

Twisted Modernization: An Introduction ^{*}

Pablo Beramendi[†]

Duke University

Carles Boix[‡]

Princeton University

November 16, 2023

^{*}This project has received funding from AGAUR-SGR.

[†]pablo.beramendi@duke.edu

[‡]cboix@princeton.edu

Today, any visitor to Spain quickly marvels at the quality of its infrastructures, the density of locals regularly meeting in bars, and the feeling that people by and large enjoy a high standard of living. Public education and health care reach everyone who needs them and life expectancy ranks among the highest in the world. Had the same visitor come in the mid 1950s, she would have found a very different landscape: large shares of uneducated workers in a weakly industrialized economy in large parts of the country, very limited public goods provision, pitiful infrastructures, and a population trapped under the suffocating social and political norms of Francoism. The contrast is of such magnitude that analysts often celebrate Spain as an exemplary, almost unique story of a successful political and economic transformation in the world: a country finally able, in the last third of the twentieth century, to walk through the seemingly narrow corridor that leads from the gloom of underdevelopment to the comforts of economic and political modernity, and to become again a rightful member of the select club of advanced industrial societies – a “normal” European nation.¹ More recently, a more bullish set of voices has taken on the task of restoring Spain’s image, particularly among Spaniards themselves. According to these voices, such image has been unjustly marred since the *black legend*, a distorted propaganda exercise successfully launched from the Netherlands and England. For a lengthy effort along these lines, representative of a growing body of essays, see Varela Ortega (2019). For a skeptical or directly critical view on Spain’s evolution, see, however, Buendía and Molero-Simarro (2018); Colomer (2018); Preston (2020).

Indeed, the political and economic evolution of Spain has been remarkable by most standards.² After the Napoleonic war and for the next 170 years, it experienced four civil wars, underwent several coups, and was governed by ten different constitutions. Among these, only

¹For a recent statement along these lines Calvo-Gonzalez (2021). Interestingly, a growing body of work projects today’s progress into their analyses of the past, claiming that Spain was always a perfectly normal European nation and that its true historical role in the process of civilization and political development. At times, “normality” is simply assumed or asserted to motivate in depth analyses of the case (see for instance Pro (2019); Peyrou (2023))

²For overviews of Spain’s economic history, see Tortella (2000); Carreras and Tafunell (2018); Maluquer de Motes (2014); on its social and political evolution there are numerous texts; for a recent overview, see Martorell (2021)

two (1868, 1931), short-lived ones, were democratic. Following the collapse of its semi-liberal institutions after World War I, its divergence from the advanced world became even starker. While its northern neighbors embraced democratic capitalism, Spain fell under authoritarian rule, experimented with economic autarky, and had an underfunded state limited to its bare repressive functions. In the mid-1930s, its income per capita was 40 percent of the US per capita income. By 1950, it had fallen to 25 percent. By the mid-1960s, public revenue was slightly over 15 percent of GDP, putting Spain among the bottom quartile of countries in the world. The state provision of public goods, from education to infrastructures, was dismal. Today, by contrast, Spain's per capita income is two times a half times the world average. Spain has held free elections resulting in the peaceful transfer of power between different parties for the last forty-five years. It has unrolled a mid-size welfare state that provides universal education and health coverage. In addition, it has become a medium-sized partner within the European Union.

Yet, despite all Spain's indisputable progress in the last decades, its rather late modernization has remained incomplete and, by the very nature of the process through which it was accomplished, has resulted, when compared to other western European countries, into remarkable economic and political dysfunctionalities: an economy consistently unable to catch up with any of the world's leading economies; a labor market defined by a sharp divide between fully-protected 'insiders' and workers hired on the basis of precarious contracts; a volatile business cycle with recurring bouts of high unemployment; high levels of inequality hardly corrected by the Spanish fiscal and welfare structure; dismal demographic trends; and low and declining political legitimacy, made apparent by Spain's incapacity to create a cohesive, widely shared sense of national identity.

A Stalled Economy. Consider first Spain's current economy. Figure 1 shows the evolution of per capita income (in dollars of 1990) from 1800 to 2020 for Argentina, Ireland, Spain, Sweden and the United States. In turn, Figure 2 reports per capita income relative to the American one (set at 100). Spain's economy hardly grew during the first half of the

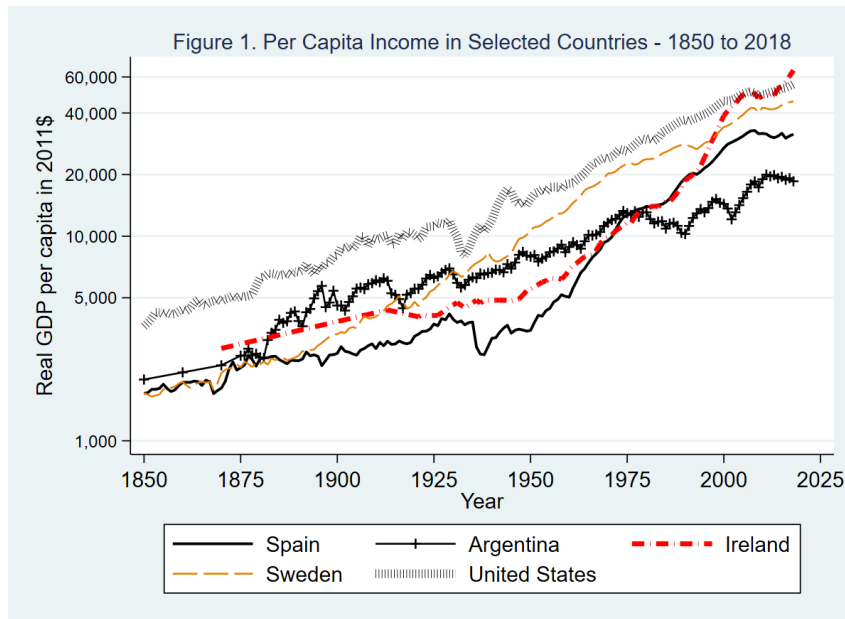


Figure 1: Spain's Per Capita Income in the Long Run

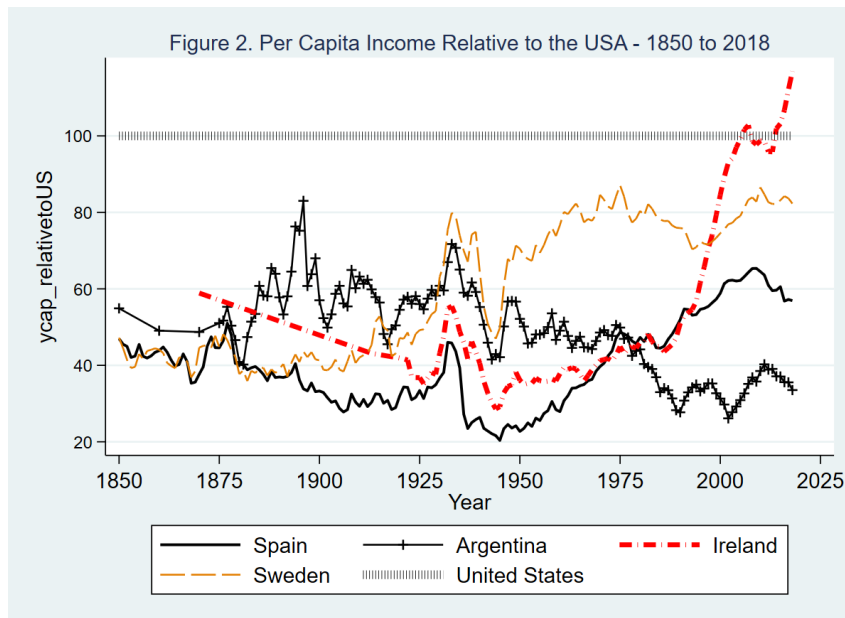


Figure 2: Spain's Per Capita Income as a Share of USA

nineteenth century. Thereafter, per capita income rose at an average rate of one per cent in real terms until the advent of the Second Republic. Spain's performance relative to other western economies was rather poor. With respect to the American per capita income, it dropped from 60 percent in 1880 to 40 percent in 1929. The civil war and two lost decades of autarky shrank the economy in real terms, pushing GDP per capita down to one fifth of the American one. It was only after the IMF-sponsored stabilization and liberalization plan of 1959 that Spain experienced fifteen years of momentous growth.

While that package of reforms was able to pull Spain closer to the economies of its neighbors, it fell short of setting the foundations for a successful transition towards forms of production driven by skill-biased technological change. Spain's ability to adapt to rapid structural changes was constrained by the lock-in effects of the pre-existing development model. Spain's per capita income crept slowly up to 60 and 80 percent of the American and western European per capita incomes respectively. Yet, shocked by the twin processes of globalization and deindustrialization, the economy lost steam and, by the turn of the twentieth century, the gap with Europe and the United States stop narrowing down and actually widened marginally in the late 2010s.

An Underperforming Labor Market and a Weakly Redistributive Fiscal State. As we discuss in more detail below, Spain's developmental path generated a highly dualized labor market, with structurally high unemployment that is very sensitive to the business cycle (Espina, 2007; Rueda, 2007). In addition, Spain's late arrival to fiscal modernity in a market characterized both by an increasingly dualized labor force and a large number of small businesses yields a smaller redistributive tax and transfer system relative to other rich democracies. As a result, Spain is, among the advanced EU countries, the country that combines the most inefficient labor market (highest rates of unemployment and long-term unemployment) and the highest levels of inequality, as made apparent by Figure 3, which plots the unemployment and Gini index (before and after taxes and transfers) across the European Union in 2019.

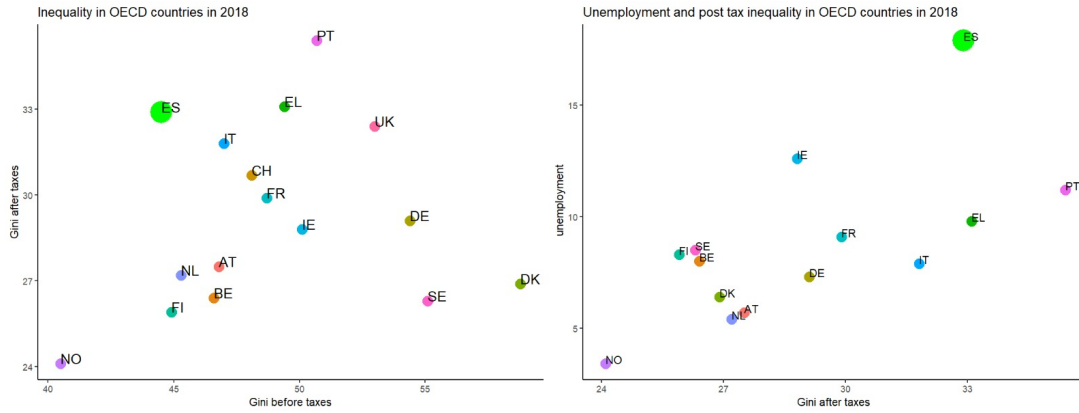


Figure 3: Labor Market (Eurostat) Performance and Inequality (2019-EUSILC): Spain(ES) in comparative perspective

A Dismal Demography. Spain’s fertility rates dropped dramatically starting in the 1980s to reach the lowest levels in the world since the early 1990s. Even though part of this transformation may be attributed to a change in cultural values and social mores, the existing gap with other European countries (from 0.5 to 1 child per woman) derives directly from the structure of the labor market. High levels of economic uncertainty, a dual employment structure punishing women and the young, and family-unfriendly social policies delayed motherhood and resulted in very low fertility rates. The latter, combined with a very high life expectancy, has led to an alarming thinning of the basis of the demographic pyramid and a projection to substantive decreases in the support ratio that threaten the sustainability of multiple welfare policies in the near future.

A Crisis of Legitimacy. The allegedly miraculous character of Spain’s entry into the club of modern capitalist democracies transcends the economic realm. Spanish transition to democracy has been widely idealized as a model to overcome autocratic rule and past civil conflict without major societal disruptions, an example of how “forgiveness” and “forgetfulness” forged a new consensus that provided the basis for several decades of unprecedented progress. The period of transition and consolidation of democracy in Spain (1975-1986), allegedly, all but returned politics to European “normality”. That late start – Spain is after all the last western European country to democratize, makes the transformation all the more

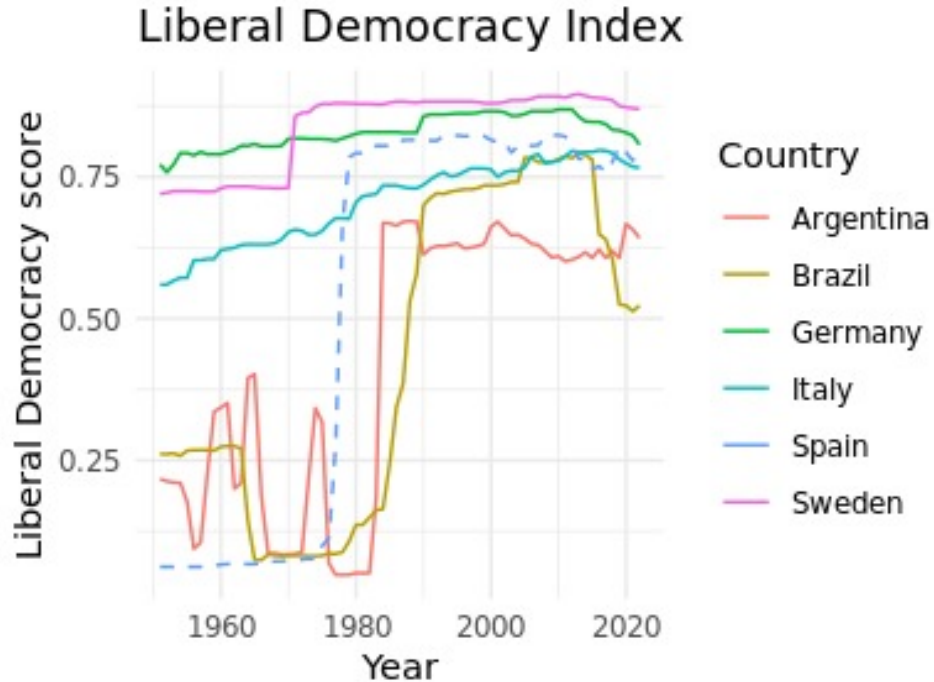


Figure 4: Spain's Liberal Democracy in Comparative Perspective

remarkable. Figure 4 lends partial support to this account.³ After the successful entry into the club of European democracies in the early 1980s, Spain ranks always below Germany and Sweden, and above Italy until the early 2000s. However, from that point onward, the quality of democracy in Spain began to decline until becoming by the early-mid 2010s the lowest ranked mid-sized European democracy, only above Latin-American cases like Argentina or Brazil.

Underneath this peculiar evolution lie a number of overlooked factors concerning Spain's political development. Spain was the last European democracy to suffer a serious coup attempt (in 1981) – a major outlier if one adjusts by GDP per capita. It was also the last consolidated European democracy to see the end of lethal terrorism as a regular form of political action: ETA only disbanded in 2011. These two facts call sharply into question the myth of a peaceful transition by consensus and rather reflect a highly polarized transition in which incumbent elites largely piloted the process from a position of strength and managed

³VDEM Liberal Democracy Index, v2xlibdem. Details available in Coppedge et al. (2021)

to preserve a substantial amount of influence. The ideology of consensus hid substantial concessions by the democratic opposition, weakened after several decades of dictatorship and concerned about what could be the alternative to the constitutional bargain incumbents were offering to them.

The quality of democratic institutions in young democracies depends on their type of transition. In the case of Spain, democracy arrived late, by agreement with the incumbent elites. Some of the key pillars of the state (the judiciary in particular) remained untouched. The Church managed to survive the transition unscathed as well. The preserved influence of a large share of incumbent autocratic elites carried also a significant institutional legacy that would heavily condition the working and quality of the newborn regime.

That ‘democracia pactada’ had a significant impact in at least three areas. First, incumbent elites secured guarantees on issues that they (and the military) took to be non-negotiable: the monarchical form of the state, the unity and ‘non-divisibility’ of Spain, and the preservation of their presence and influence in the judicial branch. These initial successes sowed the seeds of future institutional crises, crises in which the political use of the judiciary and the ‘lawfare’ against political parties questioning either the Monarchy, Spain as mono-national state or both became common. The Catalan crisis of 2017 is perhaps the most notable symptom of the inability and unwillingness to handle the presence of multiple identities/national minorities within the state. A persistent problem in Spain’s modern history, the national/territorial question is the case where all the shortcomings of Spain’s democratic culture outlined above emerge most strongly.

Second, the transition did not alter the prevailing pattern of state-society relations. A healthy democracy needs a thick and independent civil society. Historically, the shadow of the Spanish state had been long and persistent in sectors as critical as banking, the media or even key economic sectors. Many of these institutions were public or publicly funded during the dictatorship. Their formal independence via privatization did not imply full autonomy in a society where, with the partial exception of Catalonia and Euskadi, civil society is historically

weaker than in many European counterparts. Rather, they continued to deem the state as a source of resources to be captured, and politicians continued to see these sectors as areas where to maximize political influence and control. This is apparent in the links between political and financial elites, in the way subnational financial institutions become tools for both local economic development (and corruption) and political control, or in the particular nature of the politics of media regulation relative to other advanced democracies.

Third, the lack of a sharp break with the past entailed a fair amount of elite persistence and resulted, as a consequence, in the Spanish Right retaining the strongly nationalist and robustly statist commitments that had characterized it for several decades before the democratic transition took place. Even when nominally casting itself as a liberal and pro-market force, its final objective has not been to reduce the role of the state to the advantage of private entrepreneurs but to control the former to sustain the economic capture of particular economic sectors by key firms (founded or pampered by the Franco regime), to govern public discourse, to use the law in an asymmetric manner Maravall (2001), and to structure the Spanish center around its central government and Madrid's economic elites. This approach to politics has manifested itself in critical policy and institutional areas: a limited sense of institutional loyalty while in opposition; the differential treatment of winners and losers in recent crises such as the banking defaults of the late 2000s and the management of COVID; the judicialization of politics; and the framing of information on terrorist attacks such as the Atocha bombings of 2004. Market liberalism and legal protection of negative freedoms, both within the Right and Spanish society, have remained, by contrast, rather weak.

Untying the Historical Knot: The Political and Economics Roots of a Middling Performance

As remarked at the beginning of this introduction, there is little point in denying Spain's remarkable transformation since the 1960s. Yet, at the same time, the scope of the change and the bright lights of so many recent accomplishments should not blind anyone to the persistence of important flaws in the country's political life and economic performance that

set it aside from its European counterparts. Stated in its most simple terms, our claim is the nature of Spain's development – its retarded industrialization and late democratization and, crucially, the way it overcame the gap with other western European countries between the early 1960s and the 1980s – explains those dysfunctionalities.

Over the last two hundred years, and, particularly since the turn of the twentieth century, Spain has trodden a specific modernization path - mostly divergent from its northern neighbors in the ways in which it responded to key historical challenges over the course of the last two centuries and, particularly, to the political and social confrontations that shook most of the continent in the interwar period. Whereas northwestern elites chose to accept democracy and a mixed economy, the Spanish establishment blocked, using brute force, any meaningful political change. What ensued was over a half of a century lost to economic and human development. An authoritarian coalition crowned a country marked by dismal public institutions, minimal investment in human capital formation and underwhelming infrastructures with a level of protectionism and regulatory intervention that only reinforced corruption and the construction of a clique of insiders and rent-seekers around the state.

That policy and institutional path was partially redressed in the economic sphere starting in the 1960s and then in the political arena in the late 1970s. Still, Spain's authoritarian and autarkic turn, its dropping out from the 'corridor' of political and economic development taken by its Northern European counterparts, left significant scars that continued to shape Spanish life in recent decades and than will likely do in the near future. Economically, those legacies left the country severely unprepared to meet the challenges of deindustrialization and globalization that fell upon all north Atlantic economies starting in the 1970s. Politically, the institutionalization of the authoritarian coalition that governed the country since 1939 in several domains of the Spanish state influenced the transition to democracy in the 1970s in rather consequential ways: in the nature of the media, in the preminent role of central elites in key parts of the economy, and in the design of the constitution.

In the rest of this chapter we introduce the theoretical framework that attempts to

integrate to integrate the richness of all the volume’s contributions. Specifically, we outline our premises on the general drivers of economic and political development, thus providing a coherent theoretical structure to the collective enterprise that has materialized in this book. We introduce our main theses about the particular case of Spain. And we describe our approach. In conceiving each chapter and its contribution to the book, we imposed three requirements. First, each chapter had to have an analytical structure of its own and to contribute to the overall framework of the book. Second, it needed to rest on original research, which in several cases has led to the generation of new and substantially important data. Lastly, it had to be comparative in nature. In his classical account of the role the French Revolution played in the destruction of the institutions of the Ancien Régime in France, Alexis de Tocqueville, anointed by Jon Elster (2009) as the first social scientist, famously wrote that “I venture to say that he who has seen no other country and who studies only France will never understand the French Revolution” (Tocqueville, 2011, 25). The same rule applies to the study of Spain – a case that combines, perhaps rather exceptionally in the world, most if not all the stages of political and economic development since the late eighteenth century.

1 Theoretical Premises: Putting Spain in Comparative Perspective

The main goal of this book is to make sense of the particular trajectory of contemporary Spain – describing it, explaining its (complex) causal path, and, hopefully, offering some insights on the policy interventions that may be needed to correct it. In approaching the economic and political evolution of Spain in comparative perspective, we focus on three main questions. First, what are the causes behind its late arrival to political and economic modernity? Second, how did this delay condition Spain’s capacity to adapt to the set of successive economic and political challenges it faced over the last two centuries? Third,

to what extent did this limited capacity affect its ability to converge with other advanced economies? Across the contributions of this book, the period that goes from the end of WWI and the 1960s emerges as the one setting Spain apart from the rest of Europe: in the wake of the big crises that shook the continent in the interwar period, Spanish elites crushed all the institutional reforms that might have set the country in the path to development and democracy for several decades. In turn, the economic and political transition that began in the 1960s and culminated in the 1992 with the Single European Act partially corrected the divergence. Still, the past continued to weigh heavily to the point of explaining many of the imbalances and distortions we identified early in this chapter.

In addition, we hope to use the singular experience of Spain to shed light on the political economy of growth, development, and democracy more generally. A hegemonic (but by no means exclusive) view among political economists sees contemporary development as taking place along a modernization “corridor” – one that goes from poverty and tyranny to wealth and liberty (North and Thomas, 1973; North, 1981; Acemoglu and Robinson, 2020), prompting researchers to examine the causes behind the location of different countries in that path (ranging from leaders to laggards) over time. This approach has yielded important insights – particularly on the political and institutional conditions necessary to unlock growth. But it needs two crucial corrections to make sense of the variety of developmental experiences we have witnessed in the last two hundred years.

First, the dominant linear (and often Whiggish) interpretation of development (either in the form of the old modernization school or the most recent neoinstitutionalist paradigm) casts the latter as the struggle between modernizers (who, depending on the school of thought, are identified as bourgeois entrepreneurs, liberal reformers, labor movements, etc.) and anti-modernizers (generally, reactionary state elites and landholders) in which their relative strength determined the fortunes of change and the extent of modernization. By contrast, we see this process as a relative more complex phenomenon, shaped by the clash over the type of policy interventions needed to ‘modernize’ their country between a plurality of political

actors, social groups and, sometimes, even classes, which, at some points in time, changed their particular response to the problem of stagnation.

Second, we doubt that the modernization process that has taken place around the world may lead to the economic (and political) convergence of all countries around the same outcome. Because there have been multiple competing actors promoting different development agendas (or opposing them ‘tout court’) and because some of these reformers reacted to previous transformations (at home and often abroad) in different ways, the process of development has often resulted in different institutional and economic structures across countries. Here, if you will, we take a stance closer to the ‘varieties of capitalism’ (VOC) research agenda, which posits that even advanced market economies differ among themselves in terms of their internal configuration, comparative advantage and so on than to a linear developmental perspective (Hall and Soskice, 2001). In contrast to the claims of VOC scholars, however, we do not see those different institutional systems as deriving from some kind of functional process in which institutions operate in a complementary manner resulting in a particular (local) optimum. Instead, we interpret the interlocking set of institutions and organizations of a particular political economy (such as the Spanish one) as the outcome of historical junctures and the somewhat haphazard accumulation of the ideas and programs of particular interest groups which sometimes resulted in significant economic and political ‘inefficiencies’.

1.1 The Benchmark

Underdevelopment – the condition of economic stagnation that characterized the vast majority of humankind until two centuries ago – was a political equilibrium. A political and military elite (typically a monarch and his allies), holding an inordinate level of power over the rest of society, sat on top of an economic system defined by arbitrary privileges, the transfer of economic rents from productive agents to that ruling elite, and substantial wealth inequality. With legal institutions lacking independence and private actors being at the

mercy of unconstrained rulers or powerful private actors, growth and innovation were tepid at most: inventors and entrepreneurs had little incentive to invest in economic activities that could be easily confiscated by the ruling elites (North, 1981). Indeed, most human beings lived at the margin of subsistence. Around 1820, about 95 per cent of the world population earned less than the equivalent of two dollars (of 1990) per day. More than four fifths had to survive with just one dollar per day (Bourguignon and Morrisson, 2002). Yet, even in the face of such poor performance, Ancien Régime elites had no political and economic interest to reform their institutional settings (and probably no available blueprint to guide them to a better place, anyway). Recent estimates calculate that, before industrialization, they captured over two thirds of all the resources available after excluding the total sum of the minimum subsistence wage for all the population (Milanovic et al., 2011).

In the late eighteenth century and early nineteenth century, two main developments challenged that political and economic order. On the one hand, the diffusion of Enlightenment ideas (later reinforced by the example of the Atlantic Revolutions of 1776 and 1789) led to the diffusion of a program of liberal reforms among several social groups: professionals, academics, a part of the military, and the progressive wings of clergy and nobility. Over time, the liberal movement split between moderates, radicals, and, eventually, socialists - divided over the economic and political blueprint that should replace the status quo. On the other hand, technological progress (a long, endogenous process of economic change that exploded into the industrial revolution in parts of North Atlantic Europe, cf. Abramson and Boix (2019); Kelly et al. (2014)) created new economic actors – industrialists and their counterpart, labor – that eventually demanded political representation and a legal system protecting their industries and assets against distortionary regulation and arbitrary confiscation. At least initially, the interests and demands of these new actors were aligned with the general political program of liberal reformers. As industrialization advanced, labor progressively divided between non-manual employees, an 'aristocracy' of skilled workers, and industrial laborers. Each social class tended to be loosely correlated with the different factions

(from moderate to socialist) of the anti-absolutist program – at least, in those (not many) countries that had undergone a process of industrialization.

Those liberal challengers could only overcome the resistance of the Ancien Régime elite through two alternative paths: a political deal between to the old elites and the new economic actors (generally, capital owners and urban upper strata) in which the former agreed to liberalize in exchange for their participation in the gains generated by the latter; or a political revolution resulting in the destruction of the status quo. The first mode of transition was only possible when there had been enough industrial growth to generate an alternative economic class – an industrial bourgeoisie – and, above all, an expanding production frontier that attenuated the zero-sum game that defined the political economy of the Ancien Régime and that lured the old landed classes into investing in emerging manufacturing sectors and developing a vested interest in the political and legal protection of industry. This was the path taken by Britain in the 1830s and 1840s, where an ‘embourgeoisied’ landed class gradually emerged with commercial interests, facilitating the transition to a liberal regulatory system in Britain (Moore, 1993). Examining the repeal of the Corn Laws, Schonhardt-Bailey (1991) finds that the gradual asset diversification into commercial interests of the old landowning class had a decisive impact in the likelihood of British members of parliament supporting trade reforms and therefore the new industrial order.⁴ In the second mode of transition, predominant in stagnant or low-growth economies, an agreement between the old elites and the new political entrepreneurs was highly unlikely. The result was a political struggle whose final outcome was a function of each side’s strength and the international balance of power between liberal and absolutist states. The French Revolution of 1789-1793 and the cyclical revolts in western and central Europe that culminated in the revolutionary wave of 1848-49 exemplified the second path.

Crucially, the challenges faced by Ancien Régime elites did not only have a domestic or internal origin. As the process of industrialization widened the economic gap between

⁴See also Jha (2012) and Boix (2015), chapter 6.

North Atlantic countries and the rest of the world, even the ruling elites of laggard countries who encountered no opposition at home were forced to confront their relative economic and military decline vis-à-vis new technological leaders such as Britain. Their responses were caught up in what Huntington (2006) aptly referred to as “the king’s dilemma”. Implementing a program of economic and constitutional liberalization implied shocking the status quo to the point of destroying it. Yet stifling any reform (due to either the internal opposition of the establishment or the lack of state institutions capable of initiating any meaningful reform) resulted in stagnation and, eventually, in the loss of political sovereignty and their transformation into mere appendices of a European metropolis. Imperialism was as much the result of the inordinate strength of Europe as the consequence of the inherent frailty of feudal and despotic regimes in the wake of industrial growth. By the end of the nineteenth century, Europeans ruled over most of South and South East Asia, had turned Africa into a cage of colonies, and had carved up China into separate ‘spheres of influence’. With the final collapse of the Ottoman Empire after WWI, they came to be in complete control of the Middle East and North Africa.

Over time, the fight between reactionaries and modernizers over how to respond to the European challenge evolved in two different directions. First, it widened to encompass most social groups. What had started as a limited conflict between court factions and military leaders expanded to town dwellers and the whole army and eventually to rural populations. The limited coups and counter-coups essayed by progressive officers gave way to the urban revolutions of the middle of the nineteenth century and the guerrillas and social revolutions of the twentieth century. As the social basis of contemporary politics broadened, the modernization program also shifted from a pure demand for formal constitutional rights and laissez-faire economics to material equality and socialism.

Second, the intensification of international competition (and, in some cases, the unrest of a growing domestic industrial class) led to an inflection point in the economic program pursued by modernizing elites. This often resulted, in turn, into an economic structure that

was structurally different from the British model of development. Laggard countries that jumped into the modernization bandwagon by the time of the second industrial revolution, which was marked by emerging industrial with considerable capital needs, had to rely, in strict Gerschenkronian logic, on the state-led mobilization of production factors – at least if they were intent on skipping the first phases of industrialization. This implied the creation of a stronger state apparatus that could jump start growth and create and lead a national industry – ideally, a set of powerful financial and manufacturing conglomerates capable of out-competing foreign companies.

Now, the specific model of state-led development that prevailed across countries and over time hinged on the social coalitions that enacted it. In some instances, state-led modernization elites (typically, of bureaucratic and military extraction) relied upon a coalition with the old agrarian elite to overcome the opposition of town dwellers and classical, laissez-faire liberals. What followed was a deal to preserve the interests of the old economic elites, that is, agrarian regulations to sustain cheap and abundant labor supply and very little human capital investment, with state-led or state-protected conglomerates of industrial and financial firms. Under those circumstances, industry-led growth sputtered: the national market was too thin to sustain industrialization, political and private interests captured the regulatory apparatus of the state, and domestic companies remained utterly noncompetitive abroad. In other cases, the statist elites allied with the nascent national industrial class – capital-owners in the nineteenth century and early twentieth century, and labor afterwards. That bureaucratic-industrial alliance reinforced the concentration of existing financial and manufacturing companies around a few national champions. Often, however, the pro-state-led-developers implemented their program alone, making the state the sole agent of change. Most of their success, if any, came from the nationalization and exploitation of natural resources such as mines and oil. Francoist Spain straddled, in our opinion, between the first and the second type of state-led development.

War defeats were the midwives of those statist programs. The Meiji revolution, arguably

the first state-led modernization launched in contemporary times, was a direct response to the concessions extracted from the Japanese government by commodore Perry through the use of force. Ataturk's policies followed from Turkey's defeat in 1918. On the Left, Lenin, Stalin and Mao implemented a state-led program betting on electrification and heavy industry in the wake of imperial collapse. On the Right, Fascism was the child of WWI. To catch up with the West, postcolonial states experimented with some variant of heavy state intervention in the form of credit rationing, import substitution policies, state-led industrial policies and/or the outright nationalization of foreign companies. In the early 1970s, public-owned enterprises accounted for 27 percent of gross fixed capital formation in developing countries (excluding planned economies)—reaching up to 34 percent in India and Pakistan and 48 percent in Tanzania. By comparison, in advanced market economies, state-owned business represented 11 percent of all gross capital formation.⁵

These successive attempts at economic and political catch-up were replayed once more against a new wave of technological and institutional transformation in the international economy during the last decades of the twentieth century. A wave of globalization, the rise of Asian industrial competitors, and the diffusion of new information technologies reorganized international and domestic economies again – sinking low-value-added manufacturing sectors in the North, flattening wages among unskilled and semiskilled workers, and fostering the geographical clustering of innovative sectors in urban areas. The variety of responses to this new scenario, from economic stagnation to the emergence of so-called knowledge-economy clusters, depended on the type of industries in place, the quality of human capital, and the interlocking set of institutions and organizations of a particular political economy (such as the Spanish one) that countries have accumulated as the outcome of historical junctures and the somewhat haphazard accumulation of the ideas and programs of particular interest groups.

⁵The data on investment by state-owned businesses comes from Short (1984), Table 1.

1.2 From the Benchmark to the Case

Spain was not an exception to the challenges imposed by modernization. But the historical path it took was shaped by its particular political institutions and economic endowments. Its economy, mostly agrarian, characterized by a mass of poor and illiterate peasants and dominated by quasi-feudal social relations in the south and the west of the Peninsula, made an industrial take-off unfeasible at a national scale. With industrialization heavily localized in Catalonia and the Basque Country throughout the nineteenth century, the 'British' path of gradual democratization was not viable. Spain's northeastern industrial class had neither the political strength nor the economic depth to impose its program on the agrarian establishment. Hence, overcoming the old regime institutions could only happen, if at all, through 'revolutionary' actions carried out by political (as opposed to industrial) liberal actors. This was the logic behind the string of coups and counter-coups promoted by army officers to break the backbone of absolutism first and then to adjudicate between the moderate and radical factions of liberals. The outcome was political instability and little growth, making Spain a Latin American country that happened to be in Europe.

A precarious political deal between conservatives and (moderate) liberals in 1876 was eventually undermined by the loss of Cuba and the Philippines in 1898 and the growing unrest of Spain's own national minorities in the Peninsula. As in most developing countries, the direct experience of defeat (jointly with a stronger and politically more threatening industrial periphery) was met by a partial realignment of agrarian, military and bureaucratic elites around a state-led growth agenda. Blocking the full democratization path embraced in the rest of Europe at the same time, they enforced a fully-fledged authoritarian regime and a program of inward development. Their victory, partial in 1923 and complete in 1939, had two consequences: several decades of delay in Spain's convergence with Europe; and a reconfiguration of Spain's political economy that reinforced the position of central elites.

The international system provided Spain with a partial way out of this morass. In the

context of the Cold War, which made the stabilization of western Europe imperative, the United States and its European allies encouraged the inflow of their private capital, which was already experiencing diminishing returns at home, to Spain. The economic boom that followed attenuated Spain's historical demons of poverty, inequality, and cultural backwardness. Democracy came into place finally – but in terms that reflected the accumulated experiences of the past. We now turn to unpack Spain's development path and its contemporary consequences, the central themes running through this volume, in five steps.

1.2.1 Seeds of Divergence. The Long Nineteenth Century

The analyses culled in this book locate the roots of Spain's rather persistent divergence in three factors: endemic political instability, driven by the tension between a reactionary elite and recurrent attempts to advance towards a liberal democracy; a skewed geographic pattern of economic development; and, relatedly, a failure to consolidate the process of nation-building. Jointly, those factors de-incentivized private investment in innovation, limited the expansion of state capacity through the nineteenth and the first half of the twentieth century, and undermined the integration and orderly functioning of the national market.

A single word, turmoil, defines Spain's politics over most of the last two centuries. The experience of seven successful coups, cruel dictatorships, four civil wars, and ten constitutions makes contemporary Spain's much closer to Latin America than to any western European country. Two historical forces lay behind the secular instability of Spanish contemporary politics. On the one hand, a growing process of factional mobilization with new actors and groups entering the public arena over most of the nineteenth century and the first decades of the twentieth century. On the other hand, the inability of all (or most) mobilized groups or factions to agree on a constitutional settlement that would regulate their access to power in a peaceful manner.

The Napoleonic invasion and the war against France ruptured the seams of the Bourbon monarchy. The diffusion of liberal ideas early in the nineteenth century clashed with the

strict religious traditionalism and political absolutism that defined the old order. Political polarization and party factionalism became rampant. First the “afrancesados” and then the Spanish liberals strove to put an end to the absolutist system in place in repeated occasions: 1808, 1812, 1820 and, with some success, 1833. Liberals’ definitive entry in government engendered, in turn, their nemesis, the Carlist movement. Soon after the liberals allied with the monarch, they split into moderates and progressives. At some point, the latter again divided between accidental monarchists and radical republicans. For several decades, preatorianism regulated the course of Spanish politics. Army officers, embroiled in partisan politics, regularly engaged in “pronunciamientos” that, when successful, led to the demise of the existing government and the writing of a new constitution. Fighting to defend religion and local autonomy, Carlists mobilized part of rural population in northern Spain. In turn, liberals tapped the support of industrializing urban centers, which eventually turned into hotbeds of resistance against both the Carlist reactionaries and the Spanish monarchy. At times, the liberals and republicans managed to secure periods of political influence, as in the tumultuous years from the Gloriosa (1868) to the collapse of the First Republic, the first and short lived properly democratic experience in Spain that perished to the animus of reactionary forces and its own ideological and territorial tensions.

The control of institutions was pendular, with all actors approaching it as a zero sum game. Stable constitutions require consensual agreement and gradual inclusion of new players. The mobilization of a growing number of political and social actors could only be absorbed and managed successfully, as Sanchez Cuenca’s chapter reminds us, when those successively mobilized players were recognized and somehow included in the political game. At the end of the day, that was only possible if they could agree to a constitutional framework that guaranteed their representation or, more precisely, one that guaranteed compliance with the mechanisms that all the parties already mobilized had designed to select the government. The adoption of that kind of inclusive constitutional settlement proved to be a rarity in the Spanish case – arguably because the interests and goals at play were too heterogeneous to be

compatible with each other and because there was not enough modern growth to lubricate a political deal. Non-inclusive constitutional arrangements resulted in short-term political regimes, unless backed by absolute force. According to the calculations of Sánchez-Cuenca, a non-inclusive constitution lasted an average of four years. The duration of progressive or left-wing constitutions was even shorter: they fell apart due to either internal strife or to the use of force by the Right. The political agitation of the middle decades of the nineteenth century subsided temporarily with the ‘Restauración’ of the Bourbon monarchy in 1876. The constitutional settlement of 1876 survived for over forty-five years, or more than twice the longest constitution of previous decades, precisely because it relied on the agreement of the two main parties that had opposed each other.

Given its tumultuous political and institutional history, it is hardly surprising that Spain lacked any substantial growth until the 1850s. It was only after a set of liberal reforms and the construction of a railroad network of sorts resulted in a partially integrated domestic market, that growth began to track the continental European average. Still, the economic integration of the country remained largely incomplete. Figure 5 plots the railroad system in Europe in the late nineteenth and early twentieth centuries. Their density in Spain remained amongst the lowest in the whole continent. Industrialization was limited too. Its localized clustering in the Basque country and Catalonia drove a politically consequential wedge between a few dynamic cities and the rest of the country.

By the end of the nineteenth century, right at the time in which the last remnants of the dwindling empire were lost, Spain remained a predominantly agrarian economy governed by a narrow political and economic elite that had, overcoming several decades of instability through the constitutional settlement of 1876, employed clientelistic practices or outright electoral fraud to govern. The system was supposed to help contain the political consequences of the rise of mass politics during a period in which tensions regained intensity. It failed, in large part because the 1876 agreement brought with it the seeds of its own destruction. The constitutional pact relied on two main pillars. In the first place, it consecrated a principle

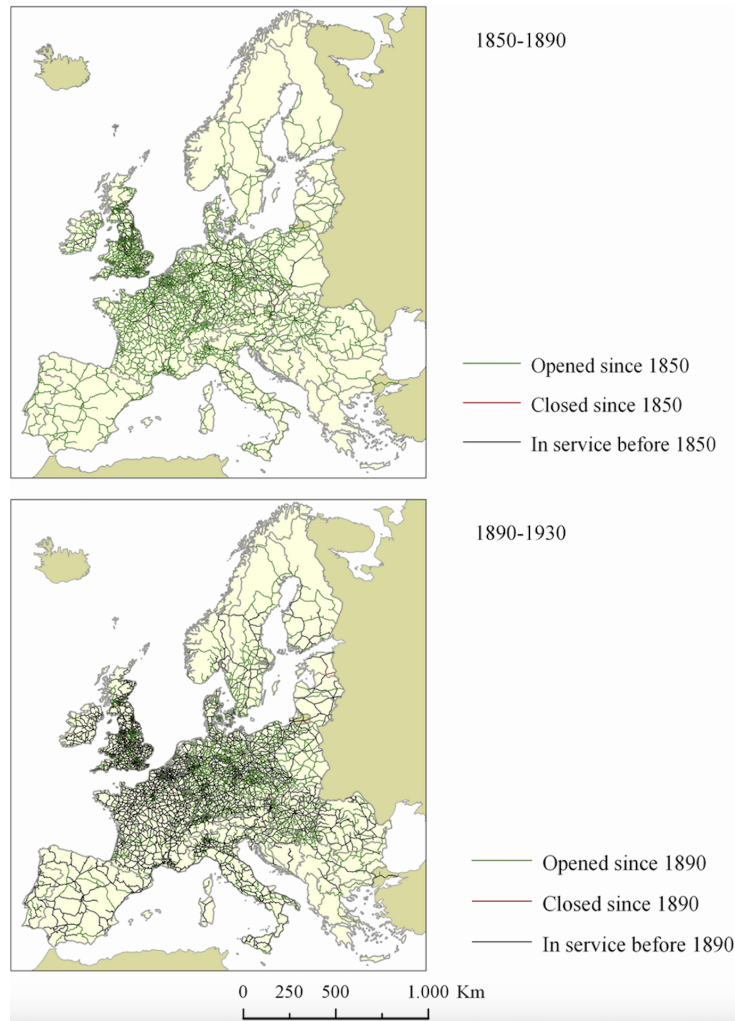


Figure 5: Railroad Density in Comparative Perspective. Source: Morillas-Torné (2012)

of shared sovereignty between monarch and parliament. The monarch was strong enough to guarantee the privileged position of his natural ally, the conservative establishment, but not so much as to mistreat (a rather sanitized version of) the liberal party. Granting the monarchy considerable powers had a fundamental downside. It provided no easy path to accommodate all those left outside the settlement. In the second place, the regime of 1876 was founded upon a collusive system of rent extraction. The old elite maintained a preeminent position in the economy, preserving its substantial landed possessions, and now participating in the corporate boards of new banks as well as the foreign subsidiaries exploiting mining interests, utilities, and railway networks. By way of example, and as shown by LaParra and Paniagua in this volume, over one fourth of political elites had a nobility title as late as 1921. The political class built up a patronage system that operated based on clientelistic buy-outs and outright electoral fraud. Modernizing the country in response to the demands of a growing Basque and Catalan middle class or simply to take advantage of the industrial revolution going on in Europe was out the question. As examined by Beramendi and Queralt, several attempts at passing modernizing but hardly progressive fiscal reforms foundered repeatedly at the hands of the parliamentary oligarchy of the Restauración.

At the same time, the type of industrial development in place generated considerable social strife between business owners and their employees. Urban workers organized into broad trade unions. In the Spanish South, rural laborers, working under conditions akin to servitude, embraced anarchism. National minorities launched the first modern parties to challenge the pervasive electoral apathy and fraud that underlined the settlement of 1876. Central elites were taken aback by an activation of national minorities they perceived as both challenging their power and questioning what they thought was a shared identity that could 'save' a failing country. This all resulted in a cycle of increasing (and multidimensional) polarization and a recurrent failure by existing institutions to incorporate new demands. With the entry of an increasing number of actors over time, the level of violence and/or repression escalated in intensity. The country swung between recurrent bouts of explicit

inter-factional violence and the imposition, also sustained by force, of one party or action over the others.

1.2.2 A Critical Historical Juncture: 1920s-1940s

This spiral of often violent polarization conditioned the way Spain responded to the critical juncture of World War I. As in other European countries, the growing political agitation of urban areas finally burst into widespread social strife and a generalized institutional crisis at the end of World War I. However, Spain's response diverged significantly from its northern neighbors. Most northwestern European countries embraced full representative democracy, invested heavily in education, established the rudiments of a welfare state, and welcomed, and in some instances actively fostered, the cooperation between business and labor unions. In Spain, by contrast, a military coup in 1923 put an end to almost fifty years of semi-pluralistic institutions. While the Primo de Rivera dictatorship engaged in efforts to expand public infrastructures and control key energy resources, it was unable to overcome the veto implicit to the complex web of oligarchical interests that supported it in the first place. Eventually, its failure led to a series of institutional conflicts and to the growing popularity of republican forces, who secured a majority in the local elections of 1931 forcing the King to exile.

The Republic combined an ambitious reformist zeal with constant, often violent, conflict against both reactionary forces that never accepted the new regime and revolutionary forces that saw it as an intermediate step towards either a different model of society, a different country, or both. When the push for advanced social and territorial reform secured a marginal electoral victory in February 1936, the Right, the military and the Catholic church (with the exception, at least initially, of the Basque and Catalan clergy) coalesced around a coup against the Republic. What was supposed to reproduce the clean coups or "pronunciamentos" of the nineteenth century eventually developed into a three-year-long devastating civil war. The war, in turn, ushered a dictatorship that would last for almost four decades. Unlike

Germany and Italy, liberated by the Allies, the Franco regime (like the Salazar dictatorship in Portugal) survived the defeat of the Axis unscathed. Needless to say, all policy attempts to advance democracy, modernize education, increase state capacity and diversify the economy came to a halt, setting the country in a distinctive and opposite path relative to its European counterparts.

Franco's regime applied the same reactive pattern essayed by the Spanish political establishment in the response to the generalized social and political conflicts of 1917-23. It did, however, with a previously unseen ferocious intensity, repressing labor and national minorities systematically. Under the influence of Italy's fascism and haunted by the defeat at the hands of a liberal democracy in 1898, it turned toward economic autarky, a large expansion of publicly participated industries in core sectors, a labor-intensive growth strategy concentrated in sectors with very limited human capital and very low productivity, and a rigid regulatory framework in housing markets and in the hiring and firing workers. Yet, more fundamentally, it eschewed all the policies that would prove to be the pillars of modern growth in the advanced world: a state operating under the rule of law and fostering an educated labor force. As a matter of fact, enrollment in primary education (as a proportion of the population in schooling age) actually fell during the first two decades after the war. In the late 1950s, it was still below 70 percent. Public spending on education in Spain was less than a quarter of the spending levels in top industrialized countries in 1960 and still less than half in 1980. These choices would prove to be extremely consequential in the long run.

1.2.3 Partial Correction

Unsurprisingly, the regime's policy and economic blunder was phenomenal and by the late 1950s, assisted by the United States, Franco reverted himself and supported a modest program of economic liberalization. Despite its limitations, the regime's economic u-turn, propelled by the golden age of capitalism in the United States and Europe, made it possible for Spain to escape from the authoritarian trap that besets poor countries. Growing wages and

massive internal (and external) migratory flows reduced poverty among industrial workers and, particularly, agricultural laborers. Industrial development deflated the relative value of agricultural assets among Spanish landholders (and with that, their stark opposition to universal suffrage).

Economic growth also reduced stark interterritorial differences that had been propelled by a geographically circumscribed process of industrialization. In 1900, the level of interterritorial inequality (calculated as the Gini of regional per capita incomes) was higher in Spain than in western Europe. In 1920, the Catalan per capita income stood at around \$4,441, twice the Spanish average and almost identical to the British one. By contrast, Andalusia's per capita income remained unchanged well into the 1950s. A similar fate of zero real growth characterized all the southern and western areas of Spain until the 1960s. During the period of faster economic growth that followed, all regions grew in sync with the Spanish economy, and interregional differences fell moderately. By 1980s, Spain's interregional inequality had halved from its level at the beginning of the century.

The increase in per capita income and the reduction in the level of regional polarization rendered democracy more feasible and more sustainable. Before the constitutional pact of 1978, democratic spells (understood as periods with fair and free elections and, at a minimum, male universal suffrage) were brief and far apart from each: in 1868-1874 and 1931-36. Their collapse is no mystery to the literature on democratization. The democratic success of 1978 is not an enigma either. All those events had little to do with the journalistic claim (supported in some academic quarters) that Spanish elites failed to negotiate a democratic compromise for over 150 years but that, having learned the lesson the hard way (a bloody civil war and a tortuous dictatorship), they succeeded in the 1970s. Civil peace collapsed in the 1930s (became "impossible" in the words of Gil Robles, one of the leaders of the Right at the time) under the weight of poverty, economic inequality and political polarization. It then became feasible in the 1970s because the structure of the economy and society changed in a way to align the incentives of all (or most) parties to substitute ballots for bullets to select the

government. In many ways, the transition and consolidation of democracy was somewhat “overdetermined” in 1978 for economic and sociological reasons.⁶ Cultural modernization, including Vatican II and the decision of the Catholic Church to accept the principles of liberalism in the public square, also helped.

1.2.4 The Shadow of the Past and the Constitutional Deal of 1978

The political elites of the time (from the king and his ministers to the democratic opposition) were simply democracy’s midwives – and not its gestating parents as they themselves claim. Still, they played a fundamental role by both determining the scope and nature of the democratic transition and designing the current constitution.

After the death of Franco, Spain’s political elites deliberately avoided following Portugal’s model of a clean break with the dictatorship – a model later implemented, in various ways, in several Latin American and Eastern European countries. The Suárez government decided to move the country in an “orderly” way “de la ley a la ley”, that is, from the Francoist legality to democratic law. Concerned about a potential intervention of the army and the role of Spain’s top bureaucracy, the Left, which had initially called for a “ruptura democrática”, quickly acquiesced to a process of “reforma”. The outcome was an all-encompassing amnesty, approved under the watch of the military, that left all past crimes committed by the Franco regime unprosecuted and unpunished. Relatedly, there was no attempt at democratizing several key top state institutions, from the army to the judiciary, decisions that particularly in the latter case carries a strong imprint on the working of Spanish democracy through today.

At the time of the democratic transition, there were three main political actors, all of them the children of the central cleavages that had structured Spanish life for the last century: the Right, the Left, and national minorities. Although the intergenerational and geographical

⁶Well-trodden econometric models show that the probability of democratic breakdowns is inversely correlated with the level of economic development (cf. among many (Boix, 2003; Przeworski, 2000; Treisman, 2023) After Franco’s death, the probability that Spain would transit to democracy in the following five years was close to 100 percent. The likelihood that, once established, democracy would collapse in any given years was below [2%] percent] (Beramendi et al., 2023)

continuities of the three blocs were striking (Maravall, 1984), their ideological commitments were different from the last time, back in 1936, when they had clashed in a free election too. Economic modernization and the liberalization of social mores had tempered the Right. The Left had mellowed too. Anarchism had disappeared, wiped out by the Franco regime, and the old revolutionary socialism of the 1930s had given way to a social democratic program of sorts. The Basque and Catalan parties had to contend now with a mass of migrants that had moved North in the 1950s and 1950s and that voted for the Spanish Left.

To establish a system that would meet (part of) their partisan demands and that, more fundamentally, ensured that they would not exploit each other, the fathers of the constitution structured the latter around a system of “biased representation” and moderately strong supermajorities. In fact, most of those features were already in place in the political reform approved by the Suárez government to elect the parliament that negotiate the constitutional text. To choose the legislature, they malapportioned the two legislative chambers in favor of rural districts (to favor the Right without crushing the Left) and ratified a system of variable district magnitude (to include regional parties). They established a supermajoritarian system to control judicial appointments requiring the agreement of the two main Spanish parties (while leaving national minorities unprotected). Finally, to maximize political stability, seen as the Achilles heel of Spanish politics, they gave a prominent position to the executive (through the German-invented constructive confidence vote) and reinforced the electoral advantage of the constitutional parties (through a system of closed lists and the allocation of campaign funding and media access based on previous electoral performance).

In the search for stability and interparty guarantees, that particular constitutional agreement reinforced the transitional pact that had failed to get rid of any Francoist elites. Political and economic power would remain rather concentrated, with strong connections between the country’s largest companies and regulatory bodies. That concentration (and its symbiotic relationship to the state) would extend to one of the key actors necessary to hold policy-makers accountable to the public: the media, shaping the quality of the public discourse and

the scope of democratic accountability.

The constitutional bargain was consequential as well in the realm of territorial politics. As discussed by Amat and Balcells, the Catalan and Basque minorities and the Spanish national majority held rather conflicting positions on how to accommodate the rights of the former. Whereas over two thirds of Basques and Catalans want more devolution, only one in six Spaniards do. The new constitution did not extend to regional minorities the kind of strong guarantees enjoyed by both the Spanish Left and Right. Instead, the settlement of 1977-1978 managed the territorial problem in two ways. First, it excluded the most radical actors in the periphery from the agreement. Second, it equivocated in the definition and distribution of power of the so-called “state of the autonomies” in the constitution of 1978. The Basque and Catalan minorities lobbied the Spanish parliament both to recognize Spain as a state with several national communities coexisting as equals and to draw a highly federalized distribution of powers. The Right, backed by an unreformed bureaucratic and military elite, resisted any deviation from a strictly unitary organization of the state. In an exercise of calculate ambiguity, the new constitution referred to autonomous communities as “regions and nationalities” while reserving the title of “Nation” for Spain (article 2). Likewise, the distribution of political and administrative powers was left widely open, essentially subjecting it to a continuous (and exhausting) negotiation between the center and the future regional governments. That faulty constitutional design (particularly from the point of view of national minorities) was attenuated by the initial weakness of the hard (pro-unitary) Right in parliament and by the structure of the electoral coalition of the Left during the first decade or so after the transition. Yet, as the process of formal decentralization was completed and the dynamic of political competition in Catalonia and the Basque Country led to increasing demands for resources, recognition and autonomy, the initial patch begun to break down, leaving a legacy that erupted in 2017.

Democracy in Spain begun right in the midst of the oil crisis. An energy dependent economy, with a relatively unskilled labor force and an economic structure heavily driven

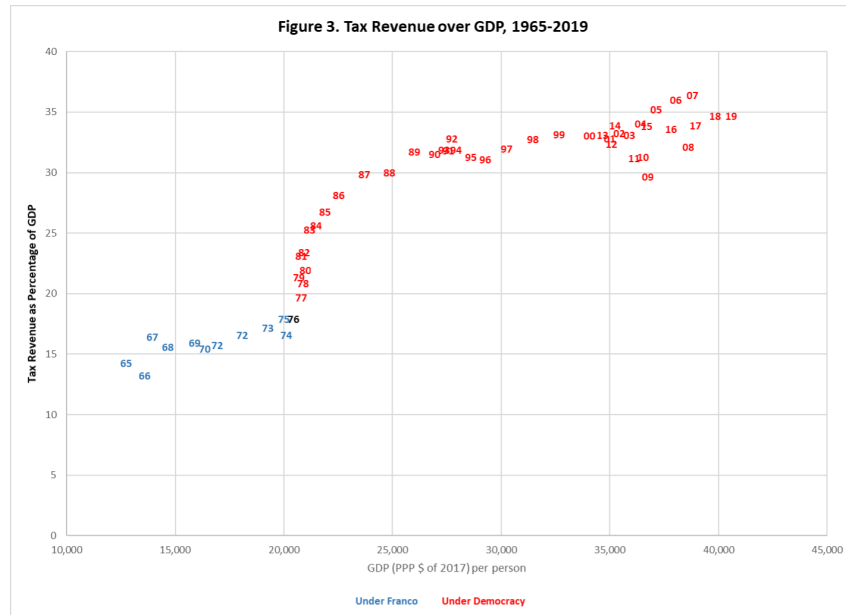


Figure 6: Tax revenue as a share of GDP, 1965-2019

by public enterprises (mostly monopolies and oligopolies), a core of well protected workers, a large informal economy and a relatively weak fiscal state, the new democracy was forced to navigate successive crises under rather challenging conditions. The Pactos de la Moncloa (1977) sought to coordinate demands by unions, business organizations, and political parties across the political spectrum to prevent dire economic and labor market conditions from derailing the transition. In addition to guaranteeing a new set of civic and political rights and eliminating core elements of the dictatorship, the Pactos removed price controls; limited public spending; sought an increase in fiscal capacity (fiscal reform); introduced a new model of business-unions relationships in which salaries were adjusted upwards to cope with projected (as opposed to actual) inflation; proposed a reform of social security, with expanded unemployment benefits; and, critically, introduced more flexible labor arrangements between workers and firms, allowing for instance for part-time contracts. In other words, the Pactos planted the seeds of dualization in the labor market.

Spain's limited fiscal capacity constrained significantly the government's degrees of freedom. Figure 6 plots tax revenues over GDP and per capita income (in PPP \$ of 2017) in Spain from 1965 to 2019. Tax revenues were low under Franco. They jumped quickly with

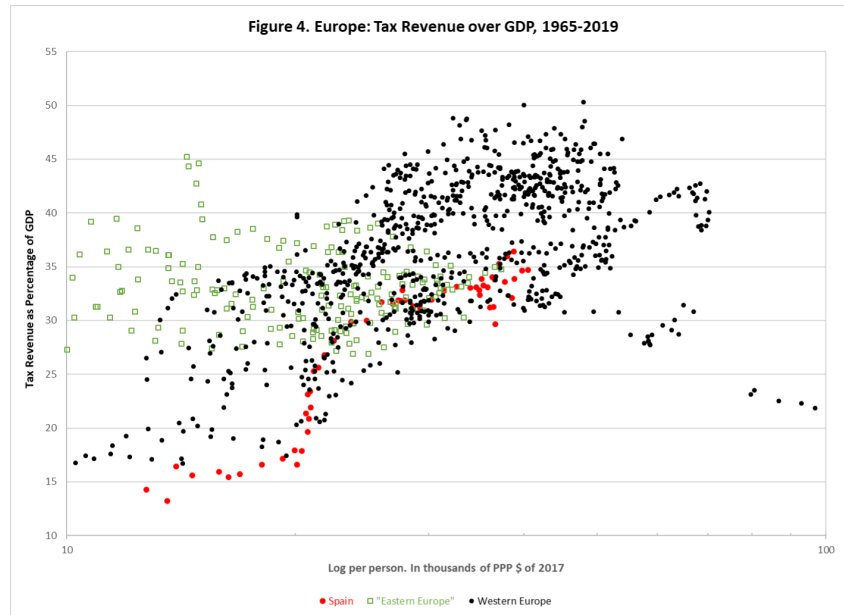


Figure 7: European Tax Revenue over GDP, 1965-2019

the democratic transition (while economic growth was minimal), stabilizing around 33-35 percent of GDP. Figure 7 compares the evolution of the Spanish fiscal state by reproducing the same data for western and eastern European countries over the same period of time for the former and for the period after the collapse of communism for the latter. Spain's tax revenue was at the bottom of all Europe until Franco's death. Even after the transition to democracy, it has remained on the low side: a simple linear regression employing the data from western European countries indicates that, since the full consolidation of democracy in the mid to late 1980s, Spain's tax revenues as a proportion of GDP has been about 4 percentage points below what we would expect given its level of development.

1.2.5 The Shock of Globalization

At the same time that the public purse stumbled forward in its effort to converge with Europe, successive governments had to confront a recurrent series of economic downturns (mid to late 1980s, early 1990s, late 2000s). Given the structure of the labor market, both socialist and conservative forces relied heavily on a series of labor market reforms that introduced further

differentiation between a core of protected insiders and a growing mass of less protected “outsiders”, i.e, workers with far less stable working conditions doomed to navigate between unemployment, social benefits and informal jobs in economic downturns and access to low skill service jobs during good times (mostly in construction, tourism, and other low skilled service industries). This was the case of the reforms of 1986 (introduced by the Socialist Party), 1996 (under the Aznar government), and, more recently, under Rajoy – who reduced labor market protections to a minimum. Absent fiscal resources to navigate downturns, the economy, when needed, routinely adjusts on the quantity of labor through a pool of low pay-low stability workers. Given this institutional context, it is hardly surprising that in the last five decades, Spain’s short-term performance has been disappointing. Business cycles had been substantially more volatile and labor markets much worse than most other European countries. The unemployment rate climbed up to 19 percent in the mid-1980s, again to almost 22 percent in the mid-1990s, and to about 25 percent in 2013. Even in expansionary times, unemployment has remained high, particularly among young cohorts. ⁷

Along with labor market reforms and partial efforts to expand social security and revenue collection, Spain’s economic policy has been defined by two other features since the mid 1980s. The first revolves around the expansion in public services led by the Socialist Party, particularly in education and health, and their devolution to regional government at the same time they were expanded. Even though their implementation was somewhat uneven, by and large they have had a significant impact in narrowing the gap between Spanish public services and those in other advanced democracies. ⁸

The second one consists in a relatively strong reliance on economic demand policies – a fact directly tied to Spain’s model of growth and production. Since the early 1990s advanced European political economies launched a conscious “social investment” effort to upgrade the

⁷Only very recently, after the most recent labor market reform (2021) took for the first time steps to reduce the precarious nature of employment, we are beginning to see a reduction in the structural inefficiencies of the labor market, albeit from very high levels.

⁸These areas are the object of a standard ideological competition between the left, more in favor of publicly funded nearly universal models, and the right, more supportive of private and semi-private approaches.

skills of a labor force facing yet another and more intense cycle of skill-biased technological change. Sustaining such an effort while keeping in place large and generous social insurance systems required massive resources. For states with low to medium fiscal capacity, like Spain, such a strategy was not an option. Policy-makers fostered, instead, Spain's comparative "advantage" of sorts: a large pool of low skill, low cost labor. That, in turn, made expansionary aggregate demand policy a key tool, at least from an electoral point of view, to sustain and even pump up all those sectors, such as construction, particularly intense in those factors. After joining the euro, demand policies were constrained by Franco-German decision-makers. Still, in periods of loose macroeconomic policies, Spain could expand its economy to the point of overheating it. Over time, that expansion would turn catastrophic – by leading to a severe misallocation of human and fiscal resources and by resulting in dramatic bouts of unemployment.

In response to Germany's pressures to cope with the cost of Reunification, the price of money remained artificially low for much of the 1990s. South European governments seized the opportunity and launched an expansion of borrowing and construction. Spain was no exception. Because of the specific nature of links between banks and political elites, saving societies turned into regional banks leveraging in the hope of a never ending expansion of the business cycle. Legislative reform increased the amount of land across municipalities. A perfect combination of expansion in construction and tourism, corruption and illegal campaign funding as compensation for licenses and concessions, collusion between party and finance elites and a myopic lust for easy gains at the micro level sustained a mirage of sorts, a major economic boom where public revenues increased through the expansion of the base, unemployment fell, and immigration increased exponentially. Expectations led everyone, including the socialist government between 2004 and 2008, to believe that convergence with Germany was within reach.

The illusion had short legs. The collapse of Lehman Brothers soon exposed the underlying weaknesses of the dominant growth strategy. All macro magnitudes reversed quickly and

Spain quickly reached record levels of debt, unemployment, long term unemployment and financial exposure. Europe intervened and the government imposed an internal devaluation that reduced welfare standards, undercut investments and further curtailed the opportunities for the younger generations. Indeed, in terms of catching up to the technology frontier, Spain had taken a step backwards: the allure of money had undermined further investments in human capital formation, both at the micro and the macro levels. Spain was once again very poorly equipped to face the new technological revolution led by IT.

To summarize, the net result of this peculiar politico-economic trajectory is a strange mix of medium to high quality quasi-universal public services, comparable to those at work in other advanced European democracies, and a fiscal and social security design heavily attached to a labor market closer to Latin American economies than to central European ones. This combination continues to shape Spain's ability to meet the need to adapt to a rapidly changing world and the nature of the challenges themselves, both economic and political.

1.3 Legacies and Challenges

The legacy of divergence, combined with partial efforts to catch up during specific periods, has rendered Spain less capable to adjusting to major technological and economic changes in technology that, by disrupt existing patterns of production, are affecting at least three main spheres of social and economic life: demography and fertility, human capital and productivity in the face of technological change, and the territorial skew in dependency.

As Spain navigated its way into democracy in the 1970s and 1980s, it faced, like the rest of north Atlantic economies, a process of deindustrialization that mainly affected low-value-added manufacturing sectors. That new economic and social critical juncture resulted from two main developments. First, a new wave of technological change spurred by the diffusion of IT. Second, the rise of economies, such as China, offering a massive supply of a cheap and

acquiescent labor force.

Responding successfully to those challenges required jumping ahead in the production chain by redeploying a well-educated workforce in high-productivity sectors. Ireland in Europe and Korea and Taiwan in Asia, which had overinvested in elementary and secondary education over the twentieth century, followed that path. Spain could not and indeed did not. In 1980, it was the second worst performing country in average years of schooling among countries with similar levels of development (Domènech and Herranz, this volume). A 2018 survey conducted by the Program for the International Assessment of Adult Competencies (PIAAC), which examines the level of proficiency in literacy and numeracy among adults in over 40 countries, puts Spain at the bottom in numeracy skills and the second lowest in literacy skills among 26 high-income countries (in Europe, North America and the Pacific). Two additional features inherited from the Franco economic framework hindered also the high-value-added path. A rather rigid labor market favored poorly educated insiders over (more highly educated) new entrants. A class of entrepreneurs who had been sheltered from international competition for several decades reacted awkwardly to the opening of the Spanish economy. Unable to pursue a high-value-added industrial strategy, Spain doubled down on low-productivity sectors – mainly, tourism and construction. Catching up with the roaring Irish tiger was out of the question. In 1975, the Irish and Spanish per capita incomes were \$11,662 and \$12,621 (in PPP \$ of 2011) respectively (Maddison data). In 2018, they stood at \$64,684 and \$31,496. Spain's growth seemed to depend, at the end of the day, on the evolution of its neighbors' economies. The European Union and its population's demands for services such as tourism acted as a rising tide lifting the Spanish boat along the way. As a result, even though Spain had become prosperous, it was never able to pull itself closer to its richer neighbors.

The passive adjustment of the Spanish economy to the global economy came with considerable costs: a low-wage economy, a volatile business cycle, long spells of high unemployment, and substantial economic inequality. [EXPAND WITH SOME DATA.] It also contributed

to an increasingly dismal demographic performance. As discussed in the Adserà and Lozano chapter, fertility rates dropped quickly starting in the 1980s to reach some of the lowest levels in the world in the early 1990s. The modernization of cultural practices, including delayed partnership formation and decreased religiosity, explain part of that fall. Still, the desired fertility expressed by potential parents in repeated surveys almost doubles the rate of actual fertility. That gap between wanted and realized fertility derives from uncertain economic conditions, family-unfriendly labor market institutions, and badly designed public policies. Spain's demographic decline, combined with a very high life expectancy, has thinned of the basis of its demographic pyramid, threatening, in turn, the sustainability of multiple welfare policies.⁹

The management of territorial tensions continues to be a major issue for the quality of democracy in Spain. The regime of 1978 overcame part of the tragic history of Spain. Even then, its internal architecture was at the root of the constitutional crisis of 2017, when pro-self-determination parties in Catalonia organized a referendum deemed illegal by the central government. Throughout most of the twentieth century, the Spanish Left and nationalist minorities became 'natural' allies in their opposition to the Right. They formed an official coalition for the first time in 1906 in Catalonia through 'Solidaritat Catalana'. They cooperated again in the *Asamblea de Parlamentarios* that met in Barcelona in 1917. Their alliance came to full fruition with the *Pacto de San Sebastián* and the Republican victory of 1931. That cooperation lost steam after the structure of interterritorial transfers established in the 1980s (and consisting of a stable flow of transfers from Balearic, Catalan and Valencian territories to southern and western Spanish regions) made their incentives more aligned with each other. Still, because the PSOE needed a substantial number of Catalan votes to govern in Madrid, it still had an incentive to care about some of the demands of the national minorities. However, as the interests of different regions (and their corresponding

⁹The expansion and modernization of welfare programs and labor markets has benefited in recent times from the availability of credit associated with the stimulus packages responding to the COVID pandemic. It is too early to tell if these reforms will succeed in reverting inequalities and overcoming the biases in the current system against the opportunities of the new generations.

Socialist voters) grew apart, the old alliance between the Spanish Left and national periphery constituencies unraveled. Absent any kind of strong constitutional guarantees for the promises made to national minorities back in 1978, the old conflict between the center and the periphery re-erupted, resulting in the Catalan crisis that unfolded after 2010.

The Catalan crisis had a consequential side effect. It opened up the room for the institutional reconfiguration of the constitutional settlement. In response to their growing frustration with a limited autonomy, several Catalan parties reenacted the historical coalition with the Spanish Left to achieve a more expansive autonomy in the mid-2000s. Following the procedures established in the constitution, the new autonomy law was approved by the Catalan parliament, passed (after being subjected to substantial amendments) by the Spanish legislature, and ratified by Catalan voters in a referendum. The Spanish Right challenged the law before the Constitutional Court (CC). The latter could have accepted the law's constitutionality on purely 'procedural' grounds: its passage had strictly followed the mechanisms specifically established by the Constitution – again, a double vote by the two sovereign legislative bodies (and a popular referendum). Instead, it decided to become the final interpreter of the constitutionality of the law, entering into its content and its putative lack of accordance agreement with the text of 1978. In other words, the CC took advantage of the conflict between Catalan and statewide parties to assert its primacy over the rest of all the other branches. Paradoxically, the decision of the Constitutional Court exacerbated the faulty design of the constitution. Because CC nominations require the support of three fifths of legislators, the sum of the representatives of regional parties and either the Spanish Left or Right is insufficient to appoint Court magistrates.¹⁰ Only an agreement between the latter two political blocs fulfills the constitutional supermajority rule. Accordingly, with the CC now taking upon itself the task of guarding national sovereignty, national minorities have lost the tool that in principle could restrain the appetite of the national majority. This bodes

¹⁰To be precise, eight out of its twelve members are chosen by a majority of three fifths by the Spanish Cortes, two by the Spanish government, and two by the General Council of the Judicial Power. The latter is, in turn, chosen by a three fifth majority in the Cortes.

badly for human rights and for democracy in Spain – at least for a liberal interpretation of democracy.

The idea that the rule of law is a political weapon against political rivals doomed illegitimate extends as well to other core institutions in a democracy: the legislature and the media. Spain is a rare parliamentary system in which some political parties deem coalitions with peripheral forces as insidious attacks on the nation itself. This projects a deeply rooted sense of patrimonialism over the state itself in important sectors of the political spectrum and limits the adaptability of important players to more complex scenarios. Under conditions of growing ideological polarization, control of the media has become a primary objective of all political blocs. This feeds into the quality of public discourse and exacerbates the deleterious effect of polarization on the functioning of democracy. Facts matter less and less in a political dynamic in which controlling the content and flow of information becomes a priority at the cost of voters' ability to be truly responsible. In the concluding chapter of this volume we shall revisit the key politico-economic challenges in Spain and discuss existing proposals to overcome them.

2 Methodology and Structure of the Book

Puzzled by the nature of Spain's modernization, and particularly by its limitations, we persuaded over a dozen of top specialists in the political economy of Spain to write original papers discussing three main topics: the economic performance of the country; the structure and workings of its constitutional architecture; and the interface between politics and civil society. We then convened two workshops, in June of 2021 and April of 2022, to share and debate all their contributions. This book is the final product of this intellectual adventure. We close this overview with an outline of the organization of the book and the content of the different chapters.

The first part of the book centers around the long run foundations of Spain's economic

and political development. It includes four chapters. In “Gerschenkron in the Peninsula”, Carles Boix suggests that it may be misleading to examine Spain’s economic transformation as a linear process taking place along a uniform development path common to all countries. Instead, it may be more fruitful to consider it as the juxtaposition of different modes of industrialization, which having different institutional and political roots, resulted in very different regional outcomes and an idiosyncratic political trajectory at the country level. In “Industrialization and Labor Quality,” Jordi Domènech and Alfonso Herranz explore the historical causes of the mediocre performance of the Spanish economy in the last decades. They trace its high unemployment rate and its incapacity to generate high-value-added economic sectors back to a set of choices – labor repression and minimal human capital investment – made by the Spanish state in the middle decades of the twentieth century. Focusing more specifically on fiscal capacity as a key driver of political modernity, Pablo Beramendi and Dídac Queralt uncover a similar story when looking at the construction of state capacity in “Fiscal Underdevelopment”. In the first decades of the twentieth century, the Spanish political and economic oligarchy blocked any modern fiscal reform at a time when most other Western countries had decided to accept a mixed system of democracy and capitalism. In the process, it condemned Spain to a lost half century in terms of economic and political development. Finally, Ignacio Sánchez-Cuenca’s chapter, “Constitutions: Exclusion, Collusion and Inclusion” focuses on the evolution of Spain’s constitutional and political arrangements. Spain’s strained political history derives from a secular incapacity to establish constitutional arrangements that included and guaranteed the representation of all the political and social actors that mobilized over time, from the liberals in the early nineteenth-century to national minorities and socialists at the turn of the twentieth century. By contrast, the constitution of 1978 was able to provide the most inclusive political arrangement of the last two centuries – arguably, because the economic and social modernization experienced by Spaniards in the second half of the twentieth century had lessened the distributive and religious conflicts of the past. That inclusiveness was at the root of the political stability enjoyed by Spain for

the last decades. Nevertheless, it came at a price. The decision to avoid any sharp break with the preceding authoritarian regime (and its governing elite), that is, to follow a path of “ruptura democrática”, implied maintaining institutions and political practices that, in due time, harmed Spain’s democratic performance.

The second part of the book centers around the evolution of political elites. Who holds power is one of the crucial questions of any study on the politics of a country. Two chapters, “Who Governs? Regime Change and the Power of Business, Military and Political Elites in the Spanish 20th Century”, written by Álvaro La Parra-Pérez and Victoria Paniagua, and “Money and Political Influence: The Political Economy of Spanish Banks,” by Guillermo Rosas and Sebastián Lavezzolo, offer a detailed description of the political, economic and financial elites of Spain over the last century. Their composition has changed, partly because of economic development and partly due to the democratic transition. What used to be closed, oligarchical elite – both under the Spanish monarchy and, in an even more extreme way, under Francoism, has given way to more open and fluid networks. Nevertheless, Spanish networks are still tightly integrated – now including the new political class that emerged after 1978. In addition, Joan-Josep Vallbé’s “Judicial Politics and Bureaucracies in Spain” spells out all these contradictions in his analysis of Spain’s judicial branch. Despite its broader reach, the constitutional pact of 1978 failed to heal the territorial tensions that have defined contemporary Spain.

Finally, the third part of the volume puts the most pressing challenges of Spain in comparative and historical perspective. We focus on four. First, the quality of democracy, where the media system and the levels of corruption are endemic problems. In “Media and Democracy,” Pablo Fernández-Vázquez and his collaborators provide us with a tour de force on Spain’s “fourth power” only to conclude that the media are heavily dependent on the government and political actors in general – a state of affairs, they write, that “deviates from the practices of most of our closest neighbors”. Subsequently, Jordi Muñoz and Pilar Sorribas explore political corruption in Spain. Although a constant in Spanish history, its forms

have evolved with the country's political institutions and level of economic development. Clientelism was both the glue that kept the pact of 1876 in place and the cause of its demise when challenged by a growingly exasperated urban bourgeoisie and working class in the Peninsula's peripheries. Rent-seeking and the privileged allocation of economic and industrial licenses were the lifeblood of Franco's statist, overregulated economy. Today, corruption is tied to (and perhaps the cause of) a low-value-added economy that often relies on construction and the expansion of tourist services.

The second challenge we study in detail concerns the differential levels of labor market inefficiencies and inequality in the Spanish economy. In Spain, historically and currently, unemployment and inequality are higher and social mobility is lower than in many of its European counterparts. The roots of this differentials, their spatial gradients and the policy challenges to address them are the themes in the chapter by Pablo Beramendi and Luis Guirola's chapter "Inequality in the Long Run: Roots and Challenges". These processes link directly to a second, critical aspect: the patterns of family formation and fertility. Alícia Adserà and Mariona Lozano invite us to look ahead in their chapter on "The Demographic Cliff". The underperformance of the Spanish economy and, more precisely, of its labor market have intensified a declining trend in fertility rates that may be pushing Spain into a substantial fiscal and welfare state crisis a few years from now.

Finally, we turn to the institutional integration of minorities and the problem of territorial stability. In Cesc Amat and Laia Balcells' "Territorial Conflict in Spain: Individual Preferences and Institutions", the preferences of Spaniards over the recognition of national minority rights remain very polarized. The constitution, whose internal institutional design reinforces the position of the Spanish-speaking majority in all the branches of government, cannot guarantee those rights, necessarily generating substantial political frictions (and recurrent bouts of constitutional crises).

The volume closes with a chapter by the editors. We distill the main lessons from the analyses and discuss, in a more speculative mode, a number of proposal to untie the twisted

knot of Spain's political and economic modernization.

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