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U.S. Political & Economical Influence over the Late-Francoist Spain through Foreign Direct Investment

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U.S. Political & Economical Influence over the Late-Francoist Spain through Foreign Direct Investment[1]

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1. INTRODUCTION

The triumph of Franco and his open sympathy for the Axis powers will start a brand new era in the relationship strongly marked in its initial stages by the outbreak of the Second World War. Franco's Spain although not formally involved in the conflict will have to clean “his original sin” after the Allies victory. Again, the economy –especially in its commercial dimension– will be starring in this period. It was used as a weapon of pressure from both the U.S. and Great Britain to prevent Franco threw to an open belligerence.

The rationing of oil and other staples and essential items, conditioned the capability of the Franco regime, a totalitarian political system that seemed doomed to disappear after the fall of Hitler and Mussolini. The Spanish Government will have to overcome a painful journey through the desert until the logic of the Cold War allowed Franco to appear before the United States as an important bastion against Communism.

Since the late forties the Franco Regime began to gain access to American credits and a permanent bond were established in 1953 by the signing of a bilateral pact mainly of military content. Franco did not hesitate to sacrifice either 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].

The US reduction in their investment in Spain, between 1936 and 1939, is the weaker one among the Powers (Tascón, 2009, pp. 35-74). They resist through Civil War and continued operating from the Iberian Peninsula, in spite of the very strict legal restrictions referred to FDI over here. They performed that way perhaps owes to their wide experience as FDI in the peninsula, and also they continue operating in Spain until the Pactos de Madrid (1953), and they became the first foreign investor in the sixties,

[1] Earlier versions of this paper have been presented at the AEHE Internacional Conference 2011 and also at BAM Conference 2011. We wish to thank participants at these events for their comments.

[2] Spain's entry into NATO in the early eighties did not cause the disappearance of these bilateral agreements although it put them on a second term (Balfour and Preston, 2002).

immediately after the openness to the foreign capital after the 1959's Stabilization Plan (Tascón, 2008, 64; table 3). Probably because of there was a strong network behind the US FDI when the Spanish Civil War started[3]. They continue linked with Spain and Spaniards until nowadays but US FDI took their peak at the end of the Sixties (Tascón, 2008, 67; graph 6). The US leadership as foreign investment finished in the Eighties, like it happened in other parts of the world.

If we intend to measure US FDI, like Spanish shares over European total, at the starting point considered from the Census of 1929 and 1943 (Tascón, 2005) and extend the comparison until the Eighties: Whatsoever the measurement it was likely the weight of American FDI in Spain became three times lesser –approximately- measured since 1929 until 1972 and also at 1983[4]. Actually the figures less known are between 1929 and 1959 (have a look to the next table).

Relative Weight of the U.S. Direct Investments, 1929-1959
(US Spanish shares over US European total)

	1929	**1936**	**1943**	**1950**	**1957**	**1959**
Spain	5,32	6,35	6,05	1,79	1,06	1,00

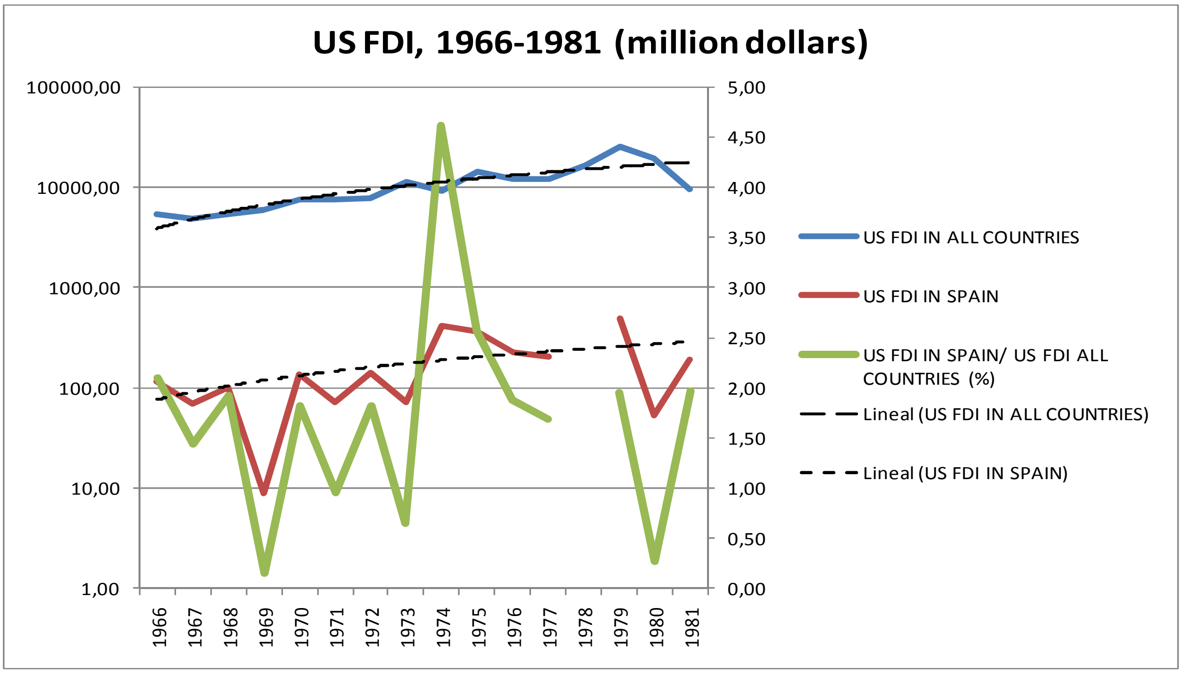
Source: US Census. Tascón, 2005.

This paper aim to deal with the last years of the Francoist regime, therefore chronology covered is for the 1969-1976 period and our main objective is to control US political and economical influence for doing business in Spain. This period of time cover since the US FDI reached its peak, ending the Sixties, until the Oil crisis years when starting a dramatically decrease in the flux of US savings for doing business in Spain. In other words we intend to disclose if the US support whether political or economical, accounts for American firms operating abroad, and also if it means that US state was competing and not only Spanish affiliates worked in their competitiveness.

Nonetheless it is an important fact to be conscious on how US FDI in Spain matter in a quantitative sense (see the next graph). Thus shares are between 0,50% and 2,00 %, despite the peak of 1975 that is an exceptional one, with a marginal value for the rest of the historical interpretation. US FDI in Spain weighted around a 2 % of the total annual amount of US investment all over the world. Taking over the control of foreign companies or placing their own affiliates (US MNC's) in Spain was due to the main interest in squeeze all the rents as it used to be doing business abroad.

[3] There is some quantitative evidence about it. See Tascón (2005, a & b): graphed using Fritz Foley data (1868-1951), provided from Department of Commerce, Washington, 2001. Cited in Tascón Fernández, Julio & López Zapico, M. Arturo. "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 Enviroment. British Academy of Management 25th Annual Conference*. BAM & Aston Business School, Birmingham, UK, 2011.

[4] Obviously we are talking here about US FDI as a stock variable, not referring on the flux variable.



The Spanish curve is quite sharpened reflecting movements in US savings addressed to Spanish affiliates. According to this schedule it might be possible to interpret that US direct investment were not depending on the market signals or better interests located out of Spain. In any case Spanish US FDI ratio is a little one among those maintained inside other nations like Germany, UK or Canada.

After the death of General Franco, the United States observed closely the political and social changes that were taking place in Spain and tried to secure its interests in the country even if that implied to modify the terms of the bilateral relationship. With this objective, the renewal of the agreements in 1976 left for the first time the status of mere executive agreement to raise its rank to the status of an international Treaty. One consequence, of great importance for our research, was the creation of a Joint Committee to assess the atmosphere for economic and trade relations between both nations.[5]

The US Government was worried about how to manage the new business scenario generated during the transition to Democracy. The famous quotation "Governments don't compete, solely the firms are on competition", did it properly work during that lapse? (Porter, 1998). It is worthy of note that the oil crisis developed at the same time period and its economic impact could have jeopardized the main results of the US interests abroad. Therefore the Treasury's concern was also focused on the economic situation in Spain, which was an important anchor point, especially in relation to the commercial opportunities with the European Economic Community.

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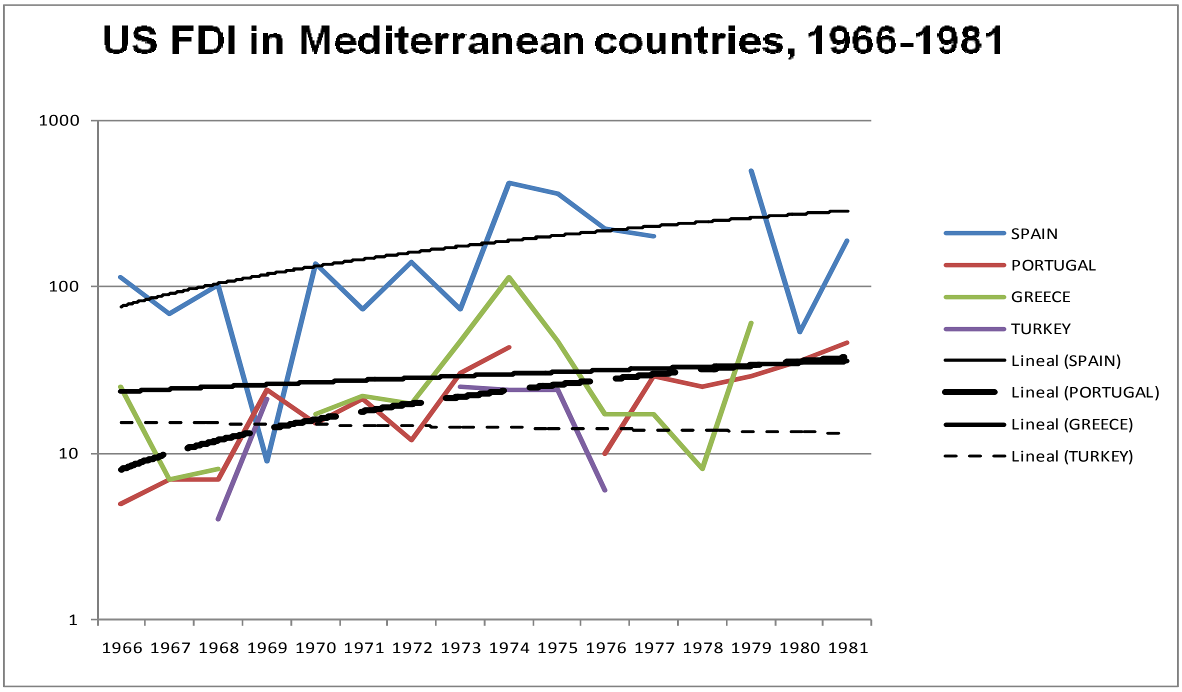
[5] Tascón Fernández, Julio & López Zapico, M. Arturo. "U.S. Administration Support to American Business Abroad: Seeking the right Atmosphere in Spain During the Oil Crisis, 1976-1982", *Conference Proceedings. Building and Sustaining High Performance Organizations in a Challenging Enviroment. British Academy of Management 25th Annual Conference*. BAM & Aston Business School, Birmingham, UK, 2011.

2. US FDI TRENDS IN SPAIN, 1966-1981.

Accordingly with US Direct Investment Position Abroad, during the 1966-1981 period, a suitable economic atmosphere in Spain -also during the oil crisis years- was defined through the previous long term features on:

1. Legal framework.
2. Historical evolution of the US FDI in Spain[6]

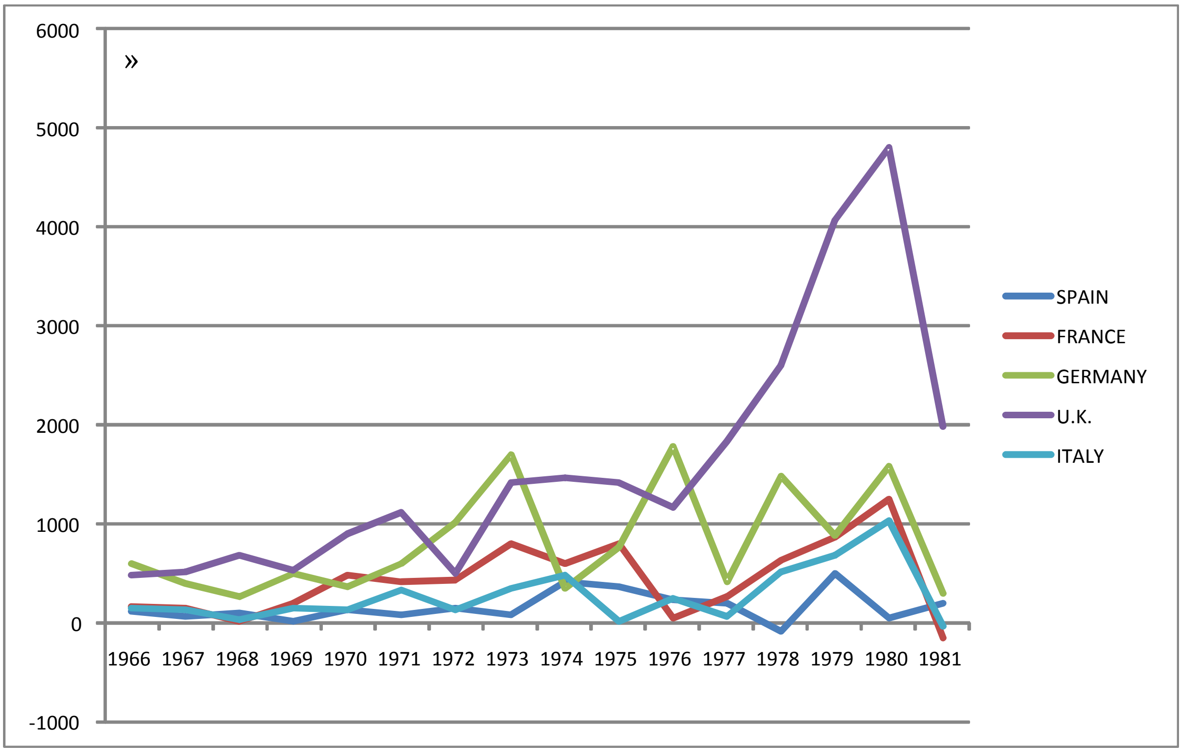


Level of US savings to invest in Spain was defined through this period as represented in these two graphs like a *flux variable*. American savings towards Spain reached a high level if considered among these flux on to Mediterranean countries and a low level considered within the group of US FDI that went to the Powers.

Following the lineal estimates of the different curves we obtained a moderate outflow from US to Spain, Portugal or Greece at these times. The estimates curves have a steady prolonged profile and values of FDI flux had risen at the end of the period, but only a little. The main US 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.

However, there were some different paths, if we observe the next US FDI trends, followed through these five European detached countries. It is worthy of note that for UK a watershed is attended in 1976 owes to a different scale of influx was already made by US affiliates. The rest of the powers considered, like Germany or France remain during the long run levelled off at their own previous scale of sharpened schedules.
The striking outcome is simply: American investments during the oil crisis resulting more rewarding settled in UK if compared with other Powers.

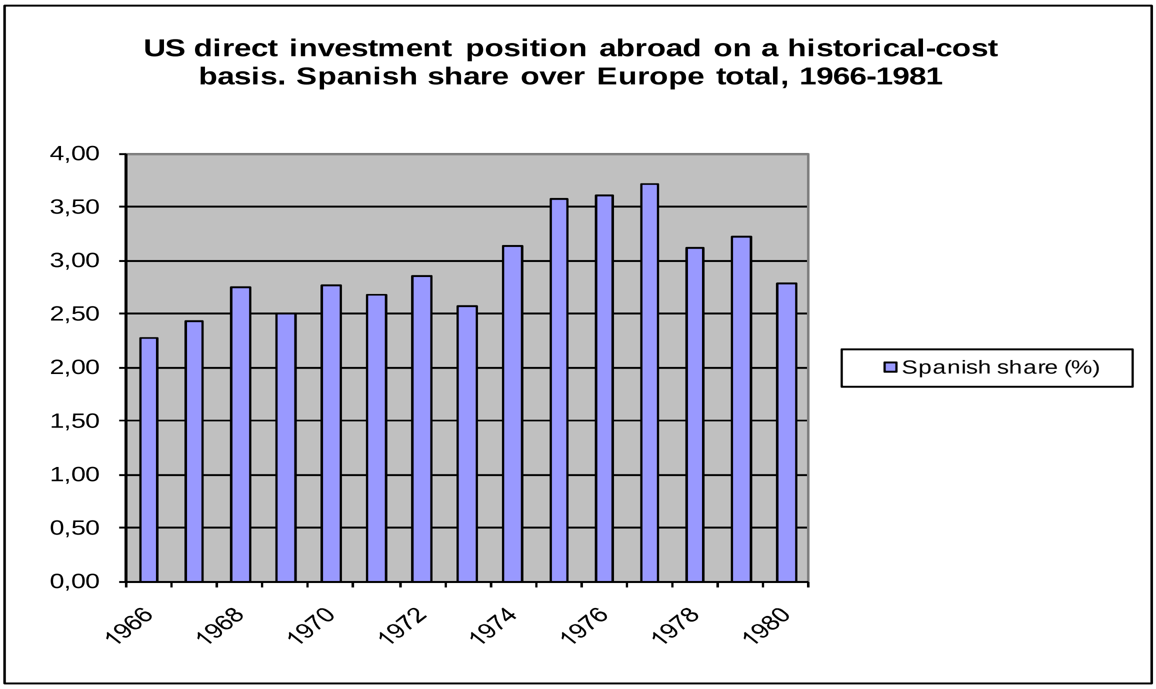
US FDI IN A SET OF FIVE EUROPEAN COUNTRIES, 1966-1981



Mediterranean countries, like Portugal or Greece (see Tascón/Carreras, 2001 and Tascón, 2001).

Since the 1960s the US FDI in Spain were far away from their ratios in the 40's, however its level was up to a 3% share between 1975 and 1979 (3.11 to 3.60). The stock of US direct investment in the Spanish territory remains stabilized around the 3.5% during the oil crisis.

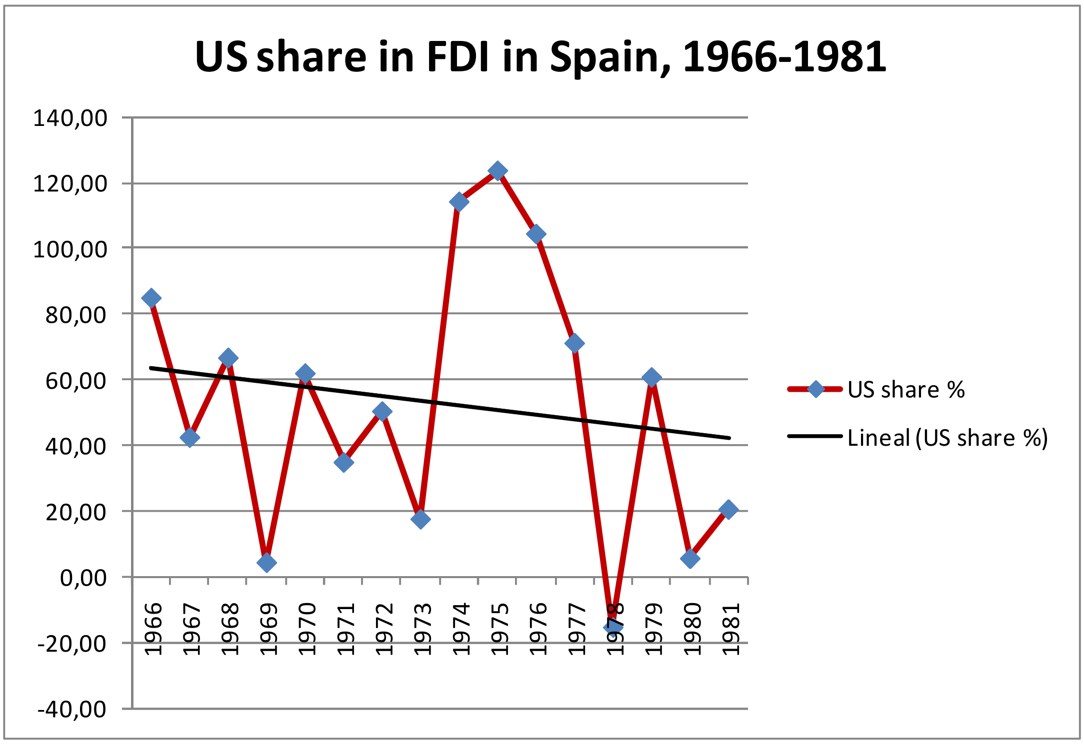
If we consider the FDI as a stock variable instead the flux already observed, it is obvious (see the next bar graph) the two sets of US investments at different scale: on one hand below the 2,5% ratio weighted over European shares the period 1966-1973 and on the other hand above the 2,5% towards more than 3,5% appeared the shares obtained on a historical cost basis during the oil crisis, from 1974 to 1981.



Managerial decisions had been taken in order to minimize the impact of the oil crisis in the US investments in Spain. Actually they performed taking into account the more rewarding investments in other countries. It would say accordingly with the expected returns eventually US managers decided to invest out of Spanish territories. Meanwhile the market conditions continued to be against their customary levels in Spain.

3. DOING BUSINESS ABROAD IN THE LONG RUN, 1966-1981

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



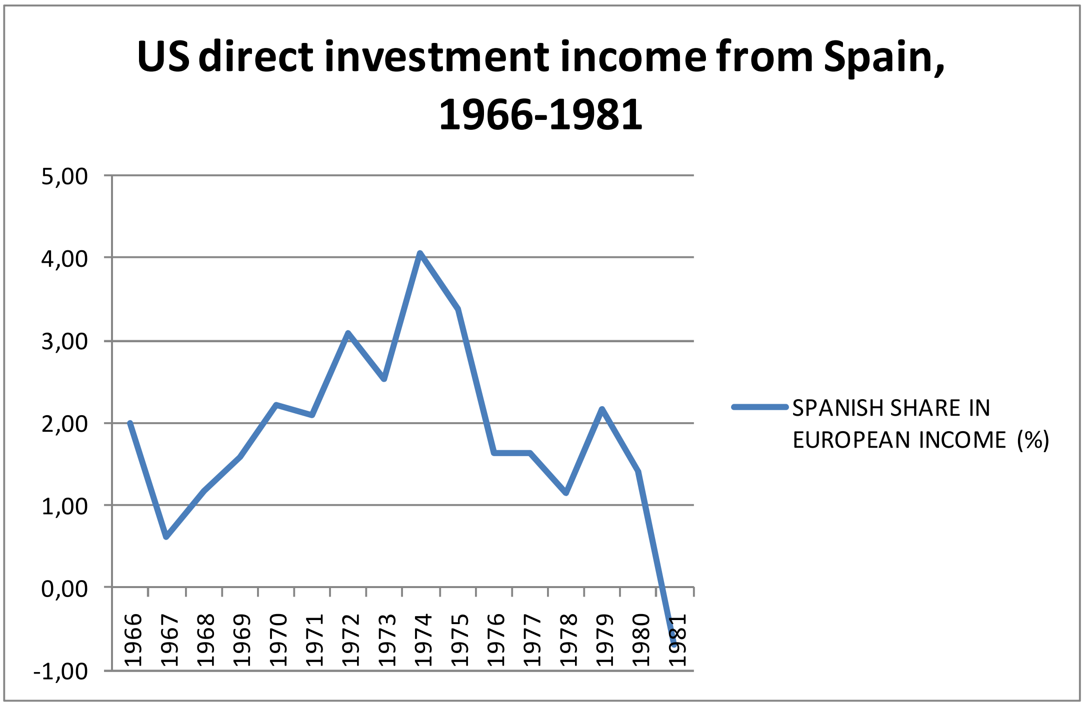
US FDI ratio is referred to their weight over the total amount of FDI in Spain. Schedule ups and downs graphed in the above chart showed a sharply profile. Years as 1974 and 1975 are likely showing us the bulk of total FDI in Spain undervalue by the Balance of Payment data. Perhaps, on the other hand, the US direct investments could be overvalue, or why not some mistakes have been made when applying exchanges rates to convert the pesetas to dollars… Also is worthy of note that both errors can be made at the same time and the figures overvalued will suffer a worsening, only just in case. Nevertheless we are mainly interested to differentiate trends of this flux of saving funds travelling from US to Spain[7].

The US FDI trend (1966-1981) was negative. The flux of saving funds from US 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. US FDI showed a deeper de-investment for 1978 and in general they performed diminishing its share in the total FDI in Spain. In brief, there was a sharply decrease for US FDI in Spain, above all during the oil crisis times, 1975-1980, a little recovery is shown for 1981.

[7] Now, actually, we are not very keen on the referred mistakes.

There is total coincidence with the path followed by the US all over the world, passing throughout the 1980's from a creditor position in their FDI to a debtor position (see Wilkins, Lipsey, and Palazuelos).

There is a sharply decrease in the US share in FDI in Spain, from 1975 to 1981, therefore Spanish case is reflecting fine the US FDI change of pattern: *it was a stepping down pattern* (see the next graph), *but not exactly the case (Kindleberger, 1987).* The reaction to ponder is that of the US direct investment in Spain following the normal path owes to diminishing returns (See the US direct investment income graph). If we take into account the cross section period 1969-1976, it is simply to catch a soaring income from US 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, US direct investment income from Spanish affiliates starts 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 and inflation. In general the competitiveness of US firms based into Spain had levelled off at a low pace.



What can we do to get a best understanding on managerial decisions issued sharing the information provided by US support? It is necessary first of all to explain a wider framework in which MNC's and US capital were embedded doing business in Spain. Other scholar assessments have already underpinned an idea about Spanish business atmosphere.

Considering time immediately previous to the 1970s Richard Humbert (1970, iii) wrote the next foreword to deal with business atmosphere:
"This US Department of Commerce study provides US businessmen with detailed information on *sales possibilities in Spain, one of the fastest rising markets for US*

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 US 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 *US business* can –and should- *effectively compete*."

It was remarkable in order to figure out some competitiveness aspects that subsidiaries of major US corporations in Spain, the Common Market, and EFTA countries offer growing competition to US suppliers shipping directly from the United States. 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*[8]. We need to underlying these characteristics but giving also room of manoeuvre to other fiscal considerations, i.e. facing a funded hope of Spanish belonging to European Economic Community (EEC)[9].

More and more Spanish firms are operating under license from US firms to produce and market products using American technology as well as management, and marketing techniques. US subsidiaries in Spain occasionally apply for and are granted tariff protection by Spain.

As further industrialization takes place, demand for imports will continue to change. Traditional import lines will continue to be replaced by domestic manufacture, while import demand for other goods will substantially increase. Spain's economy is progressing and changing very rapidly, and foreign trade patterns and trading partners are also likely to evolve in the future.

Business Spanish atmosphere evolved throughout the Seventies until 1977 under political pressure, whether saying threatened by terrorist groups –ETA, GRAPO,…- or may be worried by uncertainty of Government's decisions against inflation and unemployment.

In 1974 Spain's political stability appeared as a plus factor in the operating environment. In 1977 "uncertainty" is mentioned over and over again as one of the most difficult problems connected with operating in the new Spain[10]
.
Significantly, however, companies worry less about political instability than they do about the more prosaic uncertainty over government regulations and business conditions that prevents planning on more than a very short term basis. … On a day-to- day level, the atmosphere complicates managers' decisions. For months, for example, companies did not know what the government planned to do about price controls[11].

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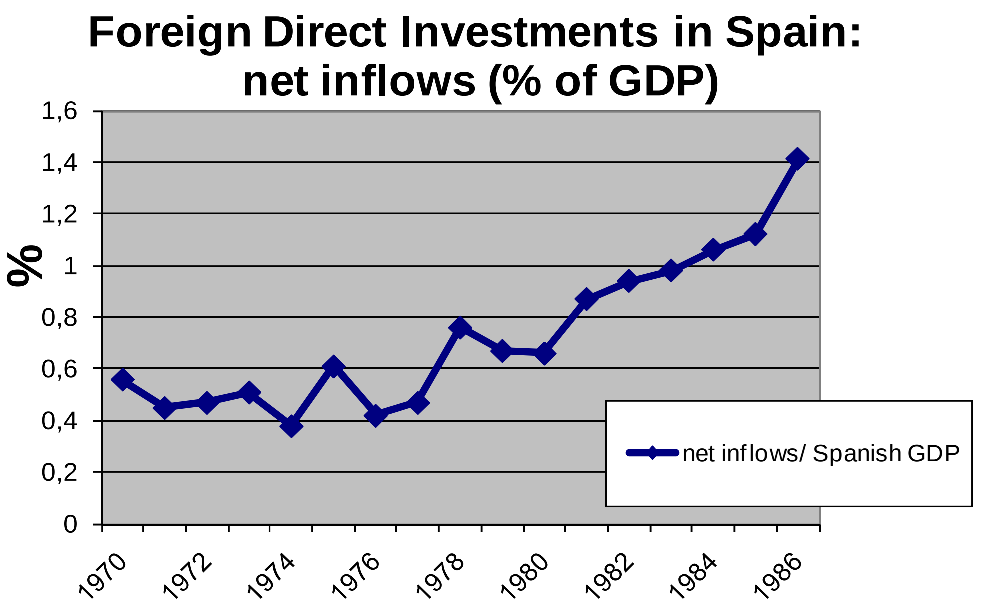
[8] See Humbert (1970, p. 20-21: *US Subsidiaries*). Actually there is quite evidence about US subsidiaries pattern mostly focussed on avoiding European taxes for exportation and consequently willing to wait a closer Spanish integration in the EEC.
[9] There are US subsidiaries in Spain in nearly all phases of the economy, form mining and mineral prospecting to the service sector. …
[10] See Debora L. Davis (1977, 29).
[11] Ibidem.

Contrasting the real appropriate atmosphere to foster FDI in Spain (see the different trends within the following graph) 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 US foreign capital predominance to again the European one, Spain becomes one of the leading FDI destinations of the world and an emerging source of FDI[12]



Source: International Monetary Fund, International Financial Statistics and Balance of Payments databases, World Bank, Global Development Finance, and World Bank and OECD GDP estimates.

The period 1975-1981 seems a difficult time (oil crisis) to attract FDI into Spain: US were worried about the secure and safe Spanish scenes for its savings invested over here, in Europe[13]. There little doubt about that worry and Round ups among other evidence (reports by Business International; US Department of Commerce report, 1970; etc.) are proving it.

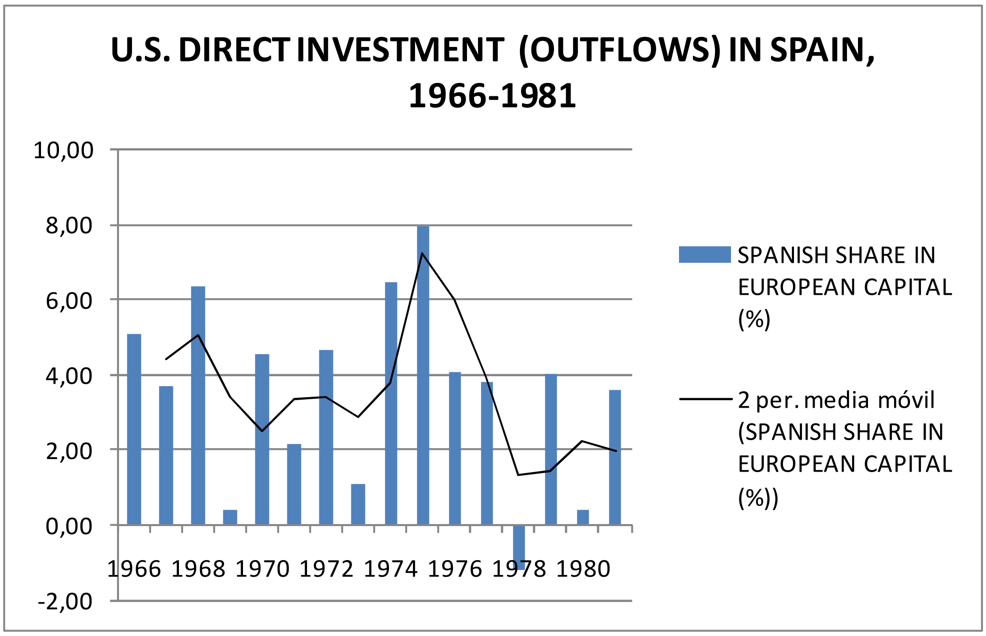
Troubles were, of course, the political process to grant a transition to Democracy in Spain and the Oil Crisis that, at the same time, was damaging the energy cost all over the world. Managerial decisions had been taken right in the sense to eluding assessed risks in Spanish scenario and seeking other allocations abroad, during the 1975-1981 years.

Loss on US FDI competitiveness, *during the Oil crisis*, is obviously a serious issue for doing business in Spain. The average weight of US FDI during the 60s –so called the "miracle years"- was around 40.54%, the most important foreign contribution to the total Spanish investment. Consequently (see the Spanish share in European capital graph bar) the US 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 US FDI, mainly since the 1980s the

[12] See Campa/Guillén (1996, 226).
[13] See *Business International*, written by Deborah L. Davis (1977).

leadership went into European investments. Accordingly to the boom of Spanish integration in the EC, European capital adopted since the 80's through the 90's the most important role as foreign investment. It does mean that like it happened in the second part of the nineteenth century, European investments had been putting again their confidence in the Spanish economic progress (See Tascón-Fernández, 2008a, 26).

The quality and efficiency of local suppliers remain a problem in many sectors of industry, but here companies report some improvement. Nowadays problems connected with the local supply of materials and components are mentioned much less frequently by companies than they were in 1974. *Supplier inefficiency* can inflate Spanish production costs (by comparison to Germany, for example), but companies that have conducted intensive programs of their own to upgrade their suppliers report good success figures. The Spanish industry continues to develop and rationalize quality and efficiency of local suppliers that should improve accordingly. (See Davis, D. L., 1977, 28)



Decisions made for allocation of US capital to Spanish affiliates or to other firms under US 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[14]. Ups and downs of the above curve showing US outflows into Spain, 1966-1981 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[15].

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

[14] Kindleberger theory versus Hymer theory have explained successfully that way. See Tascón (2002).
[15] Spanish-US Joint Committee undertook an ongoing process to support great confidence on their reports and succeed in doing it (See e.g. Joint Committee Reports, 1977).

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. (See Davis, D. L., 1977, 29)

4. US FDI DURING A SHORT RUN, 1969-1977

US affiliates competitiveness could be at their current level throughout the whole Oil Crisis times, somehow due to US political and economical influence on investment decisions. US administration support, broadly speaking, was looking for a right atmosphere again and again over the late Francoist Spain. Managerial decisions took into account or better bore in mind information provided through US Spanish network, and also for American investors advices from International Monetary Fund, U.S. – Spanish Economic Committee, Exim-bank, US Embassy, etc. had been carefully weighted when needed.[16] A Round up example is provided about the utility sector decisions that had been taken accordingly with the expectancy of returns[17].

All of those operating drawbacks mentioned above –fourth part of this paper- add up to the major challenge facing companies already operating in Spain and those looking at investment there: "the squeeze on profits"[18]. In other words, 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 US FDI were always identified as a loosing sovereignty paradigm. However, perception of contemporaries about US foreign investment was increasingly identifying its advantages for the Spanish economy (ICE, 1974 / Tascón, 2008, 53-75). The bilateral US-Spain 1976 Treaty (as well as the 1969-70 renovations) correctly reflects the concern of the US 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 US FDI incentives for leaving Spain as a host country? Having a look at the flux of savings (FDI as a flux variable) graphed as US outflows to Spain, the pattern is a sharp plummet schedule towards the Eighties. Thus they behavior was such a stronger restrain path, while US economic interest resisted in Spain facing to a mentioned drawbacks and energetic crisis. Nevertheless, if at the same time you have an eye at the bar graph that shows US

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[16] See *Spain and United States of America, Treaty of friendship and cooperation* (with exchanges of notes). Signed at Madrid on 24 January 1976

[17] See National Archives & Records Administration (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: Key Spanish Statistics – Number 12, 1977. Return rates were showed, as it used to be, within a comparison on same averages rates in this industrial branch. This decision making process is accepted likely as a more current practice, if you follow Kindleberger explanations (1987, 24-25), cited in Tascón (2002; 2003, 352).

[18] *Declining Profitability* (See Davis,1977, 31). Whether you take "supplier inefficiency" whenever inflating Spanish production costs (compared with Germany), or taking a referred political issue "the Government doesn't govern" (similarly to Italy), it doesn't matter. Both of them as considered as it was, reinforced "the squeeze on profits".

direct investment position abroad on a historical-cost basis (FDI as a stock variable) the question should be: US FDI *opportunity costs* didn't be a motivation, nor in the 1969-1976 period neither in the 80's, for leaving Spain? Answer arose, needless to say, observing the same bar graph, noticed that in the second plateau (1974-1979) stock of US FDI steady confirmed a share over the European total at more than 3%[19]. In brief, this performance remarks that *it was not a stepping down pattern for US FDI in the late Francoist régime*.

Divestment of US foreign assets hadn't been done. There was, therefore other kind of prospects got on to returns and they were shedding light to US investment decisions that acknowledged to suffer Oil crisis and Political uncertainty during the Transition to Democracy, withstanding Spanish issues. However, in 1977 "Suárez speech well received", because of the Suárez idea transmitted was "to open up the political process in order to normalize the life of the people, every thing". US official assessment about Suárez talk had described it as "a tremendous challenge…". Remembering these times US political worries were also absolutely justified. Think about the ETA terrorism and ultra rightists activists communicating less confidence than before, also for doing business in Spain[20].

Spain has been considered as Europe new industrial frontier during the Seventies (Business International, 1974). There was not a contradiction among US 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 US 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 US realized promptly how to run business within a new enlarged European Community[21]. 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 Europe's new industrial frontier in which U.S. interests were positioned with a clear advantage.

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[19] 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 the referred graph in the third part of the paper).

[20] Good expectations appeared when the first visit by Presidente Suárez to the US was made. Otherwise you must consider, for instance, other facts apart ETA and GRAPO illegal activities that provoked US concern: Jorge Cesarsky and Carlos Pérez, both ultra rightists from Argentina and the Cuban exile continued under arrest and reportedly student who was killed a Jan 23rd 1977 Pro Amnesty Demonstration, Arturo Ruiz…. Many contretemps occurred when ultra rightists shouted anti gov. slogans: "More authority, less democracy"… But at the end of January -1977- the Political activity continued on a reduce scale: "the streets remain quiet as the opposition (through the PCE) acquiesces at least for now". 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: Weekend Round-up, 1977.

[21] After the Marshall Plan and about the mid-fifties, exactly since 1957, the European Economic Community (EEC) became the U.S. savings largest recipient abroad. Entrepreneurs and managers thought about when Spain could be on the move toward the EEC, showed they agree on seven years away, since 1977. The result would last much more than expected. See Business International (1974, 24) and 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: Government of Spain guarantees for Eximbank loans, 1976.

Spanish scenario was doomed to prove a stagflation, soaring inflation and mass unemployment, and policy makers were in troubles shaping a Parliamentary Pact (Pactos de la Moncloa) and a Democratic Constitution, also preparing the path for calling to the first democratic elections. The rising oil bill surely shouldn't help a lot US affiliate resilience, but they withstand and continued operating from their Spanish bases.

A counter example that demonstrates how focused were US affiliates on continue doing business in Spain is provided by the number of employees by US firms.

Year	In thousands
1972	75,0
1983	154,3

Increase rate: 106.53 %
Average increase rate: 9.68 % a year.
Sources: *Business International* (1974, appendix I); BEA data for 1983.

The 1972 figure is a roughly one that has arisen through accounting the number of employees of the main US industrial firms in Spain: *The top 50 foreign-affiliated industrial enterprises, 1972*. Therefore the comparison is at a rough estimate of real figures but it provides a good intuition of the economic activity developed by US affiliates in Spain.

The total amount of employees by US firms in Spain shows an important increased rate during the period 1972-1983, 106.53% in spite of the dramatically decrease in the US flux of funds to the Spanish affiliates during these times (See the previous line graph).

Our guess about a weighted share of reinvested earnings during this period is that, in spite of everything, American Business ran properly in Spain. Even when confidence on the right atmosphere for getting dividends, perceived by US citizens or by parent firms, was disappearing of the Spanish scenes. This business ambiance was due to a dramatic decrease, actually plummet, of the US FDI income (see the curve of US direct investment income from Spain graphed above) and at the same time this atmosphere undo the confidence in the expected rates of returns in Spain.

During 1973-1975 years Spain's rate of inflation was higher than 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 worry was at these times: "How much longer will we be able to compete"[22]. Just as the starting point of a Spanish economic recovery by the end of 1975, the death of Franco "provoked concern over the country's political transition, which affected economic growth well into 1976 and 1977"[23]. When the boom –economic miracle- expires, *economic progress was difficult since mid 1974 until 1977.* Also don't forget that "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

[22] See *Business International* (1977, 11).
[23] See *Business International* (1977, 9).

the international energy crisis depended on the prior achievement of this transformation"[24].

5. TOWARDS A DISCUSSION ON COMPETITIVENESS

The expected rate of returns was mandatory, at least in theory, for managerial decisions. Thus conclusion is clear: declining profitability makes sense for leaving US direct investment effort at a lower rate in Spain during the first phase of the Oil Crisis, beyond 1974 (See the *previous graphs*). US support couldn't find-out a right atmosphere for American business over the late-Francoist Spain. Without any doubt, information collected was spread throughout US business network, giving room of manoeuvre to correct managerial decisions in bad shape. US influence helped their affiliates to perform redirecting savings to a more rewarding pursuit abroad, and at the same time fixing their hopes in future expected yields preserving their own assets in Spain to gain access at the EEC extended market.

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 in the 1980s?[25] From the standpoint of macroeconomic policy, the most important determinants of capital flows between countries are *expected rates of return*[26]. Frankel (1988, 596) 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?

Spanish case during the analysed period could be exactly a paradigm, above all, when both states, US and Spain, sign up to share an Economic Joint Committee for gaining access to the best feedback on the political and economical issues. Consequently US policy makers were thinking in taking profit of this strong relationship between both countries, and helped their economic interest like a driving force strengthening returns from US 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, etc.[27] This is likely the Spanish case for US FDI in the Seventies. But also we need to reflect on the *expected rate of return*, whether it was mandatory for manager decisions or may be not. A relevant historical example was achieved in the Eighties within the US, and then for MNC's settled in the US it was not compulsory to follow this guidance because they have got other entrepreneurial interests[28].

For US FDI in the Spanish case conclusion is clear: declining profitability pointed out by incomes from Spain (see a previous line graph: US direct investment income…) makes sense for leaving US direct investment effort at a lower rates but operating as usual, also during the Oil Crisis (graphs above showed). US Government worried about how to manage the new business situation, we would say a new scenario. It used to be a normal situation under the Francoist Regime (considered safe and secure for US

[24] 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: A current economic assessment, 1977.
[25] Very interesting paper had been shaped by Obstfeld & Taylor (NBER, 1998).
[26] You can check it if you calculate the average return on assets, the ROA gap, for further comparisons, or simply the decline in profitability ratios.
[27] See Lipsey, Shimberni, Lindsay (1988, 494).
[28] See Mira Wilkins (2003).

interests), but during the period from 1976 to 1982 the Transition to Democracy added to the Oil Crisis some troubles. Better in other words: “a challenging environment” for US MNC’s.

Even after thoroughly checking Round up reports we are concluding that briefs were really helpful for decisions made by US investors in Spain, and also for US managers. On the competition edge, actually we don’t know whether US FDI performance would be same thing, in spite of US 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. Nevertheless there is still a great agreement on Porter’s idea: *States don’t compete*! What happens if the State is your partner when it provides you with its advices or some relevant information (Lipsey, 1988, 492): as a firm it’s helping you (affiliate of US parent MNC), to become more competitive. The State can improve your competitiveness, of course, but broadly speaking *States don’t compete*[29].

Finally let us consider a competitive behaviour under Dunning’s idea, so conceptual that almost it gave us several interpretations. John Dunning (1988, 48/59) said: “…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”. The choice for US direct investments was slowing down their current flux of savings to Spain and redirected them to a more rewarding allocation abroad, whether in same pursuits or sometimes in another economic activities. US political and economical influence was definitely very convenient for American investors and affiliates operating throughout the late-Francoist Spain. Actually the uppermost determinants of capital flow between countries and, in particular for the US-Spanish case, were the *expected rates of return*.

[29] We are aware of the current World Economic Forum (WEF) practice as an ongoing academic procedure that assess also with figures the country’s competitiveness. See WEF web page, http://www.weforum.org/issues/global-competitiveness. It is an attempt to measure and ranking this economic feature although we continue convinced on the opposite idea. We need to discuss more about it. “The World Economic Forum’s Centre for Global Competitiveness and Performance through its Global Competitiveness Report and report series, aims to mirror the business operating environment and competitiveness of over 130 economies worldwide. The report series identify advantages as well as impediments to national growth thereby offering a unique benchmarking tool to the public and private sectors as well as academia and civil society. The Centre works with a network of Partner Institutes as well as leading academics worldwide to ensure the latest thinking and research on global competitiveness are incorporated into its reports”.

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