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COUNTRY REPORT ON SPAIN

July 15, 1947

(For submission to the SWNCC  
Special Ad Hoc Committee)

Document No. 001  
NO CHANGE in Class.   
 DECLASSIFIED  
Class. CHANGED TO: TS S C  
Auth: DDA Memo, 4 Apr 77  
Auth: DDA REG. 77/1763  
Date: 10/1/78 By: o11

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SPAIN

BACKGROUND

I. ANALYSIS OF THE SITUATION IN SPAIN

(a) Civil War Effects

The dominant factor in the Spanish political situation today is the civil war of 1936-39. That was the culmination of a long process of social disintegration and so vastly multiplied pre-existing animosities that mutual confidence as between different opposition groups is still almost wholly lacking. Negotiations between representatives of opposing factions have taken place over the past two or three years, and are continuing, but there is as yet <sup>little</sup> no sign that they will come together with a common program in opposition to General Franco.

All classes are obsessed and, for political purposes, virtually paralyzed, by the fear of renewed civil war and eventual Communist domination, which Franco's propaganda has persuasively, although erroneously, presented as the only alternative to the continuation of his regime.

(b) Economic Conditions

Spain's present economic plight stems from three main sources: (1) the relatively slow progress of industrialization that has characterized that country during the last century and the presence of too large a proportion of the population in marginal agricultural occupations; (2) the civil war, which was extremely costly in losses of the skilled elements of the population, in the depletion and destruction of capital equipment and transportation facilities, and which also led to a considerable retrogression in agriculture; and (3) a high rate of population increase. World War II led to a relative isolation of the country and retarded economic recovery, although Axis and Allied purchases in Spain provided substantial amounts of foreign exchange. Shortages of fertilizers and food, coupled with the prevailing inflation, have resulted in a reduced standard of living, especially among the urban population. Unsound economic policies, three drought years in an essentially agricultural country, and corruption in the government-controlled economic system of the country have also delayed economic recovery.

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While a number of industries are gradually being restored to 1935 levels, the overall economic position remains considerably below the years immediately preceding the civil war. However, even the attainment of 1935 levels would not spell adequate economic conditions in Spain. Spain has too large a proportion of its population in agriculture and many in this group subsist in conditions of extreme poverty. In order to achieve a higher standard of living, the country must undergo a rapid and substantial process of modernization and industrialization. Old machinery must be replaced, and new capital equipment obtained for better utilization of the country's natural resources. Spain could expand such industries as iron and steel, metal refining and fabricating, textiles and food processing. Spain itself, however, has not the technical skills to plan or carry out such a program herself. The present state of the Spanish economy does not permit any sizeable expansion in exports. Spain has practically no reserves of foreign exchange and only very limited gold holdings. Any significant increase in imports would, therefore, have to be achieved with the aid of outside assistance.

(c) Strength of Regime

Notwithstanding the inability of the regime to make any progress in solving the long-range social and economic problems of Spain, and notwithstanding widespread popular discontent with the regime, it possesses a number of sources of strength.

Most important of these is the Army, numbering perhaps 500,000 officers and men in a population of 27,000,000. **Supplementing the police and gendarmerie of about 40,000 men the Army assist in** ~~In effect, the Army is a police force~~ for the maintenance of internal order and possesses such a vested interest in the regime (the Republican opponents of the regime are committed to drastically reducing the size of the Army and its political power) that General Franco has had little difficulty in keeping its loyalty. Most of the officers favor, in principle, the restoration of the Monarchy, but are quite ready to follow General Franco's judgment as to the timing of such action.

The Church, which is intimately associated with political and social life in Spain, supports the existing order in preference to change of any kind which might lead to the decrease of its favored position and perhaps to open persecution.

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The Falange organization is the apparatus for operating the political sub-divisions of the country and the system of state-directed syndicates, which control allocations, production, wages, prices, etc., in the various branches of industry and agriculture. The great majority of members have no attachment to the political and social theories of Falange, but the substantial number who benefit materially by their associations with the organization have a strong vested interest in the continuation of the status quo.

Those other Spaniards, like the great majority of Monarchists, who supported the Nationalist cause in the civil war, and yet are now opposed to Franco for one reason or another, nevertheless prefer the continuation of present conditions, unsatisfactory though they may be, to political experimentation which they fear will lead to civil strife and perhaps open the doors to a return to power of the forces which lost the war.

The absence of any concrete alternative to Franco, the fear of renewed civil strife and general political apathy, combined with the oppressive techniques of the regime, have enabled Franco to obtain a seemingly impressive majority in the national referendum held on July 6. The result of this referendum was to ratify legislation, previously passed by a subservient Cortes, which legalizes his position as Chief of State and authorizes him to name his successor.

(d) Opposition Groups

Opposition groups, including Monarchists, Republicans, Socialists, regional movements, and clandestine labor organizations, have been unable to organize successfully because of the Government's efficient and ruthless oppression, and because of their own inability to agree on leaders and policies. The Communist Party is probably the smallest but best organized of the clandestine organizations. Advocating direct and violent action as the only way to overthrow Franco, the Communists are responsible for sporadic acts of sabotage in Spain and have conducted para-military training among the thousands of Spanish Republican refugees in France.

There are now three separate movements looking toward an alternative regime. Two proposals provide for an interim government to be followed by a plebiscite in which the people would decide whether they wish a Monarchy or a Republic. The first is a formula ~~forwarded~~ <sup>proposed</sup> by Don Juan, the Monarchist

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Pretender, in attempting to reach an agreement with all other opposition elements except the Communists, by which he would take over power until the plebiscite had been held. The second, advanced by certain Spanish Army officers, provides for government by a military junta during the interim period.

The third movement is that of the Republican Government-in-exile, now established in France, which claims to be the legal continuation of the government which fell before Franco in 1939. It would prefer to hold ordinary elections to the Cortes under the 1931 Constitution, but would probably accept a compromise whereby no other regime than a Republic would be established without first ascertaining the will of the people.

Agreement among the various opposition groups is impeded by their mutual suspicions, but negotiations between them are still in progress. After agreement among themselves, they plan a secret approach to selected army leaders to obtain military backing.

(e) Stability of Franco Regime

There is little likelihood of Franco's ouster in the near future. ~~The opposition is still too divided to present a concrete program which could win popular support.~~ For all their economic troubles, most Spanish people are convinced by past experience and by Franco's propaganda that a mere change of regime will not better its lot. Above all, there is no sign that the Army is ready to abandon Franco.

In the long run, particularly as relative stability returns to the rest of Western Europe, Franco's responsibility for the international isolation of Spain and for continued economic stagnation within the country will probably lead to his removal, in their own interest, by the elements now giving him active support.

(f) Policies of Other Countries

The importance to Great Britain of its trade with Spain, and particularly British imports of Spanish iron ore, copper, and citrus fruits, as well as the strategic importance of Spain to British security, have led the British Government to accept a continuation of the status quo.

The French Government, inspired by pressure from the Communist-controlled labor federation (CGT), closed its frontier with Spain in February 1946 and the

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result was the virtually complete suspension of trade between the two countries. Pressure on the French Government for even more drastic action against Spain on ideological grounds remains strong.

The USSR, believing that social conditions in Spain resemble those which prevailed in pre-revolutionary Russia, regards Spain as fertile ground for the extension of Marxist doctrine. Soviet resentment against the Blue Division ("volunteers" sent by Franco to fight alongside Germany on the Eastern Front), and resentment against the defeat of the forces which the USSR backed during the civil war has sharpened an anti-Franco policy founded upon an awareness of Spain's strategic and political importance. From the Soviet point of view, a Spain amenable to the USSR could promote Soviet interests by flanking France, Italy, and Great Britain's Mediterranean life-line; it would also offer an approach to the backward peoples of Morocco and could serve as a direct and important channel of influence in Latin America.

Despite reports of a rapprochement between the USSR and Franco, the USSR continues to conduct a large-scale campaign against General Franco. In addition to using its own propaganda resources, it has mobilized Communist Parties and "fellow traveler" groups in many parts of the world to bring pressure on their respective Governments in favor of active measures to effect the downfall of the Franco regime by the breaking of diplomatic and commercial relations between Spain and other countries. In the UN, Soviet-inspired pressure for action along these lines has been based on the allegation that Spain presents a threat to international peace.

In spite of the ferocity of the USSR campaign against the Franco regime, there is good reason to believe that the immediate Soviet objective is not the elimination of Franco but his retention, coupled with the isolation of Spain from possible sources of foreign aid, until political and economic conditions reach the point of revolution.

(g) United Nations

Resolutions of the UN General Assembly have barred Spain under the Franco regime from membership in the UN and in its subsidiary organizations. Although inspired by the USSR, this program of increasing isolation of Spain has in fact found wide support in most countries, including the United States, on ideological grounds. The effect in Spain has been, temporarily at least,

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to strengthen Franco, since his propaganda has been able to attribute the entire affair to Soviet machinations and thus to capitalize on widespread anti-communist sentiment in Spain. In the long run, the consequences of this isolation, particularly in the economic field (Spain is not a member of the International Bank, the International Monetary Fund, the International Emergency Food Council, the Economic Commission for Europe, etc.) will be increasingly serious.

## II. US OBJECTIVES AND PRESENT POLICY

Flanking France, Italy, Great Britain's Mediterranean lifeline as well as U.S. routes to Eastern Mediterranean oil,  
Because of Spain's strategic geographic position, it is important to

US security that the Spanish Government be friendly to our basic interests.

An additional, but incidental, reason for seeking a friendly government lies in the ease with which Spain's close ties with Latin America can be exploited by hostile influences to instigate opposition to US policies in the other American Republics.

The present Spanish Government wishes to develop close relations with the US and offers its long-standing anti-Communist record as a credential. However, close relations have not been developed because of (1) the totalitarian and fascist character of the government, (2) its record of close association with our enemies during the war, which was to some extent balanced but not erased by action (more) friendly to our cause, and (3) widespread public hostility to the regime in the US on ideological grounds.

US policy since the end of the war has sought to encourage the development in Spain of a government based on the freely expressed will of the Spanish people. It has been and remains US policy to withhold US governmental economic aid in any form, to support the exclusion of Spain from UN activities, and to impress upon the Spaniards that this isolation will continue as long as the Franco regime remains in power. They have been urged, in their own interest, to bring about a change which would form the basis for closer political and economic relations.

At the same time, the US has been obliged to oppose proposals (largely inspired by the USSR) for drastic international action against Spain, in the belief that such action would lead eventually to renewed civil strife and would thus make more difficult, if not impossible, the achievement of our objective in Spain.

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The unavoidable effect of the US opposing drastic international action against Spain has been, temporarily at least, to strengthen the Franco regime. However, it may be expected that, as the consequences of the political and economic isolation of Spain becoming more evident, Franco's position will be weakened and change will eventually take place.

### III. MEANS OF REACHING OBJECTIVES AFTER POLITICAL BAR IS REMOVED

Sections III, IV and V of this paper are based on the premise of the political bar to the extension of aid by the U.S. Government to Spain having first been removed.

In the case of an acceptable post-Franco Government, the immediate political aid would be primarily a morale-builder and a stabilizing influence until Spain assumes its rightful position in Western European affairs and in international organizations, particularly the UN. In the economic field immediate shipments of critically short raw materials, food, and other consumption goods will be necessary to tide over the period of study required before a long-range program can be undertaken. Economic assistance of a more fundamental character should be designed to modernize and expand Spanish industries and to introduce modern agricultural methods. Detailed and up-to-date data on these needs are not available. The nature and size of this aid would therefore probably have to be determined by a commission of experts. Such a long-range program appears to be the only means of ultimately raising the standard of living in Spain, normally one of the two poorest countries in Western Europe.

US assistance of both a political and economic character would be required because (1) it would meet implied assurances already publicly made by the US Government; and (2) such aid would contribute materially to political and economic stability in Spain and in the whole of Western Europe.

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The unavoidable effect of the US opposing drastic international action against Spain has been, temporarily at least, to strengthen the Franco regime. However, it may be expected that, as the consequences of the political and economic isolation of Spain become more evident, Franco's position will be weakened and change will eventually take place.

The following discussion of aid to Spain is based on the premise of the political bar to the extension of such aid having first been removed.

### III. CONSIDERATION OF MEANS OF REACHING OBJECTIVES

In the case of Spain, US assistance should include both political and economic action. The series of United Nations acts that have excluded Franco Spain from full participation in the international community offer the US the opportunity to give special aid of a political nature by taking the initiative in rescinding these sanctions. In view of our general policy of support of UN, and the UN's particular interest in the Spanish case, care should be taken that all US measures utilize UN machinery to the extent possible.

The achievement of US objectives in Spain would require both immediate and long-range assistance. The immediate political aid would be primarily a morale-builder and a stabilizing influence until Spain assumes its rightful position in Western European affairs and in international organizations, particularly the UN. In the economic field immediate shipments of critically short raw materials, food, and other consumption goods will be necessary to tide over the period of study required before a long-range program can be undertaken. Economic assistance of a more fundamental character should be designed to modernize and expand Spanish industries and to introduce modern agricultural methods. Detailed and up-to-date data on these needs are not available. The nature and size of this aid would therefore probably have to be determined by a commission of experts. Such a long-range program appears to be the only means of ultimately raising the standard of living in Spain, normally one of the two poorest countries in Western Europe.

US assistance of both a political and economic character to a friendly post-Franco Government will be required because (1) it would meet implied assurances already publicly made by the US Government; and (2) such aid would contribute materially to political and economic stability in Spain and in the whole of Western Europe.

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First, the US has given public assurance of aid under certain conditions, to the government succeeding that of Franco. According to the joint declaration with France and Great Britain of March 4, 1946, this Government hopes for the advent of "an interim or caretaker government/which the Spanish people may have an opportunity freely to determine the type of government they wish to have and to choose their leaders" and which will provide for "political amnesty; return of exiled Spaniards, freedom of assembly and political association and provision for free public elections". The joint declaration continued,

" . . . An interim government which would be and would remain dedicated to these ends should receive the recognition and support of all freedom loving peoples.

"Such recognition would include full diplomatic relations and the taking of such practical measures to assist in the solution of Spain's economic problems as may be practicable in the circumstances prevailing."

Secondly, a post-Franco regime of a really different nature, if deprived of encouragement and assistance from the US, will not be able to achieve those conditions of internal strength and friendly orientation that our objectives require. The initial situation of Franco's successor is likely to be vulnerable. The departure of the dictatorship will bring an inevitable relaxation of political and economic controls. There will be an urge to pay off private and local scores. The probable coalition character of an interim government will make it difficult to reach basic policy decisions. The imminence of elections will be a constant temptation to sacrifice the national interest to party advantage at the polls. Spain's relatively isolated position in the world for the last decade will be a handicap in utilizing effectively the new international machinery once it is available to Spain. Above all, the casting of Franco and an inevitable purge of administrative officials in important posts will leave persons who have had little experience in exercising authority responsible for governing Spain under economic conditions that may well be worse than the present situation. Such difficult, and initially somewhat confused, circumstances will afford the small but disciplined Spanish Communist Party an exceptional opportunity to expand its influence. Its position will be materially strengthened if it can declare that the US is neglecting the efforts of Spanish democrats, who must therefore look to Moscow for the necessary aid.

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US political and economic aid can contribute substantially to attaining US objectives in Spain. Given the world power position of the US, this Government's recognition of a successor regime and other friendly political acts will both strengthen that regime directly and increase the favor with which it is regarded by third powers; it would be helpful in bringing Spain into European economic arrangements.

#### IV. SPECIFIC MEASURES REQUIRED

##### A. Political

In the event of the departure of Franco and his replacement by a satisfactory government, the US Government should take the following steps to give it political support:

- (1) Give prompt diplomatic recognition;
- (2) Encourage other friendly powers to recognize the successor regime;
- (3) Encourage European states to accord Spain an equal place in regional arrangements of a political or economic character;
- (4) Take the initiative toward, or support a proposal for, action by the UN General Assembly declaring that the sanctions concerning chiefs of mission in Madrid and Spanish participation in international organizations and activities, which were recommended in its resolution\* of December 12, 1946 no longer apply, on the grounds that the "new and acceptable government" specified in the Resolution had been formed.
- (5) In accordance with the freedom of action given by successful completion of (4), appoint an Ambassador to Madrid;
- (6) In accordance with the freedom of action given by successful completion of (4), propose, or support, the membership of Spain in "international agencies established by or brought into relations with the United Nations"; and propose, or support, Spanish participation in "conference or other activities which may be arranged by the United Nations or by these agencies"; and
- (7) Give support to a Spanish application for admission to the UN.

\* The text of this resolution is in Appendix "A" of this paper.

TOP SECRETB. Economic

Any estimates concerning the magnitude of assistance required by Spain within several years following the change of the present regime are bound to be sheer guesswork. The country has not published any balance-of-payments statement for the last 15 years, data on production are unsatisfactory, and the Government has not worked out any over-all plan for industrial expansion and economic development which would allow a judgment on the size and character of the country's economic requirements. It is known, however, that both the agricultural and industrial segments of Spain's economy are still considerably below pre-Civil War levels. Capital and transportation equipment, where it has not been destroyed, is predominantly obsolete; agricultural production suffers from the cumulative effects of inadequate application of fertilizers since the outbreak of the Civil War in 1936.

The recent agreement with Argentina allows for a three-year revolving fund of some \$87 million and a \$100 million loan to be repaid in 25 years. Since the loan will be mainly applied to repayment of the out-standing balances due to the Argentine Government, estimated at \$60 million, this will add only \$40 million to be available as credits.

Part of Spain's needs would be met by increased private US investment in Spain. The present unsettled political conditions in Spain are to some extent responsible for hesitation on the part of private American capital which would otherwise be invested in Spain. A change in the regime, and active support of the new government by the US Government, would certainly act as a stimulus to private investment in Spain. It is possible that, in the first two or three years, such investments would amount to \$25 million a year.

Since Spain, after the elimination of the present regime, would doubtless be admitted to membership in the World Bank and the International Monetary Fund, some financial aid would be available for those sources. It is impossible at this stage to estimate the amounts that may be provided by these organizations, but the US would appear to be the only other possible major source of financial assistance.

It is clear that any program of large-scale assistance to Spain would have to be preceded by a thorough study of the country's economic conditions. Such a survey should embrace production, export and import potentialities,

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credit and monetary policies, the need for agrarian reforms, the budget, and other internal economic problems and policies. Such a program should be worked out also in line with the general European plan for recovery and development, of which Spain, with its population of over 27 million, should, under more favorable political conditions in Spain, form an important component.

In the absence of information needed for the elaboration of an economic program, it is tentatively suggested that assistance to Spain be considered under three broad headings.

1. Emergency supplies of foodstuffs, durable consumer goods, vehicles, and certain essential raw materials immediately following the overthrow of the Franco regime.
2. Economic assistance calculated to restore production and consumption to at least the levels of 1935 the year immediately preceding the Civil War.
3. Long-run plans for the industrialization and modernization of the country.

This paper will only deal with the first two points.

a. Immediate Aid Program. Spain is predominantly an agricultural country and was normally almost self-sufficient in foodstuffs except for eggs, dried cod, coffee, and cocoa. Several factors have changed this situation. While most of the land devastated during the Civil War has been brought back into cultivation, agriculture has suffered from a great shortage of fertilizers, which were normally imported at the rate of over a million tons a year, but since 1936 have been coming in at less than one-fourth this rate. Other obstacles to agricultural recovery have been the absence of adequate quantities of manufactured products to satisfy the farmers' needs, and the Government policy of low prices for farm products. The farmer as a result has little incentive to increase production or to deliver his goods to the cities. In addition there have been extraordinary droughts in 1944 and especially in 1945, with severe impacts on the livestock population of the country and on general food standards. Thus Spain, in spite of a fairly good crop in 1946 and deliveries of grain by the Argentine, is estimated to have an average daily caloric intake of less than 2,000. Urban areas have even a lower average.

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The long deferred demand for a better standard of living would require shipment during the first year of aid of large quantities of foodstuffs, fertilizers, and various consumers' goods in addition to other normally imported items.

The country is also in acute need of improved transportation. An immediate significant improvement could be effected through the shipment of several thousand trucks to replace the obsolete and dilapidated fleet of trucks circulating in the country. Spain is also in great need of close to two million tons of industrial coal a year, the lack of which appears to be holding back important steel and equipment output.

b. Restoration Program. While the economic levels of 1935 in Spain placed that country among the poorest in Europe, there is still a considerable gap between the present and pre-Civil War standards of economic activity. It is doubtful whether under the circumstances any outside economic assistance could achieve much more than a restoration to 1935 levels within 3 years; more would be required to achieve these levels on a per capita basis, since the population of Spain will by 1950 have increased by some  $3\frac{1}{2}$  million, or about 15 percent, as compared with 1935.

No clear distinction can be drawn between aid designated for immediate relief and assistance intended for rehabilitation purposes. Many of the goods imported during the first year would be extremely useful in paving the way toward reconstruction. On the other hand, a higher proportion of capital equipment and raw materials as compared with consumers' goods might be expected to flow into the country during the last two years of the program.

Funds would have to be allocated to the purchase of certain capital equipment, such as electric generators and textile machinery, to enable Spain to carry out certain specific industrialization programs of immediate importance to the country. It is also very possible that during the last year of the program the cumulative effect of increased supplies of fertilizers and of an improved standard of living would lead to a substantial increase in production and exports of foodstuffs (oranges, olive oil, nuts, wines, and canned fish), which normally accounted for two-thirds of Spanish exports. This expectation is predicated on the assumption that the UK and France as well as the US would increase their current demand for Spanish exports.

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c. Estimated Import Requirements. To achieve both the relief and restoration programs, it is assumed that an import schedule somewhat in excess of that of 1935 in volume should be carried out during the three aid years. Imports in 1934-35 averaged around \$300 million. Since the world prices of most of the imports needed by Spain are a little over 100 percent above prewar prices, and since extraordinary imports of wheat and coal would be required, such a program would amount to about \$700 million a year at current prices.\*

The 1935 imports are suggested merely as a base for estimating the approximate magnitude of annual requirements during the three years of assistance in the absence of adequate indications of the most important Spanish needs for the implementation of the above program. The actual pattern of imports would have to be determined at the start by a commission of experts and would probably differ from that of pre-Civil War years.

d. Balance of Payments. A rough estimate of the balance-of-payments of Spain for the first three years of aid and for the year following it is given below:

ESTIMATED BALANCE-OF-PAYMENTS IN THE FIRST THREE YEARS  
(in millions of dollars)\*\*

|          | Payments         | Receipts               | Use of Existing Credits | Estimated Loans or Grants Required |
|----------|------------------|------------------------|-------------------------|------------------------------------|
|          | Required Imports | Net Exports : Services | Use of Existing Credits | Total                              |
| 1st Year | 700              | 300                    | - 40***                 | 360                                |
| 2nd Year | 700              | 350                    | 30****                  | 320                                |
| 3rd Year | 700              | 430                    | 50****                  | 220                                |
|          |                  |                        |                         | 900                                |
| -----    |                  |                        |                         |                                    |
| 4th Year | 700              | 550                    | 75****                  | 625                                |

Merchandise exports in 1945 amounted to approximately \$300 million. It is assumed that about the same amount would be exported during the first year of aid. Only slight increases have been allowed for exports during the second

\* For a more detailed discussion of the cost of 1935 imports in 1946 see Section V below.  
 \*\* At current prices.  
 \*\*\* Estimated balance of a \$100 million credit extended by Argentina to Spain.  
 \*\*\*\* Two-thirds of this is estimated to come from emigrant remittances, the remaining third from shipping and tourists.

The items not listed in the above balance-of-payments are presumed to cancel one another or to be of little importance in the first three years

and third years because it is felt that most of the increased effort following the removal of political impediments would be devoted to capital formation within the country rather than to the production of export goods. A good foundation should have been laid by the fourth year for reducing the balance-of-payments deficit to some \$75 million dollars, which could perhaps be met from foreign investments in Spain.

Available information indicates that Spain has practically no foreign assets and a very small amount of gold (\$100 million), used for the backing of its currency.

The tentative estimate of \$900 million required for three years of relief and reconstruction does not appear excessive in light of the size of the country and in comparison with the assistance that has been and is being granted to other European countries.

e. Note on 1935 Imports. Below are detailed estimates of the cost of some of the more essential annual imports in terms of 1935 quantities at 1946 prices (based on declared values at point of entrance in Spain). The major items alone would account for around \$300 million (1946 dollars) broken down as follows:

ESTIMATED COST OF THE MAJOR IMPORT ITEMS IN  
1935 AT 1946 PRICES

| <u>Commodity</u>             | <u>Thousands<br/>of Tons</u> | <u>Millions<br/>of Dollars</u> |
|------------------------------|------------------------------|--------------------------------|
| Cereals                      | 53                           | 6                              |
| Coal                         | 1,200                        | 25                             |
| Petroleum                    | 900                          | 40                             |
| Phosphate Rock               | 600                          | 10                             |
| Chemicals and<br>Fertilizers | 650                          | 58                             |
| Industrial Chemicals         | 19                           | 7                              |
| Pharmaceuticals              | 4                            | 1                              |
| Iron and Steel               | 150                          | 10                             |
| Machinery                    | 27                           | 39                             |
| Trucks                       | 7                            | 18                             |
| Cars                         | 14                           | 25                             |
| Woodpulp                     | 125                          | 14                             |
| Raw Cotton                   | 101                          | 41                             |
| Rubber and Tires             | 25                           | 6                              |
|                              |                              | <u>300</u>                     |

The above goods accounted for about 55 percent of the 1935 imports.

A complete import program based on 1946 prices would therefore amount to \$550 million. To this should be added estimated emergency requirements of \$100 million worth of wheat and coal, which would bring up the import costs to \$650 million at 1946 prices and to at least \$700 million at 1947 prices.



It is worth reiterating that the 1935 imports are taken merely as a guide post for arriving at some estimates for the three years program, which would necessarily have a different pattern because of the emphasis shifting to reconstruction and capital replacement.

V. EFFECTS OF REFUSAL TO GRANT AID OR OF FAILURE OF PROGRAM UNDERTAKEN

The absence or failure of a US aid program would have the most serious repercussions on Spain. In the short run, either might well make it impossible to carry out the transition from Franco smoothly, and so might permit the outbreak of a second civil war. This would give the maximum opportunity to the extremes of Left and Right and might subject Spain to direct Soviet intervention. Absence of a US long-term political and economic program to aid Spain would tend to make the Spanish Government and people look elsewhere for the required assistance, and so possibly shift the balance of domestic political forces in favor of the extreme Left.

Failure to extend economic aid would mean a further continuation of the prevailing low standard of living. The food situation in 1947 (despite imports of foodstuffs under the Argentine trade agreement) is expected to improve only to the extent of permitting a caloric intake of not more than 2,000 calories for the average Spaniard. This level not only would jeopardize the maintenance of normal health standards but also continue the weakening of worker efficiency.

Left to its own resources Spain would be unable to expand its capital plant or increase manufacturing to any significant degree. The requisite balance between agriculture and industry could not be established.

Economic autarchy, already marked, would be given additional impetus, and would take the form of uneconomic production and of additional internal economic controls, which would further retard the growth of an expanded and more diversified economic life.

Finally, failure to grant economic assistance would contribute to the creation of a state of economic chaos and disorganization, which would dig deeper the normally profound economic abysses between various classes of Spanish society and increase the chances of internal social upheaval.

VI. POSSIBLE EMERGENCY SITUATIONS

During the continuance in power of the Franco regime, the following emergency situations might require reconsideration of present policy toward Spain:

- (1) Widespread civil strife in Spain or France;
- (2) Communist domination of France or Italy;
- (3) Establishment of a Soviet base of power in the Eastern Mediterranean.

APPENDIX "A"

TEXT OF RESOLUTION CONCERNING SPAIN, ADOPTED ON  
DECEMBER 12, 1946 BY THE GENERAL ASSEMBLY OF THE  
UNITED NATIONS

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The peoples of the United Nations, at San Francisco, Potsdam and London condemned the Franco regime in Spain and decided that, as long as that regime remains, Spain may not be admitted to the United Nations.

The General Assembly in its resolution of February 1946 recommended that the members of the UN should act in accordance with the letter and the spirit of the declarations of San Francisco and Potsdam.

The peoples of the UN assure the Spanish people of their enduring sympathy and of the cordial welcome awaiting them when circumstances enable them to be admitted to the United Nations.

The General Assembly recalls that in May and June, 1946, the Security Council conducted an investigation of the possible further action to be taken by the United Nations. The subcommittee of the Security Council charged with the investigation found unanimously:

(A) In origin, nature, structure and general conduct, the Franco regime is a Fascist regime patterned on, and established largely as a result of aid received from Hitler's Nazi Germany and Mussolini's Fascist Italy.

(B) During the long struggle of the United Nations against Hitler and Mussolini, Franco, despite continued Allied protests, gave very substantial aid to the enemy powers. First, for example, from 1941 to 1945 the Blue Infantry Division, the Spanish Legion Volunteers of the Salvador Air Squadron fought against Soviet Russia on the eastern front. Second, in the summer of 1940 Spain seized Tangier in breach of international statute, and as a result of Spain maintaining a large army in Spanish Morocco large numbers of Allied troops were immobilized in North Africa.

(C) Incontrovertible documentary evidence establishes that Franco was a guilty party, with Hitler and Mussolini, in the conspiracy to wage war against those countries which eventually in the course of the World War became banded together as the United Nations. It was part of the conspiracy that Franco's full belligerency should be postponed until a time to be mutually agreed upon.

The General Assembly, convinced that the Franco Fascist government of Spain, which was imposed by force upon the Spanish people with aid of the Axis powers and which gave material assistance to the Axis powers in the war, does not represent the Spanish people, and by its continued control of Spain is making impossible the participation of the Spanish people with the peoples of the United Nations in international affairs;

Recommends that the Franco government of Spain be debarred from membership in international agencies established by or brought into relationship with the United Nations, and from participation in conference or other activities which may be arranged by the United Nations or by these agencies, until a new and acceptable government is formed in Spain.

The General Assembly further desiring to secure the participation of all peace-loving peoples including the people of Spain in the community of nations;

Recommends that if within a reasonable time there is not established a government which derives its authority from the consent of the governed committed to respect freedom of speech, religion and assembly and to the prompt holding of an election in which the Spanish people, free from the force and intimidation and regardless of party may express their will, the Security Council consider the adequate measures to be taken in order to remedy the situation and;

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Recommends that all members of the United Nations immediately recall from Madrid their Ambassadors and Ministers Plenipotentiary accredited there.

The Assembly further recommends that the State Members of the Organization report to the Secretary General, and to the next assembly, what action they have taken in accordance with this recommendation.

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TOP SECRETAPPENDIX "B"SUMMARYI. SITUATION IN SPAIN

The dominant factor in the Spanish political situation today is still the Civil War of 1936-39, which was the culmination of a long process of social disintegration. The War and the policy of General Franco since the end of the War have vastly multiplied preexisting animosities.

All classes are obsessed and, for political purposes, virtually paralysed, by the fear of renewed civil war and eventual Communist domination, which Franco's propaganda has persuasively, although erroneously, presented as the only alternative to the continuation of his regime.

As to economic conditions, the World War prevented any progress in recovery from the devastating effects of the Civil War. Extreme shortages of fertilizers and several drought years have reduced food availabilities. Lack of foreign exchange has made impossible essential capital replacements in industry and transportation.

Notwithstanding the inability of the Franco regime to make any progress in solving the long-range social and economic problems of Spain, and notwithstanding widespread popular discontent with the regime, it possesses a number of sources of strength. These are the large standing Army, <sup>which supplements the regular police forces in</sup> ~~essentially a police force for~~ the maintenance of internal order; the Church and its related lay organizations; and the Falange apparatus for running the political subdivisions and <sup>the</sup> syndical organizations which virtually control industry and agriculture. By astute political maneuvering, General Franco has convinced these strong interests that the maintenance of their own material position depends on continued support of his regime.

Negotiations between the various factions opposing the regime for one reason or another have been taking place over the past two or three years, and are continuing. Mutual confidence between different opposition groups is still almost wholly lacking and there is, as yet, <sup>little</sup> no sign that they will come together with a common program in opposition to General Franco. After eventual agreement among themselves, the opposition leaders plan a secret approach to selected army leaders in order to obtain military backing.

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There is little likelihood of Franco's ouster in the near future. For all their troubles, most Spanish people are convinced by past experience and by Franco's propaganda that a mere change of regime will not better their lot. Above all, there is no sign that the Army is ready to abandon Franco.

In the long run, particularly as relative stability returns to the rest of Western Europe, Franco's responsibility for the international isolation of Spain and for continued economic stagnation within the country will probably lead to his removal, in their own interest, by the elements now giving him active support.

## II. U.S. Objectives and Present Policy

Spain's importance to the U.S. is underlined by her strategic position flanking France, Italy and Great Britain's Mediterranean lifeline, as well as U.S. routes to Eastern Mediterranean oil.

U.S. policy since the end of the war has sought to encourage the development in Spain of a government based on the freely expressed will of the Spanish people, with which close relations could be developed.

At the same time, the U.S. has been obliged to oppose proposals (largely inspired by the USSR) for drastic international action against Spain, in the belief that such action would lead eventually to renewed civil strife and would thus make more difficult, if not impossible, the achievement of our objective in Spain.

## III. Means of Reaching Objectives after Political Bar is Removed

The discussion of aid to Spain in this paper is based on the premise of the political bar to the extension of such aid having first been removed.

U.S. assistance of both a political and economic character to a friendly post-Franco Government will be required because (1) it would meet implied assurances already publicly made by the U.S. Government; and (2) such aid would contribute materially to political and economic stability in Spain and in the whole of Western Europe.

In a period of crisis, the absence or failure of a U.S. aid program would have the most serious repercussions on Spain. In the short run, either might well make it impossible to carry out the transition from Franco smoothly, and so might permit the outbreak of a second civil war. This would give the maximum opportunity to the extremes of Left and Right and might subject Spain to direct Soviet

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## II. U. S. OBJECTIVES AND PRESENT POLICY

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It may be expected that, as the consequences of the political and economic isolation of Spain becoming more evident, Franco's position will be weakened and change will eventually take place.

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intervention. Absence of a US long-term political and economic program to aid Spain would tend to make the Spanish Government and people look elsewhere for the required assistance, and so possibly shift the balance of domestic political forces in favor of the extreme Left.

Without outside economic aid, principally from the United States, economic stagnation in Spain would continue with grave political consequences to <sup>the</sup> future political stability <sup>of</sup> in the country.

IV. SPECIFIC MEASURES REQUIRED

Political support would be given to a satisfactory successor regime through strengthening of US diplomatic relations and through support of Spain's entrance into the UN and its affiliated organizations and activities.

Detailed estimates of outside economic aid which would be required by Spain are difficult to make in the absence of an over-all plan developed after a careful survey of the country. Based on data now available, Spain would have to have \$900 million of new capital in the first three year period. ~~Perhaps \$40 million of this amount would come from Spain's present economic agreement with the Argentine.~~ Perhaps \$75 million could be expected **during that period** to come <sup>of \$825 million</sup> from increased private US investments in Spain. The balance would have to be met by extraordinary aid from the United States since it is not believed that there is any other outside source.

V. POSSIBLE EMERGENCY SITUATIONS

During the continuance in power of the Franco regime, the following emergency situations might require reconsideration of present policy toward Spain:

- (1) Widespread civil strife in Spain or France;
- (2) Communist domination of France or Italy;
- (3) Establishment of a Soviet base of power in the Eastern Mediterranean.

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