2

GDP and GDP Per Head

Modern economic growth is defined by the sustained improvement in GDP per head. From 1850 to 2015 while population trebled, real GDP per head in Spain experienced nearly a 16-fold increase, growing at an annual rate of 1.7% (Fig. 2.1 and Table 2.1). GDP growth was intensive, that is, driven by the advance in GDP per person, but for exceptional periods of Civil War, Depression, and Recession (Fig. 2.2). Such an improvement took place at an uneven pace. Per capita GDP grew at 0.7% over 1850–1950, doubling its initial level. During the next quarter of a century, the Golden Age, its pace accelerated more than sevenfold so, by 1974, per capita income was 3.6 times higher than in 1950. Although the economy decelerated from 1974 onwards, and its rate of growth per head shrank to one-half that of the Golden Age, per capita GDP more than doubled between 1974 and 2007. The Great Recession (2008–2013) shrank per capita income by 11%, but, by 2015, its level was still 83% higher than at the time of Spain's EU accession (1985).

Different long swings can be distinguished in which growth rates deviate from the long-run trend as a result of economic policies, access to international markets, and technological change. Growth rates, measured as average annual logarithmic rates of variation, are provided in Table 2.1

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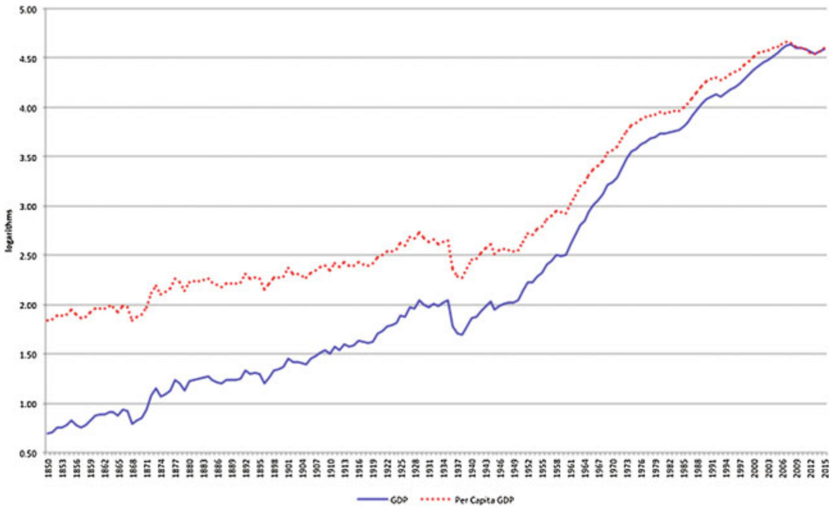

Fig. 2.1 Real absolute and per capita GDP, 1850–2015 (2010 = 100) (logs)

Table 2.1 Growth of GDP and its components, 1850–2015 (%) (average yearly logarithmic rates)

	GDP	Per Capita GDP	Population
1850–2015	2.4	1.7	0.7
Panel A			
1850–1950	1.3	0.7	0.6
1950–1974	6.3	5.3	1.0
1974–2007	3.3	2.5	0.7
2007–2015	–0.5	–0.8	0.3
Panel B			
1850–1883	1.7	1.3	0.5
1883–1920	1.2	0.6	0.6
1920–1929	3.8	2.8	1.0
1929–1950	0.0	–0.9	0.9
1950–1958	5.8	5.0	0.8
1958–1974	6.5	5.5	1.1
1974–1984	2.2	1.4	0.8
1984–1992	4.5	4.2	0.3
1992–2007	3.3	2.4	1.0
2007–2013	–1.4	–1.9	0.5
2013–2015	2.4	2.6	–0.2

(continued)

Table 2.1 (continued)

	GDP	Per Capita GDP	Population
Panel C			
1850–1855	2.6	2.1	0.6
1855–1866	1.0	0.4	0.6
1866–1873	3.2	2.9	0.2
1873–1883	1.1	0.6	0.5
1883–1892	0.8	0.6	0.3
1892–1901	1.3	0.7	0.6
1901–1913	1.2	0.5	0.7
1913–1918	0.3	–0.6	0.9
1918–1929	3.9	3.1	0.9
1929–1935	0.0	–1.5	1.5
1935–1939	–6.6	–6.9	0.4
1939–1944	4.9	4.8	0.1
1944–1950	0.2	–1.0	1.2

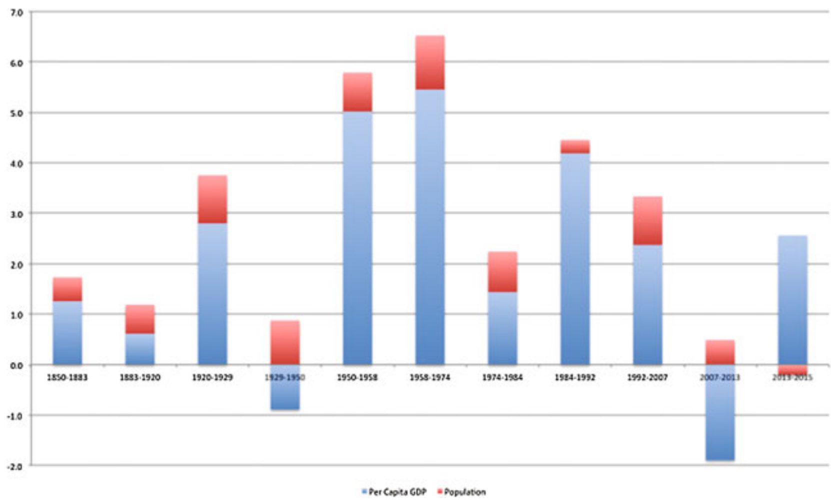

Fig. 2.2 Real GDP growth and its breakdown over long swings, 1850–2015 (logarithmic growth rates) (%). *Note* Real GDP growth results from adding up the growth rates of GDP per person and population

for main phases of economic performance (Panel A) and long swings (Panel B). A further breakdown into short cycles is presented for 1850–1950 (Panel C).

During the first long swing, 1850–1883, the rate of growth of product per person was well above the 1850–1950 average. Institutional reforms that brought higher economic freedom seem to lie beneath the significant growth experienced during these three decades (Prados de la Escosura 2016). Opening up to international trade and foreign capital made it possible to break the close connection between investment and savings and contributed to the economic growth (Prados de la Escosura 2010). It is worth stressing that, contrary to common economic wisdom, robust economic performance took place in a context of persistent political instability which included the 1854 liberal uprising and the 1868 Glorious Revolution. This suggests that an improved definition and enforcement of property rights and openness to goods and ideas contributed to offset political turmoil and social unrest.

Growth slowed down between the early 1880s and 1920s. Restrictions on both domestic and external competition help explain sluggish growth during the *Restauración* (1875–1923), despite the fact that institutional stability should have provided a favourable environment for investment and growth (Fraile Balbín 1991, 1998). Increasing tariff protection (Tena Junguito 1999), together with exclusion from the prevailing international monetary system, the gold standard, may have represented a major obstacle to Spain's integration in the international economy (Martín-Aceña 1993; Bordo and Rockoff 1996). The Cuban War of Independence, despite the already weakened economic links between the metropolis and its colony, caused significant macroeconomic instability that brought forward the fall of the peseta and increased Spain's economic isolation (Prados de la Escosura 2010). Macroeconomic instability, together with a 'sudden stop', reduced capital inflows leading to the depreciation of the peseta (Martín-Aceña 1993; Prados de la Escosura 2010) that, in turn, increased migration costs and reduced the outward flow of labour (Sánchez-Alonso 2000). Cuban independence had little direct economic impact on Spain's economy but a deep indirect one, as the intensification of protectionist and isolationist tendencies in the early twentieth century seem to be its political outcome (Fraile Balbín and Escribano 1998). World War I hardly brought any economic progress and GDP per head shrank, a result in stark contradiction with the conventional stress on the war stimulating effects on growth.[1]

The 1920s represented the period of most intense growth prior to 1950. The hypothesis that Government intervention, through trade protectionism, regulation, and investment in infrastructure, was a driver of growth has been widely accepted (Velarde 1969). The emphasis on tariff protectionism tends to neglect, however, that Spain opened up to international capital during the 1920s, which allowed the purchase of capital goods and raw materials and, hence, contributed to growth acceleration.

A fourth long swing took place between 1929 and 1950, which includes the Great Depression, the Civil War, and post-war autarkic policies, is defined by economic stagnation and shrinking GDP per head. The impact of the Depression, measured by the contraction in real GDP per head, extended in Spain, as in the USA, until 1933, with a 12% fall (against 31% in the USA), lasting longer than in the UK (where it ended in 1931 and real per capita GDP per head shrank by 7%) and Germany (1932 and 17% decline, respectively), but less than in Italy (1934 and 9% contraction) and France (1935 and 13% fall). Thus, the Depression, with GDP per head falling at −3.1% annually (−1.5% for absolute GDP), was milder than in the USA but similar in intensity to Western Europe's average (Maddison Project 2013), a finding that challenges the view of a weaker impact due to Spain's relative international isolation and backwardness. The Civil War (1936–1939) prevented Spain from joining the post-Depression recovery and resulted in a severe contraction of economic activity (31% drop in real per capita income between levels in 1935 and the 1938 trough) that, nonetheless, did not reach the magnitude of World War II impact on main belligerent countries of continental Western Europe (in Austria, the Netherlands, France, and Italy per capita income shrank by half and in Germany by two-thirds) (Maddison Project 2013).[2]

The weak recovery of the post-World War years stands out in the international context. Spain's economy did not reach its pre-war GDP per head peak level (1929) until 1954 (1950 in absolute terms) and that of private consumption per head until 1956. In contrast, it only took an average of 6 years to return to the pre-war levels in Western Europe (1951).[3] It is true that warring countries surrounded post-Civil War Spain (Velarde 1993), but the fact that its economy only grew at a rate of 0.2% yearly between 1944 and 1950 suggests a sluggish recovery after a comparatively mild contraction.

In the search for explanations, the destruction of physical capital does not appear to be a convincing one as it was about the Western European average during World War II (around 8% of the existing *stock* of capital in 1935), although its concentration on productive capital (especially transport equipment) meant that levels of destruction caused by the conflict in Spain were far from negligible (Prados de la Escosura and Rosés 2010). However, exile after the Civil War and, possibly to a larger extent, internal exile resulting from political repression of Franco's dictatorship, meant the loss of a considerable amount of Spain's limited human capital (Núñez 2003; Ortega and Silvestre 2006).[4] Thus, it can be put forward the hypothesis that the larger loss of human capital vis-à-vis physical capital contributed to the delayed reconstruction (Prados de la Escosura 2007).

The change in trend that began after 1950 ushered in an exceptional phase of rapid growth lasting until 1974. During the 1950s, though, industrialization in Spain was largely dependent on internal demand. Import volatility rendered investment risky and tended to penalize capital accumulation, while inflows of foreign capital and new technology were restricted. However, increasing confidence in the viability of Franco's dictatorship after the US—Spain military and technological cooperation agreements (1953), together with the regime's moderate economic reforms, favoured investment and innovation contributing to accelerated economic growth (Calvo-González 2007; Prados de la Escosura et al. 2012).

An institutional reform initiated with the 1959 Stabilization and Liberalization Plan, a response to the exhaustion of the inward-looking development strategy, set policies that favoured the allocation of resources along comparative advantage and allowed sustained and faster growth during the 1960s and early 1970s.[5] Without the Stabilization and Liberalization Plan, per capita GDP would have been significantly lower at the time of Franco's death, in 1975. However, without the moderate reforms of the 1950s and the subsequent economic growth, it seems unlikely the *Stabilization Plan* would have succeeded (Prados de la Escosura et al. 2012). This view challenges the widespread perception of the first two decades of Franco's dictatorship as a homogeneous autarchic era and the 1959 Stabilization and Liberalization Plan as a major discontinuity between autarky and the market economy.

The oil shocks of the 1970s happened at the time of Spain's transition from dictatorship to democracy that brought with it further opening up and economic liberalization. During the transition decade (1974–1984), GDP growth rate fell to one-third of that achieved over 1958–1974, and to one-fourth when measured in per capita terms. Was the slowdown exogenous, a result of the international crisis? Did it derive from the Francoism legacy of an economy still sheltered from international competition? Or was the outcome of the new democratic authorities' policies? Answering these questions represents a challenge to researchers. Accession to the European Union heralded more than three decades of absolute and per capita growth that came to a halt with the Great Recession. Again, the deeper contraction and weaker recovery calls for investigation on the underlying foundations of the 1985–2007 expansion.

Notes

1. Cf. Roldán and García Delgado (1973) for the established view on the impact of the Great War on Spain.
2. Actually, at the trough during the Civil War (1938) Spain's GDP per head was equal to that of 1905, while the World War II trough brought Italy, Germany, and France's back to 1880, 1886, and 1891, respectively (Maddison Project, 2013. See Bolt and van Zanden 2014, for a presentation of this collaborative project).
3. Belgium, the Netherlands, and France did so in 1949, Austria and Italy in 1950, with Germany (1954) and Greece (1956), the exceptions.
4. Regarding interior and exterior exile cf. López (1991, 1996) and Plá Brugat (1994, 1999).
5. It is worth pointing out interesting similarities between the 1959 Stabilization Plan and the Washington Consensus, including measures conducive to trade and capital account liberalization, macroeconomic policies to reduce inflation and the size of the fiscal imbalances, and other reforms to protect private property rights and to reduce the activity of the government (Williamson 1990; Fischer 2003; Schleifer 2009; Edwards 2009).

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