

GROWTH AND MACROECONOMIC PERFORMANCE IN SPAIN, 1939-1993

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Abstract

A distinctive case of post-World war growth, Spain's experience over the last fifty years is examined in this paper. After presenting trends in aggregate performance within a comparative convergence framework, institutional and macroeconomic features are explored as its ultimate explanations. Main phases are distinguished that correspond to the autarchy period (1939-1959), the years of growth and delayed reconstruction (1959-1975), the relative stagnation of the transition from Franco's dictatorship to democracy (1975-1985) which ended with Spain's membership of the European Community and gave way to a short period of accelerating growth abruptly stopped by the early-1990's recession.

Key words:

Spain; Economic growth; Catching-up; Autarchy; Trade liberalisation.

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Spain's growth over the last four decades constitutes a distinctive case in postwar Western Europe. This was largely due to the acceleration of the 1960's and early 1970's, that could be partially attributed to delayed reconstruction. Before 1960, autarchy was the rule and Spain's performance appears dissapointing from a catching-up perspective, since its rate of growth fell short the potential one implied by the country's backwardness. Two phases can be distinguished after Franco's death, one of economic retardation and political instability during the years of transition to democracy (1975-85) which coincided with the oil shocks, and another of return to fast growth after Spain became a member of the EC (1986), that ended with the recession of the early 1990's.

In this paper, Spain's economic growth since the Civil War (1936-39) is assessed. After presenting trends in aggregate performance within a comparative growth accounting framework, institutional and macroeconomic features in the main postwar phases are explored as ultimate historical explanations for Spanish performance.

1. Spain's economic performance in the long run.

After negligible growth in real GDP per head during the early nineteenth century, a sustained gain in product per head took place up to World War I (Table 1). New annual estimates

TABLE 1

COMPARATIVE PERFORMANCE OF SPAIN'S REAL GDP PER HEAD, 1850-1993
(LOG-LINEAR ADJUSTED GROWTH RATES)

	SPAIN	ITALY	FRANCE	GERMANY	U.K.	USA
1850-1890	1.3	0.4 ^a	1.3	1.4	1.2	1.6
1890-1913	0.8	1.5	1.4	1.7	0.9	2.1
1913-1929	2.0	0.9	2.7	1.8	-0.5	2.0
1920-1938	1.5 ^b	1.5	1.3	2.6	1.5	-0.2
1950-1960	3.5	4.7	3.5	6.7	2.2	1.0
1960-1973	6.3	4.3	4.2	3.4	2.4	2.6
1973-1993	2.0	2.3	1.7	1.9	1.8	1.6
1850-1913	0.9	0.7 ^c	1.3	1.5	1.1	1.7
1913-1950	0.3	0.6	0.6	1.5	1.1	1.8
1950-1993	4.1	3.5	3.0	3.1	2.1	1.8
1913-1960	0.7	1.2	1.4	2.1	1.2	1.9
1960-1993	3.6	3.0	2.6	2.4	1.9	1.8
1913-1993	2.5	2.6	2.5	2.8	1.7	1.9
1850-1993	1.5	1.9 ^d	1.7	1.9	1.2	1.7

Source: Prados de la Escosura (1995b).

^a 1861-1890, ^b 1920-1935, ^c 1861-1913, ^d 1861-1993.

emphasize the acceleration of growth between 1850 and 1890, particularly during the free-trading years (1860's-1880's), and the slowdown that followed the tariff of 1891 and the suspension of the peseta's gold convertibility (Prados de la Escosura (forthcoming)). The financial costs of the independence wars of Spain's last colonies (Cuba, Puerto Rico and the Philippines) contributed also to slackening economic growth.

The early twentieth century witnessed an acceleration in the rate of growth. A phase of remarkable acceleration in per capita growth and structural change took place from 1913 to 1929, followed by the 1930's depression, in which real product per head fell at -0.4 per cent annually between 1929 and 1935¹. Finally, the new evidence points to a fall in the level of economic activity per person, as a result of the Civil War (1936-1939), at a compound annual rate of -3.4 per cent between 1935 and 1940.

The reconstruction period was longer in Spain than in Western Europe and lasted until the 1960's, resulting in the level of income per head for 1929 (the highest for the pre-Civil War era) only being reached again in 1954². Autarchy presided since the end of the Civil War over a period of twenty years. After practically stagnating in per capita terms during in the 1940's (0.2 per cent), the 1950's witnessed a substantial growth per head as isolation was gradually relaxed³. However, a remarkable acceleration took place after the major policy reform of 1959, which lasted until 1975⁴. The post-Franco years were of faltering growth, with a yearly rate of 0.9 per cent per head between 1975 and 1985. Then, following the admission of Spain into the EEC, a return to the trend of the Golden Age took place up to 1990 (with per capita income growing at 4 per cent), only to slacken again at the beginning of the present decade.

In short, in early 20th century Spain sustained growth took place up to the Great Depression, when it was abruptly interrupted by the Civil War, from which recovery was slow under

Franco dictatorship's economic autarchy. Fast growth in the Golden Age, resulting to a large extent from the post-bellum reconstruction, ended abruptly after Franco's death (1975), which coincided with the first international oil crisis. With Spain's admission into the EEC (1986), an intense, short-lived recovery took place, before a return to slackening growth in the early 1990's.

When Spain's economic performance is placed within the international context, several distinctive features emerge (Table 1). The remarkable increase in Spain's real per capita income, over ten times since the mid-19th century, represents only a moderate pace of growth when it is compared to continental Europe's industrial nations. Spain's economic growth departed from a lower stand-point in terms of output per person, having stagnated over much of the early decades of the nineteenth century. By contrast, western European nations industrialized leading to a deterioration in Spain's international position. Thus, it intuitively appears that the (unconditional) convergence hypothesis, according to which growth rates correlate inversely to departing levels, does not seem to apply to Spain's historical experience prior 1960.

In the search for differentials in Spanish economic performance several significant periods emerge. From mid-nineteenth century up to the Spanish Civil War (1936), only the moderately free-trading decades 1860's-1880's and the 1920's represent a mild attempt to catch-up with Western European

industrial nations. In the late twentieth century, the 1960-1975 period is a major step to closing up the gap. Conversely, three periods appear to be responsible for the widening gap between Spain and the advanced Western European nations, i.e., 1890-1913, 1939-1959, and 1975-1985. The turn of the century seems to have been a lost opportunity for closing the gap as the comparison with other late comers such as Giolittian Italy, Sweden or Russia suggests (Prados de la Escosura (forthcoming)).

Economists and historians usually stress Spain's poor economic performance under autarchy (1939-1959), in particular during the 1940s. It appears, however, that the 1950s, a decade of generalised growth in western Europe, could be associated in Spain to incomplete catching-up, as the comparison with Germany and Italy tend to suggest. In the 1950's, as forces making for growth and convergence were stronger, those countries, like Spain, that failed partly to catch-up seem to have paid a heavier penalty than would have been the case in phases of slowing down. Countries such as Spain which remained closed and did not compete in international markets, could not share the productivity growth benefits deriving from the leading nations (Baumol (1986)).

Nevertheless, when the Civil War is excluded, the largest loss in relative levels of income per head (but not in productivity due to high unemployment) emerges from the years between Franco's death (1975) and Spain's admission in the European Community (1986). Systematic historical research on the period is lacking and only superficial explanatory hypotheses

relating poor performance to the difficult transition to a democratic regime have been proposed. However, deeper institutional reasons seem to have been at work, such as an over-regulated, heavily protected economy which was cut-off from the international market (see sections 6-7 below).

Resource endowments in the postwar period provide some clues about Spain's growth. Physical and human capital accumulation was significant in the post-1950 era, while labour expanded only slowly. Employment grew at 0.8 per cent annually between 1955 and 1974⁵, to decline, over the following two decades, at -0.5 per cent, while the labour force expanded at 0.7 per cent. Educational attainment, as measured by the average years of schooling, grew at an average annual rate of 2.2 per cent in the period 1950-1975, and, again, at 1.7 per cent per year from 1975 to 1985 (Barro & Lee (1993)). In turn, gross fixed capital stock grew faster than output from 1950 to 1973, and the differential growth rate widened thereafter (Hofman (1993a))⁶. In the period 1950-1973, capital deepening, (i.e., capital stock relative to population), took place at an annual growth rate of 5.7 per cent for non-residential capital stock, and, even more rapidly for machinery and equipment (8.6 per cent). Although such a process continued over 1973-1989, it slowed down for non-residential capital (to 4.5 per cent) and, especially, for machinery and equipment (down to 3.7 per cent)⁷. A rapid catching up in terms of non-residential capital endowment per head occurred up to 1973, decelerating thereafter (Hofman (1993b); Maddison (1993))⁸. Given the role attributed to capital in machinery and equipment

as carriers of new technology (De Long & Summers (1991)), its slackening after 1973 could be associated to lower joint factor productivity growth⁹.

TABLE 2
SOURCES OF SPAIN'S ECONOMIC GROWTH, 1965-1990

	<u>1965-1974</u>	<u>1975-1985</u>	<u>1986-1990</u>	<u>1965-1990</u>
1 Real GDP growth	6.48	1.37	4.41	3.89
2 Labour	0.72	-1.62	3.00	0.15
3 Contribution to GDP growth	0.42	-0.90	1.69	0.10
4 Capital	9.82	3.46	5.28	6.21
5 Contribution of GDP growth	2.25	0.66	1.40	1.41
6 Total Factor Productivity	3.81	1.61	1.32	2.38
7 (3) As % of DGP growth	6.5	-65.7	38.3	2.6
8 (5) As % of GDP growth	34.7	48.2	31.7	36.2
9 (6) As % of GDP growth	58.8	117.5	30.0	61.2

Source: Suárez (1992).

A look at the sources of growth can help us to assess the proximate determinants of postwar Spanish performance. For the period 1965-1990, an estimate has been carried out by Suárez (1992), who relaxed usual assumptions about constant returns to scale, perfect competition, and exogenous technical progress¹⁰. At the economy's aggregate level, however, Suárez found evidence of non-increasing returns to scale. Table 2 summarizes his results¹¹. Total factor productivity dominates Spanish economic

growth in the long-run, complemented by capital's contribution. Only after Spain's admission into the EC (1986), labour made a significant contribution to growth, offsetting total factor productivity's sluggish growth after 1975. Labour destruction in Spain represented a significant brake to growth over the decade after Franco's death. Deep changes in the composition of output and employment, together with a dramatic increase in R & D activities, help to explain total factor productivity growth up to 1975 (and TFP deceleration thereafter, once structural transformation slowed down until 1985).

TABLE 3

RELATIVE GROWTH OF SPAIN'S REAL GDP PER HEAD
(SPAIN'S DEVIATIONS FROM OECD GROWTH)

	<u>1950-1960</u>	<u>1960-1973</u>	<u>1973-1985</u>
<u>ACTUAL GROWTH DEVIATION</u>	0.89	2.15	-0.31
LESS - Cyclical Bias	-0.15	0.45	0.22
- Catch-up	1.13	0.90	0.42
= <u>ADJUSTED GROWTH DEVIATION</u>	-0.09	0.80	-0.95
LESS - Employment Deepening	0.21	-0.11	-1.27
- Capital Deepening	-0.25	-0.27	-0.24
= <u>UNEXPLAINED GROWTH DEVIATION</u>	-0.06	1.18	0.56

Source: Dowrick & Nguyen (1989).

Empirical research within the on-going debate on convergence and catching-up, has provided evidence on the case of Spain. Thus, Spain's economic performance can be analysed using a convergence equation. Dowrick and Nguyen (1989) have tested whether post-1950 convergence within OECD countries is explained by total factor productivity catching-up, or just by the growth of factor intensities, with their results supporting the former. Their individual country data set includes evidence for Spain which is presented in Table 3. Each country's deviations from OECD trend growth, after being adjusted for catching up, is decomposed into capital and employment deepening (i.e., relative to population growth) and unexplained growth. Dowrick and Nguyen's unexplained residual accounts for more than half Spain's differential growth in the 1960's and early 1970's, and exhibits the opposite sign (doubling the size of the actual growth deviation) for the 1973-1985 period. Such an outcome could provide enough grounds to dismiss the exercise on the basis of its low explanatory power. However, the story that emerges from it, when the unexplained growth deviation is associated to joint factor productivity, seems to be a plausible one, as it is consistent with the evidence already presented in Table 2, stressing TFP role in Spain's growth. Thus, according to Dowrick & Nguyen, catch-up accounts for the differential trend growth in the 1950's, and for half of it in the 1960's and early 1970's and, in turn, prevented a poorer performance from the 1973 oil shock onwards. When compared to OECD adjusted growth, Spain performed slightly below the average in the 1950's, with the increase in employment (relative to population) offsetting the low

investment ratio per head. Since 1960, total factor productivity was the only positive contribution to adjusted growth as a result of poor capital and employment deepening¹². In fact, TFP growth (including a re-allocation of resources away from agriculture) was not enough to maintain convergence towards the advanced nations after 1973, particularly as massive employment destruction took place since the late 1970's.

TABLE 4

DIFFERENTIAL GROWTH OF SPAIN'S REAL GDP PER HEAD
(WITH RESPECT TO THE OECD AVERAGE)

	<u>1965-1975</u>	<u>1975-1985</u>	<u>1985-1990</u>
A <u>Growth Differential</u>	<u>1.19</u>	<u>-1.31</u>	<u>1.69</u>
DUE TO:			
B Initial income per head	0.28	0.23	0.30
C Real Investment/GDP	-0.07	-0.16	-0.10
D Human Capital	-0.12	-0.02	0.02
E Population Growth	0.00	-0.01	0.02
F <u>Solow factors</u> (B+C+D+E)	<u>0.09</u>	<u>0.04</u>	<u>0.24</u>
G Inflation	-0.15	-0.25	0.07
H Money Growth	0.59	0.00	0.50
I Variance Inflation	0.08	0.26	0.37
J Exports Growth	0.44	0.15	-0.30
K Lagged Public Deficit/GDP	0.00	-0.08	0.05
L <u>Macroeconomic Performance</u> (G+H+I+J+K)	<u>0.96</u>	<u>0.07</u>	<u>0.68</u>
M <u>Unexplained Residual</u>	<u>0.15</u>	<u>-1.43</u>	<u>0.77</u>

Source: Andrés, Bosca & Doménech (1994).

Pro-Memoria: Average GDP per head growth in the OECD, 1965-1975, 3.35 per cent annually; 1975-1985, 2.05 per cent; 1985-1990, 2.45 per cent.

However, despite the usual association between the unexplained residual and total factor productivity, economists

remain dissatisfied and try to take a closer look at the Solow residual. In a recent paper, Andrés, Bosca and Doménech (1994) have differentiated between Solow elements (derived from an augmented Solow model with human capital) and macroeconomic performance in OECD countries' growth since 1965¹³. Table 4 presents their results for Spain showing positive deviations to OECD growth up to 1975, and from 1985 onwards, and a negative deviation for the "transition to democracy" decade, 1975-1985, and, in all periods, a positive catch-up term and negative contributions of factor endowment growth. These results tend to support findings from a previous exercise (Table 3). As can be gathered from Table 4, macroeconomic performance and the unexplained residual, that can be associated to TFP growth, account for most Spain's differential growth¹⁴. Prior to 1975, macroeconomic behaviour seems to explain most (80 per cent) of Spain's positive deviation from the OECD average growth, with money and exports growth as its main factors. However, in the transition years from dictatorship to democracy, macroeconomic instability (high inflation, unbalanced budget) led Spain to under-perform. Finally, since Spain became member of the EEC (1986), macroeconomic performance (lower inflation and money, but not export, growth) contributed to a positive growth differential (up to 40 per cent).

It may be concluded, then, that the analysis of proximate determinants of growth largely confirms, and extends, the more descriptive evaluation carried out earlier in the paper. In the rest of it, a closer look at the main phases of macroeconomic

performance can illuminate the search for ultimate causes of growth in which the role of incentives provided by the institutional framework appears to be determinant.

2. The Legacy of the 1930's and The Civil War (1936-1939).

The impact of the Great Depression on Spain, is not only a major economic but also a political and social issue, as it coincided with the instauration of Spain's Second Republic (1931), after more than half a century of constitutional monarchy, that ended in a bloody civil war (1936-39). Was the Depression a significant cause of the political and social unrest? Did economic policies exacerbate the political and social climate leading to civil strife and, eventually, to a military uprising?. Historical studies have tended to confirm contemporary perceptions of a relatively mild impact of Depression, as the relatively moderate decline in factor returns and prices would suggest (Comin (1987)). It has been argued, however, that a shift towards a restrictive budget policy and the interruption of public works, together with uncertainty about the new political regime, were major causes of the 1930's crisis in Spain (Palafox (1986, 1991)). Legal changes favourable to the trade unions -e.g., the reduction in the number of hours worked (Soto (1989))- might have reduce incentives for firms to invest under the Republic (Comin (1994)). Another view points to a tighter link to the international depression through the external sector that was aggravated by inadequate financial and monetary policies

(Hernández Andreu (1980, 1986)). A look at the latest empirical evidence tends to confirm the idea of a milder impact of the Depression on Spain, given the small decline in the level of real GDP per head (Prados de la Escosura (1995b)), while outwardly oriented sectors suffered a deeper impact (Comín (1987)). Moreover, recent research suggests a less important role for the Government in the economy given its size, the policy instruments available and the dominant ideologies in Spain at the time. Policies, both monetary and fiscal, were not restrictive but the opposite, as the budget was used as an anti-cyclical instrument offsetting the decline in private investment and exports (Martín Aceña & Comín (1984); García Santos & Martín Aceña (1990)).

What cause the 1936-39 Civil War, then ?. A consensus appears to exist pointing to non economic causes. However, expectations after the collapse of the monarchy were not fulfilled, as proposals for land reform, industrial relations, and welfare improvements were not completed or enforced, leading to social unrest and a military *coup d'etat* (Martín Aceña (1994); Palafox (1991)). Finally, given the vigorous growth during the Interwar period, it could be boldly suggested that the Spanish Civil War might be represented as a re-distributional conflict resulting from the social and political tensions of an earlier rapid growth period, rather than from poverty and economic stagnation as has been advocated by historians.

The impact of the Civil War on production factors and institutions was not negligible. War affected the endowment and

proportion of production factors though, when compared to the European post-World War II experience, Spain's physical capital was probably damaged to a much lesser extent than human capital. Industrial areas were hardly affected by war destruction which concentrated on residential construction, the transportation network and livestock (Malefakis (1987); Barciela (1986); Catalán (1992)). In turn, post-war exile and internal repression removed a large proportion of human capital (López (1991)). The post-war increase in the human-physical capital ratio, apparently a common feature to most war-damaged countries that might have had a significant contribution to the reconstruction, through an increase in the productivity of capital (Dumke (1990), hardly took place in the case of Spain, and helps explain the country's poorer performance during the 1950's¹⁵.

3. Reconstruction: Spain under autarchy, 1939-1959.

A major difference between Spain and the rest of post-1945 Western Europe (if Salazar's Portugal is excluded) was Franco's dictatorship, that emerged from the Civil War and lasted until 1975. The dictatorship presided over a four decade period in which a clear distinction can be made between autarchy and outward looking development, with the 1959 stabilization plan as a turning point (though, nonetheless, clear differences are noticeable between the 1940's and 1950's). Franco's political regime may be defined as a authoritarian system based upon a limited pluralism of political groups around the dictator, who

behaved as a maximizer of power (time and quantity) under constraints derived from internal political and economic conditions and the international context (González (1979)). Although not without a background¹⁶, Franco's regime was a distinctive one, in which fascism and traditional authoritarianism blended from its very beginning. However, the autocratic regime evolved enough to adjust from isolation and self-sufficiency, in which the economy grew below potential -even during the recovery of the 1950's (Table 3)-, to a cautiously outward-looking economy reaping opportunities to reduce the technological gap with advanced European nations (Donges (1971)).

Thus, the extent to which fast growth under Franco after 1960 may be attributed to the dictatorship's economic policies and social stability, is a still debated issue. Had it been the case, a painfully achieved, stable institutional framework, might have provided permissive elements for economic development, such as an increasing improvement in the definition and enforcement of property rights, a reduction in transaction costs, and a paternalistic attitude on the part of the State, gradually moving away from absolute interventionism during the 1950's (González (1979, 1990); Martín Aceña (1994)). To elucidate whether there was a causal link between Francoism and growth and catching up, macroeconomic performance under the dictatorship will be surveyed and its main policies discussed below. However, some caveats about the beginnings of Franco's dictatorship are previously required¹⁷. Uncertainty about its viability after World War II, led Franco's regime to give priority to immediate political

stability over any other competing goal, even though such a choice would condition subsequent growth through a misallocation of resources. This strong constraint provided, in turn, a specially advantageous position to those (already powerful) small groups and coalitions which, in exchange for support to the dictatorship, would derive rents from the public sector and even control the State's economic decisions (Fraile (1991, 1993)).

After the Civil War, the new economic authorities decided to follow a new scheme of autarchic development. Such a choice, favoured by the new authorities' ideology, was conditioned by the international isolation that followed the axis powers' defeat in World War II. A widely accepted perception of Spain as a backward, non-industrialized society, in which both private firms (because of the lack of entrepreneurship) and the Government (through free trade policies) had failed to promote industrialization, led the way to view the new totalitarian State as the only institution able to achieve Spain's sustained growth and catching up through economic intervention (Martín Aceña & Comín (1991)).

In post-war Spain, as in the rest of Europe after 1945, Government intervention was perceived as a crucial instrument for the post-bellum recovery. World War II and the United Nations' boycott (1946), plus the exclusion from reconstruction plans and international organizations (i.e., Marshall Aid, Breton Woods), reinforced nationalistic tendencies towards self-sufficiency, though the Cold War gradually relaxed Spain's isolation

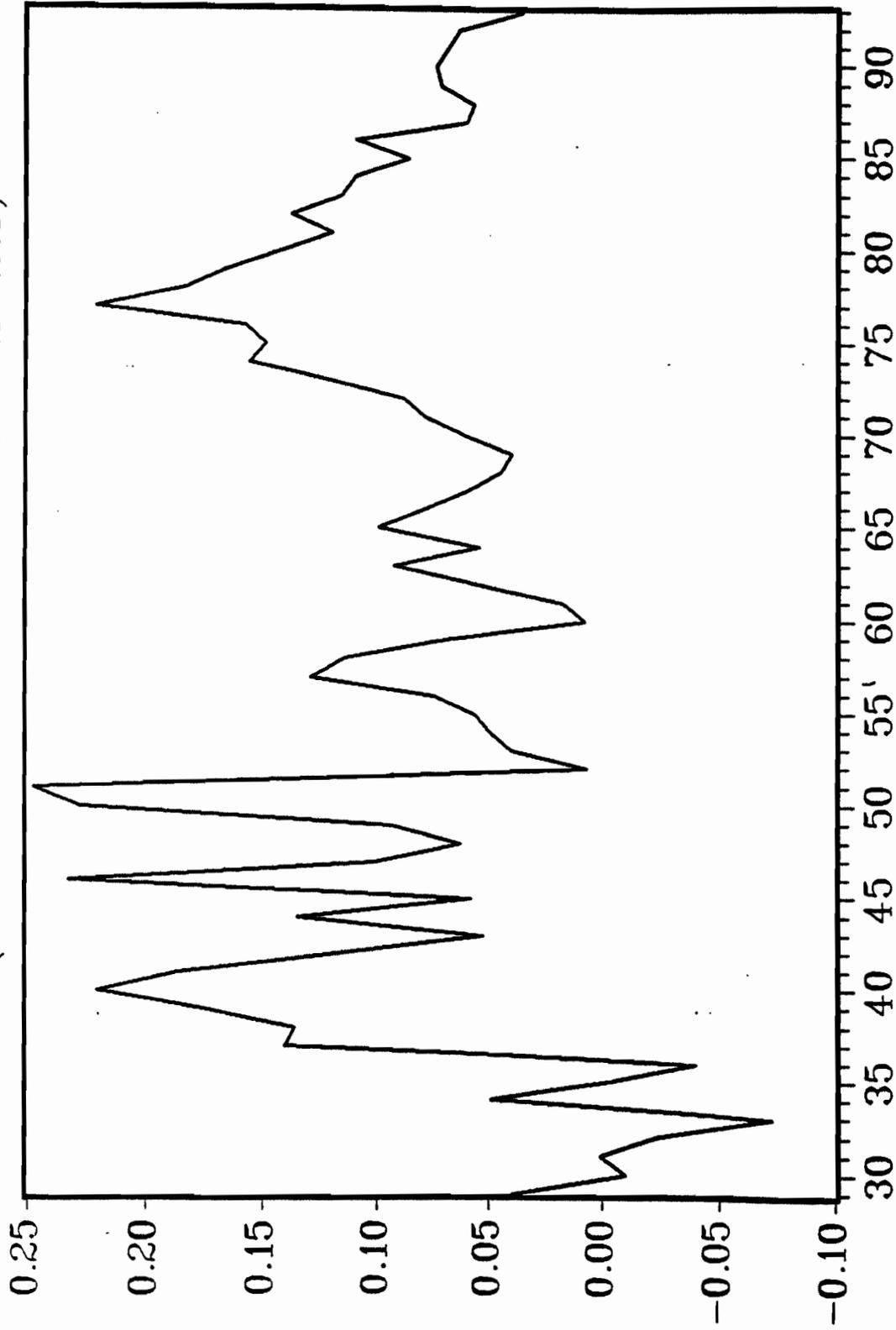
throughout the 1950's¹⁸. Eagerness to embrace regulation and state intervention was a common feature of postwar Europe, counterweighted by the Marshall Plan which, in turn, provided the environment for a pro-market economic policy (De Long & Eichengreen (1993)). Although American Aid started in 1951 and led to influential economic and military agreements in 1953, Spain's case provides support for the counterfactual proposition posing that, had the Marshall Plan not been enforced, product and factor markets controls, quotas and foreign exchange rationing would have dominated economic policies. In fact, Government intervention and planning in Spain aimed at reaching economic self-sufficiency, including technological independence -once the expectations of technological transfers from nazi Germany vanished (López (1991)-, regardless of the opportunity cost involved. Nevertheless, Spain obtained 1.1 billion dollars from the U.S. Government over 1951-59, which amounted to 18 per cent of the goods and services imported during these years (or 1.6 per cent of GDP). Had Spain received the 676 million dollar aid in a single year expected from the Marshall Plan by the Francoist authorities, it would have represented over 20 per cent of 1949 GDP (Donges (1976); Prados de la Escosura (1995a, 1995b)).

The need for relying on a coalition of nationalistic and fascist elements during the initial uncertain stages of the new regime conditioned the dictatorship's industrial policy, aggravated by the lack of managerial and engineering skills needed to carry it forward. Industrialists, who had opposed the Republic's welfare and re-distributive policies, adopted a

hesitant attitude towards the Franco's regime in its early stages. Thus, the lack of human capital, on the one hand, and the new regime's urges to industrialize, on the other, made of asymmetrical information and the flow of personnel from private industries to interventory agencies, strategic factors, eventually leading to the capture of these agencies by interest groups (Fraile (1993)).

The autarchic model of development was built around a policy of protectionism which persistently aimed at import substitution using two basic tools: quantitative restrictions and exchange controls. Indiscriminate protectionist policies had deleterious effects on Spanish economic performance according to most economists and historians. The exchange control policy implied the imposition of an official fixed exchange rate within a context of persistent inflation differentials between Spain and its commercial partners that constituted a permanent strain on the Spanish currency towards revaluation¹⁹. The appreciation of the real exchange rate of the peseta implied a drag on exports and a stimulus on imports, and tended to exhaust foreign reserves. Such a tendency could not be compensated in the 1950's either by the multiple exchange rate system²⁰, or the so-called "special accounts"²¹. Bilateral trade agreements (quotas by country and product) and a trade licensing system were the alternative that resulted in high costs, in terms of efficiency, by providing the appropriate environment for rent-seeking and corruption. A foreign exchange black market developed and the

GRAPH 1. RATE OF INFLATION, 1929-1993 (%)
(calculated from the GDP deflator)



Sources: Prados de la Escosura (1994a)

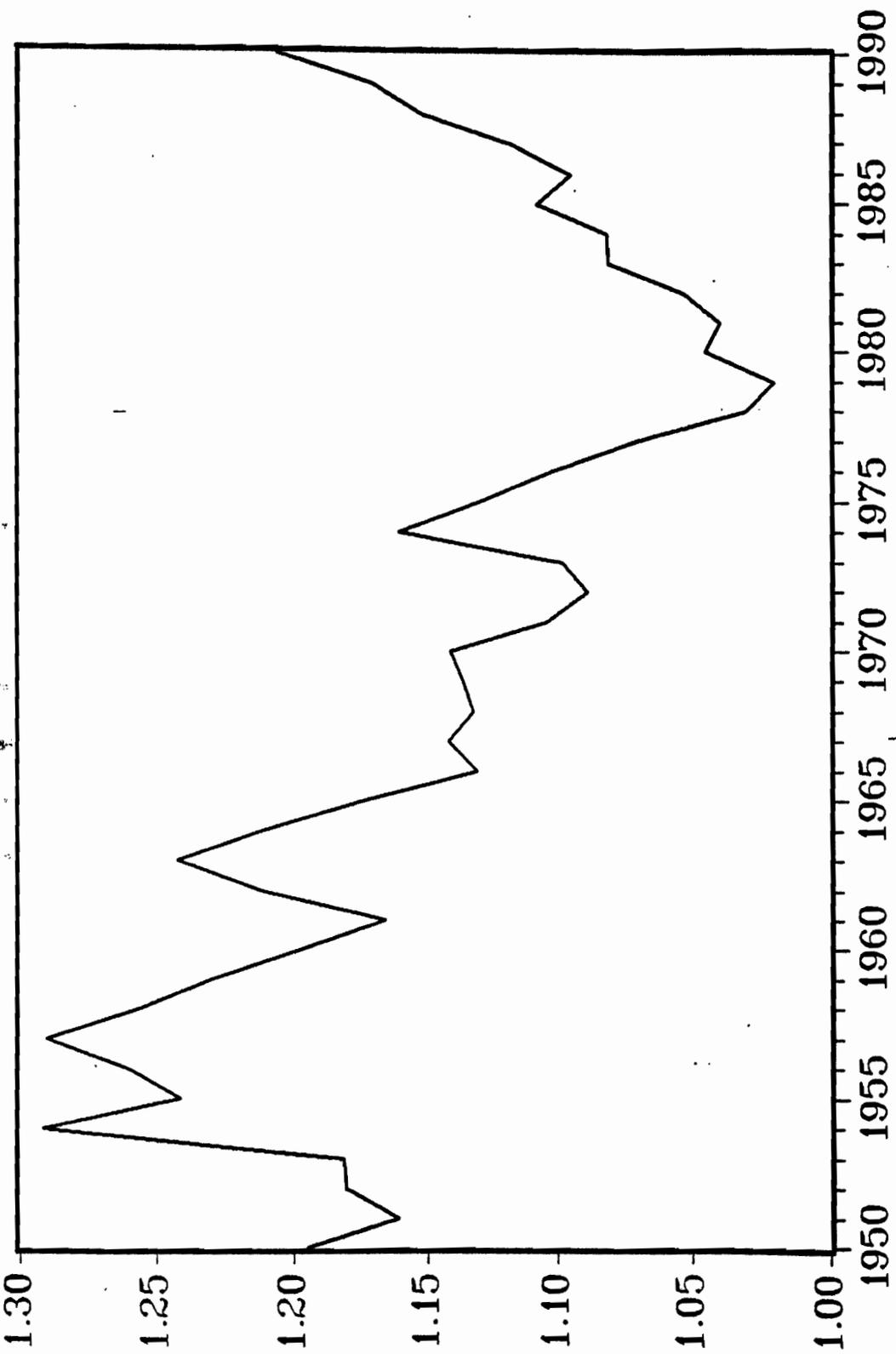
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Spanish currency experienced substantial depreciation. The imposition of a top limit for foreign investments in the Spanish industry (25% of the capital of the firm) was a complementary procedure to prevent national firms from falling under the control of foreign capital. A proximate measure of the import substitution bias induced by trade controls can be gathered from the ratio of domestic to c.i.f. prices for imported goods. According to Donges (1971), such a ratio multiplied by 2.5 over 1948/49-1958/59. Import substitution took place mainly among consumer goods and to a lesser extent among intermediate and capital goods. The contribution of import substitution to output growth represented, for consumer goods, 75 per cent in the 1940's and 60 per cent in the 1950's, while for intermediate and capital goods, it provided 70 and 49 per cent of its increase in the forties, and 24 and 106 per cent in the fifties, respectively (Donges (1976:155)). Inward looking policies created serious bottlenecks for industrialization as traditional export earnings collapsed and the scarcity of foreign exchange put a brake on industrial growth by restricting the supply of raw materials and capital goods. Firms, usually small and relying on obsolete techniques, acted below full productive capacity due to shortage of inputs (or the uncertainty in obtaining them) and did not take advantage from economies of scale. In short, import substituting industrialization (ISI) resulted in low organizational levels and technical efficiency.

Another major feature of Spanish autarchy was a systematic policy of Government intervention and regulation of the economy. The State controlled every step in economic activity through a licensing system for starting and enlarging industries. The authorities also regulated prices for commodities considered vital for industrialization and controlled the evolution of nominal wages in the labour market. A rationing system was introduced and remained in use until the early 1950's while, at the same time, Government agencies took control of food distribution (Barciela (1986)) and price regulations for agricultural and industrial goods were established (though the latter were relaxed in the 1950's) (De la Dehesa et alia (1991)). Distorsion in intersectoral terms of trade contributed to diverting resources from agriculture to industry in an attempt to foster industrialization. In addition, protection and internal regulation forced relative prices of capital goods upwards, resulting in a lower rate of investment for a given level of savings and, consequently, reducing the rate of growth of Spanish economy²².

A strategic instrument for Government intervention was the *Instituto Nacional de Industria* (INI), founded in 1941 and replicated from the Italian IRI, which organized and directed public investment in the 1940's and 1950's, and still today provides a powerful instrument of industrial policy. Both the failure of post-Civil War attempts to promote private investment through Government incentives and the political uncertainty during the Second World War, led Franco's pro-axis Government to

GRAPH 2. RELATIVE PRICE OF CAPITAL GOODS, 1950-1990
 (ratio of PPP price level of investment to PPP price level of GDP*)



* PPP price levels for investment and GDP relative to those of the US

— PRISP

Source: Summers & Heston (1993) PWT5.5

shift to direct intervention into economic activity. INI was established to coordinate a fast, self-sufficient industrialization through a program of investments in public infrastructure and the creation of strategic industries (including defense), involving high capital requirements, high risks, or short-run low profits. INI's intervention included a great variety of activities, ranging from basic services to manufacturing and mining but, under autarchy, it specialised in the production of energy and intermediate goods responding to the economy's bottlenecks and contributing to national defense. INI's role in postwar industrialization has been critically evaluated. In short, it has been argued that, while INI eliminated bottlenecks with its heavy investment, it was an instrument of inward-looking strategy that led to a misallocation of resources (Martín Aceña & Comín (1991)).

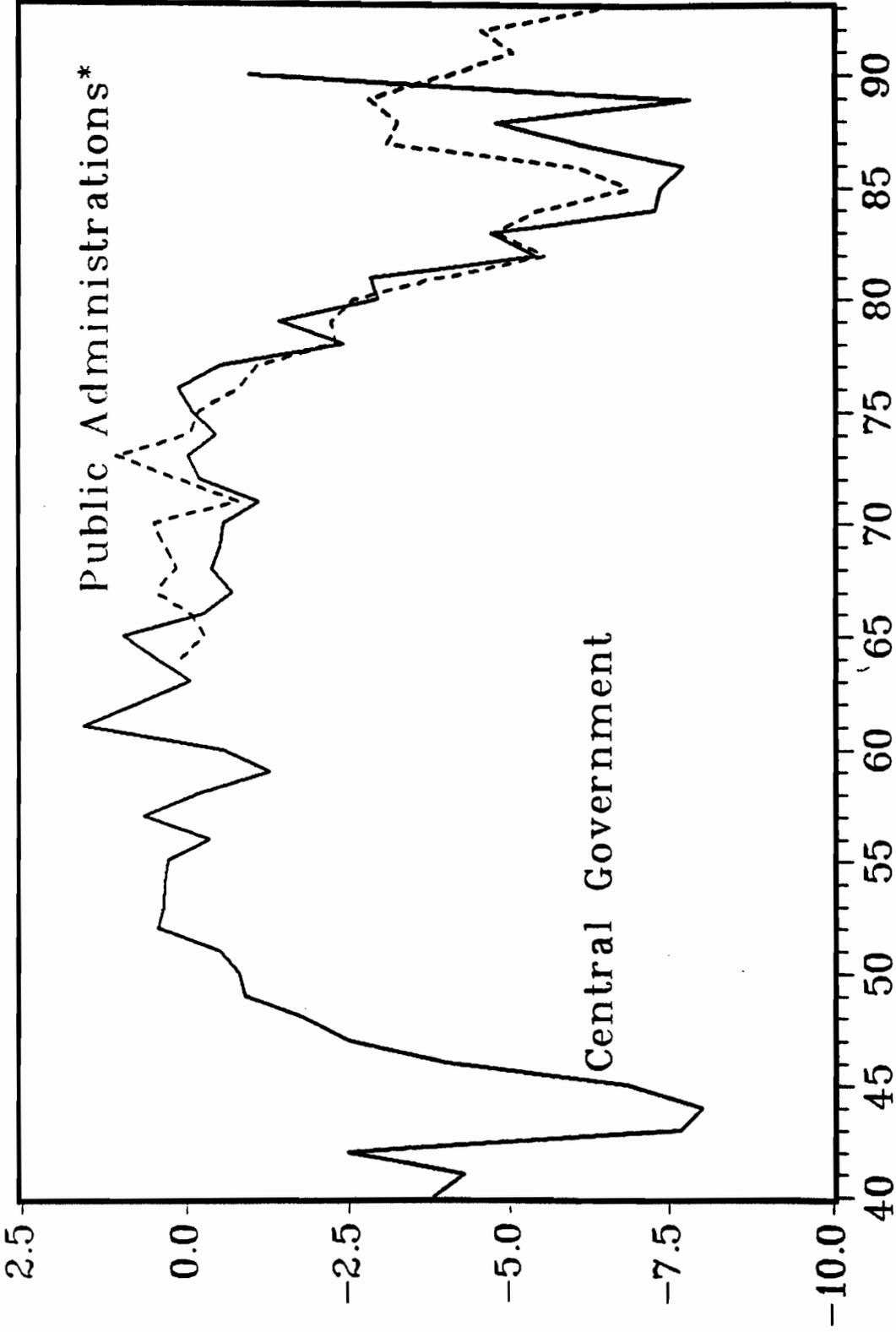
A differential feature in Spain with respect to the economic measures followed in most post-war Western European countries was maintaining a pre-Keynesian fiscal policy. In fact, Franco's cabinets kept orthodox ideas about a balanced budget and the control of public expenditure -that was achieved in the 1950's-, while stuck to economic nationalism and intervention. In fact, neither full employment nor income redistribution policies were enforced in the post-Civil War era. Under autarchy, the Government budget did not contribute to raise effective demand by establishing unemployment benefits, nor a progressive income tax was applied, and automatic stabilizers were not introduced up to the 1950's. Government' budget expenditure on public works,

education, health, housing or social insurance were of little significance in the post-Civil War years. In fact, social transfers and education remained on average below 10 per cent of total central Government expenditure until 1950, and below 15 per cent until the mid-1960's (Comín (1994)). A full quantitative evaluation of the consequences of such a policy, as opposed to a Keynesian approach, is still awaited but it is considered to have reduced economic growth (Comín (1992)).

A constant disequilibrium in the market between supply and demand, which provoked a persistently high rate of inflation, emerged as a consequence of price regulation. In an attempt to soften this continuous price strain, the authorities decided to allow gradual import increases which worsened the current account balance (De la Dehesa et alia (1991)). In the 1950's, imports of goods represented 11.7 per cent of GDP, while exports only 6.5 per cent (Prados de la Escosura & Tena (1995))²³. Growing disequilibria in the external accounts in the late 1950's (Chamorro et alia (1975)) would lead to reconsidering of self-sufficiency and, eventually, to the end of autarchy²⁴.

The economics of early Francoism can be summarized, therefore, as an attempt to achieve rapid industrialization based upon indiscriminate import substitution, with severe restrictions on imports and capital inflows, a complex exchange rate structure, internal regulation and direct intervention. This set of policies led to a highly overvalued currency, a current account deficit, low reserves of hard currency, inflation

GRAPH 3. BUDGET BALANCE OF CENTRAL GOVERNMENT
AND PUBLIC ADMINISTRATIONS, 1940-1993 (% OF GDP)

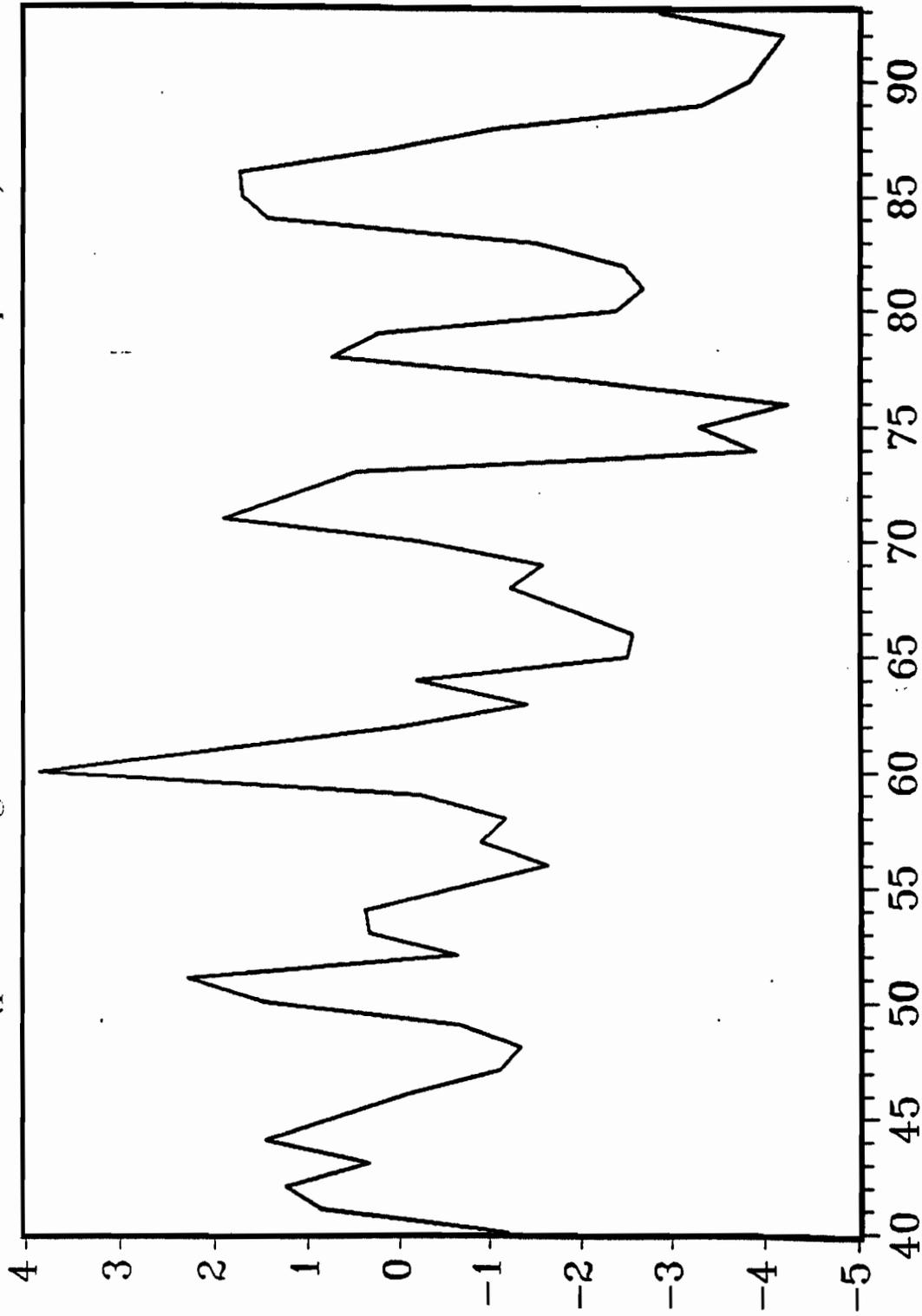


Sources: Comin (1993); MEH, MOISSES model; Prados (1994a).

* including Central Government —— SALBGDP - - - - DEFPUB

(consumer prices increased by an average of 13 per cent per year in the 1940's, and 10 per cent in the 1950's), and a small and inefficient industrial sector. A clear distinction should be made, however, between the 1940's and the 1950's, as the latter witnessed fast GDP growth per head together with a significant transformation in productive structure (Tables 1 and 5). In the 1950's, substantial changes took place in agriculture, where labour productivity increased while its relative size shrunk both in terms of output (at -2.6 per cent annually) and employment (at -1.7 per cent), leading to a fall in its relative labour productivity. The absolute reduction of labour force in the agricultural sector represented 0.5 million workers, while it has been estimated that around one million workers emigrated from agriculture in the 1950's (Leal *et alia* (1975)). Meanwhile, total investment doubled its 1940's average share in GDP (10 per cent). It has been argued that the first industrializing push in the 1950's was a pre-requisite for the 1960's fast growth, since human and physical capital accumulated and the domestic market expanded under protection (González (1979)). In fact, capital deepening took place, with the stock of physical capital per head growing at 3.2 per cent yearly, (or increasing by more than one-third), while non-residential capital per person grew at 4 per cent per year, an increase of 50 per cent (Hofman (1993b))²⁵. Meanwhile, the average schooling achieved for the population over 25 raised from 2.7 years in 1950 to 3.4 in 1960 (Barro & Lee (1993)).

GRAPH 4. CURRENT ACCOUNT BALANCE, 1940-1993
(percentage of GDP at market prices)



Sources: Chamorro et alia (1975); MEH, MOISSES model;

Prados de la Escosura (1994a).

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TABLE 5

GDP AND EMPLOYMENT COMPOSITION, 1929-1993

	1929	1940	1950	1960	1975	1985	1993
OUTPUT							
Agriculture	29.2	32.7	30.7	23.6	10.1	6.0	3.5
Industry	25.2	19.3	23.5	30.9	30.3	29.4	25.6
Construction	7.8	4.0	3.4	3.9	8.1	6.3	8.3
Services	37.8	44.0	42.4	41.6	51.5	58.3	62.6
EXPENDITURE							
Private Consumption	76.7	78.4	72.9	69.8	65.1	65.0	64.7
Investment	16.6	7.1	14.7	19.4	28.5	18.8	21.2
Cov't Consumption	10.3	17.6	11.0	8.7	10.1	14.0	16.0
Net Exports	-3.5	-3.1	1.4	2.1	-3.8	2.2	-1.9
EMPLOYMENT							
Agriculture	47.7	52.5	50.0	42.3	23.8	18.2	9.9
Industry	28.3	2.3	20.2	21.8	27.3	24.5	22.4
Construction	3.4	4.0	5.5	6.7	9.7	7.3	9.4
Services	20.6	23.2	24.3	29.2	39.2	50.0	58.2

Sources: Prados de la Escosura (1995a).

Industrialization, however, depended exclusively on internal demand, and the ability of Spanish firms to reach external markets was very low. Actually, commodity exports, after the post-World War boom (1947-53) -in which they rose to 8 per cent of GDP-, fell to 5 per cent for the rest of the decade. By 1960, manufactured exports hardly reached one-fourth of total exports and represented a 7 per cent of industrial output. Moreover,

volatility in import capacity due to scarcity of export earnings made investment risky, leading to a lower rate of capital accumulation (Donges (1976)). In turn, restrictions on foreign capital inflows made investment dependent almost exclusively on domestic savings. In addition, investment was penalized by high relative prices for capital goods slowing down, as a consequence, GDP growth. Lacking the capacity to import the necessary inputs and technology, firms suffering from insufficient capital, obsolete equipment and old vintage technology, were unable to compete in international markets. In the 1950's, Spain did not have access to innovation and technology through international trade in competing products, and, as a result, was prevented from fully sharing the benefits of fast productivity growth in Western Europe.

4. The Golden Age: Years of accelerated growth, 1959-1975.

In the late 1950's the autarchic system imposed by the Francoist authorities after the Civil War, collapsed. The need to put an end to Spain's isolation at the time of the Treaty of Rome (1957), and to restore internal and external balances, led to a drastic change in economic policy at the turn of the decade. Although Spain started a mild opening in the early 1950's associated to the bilateral agreements with the U.S., the pressure to open the economy increased as Spain joined the International Monetary Fund and the World Bank (1958) and the OEEC (1959). The creation of the Common Market (1957) and the

introduction of external convertibility in Western European industrial countries (1958) provided a favourable atmosphere for growth that helped a new cabinet in Spain to introduce a pro-market oriented policy, not without a clash within the Franco regime between pro-market and autarchic groups (Anderson (1970)). The policy outcome of establishing links with international economic organizations was a most ambitious project of liberalisation that began with a stabilization plan in 1959 (Fuentes Quintana (1984)). A gradual opening and factor mobility (capital inflows and labour migration) were achievements of the new pro-market orientation, whilst the lack of structural reforms affecting the tax system and labour and financial markets represented its main shortcomings (Donges (1971)).

The economic reform included specific measures aimed at controlling the growth of internal prices and achieving budget balance (Fuentes Quintana (1989)). Among the different measures passed to control inflation, it is worth mentioning the prohibition of financing the Government deficit through monetization of the public debt²⁶. Additional constraints were imposed to the loans drawn by the private sector from the banking system²⁷. The Government also decided to control public expenditure through orthodox fiscal policies centred around a balanced budget, and to raise the prices of certain goods (petrol, tobacco) and services (telephone, public transport) supplied by State monopolies, in an attempt to close the gap between official prices and their real costs of provision (De la Dehesa et alia (1991); Comín (1994)).

A second package of measures aimed at the gradual opening of the Spanish economy to the international markets, while preserving the external equilibrium. The system of multiple exchange rates developed under autarchy was definitely abolished, and the peseta was devalued by 43 per cent in an attempt to improve exports' competitiveness (Donges (1976:59)). A gradual process of import liberalization was initiated with the flexibilisation of the different trade regimes effective under autarchy²⁸. A new tariff in 1960 eliminated quantitative restrictions on 90 per cent of imports and marked the return to the use of *ad valorem* duties, as opposed to quotas, as a protectionist instrument²⁹. The new tariff, still a protectionist one, tended to be biased in favour of consumer goods and had a cascading effect on customs duty rates, so effective protection was usually higher than nominal protection. Reforms of the 1960 tariff during the following years reduced effective protection (and its unequal distribution) sharply, e.g., from 77.2 per cent in 1962 to 38.4 per cent in 1968 (Bajo & Torres (1990))³⁰. These measures were complemented by allowing a controlled inflow of foreign long-term capital that, according to Donges (1976), averaged an annual 7 per cent of capital formation over 1960-68³¹.

The stabilization plan proved most successful after a first year of adjustment, in which the severe measures adopted had a negative impact on economic activity (real income per head fell by 2.7 per cent in 1959)³². The success of the stabilisation plan was probably helped by the ban on free trade unions which

avoided wages claims after the severe devaluation in 1959 (Donges (1976:62)). Inflation declined from around 12 per cent in 1957/59 to 2.3 per cent for 1959/61 (Comín (1993)). Meanwhile, the (commodity) trade deficit shrunk from 7 per cent of GDP in 1957/58 to 3.2 per cent in 1961, and the current account cast a positive balance for 1960 (3.7 per cent of GDP)³³. The increasing number of tourists and the inflow of foreign capital, together with the return of Spanish capitals abroad, led to the appreciation of the peseta over the official rate of exchange, the disappearance of the black market, and the consequent declaration of external convertibility for the Spanish currency in 1961.

As an outcome of the reforms, exports of goods and services experienced a sustained growth over the 1960's and early 1970's, raising their share of GDP from 5.8 per cent in 1959 to 10.7 per cent in 1974. In turn, a higher degree of openness was achieved as exports plus imports grew from 13.9 per cent of GDP to 29.5 per cent during the period³⁴. Meanwhile, foreign investment constituted an average 5.8 per cent of fixed capital formation over 1959-74, of which 44 per cent was direct investment, and 74 per cent of it went to manufacturing (Donges (1976:108))

Since 1964, Government intervention in economic activity was re-oriented through successive four-year *planes de desarrollo* (development programs). The plans, inspired by post-1945 France's *planification indicatif*, lasted until 1975. The *planes* allocated a prominent role to private firms as the engine of economic

development, but maintained Government intervention in economic activity by means of market regulation, public investment and enterprises, and through direct intervention in specific economic sectors. *Planification indicatif* was implemented through a wide variety of measures such as public subsidies, tax reliefs, tariff advantages, and preferential access to official credit. The *planes* have been considered a setback for Spain's liberalisation and associated with a deceleration in the rate of economic growth (González (1979)). It is still debated why the Government proceeded so cautiously in dismantling trade barriers and regulation. A potential explanation is based on the social costs in terms of output and employment derived from a sudden opening up (Spitaller & Gali (1992)), which complements another one based on the pressure exerted by interests groups (Fraile (1993)). A last attempt to liberalise the economy took place under the dictatorship in 1970, linked to the preferential agreement with the EEC. However, it was cut short by the first oil shock (1973) and the death of Franco (1975) (De la Dehesa et alia (1991)).

In such a context of cautious outward-looking policies under close Government supervision, accelerated growth and structural change proceeded in Spain, as a lagged response to the 1950's Western European experience of reconstruction and catching up, prevented by autarchy at the time. Spain's economy grew and diversified over 1959-1975 (Tables 1, 5) while efficiency improved remarkably. Between 1965 and 1975, total factor productivity rose at an annual rate of 3.8 per cent for the whole economy (Suárez (1992); Myro (1983)), while TFP in agriculture

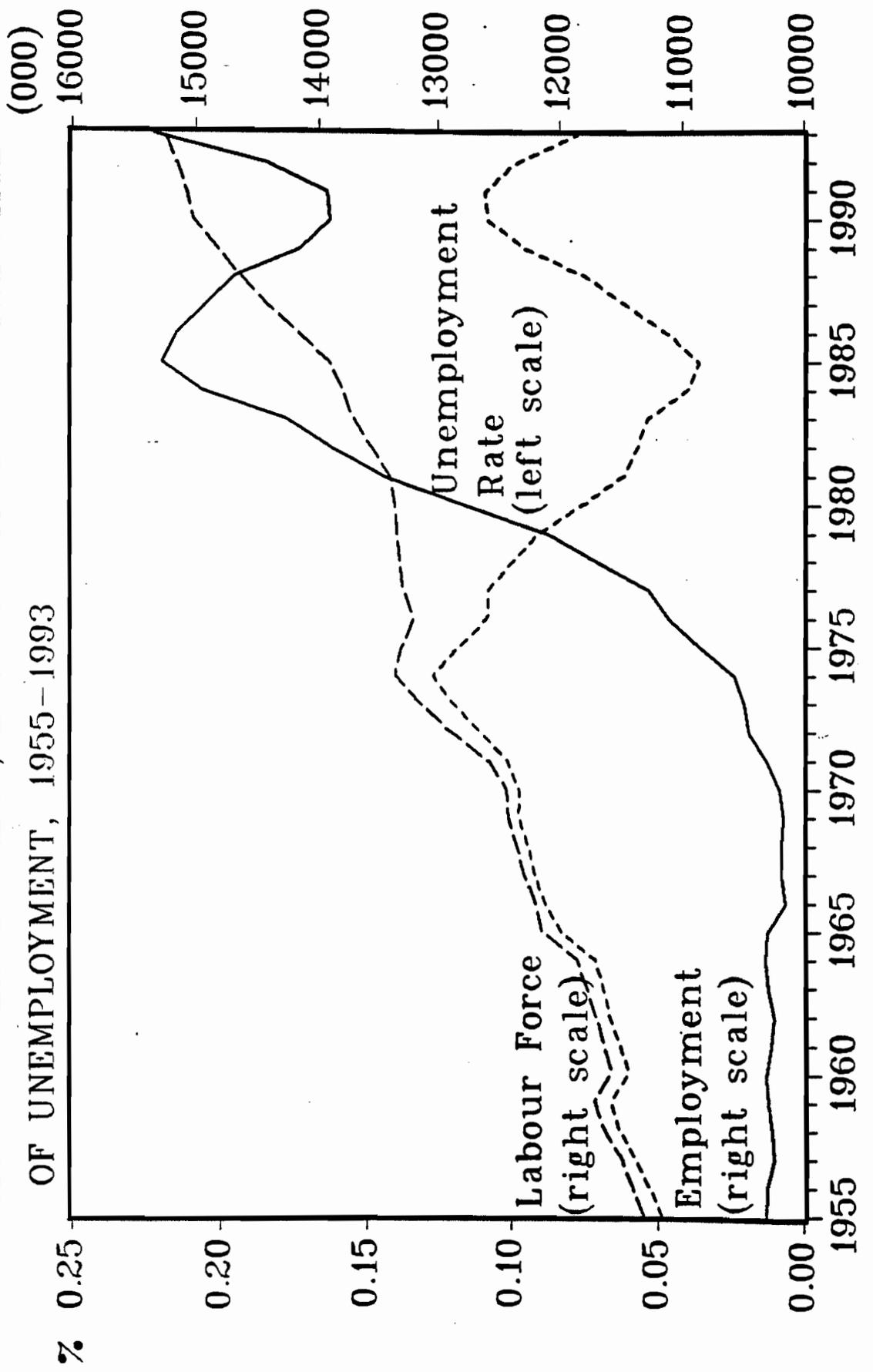
and industry grew at 2 and 6.5 per cent, respectively (San Juan (1987); (Gandoy (1987))³⁵. A deep reallocation of resources took place. Agricultural share in GDP fell from almost one-fourth of GDP in 1960 to less than 10 per cent by 1975 (that is, at an annual rate of -6 per cent), while its contribution to employment shrunk from over 40 per cent to below a quarter of total labour force (at -3.8 per cent yearly), leading to a significant decline in its relative productivity³⁶. Meanwhile, services reached one-half of GDP, employing two out of every five workers by 1975. Labour released by agriculture reached 2 million in 1961-1970 (Leal et alia (1975)) which, to a large extent, was absorbed by the "urban" sector (industry and services), although emigration to Western Europe also represented a decisive outlet³⁷. However, a significant percentage of the labour force still remained in agriculture, as a comparatively low output per worker in European terms suggests, and relative labour productivity indicates (Table 5)³⁸. Given the disadvantage in output per hectare derived from poorer soil, a lower endowment of land per worker is behind Spanish agricultural productivity gap (O'Brien & Prados de la Escosura (1992), Simpson (1994)).

Outward orientation of Spanish industrialisation remained limited over 1959-1975. By 1972, two-thirds of manufacturing output was still produced by firms with less than five workers, so size remained a major shortcoming for industry's reaping economies of scale and, thus, having access to foreign markets. Manufacturing's performance was impressive, growing over 10 per cent annually, with an increasing role for producer goods'

industries (Carreras (1992)). However, it depended mostly on the home demand (87.6 per cent over 1962-72), with exports only accounting for 22 per cent of the increase, and a negative contribution of import substitution (Donges (1976:158,168)). The increase in manufactured exports was due largely to competitiveness (50 per cent) (Donges (1976:206)). Spain exhibited revealed comparative advantage mostly in labour and natural resource-intensive goods, but product-cycle goods were increasingly competitive³⁹. The Spanish experience tends to suggest, nevertheless, that industries that had followed ISI strategies in the 1940's and 1950's, gradually managed to export after 1959 (Donges (1976)).

In the 1960's, labour market rigidity represented a real obstacle for an outward shift of labour demand that could not match its supply. In fact, the low level of unemployment (1.7 per cent over 1960-1975) did not increase due to a steady migratory flow towards Western Europe. Migrant remittances contributed to balance Spain's current account. Underemployment remained present due to strict legislation that inhibited lay offs of redundant worker, together with a low female participation in the labour force. The resulting pattern of development in the 1960's was, thus, largely dependent on capital accumulation and efficiency gains. Capital deepening was substantial and fixed capital stock per head grew at 5.7 per cent annually (that is, more than doubling its size), while non-residential capital and machinery and equipment grew at 7.2 and 8.9 per cent per capita, respectively (Hofman (1993b)). Suárez (1992) finds that, in the

GRAPH 5. EMPLOYMENT, LABOUR FORCE AND THE RATE OF UNEMPLOYMENT, 1955-1993



Sources: Ministerio de Economía y Hacienda (MOISSES model)

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period 1965-1975, most of real GDP growth is accounted for by total factor productivity gains (58.8 per cent) and capital accumulation (34.7 per cent), while increased labour input only accounts for 6.5 per cent (Table 2).

In turn, macroeconomic performance played a decisive role in achieving a positive deviation from OECD average growth, in which the differential money supply and real exports growth accounted for most of it (Table 4)⁴⁰. However, inflationary pressure (7.8 per cent annually in 1960-75), together with occasional current account disequilibria⁴¹, constituted a threat that forced economic authorities to impose episodic stabilization measures⁴². In summary, orthodox fiscal policy, near equilibrium in the external sector, and expanding output, coexisting with unreformed factor and product markets and exchange controls, are the main features of Spanish economy during 1959-1975.

5. Shocks and stagflation: The transition from dictatorship to democracy, 1975-1985.

The Oil Shocks (1973, 1979) coincided in Spain with the end of Franco's regime and the transition to a democratic society. Structural inefficiencies were inherited from the Franco era (1939-75), and the post-1959 liberalization had been progressively curtailed by the pressure of interest groups, resulting in a mixture of market and *dirigiste* economy, whose negative effects would emerge with the 1970's supply shocks⁴³.

Thus, the late 1970's opened an unstable political phase in which economic performance was dominated by disinvestment, inflation and job destruction.

The Oil crisis was aggravated by the fact that Spain was a heavily energy-dependent country⁴⁴, whose productive structure was biased towards heavy, weak-demand, industry. Furthermore, the situation was worsened by the fact that Spain's authorities perceived the oil shortage of 1973 as a temporary shock. The deterioration of the terms of trade, resulting from rising energy import prices, was not followed by a reduction in real wages. In fact, between 1973 and 1976, wages (nominal and real) boomed. Political unrest, initiated in the early 1970's and reaching a peak after Franco's death, led the Government to implement compensating policies, such as keeping low energy prices by direct price intervention and nominal wage indexation, thus enhancing the impact of the oil shock and fueling the current deficit and inflation, which rose as high as 24.5 per cent in 1977.

Only after the first democratic elections (June 1977), were adjustment measures were introduced (García Delgado (1990)). The Moncloa Agreements represented a set of structural reforms and economic policy measures supported by the consensus of the main political parties and ratified by Parliament. A non-orthodox mix of incomes policies, plus accommodating fiscal and tight monetary policies were its main features (Spitaller & Galy (1992)). Among those worth mentioning are the fiscal reform, in which

progressive walth and income taxes were included. An active monetary policy aimed at reducing inflation expectations followed⁴⁵. A new exchange rate was fixed for the peseta (20 per cent lower) in an attempt to improve the external disequilibrium, from which derived short-run positive effects on the current account⁴⁶. Trade liberalisation reassumed in 1977 but the 1979 oil shock, the unstable political climate and the negotiations with the EEC, slowed it down (De la Dehesa et alia (1991)).

At the same time, income policy agreements attempted to moderate increases in nominal wages⁴⁷. However, when the new, democratically elected authorities took steps to adjust to relative price changes resulting from the oil shocks, the lack of flexibility of input markets to reallocate resources acted as a brake. Until the early 1980's financial markets remained regulated and segmented, and exchange controls on capital outflows remained in place, while the still effective Francoist legislation impeded lay-offs and flexibility of contracts in the labour market. Thus, if the set of measures included in the *Pactos de la Moncloa* are evaluated against economic performance over 1977-81, a favourable balance appears for (a still high) inflation, the external balance and firms' profitability (after wage moderation), while it was not so favourable for the labour market and GDP growth⁴⁸.

The arrival of the Socialist Party to government in 1982, extended and deepened the reforms initiated with the *Moncloa* agreements (1977). In particular, the reform of the industrial

sectors most affected by the crisis (steel, textile and shipbuilding) and the opening of the economy, became the top priorities of the new government⁴⁹. Financial markets experienced a major de-regulation, as interest rates and capital movements were freed. After the Socialist electoral landslide in 1982, a devaluation of the peseta took place, with short-term positive effects on the current account (1984-86), while monetary policy turned to be more restrictive to check the rise in prices. In turn, the growth of public expenditure and the increases of fiscal pressure represented the main features of fiscal policy under all the Socialist cabinets (both up to 1986 and afterwards). The growth of public expenditure from 25 per cent of GDP in 1975 to 36 per cent in 1985, was due to the increase in current transfers and public investment and to the service of a public debt (which rose from 13 to 45 per cent of GDP in the "transition decade"), associated to the introduction of the welfare state, and the costs of industrial reconversion and regional devolution (González-Páramo (1992)). Such a major expansion in expenditure, without an offsetting increase in fiscal revenues, resulted in a sustained public deficit. In short, during the first three years of Socialist government, the reduction in the rate of inflation continued (from an average of 16 per cent in 1978/82 down to 10.8 per cent in 1983/85) and external equilibrium was temporarily achieved, while substantial increases took place in unemployment (from 11.6 per cent of labour force to 20 per cent over 1978/82 and 1983/85) and public deficit (from 3.3 to 5.7 per cent of GDP).

When the entire transitional period from Franco's death to Spain's EEC membership is considered, some major features emerge. The 1973 and 1979 oil shocks resulted in a deceleration of economic activity that lasted up to the mid-1980's and implied comparative retardation (Tables 3-4). In fact, real GDP only grew at an annual average rate of 1.7 per cent between 1975 and 1985 (Table 2). Real investment stagnated, while growth depended mainly on private consumption. Job destruction (at -1.6 per cent annually) becomes noticeable when the labour force increase over 1975-1985 (0.6 million) is confronted with the 2 million fall in employment. Agriculture had the larger share of unemployed, 1 million workers, against 0.8 and 0.4 million in industry and construction. In turn, capital deepening continued, though at a substantially slower rate than in the years 1960-75. Thus, the stock of physical capital per head grew at 3.3 per cent annually (4.2 per cent for non-residential capital) (Hofman (1993b)). A look at the growth accounting exercise in Table 2 confirms the negative contribution of labour to growth (-0.9 per cent yearly) that could not be offset by that of capital (0.7 per cent). Thus, between 1975 and 1985, employment destruction represented a severe brake to growth, while capital accumulation and, mostly, TFP gains explain it all. However, empirical evidence (Tables 3-4) tends to suggest that capital deepening was not carried forward sufficiently, and TFP alone was not enough to close the gap with advanced countries over the "transition years".

Macroeconomic factors did not contribute to catching up with OECD growth during the 1975-1985 decade (Table 4). Average

inflation reached 15.4 per cent, doubling its rate for 1960-1975, while a substantial fiscal disequilibrium, derived from the action of automatic stabilizers, raised the budget deficit up to an average 3.6 per cent of GDP. Besides, the slow reaction of the Spanish authorities to OPEC shocks coontributed to fuel inflation, reducing competitiveness and provoking a rise in the current account deficit (up to an average of -1.1 per cent of GDP in 1976-1985)⁵⁰. Thus, export growth could not prevent the negative effect of inflation and public deficit on Spain's relative growth (Table 4). When compared to the OECD average, Spanish exports were more labour- than capital-intensive, and more intensive in physical capital and natural resources than in human capital, while they were mainly composed by *weak demand goods* (Martín (1992)). In brief, a still highly protected economy⁵¹, dominated by small firms relying on obsolete techniques prevented Spanish industry from achieving economies of scale and having access to innovation and latest vintage technology⁵².

Moreover, economic growth during the so called "democratic transition" (1976-1985) was severely constrained by over-regulated markets. In the labour market, restrictive industrial rules introduced under Franco, which aimed at offseting the prohibition of independent trade unions by banning lay-offs, constituted a major shortcoming for employment creation (Bentolila & Blanchard (1990)). Among Spanish firms -most of them, small in size, labour intensive and sheltered from competition- bankruptcies increased dramatically, whilst the rate

of unemployment rose, with an average rate of 12.8 per cent over the period 1976-85. In fact, the non accelerating inflation rate of unemployment (NAIRU) jumped from 3.4 per cent in the late 1970's to 18.4 per cent in the early 1980's, to remain at a high level ever since (Dolado & Malo de Molina (1985))⁵³. When aggregate demand contracted during the crisis years, demand for labour fell and, given institutional constraints, quantity, and not price (wage), adjustments took place, resulting in high unemployment. Sectoral wages in Spain depended on the consumption aggregate wage, and not on sectoral productivity or the unemployment rate. Therefore, unemployed workers could not exert a downward pressure on wages, and unemployment has become a persistent phenomenon (Andrés & García (1992)).

6. Recovery of the late 1980's and its legacy: the integration of Spain into the EC.

Spain's admission into the European Community coincided with an expansionary phase of the international economy, and both contributed to a fast economic recovery in Spain. From 1986 to 1990, real GDP grew at an average rate of 4.4 per cent, the outcome from cumulated efforts to fight basic disequilibria associated to the integration in the EEC and from a closer link to the international markets. Positive short-run expectations opened the door to foreign capital and induced a burst of investment that was helped by the increase in profit margins and political stability⁵⁴. In fact, since a large technological gap

existed between Spain and Western European industrial countries, direct foreign investment brought with it a technological transfer (Viñals (1992)). The positive effects on the labour market were immediate and the unemployment rate fell from 21.9 per cent in 1985 to 16.3 per cent in 1990⁵⁵. In all, employment increased by 3 per cent annually, which represented more than 1.7 million new jobs between 1985 and 1990 (as much as from 1957 to 1974), and job destruction only persisted in agriculture (0.5 million)⁵⁶. Suárez's (1992) growth accounting exercise reflects this improvement showing that, from 1986 to 1990, job creation accounts for 38 per cent of real GDP growth, while capital, growing over 5 per cent annually, contributed 32 per cent (Table 2).

When placed within the OECD context, Spain over-performed in the late 1980's, with a major contribution of macroeconomics. The control of inflation and the management of money supply, together with a reduced budget deficit, accounted for most of it (Table 4). However, although the public deficit experienced a substantial reduction between 1985 (7 per cent of GDP) and 1990 (4 per cent), it persisted over these fiscal expansionary years⁵⁷.

Nevertheless, other economic disequilibria worsened. After the peseta joined the European exchange rate mechanism (ERM), the competitiveness of Spanish products declined (as it is reflected in the negative contribution of exports growth in Table 4). The loss of competitiveness due to an appreciated exchange rate

reached up to 30 per cent from the mid-1980's to 1993 (Camarero & Tamarit (1994)). Despite inflation falling to 6.5 per cent over 1985-90, the price differential between Spain and its main trading partners (EEC countries) widened. It has been frequently argued that Spain's differential inflation reflected the lack of competition in non-tradable goods' markets⁵⁸. The implication of Spain's affiliation to ERM coexisting with an increasing price differential, was an appreciation of the real exchange rate of the peseta⁵⁹. However, part of the appreciation of the peseta was due to real factors, such as a productivity increase translated into higher wages, which means that not all the exchange rate appreciation implied a net loss in competitiveness⁶⁰.

In turn, the current account deficit reached a -2 per cent of GDP in the 1986-90 period⁶¹. Currently, Spain's integration into the EEC has had a larger impact on imports than on exports. Over 1986-90, while the integration effect accounted for 53 per cent of the increase in Spain's manufacturing imports from the European Community, it only contributed to 28 per cent of the increase in Spanish manufactured exports to the EEC (Martín (1992))⁶². However, the external deficit was largely due to private capital inflow (mostly direct investment) that was required to renew and expand the productive capital stock. In fact, the current account deficit was more than offset by long-term capital inflows due to its high returns over 1986-91⁶³.

Successful restrictive monetary policy conflicted, however, with the exchange rate management. When domestic interest rates rose, the inflow of foreign capital increased (reinforced by the liberalization of capital markets proceeded), leading to an increase in the amount of money in circulation⁶⁴. The intervention of the Bank of Spain in the foreign exchange markets with immediate sterilization measures to reduce domestic credit, raised domestic interest rates even more⁶⁵. Fiscal policy, in turn, was clearly expansionary and its pro-cyclical behaviour pushed the public deficit up from 1990.

An international recession has taken place in the early 1990's. In fact, sluggish economic activity in most of the OECD countries has shown particularly severe features in Spain. The strain in foreign exchange markets and changes in the ERM resulting from the 1992-93 "monetary storm", led to three successive devaluations in Spain (up to 20 per cent altogether), that improved competitiveness. The authorities decided, however, to keep the peseta in the ERM, trying to avoid the loss of credibility that might have followed, had the Government decided to apply a discretionary economic policy⁶⁶. Slackening GDP growth (at an average of 0.7 per cent), with a substantial public and external deficit (-5.6 and -3.3 per cent of GDP, respectively), a 5.5 per cent inflation, and job destruction (0.7 million), with the unemployment rate reaching 19 per cent of the labour force, are the main features of the early 1990's.

High unemployment (over twice OECD average) represents today a unique feature of Spain's economy within the European Union. In fact, Spain's labour market suggests a case of hysteresis as transitory shocks, such as changes in factor relative prices in the 1970's, have had permanent unemployment effects. Lack of market flexibility due to low labour mobility and high wage indexation are considered to be the main obstacles for reducing unemployment in today's Spain (Andrés & García (1992))⁶⁷. The indexation of nominal wages implies that anticipated demand shocks do not have any impact on employment. However, wage indexation amplifies the unfavourable impact of supply shocks on employment. In addition, the high costs of lay-offs have impeded labour flexibility and created a weak relationship between wage and the value of marginal labour productivity. Unemployed workers cannot exert enough downward pressure on wages and, as a result, unemployment becomes a persistent phenomenon. It has been argued that not only legal and institutional restrictions affected the low flexibility of wages but other factors, such as firms' recruiting methods, also account for it. Thus, given large differences in labour qualification, together with the existence of adverse selection and moral hazard, firms may offer wages over the market average in an attempt to recruit the best qualified workers, provoking a medium-term raising effect on the average wage and, eventually, increasing unemployment. Finally, severe restrictions on regional and sectoral labour mobility are posed by unemployment benefits which reduce incentives to migrate, and by housing market rigidities that make geographical mobility difficult.

Recent approaches to the labour market depart from a disequilibrium perspective (Sneessens & Drèze (1986); Bean & Drèze (1990)), assuming that the labour market is rationed by the installed capacity of the firm which effectively restricts the number of workers that can actually be hired in the short run⁶⁸. In addition, a firm may be ready to hire more workers at the given real wage but a restriction on the size of labour force prevents the firm from doing so. Finally, even when the firm has enough installed capacity and there is enough labour available, there may not be enough demand to absorb it. In the case of Spain, Ballabriga *et alia* (1991) estimated the distinctive contribution of the different regimes (potential employment, demand determined employment and labour supply) to explain the observed variation in employment between different periods over the period 1969-1988. Two additional variables were included, labour utilization (whose increase contribute negatively to employment), and, a residual term, structural mismatch, that accounts for market rigidities and information costs. The main results for the Spanish case are that, during recessions, restrictions on installed capacity and demand, plus structural mismatch, accounted for unemployment. Moreover, the utilization of labour tended to fall offseting the decline in employment⁶⁹. This fact seems to imply job hoarding, a feature of labour markets under high adjustment costs (Sargent (1978)). In recent years (1989-91), the economic recession contracted investment levels as a result of firms' pessimistic demand expectations, while labour costs increased relative to capital, reducing the amount of employment required per unit of productive capacity,

and the demand restriction operated again (Andrés & García (1992)).

From Spain's macroeconomic performance and policies in the late 1980's and early 1990's, some lessons can be drawn. The strategy of the Spanish authorities after joining the EMU was to gain credibility through a competitive deflation (Camarero & Tamarit (1994)). To do so, an overvalued real exchange rate was established for the peseta that allowed the purchase of raw materials and intermediate goods at relatively low prices, aimed to favour structural change. In turn, economic agents were forced to self-discipline in order to avoid further losses in competitiveness within an open economy. This strategy worked successfully for the tradable goods' sector but not for the one producing non-tradable goods, which fed the inflation differential with the EC countries. Moderation of wages and financial costs did not take place because of the high interest rates resulting from monetary and exchange rate policies and the public deficit. Thus, the attempt to mitigate the social costs of re-structuring the economy by combining restrictive monetary and incomes policies with fiscal expansion faces strict limits as high interest rates and its associated effects (appreciation of the real exchange rate and budget and external deficit), cannot be maintained for a long time without putting the country's competitiveness in jeopardy.

In turn market rigidities, which persisted in the post-Franco era and were reinforced in the labour market to keep

social unrest at minimum levels, constitute a major inefficiency in Spain, with unemployment at the highest level in Europe⁷⁰. In fact, a competitive deflation strategy trying to improve competitiveness through wage moderation cannot succeed given Spain's high unemployment, as shown by the failure of growing unemployment in the early 1990's to have a downward impact on wages⁷¹.

7. Concluding remarks.

As Spain eventually succeeded in the transition from a highly regulated economy under an interventionist, authoritarian political regime, to an industrial democracy, some lessons from recent Spanish economic history may be of interest for today's developing and ex-communist countries.

a) The autarchic period (1939-59), resulted in high costs in terms of growth, which are not restricted to the 1940's, but include the 1950's, a decade of fast international growth and catching-up, in which Spain remained relatively isolated and paid a heavy penalty in the form of unstable, under-potential, growth. International isolation, together with resource allocation aside the market are responsible, as it is widely accepted today, for the delayed postwar reconstruction and catching-up.

b) Had deeper and more rapid reforms in the 1960's increased the already impressive rate of growth and catching-up is still a

debated issue. It can be reasonably argued that faster growth (Table 1) might not have been feasible but, instead, a more balanced development path, closer to that followed in Western Europe, would have taken place with lower efficiency and social costs⁷². In fact, the 1960's and early 1970's Spanish experience seems to question the extent to which factors other than capital accumulation and access to innovation and technology played a major role in Spain's economic growth, once the main constraints of autarchy were eliminated. In other words, the allocative inefficiencies resulting from Government over-regulation and direct intervention in the late 1960's (particularly, after the *planes de desarrollo* were implemented) do not seem to have put, at the time, a significant brake to growth, as the institutionally oriented historiography has claimed⁷³. Nevertheless, cumulative inefficiencies during the Franco era constrained further adjustment to international competition in future years.

c) Liberalisation in post-1959 Spain was gradual, and several stages can be distinguished linked to international agreements which posed no serious threat to Franco's dictatorship. In fact, both after autarchy (post-1959) and during the transition to democracy (post-1977), financial stabilisation was radical, but structural reform was gradual. These features make the Spanish case of special relevance for countries on their way to industrial democracy which aim at opening up, while keeping social and political stability. The fact, however, that liberalisation took place over a very long period of time, makes

the Spanish experience of limited use for countries in which the transition to a market economy occurs within a democratic context, and where consequently, a strong social pressure exists to proceed as fast as possible.

d) Once the Franco's dictatorship was over and the return to democracy took place, a restrictive monetary policy and a high exchange rate was a necessary but not sufficient condition for reassuming growth and structural change in Spain under a different set of institutions. A restrictive fiscal policy, moderate labour costs, together with supply side policies to improve firms' productivity and flexibilise economic sectors, such as microeconomic measures to increase productivity and competitiveness of non-tradable sector, are also pre-requisites for sustained growth and catching up⁷⁴.

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1. Less intense than suggested by earlier GDP estimates (Prados de la Escosura (1995)).
2. Pre-Civil War highest GDP level (1935) was reached by 1951.
3. Annual growth rates are computed through exponential fitting. If, instead, the average rate of variation is chosen, the result for the 1940's improves (1.0 per cent, with a standard deviation of 4.4), while it remains unchanged for the 1950's (3.7 per cent, st. dev. 3.4).
4. The 6.3 per cent rate of growth for 1960-1973 (Table 1) results from a new linkage of national accounts data (Prados de la Escosura (1995b)). Official figures cast a lower rate, 5.5 per cent annually.
5. Employment grew at 0.82 per cent annually and labour force at 0.87 per cent between 1955 and 1974.
6. Non-residential capital grew even faster, doubling its ratio to output between 1950 and 1990 (Hofman's (1993b)).
7. Thus, machinery and equipment doubled its share, reaching 0.44 of non-residential capital in 1973, though it contracted to 0.39 by 1989.
8. In particular, when machinery and equipment is considered, and Spain compared to the US, France or Japan.
9. De Long & Summers (1991) predict a growth rate of 3.1 per cent for GDP per worker in Spain between 1960-1985, while the actual growth was 3.7 per cent.
10. An alternative estimate of Spain's sources of growth, using an *ad hoc* framework, has been carried out by Hofman (1993a) for

1950-1989, with similar results. The periodization by Suárez (1992) makes his estimates more adequate for our purposes.

11. Minor amendments have been introduced in Suárez (1992) TFP growth figures to allow inputs' contribution to growth and TFP to add up the GDP growth rate.

12. It was a persistent phenomenon even though Spain performed well above the average up to 1973, and below it thereafter.

13. They rely on previous research by Andrés, Doménech & Molinas (1993). We acknowledge their permission for using the unpublished results.

14. However, supply side policies are not directly accounted for in this exercise and should, therefore, be included in the residual.

15. For instance, in 1950, the average years of schooling per 1,000 US dollars (1985 prices PPP) of non-residential capital was in Spain one-third of Japan's ((Barro & Lee (1993); Hofman (1993b); Maddison (1993)). This hypothesis is explored in Prados de la Escosura (1995a).

16. The Primo de Rivera's coup d'etat in 1923 opened a dictatorial era that ended in 1930.

17. As Fraile (1993) remind us, dictatorships are constraint by specific circumstances, incentives, and preferences within which they maximize their utility, conditioning their economic performance.

18. FAO was joint in 1950 when financial links were established with the U.S., leading to an economic agreement U.S.-Spain in 1953. Later, in 1955, Spain was admitted as a member of the U.N..

19. Catalán (1993) provides a preliminary attempt to derive a series of the real exchange rate for the 1940's and 1950's that confirms the peseta's tendency to be over-valued.

20. From 1940 to 1947 the exchange rate remained unchanged. In 1948, a multiple exchange rate system for activities related to exports, imports, tourism and capital movements was adopted lasting until 1959 (Donges (1971); González (1979)). A weighted average exchange rate is provided by Serrano Sanz (1992) for 1949-1958, using the shares of imports and exports under each exchange rate as weights.

21. It allowed exporters to keep the foreign exchange they obtained from their sales abroad, as a means of payment for future imports. The introduction of a system of export subsidies aimed at improving the competitiveness of Spanish goods also failed in such a context.

22. This hypothesis is tested in Taylor (1994) and Lee (1994).

23. In fact, commodity imports reached an average 11.7 per cent of GDP for the period 1947-1959. In the early 1940's they remained around 5 per cent.

24. A foreign exchange crisis took place in 1959 as foreign reserves fell to 8 US\$ million from 58 US\$ million the year before, while Spain's committed payments represented 60 US\$ million.

25. Machinery and equipment per head more than double in the 1950's, growing at 8.2 per cent annually.

26. This procedure, called *pignoración*, was frequently used over the past century, and constituted an indirect mechanism for financing public deficit that would be used as collateral against credit from the Bank of Spain. In fact, since the end of 1958, the issue of automatically pledgeable securities ceased (De la Dehesa et alia (1991)).

27. Specific limits were established to rediscount financial assets in the Bank of Spain and the rate of rediscount was increased to make these specific loans more expensive.

28. There were four different trade regimes (State, bilateral, globalized and liberalized), depending on the degree of control and on the restrictions imposed over the different varieties of imports (De la Dehesa et alia (1991)).

29. Still 20 per cent of imports was ruled by bilateral trade agreements and Government agencies.

30. By weighting sectoral rates of protection with the sector's share in output, an *ex-post* (weighted average) effective rate of protection was derived for manufacturing by Donges (1976: 72, 76) for 1962 and 1968. Manufacturing (excluding food) was nominally protected by 31.3 per cent, and by 68.4 per cent effectively in 1962, while for 1968, in turn, it fell to 23.9 and 31.2, in nominal and effective terms, respectively. Durable consumer goods received the highest nominal and effective protection, whereas machinery and equipment, the lowest.

31. An Stabilization Fund was also created with resources provided by the I.M.F., the OEEC and the private US banking system, to face disequilibria in the current account without affecting the rate of exchange (Donges (1976:59)).

32. Prados de la Escosura (1995b).

33. Prados de la Escosura & Tena (1994); De la Dehesa et alia (1991).

34. Chamorro et alia (1975); Prados de la Escosura (1995a).

35. Kendrick (1990) estimates a 4.2 per cent growth rate for TFP in the period 1960-1973.

36. From 0.56 to 0.41 between 1960 and 1975, taking 1 as the average labour productivity in Spain's economy.

37. Spanish emigration to Western Europe (excluding seasonal) was 0.7 million in the same period (1961-70), according to Spanish official sources, but it was over 1.3 million if receiving countries' sources are consulted. For the entire period, 1960-1975, official estimates recorded a figure of 1.1 million permanent (non seasonal) migrants to Europe.

38. In 1975, Spanish final agricultural output per worker represented, in purchasing power parity terms, 29.9 per cent of UK's, 44.5 per cent of France's, and 16.1 per cent of USA's (Prasada Rao (1993)), despite the significant catching-up experienced over the period 1960-1975 (O'Brien & Prados de la Escosura (1992)).

39. Such as leather, and wood goods, footwear, clothing, furniture, pottery and glass, minerals, and metal manufactures, on the one hand, and chemical fertilizers, plastic, rubber and paper goods plus transport equipment, on the other (Donges (1980)).

40. According to Andrés, Doménech & Bosca (1994), only Italian macroeconomic performance has a comparable explanatory power of differential growth.

41. However, for the period 1960-1975, the current account deficit only represented on average -0.6 per cent of GDP. In turn, commodity trade balance and trade balance (including services) represented -6.8 and -5.5 per cent of GDP.

42. Adjustments were introduced in 1967, 1970-71 and 1975 (stop-and-go policy) (De la Dehesa et alia (1991)).

43. An idea of misallocation of resources in the post-1959 years is provided by Donges (1976:225) estimates of the high opportunity cost of domestic resources in Spanish industry.

44. Up to 75 per cent of its energy consumption was imported (De la Dehesa et alia (1991), p. 158).

45. As opposed to the traditional passive monetary policy followed since the Franco years, which adjusted to the public sector needs of resources and had led to high rates of inflation.

46. In 1978 and 1979, the negative trade balance fell sharply and the deficit on current account disappeared.

47. Pay Increase were defined as a function of expected inflation, instead of last year's inflation. This measure, despite being a great step forward to break the traditional wage bargaining mechanism, would become a big obstacle to fight inflation in the 1980's. In fact, nominal labour costs steadily grew at a higher rate than inflation.

48. A brief sketch of the delayed Spanish reaction to the oil shocks could be as follows. When the relative price of energy and raw materials rose, firms reacted by reallocating their inputs so as to increase their marginal productivity. The fall of the demand for energy and raw materials reduced labour marginal productivity, and firms had to compensate through a reduction of their number of employees at a given real wage. The contraction of the demand for energy, raw materials and labour also reduced capital marginal productivity, leading firms to reduce their volume of investment. As a consequence, the change in relative prices of energy and raw materials provoked a contraction in aggregate supply which reduced real output growth and raised the rate of inflation. Workers suffered an important fall in real wages as a result of increases in prices, and reacted demanding higher nominal wages. As a consequence of higher input costs (raw materials, energy and labour) and the fall of internal demand (as unemployment increase), profitability declined and firms reacted by reducing investment and employment demand once again. Some firms tried to avoid the economic crisis with new credits (thanks to the negative real interest rates due to moderate nominal interest rates coexisting with high rates of inflation). Eventually, the measures of monetary restriction and the new attitude of lenders in a context of high inflation, provoked an increase of real interest rates which produced a financial crisis in many firms.

49. Which was reinforced by the authorities' decision to keep Spain in the N.A.T.O. military structure after joining (1981) and to accelerate economic integration into the European Community,

achieved in 1986, which was widely viewed in Spain as the only means to reach political stability and to secure democracy (De la Dehesa et alia (1991)).

50. Meanwhile, commodity trade deficit and (total) trade deficit represented an average -5.4 and -4.1 per cent of GDP, respectively.

51. The average effective protection in 1980 was 33.7 per cent (Bajo & Torres (1990)).

52. In fact, by 1985, 80 per cent of firms still had less than 10 workers and R & D represented 1.1 per cent of manufacturing value added, against 4.6 per cent in the EEC (Martín (1992)).

53. De la Dehesa, Ruiz & Torres (1991) provide alternative NAIRU estimates for 1974-79, 6.6 per cent, and 1980-84, 11.3 per cent. Crafts (1993), in turn, suggests NAIRU reached 9.7 per cent in 1969-79, and 15 per cent, in 1980-88.

54. The yearly increase of real investment reached a peak of 15 per cent in 1988.

55. For the years 1986-90, the unemployment rate represented, however, an average of 19.1 per cent.

56. Employment grew faster than active population (1.1 million). Labour creation in 1985-1990 represented 0.3, 0.4 and 1.5 million in industry, construction and services, respectively.

57. An average public deficit of 3.8 per cent of GDP for 1986-90.

58. In fact, given its lower productivity, because of a lower capital/labour ratios and similar wage levels, non-tradables (and services, in particular) reached higher prices.

59. Spanish relative prices rose both because of structural change and internal imbalances, i.e., impact of non-tradables on tradable goods, small size and backward technologies of firms, and labour market rigidities.

60. Factors that favoured an appreciation of the peseta were the inflow of capital and the terms of trade gain derived from a fall in oil prices, while the reduction of tariff barriers with the entrance in the EC and changes in consumer preferences towards foreign goods tended to cancel it out.

61. Over -5 per cent of GDP for the trade balance.

62. Martín (1992), p. 156, found that in the years 1986-90, final demand contributed 35 per cent and competitiveness 12 per cent to the increase in Spain's imports of manufactured goods from the EEC. In the case of Spanish manufactured exports to the EEC, Common Market demand provided 72 per cent while competitiveness had a negative contribution. The overall increase in manufactured exports was only a 38 per cent of that for manufactured imports.

63. Long-term capital inflows represented 2.8 per cent of GDP over 1986-91, and direct investment, 1.4 per cent. Meanwhile, current account deficit reached -1.5 per cent and trade deficit, -5.2 per cent.

64. Plus an over-valuation of the peseta and negative consequences on the current account.

65. In 1987 the targets for the monetary aggregate were revised, and some years later certain less orthodox measures were implemented. For example, in 1989 the Bank of Spain made explicit recommendations to commercial banks to impose credit rationing and, from 1987 to 1989, the control of exchange became a frequent policy.

66. The decision to stick to the ERM, as opposed to the cases of Italy and Britain, might also be related to the negative experience of the 1890's, when Spain gave up the gold convertibility of the peseta (Martín Aceña (1993)). The poorer performance of Spain, as compared to these two other countries,

deserves a throughout investigation (Cf. Camarero & Tamarit (1994)).

67. This paragraph draws heavily on Andrés & García (1992).

68. Thus, potential employment is the number of workers that corresponds to the full utilization of the installed productive capacity.

69. From the quantitative exercise it emerges that, in the late Franco years (1969/70-1971/74), the levels of installed capacity (0.6%), demand (0.3%) and labour availability (1.3%) accounted for all observed employment growth (2.0%), though structural mismatch (-0.4%) and a high labour utilization (-0.6%) reduced the explained employment growth (1.2%). After the first oil shock and during the "transition" years (1971/74-1975/82), there were negative effects on employment derived from restrictions in the installed capacity (-2.1%), in demand (-4.8%) and structural mismatch (-1.9%), whilst positive effects were due to the fall in labour utilization (1.9) and supply (0.1), which together account for all the observed employment destruction (-7.7%). A similar picture is obtained for the post-1979 oil shock (1975/82-1983/86), in which the negative contribution of the capacity utilization (-5.6%), demand (-5.9%) and structural mismatch (-3.3%) increased, hardly offset by the decline in labour utilisation (0.6%) and supply (0.1%), amounting to all the observed decline in employment (-12.9%). Finally, over the 1980's (1983/86-1987/88), positive contributions to observed employment growth (3.8%) are derived from recovery of the levels of installed capacity (1.5%), demand (2.5%) and supply (0.2%), while the rise in labour utilization played a negative one (-0.9%).

70. There is an ongoing debate about the reliability and feasibility of unemployment figures for Spain, as the informal sector represents a non negligible share of total economic activity. Adjusting for employment in the informal sector would probably cast a lower unemployment rate that, nevertheless, would have increased significantly since 1976.

71. In fact, Spain's unit labour costs have increased to those in the EEC.

72. The comparison of industrial performance in Spain and Italy seems to reinforce the argument (Cf. Carreras (1987, 1992)).

73. As Blanchard (1993), p. 232, recently put it, "when one looks at postwar growth rates, the basic impression is that all countries had impressively high growth, no matter what strategy was being pursued". If the post-1959 Spanish fast growth is viewed as a delayed postwar recovery, that contention would apply to Spain.

74. In particular, the reform of the services sector (transportation, health, education), which is linked to the reform of public administration.