

REVAMPING THE WEAK, PROTECTING THE STRONG, AND MANAGING PRIVATIZATION

Governing Globalization in the Spanish Takeoff

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Conventional wisdom holds that liberal economic policy and a hasty integration into the European Union is the central feature of Spain's successful adaptation to the globalization wave. This study argues that a set of illiberal and protectionist policies are crucial to understanding the Spanish transformation. Spain's reorganization of its economy displayed three broad components: the revamping of industrial sectors from above; the targeted protection granted to the energy, banking, and telecommunications sectors; and a defined strategy of privatization that prevented any major international player from taking part in a given business. The author argues that this statist model of market transition in Spain was decisively shaped by two concrete features of the Spanish political economy as it unfolded under the import substitution industrialization model: the organizational and economic weakness of the domestic industrial bourgeoisie and the comparatively entrenched position of financial capital and its energy-controlled companies.

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Contemporary political economy has been increasingly shaped by the debate regarding whether countries are pursuing a common model of market adjustment or whether alternative ways to adjust to international pressures for liberalization are emerging. Yet the current debate around what

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Peter Hall (1999, p. 157) calls different “adjustment paths” has been less pervasive outside the world of advanced industrial democracies. The case of Spain in the past two decades, however, provides an ideal fulcrum for evaluating the operation of globalization pressures for policy convergence around a more or less orthodox marketization path. Spain is arguably the most recent case of a “developmental success.” Unlike the former “tigers” in East Asia (which fell in disgrace in the late 1990s), the troubled Latin American democracies, and the two other less developed democracies in southern Europe, Spain attained outstanding rates of growth in the second part of the 1980s and during the 1990s. Moreover, by 2000, Spain, through a group of firms called “national champions,” had displaced the United States as the leading investor in Latin America, achieving a notable degree of international diversification in some core business sectors.

Indeed, academics and international financial institutions alike have hailed Spain as a model case of successful free-market policy adaptation to the globalization era. It has been widely argued that Spain’s recent economic growth was the result of seeds sown in the 1980s through the liberalization policies put in practice by the socialist government. The Socialist Workers’ Party (Partido Socialista Obrero Español [PSOE]) took power in late 1982 and carried out a historic policy U-turn, embracing the ideas of market liberalization, economic integration, and responsible monetary and fiscal policy. A consensus was built, therefore, around the idea that a market-oriented policy strategy coupled with a hasty integration into the European Union (EU) was the key to understanding Spain’s successful adaptation to globalization.

This study goes against this established wisdom by pointing out the illiberal and protectionist features of the reform strategy in Spain and the domestic organizational and structural factors that were at the roots of the Spanish transformation. Against the conventional view of a liberal adaptation to globalization, this article’s first goal is to show the active role played by the Spanish state in the rebuilding of specific markets. When it took office in 1982, PSOE inherited weak and sheltered industrial and energy sectors in the wake of integration into Europe. The state’s reorganization of the economy, therefore, displayed two broad crucial components: the revamping of industry through a series of reconversion plans and the targeted protection granted to the energy, banking, and telecommunications sectors well after Spain’s entrance in the EU. In fact, sectors such as energy and banking provide examples of what I term “protectionist liberalization,” a deregulatory process whereby tariffs or impediments to foreign investments are eventually lifted while domestic companies are decisively protected and strengthened by state action in the run-up to liberalization. Finally, the state empowered a set of national champions—state enterprises that would diversify abroad—in these

protected sectors and developed a defined strategy of privatization that prevented participation in a given business by any major international player. As I show, the strategy of the empowerment of national champions included the restraint of domestic competition in specific markets and the state nationalization of important firms, measures that can hardly be taken as part of the orthodox policy recipe.

The second goal of this study is to explain the origins of this pattern of statist marketization in Spain. Why did the Spanish government choose to carry out a generally unfettered liberalization in manufacturing that, though compensated by subsidies, would mean the disappearance of many firms? Why did it pursue protectionist liberalization in oil, electricity, and banking? I argue that both the organizational and economic feebleness of the major private industrial players of the import substitution industrialization (ISI) model and the contrasting pervasive power developed by the financial elite and its energy-controlled companies in the prereform period decisively shaped the Spanish liberalization process. In the first place, the weak leverage of an already waning industrial bourgeoisie enabled the government to push forward an industrial reconversion managed from above and eventually to impose unfettered competition. At the same time, the entrenched position of private capital in the credit market and in the oil and electricity sectors—in which the banks were major shareholders in the main firms—clearly biased the way liberalization unfolded in these markets. Unlike the manufacturing bourgeoisie, private companies in the energy sector had developed during the ISI period the economic and organizational resources to enable them to pressure effectively for protection.

Finally, the economic weakness of the local nonfinancial bourgeoisie helped bring about a particular privatization policy. The only potential domestic buyers for most public business were the traditional Spanish banks rather than local industry-based conglomerates. These financial groups were more interested in participating in the shareholding structure of the companies (and in their revenues) than in actually running them—that is, appointing their own management—or expanding any previous market share central for their businesses. The absence of powerful autonomous industrial players gave the reforming government ample leeway to develop a privatization strategy based on sequential public offers (POs) on the stock market rather than on direct sales. In fact, the boards of the companies to be privatized in the protected sectors of telecommunications and energy would become one of the main loci of the coalition between PSOE leadership and the major Spanish financial groups: The banks would supply capital and financial intermediation in the issue of the shares, while the socialist government would provide the state management and cadres and “a privatization policy.”

Put differently, unlike many countries that have undergone ISI patterns of development, prior to reform, Spain had developed politically and economically powerful capitalists in banking and energy and weaker ones in fully tradable sectors such as the manufacturing industry. The implementation of protectionist liberalization in oil, electricity, and banking would consequently serve the government's twofold goal of strengthening its national champions and appeasing powerful capitalists undergoing the uncertainties of market enhancement. In sum, a not extremely caricaturized conventional wisdom holds that Spain's successful adaptation to globalization was the result of market-friendly and supply-side policies carried out by individuals with social sensibility. This study, by contrast, underlines the illiberal (i.e., protectionist and interventionist) components of the Spanish market transition and the inherited features of the political economy that made that type of strategy a likely outcome.

In the first part of the article, I discuss recent interpretations of the Spanish market reform experience. I argue that although my assessment of economic liberalization departs significantly from most contemporary approaches to the Spanish case, it is in fact coherent with some traditional studies of Spanish policy making, which have stressed both its *dirigiste* character (Anderson, 1970; Gunther, 1980) and the crucial role of local capitalists in shaping the energy policy before the 1980s (Lancaster, 1989). In the second part, I analyze PSOE's reform strategy, focusing on the layers of state intervention mentioned above. I analyze a specific economic sector as a model case of each type of state intervention, although each strategy involves a variety of subsectors. The reconversion of the steel industry is a model case of the revamping of a sector through state subsidization and rapid deregulation. The oil industry is an example of reform through sectoral protection and the construction of a national champion, although I also show how the banking and electricity sectors also fit the model of protectionist liberalization. Subsequently, I consider PSOE's privatization strategy. I then analyze how this market transformation directed from above was decisively shaped by the specific configuration of domestic interests that had unfolded after decades of inward-oriented industrialization. Next, I turn to two plausible alternative explanations of the Spanish statist pattern of market transition: the influence of the EU in terms of financial aid and regulatory pressures and the absence of large fiscal deficits. In the "Conclusion," I discuss whether the Spanish case points to the emergence of a new type of "developmental state" and stress the need to examine more closely the prereform configuration of economic interests as a key to understanding patterns of economic liberalization in former ISI economies.

ASSESSING A DEVELOPMENTAL SUCCESS: ECONOMIC GROWTH AND INTERNATIONAL DIVERSIFICATION

In 1999, a country report in the *Harvard Business Review* ("Spain," 1999) announced that "Spain is regaining its position as a leading economy in Europe" (p. 1). Spain's average rate of growth of 3.4% for the period from 1982 to 1991 was the highest in Western Europe. Spain resumed growth after the crisis of 1991 to 1993, and in the period between 1994 and 2000, its 3.4% in gross domestic product (GDP) growth was matched in Europe only by the Netherlands ("Statistical Annex," 2001). This quite impressive performance in economic growth was accompanied by a wide external diversification of the major Spanish firms in the global economy. In September 2001, the *Economist* announced that Spain had surpassed the United States as the leading investor in Latin America. Since the early 1990s, a number of Spanish firms have made important inroads in the region. In particular, the so-called big five—the two major Spanish banks (Banco Santander Central Hispano [BSCH] and Banco Bilbao Vizcaya Argentaria [BBVA]), Repsol (oil), Endesa (electricity), and Telefónica (telecommunications)—bought numerous assets and participated successfully in many privatizations.

The economic reforms undertaken by the socialist administration between 1982 and 1996 are undoubtedly at the core of the recent Spanish takeoff. Early political economy assessments of the Spanish transformation (Bermeo, 1994; Maravall, 1995) pointed to the market-oriented strategy and to the increase in welfare expenditures as defining traits of PSOE's economic policy. More recent interpretations underline the impact of the integration into the EU, in terms of both foreign aid and deregulatory pressure (Amuedo-Dorantes & Wheeler, 2001). González Temprano (1998), for example, argues that in Spain, the increasing "external openness and the lesser regulation have decisively pushed the modernization and restructuring of the productive system" (p. 17). Even scholars more critical of PSOE's policy orientation tend to underscore its overall unmistakably neoliberal character (Pérez, 1997, 1999; Recio & Roca, 1998; Royo, 2000). Pérez's (1997, 1999) work is indispensable for assessing contemporary Spanish political economy in general and the accommodation of domestic banking interests under PSOE rule in particular. However, her approach tells one little about the interventionist policies of PSOE beyond financial deregulation.

Boix (1998), on the other hand, has attempted more consistently to examine state intervention under the PSOE market reform experience. In his view, macroeconomic reform in Spain was combined with supply-side policies

aimed at boosting the country's productive factors. The formation of fixed capital through public business (i.e., the sharp increase in capital investment by the state companies) was among the most salient supply-side policies (p. 94). Furthermore, this emphasis on active supply-side policies would constitute the locus of a "new" type of social democratic strategy in a globalized world. Boix's analysis is illuminating regarding the managerial rationalization and heavy investment in the state-owned national champions that took place under PSOE rule. However, his analysis neglects two crucial characteristics of the PSOE government's approach in the area: (a) the strong protection granted to public (and private) companies in the targeted sectors of energy and banking—not exactly a classical supply-side policy—even well after the entrance of Spain into the EU and (b) the particular privatization strategy geared to prevent the entrance of any international or national unwanted player into the state-built national champions. In sum, neither the authors who tend to hail PSOE's market reform approach nor those scholars more critical of its neoliberal conversion have systematically assessed the diverse features and the origins of the illiberal side of adjustment in Spain.

However, this article builds on two earlier traditions of studies of Spanish policy making that appear to be contradictory in principle. From Anderson's (1970) pioneering study of the stabilization attempts of the 1960s to Gunther's (1980) analysis of budget policy in Spain, a stream of research has historically emphasized the *dirigiste* nature of economic policy making in Spain. In other words, this tradition has stressed the tendency of the Spanish state to insulate from economic interests and to rely more on planning than on the free operation of markets to achieve economic goals.¹ A second line of investigation, on the other hand, has emphasized the pervasive influence of local capital in the areas of energy and financial policy before the 1980s (Tamames, 1966; Lancaster, 1989; Pérez, 1997). This study reveals how these two historical features of the Spanish political economy, the *dirigiste* approach to economic reform and the entrenched position of domestic capital in finance and energy, played out in the liberalization policies of the 1980s and 1990s. I argue that the weakness of the industrial bourgeoisie and the contrasting strength of the financial elite under the ISI model are key to understanding the combination of state planning and private interest accommodation during the period of market reforms.

1. Heywood (1998), Salmon (1995), Smith (1998), Espina (1992) and Comín and Martín Aceña (1991) have stressed the active role of the state in industrial and economic policy, yet none of these important studies gives a systematic account of the different layers of state intervention (industrial subsidization, sectoral protection, and state-controlled privatizations), nor does any explain the factors that made that type of intervention a likely outcome.

ADJUSTING FROM ABOVE: REVAMPING THE STEEL AND MANUFACTURING SECTORS

In 1982, Spain was the fifth largest producer of steel in Europe, but Spanish steelmakers were about to face enormous challenges. The future integration into the European Community would undermine the two axes that had spawned postwar steel production: the protection of the domestic market and the state's export subsidies. Furthermore, the sector presented an excess of production capacity and labor, and the two main steel mills in the integrated subsector, the private Altos Hornos de Vizcaya (AHV) and the public Ensidesa, were working at a loss. In the late 1990s, however, Spain had overtaken the United Kingdom as the fourth largest steel producer in Europe. Its main steel mill, Aceralia—the result of a merger between AHV and Ensidesa during the restructuring process carried out by the socialists—was yielding profits of €254 millions (Aceralia, 2000). Productivity, measured as workers in the sector over total production of raw steel (in millions of tons), was 0.2 in 1982, when PSOE took office; almost 3 times greater (0.56) when the socialists were about to leave power in 1995; and 0.66 in 1999 (data from Unión de Empresas Siderúrgicas, 2001).

This outcome was unanticipated in the early 1980s. After the second oil crisis of the late 1970s, and with the advent of European integration in 1986, the socialist government found it indispensable to adjust a whole industrial sector in crisis. In fact, steel is a crucial sector to study because it soon became the model of the state-guided industrial adjustment for the rest of manufacturing in Spain.² In 1984, the government passed the Reconversion and Reindustrialization Act. The bulk of the process of industrial adjustment was carried out under the institutional umbrella of this law. Essentially, the norm mandated that the state would bestow important monetary subsidies to manufacturing firms in sectors declared “under reconversion.” It also regulated labor relocation programs to benefit laid-off workers. Two specific mechanisms put forward by the Reconversion and Reindustrialization Act are worth mentioning here. First, after an analysis of its situation, a governmental commission (Comisión Delegada de Gobierno) would declare a particular industrial sector under reconversion and design a system of subsidies to support the firms. Second, the law established sectoral management offices, or *gerencias*, small state agencies in charge of administering the subsidies to the firms within each sector. The *gerencias* would also monitor how

2. On the restructuring of the steel sector in Spain in the context of European integration, Navarro (1989) and Saro Jáuregui (2000) provide indispensable accounts.

firms used those resources and, when necessary, would set the basis for future mergers.

The steel sector in Spain was divided, as elsewhere, between the integrated subsector (traditional mills that use blast furnaces and specialize in flat products such as coils and sheets) and the common steel subsector (smaller firms that produce long steel products, such as bars and wires, using electric furnaces). In the early 1980s, the two main players in the integrated subsector were AHV, a private steel mill in the Basque country, and the public company Ensidesa. The state firm, located in Asturias, had been one of the flagship companies of the National Industrial Institute (Instituto Nacional de Industria [INI]), the public holding that promoted industrialization under Franco. PSOE tried to make clear from the outset that it had no aim to nationalize any company in these industrial sectors. Indeed, the state generally did not seize the property or shares of firms under the reconversion plans. Nonetheless, the fact that state officials were bestowing subsidies and credits according to certain schedules gave them enormous leverage over decisions about the investment and management of these companies. In fact, some state official of the *gerencia* for the steel sector would often become part of the boards of the firms under reconversion. In spite of PSOE's cautious approach to nationalization, and in view of the problems of AHV in coping with adjustment, the state ended up taking over the company in 1989. The government merged the traditional Basque steelmaker with Ensidesa and formed the Corporación Siderúrgica Integral (CSI). The formerly private AHV was the clear loser in the merger, for the capacity of the plant in the Basque country was reduced to a much greater extent than was that of the Ensidesa plant in Asturias (Barrutia, 1998; F. Capelástegui, former CEO of AHV, personal communication, February 20, 2002). CSI was renamed Aceralia and was later completely privatized by Partido Popular.

In sum, after 13 years of socialist government and reconversion plans, the sector had been completely revamped. The administration merged the two steelworks in the integrated sector into one state group, CSI. The state group was made profitable again and was later privatized and renamed Aceralia. The new Aceralia group subsequently made an important inroad into the common steel sector, traditionally dominated by smaller, private steelmakers. Aceralia, now hegemonic in the two main sectors of steel production, would become in turn part of the largest steel holding in the world after mergers with the French company Usinor and the Belgian steelmaker Arbed. Prereform private players—AHV and most of the common steel producers—were the main losers in the steel reconversion managed from above.

Other sectors, such as the textile, shipbuilding, chemicals, electronics, and home appliances industries, had their own reconversion plans and

gerencias. The auto sector was mostly internationalized by 1982. Yet in Sociedad Española de Automóviles de Turismo (SEAT), the main Spanish automobile producer, the pattern of state-guided reconversion was similar to that of steel in the integrated subsector. The state took over the company, promoted employment adjustment, and implemented successive reconversion plans. Subsequently, it sold the plant to the German corporation Volkswagen.

CONCERTATION FROM BELOW: PROTECTIONIST LIBERALIZATION IN ENERGY AND BANKING

PROTECTING INSIDERS IN THE OIL INDUSTRY

In the case of oil, electricity, and banking—and unlike the steel and manufacturing sectors just analyzed—the formerly protected firms, or “insiders,” exerted a strong influence over the formulation of the deregulatory initiatives and were quite successful in preserving their prereform market shares. Between 1982 and 1996, a wide restructuring of the Spanish oil industry took place. During the postwar period, the oil-refining business was dominated by a group of public and private firms. Among the most important private oil refiners were Cepsa, Petromed, and Petronor, all controlled by the major Spanish banks. These companies sold gasoline and other refined products to the commercialization monopoly Compañía Arrendataria Monopolio Petróleo Sociedad Anónima (CAMPESA), a semipublic firm evenly owned by the treasury (Ministerio de Hacienda) and private capital (some of the major Spanish banks plus atomized stockholders). CAMPESA held a monopoly on (a) the import and export of oil products within the Spanish market, (b) the transportation of gasoline and other refined products via trucks and pipelines within Spain, and (c) retail sale at gasoline stations. Thus, liberalization and the prospect of joining the EU threatened the interests of established actors. On one hand, private and public refiners would lose the fixed price CAMPESA paid for refined oil, which was generally greater than international prices. In addition, the possible entrance of new players into the refining market or the potential increase of imports of refined products would endanger their market shares. Finally, the lack of integration of Spanish refiners into the downstream (i.e., the commercialization chain) was also a menace to their future performance in a liberalized market.

After successive bargaining rounds with the established producers, in 1984 the PSOE passed the *Ley Reordenamiento del Sector Petrolero* (Oil Sector Restructuring Law). This law, in fact, crystallized an agreement

reached in 1983 between the main private refiners, the heads of the new public holding in charge of the state firms in the refining sector—the National Institute of Hydrocarbons (Instituto Nacional de Hidrocarburos [INH])—and the government. INH would take over CAMPSA and buy the part formerly held by the private banks and other small shareholders. It would subsequently keep 51% of the stock share of the commercialization network and divide the remaining part of the ownership among the private refiners.³ In other words, in its first step toward the “liberalization” of the oil sector, all the government did was turn the commercialization monopoly controlled by the treasury and the banks into one owned by the public and private refineries (the latter also controlled by the major Spanish banks). The point is that the government could have pursued alternative liberalization paths. It could have called for open public bidding for the stock share of the commercialization monopoly CAMPSA. Such an auction could have included foreign and domestic firms and would have divided the ownership of the network among future players in the Spanish market. Or, instead, the government could have fragmented CAMPSA throughout the country, calling for bids for different parts of the network. Nonetheless, the government chose the least liberal approach: It maintained the monopolistic firm in the commercialization of gasoline and other products, and it integrated the traditional producers in its capital structure without any competitive bidding.

Imports of refined products were eased after Spain’s entrance into the EU (at the time still known as the European Community) in 1986. Yet the “new CAMPSA,” with its shareholding in the hands of traditional refiners, was allowed to preserve the monopoly in the commercialization of gasoline and oil products in Spain until 1993. This transition period between 1983 and 1993 resulted in crucial advantages for the empowerment of traditional actors for future competition. First, it secured their market share in refining. Even if the market were to be opened in 1993, it would be more risky for a foreign company to build storage facilities or new refineries if it could not count on CAMPSA’s transportation network. Second, foreign companies in the retail market would have to choose between dependence on CAMPSA (and therefore CAMPSA owners) for refined products or setting up costly infrastructure projects for directly importing products. Both alternatives appeared to be exceedingly costly (“Spain’s Downstream Restructuring,” 1993). Third, this pattern of protectionist deregulation enabled the expansion of traditional refiners to the downstream (i.e., the retail market). Before the commercialization monopoly ended, CAMPSA distributed gasoline stations

3. On the reorganization of the distribution monopoly, see Santamaría (1988) and Correljé (1994).

among its owners, and of course, no other domestic or foreign company was allowed to participate in the purchase of these outlets.⁴ As a result of this distribution of assets among the insiders, in 1994, Repsol, Cepsa, and Petromed controlled 91% of the gasoline stations in the country ("El Mercado Español," 1994, p. 66.). In short, by 1994, any international oil company could freely commercialize oil products or build infrastructure in Spain. All the barriers to imports and foreign investment had been lifted, and the number of companies operating freely in Spain had more than doubled ("Spain's Downstream Restructuring," 1994, p. 2). Yet during the crucial transition period between 1983 to 1993, the government pursued a protectionist liberalization program that clearly benefited established refining companies.

PROTECTIONIST LIBERALIZATION IN THE ELECTRICITY AND BANKING SECTORS

Liberalization in the electricity industry started to gain momentum only after 1994. Yet a similar pattern of accommodation of prereform domestic interests unfolded. The major Spanish banks have also historically dominated the private electricity companies. As in the case of oil, the first step in the sectoral "deregulation" was, paradoxically, the state nationalization of the high-tension transmission network in 1985. The goal of the government was to inject more efficiency and higher public surveillance into the system. In this case, nonetheless, nationalization was more contested because the private utility companies were already managing the high-tension network. Yet two features of the nationalization process allayed the fears of the established companies. First, the major private players—Iberduero, Hidroeléctrica Española, Fecsa, and Unión Fenosa—were granted a hold (totaling 49%) in the stock share of the new transmission company, Red Eléctrica. Consequently, they obtained important participation in its board. Second, the state assured private companies that transmission prices would be adjusted to the real costs of production, as they had usually been before nationalization (Lancaster, 1989, p. 177).

However, the government seemed to be taking bolder steps in the liberalization of the electricity industry with the passing of Electricity Law 54/97 in

4. As a top executive of the Spanish producer Petromed reported,

We sat around the table, the president of CAMPSA, and the CEOs of the companies, with the map of the service stations. Repsol took the first 15, then CEPESA took part of its quota, then we chose a number of stations, and in this way we did a number of rounds until all the service stations were distributed. (personal communication, September 24, 2001)

1997. The central features of the reform, which was drafted at the bargaining table with domestic producers, were the liberalization of entry into generation and the progressive liberalization of the power supply. Yet as Arocena, Kuhn, and Regibeau (1999) argue, "The pro-competitive potential [of the reform] had been significantly reduced by the market structure created in the run-up for liberalization" (p. 391). In effect, the vertical separation of ownership between generators and distributors is crucial to injecting competition into any electricity industry. However, during the transition period, the government allowed (and in some cases openly promoted) a series of mergers and takeovers that triggered a massive vertical concentration of ownership in the generation and distribution segments. Hidroeléctrica Española and Iberduero merged into a new company, Iberdrola, and Endesa, the state company, expanded considerably through the purchase of the regional companies Fecsa and Sevillana. As a result, by 1997, two companies, Iberdrola and the soon to be private Endesa, shared 82.6% of the generation market and 83% of the distribution market (Arocena et al., 1999, p. 389). Furthermore, the concentration of ownership in generation was not counterbalanced by a consistent liberalization of alternative sources of supply: In a transition period to be renegotiated after 2000, Electricity Law 54/97 established that only 31% of consumers were allowed to freely contract their supplies of power (Arocena et al., 1999, p. 394; Organisation for Economic Co-operation and Development, 2000). These facts, combined with the dominant position that the state granted to the main domestic companies in the nationalized high-voltage transmission network Red Eléctrica, considerably reduced the competitiveness of the electricity market in Spain.

The point I want to stress is not only that the electricity market in Spain is highly concentrated, given that in this aspect, the Spanish case is not unique, although in 1998, Spain had the fourth-most concentrated generation market in the Organisation for Economic Co-operation and Development (OECD; 2000, p. 247). Rather, I want to underline the fact that this concentration was less pronounced before the reform period, and that was induced and promoted by PSOE and Partido Popular governments in the run-up to liberalization, decisively precluding the injection of more competition in the future open markets. A 2000 OECD report on electricity regulation in Spain concluded that as a result of this concentration, "unfortunately the structure of the Spanish electricity industry makes the development of competition in generation very difficult" (p. 255).

Protectionist liberalization was also a central feature of the reform of the banking system in Spain. I do not analyze in depth here the complex restructuring of the financial sector that took place in the wake of Spain's integration

into the EU.⁵ It should be noted, however, that the local banking industry obtained benefits that could not be comparable to those bestowed on any sector, with the exception of energy. National authorities were authorized to limit discretionarily the entry of new foreign banks while maintaining the already existing limitations on international banking in the domestic market. Moreover, the Bank of Spain pushed a series of mergers in which in practice, the participation of foreign capital was impeded. The Bank of Spain promoted the mergers to the point of having the last word in the appointment of the presidents of the new boards. As Pérez contends, the real goal behind the mergers was not only economy-of-scale gains but the positioning of new and larger banks to prevent hostile takeovers by foreign banks. Indeed, hostile takeovers were the biggest danger that came with economic integration. As a result of this accommodation of domestic players, the banking sector in Spain is today overwhelmingly dominated by national banks: BBVA, BSCH, and Grupo Popular, the three major institutions, share 75.7% of the deposits (data from Asociación Española de Banca for July 2001 in *El País*, 2001d).

STATE FIRMS: EMPOWERMENT AND “MANAGED PRIVATIZATION”

EMPOWERING NATIONAL CHAMPIONS

A central feature of PSOE's industrial policy was its attempt to strengthen the most profitable state companies in the energy (oil, natural gas, and electricity) and telecommunications sectors. The national champions to be privatized in energy and telecommunications would constitute the nucleus of the nonfinancial Spanish private business sector toward the end of the century. Yet the growth of these state and mixed firms (i.e., companies owned by state and private capital but under state management) during the PSOE government from 1982 to 1996 is quite remarkable, as Table 1 shows.

In 1982, 3 state companies ranked among the top 15 Spanish nonfinancial firms in terms of profits. In 1992, after 10 years of “neoliberalism,” 7 state companies, more than twice the number in 1982, appeared on the same ranking. Moreover, by the same year, 4 of the 5 most profitable Spanish companies were state owned or mixed. Also, by 1992, the process of privatization had not fully developed; only Repsol and Endesa had floated small percent-

5. On the politics of deregulation of the banking sector in Spain, see Pérez's (1997) excellent study. See also Lancaster (1989, chap. 6) and Guillén (2001, pp. 201-210).

Table 1
The State in the Business Sector in Spain: Empowerment and Retreat (top 15 firms in Spain in terms of net profits, in millions of dollars, nonfinancial sector)

Firm	1982			1987			1992			1994		
	Firm	Capital	Profits	Firm	Capital	Profits	Firm	Capital	Profits	Firm	Capital	Profits
1. Telefónica	Telefónica	Mixed	241.63	Telefónica	Mixed	431.22	Endesa	State	931.4	Endesa	State	991.0
2. Hidroeléctrica	Endesa	Private	127.12	Endesa	State	413.58	Telefónica	Mixed	821.6	Telefónica	Mixed	833.8
3. Renault	Repsol	Private	126.32	Repsol	State	385.41	Iberdrola	Private	575.6	Repsol	Mixed	722.7
4. Endesa	Ford Esp.	State	99.01	Ford Esp.	Private	339.69	Repsol	State	341.6	Iberdrola	Private	504.6
5. Iberduero	IBM	Private	98.75	IBM	Private	179.83	Repsol CAMPSA	State	336.2	El Corte Inglés	Private	250.7
6. U. Fenosa	Iberduero	Private	97.31	Iberduero	Private	165.23	El Corte Inglés	Private	233.0	Opel	Private	234.3
7. Fecsa	ERT	Private	76.06	ERT	Private	163.91	General Motors	Private	207.6	Pedro Domeq	Private	179.2
8. Ford Esp.	HidroEléctrica	Private	75.82	HidroEléctrica	Private	136.40	Autop. CESA	Private	158.2	Repsol-Gas Nat.	Mixed	178.1
9. General Motors	Iberia	Private	63.38	Iberia	State	136.16	Endesa-Fecsa	State	149.3	Acesa	Private	146.0
10. IBM	Renault	Private	45.76	Renault	Private	118.38	Tabacalera	State	144.2	U. Fenosa	Private	139.4
11. CAMPSA	Torrax	State	44.51	Torrax	Private	114.69	Pryca	Private	132.1	Repsol CAMPSA	Mixed	136.4
12. Sevillana	Repsol CAMPSA	Private	40.30	Repsol CAMPSA	State	107.31	Union Fenosa	Private	131.4	Pryca	Private	135.4
13. Nestlé	El Corte Inglés	Private	36.86	El Corte Inglés	Private	89.13	Endesa-Sevillana	State	125.1	CEPSA	Private	133.7
14. El Corte Inglés	Citroen	Private	33.22	Citroen	Private	83.24	Repsol Petroleo	State	122.8	Endesa-Sevillana	State	121.0
15. Enpetrol-INH	FCC	State	24.89	FCC	Private	111.20	Endesa-Fecsa	State	109.7			

Source: Elaborated with data from *Fomento de la Producción in Anuario El País* (1984, 1989, 1993, 1996).

Note: State and mixed companies are in boldface type. State = state holds 51% of the stocks or more; mixed = state or state company holds between 30% and 50% of the stocks; private = state holds less than 30% of the stocks or has no participation.

ages of shares in the stock market. In other words, this process of empowerment took place while the firms were state owned. To be sure, the general European and Spanish growth of the second part of the 1980s is part of the explanation of the good performance of the Spanish state-owned and mixed firms.

Nonetheless, it is hard not to link the growth of these national champions to a state-induced empowerment process. The two main means to strengthen these state-owned companies were asset expansion in the domestic market and protection from foreign and domestic competition. Asset expansion implied the state acquisition or compulsory nationalization of private firms in the same or related sectors. For example, as described above, the state oil company Repsol was awarded the majority of ownership in the national commercialization network after its takeover by the state. Subsequently, Repsol bought one of the most important Spanish private refineries, Petronor. Endesa became a major state-owned energy group when it took over the electricity companies Sevillana and Fecsa, among others. Endesa was also granted the control of the high-voltage transmission network after its nationalization. As in the case of Repsol with CAMPSA, the control of the majority of ownership of the national carrier Red Eléctrica gave Endesa a privileged position against future competition, especially foreign competition.

Sectoral protection from competition was the other axis of the empowerment of national champions. The biased deregulation of the oil sector, which was oriented to accommodate the interests of domestic players, was described above: The monopoly in commercialization of oil products was maintained until 1993, and subsequently, the ownership of the national distribution network CAMPSA remained closed. Naturally, CAMPSA privileged its owners in the purchase of gasoline and refined products (*El País*, 1993; Contín, Correljé, & Huerta, 1998, p. 9). Moreover, Repsol acquired with no bidding the control of the majority and better located retail outlets. As shown above, limitations to competition and foreign entry into the domestic market were also evident in the electricity sector and were especially geared toward strengthening Endesa. Telefónica, on the other hand, was the former telecommunications monopoly that was able to maintain a more dominant position in its domestic market in Europe; it generates around 91% of the profits (excluding cellular phone markets) in the telecommunications sector in Spain, and by 2000, it controlled 85.6% of the market share in long-distance calls, the most competitive segment of the industry (data from *El País*, 2001b, 2001c).

PRIVATIZATION: CONTROLLING THE OUTCOME

The strategy of strengthening national champions in those sectors subjected to protectionist liberalization was complemented by the particular design of the privatization policy.⁶ In the manufacturing sector, the government generally privatized through the direct awarding of the state firm to a foreign company. However, in the privatization of the empowered national champions, the government resorted to *ofertas públicas de venta*, or POs, on the stock exchange rather than direct sales. This share-issue privatization displayed two defining aspects. First, the government carved out for sale the shares of the different companies in blocks of approximately 10% of total ownership. Second, the administration divided each PO block into two types of stock offers, institutional tracks and minority tracks. The institutional track included banks, investment funds, and eventually corporations in different world stock exchanges. The minority track was a PO in the Madrid Stock Exchange targeted to the public in general, with some preferential access to employees of the company being privatized. The goal and results of this privatization strategy are not difficult to grasp: If the stocks are floated in blocks, and if each block is divided more or less evenly into tracks of institutional and smaller investors, no major world player in the given sector will be able to dominate its capital structure. Even if the rounds of stock auctions are presumed to continue, no private company can hold that certitude. Consequently, the incentives for foreign firms to participate in the initial rounds of stock offers are very low.

In sum, as a result of this type of privatization based on sequential POs, the government could maintain substantial control over the company and its management, even if it was giving up more than 51% of the shares. Moreover, in addition to the local banks, the government chose to favor investment funds in the institutional tracks because they barely attempt to control the management of the companies (J. C. Croissier, former minister of industry, personal communication, October 10, 2001). As the literature on ownership structure suggests, diffused ownership and the prevalence of institutional investors are the features that bestow more power to the corporation managers (Jensen, 1989; see also Fligstein & Brantley, 1992). Indeed, the PSOE administration aimed to place its managers at the heads of the future private companies. In the oil sector, Oscar Fanjul, the former undersecretary of hydrocarbons appointed by PSOE, became the first president of the private group Repsol. The first presidents of other would-be private companies, such

6. My account of the privatization process in Spain is based on a series of interviews with state officials and business leaders conducted in Madrid in 2001 and 2002.

as Endesa and Telefónica, were also appointed by the socialist government. Finally, Decree-Law 5/95 crystallized the socialists' approach to privatization, developed since the late 1980s. The norm established that the state would hold veto power over future takeovers and mergers in privatized companies of "public interest"—in practice, all of the national champions. This Spanish version of the golden share, together with the sequential privatization strategy, was the final tool to prevent hostile takeovers. Significantly, the center-right Partido Popular, which took office in 1996 and completed the process started by PSOE, did not radically change this approach to privatization.

In this trajectory of controlled privatization, the major Spanish banks became the fundamental coalition partners of the socialist government. If the capital structure of a company is deliberately diversified among a large number of small investors, a group of stockholders controlling around 5% to 15% of the shares will be able to exert great influence over the board of the company. The domestic banks bought the majority of shares in the institutional tracks of the POs. In addition, the major Spanish banks acted as financial intermediaries in the POs of minority tracks targeted at the general public, thereby exercising great leverage over atomized shareholders. In fact, the strategy of the government pointed to the creation of blockholding owners, or *núcleos duros*, in the boards of the privatized companies. In the first stage of privatization, state-appointed officials and banks' appointees constituted these coalitions of blockholders. As sequential privatization advanced, the proportion of banks' appointments to the boards of the state-empowered firms increased. By 2000, all of these national champions were entirely private. However, the government—through the golden share mechanism—the government-appointed management, and the Spanish banks' representatives control in practice the boards of the major Spanish groups Telefónica, Endesa, Repsol, and their subsidiaries.

EXPLAINING THE SPANISH PATTERN OF ADJUSTMENT: WEAK INDUSTRIAL BOURGEOISIE VERSUS STRONG DOMESTIC CAPITAL IN ENERGY AND FINANCE

I argue that the statist model of market transition in Spain was decisively shaped by a concrete feature of the Spanish political economy under the ISI model: the organizational and economic weakness of the private manufacturing sector and the comparatively entrenched position of domestic private banks and their controlled companies in the energy sector. Local manufacturing capitalists are probably the main opponents to any liberalizing state after

decades of sheltered industrialization. In the event of liberalization and trade reform, foreign companies can resort to external networks to curb costs, especially in a case such as Spain's, in which transnational corporations were generally already integrated into the rest of Europe. Managers of state companies can more easily lobby for state aid or can receive political payoffs in alternative arenas. Local industrial capitalists, however, have much to lose and little to gain in the face of liberalization. However, Spain contrasts with countries such as Mexico, Argentina, and Portugal as a case in which strong private and industry-based holdings did not develop under the ISI model. Rather, the powerful local capitalist class developed in finance, and the most powerful private companies and business groups were found in the banking and energy sectors.⁷ Compared with the financial groups and their controlled energy companies, the weakness of the industrial bourgeoisie can be measured using three indicators: the volumes of sales of the major nonfinancial companies at the beginning of liberalization, their volumes of profits, and the market shares in their respective sectors when the run-up to liberalization started.

Regarding the first indicator, only 2 Spanish private industrial groups ranked among the first 30 firms in volume of sales at the outset of reform in 1982: the steel-based AHV and the chemicals-based group ERT (*Anuario el País*, 1984, p. 373). As I have discussed above, the Basque group was the main loser in the sector after liberalization. Likewise, ERT would also succumb to the pressures of adjustment. The rest of the main industrial companies are either state owned or foreign. In addition, the same ranking for 1982 published in *Anuario El País* (1984) shows that companies that would benefit from protectionist liberalization in electricity and oil were also the most powerful in terms of volume of sales (i.e., the amount of money that they pour into the market; 8 companies out of 30 in the ranking). If one measures the economic strength of the different branches of domestic private capital by profits, one gets a similar picture: Of Spain's top 20 nonfinancial firms at the start of the reform period, none is a domestic and industrial firm, whereas again 8 out of 20 are energy companies that would be eventually protected.⁸ Finally, Table 2 depicts the percentage of market share in production of the different branches of domestic capital at the outset of reform.

7. Guillén (2001) points out the relative absence of large local business groups in Spain. Here, I draw a sectoral distinction and stress the fact that strong local capital did develop, but in the financial and energy sectors as opposed to the industrial sector.

8. These are Hidrocataluña, Sevillana, Union Fenosa, Iberduero, Hidroeléctrica, Fecsa (electricity), and Cepsa and Petronor (oil) (*Anuario El País*, 1984, p. 377).

Table 2
Market Share (in production) of Spanish Private Capital Versus State Core Import Substitution Industrialization Sectors and Energy, Prereform Period

Sector	1970		1978		1982	
	% Spanish Private Capital	% State	% Spanish Private Capital	% State	% Spanish Private Capital	% State
Industry						
Steel ^a	37	63	26	74	21	79
Shipbuilding ^b	40	60	13	87	13	87
Automobiles ^c	0	46	0	34	0	38
Chemicals ^d	68	32	68	32	57	43
Coal ^e	48	52	34	66	32	68
Aluminum ^f	39	61	43	57	21	79
Energy						
Oil ^g	55	45	53	47	55	45
Electricity ^h	67	33	83	17	67	33

Source: (a) AHM, Altos Hornos de Vizcaya, and Ensidesa annual reports; (b-f, h) statistical appendix in Comín and Aceña (1991); (e) *Enciclopedia del Petróleo y el Gas* (1983).

a. Integrated subsector (raw steel in tons).

b. In registered gross tons.

c. Number of vehicles (commercial and industrial).

d. Fertilizers and potassium.

e. In tons.

f. In tons.

g. Refined oil in tons.

h. Electricity generation in gigawatt-hours.

Table 2 reveals the economic weakness and the progressive retrenchment of domestic private capital in crucial ISI sectors in the years prior to reform. At the beginning of the reform period, production in the steel, shipbuilding, aluminum, and coal sectors was mostly managed by state companies, and foreign firms managed production in the case of automobiles and chemicals (outside fertilizers). Moreover, Table 2 shows that in sectors such as steel and shipbuilding, once the cradle of the most powerful segments of the Spanish manufacturing class, domestic private business has been constantly losing ground to the state since the 1970s. By contrast, in the oil and electricity sectors, a much more entrenched position of domestic capitalists is seen, a dominance that has held constant since at least the 1970s. Of course, in some other sectors of Spanish industry, such as steel transformation or home appliances, the amount of domestic private capital was greater, but Table 2 gives a good picture of the weakness of the Spanish bourgeoisie in the core ISI sectors that would be liberalized after 1982.

The economic weakness of the industrial bourgeoisie and the comparative strength of the state in the domain of manufacturing eased the imposition of industrial restructuring from above. In the most crucial ISI sectors (in terms of value output and employment, such as autos, shipbuilding, chemicals, and steel), the waning local private sector just lacked the capacity (i.e., the capital and economies of scale) to pressure for privatization or protection to maintain its market share. Private firms in these sectors could only manage to get state subsidies, which were to a great extent the result of union pressure to attenuate adjustments costs for the workforce. The steel sector just analyzed is probably the symbol of the defeat of the Spanish industrial bourgeoisie: AHV had constituted the core of the Spanish industrial class since modern steel production first developed in Spain at the end of the 19th century. Nevertheless, when reform was poised to gain momentum, the AHV group was already in retreat and had no material resources to push for privatization or any form of market concentration. In the face of its own financial problems and the growing strength of state production in the sector, AHV had no alternative but to submit to the state-managed reconversion.

Yet mine is not entirely a structural argument. The economic feebleness of the main local industrial players was complemented by their sound organizational and political weakness when the decisive steps toward liberalization were taken. In the first place, the peak Spanish business association *Confederación Española de Organizaciones Empresariales* (the Spanish Confederation of Business Organizations), which channeled the interests of private industry during reform, was formed only during the democratic transition of 1975 to 1977. An autonomous organization representing the interests of industrial capitalists did not exist under the Franco government (Rijnen, 1985). Furthermore, the state held a prominent position in some sectoral associations, such as the steel sector association *Unión de Empresas Siderúrgicas* (the Union of Steel Industries) because of its importance in the production of the sector. Consequently, the state could block any "private-sector" strategy from inside the association. Some industrial associations, such as that of the textile sector, did not even exist when the reform process was about to start and were structured only to negotiate the subsidies that were part of the reconversion process.

By contrast, in the energy and banking sectors, exactly the opposite trend is found. The oil association *ASERPETROL* (the Association of Spanish Oil Refiners) and the electricity business association *Asociación Española de la Industria Eléctrica* (UNESA; the Electricity Business Union) were crucial players in the Spanish political economy in the 25 years prior to the reform period. Both were central political actors under Francoism. UNESA in particular has historically been the Spanish government's copartner in develop-

ing electricity policy in Spain, even to the point of acting as a unified corporation (Arocena et al., 1999, p. 390; Lancaster, 1989, p. 64). Likewise, the influence of the state on UNESA was negligible, and even if state refiners were present in ASERPETROL, their influence was far from dominant. Finally, it has been widely observed that local banks were the hegemonic capitalists in the postwar coalition shaped by Francoism. Accordingly, the direct access of the major Spanish banking associations to the framing of financial and economic policy in Spain has historically been even more evident (Pérez, 1997).

Finally, the low political and economic leverage of domestic industrial groups outside of banking is a decisive background against which an analyst should confront the Spanish privatization policy. The fact that no domestic industrial group was in any condition to purchase state assets and therefore concentrate its market share in the privatized sectors gave the state ample leeway to pursue its goal: sequential POs in the protected energy and telecom sectors and direct sales to foreign world players in the case of industrial privatization (i.e., steel and autos). Even the sectors in which local private capital was dominant, such as in the bank-controlled firms in electricity and oil, did not constitute the banks' central business. The banks' main battle was obviously waged in the credit market, in which deregulation was conveniently biased to protect their interests. Therefore, with their energy companies already spared from the danger of liberalization, the major banks could tolerate the emergence of new players such as Endesa or Repsol, in which, in addition, some of them were granted significant stakes. The banks were looking for good business with which to increase their portfolios but probably did not aspire to complete takeovers of these state enterprises. In short, the banks had a financial more than an industrial interest in the privatized companies. Thus, the interests of the banking sector coincided with those of PSOE and its will to privatize through sequential POs and preserve its appointed management and domestic ownership. No powerful autonomous (i.e., nonfinancial) industrial or energy players already operating in these sectors could aim at decisively conditioning the privatization design and the state rebuilding of these markets.

ALTERNATIVE EXPLANATIONS: EXTERNAL PRESSURES AND A LACK OF FISCAL CONSTRAINTS

Some alternative explanations could be drawn to explain the statist pattern of market liberalization in Spain, two of which should be addressed here. The

first concerns the role of international factors. An argument in this vein would hold that Spain's biased deregulation schemes were simply responding to the pace of liberalization in the different markets in Europe. Also, this type of explanation would assert that the government was able to implement a top-down program of industrial restructuring that bestowed generous subsidies because it could count on financial aid from the EU.

In the first place, it should be noted that almost all of the EU funds poured into Spain were used in infrastructure investments in the least developed provinces, not in the industrial reconversion process. In effect, industrial restructuring was financed by the domestic budget and public debt emissions (Edo Hernández & Paredes, 1992), and its resources mostly targeted the most advanced industrial regions, such as Catalonia, Madrid, and the Basque country. Besides, the bulk of the EU aid started to reach Spain after 1989, with the reform of the structural funds. By that time, industrial restructuring had been under way for 7 years. Furthermore, most of the state interventions that shaped adjustment in Spain were implemented against the pressure of the European Commission (EC) and the EU. The EC, for example, continuously pressured the government to cut industrial subsidies. The EU's big steelmakers were more interested in the Spanish steel market than in the reconfiguration and updating of the Spanish steel industry. Therefore, they lobbied continually at the level of the European Coal and Steel Community to end subsidies. Admittedly, the fact that deregulation was more gradual at the European level in sectors such as electricity favored the government's strategy of accommodating established interests. While Spain was deregulating the oil market, countries such as Italy and France still maintained their monopolies. Still, banking and oil in particular were already greatly internationalized in many other countries of Europe. Nonetheless, in Spain's case, insiders were clearly protected in these sectors. With the lobby of the Dutch government and the world player Shell behind it, the EC strongly contested the biased deregulation of the oil industry in Spain. The EC also complained several times about protection in the telecommunications sector. In sum, the fact that Spain had powerful capitalists in less internationalized sectors at a European level was obviously advantageous to the reformist government. Yet the defining traits of the Spanish liberalization model are unrelated to, or sometimes at odds with, the deregulatory pressures stemming from Brussels. The state officials' political convictions and strategies, and the web of inherited prereform interests, explain the pattern of adjustment in Spain to a much greater extent than the type of external pressures.

The second argument is a fiscal one. This argument contends that the fact that the administration inherited a group of relatively efficient public or semipublic companies, together with the potential to borrow in European

capital markets, facilitated the subsidized industrial reconversion and the gradual privatization strategy. I do not dispute the fact that PSOE inherited a relatively efficient public sector that contributed to the state managing of the adjustment process. However, the absence of large fiscal deficits is a necessary but insufficient condition to explain the policy choices in the context of market-oriented reforms in Spain. Although PSOE could count from the outset on relatively efficient state companies, their growth, fueled by protection and asset expansion during the market reform period, is quite remarkable. The fact that Spain was not pressed for fiscal resources likewise eased the strategy of gradual privatization. Yet when one confronts the fact that 83% of the privatization income in Spain was collected through sequential POs on the stock exchange and only 17% through direct sales (data from Gámir, 1999, p. 117), it is hard not to link this outcome to the entrenched position of the domestic financial sector in the political economy. Whereas the local banks are happy with POs, which bring financial commissions and access to new portfolios, local industrial conglomerates would prefer direct sales to enhance their market shares. The point is that in Spain, industrial conglomerates were not relevant actors. Finally, the lack of a large fiscal crisis simply does not explain why insiders were more protected in some sectors than in others.

CONCLUSION: TOWARD A NEW TYPE OF DEVELOPMENTAL STATE?

My analysis of policy reform in Spain depicts a very different picture from that of a liberal economic strategy simply complemented by an emphasis on supply-side policies or welfare protection. By contrast, what is seen in Spain is the complex intertwining of liberal and illiberal policies. General macroeconomic and trade reform was combined with an intense state intervention in the rebuilding of specific markets. In effect, the state carried out a complete revamping of specific industrial sectors from above and simultaneously pushed through a protectionist liberalization in sectors such as energy and banking. In addition, the government strengthened state-owned companies through the aforementioned sectoral protection, through the state acquisition of private firms and through compulsive nationalization. Finally, the administration pursued a privatization strategy whereby the outcome (i.e., the future company management and type of ownership) was much more controlled by the government than by the market. Figure 1 summarizes the Spanish pattern of statist market liberalization.

The empowerment of national champions through protection in domestic markets, the state-sponsored international diversification of these companies, and the mixture of public and private interests in the locus of decision making in these holdings are all features that resemble the East Asian and French models of developmental states (Evans, 1995; Wade, 1990; Zysman, 1983). Furthermore, in Spain, as in these cases, the original weakness of the local industrial private sector seems to be a prerequisite for the surge of an effective developmental state. Yet the Spanish statist model of growth displays a crucial difference when compared with the East Asian and French developmental states: The traditional financial bourgeoisie held a prominent role in the policy coalition. It should be noted, however, that the state was not simply constrained by those interests; it also marked the pace of restructuring in the areas in which finance was dominant through the state-induced mergers of banks and the creation of powerful new players, such as Endesa and Repsol, in markets in which companies controlled by banks had long been hegemonic.⁹ Even if some banks—principally BBVA and La Caixa—were allowed to hold significant stakes in Endesa and Repsol, many other powerful banks, such as BSCH, were ultimately left out. In fact, BBVA's initial participation in Repsol was the result of an exchange of assets (the refinery Petronor, formerly controlled by BBVA, passed to the Repsol group), which benefited the state group as much as the bank. In short, the Spanish liberalizing state forged an alliance with the local banks, but it can hardly be argued that it was simply an instrument of that financial bourgeoisie.

Of course, the Spanish statist liberalization spawned losers among various social groups. Pérez (1999) has convincingly argued that the protection afforded to the local financial sector raised the cost of credit in the domestic market, undermining many small and medium-sized businesses that did not have access to European financial markets. One should not forget, however, that the expansion of the Spanish economy was not limited to a handful of large companies in energy and banking. As I have described, after a bold project of reconversion implemented from above, Spain is today a European power in steel production. Spain has become also the third largest auto assembler in Europe (see Guillén, 2001, pp. 170-173), and the state-restructured SEAT plays an important role in local production. The domestic home appliance

9. As the former director of INI and the Ministry of Industry, Luis Croissier, argued,

We had to shield Endesa from the lobby of the private electricity industry, which was extremely powerful in this country. The diversification of its shareholding in thousands of investors in the Stock Exchange was a way to do that: against the Iberduero shareholder lobbyist, we created the Endesa ones. (personal communication, October 10, 2001)

ERRATUM

Portions of the descriptive text within Figure 1 of Sebastián Etchemendy's article "Revamping the Weak, Protecting the Strong, and Managing Privatization: Governing Globalization in the Spanish Takeoff" in the August 2004 issue (Vol. 37, No. 6) were inadvertently left out of the final printed version. Figure 1, as it should have appeared, follows:

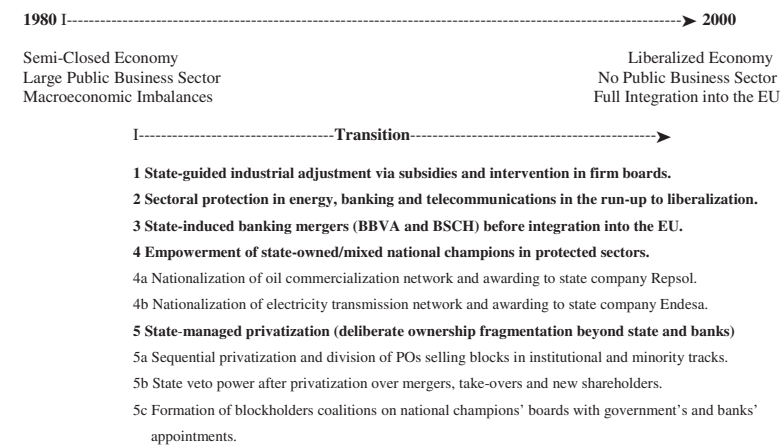


Figure 1. Statist economic liberalization in Spain, 1980 to 2000.

company Fagor (controlled by the Spanish Mondragón group) became a successful multinational corporation after the sector was subjected to successive reconversion plans in the 1980s. In short, a model that displayed numerous pockets of protection in energy and banking was also compatible with the (state-induced) resurgence of crucial manufacturing sectors. Besides, by 2000, the so-called big five (Endesa, Telefónica, Respol, BBVA, and BSCH), which are the biggest Spanish business groups and main targets of state empowerment and protection, shared more than 60% of the net profits of the 35 companies that form the IBEX, the stock exchange index in Madrid.¹⁰ As these companies prospered, the Madrid Stock Exchange was likely to follow. The outcome of the Spanish model of liberalization seems to have been general growth (measured both by outstanding rates of GDP growth and by IBEX performance), not just the growth of the largest and most diversified national champions.

Arguably, the main loser in this strategy was labor: Unemployment in Spain remained above 20% during the heyday of liberalization in the late 1980s and the first half of the 1990s. The poor labor market performance and the inimical relationship with unions were also trademarks of the Spanish liberalization model. However, as the postwar French and East Asian newly industrializing countries examples attest, the exclusion of organized labor from policy making and from the formal discussion of the benefits of growth seems to be characteristic of developmental states in general; Spain is not unique in this respect. True, unlike the experiences of other developmental states, the Spanish model of growth was concurrent with high unemployment rates. But it is also a fact that the Spanish *dirigiste* strategy analyzed in this article was developed in a very different historical moment. Unlike those of the golden age of developmental states in France and East Asia, Spanish state officials had to deal with an international context of accelerated globalization, in which the possibility of avoiding the costs of liberalization was greatly reduced. In brief, the poor performance in the labor market does not make the comparison with other experiences of developmental states less pertinent. What is more, it appears to confirm that statist models of growth tend to rely on the formal exclusion of labor.

The particular structure of the political economy as it unfolded under the ISI period in Spain is crucial to understanding the Spanish pattern of marketization. Paradoxically, the role of established interests of the old regime has been much more clearly systematized in the study of economic reform in Eastern Europe (Eyal, Szelenyi, & Towsley, 1998; Stark & Burzst, 1998). In countries that reorient ISI patterns of development in Latin Amer-

10. Data from a table of net profits of the IBEX companies in *El País* (2001a).

ica and Southern Europe, neoliberal reform has been too often analyzed as a process imposed from above, without systematic consideration of the bargains with the different branches of prereform, established capitalists. Because ISI models displayed crucial differences and generated profoundly different webs of interests at the levels of industry, finance, and labor, further attention should be given to the matter.

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