SPAIN: DEVELOPMENT, DEMOCRACY AND EQUITY (*)

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In the last half century Spain has undergone a dramatic and by most counts successful political and economic transformation from relative underdevelopment and authoritarianism to wealth and democracy. In the immediate aftermath of World War II, which resulted in the re-establishment of democracy in Western Europe, Spain remained a culturally and diplomatically isolated country, governed by authoritarian institutions. Moreover, whereas democratic Europe experienced a period of rapid economic growth and growing trade integration, Spain was burdened by the destruction yielded by its civil war fought in the 1930s, the pursuit of autarkic policies and a long history of relative poverty. Following the decision to liberalize its economy in the late 1950s, Spain quickly transformed into a modern manufacturing and service-based economy, experiencing unprecedented levels of prosperity, massive urbanization and a growing middle class. With the death of its dictator in 1975, Spain embarked in a peaceful transition to democracy, the construction of a broad welfare state and its integration in the European Union.

This successful transition to economic and political modernity is particularly relevant, both theoretically and from the viewpoint of policymakers, because Spain stands as one of the few countries that managed to move peacefully from underdevelopment and authoritarianism to democracy and prosperity in the last decades. Most of today's wealthy democracies (concentrated in Europe and North America) were already industrialized and had liberal political regimes by the middle of the twentieth century. With the exception of a few Asian cases and, more recently, some small Eastern European nations, the rest of the world, which was either underdeveloped, undemocratic or both a few decades ago, has still a long way to catch up with the developed West.

To examine the story of Spain's economic and political transitions, this paper is organized as follows. Sections 1 and 2 explore the nature and causes of the economic underdevelopment of Spain since the 19th century as well as the violent collapse of its brief democratic experiment in the early 1930s. Section 3 depicts the Franco regime – particularly its heavily regulated economy in place till the late 1950s, the decision to liberalize it in 1959, and the period of rapid growth that followed. This section includes an exploration of the causes of that economic policy shift arguing that although its exact timing was probably random, its consolidation was not. Section 4 describes the democratic transition that followed the death of Franco in 1975. That section puts special emphasis on the conditions (economic growth and the formation of a broad middle class in the 1960s) that made the advent of democracy possible. Section 5 examines the impact of democratization on the structure of the welfare state in Spain.

Case studies offer a chance to dwell upon the details of the historical development of either a particular country or set of events as well as track the motives and interactions of the agents who took the decisions which shaped the outcomes under study. Under that light, case studies may perform a particularly helpful task in constructing empirical knowledge and testing the logical consistency of our existing theories. Because of their nature, however, case studies are inherently limited in their ability to adjudicate between different theoretical accounts. Researchers can always develop several alternative explanations to fit the events that are narrated. To minimize this problem, this paper follows two strategies. First, taking Spanish history as if it were a time series, it engages in several temporal comparisons. Thus, it examines why democracy failed in the 1930s but succeeded forty years later. It debates what caused the economic policy shift of 1959. And it evaluates the expansion of the Spanish public sector in the

1970s and 1980s by looking at both the factors which remained unchanged and those which did covary with the construction of a modern welfare state. Second, this study makes extensive reference to a broader theoretical literature and to cross-national empirical studies. This emphasis on theory garners particular strength in the concluding section of the paper. There the story of Spain in the 20th century is retold very succinctly in a comparative frame in the following terms. After being trapped in a world of economic failure and political authoritarianism, Spain eventually broke free from its state of relative underdevelopment in the 1960s following the liberalization of its economy. Rapid economic growth dissolved most of the social tensions that had blocked the introduction of democracy in the past. The process of democratization in turn transformed the political economy of Spain even further. A still heavily regulated state gave way to an increasingly liberalized, open economy. In part to respond to the demands unleashed by competitive elections but also as a result of that deregulation, the Spanish state grew in size to perform an important compensatory role similar to any European welfare state. The economic and political transformation was successful and almost complete. Still, as the conclusion points out, two central issues remain unresolved to date – the territorial organization of the state and the performance of the labor market.

1. A Story of Relative Political and Economic Failure

Until the second half of the 20th century Spanish contemporary history was, broadly speaking, a tale of relative 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 (North and Thomas 1973). During most of the 19th

century, its industrial take-off was blocked by considerable political instability, inefficient legal institutions, substantial inequalities and a poorly educated population. The entry of Napoleonic troops and liberal ideas in the early 19th century triggered a protracted and often violent period of confrontation, which included three civil wars, among political elites. For the first three quarters of the 19th century, liberals and conservatives succeeded each other in power through military-led "pronunciamientos". In the early 1870s the monarchy gave way to a brief republican experiment that collapsed amid anarchy and territorial dissensions. Eventually, the two main political factions of conservatives and liberals agreed to restore the monarchy and reconcile their differences in the constitutional settlement of 1876. For the next fifty years, the two parties took turns at governing the country through pre-arranged elections and an extended system of patron-client relations.

[Figure 1 here]

The pacification of the country and the final creation of a relatively stable system of property rights eventually fostered a spur of growth. As shown in Figure 1, the Spanish per capita income doubled from less than $1,400 (in constant $ of 1990) in 1870 to about $3,000 in 1929. Still, that represented only two fifths of the British per capita income and less than two thirds of the French one. Moreover, most of the growth concentrated in Catalonia and the Basque Country, in the North of the Iberian Peninsula. Finally, it only implied moderate change in the sectoral mix of the Spanish economy. Figure 2 reports the sectoral composition of the Spanish economy from 1850 to 1930. Growing at the same pace the economy did, services and construction generated about half of total production throughout the period. Agricultural output roughly doubled in absolute terms but fell from 40 to 27 percent of the economy. The

manufacturing sector, which multiplied by eight, claimed a quarter of total output by 1930. Overall, Spain remained an agricultural country with almost 50 percent of the labor force employed in the primary sector (Nadal 1975, Tortella 1995).[1]

[Figure 2 here]

2. Democratic Transition and Civil War

The loss of the last two main Spanish colonies, Cuba and the Philippines, in 1898, the progressive organization of the trades union movement and the emergence of regionalist parties in Catalonia and the Basque country eroded the constitutional settlement of 1876 during the first two decades of the twentieth century. In sync with the widespread political turmoil affecting Europe after World War I, Spain experienced substantial social unrest and political violence in the early 1920s. To quash it, the monarchy prompted a military coup d'etat by Primo de Rivera in 1923. Seven years later Alphonse XIII dismissed the latter and decided to democratize the country gradually through local elections. However, the victory of the Republican parties in the urban municipalities in April 1931 resulted in the king's abdication and, excluding a brief democratic period in 1868-73, in the introduction of democratic institutions for the first time in Spain.

[1] Although the industrialization of the Basque Country and Catalonia has been well studied (e.g. Nadal 1975, Nadal and Carreras, eds. 1990), theoretical accounts about its take-off are scarce. Abundant natural resources did not seem to play an ultimate role: even though the Basque Country was well endowed with coal and iron, Catalonia was not. It is more likely that the social composition of both regions (with an abundant artisan class and relatively equal farming and urban communities) favored their industrialization. Urban artisans had the basic know-how to adopt quite easily the new industrial technologies generated in Britain. The relatively larger number of farmers and urban strata could in turn absorb these new industrial products. The different Basque and Catalan social background may have derived from the continuity of medieval autonomous political institutions that made both regions less vulnerable to the failed economic policies of the Spanish state in the modern period. As a matter of fact, the industrial revolution emerged in the two areas where medieval parliamentary practices had lasted longer – the Catalan parliament was abolished in 1714 and the Basque institutions in 1876.

The Spanish republic did not last long. Spain was polarized by considerable social and economic inequalities. In a country which still was eminently agrarian, the distribution of land was very unequal – particularly in the Southern half of the Peninsula. About 1 percent of the number of holdings occupied 50 per cent of the land. Although arable land was more evenly distributed, the structure of holdings was considerable biased in favor of the largest ones. About one third of the arable land was occupied by holding of more than 100 hectares, while the proportion in Europe was around 10 percent (Merigó 1982). The urban working classes, who were well organized in two trade unions, the Socialist UGT and the anarchist CNT, espoused radical social and economic programs. Except for Catalonia and the Basque country, which had industrialized in the 19th century, Spain lacked a large 'bourgeois' middle class. The Spanish middle class simply consisted of civil servants, military officers and professionals (such as doctors and lawyers).

In addition to highly charged economic differences, the Republic had to cope with substantial territorial demands. The Catalan and the Basque nationalist movements, which had become electorally mobilized at the turn of the 20th century to regain their own political institutions and the official recognition of their historic languages, were met with stiff resistance from large parts of Spanish society. Finally, Spaniards were intensely divided between the supporters of the Catholic Church, which aspired to maintain the educational quasi-monopoly and political recognition it had secured in the previous regime, and a rabid anticlerical movement inspired by the French Radicals next door.

Benefiting from a disorganized right, Republicans and Socialists secured a strong parliamentary majority in July 1931. [2] Under pressure from street agitation and well-organized unions, they went ahead with a constitution that institutionalized a strong separation of Church and state, established a single system of state schools, and threatened religious orders with their possible expulsion. The Republican government initiated a process of land reform, approved a law to decentralize political power to Catalonia and stepped up efforts to reform the army.

Due to an electoral law that magnified small vote swings, the left lost two thirds of its parliamentary seats in 1933. As the right-wing party, which ran as a pro-Church movement and favored a constitutional reform, was about to join the government, the radical left and the Catalan regional government organized an insurrection a year later. The government had to call the army to pacify the mining valleys of Asturias. A year and a half later, in the spring of 1936, new elections were held. A small swing in the popular vote now resulted in a crushing victory for the Left in terms of parliamentary seats.

In July 1936 general Franco launched a coup. Instead of leading to a bloodless change in regime, as had been the case with all military coups in 19th-century Spain, this pronunciamiento was met with the active resistance of a fully mobilized union movement. Spain became engulfed in a three-year civil war which presaged the world war that would erupt in the summer of 1939 in the issues it was fought over, its symbolism and its domestic and international political alignments.[3]

[2] An analysis of the period can be found in Brennan (1990) and Malefakis (1970).
[3] In calculations developed in Boix (2004) for a panel data encompassing all sovereign nations from 1850 to 1997, civil wars are shown to be particularly likely to take place in highly unequal agrarian societies. Given the characteristics of Spain in 1936, the probability of a civil war outbreak in the 1930s was of 1 out of 6 according to that model. It is 0 percent today.

3. Authoritarianism. From Autarky to Growth

With the defeat of the Republican government, Franco established an authoritarian regime that lasted until his death in 1975. The destruction caused by the civil war (and the world war that burst a few months after the former ended) depressed the Spanish economy considerably. Per capita income fell to its 1900 level by 1938 and could not reach its 1918 level until 1950. The proportion of active population in industry declined to 22 percent in 1940 (or the level of 1920) and the share of employed in agriculture grew above 50 percent. Growth was feeble. The average annual rate was 1.25 percent in the 1940s.

The autarkic model and its breakdown

Spain's economic recovery was hampered, above all, by the heavily autarkic and statist policies pursued by the Franco regime. Inspired by the corporatist ideologies of Italian Fascism and German Nazism and in part compelled by its political isolation in the postwar European context, Franco's regime generalized a system of price controls and rationing and regulated foreign trade through quantitative controls. The creation of new industries required administrative authorization. The state assigned specific areas to the production of particular agrarian products, such as wheat. Financial credit was subject to stringent regulations to channel it to certain activities. Moreover, the state reinforced its intervention in the economy through both the expansion of public-owned firms created under the Primo de Rivera dictatorship and the creation of new ones. Public employment and investment were boosted to foster industrial development defined according to political considerations and an autarkic creed. [4]

[4] This section relies on Merigó (1982), Payne (1987) and Preston (1993).

This intensely interventionist strategy was 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. In a concession to Falange, the Fascist party that formed part of the Francoist coalition, this repressive stance was accompanied by very strict labor legislation that made it very hard for employers to dismiss workers or to hire them through temporary contracts. This state-based form of protection offered to employees was complemented with similar regulations in the housing market to cheapen rentals and favor current tenants. The emphasis on permanent jobs and houses ought to be seen in part as a substitute for the lack of either direct social policies or any attempt to educate a very unskilled workforce. As a matter of fact, it did not differ substantially from similar protectionist, import-substitution strategies adopted in the mid 20th century in Latin America and parts of the recently decolonized Third World. It contrasted sharply, however, with the economic policies dominant among Spain's democratic neighbors, which were committed to free trade, human capital formation and universal social policies.

Naturally, the Spanish economic framework that followed the civil war had extraordinary stifling effects on entrepreneurial activity. Still, the flow of United States aid starting in the early 1950s and the growth of tourism and the remittances of emigrant workers in the late 1950s bought the Franco regime some time before it had to change its economic policies. The Spanish economy experienced significant growth throughout the 1950s. But it did in a very volatile manner and constrained by important supply bottlenecks (Figure 3). The economy went through a spurt of growth in the early 1950s with high inflation – consumer prices increased at the annual rate of 8.7 percent between 1948 and 1951. Inflation then eased up due to the easing of import

restrictions (related to United States aid) and the effect of higher electricity output (related to investments made in the 1940s). Its reduction was also helped by an oversupply of agricultural labor and a very repressive labor system, which contributed to dampen wage pressures.

[Figure 3 here]

In 1956 the government met a wave of illegal strikes with significant wage increases (averaging 14 percent) in 1956. This sparked a new round of inflation, which averaged 12.2 percent in 1956-58. Moreover, Spain faced a balance-of-payment crisis. Gold and foreign-currency reserves fell to an all-out low. Large short-term capital outflows took place in 1957 and 1958. A rigid, two-tier exchange rate system limited the government's room for maneuver. More generally, Spain's economic structure remained stuck in an agrarian, underdevelopment trap. Although investment went up, it took place within a highly protectionist, import-substitution structure. Export-led growth was negligible. As shown in Table 1, imports as a share of national income remained flat during the 1950s. Exports actually fell by half. The structure of foreign trade reflected the structure of the Spanish economy. Exports were dominated by agricultural products and raw materials. By contrast, Spain mostly imported inputs for the productive sectors, particularly industry.

[Table 1 here]

After a prolonged period of stop-and-go policies, in the late 1950s Spain eventually moved to break with its old interventionist system. In a rebuke to the core of Falangist and interventionist ministers who had dominated the social and economic departments of the Spanish government, Franco appointed two technocrats to head the economic ministries in February 1957. Their first attempt to impose contractionary policies and to overhaul and simplify the

exchange rate system that same year did not follow through completely due to considerable political squabbling within the government. A multiple exchange rate system was re-established and import restrictions tightened shortly after their appointment. Yet an acute political crisis, with a wave of strikes, and an economic recession, with zero growth rates and a severe balance-of-payment crisis, led the government to adopt a stabilization plan in March 1959. In addition to new fiscal and monetary measures to stabilize the economy, the plan included wide-ranging measures to liberalize the economy. At the behest of the IMF and OEEC, the government established a single exchange rate (accompanied by a significant devaluation) and suppressed price controls over freely imported goods and any allocation procedures for freely imported raw materials. State trading in imports was limited to agricultural products. About half of imports were liberated and an additional share brought under global import quotas. Foreign investment was also liberalized.

The stabilization plan was an outright success. Despite the devaluation and the suppression of price controls, inflation remained subdued. More important, the economy grew very quickly. From 1960 to the outbreak of the first oil crisis, output expanded at an average annual rate of over 7 percent with very little inter-year volatility. As a result, per capita income more than doubled from about $3,000 to $8,500 (in $ of 1990) in fifteen years. Inflation stayed at 6.5 percent in the same period. Overall productivity averaged 6 percent in the same period. In part due to emigration to Northern European countries, unemployment was low at less than 3 percent. Economic growth was to some extent generated by a substantial increase in investment, which rose from 16 percent to 21.5 percent, but it mostly derived from considerable technological progress – resulting from the incorporation of foreign ‘best practices’ and foreign

direct investment. Labor productivity in industry grew by 8.5 percent annually between 1960 and 1975. Growth also derived from a shift in employment from low-productivity sectors (agriculture) to high-productivity sectors (industry).

To understand why the reorientation of the Spanish macroeconomic policy framework (at least in its monetary, exchange rate and trade components) took place it is worth distinguishing between the 'short-term' factors that explain its adoption and the 'long-run' causes of its consolidation. Its adoption resulted above all from domestic reasons: the lack of industry-led growth, the short-run difficulties in controlling prices and balancing the trade deficit, and the parlous condition of state finances made it possible for the 'reformist' sectors of the regime to convince Franco about the need to make a fresh break with past policies.[5] The Franco regime was an authoritarian yet by no means monolithic power structure. Although led by the army, the 1936 insurrection had relied upon a coalition of diverse and heterogeneous interests: monarchists keen on overthrowing the Republic; Catholics concerned with the anticlerical policies of the 1930s and frustrated by the de facto veto imposed by the Left to the entry of the right-wing parties in the Spanish government in 1933-34; landowning families; important sectors of the Basque financial elite; some Catalan industrialists; and the fascist movement of Falange. For the fist two decades of the regime, Falangists played a dominant role in the regime and shaped the economic policies of the state for two reasons: international conditions, defined by the strength of the Axis power until 1944 and the isolation Spain experienced until 1953, and their much better organizational strength (since they controlled the quasi-party structures that underpinned the Francoist regime). But the existence of non-Falangist supporters, who always retained a share

[5] It is also likely that some Spanish bureaucratic and economic elites became unsettled by the contemporary development of negotiations to establish the European Economic Community and the effects that such a broad market may have on Spain in the future.

of ministerial posts, gave Franco enough room both to check Falange and to rely upon alternative policies to overcome the economic and financial exhaustion experienced by the dictatorship in the late 1950s. It is in fact likely that Franco decided to reinforce the presence of non-Falangist economists to check an aggressive campaign launched in the mid 1950s by some Falangists to strengthen the institutional and political role of Falange.

Whereas the timing of the policy shift of 1957-59 may be thought of as random, its consolidation was not. The stabilization plan was not reversed (as many other stabilization plans have been across the world) because there were several pre-existing conditions (which do not exist in those countries that abandon their macroeconomic liberalization plans) that made it immediately successful and that therefore convinced Franco not to deviate from the new macroeconomic framework of 1959.

The Spanish 'economic miracle' of the 1960s was made possible by three factors, so far strangled by the interventionist schemes of postwar Spain. In the first place, Spain already counted with a set of 'virtuous' pockets, mostly concentrated in the Basque country and in Catalonia, which had industrialized in the past and which therefore had enough managerial and technical know-how to respond quickly to the liberalization of markets. In the second place, the Spanish state had a relatively reliable legal and administrative structure, established by the liberal governments of the 19th-century and then explicitly modernized by the same technocratic cadres that engineered the stabilization plan of 1959. Finally, Spain could count upon an extremely favorable foreign environment: for geopolitical considerations, the American and European governments were keenly interested in a stable, rapidly growing Spain; foreign capital was available and ready to invest in a potentially medium market located close to the European core;

and the military ties with the United States acted as a mechanism to insure foreign investors against any policy reversals or confiscatory threats in the Peninsula.

The social consequences of economic liberalization and growth

The transformation of the Spanish economy led to significant structural changes in Spanish society. Figure 4 displays the evolution of output shares of different economic sectors after 1930. Agriculture fell from 23 percent to 10 percent between 1960 and 1975. Industry remained at 30 percent. The service sector experienced a 10-percentage-points increase. Construction went up from 5 to 7 percent. In employment terms, the proportion working in agriculture dropped from 41 percent to 23 percent. In industry the proportion increased four points to 27 percent. Most of the fall in agriculture was absorbed by a jump in the service sectors (employing 40 percent of the population in 1975).

The structural change in the economy was accompanied by strong migration flows. The share of the three top destinations (Catalonia, Madrid and the Basque Country) rose from 20 to 32 percent of the population between 1950 and 1975. By contrast, the Southern part of the Peninsula declined from 35 percent to 25 percent in the same period. These migrations resulted in an unprecedented increase in urbanization. The proportion of Spaniards living in cities of over 100,000 inhabitants climbed from 30 percent in 1940 to 50 percent in 1975.

[Figures 4 and 5 here]

The combination of economic growth, industrial expansion and internal migration produced a substantial decline in the levels of inter-regional inequality. Figure 5 tracks the evolution of the coefficient of variation of per capita regional product from 1900 to 1990 and the

standard deviation of regional per capita income after 1955. A dramatic fall in inter-regional inequality (from a standard deviation in per capita income of 0.37 in 1955 to 0.27 in 1973) took place during the Spanish 'miracle' of the 1960s.

A much larger middle class emerged in Spain as a result of growth. Table 2 seems to indicate that by the early 1970s, Spanish income inequality was broadly in line with the largest European countries. A similar outcome emerges from the UNU/WIDER-UNDP database. The Spanish Gini coefficient for household net income fluctuates around 0.37 – similar to the German one although higher than the British (0.26) or Swedish (0.21) Gini indexes. A similar pattern emerges from data on consumption habits: by 1980, Spain had around 200 cars, 193 telephones lines and 254 television sets per 1,000 inhabitants – those figures were about three quarters of the European average.

[Table 2 here]

Still, significant social and economic inequities remained in place for three reasons. First, educational attainment was low. Although by 1970 the illiteracy rate had fallen to 10 percent, only 6 percent of the population had completed secondary studies by that year. Second, wages were dampened by excess labor supply and repressive labor institutions. Finally, taxation and public spending were low and redistributive social programs virtually absent. General government tax revenues fluctuated around 20 percent of GDP in the 1960s. Social spending was below 10 percent of GDP or less than half the European average.

4. Democratic Transition

General Franco died in November 1975. His successor, King Juan Carlos, grandson of Alphonse XIII, who had renounced the crown in 1931, became the Spanish head of state according to the legal mechanisms put in place by Franco.

In the wake of the intense economic development of the 1960s and the social and cultural transformations that accompanied it, some sectors of the Francoist regime, mostly including moderate monarchists, a few Christian democrats and members of business circles, warmed to the possibility of transforming the political system from within before the dictator's death. In 1973-74 this reformist wing attempted a timid process of political liberalization. But it was interrupted by the emergence of Basque terrorism and the reaction of the regime's hardliners.

The new monarch immediately launched again a process of political change toward democratization. His first attempts became stalled by the status-quo-biased institutional set-up of the Francoist regime. After some difficult and behind-the-scenes maneuvering, Juan Carlos succeeded in appointing a reformist cabinet in July 1976. Staffed by very young politicians and civil servants who had worked within the Francoist regime, the new government moved swiftly to democratize Spain. 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 the existence of wide popular support for democracy, in the fall of 1976 the government secured the consent of the old Francoist Cortes (the Spanish parliament) to establish a truly democratic parliament elected through direct, competitive elections. After the political reform was ratified with overwhelming popular support in a referendum in December 1976, the government engaged in informal conversations with the democratic opposition, legalized the Communist party and granted a wide political amnesty. Although the transition to democracy was 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 negotiation process, democratic elections were promptly held in June 1977. This clean and competitive election returned representatives and parties reflecting the whole range of political preferences of Spaniards. The centre-right government coalition obtained close to the majority of seats. The center-to-the-left Socialist party secured one third of the parliament. Both the Francoist party and the Communist party received less than 10 percent of the vote and around 5 percent of seats each. Catalan and Basque regionalist parties also entered the new parliament. Consensual politics dominated the transition to democracy. After protracted negotiations, a new Constitution was approved in 1978 with the support of all parliamentary groups and only a handful of negative votes from some former Francoist parliamentarians. To reinforce the political pact in parliament, the government also struck a wide economic and social deal with employers and trade union that same year.

The constitution established a parliamentary monarchy in which the king only exercised symbolic power. State and Church were separated – still private education was protected and the Catholic Church was given special recognition as the denomination of the majority of the population. The constitution enshrined as well the existing social consensus around private property and the market economy and the need to develop a welfare state to meet a generous list of social rights. Finally, it established a decentralized state to accommodate the political demands of the Catalan and Basque regions. [6]

An influential section of the scholarly literature has explained the success of the Spanish democratic transition as the result of a process of negotiation between enlightened elites who had

[6] For an account of the period, see Maravall (1981), Gunther et al. (2004).

learnt the lessons of excessive confrontation the hard way, that is, through the hardship of war in the 1930s and economic stagnation till the 1950s. Nevertheless, the roots of democracy lay first and foremost upon the changed economic and social conditions of Spain in the 1970s. According to estimations in Boix and Stokes (2003) based on a panel data for all sovereign countries from 1850 to 2000, the annual probability of a democratic breakdown (that is, the transition to authoritarianism in a country that has started a democracy) is close to 5 percent with a per capita income of $2,000 (the level of Spain in 1930) but 0 percent for any income above $7,000 (a level attained by Spain in 1974). Naturally, the level of per capita income simply proxies for the absence or presence of social conditions that make it reasonable for all the parties in contention to subject themselves to free elections and to the possibility of losing them and therefore power.

The rapid economic transformation of Spain, revolving around industrialization and urbanization, had deflated past conflicts around the distribution of land. The extension of literacy and the adoption of advanced industrial technologies (with the correlated increase in productivity and incomes) had generated a strong middle class beyond the existing bourgeois strata in Catalonia and the Basque country. The very experience of sustained growth defused social conflict with the credible promise of higher incomes and more social mobility in the future. It is likely that the possibility of European integration reinforced the expectations of Spaniards about sustained growth in the future. In short, Spain had overcome the zero-sum game in which it had been locked in during the past century and a half. This structural change explains why some timid attempts to open up the Francoist regime, entertained in 1945-47 in the wake of the Allies' victory and again in the late 1950s, failed completely. True political reform had to wait till social and economic conditions were ripe for political change to occur.

In addition to the transformation of material conditions for broad swaths of Spanish society, religious and cultural life experienced as well considerable change in the two decades preceding the transition to democracy. In the aftermath of Vatican II, the Spanish Catholic Church went through a thorough 'aggiornamento' in both its leadership and ideological commitments. In addition to embracing the possibility of freedom of religion and political liberalization in the public arena, substantial parts of its hierarchy and lay basis actively cooperated with a nascent union movement and the democratic opposition. Moreover, Spanish society secularized rapidly. Between 1970 and 1979 the percentage of Spaniards who described themselves as "very good' or 'practicing" Catholics declined from 64 percent to 37 percent. The proportion of "non-practicing" Catholics, "indifferent" or "atheist" trebled from 12 percent to 37 percent (Gunther et al. 2004: 143). This secularization was not associated with growing anticlericalism – but rather with the expansion of more liberal views about religion and social mores across the board.

As they did before 1936, religion and class (as well as national identity in the Basque country and Catalonia) continued to play a key role in voting behavior. Table 3 shows that whereas middle-class practicing voters overwhelmingly voted for center-right parties in 1982, about two thirds of non-believing workers supported the left. However, they did from much more moderate positions. Surveys taken since the mid-1970s show a unimodal distribution of the population on the left-right continuum, with the peak located in the center and between 80 to 85 percent of the surveyed placing themselves between the center-left and center-right. Although overall less conservative than other European electorates, Spaniards consistently adopt reformist economic and political positions. About 80 percent of those surveyed favor gradual reforms

versus 10 percent opting for "the defense of society against subversive forces" and even fewer respondents embrace the idea of revolutionary action (Gunther et al. 2004: 172).

5. Building the Welfare State

As discussed above, economic growth resulted in a different economic structure and better distributional outcomes and the latter two propitiated a swift and successful transition to democracy. In turn, the transition to democracy resulted in a larger public sector, with considerable transfers directed to lower income brackets.

[Figures 6 and 7 here]

As is apparent in Figure 6, which reports public spending by general government, and Figure 7, which displays current revenues of the general government, Spanish public expenditure fluctuated slightly over 20 per cent of GDP or around two thirds of the OECD average up until the early 1970s. On the one hand, redistributive pressures were effectively suppressed through political means. On the other hand, the dictatorship met part of those demands through heavily regulated labor and housing markets that secured permanent jobs and cheap rentals to broad sectors of the labor force. The moderate growth of public spending until 1975 covered an increase in investment on education and roads needed both to respond to rapid economic growth and to attract capital from more advanced countries.

After the death of Franco's appointed Prime Minister Carrero Blanco in 1974 and particularly with the beginning of the democratic transition, public spending underwent a clear change in its trend. During the following twenty years it grew by over 1 point of GDP per year in real terms to reach 49.6 per cent of GDP in 1993.

The growth of public expenditure did not follow a uniform pattern, however. Public spending experienced an unprecedented expansion from less than 25 per cent of GDP in 1974 to over 41 per cent of GDP in 1985. The increase in public expenditure was generated by two sequential trends: a rapid growth in social expenditure (in the form of unemployment benefits and pensions) in the second half of the 1970s; and a significant rise in interest payments, resulting from a growing public deficit (to pay for the expansion of social spending) in the first half of the 1980s. As a result of the expansion of public spending, by the mid-1980s Spain had closed a historical gap with other advanced nations, building a public sector equal to the average OECD public sector and only slightly below the European average. The trend of public spending changed temporarily in the mid-1980s. After the accession of the Socialist party to power in 1982 and mainly as a consequence of rapid economic growth in the second half of the 1980s, public spending stabilized as a proportion of GDP and then declined by 1.5 percentage points of GDP from 1986 to 1988. In the wake of both a general strike in December 1988 to protest the strategy of fiscal discipline followed by the González government and of important electoral losses of the PSOE in favor of Izquierda Unida in 1989, the socialist cabinet approved extensive social programs in 1989 and 1990. As a result, public spending grew intensely again, reaching 43.5 per cent of GDP in 1991. This should be considered its equilibrium rate since, although the economic downturn of the early 1990s pushed public spending to around 48 per cent of GDP in 1993, three years later public expenditure had declined to its level before the crisis.

The growth of public revenue and expenditure as well as its internal structure was a function of three factors. First, it responded to new social demands (related to the provision of public infrastructures and education as well as pensions and health) generated by the process of

social and economic modernization of Spain. Second, it emerged as a result of democratization, increased political participation and electoral competition among parties. Finally, the transformation of the public sector was linked to the shift from a regulated state, in which protection came through permanent jobs and cheap rentals, to a liberal economy with low tariffs and flexible markets and where the main mechanism to compensate losers and make them more competitive was public spending.

[Figure 8 here]

The interaction of development and democratization in shaping the Spanish public sector becomes apparent in Figure 8, which reports the evolution of public revenue as a percentage of GDP and per capita income from 1960 to the late 1990s. Figure 8 also displays the predicted size of the public sector for different levels of per capita income and type of political regime based on estimations in Boix (2001) using a panel of about 2,000 country-year observations for all countries of the world (for which data is available) since the 1960s.

Until 1975 the public sector grew slowly and in perfect correlation with economic growth. In the mid 1970s, however, the economy stagnated for almost a decade. Spain had a per capita income of $7,291 (in 1985 prices) in 1974 and of $7,330 in 1984. By contrast, the political regime changed abruptly and with it the size of the Spanish state.

The transition to democracy unleashed strong social demands for redistribution. Spaniards maintain a substantial egalitarian ideology and demand from the state a very active role in the reduction of inequality. In 1979, more than seventy percent of Spaniards agreed with the statement that “the distribution of wealth in this country is totally unjust.” (Gunther et al 2004, p. 173). As Table 4 shows, support for redistributive policies is very high in Spain: less

than 3 percent of the population thought that the state should not be responsible for the provision of health services, pensions, housing for the poor and regulating the environment. With democracy and hence full political participation, the public sector quickly doubled in size -- from 22.8 per cent of GDP to 34 per cent in 1985 and then at a slower pace till around 40 percent by the late 1990s.[7] As democracy consolidated, public spending reached a plateau by the early 1990s.

[Table 4 here]

Social Expenditure

Public expenditure grew first and above all to fund new social programs. In response to electoral competition and to shore up support for the democratic process, the reformist government that presided over the political transition rapidly expanded the provision of unemployment benefits and increased the allocation of money to health and pensions. In ten years social expenditure almost doubled to reach about 16 percent of GDP in 1980 (Table 5) or about 80 percent of the European average. Pensions amounted to 6.4 percent of GDP and public spending on health to 4.3 percent of GDP in 1980 (Table 6).

Social spending grew at a much slower moderate pace in the 1980s. But strong union pressure in 1988-89 eventually pushed the Spanish government to universalize the provision of public health, introduce old-age pensions for non-contributors, raise low-income pensions and make unemployment benefits more generous in the early 1990s.

[7] The quick expansion of public spending was also related to the double shock of high unemployment and high inflation that characterized the stagflation crisis of the 1970s.

As a result, by 2001 pensions were 8.9 percent of GDP or 90 percent of the European average. Public health spending stood at 5.4 percent – again 90 percent of the European mean. Spending on unemployment benefits and active labor market programs matched the European level.

[Tables 5 and 6 here]

Capital Formation

Besides making more equitable the access to basic services and minimizing the effects of economic volatility in an open economy in which standard macroeconomic policies were increasingly in the hands of European institutions, public spending was also designed with an eye to bolster the competitiveness of the factors of production. Accordingly, the Spanish state directed heavy sums of money to fixed and human capital formation. Fixed capital formation increased from about 2 percent of GDP in 1980 to around 5 percent of GDP in the mid 1990s. Most public investment was allocated to build or ameliorate those basic infrastructures that were thought to play a key role in linking the country (specially its less developed regions) to the European market, increasing overall productivity and therefore offering more incentives to private investment. An ambitious construction program tripled the public highway network from 2,300 km. to 6,000 km, revamped and expanded the metropolitan transportation system, and modernized the railroad system.

Human capital formation was also a central part of the expansion of the Spanish state. Public expenditure in education, which represented 2 per cent of GDP in 1975, was steadily increased to 4.5 per cent of GDP in 1995. The Spanish state reorganized primary and secondary

education (through legislation in 1985 and 1990) and extended free and compulsory education until the age of 16 (in 1990). Combined with a decline in demographic growth, the rise in educational expenditure meant doubling the amount spent per student in real terms, a vast expansion in teachers' hirings and the extension of education in secondary and university levels (Puerto 1991). The proportion of students from 14 to 18 years attending school went up from 50 per cent in 1980 to 70 per cent in the 1990s and from 19 to 23 years went up from 22 to 33.1 per cent. By 2001, almost 50 percent of the population had completed secondary education – ten times more than in the mid 1970s. The average number of years of education increased from 8.2 in 1977 to 11.4 in 1994. This increased was particularly marked in low income sectors: the average number of years of education grew by 25 percent in the bottom quintile (in the distribution of income) yet by less than 10 percent in the top income quintile (Oliver and Ramos 2001). Education policies were also complemented with active labor market policies, which rose from 0.2 percent of GDP in 1980 to 1 per cent of GDP in the 1990s.

Tax Policy

The successful expansion of the Spanish welfare state relied on a comprehensive tax reform approved in 1977-78. The reform, which included a modern income tax and the creation of a specialized tax enforcement agency, boosted tax revenue from 18.8 percent of GDP in 1975 to 24.6 percent of GDP in 1982. Yet since public expenditure and the public deficit did not stop growing in the early 1980s, the Spanish Socialist party, which governed from 1982 to 1996, expanded the tax base through two mechanisms. On the one hand, it stepped up efforts to reduce tax fraud. In the aftermath of the 1977 tax reform, the number of taxpayers filing tax returns had

increased from 400,000 in 1977 to 5 million in 1979 but then stabilized around 6 million from 1981 onward. Still, by 1980-82 only 56 per cent of all taxpayers were filing tax returns - or less than 50 per cent in terms of all national income. A thorough campaign to reduce tax fraud doubled the number of tax returns to almost 11 million by 1990 - therefore nearly doubling the figures of 1981. On the other hand, the government raised revenue mostly through fiscal drag. As a result, the total tax base grew in ten years by 6.4 per cent annually in real terms. By 1990 the national tax base was almost twice that of 1981 measured in constant pesetas. In the same period, the Spanish GDP had increased by 40 per cent in real terms. As shown in Table 5, tax revenues grew 9 percentage points to 33 percent of GDP in 1995.

[Table 5 here]

The tax system acquired an increasingly progressive profile. Almost two thirds of tax increases until the mid 1990s derived from higher personal and corporate income taxes. Most of the rest came from consumption taxes as a consequence of the introduction of the VAT required by the Spanish integration into the European Community. Combining fiscal drag to expand taxation on middle- and high-level incomes and partial legal amendments to relieve lower incomes, the Spanish government sharpened the progressivity of income tax in the 1980s. In 1981, the effective tax rate on an income of Pta 500,000 was 5.4 per cent. For an income ten times larger, the effective tax rate was 21 per cent. The effective tax rate reached 30 per cent only when the income exceeded Pta. 9 million. Ten years later tax rates had gone up for all incomes over Pta 700,000 (in 1981 Pta.), that is, for more than 50 per cent of all taxpayers. Thus, for example, all taxpayers who paid 15 per cent of their income in 1981 were paying 22 per cent in 1990 - again assuming their income had remained constant. For all those who paid 17 per cent

or more of their incomes in 1981, effective tax rates increased from 10 to 15 points in a decade (Boix 1998).

6. Conclusions

Spain stands as one of the few countries in the world which have completed a successful transition from authoritarianism and relative underdevelopment to democracy and economic abundance in the last half century. Most of today's wealthy democracies were already liberal and industrialized by the mid 20th century. The majority of countries which were poor in the 1950s are still part of the developing world today. The process of full economic and political modernization has only taken place in Southern Europe, in a few East Asian countries and in sections of the former Soviet bloc.

With a few exceptions, pre-industrial societies are characterized by the combination of low economic growth, authoritarianism and inequality. Although underdevelopment may derive in part from excessive population growth, it ultimately results from a structure of perverse institutional incentives. In an agrarian world, authoritarian rulers are the standard solution devised to protect any population against the raids of external bandits that understand that the appropriation of land and any other type of fixed assets in general is the only path of wealth and power. In this context, authoritarianism and inequality come hand in hand. In exchange for protection against bandits like themselves, the rulers seize an important part of their subjects' assets. Moreover, subjects have no mechanism in their hands to curb the expropriation they may suffer at the hands of their rulers. Growth is extremely unlikely to happen. Authoritarian rulers favor the maintenance of those (non-commercial, pro-land) policies that are the basis of their

wealth. They mistrust and block the emergence of alternative sources of income generation that may eventually challenge their political preeminence.

Although coming in many forms and with different degrees of intensity, this political and economic landscape of stagnation dominated the whole world until the modern period. Modern development, that is, the emergence of a commercial society then followed by an industrial take-off, happened in a self-generating fashion in very few places – all of them located in the North Atlantic area. Growth happened where no monarch was able to suffocate some pre-existing medieval and pluralistic institutions in the name of modern absolutism. There governments sustained economic policies that protected the interests of merchants and investors and that allowed the latter to take advantage of the scientific revolution of the 17th and 18th centuries. With growth and higher productivity, inequality subsided. And inequality made the transition to political liberalism and democracy possible.

In those places in which absolutism prevailed up to the contemporary period, development and democratization only happened (whenever they did) through one of two alternative paths. In some instances, the breakdown of the old authoritarian elite (and of the institutions that blocked growth) came as a result of war, defeat and foreign occupation. This is the case of East Asia and Eastern Europe, where World War II and particularly its victors destroyed the 'Ancien Régime' social coalitions and political institutions which hindered democracy and economic development. As those countries eventually became linked to the international economy (either in the 1950s and 1960s in East Asia or after the fall of the Berlin wall in Eastern Europe), economic growth (followed by political liberalization in Asia and contemporaneous with democratization in Eastern Europe) took place. Alternatively,

development happened through a more peaceful (but perhaps even less frequented) path. As capital accumulated in the already developed core and began to suffer from growing congestion costs, it gradually spilled over to the near periphery – particularly when the latter had either stable institutions or foreign military pacts which credibly protected capital against the threat of expropriation.

The Spanish case fits the second pattern. Its civil war did not transform the social and political structures of the country – if anything it reasserted the old status quo the Second Republic had been unable to change. Nonetheless, prodded by the United States and stimulated by the formation of the European Union, Spain embraced economic policies that fostered rapid growth and the social transformation of the country. European and American capital flowed into Spain and new industries, such as tourism, sprang up to cater to an increasingly well-off European population. Spain's full transit to the club of developed nations comes with a caveat, already underlined in this paper, to this story of foreign-induced growth (in the framework of a stable dictatorship). The 'economic miracle' of the 1960s was made considerably easier by the presence of a few areas in the North of Spain which already had the skills and capital ready to take advantage of the stabilization program of 1959 because they had already industrialized in the 19th century.

As Spaniards grew richer and joined an expanding middle class, past political and economic clashes mellowed. In the 1930s most of the political and social conflict pivoted around the distribution of wealth in a poor economy. As the economy boomed, the past zero-sum game around property distribution lost steam. Instead, substantial numbers of Spaniards moved into new economic sectors that delivered growing incomes without having to expropriate well-off

sectors. These changing underlying conditions made possible to push forward two broad institutional transformations in a peaceful and quite consensual manner. First, Spain managed to transit from authoritarianism to democracy: once the stakes of the electoral game had changed in a way that made everyone ready to accept a defeat at the polls, democracy could be introduced and consolidated rather quickly. Second, Spain moved from a heavily regulated and closed economy to a regime defined by much more open and flexible markets, now fully integrated in the European Union.

Although the political deal that paved the way to democracy and an internationalized economy was broadly successful, it is worth concluding this essay by stressing two questions – one institutional, the other economic – that remain unsolved in Spain.

The Second Republic broke down under the weight of three contentious issues: a highly unequal distribution of economic assets; an acute conflict between religious and anticlerical parties; and the territorial demands of Basques and Catalans. The first two conflicts diminished in intensity with the economic and cultural transformations of the 1960s. The third one also abated – at least in its economic dimension, due to substantial interregional convergence in level of development. In addition, the constitutional pact of 1978 made considerable progress in accommodating, through a process of institutional decentralization, the historical demands of Catalan and Basque regionalist movements. However, the pro-decentralization implementation of the constitution suffered a setback in 1981, after a group of senior officers attempted a military coup. Centralizing policies were again reintroduced after the center-right party won an absolute majority in parliament in 1996. Moreover, even though the Spanish state is relatively decentralized, regional governments manage rather than decide the content of policies. Thus,

whereas the economic and religious conflicts that bolted the Second Republic in 1936 have almost disappeared, the regional question still lingers unresolved in the Spanish political arena.

Spain has been systematically hailed as the model to which other countries should look at to complete a successful democratic transition. Less noticed, however, is the fact that Spain also underwent an important transition in its overall economic policy framework: from a protectionist regime with thorough price controls, a bulky public enterprise sector and a regulated labor and housing markets to an internationalized economy, stable macroeconomic policies and essentially deregulated financial and product markets. Successive democratic governments deepened the process of economic reform which started in the late 1950s. Since the mid 1970s, the economy was further liberalized in preparation for the entry in the European Union. In the mid 1980s the Socialist government engaged in a painful adjustment of several industrial sectors to reduce their bloated labor force and considerable financial losses. The transition to democracy and the expansion of the welfare state were undeniably helpful in easing the costs of the economic transition in two senses. From a strict welfarist point of view, the implementation of universalistic social policies in health, unemployment, education and pensions minimized the losses that the industrial and economic transition carried for important sectors of the Spanish labor force. From a political point of view, the expansion of compensatory programs (as well as of policies directed toward education and human capital formation) extracted a much higher level of popular compliance with the general strategy of 'modernizing' the Spanish economy than what might have been possible otherwise.[8]

[8] The lack of much broader compensatory policies may explain why popular support for reform fizzles so rapidly in developing countries whenever growth rates fall and unemployment goes up. For a theoretical discussion of this issue, in a context in which trade policy and public spending are endogenously determined, see Adsera and Boix (2002).

As is often the case in many economic reforms, the process of economic transition remained incomplete in one central sphere. To shore up support for the new regime, the transition government struck an encompassing social and economic deal with left-wing parties, trade unions and employers' associations in 1977. Yet, instead of further liberalizing the Spanish labor system, that agreement as well as the legislation which derived from it reinforced the stringent labor market regulations put in place by the Francoist regime. In the context of a country that still had a substantial part of the population employed in the primary sector and where most of the population was rather unskilled, that regulatory structure interacted with the skill-biased shock that most European economies suffered in the 1970s and 1980s to cause unprecedented levels of unemployment. The Spanish unemployment rate shot upward to over 20 percent in the mid 1980s (see Figure 9).[9] More important, unemployment affected different social sectors very differently. Unionized male employees remained relatively protected by labor laws. By contrast, the unemployment rate reached over 30 percent of women in the early 1990s and almost 45 percent of young people. Participation rates among women remained extremely low – despite the extraordinary inflow of women both in the educational system and in the job market. The welfare state smoothed the economic shock substantially. But the high level of unemployment had a considerable impact on Spain's economy and demography. First, the low level of workforce participation probably accounts for the fact that Spain's per capita income has not caught up with the European income significantly – always hovering at around three fourths of the European Union level since the mid 1970s. Second, in response to the structure of the labor market, with high unemployment and a sharp division between permanent jobs (mostly for

[9] Bentolila and Jimeno (2003) estimate that 80 percent of the Spanish unemployment is explained by the interaction of the shock and the existing labor institutions.

old men) and temporary contracts (for young and women), Spanish women postponed childbearing (Adsera 2004). The Spanish fertility rate dropped to 1.2 -- one of the world's lowest level, for the last two decades. This in turn should have extraordinary consequences on the ability of Spain to finance its welfare state in the future.

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Table 1. Structure of Foreign Trade in the 1950s

	Imports			Exports		
	1950	1955	1959	1950	1955	1959
Share in national income	10.5	9.8	10.2	12.2	7.1	6.4
Shares of:						
Food products	19	8	11	50	56	60
Raw materials and unfinished products	62	62	65	27	31	27
Machinery and equipment	17	28	22	3	2	1
Consumer goods	2	2	2	20	11	12

(a) Goods only

(b) 1951.

Source: Merigó (1982: 560).

Table 2. Pre-tax and post-tax income.

	Percent pre-tax income of households ordered by quintile				
	1	2	3	4	5
Spain (1973-4)	1.0	10.3	16.8	24.4	47.4
France (1970)	4.3	9.9	15.8	23.0	47.0
Germany (1973)	5.9	10.1	15.1	22.1	46.8
Norway (1970)	4.9	13.6	18.0	24.6	40.9
Sweden (1972)	6.0	11.4	17.4	24.3	40.5
United Kingdom (1977-8)	6.1	10.5	16.4	24.4	42.5

	Percent post-tax income of households ordered by quintile				
	1	2	3	4	5
Spain (1973-4)	6.0	11.8	16.9	23.1	42.3
France (1970)	4.3	9.8	16.3	22.7	46.9
Germany (1973)	6.5	10.3	15.0	21.9	46.1
Norway (1970)	6.3	12.9	18.5	24.7	37.3
Sweden (1972)	6.6	13.1	18.5	24.8	37.0
United Kingdom (1973)	7.4	11.4	17.0	24.7	39.5

Source: Sawyer (1982).

Table 3. Percentage of Left Vote (Socialist and Communist) in 1982 according to 'Subjective' Social Groups and Religious Practice.

		Subjective Social Class			
		Upper-Middle Middle-Middle	Lower Middle	Working Class	All
Religion	Practicing Catholics	6	17	31	23
	Irregular Practicing	13	43	48	43
	Non Practicing Catholics	28	50	62	55
	Non Believers	53	53	65	63
	All	17	33	47	

Own estimations based on data presented by Linz and Montero (1986).

Table 4. Spanish Support for the Welfare State

Speaking generally, do you think it should be the state's responsibility…	Yes, undoubtedly	It probably should	No, it shouldn't	Don't know
…to offer health coverage to everyone?	**80**	**18**	**1**	**1**
…to secure decent pensions to seniors?	**79**	**19**	**1**	**1**
…to offer scholarships to university students from low income families?	**74**	**23**	**2**	**2**
…to facilitate decent housing to low income families?	**68**	**28**	**2**	**2**
…to impose strict regulations on industry to reduce environmental damage?	**66**	**27**	**3**	**4**
…to give industry the support it needs in order to develop?	**61**	**31**	**4**	**4**
…to create a job for anyone demanding one?	**60**	**29**	**9**	**3**
…to provide decent subsidies to the unemployed?	**57**	**33**	**6**	**4**

Source: Centro de Investigaciones Sociológicas, January 1996. *Estudio* 2206.

Table 5. Public Spending in Spain, 1953-2001

	Education	Capital Formation	Social Expenditure
1953	0.7	n/a	n/a
1963	1.5	2.1	n/a
1970	2.1	2.7	9.5
1975	2.2	2.7	12.1
1980	3.3	1.9	18.1
1985	3.6	3.7	19.5
1990	4.1	4.9	20.1
1995	4.5	6.1	20.4
2001	4.3	5.1	18.9

Table 6. Social Spending Programs in Spain and the OECD, 1980-2001

		1980	1985	1990	1995	2001
Total	Spain	15.9	18.2	19.5	21.4	19.6
	EU-15	20.6	22.9	23.4	25.6	24.0
	OECD-23	17.9	19.8	20.9	22.9	22.1
Old-Age	Spain	6.4	7.7	8.3	9.3	8.9
	EU-15	8.1	9.0	9.3	10.2	9.9
	OECD-23	6.9	7.6	8.1	8.9	8.9
Health	Spain	4.3	4.4	5.3	5.5	5.4
	EU-15	5.6	5.6	5.7	6.0	6.1
	OECD-23	5.1	5.2	5.5	5.8	6.1
Unemployment and active labor policies	Spain	2.2	3.1	3.1	2.8	2.1
	EU-15	1.7	2.7	2.3	2.9	2.1
	OECD-23	1.4	2.2	2.0	2.4	1.7
Incapacity-related	Spain	2.4	2.5	2.3	2.6	2.4
	EU-15	3.1	3.1	3.2	3.1	2.9
	OECD-23	2.5	2.5	2.7	2.7	2.6
Other	Spain	0.5	0.3	0.5	1.1	0.8
	EU-15	2.6	2.7	2.9	3.3	3.0
	OECD-23	2.4	2.4	2.7	3.1	2.9

Source: OECD 2004, *Social Expenditure Database*.

Table 7. Tax Revenues and Tax Structure in Spain, 1965-2000

	Tax Revenues As % of GDP	Personal Income Tax as % of Total Taxes	Social Security Tax as % of Total Taxes
1965	14.7	14.3	28.3
1970	16.3	11.5	37.4
1975	18.8	14.5	47.5
1980	23.1	20.4	48.6
1985	27.8	19.7	41.3
1990	33.2	21.7	35.4
1995	32.8	23.6	36.2
2000	35.2	18.7	35.1

Source: OECD (2002).

Figure 1. GDP per capita, 1820-1930

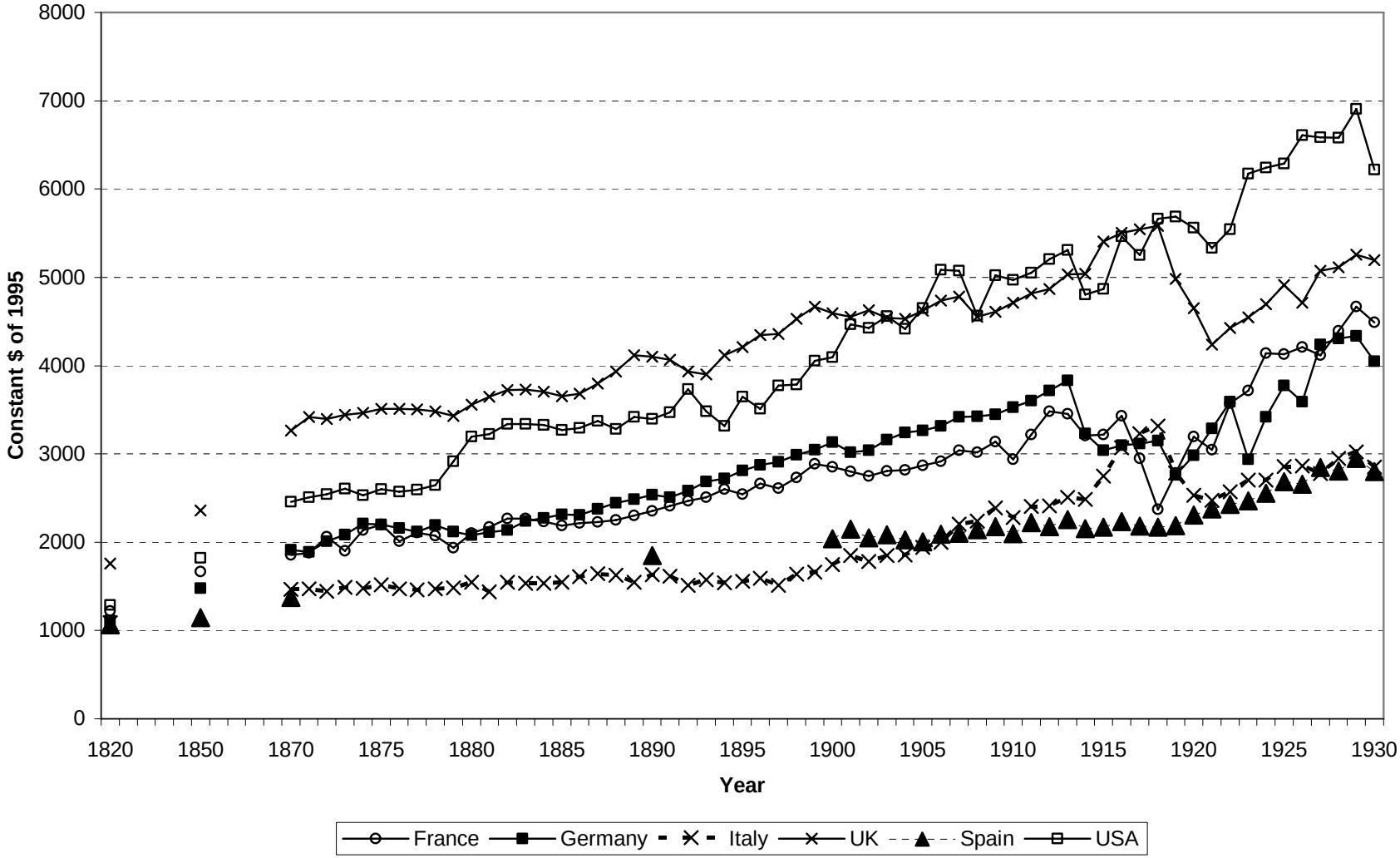


Figure 2. Sectoral Distribution of GDP in Spain, 1850-1930

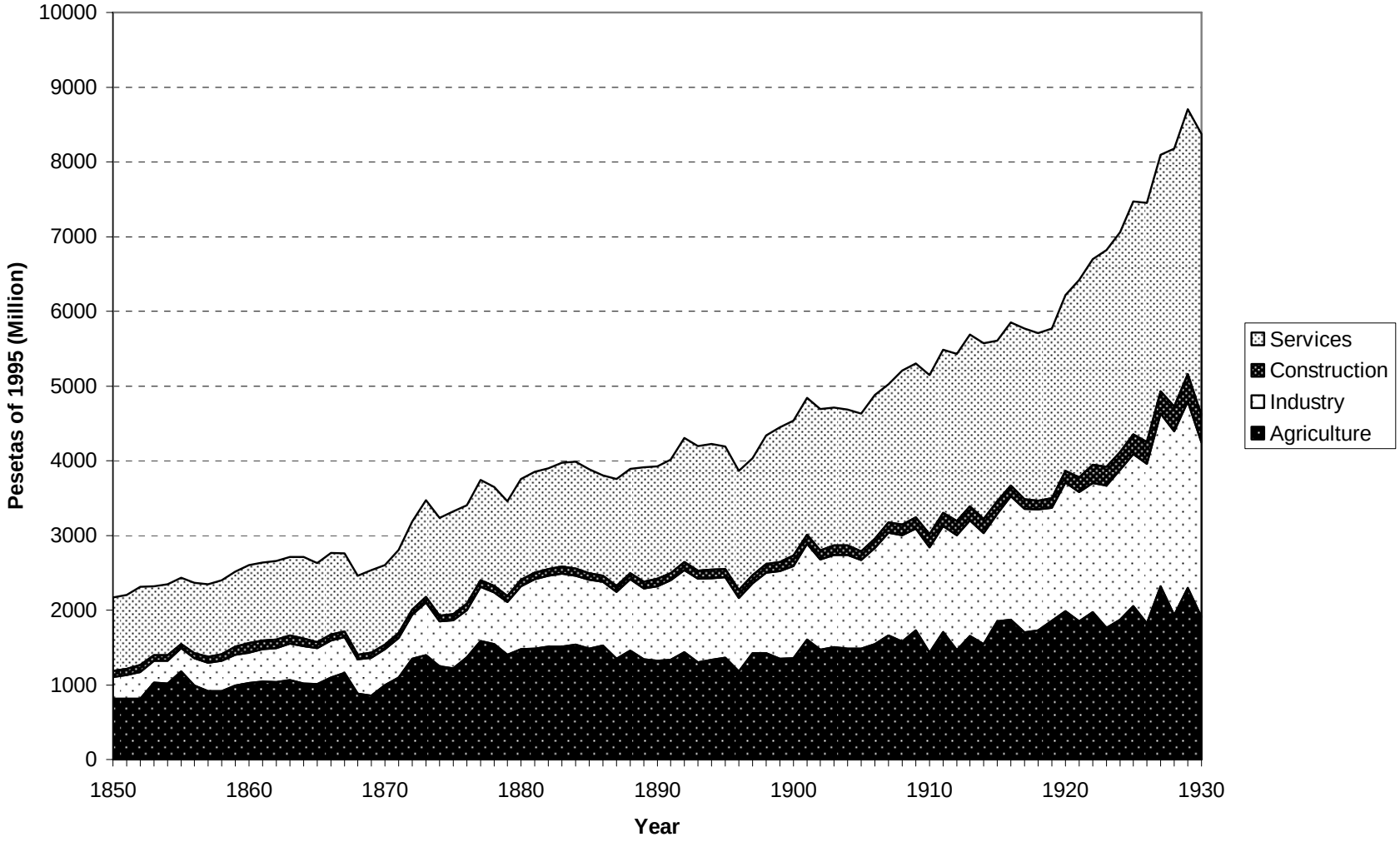


Figure 3. Annual Growth Rates in Spain, 1930-2000

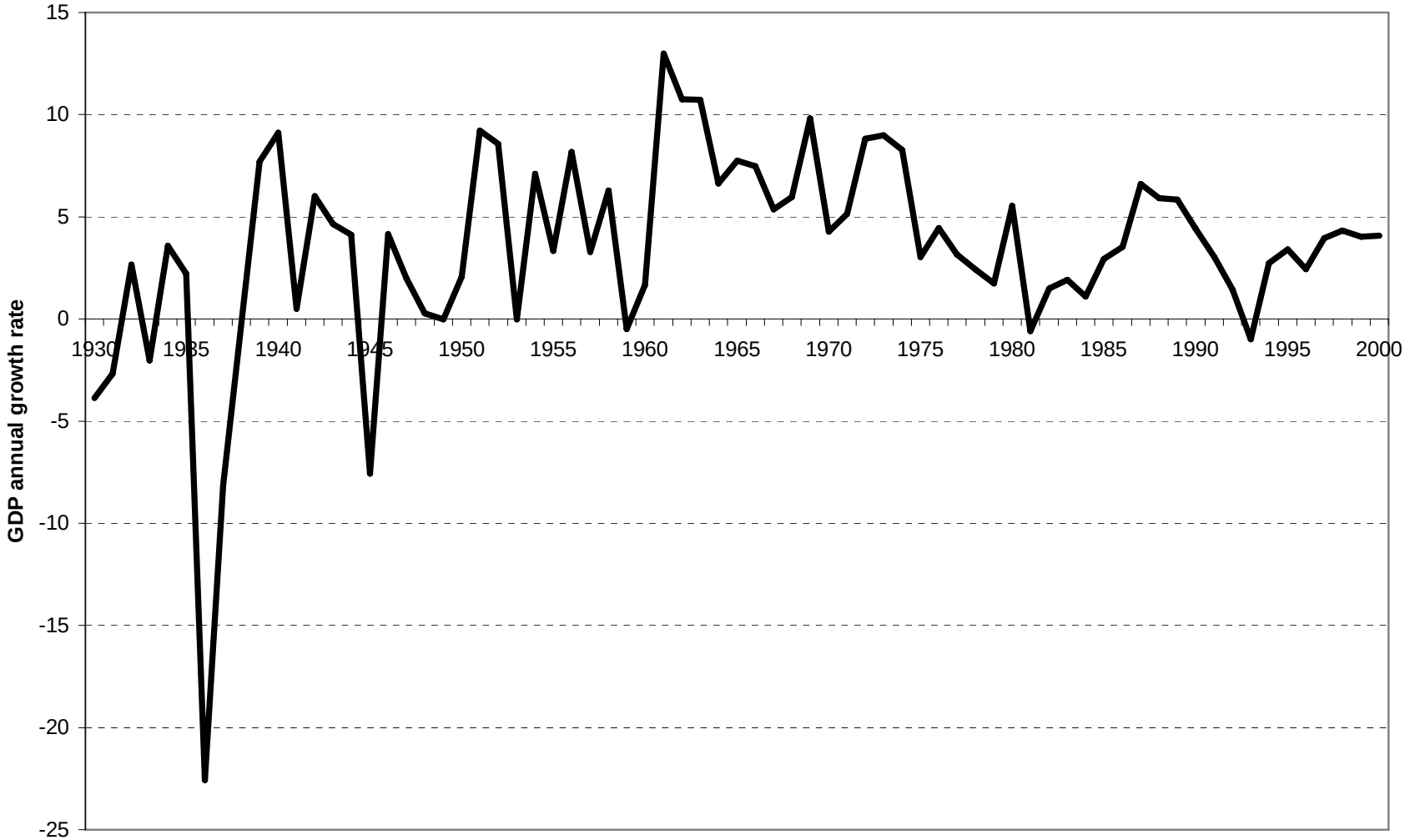


Figure 4. Sectoral Distribution of GDP in Spain, 1930-2000

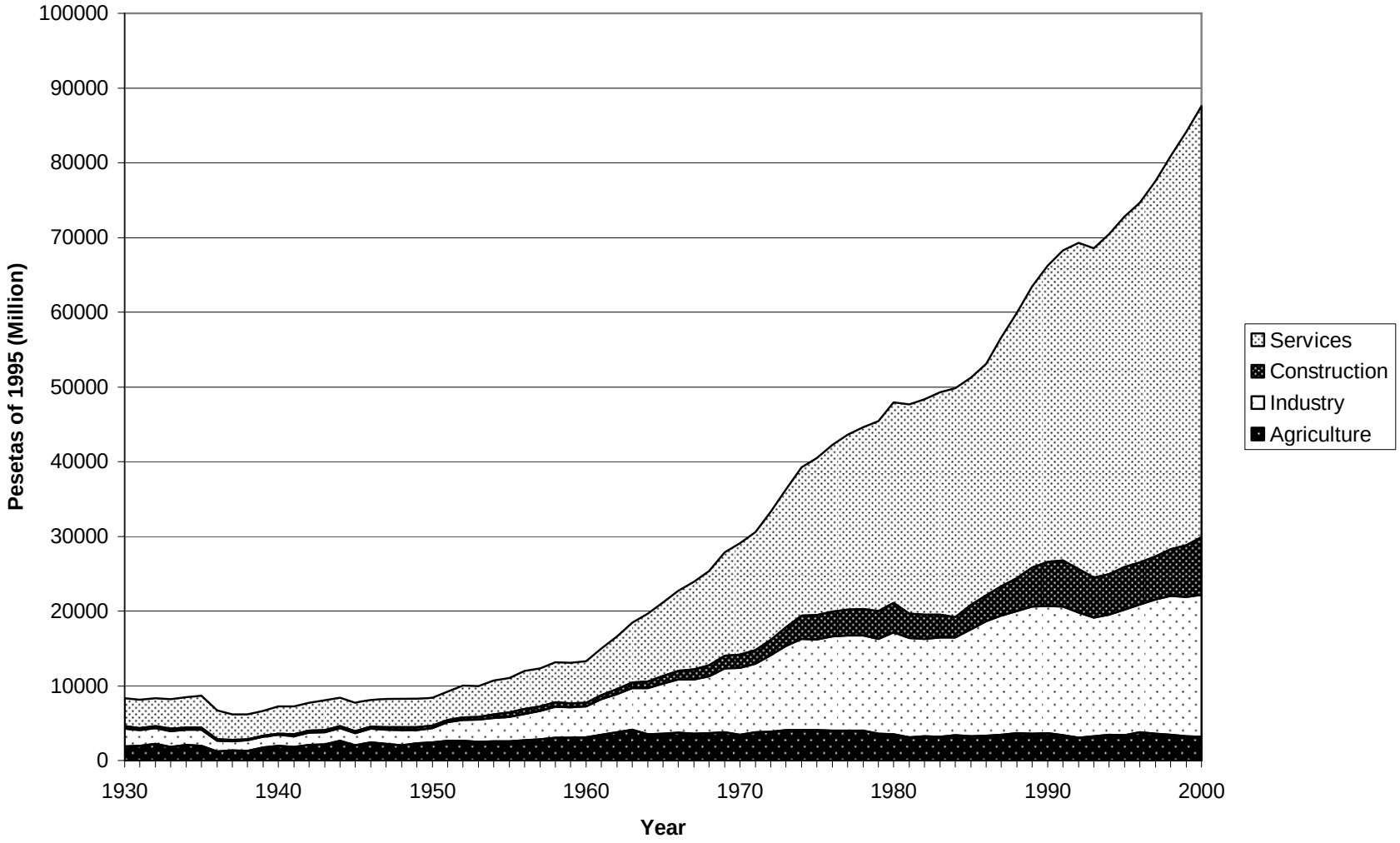


Figure 5
Inter-Regional Inequality in Spain

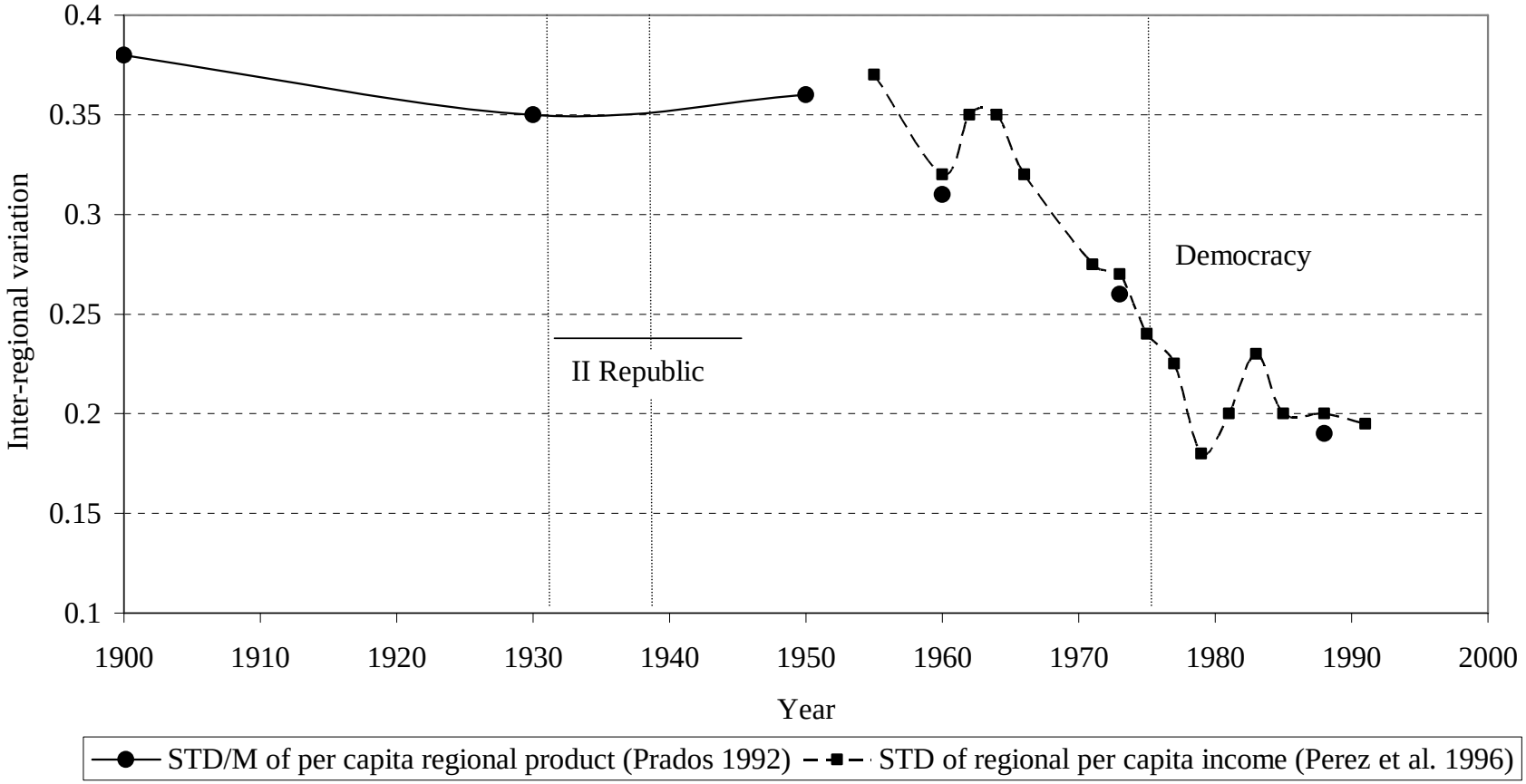


Figure 6
General Government Expenditure in Spain, 1970-1998



Figure 7
General Government Current Revenues in Spain, 1970-1998

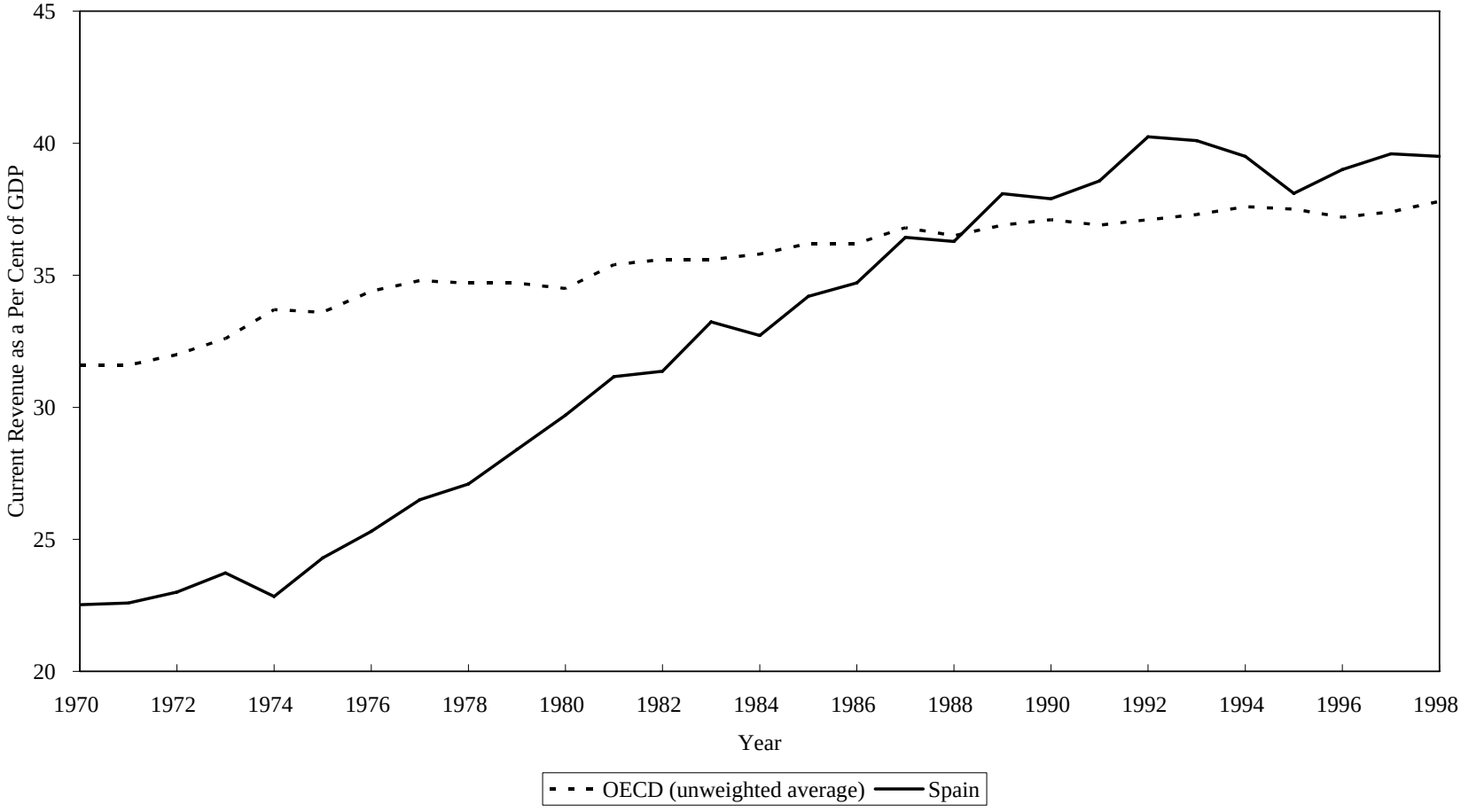


Figure 8. Public Revenue and Per Capita Income in Spain, 1960-1997

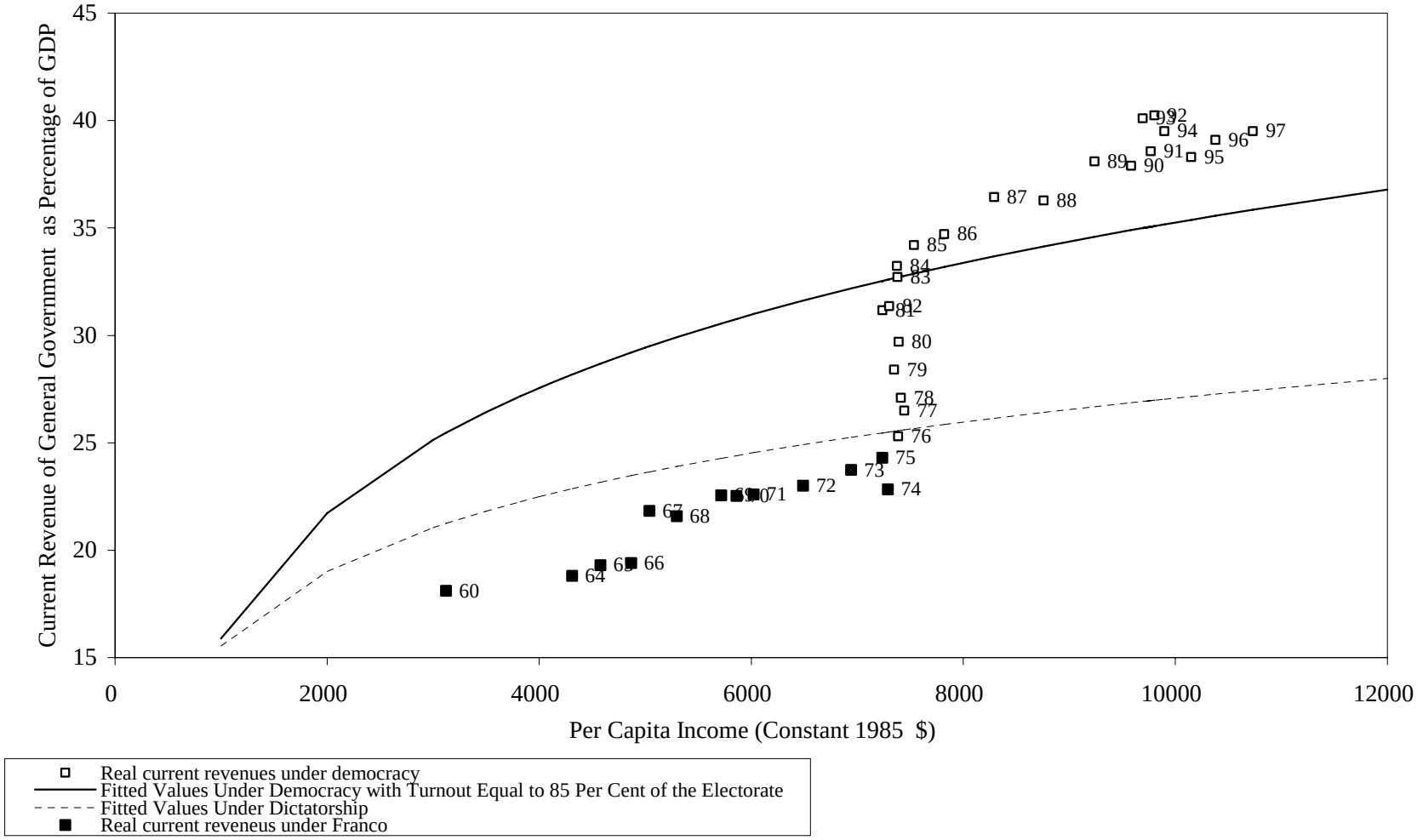


Figure 9. Spanish Unemployment, 1979-2002

