



Spain and Britain's Informal Empire, 1808 to 1936

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By Nick Sharman

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Introduction

For a century and a half after its defeat in the Napoleonic Wars Spain lay in the shadow of Britain's Empire and its industrial revolution. Like many other parts of the world, notably East Asia and South America, it was never part of the formal Empire but like them, it was subject to Britain's hegemonic domination of world trade, finance and investment. This paper argues that seeing Spain's development in terms of informal empire and colonial domination helps to explain both its fitful path to industrialisation and the contested forms of nationalism that were to end in the bloody catastrophe of Civil War. We can also see many parallels with the relationships that have developed in the post-World War Two period between dependent nations and the 'informal empires' of the US and European Union.

The Growth of Britain's Informal Empire

The Napoleonic Wars were a calamity for Spain. At Trafalgar, the Spanish fleet, vital to the defence of its far flung empire in East Asia, the Caribbean and South America, was destroyed. Spain itself was extensively fought over during the devastating and costly Peninsular War. Meanwhile the country's fiscally vital South American colonies rose in revolt. After Napoleon's defeat at Waterloo, the Congress of Vienna restored the divisive and reactionary Bourbon king, Ferdinand, who had been held hostage in France. Within fifteen years Ferdinand had 'lost' Spain's American colonies and led the country into financial ruin. His death in 1833 was followed by a long running struggle over his succession, between a developing liberal bourgeoisie on the one hand, and the established landowning class and Catholic Church on the other. These destructive [Carlist](#) civil wars lasted off and on for the next three decades.

Even by the 1820s, Britain's increasingly assertive imperialism had seen Spain's weakened state as an opportunity to extend its reach. Canning, then British Foreign Secretary, used British naval power to blockade French support for Spain's attempts to resist the Bolivarian wave of colonial revolt in South America. 'I called the New World into existence to redress the balance of the Old', he said in 1826. Triumphantly he went on

'Spanish America is free and if we do not mismanage our affairs she is English...the New World established, and if we do not throw it away, ours'.

Within a few decades Britain had indeed established a virtual trade and investment monopoly in much of South America. In Argentina it owned 75% of the railways and dominated its trade. Although never painted pink on the map, much of the continent nonetheless became an acknowledged part of Britain's informal empire, so much so that when in 1932 the Ottawa conference attempted to create a British Empire-based

sterling zone in the wake of collapse of the gold standard, Argentina applied to be considered as an Empire Dominion.

In their path-breaking 1951 article, Gallagher and Robinson used the Argentinian case as one of the main illustrations of their concept of 'informal empire'. They argued that Britain's global trade and investment supremacy had enabled it to establish a hegemonic dominance in the country. They pointed out too, that the informal empire had contributed as much as the formal empire to Britain's successful industrialisation. This essay suggests that Britain's South American 'informal empire' was matched by a looser, though still powerful equivalent in Spain itself and that, moreover, this had an important influence on the development of Spain's economy and its politics, right up to Spain's Civil War in 1936.

Britain's motives in Spain were the same as in South America, to secure essential raw materials and cheap food to feed the explosive processes of industrialisation and urbanisation at home. By the late nineteenth century Spain supplied 86% of the iron ore and 90% of the sulphur sold abroad by European nations. Even as late as 1935 Spanish ore made up 30% of Britain's iron ore imports. Spain's minerals were also crucial to the development of the chemical and electricity based industries. Its copper, sulphur, lead and mercury mines dominated the supply of these second wave industrial revolution industries in Europe.

Meanwhile the country's agricultural products, notably its potatoes, oranges and wine, became a vital part of the diet of the increasingly affluent middle classes of northern Europe. Britain's central role in trade and commercial finance and its near monopoly of international sea trade allowed it to maintain a stranglehold on Spain's economic development. Exploiting these advantages, French and British investment in Spain's mineral extraction and railway industries ensured the two countries directly dominated these crucial parts of its developing economy. Although increasingly challenged by the newly emerging US and German multi-national companies from the 1920s onwards, this Anglo-French ascendancy lasted into the 1930s.

Spain's Slow Path to Industrialisation

This dominance meant Britain, and to a lesser extent, France, were able to play a central role in determining – and distorting – the pattern of Spain's own slow and fitful industrialisation. In a classic case of uneven capitalist development, industry was confined largely to the Basque iron and Catalan textile production centres. Mineral extraction was concentrated on Asturias coal and on the Andalusian lead, copper, sulphur and mercury mines, while Madrid gradually developed service sector-based industries. Meanwhile the rest of the country remained overwhelmingly rural – not until the late 1920s did agricultural employment fall below 50% of the total.

The reasons for this limited and very uneven development were complex but a key factor was foreign companies' ability to export the 'super profits' generated by both mineral extraction and the railway boom. Foreign influence on the development of the railway network was another important cause. Its radial pattern, based on Madrid and its focus on servicing mining centres and large agricultural landowners, reflected the interests of the Madrid-based Spanish political elite and the foreign-owned mining companies, rather than the country's need for a comprehensively connected transport network. Even in the late nineteenth century it was cheaper to import wheat into Barcelona from America's mid-West than from Spain's agricultural hinterland in Castile a hundred or so miles away.

The result of this uneven economic development was uneven cultural modernisation. In contrast to Britain's successful bargain between landed and manufacturing interests, the emerging industrial elites in Spain, centred on Bilbao and Barcelona, never exercised decisive power over national policy priorities. Their exclusion from the Madrid based political elites drove them to support the Basque and Catalan nationalist movements that emerged at the end of the nineteenth century, separatist pressures that were an outcome, in Álvarez Junco's words, of a 'lack of correlation between the geographical sources of economic power and of political power'. Over a century later, Spain is still struggling with the legacy of these divisions, especially again, in Catalonia and the Basque Country.

British economic dominance had another important impact on the development of Spain's national identity. Resentment of British neo-colonial attitudes and policies fed Spain's resistance to foreign intervention, especially after the First World War. In distorted form, this was to lead to Franco's autarkic economic policy when Spain turned its back on the world for two decades. Moreover Spain's attempts to break out of its dependence on foreign investment led to periodic attempts to recreate its own lucrative economic empire.

Colonial campaigns in North Africa in the 1850s and in the first decades of the twentieth century culminated in Franco's offer to Hitler to trade his support for France's African empire. Although these colonial campaigns were largely justified with the political rhetoric of jingoistic nationalism, underlying them was a search for political and economic independence from neo-colonial domination by the European political and financial powers, especially by Britain.

Spain's Crises: Asset Stripping and Privatisation

The story of Spain's growing economic subjugation to the financial great powers goes back to the Napoleonic Wars. However it was the political and financial crises of the 1850s onwards that made Spain's dependence on them clearly apparent. A combination of the financial demands of physical and social infrastructure modernisation and a fierce resistance to taxation, especially by the well-entrenched

landowning class, led to large and chronic budget deficits and a weak central government. Financial crises were exacerbated by a series of uprisings and military coups between the 1850s and 70s, driven by the rising political demands of the emerging artisan and bourgeois classes in the face of fiercely resistant conservative elites. The result was successive Governments' frantic search for (exorbitantly priced) international loans in the European stock markets and a fire sale of State assets and concessions (eerily reminiscent of Greece's situation a century and half later).

In the financial crises of the early 1850s Rothschilds played the leading role in organising Government debt financing. It then used its bargaining power to acquire an almost monopolistic control of Spain's lead and mercury mines and to establish a dominant role in the railway boom of the 1860s. In 1873 the largest of the State's assets, the copper and sulphur mines of Rio Tinto, were sold to a British consortium by a Government desperate for the finance and expertise needed for modern extraction technology and production. A decade later Rothschilds themselves bought a majority share in the company.

The results of this massive sell-off of assets were all too predictable. Spain's nascent industrialisation was undermined by the repatriation of profits to shareholders in Britain and France while the workers were ruthlessly exploited, leading to desperate poverty and insecurity. As late as 1921 British managers at Rio Tinto reported that 70% of their workers were starving and were too weak to perform the work asked of them. There was precious little technology transfer either. British colonial attitudes meant Spaniards ('a disloyal, insincere and effusively flattering breed' as Rio Tinto's General Manager, Walter Browning, put it in 1920) were excluded from any position beyond supervisory management.

This was founded on wider, racist assumptions about 'the Latin character'. There is 'a national explosion of race antipathy which has always existed and will always exist between Latins and Anglo-Saxons...Decency, loyalty, character and honesty of purpose are lacking in the whole nation', Browning said. Unsurprisingly, Spanish nationalism was shaped by the bitter resentment such neo-colonialist attitudes fostered. Again it is clear from recent events that Europe still harbours much of this form of cultural racism, emerging at its strongest at times of crisis.

Spain's disillusion: Living and Dying Nations and Empires

From the start there had been conservative dismay at the sale to foreigners of the Rio Tinto mines, and by the end of the nineteenth century there were growing calls across the political spectrum for its nationalisation, especially in light of its ruthless behaviour towards its workers and local communities. The Basque industrial elite, facing the British penetration of its iron and steel industry, were also demanding more

control over foreign investment, highlighting the 'fugitive and ephemeral prosperity' it had brought, as one leading Basque industrialist put it. The final loss to the US of the Spanish colonies of Cuba and the Philippines in the war of 1898 spurred demands by landowners and the industrialists for protection from British free trade competition of the now totally exposed economy.

However, unlike Germany and the US which had used tariffs to protect investment in their infant industries from Britain's free trade imperialism, the Spanish tariff system that was introduced over the following decade protected the mostly reactionary landowner interests, rather than the emerging and more dynamic industrialists.

The British reaction to Spain's 1898 'disaster' was contempt. In a famous Albert Hall speech the Prime Minister, Lord Salisbury, spoke of the need for 'living nations' to take over the dying. This outright acknowledgement of British imperial ambitions caused a mixture of consternation, resentment and despair in Spain. However, despite the growing recognition of its economic vulnerability, the weakness of the state meant there was little systematic attempt to modernise the economy.

There were calls by the 'regenerationists' for an 'iron surgeon' to save the sick Spanish economy but policy debate instead focussed largely on the distribution of the tax burden and special pleading by different groups for tariff protection. The process of foreign acquisition continued, and by 1913 half of all Spanish capital investment was in foreign hands.

The First World War was a watershed for the Anglo-Spanish relationship. Neutral Spain enjoyed an ephemeral industrial boom but the rising demands of its new urban and labour classes collided with the conservative and highly elitist government system and led to a series of social upheavals. These culminated in a monarchy-backed military coup which brought General Primo de Rivera to power in 1923.

Meanwhile on the British side, the War had revealed the underlying economic weaknesses of the Empire. Financially exhausted, Britain could not sustain its Victorian dominance of international trade, especially in the face of the rising power of the US economy. More broadly it could no longer play a leading role in a post War world economy increasingly driven by the second wave of industrialisation, the emergence of mass consumer societies and the reorganisation of production around multinationals.

In Spain this was clearly illustrated in its diminishing investment role in the country: of the fifty-eight new foreign companies established in Spain between 1914 and 1930, only two were British. Moreover these two were in its traditionally strong sectors, ship repair and machinery importers. Most of the other new companies were in the new consumer industries. Ten were US and eleven were German, ranging from cars (Ford, GM) and domestic goods (such as Westinghouse) to chemicals, entertainment, pharmaceuticals and machine tools. Many of the companies were from the emerging

multinational sector such as Agfa, Nestle, Warner Bros, Roche and Ingersoll-Rand. None were British.

Britain nonetheless remained a very significant force in post First World War Spain. It owned 40% of all foreign investment in the country (some 13% of all British investment in Europe) and took a quarter of all Spanish exports. In 1919 and 1920 the two largest British companies, Rio Tinto and Barcelona Traction (an electricity and water supply company), were the focus of bitter labour struggles over wages and trade union recognition. They were also the target of mass public campaigns against foreign investment.

The 1920 strike at Rio Tinto in particular grew into a nationwide campaign which involved the placing of some 2000 of the miners' children in every part of Spain. In Spain's newly urbanising, mass society, resentment at the British neo-colonialism and the demand for greater control over foreign investment had become a genuinely popular issue. It was to run through Spanish politics for the next 40 years, until Franco reopened the economy to international investment in 1959.

During the 1920s the military dictatorship attempted to modernise the economy with a nationalist programme of public investment and corporatism, loosely modelled on Mussolini's approach. The regime was deeply schizophrenic about the role of foreign investment. It responded to demands to nationalise foreign mining companies (to reclaim 'our soil') by increasing their tax rates (Rio Tinto's tax bill for example was tripled). On the other hand it encouraged – and eventually subsidised – investment in a strategic railway between Santander and the Mediterranean by the London-based Consolidated Mining and Investment Corporation, the world's largest gold mining company. The company won the concession with a combination of bribery (involving the monarchy and a future Republican prime minister) and local political fixes.

However as the storm clouds of the Slump gathered, political opposition to the dictatorship grew. An important target for the increasingly confident alliance of socialists and republicans was the regime's corruption and this became focussed on the Santander railway contract. The issue brought together the incompetence of the regime, the monarchy's corruption and the privileged role of foreign investors, and cemented the hostility of the centre and left to the influence of the foreign investment and to the monarchy. Consequently when the dictatorship fell in 1931 and the Second Republic was declared, there was general antagonism towards foreign investors across the political spectrum.

The Republic's Crises

The new Republican Government faced an immediate financial crisis which exposed both its vulnerability and the continuing, schizophrenic attitudes to foreign capital. Within days there was a run on the peseta. The Finance Minister, the socialist Indalecio

Prieto, made two extremely expensive commitments to preserve the Republic's international financial credibility – to maintain the exchange rate and to meet the Dictatorship's outstanding (and very substantial) loan obligations. These decisions, together with a fierce commitment to orthodox budget management, were to pin the Republic into a financial corner, and meant it was never able to meet the political and economic demands of a newly enfranchised society, pressures which eventually broke it. Again we can see the echoes of the current Greek predicament in its struggle with the EU and international financial interests.

There was another longer term threat, disinvestment (once again reminiscent of the recurrent dilemmas of less developed countries). Within a month of the Republic's declaration the London Board of Rio Tinto decided to run down its investment in Spain in expectation that its profitability would be hit by wage rises of the newly empowered workforce (though at the same time it kept its balance sheet valuations high to maximise compensation payments in case the mines were nationalised). With these decisions Rio Tinto had started its journey out of Spain in search of the profitable mix of minerals and cheap labour in Africa that was to see it become the multinational giant, RTZ.

To reinvest outside Spain however, it first needed to safeguard as long as possible both its Spanish profits and its market dominance in Europe, a task made considerably harder by the collapse in demand for copper and sulphur in the world trade Slump. It therefore pursued a twin strategy of low wages and radical staff reductions. For Republican governments, in desperate need of jobs and revenues and unable (or unwilling) to nationalise the company, this strategy created impossible dilemmas.

When the workers went on strike in 1934 to protest at the company's proposal to make 2000 workers redundant, against the Government's advice, the Civil Guards who were policing the mines were removed. Rio Tinto mobilised its formidable lobbying power in the City and Whitehall, and persuaded the Governor of Gibraltar to threaten to send British troops into Spain to protect the company's property. The Spanish Government quickly backed down and sent in its own troops to guard the mines. It was a striking indication of the power of the company to mobilise imperial force and the readiness of the British to use it.

This influence was demonstrated two years later when, after the unexpected election of the Popular Front Government in 1936, there were further strikes in the mines. In June the Foreign Secretary, Anthony Eden, pressed his Spanish counterpart for greater protection of the mines. However any response by the Republican Government was pre-empted by the military uprising a month later, which began the Spanish Civil War. In September, after bitter local resistance, Rio Tinto's mines were overrun by Franco's troops. The company's initial welcome for the rebels soon turned sour however. Franco's overriding objectives were to build a strong state and achieve economic self-sufficiency. His aims were therefore to use the company's production to generate

foreign exchange and to manipulate its export markets for political rather than commercial gain.

Franco compelled the company to prioritise the supply of minerals to Germany, thus undermining the Rio Tinto-dominated mechanism, the European Pyrites Association, for sharing out international markets and fixing prices. By May 1937 Franco had banned mineral exports to all countries except the Axis powers, US and Britain, totally undermining the company's business.

Over a few months, the Rio Tinto's concerns had moved dramatically, from an incipient communist take-over of its mines to a struggle for survival with the rebel regime. The need to placate Britain and Rio Tinto's £2.5m contribution to Franco's war chest preserved British ownership of the mines however and it was only in 1954 that Rio Tinto was nationalised with a relatively generous compensation.

Conclusions

Over the century and a half of Britain's imperial power, Spain was ruthlessly exploited for its mineral resources, essential for the development of British, then wider European industrialisation. At key points of crisis, the exercise of this imperial power became particularly evident and it is at these points that we can see most clearly how Britain helped to shape Spanish economic and political development.

Canning's pre-emption of Spain's attempts to regain its American colonies set the stage for British domination. The mid-nineteenth century currency crises gave an opening to British and French investment dominance in key mineral and rail industries. The outright bid for political domination in Salisbury's encomium to the 'living' over the 'dying' nations at the apogee of Britain's imperial power helped to spur nationalist movements in the regions as well as reviving Spain's own imperial ambitions. In the 1920s and 1930s, despite the weakening power of the British Empire, Britain's influence remained an important spur to Spain's increasingly confident economic nationalism and eventually to Franco's autarkic policies.

It is this long history of economic imperialism that helps to explain why, within days of the military uprising in July 1936, the British Government decided not to support the Republican Government, despite its recent and clear democratic mandate. The British-led policy of non-intervention was the Republic's death knell in the face of overwhelming German and Italian military support for Franco's rebellion.

Significantly this British policy was largely shaped by Anthony Eden who, as we have seen, had the previous month attacked the Spanish Government for not protecting British economic interests. Significantly too, he himself became a director of Rio Tinto after the Second War. Although the decision not to support the Republic was to a large extent shaped by Britain's policy of appeasing the Axis Powers, it also reflected a last,

and ultimately fruitless, attempt by Britain to hold on to an important colony of its informal empire.

Paradoxically the post 1945 story of Britain and Spain saw both countries drawn in different ways into the new informal empires of the US and the European Union. Their subsequent economic development and forms of nationalism have been largely determined by forces and political decisions made in Washington, New York, Brussels and the board rooms of multinational companies, just as Spain had so long been the subject of decisions made in Whitehall, Westminster and the City of London. It is these contemporary parallels that make Spain's story of informal economic colonialism still powerfully relevant.

The type of distortions in Spain's uneven industrialisation process created by the largely uncontrolled foreign exploitation of its mineral resources still goes on in the unbalanced economies of many African and South American countries. Similarly the role of financial markets in controlling governments' domestic and foreign policy has become ever more evident in the successive post war sovereign debt crises, most recently and spectacularly in Argentina's 2001 default and subsequent restructuring. As in nineteenth century Spain, the price is often the large scale privatisation of the country's key assets.

We can see another parallel in the resistance of well entrenched domestic elites to the creation of an effective central state which has been a common feature of developing (and indeed many developed) countries. One common symptom is widespread tax evasion by such interests, most recently exemplified in Greece's recent political and economic crisis. Domination by informal empires of investment, trade and finance has also frequently led to the emergence of romantic and autarkic nationalism in reaction.

From Peronist Argentina to contemporary Hungary, strong nationalist movements have tried to insulate their country from foreign economic competition in the name of self-sufficiency (though, like Franco's autarkist policies these have sooner or later run into serious contradictions). In these and other countries, we can also see the same schizophrenic reaction to foreign investment as in Spain, welcomed on the one hand as the route to modernisation, reviled on the other hand as an attack on national sovereignty.

It is the range of these parallel experiences that suggests the concept of informal empire remains as relevant to the more globalised world of the twenty first century as it was to the Spain of the nineteenth and early twentieth centuries.

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Cover Image: The Rio Tinto Company's copper operations in southern Spain c.1900



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