanish Government, the Bank would be willing to send an economic mission to Spain, concurrently with the forthcoming IMF mission, to help the government prepare a stabilization program. This mission would also assess the creditworthiness of Spain and explore the sectors in which the Bank could consider lending if and as the stabilization program is carried out.