

Quite visible hands: a Veblenian approach to regional disparities in Spanish industrialization (1700-1950)

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Abstract: Thorstein Veblen pointed out that each stage in the economic evolution of any given society witnesses the emergence of several properties that shape in a path-dependent way the development of further stages. This idea is applied here to the study of regional disparities in Spanish industrialization, particularly during its initial and intermediate phases. It is held that industrial performance was influenced by the demographic legacies of the pre-industrial period and the distribution patterns in rural economies. After considering the institutional underpinnings of both elements, it is argued that we should turn our attention to the quite visible hands involved in the socio-political making of an institutional framework under which market forces could only lead to regional disparities. Several theoretical conclusions can be drawn from this historical case-study.

Key words: evolutionary economics, Thorstein Veblen, industrialization, new economic geography, Spain.

JEL classification: B15, B52, N93, N94, R12

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‘Economic historians ... cannot ignore the masonry which canalises and deflects economic currents. They are concerned not merely with the market, but with the forces behind it’

Richard H. Tawney (1932: 102)

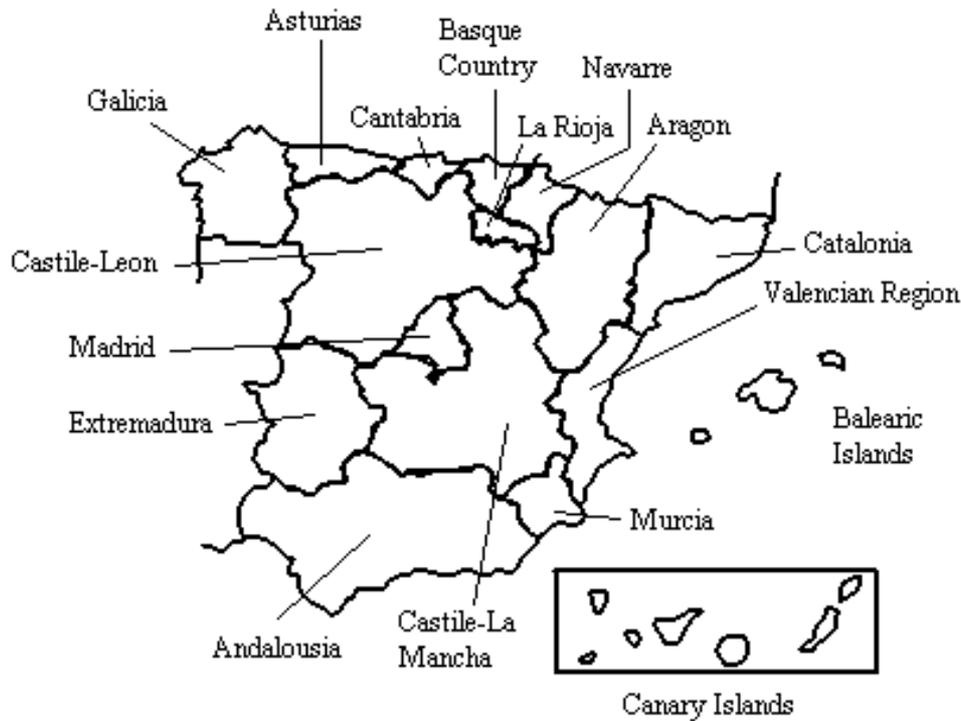
1. Introduction

An economic geographer recently stated: ‘To date, non-orthodox economists appear to have been even less interested in space, place and location than have orthodox, mainstream economists’ (Martin 1999: 83). The topic had traditionally remained peripheral in mainstream economics as well, probably because of the obstacles met by theorists to formally model increasing returns and imperfect competition (Krugman 1995: 1-65; Thisse and Walliser 1998: 12, 19; McCann and Sheppard 2003: 650). But the emergence of the self-labelled ‘new economic geography’ (thereafter, NEG) in the early 1990’s removed these obstacles and began to turn out of date claims that mainstream economics does not pay attention to location theory (Fujita, Krugman and Venables 1999: xi). Led by Paul Krugman (1991A; 1991B), NEG has become a lively sub-field of mainstream economics, its main message stressing that persistent spatial disparities may emerge as a result of the mere functioning of market forces in a world of increasing returns.¹

The main theoretical argument in this article is that our understanding of spatial disparities can benefit from considering ontological layers additional to NEG’s individualistic one. More specifically, it is argued that institutions matter and that they do so in a cumulative, historical way. NEG answers are thus integrated in a broader theoretical framework, namely Thorstein Veblen’s (1898) evolutionary programme. However, this is not a theoretical article, but an illustration based on an historical case-study. Economic history has in fact been frequently alluded to by Geoffrey Hodgson (1998C: 173; 1999: 154) as one of the research fields endowed with the highest potential to contribute to the consolidation of an evolutionary alternative to mainstream economics.

¹ General synthesis can be found in Fujita, Krugman and Venables (1999) and Krugman (2001). The surveys by Meardon (2000) and Scott (2000) place NEG in broader histories of spatial economics.

Map 1. *Spain and her seventeen regions*



The historical case dealt with in this paper is that of regional disparities in Spanish industrialization (see Spanish regions in map 1). The choice of the 1700-1950 period has to do with both case specificities and theoretical implications. Section 2 discusses the implications that Veblenian evolutionary economics has for the study of industrialization processes and underlines the analytical significance of pre-industrial legacies and rural institutions. That is why the article goes back to the eighteenth century, in spite of the fact that Spanish industrialization did not start until the mid-nineteenth century, and stops in the mid-twentieth century, just before industrialization entered its final stage and agrarian and rural population ceased to be a majority. Sections 3, 4 and 5 provide the historical analysis. Section 3 gives an overview of institutional change, economic performance and regional disparities in contemporary Spain. Section 4 argues that the capacity of regional economies to take a successful industrial path was conditioned by the demographic legacy of the pre-industrial period and the distribution patterns in rural societies. As an extension of this argument, section 5 focuses on the institutional properties that emerged at a regional level as a consequence of political strategies by rural elites and that play a major part at explaining why the functioning of market forces led to such remarkable regional disparities in

industrialization. Finally, the conclusions in section 6 highlight the theoretical lessons that can be drawn from the preceding historical study.

2. From ‘new economic geography’ to evolutionary economics

Contrary to other sub-fields of mainstream economics, NEG provides a narrative some of whose elements may be appealing to heterodox economists. In fact, NEG claims to be a product of real world concerns (Fujita, Krugman and Venables, 1999: 2), a claim frequently made by heterodox economics in identity terms. Moreover, in the case of evolutionary economists the role given to historical accidents and path dependence reinforce NEG’s initial appeal. NEG models rescue topics such as Allyn Young’s (1928) increasing returns, Gunnar Myrdal’s (1957) circular and cumulative causation, and the irrelevance of equilibrium economics pointed out by Nicholas Kaldor (1972).² Rather than homeostatic stories, NEG stories are about persistent spatial divergence, time irreversibility and punctuated equilibria along the time arrow.

Critiques to NEG can be classified in two different strands according to their ontological options. The first strand approves of NEG’s individualistic ontology but finds NEG lacking microeconomic rigour in its characterization of individual rationality, its implicit assumptions about the nature of the firm and its cost structure or its excessively schematic picture of inter- and intra-sectorial relations (McCann and Sheppard 2003: 656; Brakman and Garretsen 2003: 643-4; Murata 2002: 5; Neary 2001: 548-51; Thisse and Walliser 1998: 17-8). It has even been proposed to incorporate the tools of new institutional economics to fill the institutional blank spaces that can be detected in NEG models (Brakman and Garretsen 2003: 646).³

The second strand is independent of the evolution of the debate about NEG’s theoretical strengths and shortcomings in an individualistic ontological scenario and focuses on the critique of such a scenario. The intellectual genealogy of this strand could be traced back to Veblen’s (1898) conception of economic evolution as a path-dependent process in which institutions are the units of selection. Hodgson (1999: 139-

² See Krugman (1991A: 9-10, 98). Martin (1999: 77) elaborates the reasons why Kaldor, to take an example, ‘would have been extremely sceptical of ... new economic geography’.

³ Hodgson (1998C: 175-7) summarizes the main differences between new and old institutionalism.

41) has systematically elaborated this point and identified layered ontologies as one of the central features of evolutionary economics in the Veblenian sense of the term.

How can this general approach be applied to the field of spatial economics? The argument here will not be that NEG tells inconsistent or false stories (a conclusion that would depend on the above mentioned first strand of criticism and NEG's degree of ability to internalize it), but that NEG stories are incomplete. Coherently with a position not too favourable to found modelling 'on a more historically based understanding of institutions' (Krugman 1995: 77), several starting conditions and working assumptions are considered exogenous by NEG theorists. It has even been suggested that the very notions of spatiality and historicity that NEG vindicates as one of its comparative strengths in the mainstream arena work at metaphorical levels rather than at real ones (Martin 1999: 75-7; Sheppard, 2001: 103-5; Plummer 2003: 690). However, the above mentioned conditions and assumptions can be seen as the result of path-dependent processes of institutional selection.⁴ Scholars from diverse disciplines have found in institutions the ultimate determinants of regional economic performance and a particular emphasis has been put on the supply side and on the way in which increasing returns, Marshallian externalities and other exogenous NEG elements come effectively into being (Putnam 1993; Amin and Thrift 1995; Martin 1999: 75-7; Hsu and Cheng 2002; Fenoaltea 2003: 1081-2). This has paved the way for long-run spatial analysis (Sokol 2001) that deal with what Veblen (1898: 393) called 'the cumulative sequence of economic institutions'.

What about the demand side? Size of regional market plays a key role in Krugman's (1991A: 14-26; 1991B: 487) initial model because it favours the concentration of economic activity in the regions with larger markets as soon as the benefits derived from increasing returns outweigh inter-regional transport costs. Empirical and cliometric applications of NEG (Davis and Weinstein 1999; Tirado, Paluzie and Pons 2002; Rosés 2003) have in fact confirmed the significance of regional market size as a proximate determinant of regional disparities as the process of national market integration unfolds. But why does home market size differ across regions? Krugman (1991A: 16) provides a clue for historical research when he connects the relative size of regional markets to the geographical distribution of population. Another clue is provided by Douglass North's (1955, 1959) historical analysis of regional

⁴ As Krugman (1991A: 89-92) himself shows in his account of Canadian economic development.

disparities in the United States. North argues that distribution patterns exert an impact on regional market size too and therefore condition the probability of achieving intersectorial propagation of actual expansions in the region's agrarian export base. Demography and distribution patterns can be found in mainstream models of economic development (Murphy, Shleifer and Vishny 1989) but both lead to considering the institutional factors that created what NEG models take as initial conditions.

In a broader sense, both variables provide a start to evolutionary research on the pre-industrial factors that conditioned the development of industrialization, as well as the role played by agrarian and rural institutions. These issues, which were already sketched in Veblen's analysis of the origins of Western capitalism (Rutherford 1998: 469-70; Brette 2003: 467-8), have traditionally concerned economic historians. For instance, Patrick O'Brien and his associates have highlighted the political legacy of the pre-industrial period in their account of British industrial revolution, in a sharp contrast with more traditional stories that are 'narrated as if everything of importance began with the invention of the spinning machines in the 1760's' (O'Brien, Griffiths and Hunt 1991: 395). As a matter of fact, O'Brien's (1996) answer to why Britain led industrialization ahead of other possible Continental candidates such as France emphasizes the path dependencies generated by 'a political and legal heritage that came into place in the eleventh and twelfth centuries'. Furthermore, the question 'Why was Britain first?' has been gradually replaced by the question 'Why was Europe (and not China) first?'. Both in internal (Jones 1988; North 1981) and external (Pomeranz 2000) terms, the institutional framework of pre-industrial Europe features prominently in some of the most influential answers to this last question. As a consequence, the Industrial Revolution emerges as 'the culmination of a process with deep roots in the preceding two centuries' (de Vries 2001: 484).

Economic history has also increasingly underlined the role of agrarian and rural institutions. At the threshold of the 1960's, North (1959: 943) was still trying to defeat what he considered to be an 'agreement amongst many economists that agriculture contributes little to economic growth'. But a basic observation of modern European economic history reveals that the early cases of successful industrialization were also cases of early growth in agrarian productivity and yields (O'Brien and Prados de la Escosura 1992: 514; O'Brien 1996; Allen 1999). Moreover, a comparative analysis of late comers to economic development such as Canada, Australia, temperate Latin America or Scandinavia finds in rural institutions and their effect on income distribution

a major determinant of their very uneven capacity to develop inter-sectorial linkages following agrarian export booms (Schedvin 1990; Lingarde and Tylecote 1999). The significance of rural institutions holds even if we consider bigger samples of countries (Adelman and Morris 1979; Morris and Adelman 1983). Finally, regional comparative studies have also focused on rural institutions as a first-rate influence on the formation of divergent industrial paths in cases such as the Habsburg Empire, United States, Italy or Spain (North 1955, 1959; Good 1986: 147-51; Zamagni 1993: 72-4; A'Hearn 1998: 754-5, 759; Domínguez 2002A, 2002B).

3. Institutional change, economic development, and regional disparities in Spain

In the mid-nineteenth century the Spanish economy featured low growth rates, agriculture as the leading sector, low levels of labour productivity and urbanization, and mediocre living standards. More than a century of industrialization and Kuznetsian (1966) structural change after that, opposite features could be found by the end of the twentieth century. A crucial element in this long-run development was the set of major institutional changes that took place in the first half of the nineteenth century in order to terminate the *Ancien Régime* and consolidate a market society. This was not an easy transformation, and probably none of the four civil wars held in Spain between 1833 and 1939 can be fully understood without a reference to it.

The *Ancien Régime* state collapsed during the French invasion of the Iberian Peninsula that started in 1808. A liberal constitution was released in 1812 but, although absolutist Ferdinand VII was unable to completely recompose the *Ancien Régime* institutions between 1814 and 1833, it was not until the second third of the century that liberalism was firmly established under the constitutional monarchy of Elizabeth II. But political instability remained, comprising *coups d'État*, new constitutions and short-lived new political regimes (both monarchy and republic). The formal stability brought by the restoration of the original, Borbon monarchy in 1874 was achieved at the cost of establishing a very imperfect democratic system and eventually witnessing the rise of general Miguel Primo de Rivera's dictatorship (1923-30). Democracy came back in 1931 following the peaceful acclamation of Spain's Second Republic, but an increasing ideological polarization of Spanish society was registered after that. The Second

Republic was aborted by general Francisco Franco's *coup* in 1936 and his eventual victory in a civil war that lasted until 1939.

Franco's fascism was clearly anti-communist, but quite anti-liberal too –during the 1940's, an autarchic, interventionist economic policy was tried with horrible results, putting a brake on Spain's economic growth (table 1). This long phase of growth, from 1850 to 1930/50, had been a Kuznetsian one but (just as in other Mediterranean and Eastern European countries) it had also been a period of divergence with the original core of European industrialization. This divergence amounted to more than one third of GDP per caput in eight advanced European countries by 1950 and has been at the centre of the country's main debate in the field of economic and social history.⁵ It was during the third quarter of the twentieth century when the Spanish economy (like other European peripheral economies) registered spectacular growth and convergence, and finished in an accelerated way the structural changes linked to industrialization. The adoption by Franco of a more liberal economic policy was very important for this outcome to be achieved. Moreover, economic success enlarged the size of Spain's middle classes (as compared with the situation in the tragic 1930's) and thus became one of the many factors that favoured a peaceful and negotiated transition towards a democratic system after Franco's death in 1975.⁶

Table 1. *The economic development of contemporary Spain*

<i>GDP per inhabitant</i>		<i>Gap in GDP per inhabitant</i>		<i>Employment in primary sector</i>		<i>Urbanization rate</i>	
<i>Period</i>	<i>r</i>	<i>Year</i>	<i>%</i>	<i>Year</i>	<i>%</i>	<i>Year</i>	<i>%</i>
1860-1900	1.0	1850	9	1877	63	1860	15
1900-1930	1.3	1900	27	1900	61	1900	21
1930-1950	-0.9	1950	34	1950	48	1930	28
1950-1970	5.5	1975	29	1975	21	1960	42
1970-2000	2.6	2000	26	2000	7	1990	63

r: annual average rate of growth

Gap in GDP per inhabitant: gap between Spain's GDP and that of a sample of eight advanced European countries (Germany, Austria, Belgium, Denmark, France, Netherlands, United Kingdom and Sweden)

Urbanization rate: population living in cities above 10,000 inhabitants (%)

⁵ Prados de la Escosura (2003) and Carreras and Tafunell (2004) are the latest examples.

⁶ Comín *et al.* (eds.) (2002) provide an updated and detailed account of Spanish economy in the very long run.

Sources: Prados de la Escosura (2003: 177, 586-90, 601-5), Carreras and Tafunell (2004: 451).

Table 2. *Industrial production per inhabitant, Spain = 100*

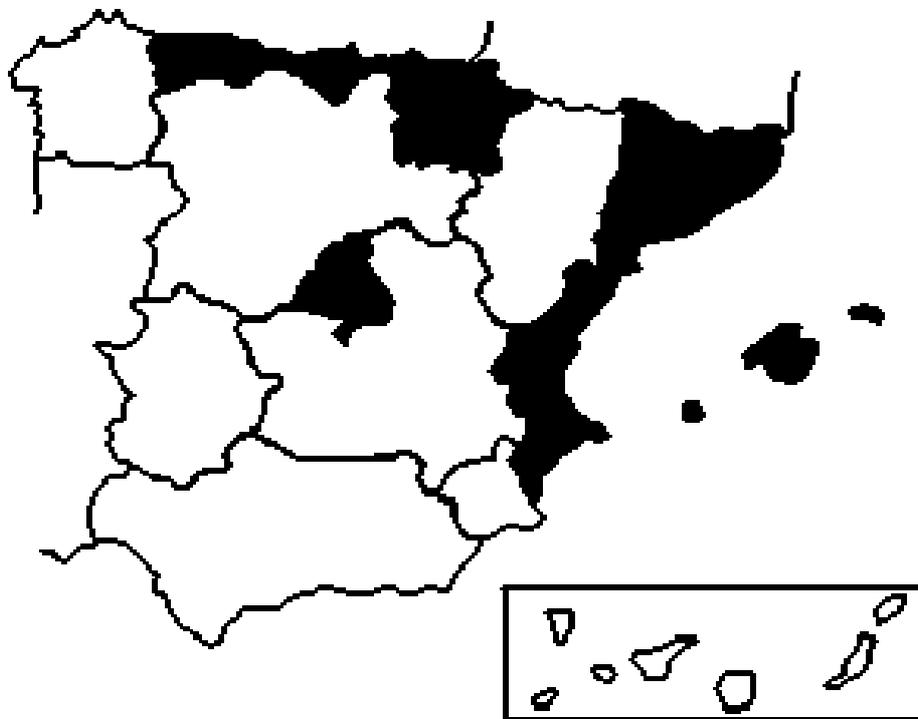
	1850	1900	1950	1990
<i>East</i>				
Balearic Islands	104	46	123	64
Catalonia	201	300	204	168
Valencian Region	80	85	133	114
<i>North - Litoral</i>				
Asturias	83	84	156	129
Basque Country	36	491	345	163
Cantabria	215	87	170	96
Galicia	46	24	46	76
<i>North - Interior</i>				
Aragon	79	54	87	138
Castile-Leon	105	44	62	93
La Rioja	120	86	122	140
Madrid	97	97	127	93
Navarre	42	80	110	158
<i>South</i>				
Andalusia	94	90	51	47
Canary Islands	25	13	41	46
Castile-La Mancha	89	63	40	77
Extremadura	98	43	21	49
Murcia	120	51	59	70
<i>Variation coefficient</i>	<i>0.51</i>	<i>1.12</i>	<i>0.69</i>	<i>0,40</i>

Sources: Parejo (2001: 35), Domínguez (2002A: 75).

But there have been many shadows in this long-run political and economic success. One of them is the great regional disparity with which industrialization developed (Germán *et al.* eds. 2001; Domínguez 2002A). During the first technological cycle of industrialization, Catalonia became Spain's factory, the textile sector being the leading power in regional growth. In the late nineteenth century, a time when a second technological cycle was getting started, the Basque Country joined the forefront of Spanish industrialization, with iron and steel works as main elements. By 1900, Catalonia and the Basque Country were the two only Spanish regions with per caput levels of industrialization above the national average (table 2). This illustrates the weakness with which industrial transformation had been taking place in the rest of Spain in a context of increasing market integration led by the spread of railways across the country.

Several statistical indications suggest that regional disparity began to decrease during the first third of the twentieth century (Domínguez 2002A: 70-81). This was due to the progress of industrialization in new regions such as the Valencian Region, the Balearic Islands, Asturias, Cantabria, Navarre and Madrid. But a very remarkable part of the territory remained backward, particularly inland Spain (in which Madrid was an island of urbanization and industrialization) and southern Spain (composed of mainly agrarian regions in which Kuznetsian structural change was taking place slowly or, in some aspects, was not even taking place at all) (map 2).

Map 2. *Regions with industrialization levels above national average around 1950*



During the second half of the twentieth century, regional disparities kept on decreasing, but this time they did so in a qualitatively different way. Backward regions in the interior and south of the country registered intense migration out-flows as a consequence of the living standards gap associated to the very uneven spread of industrialization. From the viewpoint of backward regions, demographic decadence favoured convergence in terms of income per inhabitant, labour productivity, industrialization level per inhabitant and occupational structure (because most migrants were pulled from agrarian, rural economies). But this path of convergence and structural

change, which could be termed ‘degenerate’ following Hodgson (1989: 88), did not contribute to a more balanced distribution of economic activity across the Spanish territory (Collantes and Domínguez 2003; Morilla 1995: 79). As a consequence of that, Spanish regions may have drawn in the long-run Jeffrey Williamson’s (1965) inverted U-shaped curve (at least if we look at per caput indicators only), but they have not met North’s (1955) more restrictive prediction of an eventual geographical spread of economic activity.

4. Rural society, pre-industrial demography, and industrialization

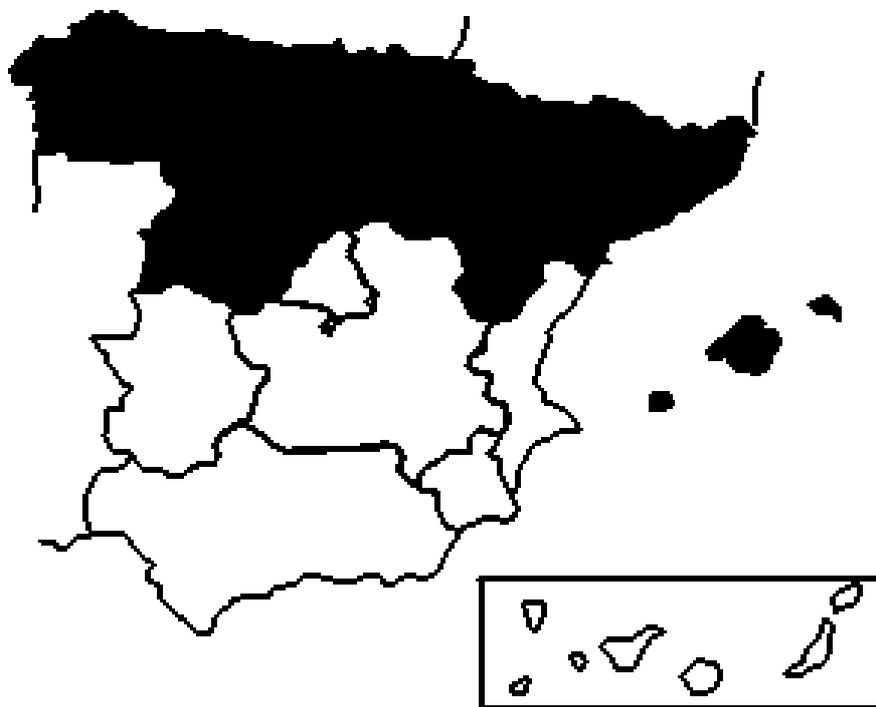
This section provides a simple application of the theoretical arguments presented in section 2 to the study-case presented in section 3. When industrialization started in the central part of the nineteenth century, Spain was an agrarian and rural country none of whose regions registered percentages of agrarian workers below 50 or (except for Madrid) urbanization rates over 40 per cent (Zapata 2001: 566, 568). However, the absence of Kuznetsian change did not imply that all regional economies were basically similar before industrialization. The two variables selected in section 2, rural distribution patterns and population density, were quite heterogeneously distributed across Spanish regions.

Rural distribution patterns depended dramatically on the distribution of landed property and on the conditions of indirect access by peasants to land. Huge differences existed here throughout the Spanish territory. Map 3 shows this by considering the percentage of non-wage workers in the primary sector (Fundación BBV 1999), a proxy that has been previously used by Spanish historians in order to analyse the distribution patterns in rural societies (Gallego 2001; Dobado 2003).⁷ Broadly speaking, peasant families in the northern regions worked small farms of their own or rented small farms, while in the southern half of the country a more polarized rural society prevailed –a society composed of big landowners whose farms were laboured by landless agricultural workers (or workers with very precarious, insufficient farms of their own). For instance, it has been estimated that 46 per cent of the land in the Andalusian

⁷ Statistical limitations prevent this variable from being reconstructed before 1955, but the general image that it provides shows the structural contrast that was dealt with above and fits well with the (first ever) estimates by Carrión (1973: 159-60) of rural wealth concentration in the 1960’s.

provinces of Cádiz, Córdoba, Jaén and Seville belonged in 1930 to no more than 0.5 per cent of the land owners (Simpson 1992: 2) and this last percentage would substantially decrease if the whole of the rural population were considered. As a result of that, living standards were remarkably lower in the southern half of the country even before industrialization, as regional estimates of the Physical Quality of Life Index show (Domínguez and Guijarro 2000).⁸

Map 3. *Regions in which the percentage of non-wage workers in primary sector is above national average around 1955*



The second axis of differentiation was population density at the start of industrialization. As map 4 shows, Spanish population was concentrated on coastal regions by 1860, when the first modern census was elaborated. Population concentration was the result of an historical process that started in the late sixteenth century and consolidated during the seventeenth century (Pérez Moreda 2004). The seventeenth century was a period of decline for the Spanish economy and particularly for the Castilian regions in the interior. As a result of that, the spatial distribution of population became more unequal and the contrasts shown in map 4 began to emerge.

⁸ Gallego (2001) provides a detailed analysis of rural societies and economies in Spain.

Map 4. *Regions with a population density above national average in 1860*



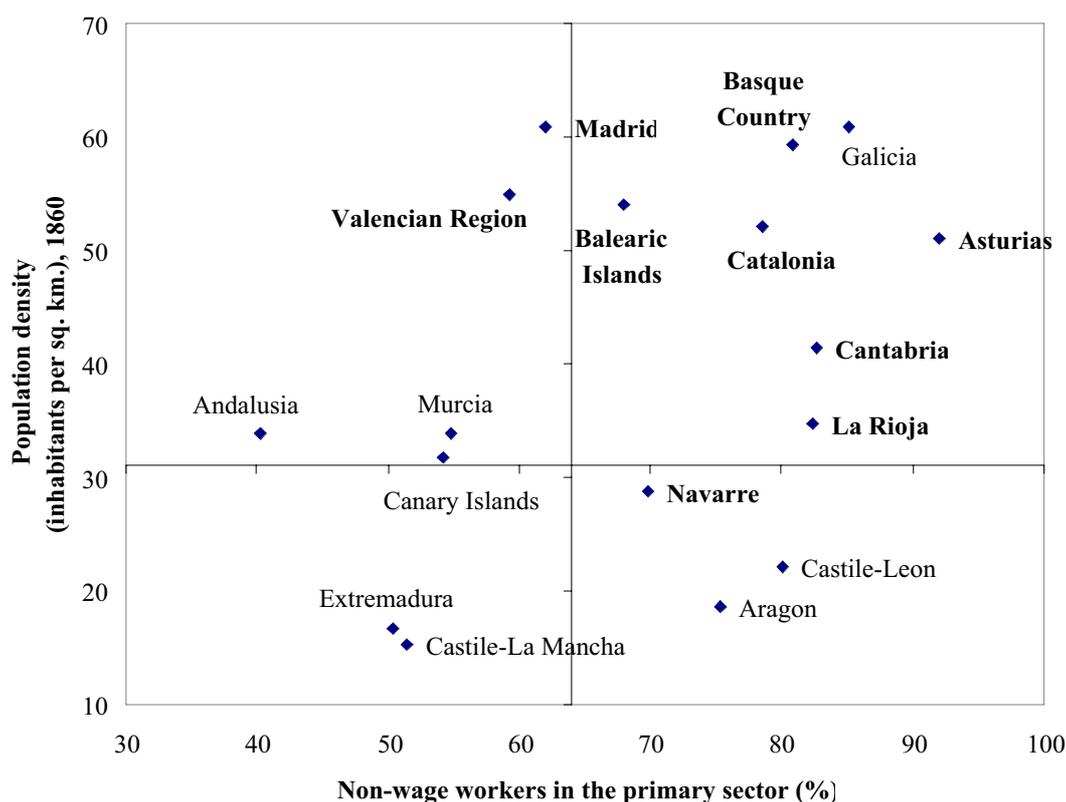
These two axes of regional variability helped to shape different sizes for the regional home markets and therefore helped to shape in a path-dependent way the potential for growth in the subsequent industrial era.⁹ Graph 1 classifies Spanish regions in four groups, depending on their high/low levels of rural inequality and their high/low initial population densities. National averages determine the position of axes in the graph, and bold writing shows those regions with a per caput level of industrialization above national average around 1950, just before ‘degenerate’ convergence started.

Graph 1 shows that all of the success cases are located in the upper-right quadrant or in its close vicinity. These were regions with high population densities at the start of industrialization and relatively low levels of rural inequality. In the Mediterranean regions of Catalonia and Valencia, where the production of consumption goods played a leading role in industrialization, the industrialization impetus coming

⁹ The size of regional home market plays an important role in many comparative analysis of Spanish regional economic history (Maluquer de Motes 1988: 26-7; Germán 1995; Domínguez 2002A; Tirado, Paluzie and Pons 2002; Rosés 2003). The arguments about the relevance of pre-industrial legacies and of rural distribution patterns are fully elaborated by Llopis (2001) and Domínguez (2002B), respectively.

from the expansion of an agricultural export base (intensive Mediterranean crops for which these regions held comparative advantage) was not blocked by a small home market. Rather than that, benefits from agrarian change were enjoyed by ample sectors of the regional population. Together with high population densities (a feature inherited from *Ancien Régime* and now reinforced through cumulative causation), this created a relatively big and promising home market for industrial investments (Maluquer de Motes 2001; Palafox 2001). In the industrial regions in the north, the Basque Country ahead, availability of mineral resources gave capital goods a more important role in industrialization. But this does not exclude that initial population densities and moderate polarization in rural society generated favourable inertia for the inter-sectorial propagation of these first dynamic steps (Domínguez and Pérez 2001).

Graph 1. *Industrialization, starting population density, and rural inequality*



On the contrary, the absence of industrial regions in the lower-left quadrant reveals that there was not a single Spanish region that managed to develop a successful industrialization from low starting population densities and high levels of rural inequality. A good illustration of both handicaps, Extremadura was in fact the less industrialized Spanish region in 1950. In the big regions located in the north-inland

area, such as Aragon and Castile-Leon, low population densities were a problem for industrialization. In Andalusia, initial population density was not low (particularly in the coastal provinces) and the growth of Spain's urban system during the 1850-1930/1950 phase fostered agrarian specialization and growth (and even geological chance provided some positive conjunctures in the mining sector). Furthermore, this was an open region whose international exports (concentrated on the primary sector) amounted to 16 per cent of GDP, while Spain's average was below 10 per cent. But the road to industrialization faced the obstacle of a very unequal distribution of earnings from agrarian growth (see Simpson 1992: 16-9) due to the very unequal distribution of landed property and more generally to the high degree of polarization in rural society (Dobado and López 2001; Llopis and Zapata 2001).¹⁰

Summing up, low population density (in interior regions) and excessive economic polarization in rural society (in southern regions) acted as obstacles for the industrialization of a very important portion of the Spanish territory. These were not of course the two only determinants of industrial performance, but they show some of the concrete mechanisms through which economic development became a path-dependent process. Next section deals with the social and political forces whose interaction led to the results that have just been presented.

5. Economic backwardness, class efficiency, and the invisible hand

Amit Bhaduri (1973) applied the concept of 'class efficiency' to situations in which rural elites could block technological changes that would increase agricultural productivity but would also menace their global economic profit by reducing their earnings as money lenders of subordinated peasants. In this section I apply an extended version of this concept to argue that rural elites in inland and southern Spain blocked in different moments some institutional changes that could have increased the size of

¹⁰ A part of this argumentation could be extended to Galicia, which was very densely populated in 1860 and whose rural society does not seem very unequal if we look at the usual variable, but whose industrialization levels were quite low (this is the only exception in the upper-right quadrant of graph 1). Social and economic uniformity was however only apparent –Galician peasant families were bonded to the *foro* institution, a type of indirect access to land whose 'redemption' (the payment made in order to buy direct access to that land) implied a massive transfer of agrarian export benefits from peasant families to a thin stratum of land owners. This rural inequality, confirmed by qualitative reports (see Domínguez 2002B: 184), did not certainly favour the widening of a regional home market –about Galicia, see Carmona (2001).

regional home market (and, therefore, the chances of industrialization) but would have also menaced the relative social position of elites because of their redistribution effects in the rural economy. Bhadurian class-efficiency becomes thus linked to the non-utilitarian conception of economic behaviour proposed by authors such as Veblen (1899) or Karl Polanyi (1944).

Low population densities and rural inequality hindered a stronger industrial transformation in backward regions, but several social forces in modern Spain perceived some political margin to remove these obstacles, at least partly. This was the case, in the first place, of eighteenth-century enlightened and their proposal to expand the surface under cultivation in inland Spain, a proposal that could have led to higher demographic densities by the end of the pre-industrial era. On the second place, rural inequalities in southern Spain could have been softened if other types of liberal reform had taken place during the first half of the nineteenth century or if the democratically-elected initial government in the Second Republic had succeeded in its attempt to promote an agrarian reform in the 1930's. In both cases, class-efficient strategies by rural elites were quite successful at stopping reforms, or at least at minimizing their impact.

Why was interior Spain so scarcely populated by the start of industrialization? Without any doubt, geography mattered –dryness, altitude and lack of access to the sea were fixed constraints upon agrarian and population growth in the technological framework of the pre-industrial period (Dobado 2004; Ayuda, Collantes and Pinilla 2004). In line with Smith (1776), lack of access to the sea prevented interior regions from gaining access to bigger markets and greater possibilities of specialization and functional division of labour. Only Madrid could enjoy from state capitality as some kind of institutional substitute for geographical endowment. In the coastal regions, these Smith-type effects combined with Boserup-type (1965) effects to define an economic path featuring agricultural intensification and higher population densities reinforcing each other in a Myrdalian (1957), circular and cumulative way. In inland Spain, however, an extensive, cereal-based agriculture prevailed and geography was important in several ways to hinder intensification in a mixed farming style (as in Northern coastal regions) or through specialization in high-yield crops (as in the Mediterranean regions). Land yields in inland Spain were eventually two or three times below those in the coastal fringes (Zapata 2001: 577; Simpson 1995: 51).

But institutions mattered too. Geography hampered yields per hectare of cultivated land, but the ratio of effectively cultivated land to potentially cultivated land

was subject to political bargaining and power relations. The constrained growth potential of interior agriculture was not even fully achieved during the final part of the *Ancien Régime* because agrarian (internal) colonization was undertaken at a slow pace (Llopis 2002, 2004). During the second half of the seventeenth century, the enlightened proposed to intensify the breaking of previously under-exploited lands or of lands that were being used for extensive livestock feeding (in the context of the economic and social interests articulated by the *Mesta*, the organization of big Castilian, trashumant shepherders). But during the final part of the *Ancien Régime* breakings remained below their potential level because of the political victory of an ‘anti-breaking lobby’ composed of big sheep owners, local oligarchies and some of the rentier landowners, all of them unwilling to see breakings taking place.¹¹ It has even been estimated that Spain’s agrarian GDP could have potentially been 20-25 per cent higher than it actually was (Llopis 2004: 32). Particularly significant in interior Spain, these wasted chances of extensive, pre-industrial growth reinforced the demographic contrast (so unfavourable to the inland regions) with which Spanish regions were going to enter the era of industrialization because of their heterogeneous geographical endowments. The members of the ‘anti-breaking lobby’ were economically rational, at least in the sense that they were driven by a desire to preserve their social status. However, their success in a political system characterized by a very unequal distribution of bargaining power led to the emergence of an institutionally-made demographic constraint that would not favour subsequent industrial change.

Institutions were even more clearly significant at making the second constraint (the one dealing with extreme rural inequality) emerge. Why were rural inequalities so acute in southern Spain? The roots of the great landed states in the southern half of the country can be traced back to medieval period. Land was already very unevenly distributed by the end of the fifteenth century, following an unequal repartitioning of lands won by the Christians to the Arabs during the *Reconquista* (Spanish word for ‘reconquest’, a multi-secular struggle that took place from north towards south) and fraudulent accumulation of common lands by the nobility (Cabrera 1989). But in terms of our present discussion the decisive crossroad were the liberal reforms undertaken during the nineteenth century in order to terminate the *Ancien Régime* and give way to a market society (García Sanz 1985). Disentitlement of Church, State and municipal lands

¹¹ See Llopis and Zapata (2001) for Extremadura, Spain’s most backward region.

was supposed to mean the implementation of liberalism in the countryside and the elimination of 'imperfect' property rights (such as communal property of hillsides and forests). In spite of ample surfaces of land being put in the market for the first time, the liberal project showed very different versions according to regional features such as the potential for agricultural growth and the particular interests of rural elites (who were significantly entitled to political bargaining) (GEHR 1994). This is why disentanglement reinforced the pre-existing distribution patterns in rural societies –inequality became more acute in the southern half of the country, where privatization was intense and landowners managed to gain big surfaces that had not been previously exploited (or had been so only in a very extensive way).

Therefore, liberal reforms reinforced the role played by markets in the economic functioning of rural societies (and Spanish society as a whole), but they also reinforced (particularly in the southern regions) a very unequal distribution of those capabilities needed by rural population to successfully perform in markets. Fostering the access of rural population to land property was an initial element in the liberal reform programme (Llopis 2002: 177-9) and would have probably provided a more coherent philosophical environment to the functioning of the Smithian invisible hand. In fact, Smith's historical, applied discussions show that he was aware that his seemingly simple growth model had this type of institutional implications (Fiaschi and Signorino 2003: 7-11). A similar argument could be made for education, whose supply became very dependent on municipal decisions controlled by local oligarchies (Domínguez 2002A: 131-5). But Spain did not witness the type of 'egalitarian modernisation of the socio-institutional structures' found by Lingarde and Tylecote (1999: 101) for Scandinavia. With land, education and other capabilities so unevenly distributed, it is not surprising to find market forces driving rural inequality. The relative deprivation felt by the vast majority of rural inhabitants in the south maximized both the economic profit and the social position of landowners but this was so at the cost of accumulating on regional structures a blocking factor for the inter-sectorial transmission of expansions in primary export bases.

The more egalitarian distribution of political power brought about by the Second Republic in 1931 certainly threatened such institutional arrangements. The democratically-elected left-wing government designed an agrarian reform set to reduce the concentration of landed property. This reform could have been expected to enlarge regional home markets, but we will never know. Reform had to face several political

and economic constraints that prevented its full implementation, including the eventual three-year civil war that followed Francisco Franco's *coup* in 1936. Franco's economic policy after victory consolidated the big landowners' interests and had a regressive effect upon income distribution both in the countryside and in the country considered as a whole (Barciela 2002: 343, 349). Not only agrarian reform, but also democracy became a chimera. Moreover, as soon as the more autarchic version of Franco's political economy was removed and economic growth re-started at a spectacular rate, southern regions started to converge in a disappointing, 'degenerate' way.

However, the role of this episode of failed institutional change should not be overstated as compared to the role played by liberal reforms. It must be kept in mind that by the 1930's industrialization and its regional disparities were very clearly consolidated in Spain and increasing returns were working in favour of the initial leading regions. In other words, rural inequality could be diminished by the Second Republic politicians, but its cumulative effects on the path followed by southern regions during the initial and intermediate stages of industrialization could not be erased from history. Definition of the original institutional setting in which market forces would operate after the end of *Ancien Régime* became thus a long-run determinant of regional economic performance. Today, southern regions such as Extremadura or Andalusia register levels of GDP per caput that fall below 70 per cent of Spanish average and 60 per cent of EU-15 average (Domínguez 2002A: 377), while mainstream economists find them converging towards different, less favourable steady states than other Spanish regions (Pérez 2000). Rural institutions during the first stages of industrialization are not the only explanatory factor for this, but they surely contributed to the historical formation of backwardness.

6. Conclusions

Veblen (1898) pointed out that each stage in the economic evolution of any given society witnesses the emergence of several properties that shape the development of further stages (Hodgson 1998A: 420-2, 427; 1999: 139-41, 147-9). Economic history becomes thus a strategic field in the consolidation of an evolutionary theoretical alternative to mainstream economics. In its turn, the gradual development of such an alternative generates implications for the agenda of economic historians. In the specific

case of industrialization, surely the most important economic change in long-run history (with the qualified exception of the transition towards a Neolithic economy), an obvious implication of the evolutionary research programme is that pre-industrial legacies may exert a remarkable impact on long-run paths of industrial growth and economic development. A second, maybe not so obvious implication has to do with rural institutions and their influence over the historical drawing of such paths. Rural institutions may be very important because during the first stages of industrialization urbanization rates are low and most population remain employed in agriculture.

This article has applied such an approach to Spanish industrialization and the regional disparities associated to it. It has been argued that the demographic and institutional properties that emerged at a regional level during the final part of the *Ancien Régime* and during the political transition towards liberalism conditioned economic performance during the industrial era. Two common properties in scarcely industrialized regions were low population densities by the mid-nineteenth century (when Spanish industrialization started) and/or high degrees of rural inequality. Both properties (the first one more characteristic of inland regions, the second one more common in southern ones) shaped small home markets that slowed down the transition towards a sectorially diversified growth. Another reason why rural inequality was harmful is that it was detrimental to the spread of literacy and the generation of several supply-side institutional determinants of growth. On the contrary, industrial regions arrived to the mid-nineteenth century with higher population densities and consolidated during the late *Ancien Régime* and the liberal reforms a model of rural society in which economic and social disparities were not so acute. As a result, a bigger home market, together with other advantages, contributed to these regions entering a Kuznetsian growth path. These regional heterogeneity became nearly locked-in when national market integration and the rise of increasing-returns sectors generated inertia favourable to the spatial concentration of industrial activities according to the ‘new economic geography’ models (Fujita, Krugman and Venables 1999).

Three theoretical conclusions can be drawn from the preceding historical analysis. First, the emergence of institutional properties capable of constraining long-run economic growth is compatible with individuals acting in a goal-directed manner. In this case-study I have applied an extended version of Bhaduri’s (1973) concept of class efficiency to a historical situation in which entitlements to political bargaining were very unevenly distributed. The class-efficient strategies by rural elites in eighteenth-

century Spain hindered agrarian changes that could have increased the population density levels with which interior regions were to reach the beginnings of industrialization. In its turn, class efficiencies by southern big landowners led to a very unequal distribution of landed property and other endowments needed by rural populations to successfully perform in factor and commodity markets. In such conditions, the increasing role of markets that followed nineteenth-century liberal reforms could only lead to a very unequal distribution of income in southern Spain. In both cases, rural elites were economically rational in the sense that they preserved or improved their relative social position, but their institutional success favoured the emergence at a regional level of properties that would not favour long-run economic growth.

A second conclusion is that the working of Smith's invisible hand may lead to very different results depending on the features of the institutional framework in which it is put to work. It has been suggested that Smith's main interest was to study the institutional arrangements more suitable for economic growth (Chandra 2004: 802). But the historical experience of liberal revolutions in Europe proved his system of natural freedom helplessly accompanied by what Hodgson (1998B) terms 'necessary impurities'. In the case of Spain, the spread of a market economy was fully compatible with not one but several different institutional options that would define the social distribution of economic and political power and therefore the distribution of those endowments with which agents would participate in markets. The institutional path effectively taken exerted a cumulative, long-run impact upon the economic performance of Spain and her regions. This echoes Clarence Ayres (1957: 26) stating that 'the market only gives effect to prevailing institutions' and may be more surprising to Smith's ahistorical followers than would have (considering some of his applied digressions) been to Smith himself.

The third and last conclusion is that, when it comes to accounting for spatial economic disparities, explanations in a Veblenian key do not necessarily require the rejection of new economic geography models in their own terms (at least as long as these terms are able to stand to internal criticism), but they certainly imply a substantial alteration of the latter's epistemological status. The case-study here presented suggests that considering ontological layers additional to the individualistic layer usually considered by mainstream economics allows for more complete narratives that uncover the role of institutions in processes that would otherwise be depicted as spontaneous

consequences of Smith's invisible hand. It seems plausible that other fields in mainstream economics may be revised in a similar way in the many-sided process of constructing an evolutionary alternative that is under way. Richard Tawney's masons, economic historians may significantly contribute to such revisions.

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