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Responses to a crisis: FASA-Renault in Spain during the 1970s

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This paper analyses the trajectory of the Spanish automobile firm FASA-Renault during the 1970s. This period comprises the early years of the crisis experienced by the Spanish economy and industry between 1974 and 1985. At the external level, the Spanish economy was affected by two oil shocks. At an internal level, the automobile industry was affected by a decree passed by the government: the so-called “Ford” decree of 1972, which allowed the establishment of the American company in Spain and had serious consequences for SEAT, the main Spanish producer. The production of SEAT suffered a one third reduction between 1972 and 1980 and, in addition, the financial situation of the firm was unsustainable. Conversely, during this stage FASA-Renault became the main Spanish production (its output was multiplied by 3,5 during the 1970s) and sales leader in Spain (its sales as percentage of total Spanish market sales increased from 23 to 36%). The main aim of this paper is to analyse the trajectory of success of FASA-Renault in Spain during the 1970s.

Aquest treball analitza la trajectòria de l'empresa FASA-Renault durant la dècada dels setanta del segle XX. Aquest període compren els primers anys de la crisi experimentada per l'economia i la indústria espanyola entre 1974 y 1985. A nivell extern, l'economia espanyola es va veure afectada per dos xocs en el preu del petroli. A nivell intern, la indústria de l'automòbil es va veure afectat per un decret governamental: es tractava de l'anomenat decret “Ford”, aprovat l'any 1972, el qual facilitava l'establiment de Ford a Espanya. Aquest decret va tenir greus conseqüències per a SEAT, el principal productor espanyol. Entre 1972 y 1980 la producció de SEAT es va reduir en una tercera part i la seva situació financera va esdevenir insostenible. Per contra, en aquest període FASA-Renault va esdevenir el principal productor ubicat a Espanya (la seva producció es va multiplicar per 3,5 durant els anys setanta) i en líder de ventes en el mercat espanyol (la seva penetració es va incrementar del 23 al 36%). El principal objectiu del treball es analitzar els factor que expliquen l'èxit de FASA-Renault durant els anys setanta.

JEL Codes: D22, L52, L53, L62, N84, O25.

Key words: Development, Industrial Policy, Spain, Automobile, FASA-Renault.

1. Introduction

In the 1950s, the Franco regime came to realise that foreign investment was a “necessary evil” that Spain would have to endure for the sake of industrialisation. At stake was a trade-off between a protected local market on the one hand and investment and technology on the other. Although the regime’s objective was to pursue an import substitution policy, Spain had neither the capital nor the technology needed to develop growth industries spurred by the second technological revolution. However, the implementation of a policy of this kind could only work with the help of direct foreign investment channelled through joint ventures with local initiatives. Spain’s appeal lay in its protected domestic market and, given its size, its tremendous potential for growth. This is the model that describes how the automotive industry developed in Spain during the 1950s and 1960s (Catalan 2000, 2006 and 2010; García, 2001 and 2003; Fernández-de-Sevilla, 2010a and 2010b).

The weakness of the strategy lies in the fact that foreign companies taking part in this kind of development process will rarely manufacture innovative products or transfer the most up-to-date technology. This is because their protected status enables them to sell at high prices and achieve high margins, even in the case of mature and obsolete products (Haggard, 1990). The result is that products offered by the companies of countries applying this model will rarely be competitive in foreign markets. Yet, once the domestic market loses strength, exports become the sole vehicle to continue down the road to industrialisation.

When the limitations of domestic demand became apparent at the end of the 1960s, Spain changed the strategic direction of industrial policy in its automotive sector, switching from focusing all its efforts on an import substitution policy to the promotion of exports. With the signing of a Preferential Agreement with the EEC in 1970, Spain became an attractive export platform for companies that were not based in EEC member states. Automobile giants like Ford and GM initiated contacts with the Spanish government to negotiate their establishment on the Iberian Peninsula (Pérez, 2003, pp.131-143; Catalan, 2007, pp. 144-156). Their interests coincided with the interests of the Franco regime: boosting production through exports. This explains the introduction of legislation in 1972, to attract Ford and modernise established carmakers, and in 1979, to attract Opel.

At the level of production, the strategy bore fruit. While Spain exported hardly any cars in 1972, exports in the early years of the twenty-first century fluctuated at around 80% of a total output level that had quadrupled in size (ANFAC, 2005, p. 46). Between the enactment of Ford Decrees and the integration of Spain into the EES, Spain ranked first in terms of increased production among the top 10 manufacturers in 1972 (table 1), while production fell in leading countries like the US, the UK, Italy and France. The other countries with the most successful track records were Japan and Germany –examples of success in countries with a mature industry. The downside to Spanish export success was the decline in the strength of SEAT. As the only company with predominantly Spanish shareholders, SEAT suffered hugely from the entrance of the US automakers and its production fell 43% between 1973 and 1981 (Catalan, 2000, p. 150). By implication, Spain delivered the sector completely into foreign hands and abandoned the development of domestic technology.

Table 1. Passenger cars produced by countries* (thousand of units).

| | Spain | Canada | Italy | UK | France | Germany ** | Japan | USA |
|-----------|-------|--------|-------|-------|--------|------------|-------|-------|
| 1972 | 614 | 1,154 | 1,732 | 1,921 | 2,993 | 3,654 | 4,022 | 8,824 |
| 1985 | 1,220 | 1,075 | 1,384 | 1,048 | 2,631 | 4,375 | 7,647 | 8,002 |
| 1972 =100 | 199 | 93 | 80 | 55 | 88 | 120 | 190 | 91 |

* These are the 8 major passenger cars manufacturers in 1972 plus Spain.

** Has joined the production of the FRG and the GDR.

SOURCE: Own elaboration with UN, Statistical Yearbooks.

In the case of Renault, its relations with its Spanish subsidiary went through three phases. Prior to 1961, Renault limited its contribution to FASA to manufacturing licences. Between 1961 and 1965, Renault participated financially in FASA's expansion. Then, from 1965, Renault took control of the Spanish company, transforming it into FASA-Renault (Sánchez, 2004, pp. 159-162; 2006, 362-366; Fernández-de-Sevilla, 2010b, pp. 476-479). In the nineteen seventies, FASA-Renault was fully integrated into Renault's global strategy and became the Renault Group's principal investment in foreign production (table 2). During this period, FASA-Renault was not only fully integrated into Renault's synergies, but it also rose to become the production and sales leader in Spain by 1980.

Table 2. Production of Renault vehicles outside France (No.).

| | 1960 | 1965 | 1970 | 1975 | 1980 |
|---|---------|---------|---------|---------|---------|
| FASA-Renault Production | 8,407 | 47,326 | 98,720 | 205,934 | 341,211 |
| FASA-Renault Exports | 0 | *506 | **5,600 | 38,303 | 123,625 |
| Exports as (%) of Production | 0 | 1.1 | 5.7 | 18.6 | 36.2 |
| Renault foreign production | 117,000 | 153,910 | 336,607 | 559,257 | 806,438 |
| FASA-Renault as % of foreign production | 7.2 | 30.7 | 29.3 | 36.8 | 42.3 |

* Exports in 1966.

** Exports in 1971.

SOURCE: Own elaboration with FASA-Renault: *Annual Reports*, 1960-1980. Renault foreign production in Loubet, 2000, p. 221.

This paper sets out to examine the development of FASA-Renault during the 1970s until the company reached its highpoint of growth in 1980. In the period in question, the Spanish economy was plunged into a deep recession from which it did not emerge until the mid-1980s. The Spanish recession followed in the wake of the economic crisis that gripped Western economies in 1974 and continued in most industrialised countries until 1983. However, the impact of the recession in Spain was deeper and lasted longer, easing its grip only in 1985. As a result, the period under analysis covers the expansion phase of FASA-Renault, which came to an end in 1980 and does not fall exactly inside the economic cycle. The main aim of the paper is to study the factors that enabled FASA-Renault to obtain strong growth against a backdrop of profound turbulence and to adapt successfully to Spain's new role in the automotive sector as an international centre for the production of mid-to-low range passenger car models.

2. The Automotive Industry in Spain, 1953-1972

The present-day Spanish automotive industry dates back to the mid-twentieth century, when SEAT and FASA were created. The two companies manufactured passenger cars under licence from Fiat and Renault respectively. Both brought out their first vehicles in 1953. In that year, with a total of 2,052 passenger cars, Spain ranked eighteenth globally among nations manufacturing passenger cars. However, by 1972, Spain's output had climbed to 614,000 units and it stood in tenth place (UN, 1974, p.

323). At that time, automakers included not only SEAT and FASA, but also Citroën Hispania, Chrysler Spain (Barreiros) and AUTHI (British Leyland). Between 1953 and 1972, the sector's average annual growth rate stood at 33.2%.

The number of automakers distinguishes the two phases that characterise the take-off period of the Spanish automotive industry. The period 1965-1967 may be viewed as the boundary that marks the end of the first phase and the start of the second. Until 1965, the Spanish automobile market was a *de facto* duopoly, in which FASA produced (and sold) between a quarter and a third of all passenger cars and SEAT accounted for the rest. In 1961, Citroën Hispania began operations, although its output was of little significance until 1966, when it approached 25,000 units. In 1966, Barreiros Diesel, under license from Chrysler, began production of the Simca 1000 and the Dodge Dart. A year later, production began at AUTHI, a company that manufactured under licence from British Leyland¹. At this point, the gap between supply and demand vanished, causing immediate pressure on the market. This structural change forced the development of new business strategies. Foremost among these were the expansion of ranges (more models and more variants) and the creation of finance companies. In addition, foreign markets came to be seen as a possible solution to surplus production.

However, the factors that explain the development of the automotive industry in Spain remained quite stable throughout the period. At the outset, the market was practically empty and closed to foreign production². The automobile industry was developed by producing for that market. In addition, the automakers reaped benefits from the government's power to determine which companies and what conditions were established in Spain. As a trade-off, the automakers faced requirements to achieve high percentages of domestic production.

In the case of FASA (FASA-Renault), the company raised production from 707 passenger cars in 1953 to 138,748 in 1972, at an average annual growth rate of 30.21%. In the nineteen fifties, FASA's annual production always stood below the entry threshold for mass production, quantified at 10,000 units annually (Catalan, 2006, p. 148). The primary cause lay in the investor lethargy of Banco Santander, the principal shareholder between 1955 and 1961 (Fernández-de-Sevilla, 2010a, pp. 148-153). FASA began to take off only when Banco Santander sold its shares to Banco Ibérico. The new owner sharply raised investment levels (Fernández-de-Sevilla, 2010a, pp. 479-486). By 1965, FASA's production had climbed as high as 26.6% of total Spanish production. The year 1965 was also when Renault became the top shareholder, transforming the company into FASA-Renault. With French backing, the company began to grow tremendously, topping 100,000 annual units by 1971. At that time, FASA-Renault was Renault's main production centre for cars outside France. In addition, FASA-Renault had successfully integrated the manufacture of engines and gearboxes, which enjoyed high export levels in the 1970s (Fernández-de-Sevilla, 2010b, pp. 479-486).

¹ The production of passenger cars by Citroën Hispania stood at 24,373 units in 1966 and 26,981 units in 1970; production at Barreiros was 48,218 units in 1966 and 36,979 in 1970; production at AUTHI was 14,645 in 1967 and 18,570 in 1970 (Catalan, 2000, p. 150).

² In addition to practically total protection of the sector (set at 90% over the sales price at origin), there was also an import quota system (import exemptions set the number of vehicles that could be imported and the countries from which they could be imported).

By 1970, however, FASA-Renault's share of total Spanish production had declined to 20.6% as a result of the number of automakers. In the late 1960s, it became critical to have a commercial network able to promote products inside an increasingly competitive marketplace. To do so, drawing on Renault's sales experience was essential, because the Spanish market at that time was experiencing the same problems experienced by France in the 1950s. During the latter half of the sixties, Renault supplied its Iberian subsidiary with the capabilities of marketing, distribution and management³ that Chandler described as necessary to compete in domestic and foreign markets (Fernández-de-Sevilla, 2010b, pp. 480-483). These transfers bore fruit in the 1970s.

3. The Oil Crisis and the Success of the Japanese Automotive Industry

The period in question can be characterised by the exhaustion of the pattern of accumulation arising from post-war growth. The first signs of weakness surfaced in the late 1960s and became particularly acute from 1973 onwards due to oil price hikes. Over a period of little more than two months –on 16 October and 23 December 1973– OPEC pushed through two dramatic hikes in the price of crude, which quadrupled in price. The impact on Western economies, which had mostly replaced coal with fossil fuels as a principal energy source, was devastating.

The structural imbalances that undermined the growth of OECD economies included the collapse of the Bretton Woods international monetary system; the fall in the rate of productivity growth caused by exhausting the growth potential of the innovations coming out of the Second Technological Revolution; rises in nominal salaries outstripping productivity gains as a result of strong inflationary pressures on real salaries; and falling corporate profits resulting from tighter trading margins and the subsequent collapse in capital expenditure.

The resulting economic crisis was basically industrial in nature. The explosion of prices affected industry more acutely than any other economic activity, with the exception of transport. The blow hit the automobile industry particularly hard, marking a turning point for the industry that would lead to significant structural changes. However, not all automakers reacted with the same speed to signals that pointed to a need for change. The quickest to adapt were the Japanese manufacturers, thanks to models of production that eventually brought the prevailing model of Fordism to its knees. The emergence of Japan's great automakers stoked international competition.

After its take-off in the 1950s and 1960s, the Japanese automotive industry consolidated itself in the 1970s and 1980s. From 1950 to 1973, Japan jumped from tenth to second place in the rankings of automakers (in units produced). Between 1973 and 1996, Japan's output leapt from 55% of US output to 88% (table 1). In the same period, Japanese companies also became international, pushing into the US, European and Asian markets by means of productive investment. Japanese success was largely embodied by the company Toyota. While other companies around the globe suffered from the recession, Toyota was able to stay on its growth path and maintain profit levels. It appeared that Toyota's system of production was made to weather the crisis (Ohno, 1982, p. 83 and Shimizu, 1998, pp. 73-77).

³ Chandler, 1990, pp. 46-55; 1992, pp. 83-87.

The success of companies like Toyota and Honda stems from their adoption of production practices that broke with the common practices of the time. At the beginning of the 1990s, the concept of “lean production” emerged to define the set of practices that were part of what became known as the Japanese production model, which was more competitive than the Western model (Womack, Jones and Roos, 1990). A production system is lean when it uses less of everything than mass production does –less human effort in the factory, less space for manufacturing, less capital expenditure on tools, fewer hours of engineering work to develop a new product. At the same time, it produces a greater variety of products with fewer production defects, and it requires far fewer factory stocks (Womack, Jones and Roos, 1990, p.13).

However, other authors argued that such theorizing stemmed from a particular synthesis of the productive systems of two companies with different strategies. Therefore, they considered that Lean Production represented a conceptual confusion and not a real productive model. In their view, Japan had started two distinct productive models: the Toyota model, based on an ongoing strategy to reduce costs, and the Honda model, based on innovation and flexibility (Mair, 1998, pp. 113-120, Shimizu, 1998, pp. 63-80 and Boyer and Freyssenet, 2000, p. 77-100). Beside these models, Nissan opted for the strategy of volume and diversity, without succeeding at becoming Sloanist (Freyssenet, 1998, pp. 18-21).

The Toyota Production System (TPS) is a model of production that completely eliminates unnecessary elements from production in order to cut costs as much as possible. This is achieved by combining two key practices: Just-in-Time (JIT) and Autonomation. JIT relies on three production methods –smoothing production, designing processes based on multi-function workers, and standardisation of jobs⁴– that are managed by a system called *Kanban*⁵. Autonomation is a quality control mechanism that addresses defects in work, machines and production lines. The control is carried out by the worker and the work team through the *Yo-i-don system*⁶ and it makes use of a device that automatically stops the production line, called *Bakayoke* (Monden, 1981, p.38-46)⁷.

In addition to adopting JIT and Autonomation, the TPS also involves outsourcing productive and service activities that are not part of the company’s core activities. Because Toyota’s profits come from keeping costs low, the elimination of wasteful practices and overproduction is a central concept of TPS (Ohno, 1982, p. 87-94). For the system to work, it is also necessary for suppliers to apply the same production guidelines. Toyota achieves this through supplier loyalty programmes (Womack, Jones and Roos, 1990, pp. 146-153; Sako, 1996, pp. 663-664 and 2000, pp. 114-126). As a consequence, Toyota gives less priority to innovation (preferring to copy models already validated in the marketplace), volume (only increasing output when

⁴ This is teamwork based on multi-skilling and job rotation.

⁵ The *Kanban* system is a management information system that tries to harmonise the quantities produced in each production process (Monden, 1981, pp. 140-141).

⁶ The *Yo-i-don system* is a method to smooth product flows generated within the production system (Monden, 1981, pp. 143-144).

⁷ In TPS, workers take part in cost reduction in order to achieve greater competitiveness in exchange for job security. But, to reduce downtime, they also accept performance-related pay (Shimizu, 1998, 64-68 and 1999, pp. 53-61).

economic resources allow it) and diversification (only launching new models when the market demands it) (Boyer and Freyssenet, 2000, pp. 77-88).

For its part, Honda applies a model that differs from Toyota's. The Honda model, which also proved responsive to the economic changes of the 1970s, is based on innovation and flexibility (Mair, 1998, 113-120 and Boyer and Freyssenet, 2000, p. 89-100). At Honda, these two concepts went hand in hand, because the company's strategy necessitated the ability to abandon unsuccessful models rapidly and raise production whenever an innovation was well received in the marketplace. Honda's aim was to create and exploit returns to innovation for the greatest possible period of time by anticipating market expectations. In the 1970s and 80s, the success of this strategy was beyond question: by 1990, Honda had doubled its 1980 production level, reaching eighth place worldwide. Its chief innovation was the Compound Vortex Controlled Combustion (CVCC) engine, a 1500 cc engine that reduced emission levels and fuel usage. The CVCC was put in the Honda Civic in 1973 before fuel prices skyrocketed. In 1976, the number of units sold reached one million; two million were sold in 1979 and three million in 1982 (Mair, 1998, p. 115).

4. Renault and the French Automotive Industry in the 1970s

In addition to Japan's success, two French automakers –Renault and Peugeot– also experienced a period of growth in the 1970s. After a precipitous fall in sales starting in the autumn of 1973, both companies experienced sharp rises starting in 1975⁸. The upward dynamic of the two automakers was cut short in 1979, with the second oil shock.

Drawing on its pre-war legacy, Peugeot moved into the immediate post-war era as a specialist in mid-to-high range autos. The French automaker did not change to a full-range strategy until 1965, when it launched the Peugeot 204 for the mid-to-low range market. Peugeot's most successful models were the 204 (1100 cc), the 304 (1300 cc) and, especially, the 504 (2000 cc). The company's success in the 1970s was due to two key factors. First, when demand swung toward smaller models, the Peugeot 104 and 204 turned out to be perfectly suited to the new consumer tastes. Second, higher petrol prices led to a sharp rise in demand for diesel models. As the only full-range automaker using diesel engines throughout its range, Peugeot had no difficulty in conquering this new niche in the market.

In contrast, at Citroën the first oil crisis exposed serious structural difficulties. Modernisation could only be achieved with financial outlays that the Michelin family was unwilling to provide, given that their strategy focused on tyre manufacturing. As a result, in 1974 the Michelin family proposed that Peugeot acquire their automotive subsidiary. The acquisition, which involved an exchange of shares, could not be finalised until 1976. However, at that point, Peugeot SA became PSA Peugeot Citroën⁹. For Peugeot, one of the most positive aspects of the acquisition was that it could consolidate its position in Europe, particularly with an opening into Spain. Shortly later, the president of Chrysler France proposed that PSA purchase Chrysler's European

⁸ In 1974, sales fell by 12.7% (Loubet, 2001, p. 374).

⁹ Michelin, with 9% of PSA's share capital, was the group's second largest shareholder.

subsidiaries¹⁰. In 1978, PSA created a third automotive division to put alongside Peugeot and Citroën. The new division, which was called Talbot, consisted of Simca (France), Rootes (UK) and Chrysler Spain.

Renault managed to sidestep the effects of the crisis and strengthen its leadership of the French market¹¹. The company based its success on the R5¹². The conception of the R5, which came to be known as the “auto of the crisis”, began in 1968 and the model hit the market in 1972. Taking its inspiration from the R4, the R5 had the same price, but it also had more modern, more attractive bodywork. While the R5 was on the drawing board, the competition –specifically Fiat and VW– were moving closer to the idea of a multi-function car, which the R4 embodied. As a result, Renault shifted the aim of its prototype toward a virgin segment that had been unexploited: the second car¹³, a segment tied to the rise in motorisation of the young and, particularly, of women¹⁴. The result was a model with subtle curves and harmonious lines that was small, compact and multi-function and was able to beat its main rival, Fiat’s 127. Although the 127 was mechanically superior, the R5 had a clear aesthetic edge when the two models stood side by side (Loubet, 2000, p. 175).

Renault decided to use its star vehicle to conquer several market segments. The automaker quickly created a veritable sub-range of the R5 that included a great variety of versions: L, TL, GTL, LS, TS, GTX, Automatic, Alpine and Turbo¹⁵. The different models targeted different segments of the market. As a result, the price spread within the R5 sub-range was nearly the same as the price spread across the entire Renault range. RNUR had introduced a new commercial concept to Europe: the range within the range. And they applied it to all of their models. The crisis had served to give a new direction to the overall conception of the Renault range.

Advertising played a central role within Renault’s strategy. The automaker’s communication policy was one of the factors that accounted for its rising sales during the crisis. One of the policy’s architects was Renault’s young commercial director, Philippe Lamirault, who knew how to use the company’s enormous commercial network to conquer expanding market niches. This was made possible by pouring immense financial resources into advertising: Renault spent up to ten times more money on advertising than Peugeot (Loubet, 2000, p. 184).

French automakers quickly became aware of the success of Japan’s auto industry. The engineers at the Peugeot-Renault Association (APR)¹⁶ visited Japan in June 1973 to gain first-hand knowledge of the Japanese auto industry. They observed

¹⁰ Chrysler, with 15.5% of the share capital, became the second largest shareholder in PSA; Michelin, with 7%, fell to third place.

¹¹ In 1980, Renault’s sales represented 40% of the total number of autos sold in France (Loubet, 2001, p. 379).

¹² In 1974, the R5 represented 30.3% of Renault’s sales in France. By 1981, this percentage had risen to 39.8%, which was 15.4% of the French market (Loubet, 2000, p. 176).

¹³ At the beginning of the nineteen seventies, second cars represented barely 4% of the demand (Loubet, 2000, p. 175).

¹⁴ Renault hit the mark: in 1972, 31% of individuals buying the R5 were women and 35% were under 30 years of age (Loubet, 2000, p. 176).

¹⁵ These versions range from 4-8 HP and from 845-1397 cc. (Loubet, 2000, p. 176).

¹⁶ The APR continued to function well until it reached a dead-end with the absorption of Citroën (Loubet, 2000, pp. 228-256).

the stark differences between Japanese and French practices, starting with weak integration offset by purchasing from suppliers who were completely mechanised and shared the same production philosophy. However, the Japanese advantage lay in high productivity, which stemmed from heavy automation (Womack, Jones, Roos, 1990, p. 95). It was Loubet's view that heavy automation could be traced to the relative scarcity of labour (Loubet 2001, pp. 383-384). Unlike France, which had an abundance of immigrant labour, Japan had few skilled immigrants. The conclusion drawn by the APR engineers was that Japan did not offer an example to follow, although it represented a threat that needed to be addressed. In 1977, pressure from French automakers led the French government to limit Japanese sales to 3% of the French market. Both Renault and Peugeot experienced a crisis in the 1980s. The reason was the ambitious programs promoted in the second half of the 1970s (Loubet, 2008, pp.132-136).

5. The Spanish Economy in the 1970s

The recession affecting the Spanish economy between 1974 and 1985 was caused by the international recession resulting from two oil shocks and rising crude prices. However, the effects on the Spanish economy were much harder and more prolonged. This is because Spain's energy base was weaker, its industrial structure was more fragile, and its affected sectors had greater weight. In addition, Spain suffered from the accumulated rigidities of thirty years of dictatorship and was at the outset of political reforms that called for less strict adjustment policies (Rojo, 1994, p. 193). At a structural level, the Spanish economy had a variety of deficiencies, such as the relatively greater weighting of industrial sectors with weaker demand, an over-expansion of capital-intensive activities arising from negative interest rates, an extremely high dependency on technology owing to paltry investment in human resources, and levels of tax revenue as a percentage of GDP that were far lower than other countries in Western Europe (Catalan, 1999, pp. 360-365). In a period of stagnation affecting worldwide demand for industrial goods, the growth of competition arising from the emergence of newly industrialised countries caused serious problems for countries like Spain, which had more severe deficiencies in their productive structure.

From the application of the Stabilisation Plan in 1959 up until 1973, the Spanish economy experienced dramatic growth at rates which averaged 8% annually and this growth entailed a strong convergence between Spain's per-capita GDP and that of EEC. In 1973, however, these growth rates began to plummet. Between 1975 and 1978, runaway spending kept annual growth at 4-5%. From that point, however, the hard reality of economic tightening pushed growth rates below 2% until 1986 and the economy actually contracted in 1981 (Carreras and Tafunell, 2007, p. 366-368). The decline in 1974 was due to the first oil shock and the drop in 1979 was linked to the second oil shock. As growth declined, a sharp inflationary spiral gained pace. Although the rate of inflation had been high since the beginning of the decade, it shot up in 1974 and reached a peak of 24.7% in 1977: not until 1985 did price rises fall below 10% again¹⁷. Early consequences included a sharp drop in employment numbers and higher

¹⁷ Between 1974 and 1980, inflation topped 15% and between 1981 and 1984 it remained above 10%, resulting in an average annual inflation rate of 15.7% (Carreras and Tafunell, 2007, p. 367) for the whole period.

rates of unemployment¹⁸. For businesses, a clear consequence was the collapse in capital expenditure¹⁹.

Economic instability was interwoven with profound political instability. In December 1973, the Basque organisation ETA assassinated Admiral Carrero Blanco, the Spanish prime minister and Franco's heir apparent. Two years later, in November 1975, the dictator died and a complicated process of political reform began. In 1977, the first legislative elections after the restoration of the monarchy took place and in December 1978 a new constitution was passed. The elections of April 1979 resulted in the formation of a weak government ruled by the centre-right UCD party. Instability grew in parallel with the breakdown of the UCD until, finally, an attempted coup d'état occurred on 23 February 1981. Political stability did not return until the Socialist Party (PSOE) won an absolute majority in the 1982 elections.

The dictatorship's lack of social legitimacy at the outset of the crisis caused Spanish officials to respond slowly to obvious economic imbalances. No social sector wanted to assume the costs of any correction and the government chose to satisfy excess demand by means of a lax monetary policy that worsened spiralling prices. Not until mid-1977 were the first tough measures taken to contain a situation that threatened the country with hyperinflation. The economic programme of the first government to be elected since the Spanish Second Republic found expression in the "Moncloa Pacts", which consisted of a social accord reached between all political parties with parliamentary representation and basically involved a policy of economic tightening aimed at stopping inflation in exchange for political and economic reforms. Monetary policy was tightened and restraint was imposed on real-wage growth (Fuentes, 1993, 42-50 and Trullen, 1993, pp. 200-212). The application of the Moncloa Pacts successfully reined in spiralling prices, but reversing inflation was slow. In addition, the external disequilibrium was tackled with a sharp devaluation of the peseta²⁰. Although significant surpluses in Spain's balance of payments occurred in 1978 and 1979, deficits returned in 1980 and continued until 1985 when a surplus was achieved again²¹.

The gradual collapse of the Franco regime unleashed a wave of pent-up demands from workers. After years of high growth and wage restraint in the 1960s, pay shot up between Franco's death in November 1975 and the consolidation of the Moncloa Pacts, signed in October 1977. In a context of economic contraction, labour costs grew very rapidly and lost any relationship to gains in productivity. Until 1977, companies were unable to withstand rising costs –first of raw materials and energy, then of labour. They had to resort to increasing indebtedness stimulated by negative real interest rates, which were a result of high inflation and financial regulation that delayed changes to interest rates. When the financial sector was liberalised in 1978 and expansive monetary policy came to end, interest rates shot up. Given the level of debt held by businesses, this

¹⁸ Employment fell from 13 million individuals in 1973 to 10.5 million in 1985, while the unemployment rate rose sharply from 2.2% to 21.9% over the same period. (Carreras and Tafunell, 2007, p. 367).

¹⁹ Between 1973 and 1985, the growth in capital expenditure was negative for 8 of the years in the period (Carreras and Tafunell, 2007, p. 367).

²⁰ The devaluation, which was 20% in relation to the US dollar, took place in July 1977, in anticipation of the Moncloa Pacts. In early 1976, the peseta had already fallen 11% against the dollar (Carreras and Tafunell, 2007, pp. 373-374).

²¹ Deficits in the periods 1974-77 and 1980-84 exceeded 2 bn US dollars annually. The surpluses in 1978 and 1979 were less than 2 bn dollars annually (Carreras and Tafunell, 2007, p. 367).

aggravated the industrial crisis and a sharp contraction in capital expenditure ensued²². As a result, some authors argue that there is rationale for speaking of a large-scale process of industrial disinvestment (Carreras and Tafunell, 2007, p. 383).

6. The Spanish Automotive Industry in the 1970s

The industrial policy applied to the passenger-car sector in the 1970s and 80s contrasted sharply with the policy in the two preceding decades. Spain's Preferential Agreement with the EEC, signed in 1970, entailed a lowering of EEC duties on Spanish passenger cars exports to 3.3% in 1974. After the agreement, Ford and GM viewed Spain as an excellent base of production for mid-to-low range models aimed at the European market. The interest of the US giants, which arose at a time of contraction in Spain's domestic market, led the Spanish government to reorient its strategic view of the sector. A new policy sought to achieve two objectives: facilitating the establishment of big export-led companies and creating incentives for the modernisation of the whole sector. However, a substantial part of the strategic policy remained, including import restrictions, which were only relaxed at the end of the decade.

The "Ford decrees", which became law in late 1972, were the visual sign of this change of strategy²³. The first Ford decree (30 November) lowered the minimum requirement of nationalisation for new manufacturers from 90% to 50%; established a threshold for asset investment at 10 bn pesetas; required exports equivalent to two-thirds of production, limited domestic sales to 10% of last year sales in the domestic market. These conditions perfectly suited Ford's interests. As compensation, previously established automakers were given lower requirements of "local content" in their exports.

The second Ford decree (23 December) declared the sector of preferential interest and gave incentives for land expropriation, tax breaks and freedom to amortize facilities in the first five years to any established companies able to meet the following objectives by 1976: production per working day of 500 units, fixed asset investment over 7 billion pesetas and minimum exports at 20% of production. With this approach, the government sought to expand the size and efficiency of the automobile industry. At that time, the Spanish minister of industry predicted that production in 1977 would reach 1.3 million units, with 500,000 units aimed at the export market²⁴.

On 30 December 1972, Ford submitted an application to build a factory in Valencia at an investment of 310 million dollars. Ford had revived its old intention to make Spain an export platform for cars targeted at Europe²⁵. Production began in 1976

²² Between 1974 and 1985, gross fixed capital formation fell 20% and rose in only one year, 1980 (Carreras y Tafunell, 2007, p. 479).

²³ The policy was reaffirmed in 1979 with the passage of the so-called "Opel decree", which set the requirement for "local content" at 55%, put minimum production at 600 vehicles per working day and specified an export percentage of 65%, in accordance with GM's intentions. To compensate for this change, established automakers received lower requirements for local content, which fell from 90% to 60%.

²⁴ FASA-Renault: *Actas del Consejo*, 12-IV-1973.

²⁵ Ford started assembling autos in Spain in 1920 with the opening of a factory in Cadiz, which closed in 1921. In 1923, Ford opened a new plant in Barcelona. In 1929, Ford transferred 40% of its share capital to Spanish shareholders and became Ford Motor Ibérica. The Spanish Civil War in 1936-39 frustrated expansion plans and the company devoted its activities to truck assembly until 1953. In 1953, Ford sold

and it topped 250,000 cars two years later. The model was the Fiesta, a small car that competed head-to-head against the star products of SEAT (the 127) and FASA-Renault (the R5).

Ford's strategy was the antithesis of the strategies that had been applied in Spain to that point: it manufactured a single model that was completely integrated in its European strategy, producing every component in one (or, at most, two) of its three Fiesta production centres in Dagenham (UK), Saarlouis (West Germany) and Valencia. Ford's entry into the market intensified competition in Spain's domestic market and put the efficiency of Spanish producers to the test. In the end, SEAT paid the price for Ford's entry; the old national champion experienced a steep drop in its market share. By contrast, FASA-Renault applied a strategy that more closely resembled Ford's strategy and it took over commercial and production leadership in Spain (table 3).

Table 3: Production (P) and Sales (S) in Spain by Brand (%)

| | SEAT | | Renault | | Citroën | | Ford | |
|------|------|------|---------|------|---------|------|------|------|
| | P | S | P | S | P | S | P | S |
| 1970 | 60.7 | 55.2 | 21.4 | 21.3 | 5.8 | 6.2 | | 0.3 |
| 1971 | 55.5 | 54.1 | 24.1 | 22.7 | 8.1 | 6.4 | | 0.2 |
| 1972 | 54.7 | 53.0 | 22.6 | 24.1 | 6.8 | 5.6 | | 0.2 |
| 1973 | 49.6 | 51.0 | 25.2 | 24.2 | 7.2 | 6.1 | | 0.3 |
| 1974 | 50.1 | 50.1 | 25.4 | 26.3 | 9.7 | 8.1 | | 0.2 |
| 1975 | 46.4 | 47.3 | 29.0 | 27.1 | 13.1 | 9.6 | | 0.2 |
| 1976 | 44.9 | 48.3 | 27.8 | 25.5 | 14.2 | 10.3 | 2.3 | 1.7 |
| 1977 | 35.2 | 38.6 | 24.1 | 27.2 | 9.6 | 11.6 | 21.6 | 9.2 |
| 1978 | 28.7 | 35.7 | 25.1 | 27.8 | 10.0 | 11.0 | 26.3 | 10.2 |
| 1979 | 31.2 | 30.4 | 29.3 | 29.9 | 7.7 | 10.5 | 24.1 | 11.0 |
| 1980 | 28.1 | 26.0 | 32.6 | 35.2 | 8.1 | 6.6 | 24.9 | 12.3 |

SOURCE: Own elaboration. Production: Catalan, 2000, p. 150 and FASA-Renault, Report, 1970-80. Sales: DGT, Report.

Similarly, in order to meet their commitment to export 20% of production, the companies intensified their policy of integrating into the overall strategies of their head offices abroad. One way was to strengthen their production of technologically backward models aimed at EEC markets. By doing this, Spanish subsidiaries filled in gaps in the ranges offered by their head offices, thus saving some the costs of manufacturing non-competitive models in short runs. This was the direction followed by Citroën, Chrysler and AUTHI. The alternative was to focus on integrated projects that would be competitive within Europe, as SEAT and FASA-Renault did with their 127 and R5, respectively.

Exports offered an escape valve in the face of a shrinking domestic market. Between 1975 and 1980, the weight of exports (as a percentage of export units out of units sold) rose from 22% to 46%. The Preferential Agreement with the EEC established a regulatory framework that enabled the attainment of significant export percentages. In contrast with thinking in the 1960s, the real foreign market was Europe, not Latin America. The national markets of the automakers' head offices constituted the main destination of foreign sales from the automotive industry located in Spain.

7. FASA-Renault Commercial and industrial expansion during the 1970s

its remaining shares to local shareholders and the resulting company became Motor Ibérica, which broke completely with Ford in 1963 (Estapé, 1998, pp. 75-93; Pérez, 2003, pp. 130-131; Lebrancón, 2009, pp. 19-25).

During the 1970s, the car market in Spain experienced a loss of strength and an intensification of competition. Between 1974 and 1980, car registrations in Spain experienced a negative growth: the total amount in 1980 was lower than in 1973 (table 4). At the same time, due to the entrance of Ford in the Spanish market, there was an intensification of competition from 1976 onwards. In this context, FASA-Renault had to face two additional problems: the authorized price system in passenger cars and an increase of labour disputes. In order to address this situation, FASA-Renault decided to gain efficiency by increasing its industrial capacity to make a better use of the economies of scale. At a commercial level, the strategy of FASA-Renault was based on an increase in sales in Spain and an offset of the sluggish domestic market through a significant increase in exports.

Table 4: Car Registrations and Sales

| | FASA-Renault Sales | | | Spain | FASA-Renault |
|------|--------------------|--------------|------------|----------------|--------------|
| | Spain (No) | Exports (No) | Total (No) | Registrations* | Share |
| 1970 | 93,854 | | 93,854 | 410,911 | 22.8 |
| 1971 | 106,496 | 5,600 | 112,096 | 440,224 | 24.2 |
| 1972 | 131,484 | 10,348 | 141,832 | 510,979 | 25.7 |
| 1973 | 159,712 | 19,157 | 178,869 | 597,770 | 26.7 |
| 1974 | 166,706 | 20,957 | 187,663 | 584,234 | 28.5 |
| 1975 | 163,986 | 38,303 | 202,289 | 581,483 | 28.2 |
| 1976 | 165,593 | 42,530 | 208,123 | 623,991 | 26.5 |
| 1977 | 193,752 | 50,103 | 243,855 | 664,906 | 29.1 |
| 1978 | 192,605 | 57,453 | 250,058 | 657,142 | 29.3 |
| 1979 | 197,239 | 76,860 | 274,099 | 623,325 | 31.6 |
| 1980 | 209,248 | 123,625 | 332,873 | 581,617 | 36.0 |

| | Spain (growth) | Exports (growth) | Total (growth) | Spain Registrations (growth) |
|------|----------------|------------------|----------------|------------------------------|
| 1970 | | | | |
| 1971 | 13.5 | | 19.4 | 7.1 |
| 1972 | 23.5 | 84.8 | 26.5 | 16.1 |
| 1973 | 21.5 | 85.1 | 26.1 | 17.0 |
| 1974 | 4.4 | 9.4 | 4.9 | -2.3 |
| 1975 | -1.6 | 82.8 | 7.8 | -0.5 |
| 1976 | 1.0 | 11.0 | 2.9 | 7.3 |
| 1977 | 17.0 | 17.8 | 17.2 | 6.6 |
| 1978 | -0.6 | 14.7 | 2.5 | -1.2 |
| 1979 | 2.4 | 33.8 | 9.6 | -5.1 |
| 1980 | 6.1 | 60.8 | 21.4 | -6.7 |

* Car registration in Peninsula and Balearic Islands (including imports).

SOURCE: FASA-Renault, *Annual Reports* (1970-80).

Regarding automobile industry, prices were highly conditioned by the costs of the products provided by the auxiliary industry, which were in turn influenced by the prices of raw materials and semi-manufacture goods. Furthermore, we must add the high pressure caused by wage costs. In 1973, the increase of wages was linked to the inflation of previous year. In that year, inflation was running at 10%, it exceeded 15% the rest of the decade and it rose to a maximum of 24.7% in 1977. Labour cost had a strong effect both on auxiliary industry and carmakers. The authorized price system in the passenger cars that had effects on the automotive industry prevented the increase on costs from having impact on the final price of vehicles. The increasing gap between costs and prices became a real trouble for FASA-Renault. This shift was extremely noticeable from 1973 onwards (table 5).

Table 5 (1970 = 100)

| | General price index | FASA-Renault car prices |
|------|---------------------|-------------------------|
| 1970 | 100 | 100 |
| 1971 | 109 | 105 |
| 1972 | 118 | 105 |
| 1973 | 131 | 109 |
| 1974 | 151 | 122 |
| 1975 | 176 | 139 |
| 1976 | 207 | 157 |

SOURCE: Spain: Prados (2003). FASA-Renault, *Annual Reports* (1970-1976).

Labour disputes started within FASA-Renault before the oil crisis, and became a sign that both the accumulation model of post-war and Franco's regime were coming to an end. In 1970 all big firms located in Spain counted with a vertical union that was the only authorised agent to negotiate on behalf of the staff collective agreements and act as a mediator in individual disputes. However, in the firsts 1970s informal discussion groups appeared in FASA-Renault factories. They drifted away from vertical union and ended up being general assemblies themselves. This clandestine movement was focused on the labour fight but also on a political struggle against Franco. Disputes started within the factories of FASA-Renault became the core for political mobilisation against Franco in Valladolid (Charron, 1990, p. 52 and 1998, p. 259).

The first actions promoted with these meetings took place in 1972 and included one or two-hour strikes. The first major strike took place in January 1974 and lasted 19 days. In September a new cycle of protests started and led to the strike of December 1974²⁶. Meanwhile, the second assembly factory in Valladolid was set fire –where ten people died–, there was a three-day lock-out, as well as numerous demonstrations that end up with street riots in Valladolid. In April 1975, another series of strikes took place. It should also be highlighted the occupation of the industrial complex of Valladolid and the forceful eviction by police after 36 hours²⁷. The last strike of that period of labour disputes took place in January 1976²⁸. After that strike, workers achieved both their demands regarding timetables –a 44 working hour week– and the reemployment of a hundred workers that had been fired during the strike in April 1975²⁹. As table 6 shows, between 1970 and 1978 wage costs significantly increased in the cost structure of FASA-Renault, which points out the capacity of workers to put pressure on enterprises, even more when it is found out that peak of this ratio was reached between 1976 and 1978, right at the end of the labour disputes cycle³⁰.

Table 6: Cost structure of FASA-Renault (%)

| | Manufacturing, commercial and administrative Costs | Staff Costs | Financial Costs | Asset amortization |
|------|--|-------------|-----------------|--------------------|
| 1971 | 73,3 | 17,2 | 1,8 | 7,7 |

²⁶ It stopped producing 19,000 cars, up 8% of the production and sales of FASA-Renault (FASA-Renault, *Annual Report*, 1974).

²⁷ FASA-Renault, *Minute of the Board*, 30 April 1975.

²⁸ As a result, FASA-Renault failed to produce 21,000 cars (FASA-Renault, *Annual Report*, 1976).

²⁹ The most common claims involve both working time and hierarchical relations. In contrast, the amount of wages and the inequality between different labour categories are very little in the claims (Charron 1990, p. 52).

³⁰ Strikes reappeared in February and March 1979 following both the renegotiation of the collective agreement and the dismissal of 600 workers in Palencia. The dispute meant a loss of 17,579 cars in 1979 (FASA-Renault, *Minutes of the Board*, 20 February 1979 and Charron, 1990, p. 57).

| | | | | |
|------|------|------|-----|-----|
| 1972 | 72,7 | 18,0 | 1,6 | 7,7 |
| 1973 | 72,0 | 19,2 | 1,7 | 7,1 |
| 1974 | 69,5 | 22,0 | 2,2 | 6,2 |
| 1975 | 67,8 | 25,4 | 2,0 | 4,8 |
| 1976 | 66,4 | 27,3 | 1,9 | 4,5 |
| 1977 | 64,9 | 27,6 | 2,0 | 5,4 |
| 1978 | 64,8 | 28,3 | 2,4 | 4,6 |
| 1979 | 65,6 | 25,4 | 2,1 | 6,8 |
| 1980 | 66,8 | 22,7 | 1,1 | 9,3 |

SURCE: Own Elaboration with FASA-Renault, *Annual Reports* (1971-1980).

The worsening of labour disputes together with the authorised price system in passenger cars resulted in a significant erosion of both the benefits and the profit margins of FASA-Renault (table 7). As a result, the company faced a limited capacity for self-financing³¹. Moreover, the problem was aggravated by the situation of the Spanish financial sector. In order to handle that, FASA-Renault was forced to turn to alternative funding formulas, such as share capital increase –mostly subscribed by Renault– and bond issues (table 7). As a result, in 1979 Renault have 71% of FASA-Renault equity (Carron, 1978, p. 257). The result was a sever setback in FASA-Renault industrial expansion projects. The most affected project was the construction of the third assembly plant located in Palencia.

Table 7: FASA-Renault: permanent capital (million pesetas)

| | Equity E | Long-term liabilities (LTL) | E plus LTL | Profits | Profit margin (P/S)* (%) |
|------|----------|-----------------------------|------------|---------|--------------------------|
| 1970 | 2.900 | 634 | 3.534 | 489 | 12,7 |
| 1971 | 3.303 | 1.269 | 4.572 | 530 | 4,4 |
| 1972 | 3.874 | 2.156 | 6.030 | 595 | 3,7 |
| 1973 | 4.056 | 2.646 | 6.702 | 630 | 3,0 |
| 1974 | 7.764 | 4.261 | 12.025 | -127 | -0,5 |
| 1975 | 7.238 | 4.133 | 11.371 | -331 | -1,1 |
| 1976 | 7.111 | 4.651 | 11.762 | -694 | -1,8 |
| 1977 | 9.663 | 7.623 | 17.286 | 1.660 | 2,9 |
| 1978 | 10.247 | 10.117 | 20.364 | 1.229 | 1,7 |
| 1979 | 24.935 | 10.986 | 35.921 | 2.989 | 3,0 |
| 1980 | 37.140 | 10.171 | 47.311 | 4.370 | 3,3 |

* P=net profits. S=Sales.

SOURCE: FASA-Renault, *Annual Reports* (1970-80).

FASA-Renault ended the 1974-76 triennium with losses. Benefits were not achieved until the end of the labour disputes. In 1977, the first year of social peace in the factories, coincided with a 10-month period of free pricing regime³². As a consequence, FASA-Renault was able to increase prices by 38.4% (on average)³³. Once back to the authorized price system, the consolidation of new prices and the social peace prevented from major losses (table 7). However, it should not be forgotten that the FASA-Renault profitability was significantly above the average of the non-financial Spanish industry in any of its ratings (table 8). Table 8 shows how FASA-Renault suffered losses before the bulk of Spanish firms. Yet, its losses had a smaller and lower temporal scope. In fact, from 1978 FASA-Renault experienced a most positive profitability than the average of Spanish companies. Nevertheless, FASA-Renault

³¹ FASA-Renault, *Minutes of the Board*, 27 November 1974.

³² Between December 1976 and October 1977 the government implemented a free pricing regime in passenger cars (FASA-Renault, *Minute of Board*, 14 December 1976).

³³ FASA-Renault, *Minutes of the Board*, 5 October 1977.

compensates its profitability thanks to increase in investments and the creation of jobs. Unlike the Spanish industry as a whole, which highly reduced investments during that period, FASA-Renault committed at every turn to encourage investments. As a result, while the Spanish economy was destroying jobs, FASA-Renault was creating employment (table 9).

Table 8: Spanish firms and FASA-Renault Profitability (P/L)* (%)

| | Non-financial firms | Spain Profitability | | | FASA-Renault Profitability |
|------|---------------------|---------------------|----------------|---------------------|----------------------------|
| | | Industry | Goods Industry | Production Industry | |
| 1970 | 7,20 | 6,90 | 9,00 | 6,50 | 12,4 |
| 1971 | 5,80 | 4,80 | 7,90 | 6,90 | 10,9 |
| 1972 | 7,50 | 7,60 | 9,20 | 7,90 | 11,6 |
| 1973 | 8,00 | 9,40 | 10,90 | 7,20 | 11,7 |
| 1974 | 5,90 | 7,90 | 7,90 | 9,40 | -1,6 |
| 1975 | 4,30 | 4,20 | 5,10 | 6,70 | -4,6 |
| 1976 | 3,70 | 2,70 | 3,40 | 4,10 | -9,8 |
| 1977 | 3,00 | -0,40 | 7,80 | -1,50 | 16,1 |
| 1978 | 0,60 | -8,10 | -4,90 | -14,00 | 9,4 |
| 1979 | 0,50 | -6,40 | -3,50 | -15,00 | 10,2 |
| 1980 | -0,80 | -10,20 | -5,30 | -27,30 | 10,2 |

* P=net profits. L=fixed liabilities.

SOURCE: Spain Tafunell, 2000, p. 107; FASA-Renault FASA-Renault, *Annual Reports*,(1970-80).

Table 9: FASA-Renault and its subsidiaries and sales network staff (No)

| | FASA-Renault (FR) | Subsidiaries (S) | FR + S | Sales Network (SN) | FR + S + SN |
|------|-------------------|------------------|--------|--------------------|-------------|
| 1970 | 8.717 | 1.650 | 10.367 | 6.627 | 16.994 |
| 1971 | 10.147 | 1.733 | 11.880 | 7.594 | 19.474 |
| 1972 | 12.503 | 1.689 | 14.192 | 7.961 | 22.153 |
| 1973 | 15.463 | 1.915 | 17.378 | 8.723 | 26.101 |
| 1974 | 16.357 | 2.009 | 18.366 | 9.513 | 27.879 |
| 1975 | 17.942 | 2.081 | 20.023 | 10.442 | 30.465 |
| 1976 | 19.524 | 2.023 | 21.547 | 11.718 | 33.265 |
| 1977 | 20.552 | 1.981 | 22.533 | 11.296 | 33.829 |
| 1978 | 21.920 | 1.983 | 23.903 | 13.329 | 37.232 |
| 1979 | 22.396 | 1.970 | 24.366 | 13.457 | 37.823 |
| 1980 | 22.027 | 1.990 | 24.017 | 14.289 | 38.306 |

SOURCE: FASA-Renault, *Annual Reports* (1970-80).

FASA-Renault sought to increase its industrial capacity through a better use of the economies of scale to gain competitiveness. Financial problems greatly affected its productive capacity. The company had started the 1970s with large investments to expand its production capacity. While in 1972 the second assembly factory in Valladolid came into operation³⁴, in 1973 the project of building a new assembly factory started in Palencia³⁵, just 30 kilometres away from Valladolid. However, these projects had been slowed down since 1974, leading to stagnation of the production daily rhythm (table 10). The stagnation of production was exceeded in 1978, when the factory in Palencia came into operation. With the new factory, FASA-Renault could achieve 1,000 units per day in 1978, which enabled a better supply of the domestic market and

³⁴ FASA-Renault, *Minutes of the Board*, 20 April 1972.

³⁵ FASA-Renault, *Minutes of the Board*, 14 June 1973.

an expansion in exports. As a result, in 1980 FASA-Renault was the main producer located in Spain, making up 31% of the total car-makers output (table 10).

Table 10: Car production

| | Spain | | FASA-Renault | | | FASA production on Spanish production (%) |
|------|-----------|--------|--------------|--------|---------------------|---|
| | No | Growth | No | Growth | Daily Capacity (No) | |
| 1970 | 479.347 | 20,6 | 98.720 | 16,3 | 380 | 20,6 |
| 1971 | 480.013 | 0,1 | 110.328 | 11,8 | 430 | 23,0 |
| 1972 | 632.585 | 31,8 | 138.748 | 25,8 | 572 | 21,9 |
| 1973 | 746.205 | 18,0 | 181.676 | 30,9 | 714 | 24,3 |
| 1974 | 746.782 | 0,1 | 183.458 | 1,0 | 760 | 24,6 |
| 1975 | 730.840 | -2,1 | 205.934 | 12,3 | 910 | 28,2 |
| 1976 | 791.388 | 8,3 | 212.691 | 3,3 | 919 | 26,9 |
| 1977 | 1.042.336 | 31,7 | 237.502 | 11,7 | 928 | 22,8 |
| 1978 | 1.055.667 | 1,3 | 248.797 | 4,8 | 1.033 | 23,6 |
| 1979 | 1.040.234 | -1,5 | 277.447 | 11,5 | 1.196 | 26,7 |
| 1980 | 1.104.293 | 6,2 | 341.211 | 23,0 | 1.292 | 30,9 |

SOURCE: FASA-Renault: *Annual Reports* (1970-80).

With the loss of strength in the domestic market, the strategy of FASA-Renault was focused on two axes. On the one hand, it sought the entrance in the Spanish market. On the other hand, it sought to offset the domestic weaknesses with a boost on exports volume. At the beginning of the 1970s, sales of FASA-Renault in Spain grew faster than those in the industry as a whole, once the commercial network had been restored, following the footsteps of the French industry (Fernández-de-Sevilla, 2010a, pp. 480-483). Business strategies became a key element to face competitiveness and FASA-Renault was highly prepared. The continued expansion of the commercial network was one of the strategic goals of the company (table 11). In just ten years, the staff of the commercial network went from 6,000 members to more than 14,000 (table 9). This allowed sales in Spain to increase steadily –except the setbacks of 1975 and 1977. In contrast with the total car registrations, which were lower in 1980 compared to 1973, sales of FASA-Renault in 1980 were 30% higher than in 1973. As a result, the entrance of Renault in the Spanish market increased significantly to 36% in 1980 (table 4).

Table 11: FASA-Renault, sales network points

| 1970 | 1972 | 1974 | 1976 | 1978 | 1980 |
|------|------|------|------|------|-------|
| 435 | 604 | 677 | 852 | 962 | 1.173 |

SOURCE: FASA-Renault, *Annual Reports* (1970-80).

However, the rhythm of growing sales in Spain slowed significantly down from 1974 onwards (table 4). FASA-Renault was able to handle this domestic slowdown with a large increase of exports (table 12). The increase in the export volume was made possible thanks to its integration into the Renault Group synergies (Charron, 1998, p. 258). Proof of this is the fact that most foreign sales were addressed to France (table 12). FASA-Renault sustained its export volume with the R-5, a low-mid range car. As it happened with other manufacturer industries installed in Spain, FASA-Renault was specialised in the production of mid-to-low range models, some of which were to be exported to the European market.

Table 12: FASA-Renault, Exports

| | Cars (No) | Destination (%) | | | Share of exports | |
|------|-----------|-----------------|------|---------|------------------|---------------|
| | | France | CKD* | Spain** | On turnover | On production |
| 1971 | 5.600 | | | | 4,6 | 5,1 |

| | | | | | | |
|------|---------|------|------|------|------|------|
| 1972 | 10.348 | 84,9 | | 15,1 | 8,0 | 7,5 |
| 1973 | 19.157 | 85,8 | | 14,2 | 12,6 | 10,5 |
| 1974 | 20.957 | 91,7 | | 8,3 | 12,9 | 11,4 |
| 1975 | 38.303 | 72,0 | 23,2 | 4,8 | 18,2 | 18,6 |
| 1976 | 42.530 | 78,5 | 16,8 | 4,7 | 22,9 | 20,0 |
| 1977 | 50.103 | 84,2 | 10,3 | 5,5 | 20,9 | 21,1 |
| 1978 | 57.453 | 81,0 | 12,0 | 6,6 | 22,8 | 23,1 |
| 1979 | 76.860 | 75,5 | 16,7 | 5,4 | 24,3 | 27,7 |
| 1980 | 123.625 | 73,9 | 21,4 | 1,9 | 33,9 | 36,2 |

* CKD sets were exported to Portugal and Colombia.

** Canary Islands, Ceuta and Melilla.

SOURCE: FASA-Renault, *Annual Reports*, 1971-80.

The success inside and outside FASA-Renault during the 1970s was based on the attractiveness of a new model released in late 1972, just before the outbreak of the crisis. The R-5 was the main factor driving the supply of FASA-Renault (table 13). As it happened in France, the R-5 had ideal characteristics for both the Spanish market and the historic moment that it had to face. Following the path that was giving such good results in France, FASA-Renault began to implement the strategy of the range within the range with the R-5. In 1975, FASA-Renault released 3 new models: TL (956cc), GTL (1.037cc) and TS (1.289cc), covering completely different demands. That range was expanded a year later with the R-5 Cup (1.397cc), which replaced the R-8 TS as the most important sports car of the company. The R-5 was the mainstay of foreign sales of FASA-Renault. Since 1975 onwards, its exports had ranged around 40% of its production³⁶. With the R-5, FASA-Renault was fully integrated within the synergies of the Renault.

Table 13: FASA-Renault, production by models (No)

| | R-4 | R-8 | R-6 | R-12 | R-5 | R-Siete | R-18 | R-14 |
|------|--------|--------|--------|--------|---------|---------|--------|--------|
| 1970 | 30.047 | 34.543 | 19.128 | 14.252 | | | | |
| 1971 | 30.523 | 38.884 | 22.460 | 18.208 | | | | |
| 1972 | 30.536 | 36.456 | 30.131 | 37.348 | 4.085 | | | |
| 1973 | 30.470 | 31.417 | 28.437 | 51.367 | 39.789 | | | |
| 1974 | 30.105 | 25.199 | 29.970 | 45.363 | 51.411 | 1.152 | | |
| 1975 | 29.113 | 13.531 | 28.029 | 45.649 | 62.977 | 26.509 | | |
| 1976 | 23.903 | 3.401 | 24.848 | 44.343 | 88.052 | 28.089 | | |
| 1977 | 28.681 | | 26.464 | 54.072 | 97.852 | 30.322 | | |
| 1978 | 37.317 | | 24.806 | 52.031 | 100.106 | 27.269 | 7.249 | |
| 1979 | 42.443 | | 20.392 | 32.181 | 97.628 | 22.939 | 59.638 | 2.226 |
| 1980 | 45.479 | | 21.838 | 32.637 | 146.175 | 14.334 | 48.474 | 32.274 |

FASA-Renault, production by models (%)

| | R-4 | R-8 | R-6 | R-12 | R-5 | R-Siete | R-18 | R-14 |
|------|------|------|------|------|------|---------|------|------|
| 1970 | 30,7 | 35,3 | 19,5 | 14,5 | | | | |
| 1971 | 27,7 | 35,3 | 20,4 | 16,5 | | | | |
| 1972 | 22,0 | 26,3 | 21,7 | 27,0 | 2,9 | | | |
| 1973 | 16,8 | 17,3 | 15,7 | 28,3 | 21,9 | | | |
| 1974 | 16,4 | 13,8 | 16,4 | 24,8 | 28,1 | 0,6 | | |
| 1975 | 14,1 | 6,6 | 13,6 | 22,2 | 30,6 | 12,9 | | |
| 1976 | 11,2 | 1,6 | 11,7 | 20,9 | 41,4 | 13,2 | | |
| 1977 | 12,1 | | 11,1 | 22,8 | 41,2 | 12,8 | | |
| 1978 | 15,0 | | 10,0 | 20,9 | 40,2 | 11,0 | 2,9 | |
| 1979 | 15,3 | | 7,3 | 11,6 | 35,2 | 8,3 | 21,5 | 0,8 |

³⁶ FASA-Renault, *Annual Reports*, 1973-1980.

| | | | | | | | |
|------|------|-----|-----|------|-----|------|-----|
| 1980 | 13,3 | 6,4 | 9,6 | 42,8 | 4,2 | 14,2 | 9,5 |
|------|------|-----|-----|------|-----|------|-----|

SOURCE: FASA-Renault, *Annual Reports*, 1970-80.

Although in 1974 the spectacular growing figures of car registrations in previous years started to fall down, FASA-Renault, in contrast with the whole industry, managed to end up the decade without experiencing any decreases in the production volume. This was possible thanks to the intensification of its entrance in the Spanish market, which reflected the good image of the brand and the know-how of its commercial network, as well as a significant permanent increase in exports. Furthermore, the agreements signed with Renault helped to boost exports. In addition, the number of engines and gearboxes produced showed a similar development, especially regarding good export levels.

8. Conclusions

Between 1970 and 1980 FASA-Renault was able to increase its entrance in the car Spanish market from 23% to 36%. Moreover, whilst the export volume had always been non-existent, they began to export more than 100,000 cars. As a result, their participation in the Spanish production increased from 20% in 1970 to 31% in 1980, when production almost reached 350,000, even if Ford began to produce in 1976. FASA-Renault had to face two main problems during these years: the control of prices and labour disputes. The authorised price system prevented cost increases to have an impact on products, which hindered the capacity of self-financing for industrial expansion. Serious labour disputes, due to both the political and the economic crisis, caused serious trouble for the production and for the workers labour conditions. What is more, these difficulties were combined with the arrival of Ford and a loss of strength in the domestic market.

In order to address the situation, FASA-Renault decided to expand its industrial capacity and sales network, using R-5 as the main driving factor for increasing supplies. At the same time, they took advantage of exports to compensate for the contraction in domestic demand. And as a way to overcome the cost-price gap, they decided to increase its industrial capacity, but it was essential to assure there were major commercial layouts to guarantee the sales of the production. As Renault did in France during the 1950s and 60s, FASA-Renault multiplied sale and post-sale points by 2.7 (staff was multiplied by 2.2) and used marketing strategies that had already been applied and tested in France but were adapted to the Spanish context. Along with the increase in domestic sales, FASA-Renault greatly expanded its exports, which were 12 higher between 1972 and 1980.

Because of this, FASA-Renault was able to increase both investment and the number of employees while the effects of the crisis in Spanish economy were even deeper than in the EEC. Whilst there was an important contraction in growth, a galloping inflation, a runaway investment and a destruction of nearly two million jobs between 1975 and 1980, FASA-Renault tripled its production capacity, multiplied its equity plus long term liabilities by thirteen and doubled its staff team.

In the 1970s, the most successful models were those that had already been launched in the time of its outbreak, and were closer to the new preferences of consumers. In that sense it can point the Peugeot Diesels and the Honda Civic. The R-5 meant a success for FASA-Renault, both in Spain and abroad. Exports were mainly sent to France, which showed the well-integration of FASA-Renault in the global strategy of

Renault. As a result, FASA-Renault consolidated as the largest production center of Renault outside France. FASA-Renault was able to successfully adapt to the new role Spain played in the automotive sector: it became a center of international production of a low-medium range model car.

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