

The Epstein Lecture Series

Inaugural Lecture

LSE March 3rd 2008

Stuck in the past or looking towards the future?

The deep historical roots of Spanish economic regionalism

To be invited to give this first lecture in memory of Larry Epstein is not just an enormous honour for me but also a real pleasure. And I want to thank the economic history department for creating the Epstein memorial lecture. It speaks volumes that Larry, when planning a lecture series, intended to invite young colleagues rather than the ‘many grand old men and few women’ and I am very glad that the department went ahead with this idea – not just because they invited me.

This event is not just a memorial lecture for most of us. Many maybe most of those here today have had the enormous fortune of knowing Larry, of debating with him, of learning from him and of enjoying the company of this wonderful, funny, compassionate and frighteningly intelligent man. His untimely death has been an enormous loss for economic historians, for his department here at the School, and for the academic community far beyond these walls. None of us can even begin to imagine what it meant for his family.

Living in the US I was genuinely surprised at how many colleagues from the most diverse areas of history and economics have over this passed year expressed their admiration and respect for Larry's work, when learning of my LSE past. And I think it is only fitting that we should today here celebrate one of the things Larry cared passionately about: academic research in our field, economic history.

I will not even pretend to be able to do justice in my talk to Larry's wide-ranging research. He had started his career as a historian of late medieval Italy, making his mark by challenging much of the interpretation of the origins of Sicilian backwardness. A review of his 1994 book "An Island for Itself: Economic Development and Social Change in Late Medieval Sicily" in the generally rather waspishly reserved *American Historical Review* started thus: "Stephen R. Epstein demolishes historical orthodoxies with a barrage of facts".¹ Another historian reviewer, equally admiring just regretted that Epstein is "too eager to rely on models". Many of us can read these symptoms. He cared about history not orthodoxies, he believed in facts, he relied on models – he was doomed to be an economic historian.²

Facts **and** models led him to believe that something was wrong with the conventional interpretation of Sicilian backwardness as a result of dependency on foreign merchants, raw material exports and an oppressive and decadent aristocracy sometimes described in

¹ William A Percy, "Stephen R. Epstein. An Island for Itself: Economic Development and Social Change in Late Medieval Sicily," *American Historical Review* 98, no. 3 (1993): p.851.

² Tommaso Astarita, "An Island for Itself. Economic Development and Social Change in Late Medieval Sicily. By Stephan R. Epstein," *Sixteenth Century Journal* 25, no. 1 (1994): p.190.

ways that seemed strangely reminiscent of Lampedusa's 19th century Gattopardo. And these facts and models became part of his subsequent work in a way that I only realised when I recently reread "An Island for Itself". In it Larry revealed regional divergence and patterns of more complex internal markets and how Government regulation, taxes, war, social structures and technological change impacted differently across the Sicilian regions.

In his subsequent research he worked his way through all of these themes on a much larger scale with astonishing speed. His work on guilds challenged views of their institutional role and rehabilitated them as important agents of skill development and transfer. His 2000 book "Freedom and Growth" took on the high priests of new institutional economics, showing that the famous, elegant model of Douglas North and Barry Weingast, which purported to show that the Glorious Revolution in England and parliamentary rule in its wake created the conditions for modern economic growth, was simply that: an elegant model - unfortunately not backed up by facts.³

Instead Larry suggested, we ought to rethink our models of early modern monarchies and states and pay attention to the jurisdictional fragmentation they were subject to.

Epsteinian early modern monarchs were not the master in their own territory. In fact, they usually ruled over territories in the plural not the singular. And in each of them they were subject to multiple levels of authority shared with towns, guilds, and the church amongst

³ Stefan R. Epstein, *Freedom and Growth: The Rise of States and Markets in Europe, 1300-1750* (London: Routledge, 2000), especially chapter 2.; Douglas C. North and Barry R. Weingast, "Constitutions and Commitment: The Evolution of Institutions Governing Public Choice in Seventeenth-Century England," *Journal of Economic History* XLIX, no. 4 (1989)..

others. All of these in turn demanded that the king respect their ancient freedoms, again in the plural – nothing to do with some abstract idea of freedom in the singular, i.e. the universal freedom of the individual.

This dimension of Larry's work is what inspired me to write today's lecture. I will argue that his powerful restatement of the nature of governance in most of late medieval and early modern Europe and its impact on economic development challenge us to rethink the deep historical origins of Spanish economic regionalism. I will also claim that more careful understanding of the history of Spanish regionalism can inform our assessment of the current situation. This is of course dangerous territory for an economic historian of early modern Spain, and I shall try my best not to engage in inventing cheap continuities over five centuries. But one of the things I learned from Larry is that as economic historians we should at times be bold and deal in large structures and try to discern patterns and regularities that help us to understand the current state of affairs.

Spanish Regionalism

Map 1) Modern Spanish autonomías



That regionalism is a powerful force in today's Spain is a truism that hardly seems to need any discussion. Anyone who has followed the campaigns for the upcoming general election (9 March 2008) knows the importance of regional themes. The persistent political tensions between regions and national centre in Spain are always palpable.

In some ways, the jockeying for power between regions, national governments and supra-national structures such as the EU is certainly not special to Spain. Globalisation

specialists talk about the demise of the nation state and an empowerment of both regions and supra-national bodies.⁴ Strong regional movements, including those that define themselves as ‘nationalist’ - with a definition of the nation not congruent with the existing nation states – exist in many western European countries. Scotland and the botched British attempts at devolution come immediately to mind.

Nevertheless, regionalism in both its more general form and its specific form as powerful Catalan, Basque or Galician nationalisms, dominates public debates in Spain more than elsewhere in western Europe and the question of the fundamental constitution of Spain as a nations state is never far away. Hours before Kosovo had even declared its Independence on February 17th of this year, Miren Azkarate Villar, spokeswoman of the nationalist Basque government, argued according to the Bilbao newspaper El Correo that Kosovoan Independence was “a lesson in how to resolve in a peaceful and democratic way conflicts of identity and belonging”.⁵ While many might not share her assessment of the peaceful and democratic nature of Kosovo’s Independence, Azkarate implied obviously that a similar path for the Basque Country was possible and desirable. Not surprisingly Spain’s central government was the only one in Western Europe that refused to recognize Kosovo’s Independence and was correctly blamed by the international media for blocking yet again any EU agreement on a common policy.

⁴ To name but a few contributions to this literature: Robert Robertson, *Globalization: Social Theory and Global Culture* (London: Sage, 1992).; James Rosenau, *Information Technologies and Global Politics: The Changing Scope of Power and Governance* (Albany: 2002).; David Held, *Democracy and the Global Order* (Cambridge: 1995).

⁵ “La portavoz del Gobierno vasco, Miren Azkarate, ha dicho hoy que el proceso de independencia de Kosovo supone una "lección sobre el modo de resolver de manera pacífica y democrática conflictos de identidad y pertenencia" in *Azkarate dice que Kosovo supone una "lección" para resolver conflictos de identidad* <http://www.elcorreodigital.com/vizcaya/20080217/mas-actualidad/politica/azkarate-dice-kosovo-supone-200802171350.html>.

Put bluntly, conflicts between regions are usually about two things: economics and history. And more often than not history and the ‘imagined communities’ of past and present nations (to use Benedict Anderson’s powerful concept of the nation) are mobilised politically to address issues of economic re-distribution.⁶ Political scientists and economists regularly start their accounts of Spanish regionalism with a reference to economic inequalities. In a recent book titled “The Wealth of Regions” Rafael Domínguez Martín argues forcefully that understanding the long history and present of economic regional disparities in Spain is the key to understanding “the contemporary territorial grievances”.⁷

In Spain today conflicts between the 17 *autonomías* on the one hand, and the central government on the other, cover issues of social transfers and taxation, water rights and the health system, all of which have an important bearing on economic entitlements. Even the question of the use of non-Castilian languages, Catalan, Euskera, Gallego and Valencian, on the face of it a purely cultural theme, is intertwined with issues of barriers to labour market access in the bilingual *autonomías* and thus economic interests. Nevermind the masochist demands for a Catalan national football team, which would presumably join the Spanish, English, Scottish and Welsh ones in regularly losing

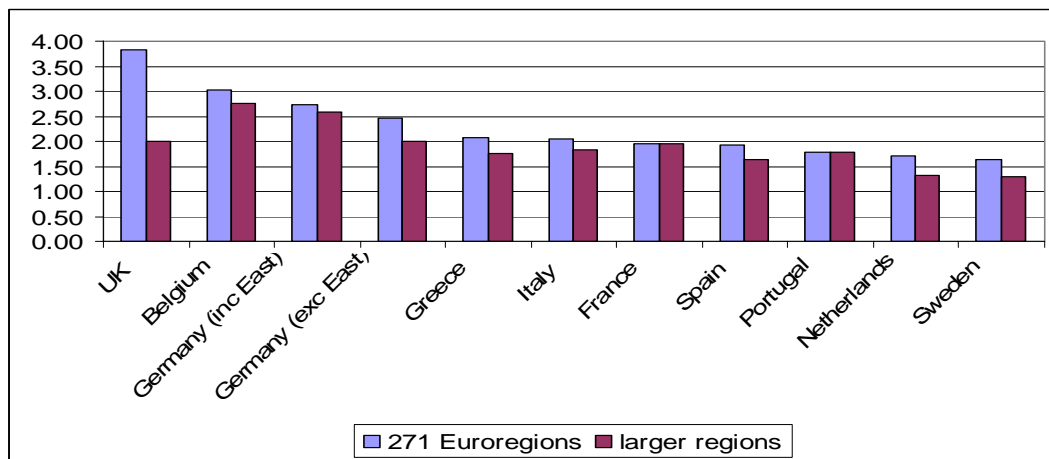
⁶ For a recent polemical but insightful survey of historical myth-making in Spain see Henry Kamen, *Imagining Spain : Historical Myth & National Identity* (New Haven Conn ; London: Yale University Press, 2008), especially chapter 1 and postscript. See also Benedict R. O’G Anderson, *Imagined Communities : Reflections on the Origin and Spread of Nationalism*, Rev. ed. (London ; New York :: Verso, 2006)..

⁷ Rafael Domínguez Martín, *La Riqueza De Las Regiones : Las Desigualdades Económica Regionales En España, 1700-2000* (Madrid: Alianza Editorial, 2002), p.14.

European competitions; but at least the Catalans would collect benefit from the ticket sales.

And yet a simple look at Spain's regions in a comparative European context presents a puzzle. Eurostat recently published its estimates for nominal GDP per capita across 271 Euroregions in 2005.⁸ In Spain the regional equivalent are the 17 *autonomías*. The ratio between the richest and the poorest region in each country should arguably give us at least a bit of an idea of relative regional inequalities. The richest Spanish region, by this definition Madrid, had a GDP per capita that was 90 percent larger than that of Extremadura, the poorest.

Figure 1) 271 European regions Eurostat 2005 (nominal GDP per capita)



Source: See fn 6.

⁸http://epp.eurostat.ec.europa.eu/pls/portal/docs/PAGE/PGP_PRD_CAT_PREREL/PGE_CAT_PREREL_YEAR_2008/PGE_CAT_PREREL_YEAR_2008_MONTH_02/1-12022008-EN-AP.PDF

That put Spain actually closer to the most equal countries in Europe. As it turns out Spain has the lowest regional inequalities among the larger western European countries by this measure. This is even more surprising if we recall that Spain enjoyed very high rates of economic growth in the past two decades, since economists and economic historians often associate growth spurts with increasing regional inequality.⁹ And it remains true if we move to a higher level of aggregation, which removes the anomaly of inner London as an economic region. It reveals something that might surprise anyone here except the Germans and the Belgians: namely that Germany and Belgium are the European countries with the largest regional differences in Europe.¹⁰

By my own blunt characterization, if economics does not explain why regionalism is so important in Spain, then history must give us the clues. Indeed, while economic inequality between regions today is not particularly severe, its pattern is more historically persistent than in most western European countries. Broadly speaking elsewhere the economic history of core regions across western Europe was a relay race, where leadership was passed from region to region. Again there is an exception here: Italy. But unlike Italy, Spain has been at least nominally a unified nation state since the late 15th century.

It is thus remarkable that since the late 17th century, across Spain's pre-Industrial, Industrial and Post-Industrial eras, there has been surprisingly little change with regard to

⁹ For a theoretical and historical debate about the link between growth and inequality see Philippe Aghion and Jeffrey G. Williamson, *Growth, Inequality, and Globalization : Theory, History, and Policy*, *Raffaele Mattioli Lectures* (Cambridge ; New York: Cambridge University Press, 1998).

¹⁰ Note also that the high dispersion in Germany affects the territory of the pre-1989 FRG almost as much as the comparison of the territories of the pre-1989 FRG and GDR.

the economically strongest regions. What did change was the degree of economic divergence between those regions. Domínguez Martín has shown that if we use the concentration of non-agricultural activity as an indicator for economic development, regional divergence in Spain increased probably monotonically since the late 17th century up to 1900 and has – not surprisingly - significantly decreased since.¹¹ It is thus not the persistence of the degree of inequality but the fact that the rich regions have permanently been ahead and the poor ones permanently been behind that might account for much of the attention. As economic historians know only too well, societies' tolerance towards inequality tends to be correlated with mobility.¹² Being poorer becomes unbearable when there seems to be no opportunity for future catch-up. This pattern seems to be true for social strata and is probably also true for regions.

Thus moving back in time we see that regionalism's roots go well beyond the rejection of the ill-conceived, brutal, unitarist policies of Franco's dictatorship and their suppression of regional languages and institutions since 1939, which by the 1960s had so obviously failed. The regional nature of the Spanish Civil War 1936-9 that brought Franco to power has often been pointed out. Regional re-organisation was a major stone of contention in the Second Republic 1930-36, which Franco had attacked. But it was under Primo de Rivera's dictatorship 1923-29 that for the first time non-Castilian languages were explicitly prohibited and regional institutions abolished even though right wing Catalan nationalists had favoured his coming to power. The regional institutions Primo de Rivera

¹¹ Domínguez Martín, *La Riqueza De Las Regiones*, chapter 2.

¹² The argument is often made in order to explain the substantial difference in attitudes towards inequality in the USA and Europe. See e.g. Alberto Alesina, Rafael Di Tella, and Robert MacCulloch, "Inequality and Happiness: Are Europeans and Americans Different?," *Journal of Public Economics* 88, no. 9-10 (2004).

abolished were the outcome of a long and painful process of institution-building that had seen three less well-known Spanish Civil Wars in 1833-40, 1846-49, and 1872-76 which saw ultra-conservative monarchists, usually from the northern coastal provinces and sometimes from Aragon and Cataluña engage with 'liberals' from the rest of Spain.¹³

If Spaniards could hardly work out the regional fault lines, foreigners might be forgiven for being utterly puzzled. Neither Napoleon's poor brother Joseph, placed on the Spanish throne as a puppet king in 1808, nor Napoleon himself could make sense of the fact that Spaniards not only swiftly rejected French rule but that the unoccupied territories immediately formed regional juntas that fought almost as much amongst themselves as they engaged the French occupiers.¹⁴ Hence, one might argue that Spain did not suffer one civil war but at least five civil wars over the 19th and 20th centuries. Lest we should be tempted to think of this as a phenomenon of the liberal age we ought to remind ourselves that the War of Spanish Succession in the early 1700s was also fought between regions supporting either pretender.¹⁵

Searching for the roots of economic regionalism

What then explains a) the emergence of a particular pattern of regional inequality and b) its extraordinary persistence? The conventional story of the historical origins of Spanish

¹³ For a discussion of one of the regional conflicts see John F. Coverdale, *The Basque Phase of Spain's First Carlist War* (Princeton, N.J.: Princeton University Press, 1984).

¹⁴ Charles J. Esdaile, *The Peninsular War : A New History*, 1st Palgrave Macmillan ed. (New York: Palgrave MacMillan, 2003).

¹⁵ Henry Kamen, *The War of Succession in Spain, 1700-15* (Bloomington,: Indiana University Press, 1969).

economic regionalism still follows largely that presented by David Ringrose in two path breaking books in 1983 and 1996.¹⁶ Ringrose posited a long-term transition from an economically and socially relatively advanced and integrated 16th century Spain to what he termed the TWO SPAINS of the 17th to 20th century (and we might add the 21st). Ringrose did not invent the notion of the TWO SPAINS. It became popular in the second half of the 19th century amongst Spanish commentators from Maeztu to Menendez Pelayo.¹⁷ Since the 20th century it is generally used to describe the conflict between liberals and reactionary forces which opened up after 1808 and persisted throughout the Civil War and dictatorship of the 20th century. Ringrose simply traced the idea back to what he saw as its regional origins.

What were those TWO SPAINS and how did they come into existence? According to this vision Spain in the 16th century was one of the economically most developed and dynamic parts of Europe. An internal network of commercial and manufacturing towns sustained high rates of urbanisation and overall population growth, generally good proxies for economic development. Recent studies such as Prados de la Escosura and Alvarez Nogal, which have tried to include more of the urban economy, commerce and manufactures, and the non-Castilian coastal areas of Spain, support the view that in the

¹⁶ D.R. Ringrose, *Madrid and the Spanish Economy, 1560-1850* (Berkeley and Los Angeles: University of California Press, 1983). and David R. Ringrose, *Spain, Europe, and The "Spanish Miracle", 1700-1900* (Cambridge and New York: Cambridge University Press, 1996).

¹⁷ See Santos Juliá, *Historias De Las Dos Españas*, *Taurus Historia* (Madrid: Taurus, 2004). and José Alvarez Junco, *Mater Dolorosa : La Idea De España En El Siglo Xix*, *Historia* ([Madrid]: Taurus, 2001), pp383ff.

16th century Spain played economic champions-league, though it probably had to leave the top positions to parts of Italy and the Netherlands.¹⁸

Map 2: Spain's historic territories



Source: Ringrose 1983, p.3

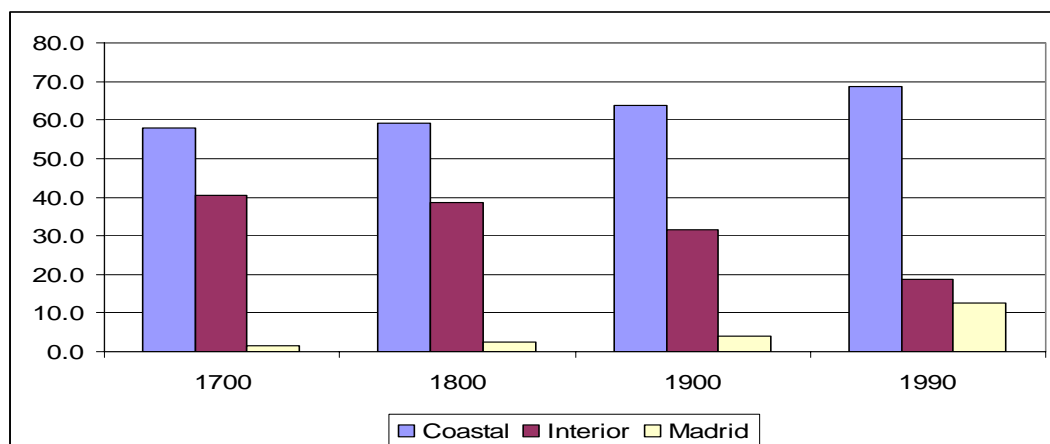
But, we are told, things started going terribly wrong in the 17th century, when the previously integrated economy broke apart. What emerged were the two fundamentally different Spains, which would move further apart over the next two centuries. One Spain

¹⁸ Carlos Alvarez Nogal and Leandro Prados de la Escosura, "Searching for the Roots of Retardation : Spain in European Perspective, 1500-1850," *Carlos III Economic History and Institutions Working Paper 07-06* (2007).

comprised Madrid and the Castilian interior, the historic territories of Leon, Old and New Castile and Extremadura. The other covered much of the coastal regions, in particular the northern Cantabrian Coast, the Mediterranean Coast with Catalonia and Valencia and Andalusia.

For Ringrose and others, these were the origins of the division between an outward-looking, culturally, socially and economically more advanced coastal sphere and a supposedly conservative, inward-looking interior sphere. In terms of their economic development there is little doubt that the coastal regions moved ahead of the interior. Early Spanish GDP estimates are generally poor and those for the regional level are worse. We have to use fairly blunt tools but a look at the population distribution between Coast, interior and Madrid between the early 18th and the late 20th centuries illustrates the point.

Figure 2) Population distribution in Spain: coastal and interior regions, Madrid 1700-1990



Source: own elaboration based on Dominguez Martin 2002, de Vries 1984

Even by 1700 the coastal regions contained well over half of the population. By 1990 two out of three Spaniards lived in the coastal regions and the interior had lost population relative to both the coast and Madrid. Madrid's growth though was largely a late 19th century 20th century phenomenon.

The story becomes even clearer when we look at urbanisation patterns. In geographical economics terms Spain exhibits an unusual pattern of agglomeration that reflects the division of the coastal and central spheres we just saw in the population figures. All standard measures confirm this concentration. It is also visible at first sight.

Map 3) A modern satellite picture of Spain at night



This is a modern satellite picture of the Iberian Peninsula at night. The patterns of urbanisation illustrate the power of history and reflect those in 1700, 1800 or 1900 rather well. Again we see the strong urban concentration around Madrid, the dense pattern of urbanisation on the coastal fringes and the almost total absence of urban centres anywhere else in the interior. The tiny part of France that can be seen in this map, with its regular distribution of provincial towns just serves to show the difference.

Spain defies the geographic regularities in urbanization patterns often described through Zipf's Law or more generally rank-size orders. Geographers assume that in a given territory a network of towns emerges that follows a predictable distribution from one central city to more than one medium cities to an even larger number of smaller cities, where the number of cities with populations greater than S is inversely proportional to S .¹⁹ Together with gravity factor models that estimate the impact of distance and geographical obstacles such as mountains the 'theoretically ideal' location of urban centres can be estimated. Exercises of this kind such as van Marrewijk show that, put simply, Spain's long standing pattern of urban agglomeration on the coast and in the very centre diverges substantially from these regularities, which would have predicted the existence of several large towns roughly half-way between Madrid and the coast.²⁰ The

¹⁹ Zipf's Law states that there is an inverse linear relationship between the logarithmic size of a city and its logarithmic rank without any constraints on the slope. In the study of size distributions of firms, the term "Pareto distribution" is often used synonymously with the term rank-size distribution (see, e.g., Ijiri and Simon 1977). Furthermore, Zipf's law, or rather the rank-size distribution, applies to a much wider number of phenomena than size distributions of cities (Zipf 1949).

²⁰ Charles van Marrewijk, *International Trade and the World Economy* (Oxford ; New York: Oxford University Press, 2002).

emergence of the TWO SPAINS is written into the structure of urbanisation in Spain to this day.

For Ringrose and others before and after, the catalyst of the divide was also quickly found: Madrid. The city in the very centre of the Peninsula became capital of Castile (not Spain!) in 1561 and rose within less than a century to becoming the largest city in Spain. Its politically motivated rise allegedly destroyed the previously well-integrated urban hierarchy of the interior and "undermined older commercial and industrial towns in ways that minimized incentives for rural specialization".²¹

In Ringrose's words Madrid should be compared to classical Rome rather than its contemporaries London or Paris:

"Both cities [Rome and Madrid] have been described as economic parasites, consuming the wealth of their empires without directly contributing to the creation of wealth. Like imperial Rome, Madrid organized and ran a worldwide political and administrative structure and used that political structure as a framework for controlling, taxing, and shaping a widespread system of commercial activity. Madrid was unique, however, since its location kept it from becoming the commercial as well as the political center of its empire. The Spanish political system had a single administrative structure, but it suffered from a pronounced economic dualism. The imperial trade at Seville and Cádiz and the coastal fringes of the Mediterranean and Basque regions were exposed to the maritime economy of Europe, while interior León and Old and New Castile were physically isolated from the sea."²²

As a consequence, the interior of Spain would remain virtually unchanged, economically, socially and culturally, for the next 200 years while the coastal areas were revolutionized.

²¹ Ringrose, *Madrid and the Spanish Economy*, p.15.

²² Ibid., p.4.

This powerful view of the capital at the heart of the country as an extractive parasite given to conspicuous consumption and not adding anything even to its immediate hinterland was of course not Ringrose's invention but a common theme in much of Spanish historiography and literature.²³

Contrasting Madrid with Paris the Spanish Philosopher and Essayist José Ortega y Gasset observed in 1927 that it was "idiotic" (*boberia* his words) to assume that Madrid was a metropolis that benefited its hinterland. "Six kilometers from Madrid the cultural influence of Madrid ends, and, without transition or enlightened hinterland, total backwardness begins abruptly."²⁴

Throughout the centuries Madrid has come in for this sort of criticism based on two interlocking assumptions. Firstly, Madrid was a peculiar behemoth, not a rising commercial port like Amsterdam or London, not even a traditional economic centre like Paris.²⁵ It was often described as conspicuously void of bourgeois virtues, hard-working

²³ The theme was taken up by political, economic and cultural commentary alike. The young, still liberal, Maeztu combined his warnings against separatism with a clear sense that 'another' (more modern) Spain would only be created under the direction of open and industriously minded Basques and Catalans. Ramiro de Maeztu, *Hacia Otra Espana* (Madrid: Ediciones Rialp, S.A., 1899). Menendez Pelayo called around the same time for a cultural development in all regions and towns, "it should be possible to counter this fatal (*funesta*) French-style centralisation that wants to cluster all possible literary life in Madrid". Marcelino Menéndez y Pelayo, *La Ciencia Española*, 1933 ed., 2 vols. (Madrid: Suarez, 1887), vol.1, p.80..

²⁴ Ringrose's translation. Ringrose, *Madrid and the Spanish Economy*, p.1. "*Madrid nunca ha poseído jamás una cultura creadora. A fuer de capital de Estado, se ha ido, claro está, cultivando; es decir, ha aprendido del extranjero un mínimo de cosas malamente asimiladas. Esta cultura adquirida [...] le viene muy justa a Madrid para sus necesidades de urbe, para sostener la estricta dignidad de una capital. Pensar en que haya podido nunca irradiar su espíritu es boberia. A seis kilómetros de Madrid, la influencia cultural de Madrid termina, y empieza ya, sin transición ni zona pelúcida, el "labriego absoluto".* José Ortega y Gasset, *La Redención De Las Provincias Y La Decencia Nacional. Artículos De 1927 Y 1930* (Madrid: Revista de Oriente, 1931), pp.82-83.

²⁵ Paul Hohenberg and Lynn Hollen Lees, "Urban Decline and Regional Economics: Brabant, Castile and Lombardy, 1550-1750," *Comparative Studies in Society and History* 31 (1989).

craftsmen and penny pinching shopkeepers.²⁶ Madrid instead was meant to be a city full of bureaucrats, nobles, clerics and vagrants, the kind that made an unnamed navy officer write his travelogue of Spain in 1704 with typical English open-mindedness under the title “A true description of the comical humours, ridiculous customs, and foolish laws of that lazy, improvident people, the Spaniards”.²⁷

The second assumption underlying the assessment that Madrid was responsible for the emergence of the TWO SPAINS is that the rising absolutist nation state converted the capital into the centre of its increasingly powerful machinery, which allowed its useless elites to rent-seek at the expense of the rest of the country (and the empire). In the words of Stanley and Barbara Stein: “while Spain was exploiting America, Madrid and its elites were exploiting Spain”.²⁸ Hence, only the eventual devolution of power to the more capitalist minded elites in the coastal regions and the regional miracles they produced since the 18th century paved Spain’s way towards final escape from backwardness.

The trouble is that neither of these assumptions withstands the test of historical fact. Undoubtedly Madrid was an administrative capital first and foremost, what Germans used to call a *Residenzstadt*. Its population was heavily engaged in the service sectors, but that description hides a surprising diversity of professions engaged in the provision of domestic, religious, legal, political, commercial and financial services with remarkable

²⁶ The very old idea that urban bourgeoisies are crucial for economic development has recently be re-invigorated and given a new ‘rhetorical’ twist by Deirdre N. McCloskey, *The Bourgeois Virtues : Ethics for an Age of Commerce* (Chicago: University of Chicago Press, 2006).

²⁷ *A Trip to Spain: Or, a True Description of the Comical Humours, Ridiculous Customs, and Foolish Laws of That Lazy Improvident People the Spaniards. In a Letter to a Person of Quality from an Officer in the Royal Navy*, (London: 1704).

²⁸ Stanley J. Stein and Barbara H. Stein, *The Colonial Heritage of Latin America; Essays on Economic Dependence in Perspective* (New York: Oxford University Press, 1970).

success. Nevertheless, economic historians are still spooked by the decidedly Marxian idea that economic development depends on the emergence of a powerful bourgeoisie that accumulated capital and invested in the 'right' kind of economic activities and favoured the 'right' kind of political institutions, i.e. parliamentary systems, to boot. These middling sorts allegedly existed in Bilbao, Barcelona and Valencia but not in Madrid.²⁹

The question which role merchants and their capital played in the economic transformation that would lead to Industrialisation beginning in late 18th century Britain is a central theme of economic history. I will stay out of trouble by simply stating that there are good arguments to question a simplistic progress from accumulation of capital in merchants' hands to investment in manufacturing. Of course, even if we accept that mercantile accumulation was not a sufficient condition for economic growth, it might still have been a necessary one. Indeed many historians of Spain agree with enlightened commentators of the 18th century that the accumulation of assets in the hands of landed

²⁹ Part of the problem is of course the definition of the 'middling sorts'. Cruz points out that contemporary Spanish writers considered not just merchants but also bureaucrats, professionals, and property owners very much as '*clases medias*'. But rather than reflecting on the fact if they could have stimulated economic growth, Cruz affirms the obvious difference with Barcelona, namely that the Madrid middle class had hardly any links with the productive sector and continues to argue that in fact there never was a bourgeoisie in Madrid in the sense that it transformed society in an attack on the political narrative of the liberal revolution of 1812 and thereafter. Jesus Cruz, *Gentlemen, Bourgeois, and Revolutionaries : Political Change and Cultural Persistence among the Spanish Dominant Groups, 1750-1850* (Cambridge ; New York: Cambridge University Press, 1996), pp.14ff. For the conventional narrative on Catalonia see Pierre Vilar, *Cataluña En La España Moderna : Investigaciones Sobre Los Fundamentos Económicos De Las Estructuras Nacionales*, 3a ed., vol. 5, 42, 47, *Crítica/Historia* (Barcelona: Editorial Crítica, 1987). An alternative description of the difference between commercial elites in the interior and on the coast, which nevertheless also presupposes the 'backwardness' of those in the interior can be found in Pere Molas Ribalta, *La Burgesía Mercantil En La España Del Antiguo Régimen* (Madrid: Catedra, 1985).

interests, wasteful bureaucracies or the ‘mortmain’ of the Church limited the availability of active capital.³⁰

But there is precious little evidence that economic dynamism was stifled by a shortage of loanable capital. The proof of the pudding is, as Larry and others have argued, in the price of capital, the interest rate. And private interest rates were relatively low in Spain throughout the early modern period suggesting that by the usual standards of economic history finance for private enterprise was never in short supply.³¹ Nonetheless, even avid entrepreneurs struggled as late as the early 19th century to match skilled labour, resources and capital in the same place. Spain was not suffering from Braudelian ‘treason of the bourgeoisie’ or an anti-bourgeois attitude that despised the trades. As Ruth MacKay has shown that notion was largely born out of the historical imagination of 18th century Spanish enlightened would-be reformers.³² Instead a lack of internal integration created very narrow limits for internal markets for manufactures and agricultural products. Spain’s problem was more regional than financial.

³⁰ For a discussion see Richard Herr, *The Eighteenth-Century Revolution in Spain* (Princeton, N.J.,: Princeton University Press, 1958).

³¹ Admittedly, interest rate series for *ancien regime* Spain a few and far between. The interest rate on the consolidated public debt, i.e. redeemable *juros*, was subject to royal intervention and was set at 5 percent after 1610, and reduced to 3 and finally 2.75 percent for much of the 18th century. "Novissima Recopilacion, Libro X, Titulo Xv, Ley 5." The obvious question is how close this was to the market rate or how much credit rationing occurred. Indeed, the Crown successively reduced the rate with the full intention of rationing credit. Alas, there are reasons to assume that the measure was pushing a rope. Interest rates on ecclesiastical *censos* available for some rural areas and small towns, which constituted a safe private market alternative, were **below** the public rates for much of the 18th century. See Jose Antonio Alvarez Vazquez, *Rentas, Precios Y Credito En Zamora En El Antiguo Regimen* (Zamora: Colegio Universitario de Zamora, 1987), pp.213ff.

³² Ruth MacKay, *"Lazy, Improvident People". Myth and Reality in the Writing of Spanish History* (Ithaca and London: Cornell University Press, 2006).

But how could the problem be regional if we are told that the main issue of political governance was one of centralisation that allowed Madrid elites to live of the spoils of absolutist power? This question is really a local variation on that most fundamental theme of political economy that Larry tackled in his book 'Freedom and Growth'. Political economists and economic historians pretend in the interest of parsimony of their models of the institutional genealogy of growth that the political world of early modern and modern Europe was binary: Either states allowed for political representation of larger shares of population, as in the city states of Italy or in England after 1688, or they were autocratic dynastic monarchies which lacked any form of credible constitutional commitment.³³

In this binary world Spain counts as the example par excellence for an increasingly absolutist, read centralist, unitary, predatory and non-participatory regime. That view is seriously misleading. Spain was born out of the dynastic unification of the Crowns of Castile and Aragon, which in turn comprised the historical territories shown in map 2 plus the *Indias*. But it did not become a United Kingdom, instead it remained a composite monarchy.³⁴ Dynastic unification in Spain was achieved throughout the Habsburg period up to 1700, through meticulous regard of the 'ancient freedoms' of each territory, i.e. its own representative body, tax structure and internal customs borders. In a recent paper my co-author and I have called this 'Bargaining for Absolutism', a process in which every

³³ Brad De Long and Andrei Shleifer, "Princes or Merchants. European City Growth before the Industrial Revolution," *Journal of Law and Economics* 36 (1983)., Daron Acemoglu, Simon Johnson, and James Robinson, "The Rise of Europe: Atlantic Trade, Institutional Change, and Economic Growth," *American Economic Review* 95, no. 3 (2005), North and Weingast, "Constitutions and Commitment."

³⁴ The term was coined more than 15 years ago by John Huxtable Elliott, "A Europe of Composite Monarchies," *Past and Present* 137 (1992).

corporate entity, towns, historical territories and bishoprics negotiated directly with the crown over their rights and obligations.³⁵

The best known example of this are the *fueros de Bizkaia*, the ‘freedoms of Vizcaya’.

Today it is often claimed that the late medieval *fueros de Bizkaia* essentially created a free-trade zone comprising the present Basque provinces of Vizcaya, Guipuzcoa and Alava by shifting the customs border from the shore to the inland boundary with Castile. That is only partially true since Guipuzcoa had coastal customs until the 17th century and like Alava paid the important Castilian sales tax, the *alcabala*, albeit at a different rate than in Castile.³⁶ It is also often claimed that the *fueros* gave Basques a special right, the famous opt-out clause that allowed them, and only them, a virtual veto over all royal policy.

What it meant can be illustrated with a small incident that occurred when the Crown tried to introduce an unpopular new trade registration in Bilbao in the 17th century (1628). The local representative argued that

“ In ... the said *fuero* [...] it is said that any royal decree, which would be directly or indirectly against the *fuero* of Vizcaya, should **be obeyed but not complied with (sea obedecida y no cumplida)**. I, in the name of the said *señorio* [Vizcaya], with due respect obey the said decree as our King and natural sovereign has sent. But inasmuch as this is in any way against our *fueros* [...] I submit humbly before his

³⁵ For an in-depth discussion see Maria Alejandra Irigoin and Regina Grafe, "Bargaining for Absolutism. A Spanish Path to Empire and Nation Building," *Hispanic American Historical Review*, no. 2 (2008). and Maria Alejandra Irigoin and Regina Grafe, "Response to Carlos Marichal and William Summerhill," *Hispanic American Historical Review*, no. 2 (2008).

³⁶ Pablo Fernández Albadalejo, *La Crisis Del Antiguo Régimen En Guipúzcoa 1766-1833. Cambio Económico E Historia* (Madrid: Akal, 1975).

royal person [...] and I **refuse to execute and comply with** the said royal decree in everything prejudicial [...].³⁷

The *pase foral*, the special privilege contained in the *fueros*, amounted to a real veto. But the assumption that this veto-right only applied in Vizcaya or the Basque Country for that matter is mistaken. The *pase foral* was simply the institutionalised expression of a constitutional tradition in the Spanish monarchy, which defined the relation between Crown and territories, towns and corporate bodies more generally. The constitutional concept underpinning the role of the monarchy in the Spanish composite kingdom meant that every official, corporation or individual could invoke the famous phrase *la ley se obedece pero no se cumple*. It was born out of what historian of Colonial Spanish America MacLachlan calls a ‘philosophical matrix’ that argued that the king could not will anything that would prejudice his subjects.³⁸ Ergo, any royal decree perceived locally as prejudicial could be resisted perfectly legally under the constitutional pretext that the king would not have issued it had he had full information about its consequences. The construct served to maintain what has been called the implicit contract between monarchy and subjects, which meant that the Crown more often than not approved decisions ex-post and all subjects had the right of direct appeal to the Crown – which they used in surprising numbers.³⁹

³⁷ Archivo Foral Bizkaia, CB, Libro 65/59 Antonio de Landaverde 1628.

³⁸ Colin M. MacLachlan, *Spain's Empire in the New World. The Role of Ideas in Institutional and Social Change* (Berkeley, Los Angeles, London: University of California Press, 1988), chapter 1.

³⁹ Kamen has recently pointed out that elements of divine justification of kingship were notably absent in Spain and Mariana's famous *Historia de Rebus Hispaniae* claiming that rulers had no legitimacy without popular consent of 1599 was burnt publicly in Paris but not in Madrid. Kamen, *Imagining*, p.39-42.

Few examples could confirm more clearly Larry's characterisation of early modern European monarchies, where "jurisdictional fragmentation [...] gave rise to multiple co-ordination failure. [And this co-ordination failure] rather than autocratic rule was the main source of institutional inefficiency of 'absolutism' before the 19th century."

The consequences of this pattern were far reaching. In Spain at least centralisation, unification and a strengthening of central power remained largely wishful thinking of generations of reformers and the monarchy. Attempted reforms were time and again either aborted in the face of regional resistance or skilfully undermined by local interests once they had been introduced. Jurisdictional fragmentation, enshrined in a system of governance that allowed for legal local resistance, made governance an art of negotiation between the Crown and territorial and local institutions.

This is nowhere clearer than in the fiscal sphere. As Larry argued in 'Freedom and Growth' jurisdictional fragmentation limited royal prerogative across the board and meant that "absolutist states did not have clearly defined and enforceable public property rights to taxation".⁴⁰ I will certainly not bore you with the ins and outs of Spanish fiscal history.⁴¹ But a few general features of the taxation and customs system can illustrate how mistaken the view of an absolutist, centralised state is. Taxes and customs differed throughout from territory to territory. The customs system of southern Spain and northern

⁴⁰ Epstein, *Freedom and Growth*, p.14.

⁴¹ For an introduction into Spanish fiscal history see e.g. Miguel Artola, *La Hacienda Del Antiguo Régimen* (Madrid: Alianza, 1982).; Maria del Carmen Angulo Teja, *La Hacienda Española En El Siglo Xviii. Las Rentas Provinciales* (Madrid: Centro de Estudios Políticos y Constitucionales, 2002).; J.I. Andrés Ucendo, *La Fiscalidad En Castilla En El Siglo Xvii: Los Servicios De Millones, 1601-1700* (Bilbao: 1999).; Renate Pieper, *La Real Hacienda Bajo Fernando Vi Y Carlos Iii (1753-1788)* (Madrid: Instituto de Estudios Fiscales, 1992).; José Patricio Merino Navarro, "Las Cuentas De La Administración Central Española, 1750-1820," (Madrid: Instituto de Estudios Fiscales, 1987).

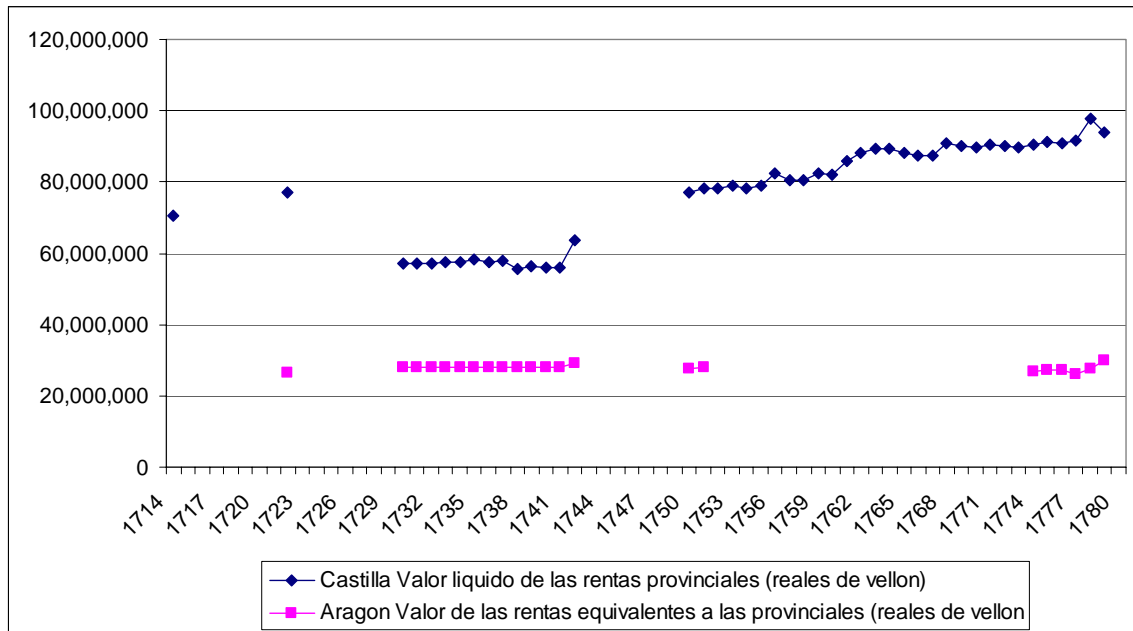
Spain had entirely different origins.⁴² Internal customs barriers existed between Crown of Aragon, Castile, Navarra and the Basque Provinces but also internally between the Basque territories and those of the Crown of Aragon and between a multitude of coastal areas that nominally belonged to Castile, such as the Cantabrian *Cuatro villas de la mar* (including the ports of Laredo and Santander) or the Andalusian lands of the Duke of Medina Sidonia (including the port of San Luca de Barrameda). Piecemeal attempts to unify them never achieved much in the Habsburg period.

Historians used to claim that the Bourbon period, i.e. the 18th century, was the phase when centralisation and unification was put in place by a renewed monarchy that had learned its trade in absolutist France. Aragon had bet on the wrong horse in the War of Spanish Succession by backing the Austrian pretender rather than the French. This ‘betrayal’ could be and was instrumentalised by the crown, which abolished many of the fiscal and military privileges of the Crown of Aragon, including its right to issue its own currency and the internal customs posts, the so-called *puertos secos*.⁴³ New taxes were introduced, the *equivalente*, so called in an allusion to making them ‘equivalent’ to the Castilian provincial taxes. Alas, though formal regional institutions had suffered a blow, regional power was not broken. Negotiations between the Aragonese elites and the Crown left the new taxes nominally capped and within a few decades their real value had been eroded by population growth and inflation.

⁴² Regina Grafe, *Der Spanische Seehandel Mit Nordwesteuropa Von Der Mitte Des Sechzehnten Bis Zur Mitte Des Siebzehnten Jahrhunderts. Ein Forschungsüberblick*, ed. Walther L. Bernecker, Francisco López-Casero, and Peter Waldmann, *Forschungen Zu Spanien, Vol 19* (Saarbrücken: VöE, 1998), pp 32-35.

⁴³ The legislative changes were known as the *Decretos de Nueva Planta* (1707-16). Aragon, Valencia, Catalonia and Mallorca were reduced to the status of provinces rather than independent *reinos*.

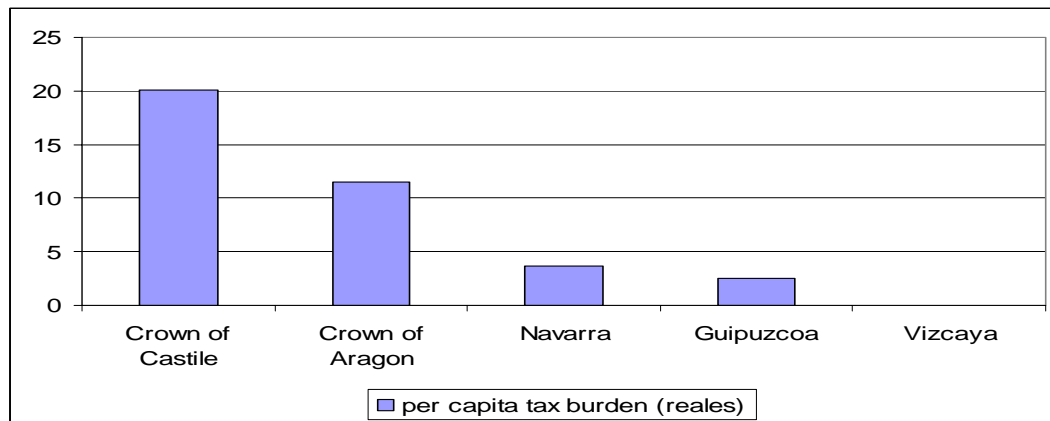
Figure 3) Total nominal revenue from Castilian rentas provinciales and Aragon's equivalente 18th century



Source: Artola 1984, pp 304-305.

Those territories that had sided with the French in the war, Navarra and the Basque Provinces, preserved their rights practically unaltered. Existing estimates of regional GDP are poor and it is hard to tell how tax rates per capita were related to differential levels of economic development. But we should remember that all commentators agreed that the coastal regions were becoming more affluent and population and urbanisation figures support this view. Hence a snapshot estimate of relative per capita taxes paid in the various Spanish territories illustrates the continuing bargaining power of the non-Castilian coastal territories powerfully – essentially they were richer and paid less.

Figure 4) Per capita tax burden (reales) 1792



Source Dominguez Martin (2002) p.124

Even within Castile, however, the tax burden was the outcome of negotiations between local elites and authorities and the Crown. In the mid-18th century Spain famously undertook one of the first general *catastros*, a census of population and economic activity. The purpose of this great stocktaking was to create a basis on which all sources of income and economic activity would be taxed at a uniform rate with the so-called *unica contribucion*. Like well-intentioned, enlightened reformers throughout Spanish history the designers of the *unica contribucion* had read the latest French, English and German texts on the matter of tax reform. They analysed the ills of Spain's fiscal system with great insight: jurisdictional fragmentation and co-ordination failure were creating multiple layers of administration, making the system unjust, expensive to run, skewed in favour of certain territories and extremely unpopular. But Bourbon reformers also seemed marvellously oblivious of the staying power of historical institutions and more importantly the powerful distributional coalitions (to use Mancur Olson's term) amongst

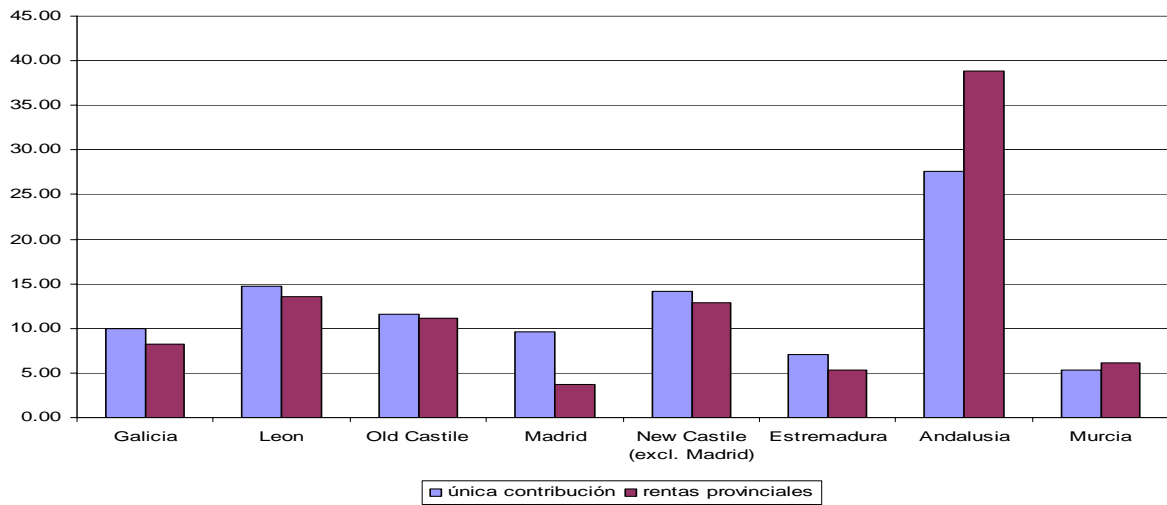
the regional elites that were defending the system. Not surprisingly the reform failed, resisted as it was at every level.⁴⁴

Its main claim to posterity is, therefore, that it produced a wonderful set of data to the great delight of economic historians. It allows us to introduce a little counterfactual exercise. There are reasons to assume that the way, in which the initial assessment for the *única contribución* was undertaken, was similar across different parts of Castile. That does not mean that all kinds of assets were actually accurately registered. It just suggests that the kinds of errors introduced were probably fairly uniform. In that sense, the assessment can serve as a tool that tells us something about the **relative** ability to pay taxes of different provinces even if it cannot tell us anything about the absolute **level** of wealth creation. We can thus compare the shares that each province was supposed to pay under the *única contribución* with that they were actually paying in the mid 18th century provincial rents.⁴⁵

⁴⁴ Mancur Olson, *The Rise and Decline of Nations: Economic Growth, Stagflation, and Social Rigidities* (New Haven and London: Yale University Press, 1982).

⁴⁵ Again and to be very clear, all I claim here is that the from-scratch assessment of the shares each province was supposed to pay under the *única contribución* gives us a yardstick. By comparing the provincial taxes actually levied against this yardstick we can assess how the process of continuous negotiation between the Crown and provinces shaped the fiscal contribution of each territory. See also Irigoin and Grafe, "Bargaining for Absolutism."

Figure 5: Share of actual revenue of *rentas provinciales* and assessed revenue of *única contribución* by tax region (%) mid-18th century



Source: Irigoin, Maria Alejandra, and Regina Grafe. "Bargaining for Absolutism. A Spanish Path to Empire and Nation Building." *Hispanic American Historical Review*, no. 2 (2008): 173-210.

As you can see, the provincial shares for either assessment were surprisingly similar for most territories. Overall the cumbersome process of negotiation between provinces and Madrid seems to have reflected ability to pay enough so that the implicit contract between Crown and subjects was not violated. There are two noteworthy exceptions: Madrid apparently did get off much more lightly under the actual system than the re-assessment and Andalusia was paying a lot more than it would have had to pay under the *única contribución*.

The comparison illustrates that even within Castile considerable differences in fiscal burden were born out of the historically evolved system of taxation and its negotiation process between Madrid and the territories. Here Madrid apparently DID take advantage of its superior access to power in order to keep the tax bill low. More importantly, the

pattern observed when we compared Castile to the non-Castilian coastal regions, namely that the latter paid considerably less, is not repeated within Castile. Andalusia and to a lesser extent Murcia were actually taxed more heavily than the interior. To put it another way: the low rates of taxation in the non-Castilian coastal regions were not caused by a general pattern in favour of coastal regions or related to their economic activities, nor were they caused by distance from the centre. Instead they clearly depended on the amount of political power that local elites could muster. And this in turn depended on the degree to which they could instrumentalise historical ‘freedoms’ to actively restrict Crown policy.

The behaviour of provincial elites has puzzled intellectual historians, who have tried to understand them within the general frame of progressive, enlightened ideas versus those attached to the old corporate order. Many would contest that the provincial elites were more open-minded, the agents of enlightened thought in Spain. The Basque Sociedad Bascongada de Amigos del Pais, created in 1765, held meetings discussing agricultural improvement, the stimulation of industry and propagated Hume’s view of the benefits of foreign trade. Its leaders argued forcefully for the abolition of Spain’s system of tight control over the trade with the Indies, which channelled trade through Cadiz and added substantial transaction costs for merchants from other ports.

And yet, when reform-minded Madrid bureaucrats suggested that the Basque ports should be included in the new free trade regime with the American colonies in 1778, they were rebuffed. Madrid had demanded in return the abolition of the inland customs posts, which

still existed between the Basque Provinces on the one hand and Castile and Navarra on the other. The Sociedad Bascongada went through considerable rhetorical acrobatics to explain why opening up the Basque ports to American trade was consistent with the traditional freedoms of the Basque Country, the *fueros*, while opening the province towards Castile and Navarra was a *contrafuero*, against the traditional freedoms.⁴⁶

This position was evidently inconsistent in intellectual terms and has been the object of heated debates amongst Spanish historians. But within the traditional structure of governance in Spain, which as I have argued was neither centralist nor unitary, it is quite easy to understand. Basque, Navarrese and Catalan commercial elites combined enlightened free trade arguments in the international sphere effortlessly with strong support for the internal customs resulting from the jurisdictional fragmentation in the *ancient regime* order of Spain. International integration posed no threat to established regional political power, quite the opposite. By providing a basis for commercial and later industrial development it allowed for a significant amount of economic growth within the established order. By contrast, closer integration with the hinterland potentially threatened the strong degree of local power exercised by the same provincial elites, and was resisted. The strategy in itself hardly distinguished these regional elites from those in many other countries. The difference was marked by their success.

⁴⁶ In 1775 Campomanes wrote on the necessity to move the customs borders to the coast extending the *comercio libre* to the Basque ports. In 1778 Floridablanca solicited opinions from Basque institutions. Having received the negative reply the minister Múzquiz imposed in 1779 customs at the internal borders, making Basque goods essentially 'foreign', a reaction the Basque institution had clearly not anticipated. Jesús Astigarraga, "Los Ilustrados Vascos : Ideas, Instituciones Y Reformas Económicas En España," in *Crítica/Historia Del Mundo Moderno* (Barcelona: Crítica, 2003), pp.181-191.

Regional elites in Spain could mount their defence of regional freedoms – in the Epsteinian plural – on the basis first and foremost of a Spanish system of governance that continued to rely on negotiation between the centre and periphery long after the central state had imposed itself elsewhere. But this political economy side of the story only makes sense, when placed into the context of a more profane economic historical truth: Spain suffered throughout its history from poor communications and unusually high transport costs. There is no time here to discuss this point in detail. It suffices to say that all the evidence I collected suggests that overland transport in Spain, the only one that mattered for the interior, experienced hardly any fall in freight rates throughout the early modern period. Economic historians often use price differentials between towns as evidence for the presence or absence of trends in market integration. Most commonly they use grain prices, because grain is a fairly homogenous good, consumed by all and – most importantly – grain prices are often recorded. One of Larry's long standing projects involved precisely this sort of evidence. The problem with grain prices is also well known: in countries like Spain, town and territorial institutions intervened actively in the grain market to insure ample supply for a population that expected these institutions to limit market based pricing. Not surprisingly, the evidence is hotly debated.

As an alternative I have collected prices of another homogenous good, introduced in the 16th century in Spain and which by the mid-17th century had become a staple foodstuff for the poor: dried and salted codfish, also known as *bacalao*. Elsewhere, I have shown why I think these are more suitable, suffice to say here that they add one important feature to the usual benefits of a homogenous good, namely that we know exactly what they

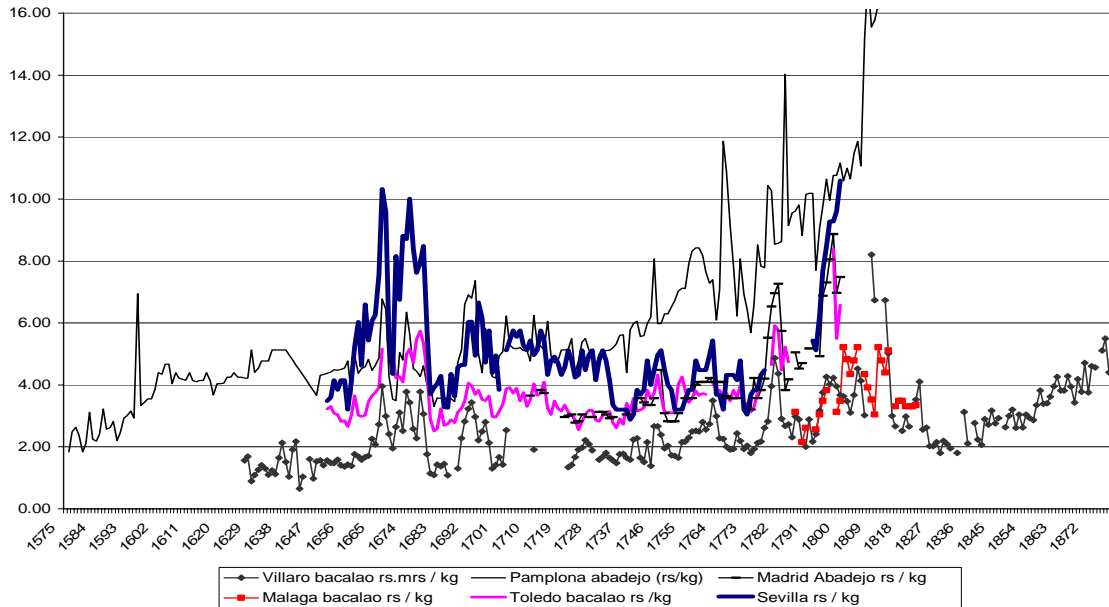
measure: *bacalao* was always imported and therefore its price reflects neatly the cost at the port of entry, plus the transport costs, internal dues and taxes and additional transaction costs charged on its way into the interior.⁴⁷

Patient research into the Iberian history of this very unappealing staple foodstuff shows two things. On the one hand, its consumption history shows that the rural and small town populations everywhere in the Iberian interior were increasingly integrated into deepening and widening national consumer markets between the mid-17th and mid-19th century.⁴⁸ But that happened at a desperately slow rate. On the other hand, there is little evidence that there are national trends other than those that confirm that transport costs as such hardly fell at all in the long run.

⁴⁷ Regina Grafe, "Popish Habits Vs Nutritional Needs: Fasting and Fish Consumption in Iberia in the Early Modern Period," *Oxford Discussion Papers in Economic and Social History* 55 (2004).

⁴⁸ Ibid.

Figure 6: price of 1kg of bacalao in different Spanish towns, c. 1575-1870 (reales vellon)



Source: *Archivo Historico Nacional*,. Clero, legajos 23,37-42, 1776, 1784-5, 1787, 1788, 1791, 1821, 1824-25, 1837, 1845, 1850; Legarreta Irargorri, Pedro Maria. "Precios En Villaro (1627-1879)." Memoria de Licenciatura, Universidad de Deusto, 1974; Morilla Critz, José. *Introducción Al Estudio De Las Fluctuaciones De Precios En Malaga (1787-1829)*. Malaga 1972; Fernández Romero, Cayetano. *Gastos, Ingresos Y Aborro Familiar : Navarra, 1561-1820*. Pamplona, 2005 and personal communication Enrique Llopis.

The price differential between the coast, i.e. the point of entry, and the very centre of Spain, as reflected by Madrid and nearby Toledo, hardly changed at all between the mid-17th and the late 18th centuries. The price differential between Seville and either of the two contradicts the story of the disintegration of the internal market (proposed by Ringrose), given that the gap with Madrid and Toledo had disappeared by the 1730s. The problem is of course that Seville is only about 125 km from its main supply port, while Madrid or Toledo are at least 400km from the closest of their supply ports. Closer inspection shows that Seville's initially high and then falling prices did not reflect trends in transport costs or related transaction costs. Instead they actually echo the low overall degree of market integration which meant that even the returns from colonial American wealth flowing into Seville hardly impacted beyond the regional level. This should – by

the way – caution all of us that the often told story of a silver induced price revolution as a source of Spain’s early modern ills is at best a regional story – like everything else in Spain.

The price differential between the Navarrese town of Pamplona and the northern coast, its main supplier, illustrates how much the northern commercial regions were sheltered from one another through internal customs and different tax regimes. Pamplona is barely 150 km from its main port of entry – but supplies from there had to cross one internal customs point and two areas of differential taxation. Without a secular fall in transport costs regional interests could shield behind them.

Conclusions

In this talk I have tried to trace the deep historical roots of regionalism in Spain. I argued that the conventional focus of students of political economy and history on the absolute degree of territorial divergence as explaining inter-regional conflict might miss the main point in Spain: What mattered was the almost total lack of mobility on the list of rich and poor regions. Such persistence through the pre-industrial, industrial and post-industrial era per se seems to rule out explanations based on natural resources as the prime factor. Existing explanations based on absolutist rent-seeking at the centre are contradicted by the evidence we have from factor prices and a new historiography that thinks more highly about consumption and the service sector than the old paradigm.

But most importantly they simply make no sense, if we look at them the Epsteinian way. Where jurisdictional fragmentation limited the public property rights to taxation, the power bases of regional distributional coalitions were persistent and could be defended. Not rent-seeking at the centre was the main problem, but a structure of governance that gave regional elites the incentive to choose external commercial integration over integration with the hinterland. Without largely geographically and technologically determined high transport costs this strategy would probably have failed under the onslaught of that great equalizer: a competitive market. With high transport costs the constitutional structure of negotiated absolutism, which was based on direct bargaining between the Crown as the central arbiter and each of the territories competing for ‘freedoms’ (there is that plural again) resulted in a perverse re-enforcement of weak market pressure strengthening regional elites, which in turn defended internal barriers to trade while lecturing about English ideas of free trade and French concepts of support for industry. Regional miracles were thus not Spain’s escape route out of backwardness, as orthodoxy would have it. They were the very source of a painfully slow growth path that left much of the country behind until massive migration movements, internally and externally, in the late 19th century began to lessen at least the degree of regional inequality if not its geographic distribution.

Using just some of what we can learn from Larry’s impressive work, I have tried to present the history of Spanish regionalism in a different light. Whether you agree with my conclusions or not, the example surely shows that Larry was spot on in forcing us to

rethink the links between freedom, freedoms and growth. Simplistic binary sets of descriptors of political regimes as ‘autocratic or participatory, ‘princes or parliaments’ might be parsimonious; but they are also highly misleading when we talk about early modern Europe and the very origin of modern economic growth. Governance is too important a topic to be left entirely to mere economists or political scientists, sorry. Understanding governance and its relation to growth requires precisely more attention to the socio-political structures that underpin the emergence of markets and, above all, a sense of history.

Does my historical re-interpretation offer any clues to understanding the present state of Spanish regionalism? One aspect that seems still worryingly true is the persistence of the very same pattern. The process of economic catch-up of Spanish regions was slow through the 1980s and 90s when compared to say Greece or Portugal. Spain converged on the international level but not the interregional. This explains why until recently 76% of Spanish territory qualified for objective 1 EU funds and received as late as 2000 to 2006 27% of total EU commitment appropriations. The impact of EU subsidies has been estimated at somewhere around half a percent of Spanish growth per annum – Spain is rightly seen overall as an EU success story.⁴⁹

⁴⁹ Simon Sosvilla-Rivero, "Eu Structural Funds and Spain's Objective 1 Regions: An Analysis Based on the Hermin Model," *FEDEA Documento de Trabajo 2005-24* (2005): 16. estimates the average gain in annual growth rates of beneficiary regions 1989-2006 as 0.56 points and an increase in employment by 1.46 percent. Angel de la Fuente, "The Effect of Structural Fund Spending on the Spanish Regions: An Assessment of the 1994-1999 Objective 1 Csf," *CSIC* (2002): p.33-34. argues that in the period 1994-99 the effect on the objective 1 regions might have been 1 percent of annual GDP growth. He also shows convincingly that both Spain's convergence towards average European GDP per capita and GDP per capita convergence between Spanish regions was strongly helped by EU funds. Angel de la Fuente, "El Impacto De Los Fondos Estructurales: Convergencia Real Y Cohesion Interna," *CSIC* (2003).

Yet, EU support has also allowed Spain to postpone the constitutional settlement of its most pressing political question: how to re-organise the rights and obligations of the regions. That was probably a good thing: during the transition to democracy this most fundamental issue of the Spanish constitution was – as critics rightly argue today – simply not dealt with. In the event, that eased the return to freedom (in the singular) in a country that had only experienced a short period of democracy during the Second Republic (1931-6) and had not seen any democratic institutions in 40 years when Franco died in 1975.

At the same time, the postponement allowed Spain ironically to return to a familiar pattern, which has become entrenched again in the last two decades: a central arbiter, now the democratically elected central government is faced with ‘competitive grievances’ and a struggle of the regions for benefits from the centre.⁵⁰ Though Spain today is one of the most decentralised countries in Europe, it is not constitutionally federalist and has no arena for negotiation that would involve ALL the regions at the same time – akin say to the German second chamber. In other words, the kinds of rights over taxation, provision of public services and obligations to contribute to central government and regional re-distribution differ in Spain greatly from region to region. The dominant strategy for regional elites in political negotiation is still always the maximum demand, and regions compete with one another for additional rights to be ceded by the centre.

⁵⁰ Josep M Colomer, "The Spanish 'State of Autonomies': Non-Institutional Federalism," *West European Politics* 21, no. 4 (1998). and Sebastian Balfour and Alejandro Quiroga, *The Reinvention of Spain : Nation and Identity since Democracy* (Oxford ; New York: Oxford University Press, 2007)..

After two decades of wrestling power from the centre, Spanish regions still have no clear vision as to how to share common resources and distribute costs. As everyone knows that is about to become an even larger problem because, after decades of Brussels supporting Spain's backward regions and thus limiting the need for re-distribution from rich regions to poor within Spain, transfers will be significantly reduced, since Spain's growth has been spectacular and much poorer Europeans have become part of the system. The deep roots of Spanish economic regionalism suggest that when regions have a choice to employ political power in order to stop internal integration, regional success becomes part of national failure. Without the EU political bail-out, we will see if Spain finally finds a structure of governance that allows for regional representation without inhibiting overall economic growth.

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