U.S. DIRECT INVESTMENT IN SPAIN DURING THE LATE-FRANCOISM AND THE TRANSITION TO DEMOCRACY. REASONS FOR ITS BEHAVIOR

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Abstract: The valuable data provided by U.S. Department of Commerce and the Bureau of Economic Analysis shows how the U.S. Direct Investment performed in Spain during the Late-Francoism and the Spanish Transition to Democracy. Our guess is that one reason that helps to understand this behavior is the close cooperation among U.S. MNC's managers with investments abroad and the U.S. Government Economic Agencies. These institutions share part of their information with the U.S. Companies and offer some guidelines to operate in Spain that could be completed by independent assessments like those due to the Stanford Research Institute or Business International. But there must be some other reasons to explain why U.S. affiliates were maintaining capital invested in Spain and sometimes reinvested earnings, at the same time that the income flux –from Spain– schedule was showing a dramatic decrease since 1974. We will therefore study this scene that was probably focused on the expected rates of return when Spain finally became an EEC member.

Keywords: United States, Spain, Foreign Direct Investment (FDI), Late-Francoism, Spanish Transition to Democracy.

INTRODUCTION

Since the late Forties, the Franco Regime –that rule in Spain after a Civil War that devastated the country between 1936-39– began to gain access to American credits and a permanent bond with the United States was established in 1953 by the signing of a bilateral pact mainly of military content[1]. Franco did not hesitate to sacrifice important areas of sovereignty –including the presence of various U.S. military facilities in Spain that enjoyed of almost total autonomy– in order to guarantee his own survival. It should be remembered that this agreement did not incorporate a mutual defense clause and the Spanish counterparts always considered it as insufficient. The successive renewals of these agreements in 1963, 1969-1970, 1975-1976 and 1982 were marked by the need to balance the relationship including, one way or another, a mutual defense commitment and more counterparts, especially in the military chapter[2].

This privileged relationship established after the 1953 agreement with the Spanish Dictatorship gave the American nation a clear advantage in the economic field. Moreover, the U.S. reduction in their investment in Spain, between 1936 and 1939, was the weaker one among the Powers[3]. They resisted through Civil War and continued operating from the Iberian Peninsula, in spite of the very strict legal restrictions applied to Foreign Direct Investment (FDI). Such a risky performance on a very volatile political and economic climate in Europe lead the U.S. to became the first foreign investor in Spain during the Sixties, immediately after the openness to the foreign capital after the 1959's Stabilization Plan[4]. They continue linked with Spain and Spaniards until nowadays but U.S. FDI took their peak at the end of the Sixties. U.S. leadership as foreign investor finished in the Eighties, like also happened in other parts of the world[5].

This paper aims to review the U.S. political and economic influence on direct investment in Spain during the last years of the Francoist Regime and the transition to democracy (1969-1982). Therefore, the period of time covers since the U.S. FDI reached its peak in the country by the end of the Sixties and the Oil Crisis years when happened a dramatically decrease in the flux of U.S. savings for doing business in Spain. Our study discloses that the U.S. Government support, whether formal or informal, accounted for American firms operating abroad. Moreover we intend also to prove that it means that the United States (or likewise/somehow U.S. government) was competing and not only Spanish affiliates –having an American parent firm– worked in their competitiveness.

Every source used here is shedding light on a tight relationship between U.S. Institutions and U.S. Direct Investments abroad. These sources are focused in main economic goals for both sides, we would say commercial objectives and this kind of linkage has its counterpart in the sustained feedback among U.S. Department of Commerce officers, investors, managers, entrepreneurs (also Spaniards), etc.

1. U.S. FDI'S PATTERN IN SPAIN DURING THE SEVENTIES

U.S. affiliates competitiveness could be at their current level throughout the whole Oil Crisis times, somehow due to U.S. political and commercial influence on investment decisions. U.S. Administration support, broadly speaking, was looking for a right business atmosphere again and again over the Late-Francoist Spain and so on. Managerial decisions took into account or better bore in mind the valuable information provided through the U.S.-Spanish network. At the same time, advices for American investors from International Monetary Fund, U.S.–Spanish Joint Economic Committee, Exim-Bank, U.S. Embassy, etc. had been carefully weighted when needed.[6] A good example could be a Round up report sent by the American Embassy in Madrid to the Department of State by the end of 1977 that shows how the U.S. Companies decisions had been taken accordingly with the expectancy of returns[7].

Return rates –in other words, profitability– expected was currently compared as the common pattern followed by entrepreneurs, investors or MNC's managers, to reach an accurate assessment on their optimal investing decisions. All of those drawbacks operating –political instability, Oil Crisis, etc.– add up major challenge facing Companies already established in Spain and those looking at investment there: "the squeeze on profits"[8]. In sum, foreign direct investments take a tiny profit during economic recessions. This fact is due above all to the backward movements in exportations.

On the contrary, fund raising through foreign direct investment did not generate indebtedness, despite the fact that U.S. FDI was always identified as a loss sovereignty paradigm[9]. However, perception of contemporaries about U.S. foreign investment was increasingly identifying its advantages for the Spanish economy[10]. The bilateral U.S.-Spain 1976 Treaty (as well as the 1969-70 renovations) correctly reflects the concern of the U.S. Administration for screen the business atmosphere in Spain in order to find opportunities suited to the interests of U.S. MNC's. Those interests were linked to the economic liberalization already felt by the Spanish entrepreneurs as needful.

It remains a query about economic performance: How about U.S. FDI incentives for leaving Spain as a host country? Having a look at the flux of savings (FDI considered as a flux variable) graphed as U.S. outflows to Spain (see Figure 2), pattern showed is reflecting a sharp plummet schedule towards the Eighties[11]. Thus they performed such a stronger restrain path, while U.S. economic interest resisted in Spain facing to the mentioned drawbacks and energetic crisis. Nevertheless, if at the same time you have an eye at the bar graph (Figure 5) that shows U.S. direct investment position abroad on a historical-cost basis (FDI as a stock variable) question should be: U.S. FDI opportunity costs didn't be a motivation, nor in the 1969-1976 period neither in the 80's, for leaving Spain?

Answer has arisen, needless to say, observing the same bar graph, noticed that in the second plateau (1974-1979) stock of U.S. FDI steady confirmed a share over the European total at more than 3%.[12] In brief, this pattern indicates that there was not a stepping down pattern for U.S. FDI in Spain. No way seems like this at least during the last years of the Franco Regime and the beginning of the transition to democracy.

Moreover, since 1974 repatriation of any returns became absolutely free by law. American investors bore in mind that Spanish European Economic Community (EEC) membership had been accepted "unconditionally" in Brussels: "Assuming the details of accession can be hammered out by 1979, followed by a five-year transition period for the dismantling of tariffs, the prospect is that by 1985 companies producing in Spain should have free access to the EEC market and vice versa"[13].

Spain has been considered as Europe new industrial frontier during the Seventies[14]. There was not a contradiction among U.S. affiliates whenever their returns actually would be expected in the long run to become a real income flux, it would say at least eight or ten years afterwards. In other words, it doesn't seem an economic contradiction for U.S. MNC's to behave during the 1969-1976 period thinking to avoid EEC taxes over their production and exportation from Spain. The issue might be harder than to be patient, even if U.S. realized promptly how to run business within a new enlarged European Community.[15] The encouragement of direct investment for Americans consisted mainly on the possibilities to grant the accession to 160 million people market, as well as they needed to avoid the common tariff of Europe. Spain was playing the role as that Europe's new industrial frontier in which U.S. interests were positioned with a clear advantage.

That's the more consistent explanation for keep operating in a Spanish scenario that was doomed to prove a stagflation –soaring inflation and mass unemployment– and policy makers were in troubles shaping a Parliamentary Pact (the so called "Pactos de la Moncloa") a Democratic Constitution and also preparing the path to the first democratic elections in more than forty years. The rising oil bill surely shouldn't help a lot the U.S. affiliate resilience, but they withstand and continued operating from their Spanish bases. In fact, divestment of U.S. foreign assets hadn't been done.

There was, therefore other kind of prospects got on to returns and they were shedding light to U.S. investment decisions that acknowledged to suffer Oil Crisis and Political uncertainty during the transition to democracy, withstanding Spanish issues. Not even the reformist path adopted by the new Prime Minister Adolfo Suárez was enough to calm down the anxiety although his 1976 inaugural speech was well received. Suárez idea transmitted was to open up the political process in order to normalize the life of the people[16]. U.S. official assessment about the new Spanish Premier political task described it as "a tremendous challenge…"[17]. Remembering these times U.S. political worries were, by all means, absolutely justified. Think about the ETA terrorism and ultra-rightists activists communicating less confidence in the Spanish political stability than before, so on for doing business in Spain.

Nonetheless, a quasi-counter example that demonstrates how focused were U.S. affiliates on continue doing business in Spain is provided by the number of employees by U.S. firms on Spanish soil.

Table 1. Number of employees working in Spain for the U.S. MNC's

Year	Employees (In thousands)
1972	75,0
1983	154,3

Note: Increase rate: 106.53 %; Average increase rate: 9.68 % a year.
Source: Business International, 1974 and U.S. Department of Commerce, Bureau of economic Analysis.

The 1972 figure is a roughly one that has arisen through accounting the number of employees of the main U.S. industrial firms in Spain. Therefore the comparison is at a rough estimate of real figures but it provides a good intuition of the economic activity developed by U.S. affiliates in Spain. The total amount of employees by U.S. firms in Spain shows an important increased rate during the period 1972-1983, 106.53%, in spite of the dramatically decrease in the U.S. flux of funds to the Spanish affiliates during these times (see Figure 2).

In spite of the "Pactos de la Moncloa" proposal for improving wages, the very high rate of unemployment and increasing costs threatened export competitiveness for U.S. companies. The figures introduced here are enough evidence from a U.S. FDI pattern followed in Spain. Managers of U.S. affiliates were very conscious even concerned about Spanish issues when the of Business International analysts interviewed them: "Current and future Spanish economic policy will have to take account, therefore, of a difficult combination of problems: high structural unemployment; double-digit inflation forecast through 1980; a balance-of-payments deficit that will be aggravated by economic recovery; labor costs that threaten international competitivity and lack of confidence reflected in capital flight and the average Spaniard's reluctance to save money in the face of inflation and political uncertainty"[18].

2. SPANISH BUSINESS ATMOSPHERE FOR US INVESTMENT

A weighted share of US reinvested earnings during this period is that, in spite of everything, American Business ran properly fine in Spain. Even when confidence on the right atmosphere for getting dividends – perceived either by U.S. citizens or by parent firms– was disappearing of the Spanish scenes. This business ambiance was due to a dramatic decrease, actually plummet, of the U.S. FDI income and, at the same time, this atmosphere undo the confidence in the expected rates of returns from Spain.

During 1973-1975 years Spain's rate of inflation was higher than before but also parallel to the rates registered abroad. And it went into a considerable wider gap, making much harder to compete effectively on foreign markets. Businessmen main worry was at these times: "How much longer will we be able to compete"[19]. Besides, the death of Franco by the end of 1975 "provoked concern over the country's political transition, which affected economic growth well into 1976 and 1977"[20]. When the boom –economic miracle– expires, economic progress was problematic since mid-1974 until, at least, 1977. As the U.S. official reports remarked: "political and institutional framework required as-far reaching a transformation as that which the economic structure had achieved. All attempts to cope efficiently with the problems that had arisen as a result of the international energy crisis depended on the prior achievement of this transformation"[21].

Looking at figures of the global framework shaped by Lipsey, Schimberni, and Lindsay we could expect that U.S. direct investment performed in Spain more or less in the same direction[22]. Nevertheless this investment behaved in such a particular strategy that become understandable only owes to the actual presence of relevant opportunities for these U.S. affiliates. On one hand, awareness of the import side to avoid EEC taxes. On the other hand, taking into account, above all since 1974 onwards, exportation from Spain to EEC market owes to the same reason, evading taxes. Actually Spain EEC membership was not exactly an "incalculable risk" for U.S. MNC's. The majority of member countries favour Spain's entry into the EEC, despite a certain amount of hostility in France and Italy where farmers were worried about competition from Spanish farm products[23].

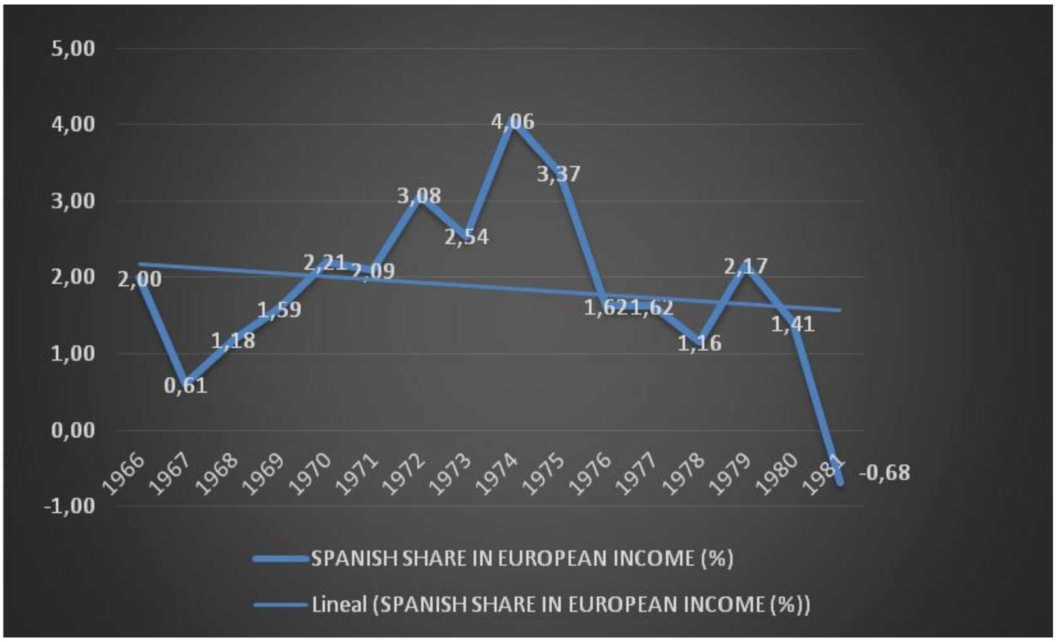
These features might help to shape an idea on the right business atmosphere expected or desired by the U.S. Administration in Spain and therefore compulsory seeking. At the same time Round up reports (1977-1982) from the U.S. Embassy in Madrid to the Departments of Treasury and State were contrasting objectives against Spanish economic and political reality conditions.

The U.S. FDI trend (1966-1981) was negative. The flux of saving funds from U.S. to Spanish subsidiaries or affiliates proved a sharply decrease during this period, 1975-1981. It had started with this orientation coincident with the Franco's death, in 1975, immediately after the first shock of the Oil Crisis. U.S. FDI showed a deeper de-investment for 1978 and, in general terms, they performed diminishing its share in the total FDI in Spain. In brief, there was a sharply decrease for U.S. FDI in Spain, above all during the Oil Crisis times (1975-1980) and a little recovery is shown for 1981.

In light of this figures, there is total coincidence with the path followed by the U.S. all over the world, passing throughout the 1980's from a creditor position in their FDI to a debtor position[24]. There is a sharply decrease in the U.S. share in FDI in Spain, from 1975 to 1981, therefore Spanish case is reflecting fine the U.S. FDI change of pattern[25]. It was a stepping down pattern but with certain nuances. The reaction to ponder is that of the U.S. direct investment in Spain following the normal path owes to diminishing returns. If we take into account the cross section period 1969-1976, it is simply to catch a soaring income from U.S. direct investment since 1969 towards 1974. It would say leaving apart ups and downs involved in the main income trend. Suddenly at its peak, in 1974, U.S. direct investment income from

Spanish affiliates started a dramatic decrease, except a little recovery at 1979, showing us a plummet towards the Eighties. This plummet trend appeared for 1975 and 1976 likely influenced by several features that included oil rising costs, inflation and, last but not least, higher wages. In general the competitiveness of U.S. firms based into Spain had leveled-off at a low pace.

Figure 1. U.S. Direct Investment Income from Spain, 1966-1981



Source: U.S. Department of Commerce, Bureau of economic Analysis.

A best understanding on managerial decisions issued sharing the information provided by U.S. Institutions and facilitators agencies, what can we do to grasp something on it? It is necessary, first of all, to explain the wider framework in which MNC's and U.S. capital were embedded doing business in Spain. Other scholar assessments have already underpinned an idea about Spanish business atmosphere[26]. Considering the period immediately prior to the Seventies, Richard Humbert wrote the next foreword to deal with business atmosphere:

> "This U.S. Department of Commerce study provides U.S. businessmen with detailed information on sales possibilities in Spain, one of the fastest rising markets for U.S. exports in recent years. In 1969 Spain purchased more than $700 million of goods from the United States. Prospects for the continuation of a high level of U.S. exports to Spain are excellent, although the competition is stiffening and the market is changing. The country is experiencing a rapid rate of growth, not without the usual problems, but its broadening industrial base will require substantial imports of capital goods and technology, areas in which U.S. business can –and should– effectively compete[27]".

It is remarkable that, in order to figure out some competitiveness aspects, subsidiaries of major U.S. corporations in Spain, the Common Market, and EFTA countries were competing with the U.S. suppliers shipping directly from the United States, and the last were losing the battle: "these subsidiaries are able to offer a wide range of products, similar to those produced in the United States, at considerably lower prices because of lower transportation costs and, in many instances, lower production costs"[28]. We need to underlying these characteristics but giving also room of maneuver to other fiscal considerations, i.e. facing a funded hope of Spanish belonging to the EEC.

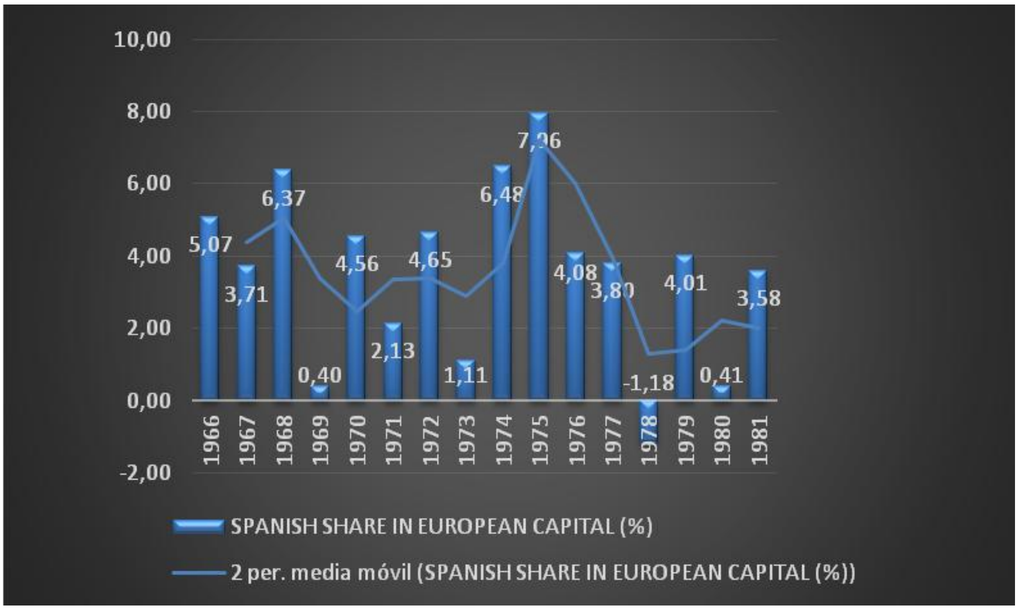
Since the Sixties, more and more Spanish firms were operating under license from U.S. parent firms to produce and market products using their technology as well as brand new management and marketing techniques[29]. As further industrialization took place, it was bound to happen that the traditional import lines were replaced by domestic manufacture, while import demand for other goods substantially increased. As Humbert explained: “Spain’s economy is progressing and changing very rapidly, and foreign trade patterns and trading partners are also likely to evolve in the future”[30]. Business Spanish atmosphere evolved throughout the Seventies until 1977 under great political pressure and concern, whether saying threatened by terrorist groups –ETA, GRAPO, etc…– or worried by uncertainty of Government’s decisions against inflation and unemployment.

Nevertheless, in 1974, Spain’s political stability still appeared as a plus factor in the operating environment but in 1977 the word uncertainty was mentioned over and over again as one of the most difficult problems connected with operating in the Post-Francoist Spain[31]. Significantly, however, Companies worry less about political instability than they do about the more prosaic uncertainty over Government regulations and business conditions that prevent planning on more than a very short-term basis. On a day-to-day level, that atmosphere complicated managers’ decisions. Some analysts criticized that, for months, it happened that Companies did not know what the Government planned to do about price controls and soaring wages.

Contrasting the real appropriate atmosphere to foster FDI in Spain there are two main lapses in which that business environment splits. Both parts were ending to an emerging period plentiful of changes, even like for a FDI shift occurred at the beginnings of the Eighties. Since then, shifting from U.S. foreign capital predominance to again –as in the past Century– the European one, Spain becomes a world’s leading FDI destination and even an emerging source of FDI[32].

The period included between the years 1975-1981 seems to be, therefore, a difficult time to attract FDI into Spain: U.S. investors became concerned about the secure and safe Spanish scenes for its savings invested over here, in Europe. There’s little doubt about that worry and the periodical round ups released by the U.S. Embassy in Madrid among other evidence already mentioned like the reports by Business International were proving it. Troubles were, of course, the political process to grant a transition to Democracy in Spain and the Oil Crisis that, at the same time, was damaging the energy cost all over the world. Managerial decisions had been taken right in the sense to eluding assessed risks in Spanish scenario and seeking other allocations abroad, during the 1975-1981 years.

Figure 2. U.S. Direct Investment (outflows) in Spain (1966-1981)



Source: U.S. Department of Commerce, Bureau of economic Analysis.

Loss on U.S. FDI competitiveness during the Oil Crisis was obviously a serious issue for doing business in Spain. The average weight of U.S. FDI during the Sixties – the so called "miracle years"– was around 40.54%, figures that posed the American power as the most important foreign contribution to the total Spanish investment. Consequently the U.S. MNCs decided to afford their investment into other countries where their savings became, generally speaking, more rewarding for them. Other foreign direct investment substituted the attached importance of U.S. FDI. Accordingly to the boom of Spanish integration in the EEC, European capital adopted since the 80's through the 90's the most important role as foreign investment. It could be say that, like it happened in the second part of the Nineteenth Century, the European investments had been putting again their confidence in the Spanish economic progress but, of course, reality is always more complex and some other factors must be taken into account[33].

Decisions made for allocation of U.S. capital to Spanish affiliates or to other firms under U.S. control had been influenced, obviously, by different market signals. But, above all, there were influenced by expected returns in same economic branches or industries abroad[34]. Ups and downs of the above curve showing U.S. outflows into Spain during that period could be explained everywhere due to those main reasons. Risk country assessment could be uppermost information for decision making, even though it was difficult to rely on it, like it happens nowadays. On this sense, the already mentioned at the beginning on this paper Spanish-U.S. Joint Economic Committee undertook an ongoing process to support great confidence on their reports.[35] Its second meeting was held on January 1977 and it's worthy of note that in a telegram were the U.S. Embassy in Madrid personnel review the agenda prior the celebration of the meeting, they stated that:

> "Although Spanish Ambassador in Washington had earlier requested that foreign investment be include in agenda, GOS [Government of Spain] has decided there is nothing to be discussed beyond what will be included in Spanish exposition of its economic program. Em[bassy] Off[icial] agreed and added that he believed U.S. had no particular interest in prolonging meeting with discussion in areas where there are no apparent problems"[36].

Therefore, it seems that the U.S. investments in Spain were working properly and there were no important issues on this matter by 1977 and so on. In connection with the overall economic situation and business climate, the most frequent complaint from Spanish as well as foreign owned companies is this: "the Government doesn't govern. Some are beginning to look at Spain in the same light as Italy, where many businessmen have felt for years that it doesn't really matter what the Government does or does not do business can be conducted profitability anyway"[37].

3. GIVING ROOM FOR BETTER MANAGERIAL DECISIONS

During the decline years of the Franco's Regime, the United States observed closely the political and social changes that were taking place in Spain and tried to secure their interests in the country, even if that implied to modify the terms of the bilateral relationship. With this objective, renewal of the agreements in *1976* left the status of mere executive agreement to raise –for the first time– its rank to the status of Treaty. One consequence of great importance after this 1976 Treaty was related to Joint Economic Committee already built in 1968 to assess the atmosphere for economic and trade relations between both nations[38]. Reports and assessments by Joint Committee were supposed to give advice and trained counseling for running business into Spain but this entity lay idle for years until Franco's death. With the new Treaty the Joint Economic Committee began hence a brand new start.

After the first regular meeting of the Spanish-American Joint Economic Committee –held March 14th 1977– the U.S. counterpart reproduced the following comments made by Carlos Gamir, General Director of International Economic Affairs of the Spanish Foreign Ministry who led the Spanish Delegation and by the representative of the Spanish Ministry of Commerce Mr. Alcaide:

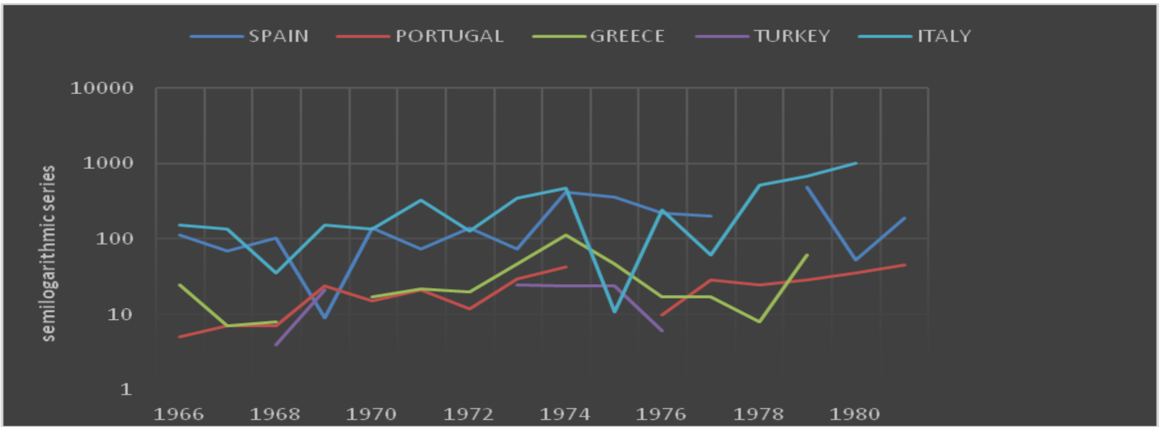
> "Regarding bilateral BOP [Balance of Payments] with U.S., MinComm [Ministry of Commerce] rep[resentative] said Spain had run deficits of $700 million in 1974, $900 in 1975 and $825 million in 1976. The basic balance

> (adding long term capital flows) yielded a deficit of $376 million in 1975. The basic balance for 1976 has not been calculated yet but in view of sharply reduced U.S. investment in Spain (only $30 million in new majority U.S. investment) it is expected to be much closer to the current account deficit. On this point Gamir expressed Spain's desire for increated U.S. investment"[39].

Spanish concern was then related with a need of investments, obviously due to a considerable capital scarcity. Meanwhile U.S. Government was worried about how to manage the new business scenario generated during the transition to Democracy.

The famous idea that implies that "Governments don't compete, solely the firms are on competition"[40], did it properly work during that lapse? It is worthy of note that Oil Crisis happen at the same time period and its economic impact could have jeopardized the main results of the U.S. interests abroad. Thus, the Treasury and Commerce Departments concern was also focused on the economic situation in Spain, a country which was –as we have already noted– an important anchor point, especially in relation to the commercial opportunities with the European Economic Community.

Figure 3. US FDI in Mediterranean countries, 1966-1981



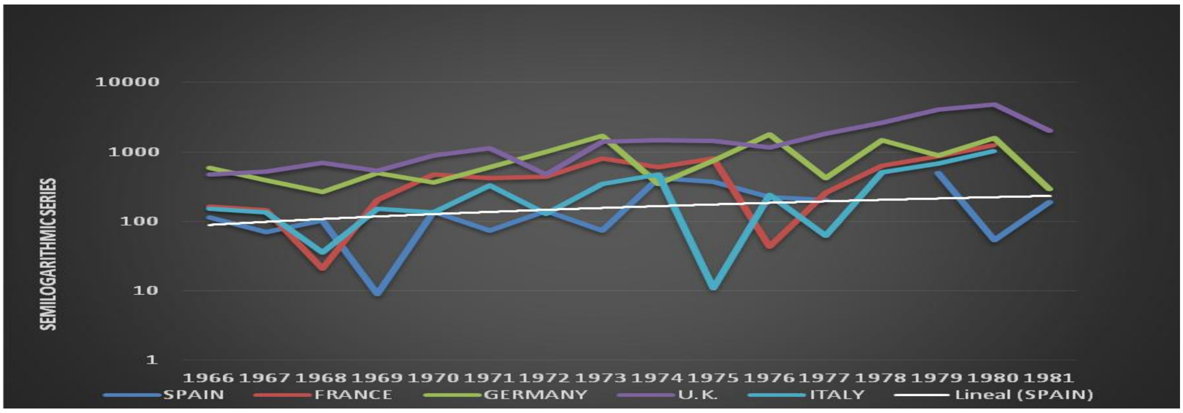
Note: outflows coming from US into foreign countries (million dolars).
Source: U.S. Department of Commerce, Bureau of economic Analysis.

Level of U.S. savings to invest in Spain was defined through this period as represented in the above graph like a flux variable. American savings towards Spain reached a high level if considered among these flux on to Mediterranean countries and a low level considered within the group of U.S. FDI that went on to the powers.

Following the lineal estimates of the different curves we obtained a moderate outflow from U.S. to Spain, Portugal or Greece at these times. The estimates curves have a steady prolonged profile and FDI flux values had risen at the end of the period only a little. The main U.S. FDI upward trend appeared evident during the first part of this lapse since 1966 until 1974 or 1975, when the first oil shock hit the western economies.

If we observe, however, the next U.S. FDI trends, followed through these five European detached countries some different paths appeared. It is worthy of note that for UK a watershed is reached in 1976 owes to a different scale of influx already made by U.S. affiliates. The rest of the powers considered, like Germany or France remain during the long run leveled-off at their own previous scale of their sharpened schedules (see next Figure).

Figure 4. US FDI in Spain, France, Germany, U.K. and Italy, 1966-1981 (million dolars)



Source: U.S. Department of Commerce, Bureau of economic Analysis.

The striking outcome is simply: American investments during Oil Crisis resulted more rewarding settled in UK –leaving apart Northern Sea Oil issue– when profitability is compared with other powers. Managerial decisions within American MNC's had been taken in accordance with an estimative prospective based on historical and comparative data. On this sense, the round up reports from U.S. Embassy in Madrid were providing a valuable help for whatever decision-making processes taken underneath U.S. parent company and their Spanish affiliates. Hence we could maintain that the U.S. Administration support to American MNC's operating in Spain had been provided, in some way, through this information flow. With those reports transmitted by U.S. Embassies located in European countries the American Government was acting as a facilitator for U.S. affiliates and parent MNC's and, of course, the diplomatic missions were helping current feedback with policy-makers and managerial élites. Moreover, there were other influential sources shaped through other institutions as the U.S. Department of Commerce or the U.S. Chamber of Commerce in Spain, not to mention reports made by agencies like Business International with a clear U.S. bias and which main office at those times was in Geneva.

We will focus on the flow of reports that helped main managerial decisions, first to continue investing in Spain and competing until 1974 within Spanish market and, afterwards, exporting from Spain. As the analysts of Business International states after several surveys made during the 1973-77 time lapse, the attraction of Spain still was not so much for its present as its future market potential. In any case, shift evidences has been noticed when among other reasons for investing in Spain given by the U.S. Companies operating in the country mainly were in 1973-74: "Fast Growing, protected market […] Part of global or European investment strategy", and in 1977-78 were: "We're already here, […] to expand export potential"[41].

An example of the referred support could be found, for instance, in the Spanish Economic round up number 25 sent from the U.S. Embassy in Madrid to the Department of State and to the U.S. diplomatic delegations in Paris, Brussels, Lisbon and Rome, and dated on February 79. In it there is an interesting note about the foreign investment in Spain:

> "Spanish political leaders have been quick to point out that foreign investors are showing confidence. Authorizations granted in 1978 for foreign investments more than doubled the value of those approved in the previous year, setting an all-time record. Last year the council of ministers accepted 320 foreign direct investment proposals with a total value of 56.9 billion pesetas (over 800 million dollars). The automotive and chemical sectors accounted for nearly 30 percent of the value of the investments. The U.S. was by far the largest investor nation, with a quarter of the authorizations. Owing to the depressed state of the economy, a larger than normal proportion of the new investments came in the form of takeover stock purchases from Spanish sellers"[42].

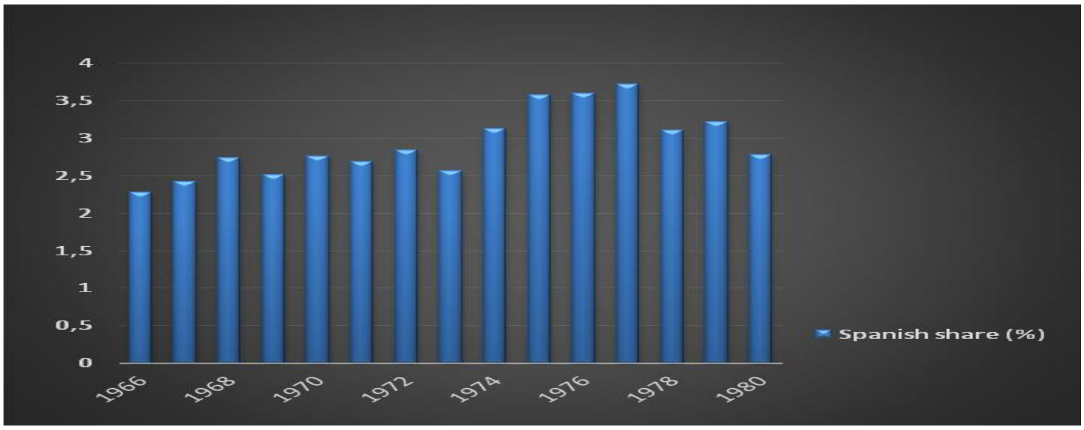
American investors and managers operating throughout Europe had remained aware that U.S. investments continue coming into Spain, in spite of Oil Crisis and its consequences suffered by the Spanish economy. Therefore, the impression transmitted was in favor the profitability of those investments and, in some way, this brief idea scattered over the mentioned embassies had been encouraged –although not for a long time– the flux of U.S. savings for business in Spain. Opel and Ford were two of the main examples about it. However business main idea shared in this round up is about cheaper stocks acquisitions owed to sales' rebates by Spanish owners.

The Spanish Economic round up number 29 dated on June 1979, accounts the extraordinary impact in the Spanish gloomy economic scenario that have the General Motors decision to make a high investment in the country:

> "On June 11 General Motors announced a grand entrance into Spain. GM will invest more than one and a half billion dollars to build an automotive assembly and stamping plant near the city of Zaragoza, and a smaller component plant near Cadiz. Plant construction begins next year and by 1983 the assembly lines will produce small economy cars bearing the Opel trademark of GM's German subsidiary. The cars will have a sixty percent Spanish national content, with engines supplied from a planned Austrian factory. Two thirds of the 270 thousand cars produced yearly are to be exported and GM therefore is expected to join Ford Espana [sic] as one of the Spain's largest exporters. GM estimates direct creation of 10 thousand jobs in Zaragoza and 1500 in Cadiz, with 25 thousand more workers to be employed indirectly in supply and servicing industries. The Spanish Government is subsidizing the investment with a grant equal to 10 percent of the investment in Zaragoza and 20 percent of the Cadiz outlay, and with low cost credit to finance an additional 10 & 25 percent of the investments at Zaragoza and Cadiz respectively"[43].

Compromise among the U.S. economic agencies with the national Companies was quite clear in each country where Americans got economic interests. They persisted involved for spreading and obtaining feedback on current business atmosphere. And for Spain they were ranked as the first foreign investor: "U.S. was by far the largest investor nation"[44].

Figure 5. US direct investment position abroad on a historical-cost basis. Spanish share (in %)



Source: U.S. Department of Commerce, Bureau of economic Analysis.

It's worthy of note that the special legal conditions under Civil War and Franco's post-war autarky Regime had conditioned a high level of reinvestment in Spain. Therefore a high percentage of the U.S. FDI stock had been accumulated in the country compared among other European Mediterranean countries, like Portugal or Greece[45]. Since the Sixties, the U.S. FDI in Spain were far away from their ratios in the Forties, however its level was up to a 3% share over Europe total, between 1975 and 1979 (3.11% to 3.60%). The stock of U.S. direct investment in the Spanish territory remains stabilized around the 3.5% during the Oil Crisis. If we consider the FDI as a stock variable instead the flux already observed, it is obvious (see the next Figure) the existence of two sets of U.S. investments at different scale: on one hand below the 2.5% ratio weighted over European shares during the period 1966-1973, and on the other hand second U.S. FDI dataset are above 2.5% towards more than 3.5%. These shares were obtained on a historical cost basis during the Oil Crisis, from 1974 to 1981.

Therefore, managerial decisions had been taken in order to minimize Oil Crisis impacts in U.S. investments linked to Spain. Actually they performed taking into account the more rewarding investments in other countries. It would say, accordingly with the expected returns, that U.S. managers eventually decided to invest out of Spanish territories. Meanwhile the market conditions continued to be against their customary levels in Spain. A scenario that is not equal at all to totally leave the country. The willingness for assuming managerial risks on their current assets over Spanish territory was doubtless owes to the clear expectation on the secure access for Spain to the potential EEC market. Otherwise it couldn't be understandable how US MNC's performed in the country whenever the return on assets (ROA) gap for the period between Europe and Spain (see next Table) is openly discouraging their investment efforts.

Table 2. ROA gap ratio for US companies (non financial) operating in Europe and Spain, 1966-1981*

	ROA (%)		
Year	Spain	Europe	ROA GAP
1966	5,63	6,41	-0,78
1967	1,58	6,32	-4,74
1968	2,94	6,81	-3,87
1969	5,73	9,03	-3,29
1970	7,61	9,51	-1,89
1971	7,41	9,50	-2,08
1972	12,21	11,29	0,92
1973	14,87	15,03	-0,17
1974	16,63	12,79	3,84
1975	9,53	10,12	-0,59
1976	5,04	11,19	-6,15
1977	5,03	11,53	-6,49
1978	5,47	14,65	-9,18
1979	13,82	20,57	-6,75
1980	8,40	16,61	-8,21
1981	-2,82	11,65	-14,47

Note: ROA is calculated like an average return on assets.
Source: U.S Department of Commerce, Bureau of Economic Analysis.

These results are shedding light on the most likely Spanish figures involving US affiliate's gains and losses accounts. It's not a very unexpected outcome due the crisis the country was suffering enbedded in a gloomy economic context added to the political uncertainty after Franco's death[46]. In spite of this economic trend and considering only US savings flux dropped into Spain, there was only a clear 1978's deinvestment. In other words, US capital flux addressed to FDI in Spain stands arround a 4% of total American capital invested in Europe, since 1975 onwards (see Figure 2).

The best explanation is that U.S. MNC's continued thinking on 166 million of potential consumers to cater from their affiliate's production and operating without tariffs through EEC countries. It would say they bear in mind the good rates of competitiveness within European markets they could achieve. This main idea involve, of course, a Spanish base from which they thought certainly to attempt efficient distribution of U.S. commodities at more affordable prices under the "made in Spain" label.

There were also other circumstances that converge with the previous argument. On one hand, the growing possibilities of the Spanish domestic market and, on the other, the existence since 1970 of a preferential trade agreement between Spain and the ECC that stipulate the progressive elimination of tariffs and other trade barriers[47]. Therefore, as the Business International reports claimed: "in 1977-1978, as in 1973-1974, the attraction of Spain still is not so much its present as its future market potential”[48]. We will go in depth over this matter in the following section.

4. ON COMPETITIVENESS INTO SPAIN: CONCLUDING REMARKS

En On February 1970, U.S. Ambassador to Spain Robert C. Hill made the following statement before the Spain-U.S. Chamber of Commerce in New York encouraging American investors to take advantage of the Spanish economic opportunities:

Moreover, Spain welcomes foreign investors – and, particularly American investors– because they bring to Spain the techniques of modern business management so needed for true economic modernization. However, in all frankness, I must say that I have heard complaints from some American firms about difficulties they have experienced in Spain. They report, for example, delays in obtaining official approval for investment projects. There are also complaints that some sectors of Spanish industry are, in effect, closed to foreign investment. Moreover, while there are no restrictions on the repatriation on dividends, some U.S. firms have complained about difficulty in obtaining permission to make royalty payments and to reimburse parent companies for technical services. In my personal opinion, these are not major disincentives to foreign investment in Spain when balanced against the many long range opportunities which exist[49].

Hence, these words depict an advantageous situation for investors just before the political crisis of the dictatorship and the economic background added some uncertainty to the obstacles already mentioned on the quotation. For managerial decisions the expected rate of returns was, at least in theory, mandatory. This involve a clear conclusion: declining profitability makes sense for leaving U.S. direct investment effort at a lower rate in Spain during the first phase of the Oil Crisis, beyond 1974 (see previous Figures). Without any doubt, the information collected by the U.S. Administration as well as other non-governmental economic institutions was spread over U.S. business network, giving enough leeway for action in order to correct wrong managerial decisions. U.S. influence helped their affiliates to perform redirecting savings to a more rewarding pursuit abroad and, at the same time, to put their hopes in future expected yields preserving their own assets in Spain to gain access at the EEC extended market.

When combining figures and information from all sources used here, you can find out two different lapses within the analyzed period. First one, until 1974, when the main objective for U.S. affiliates was to produce for the Spanish internal market and a second one, since then, when a big shift took place due to a strategic decision made by U.S. parent firms that decided to produce for exportation from their own affiliates in Spain. In this second term, U.S. institutions mentioned above were in function to get an increase in the export share of the United States. Most companies agreed that Spain could be a good exporting base:

> “Companies that worried about competition from the EEC are looking for new foreign markets from Spain and acquiring enterprises with export potential as double hedge. Some companies that don’t export much worry about the “poor quality image” of Spanish-made products, while companies that do export a substantial percentage of their production (like Ford) insist that Spanish quality can compete anywhere”[50].

Lipsey noticed a relevant shift in the behavior of the U.S. MNC’s all around the world during the 1977-1982 period. Multinationals from U.S. change to their overseas affiliates as their export base, which was strong in the previous decade, was then interrupted and even reversed to a small extend[51]. Therefore, Spanish case seems to show good evidences on the contrary, owes to main alleged incentive at these times: the plausible Spanish entry into the EEC. Nevertheless, Lipsey perceived that there were exceptions to this shift in major industries as chemicals or transports. Both industrial branches perfectly fit for the Spanish case, since they were mentioned as principal categories for exportation during the Seventies and they continue their activity equally orientated[52].

When you are very keen on the competitiveness issue a question arise: What could cause swings in net capital flows, i.e. with a magnitude like that seen during the Eighties? From the standpoint of macroeconomic policy, the most important determinants of capital flows between countries are the expected rates of return. As Frankel and others scholars asserted: “Rates of return have been the driving force behind international capital flows and the exchange rate. However what is the driving force behind rates of return?"[53] The State could play an important role behind those rates because of taxation. More income from U.S. affiliates means more resources for the Treasury. Therefore, the State should be interested eventually on an increasing income from U.S. direct investments abroad, even despite some dividend freeze on all Spanish companies that, for the years 1976 and 1977, affected foreign or locally owned[54]. Don't forget that U.S. Census on FDI were shaped for fiscal reasons in order to be aware of this type of investment in foreign countries.

Lipsey, Schimberni and Lindsay idea to compare MNC's competitiveness to the competitiveness of a country, i.e. U.S. case, could work when you compare their export shares.[55] Results and strategy described here were demonstrating that since 1974 Spanish liberalization law –reinforced in 1976– U.S. Administration support was looking for an increase in the export share from U.S.-Spanish affiliates. Conclusion about U.S. political and economic influence is doubtless for rising U.S. direct investment competitiveness. Therefore U.S. was competing helping to improve export share from their companies based in Spain.

Spanish case during the analyzed period could be exactly a paradigm. Above all when both States, U.S. and Spain, sign up the creation of a Joint Economic Committee for gaining access to the best political and commercial feedback. Consequently U.S. policy makers practice consisted in taking profit of this strong relationship between both countries, and helped their economic interest like a driving force strengthening returns from U.S. MNC's. It is worth to notice that what kept multinationals' share in world exports up was the success of their exports from their foreign affiliates[56]. This is likely the Spanish case for U.S. FDI in the second part of the Seventies. But also we need to reflect on the expected rate of return, whether it was mandatory for managerial decisions or maybe not. A relevant historical example was achieved in the Eighties for the MNC's settled in the U.S.[57]. In this given case it was not compulsory to follow same guidance –on expected returns– because they have other entrepreneurial interests. We reckon it was exactly what happened during the transition to democracy in Spain when U.S. Direct Investments operated under a strong willingness for a Spanish EEC membership.

For U.S. FDI in the Spanish case conclusion is clear: declining profitability pointed out by incomes from Spain makes sense for leaving U.S. direct investment effort at a lower rates but operating as usual, also during the Oil Crisis (see Figures above). U.S. Government was worried about how to manage the new business situation, we would say this new scenario. It used to be a normal situation under the Francoist Regime –considered safe and secure for U.S. interests– but the democratization process and the Oil Crisis added some complications. In other words, it was a really challenging environment for U.S. MNC's. After checking the primary sources available for that period we can conclude that the diplomatic efforts and the reports arranged by the U.S. economic agencies were really helpful for the decisions made by U.S. investors in Spain, and also for U.S. managers.

On the competition edge, actually we don't know whether U.S. FDI performance would be same thing, in spite of U.S. Government assistance. Could managerial decisions be oriented in a different way that the way it was? It is difficult to find out evidence on it. The State can improve your competitiveness, of course, but broadly speaking States don't compete[58]. A competitive behavior's idea that John Dunning pointed out: "there is no absolute criterion by which competitiveness of a firm or an industry – or indeed a country– may be judged; it all depends on the opportunity costs of the resources involved"[59]. The choice U.S. direct investments had, following Dunning's thought, was to slow down their current flux of savings to Spain and redirect them to a more rewarding allocation abroad, whether in same pursuits or sometimes in another economic activities.

U.S. political and economic influence was surely very convenient for American investors and MNC's affiliates operating throughout the Late-Francoist Spain and also during the laborious transition to democracy process. As we have already stated, the uppermost determinants of capital flow between countries, in particular for the North American-Spanish case, were the expected rates of return. ROA gap between European and Spanish returns support that U.S. FDI and U.S. Administration Institutions were definitely waiting for Spanish accession to the EEC in order to improve their profits.

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[11] This pattern continue being same thing until 1983, likely owes to a motivation of total income for 1982 and 1983 equal to -90 million, and -42 million of dollars. This data are net income because prior to 2006, income is presented net of U.S. and foreign withholding taxes.

[12] In the first part of the bar graph share levels were not surpassing an average of 2,5% of the US FDI European total (see Figure 5)

[13] Davis, Deborah L., "The New Spain…", op. cit., 24.

[14] *Business International* report is entitled as the referred expression about Spain "Spain, Europe's New Industrial Frontier", 1974.

[15] After the Marshall Plan and by the end of Fifties the EEC became the U.S. savings largest recipient abroad. Eichengreen, Barry, *The European economy since 1945: coordinated capitalism and beyond*. Princeton, Princeton University Press, 2007, 163-197. Entrepreneurs and managers thought about when Spain could be on the move toward the EEC, showed they agree on seven years away, since 1977. See NACP, RG56, OASIA, OINGA, ODASIMA, RRPIS, Box 2. "Government of Spain Guarantees for Eximbank Loans". The result would last more than expected. Bassols, Raimundo, *Veinte años de España en Europa*. Madrid, Biblioteca Nueva, 2007, 121-155.

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[17] Nevertheless, good expectations appeared when the first visit by President Suárez to the US was made vid. Powell, Charles, *El Amigo Americano.* op.cit., 457-465. See also NACP, RG56, OASIA, OINGA, ODASIMA, RRPIS, Box 2, January 31, 1977, "Telegram, Ambassy of Madrid to The Secretary of State".
[18] Davis, Deborah L., "The New Spain…", op. cit., 15.
[19] Davis, Deborah L., "The New Spain…", op. cit., 11.
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