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Prospective PSOE Economic Policy**

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THE PERSPECTIVE OF THE REAGAN ADMINISTRATION ON PROSPECTIVE PSOE ECONOMIC POLICY*

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ABSTRACT

After General Franco's death the U.S. Government, both Republican and Democrats Administrations, monitored with considerable interest the sociopolitical changes that were taking place in Spain in order to safeguard their assets in the country. Besides the military component, that was the keystone of the U.S.-Spain relationship during the Francoism, the Spanish economic situation appears to be one of the major issues of concern after the dictator's departure.

It is worthy of note the value of the reports submitted from the U.S. Embassy in Madrid for a better understanding of the Spanish transition to democracy. In economic matters these reports were used by the Departments of the Treasury and State to assess Spain country risk. By using these primary sources, the purpose of this paper is to analyze the perspective of the Reagan Administration on prospective Spanish Socialist Party (PSOE) economic policy before its 1982 victory at the polls.

JEL classification: E61, E65, N44.

Keywords:

United States, Spain, Spanish Socialist Party (PSOE), Economic Policy, Spanish 1982 elections.

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INTRODUCTION

This paper is shaped as contributing a whole project which aims to analyze the role played by institutions like the State within international trade relations. We are trying to analyze the scale and scope of the U.S. government influence on the US firm's competitiveness, mainly US influence on their trading and also on decision making processes. The framework considered has been built around the commercial relationship between U.S. and Spain and, thus U.S. government is considered like a commerce facilitator (including direct investment and MNC's) between the U.S. and Spain during the years immediately following the death of General Franco.¹ We were carrying-out research for presenting here some hypotheses that today are not totally contrasted but likely can help to assemble this relatively unexplored topic.

It is worthy of note that the best studies of the U.S.-Spain relations during the Franco regime and the Spanish transition to democracy have been predominantly focused on the political and geostrategic terms of the relationship between the two nations.² Although this approach has not neglected the study of the economic factor in most cases it's just another piece in the background puzzle. It is equally true that for the dictatorship period we do have some analysis of the role that the U.S. capital played in the development of modern Spanish economy. Nevertheless, this could not be applied to the years of the transition to democracy conceivably because the social and political aspects of this intricate process are so powerful that engulf the rest of elements.³ All of

¹ Some preliminary results have been presented at: Julio, TASCÓN FERNÁNDEZ, & Misael Arturo, LÓPEZ ZAPICO, "U.S. Administration Support to American Business Abroad: Seeking the right Atmosphere in Spain During the Oil Crisis, 1976-1982", Conference Proceedings. Building and Sustaining High Performance Organizations in a Challenging Environment. British Academy of Management 25th Annual Conference. BAM & Aston Business School, Birmingham, UK, 2011; "U.S. Investment in Spain During the Transition to Democracy (1976-1982): A Propitious Scenario for American Business During the Oil Crisis?", X Congreso Internacional de la Asociación Española de Historia Económica, 2011; & "US Political and Economic Influence over the Late-Francoist Spain: Doing Business abroad during the Oil Crisis", The Sixth Transatlantic Studies Conference. North and South: The United States, European Union and the Developing World, 2011.

² See, Antonio, MARQUINA, *España en la política de seguridad occidental. 1939-1986*, Madrid, Ejército, 1986; Arturo, JARQUE, *Queremos esas bases. El acercamiento de Estados Unidos a la España de Franco*, Madrid, Centro de Estudios norteamericanos, Universidad de Alcalá, 1998; Ángel, VIÑAS, *En las garras del águila. Los pactos con EE.UU. De Francisco Franco a Felipe González*, Barcelona, Crítica, 2003; Rosa, PARDO, "La política norteamericana", *Ayer*, 49, 2003, 13-53; Fernando, TERMIS SOTO, *Renunciando a todo. El régimen franquista y los Estados Unidos desde 1945 hasta 1963*, Madrid, Biblioteca Nueva, 2005; Charles, POWELL, *El amigo americano*, Barcelona, Galaxia Gutenberg, 2011; or Encarnación, LEMUS, *Estados Unidos y la transición española*, Madrid, Sílex, 2011.

³ Amongst other studies: Julio, TASCÓN FERNÁNDEZ, "International capital before 'capital internationalization' in Spain, 1936-1959", *Center for European Studies Working Paper*, 79, Harvard University, 2001; "La red yanqui desde los años treinta hasta los años del milagro", Julio TASCÓN

this, needless to say in spite of the fact that the Spanish transition took place during a very difficult economic lapse. We would assert that the political problems occurred also under the effects of the energy crisis of the seventies and at the same time when Spain was suffering the exhaustion of an "unsustainable" growth model, which also needed a deep structural reform.⁴

To all these conditioning factors that have led to the limited interest generated by the economic dimension of the relations of our country with the U.S. power we have to add, for the specific case of the Spanish Socialist Workers Party, the position of this organization respect to the role of Spain in the Western Security Policy.⁵ The position directly contrary to the Spanish integration into NATO supported by the Socialist Party over the period we are consider was a clear disruptor component in the relationship between U.S. Government representatives and the leaders of this political party. Given the subsequent course of events, remains open to debate whether the anti-NATO position held by the Socialists was really genuine or, at least with respect to the higher spheres of the party, behind it underlies a certain dose of opportunism sustained by an interested electoral calculation that reflects their obsession to reach the Government.

In short, this is a topic that is needing some sources shedding light on it. Some recently declassified documents in American archives are placing new elements into the discussion and allow us to obtain a more global view of the Spanish-U.S. relations.

Identification and Characterization of the sources

The temporal proximity of the period covered in this paper involves the inability to gain access to most of the documents related to the topic kept at the public archives of Spain and the United States. Since our approach is mainly based on the analysis of the U.S. position to the probable changes in the economic matters that would introduce a

FERNÁNDEZ (dir.). *Redes de empresas en España. Una perspectiva teórica, histórica y global*, Madrid, Lid, 2005, 137-154; Nuria, PUIG, "La ayuda económica de EEUU y la americanización de los empresarios españoles", Lorenzo, DELGADO, y M^a Dolores, ELIZALDE (eds.): *España y Estados Unidos en el siglo XX*, Madrid: CSIC, 2005, 181-205; & Adoración, ÁLVARO, *Inversión directa extranjera y formación de capacidades organizativas locales. Un análisis del impacto de Estados Unidos en la empresa española (1918-1975)*. Doctoral thesis accessible at the following link: <http://eprints.ucm.es/12327/>

⁴ Juan, HERNÁNDEZ, *Economía política de la transición en España 1973-1980*, Madrid, Editorial Complutense, 2004.

⁵ Ángel Luis, LINARES, *La política de seguridad de la transición española, 1976-1982*, Madrid, Ministerio de Defensa, 2008.

virtual government of the PSOE in 1982, we have chosen to focus on the U.S. sources leaving for further research the contrast of the hypotheses here developed with the documentation of the Spanish counterpart.

Our primary source will be the records of the Department of the Treasury in which are deposited much of the economic reports issued regularly by the U.S. Embassy in Madrid in order to facilitate the work of Washington analysts when evaluating the country risk of Spain in the period immediately prior to the arrival of Felipe González to the presidency of the Government. These same reports were also used by the U.S. delegation of the United States-Spain Joint Economic Committee established under the Treaty of Friendship and Cooperation signed between the two nations which came into force in 1976.⁶

Along with these documents we will resort to other secondary sources to complete our study. Thus, will be very helpful some references appeared at that time in the mainstream media as well as several testimonies and memoirs from the leading protagonists.

All these “ingredients” serve us to make a pretty tight pattern about the direction on economic matters that, in the opinion of the Reagan Administration observers, could have been taken by the Gonzalez Government. As we shall see, many of their assumptions will become a reality demonstrating the quality of their reports and, above all, the ability of the U.S. diplomacy to obtain reliable data about the country's political and reality. In addition, we will also observe how this documentation included some assessments that reveal certain preconceptions and value judgments that can only be understood if consider them within the scope of perceptions.

Does perception matters on International Relations?

This is not the place to theorize at length on such a complex issue with many ramifications as is the way in which stereotypes and preconceived images can affect –in fact they do– the design of Nation’s Foreign Policy. The classic works by Robert Jervis

⁶ “Acuerdo complementario sobre cooperación económica” included in “Instrumento de Ratificación de España del Tratado de Amistad y Cooperación entre España y los Estados Unidos de América, los siete Acuerdos Complementarios al mismo y ocho Canjes de Notas de 24 de enero de 1976 y del Acuerdo de Desarrollo del Tratado de Amistad y Cooperación, los Anexos de Procedimiento I, II, III, IV, V, VI, VII, VIII, IX-A, IX-B, X, XIII, XIV, XV, XVI y dos Canjes de Notas de 31 de enero de 1976”, *Boletín Oficial del Estado*, nº 267, 11th June 1976, 21913.

have served to illustrate the considerable weight of the ideological factor in the decision-making processes and how perceptions have shaped the behavior of Western Governments till present.⁷

The field of the political economy has not been oblivious to these practices even when the actors always try to justify their actions on accurate data and contrasted magnitudes. For instance, on the topic we are discussing here, the openly anti-Americanism attitude of important sectors close to the Spanish Socialist Workers Party helped to generate a certain feeling of pessimism in the Reagan Administration on the potential economic understanding with the Government resulting from 1982 elections. The attempts by the analysts of U.S. Embassy in Madrid to abstract from these impressions were not always successful, leading to estimates in some cases more negative than the country's situation seemed to indicate. This is a traditional mechanism of perception in which the mental representations influence the way we perceive reality and vice versa.⁸

However, considering the further development of the events it seems appropriate to argue that this kind of research exercises conducted from the Embassy remained always much less influenced by the use of stereotyped behaviors than the ones written directly at Washington D.C. Although their advice and analysis were not always heard or fully respected neither by the State Department nor by the Treasury, they helped to dissipate some uncertainties and balance a moderately pessimistic thinking about the possibility of a Socialist Government to stick to the rules of the game in business and financial field.

It would be really interesting to have a material similar to the U.S. sources in order to study the reports issued by the Spanish authorities. Thus, we may verify to what extent anti-Americanism was actually introduced in the reins of power or it was a phenomenon that emanated mainly from the bases of the left parties.⁹ It seems plausible that warped visions were operating. The so called by Carlos Alonso Zaldivar "Miradas

⁷ Robert, JERVIS, *The Logic of Images in International Relations*, Princeton, Princeton University Press, 1971 & also by Professor Jervis, *Perception and Misperception in International Politics*, Princeton, Princeton University Press, 1976.

⁸ See, Glicerio, SÁNCHEZ RECIO, "La percepción de los cambios como factor de la transformación cultural y social", Glicerio, SÁNCHEZ RECIO (coord.), *Eppure si muove. La percepción de los cambios en España (1959-1976)*, Madrid, Biblioteca Nueva, 2008, 15-29.

⁹ Manuel, AZCÁRATE, "La percepción española de Estados Unidos", *Leviatán, revista de hechos e ideas*, nº 33, 1988, 5-18; & Alessandro, Seregini, "Antiamericanismo y democracia", Óscar J., MARTÍN GARCÍA & Manuel, ORTIZ HERAS (coords.), *Claves internacionales en la transición española*, Madrid, los libros de la catarata, 2010, 128-147.

torcidas" (warped visions) were based on the ignorance by the U.S. and the antipathy of the Spanish counterpart.¹⁰ Feelings, in any case that can be explained if we consider the recent context in which were framed the Spanish-U.S. relations during the transition to democracy in Spain.

Spain-U.S. relations from Franco's death to 1982

Since the signing of the 1953 bilateral agreements between Spain and the United States, the Franco Regime had placed in this connection their hopes to achieve the forgiveness for their dangerous relationship with the Axis powers during World War II and its claims to rejoin the international system by placing in value the Spanish geography and their open anti-communism. Franco did not hesitate to sacrifice important dimensions of sovereignty, including the presence of various U.S. military installations which enjoyed of almost total autonomy, in order to guarantee his own survival. It may be recalled that this agreement did not incorporate a mutual defense clause and its material counterparts were always considered as not satisfactory enough. The successive renewals of these agreements in 1963, 1968-1970 and 1975-1976 were marked by the need to balance the relationship achieving, one way or another, a mutual defense commitment as well as greater counterparts, especially in the military chapter.

Whenever the Franco Regime began to show signs of exhaustion, the U.S. Government struggled to find the best way to secure their interests in Spain once the dictator had left the scene. Their gestures were not always successful and, to some extent, their low profile prevented that the United States appeared in the Spanish social imaginary as a country favorable to the democratic process. However, thanks to the good job made on the Spanish ground by their informants, the Americans were able to predict a relatively peaceful change. Perhaps it can be detected a certain dose of "wishful thinking" but this fact does not diminish the work of a diplomacy ready to fit to almost any contingency and that had identified Juan Carlos I as the backbone of the new relationship between the two countries. The conversion of executive agreements into a bilateral treaty, in 1976, was more symbolic than an act with deep consequences,

¹⁰ Carlos, ALONSO ZALDIVAR, "Miradas torcidas. Percepciones mutuas entre España y Estados Unidos", Working Paper, Real Instituto Elcano, 2003, accessible at www.realinstitutoelcano.org/documentos/60.asp.

because actually they were playing for the gallery. But we need to take into account a major loan of near 1,000 million dollars granted this same year by part of a consortium of U.S. banks, which likely seems sufficient as indicator of confidence in the democratic process.

Curiously enough this confidence did not emanate from the position taken by the Secretary of State Henry A. Kissinger, but rather that merit should be awarded to the team that made up the U.S. embassy in Madrid headed since 1975 by the skilled Wells Stabler. Kissinger showed symptoms of political myopia towards Spain by restraining his actions to apply very little imaginative formulas based on the imposition of a slow pace changes and the refusal to build bridges with the democratic opposition, leaving this task to the European leaders.¹¹ Luckily for the U.S. interests Ambassador Stabler, backed by his deputy Samuel D. Eaton, was of the opinion that to pave the way for a long-term bilateral relationship it would be useful to meet the leading figures of the democratic opposition – the border was fixed in the Communist Party – because, at some point, they may have political duties in the future Spain.¹² These meetings began before General Franco died and, although they were never a priority, they were maintained over the years.

To assess its real value we can take as an example the interview that Stabler maintained with Felipe González on October 1975 in which the Socialist Secretary confirms that the PSOE was willing to offer Juan Carlos some room for maneuver if the monarch shown with his actions a truly commitment with democracy.¹³ The information obtained in these rounds of contacts –first informally and later and openly recognized after the legalization of political parties and the elections of 1977– helped the analysts at the U.S. embassy to send accurate reports to their superiors about the process of

¹¹ See, Charles T., POWELL, “Estados Unidos y España, de la dictadura a la democracia: el papel de Henry A. Kissinger (1969-1977)”, Charles T., POWELL y Juan Carlos, JIMÉNEZ (eds.), *Del autoritarismo a la democracia. Estudios de política exterior española*, Madrid, Sílex, 2007, 19-71; & Pilar, ORTUÑO, *Los socialistas europeos y la transición española*, Madrid, Marcial Pons, 2005.

¹² Samuel, EATON, *The forces of Freedom in Spain 1974-1979*. Stanford, Hoover Institution Press, 1981, 116; Wells, STABLER, “The View from the US Embassy”, Hans, BINNENDIJK (ed.), *Authoritarian Regimes in Transition*, Washington D.C., Foreign Service Institute, US Department of State, 1987, 192-197.

¹³ National Archives and Records Administration (NARA) RG 59, Records of Henry A. Kissinger 1973-1977, box 24, Telegram from U.S. Embassy in Madrid to the Department of State (7481), 10/26/1975. Luis Yáñez, who held the Secretary of International Relations of the PSOE between 1975 and 1979, says that in that period “tuve varias entrevistas, algunas solo y otras junto a Felipe González, con el embajador de los Estados Unidos en España y con algunos de sus consejeros” in Antonio, PAPELL, *Conversaciones con Luis Yáñez*, Barcelona, Plaza y Janes, 1991, 113.

transition to democracy, anticipating the results poor of the PCE in the first elections despite their role as the best organized opposition group during the Franco Regime.¹⁴

The arrival of a new Administration to the White House after the victory of Democrat candidate Jimmy Carter in the Presidential elections of 1976 did not change substantially the terms of the U.S.-Spanish relationship keeping the possible integration of Spain into NATO as the most prominent issue.¹⁵ As the position of the several Governments headed by Adolfo Suárez was ambiguous in this regard and showed the existence of internal divisions, the Socialist Party tried to take advantage of this situation turning their refusal to join the NATO into one of the main themes of their political discourse. We have already noted that in the anti-NATO position of the PSOE there was an important component of political opportunism that led to some of its members to starved verbal excesses that will later regret. In fact, if we analyze in depth the PSOE program of that period it's possible to find some ambiguities –the strong European feeling upheld by the Socialists experts on foreign matters was not incompatible with NATO– that will later be put in value in the bitter controversy that preceded the 1986 referendum. The members of the PSOE's Federal Committee were fully aware of the impossibility of being considered as an alternative to the UCD outside the country's borders without showing a less dogmatic stance. That could explain why Felipe González and Luis Solana (at that time in charge of the Socialist Party defense policy) traveled to the United States between 1977 and 1978 with the intention of conveying a more moderate message.¹⁶ These gestures were not always correctly understood by U.S. leaders but helped to keep open the way to a future understanding.¹⁷

However, the situation seems to get more complicated for the Spanish Socialists since the victory of Ronald Reagan. The new President rushed to bring in changes in the

¹⁴This kind of prospective exercises had already been anticipated by *The New York Times*. This daily newspaper sometimes demonstrated to have a more accurate knowledge of the Spanish reality than the Department of State staff. See, Misael Arturo, LÓPEZ ZAPICO, *El tardofranquismo contemplado a través del periódico The New York Times 1973-1975*, Gijón, CICEES, 2010.

¹⁵ See, e.g., Javier, RUPÉREZ, *España en la OTAN. Relato parcial*, Barcelona, Plaza y Janes, 1986.

¹⁶ “Felipe González, a Estados Unidos”, *El País*, 11/15/1977; & Letter from Luis Solana to U.S. Senator Clairborne Pell (dated 17th april 1978) were Solana thanks Pell for his warm reception during his visit to the United States along with Enrique Múgica. Special Collections University of Rhode Island, Clairborne Pell Papers, box 37.

¹⁷Perhaps the best known gesture was the statement made by Felipe Gonzalez in the context of a meeting of the Socialist International held in Venezuela in 1978: “prefiero morir de una puñalada en el metro de Nueva York que vivir «tranquilo» treinta años en Moscú”, *ABC*, 12/11/1978, 77. This dramatic phrase has been endlessly reinvented including all kinds of variations.

U.S. foreign policy to prove the strength of the country in the international arena.¹⁸ This attitude would soon leave its mark all around the world and, for the Spanish case, the most memorable episode is the awkward performance of Secretary of State Alexander Haig during the coup of 23-F which opened the way to all sorts of sensational hypothesis mostly lacking any reliability.¹⁹

In this challenging environment Calvo Sotelo's decision to speed up the entry of Spain into NATO provided the Socialists renew arguments to harass the centrist Government. In fact, some members of the PSOE took advantage of the political storm unleashed to resume the anti-American manners. Even Felipe González openly criticized the U.S. Government controversial inhibition during the hours in which the deputies remained kidnapped at the Congress during the military coup.²⁰ Such comments were made in the context of a visit to the UK and the U.S. embassy in London expressed its concern because González repeat those harsh words during a private meeting with Lord Carrington and David Owen.²¹

The issue of the Spanish entry into NATO overlapped with the negotiation of the renewal of the bilateral treaty, a way of perform that Washington considered already exhausted.²² Therefore, when all the odds were in favor of a PSOE victory in the 1982 elections, it easy to understand the concern among the members of the State Department about the future behavior of a Socialist cabinet that would be responsible for managing the agreements reached with the UCD Government. Obviously, the main concern was about the new design of the Spanish Security & Defense Policy that would be implemented by the Socialists. Nevertheless, the U.S. Embassy officers at Madrid granted an equally important role to the socialist economic program as they were aware that a radical change of direction in this field could jeopardize the U.S.-Spain relationship.²³ Therefore, it is worth to take into account the reports generated by the

¹⁸ See, Richard A., MELANSON, *American Foreign Policy since the Vietnam War*, New York, M.E. Sharpe, 2005, págs. 128-190.

¹⁹ Misael Arturo, LÓPEZ ZAPICO, “Anatomía de «un asunto interno». La actitud del gobierno estadounidense ante el 23-F”, *Ayer*, 2011 (forthcoming).

²⁰ “Comment by Haig Draws Fire in Spain”, *New York Times*, 11/03/1981.

²¹ Telegram from Streator to Department of State, 03/18/1981, London 05162. Those statements were later tempered by the Spanish politician. Telegram from Barbour to Department of State, 03/18/1981, Madrid 03508 [accessible at <http://foia.state.gov/documents/foiadocs/6231.PDF>]

²² Florentino, PORTERO, “*Las relaciones con Estados Unidos y la política de Seguridad*”, José María, JOVER ZAMORA (dir.), *Historia de España Menéndez Pidal*, T. XLII La transición a la democracia y el reinado de Juan Carlos I, Madrid, Espasa Calpe, 2003, 785-794.

²³ See Julio, TASCÓN FERNÁNDEZ & Misael Arturo, LÓPEZ ZAPICO, “US Economic Influence during the Spanish Transition to Democracy”, *Economic Discussion Paper*, EDP 01/2011, Department of Economics, University of Oviedo, accessible at <http://www.unioviado.es/economia/EDP/EDP0111.pdf>

Embassy economic staff during 1982 in order to get a better understanding of their perceptions and the guidelines they devise to deal with the new Socialist Government.

The highly anticipated economic policy of the PSOE through the looking-glass of the U.S. Embassy in Madrid

The beginning of the eighties almost coincided with the blow that led to the second OPEC shock. The new oil crisis had terrible effects in an already weakened Spanish economy.²⁴ The sudden rising of the international oil prices not only muddied the prospects of an early global economic recovery but, for the case of Spain, it supposed the disappearance of the positive effects that have had the measures promoted by the Moncloa Pacts.²⁵ The industrial crisis, the rising unemployment, the high inflation and the disturbing public budget deficit appeared as the main challenges that Calvo Sotelo's cabinet must had to deal with. The political instability of this period added to the internal breakdown that was suffering the Government's party did not seem to be the best scenario to implement the necessary measures to straighten the course of the Spanish economy. However, there are ups & downs in the objectives achieved with the economic policies undertaken. If we bear in mind the complex situation inherited by the UCD Governments it is possible to give a relatively positive assessment to their economic policy.²⁶ They faced this new energy shock turning to the political and economic tools available at that time: the Moncloa Pacts, the fiscal reform program and a set of varied structural adjustment measures. An effort to tackle rising labor was the adoption of the "expected inflation" culture. The egalitarian pressure was diverted from the wage sphere to the fiscal instruments whilst it was introduced a system of taxation and public spending policies in line with the other European countries. Inflation was reduced by

²⁴ For a study about how the Governments deal with this sort of economic crisis see Julio TASCÓN FERNÁNDEZ, "La política económica: debates y objetivos", *Pasado y Memoria. Revista de Historia Contemporánea*, 9, 2010, 65-100.

²⁵ José Luis GARCÍA DELGADO & Juan Carlos, JIMÉNEZ, "La economía", José María, JOVER ZAMORA (dir.), *Historia de España Menéndez Pidal*, T. XLII La transición a la democracia y el reinado de Juan Carlos I, Madrid, Espasa Calpe, 2003, 377-429; & Joaquín, ESTEFANÍA, *La larga marcha*, Barcelona, Península, 2007, 239-256.

²⁶ The soaring inflation bordered 30% and threatened to keep rising, the unemployment rates were higher than in the rest of Europe. Meanwhile, the Spanish democracy was still in a process of political & social consolidation.

half and, when the UCD left the government duties, its figures were around the 13.2 %.²⁷ The debate on public companies that started in the sixties foreshadowed the era of privatizations that took place during the next political-economic cycle.²⁸ Indeed, Miguel Boyer stated in 1992 that:

[The policy he led at the Ministry of Economy] fue una continuidad de la de Leopoldo Calvo Sotelo; lo que pasa es que a él le pilló lo peor del ciclo y muy debilitado políticamente. Nosotros también teníamos el ciclo bajo, pero disponíamos de una gran fuerza política, y un líder indiscutible capaz de aunar sectores muy diversos y con un excelente instinto para los problemas económicos.²⁹

The economic staff of the U.S. Embassy in Madrid monitored with extreme care each and every one of the measures taken Calvo Sotelo's cabinet in order to keep Washington well informed about the Spanish political & economic background. It is worth of note that the conclusions of one of those reports, sent in June 1982, seems to confirm the views expressed by Boyer just a decade later:

In summary, the Spanish economy is in transition. It is undergoing a structural adjustment process which, over the medium term, should strengthen its ability to produce and compete in world markets. Unfortunately this process also brings with it considerable social costs, primarily manifest in joblessness. Structural adjustment to new conditions is not easy, especially for the political leaders who must make decisions which may adversely affect one sector of society or another. It is to its credit that Spain has already begun to make these decisions. Although more difficult choices still remain, Spain's forthright tackling of its past problems indicates that intellectual and material resources of the country are up to the tasks it faces in the future.³⁰

This confidence in the Spanish ability to deal with the difficult economic situation may indicate that controversial Ambassador Todman and his team were rather optimists about the country's future. Nevertheless, this perception was accompanied by nuances when it came to analyze the economic program that would be adopted by the PSOE in case of victory in the 1982 elections. For instance, the U.S. diplomats were worried

²⁷ A summary list of the main intentions as well as some improvements were: a deepening liberalization of the financial system; the regulation of the labor market within the political context of the period; the strengthened of the monetary policy that prevented a potential financial crisis, etc. All of them helped to build up a sense of "consensus" on the economic policy matters that made easy to reach a "Constitution by consensus", etc. Luis, GÁMIR (dir.), *Política económica de España*, Madrid, Alianza, 2008, 36-37.

²⁸ Julio, SEGURA, "Intervención pública y política de bienestar: el papel del estado", José Luis GARCÍA DELGADO (dir.), *España, economía*, Madrid, Alianza, 1998, 831-857; Francisco, COMÍN & Daniel, DÍAZ FUENTES, *La empresa pública en Europa: una perspectiva histórica*, Madrid, Síntesis, 2004.

²⁹ Taken from Jordi, MALUQUER DE MOTES, *El largo camino a Europa. Cincuenta años del Círculo de Economía*, Barcelona, Círculo de Economía y Centro editor PDA, 2008, 256.

³⁰ NARA, RG 56, General Records of the Department of the Treasury, Office of the Assistant Secretary for International Affairs, Records Relating to Portugal, Italy and Spain 1976-1981, box 2: *Economic Portion of Spain's Economic Trends Reports*, 24/06/1982.

about the possibility that, once in power, the Socialists could try to undertake a nationalization policy. Actually, ambiguity on this matter was intentionally nourished by some Socialist activists whom decided to give false expectations as a calculated strategy to gain votes from the lower classes.³¹ It's a paradox that the Socialist politicians that in 1976 claimed for nationalizations started the privatization process in Spain during the 80's.³² As many scholars have stated, the PSOE concurred to the 1982 elections under the promise of change but the real effects of this bombastic electoral slogan were not fully revealed, at least in the economic policy area, until their victory at the polls.³³ In fact, when the PSOE economic team had to develop their program of government the controversial issue of nationalizations was still open:

Carlos Solchaga, en unas recientes declaraciones a *La Gaceta del Norte*, puntualizó que «si alguien piensa que nosotros vamos a nacionalizar para mantener puestos de trabajo, o para crear otros nuevos, esto constituye una deformación de la realidad». Para añadir, a renglón seguido, que si se produce una situación de abandono empresarial como respuesta la constitución de un gobierno socialista, «no nos habrá de temblar el pulso en el momento de utilizar cualquier procedimiento, incluidas las nacionalizaciones».³⁴

U.S. intelligence even managed to detect the existence of a domestic dispute on this subject starring Alfonso Guerra and Felipe González. It is symptomatic that the future Prime Minister began to appear before their eyes as a moderate politician while Guerra was depicted to be closer to leftist tendencies:

Alfonso Guerra, the Socialists' second in command, is challenging assurance by Secretary General Felipe Gonzalez [sic] that the party will not undertake nationalizations if it wins the next election. [...] Gonzalez [sic] believes he would need the acquiescence of business leaders to govern, however, and has been campaigning hard to win their trust. The quarrel within the leadership reflects a longstanding division between Gonzalez [sic] and the more leftist rank and file. Guerra's challenge, however, is probably less a show of strength than an attempt to arrest the decline on the left. Guerra fears that a continued strong showing in opinion polls will further strengthen Gonzalez's [sic] moderate inner circle, which would be the heart of a new cabinet. He is convinced that the Socialists cannot afford to

³¹ During the PSOE's XXVII Congress the leaders of the party adopted a "radical" program whose ideology today seems somewhat odd as it involved the maintenance of private property only for small business without clearing up the distinction between property and management activities. They pledged, following the Marxist postulates, for a planned economy. An ambitious nationalization program that would affect large industrial companies, essential services (electricity), banks and even farming. In 1979 the Spanish Socialist Party officially renounced to the Marxist creed in an Extraordinary Congress.

³² M^a Ángeles SÁNCHEZ DOMÍNGUEZ & M^a Ángeles ORTEGA ALMÓN, "The privatization process in Spain 1985-2001", *Teoria e Evidência Económica/Brazilian Journal of Theoretical and Applied Economics*, vol. 9, nº 17, 2001, 9-24.

³³ Nancy, BERMEJO & José, GARCÍA-DURÁN 1994. "Spain: Dual Transition Implemented by Two Parties", Stephan, HAGGARD & Steven B. WEBB (eds.), *Voting for Reform: The Political Economy Adjustment in New Democracies*. Oxford, Oxford University Press/World Bank.

³⁴ "El PSOE prepara un programa económico de gobierno", *El País*, 01/06/1982.

discourage leftists in the party organization from working for victory at the polls. The deputy secretary general appears to be trying to influence Socialists' eventual campaign and possible government by pulling Gonzalez [sic] back to the left. For the moment, however, he probably has cost the party votes in the crucial center of the electorate, particularly in the business community, and he may have increased the misgivings of military and civilian rightists about the party's ability to govern.³⁵

In the summer of 1982 the Socialist victory was imminent so the U.S. Embassy stepped up their efforts to know in detail the economic plans of those who would replace Calvo Sotelo's Cabinet. As a result of this effort it was generated a comprehensive report that was submitted to the Departments of the Treasury and State as well as to all major U.S. embassies in Europe. We will summarize below the most significant paragraphs of this interesting report:

Talks with a number of economists within the Spanish Socialist Workers Party (PSOE) indicate that if they could design the economic program of a socialist-led government, it would be pragmatic, realistic and designed to get the Spanish economy moving out of the economic stagnation which has characterized the past several years. To bring about this economic reactivation, PSOE economists want to ask for more sacrifices from labor that were asked by the current Government of the Union of the Democratic Center Party (UCD), but some PSOE politicians and the Socialist dominated General Union of Workers (UGT) could thwart their plans. The Socialists economists also want more incentives to business than the UCD in an effort to stimulate job-creating investment. Although they speak wistfully about ridding Spanish society of the vestiges of the Franco Regime, they plan to use these Francoist economic tools to the utmost in carrying out their policies. The economists of the PSOE realistically do not expect a marked improvement in the Spanish economy in the short-run, and this is a cause for worry. They fear that the lack of instant results would sour the public on the solutions of the left and provoke a swing to the right in an effort to go back to the «better life under Franco» which remains in the public memory. The economic theorists of the party may well find that the political imperatives of day-to-day government or party ideologues will modify their economic outline to such an extent that the program could become more political and less pragmatic.³⁶

As can be appreciated from the objectives stated above, the economic recipe propounded by the Spanish Socialist Party had little or nothing to do with what many of his millions of voters expected. After this introduction, U.S. informants descend to detail in order to review all the key points of the socialist economic project:

Typical PSOE economic policies would be based on increased Government control of the credit system, expansionary fiscal policy, increased taxation to moderate the inevitable fiscal deficit, continued reduction in real wages, restored business profits and investment, more foreign investment and rapid depreciation of the exchange rate. The goal of these

³⁵ *National Intelligence Daily (Cable)*, 03/03/1982.

³⁶ NARA, RG 56, General Records of the Department of the Treasury, Office of the Assistant Secretary for International Affairs, Records Relating to Portugal, Italy and Spain 1976-1981, box 2: The Outlines of a Socialist Economic Policy in Spain, 14/07/1982.

policies would be to stimulate economic growth and halt both the loss of jobs and the increase in unemployment.³⁷

Other cited measures were the monetary policy which aimed to reduce interest rates to small and medium sized firms to promote job creation. According to the report “achieving this goal does not require nationalization of the banking system nor reduction in public sector spending”.³⁸ Precisely, about the Government spending they remarked that it could not overtake the pattern carried out by the UCD. In fact, the Socialists would soon increase taxes to lower the deficit in the short term. This new fiscal policy was bound to lean on consumption taxes as the U.S. observers doubted of the Spanish Government’s ability to reduce tax evasion or fraud. Therefore, the increase would particularly be “a burden on those with lower incomes, the class from which the PSOE draws its electoral support”.³⁹

That was just another of the many contradictions detected by the U.S. Embassy officers in the Socialist Party economic approach. On the other hand, they considered the incomes policy as the most difficult for a PSOE Government because “the Party’s economists believe that it is necessary to have a 2 to 3 percent reduction in real wages in order to reduce labor costs, moderate inflationary pressure and hold down personnel costs in the Government budget”.⁴⁰ The report rightly identified this would be a clear point of friction with the claims of the unions, especially with a UGT that would campaign in union elections at about the same time as general elections.

Other aspects of interest are those related with the external economic factors. The analysts remarked that although PSOE will have no control over them, they “will greatly influence the outcome of the Party’s economic outcome”.⁴¹ A more relevant role would play the Socialists in the attempts to attract foreign investment to Spain as they were aware that the country “must depend on imported technology and management know-how to improve the efficiency and competitiveness of Spanish industry”.⁴² It is also mentioned that the PSOE leaders had discarded the French economic model for its lack of effectiveness:

³⁷ *Ibid.*

³⁸ *Ibid.*

³⁹ *Ibid.*

⁴⁰ *Ibid.*

⁴¹ *Ibid.*

⁴² *Ibid.*

Spanish Socialists are quick to distance themselves from the economic policies of the Mitterrand Government. These policies (nationalization, reduced work hours to spur employment, etc.) strike the Spanish as being old-fashioned and nor responsive to current world economic circumstances. The PSOE seeks to win over the Spanish businessman by providing incentives to spur job-creating investment. The moderation the Party espouses is not a facade, therefore, but rather a political necessity, given the possibilities for political and social turbulence in Spanish society.⁴³

It is worthy of note that Miguel Boyer played a decisive role in the decision of dismiss the French economic model as he later declared:

Yo mismo [Boyer] había advertido a Felipe González en 1981, que convenía moderar todo entusiasmo respecto a los socialistas franceses –que acababan de ganar las elecciones– así como distanciarse de sus recetas, pues el fracaso de su política económica iba a ser de manual y sonado, y podría servir, en la política española, de argumento contra nosotros.⁴⁴

Finally, to conclude their report the U.S. officers asserted that:

“if the PSOE can get by the short-run, it has grandiose plans to restructure the Public Administration system by making it more responsive to the needs of local Governments, reforming the education system to make it better able to meet the needs of modern society, and creating conditions to improve social justice and reduce class friction. These long-run goals can only be reached by dealing effectively with Spain’s pressing economic problems, and the Socialists are ready, in theory, to administer the tough medicine needed to improve the economy. It remains to be seen, however, whether the political realities of day-to-day government will allow these economic remedies to be applied.”⁴⁵

Conclusions

Despite the reluctance that some parts of the Socialist political discourse – especially with regard to the Mediterranean security and defense policy– could generate within the Reagan Administration, the economic design outlined above seemed to guarantee the understanding with the new PSOE Government. The prospective exercises made by the U.S. diplomats at Spain were really accurate even when the report we have brought to light here it’s closed stating that “the foregoing represents our impressions of

⁴³ *Ibid.*

⁴⁴ See, Joaquín, ESTEFANÍA, *La larga marcha*, Barcelona, Península, 2007, 243

⁴⁵ NARA, RG 56, General Records of the Department of the Treasury, Office of the Assistant Secretary for International Affairs, Records Relating to Portugal, Italy and Spain 1976-1981, box 2: The Outlines of a Socialist Economic Policy in Spain, 14/07/1982.

the economic advice the Socialists leadership is receiving. The Party's actual economic program is in preparation and is due to be made public shortly. Although the program will obviously not be presented as starkly as we have outlined it, we expect that the basic policies will evolve as we have described them".⁴⁶

There is no doubt that the millions of spaniards that choose to vote for the Socialist Party were less well informed about the PSOE economic agenda than the Reagan Administration. That circumstance was only possible thanks to the superb job conducted from the U.S. Embassy in Madrid. Such revelations must help us, therefore, to break down some myths about the relations between the Spanish Socialist Party and the United States recent Governments. They had, and in many ways still have, more bases in common than a merely superficial analysis might reveal. That's why perhaps we would have to rethink the success of U.S. public diplomacy in the preparation of post-Franco era and, above all, the importance of educational initiatives such as the Fulbright program on attracting future leaders of the modern Spain to the "American way of life".⁴⁷

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⁴⁶ *Ibid.*

⁴⁷ Lorenzo, DELGADO, *Viento de poniente. El programa Fulbright en España*, Madrid, LID, 2009 & "After Franco, What? La diplomacia pública de Estados Unidos y la preparación del posfranquismo", Óscar J., MARTÍN GARCÍA & Manuel, ORTIZ HERAS (coords.), *Claves internacionales en la transición española*, Madrid, los libros de la catarata, 2010, 99-127.

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