

Equity and development in the Spanish transition to democracy

In the last half century, Spain has gone from authoritarianism and underdevelopment to democracy and wealth. Spain's history illustrates how the distribution of political agency and economic assets greatly influences the policy choices available to a society. The fundamentals of economic and political structure influence and constrain the choices. But the process is not deterministic: political agency and policies can shift the underlying fundamentals (as happened in Spain in the 1960s and 1970s) and open the space for new choices.

Before the civil war: social and economic polarization

Until the second half of the twentieth century, Spanish contemporary history was a tale of political and economic failure. After a period of territorial expansion and European hegemony in the early modern ages, Spain lapsed into economic decline and cultural stagnation in the following centuries. During most of the nineteenth century, its industrial takeoff was blocked by political instability, inefficient legal institutions, substantial inequalities, and a poorly educated population. In 1929, per capita income was \$3,000 (in 1990 dollars)—two-fifths that of Britain and less than two-thirds that of France.

Spain was polarized by entrenched social and economic inequalities. In a country still eminently agrarian, the distribution of land was very unequal. About 1 percent of the holdings occupied 50 percent of the land. Educational attainment remained low, strictly linked to circumstances of birth. Social mobility was almost nonexistent. Except for Catalonia and the Basque country, which industrialized in the nineteenth century, Spain lacked a large middle class.

Against this backdrop of relative stagnation and high inequality, democratic institutions were introduced in 1931—only the second time in Spanish history. They did not last long. The brief democratic period (1931–36) was characterized by huge political instability and social agitation. The first Republican government pushed ahead with a strong reformist program: separation of church and state; a single system of state schools and a goal to universalize education; a process of land reform; a law to decentralize political power to Catalonia; and stepped up efforts to reform the army.

These reforms elicited a strong reaction from the right, which came to power in 1933 and quickly moved to halt them. Two and a half years later, in the spring of 1936,

new elections were held, with a victory for the left. The threat of more radical policies prompted a military uprising, supported by the landed classes, much of the bourgeoisie, and the church. Spain became engulfed in a three-year civil war. The social polarization locked Spain into a zero-sum game over the distribution of wealth. There was little political space for compromise or reformist solutions. The “haves” opposed all attempts at even minimalist reform. The “have-nots” wanted radical change, not gradual reform.

The Franco regime: from autarky to growth

With the defeat of the Republican government by the Nationalist army in 1939, Generalissimo Francisco Franco established an authoritarian regime that lasted until his death in 1975. The destruction caused by the civil war depressed the Spanish economy. Per capita income fell to its 1900 level and did not reach its 1918 level until 1950. The proportion of the active population in industry declined to 22 percent in 1940 (the level in 1920) and the share of employed in agriculture rose above 50 percent. Growth averaged only 1.2 percent a year in the 1940s.

Spain's economic recovery was hampered, above all, by the autarkic and statist policies of the Franco regime. Inspired by the corporatist ideologies of Italian Fascism and German Nazism, Franco's regime generalized a system of price controls and rationing and regulated foreign trade through quantitative controls. This interventionist strategy extended to the labor and housing market. To quell one of the main forces that opposed the military insurrection, Franco outlawed any independent labor unions. Instead, workers and employers had to affiliate in a national trade union organization. This repressive stance was “compensated” by strict labor legislation that made it hard for employers to dismiss workers or to hire them through temporary

contracts. Emphasis on permanent jobs and cheap housing was seen as a substitute for the lack of direct social policies, an attempt by the regime to win legitimacy.

In the late 1950s, Spain eventually moved to break with this interventionist system. An acute political crisis—associated with a wave of strikes, an economic recession, and severe balance-of-payment crisis—led the government to adopt a stabilization plan in March 1959. In addition to fiscal and monetary restraint, the plan included wide-ranging measures to liberalize the economy. It was an outright success. From 1960 to the outbreak of the first oil crisis, output expanded at an average annual rate of more than 7 percent with very little interyear volatility. Per capita income almost tripled from about \$3,000 (in 1990 dollars) to \$8,500 in 15 years. Productivity growth averaged 6 percent.

The transformation of the Spanish economy led to significant structural changes in Spanish society. The combination of economic growth, industrial expansion and internal migration produced a substantial decline in the levels of interregional inequality (from a standard deviation in per capita income of 0.37 in 1955 to 0.27 in 1973). Interhousehold inequality also declined considerably: the Gini coefficient for wages and salaries of employees (agrarian and industrial) declined from 0.29 in 1964 to 0.23 in 1973; the Gini coefficient for household income fell from 0.39 in 1964 to 0.36 in 1974. The income share of the three central deciles went up from about 51 percent to 59 percent in that decade.

Still, significant social and economic inequities remained. Although the illiteracy rate had fallen to 10 percent by 1970, only 6 percent of the population had completed secondary studies. Wages remained dampened by repressive labor institutions. Taxation and public spending were low, and redistributive social programs nonexistent.

Transitioning to democracy and building the welfare state

Following Franco's death in 1975, King Juan Carlos became the Spanish head of state. He immediately launched a process of political change. Employing the legal mechanisms put in place by the very technocratic generation that had reformed the economy in the early 1960s, as well as pointing to wide popular support for democracy, he secured the consent of the old Francoist *Cortes* to establish a truly democratic parliament elected through direct, competitive elections.

The political reform was ratified with overwhelming popular support in a referendum in December 1976. Although conducted in a climate of uncertainty, particularly over the reaction of the army and the extent to which terrorist violence or labor mobilization could disrupt the negotiations, democratic elections were held in June 1977. After protracted negotiations, a new constitution was approved in 1978 with the support of all parliamentary groups. To reinforce the political pact in parliament, the government also struck a wide economic and social deal with employers and trade unions that same year.

Spain's democratization was rooted in the new economic and social conditions of

the 1960s and 1970s. Rapid industrialization and urbanization deflated past conflicts around the distribution of land. The expansion of literacy and the increase in productivity and incomes generated a large middle class. Sustained growth defused social conflict with the credible promise of higher incomes and more social mobility. In short, Spain had overcome the zero-sum game it had been locked in for the past century and a half.

Economic growth resulted in a different economic structure and better distributional outcomes, supporting a swift and successful transition to democracy. In turn, the transition to democracy changed the role and size of the public sector.

Democratization reinforced social demands for progressive and redistributive policies—especially for public infrastructure, and education, health, and social programs. In 1979 more than 70 percent of Spaniards agreed with the statement that “the distribution of wealth in this country is totally unjust.” In 10 years, social expenditure almost doubled to reach 80 percent of the European average. Public expenditure in education steadily increased from 2 percent of GDP in 1975 to 4.5 percent in 1995. By 2001 almost 50 percent of the population had completed

secondary education—10 times more than in the mid-1970s. An ambitious public investment program tripled the public highway network, revamped and expanded metropolitan transportation, and modernized the railroad system.

Spain's transition to democracy and the resulting expansion of its welfare state shows how a mutually reinforcing package of policy and institutional choices leading to greater equity helped underpin the development and modernization of the Spanish economy and its integration into the European Union. It illustrates how political and economic structures shape the possibilities for policy choice, a theme of chapter 6. But it also illustrates that specific policy choices matter—across social sectors, infrastructure, the workings of markets, and international integration—and that there can be important complementarities for both equity and dynamic growth, notably between greater social provisioning and greater reliance on markets. This takes us to the issue of practical policy design, the central theme of part III of this report.

Sources: Synthesized from Boix (2005), with references to Gunther, Montero, and Botella (2004); North and Thomas (1973); and Revenga (1991).