Angela Garcia Calvo

Institutional development and bank competitive transformation in late industrializing economies: the Spanish case

Article (Accepted version)
(Refereed)

Original citation:
Garcia-Calvo, Angela (2016) *Institutional development and bank competitive transformation in late industrializing economies: the Spanish case.* Business and Politics, 18 (1). pp. 27-62. ISSN 1469-3569

DOI: 10.1515/bap-2014-0034

Institutional development and bank competitive transformation in late industrializing economies: the Spanish case

Abstract

This paper explores the contribution of national institutions to the competitive transformation of big commercial banks in late industrializing countries through the analysis of the Spanish case. The paper uses a comparative historical analysis to establish that strategic coordination between the state and large banks is a structural feature of the banking sector but may be articulated differently depending on the balance of power between states, banks and industry, the preferences of these actors, and their resources. Using evidence from Spain since the late 1970s, the paper argues that in this country, state-bank coordination was articulated as a non-hierarchical system of negotiated interactions and mutual exchanges of benefits between small groups of decision-makers at the government, the central bank, and big banks. Under the Spanish model, large banks contributed to the fulfilment of public policy objectives to develop the central bank's capacity to conduct monetary policy, strengthen supervision of the banking system and modernize the financial sector. In exchange, big banks benefited from a favorable regulation that enabled them to restructure, consolidate the leadership of a new generation of bankers, and reach the efficiency frontier of their industry. The paper contributes to the literature of institutionalism by questioning the traditional dichotomy between market and strategic coordination. It also contributes to the literature of competitiveness by stimulating debate about the role of the state in supporting the transformation of big business.

1. Introduction

Institutionalist scholars[1] consider the structure of the banking sector to be a distinctive feature of different models of capitalism. However, the literature tends to base its analyses on examples of leading economies with well-developed institutional structures[2]. Consequently, few contributions have analyzed the processes through which banking institutions evolve and consolidate, and the impact of institutional development on banking strategies and on the configuration of national models of capitalism.

This paper contributes to filling this gap via an analysis of the Spanish case between the late 1970s and the late 2000s. The paper characterizes a symbiotic model of state-bank coordination based on non-market, non-hierarchical

---

1 Zysman (1983); Deeg (1999); Whitley (1999); Hall and Soskice (2001); Amable (2003); Herrigel (2010).

2 Zysman (1983); Erturk and Solari (2007); Hardie and Maxfield (2010); Hardie and Howarth (2010).

relationships and argues that this model played a critical role in the competitive transformation of Spanish large banks. Bank-state coordination in the Spanish model was based on negotiated exchanges of benefits and a careful combination of the resources and capabilities of the two actors. The closeness of state-bank interactions in the Spanish model differentiates it from market-led models. However, the inability of the state to implement institutional reforms without accommodating the interests of the big banks, and the banks' ability to strike bargains that did not require them to provide patient capital for productive industry, distinguished the Spanish model from other European developmental models based on non-market coordination, such as France's and Germany's. In the Spanish model, big banks contributed to the implementation of state plans to overhaul and modernize the financial system. In exchange, the banks benefited from a favorable environment that enabled them to undertake the necessary changes to overcome historical disadvantages and reach the efficiency frontier. Under this model, however, productive industry found it difficult to secure the patient capital it needed to undertake a comparable transformation, which contributed to Spain's sharp manufacturing decline.

The Spanish case presents critical features that make it relevant to a general audience interested in bank transformation and models of capitalism. The description of the negotiation process through which Spanish banking institutions modernized and transformed sheds light on questions regarding institutional development and consolidation, particularly in the context of late industrialization. The overlap between Spain's transformation and global changes in the banking sector provides an opportunity to examine to what extent conventional banking models are applicable in the post-liberalization era. In addition, Spain's position in the European periphery, and the major institutional changes that transformed the country into an open economy and a fully-fledged democracy in the 1980s and 1990s offer insights that can resonate with other peripheral, transitional, and middle-income countries. Finally, Spain falls in the category of "mixed market economies" or hybrid institutional systems that do not rely primarily on either market or non-market forms of coordination. The political economy literature of models of capitalism has not yet been able to define the characteristics and performance mechanisms of hybrid models. However, it can be argued that most countries, including the majority of late industrializing economies, fall into this category. By undertaking the study of a hybrid case, this paper contributes to the scholarly understanding of mixed models, and through it, to the literature of contemporary forms of capitalism.

The paper takes a historical perspective that relies on a combination of macro- and microeconomic analysis. A combination of these two levels of analysis is necessary to reveal the interdependencies that lie underneath state-bank interactions and the way they shape the Spanish model. This research design relies on the triangulation of data from different sources, with interviews secondary to publicly available data. The paper develops a comparative analysis of bank performance using specialized databases, annual bank reports, and additional information from other specialized sources, including the IMF, the World Bank, and the OECD. The analysis of Spain's banking institutions is based on information from parliamentary session transcripts, published laws, and published testimonies of key stakeholders. In addition, the paper uses sixteen semi-structured interviews with civil servants, public employees, and bank experts to complement, contrast, and interpret publicly available data, help fill gaps, and flesh-out industry-level developments. Whenever possible, the paper references published documents rather than interviews.

The paper focuses exclusively on the trajectory of the Big 7 (Banesto, Bilbao, Central, Hispano Americano, Popular, Santander and Vizcaya), the historical group of Spain's largest commercial banks, excluding other types of credit institutions, such as savings banks. The focus on big or systemic banks is consistent with the differentiated treatment they receive from the academic literature, central banks, and other banking institutions. It is also justified by the preeminent role the Big 7 played in the Spanish credit system throughout the period of analysis. This differentiates the Big 7 from savings banks whose operations and expansion, and therefore their size and ability to influence national institutional change, was less relevant before the 2000s.

The rest of this paper is divided into five parts. Section two establishes the role of state-bank coordination in banking and showcases different ways to articulate the relationship through comparative examples. Section three shows changes in the characteristics and performance of the Spanish banking sector through quantitative and qualitative cross-country comparisons. Section four outlines standard explanations for the competitive transformation of big Spanish banks and discusses their limitations. Section five characterizes the Spanish model and connects it to the transformation of big Spanish banks. Section six summarizes findings, outlines general contributions and concludes.

2. The institutional structure of commercial banking

Problems of asymmetric information make the banking sector prone to disequilibria. If left unchecked, these problems can quickly escalate and turn into systemic financial crises that may provoke deep, protracted economic recessions. A public system of bank supervision is a crucial guarantee of the stability and efficiency of a credit system. Consequently, coordination between credit institutions—especially big banks—and states is a structural feature of the banking sector. Moreover, commercial banks provide essential services for any form of economic activity, a role that has historically prompted states to influence credit allocation, especially in bank-based systems.

Postwar European financial systems were characterized by institutional diversity that stemmed from variation in the distribution of power among states, banks, and downstream industry; the preferences of these actors, and their respective capabilities and resources. Institutional diversity translated into structural differences in national banking sectors. France represented the paradigm of a state-influenced developmental system. Bank credit in France was an instrument for implementing broader industrial policies designed by a large bureaucratic apparatus, and credit controls were based on formal legislative procedures that oriented credit toward preferred firms.[3] Loans from the Big 3[4] nationalized lending banks were the main sources of credit. These banks could hardly operate against the desires of the state and had relatively few incentives to forge strategic relationships with their corporate clients.

The German financial system shared France's developmental and bank-based nature, but the state maintained a more distant oversight through a system of public banks whose mandate was to promote development. Banks, not the state, were responsible for decisions regarding credit allocation, which was based on market criteria. These two features, a development mandate and responsibility for credit allocation, encouraged big German banks to acquire in-depth knowledge about their debtors, typically industrial firms. German banks were also allowed to invest in productive firms and represent shareholders who deposited their shares with the banks. These legal prerogatives further reinforced the banks' interests in corporate decision making and enabled them to exercise it through board memberships.[5]

By contrast, the United Kingdom's financial system relied on highly developed capital markets and was strongly oriented toward protecting the sterling as an international reserve currency, rather than toward industrial development. Consequently, British clearing (commercial) banks were not the primary source of credit for large corporations, although their role in corporate credit and trade was still important in the postwar period and has strengthened since the 1960s.[6] British bank loans, unlike German loans, tended to be short-term and were guaranteed through assets rather than operations. Consequently, clearing banks did not need to acquire (and did not normally develop) an in-depth knowledge of their debtors.[7] Although the state in the United Kingdom did not own participations in clearing banks or strongly influence credit allocation, the Bank of England held close non-statutory relationships with the Big 4.[8]

---

3 Zysman (1983).
4 Banque Nationale de Paris, Crédit Lyonnais, and Société Générale.
5 Huffner (2010).
6 Miles (2009); Davies and Richardson (2010).
7 Zysman (1983).
8 Barclays, Lloyds, Midlands, and Royal Bank of Scotland.

Rapid, worldwide economic growth in the 1960s generated liquidity and fostered demand for new types of financial products and operations, particularly from large international corporations. Credit institutions catered to these needs with innovative products like the Euromarkets, which they could issue at low cost thanks to information and telecommunications innovations. The economic crises of the 1970s laid bare the limitations of industrial policies and led to state retrenchment in productive activities and the credit allocation systems that supported them. Changes in the interests and preferences of crucial economic actors generated pressure for institutional change. The additional risks derived from financial innovation caused financial crises triggering change.

Throughout the 1970s and 1980s, countries tended to formalize and overhaul the supervisory roles of their central banks and progressively eliminate capital controls. These changes were followed by others aimed at increasing competition, privatizing credit institutions, consolidating, and deepening wholesale markets. By the early 1990s, national systems had transformed into multilayered structures with international and national features. Cross-national coordination and supervision was organized around the 1988 Basel Capital Accord, followed by the Basel II revision of 2001–2006. Within Europe, the first and second Banking Directives and the adoption of the euro in 1999 laid the groundwork for the European Union's Single Market.

Despite these changes, national commercial banking structures and the interactions between banks and downstream industry did not converge toward a single model, even in Europe's highly integrated context. Key aspects such as bank supervision, and therefore the solvency and risk management of the system, remained the responsibility of national central banks.[9] Furthermore, despite common industry trends such as market-based financing, securitization, and the increase of fee-based activities, which modified business models, the underlying balance of forces among states, banks, and industry did not change uniformly across countries. As of 2015, there is no uniform European competitive environment either, which explains why local banks still handle the majority of retail banking operations in each Western European market and why banking sector consolidations to date have taken place primarily within rather than across markets.[10]

The specific features that defined national banking models in the 1980s have changed, but national institutional diversity has persisted. Consequently, understanding the strategies and trajectories of big commercial banks today

---

9 This paradigm may change in the coming years due to the introduction of the EU Single Supervisory Mechanism in November 2014. However, as of December 2015, it is still unclear whether the SSM will lead to convergence in European commercial banking, and if so, how long the process will take.

10 Vander Venet (2003) in Herrmann and Lipsey (2003); Cabral et al (2002).

still requires characterization of the national institutional structures within which banks operate. In particular, the previous overview underscores the need to examine the balance of forces among national economic agents, the mechanisms through which they articulate their relationships, and the business preferences that derive from these systems.

The varieties of capitalism (VoC) and the financial literatures are of limited assistance in mapping these features. VoC[11] describes the structure of financial systems as a defining component of specific forms of capitalism, but authors have neither looked at the banking sector as an industry, nor evaluated the impact of changes in business dynamics over institutional structures over time. As a result, this literature under-theorizes the institutional conditions that help big commercial banks develop comparative and competitive advantages. In addition, VoC's characterization of financial systems as either credit or capital-market based obscures two crucial factors: (a) that bank credit is an important source of capital in both types of financial systems[12] and (b) that commercial banking features a high degree of non-market coordination, even in liberal market economies, such as the United Kingdom. In fact, a paradox of the VoC literature is that although it emphasizes coordination as a distinctive feature of different models of capitalism, it has not studied the presence of different forms of coordination in the banking industry or their impact on banks.

The political economy literature of finance offers valuable information concerning the characteristics of national institutional systems, but has studied in less depth the connection between the "macro" level of institutional structures and the "micro" or firm level of bank competitive transformation. Recent contributions at the crossroads of international political economy, VoC, and economic geography[13] chart changes in business models over the past three decades, especially since the late 1990s. However, these studies concentrate on connecting increasing levels of securitization, lending patterns, and the 2007 financial crisis. In addition, non-leading economies, such as Spain's, rarely feature in these analyses. Where Spain appears,[14] contributions focus on the connection among the corporate governance structure of savings banks, the availability of cheap credit in the post-euro era, and the unsustainable business practices that led to the savings banks' crisis. The big, publicly listed commercial banks that this paper is concerned with are not part of these analyses.

This paper argues that the Spanish banking model was based on direct relationships and mutual exchanges of benefits between the state (the

---

11 Zysman (1983); Deeg (1999); Whitley 1999; Hall and Soskice (2001); Amable (2003).
12 Kosmidou et al. (2006); Hardie and Maxfield (2010); Davies and Richardson (2010).
13 Erturk and Solari (2007); Hardie and Maxfield (2010); Hardie and Howarth (2010).
14 Cuñat and Garicano (2010); Royo (2013).

government and the central bank) and the so-called Big 7 (Spain's big commercial banks). The basis of state-bank coordination was a system of interdependencies that stemmed from: (a) the existence of a pact subscribed to by all of Spain's economic actors, which provided focus and direction to economic reforms; (b) the development and implementation of public policies consistent with that commitment; and (c) the presence of compatible state and bank objectives that neither actor could achieve autonomously.[15]

The private nature of big Spanish banks, their human and financial resources, and the existence of a group of forward-looking and experienced professional bankers in control of final decisions guaranteed the autonomy of big Spanish banks from the state. In addition, the government's commitment to economic development, the consistency of that commitment with policy formulation and implementation, and the existence of a cohesive group of skilled economic civil servants selected on merit prevented the Big 7 from capturing the state. The result was a non-hierarchical structure based on negotiated exchanges that helped both the state and the big banks overcome their weaknesses and further their goals.

State-bank coordination in Spain had a strong developmental character but was different from the conventional post-war models outlined above. Intensive cooperation with the state for the purpose of achieving public policy goals distinguished the Spanish model from market-led models, such as the United Kingdom's. Constraints on the state's capacity to implement its vision autonomously also distinguished the Spanish model from state-led models, such as France's. The Spanish state took the initiative on institutional reform, but due to the private nature of the Big 7, their control over the financial system, and their historical capacity for self- regulation, the state could not implement its goals without accommodating the banks' interests. Furthermore, unlike France, Spain lacked a cohesive political-economic elite straddling government and industry that could have synchronized the interests of the state, big banks, and industrial corporations.

Finally, the autonomy of big Spanish banks, the absence of a developmental mandate, and the secondary role of social intermediaries meant that, unlike consensual models such as Germany's, Spain's did not involve a compromise between bank profitability and industrial support. On the contrary, bank disengagement from downstream industry in Spain limited the financial

---

15 These weaknesses were partly a legacy of Francoism. Franco employed the divide-and-conquer strategy and exercised it by issuing favors or imposing constraints arbitrarily, thereby weakening any potentially influential group in the country, and spurring confrontation between various groups and individuals (Preston 1986; Carr 1979 Lannon et al 1990). After Franco's demise, established and emerging elites needed to coalesce to further their respective interests in a new context.

options available for small and medium-size firms and contributed to a sharp decline in industrial capacity.

The Spanish model proved resilient in the face of later events, such as changes in the governing party and the international expansion of big banks, because the defining features of the model—the presence of interdependencies between the state and big banks and the inability of either to accomplish its goals without the other—continued to be relevant.

3. Overview of Spanish commercial banking

This section is divided into two parts. The first provides a comparative snapshot of Spanish banking in 1985 and 2009. The second provides a more detailed account of the trajectory of big Spanish banks.

3.1 Comparative overview

This subsection offers a comparative overview of Spanish commercial banks through two snapshots at key points in time: 1985 and 2009.[16] Bank performance is assessed through cross-country comparisons of operational efficiency, operational profitability, and capitalization measured through three ratios: operating expenses to income, net income to total assets, and Tier 1+2 capital over assets. Analysis relies on data from the OECD banking income statement and balance sheet statistics.

Ratio analyses do not account for interactions between performance and other factors such as national regulation, input costs, different business models, degree and quality of risk management, and the level and structure of competition. To overcome these limitations, this section relies on qualitative data and a brief evaluation of a sample of banks based on annual bank reports and the ECB banking statistics.

In 1985, Spanish banks tended to be more profitable than those in the comparative set. Still, high profitability was not necessarily an indication of operational efficiency because Spanish banks operated in a context of little foreign and domestic competition. Relatively low competition can be inferred from the low number of credit institutions, and low operational efficiency can be deduced from high ratios of operating expenses to assets and operating expenses to income (Table 1).

Big Spanish banks had less international experience than their European counterparts, were relatively smaller, and had limited exposure to competition. These features are attributable to Spain's late industrial development, the smaller size of the country's economy, and the legacy of Francoism.[17] Many

---

16 Organization for Economic Cooperation and Development (2010).
17 Francisco Franco ruled Spain through a dictatorial regime between the end of the civil war in 1939 and his death in 1975.

of the world's global banks were conceived as international banks and had extensive trade and investment experience. Spain's limited and late industrialization and the inward-looking nature of the Francoist regime made a parallel development unfeasible. Even as late as 1996, the volume of Spain's cross-border assets and their percentage of total loans were significantly smaller than those of all other major European economies.

The Big 7 were small by international standards. The largest bank, Central, ranked 100th in the world and was about one-fourth the size of Deutsche Bank.[18] Bank size partly derived from the dimensions of the Spanish economy. For instance, in 1985, the Spanish economy was 25 percent the size of Germany's. Correspondingly, Spain's volume of domestic credit operations was approximately one-fifth the equivalent measure in Germany.[19] Nonetheless, Spain had seven big banks, compared to only four in Germany. The lack of bank consolidation in Spain can be traced back to Franco's strategy of ruling the country by dividing any potential opposition. As such, Franco vetoed an attempted merger of the two largest banks in 1965, after which there were no further consolidation attempts among the Big 7 until 1987.

Spanish banks had limited experience with competition. Until their reform in 1988, Spain's wholesale markets were "narrow, lacked fluidity, had a strong speculative component, and were very illiquid."[20] Furthermore, most licensed stockbrokers worked for the Big 7. Until 1989, savings banks—commercial banks' natural competitors—were subject to strict constraints that prevented them from expanding beyond their province of origin and offering credit to businesses. Finally, until 1980 only four foreign credit institutions operated in Spain, all through exceptional individual concessions issued by Franco.[21] Restrictions to the activities of foreign credit institutions were not fully lifted until 1993.Unsurprisingly, big Spanish banks provided the majority of credit to industry, normally on a short-term basis (up to ninety days),[22] except in the case of a few public-private monopolies.

Big Spanish banks historically competed with one another through branch expansion due to legal restrictions to competition based on interest rates, commissions, or dividends. Between 1973 and 1983, the number of bank branches in Spain more than tripled from 5,437 to 16,046.[23] Operational costs in Spain were relatively high, which suggests that branch expansion increased operational costs more than revenue.

---

18 Guillén and Tschoegl (2008).
19 World Bank (2013).
20 Pellicer (1992).
21 Consejo Superior Bancario annual statistics (1985).
22 Pons (2002).
23 Fainé (2005).

Upon the inauguration of the Single Market in 1993, big Spanish banks became attractive targets for the expansion of European banks. However, the threat of foreign acquisition never materialized. On the contrary, by 2009 big Spanish banks came out on top along several dimensions (Table 2). Despite Spain's continuing reliance on large branch networks, in 2009, Spanish banks outperformed their rivals in terms of operational efficiency, which can be attributed to a rise in labor productivity (Table 3). Spain's operational costs on an individual bank level were significantly lower than those of Germany, Italy, and the Netherlands, whose banking systems had comparable specializations in retail banking (Table 4). Despite decreasing margins for retail banking, Spanish banks were more profitable than those of countries like France, which obtained more than half of their revenue from more lucrative, fee-based activities. This was true despite relatively similar levels of concentration in both countries. Concentration of activities among the five largest institutions in France was 47 percent versus 43 percent in Spain; the respective Herfindahl indexes were 61 and 51 percent.[24] Finally, data on foreign direct investment (FDI) show that Spanish banks had established a significant position abroad despite their lack of previous international experience.

24 European Central Bank banking statistics (2012).

Table 1 Bank ratios in 1985.

	Spain	Switzerland	US	Sweden	Germany	Italy	Netherlands	France*
Net income/Assets	0.042	0.027	0.045	0.031	0.029	0.040	0.029	0.023
Net non interest income/Total income	0.183	0.490	0.265	0.349	0.206	0.264	0.257	0.193
Operating expenses/ Net income	0.643	0.527	0.667	0.619	0.606	0.632	0.627	0.703
Operating expenses/Assets	0.027	0.014	0.030	0.019	0.017	0.025	0.018	0.016
Tier 1 and Tier 2 Capital/ Assets	na	na	0.0619013	na	na	na	na	na
Institutions	139	223	14,427	15	4,370	422	84	2,050
Branches per 1,000 inhabitants	0.432	0.448	0.190	0.172	0.500	0.205	0.330	0.463
Employees per branch	9.7	30.3	35.2	16.0	14.0	27.1	19.2	17.1

Source: OECD Banking statistics and Factbook statistics (population). Own elaboration

* Data for 1988

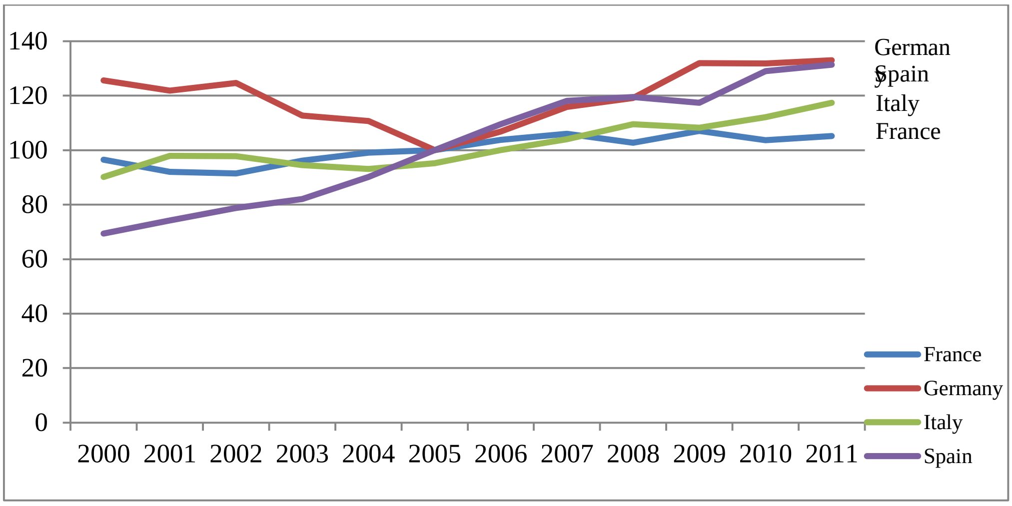
Table 2 Bank ratios 2009.

	Spain	Switzerland	US	Sweden	Germany	Italy	Netherlands	France
Net income/Assets	0.023	0.021	0.051	0.020	0.017	0.022	0.016	0.015
Net non interest income/Total income	0.308	0.638	0.402	0.477	0.204	0.363	0.307	0.580
Operating expenses/ Net income	0.372	0.774	0.589	0.574	0.756	0.632	0.691	0.624
Operating expenses as % of assets	0.009	0.016	0.030	0.011	0.013	0.014	0.011	0.009
Tier 1 and Tier 2 Capital as % of assets	0.086	0.064	0.112	0.082	na	0.065	0.055	na
Institutions	153	207	6905	59	1774	768	93	325
Branches per 1,000 inhabitants	0.323	0.213	0.268	0.205	0.455	0.564	0.190	0.609
Employees per branch	7.4	53.8	23.2	22.0	17.0	9.7	35.1	11.1
Inwards FDI positions (Millions USD)	27,812	319,729	254,411	256,694	53,654	91,957	91,870	111,109
Outwards FDI position (Million USD)	157,633	344,217	733,245	420,433	194,384	312,116	175,864	237,307

Source: OECD Banking statistics, Factbook statistics (population) and International Direct Investment Statistics (FDI positions). Own elaboration

FDI positions exclude insurance and pension funding activities.

Table 3 Annual person-based productivity, financial, and insurance activities.



Source: European Commission and European Central Bank calculations based on Eurostat data. Own elaboration.

Table 4 Market performance ratios for selected global banks in 2009.

	Cost/efficiency (%)*	Return on Equity (%)
UBS	103	9.9
Credit Suisse	73	18.3
BNP Paribas	58.1	10.8
Deutsche Bank	72	14.6
HSBC	52	5.1
Santander	41.7	13.9
BBVA	40.4	16
Popular	29.31	10.98

Source: Annual bank reports (2009). Own elaboration.

*The cost-efficiency ratio is defined as total operating expenses divided by net operating income before loan impairment charges and other credit-risk provisions.

3.2 The trajectory of big Spanish banks

The Big 7 strengthened during Francoism. The Banking Act of 1946 gave big banks control of the market by prohibiting the foundation of new entities and heavily constraining competition with savings banks. Big banks also provided the largest share of capital for Spain's industrialization in the 1960s and

1970s, multiplying their profit sixfold along the way.[25] Furthermore, bankers gained political influence by lending the government their economic expertise.

The industrial and banking crises of the late 1970s and early 1980s marked the beginning of the end of a profitable era characterized by restricted competition and cartelistic practices. By 1989, the context had radically changed into one dominated by competition based on new savings products and defensive mergers to prevent unwanted acquisitions in the run-up to the Single Market.[26]

After a first round of mergers between 1988 and 1994, there was little room for big banks to grow rapidly through domestic acquisition, and they looked toward Latin America. Spain's plans to adopt the euro in 1999 opened new opportunities for expansion and spurred a new round of national mergers between 1999 and 2002. In the 2000s, the two banks resulting from the merger of six of the Big 7, BBVA and Santander, continued their expansion, mainly in Europe and North America.

Since the start of the financial crisis in 2007, big Spanish banks have continued to expand in emerging markets such as Poland, Ireland, China, and Turkey. Nonetheless, in 2011 big Spanish banks made extraordinary provisions in response to Spain's real estate and sovereign debt crises. By 2013, the presidents of the two banks expected to play major roles in a new round of consolidation in Spain.[27]

4. Standard explanations for the transformation of big Spanish banks

The two major existing explanations for the transformation of big Spanish banks identify firms as the main drivers of transformation. Within a firm-driven approach, scholars follow two lines of inquiry. The first explains the international expansion of the Big 7 by looking at the detailed trajectories of individual firms. The second explores the performance of the Big 7 in the context of their relationship with the state by analyzing historical patterns of institutional change. This section outlines the two approaches, including a variant of the second line of inquiry, and explains their limitations.

25 Pérez (1997); Torrero (2001).

26 Second Banking Directive 89/646/EEC.

27 El País 18 February 2013. *Francisco González prevé que solo sobrevivan seis o siete bancos en España*. Accessed 4 April 2013. http://economia.elpais.com/economia/2013/02/18/actualidad/1361191005_676610.html. Acceseed 4 April 2013.

4.1 Competitive advantages argument

Most scholars examining the trajectory of the Big 7 focus on explaining their internationalization process.[28] Of these authors, Guillén[29] makes the most systematic analysis. He attributes the internationalization of big Spanish banks to a combination of leadership skills, business know-how, process and product innovation, and experience with mergers and acquisitions. The state does not play a major role in Guillén's analysis.

According to Guillén and Tschoegl,[30] Santander's president between 1986 and 2014, Emilio Botín,[31] embodied the innovative, discreet, diplomatic, and decisive leadership style of a generation of progressive bankers who took over the sector in the second half of the 1980s. Botín did not feel bound by the cartelistic practices of the Big 7, and his idea to launch innovative and competitively remunerated products in 1989 ignited a deposit war that unraveled the banking cartel. Botín's public interventions were scarce, and he built relationships with Spain's two major right and left wing political parties rather than declare his allegiance to any specific party.[32] Finally, Santander's acquisitions of Banesto in 1994 and Abbey in 2004—on which Botín reportedly had the final say—embodied the hands-on, top-down decision-making style that enabled the Big 7 to make swift decisions and take advantage of unique investment opportunities for expansion.

According to the competitive advantages argument, big Spanish banks honed their competitive skills throughout 1980s, as banking liberalization forced them to compete with savings banks.[33] In addition, the Big 7 acquired experience in mergers through the acquisition of medium and small entities following the banking crisis of the 1970s to 1980s. Big Spanish banks further increased their experience in mergers during a first wave of consolidations among the Big 7 in the late 1980s and early 1990s. When banking liberalization took place across Latin America in the 1990s, this knowledge enabled big Spanish banks to take advantage of investment opportunities in the region, and later in Europe and North America. Finally, the success of big Spanish banks can also be attributed to their specialization in retail banking, an area where they faced less competition from well-established global banks, which tended to concentrate on corporate or private banking.

---

28 Avedaño and Moreno (2004); Gil (2005); Guillén (2005); Parada, Alemany, and Planellas (2009); Martín Azeña (2005); Rodríguez Inziarte (2008); Guillén and Tschoelg (2008); Guillén and García-Canal (2010); Casilda Béjar (2011).

29 Guillén (2005).

30 Guillén and Tschoegl (2008).

31 Emilio Botín remained president of Santander until his death on September 10, 2014.

32 Santander (2010); Financial Times. 25 January 2013. *Emilio's perfect storm*. Accessed 26 January 2013. http://www.ft.com/cms/s/2/57d8d5be-65bf-11e2-a3db-00144feab49a.html#axzz2J6h1a2w7.

33 Cals (2001); Confederación Española de Cajas de Ahorro (2011).

4.2 Political-historical argument

A second set of scholars explains the trajectory of the Big 7 through an analysis of the politics of financial regulation, the role of the banks in influencing institutional change, and the consequences of such changes for the banks. The political-historical argument highlights the state's active role in enabling bank transformation. However, a comparison of the two main authors who articulate this argument underscores the difficulties of characterizing bank-state interactions. One characterization contends that the state acted primarily as an instrument of the Big 7's interests (state capture). The other argues that the state supported the interests of the Big 7, but only in exchange for the banks' cooperation to achieve the state's public policy objectives. Both characterizations are based primarily on analyses of the Francoist period.

S. Pérez[34] connects the growth of the Big 7 during Francoism with Spain's late industrialization and a waning state. She argues that the Big 7 came to play two crucial roles: they were the main providers of capital during the 1960s and 1970s industrialization, and they became a hinge in the configuration of conflict among state elites. These two roles were the basis of a system in which big Spanish banks captured the policy-making process, consolidated their positions, and multiplied their profits.

S. Pérez sees evidence of the long-term persistence of state capture in the way Spain addressed its public deficit in the 1980s, solved the 1977–1985 banking crisis, and liberalized the financial sector. She points out that in the 1980s, the Big 7 opposed the creation of a market for short-term public debt to help finance the public deficit because it would have meant that the state competed directly with big banks in attracting private savings, which were the banks' main source of capital. In response to the Big 7's concerns, the state did not immediately create a short-term public debt market but instead forced banks to purchase public debt by introducing a compulsory investment ratio. S. Pérez argues that this measure benefited the Big 7 because unlike a short-term debt market, it relied on the big banks as necessary intermediaries of the system. In addition, the compulsory investment ratio was a high-paying instrument that enabled big Spanish banks to maintain their profit margins in a context where declining demand for credit and excess liquidity made profits uncertain. S. Pérez finds additional support for the capture argument in the government's 1983 takeover of Rumasa, a large industrial conglomerate that owned a group of banks. Rumasa's banks were large enough to threaten the position of the Big 7 and their expropriation and re-privatization eliminated the cartel's largest rival. Finally, she explains that although in the late 1970s Spain took legislative measures to set the banking sector on the path toward eventual

34 S. Pérez (1997).

liberalization, it did not simultaneously challenge the Big 7’s control of the financial system.

Pons[35] acknowledges the importance of ties between the Big 7 and the state and the role of regulation in articulating those interactions during Francoism. However, she refutes the state capture interpretation and sees the Francoist environment as one in which agents with different interests played each other off to further their respective goals. Pons contends that the Francoist governments of the 1960s and 1970s wanted to accelerate industrialization and reward valuable social and economic elites. The state offered advantages to the Big 7 to secure their cooperation in achieving these goals, and the banks accepted the advantages offered in return, but Pons argues that this does not mean the interests of the banks were necessarily aligned with those of Francoism. In fact, Pons contends that several bank leaders were renowned liberals[36] and a number of government measures, such as mandatory investment coefficients that tied banks’ resources to low profitability investments, restrictions to the distributions of dividends, limits to branch expansion, and the government’s right to veto bank mergers, did not benefit the Big 7. Even so, Pons argues that the Big 7 were conscious of the benefits of maintaining good relationships with decision makers in a regime that operated by fiat and viewed collaboration with the Francoist dictatorship as a lesser evil.

4.3 Limitations of standard explanations

The arguments outlined above do not satisfactorily explain the competitive transformation of big Spanish banks. The competitive advantages argument fails to acknowledge the role of the Spanish institutional environment in enabling banks to unleash and exploit their capabilities, including the leadership potential of talented bankers, such as Botín. Therefore, the competitive advantages argument documents how the banks’ transformed, but it does not explain what enabled them to do so.

The political-historical arguments show that the relationship between the state and big banks was crucial because it shaped the terms of competition for the sector. However, the differences between S. Pérez’s and Pons’s arguments underscore the difficulty of characterizing the state-bank relationship. Pons’s interpretation highlights the need to examine the alignment of interests of the two actors and explore the presence of exchanges in the relationship before confirming the state capture hypothesis.

---

35 Pons (1999, 2002).

36 For instance Villalonga, who was the president of Central (the largest of the Big 7), and Lladó, who was associated with Urquijo (Spain’s largest industrial bank).

Finally, S. Pérez's and Pons's interpretations of state-bank relationships concentrate on the Francoist period and its immediate aftermath, excluding the period during which the Big 7 transformed their structures and reached the efficiency frontier.

5. State-bank coordination in Spain

This section provides an alternative explanation for the transformation of big Spanish banks based on the characterization of state-bank interactions. The first subsection traces the origins of the model to Spain's political transition and defines its main features. The second subsection describes the model's consolidation leading up to the Single Market. The third subsection explains the model's resilience after the inauguration of the euro and the international expansion of big Spanish banks.

5.1 Origins and main features (1977–1985)

The structure of contemporary state-bank interactions in Spain can be traced to the country's political and economic transitions and its integration into the global economy. By 1977, Spain faced a severe, multifaceted crisis with deeply intertwined political and economic factors. Transforming Spain's economic model was considered necessary to address the acute social tensions that threatened the democratization process.[37]

Spanish economic agents reached a consensus regarding the main lines of reform necessary to transform Spain into a democracy and a modern, open economy. In 1977, representatives from all political parties with parliamentary representation, the Prime Minister, and some members of government came together in a private meeting. During this meeting they debated the objectives, instruments, and specific measures necessary to turn around the Spanish economy and to recognize and protect basic civil liberties. The two agreements resulting from these negotiations—one for economic reforms and another for civil liberties—were collectively called the Moncloa Pacts. The pacts were voted on in Parliament, approved by representatives of the two main unions, and endorsed by the employers' association.

The economic pact asked specifically for the central bank to conduct an active monetary policy, expressed the need to develop a set of measures aimed at increasing the reaction capacity of the economy to exogenous shocks, and called for the progressive liberalization of the financial system.[38] The development and implementation of these ideas was understood to be a long-term process of change that could not be achieved solely through government fiat.[39]

---

37 Gobierno de España (1977).
38 Gobierno de España (1977); Fuentes Quintana (1985).
39 Fuentes Quintana (1985).

The Moncloa Pacts provided focus and direction to the program of economic reforms that followed. Initial reforms aimed to reinforce the powers of the Banco de España (BdE)—the Spanish central bank—to conduct monetary policy, develop effective bank supervision mechanisms, and set the basis for liberalization. Because of the macroeconomic nature of these measures, the BdE was responsible for taking the initiative and developing a reform strategy. However, the government and the BdE could not achieve the transformations they envisioned without accommodating the interests of the Big 7. They controlled the financial system and constituted the most powerful economic group in the country. If all the banks had formed a united front against reform the state would have found it impossible to proceed. Even if the state had passed legal reforms, the banks would have found ways to circumvent them, rendering institutional change ineffective.

The power of the Big 7 exceeded the logical influence that financiers have in any economy. At the time of Franco's death in 1975, banking was the only strong, privately run sector in the nation. Franco had nationalized firms in other sectors, such as telecommunications, in the 1940s but he resisted demands to nationalize the Big 7 because they had supported him during the civil war.[40] As mentioned in section 3, the Big 7 dominated the Spanish financial system and their position had been reinforced through legislation that limited competition from other credit institutions and enabled the banks to self-regulate.[41] In addition, thanks to their economic expertise, the Big 7 had heavily influenced government decision-making during Spain's economic boom in the 1960s and 1970s. For instance, between 1946 and 1975, big bank board members occupied 213 decision-making positions in the executive, legislative, or regulatory bodies such as the BdE.[42]

More specifically, to implement their vision, the government and the BdE depended on active cooperation from the Big 7 because they lacked sufficient tools to do it autonomously. A central bank can exercise monetary policy through two mechanisms: variation in interest rates or control of the monetary base growth. The first mechanism requires an active interbank lending market. The second mechanism requires synchronization with the banking system, especially big banks, because banks expand the monetary base through their standard credit operations. In the late 1970s, Spain had a rudimentary interbank lending market that was insufficient to enable the BdE to exercise monetary policy through variations in interest rates.[43] Due to the private nature of big Spanish banks, the state could not impart instructions and expect the banks to follow them; agreement needed to be built through negotiation.

---

40 Tortella and García Ruiz (2003).
41 Guillén (2005); S. Pérez (1997).
42 Tortella and García Ruiz (2003); Guillén (2005).
43 S.Pérez (1997); J. Pérez (2012).

Realizing the need for long-term collaboration with the Big 7, the Vice President of Economic Affairs Fuentes Quintana pressed for the creation of a representative industry body with which the state could negotiate. The result was the creation of the Asociación Española de Banca (AEB)—the Spanish banking association—in 1977. Fuentes Quintana obtained the appointment of a sympathetic industry representative at the AEB, Rafael Termes, the president of Popular and a self-defined liberal.[44]

The state needed the Big 7 to agree to a more powerful BdE and to the principle of economic liberalization. The Big 7 were expected to oppose the BdE's reforms because the strength of the BdE came at the expense of the Big 7, and liberalization was likely to drive down interest rates, reduce banks' margins, and threaten their control of the market. However, the Big 7 did not constitute a homogeneous group, and their diversity translated into different strategic preferences toward the state's needs. This created an opportunity for the state to advance reform through cooperating with some of the big banks.

Hispano Americano, Central, and Banesto were the largest and most conservative of the Big 7. They had grown under the Francoist regime and had the most to lose from any changes to the status quo. Unsurprisingly, these banks opposed reform and adopted a defensive stance toward the changes that followed. For example, in 1986 Banesto opposed and defeated an acquisition offer from Bilbao, even though Banesto was in such a weak financial position it was subsequently intervened by the BdE.

Bilbao, Vizcaya, and Popular were smaller than the three conservative banks, but they were the most efficient of the Big 7 and their presidents were considered forward-looking and progressive.[45] These three banks had the most to gain from a shift to an orthodox institutional architecture that rewarded the sound banking strategies they already practiced. Therefore, they were willing to support the government's reforms provided the state accommodated their concerns. In fact, Popular's liberal president became the chief interlocutor with the state through the AEB, and Bilbao and Vizcaya benefited from the BdE's reforms by expanding their national footprint and negotiating a friendly merger.

Finally, Santander was a conservative bank with only a regional footprint. As the smallest of the Big 7, its best strategy was to be a fast follower. In fact, in the market reshuffle that followed initial reforms, Santander's president voluntarily retired (the only Spanish banker of the Francoist generation to do so) in favor of the younger, progressive candidate Emilio Botín.

---

44 Fuentes Quintana (1985); Termes (1991).
45 Rivases (1988); Interviews.

Differences in the strategic preferences of the Big 7 provided an opportunity for the state to carry out reform with support from the progressive banks. To obtain the cooperation of these banks the state needed to accommodate their concerns. As mentioned earlier, big Spanish banks were strictly for-profit entities. They opposed market competition with foreign and domestic rivals, because they expected it have a direct negative impact on their bottom lines. Some banks were also vocal about wanting to eliminate mandatory investment coefficients and increase the interest rates at which preferential sectors could borrow, because these instruments tied up bank resources to unprofitable investments and harmed banks' earnings.[46] Ultimately, the initial reform package for the banking sector reflected these concerns and cemented the negotiated nature of state-bank interactions.

Royal Decree 1,839/1977 established the progressive reduction of mandatory coefficients from approximately 40 percent to 21 percent and brought interest rates for preferential industries close to market rates. Royal Decree 1,388/1978 authorized the installation of foreign banks in Spain but imposed heavy constraints on their operations. Royal Decree 1,839/1977 eliminated restrictions that barred savings banks from offering the same range of products as banks, but the decree maintained geographical restrictions for the expansion of savings banks, thereby limiting their ability to compete directly with the Big 7. Restrictions to competition were long lasting. Foreign banks did not operate in equivalent conditions to Spanish banks until 1993, and savings banks were not allowed to freely expand their geographical footprint until 1989. The terms of these reforms were also indicative of the weakness of industry relative to banks. By constraining competition, Spanish banks continued to charge double-digit interest rates in the midst of an acute economic crisis that choked even profitable firms. For example, in 1980 the president of the AEB admitted to charging 20 percent interest rates.[47]

These banking reforms were quickly followed by a set of measures that strengthened the BdE. Some of these measures reinforced the independence of the BdE relative to the Big 7. For instance, Law 30/1980 dismissed professional bankers from decision-making roles at the BdE and substituted them with public employees. Law 30/1980 also established a system of incompatibilities between public and private employment in the banking sector. Additional measures bolstered the BdE's power to conduct monetary policy by building the infrastructures and institutions necessary to create a well-developed interbank lending market. For example, in 1976, the BdE introduced a telephony-based interbank exchange system, the first step toward an operational, real-time payment system. This mechanism was also a valuable source of information about the operations of the Big 7 enabling the BdE to

46 Termes (1991).
47 Torrero (1989).

monitor potential disequilibria.[48] In addition, the BdE introduced a rigorous micro-prudential supervisory mechanism for systemic banks[49] one of the first of its kind. Big banks became subject to constant supervision through a team of inspectors that worked full-time at the supervised banks. The BdE also acquired indirect powers over the decision-making structures of big Spanish banks through its ability to veto candidates for board-level positions.

A second episode of this period, the resolution of the 1977–1985 banking crisis, offers additional testimony to the cooperative and mutually beneficial nature of the Spanish model and showcases the competence of the economists at the BdE. By 1977, Spain faced a significant banking crisis. Between 1977 and 1985, fifty-one banks out of the existing one hundred and ten banks, which accounted for 20 percent of the country's deposits, were rescued. To address the crisis, the BdE could have opted for one of two strategies: one based on long-term nationalizations of ailing banks or one based on private-sector turnarounds. Both strategies required significant amounts of capital for the initial rescue operation and banking expertise for the subsequent turnaround. However, whereas the first option relied primarily on public funds and talent, the second option relied on resources from the Big 7.

A nationalization strategy was not consistent with the Moncloa Pact's commitment to move toward a market-based system, and it would have put considerable pressure on Spain's struggling public finances. Instead, the BdE opted for private-sector turnarounds. The BdE created the Deposit Guarantee Fund,[50] which was funded through contributions from banks. The fund bought the majority of an ailing bank's stock at a symbolic price, restructured it with talent from other banks, and then sold it off via public auction.[51] In exchange for their cooperation, big banks benefited from opportunities to purchase rescued banks at symbolic prices. The progressive banks, especially Bilbao, Vizcaya, and Santander used the opportunity to expand their national footprint.

However, turnaround operations could involve substantial costs, and the Big 7 did not always have the option to decline. Traditional banks, whose financial positions had weakened over the course of the 1970s oil crises, suffered these drawbacks most. For example, the BdE attributed the turnaround of Urquijo, Spain's largest industrial bank, to Hispano Americano because of historical ties between the two. The cost of absorbing Urquijo's losses forced Hispano to post negative annual results in 1984 and cancel its annual issue of dividends. None of the Big 7 had ever cancelled a dividend and the measure sent a

---

48 J. Pérez (2012).
49 Banco de España (2009).
50 Royal Decree 3,048/1977; Royal Decree 54/1978; Royal Decree-Law 4/1980.
51 Sheng (1996); Dziobek and Pazarbasioglu (1998); Martín Azeña (2005).

powerful signal regarding Hispano Americano's financial problems. By 1991, Hispano Americano had ceased to be an independent bank.

As befits a negotiated arrangement based on interdependencies, the Big 7, particularly the progressive banks, were not the only beneficiaries of the BdE's turnaround strategy. The contrast between the BdE's swift management of the banking crisis and the government's slow approach to industrial restructuration, revealed the technical strengths of the central bankers, particularly those of a cohesive network of young economists formed at the BdE's research department. Unlike the leaders of most progressive banks, who belonged to northern Spain's industrial bourgeoisie and had received an education in business economics at the University of Deusto, central bankers were recruited primarily from the faculty of economics at Madrid's Complutense University and nurtured by Luís Angel Rojo, an academic at Complutense and the director of the BdE's research department between 1971 and 1988.[52] These economists supported market-oriented reforms and a central bank fully equipped to control the system's liquidity. The rigorous macroeconomic orthodoxy of this group of economists and their strong professional credentials also contrasted with the corruption, inefficiency, and nepotism that had characterized the civil service during Francoism.

The management of the banking crisis generated a broader set of benefits for these young economists that ultimately strengthened Spain's coordination model. Upon the Socialist Party's victory in the 1982 general election, the new government recruited talent from the BdE to fill top policy-making positions. The first Minister of Economics and Industry and his successor until 1993 were BdE-trained economists. After a ministerial reorganization in 1986, many of those in second-tier positions also had similar backgrounds or at least compatible opinions.[53] Under this new economic leadership, the relationship between the BdE and the government became fluid. The relationship between the BdE and the progressive banks also strengthened, developing a stronger policy-making dimension and remaining locked within a tight group of individuals comprising professional bankers, central bank-trained individuals, and a small group of academics and state economists who also came to occupy positions of responsibility. These groups constituted the core of Spanish economic policy making.

Nonetheless, the consolidation of the rising BdE elite and the implementation of the measures they defended were neither flawless nor undisputed. The

---

52 Malo de Molina (2012).

53 El País. 11 September 1986. *Solchaga prepara una remodelación urgente en economía*. Accessed 5 April 2013. http://elpais.com/diario/1986/11/09/portada/531874804_850215.html; El País. 26 November 1986. *Borrel amplía su influencia y De la Dehesa será el nuevo Secretario de Estado de economía*. Accessed 5 April 2013. http://elpais.com/diario/1986/11/26/economia/533343602_850215.html.

combination of limited banking competition and a decrease in mandatory investment coefficients affected manufacturing sectors negatively at a time of profound economic crisis. Unable to find affordable, long-term credit to restructure, many industrial firms were forced to downsize, sell their operations to foreign investors, or close. Between 1977 and 1996, the contribution of manufacturing to Spain's GDP decreased by 9 percentage points, more than the United Kingdom's during the same period.[54]

Unsurprisingly, the economists' prioritization of macroeconomic orthodoxy and financial reform to the detriment of productive industry generated opposition. Vice-Prime Minister Alfonso Guerra advocated an alternative strategy based on public deficits and strong support for industrial employment but France's experience weakened his arguments.[55] The two largest unions also opposed the government's strategy and organized a successful general strike that forced the government to soften some of its restructuration measures after 1988. However, by then industrial decline was significant, and the government did not reverse course. Ultimately, the economists' defeat of their opposition showcases the secondary role of industry relative to the state and the big banks in the Spanish model.

5.2 Consolidation (1986–1993)

The features that enabled the development of the Spanish model in the previous decade—the state's commitment to modernization and development, the compatibility between the goals of the state and the interests of some of the Big 7, and the need for these actors to cooperate to achieve their respective aims—persisted and even strengthened after Spain joined the European Union in 1986. This explains why, despite changes in the external context, the Spanish model consolidated in 1986–1993, underpinning the competitive transformation of big Spanish banks.

By the mid-1980s, the BdE had strengthened its powers to conduct monetary policy and develop effective supervision mechanisms to ensure the stability of the financial system. As Spain joined the EU in 1986 and prepared for the inauguration of the Single Market, priorities shifted toward liberalizing and modernizing the banking sector.

Whereas the policy goals of the previous decade had a strong macroeconomic character, the modernization and competitive transformation of the banking sector were microeconomic challenges. Because the Big 7 were fully private firms, the initiative and strategies necessary to transform them into internationally competitive firms rested with the banks. The state could support and help shape the process but could not carry it out.

---

54 EU KLEMS (2012).
55 Rand Smith (1998).

To incentivize and shape banking modernization, the state could have chosen three different strategies: it could have (1) encouraged modernization through market competition by eliminating barriers to the expansion of savings banks and FDI; (2) shaped bank transformation along the lines of the German banking system, by introducing legal incentives for the development of stronger bank-industry connections; or (3) incentivized banks to undertake restructuration by lowering the banks' risks and costs of doing so. This last option, however, left the initiative for transformation to the big banks. The state chose to lower the risks and costs of restructuration, underscoring the state's support for the goals of the progressive banks and its reliance on banks' initiative to jump-start modernization. This approach also reflected the state's concern about banking stability and the need to prevent speculative investments.

As before, the Big 7's preferences derived from an analysis of threats and opportunities to their banks. The three conservative banks continued to resist changes to their status quo, and their resistance became more entrenched as the direction of change increasingly threatened their interests. The progressive banks, Bilbao, Vizcaya, and since 1986 Santander,[56] saw the Single Market as a unique business opportunity. However, they were conscious of the necessity to transform their structures and business strategies to take advantage of the opportunity and avoid losing control of their entities to potential European rivals.

The three main challenges of big Spanish banks relative to their European rivals were size, high fixed costs, and productivity. Size was a particular concern for the progressive banks because they were better run than the conservative banks but also smaller, which made them more attractive to potential acquirers. The fastest path to growth was mergers and acquisitions, but the banks faced several obstacles. If the sector was liberalized immediately, banks risked being acquired by foreign investors before having the chance to adjust and grow organically. The risk of unwanted acquisitions increased the costs of carrying out mergers. Furthermore, mergers and subsequent changes to the banks' boards of directors required approval by the BdE. Finally, mergers needed to be followed by structural reforms aimed at decreasing personnel costs and substituting expensive, older employees who typically had no university education, with less costly, university educated, and more productive new hires. However, these reforms contravened the legal terms of existing lifelong contracts and were expected to be expensive.

---

56 The fourth bank, Popular, and its president, Rafael Termes, adopted a much lower profile regarding these transformations, although they did not oppose them, and Termes continued to be the state's interlocutor at the AEB until 1990.

As mentioned above, the state chose a strategy based on lowering the risks and costs or restructuration. This strategy combined the BdE's preference for firm-led banking restructuration and its concern for financial stability with a developmental stance that reinforced support for the progressive banks. Full market liberalization was delayed until 1993. Instead, the state imposed tight controls over FDI. Law 26/1988 mandated that anyone taking control of 5 percent of the social capital of a bank needed to inform the BdE, and participations over 15 percent required a specific authorization. This protection was necessarily temporary because Spain was scheduled to join the Single Market in 1993, but it enabled the Big 7 to undertake mergers and restructuration with minimal interference from foreign competitors until then. The government's defensive approach also aimed to prevent speculative investments that could cause instability in the financial sector. This was, for instance, the purpose of Minister Solchaga's request that the Kuwait Investment Office withdraw its stake in Banco Central in 1987.[57] Controls over FDI in banking contrasted markedly with the country's generally liberal approach to FDI in most other sectors and illustrates the preferential treatment toward banks. In 1986, Spain introduced legislation that enabled foreign investors to invest in most sectors under the same conditions as resident Spaniards.[58] By 1992, Spain's share of world FDI represented about 5 to 6 percent, a much higher share than Spain's 1 percent share of global GDP.

The BdE preferred a strategy of mergers between a progressive bank and a traditional bank and assumed that the progressive bank would lead the merged entity. However, after Bilbao's failed attempt to purchase Banesto, progressive and traditional banks opted to merge among themselves, spotlighting the persistent differences between progressive and traditional banks and the independence of banks from the state's criteria. The first merger in 1987 consisted of an alliance between two progressive banks, Bilbao and Vizcaya, to form BBV. The two largest traditional banks, Central and Hispano Americano, merged in 1991 to form BCH. In line with their defensive approach, the merger between Central and Hispano Americano aimed to prevent progressive banks from launching a hostile takeover.

The government incentivized banks' restructuration by helping negotiate and fund downsizing operations. Employment at Spanish commercial banks decreased continuously between 1980 and 2004 by a total of 70,000 jobs. Between 1995 and 2000 alone, Spanish commercial banks downsized by 27,000 employees, while France decreased by 8,000 and Germany and the United Kingdom increased employment by 5,000 and 14,000, respectively.[59]

57 Diario de sesiones del Congreso de los Diputados 9 February 1993.
58 Royal Decree-Law 1,265/1986.
59 OECD (2010).

Most layoffs took the form of voluntary pre-retirement agreements generously funded by the state, which contributed approximately half of the pensions.

The state did not introduce any incentives for the development of long-lasting relationships between banks and industry, along the lines of the German model. This approach would have likely delayed the BdE's modernization objectives while countering the for-profit ethos of the Big 7. Progressive banks, especially Santander, had relatively small industrial investments and were unwilling to participate in industrial decisions outside their field of expertise. By contrast, the three biggest conservative banks had large but often incoherent industrial investments.[60] A German-like strategy would have involved supporting the position of the traditional banks—who opposed modernization, and antagonizing at least some of the progressive banks In addition, the provision of patient capital for industry is normally associated with bank strategies that are not solely based on profitability[61]; therefore, incentives to provide patient capital would have contradicted the state's general pro-market approach and conflicted with the banks' for-profit ethos.

The protective stance of the state and its restructuration measures lowered the risks and costs of transforming the banking sector, and progressive banks embraced the opportunity. In 1989, Santander, followed later by BBV, launched innovative savings products that started a deposit war which signaled the breakup between progressive and traditional banks. The internal restructuration mentioned above lowered fixed costs significantly. In addition, following a first round of mergers in Spain, progressive banks engaged in an expansion spree in Latin America. Along with being a defensive strategy against unwanted acquisitions, internationalization boosted profitability by increasing the banks' volume of operations and allowing banks to benefit from Latin America's larger interest spreads. Moreover, the diversification of operational risk inherent to internationalization protected banks against future economic downturns in Spain, making them more solid and competitive.

The above pattern of collaboration between the BdE and the progressive bankers to achieve the modernization of Spanish banks showcases the interdependencies and mutual-collaboration pattern characteristic of the Spanish model. The following factors also distinguished Spain's non-hierarchical coordination from state capture: (a) the consistency between the guidelines for economic reform in the Moncloa Pacts and the policy choices of the BdE, (b) the leadership position of the BdE in facilitating the modernization process, and (c) the diversity of opinions between progressive and traditional banks and between traditional banks and the state. The innovative and proactive attitude of the progressive banks also contrasts

60 S. Pérez (1997); Rivases (1988); Guillén and Tschoegl (2008).
61 Burnner et al. (2004).

significantly with theoretical expectations of low innovation, lack of initiative, and shallow structural transformation usually associated with the state capture hypothesis.[62]

In Spain, 1986–1993 was also characterized by the development of more permanent institutional foundations to support the dialogue and interpersonal negotiations that characterize state-firm interactions in Spain. Luís Angel Rojo, the father of the BdE elite, was instrumental in creating two bodies: Fundación de Estudios de Economía Aplicada (FEDEA)—Foundation for Applied Economy Studies, a research center financed by the BdE, big banks, and a few other large Spanish corporations; and Centro de Estudios Monetarios y Financieros (CEMFI)—Center for Monetary and Financial Studies, a private postgraduate education foundation founded by the BdE that is a direct source of talent for the central bank and other civil service positions.

5.3 Resilience (1993-2014)

The coordination dynamics between the state and big banks set in motion in the previous decades evolved without significant alterations through a change of government, the introduction of the euro, and the internationalization of big Spanish banks in the 1990s and 2000s. The model persisted because these events did not alter the premises on which it was based: direct interactions between a tight group of professional civil servants and career bankers, autonomous actors, compatible state and bank objectives, and equilibrium between the actors' capabilities and resources.

Many of the individuals who held decision-making responsibilities in the previous socialist party administrations continued to play critical roles in policy design and implementation after the conservative party came to office in 1996. For instance, Luís Angel Rojo, who had become governor of the BdE in 1992, remained in his post until 2000 and was responsible for designing the monetary policy that enabled Spain to join the euro, premier Aznar's main aspiration. The government's drive to qualify Spain for the euro also prompted a new wave of bank mergers that finalized the modernization of big Spanish banks and consolidated the progressive banks' leadership. The acquisition of BCH by Santander in 1999 to form BSCH represented the final installment of the war among conservative and progressive banks. The bitter squabbles between BCH and Santander executives over strategic direction only ended when the last representatives of Spain's conservative banking philosophy renounced their executive positions in 2001 and 2002.[63]

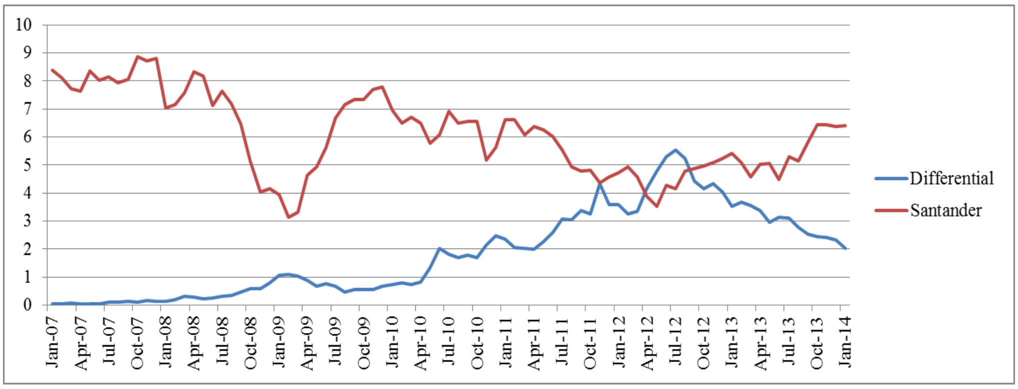
---

62 Hellman et al. (2000); Hellman and Kaufmann (2001).
63 El País. 16 August 2001. *José María Amusátegui presenta su dimisión como copresidente del BSCH*. Accessed 2 February 2013.
http://economia.elpais.com/economia/2001/08/16/actualidad/997947174_850215.html;
ABC 13 February 2002. *Angel Corcóstegui deja todos sus cargos en el*

State autonomy continued to be evident during this period. For instance, the conservative party governments did not hesitate to use the tools at their disposal to eliminate those they disagreed with. In 2000, Ybarra, the president of BBVA, was forced to renounce his post among a scandal related to offshore secret accounts. The issues in question preceded Ybarra's presidency, and it is generally accepted that the case surfaced at the behest of premier Aznar and those close to him as a response to intense criticism of Aznar on a TV channel controlled by the Ybarra family.

The internationalization of big Spanish banks in the 1990s and 2000s could have unraveled the equilibrium on which the Spanish model was based because internationalization diversifies risks and reduces a bank's dependence on operations in a single country.[64] However, recent evidence shows that the performance of big Spanish banks in major international markets remains sensitive to changes in Spain's macroeconomic conditions. This may be due to the fact that Spanish financial institutions are large holders of Spanish public debt (41 percent of outstanding debt in 2013[65]). A comparison between Santander's quotations in the London Stock Exchange FTSE index and the evolution of the price differential between the Spanish ten-year bond and the German ten-year bond up to January 2014 illustrates a strong correlation between investors' perception of Santander and the evolution of the Spanish sovereign debt crisis. Nonetheless, in the future, the size of big banks could unravel the Spanish model.

Table 5 Santander's FTSE monthly stock performance and Spain's bond differential in 2007–2014.[66]



SCH. Accessed 27 February 2013. http://www.abc.es/hemeroteca/historico-13-02-2002/abc/Economia/angel-corcostegui-deja-todo-sus-cargos-en-el-sch_77963.html.
64 Culpepper and Reinke (2014).
65 Banco de España (2013).
66 FTSE quotations from Yahoo Finance. Differential between Germany's and Spain's interest rates for government bonds with maturity of ten years from ECB.

6. Conclusions and future research

This paper explored the interactions between national institutions and the competitive transformation of big commercial banks in the context of late industrializing, transitional, and peripheral economies through the analysis of the Spanish case. The paper argued that bank-state coordination in the Spanish model was a non-market, non-hierarchical cooperation based on negotiated exchanges of benefits and the combination of the capabilities of the two actors. Such a system evolved from historical circumstances in which the state and the most progressive among the big banks had compatible goals that they were unable to accomplish autonomously.

In its origin in the late 1970s, the Spanish model had a strong developmental component, but its configuration differed from those of earlier, European post-war models. Unlike conventional state-led institutional structures, the state in the Spanish model needed to accommodate the interests of private big banks to implement its plans because it did not have the tools to implement its vision autonomously, or to coerce the banks into doing it. Although the Spanish model was based on state-bank cooperation, it was different from other consensual alternatives in which banks with a developmental mandate compromised their profitability to provide patient capital for industry. Despite the central position of the big banks in the Spanish model, the state's commitment to economic development, the consistency between such a commitment and policy formulation, and the existence of a cohesive group of skilled civil servants safeguarded the state from capture by the banks. These institutional differences had a critical impact on Spain's hybrid form of capitalism, which came to favor the competitive transformation of big banks and the modernization of Spain's financial system through non-market coordination, yet exposed downstream industry to market rigors in a way that contributed to its decline.

The Spanish case underscores the importance of exploring the relative positions of key actors to understand their strategic preferences in relation to institutional change. The Spanish case also shows the impact of institutional transformation in enabling banks to overcome historical competitive disadvantages and unleash their potential. Finally, the Spanish case shows how institutional bargains in the banking sector affect the transformation of the rest of the economy, and it provides a historical explanation for the development of hybrid models of capitalisms in which priority sectors operate through non-market coordination but others are left unsheltered from market forces.

There are limitations to an analysis based on a single case. Further comparative research is needed to determine what factors affect the development of different types of institutional structures in the banking sector and what types of barriers may prevent a drift toward state capture or bank capture situations. Comparisons with other late industrializing economies whose transformations run parallel to global processes of liberalization, in

Europe or in other regions would be particularly useful. The non-hierarchical nature of state-bank coordination in the Spanish model could also be explored further. Analyses of state-firm coordination in other industries could help identify possible variants of non-hierarchical coordination, respond to questions regarding the conditions under which non-hierarchical coordination emerges, and evaluate the impact on different configurations of state-firm interaction on the competitive transformation of firms. Examples of sectors in which state-firm coordination is a structural feature—as is true of the banking sector—would make good comparisons.

Bibliography

Amable, Bruno. 2003. *The Diversity of Modern Capitalism*. Oxford: Oxford University Press.

Avedaño, Eduardo and Juán Pedro Moreno. 2004. "Situación competitiva de la banca española en el marco internacional." In *Los retos de la industria bancaria en España*. Colección Mediterráneo Económico 8 Accessed 4 April 2013. http://www.publicacionescajamar.es/pdf/publicaciones-periodicas/mediterraneo-economico/8/8-110.pdf.

Banco de España. 2009. *Modelo de Supervisión del Banco de España*. Accessed 20 September 2014 http://www.bde.es/f/webbde/COM/Supervision/regulacion/ficheros/es/modelo_de_supervision.pdf.

Banco de España. 2013.*La Evolución de la Deuda Pública en España en 2013*. Accessed 7 April 2015. http://www.bde.es/f/webbde/SES/Secciones/Publicaciones/InformesBoletinesRevistas/BoletinEconomico/14/Jun/Fich/be1406-art5.pdf

Burnner, Allan, Jorg Decressin, Daniel Hardy and Bedala Kudela. 2004. *Germany's Three Pillar Banking System. Cross-Country Perspectives in Europe*. Occasional papers 233. Washington, D.C.: IMF.

Cabral, Ines, Frank Dierick and Jukka Vesala. 2002. *Banking Integration in the Euro Area*. ECB Occasional Papers Series 6 (December). Accessed 4 April 2013. http://www.ecb.int/pub/pdf/scpops/ecbocp6.pdf.

Cals Guell, Joan. 2001. *Las cajas de ahorro en el sistema financiero español. Trayectoria histórica y realidad actual*. Working Paper. Barcelona: Universidad Autonoma de Barcelona. Accessed 4 April 2013. http://ddd.uab.cat/pub/estudis/2006/hdl_2072_2090/wpdea0208.pdf.

Carr, Raymond and Juan P. Fusi Aizpurúa. 1979. *Spain: Dictatorship to Democracy*. London: Allen and Unwin.

Casilda Béjar, Ramón. 2011. *La Internacionalización en America Latina como paso para la Expansión Global. Caso BBVA*. Price Waterhouse Coopers. Accessed 5 April 2013. http://kc3.pwc.es/local/es/kc3/publicaciones.nsf/V1/B13C0978087A62B2C125799D005EA5B7/$FILE/Informe%20Internacionalizacion%20America%20Latina_BBVA_final.pdf.

Confederación Española de Cajas de Ahorro (CECA). 2011. *Memoria sectorial RSC 2011. Indicadores GRI*. Accessed 4 April 2013. http://www.ceca.es/rsc/pdfs/indicadoresGRI.pdf.

Consejo Superior Bancario. 1985. Annual statistics. *Anuario estadístico de la banca privada*. Accessed 4 April 2013. http://www.aebanca.es/es/Publicaciones/AnuarioEstad%C3%ADstico/index.htm?pAnio=1985.

Culpepper, Pepper and Raphael Reinke. 2014. "Structural Power and Bank Bailouts in the United Kingdom and the United States." *Politics & Society*: 42 (2): 427-454.

Cuñat, Vicente and Luís Garicano. 2010. *Did Good Cajas Extend Bad Loans? Governance, Human Capital, and Loan Portfolios*. Unpublished. Accessed 5 April 2013. http://www.garicano.com/index_files/cajasnov09.pdf.

Davies, Richard and Peter Richardson. 2010. *Evolution of the UK Banking System.* London: Bank of England. Accessed 4 April 2013. http://www.bankofengland.co.uk/publications/Documents/quarterlybulletin/qb100407.pdf.

Deeg, Richard. 1999. *Finance Capitalism Unveiled: Banks and the German Political Economy*. Ann Arbor, MI: The University of Michigan Press.

Diario de sesiones del Congreso de los Diputados 1993. *Comparecencia del Ministro D. Carlos Solchaga Catalán*. IV Legislatura *sesión 48 9 febrero 1993*. Accessed 5 April 2013. http://www.congreso.es/public_oficiales/L4/CONG/DS/CO/CO_597.PDF.

Dziobek, Claudia and Ceyla Pazarbasioglu. 1998. *Lessons from systemic bank restructuring*. IMF Economic Issues 14. Accessed 4 April 2013. http://www.imf.org/external/pubs/ft/issues/issues14/issue14.pdf.

Erturk, Ismail and Stefano Solari. 2007. *Banks as Continuous Reinvention*. New Political Economy 12 (3): 369–388.

European Central Bank. 2012. *Bank statistics*. Accessed 3 April 2013.

EU KLEMS. 2012. *Growth and productivity accounts*. Accessed 1 April 2013.

Fainé, Isidre. 2005. *La evolución del sistema bancario español desde la* *perspectiva del Fondo de Garantía de Depósitos*. Revista Estabilidad Financiera 8: 107. Accessed 3 April 2013. http://www.bde.es/f/webbde/Secciones/Publicaciones/InformesBoletinesRevistas/RevistaEstabilidadFinanciera/05/Fich/estfin08_rev.pdf.

Fuentes Quintana, Enrique. 1985. "Prologue". In *La eficiencia del sistema bancario español*, by Fanjul, Oscar and Maravall, Fernándo. Madrid: Alianza.

Gil, Gonzálo. 2005. *Internacionalización de la Banca Española: la Empresa Española Ante los Nuevos Retos de la Internacionalización*. Madrid: Banco de España.

Gobierno de España. 1977. *Los Pactos de la Moncloa: Texto Completo del Acuerdo Económico y del Acuerdo Político.* Accessed 14 May 2014. http://www.mpr.gob.es/servicios/publicaciones/vol17/.

Guillén, Mauro. 2005. *The Rise of Spanish Multinationals: European Business in the Global Economy*. New York: Cambridge University Press.

Guillén, Mauro and Adrian E Tschoegl. 2008. *Building a Global Bank: the Transformation of Banco Santander.* Princeton: Princeton University Press.

Guillén, Mauro and Esteban García-Canal. 2010. *The New Multinationals: Spanish Firms in a Global Context*. New York: Cambridge University Press.

Guillén, Mauro and Esteban Garcia-Canal. 2010. *How to Conquer New Markets with Old Skills*. Harvard Business Review (November).

Hall, Peter A. and David Soskice. eds. 2001. *Varieties of Capitalism: the Institutional Foundations of Comparative Advantage*. Oxford: Oxford University Press.

Hellman, Joel, Geraint Jones, and Daniel Kaufmann. 2000. *Seize the State, Seize the Day: State Capture, Corruption, and Influence in Transition Economies.* World Bank Policy Research Working Paper No. 2444 (Washington).

Hellman, Joel and Daniel Kaufmann 2001. Confronting the Challenge of State Capture in Transition Economies. Finance and Development Vol 38 (3).

Hardie, Iain and David Howarth. 2010. *What varieties of financial capitalism? The Financial Crisis and the Move to Market-Based Banking in the UK, Germany and France*. Paper presented at the annual meeting of the Theory vs. Policy? Connecting Scholars and Practitioners, February, New Orleans Hilton Riverside Hotel, The Loews New Orleans Hotel, New Orleans, LA.

Hardie, Iain and Sylvia Maxfield. 2010. *What Does the Global Financial Crisis Tell us about Anglo-Saxon Financial Capitalism?* Paper prepared for the workshop on the global financial crisis, EMU, and the stability of currencies and the financial system, October, University of Victoria. Accessed 4 April 2013. http://web.uvic.ca/jmc/events/sep2010-aug2011/2010-09-financial-crisis/pdf/Oct2,2010-Panel_A-Iain_Hardie,Sylvia_Maxfield-UVic-Financial_Crisis.pdf.

Herrigel, Gary. 2010. *Manufacturing Possibilities. Creative Action and Industrial Recomposition in the United States, Germany, and Japan*. Oxford: Oxford University Press.

Herrmann, Heinz and Robert E. Lipsey. 2003. *Foreign Direct Investment in the Real and Financial Sector of Industrial Countries.* Berlin: Springer.

Huffner, Felix. 2010. *The German Banking System: Lessons from the Financial Crisis*. OECD Economics Department Working Papers 788. Paris: OECD.

International Monetary Fund. 2012. *Financial Access Survey*. Accessed 3 April 2013. http://fas.imf.org/.

Kosmidou, K., F. Pasiouras, M. Doumpos, and C. Zopounidis. 2006. *Assessing Performance Factors in the UK Banking Sector: a Multicriteria Methodology*. *CEJOR* 14: 25–44.

Lannon, Frances and Paul Preston. eds. 1990. *Elites and Power in Twentieth-Century Spain: Essays in Honour of Sir Raymond Carr*. Oxford: Clarendon Press.

Malo de Molina, José L. 2012. "Luis Ángel Rojo en el Servicio de Estudios del Banco de España". In *Luis Ángel Rojo Recuerdo y Homenaje*, edited by Sebastián, Carlos. Madrid: Fundación Ramón Areces.

Martín Azeña, Pablo. 2005. "La Conformación Histórica de la Industria Bancaria Española". In *Los Retos de la Industria Bancaria Española*. Colección Mediterráneo Económico 8Cajamar. Accessed 5 April 2013. http://www.publicacionescajamar.es/pdf/publicaciones-periodicas/mediterraneo-economico/8/8-108.pdf.

Miles, David. 2009. *The Future Financial Landscape*. Bank of England. Accessed 22 September 2014. http://www.bankofengland.co.uk/archive/Documents/historicpubs/speeches/2009/speech418.pdf.

Organisation for Economic Co-operation and Development. 2010. *Banking Income Statement and Balance Sheet Statistics*. Last Updated 13 April 2010. Paris: OECD.

Parada, Pedro, Luisa Alemany, and Marcel Planellas. 2009. *The Internationalisation of Retail Banking: Banco Santander's Journey Towards Globalisation*. Long Range Planning 24: 654–677. Accessed 4 April 2013. http://itemsweb.esade.edu/exed/articulos/LRP_Internationalization.pdf.

Pellicer, Miguel. 1992. *Los Mercados Financieros Organizados en España*. Servicio de estudios del Banco de España 5.

Pérez, Daniel, Vicente Salas-Fumás and Jesús Saurina. 2005. *Banking Integration in Europe*. Banco de España Documentos de Trabajo 0519. Accessed 5 April 2013. http://www.bde.es/f/webbde/SES/Secciones/Publicaciones/PublicacionesSeriadas/DocumentosTrabajo/05/Fic/dt0519e.pdf.

Pérez, José. 2012. "Banca central, Mercados y Estabilidad Financiera: Algunas Experiencias del Banco de España (1977–1990)". In *Luis Angel Rojo: Recuerdo y homenaje,* edited by Carlos Sebastián. Madrid: Fundación Ramón Areces.

Pérez, Sofía. 1997. *Banking on Privilege: The Politics of Spanish Financial Reform*. Ithaca: Cornell University Press.

Pons Brias, María A. 1999. *Capture or agreement? Why Spanish Banking was Regulated Under the Franco Regime, 1939–1975*. Financial History Review 6 (1): 25–46.

Pons Brias, María A. 2002. *Regulating Spanish Banking 1939–1975*. Burlington, VT: Ashgate.

Preston P. 1986. *The Triumph of Democracy in Spain*. London, Routledge.

Rand Smith, W. 1998. *The Left's Dirty Job. The Politics of Industrial Restructuring in France and Spain.* Pittsburgh: Pittsburgh University Press.

Rivases, Jesús. 1988. *Los Banqueros del PSOE*. Madrid: Ediciones B.

Rodríguez Inziarte, Juan. *2008. El sector financiero español 25 años de transformación: caso Santander*. Universia Business Review, especial 150 aniversario banco Santander. Accessed 28 March 2013. http://ubr.universia.net/pdfs_web/UBR0012008030.pdf.

Royo, Sebastian. 2013.”A ship in trouble. The Spanish Banking System in the Midst of the Global Financial System Crisis: The Limits of Regulation.” In Iain Hardie and David Howarth, eds. *Market-Based Banking, Varieties of Financial Capitalism and the Financial Crisis***.** New York: Oxford University Press.

Santander. 2010. *Annual Report.* Accessed 4 April 2013. http://www.santander.com/csgs/StaticBS?ssbinary=true&blobkey=id&SSURIsscontext=Satellite+Server&blobcol=urldata&blobheadervalue0=application%2Fpdf&blobheader=application%2Fpdf&blobheadervalue1=inline%3B+filename%3D790%5C465%5CInforme+anual_ESP.pdf&blobwhere=1278680671012&SSURIsession=false&SSURIapptype=BlobServer&blobtable=MungoBlobs&SSURIcontainer=Default&blobheadername0=content-type&blobheadername1=content-disposition#satellitefragment.

Sheng, Andrew. ed. 1996. *Bank Restructuring: Lessons From the 1980s*. Washington DC: World Bank.

Termes, Rafael. 1991. *Desde la Banca*. Madrid: Rialp.

Torrero, Antonio. 1989. *La Formación de Los Tipos de Interés y Los Problemas Actuales de La Economía Española*. Madrid: Economistas 39.

Torrero, Antonio. 2001. *Banca e Industrialización (1950–2000).* Revista de Historia Industrial: 19–20.

Tortella, Gabriel and José. Luís García Ruiz. 2003. “Banca y Política Durante el Primer Franquismo”. In *Los Empresarios de Franco: Política y Economía en España 1936-1957.* Edited by Sánchez Recio, Gliceiro and Julio Fernández Tascón*.* Barcelona: Critica.

Vander Vennet, Rudi. 2003. “Cross-Border Mergers in European Banking and Bank Efficiency”. In *Foreign Direct Investment in the Real and Financial Sector of Industrial Countries.* Edited by Herrmann, Heinz and Robert Lipsey. Berlin:Springer.

Whitley, Richard. 1999. *Divergent Capitalisms: the Social Structuring and Change of Business Systems.* Oxford: Oxford University Press.

World Bank. 2013. *Economic Policy & External Debt Statistics*. Accessed 3 April 2013. http://data.worldbank.org/topic/economic-policy-and-external-debt.

Zysman, John. 1983. *Governments, Markets, and Growth: Financial Systems and the Politics of Industrial Change*. Oxford: Martin Robertson & Company.

Legal references by date

Royal Decree 1,839/1977. Ministerio de Economía. 1977. *Real Decreto 1839/1977 de 23 de julio sobre estructura orgánica y funciones del ministerio de economía*. *BOE* 177 28 July 1977.

Royal Decree 3,048/1977. Ministerio de Economía. 1977. *Real Decreto 3048/1977 de 11 de noviembre por el que se crea el Fondo de Garantía de Depósitos en Establecimientos Bancarios*. *BOE* 283 26 November 1977.

Royal Decree 1,388/1978. Ministerio de Economía. 1978. *Real Decreto 1388/1978 de 23 de junio por el que se regula la presencia de la banca extranjera en España*. *BOE* 150 24 June 1978.

Royal Decree 54/1978. Ministerio de Economía. 1978. *Real Decreto 54/1978 de 16 de enero por el que se modifica el Real Decreto 3048/1977 de 11 de noviembre por el que se crea el Fondo de Garantía de Depósitos en establecimientos bancarios*. *BOE* 14 17 January 1978.

Royal Decree-Law 4/1980. Ministerio de Economía. 1980. *Real Decreto-Ley 4/1980 de 28 de marzo por el que se dota de personalidad jurídica al Fondo de Garantía de Depósitos y otras medidas complementarias*. *BOE* 78 31 March 1980.

Law 26/1988. Cortes Generales. 1988.: *Ley 26/1988 de 29 de Julio sobre disciplina e intervencion de las entidades de crédito*. *BOE* 182 (30) 30 July 1988.

Royal Decree-Law 1,265/1986. Ministerio de Economía. 1986. *Real decreto Ley 1265/1986 de 27 de junio sobre inversiones extranjeras en España*. *BOE* 154 28 June 1986.

Second Council Directive 89/646/EEC *of 15 December 1989 on the coordination of laws, regulations and administrative provisions relating to the taking up and pursuit of the business of credit institutions and amending Directive 77/780/EEC.* Official Journal of the European Communities L 386 ,30/12/1989 (0001 – 0013)