



WORKING PAPERS

Col·lecció d'Economia E18/384

A difficult consensus: the making of the Spanish welfare state

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Abstract: Before 1977, the Spanish government was unable (or unwilling) to increase taxation to finance new social programs. As an alternative to this lack of fiscal capacity, Spanish policy makers in the early 20th century promoted contributive social insurance schemes (mostly financed from employers' and employees' contributions). To avoid social conflict in rural areas, rural laborers were also included in these programs. This, however, generated strong business opposition, especially from rural landowners and small-sized, labor intensive businesses (which were predominant in Spain). With the advent of democracy in 1931 new social plans were devised, but redistribution demands focused on land reform. After the Spanish civil war, Franco's dictatorship consolidated a conservative social insurance model. Social benefits were kept very low and funding relied on employers' and employees' compulsory contributions. Labor movement repression and trade protectionism allowed companies to easily transfer the cost of social insurance to wages and consumer prices. The introduction of income tax, after the restoration of democracy in 1977, gave way to a new social protection model. Tax-funded, non-contributory programs increased and social protection was extended to those without stable ties to the labor market. By 1977 wage dispersion had replaced property incomes concentration -particularly land ownership- as the main source of income inequality, and demands for tax-and-transfer redistribution replaced 1930s expropriation demands. Social spending growth, however, stagnated after the signing of the Maastricht treaty, before Spain reached the European levels.

JEL Codes: I30, H53, N30.

Keywords: Welfare State, redistribution, social insurance, class conflict, Spain, history of social policy.

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Acknowledgements: I thank Chris Lloyd, Matti Hannikainen, Jari Eloranta, Alfonso Herranz, Peter Lindert, and Javier San Julián for their helpful comments. I also thank the participants at the 5th Finland in Comparison Conference (Shocks and Reconstructions: Histories of Long-Term Inequalities) and the 2nd Workshop on Public finance in the History of Economic Thought. Usual disclaimer applies.

Introduction

Since 2008, the Great Recession has hit the Spanish economy hard. The unemployment rate peaked in 2013, reaching over 26% of the working population, and government budget cuts became a commonplace. New political parties on both the left and the right of the political spectrum have emerged as a result of the political crisis that has appeared in parallel to the economic recession. Moreover, in some areas, like Catalonia, a very active pro-independence movement has gained momentum, partly due to the legitimacy crisis of Spanish institutions. All these new political demands, however, have been so far channeled in democratic, non-violent ways. In the Fragile State Index, for example, Spain appears as a *stable* state (just like France, the US or the UK), meaning that the vulnerability of the Spanish state to collapse is low.¹ But this has not always been the case. Political violence was a relevant trait of 19th and 20th century Spain. It became particularly intense after World War I and peaked in 1936-39 with the outbreak of the Spanish Civil War. The country, indeed, went through two dictatorships (Primo de Rivera's and Franco's dictatorship) before the consolidation of democracy in 1977. Factors behind the reduction in social conflict and political instability are complex and diverse, but social policy is no doubt one of them.

From the very beginnings of modern social policy in the late 19th century, the explicit objective of the Spanish government was to promote social peace. However, unlike many of its European neighbors, Spain was unable to successfully develop most of the social programs that today we associate with the welfare state (like old-age and disability pensions, public health-care or unemployment insurance). In Spain, a real welfare state did not develop until the late 1970s, early 1980s. Even today, when Spanish social policy is compared to that of other European countries some deficiencies persist. What explains this late development? Many studies have highlighted the importance of economic and demographic modernization plus the advent of democracy as key factors for the long run development of the welfare state (Lindert 2004). At the same time, a number of theories emphasize the role of specific actors. The so-called power resource theories, for example, mostly see the welfare state as the result of the pressure of the labor movement (Hicks 1999). However, employers (especially big-sized, capital intensive companies) also supported social legislation in some countries; so that the emergence of new social programs was often the result of some sort of cross-class alliances (Mares 2003, Hellwig 2005). Similarly, Baldwin (1990) shows that the support of small and medium-sized farmers was crucial for the development of universalistic social programs in late 19th, early 20th century Scandinavia, suggesting (again) that social policy outcomes are often the result of a mixture of social interests. More generally, it seems that homogenous and egalitarian societies are able to achieve political consensus for social policy expansion more easily than heterogeneous and unequal societies. The reason is that, in the later, social empathy and social mobility expectations tend to be lower and redistribution costs higher (Alesina et al. 2001, Lindert 2004, Bénabou 2005).

All these factors played a relevant role in Spain. The Spanish government was unable to raise funds to finance new social programs until the 1977 income tax reform. As an alternative, given this lack of fiscal capacity, Spanish policy-makers put the emphasis on contributory social-insurance schemes (which were mostly financed by employers' and employees' contributions). However, this generated strong business opposition, especially from rural employers and small-sized businesses, which were predominant in Spain. The alternative political regimes that existed in Spain throughout the 20th century tried to provide alternative solutions to this problem; but, as said before, the political consensus to fund and create a comprehensive social

¹ Spain is, however, behind the best-positioned countries (with *sustainable* states), such as Germany or the Nordic countries. See Fragile States Index (<http://fundforpeace.org/fsi/>); last access 10/18/2017.

protection system was not reached until the late 1970s. The following sections explain the story of this difficult consensus.

Early measures and sources of social conflict

In 1883, the Spanish government created the Commission of Social Reforms (CRS in Spanish, for *Comisión de Reformas Sociales*), which was intended to study the living conditions of the working-class and to propose measures to improve them. Two years earlier, Bismarck had advocated in the German Reichstag for the promotion of social insurance to achieve political support from the working-class; and shortly later a comprehensive social insurance scheme, including Sickness insurance (1883), workplace accident compensation (1884) and old-age pensions (1889) was introduced in Germany. In Spain, the years 1881-83 were marked by intense social unrest affecting both rural and urban centers. Some examples are the strikes in cities like Barcelona, Valencia and Madrid, or the events related to *La Mano Negra* (“The Black Hand”) in Andalusia.² However, unlike the previous decades of the 19th century, repression was not the only answer from the government. After decades of intense political disputes (including three civil-wars in 1833-39, 1847-49, and 1872-76), the conservative party and the liberal party reached an agreement to alternate peacefully in office during the period of the so-called Bourbon Restoration (1874-1923). According to this agreement, before each election the incumbent party ceded power to an interim government by the other party, who organized the election. This interim government, in turn, was always able to guarantee its own victory by means of a bargaining process with the local elites in their electoral districts plus extensive vote buying, mass fraud and even direct coercion. To some extent, corruption was the price for a certain degree of political stability.³

In the social domain, the government also tried to integrate politically the new emerging social movements (namely, the labor movement, which was growing in parallel to industrialization) and to reduce social unrest in the rural areas (especially in those areas where big farms were predominant). The use of the police and even the army to deal with social unrest remained a commonplace throughout the whole period of the Bourbon Restoration. However, in 1881-83 (under the liberal rule of President Sagasta) labor protests became increasingly tolerated by the government. Shortly later, in 1887, the Associations Law was passed and union rights were recognized, allowing for a gradual growth of the labor movement (Pérez Ledesma 1990). The first show of strength of the Spanish labor movement took place in 1891, with the celebration of May Day. At the same time, the Spanish government complemented this recognition of social rights with the extension of franchise to all men in 1890. Finally, the publication of the encyclical *Rerum Novarum* in 1891 stimulated the rise of Spanish social Catholicism (which, in turn, was particularly influential in the conservative party), consolidating the reformist trends initiated with the creation of the CRS in 1883. In the introduction of the Royal Decree creating the CRS, Segismundo Moret (Minister of the Interior at that time) admitted that Spanish social policy was to some extent underdeveloped compared to other European countries and that “it was not possible to maintain this situation without lessening public peace” (*Gaceta*, December 10, 1883, reproduced in Castillo 1985, p. CXLIII). The explicit objective of the CRS was, indeed, to achieve “the [social] peace (...) between the two big production factors: labor and capital” (p. CXLIV), and channel labor demands away from revolutionary means.

² Presumably, *La Mano Negra* was a secret anarchist organization to which the government attributed a number of violent actions, including the destruction of crops and even murders. According to Tuñón de Lara (1972), however, *La Mano Negra*, as a formal organization, never existed. Rather, the political violence existing in rural Andalusia was used as an excuse by the Spanish government to initiate a severe repression and combat peasant revolts.

³ About the functioning of the Bourbon Restoration electoral system, see Varela (2001) or Curto-Grau et al. (2012).

The Spanish government, however, not only focused on the *new* conflicts emerging in industrial cities, but it also focused on *traditional*, rural conflicts. 19th century Spanish agriculture was characterized by a high land ownership inequality. In southern Spain, large states (the so-called *latifundios*) represented more than half of the total rural area and peasant uprisings were common since the early 19th century.⁴ After the visit of Bakunin's envoy, Giussepi Fanelli, to Spain in 1868, rural Andalusia became an important source of militants for anarchist organizations. Anarchist unions were in fact majoritarian among Spanish labor unions until at least the 1920s; and landless laborers always represented a big share of total union membership⁵. Since the objective of the government was to deactivate revolutionary social movements, paying attention to the rural areas (and not only to the new industrial cities) was crucial. Spanish social reformers, however, did not try at any time to change the structure of land ownership by means of any forced expropriation or any other type of agrarian reform. Rather, they were hoping to find the way to "alleviate the evils affecting the rural working classes", so that "the property can live safely" (Castillo 1985, p. CXLV).

In this context, the CRS was initially charged with a number of social tasks: promoting the regulation of child and female labor, the regulation of the working conditions in industrial factories, promoting the creation of *Jurados Mixtos* (to solve industrial disputes between employers and employees), promoting the creation of old-age and disability pension funds, and promoting the creation of agrarian banks and reforms facilitating rural laborers' access to land (p. CXLIX). However, the only significant work undertaken by the Commission before 1890 was an ambitious study on the conditions of the working class that compiled a great deal of information, but did not translate into any specific policy measure. In fact, both socialist and anarchist unions saw the CRS with skepticism. They were convinced that it will not be useful to introduce any significant change in their living conditions (De la Calle 2004). In 1890, the CRS was reformed and became some sort of advising commission for the government; but again no specific measure was introduced until 1900, when the occupational accidents law was passed. This law obliged employers in the industrial sector to pay mandated benefits to their employees in case of work-related accidents. However, the initial impact of this measure was very limited. The benefits set by the government were very low and employers often failed to fulfil their commitments due to the lack of inspection (Silvestre and Pons, 2010). This, in fact, anticipated two permanent traits of the evolution of Spanish social policy: employers' opposition to social reform and the inability (unwillingness perhaps) of the government to enforce social legislation.

From voluntary, state-subsidize insurance to compulsory insurance

In 1903, the former CRS was replaced by the Institute of Social Reform (IRS in Spanish, for *Instituto de Reformas Sociales*). The IRS objectives were (again) to promote social legislation and watch over its enforcement. To gain social legitimation, the IRS was expected to include in its decision-making bodies representatives from both labor and employers. Employers' representation, however, was very limited, partly because employers showed little interest in participating, and partly because of the lack of associative tradition among Spanish business groups. Labor representation was very limited too. The anarchist union, the CNT

⁴ Malefakis (1970) chapters 1 and 5.

⁵ In 1882, 20,915 of the 57,934 members of the Spanish Anarchist Federation were agrarian workers, mostly from Andalusia; and total Andalusian membership (38,349) still far exceeded that of industrial Catalonia (13,201) (Malefakis 1970) p. 159. In 1919, the anarchist union CNT (*Confederación Nacional del Trabajo*) had 700,944 members, while the socialist union UGT (*Unión General de Trabajadores*) had 150,382 members (Silvestre 2003b, appendix). The initial growth of the socialist union, the UGT, was slower than that of the anarchist unions, and more restricted to industrial and urban areas, like Madrid and the Basque country. However, as is shown in the following sections, when the UGT eventually surpassed the number of affiliates of the CNT in the early 1930s and became the largest union in Spain, it was also possible due to a large increase in its rural affiliates.

(*Confederación Nacional del Trabajo*), rejected any kind of collaboration with the government (as already happened with the CRS before). They were convinced that the IRS was useless, rather a distraction for the (revolutionary) interests of the working class. On the other hand, the direction board of the IRS considered that social-catholic unions were not genuine representatives of labor interests, because they agglutinated within a single organization both employers and employees. As a result, labor representation relied almost exclusively on the socialist union, the UGT (*Unión General de Trabajadores*), which this time became more willing to collaborate with the reformist agenda of the government (Montero 1988). In this context, the IRS was unable to promote permanent social pacts between labor and capital, as intended by the government; but it did play a very active role in promoting social legislation.

One of the projects emerging from the IRS was the National Institute of Social Security (INP in Spanish for *Instituto Nacional de Previsión*), created in 1908 to manage the so-called *Retiro Obrero*, or “Worker’s Retirement”. This was a voluntary, state-subsidized old-age pension scheme, where potential beneficiaries were all wage earners (from both industry and agriculture) with a yearly income below 3.000 pesetas, which was a high threshold for that time.⁶ When designing the *Retiro Obrero* the government took as a reference the voluntary state-subsidized insurance schemes existing in Belgium and Italy (Montero 1988). In fact, before World War I, Spanish social reformers always advocated for the creation of voluntary state-subsidized insurance schemes, in front of the compulsory insurance model prevailing in Germany. This was, in part, due to ideological reasons. Spanish social reformers believed that voluntary insurance had the advantage of getting workers involved in the solution of their own problems. Workers had to voluntarily join an insurance fund (and pay for the corresponding fees) before they got the governmental subsidy. In contrast, compulsory insurance, they said, did not promote individual virtues, as “with its automatic retentions on the pay-roll (...) do not demand to the insured person any pro-saving attitude” (Eza 1914, p. 43).

However, voluntary insurance schemes were also preferred because of practical reasons. They involved a much lower cost for the government. Compulsory insurance was considered an “absorbent and monstrous bureaucratic mechanism”. By contrast, in the case of voluntary state-subsidized insurance programs, all the managerial tasks fell on the private funds, involving an effective way to “alleviate government burdens” (González and Oyuelos, 1914; pp. 230 and 267). Some social reformers even argued that (voluntary, state-subsidized) social insurance would help reduce public spending on traditional poor relief: “The state budget cannot meet all social needs (...). The more the government promote and channels social insurance, the less it will have to attend in the future to the expenditures in poor relief, which are overwhelming for the public treasury” (Maluquer 1926, p. 220). As in Germany, more than fighting poverty, the objective of the Spanish government was to integrate politically the labor movement. But unlike Germany, Spain tried to avoid compulsory insurance as long as possible. The Spanish government was reluctant to assume any increasing cost to improve social protection, and refused to alter significantly the tax structure. As one might expect in this context, the *Retiro Obrero* had a very limited impact. In 1918, after 10 years in force, there were only 78,166 insured persons to the *Retiro Obrero*, representing in the vicinity of 1% of the labor force (Elu, 2010).

Even though the Spanish government was trying to promote social policy to integrate politically the labor movement, the truth is that before World War I the labor movement was too weak to influence government policies. There were some outbreaks of violence and massive mobilizations before 1913, like the so-called *Semana trágica* in Barcelona in 1909 and the wave of strikes that shook many rural areas in 1903 and 1904. However, even in 1910 union density in Spain was around 1% of the active population (Silvestre 2003b). This changed quite suddenly

⁶ In 1910, average daily wage in industry was 2.88 pesetas. Assuming 280 working days per year, this involves a yearly wage of 806.4 pesetas (see Vilar 2004, p. 156).

throughout World War I. Even though Spain remained as a neutral country, the economic imbalances caused by the war and the contagious effect of the Russian revolution led to a huge increase in social unrest. Largo Caballero (socialist representative in the Spanish parliament) attributed the “*whole labor mobilization occurred from 1916 to the general strike in August [1917]*” to high inflation and unemployment: “*the high cost of subsistence and the lack of work*” (cited in Espuelas 2013, p.87). Organized labor increased substantially in this context. Union density, in fact, increased from 1% to 12% of the active population in 1920, and remained in similar levels from thereafter.

To regain political stability, the government tried to stimulate the development of social legislation. In 1917, in a *Conference for Social Insurance*, the government made a commitment to create a comprehensive social insurance system (including occupational accidents, old-age, illness, maternity leave and unemployment). This time the government admitted that, to be effective, social insurance had to be compulsory. As the viscount of Eza (Minister of the Interior at the time) put it: “*For reasons of high social convenience, since it is a question of repairing inevitable evils, which equally interest everyone, it was necessary to take the principle of obligation to the practice of Social Security*” (Royal Decree, July 29, 1917). After the conference, the socialist party (which had won its first seat in parliament in 1910) demanded in its parliamentary speeches that the government honored its social promises. Several projects, including projects for the creation of unemployment insurance, health insurance, and occupational accidents insurance in agriculture, were discussed both in the Spanish parliament and in the INP. However, the only program that came to fruition was the *Retiro Obrero Obligatorio*, or “Compulsory Worker’s Retirement”, a compulsory old-age pension system established in 1919.

Unlike many European countries, where the rural population were often excluded from early social insurance programs, the new *Compulsory Worker’s Retirement* included both rural and urban workers alike. The reason is the intense social conflict characterizing rural Spain at the time. As shown before, revolutionary labor movements had been gaining influence in rural Spain since late 19th century, especially where big farms were predominant. In 1911, rural Huelva was, after urban Barcelona, the province where the anarchist CNT had more affiliates (as a percentage of the active population).⁷ Since the objective of the government was to deactivate revolutionary movements, extending social insurance to rural areas must have appeared as a political need. However, it is precisely this extension to rural areas one of the reasons that hindered social reform in Spain. Rural landowners became, in fact, a powerful source of opposition to government plans. This opposition stopped government plans to extend occupational accidents insurance to agriculture, as well as plans to create an unemployment insurance scheme in 1919-23 (Del Rey 1992, Espuelas 2013). For the same reason, when the *Compulsory Worker’s Retirement* came into effect affiliation records in agriculture were disappointing (Elu 2010).

In general, business opposition to social insurance in Spain was very strong. Apart from the opposition from rural landowners, small-sized, labor intensive companies in the industrial sector were very reluctant to the introduction of social insurance. In many European countries, rejection to compulsory social insurance was often more severe among small-sized companies and rural landowners than among big-sized, capital-intensive companies. In some countries, the latter even supported the introduction of social insurance to enhance productivity growth, reduce labor unrest, or gain competitiveness in front of their smaller competitors (Ullman 1981, Mares 2003, Hellwig 2005). In Spain, however, small-sized companies were predominant (Comín and Martín Aceña 1996). Unlike Bismarck’s Germany, Spain lacked a broad industrial

⁷ Figures on affiliation from Silvestre (2003), figures on active population provided by Julio Martínez-Galarraga.

base willing to support compulsory social insurance. The labor movement, for its part, did not show full support to social reform either. In general terms, the socialist sectors of the labor movement supported government social plans and even asked for more state intervention. However, the revolutionary sectors, basically the anarchist movement, did not trust government intentions and saw social insurance plans as a distraction from the real interests of the working class. The inability of the government to fulfil its social promises and the slow pace followed by Spanish social policy hindered the political integration of the labor movement within the political system of the Spanish Restoration and helped to consolidate these revolutionary positions (Bengoechea, 1994; Castillo, 1991-1992; Barrio, 1997).

Besides employers opposition and the rather weak support that government plans received from the labor movement, there is a third factor explaining the inability of the government to develop new social programs. Even in the convulsive years following World War I, the Spanish government remained reluctant to assume any financial cost derived from improving social protection. The possibility of creating (fully) tax-funded programs (as the 1891 Danish old-age pensions) was never contemplated. As we have seen, the government tried to promote compulsory insurance (instead of the previously advocated voluntary, state-subsidized programs). However, in this case, the bulk of the cost of social insurance would rely on employers and employees. In fact, even after the introduction of the Compulsory Worker's Retirement, the Spanish Institute for Social Security complained several times because the government was not paying the corresponding subsidies to the new pensions fund (Elu 2010). As will be shown in the following sections, in the early decades of the 20th century, the Spanish government was unable (or unwilling) to undertake the needed tax reforms to increase government revenues and fund new social programs (Comín 1996). Lastly, the political context was not optimal either. The government had been unable to materialize most of its social promises during the convulsive years following World War I. However, after the military coup of 1923 and the establishment of the dictatorship of Primo de Rivera (1923-30) all the post-World-War-I plans to improve social insurance were abandoned. The government only introduced some subsidies for large families in 1927, a policy that was consistent with Catholic social morality and the influence acquired by the Church during the dictatorship (Velarde 1990). To regain momentum, social policy had to wait to the advent of democracy in 1931.

The second republic: momentum and limitations

With the advent of the Second Republic (1931-36), started what Linz et al. (2005) view as the first truly democratic period in the Spanish history. Even though it was a short period of time, it generated many reformist expectations among diverse social sectors that aspired to democratize the Spanish political and social life. These expectations, however, soon turned into intense social tensions leading to the highest levels of political mobilization and social unrest in Spanish contemporary history (Pérez Ledesma 1990). During the years of the Second Republic, the socialist party became the most voted party (although it never get enough votes to rule on its own). In 1931-33 was in office jointly with other left and center-left parties. In the second legislature, in 1933-35, was the main party in the opposition, after an agreement of right and center-right parties to form government.⁸ The growth of the socialist party in this new democratic context was due to the broadening of its urban and industrial base but also to the rapid consolidation, in a short period of time, of a broad rural base. In 1932, the UGT, the socialist union, had 1.041.539 affiliates, of which 445.414 were rural laborers (Tuñón de Lara 1972, p. 857-858).

⁸ About the electoral results in this time-period, see Linz et al. (2005), p. 1099.

As in previous episodes of the Spanish history, rural interests conditioned the evolution of social policy in the second republic. During the Bourbon Restoration, attempts to extend social insurance to agriculture faced the opposition from rural landowners. This time, the implicit alliance between landless laborers and industrial workers gave the socialist party enough political power to launch its program of social reform. The socialists, in fact, pressed to include social rights in the 1931 Spanish Constitution. The right to social insurance, for example, was granted in article 46: “The Republic will guarantee to all workers the necessary conditions of a dignified existence. Its legislation will regulate the cases of sickness, accidents, unemployment, old-age, disability and survivors insurance”. Progress in social legislation was particularly striking between 1931 and 1932, when the socialist party was in office (Samaniego 1988). The government introduced the so-called maternity insurance (granting healthcare during childbirth and maternity leave benefits for working women), created a voluntary, state-subsidized unemployment insurance scheme, and extended occupational accident insurance to agriculture. A plan was also devised to unify all social insurance programs within a single social security system, encompassing the aforementioned pre-existing programs plus new programs (providing health-care, sickness leave, and disability and survivors pensions). However, the discussion of the details of this plan lasted for several years. Eventually, the military coup of 1936 prevented it from being passed before the Spanish civil war (Pons and Vilar 2014).

The difficulties that appeared for the implementation of this unification plan are partly due to the persistence of traditional obstacles. Mutual-aid associations and commercial insurance companies, for example, opposed the plan. They feared being displaced by state insurance and advocated for voluntary programs. Doctors, in turn, feared the loss of professional freedom that a compulsory insurance scheme could entail. They believed that such a program would reduce “the medical classes to the role of simple civil servants, controlled by other administrative civil servants” (Donato Fuejo, June 1936, cited in Samaniego 1988, p. 368). The government also had to deal with the traditional employers’ opposition, and to a lesser extent with workers’ opposition. When maternity insurance came into effect in 1931, many working women opposed the subsequent mandatory contributions. In areas like Catalonia, Zaragoza, Galicia and Valencia there were strikes against the new compulsory maternity insurance, often promoted by the CNT, the anarchist union (Pons 2010). The government was aware of this potential opposition, but as the Spanish Institute for Social Security put it in a pamphlet of 1936, it hoped that workers’ opposition to compulsory contributions would decrease “if the insured person receives instant benefits, as those granted by health insurance” (INP 1936, p. 39).

In fact, a crucial characteristic of the new plan was that it “does not cast on the state any burden that has not been already recognized” (INP 1936, p. 74). This means that the government would maintain current public subsidies to preexisting old-age pension and maternity funds, but the new benefits included in the unification plan (health-care, sickness leave, and disability and survivors pensions) would be entirely financed from employers’ and employees’ compulsory contributions. The government announced this as a virtue: tax-payers did not need to worry about any *unbearable* burden. But precisely this must have aggravated the opposition from employers and employees. Above all, this (again) reflects the unwillingness of the Spanish government to assume the cost of improving social protection. This, in turn, was the result of weak fiscal capacity. Since the early 20th century, the Spanish economy had dragged permanent public deficits, which aggravated during World War I and again during the Great Depression in the 1930s. Left-wing governments in the second republic undertook several tax reforms to increase public revenues. Tax rates on land ownership and industrial equity were increased, and a new tax on gasoline was introduced. The most important measure was the creation of an income tax in 1932, but even this was a very soft reform, unable to solve the financial problems of the government.

Only people with yearly incomes above 100,000 pesetas were subject to the new income tax. Tax rates ranged between a minimum 1% and a maximum 7.7% for incomes above 1,000,000 pesetas. The 1932 Spanish GDP was 1.448 pesetas per person,⁹ so that the percentage of population subject to the new income tax must have been very low. Jaume Carner, Minister of Finance at the time, was convinced that this was the only feasible reform for the moment. A more ambitious project would have met strong opposition. He, actually, hoped that the income tax could be gradually extended to a broader segment of the population in the future, by lowering the 100.000 peseta threshold (Costa 2000). After the introduction of the income tax, state revenues grew from 9.4% of GDP in 1929 to 11% in 1935, but public spending growth was even faster so that public deficits remained (Comín 1996). The government also made a huge effort to invest in public works to reduce unemployment, especially in rural areas where big farms were predominant and rural unemployment higher (Espuelas 2013). However, the most ambitious policy undertaken to combat agrarian unemployment was the agrarian reform.

The most active promoter of the reform was the socialist party, which as seen before had been able to mobilize a broad rural base in the 1930s. To launch the reform, the socialists counted with the support of Manuel Azaña and the left-wing republicans. These believed that meeting socialists' demands was the only way to guarantee the working classes "*would remain loyal to the Republic rather than succumb to the Anarcho-sindicalist cries for total opposition*" (Malefakis 1970, p. 192). The agrarian reform, in fact, had the explicit objective of achieving social peace in rural areas and contribute to the democratization of the political life. The socialists, moreover, believed that the agrarian reform would contribute to reduce urban unemployment by reducing rural migrations to industrial cities (Espuelas 2013). However, the Spanish government was unable to successfully deal with the predictable opposition from rural landowners. During the first legislature (under a republican-socialist coalition government) the reform progressed very slowly, precisely because the government was trying to avoid landowners' opposition as much as possible. In the second legislature (with a right-wing coalition in government) the reform was practically paralyzed. Initially, this provoked the disappointment of the rural base of the socialist party, and later its radicalization. When the left came to power again in February 1936, the agrarian reform accelerated, until it was interrupted by the military coup of July 1936. The factors behind the outbreak of the Spanish civil war are diverse, but tensions resulting from the agrarian reform were crucial. For that reason it has often been characterized as a peasant war (Malefakis 1970).

Franco's dictatorship: a conservative social insurance model

After the Civil War (1931-36), Franco's dictatorship (1939-1977) imposed severe political repression. The army led postwar repression and the country remained under the military law until April 1948. Unlike previous civil conflicts in Spain, like the Carlist Wars in the 19th century, this time there was not any reconciliation attempt. On the contrary, the goal was to achieve a definitive defeat of the enemy to avoid a reemergence of the reformist ambitions of the second republic (Tusell 2005). Political parties were outlawed, with the exception of Falange Española, the official party. In the domain of labor relations, employers and employees were forced to join the so-called Vertical Union. Independent labor unions were prohibited as well as strikes, which were considered a sedition offense, and therefore punishable by the death penalty (Pérez Ledesma 1990). Business associations, by contrast, remained legal and could, indeed, act as a pressure group (Molinero and Ysas 1998). Many businessmen and landowners even became members of the parliament. These were, in fact, part of the political elite of the dictatorship

⁹ Prados de la Escosura (2003), p. 521.

along with high-ranking civil servants, the military, the Catholic Church, and politicians coming from monarchic groups and the Falange (Jerez 1996).

The Spanish economy recovered very slowly after the civil war. The 1935 income levels were not reached again until 1952. Real wages had an even worse performance. Industrial real wages did not recover the 1932-33 levels until 1962-63. In agriculture, real wages in 1959 were only 77% of the 1936 real wage. This bad performance was mostly the result of the reduction in workers' bargaining power (Vilar 2004, Barciela and López 2003). As for social protection, most social insurance schemes created before the civil war continued operating. The only exception was unemployment insurance, which was abolished until its reintroduction in 1961. The policy makers of the dictatorship believed that unemployment benefits only contributed to laziness. Girón de Velasco, Ministry of Labor between 1941 and 1957, claimed that, "unemployment insurance [in Europe] fatally engendered a tendency to indolence and indirectly to vice and even degeneration" (1951, p.19). The Republican project for social insurance unification was also abandoned. Franco's dictatorship, however, created some new social programs. During the civil war, for example, the government created the *Auxilio de Invierno* (Winter Relief), an institution linked to Falange, that shortly later was renamed as *Auxilio Social* (Social Relief). Its initial mission was to meet the social needs derived from the war in the side of pro-Franco rebels. Later on, as Franco's army was gaining terrain, the *Auxilio Social* served as an instrument of Franco's propaganda in the republican areas, by handing out bread to the population and organizing soup-kitchens. Once the war was finished, the *Auxilio Social* became a parallel welfare institution to traditional poor relief (Cenarro 2006).

Also during the war, a family allowance called *Subsidio Familiar* was introduced. This offered bonus payments to all wage earners based on the number of children. Pro-family (conservative) policies played a key role in the rhetoric of the dictatorship. This family allowance was largely the outgrowth of the regime's population ideology and the influence of the Catholic Church's social doctrine, which advocated for a *sufficient* family wage (Velarde 1990). This measure was also aimed at reducing female labor force participation. Women's work was attributed with all kinds of social evils: "*the mother is forced to work out of home because of the lack of resources (...) and consequences are fatal. Increase in maternal mortality during childbirth; increase in infant mortality (...); brutal drop in birth rates (...); no education for the children, [who are] abandoned to the evil teachings of the street; badly fulfilled her housework, making the home unpleasant and pushing her husband to the tavern and bar (...) Bringing the mother back to home is an ideal and we need to move towards it. The Subsidio Familiar can be the most effective way*" (Aznar, 1943, pp.16-17).

Finally, a compulsory health insurance scheme (SOE in Spanish, for *Seguro Obligatorio de Enfermedad*) was also set up in 1942-44. According to Girón de Velasco, the intended mission of this insurance was to increase workers "performance" by improving their health conditions. 19th century social reformers had already insisted in the potential positive effects of social insurance on health conditions and the subsequent positive effects on labor productivity¹⁰. Girón de Velasco, moreover, attributed an explicit political function to the new sickness insurance. It had to serve to make "*proselytism, [and] gain for the motherland and the revolution new adepts*" (Girón de Velasco 1943, p. 67). Despite propaganda, social protection levels remained very low during Franco's dictatorship. In 1958, Spanish social spending was only 3.3% of GDP, whereas in Greece it was 10.4%, in Italy 12.3%, and in Germany 18.2% (table 1). Coverage rates remained very low too. Rural laborers were excluded from the old-age pension scheme between 1939 and 1943. Permanent rural laborers were excluded from health insurance until 1953, and non-permanent rural laborers until 1958. Even in 1959 (when rural laborers had already been

¹⁰ See, for example, the debates about the 1930s social insurance unification (INP 1936), or the debates about Workers' Compulsory Retirement after World War I (Maluquer 1926).

formally included in social security), the coverage rate of health insurance was only 37% of the active population; and the total number of beneficiaries (including insured's family) was only 38% of total population. As for old-age pensions, coverage rates were even lower. In 1959, only 32% of the active population was included in the scheme¹¹.

Table 1. Public social spending in selected European countries (% of GDP), 1950-2005

	European average	Germany	Belgium	Ireland	Sweden	Greece	Italy	Portugal	Spain
1950	8.55	14.67	10.26	7.67	7.72		7.37	2.01	3.73
1958	11.38	18.17	12.10	9.00	10.66	10.44*	12.33	2.95	3.33
1966	13.69	19.21	17.03	10.40	14.05	8.55	16.32	3.68	4.06
1975	19.65	27.15	26.74	17.05	21.16	8.64	20.94	8.39	11.66
1982	20.84	23.56	25.68	17.42	27.85	14.49	19.85	10.33	17.74
1990	21.77	22.28	24.89	14.93	30.20	16.47	19.95	12.89	20.61
1998	23.42	26.26	26.12	13.04	30.38	18.56	22.94	17.86	20.91
2005	24.38	26.75	26.40	16.73	29.43	20.55	24.98	23.10	21.06

Source: Espuelas (2013b). *1960

Furthermore, pensions remained very low throughout the 1940s and 1950s. The reason is that they were only partially indexed to inflation (and these decades were characterized by high inflation rates). Table 2 shows the evolution of old-age pensions between 1940 and 1959. As can be seen, average old-age pensions in nominal terms increased gradually during this time-period (column 1). However, when we analyze the evolution in real terms the result is completely different (column 3). Average old-age pensions measured in real terms decreased constantly from 1940 to 1955. They recovered after 1956, but even in 1959 real old-age pension benefits were similar to those of 1940. If replacement rates are analyzed, the results are very similar. Taking as a reference the average unskilled industrial wage, average replacement rates oscillated between 20 and 30% of the salary during the whole time-period (column 5). Social protection remained limited to a minimum during Franco's dictatorship. Moreover, this meager social protection network was almost exclusively financed from employers' and employees' compulsory contributions. In 1959, government subsidies to social insurance funds (including old-age pensions, health insurance, and the *Subsidio Familiar*) were 12% of total revenues (INP 1960). This allowed Franco's regime to finance social insurance without increasing taxation (precarious social insurance in this case).

¹¹ Figures on the number insured persons and beneficiaries come from INP (1960); data on active population and total population from Nicolau (2005).

Table 2. Old-age benefits (1940-1959)

Year	old-age pension (average) (current pesetas)	consumer price index	old-age pension (average) (1959 pesetas)	unskilled wage (average) nominal	replacement rate (%)
1940	70	22.05	334		
1941	86	28.65	317		
1942	88	30.63	305		
1943	85	30.46	293	328	26
1944	81	31.81	268	326	25
1945	86	34.02	266	324	26
1946	96	44.64	227	393	24
1947	92	52.52	185	420	22
1948	93	56.08	174	450	21
1949	123	59.12	221	448	28
1950	148	65.53	239	523	28
1951	162	71.71	240	536	30
1952	150	70.29	226	535	28
1953	129	71.42	190	547	24
1954	134	72.30	197	581	23
1955	130	75.21	182	590	22
1956	248	79.62	329	1004	25
1957	316	88.20	379	1049	30
1958	303	100.00	321	1062	29
1959	309	105.72	309	1082	29

Sources: Average old-age pension is total spending on old-age benefits divided by the number of beneficiaries. Data come from the Bulletin of Statistical Information (Boletín de Información Estadística) of the INP (several years), and Jordana (1953); consumer price index from Maluquer (2009); industrial, unskilled wage from Vilar (2004), p. 154.

Business groups, in turn, showed little opposition to this social insurance funding strategy (at least until the 1960s). During the 1940s and 1950s, Franco's dictatorship adopted an import substitution industrialization strategy, based on intense trade protectionism and a very active state intervention. Wages (and prices) were dependent on government regulation and, as mentioned before, labor unions were prohibited. This allowed employers to easily transfer the cost of social insurance to wages (as potential workers opposition was silenced). At the same time, trade protectionism and the lack of international competition allowed employers to transfer part of the cost of compulsory insurance to final prices and consumers (Espuelas 2012). This situation, however, changed gradually after 1959. In 1957-59 there were an economic crisis originated in the external sector. The lack of dynamism of Spanish exports plus a big overvaluation of the Spanish peseta provoked a high deficit in the balance of trade. To correct this situation, the government devised the so-called 1959 Stabilization Plan. The peseta was devaluated to gain international competitiveness and a strict monetary policy was implemented to defend the new exchange rate. In parallel, a number of liberalizing measures were gradually introduced and most aggressive forms of state intervention were abandoned. State controls over private investment diminished, and the economy became more and more opened to international trade. After the initial recession of 1959-60 the Spanish economy recovered very rapidly, growing at an average rate of 7% per year between 1960 and 1974.¹²

As in other developed countries, economic growth stimulated the development of social policy. Urbanization and the ageing of population generated new social demands, and rising incomes generated higher public revenues (Lindert 2004 and Tanzi and Schuknetch 2000). Similarly, rural-urban migration helped to overcome traditional opposition of rural landowners to social insurance. As in other industrial countries, rural landowners became more willing to accept

¹² GDP growth calculated from Prados de la Escosura (2003).

social insurance to retain population in the rural areas.¹³ In 1959 the government created the National Mutuality for Agrarian Social Security to “situate the protection granted to the agrarian worker at the same level to that of the urban workers” (Decree 613/1959). Lastly, the gradual growth of a clandestine labor movement also favored the growth of social policy from the mid-1960s onwards. Between 1956 and 1958, there were a number of strikes demanding higher wages. These started in Pamplona and extended to the Basque Country, Barcelona and mining areas in Asturias. For the first time since the civil war, the response of the government consisted in a combination of repression and (some) social concessions (Pérez Ledesma 1990). In the context of the aforementioned economic liberalization, the government passed the 1958 Collective Agreement Act, which conceded the employees the ability to negotiate wages and working conditions with their employers¹⁴.

Strikes remained illegal, especially when involving political demands, but they were tolerated when responding to economic reasons (that is, when they were specifically linked to the collective bargaining process legalized in 1958). The number of collective agreements increased very rapidly after the enforcement of the law. In 1962, the number of employees included in a collective agreement was above 2,300,000 persons, and in 1969 it was above 3,700,000 persons (Maluquer and Llonch 2005). This way employees obtained higher wages in exchange for productivity improvements, which in turn stimulated economic growth. However, this measure also had unintended consequences for the government. It favored the rise of a new clandestine labor movement, which took advantage of the new organizational opportunities offered by the 1958 collective bargaining law to incorporate political and social demands to labor mobilizations (Pérez Ledesma 1990, Molinero and Ysas 1998). In parallel, new opposition movements of university students and groups of Social Catholics giving support to workers’ demands appeared in the mid-1960s, early 1970s. This combination of social movements, in fact, became the main source of political instability in the final years of Franco’s dictatorship (Tusell 2005). The government response, again, consisted in a combination of severe political repression and social policy expansion.

A new Social Security Act came into effect in 1963/67, bringing together under a single and more streamlined social security system preexisting social insurance programs. Coverage (that until that time had been limited to medium- and low-income workers) was extended to all wage earners. This represented some progress towards universalization. Nonetheless, the Spanish social protection system still marginalized the population without stable ties to the labor market; the so-called special regimes (providing differentiated benefits for specific groups) persisted; and the cost of social security remained borne almost exclusively by employers and employees compulsory contributions (with very little public subsidies during the entirety of the dictatorship). Despite the limitations, social spending grew very rapidly after the 1963/67 reforms, rising from 4.06% of GDP in 1966 to 11.7% in 1975 (see table 1). However, growing labor demands and increasing exposure to international trade (after the gradual economic liberalization of 1958/59) prevented employers to easily transfer the cost of social security to wages or consumer prices. In the 1970s, employers’ complaints about the unbearable cost of social insurance became a commonplace (Cabrera and Del Rey 2002). However, even in 1975, Spanish social spending was only 59% of the European average (table 1). For Spain to homologate with its European neighbors, it was necessary to wait until the restoration of democracy in 1977.

¹³ See Mares (2003) for the case of Germany.

¹⁴ Before 1958 employers were not even allowed to increase wages without the authorization of the Spanish government. About labor market regulation in that time-period, see Vilar (2004).

The restoration of democracy and convergence with Europe

After Franco's death in 1975, political changes accelerated until the first general election took place in 1977. The transition to democracy coincided with a period of economic downturn and increasing unemployment. In this context, social policy was crucial for political stability and the successful consolidation of democracy. The best example of the social consensus reached during the transition to democracy are the 1977 Moncloa Pacts. Workers' and employers' representatives plus the main political parties agreed to accept wage moderation plus macroeconomic stabilization policies and inflation control in return for greater social protection, progressive taxation and the consolidation of political freedoms. One very important outcome of the Moncloa Pacts was the introduction of income tax in 1977. This broke one of the most important historical barriers to the development of Spanish social policy. Until then social insurance had been almost exclusively financed by employers' and employees' compulsory contributions. This changed after the 1977 tax reform. Public subsidies to social security institutions increased substantially. Franco's model of social insurance funding was gradually abandoned. This in turn allowed social spending to increase without putting so much pressure on employers' and employees' contributions.

In the 1980s, Spanish social spending reached similar levels to that of other southern European countries, like Italy or Greece, although it remained below the leading countries, like Sweden or Germany (see table 1). Access to healthcare was universalized in 1986, welfare benefits for disabled persons improved substantially after 1982, non-contributory, old-age and disability pensions were introduced in 1990, and the governments of Spain's autonomous communities gradually introduced minimum income programs for low-income families throughout the 1990s. All of this represented a gradual improvement in social provision. It permitted a coverage expansion to sectors without stable ties to the labor market, and made the Spanish social protection system more universal and redistributive. It is hard to know exactly why it was possible to reach a successful consensus to preserve political stability and promote social policy development in 1977, whereas it was impossible in 1931-1936. In both cases, the advent of democracy propitiated an increase in redistribution demands. In 1931, however, these demands provoked an intense rejection, and eventually propitiated the outbreak of the civil war. In 1977, in contrast, increasing demands for redistribution resulted in growing social spending. Two factors must have been crucial in that sense. The first one has to do with the evolution of inequality. In 1977, overall inequality was significantly lower than in 1931 (Prados de la Escosura 2008). Arguably, demands for redistribution must have also been lower and, therefore, more tolerable for higher income groups.

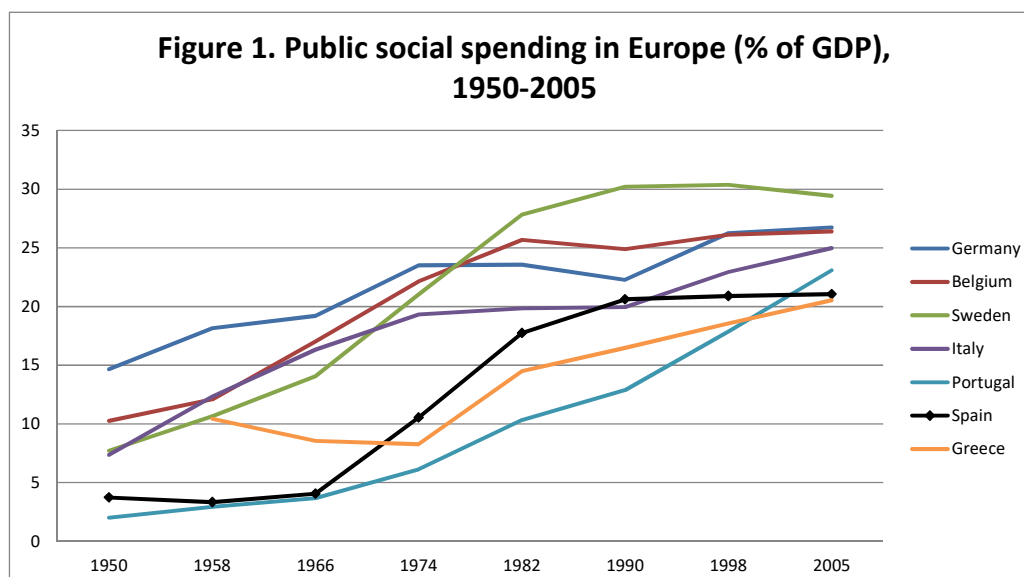
In fact, when we look at the early stages of the development of the welfare state in a comparative perspective, social policy tended to develop first in more egalitarian countries, such as the Scandinavian ones, and not in more unequal countries, such as Spain (Espuelas 2015). Lindert (2004) calls this the *Robin Hood paradox*. In more egalitarian countries, social affinity between middle and lower-income groups tends to be greater, and the cost of redistribution smaller (for both higher and middle income groups), resulting in more political support for social policy expansion (Lindert 2004, Bénabou 2005). On the other hand, the *nature* of Spanish inequality in 1977 and in 1931 was also substantially different. Until the 1950s, inequality in Spain was mostly driven by between-group inequality, that is, by the gap between property incomes and labor incomes. Land was the main asset of the economy in that period, so that the concentration of land ownership was one of the main sources of inequality at the time.¹⁵ This helps explaining both the insistence in the agrarian reform on the part of the progressive governments of the second republic and the subsequent political instability. Since land is an

¹⁵ For a historical perspective on the composition of assets and wealth in Spain, see Artola et al. (2016).

immobile asset (unable to leave the country), when there are threats of expropriation landowners might be interested in supporting non-democratic governments to avoid redistribution (Boix 2003).

In 1977, instead, wage dispersion had become the main component of inequality. As industrialization and structural change progressed land rents lost relevance in the economy and within-group inequality, and particularly wage dispersion, became the main source of inequality. Wage dispersion, in fact, increased in the early stages of economic growth, but diminished again from circa 1970 onwards, following the logic of the Kuznets curve (Prados de la Escosura 2008). Inequality in 1977 was, therefore, lower and much less dependent on land inequality than in 1931. As said before, this helps explaining why redistribution demands must have been more tolerable in 1977 than in 1931, but also why tax-and-transfer redistribution replaced the former demands for expropriation.

The international context may have also played a crucial role. In the second republic, redistributive struggles around land reform were mixed with the rise of fascism and left-wing revolutionary movements in 1930s Europe. To some extent, the outbreak of the Spanish Civil War was an example of the political violence that hit the continent during World War II. By contrast, in 1977, Spain had as a reference the social pacts that spread through Europe after World War II, which served as a basis for the growth of the welfare state and for preserving political stability. Someway, the Moncloa Pacts were the Spanish equivalent for the post-war European social pacts; and, as in Europe before, these favored the expansion of social spending. Both the center-right UCD (for *Union de Centro Democrático* in Spanish) and the socialist party stimulated social spending growth when they were in office in the late 1970s and the early 1980s. However, the so-called Keynesian consensus built after World War II, gradually disappeared throughout the 1980s and early 1990s leading to the stagnation in social spending in many European countries. In Spain, social spending stagnated in this time-period too, but at a lower level than in its European neighbors (see figure 1).



Source: see table I.

From 1985 onwards, and especially after the signing of the Maastricht treaty in 1993, public deficit and inflation control became the main targets of economic policy. As a result, the Spanish government introduced a number of measures to limit social spending (both under the

rule of the socialist and of the center-right Popular Party). The same way that in the 1977 Moncloa Pacts both center-right and center-left political parties accepted the Keynesian consensus, in the 1980/90s both the center-right and the center-left adopted what Offer and Söderberg (2016) have labeled as the *market turn*.¹⁶ It is in this context that was signed the so-called Toledo Pact in 1995 with the support of almost all political representatives at the time. Its purpose was to guarantee the financial stability of the pension system by establishing a clear distinction in the funding sources of contributory and non-contributory pensions. The growth of contributory pensions became linked to the availability of funds coming from employers' and employees' contributions, which allowed for a reduction in government subsidies to social security funds. Non-contributory pensions, in turn, became to be financed by government subsidies exclusively.¹⁷

Table 3. Public spending on family support (% of GDP), 1980-2010

	Germany	Belgium	Ireland	Sweden	Greece	Italy	Portugal	Spain
1980	2.0	2.9	1.1	3.5	0.3	1.0	0.6	0.5
1985	1.5	2.5	1.4	3.7	0.3	0.9	0.6	0.3
1990	1.8	2.2	1.9	4.0	0.7	0.9	0.7	0.3
1995	2.1	2.2	2.1	3.6	1.0	0.6	0.7	0.4
2000	2.0	2.5	2.0	2.8	1.0	1.2	1.0	0.9
2005	2.0	2.6	2.6	3.2	1.1	1.2	1.2	1.2
2010	2.2	2.8	3.7	3.4	1.4	1.3	1.4	1.5

Source: OECD.stat

However, one of the main limitations of today's social protection in Spain is that the generosity of non-contributory benefits is far behind that of contributory benefits. This has led to some sort of dualism, in the sense that social protection is significantly better for labor market insiders (who receive contributory benefits). This dualism, in turn, involves a gender bias. During Franco's dictatorship, female activity rates were very low. Women were, in general, unable to contribute to public pensions funds (or at least to accumulate long contribution records). Today they are overrepresented among beneficiaries of (less generous) non-contributory pensions (León 2002). On the other hand, public spending on family support in Spain remains below most European countries (see table 3). Parental leave provisions are shorter, and family cash-benefits and social services for child-care smaller. This, in turn, has led to lower female labor market participation rates and a wider gender income gap (León and Salido 2016, Lindert 2004). To some extent, the precariousness of family policy in democratic Spain can be explained by the rejection of the antifeminist family policy of Franco's dictatorship. As shown before, family policy played a crucial role in the propaganda of the dictatorship. Earlier democratic policy makers avoided any reference to family policy so as not to be identified with the authoritarian past (Valiente 1996). Later, the restrictions to social spending growth of the mid-1980s and early 1990s hampered the development of alternative (and more pro-feminist) family support policies. Actually, the current gap in aggregate social spending between Spain and Europe is to a large

¹⁶ Guillén and Álvarez (2004) qualify this and say that the socialist party *accepted* the European Union prescriptions for limiting the growth in public spending, while the center-right Popular Party, in fact, *encouraged* those policies.

¹⁷ To qualify for contributory pensions in the Spanish system a previous contribution record is required, while for non-contributory pensions it is not. Before the Toledo Pact, social insurance funds (receiving compulsory contributions plus government subsidies) could be used to finance either contributory or non-contributory benefits. For more details on the Toledo Pact see Comín (2010).

extent the result of the persistence of this gap in public support to young families and new parents.

Conclusions

In 1842, after a number of popular uprisings, General Espartero said that, to avoid recurrent social revolts, Barcelona city had to be bombed at least once every 50 years. Fortunately, by the late 19th century, the Spanish government had changed its mind and social policy began to be seen as a more effective mechanism to reduce social conflict. However, the path to social pacification and the creation of the welfare state was very slow. Before 1977, the Spanish government was unable (or unwilling) to increase taxation to finance new social programs. In this context, Spanish social reformers in the late 19th century, early 20th century supported the creation of contributory social insurance programs (funded by employers' and employees' contributions) as an alternative to this lack of fiscal capacity. In the earlier stages of social reform, the government opted for voluntary, state-subsidized social insurance schemes. These programs, however, had a very modest growth (largely due to the lack of public funding). After World War I and the subsequent increase in social unrest, the Spanish government advocated for the creation of compulsory social insurance programs. Since a key objective of the government was to achieve social peace in the rural areas, rural laborers were included in the new social plans (along with industrial workers). This, however, generated strong business opposition, especially from small-sized, labor intensive businesses (which were predominant in Spain) and from rural landowners. Increasing social unrest eventually ended up in the 1923 military coup, which curb the previous reformist plans.

With the advent of democracy in 1931 new social insurance programs were introduced, but traditional obstacles persisted. The government passed a very timid tax reform, which turned insufficient to finance rising government expenditures. The Spanish government also tried to implement an ambitious agrarian reform. This, however, unleashed an unprecedented and fierce opposition from rural landowners that eventually contributed to the outbreak of the Spanish civil war. After the war, Franco's dictatorship consolidated a conservative social insurance model, which relied almost exclusively on employers' and employees' compulsory contributions. Social benefits were kept very low; and employers showed little opposition to Franco's social insurance model. The repression of the labor movement and trade protectionism allowed them to easily transfer the cost of social insurance to wages and consumer prices. This, however, gradually changed from the late 1960s, early 1970s onwards. Rapid economic growth, increasing political instability and decreasing political power of rural employers led to a rapid increase in social spending. Also, the Spanish economy became more open to international trade and a clandestine labor movement became increasingly powerful. As a result, Spanish employers were more and more unable to transfer the cost of social insurance to wages and consumer prices, eventually making the social insurance model of the dictatorship unsustainable.

The restoration of democracy in 1977 gave way to a new social insurance model. Public subsidies to social insurance programs increased after the introduction of income tax in 1977. Social spending was, thus, able to increase without putting so much pressure on employers' and employees' contributions. Unlike in 1931, political consensus to increase taxation and develop social policy emerged in 1977. In both cases the advent of democracy propitiated increasing redistribution demands. However, inequality in 1977 was significantly lower and mostly driven by wage dispersion, whereas in 1931 it was much higher and mostly driven by the concentration of property incomes (particularly land ownership). This would explain why redistribution demands were more tolerable politically in 1977 than in 1931, and why demands for tax-and-transfer redistribution replaced 1930s expropriation demands. The international context was also

very different. In 1977, the Keynesian consensus and the social pacts that spread through Europe after World War II were a key reference for the Spanish government. The development of social policy was, in fact, crucial for the successful consolidation of democracy in Spain. Throughout the 1980s Spanish social spending partly converged to the European levels. However, after the signing of the Maastricht treaty, in the early 1990s, the pace of social spending growth stagnated before Spain had reached the European levels. Today the main difference with Europe probably lies in public spending on family support, which is still far from the European standards. An additional shortcoming is that labor market outsiders receive less social protection than labor market insiders. The 2008 great recession, and the subsequent policies of public spending cuts, have imposed new limits to the expansion of the Spanish welfare state. Aggregate social spending levels have remained constant or have even increased slightly since the crisis started, but only because of the dramatic increase in unemployment spending.

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