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Economic Development in Spain, 1815-2017

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Economic Development in Spain, 1815-2017¹

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Abstract

In assessments of modern Spain's economic progress and living standards inadequate natural resources, inefficient institutions, lack of education and entrepreneurship, and foreign dependency are frequently blamed for the poor performance up to mid-twentieth century, but no persuasive arguments are provided to explain why such adverse circumstances reversed, giving way to the fast transformation of the last half a century. It makes sense, hence, to inquire firstly how much economic progress has Spain achieved and what impact had on living standards and income distribution since the end of the Peninsular War to the present and, only then, to provide an interpretation.

Recent research supports the view that income per person has improved remarkably, driven by increases in labour productivity, which derived, in turn, from a more intense and efficient use of physical and human capital per worker. Exposure to international competition represented a decisive element behind growth performance. In European perspective, Spain underperformed up to 1950. Thereafter, Spain's economy caught up with advanced countries until 2007. Although the distribution of the fruits of growth did not follow a linear trend, but a Kuznetsian inverted U pattern, higher levels of income per capita are matched by lower inequality suggesting that Spaniards' material well-being improved substantially during the modern era.

JEL Codes: N13, N14, O52, I30

Keywords: Spain, income per person, productivity, inequality, living standards

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In assessments of modern Spain's economic performance inadequate natural resources, inefficient institutions, lack of education and entrepreneurship, and foreign dependency are blamed for the poor performance up to mid-twentieth century, but no persuasive arguments are provided to explain why such adverse circumstances reversed giving way to the fast transformation for the last half a century.

In Section I trends in output are described and its determinants investigated jointly with an analysis of Spain's performance in international perspective. Section II focuses on how the fruits of economic progress were distributed over time while Section III deals with interpretations about the long run performance of Spanish economic in the 19th and 20th century. A final section concludes.

I. Economic growth over two centuries, 1815-2017: Overview

Gross Domestic Product (GDP) multiplied 74-fold in Spain between 1815 and 2017, which implies an average cumulative rate of growth of 2.1 per cent per year. As the increase did not take place at a steady pace, five main phases may be established: 1815-1850, 1850-1950 (with a shift to a lower level during the Civil War, 1936-1939), 1950-1974, 1974-2007, and 2007-2017. In the phase of fastest growth, the so called Golden Age (1950-1974), GDP grew four and a half times faster than during the previous hundred years (and almost 7-fold than the early nineteenth century), and twice faster than over 1974-2007, while the recent Great Recession represented a fall in real GDP of 8 per cent between 2007 and 2013. Only in 2017 the GDP level for 2007 was overcome.²

Changes in the composition of GDP by type of expenditure are revealing of the transformation experienced by the Spanish economy over the last two centuries. The share of total (private and government) consumption remained stable at a high level up to the late 1880s, and only fell below 85 per cent of GDP after 1953, when initiated a sustained decline that reached a trough by the mid-2000s. Such a contraction in the share of total consumption conceals an intense decline in private consumption paralleled by a sustained rise in government consumption that resulted from the

² This section draws on an update of Prados de la Escosura (2017) where a more detailed exposition is provided. The full dataset can be accessed at <https://espacioinvestiga.org/bbdd-chne/?lang=en>

expansion of the welfare state and the transformation of a highly centralized state into a *de facto* federal state from the 1980s onwards.

Investment oscillated around 5 per cent of GDP in the second half of the nineteenth century but for the railways construction boom of the late 1850s and early 1860s, when it doubled. From the turn of the twentieth century a long-term rise brought the relative size of investment to above 30 per cent of GDP in 2006. Phases of investment acceleration are associated to those of faster growth in aggregate economic activity.

The integration of Spain into international markets also increased over time but did not follow a steady pattern and three main phases can be distinguished: a gradual rise in openness (that is, exports plus imports as a share of GDP) since the nineteenth century stabilised in the early twentieth century at a high plateau; a sharp decline followed from the early 1920s to mid-century, reaching a trough during the 1940s. Then, a cautious but gradual exposure to international competition took place since the 1950s, facilitated by the reforms associated to the 1959 Stabilization and Liberalization Plan, and accelerating after the end of Franco's regime. It is worth stressing the correspondence between investment and imports trends, which suggests that economic growth was stimulated by international trade.

The changes in the composition of GDP by economic activity also reflect the deep transformation associated to modern economic growth. Agriculture's share underwent a sustained contraction over time, but for the autarkic reversal of the 1940s. The evolution of industry followed an inverse U shape, expanding its relative size up to the late 1920s and resuming its relative increase since 1950, to stabilize at a high plateau, and, then, contract sharply from the mid-1980s. Construction industry remained mostly stable below 5 per cent of GDP until mid-twentieth century, exhibiting a sustained increase since the early 1960s that peaked during the mid-2000s, more than doubling its relative size. Services made a high and stable contribution to GDP, fluctuating around 40 per cent up to mid-twentieth century, and expanded from less than one-half to three-fourths of GDP between the early 1960s and 2015.

Comparing the sectorial composition of GDP to that of labour may be illuminating. Agriculture's share (measured in hours worked) exhibits a long-run

decline from above three-fifths to less than 5 per cent since 2006. Agriculture provides the largest contribution to employment up to 1964, when still represented one-third of total hours worked. The evolution of the relative size of services presents a mirror image of agriculture's, taking over as the largest industry from 1965 onwards and reaching three-fourths of total hours worked by 2015. Industry's steady expansion, but for the Civil War reversal, overcame agriculture's share by 1973 and peaked by the late 1970s reaching one-fourth of employment, to initiate a gradual contraction that has cut its relative size by almost half by 2015. Construction, in turn, more than trebled its initial share by 2007, sharply contracting as the sector's bubble ended during the Great Recession.

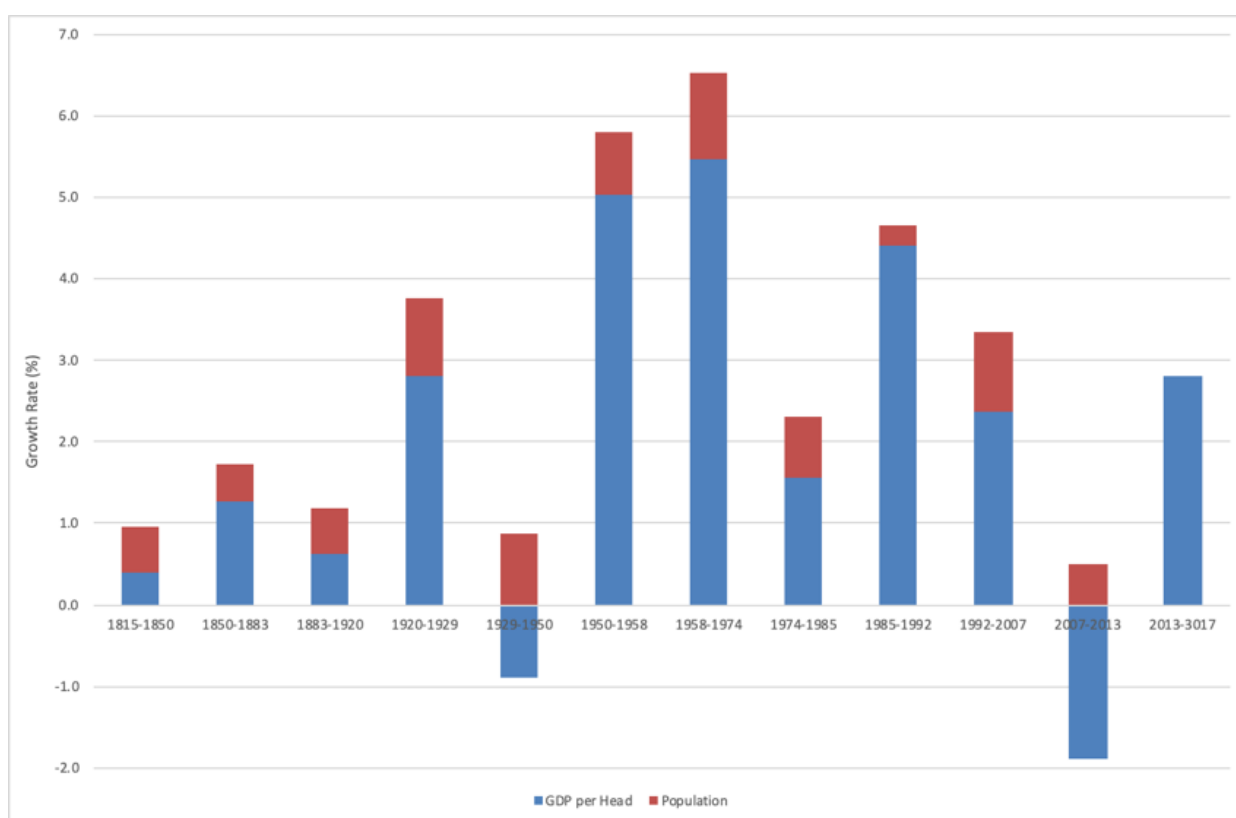


Figure 1. Real GDP Growth Breakdown into its Components, 1815-2017 (%).
Sources: Álvarez-Nogal and Prados de la Escosura (2013); Maddison Project Database (2013); Prados de la Escosura <https://espacioinvestiga.org/bbdd-chne/?lang=en>

But to what extent a larger amount of goods and services affected individuals' living conditions? GDP can be decomposed into GDP per capita and population. Since population trebled, real GDP per capita experienced a 19-fold increase between 1815 and 2017, growing at a cumulative annual rate of 1.5 percent. The implication is that

output per person drove total GDP expansion (Figure 1). Such an improvement, though, took place at an uneven pace. After growing at a moderate 0.4 per cent between the end of the Napoleonic Wars and mid-nineteenth century, per capita GDP growth raised to 0.7 per cent per year over 1850-1950, doubling its initial level in hundred years. During the next quarter of a century, the so called Golden Age, its pace accelerated more than 7-fold (at an annual rate of 5.3 per cent), so by 1974 per capita income was 3.6 times higher than in 1950. Although the economy decelerated from 1974 to 2007, and growth per capita slowed down to 2.5 per cent yearly, per capita GDP in 2007 more than doubled its level in 1974. The Great Recession (2008-13) shrank per capita income by 11 per cent, but, nonetheless, by 2017, it had recovered its level in 2007 and almost doubled the one enjoyed at the time of Spain's EU accession (1985).

In comparative perspective, Spain's GDP per capita followed a similar path to that of the western European nations, although its level has remained systematically lower. Moreover, the improvement in Spain's GDP per capita did not fit a monotonic pattern, at odds with the steady progress experienced by the U.K., the U.S., and, to less extent, France. It could be, then, argued that the roots of most of today's difference in GDP per person between Spain and advanced countries should be searched for in the early modern era. However, a closer look reveals that long-run growth before 1950 was clearly lower in Spain than in the advanced countries. Sluggish growth over 1883-1913 and not taking advantage of its World War I neutrality, partly account for it. Furthermore, the progress achieved in the 1920s was outweighed by Spain's short-lived recovery from the Depression that was brought to a halt by Civil War (1936-39), and a long lasting and weak post-war reconstruction.

Thus, Spain fell behind between 1815 and 1950 (Figure 2). The nineteenth century and the early twentieth century witnessed sustained per capita GDP growth while paradoxically the gap with the industrialised countries widened over 1883-1913. The gap deepened further during the first half of the twentieth century. This finding is at odds with the predictions of the convergence theory that posit more intense growth the lower the initial level of income. The opposite was the case from 1950 to 2007. The Golden Age (1950-74), especially, the period since 1960 (a common feature of countries in the European Periphery: Greece, Portugal, Ireland) stands out as a phase

of outstanding performance and catching up to the advanced nations. Steady, although slower growth after the slowdown in transition to democracy years (1974-84) allowed Spain to keep catching up until 2007, a trend reversed by the Great Recession. On the whole, Spain's relative position to western countries has evolved along a wide-U shape, deteriorating to 1950 (except for the 1870s and 1920s) and recovering thereafter (but for the episodes of the transition to democracy and the Great Recession).

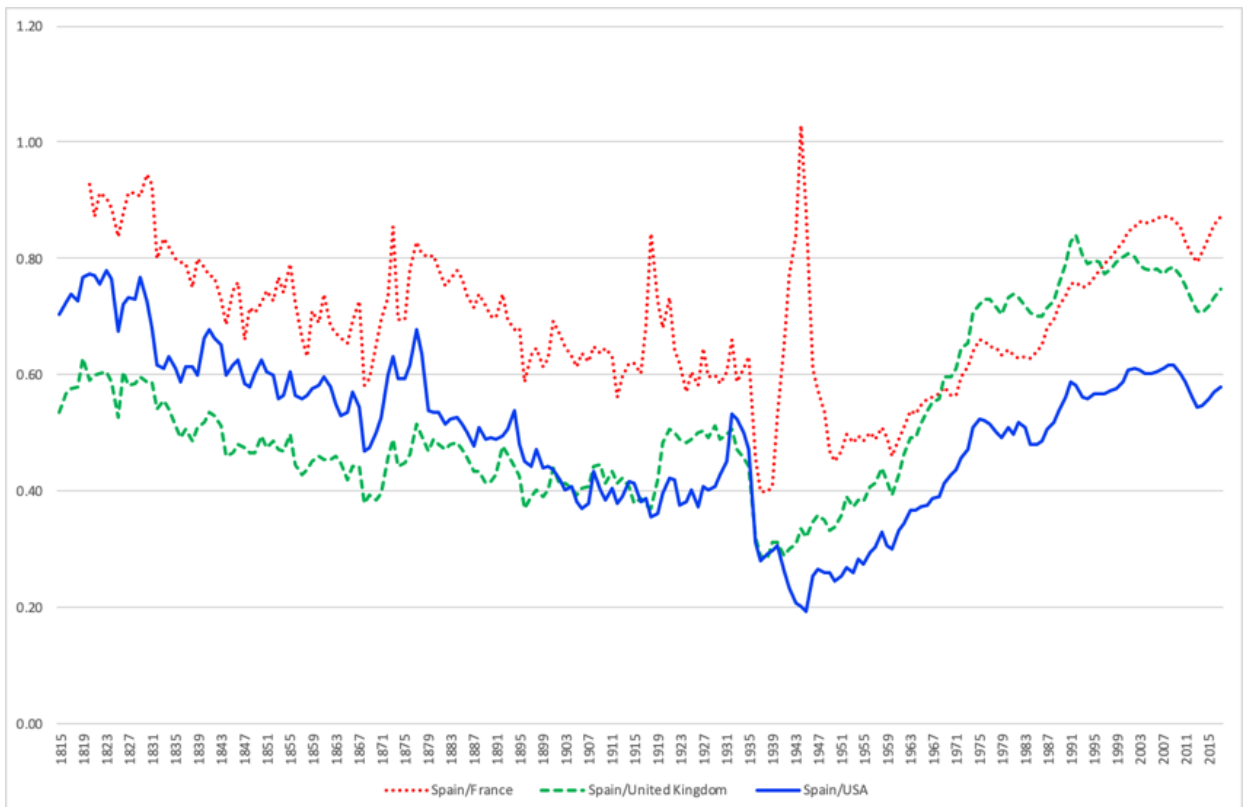


Figure 2. Spain's Relative Real GDP per Capita, 1815-2017 (1990 Geary-Khamis \$) (Spain as a percentage of each country's level). Sources: As in Figure 1

GDP per capita depends on the amount of work per person and how productive this effort is. GDP per capita and labour productivity (measured as GDP per hour worked) evolved alongside over 1850-2017, even though, as the number of hours worked per person shrank -from about 1,000 hours per person-year to less than 700- labour productivity grew at a faster pace. Behind the decline in hours worked per person the main element is the reduction in hours worked per fully occupied worker, which has fallen from 2,800 hours per year in mid-nineteenth century to about 1,800

at the present. Thus, it can be claimed that long-term gains in output per capita are entirely attributable to productivity gains, with phases of accelerating GDP per capita, such as the 1920s or the Golden Age (1950-1974), matching those of faster labour productivity growth (Figure 3). A breakdown of the gains in labour productivity into the contributions made by the productivity increase within each economic sector and by the shift of labour from less productive to more productive sectors (that is, structural change), indicates that structural change accounts for over a third of the aggregate labour productivity growth since 1850.

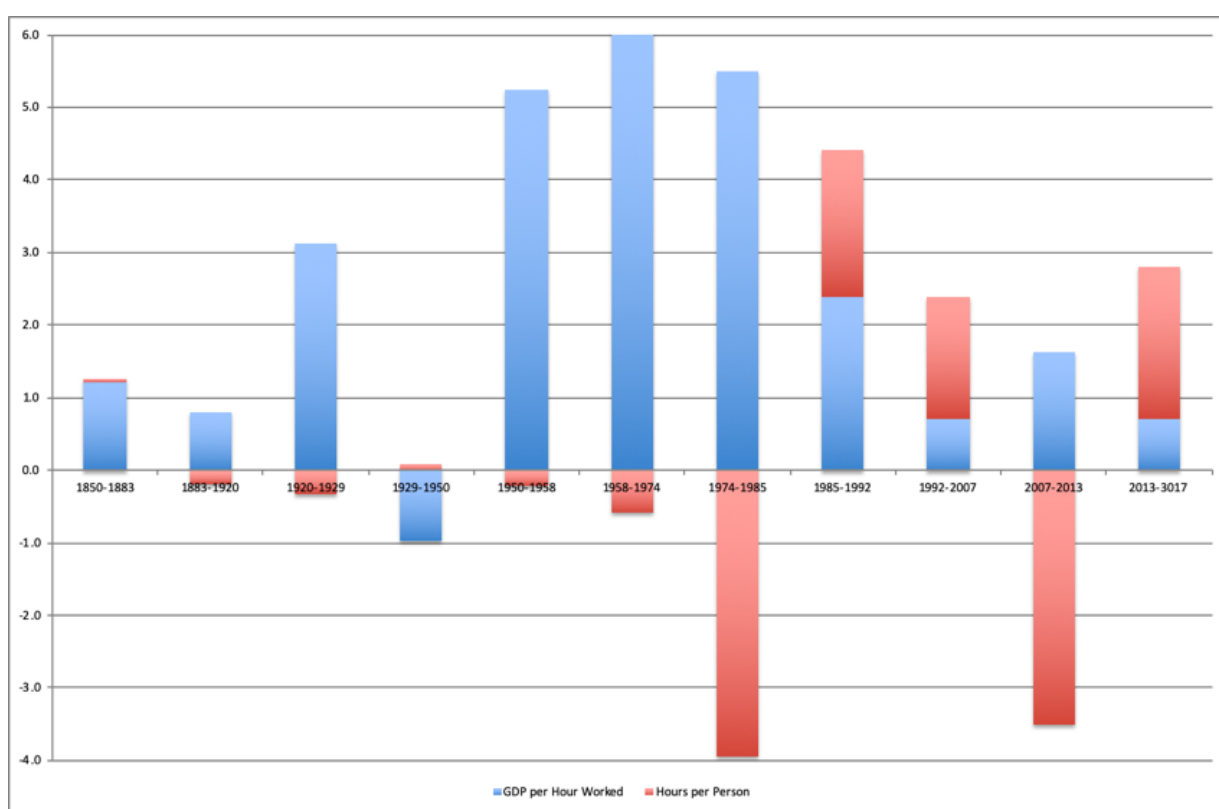


Figure 3. Real GDP per Capita Growth Breakdown into its Components 1850-2017 (%)
Sources: Prados de la Escosura <https://espacioinvestiga.org/bbdd-chne/?lang=en>

But what underlies the rise of labour productivity? Is it a more abundant use of capital broadly defined (that is, encompassing physical and human capital)³, or a more efficient use of the available broad capital, namely, total factor productivity? In Spain,

³ By physical capital is understood the flow of productive services provided by an asset that is employed in production. Capital assets are produced goods that are not consumed but used for production (dwellings, infrastructure, machinery, transport material). Human capital is understood as the flow of productive services provided by the knowledge, skills, competencies and attributes embodied in individuals, including schooling and skills acquired through work experience.

labour productivity growth over the long run is accounted for, in similar proportions, by broad capital accumulation (physical and, to less extent, human capital) and efficiency gains (Prados de la Escosura and Rosés, 2009). Furthermore, main spurts in broad capital accumulation and in efficiency gains tend to coincide, as can be observed during the years of the railways construction (1850s-1880), the electrification (the 1920s and 1950s), and the adoption of new vintage technology in the Golden Age (1950-1974) (Figure 4).

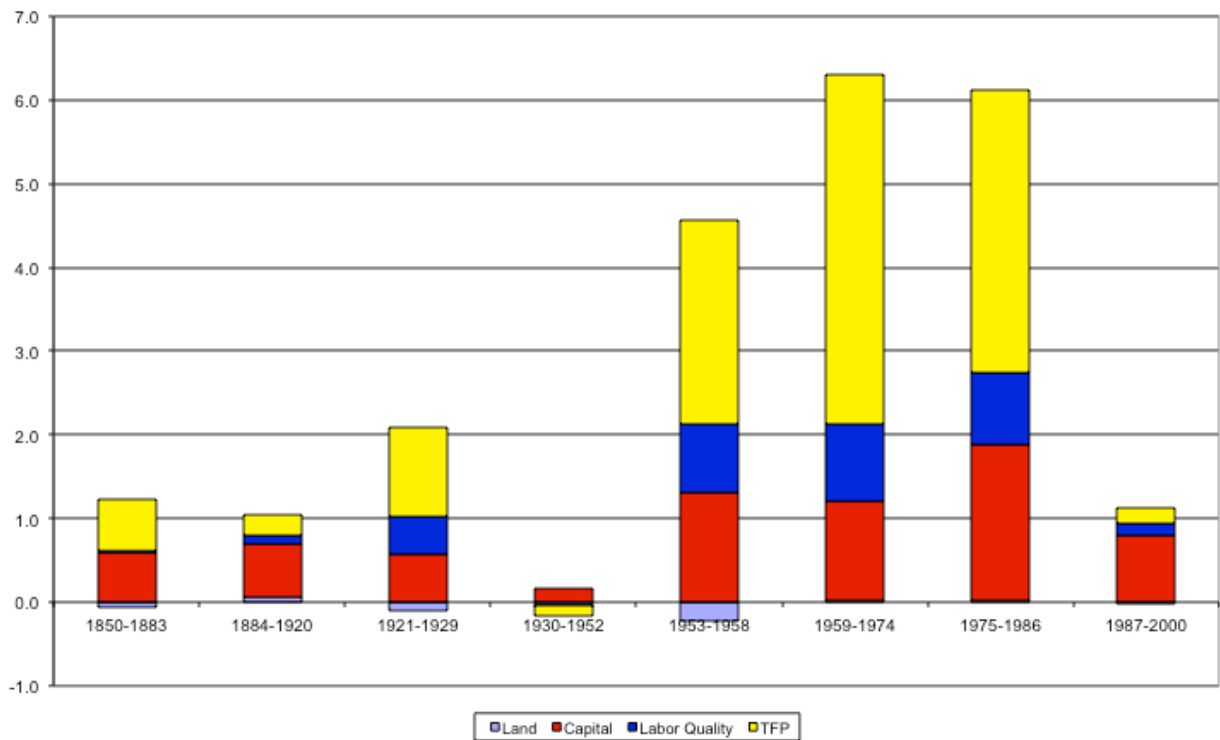


Figure 4. Labour Productivity Growth and its Sources, 1850-2000 (%).

Sources: Prados de la Escosura and Rosés (2010)

Nonetheless, a closer look reveals a clear divide before and after 1950, with capital deepening (namely, an increase in capital per hour worked) as the leading force over 1850-1950, contributing two-thirds of labour productivity growth, –exception made of the 1920s–, and efficiency gains as the hegemonic force between 1950 and 1985 (and in the 1920s), contributing two-thirds of labour productivity growth in the Golden Age (1950-74) and one-half in the 1920s and during the democratic transition (1975-85). Furthermore, the acceleration of labour productivity growth in the 1920s and the Golden Age was almost exclusively attributable to efficiency gains. From 1986

onwards, broad capital accumulation became the main driver of labour productivity growth again, while efficiency gains stagnated and even declined.

Thus, while in the 1920s and over 1950-1985 efficiency gains largely explained the labour productivity increase that accounted for the improvement in GDP per capita, during 1986-2007 the increase in GDP per capita was dependent in roughly similar proportions on the number of hours worked per person –that resulted from employment creation- and on labour productivity which, in turn, derived from a more intense use of capital. Hence, a more extensive than intensive kind of growth characterises the post-1986 period that corresponds to that of Spain's full membership of the European Union.

How to account for such a reversal in the source of labour productivity growth from efficiency gains to capital accumulation? It can be hypothesised that as economic growth took place, Spain got closer to the technological frontier making further gains in efficiency more difficult. Moreover, structural change, namely, the shift of resources (i.e., labour) from lower labour productivity sectors to those of higher productivity (i.e. from agriculture into manufacturing) is a once and for all change that had largely taken place by the time of Spain's accession to the European Union. Thus, Spain would have exhausted its catching up potential and efficiency gains slowed down adjusting to the growth in total factor productivity in the most advanced countries.

However, a summary inspection of the evidence suggests that this has not been the case, as in terms of total factor productivity growth Spain stayed at the bottom among the OECD countries between the mid-1990s and 2007, the eve of the Great Recession (Corrado et al., 2013). Thus, an alternative explanation is required. Comparative evidence indicates that firms' expenditure on research and development are lower in Spain than in most OECD countries, as it is also the case of investment in intangible (intellectual property) and human capital. The context is further aggravated by the low degree of competition of products and factor markets. Furthermore, the reallocation of resources towards services and construction in has taken place in a context of lower investment and innovation that led to declining efficiency.

II. Income distribution in the long run

How have the fruits of growth been distributed? Trends in aggregate inequality measured by the Gini coefficient are provided in Figure 5.⁴ The evolution of inequality presents the shape of a wide inverted W with peaks in 1916 and 1953. Different phases can be observed in the evolution of inequality. A long-term rise is noticeable between mid-nineteenth century and World War I. Then, a sustained reduction in inequality took place during the 1920s and early 1930s stabilising in the years of the Civil War (1936-39) and World War II. The decline in inequality was sharply reversed during the late 1940s and early 1950s, with a peak in 1953 similar to the one reached in 1918. A dramatic fall in inequality took place in the late 1950s and, again, in the early 1970s. Since 1973, inequality has stabilised at comparatively low levels fluctuating within a narrow 30-35 Gini range.

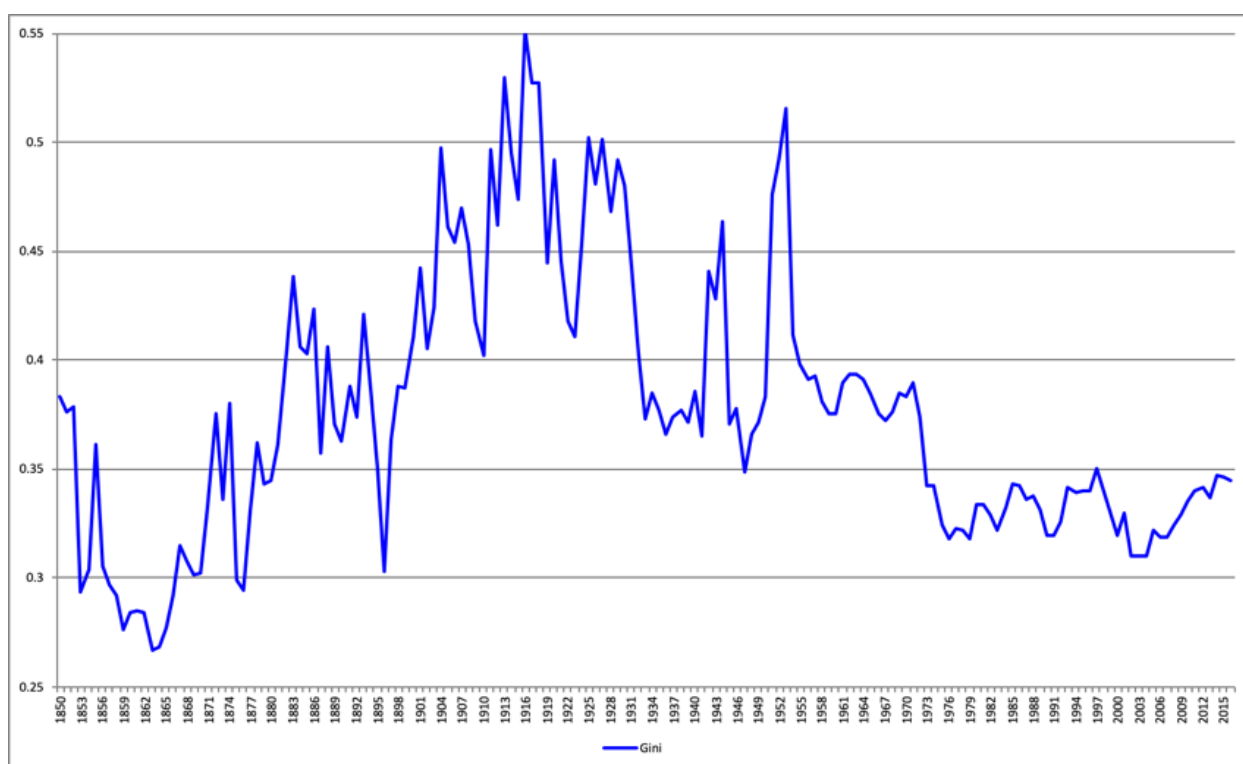


Figure 5. Income Inequality, 1850-2016: Gini Coefficient

Sources: Prados de la Escosura (2017, updated)

⁴ The Gini coefficient measures the extent to which the distribution of income (or consumption expenditure) among individuals or households within an economy deviates from a perfectly equal distribution. A Gini of 0 represents perfect equality, while an index of 1 (100) implies perfect inequality. Prados de la Escosura (2008).

In comparative perspective, Spain matched the evolution of OECD countries during the last century and a half, except for the autarchic period that followed the Civil War in which Spain's inequality was way above the European average.

How can these inequality trends be interpreted? In the early phase of globalization, from the early nineteenth century to World War I, the fall in inequality during phases of opening up to international competition (the late 1850s and early 1860s, the late 1880s and early 1890s) and the rise in inequality (from the late 1890s to the end of World War I) coinciding with a return to strict protectionism, could be predicted within Stolper-Samuelson theoretical framework which posits that protectionist policies favour the scarce factors of production (land and capital, in this case) while penalizes the abundant one (labour). At the turn of the nineteenth century, this tendency would have been reinforced by the fact that tariff protection did not push out workers as in other protectionist European countries (i.e., Italy and Sweden). The depreciation of the peseta in the 1890s and early 1900s made more difficult the emigration decision as the cost of passage increased dramatically (Sánchez-Alonso 2000a). This explanation fails, however, to explain the rise in inequality between the mid-1860s and early 1880s that could be attributed to a rise in capital and land returns relative to wages associated to the railways construction and to the exploitation of the mining resources after its liberalization, and not least to the agricultural export boom.

The reduction in inequality during in the 1920s and early 1930s, a period of globalization backlash, would demand a different explanation as other forces conditioned the evolution of inequality. Accelerated growth, capital deepening, and structural change all helped reducing total inequality in the 1920s. Wage inequality rose with rural-urban migration and urbanization, given that urban wages were higher and with a larger variance than rural wages, but the gap between returns to property and labour declined. Institutional reforms that included new social legislation, especially the reduction in the number of working hours per day, and the increasing voice of trade unions, contributed to a rise in wages relative to property incomes (Cabrera and del Rey 2002, Comín 2002).

The fall in inequality during the early 1930s, years of increasing restrictions to commodity and factor mobility is, again, at odds with the Stolper-Samuelson model. Forces pushing for re-distribution were in place in Spain. On the whole, a reduction in the gap between returns to property and labour more than offset the rise in wage inequality. The Great Depression possibly had a negative impact on the concentration of income at the top of the distribution, that is, returns accruing to proprietors.⁵ Wages (in nominal and real terms) rose in a context of trade unions' increasing bargaining power and labour unrest. In the early 1930s, a new legislation that tended to increase labour costs, threats to land ownership, and workers attempts to factory control, created insecurity among proprietors leading to a severe investment collapse and provoked political polarization in Spanish society (Comín, 2002; Cabrera and del Rey, 2002).

The fact that the Civil War broke off after one and a half decades of inequality decline and the economic growth of the 1920s, that led to the alleviation of absolute poverty, demands explanatory hypotheses. Had the Civil War economic roots? Unfulfilled expectations to share increases in wealth by those at the bottom of the distribution during the II Republic (1931-36) may contribute to explaining the social unrest that preceded the Civil War. Furthermore, the shrinking gap between returns to property and to labour in a context of social unrest, including threats to property, during the early 1930s provides a potential explanation for the support lent by a non-negligible sector of the Spanish society to the military coup d'état that triggered the Civil War (1936-39).

How can the rise of inequality during the autarchic years after the war be interpreted? Wage compression took place as a result of the re-ruralisation of Spanish economy (the share of agriculture increased in both output and employment) and the ban on trade unions. A parallel decline in the concentration of income at the top during the 1940s took place simultaneously (Alvaredo and Saez, 2009). Thus, in contrast with the experience of the 1930s, while inequality was falling within both labour and capital returns, polarization between property and

⁵ Alvaredo and Saez (2009) observe for Spain, however, an increase in top income shares for 1933-35, which coincided with the post-crash recovery.

labour caused a rise of total inequality. International isolation, resulting from autarchic policies would intensify these trends, with inequality rising as scarce factors, land and capital, were favoured at the expense of the abundant and more evenly distributed factor, labour.

A dramatic decline in inequality started in the late 1950s and reached into the early 1960s, that is, prior to the phase of liberalization and opening up that followed the 1959 reforms. The spurt of economic growth in the 1950s brought with it improvements in living standards, urbanization, and an increase in the labour share within national income. Furthermore, populist policies by Franco's Minister of Labour, led to a substantial pay rise across the board in 1956 (Barciela, 2002). A careful investigation of the process of inequality reduction during the 1950s is warranted.

Openness in the 1960s and early 1970s favoured labour as the abundant factor and, hence, contributed to reducing inequality, while stimulating growth and structural change that, in turn, played a non-negligible part in keeping inequality at moderate levels.

The rise in savings, helped by the financial development that went together with economic growth, facilitated access to housing ownership which, in turn, helped reducing the concentration of property incomes (Comín, 2007; Martín Aceña and Pons, 2005). The diffusion of education surely played a role in the decline of inequality by reducing the concentration of human capital (Núñez, 2005). Moreover, the decrease in regional disparities, conditioned by technological catch-up, the generalization of basic education, and convergence in employment composition (de la Fuente 2002, Martínez Galarraga et al., 2015), must have also impinged on income distribution. Furthermore, the increase in social expenditure in the late Francoism (1960-75) must have had an effect on reducing inequality.

Increasing political participation after democracy was reinstated in 1977 led to a progressive fiscal reform and to substantial increases in public expenditure on social transfers (unemployment, pensions), education, and health that had a strong redistributive impact. However, phases of declining and rising inequality have

alternated since the restoration of democracy with the result that levels of inequality have remained within a 30-35 Gini range.

Thus, it can be argued that the social transfers and progressive taxation brought by the welfare state have allowed the contention of inequality levels within the 30-35 Gini range, while the “market” Gini (that is, the measure of inequality before social transfers) increased. In fact, the evidence for the twenty-first century shows that, in the absence of social transfers, income inequality would reach similar levels to those of the early 1950s (Figure 6). A similar finding is obtained for OECD countries (OECD, 2016). Why Spain, along other OECD societies have become so unequal before progressive taxation and social transfers demands a careful investigation.

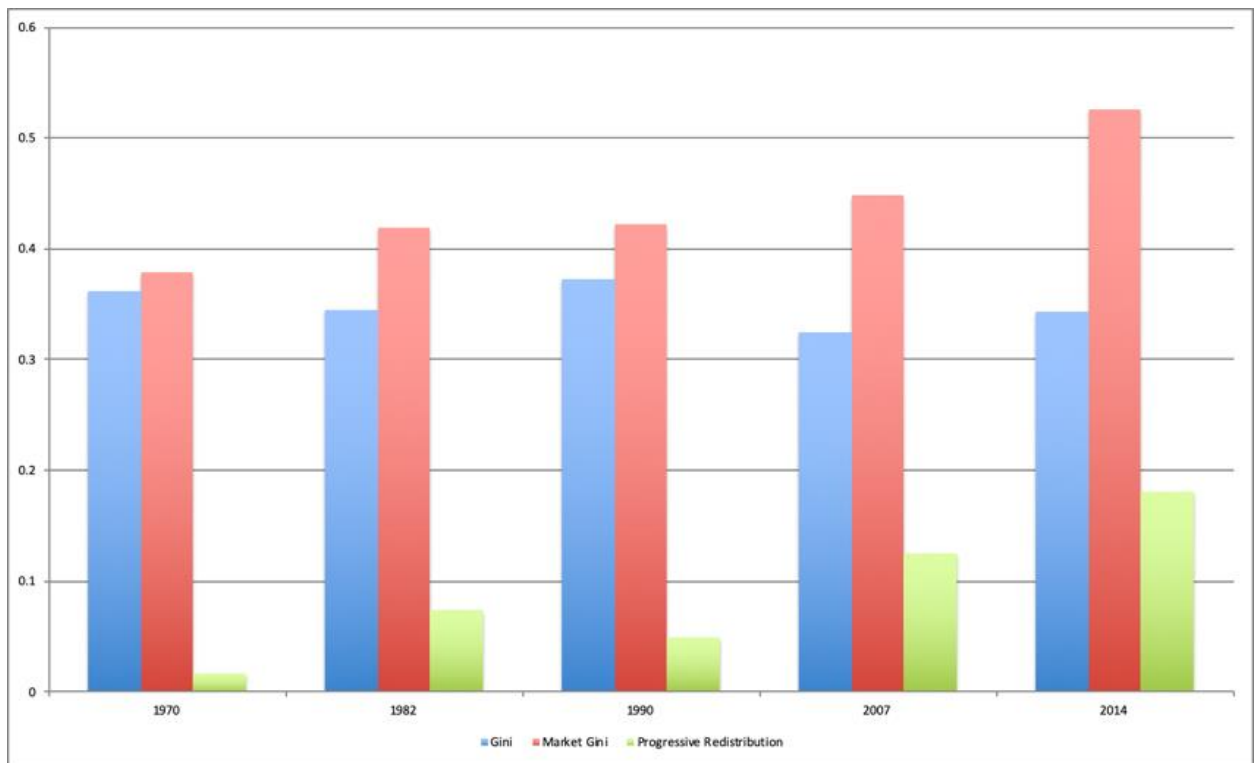


Figure 6. Progressive Redistribution since Democracy? Market Gini and Gini, 1970-2014
Sources: Torregrasa Hetland (2016) and OECD (2016)

As income distribution became more egalitarian and growth accelerated from the late 1950s onwards, absolute poverty (that is, those living on 2 dollars a day, as measured today by the World Bank) was practically suppressed by the mid-1960s (Prados de la Escosura, 2008).

III. Assessing Spanish economic development

Spanish economic historians have traditionally focused their research in the nineteenth century and left aside the twentieth century which has been more the field of economists. Economic history research has concentrated on specific periods such as economic growth during the 1920s, the economic policy of the Second Republic (1931-36), the Civil War and the different phases of Franco's regime. The absence of debates and controversies for the Spanish economy during the twentieth century as a whole is striking.

Growth and backwardness, 1815-1936

During the 19th century Spain underwent a complex transition from a colonial empire under the *Ancien Régime* to a modern nation with a liberal system of property rights. This transition has created a negative view of post-imperial Spain, placing it among the peripheral European countries and terms such as failure, stagnation, and backwardness are commonly used to describe its economic performance up to the Civil War (1936-39).

The inability of the Spanish economy to modernize according to the patterns of other Western European countries can only be understood, according to most historical interpretations, by a detailed study of a set of internal and external determinants.

The Peninsular War (1808-14) had deep and negative short-run economic consequences in Spain and also sparked the fight for independence in Spanish America. Nonetheless, the Napoleonic Wars triggered a complex transition from an absolutist empire to a modern nation. The liberal regime reforms, up to the mid-19th century, included a redefinition of property rights that implied that all citizens became equal before the law. The liberalization of commodity and factor (that is, capital and labour) markets suppressed guilds, the Mesta, and mayorazgo, and brought with it the disentailment of land property, while introduced the Code of Commerce, and new legislation and regulation on mortgages, patents, banking, and the stock exchange. Moreover, liberalism represented the parliamentary control of public revenues and expenditure. Needless to say, serious obstacles to reform emerged on the way, with civil wars and military takeovers as major setbacks that deferred the completion of the transition to the last quarter of the nineteenth century. In Spain, as in other nations,

liberal reform was carried out with contradictory results in terms on economic modernization (Tedde, 1994). Neither information and transaction costs were reduced enough, nor were property rights clearly defined over a long period. The financial organization of the State did not respond to the needs of the new society. However, a glance at the post-Napoleonic Wars era reveals a distinctive behaviour, when compared to the pre-war era, for any dimension of social and economic activity. The long-term consequences the liberal reforms were a more efficient allocation of resources and sustained economic growth despite serious obstacles (civil wars and military takeovers) that deferred the transition (Prados de la Escosura and Santiago-Caballero, 2018).

The Government's role in economic backwardness along the 19th century has been also analysed as an explanation of economic backwardness. The diversion of capital away from industry and back into agriculture through land disentailment; the establishment of a system of ownership within an inefficient institutional framework; the application of budgetary policies conducive to rising interest rates, and the crowding out of private investment, have all been mentioned by historians (Tortella 1972; 1973a; Nadal 1975).

Agricultural backwardness is an essential component of the internal explanations of the Spanish economic performance in the long 19th century. Natural resources and property rights are seen by Tortella (1994b) as major obstacles for the development of Mediterranean type agricultures, such as Spain. Low productivity of agriculture, coupled with maintaining a large percentage of the labour force in this sector, is considered responsible for the low levels of per capita income and the narrowness of the market for consumer goods (Nadal, 1973; Milward and Saul 1977). On the other hand, slow demographic expansion is linked to high death rates and set within the context of agricultural backwardness (Nadal 1984).

Quantitative evidence casts serious doubt on the argument that agriculture was the key to the Spanish Industrial Revolution 'failure'. (Prados de la Escosura 1988; Simpson 1995). Agricultural production grew both in absolute and in per capita terms during the 19th century. However, when seen in the context of Western European nations, Spanish agriculture is not quite as buoyant: productivity experienced lower growth rates, and differences with Britain and France (already large by 1800) tended to

widen during the nineteenth century, and there was no significant reduction during the twentieth century (O'Brien and Prados de la Escosura 1992). Differences in product mix and in output per hectare emerge as key factors, not symptoms of Spanish agricultural retardation. What share of the blame corresponds to natural or social factors is a question that still requires further research.

Not all interpretations blame agriculture exclusively for Spain's economic backwardness compared to Western Europe. Recent investigation has stressed the sluggish industrial performance during the late nineteenth century (Carreras 1984; Prados de la Escosura 1988).⁶ Several scholars underscore the rent seeking attitudes of the Spanish entrepreneurs who sought protection rather than facing their competition in the international markets (Tortella 1981; Fraile 1991).

Quantitative evidence casts a serious doubt on the traditional interpretation of Spain's industrial backwardness according to which domestic demand was the main obstacle to the growth of manufactures during the nineteenth century. The inability of industry to sell in the international market, and the low level of industrial productivity seem to carry a good amount of explanatory value for this phenomenon. In this context, the attitudes and strategies of the Spanish industrial entrepreneurs becomes especially relevant. In view of international competition, they redirected their efforts towards the domestic market in search of rents and Government protection (Fraile 1991). The low per capita income associated with a backward agricultural sector is not a sufficient explanation any more for the lagging Spanish industrial growth during the nineteenth century.

External forces have been emphasized in historical explanations of failure and retardation. The loss of Latin American colonies because of the wars with Britain and France and the Napoleonic invasion plus the reorientation and gradual integration of the Spanish economy into a broader Western European economy over the nineteenth century are perceived to have been harmful for Spanish development. As a result of colonial independence trade flows and Government revenues declined. Domestic investment also fell even though with colonial emancipation came a repatriation of capital. The manufacturing industry may have been worst hit because the colonies had

⁶ However, early 19th century performance was more successful for Spanish industry and, particularly, for Catalan textiles (Rosés (2003).

provided it with a protected market. Financial, commercial and transport services in cities like Seville and Cadiz which had been closely linked to the colonies also suffered.

There is no conclusive evidence to support the view that the loss of the Empire was responsible for Spain's economic retardation in the long run. Despite the doubtless negative effects in the short run on capital formation, Government revenues, trade in goods and services, and the manufacturing industry, the overall impact on GDP was much lower (less than 8% of GDP) than was estimated by historians, and was concentrated in particular regions (Prados de la Escosura, 1993). From quantitative evidence available, it can be suggested that the loss of the colonies seems to have had a less profound and widespread impact upon the Spanish economy than the historical literature has suggested.⁷ The more competitive and flexible sectors of the economy eventually adapted to new circumstances; particularly commercial agriculture that orientated supply towards the growing markets in northwest Europe.

Regarding the shift from colonial to European markets, the fact is that the former already represented a smaller share before colonial independence. Furthermore, although foreign trade represented only a small part of Spain's GDP, it acted as a significant and perhaps indispensable stimulus to economic modernization during the nineteenth and beginnings of the twentieth century (Prados de la Escosura, 1988). Trade exerted moderate but positive linkages and externalities on the Spanish economy. Foreign demand induced more efficient allocation of resources, and the exploitation of their natural advantages through specialization in cash crops and minerals. This represented a positive development in a situation where trade provided a "vent for surplus" of Spain's natural and human resources. The flexibility exhibited by changes in the composition of exports and imports and the long run evolution of Spain's balance of payments, imply that historians who analyse Spanish trade in terms of mono export patterns and chronic debt crises experienced by Third World countries are transposing metaphors and concepts to a totally different world. Theories of

⁷ Nevertheless, the social and political implications of the loss of the colonies should also be considered. Fontana (1991) finds direct links between Latin American independence and the fall of the *Ancien Régime* and the Liberal Revolution in Spain. If this hypothesis is correct, then the loss of the colonies could have contributed significantly to the economic and social modernization of Spain.

dependency formulated for Latin America seem to have limited relevance for nineteenth century Spain. Specialization along the lines of comparative advantage provided Spain both with absolute and relative improvements in welfare as measured by the real terms of trade. Favourable relative prices and employment opportunities are the key elements behind the observed and measured favourable trends.

Hence, the counterfactual hypothesis implicit in historiography of a more efficient growth path, independent from the international economy, does not seem plausible. There is no quantitative evidence to support that productivity in the export sector was inferior to productivity in sectors serving the domestic market. In addition, the domestic market does not seem to offer any equally efficient alternative allocation for production factors used in the export sector. On the contrary, it could be hypothesized that a larger foreign sector would have increased employment and productivity levels, resulting in higher real income. Consequently, trade emerges not as the hegemonic element in the country's economic modernization, but rather as a small but indispensable stimulus of development.

Since the late 19th century restrictions on both domestic and external competition help explain sluggish growth during 1883-1920 despite the *Restauración's* (1875-1923) institutional stability that should have provided a favourable environment for investment and growth (Fraile, 1991; 1998). Increasing tariff protection, together with exclusion from the prevailing international monetary system, the gold standard, may have represented a major obstacle to Spain's integration in the international economy. To be off the Gold Standard detached Spain from the world economy, especially from the inflows of international capital investment in the 1880s and 1890s, so, currency instability following the abandonment of the Gold Standard helped isolate Spain from international capital markets (Tena Junguito, 1999; Martín-Aceña, 1993; Bordo and Rockoff, 1996). Cuban independence (1898) had little direct economic impact on Spain's economy but a large indirect one as intensified protectionist and isolationist tendencies (Fraile and Escribano, 1998). World War I hardly brought any economic progress and GDP per capita shrank, a result that challenges the conventional view of the war stimulus for growth through import substitution.

Although economic links between the metropolis and the last colony were already weak, Cuba's War of Independence caused substantial macroeconomic

instability. Macroeconomic instability together with a sudden stop in international investment reduced capital inflows sharply leading to the depreciation of the Peseta. From 1895 (the beginning of the Cuban War) until 1905, the peseta depreciated by approximately 30 percent, due to a combination of fiscal disorder, monetary expansion and a flexible exchange rate (Martín-Aceña, 1993; Prados de la Escosura, 2010) that, in turn, increased migration costs, reducing the outward flow of labour. Quantitative evidence shows that in the absence of depreciation, Spanish emigration could have been more than 40 per cent higher during the period 1892-1905. (Sánchez-Alonso, 2000a). During a period otherwise entirely favourable to international migration on account of low transport costs, higher demands for unskilled labour in New World economies, and large wage differentials between Europe and the Americas, emigration of labour remained low in Spain compared to other southern European countries like Italy. Spanish emigration was income constrained and any potential emigrants could not afford the costs of external migration. (Sánchez-Alonso 2000b). Internal migration remained low until World War I. The modest pace of industrialization was the main reason for low internal migration rates (Silvestre (2005)

The 1920s represented the period of most intense growth prior to 1950. The hypothesis that Government intervention, through trade protectionism, regulation, and investment in infrastructure, was a driver of growth has been widely accepted (Velarde, 1969). The emphasis on tariff protectionism neglects, however, the fact that Spain opened up to international capital during the 1920s, allowing the purchase of capital goods and raw materials, hence, contributing to growth.

Structural change and labour market integration accelerated during the 1920s. Internal migration with low levels prior to World War I reached a peak after the war (Silvestre 2005). The spectacular growth of the Spanish economy in the 1920s drove the development of industries with a greater pull for migrants, such as construction. Urbanization rates also increased during the decade.

Substantial wage convergence across regions took place prior to World War I, despite low rates of internal migration. The process of wage convergence was interrupted by World War I, which produced a sharp increase in regional wage differentials. These increases proved to be temporary, however; wage convergence re-

emerged in the 1920s, this time accompanied by internal migration and substantial re-allocation of labor from agriculture to industry (Rosés and Sánchez Alonso 2004)

A major political change, from a monarchy to a republic happened in the 1931. The new political system coincided with the Great Depression. The Depression, measured by the contraction in real GDP per capita, extended in Spain, as in the U.S., until 1933, with a 12 per cent fall (against 31 per cent in the U.S.). The Depression, with GDP per capita falling at -3.1 per cent annually, was milder than in the U.S. but similar in intensity to Western Europe's average (Maddison Project, 2013), challenging the traditional view of a weaker impact due to Spain's relative international isolation and backwardness. The Civil War (1936-39) prevented Spain from joining the post-Depression recovery and resulted in a severe contraction of economic activity (nearly one-third drop in real per capita income) but did not reach the magnitude of World War II impact on main belligerent countries of continental western Europe (Maddison Project, 2013). A consensus appears to exist in the literature pointing to non-economic causes of the Civil War. Expectations after the collapse of the monarchy in 1931 were not fulfilled, as proposal for land reform, industrial labour legislation and welfare improvements were not completed or enforced, leading to social unrest, civil conflict and political polarization (Palafox 1991; Domenech 2013)

Growth under the Dictatorship, 1939-1975

Since 1939 Spain entered in a long dictatorship that lasted until 1975. When Franco died the Spanish economy had experienced a major transformation thank to high rates of growth during the 1960s and structural change.

The weak post-Civil War recovery implied that the pre-war GDP per capita peak level (1929) was not reached until 1954 in contrast with the 6 years that, on average, took to return to the pre-World War II peak in Western Europe. In the search for explanations of Spain's idiosyncratic behaviour, the hypothesis that the larger loss of human capital vis-à-vis physical capital contributed to the delayed reconstruction can be put forward, as the destruction of physical capital during the Civil War was about the Western European average during World War II, but the exile after the Civil War and, possibly to a larger extent, the internal exile resulting from the new regime's

political repression, meant a significant depletion of Spain's limited human capital (Prados de la Escosura and Rosés, 2010; Núñez, 2003; Ortega and Silvestre, 2006).

The early years of the dictatorship — from the Civil War up to the early 1950s — represented a dramatic rupture with the economic policies prevalent in Spain from the mid-19th century. Economic policy during the 1940s was based upon State's direct intervention, indiscriminate import substitution, severe restrictions on imports and capital inflows, and a complex exchange rate system. The new authorities shared a strong anti-market attitude and their economic policy often threatened private initiative and investment (Fraile 1998). Severe market controls aimed at economic autarchy were implemented (Barciela 2002). The new state-owned enterprises began by controlling «strategic» industries seeking technical solutions to maximize the amount of production, bypassing the opportunity cost of their decisions (Martín Aceña and Comín 1991). Labour relations were strictly regulated.

The situation began to change in the 1950s when, in per capita terms, the Spanish economy grew at a similar rate to the Western European average, but with the significant difference that Spain started from a substantially lower level⁸. It was during the last period of Franco's rule (1959-1975) when per capita GDP growth reached an unprecedented intensity in Spain, not far behind that of 1950s Germany and significantly above Western Europe and the United States.

During the 1950s increasing confidence in the viability of Franco's dictatorship after the U.S.-Spain military and technological cooperation agreements (1953) together with the regime's moderate economic reforms favoured investment and innovation contributing to accelerated economic growth (Calvo-González, 2007; Prados de la Escosura et al., 2012). The institutional reform initiated with the 1959 Stabilization and Liberalization Plan, a response to the exhaustion of the inward-looking development strategy, set policies that favoured the allocation of resources along comparative advantage and allowed sustained and faster growth during the 1960s and early 1970s. However, without the moderate reforms of the 1950s and its growth outcome it seems unlikely the Stabilization Plan would have succeeded (Prados

⁸ Spain and Western Europe grew at 4.4 and 3.9 per cent yearly during the period 1952-1958. However, countries that experienced a reconstruction process grew at much faster pace. For example, Italy grew at 4.9 per cent and Germany at 6.5 per cent.

de la Escosura et al., 2012). Thus, the new available evidence blurs the view of a neat discontinuity between autarchic (1939-59) and moderately free market (1959-75) periods.

Franco's regime also represented an exception from the point of view of Spain's integration in the international economy as it started with a dramatic closing down followed, after the Stabilization Plan of 1959, by opening up to a historical maximum. After establishing links with international economic organization, a gradual opening and factor mobility (capital inflows and labour migration to Europe) were achievements of the new pro-market orientation of the dictatorship. The lack of structural reforms affecting the tax system and labour and financial markets represented the main shortcomings of economic policy during the 1960s.

The post-1975 era

The oil shocks of the 1970s happened at the time of Spain's transition from dictatorship to democracy (1975-85). During the transition decade per capita GDP growth fell to one-fourth of that achieved over 1959-74. Was the slowdown exogenous, simply a result of the international crisis? Did it derive from the Francoism legacy of an economy sheltered from international competition? Was it caused by the policies of the new democratic authorities? Accession to the European Union (1986) heralded another long phase of per capita GDP growth that came to a sudden halt with the Great Recession (2008-2013). What explain Spain's comparatively deeper contraction and weaker recovery? Answering these questions provides a research agenda for historians.

It is worth pointing out that the post-1975 era introduced a new pattern according to which phases of acceleration in labour productivity correspond to those of sluggish progress in GDP per person, and vice versa. Thus, periods of sluggish (1975-85) or negative (2008-13) per capita GDP growth were paralleled by vigorous or recovering productivity growth. However, during the 'transition to democracy' decade, labour productivity offset the sharp contraction in hours worked –resulting from unemployment- with the consequence of preventing a decline in GDP per capita. In the Great Recession (2008-2013), however, the timid improvement in output per hour worked was not enough to offset the contraction in employment and, hence, output per person fell sharply, in a similar fashion to the contraction experienced during the

Great Depression (1929-33). Conversely, the years between Spain's accession to the European Union (1985) and the eve of the Great Recession (2007), particularly since 1992, exhibited substantial per capita GDP gains while labour productivity slowed down. Thus, during the three decades after Spain joined the EU, in which GDP per capita doubled, growing at 3.0 per cent per year, more than half was contributed by the increase in hours worked per person.

The opposite trends in GDP per capita and per hour worked that since the mid-1970s can be attributed to the fact that the Spanish economy has been unable to combine employment creation and productivity growth, with the implication that sectors that expanded and created new jobs (mostly in construction and services) did not succeed in attracting investment and technological innovation.

Was the transition to democracy in Spain facilitated by the decrease in inequality after 1950? Prados de la Escosura (2008) suggests that this was the case, contrary to what happened in the interwar period. The elimination of absolute poverty and the growth of the middle had positive effect in the stabilisation of democracy. Torregrosa-Hetland (2016) argues, however, that democracy brought about new distributive forces and the new political system did not turn out to disproportionately favour the less well-off. At least, it could not effectively counteract market forces towards growing inequality.

Concluding Remarks

Over the last two centuries, income per person has improved remarkably, driven by increases in labour productivity. Up to 1950 and since 1986 –when Spain became part of the European Union- capital deepening has been the main driver behind long-run labour productivity growth, while efficiency gains (total factor productivity) led it in the 1920s and during 1953-1986. The reallocation of resources from lower productivity sectors, i.e., agriculture, towards sectors with higher productivity contributed significantly to the acceleration of productivity growth. Exposure to international competition represented a decisive element behind growth performance, with sluggish growth and retardation associated to closing up and accelerated growth and catching up to openness. Spanish performance in Western European perspective confirms this assertion. Spain underperformed up to 1950 and,

then, caught up with advanced countries until 2007, with the years 1960-74 standing out for its remarkable performance and the transition to democracy (1975-85) as the exception.

Income distribution did not follow a linear path. After an upswing in inequality up to World War I, a declining trend initiated in the interwar years, and although reversed in the post-Civil War autarchy, resumed strongly in the late 1950s and early 1960s, stabilising at a relatively low level in the last half a century. Higher levels of income per capita were matched by lower inequality suggesting that economic growth percolated through to reach the lower income groups so improvements in average incomes went along a more egalitarian income distribution.

Research on modern Spain's economic history is clearly unbalanced. Economic history research has been focussed overwhelmingly in the 'long' nineteenth century reaching up to until the Civil War. Old debates and controversies about the determinants of Spanish failure to industrialize are largely settled for topics such as the economic impact of the loss of the colonies in the early nineteenth century or the share of responsibility of agriculture and industry in Spain's economic backwardness.

The absence of debate on long-run Spanish economic performance during the twentieth century is striking. The Civil War has marked a dividing line in research that seems to prevent a global vision of the last century. The Francoist era continues to be analysed chronologically and assuming a sharp discontinuity around 1960 while ignoring persistence within Francoism. New available evidence challenges the view of a neat cut-off between autarchy and moderately free market periods. A convincing explanation of why the historical determinants of Spain's economic backwardness weakened or faded away from the 1960s onwards is still lacking.

Moreover, although the political transition to democracy after 1975 was a success and Spanish experience may be relevant for countries on their way to democracy and aiming to open up, while maintaining social and political stability, we are far from certain about the economic costs of the transition and whether it could have been achieved at lower economic cost.

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