

International Business, Diplomacy and Local Networking: ITT in Spain (1924-1952)

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During the fifty-year academic analysis of the multinational enterprise, authors from different backgrounds have wondered about how home governments's have supported domestic companies' operations abroad (Caves, 2007[1982]; Jones, 2005). For the particular case of American firms in the 20th century, Mira Wilkins has pointed out that US diplomacy did play a minor role in their sustained and accelerated expansion abroad (Wilkins, 1974). But, as Robert Millward has pointed out (Millward, 2007, p. 550), we still know very little about how business deal with Ministers, particularly in the case of sectors which have been traditionally regulated by governments, such as telecommunications. In fact, there were major exceptions to Wilkins' conclusion, such as the International Telephone and Telegraph (ITT), one of the largest telecommunications group for a great part of the 20th century.

Historians of ITT have already reported the ties that the company's first president and co-founder, Sosthenes Behn, created around officers of the US Department of State and, above all, American embassies at different countries (Deloraine, 1974; Sampson, 1973; Sobel, 2000). Douglass Little has illustrated that with the case of ITT in Spain in the early 1930s, when American diplomacy prevented the Spanish government from expropriating the largest ITT's investment in that country, Telefónica (Little, 1979). Telefónica had been granted the Spanish telephone monopoly few years earlier, becoming ITT the most important American investor in the country at that time (Álvaro-Moya, 2012). The Spanish stake turned to be, in turn, one of the cornerstones of the group's later expansion (Abo, 1991).

However, the American diplomacy's support to ITT's activities in Spain was broader and lasted longer than has been pointed out by literature. Based on both diplomatic and corporate records, this paper offers an in-depth, dynamic, long-term analysis of American government's support to ITT's operations in Spain. The study begins in 1924, when the multinational arrived,

and ends with the nationalization of Telefónica, which was agreed in 1945 although the associated payments were not paid off by the Spanish government until 1952. Throughout that period ITT had to face several nationalistic attacks by part of the host government as well as a civil war. The research shows that ITT could preserve the control of their subsidiaries in Spain thanks to the decisive intervention of the American government. US diplomacy, however, could hardly have succeeded without the information collected by ITT's men through the local networks they have developed since their arrival to Spain. Diplomacy and local networks went hand by hand to prompt international business expansion.

1. The telephone industry in the first half of the 20th century

There is no doubt that the invention of the telephone, in the 1870s, revolutionized the world of communications. This revolution, however, would be slow in coming, at first limited to only a handful of countries in North America and Europe, which did not have proper domestic networks until well into the 20th century.¹ The heavy initial investment required to build a national telephone network favored the domination of the industry by a single company, either private –as in the case of the United States or Spain— or, as was usual in Europe, run by the State itself, with an eye to the strategic character of this service in political and developmental terms. The resulting providers would then battle for the rest of the world's networks, which would later be inter-connected, by agreements signed between them, to provide services world-wide. In some cases those monopolies coexisted with small, privately-run local networks.

Given the existing technology, a monopoly could end if: 1) non-cable commutation was possible; 2) competitors designed cables with more capacity or much cheaper installation; and 3) telephone traffic per cable could be increased (López, 2003, pp. 1-3). The preservation of this business, specifically that of the national monopolies, demanded control over technical change. Consequently, the great European and North American providers would either create their own subsidiaries for the manufacture of materials and equipment, or establish exclusive, long-term relationships with existing firms. The telephone sector's industrial branch would eventually become an oligopoly headed by US and European companies (Table 1).

In the United States, vertical integration prevailed in this sector since its very beginnings due to the agreement, signed in 1882, between the American Bell Telephone (the service provider) and Western Electric (its equipment supplier on an exclusive basis).² Both became integrated in AT&T when the latter acquired Bell in 1899. By that time, Western Electric was already the

¹ On the formation of the sector, see Schneider (1991), OECD (1991), Foreman and Peck (1991), Andersson-Skog (1997), Bertho and Lavenir (1998), Magnusson and Ottosson (2000), Fransman (2003), Huunderman (2003), Burns (2004), Milward (2005) and Calvo (2006).

² All the companies that were working with American Bell Telephone's licenses became part of Western Electric in 1881. On the origins of this industry in the United States, see Foreman-Peck (1991) y Fransman (2003).

world largest manufacturer of telephone equipment. This position was strengthened in the following years, when, boosted by an increasing economic nationalism, the company set up factories in many European countries, such as the United Kingdom, France, The Netherlands and Spain. In 1925, the anti-trust American law forced AT&T to sell the international branch of Western Electric (International Western Electric) to ITT, its partner in the Cuban American Telephone and Telegraph –a company founded four years earlier to run the network between the United States and the Caribbean–.³ The former equipment manufacturer was then renamed the International Standard Electric (ISE).

Table 1
TYPE OF CONCESSION AND LEADING EQUIPMENT PROVIDERS FOR
SEVERAL COUNTRIES IN THE INTER-WAR PERIOD

Country	Type of concession	Leading manufacturers
Germany	Public monopoly	Siemens, ISE
Austria-Hungary	Public monopoly	Siemens, Ericcson, WE
Spain	Private monopoly (to CTNE)	ISE
United States	Private monopoly (to AT&T)	Western Electric
France ¹	Public monopoly	Ericcson, ISE, SAT
Italy ²	Competitive	Various enterprises
Norway	Public monopoly	Ericcson
United Kingdom	Public monopoly	Ericcson, WE, GEC
Russia	Public monopoly	Ericcson, Siemens, WE
Sweden	Public monopoly	Ericcson

Notes:

¹ In France, ISE was the undisputed leader in commutation equipment –after surpassing Ericcson in the 1920's—, while the French company SAT dominated in transmission materials.

² The five existing grantees merged in the 1950's to form the *Società Italiana per l'Esercizio Telefonico*, a subsidiary, through the *Società Finanziaria Telefonico*, of IRI (Foreman-Peck, 1991, p. 10).

Sources: Bertho and Lavenir (1988), Galambos (1988), Foreman and Peck (1991) and Fransman (2003).

The ITT's empire grew in the following years thanks to agreements with different equipment suppliers related to the electric industry, such as *Compagnie Française pour l'Exploitation des Procédés Thomson-Houston*, with whom ITT constituted the French *Compagnie des Téléphones Thomson-Houston*, and AEG, founding the German *Standard Elektrizitäts Gesellschaft*. ITT also bought Lorenz from the Dutch company Philips.⁴ And the previously mentioned *Compagnie Française pour l'Exploitation des Procédés Thomson-Houston* had patents from large firms like General Electric and the International Automatic Telephone of Chicago –which ran one of the four existing systems of automatic commutation–.⁵ In 1930,

³ ITT, *Annual Report* (1921).

⁴ Sampson (1973), p. 27; Hugill (1999), p. 57; y Sobel (2000), p. 43.

⁵ In the beginnings of the automatic commutation, there were four different technologies, each one belonging to a different service provider: ISE, Siemens & Halske, LM Ericcson e International Automatic Electric Corp. of Chicago (Hurdeman, 2003, p. 248).

ISE had 15 factories in different European nations, in addition to other stakes in China, Japan, Australia and Argentina (Calvo, 2009, pp. 46-47 y 50; ITT, *Annual Report*, 1929). In fact, by that time ITT was the leading US company in terms of its foreign investments, with interests that included telephone, telegraph and underwater cable as well as radio services (Wilkins, 1974, p. 30; Tetsuo, 1991 [12982/83], p. 523). Of these, the jewel in the company's crown was the Compañía Telefónica Nacional de España (CTNE, Telefónica onwards), which had been granted a private monopoly in 1924 as Spain's telecommunications provider.

Together with Northern Electric, the largest telephone provider in Canada since the end of the 19th century, Western Electric (WE) and International Standard Electric (ISE) constituted the American arm of the world oligopoly that controlled the sector in the following decades. However, the protectionist policies applied by many European nations and Japan strengthened the position of ISE and, at the same time, fostered the emergence of native manufacturers of telephone equipment. Some examples are, in Japan, the largest service provider, Nippon Electric Co. (NEC since 1983), and Fujitsu, formerly linked to Siemens; and, in Europe, the *Compagnie Générale d'Electricité* –CGE, closely linked to the French government until its nationalization during the Second World War–, Siemens and Ericsson.⁶ Both Northern and NEC, created in 1874 and 1899, respectively, were formerly joint ventures between Bell and local firms. The latter was nationalized by the Japanese government during the Second World War, while the first one remained tied to AT&T until 1956. Also the large manufacturers of electric equipment took part of the business, such as Westinghouse, General Electric and AEG. In fact, collusive agreements arose in Europe during the interwar period, as was happening in the electric industry. For example, an initial alliance between ITT and AEG in order to compete with Siemens and Ericsson ended in an agreement to share the European and Latin American markets among all of them (Sampson, 1973, p. 27).

This situation did not change substantially until the 1970s, neither in institutional or technological terms. In fact, from the 1930s onwards there were only incremental innovations in commutation (crossbar switching) and transmission (larger high-frequency systems, coaxial cables and microwave links) in order to enhance the quality and quantity of the service provided (Zajac, 1990). Nevertheless, under this model the expansion of the service had to ultimately face the saturation of the existing networks. That became a reality throughout the 1970s, with the arrival of the digital age. ITT, for its part, proved to be slow in reacting to those changes. The eventual sale, in 1989, of its telephone operations to CGE (Alcatel, later Alcatel-

⁶ López and Valdaliso (2003), p. 44; Fransman (2003), pp. 16-18; Huurdeman (2003), p. 181; Bertho-Lavenir (1998), p. 156; <http://www.nortel.com> (accessed on June 25, 2009); <http://www.nec.com> (accessed on June 25, 2009); and <http://www.alcatel-lucent.com> (accessed on June 25, 2009).

Lucent) would put an end to one of the great stars of the 20th-century telecommunication sector.

2. ITT in Spain

As early as 1877 the first phones were installed in Spain. However, the expansion of this new service was very slow, and almost half a century later, an integrated national telephone network did not yet exist. The diversity of measures, over time and regions, between public and private exploitation, was particularly pronounced. The result of those policies was an expensive, low-quality national network based on small local companies with poor productivity and profits, which, in addition, used heterogeneous technology that hampered domestic interconnections (Calvo, 2002). The approval of the monopoly and its immediate concession to Telefónica inaugurated an era of great expansion in service (Álvaro-Moya, 2010, Appendix 4.1, 4.2 and 4.3). In only one year, the number of telephones in operation practically doubled, a growth that was also accompanied by great advances in productivity. This expansion combined the widening of service territories, through the installation of manual stations in the smaller villages, with the progressive implantation of automated centers in larger ones. As early as 1928, functional lines connected by automated centers represented more than 50% of the total, and the commutation and transmission systems developed in those years were among the most advanced of their time (Carrasco, 2001; Pérez and Salazar, 2003).

With the foundation of Telefónica, ITT became in addition the largest American investor in the country. In a few years its position was strengthened with the foundation of a ISE's branch (*Standard Eléctrica S.A.*, SESA) and two affiliates, *Compañía Radio Aérea Marítima Española* –supplier of radio services– and ITT Spain –which provided financial services to the rest of the group–. In fact, Telefónica and ISE were the cornerstones of the company's later expansion. And even after the nationalization of Telefónica in 1945 ITT continued to be one the largest foreign firms in Spain, with a stake that represented around the 20% of total American direct investment in the country (Álvaro-Moya, 2010, p. 169).

While telephone services were being modernized, ITT was implanting its own corporate culture at Telefónica (Álvaro-Moya, 2008). This took form, first of all, in a hierarchical management structure firmly controlled by its president, Sosthenes Behn, who, when out of the country, received reports from his trusted associates in both the multinational and in Telefónica. This structure, common to SESA, was supported by the progressive establishment of protocols and operational routines at all levels of the company: the bureaucratization typical of modern business enterprise (Deloraine, 1974; Sampson, 1973; Márquez Mira, 1976; Sobel, 2000; Bartlett and Ghoshal, 2002 [1989]). Secondly, ITT pioneered the development of one

department in particular –Sales—, among whose responsibilities was the execution of marketing studies and advertising campaigns, still quite unusual for a Spanish company at that time. The multinational also introduced for the first time techniques of personnel management that were already firmly established in similar companies in other countries, especially the United States. These methods were related to the rationalization movement but were combined with that of the “telephone family” –a human relations approach by which the loyalty of employees is gained by improving their working conditions and making them feel that they are part of a collective success. To all of this was added a notable effort in training, drawing on ITT's ranks of engineers, accountants and management professionals. The departments corresponding to the company's various functions were in fact directed by North American executives, who were made responsible for training the same Spanish sub-directors that a few years later would be replacing them. All formal personnel training was channeled through the *Escuela de Telefonía* (Telephone School, created in 1925) and the company's own training department (1926). The contract signed in 1924 between Telefónica and the State already stipulated that the majority of staff (at least 80%) had to be comprised of Spaniards, a requirement that was subsequently applied to ISE's Spanish subsidiary as well (Cabezas, 1974, p. 49). This commitment was quickly fulfilled, although US personnel continued to hold some of the top posts, especially in accounting and engineering (Álvaro-Moya, 2010, pp. 171-173; Calvo, 2009, p. 48). Regarding SESA, the production of phone equipment in the country rose quickly in the late 1920s thanks to the two factories established soon after the approval of Telefónica's monopoly, although the more complex systems went on being imported from other European plants (Calvo, 2009, p. 48). Product standardization and growing facilities were the key factors explaining SESA's growth in the following decades, a growth only interrupted by the Spanish civil war and its aftermath (Calvo, 2009, pp. 58-59).

The structure, routines and labor policy implemented in the early years of Telefónica were maintained over the following decades, even after its nationalization, by virtue of the advisory and supply agreements signed at that time between the Spanish company and ITT (Álvaro-Moya, 2010, pp. 217-227). The few innovations introduced in company structure and work plans after the late 1940s relied on the aid of American advisors. To this effect, the Spanish engineers and managers, whose long professional careers had been developed under the wing of ITT, charged with their implementation under a close cooperation with their ITT's counterparts. In fact, the weight of ITT in Telefónica's management did not begin to diminish until the late 1950s, at the same time that the inevitable generational renewal of the company's managers was occurring and an increasing government presence on its Board took place. Telefónica was gradually becoming independent from its former owner, as the fact that in the 1960s SESA stopped being its exclusive equipment supplier illustrates.

3. The first backup: Obtaining the Spanish monopoly (1924)

When ITT founded Telefónica in 1924 and obtained the national monopoly, it was still largely unknown, with only four years of experience in Puerto Rico and Cuba. Nor did it have its own technology because ISE, as has been mentioned previously, would not be founded until a year later. ITT possessed, however, three other weapons that enabled it to outstrip its rivals in its bid for the monopoly: the financial means needed to transform the Spanish telecommunications industry –thanks to its presence in the New York Stock Exchange and its ties with US banks such as The Morgan Bank, the National City Bank and the International Banking Corporation–; the support of the American diplomacy; and Spanish partners who provided it with both market information and government contacts. Among such partners were engineers and executives of the Spanish telephone sector –working in subsidiaries of the leading equipment and materials manufacturers, or for providers of the main urban telephone networks—, politicians of various leanings and influential financial groups, most notably the Urquijo Group.⁷ Urquijo not only had a presence on Telefónica's Board of Directors (as minority shareholders), but would occupy the posts of president and vice-president in the following decades, with the aim of giving a national character to the company. Members of the group held similar posts at ISE's Spanish subsidiary, which ITT had committed itself to build in order to obtain the monopoly.

In this paper we will focus on the American diplomatic support to ITT's activities in Spain, particularly regarding Telefónica. The first backup came with the own concession of the monopoly, in 1924, as Little (1979, pp. 451-454) and more recently Montero (2011, pp. 331-337) have studied in depth. Things did not seem easy for the American corporation, as it had to compete with well-established providers like Ericsson and The Antwerp Telephone and Electric Works. But the American embassy in the country, without the Department of State's consent, did not doubt to intermeditate in favor of ITT, which three days after the constitution of Telefónica obtained a twenty-year contract to exploit the Spanish telephone sector. According to the ambassador, Alexander Moore, it was necessary to defend the interests of the only American firm participating in the bidding for what was considered a natural monopoly. Its intermediation, he argued, was limited to point out that ITT's system was the best at that time, contrary to the accusations made by the Swedes.⁸ However, the Department of State, reluctant to get involved in this issue due to the dictatorial character of the Spanish government and the nationalism that prevailed in the local society, studied carefully in the

⁷ A detailed analysis in Álvaro-Moya (2010), chapter 4. A summary in Álvaro-Moya (2007).

⁸ Correspondence between the State Department and the American ambassador in Spain (Alexander Moore), 08/29/24, 09/03/24 and 09/09/24; and the American Consul in Madrid (Augustin W. Ferrin) to the State Department, 09/16/24. National Archives and Records Administration (NARA), Microfilm, Decimal File (DF) 1910-1929, Roll 34.

following weeks the conditions of the contract signed by ITT. The contract finally received its approval but ITT was warned the US diplomacy would not intervene in the future to guarantee its interests, unless the monopoly was illegally transferred to another foreign firm, because:

“To intervene in such a case would amount almost to interference with the conduct of what is in essence through its monopolistic character a department of the Spanish government and as such would be a very serious thing”.⁹

History would show, however, how wrong the US Administration was about its future behavior.

4. Overcoming the Republican setback (1931-1936)

For a company like ITT, with operations around the world and its funding based on the issuing of equities at the stock market, the crash of 1929 had severe consequences. First, despite the financial support of the Export Import Bank (Eximbank), the company was forced to slow down the fast rate of investments followed until then. In addition, protectionism spread and the gold standard was abandoned by most nations (Tetsuo, 1991 [1982/83], pp. 524-528). And one of its main stakes, Telefónica –which represented a 20.44% of ITT’s total investments at the end of 1935– began to be the target of the Republican government that came to power in Spain in 1931.¹⁰ The *leitmotif* was the alleged illegality of a contract signed between a non-democratic government and a foreign firm to exploit a key sector for the national development and sovereignty. As a result, a bill seeking to cancel the 1924 contract and seize the company’s service, organization and equipment was passed in the Spanish Parliament at the end of 1931.

ITT did not take long to turn to the Department of State in search of its diplomatic support. And it achieved a great success, a few days later an official release was issued to protest against the treatment granted to the American firm.¹¹ As Little (1979) has thoroughly showed, that was the beginning of an intense correspondence among the ITT headquarters in New York, ITT’s men in Madrid, the Department of State, the American embassy in Spain and the Spanish government. Taking advantage of the problems that the left-wing government faced to achieve the recognition of many groups in and outside Spain, the American trump card consisted in transforming the “Telefónica question” into an example of how foreign interests would be treated from then onwards by the new authorities. As a consequence, the Americans argued, any hypothetical press release regarding the phone issue would discourage foreign investment in the country, affecting the unstable exchange rate of the Spanish currency and in

⁹ Report from the State Department, Division of Western European Affairs, 10/08/24. NARA, Microfilm, DF 1910-1929, Roll 34.

¹⁰ Telefónica was the second largest ITT’s branch, following the Argentinean –which counted for a 28.37% of the total accumulated investment of the group–. ITT, *Annual Report* (1935).

¹¹ State Department to the Spanish Embassy in Washington, 12/11/31. NARA, RG59, DF 1930-39, Box 6474.

detriment to the government's legitimacy. To publish that release was finally shown as necessary, after some months with no clear favorable response on the part of the Spaniards.

That was enough. At the end of 1932, the Prime Minister, Manuel Azaña, following ITT and US embassy's suggestions, postponed the debate of the expropriation bill by the Parliament with the excuse of constituting a commission to jointly study the contract by Telefónica and the State.¹² Because of some differences about the composition of this commission –there were rumors that all members had to be Spaniards–, the American embassy had to intervene again.¹³ Even during the trade conversations of April 1933 the US authorities insisted on the necessity to solve the phone question as soon as possible. However, according to ITT's President, Sosthenes Behn, the situation was under control. If no agreement had been reached by then, it was just for political reasons: internal discrepancies among the local government representatives which would not have any effect at the end. So, he recommended, the best strategy to follow was "taking the situation slowly".¹⁴

Behn's impression, which was shared with some of his Spanish partners –many of them very close to local authorities–, proved to be true. In June 1934 the Council of Ministers was still trying to find, without consent, a way to reduce American power within Telefónica, such as transferring to Spaniards part of the equity shares and sharing the right to vote among all shareholders –instead of being limited only to those (ITT) who possessed preference shares.¹⁵ But the arrival to power of a new government, led by the conservative Alejandro Lerroux, meant the end of the hostilities against ITT. Lerroux himself, together with other political personalities, was among Behn's confidants in the country.¹⁶ Indeed, he had interceded on ITT's behalf while being a member of the first Republican government (Azaña, 1990, pp. 111-112).

In the meantime, some changes had taken place at the Department of State as well, with the arrival of Roosevelt to presidency in April 1933. Even though ITT could maintain its contacts among some of his appointees, it could not succeed in its attempts to link the American trade policy towards Spain with its own interests (Little, 1979, pp. 463-467). In 1934, the multinational failed to introduce, in the trade talks between both countries, any measure to

¹² American ambassador in Madrid to the Secretary of State, 02/04/33 and 02/23/33. NARA, RG59, DF 1930-39, Box 6474.

¹³ On December 19, 1932. NARA, RG59, DF 1930-39, Box 6474.

¹⁴ Memorandum of Conversation between the State Department and representatives of ITT (S. Behn, L. Proctor and F. Page), 02/ 23/33. NARA, RG59, DF 1930-39, Box 6474.

¹⁵ Telegram from L. Rock (ITT's executive in Telefónica) to Behn (in New York) and to the American embassy (06/06/34) and correspondence between the embassy and the Secretary of State (06/12/34). NARA, RG59, DF 1930-39, Box 6474.

¹⁶ The friendship between Lerroux and Behn can be observed in diverse correspondence. See, for instance, Rock to Behn (04/21/33) and American embassy to the State Department (06/12/34). NARA, RG59, DF 1930-39, Box 6475.

facilitate the repatriation of profits from Spain, frozen by the local government some months earlier. One year later, again without success, ITT tried to introduce a currency stabilization loan in future Spanish-American trade agreements.

In Spain, the calm did not last long. ITT's fears of losing control over Telefónica emerged again in late 1935, when Lerroux's government collapsed following a bribery scandal and was replaced by a left-wing coalition a few months afterwards (Little, 1979, pp. 467-471). In fact, a decree announcing the revision of the contract was published a few weeks later, according to Spanish authorities by mistake. Maybe it was true, and maybe it was removed under American embassy pressure, which again hurried to support the multinational. When it seemed that calm had returned again, the breakout of the civil war would put ITT's interests in Spain at the stake again.

5. Promoting the American return (1939-1940)

ITT's tribulations regarding its interests in Spain arose again in July 1936, when the Spanish civil war broke out. Despite the fact that Behn had formerly offered the services of Telefónica to Franco's faction, the firm's management was divided to work for both sides. While ITT's men and some Spanish technicians and engineers stood by the Republican government, some of the oldest local partners of the American firm moved to the area occupied by the rebels since the very beginnings (Álvaro-Moya, 2010, pp. 182-187). Thanks to this strategy, ITT supplied both sides during the conflict and maintained almost the entire control over its subsidiary –except for some incidents with the work committees organized in Barcelona under the Republican government (Álvaro-Moya, 2010, p. 185)–. But it was not enough to prevent the rebels from urging ITT stop working for the Republicans. This pressure intensified in December 1938, when Germany tried to convince Franco to take over Telefónica and built a monopoly that included the radio, telegraph and telephone services.¹⁷ The rumors about Hitler's plan, which Behn found out thanks to their contacts in Germany, and the visible victory of Franco in the war made ITT approach the latter from late 1938 onwards (Deloraine, 1974, p. 72). Finally, Franco was not seduced by the Germans, but he did not make things easy for the company after the war either.

ITT, indeed, had to wait for several months before recovering the direct control over the entire Telefónica.¹⁸ After giving the corporate documentation in their possession to their counterparts,

¹⁷ ITT to the American embassy, 12/28/38, NARA, RG59, DF 1930-39, Box 6475; American embassy (Alexander W. Weddell) to the Secretary of State, 07/09/39, NARA, RG59, DF 1930-1939, Box 6475, and FRUS, Vol. III, p. 837; Weddell to the Secretary of State, 07/20/39, FRUS, Vol. III, p. 838; and Beaulac (1986), p. 101.

¹⁸ The discussions on this issue among the American authorities, the Spanish government, ITT and Telefónica in AHMAE R1671/6; NARA, RG59, DF 1940-44, Box 5256; NARA, RG259, Entry 30, Boxes 8 y 19; and FRUS, Vol. III, pp. 820-856. Other sources are quoted in the following endnotes.

the American executives were separated from the company's management and subjected to a purge process, like the rest of the personnel under their supervision.¹⁹ The new government even denied the entrance in Spain to Behn himself, arguing, first, that the United States had not recognized the new government yet and, later on, that his implication in the war had to be investigated.²⁰ According to the Department of State and the American embassy in Spain, all was a strategy to erode the control of ITT in Telefonica's management as a result of the increasing nationalistic local policy and the new government's aim to teach a good lesson to a Republican collaborationist. From the point of view of ITT, which was well informed by its old partners in the company, everything responded to internal disputes among some Spaniards, particularly those executives that had arrived to the upper echelons of Telefónica throughout the war, promoting themselves within the firm and the new government thanks to the support of the State delegation on the Board.²¹ But it was also known the aversion felt by some of the highest political personalities towards the president of ITT, as assured by some Behn's friends in the new cabinet –such as the Head of the Police and Military Intelligence, and the Sub-secretary of State–.²² If ITT's men wanted to come back to Spain, they needed of the American political support. And they got it in the spring of 1939, when Behn's return to Spain, together with the repatriation of US war prisoners, came to the fore in the diplomatic conversations between both nations.

For the Spanish government, this created a great opportunity to ask for aid from the Atlantic country to resume domestic production. In particular, a credit from the Eximbank was requested to import cotton, without which, according to the Spanish ambassador in Washington, the country would fall “completely into the arms of Germany and Italy”.²³ The Department of State, as a response, linked any concession of credit with the preservation of ITT and other American firm's interests in the country and the return of the multinational's executives to Telefónica management:

¹⁹ Telefónica corporate archives (AT), Minutes of the Board of Directors (MBD) in Franco's faction, Minute 30 (05/26/39).

²⁰ Document Files Notes, Chief of the Division of European Affairs, 02/09/39 and 03/10/39, NARA, RG59, DF 1930-39, Box 6475.

²¹ Commercial Attaché in Madrid (Mr. Matthews) to the Secretary of State, 05/11/39, FRUS, Vol. III, pp. 820-824.

²² Weddell to the Secretary of State, 09/26/39 and 12/14/39, FRUS, Vol. III, pp. 843-845 and 849-850, and NARA, RG59, DF 1930-1939, Box 6475; American embassy to the Secretary of State, 11/19/39, NARA, RG59, DF 1930-1939, Box 6475; Commercial Attaché in Madrid to the Secretary of State, 05/11/39, FRUS, Vol. III, pp. 820-824; and Memorandum of Conversation, Chief of the Division of European Affairs, 10/18/39, FRUS, Vol. III, pp. 846-847.

²³ State Department to the American embassy, 07/01/39, NARA, RG59, DF 1930-1939, Box 6475, and FRUS, Vol. III, pp. 835-836. On the Eximbank loan, Memorandum of the conversation held on May 29, 1939, between Cárdenas (Spanish ambassador in the US) and the Undersecretary of State, State Department to the American embassy, 06/02/39, NARA, RG59, DF 1930-1939, Box 6475, and FRUS, Vol. III, pp. 827-830; conversation among F. Franco, R. Serrano Suñer (Spanish Minister of Interior) and Weddell, 06/22/40. NARA, RG59, DF 1940-1944, Box 5256.

“the connection between the permission for Behn to return to Spain and the granting of the cotton credits had become increasingly close and [...], although not speaking officially, [...] should permission be granted for Behn to return to Spain it could not help but facilitate the granting of the cotton credits”.²⁴

As the Sub-secretary of State made clear to the Spanish ambassador:

“Reports had reached [me] that the element in the Spanish Government which represented the Falange [fascist party] were determined to pursue a policy of nationalization and that if this policy included the confiscation of the properties of the American Telephone Company as well as other legitimate American investments in Spain, there would, of course, be little logical reason why this Government should proceed with the granting of credits to a government which intended to confiscate American properties”.²⁵

In an attempt to solve the situation as soon as possible and avoid that the ITT issue was constantly used as a bargaining chip by part of the Spaniards, the Department of State even accelerated the procedure to obtain the Eximbank loan as a sign of good will.²⁶ Thanks to US diplomacy and money, as Spain finally received the loan to import 250,000 bales of cotton, Behn as well as his men returned to Telefónica’s management. But that did not mean that the multinational had gained the control again. As Behn reported to the New York headquarters:

“It is impossible to present for us to exercise our rightful position in the company as principal common shareholders [...] and principal creditor [...] since the members of the Board of Directors as now composed (excluding the three military men who are Government delegates) who are generally old friends, are absolutely terrorized by what governmental action might be taken against them if they show an inclination to favour the Americans. The President and Vice President (very old friends) have personally definitely admitted to me that they fear to take any action in our support since, if they did, they believe that the Government might take action against them and their properties in the way of fines, elimination from [Telefónica’s] Board of Directors, etcetera”.²⁷

ITT’s men, then, integrated the Board of Directors, but with their hands tied as they did not possess the right to vote. According to the State delegation in the company’s Board and the State-supporting members, it was necessary that their arrival was previously approved in a shareholders general meeting, a proposal which their old local partners tried unsuccessfully to promote inside the Board. Some of those partners, as well as various top managers of ITT, even had interviews with different Franco’s appointees in a fruitless attempt to push forward that meeting.²⁸ The government argued that Telefónica’s annual accounts from the outbreak

²⁴ Weddell’s report about his interview with Robert M. Scotten (attaché of the American embassy in Madrid) and Bárcenas (Vice-secretary of Foreign Affairs) held on July 20, 1939. Weddell to the Secretary of State, 07/20/39, FRUS, Vol. III, pp. 838-839.

²⁵ Interview between Cárdenas and the Sub-secretary of State, 06/22/39. The Secretary of State to Weddell, 07/01/39, FRUS, Vol. III, pp. 835-836; and NARA, RG59, DF 1930-39, Box 6475.

²⁶ The Secretary of State to Weddell, 07/22/39, FRUS, Vol. III, pp. 839-843. Curiously, the president of the Eximbank was appointed president of the American Cable & Radio Corporation, an ITT’s affiliate, a few months later. He also entered ITT’s Board of Directors in 1942. NARA, RG259, E30, Box 11; and Oslin (1992), p. 293.

²⁷ Behn to Page 04/13/40, NARA, RG59, DF 1940-1944, Box 5256. See also Behn to Page, 01/13/40, NARA, RG59, DF 1940-1944, Box 5256; and Weddell to Beigbeder 12/29/39, AHMAE R1671/6.

²⁸ AT, MBD 56 (07/22/40); AT, MBD 49 (04/29/40).

of the civil war onwards should be approved by the Board before organizing any event among shareholders.²⁹ As it was soon understood, it was just an excuse to hinder ITT's power in the firm.

As some months earlier, the US diplomatic support proved to be decisive in guaranteeing the real return of the multinational to Telefónica management. Again, the key was the loans the US government's offices could grant –as American private institutions, such as the Morgan Bank, were reticent to give credit without its government consent–.³⁰ The Spanish ambassador in Washington, in fact, had already made contact with different businessmen who, if the phone question was solved, would help the Spanish government obtain larger credits from the Eximbank.³¹ At the same time other local authorities were approaching the American embassy's representatives with the same purpose.³² The threat of not receiving more loans, together with Behn's promise of extending ITT's manufacturing operations in the country and exports from the Spanish plants to their Latin American branches, guaranteed that the American company's executives came back to their prewar positions inside Telefónica's management in August 1940.³³ The shareholders general meeting took place some months later. There, a new Board of Directors, where even ITT's representatives were larger than in the prewar one, was appointed (Alvaro-Moya, 2010, pp. 191-194). Also the Americans and their Spanish partners remained in executive positions, although Behn had to resign to occupy the positions of president and vice-president.³⁴ Immediately afterwards, the Department of State authorized the delivery of petrol to Spain.³⁵

However, the American executives soon realized that the company's problems were far from being solved. First, like other firms, Telefónica and other ITT's branches suffered from the raw materials scarcity existing in Spain at that time, and which was aggravated by the outbreak of

²⁹ AT, MBD 47 (03/30/40 and 04/10/40).

³⁰ American consul in Barcelona to the Secretary of State, 12/24/40, FRUS, Vol. III, p. 855. American embassy to the State Department, 05/09/40 and State Department to the American embassy, 05/13/40, NARA, RG 59, DF 1940-1944, Box 5256. See also American embassy to the Spanish Department of Foreign Affairs, 05/04/40, AHMAE R1671/6.

³¹ For instance, among representatives of the National City Bank. Spanish embassy in Washington to the Spanish Department of Foreign Affairs, 02/29/40, AHMAE R1671/6.

³² The civil governor of Barcelona to the American council in the city. American embassy to the Secretary of State, 12/22/39, FRUS, Vol III., p. 854; Memorandum of Conversation between Cárdenas and the Undersecretary of State, 04/16/40, NARA, RG59, DF 1940-44, Box 5256; and Memorandum of Conversation between Cárdenas and the Chief of the Division of European Affairs, 04/18/40, NARA, RG59, DF 1940-44, Box 5256.

³³ AHMAE, R1671/6 and American embassy to the Secretary of State, 08/19/40, NARA, RG59, DF 1940-44, Box 5256. The agreements reached previously in American embassy to the Spanish Foreign Affairs, 02/01/40, AHMAE R1671/6; American embassy to the Spanish Foreign Affairs, 03/18/40, NARA, RG59, DF 1940-1944, Box 5256; Memorandum of Conversation between James Clement Dunn (State Department) and Cárdenas, 03/18/40, NARA, RG59, DF 1940-1944, Box 5256; Wedell to the Secretary of State, 09/26/39, NARA, RG59, DF 1930-39, Box 6475; and FRUS, Vol. III, pp. 843-845.

³⁴ ITT's report of 02/26/40 and ITT's report sent to the Spanish Department of Interior in June 11, 1940. American embassy to the State Department, 06/11/40, AHMAE, R1671/6.

³⁵ Department of State to the American embassy, 08/27/40, NARA, RG59, DF 1940-1944, Box 5256.

World War II.³⁶ Second, the new labor law implemented by Franco forced several adjustments in Telefónica's staff while all its personnel's role during the civil war was being investigated by the authorities in an exhaustive purge process.³⁷ In addition, the State, through its delegation on the Board, hindered the approval of different issues regarding the management of the company. These included new investment plans; an increase in capital needed to reorganize the firm³⁸; Telefónica's annual accounts from the outbreak of the civil war onwards – discrepancies arose regarding how to recoup the investment done by ITT, an amount that the State had to give back to the multinational in case of nationalization³⁹; the payment of the services granted by Telefónica and other ITT's affiliates to the new government during the war⁴⁰; the repatriation of the assets frozen since 1934⁴¹; and an increase in phone fares, which, according to Telefónica's executives, was necessary to cover the rise of wages which was to be announced by the government in the near future.⁴² According to the ITT's executive Fred Caldwell, the State delegation in the company was showing "a destructively critical attitude of everything".⁴³ And this time, the intermediation of the American embassy was not enough to guarantee ITT's interest in the firm. Differences were still in the air in the spring of 1944, when the discussions that would lead to the nationalization of the phone provider began.

6. The last support: Towards the nationalization of Telefónica

In the winter of 1941, ITT began to think about selling its interest in Telefónica. This decision responded, on one hand, to the problems it was facing regarding the affiliate's management, and, on the other, to an offer made by the German government to finance the acquisition, by a group of Spanish banks, of a controlling interest in the provider –through the purchasing of a

³⁶ Caldwell to the Economic Intelligence Division (Board of Economic Warfare), 09/08/42, NARA, RG226, Box 181, Report 22640; AT, Minutes of the Executive Committee (MEC), Minutes 85 (06/17/41) and 87 (07/01/41).

³⁷ AT, MBD, Minutes 36 (10/18/39), 37 (10/26/39), 38 (11/10/39), 60 (08/26/40) and 84 (28/07/41); AT, MEC, Minutes 32 (03/18/40) and 118 (02/03/42); and Álvaro-Moya (2008), pp. 246-248.

³⁸ AT, MBD, Minutes 112 (08/30/43) and 144 (10/26/46).

³⁹ AT, MBD, Minutes 56 (07/22/40), 74 (03/11/41), 75 (03/15/41), 85 (08/26/41), 92 (03/12/42), 106 (03/30/43), 105 (02/26/43), 106 (03/30/43), 108 (04/27/43), 118 (02/29/44) and 131 (02/26/45). Also AT, MEC, Minute 221 (02/22/44).

⁴⁰ The Spanish authorities owed around 300 million dollars to ITT, including royalties and loans granted to the Republican governments before the war. Caldwell to the American embassy and the Department of State, 07/22/39, NARA, RG59, DF 1930-1939, Box 6475; AHBE-IEME, Secretaría, Box 19.

⁴¹ Trying to find a way to solve this question, ITT thought about using the frozen pesetas to buy minerals in Spain in order to export them afterwards to the United States. It seems this plan was never put into practice. Memorandum of Conversation between F.Caldwell, M. Sundstrom y C. Thomas (ITT's executives) and the American ambassador in Spain (A. Weddell), 11/13//41, NARA, RG59, DF 1940-44, Box 5256.

⁴² AT, MBD, Minutes 97 (06/26/42), 100 (09/26/42) and 127 (10/26/44); AT, MEC, Minute 220 (04/15/44); and Behn to Caldwell, 11/23/42, NARA, RG259, E30, Box 19.

⁴³ Caldwell to Behn, 03/08/43, NARA, RG259, E30, Box 19. A summary in Memorandum for the Files, Treasury Department, 02/26/45, NARA, RG56, Box 24.

large new issue of shares and bonds—. ⁴⁴ As a result, both ITT and Telefónica would have liquidity while the German government would get some access to the Spanish telephone service. However, the American authorities, which were informed by the multinational as required by law due to the war, soon showed their disagreement. ITT, far from being daunted by this rejection, came up with other ways by which the mentioned Spanish banks could obtain the necessary resources: a loan from a US institution, like the *Federal Loan Administration*, the *Reconstruction Finance Corporation* and the Eximbank; and, when this proposal did not prosper, a loan from the British government. The financial needs of the multinational, which could have forced the sale of its assets in Latin America, made the US administration accept the British proposal, provided that the Americans retained Telefónica's control throughout the war. ⁴⁵

Let's see in detail the proposal endorsed by the United Kingdom. A group of Spanish banks – probably ITT's partners in Spain– would buy an interest in Telefónica's capital of around 64 million dollars, which would be included in future compensation agreements between Spain and the United Kingdom. In addition, Telefónica and the British affiliate of ITT would sign an advisory agreement according to which a third of the executives in the phone provider and most of the top positions (such as the vice-president, the chief engineer and the treasurer) would be appointed by the British. As payments would be made in sterling pounds that ITT had to change into US dollars afterwards, American cooperation was required. Thanks to this strategy, Behn argued that ITT could reorganize its operations, direct its efforts toward Latin America (as the State Department had repeatedly suggested) and clear the multinational's debt with the Eximbank. ⁴⁶ But neither the Department of State nor the Treasury Department supported ITT's plan. In spite of that, the conversations with the British went on, while the multinational attempted to get the American approval using arguments such as the difficulties it would face to retain control over Telefónica once the agreement was signed, to not sell the Argentinean affiliate –together with the Spanish, the largest one– and to stop the German influence on the latter to control communications in Latin America. ⁴⁷ We don't know the very reason, but finally ITT did not get the American support and it could not, or did not want to, sell this time its stockholding in the Spanish provider.

⁴⁴ Page (ITT) to Herbert Feis (Division of European Affairs, Department of State), 03/20/41; Feis's report dated 07/11/41 and Feis to the State Department, 03/24/41. NARA, RG59, DF 1940-1944, Box 5256. According to Tetsuo (1991 [1982/83], p. 528), ITT had already received an offer by some Spanish Banks at the beginning of 1940.

⁴⁵ "Proposed sale of the Compañía Telefónica Nacional de España (Spanish Telephone Company) by the International Telephone and Telegraph Corporation", 08/07/41. NARA, RG59, DF 1940-1944, Box 5256. The correspondence regarding this issue in the mentioned reference and NARA, RG56, Box 24.

⁴⁶ Memorandum of Conversation between Feis and Behn, 08/28/41. NARA, RG59, DF 1940-1944, Box 5256.

⁴⁷ Memorandum of Conversation Behn-Feis, 10/09/41. NARA, RG59, DF 1940-1944, Box 5256. Secretary of State (Dean Acheson) to Feis de 10/10/41, NARA, RG59, DF 1940-1944, Box 5256.

However, the persistent tension between ITT and the Spanish government, together with the difficulties the whole group had to face due to the war context, made the selling of the interest in Telefónica a prime question for the multinational. The situation was particularly serious in the spring of 1944, when it seemed that the Spanish government would make use of an article of the contract signed in 1924, according to which ITT was required to transfer most of the shares in its possession to Spanish holders before the contract ended (by August 1944).⁴⁸ As also said in the contract, this deadline could be extended for the period the multinational could not have exerted its full rights, in this case from the outbreak of the civil war onwards.⁴⁹ But ITT felt anxious about the new governmental initiative. For this reason, it decided to offer its interest to the Spanish State⁵⁰, as had been done, without success, one year before.⁵¹ That led to long conversations between the Spaniards and the company, which now could count on the American diplomatic support. That was of great advantage for the multinational, because the nationalization of Telefónica soon became a very difficult task. In August of 1944, Behn even abandoned the conversations due to the acquisition price the Spanish government insisted in maintaining in spite of the US pressure: around a third of the amount collected in the contract of 1924.⁵² Immediately afterwards, the American ambassador sent a protest note to the Minister of Foreign Affairs, Lequerica, in which it was assured “that the United States Government reserves the right to take such actions as may be necessary to ensure proper protection for American shareholders in the CTNE”.⁵³ Hayes himself had an interview with Franco in September regarding the nationalization question, in which the dictator criticized the diplomacy’s intervention in an issue, from his point of view, between the government and a Spanish firm.⁵⁴ It also anticipated that the repatriation of ITT’s assets in the country could hardly be possible if it was not agreed to do so gradually. Finally, he confessed as well that his government, as Behn had always suspected, had formerly planned to acquire the 51% of Telefónica’s capital, although the idea had been finally abandoned. Summing up, the Spanish State was weighing its bargaining power against ITT and the United States, as it continue doing in the following weeks.

⁴⁸ Report from the American ambassador (Carlton J.H. Hayes) to the Secretary of State, 04/27/44, NARA, RG59, DF 1940-1944, Box 5256; Report from the Treasury Department, 02/26/45, NARA, RG56, Box 24. Villena (1971) for a detailed legal study on the contract signed in 1924 in.

⁴⁹ Mr. Preng (ITT’s lawyer) to Caldwell, 11/23/43, NARA, RG259, E30, Box 8.

⁵⁰ Franco’s propaganda and some top executives of ITT in Spain would say the opposite afterwards (Márquez Mira, 1976, p. 263).

⁵¹ Behn to Mr. Stockton (ITT, New York), 08/30/43, NARA, RG259, E30, Box 19; AT, MBD 112 (08/30/43) and 125 (08/25/44); and Torrente (1991), p. 121.

⁵² Hayes to the Spanish Minister of Foreign Affairs (Conde de Jordana), 02/10/44, 04/04/44, 05/06/44, 05/25/44, 05/31/44 and 07/07/44. FRUS, Vol. IV, pp. 423-427.

⁵³ American embassy to the Secretary of State, 08/25/44, FRUS, pp. 430-431.

⁵⁴ American embassy to the Secretary of State, 09/19/44, FRUS, p. 431; and Memorandum of Conversation dated 09/11/44, American embassy to the Secretary of State, 09/19/44, FRUS, pp. 432-434.

On the 24th of September, a decree was published proclaiming that foreign executives working in public utilities companies should be replaced by natives in three months.⁵⁵ That affected Telefónica, although American staff by then represented just 0.06% of the total and, according to the contract of 1924, up to 20% of the employees could be of US origins.⁵⁶ In addition, the State announced that, according to the new laws regarding foreign interests in domestic firms, the agreements reached by Telefónica's Board of Directors and management would not be recognized by law until most of the company's shares were transferred to Spaniards.⁵⁷ And, in the meantime, the Council of Ministers approved the acquisition of Telefónica's shares by the public holding *Instituto Nacional de Industria* (INI, National Institute of Industry) –although the holding finally only bought a 0.03% interest three years afterwards (Balletero, 1993, pp. 177-178)–. From Hayes' point of view, everything was a maneuver to erode ITT's interests in the provider firm. His position, which was shared by the US government, is very well explained by the ITT's representative Fred Caldwell talking with the State delegation on Telefónica's Board:

“[...] I would like to call your attention to the fact that, according to the conversations maintained with my government, you [the Spanish State] control the transfer of assets that belong to American citizens residing in neutral countries. As these assets are considered a part of US wealth, my government should value them before you authorize their sale. If these assets are seized, my government reserves the full right to demand and recover them afterwards. I am mentioning this issue just in case some members of your government have forgotten it”.⁵⁸

Only two weeks earlier the American ambassador himself had pointed out that:

“To all intend and purposes, it was nullifying the contract and thereby it was endangering a large and important foreign and American investment. My Government did not propose to sit idly by at such flouting justice. It intended to protect American interests unjustly attacked or undermined. I was sure that if and when the real facts in the case became public property there would be a most violent repercussion of American public opinion”.⁵⁹

Either the risk of a diplomatic incident with the United States or the desire to guarantee ITT's technical support after the nationalization convinced the Spanish authorities that negotiations should continue. A first agreement was finally reached in February 1945.⁶⁰ By virtue of it, ITT

⁵⁵ Seven years in other kinds of firms. American embassy to the Secretary of State, 09/30/44, FRUS, Vol. IV, pp. 434-439.

⁵⁶ American embassy to the Secretary of State, 09/30/44, FRUS, Vol. IV, pp. 434-439.

⁵⁷ The new regime of General Franco imposed heavy restrictions on foreign investment, among these was fixing a maximum limit of 25% on the amount of foreign participation allowed in the social capital of domestic companies. An overview of the legislation on foreign investment in Spain in Álvaro-Moya (2010), Appendix 3.9.

⁵⁸ American ambassador to Lequerica, 10/02/44, AHMAE, R3086/4. An overview of the American embassy action in report from the embassy to the State Department, 12/06/44, NARA, RG56, Box 24. See also Pitkin (ITT New York) to Behn, 03/31/44, NARA, RG259, E30, Box 8.

⁵⁹ American embassy to the Secretary of State, 09/19/44, FRUS, Vol. IV, p. 437.

⁶⁰ Reports from the Treasury Department, 02/24/45 and 02/26/45, NARA, RG56, Box 24. At the end of that year ITT had already received a firm offer from the Spanish government. Behn to Francis C. de Wolf (Chief

would sell its stockholding to the Spanish banks which were already on the Board (the old partners of the multinational in the country). Those banks would sell to Spaniards those shares afterwards. In addition, ITT's interest in SESA would be reduced to 67%, the rest being sold to natives (17%) and Telefónica. The Spanish State, moreover, would guarantee that both profits and frozen assets could be changed for US dollars to be repatriated –although payments would be in installments, not immediately as ITT had aimed–.

When both the Department of State and the Treasury Department were studying this agreement, as the multinational was required due to the Allies' Safehaven program, the Spanish government dramatically changed its position: instead of the mentioned banks, the government itself would buy ITT's shares in Telefónica.⁶¹ In return, the service firm would sign afterwards an exclusive contract with SESA and a technical assistance contract with ITT, among other facilities in favor of ITT's stakes in the country. However, ITT did not agree with this unexpected change, leading to a new round of conversations. The final agreement was not reached until May 1945.⁶² According to it, the Spanish State would nationalize Telefónica to privatize it afterwards. The company would go on linked to the ITT group by virtue of two contracts, one with SESA as its exclusive provider of phone equipment and another with ITT for technical advice. The multinational, as a result, could strengthen the rest of its stakes in the country. The demands that had been requested by Telefónica in the last years, such as an increase in capital, would be also approved by the State in the following months.

The truth is that the Spanish government fulfilled all its commitments, apart from privatizing the firm. Alleging that the mentioned banks were pursuing a speculative strategy, the expected company flotation was suspended at the very last moment (Álvaro-Moya, 2010, pp. 211-217). This caused a great commotion among the Spaniards who were integrated on the Board, but there is no evidence that ITT or the American diplomacy tried to intervene to reverse the governmental decision. In fact, ITT's criticism was oriented towards the payment of the amounts approved, something not easy for the Spanish government due to the lack of foreign currency –in fact, as American exporters claimed, most of them were diverted from imports towards ITT's pocket–⁶³. Despite that payment was done in installments and a large

Telecommunications Division, State Department), 12/18/44, NARA, RG59, DF 1940-44, Box 5256. See also AT, MEC 347 (11/16/46). A detailed analysis of the agreement reached in Álvaro-Moya (2010), p. 207.

⁶¹ American embassy to the State Department, 02/22/45, NARA, RG56, Box 24; Chargé in Spain (Mr. Battenworth) to the Secretary of State, 02/22/45, FRUS, Vol. V, pp. 720-722.

⁶² The detailed agreement in Álvaro-Moya (2010), pp. 209-211.

⁶³ According to the president of the American Chamber of Commerce in Spain, Antonio Caragol, the only products which importation was authorized were cotton and oil. Memorandum of Conversation between Caragol and the State Department, 01/18/45, NARA, RG59, DF 1945-1949, Box 6350; and Caragol to the State Department, 05/23/45, NARA, RG59, DF 1945-49, Box 2844. On the American Chamber of Commerce, see García Ruiz and Puig (2009). About the Spanish government's lack of foreign currency and the proportion that the payments to ITT represented in the total, see Martínez Ruiz (2003), pp. 105-106.

quantity of Treasury bonds had been issued, the difficulties to collect enough resources also made the Spanish government think about changing unilaterally the conditions already agreed with the multinational. Finally, the possibility that the American government would intervene on behalf of ITT forced the Spaniards to change their mind.⁶⁴ And not without difficulty, the debt was even cancelled before the stipulated deadline. The “Telephone Gibraltar”, as it was called, had turned into a question of propaganda. ITT’s influence on Telefónica, however, would remain in the following years, this time without any need of intervention by American diplomacy (Álvaro-Moya, 2010, pp. 217-233).

7. Conclusion

With an extensive Pan-American network that connected the main cities of Latin America with each other and with the United States, Europe and Asia, a monopoly on services in Spain and other European countries, the ownership of the former international branch of one of the world's largest equipment manufacturers and manufacturing subsidiaries all over the world, the International Telephone and Telegraph was at the end of the 1920s –that is, less than a decade after its foundation– a world leader in the telecommunications industry. Of its assets, the jewel in the company's crown was Telefónica, granted a private monopoly in 1924 as Spain's phone provider. When this took place, ITT was still largely unknown. Nor did it have its own technology, contrary to its competitors in the bidding. But the corporation succeeded entering the Spanish market thanks to a strategy very well adapted to the host institutional context. ITT created a local branch to manufacture equipment, as in other nationalistic countries of Europe; employed and trained local workers; and became partner of a heterogeneous group of business men and engineers who were willing to cooperate and who had strategic information and contacts. As showed in this paper, the multinational also counted on US diplomatic support, as corresponded to the largest American investment in the country.

In fact, the alliances formed with these groups, together with the intervention of US diplomacy, would be key factors in the company's hectic later development. As early as the 1930s, US government intervention proved decisive in preventing the seizure of the monopoly by the new Republican government, which, although not unanimously, denounced as illegal the contract signed by the dictatorial government that preceded it. Shortly afterwards, during the Spanish Civil War (1936-1939), the management of the company was divided in order to retain control on both fronts. Such a strategy, however, made it difficult for the Americans to return once the

⁶⁴ Report from the Legal International Office of the Spanish Department of Foreign Affairs, 04/26/47, AHMAE, R3086/4.

conflict was over. Once again, US diplomacy was necessary and, through insistence and a loan from the Export Import Bank (for the purchase of cotton), ITT managed to regain control of its subsidiary. The Americans, in the meantime, were kept constantly informed of what was going on in Telefónica's management by their Spanish partners, who also tried to limit the powers of the government on their Board, as well as of any newly hired directors who were sympathetic to it. Neither the American diplomats nor the Spanish business groups were able to solve the problems which from then on pitted the company against the State, among them the governmental approval of the company's accounts that was required during the war, along with payments for services rendered to the insurgents throughout the conflict, and the rate hike considered necessary to balance the company's finances. Behind all of this was the desire of the new government to nationalize the "Telephone Gibraltar", exploiting the fact that the contract signed between CTNE and the State twenty years earlier was set to expire in 1944 and that this contract stipulated the conditions under which the network could be taken over by the government on its expiration. Nationalization finally occurred in 1945, after arduous negotiations in which the intercession of the US government was once again vital to ensuring that the rights of ITT were respected.

The research shows that ITT, particularly its president Sosthenes Behn, overcame the liability of foreignness thanks to the networks spread around Spaniards and within US diplomacy. The effectiveness of these networks was reinforced, however, by Telefónica's technological dependency from the local branch of International Standard Electric as well as the knowledge transfer that took place inside the firm itself –from the American executives and technicians to their local counterparts (Álvaro-Moya, 2010, chapter 4)–. The spill-overs resulting from the operations of the multinational in the country were, therefore, higher than the expected according to the "triple alliance" approach proposed by Evans (1979) and applied to the Spanish telecommunications industry by several authors (Carballo, 1979; Guillén, 1977; Alonso y Erroteta, 1982).

The analysis of the networks developed by ITT in Spain also allow us to better comprehend the support given by US authorities and diplomatic services to American business interests abroad. In her exhaustive studies, Wilkins (1970 and 1974) has minimized this question for the largest of US overseas investments –although some positive inducement (tax concessions) was given in the 1920s to invest in less developed countries, particularly in Latin American and China)–. Little (1979) has already showed that it was not applicable to the case of ITT or to CTNE in its confrontation with the government of the Second Republic in the early 1930s, though only from US diplomatic documentation. Using internal documentation, the present study corroborates Little's research (1979), but shows additionally that said support continued after the Civil War. It was decisive in the return of US managers to the company and in the

process of nationalization which the telephone provider was to undergo; all of this was closely linked to the first maneuvers of the regime to obtain credit abroad –an aspect which has for the large part been overlooked by historians, who have focused more on the Franco regime's efforts to receive funds from the aid programs that appeared at the end of the Second World War.

Finally, the nationalization process of Telefónica gives us some clues about the factors that affect the bargaining power of each party (host government and multinational) at this process. Although this issue has not been studied here in depth, the paper shows how the technological dependence of the Spanish sector from the ITT group gave the multinational a specific advantage that strengthened its position afterwards (Moon and Lado, 2000). In addition, as suggested by Levy and Prakash (2003), the role played by third parties (in this case the US government and ITT's Spanish partners) and the existence of disagreements inside the local government (between the departments of Foreign Affairs, and Trade and Industry) had also an influence in such negotiations.

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