

Thomas Baumert (Coord.)
Carmen Paradinas Márquez
Andrés Sánchez Padilla

A HISTORY OF SPANISH INSTITUTIONS

2nd
EDITION

lel

A History of Spanish Institutions

Madrid, 2024

Thomas Baumert
(coordinator)
Carmen Paradinas Márquez
Andrés Sánchez Padilla

A History of Spanish Institutions

2nd edition

esic
Editorial

First edition: *June 2020*
Second edition: *September 2024*

A History of Spanish Institutions

© Thomas Baumert Núñez (coordinator), Carmen Paradinas Márquez and Andrés Sánchez Padilla
© Illustration: Pedro Galván Lamet

All rights reserved.

Any form of reproduction, distribution, public communication or transformation of this work may only be carried out with the authorization of its owners, with the exceptions provided for by law.

Please contact CEDRO (Spanish Centre for Reprographic Rights)
if you need to photocopy or scan any part of this work (www.cedro.org).

© 2024, ESIC EDITORIAL
Avda. de Valdenigrales, s/n
28223 Pozuelo de Alarcón (Madrid)
Tel.: 91 452 41 00
www.esic.edu/editorial
@EsicEditorial

ISBN: 978-84-1192-076-6
Legal Deposit: M-17183-2024

Cover: Zita Moreno Puig
Design: Santiago Díez Escribano
Printed by: Gráficas Dehon

A publication by



Printed in Spain

This book has been printed with ecological ink and sustainable paper.

*To the memory of the illustrious late
Professor José María Coma Fort.*

Table of Contents

FOREWORD TO THE SECOND EDITION	17
FOREWORD TO THE FIRST EDITION	21
PRELIMINARY NOTE: ON THE STRUCTURE AND USE OF THIS HANDBOOK	23
Chapter 1. Introduction: Why institutions (and their history) matter	27
1.1. Why institutions matter	29
1.2. Institutions: definition and classification	31
1.3. Non-institutional factors that affect development and growth	34
1.4. References	38
Chapter 2. Institutions of the origins of the historic age in Iberia (from the first human settlements on the Peninsula to the Celtiberian culture)	41
2.1. Historical context.	43
2.1.1. Spanish prehistory	43
2.1.2. Tartessos	45
2.1.3. The Iberian and Celtiberian period.	46
2.2. Pre-roman institutions	47
2.2.1. Prehistoric institutions	47
2.2.2. Tartessian institutions.	48
2.2.3. Iberian and Celtiberian institutions	49
2.3. References	53

Chapter 3. Phoenician, Greek and Roman institutions in Spain	55
3.1. Historical context.	57
3.1.1. The Phoenicians on the Iberian Peninsula	57
3.1.2. The Greeks and their arrival to Spanish shores	57
3.1.3. The Roman conquest	58
3.2. Phoenician, Greek and Roman institutions in Spain	59
3.2.1. Phoenician institutions	59
3.2.2. Greek institutions.	61
3.2.3. Roman institutions	62
3.3. References	69
Chapter 4. Institutions of Visigothic Spain	71
4.1. Historical context.	73
4.1.1. The Visigoths on the Iberian Peninsula	73
4.1.2. The Visigothic State.	73
4.2. Visigothic institutions.	76
4.3. References	82
Chapter 5. Interlude: Muslim Spain and its institutions	83
5.1. Historical context.	85
5.1.1. Introduction	85
5.1.2. The turbulent establishment of al-Andalus (711-912)	86
5.1.3. The Caliphate of Córdoba (912-1031).	88
5.1.4. The Taifa Kingdoms (1031-1492).	90
5.2. Muslim institutions	91
5.3. References	93
Chapter 6. Institutions of Christian Medieval Spain	95
6.1. Historical context.	97
6.1.1. The Background of the Early Modern Age. The Middle Ages in Spain	97
6.2. Christian institutions	100
6.2.1. The Three-Estate System	102
6.2.2. Urban Renaissance: The Cortes.	104
6.3. References	108

Chapter 7. Institutions of the Spanish Empire I: The major Habsburgs . . .	111
7.1. Historical context.	113
7.1.1. Charles I of Spain (V of Germany)	113
7.1.2. Philip II	118
7.2. Early Habsburg Institutions.	120
7.2.1. Institutions of the central government	121
7.2.2. The Cortes	122
7.2.3. Revenues of the Crown: the imperial tax system	123
7.3. References	127
Chapter 8. Institutions of the Spanish Empire II: The minor Habsburgs and the early Bourbons.	129
8.1. Historical context.	131
8.1.1. Introduction	131
8.1.2. The Reign of Philip III (1598-1621).	132
8.1.3. The Reign of Philip IV and the Thirty Years' War (1621-1665).	133
8.1.4. The reign of Charles II (1665-1700) and the Bourbon reforms (1700-1724).	134
8.2. Later Habsburg and Early Bourbon Institutions	136
8.3. References	140
Chapter 9. The long road to the Constitution I: Institutions and their development from 1808 to 1869	141
9.1. Historical context.	143
9.1.1. The Peninsular War	143
9.1.2. The Reign of Ferdinand VII	145
9.1.3. The Reign of Isabella II (1833-1868)	145
9.2. Liberal institutions	147
9.3. References	151
Chapter 10. The long road to the Constitution II: Institutions and their development from 1876 to 1936.	153
10.1. Historical context.	155
10.1.1. Introduction	155
10.1.2. The Restoration system (1874-1923)	156
10.1.3. Dictatorship and Republic (1923-1936)	158
10.2. Institutions of the Restoration and the Second Republic.	160

10.2.1. Institutions of the Restoration	160
10.2.2. Institutions of the Second Republic	161
10.3. References	163
Chapter 11. Institutions of Francoist Spain	165
11.1. Historical context.	167
11.1.1. The Civil War (1936-1939)	167
11.1.2. The first phase of Francoism	168
11.1.3. The second phase of Francoism (1960-1976)	168
11.2. Institutions of the Franco regime	170
11.2.1. The Head of State – the “caudillaje”	170
11.2.2. The Government	171
11.2.3. The Spanish Cortes	172
11.2.4. The Councils	173
11.2.5. Can the Fundamental Laws of the Realm be equated to a constitution?	173
11.3. References	176
Chapter 12. The Constitutional System of 1978	177
12.1. Historical context.	179
12.1.1. The death of Franco	179
12.1.2. The political Transition	180
12.2. Institutions of the Constitutional system of 1978	181
12.3. References	192
Anex. The long road of Spanish Constitutionalism	193
A.1. The Constitutional Statute of Bayonne 1808.	195
A.2. The Constitution of Cádiz (1812)	196
A.3. The Royal Statute of 1834.	197
A.4. The Constitution of 1837	198
A.5. The Constitution of 1845.	199
A.6. The Constitution of 1869	200
A.7. The Constitution of 1876	201
A.8. The Constitution of 1931.	202
A.9. The Constitution of 1978	203
GENERAL REFERENCES.	205



"HISTORY IS EVERYONE. IT IS EVERYTHING.
IT'S THAT COFFE..."



Handwritten text in a cursive script, possibly a signature or a note, located at the bottom left of the image.

“[M]any students here struggle hard enough with the present, let alone with history. They just care about the world around them. [...] How would you make history come alive?”

“History isn’t something you need to bring alive. History already is alive. We are history. [...] History is everyone. It is everything. It’s that coffee. You could explain much of the whole history of capitalism and empire and slavery just by talking about coffee. The amount of blood and misery that has taken place for us to sit here and sip coffee out of paper cups is incredible”.

“You’ve put me right of my drink”.

“Oh, sorry. But the point is: history is everywhere. It’s about making people realise that. It makes you understand a place”.

“Right”.

“History is people. Everyone loves history”. [...]

“Are you sure about that?”

I offer a small nod. “It’s just making them realise that everything they say and do and see is only what they say and do and see because of what has gone before”.

Matt Haig, *How to Stop Time*.

Foreword to the second edition

“Human institutions” are the creation and manifestation of the social dimension of the person.

Each person is a unique, unrepeatable and irreplaceable being. The person is an individuality that enjoys autonomy and freedom. He¹ is not part of the ecosystem, but *dominus*, master of himself and his environment. He enjoys a sense of its own apart from the species. That is why the person is unabsorbable, indominable, ungraspable by others. **No one owns anyone.** The person is an end in itself. He is not part of a whole, nor is he confused with other persons. He can never be used as a means. That is why actions that try to dominate people, such as violence, lies or oppression, are actions *contra natura*.

But a person can only perfect himself, he can only reach his own goal “in society”, in relation to other people. A person “in solitude” is not viable, will not achieve his own end. He cannot be happy. Society is good and necessary for men and women. The person is radically open to the world and to other people. He relates to others without confusion or fusion: he relates in otherness, always being “other”. In the person there is *societas*: people are *socii* in their most diverse forms: they are not a herd or a flock.

Therefore, alongside the individual dimension of the person, the social dimension, the *dialogical* structure of the person, emerges inseparably. The person is a “being-in-relation”, an “I” which is constructed in relation to a “you”, forming a “we”. It relates to other beings through knowledge (language) and love. This gives rise to the need for respect and solidarity. Society is based on this personal structure. It does not come from a “contract” or a “social pact”: society comes from the same person, from the

¹ Throughout the text the use of the pronoun *he* is not meant in an excluding sense and may thus as well be read as *she*.

same **personal nature**. It has its foundation and its end in society: society comes from persons and is at the service of the development of the person. It is in this context that the **common good** arises, as a necessary requirement for the person to reach his fullness and perfection. The person is in society as a person, not simply as an individual: he does not become part of the social whole as a cog in a wheel.

This reveals how oppressive and unjust totalitarianism is and how depersonalising Marxism and nationalism are, and ultimately the injustice of all those political theories (and institutions) that tend to absorb human life into public, state structures, without respecting its inviolable dignity.

The person is, in relation to society, “sovereign”: he has primacy over society and of course over the state, a human institution of power at the service of society and of the person for the common good. The state is not prior to the person, it does not have primacy over the person. It is therefore radically incompetent to define, institute or grant the status of “person” to any human being. It is even more incompetent to deny such status to any human being.

Every human “institution”, being such, has its ultimate foundation in the person and must be at the service of the person.

The same can be said in relation to another “institution” of an economic nature: **the market**. The market is the economic institution par excellence because the person is an “economic being” (*homo economicus*): not only does he “have” needs, but he also “creates” needs. And with these needs he also looks for the most efficient instruments to satisfy them. But the market’s ultimate foundation is the person, and it must be at his service. When this is forgotten, the market fails and the economic system becomes an unjust reality, unworthy of and for men. This is what happened, for example, when work—a personal reality—was subjected to the law of supply and demand. Work has a dignity derived from the person and cannot be *reified*. The successive industrial revolutions and the economic systems that have arisen in conjunction with them have shown the truth of this statement.

The first manifestation of the social dimension of the person is **the family**. The family is the earliest expression of human institutions, **the “natural institution” par excellence**. And, in this sense, it is also prior to the state and all other political, economic or cultural institutions. That is why it is also said that the family is sovereign. Sovereign in relation to the state, because it is prior to it. It is not up to the state, therefore, to create, modify or suppress family relations. It is up to the state to recognise, protect and respect family relations. Any claim by the state to become ‘father’, ‘mother’ or ‘brother’ is an intolerable excess.

The same applies to the religious dimension. The transcendent dimension of the person is embodied in social life in **religious institutions**, which must also be considered as “natural” institutions, sovereign and prior to the state, which, before them, must recognise the principle of **religious freedom**, i.e. the freedom of citizens to adopt one

or other creed or not to adopt any, without this meaning a reduction in their rights, and the freedom of churches to develop their activities. In both cases, always with the limit of public order (common good), which prevents an abusive exercise of the right.

As the late Pope Benedict XVI masterfully expressed: “The exclusion of religion in the public sphere, as well as religious fundamentalism on the other hand, prevent people from meeting and working together for the progress of humanity. Public life is impoverished in its motivation and politics takes on an oppressive and aggressive aspect. There is a risk that human rights will not be respected, either because they are deprived of their transcendent foundation or because personal freedom is not recognised. In secularism and fundamentalism, the possibility of a fruitful dialogue and fruitful collaboration between reason and religious faith is lost. Reason always needs to be purified by faith, and this also applies to political reason, which must not believe itself to be omnipotent. In its turn, religion always needs to be purified by reason in order to show its true human face. The breakdown of this dialogue entails a very heavy cost for the development of humanity” (Encyclical *Caritas in veritate*, 56).

This should be borne in mind when studying the following chapters that make up this handbook, which we welcome with the conviction that this second edition will be — as the first proved to be — of great use to those who wish to learn more about the “History of Spanish Institutions”.

ANTONIO CORBÍ
Catholic University of Valencia

Foreword to the first edition

As head of the Department of Law & Humanities of ESIC Business & Marketing School —soon to become ESIC University—, I welcome this *History of Spanish Institutions*, which has been written by a team of renown professors of our department.

The modern didactic approach followed by the authors, their understanding of institutions in a broader sense than usual, paired with a notable effort of synthesis—condensing the relevant historical events to the minimum necessary for understanding their evolution— has resulted in a basic tool for the study of this subject that will give students fruitful results, even if they have very heterogeneous backgrounds in Spanish history.

Another significant advantage of this handbook—in my opinion probably the most outstanding one—, lies in the boxes at the end each chapter, which contain examples of “soft” institutions that allow students to easily project institutions from the past into the present, thus accomplishing one of the central goals pursued by the authors, namely, as can be observed in the opening quote, that readers may comprehend the direct effects of history on the way that we see, think, act, and understand the world surrounding us.

It is also worth mentioning that this handbook suits both undergraduate students from English and Spanish degrees, as the present volume is published simultaneously in a Spanish and an English edition, thus making its content accessible both to Spanish and foreign readers interested in the institutional history of our country.

The text very much benefits from the authors’ broad experience as lecturers and researchers in the fields of law, history and economics. Their interdisciplinary approach, which has become the prevailing one in the field of social sciences to which this handbook is ascribed, has allowed them to write a book that is, at the same time, a useful instrument for studying and a very enjoyable reading.

For all these reasons I congratulate the authors of this book, and especially its co-ordinator, the distinguished polymath Professor Thomas Baumert, who, together with Professors Carmen Paradinas and Andrés Sánchez, has written a monography to which I predict such an excellent reception by students as it has already received from their academic peers who, like me, have had the privilege of reading the manuscript.

ESTHER VALBUENA GARCÍA

Professor of Law

Head of the Department of Law and Humanities

ESIC Business & Marketing School

Now Lecturer of Law CUNEF and CEDEU

Preliminary note: On the structure and use of this handbook

The present book intends to offer students of Bachelor degrees in Management, Economics and other related areas, a succinct overview of the evolution of Spanish institutions, embedded in their corresponding historical background, ranging from the first human settlements on the Peninsula to the present time. Thus, each chapter is divided into two main sections: a first one in which the historical context of each period is exposed, followed by a second part in which the main institutions of that period are enumerated and briefly explained.

In order to facilitate the study, **keywords are highlighted in bold letters**, while additional —but in terms of a possible exam question less relevant— information is boxed.

Each chapter ends with a box explaining a *soft* institution, starting with the names of Spain, and continuing with its symbols, different heraldic, numismatic, phaleristic and bibliographic examples, an overview of some economic institutions such as the Spanish Central Bank, et cetera. They are complemented in most cases by some curious, less known facts about them, aimed to raise student interest in discovering the different ways institutions are not only present in today's society, but play a role in each of *their* lives, shaping the way they see, talk, think, behave and act (see the opening quote).

This second edition, in addition to correcting the errata detected, adds a selection of empirical studies to the introductory chapter, reflects the latest historiographical advances (such as the recent archaeological discoveries concerning Tartessus), updates the bibliography, includes new examples of “soft” institutions (the national anthem, the Palace of Congress) and extends the main historical milestones and their institutional impact up to early 2024.

Also, in order to ease the reading and studying of the chapters—exception made of a few verbatim quotes in first one due to its strictly theoretical content—no references have been included in the main body of the text. However, all relevant sources and materials employed in writing each chapter are listed at their end in order to enable the curious reader to further delve into any question of their interest. An important effort has been made by the authors to include a representative sample of both English and Spanish books and articles on each topic, although, for obvious reasons of specialisation, the Spanish literature occasionally prevails.²

Following the criterion adopted in the official English translation of the Spanish Constitution, we will use the Spanish term *Cortes* or *Cortes Generales* (to differentiate it from “Courts”) throughout the book.³

Regarding the organisation of the book, the different chapters have been designed in such a way as to present a similar structure and extension, although the timespans covered by them vary extremely (from 1.5 million years in chapter 2, eight centuries in chapter 5, to only four decades in the chapters 11 and 12), as more recent historical periods not only count with many more sources—thus drawing a sharper picture—but are also more relevant in terms of their impact on current Spanish society.

The history of institutions is the discipline that studies the laws and norms that regulate the way that political and administrative organisations work. These norms are those of public law, and as such, the history of a nation’s institutions originally equalled the history of its Public Law. In constitutional regimes these regulatory principles are established in the constitution, so that in older handbooks the history of institutions was described as Constitutional History, or, to use a well-suited expression of that time, as “an emancipated daughter of the History of Law.”

² These references should be enough for an interested reader to explore any of the topics dealt with in this handbook at an undergraduate level; however, we also recommend the use of online search engines in order to multiply outputs and obtain complementary, updated information on Spanish institutions.

³ http://www.congreso.es/portal/page/portal/Congreso/Congreso/Hist_Normas/Norm/const_espa_texto_ingles_o.pdf

As will be shown in chapter 1, institutions are a crucial factor in explaining economic prosperity. Thus, it would seem appropriate to stress, even if only briefly, each period's economic development. However, as this handbook is aimed primarily at students of Economics, Management and related degrees, whose syllabi usually include a specific course in economic/business history, we have intentionally omitted this area in order to avoid redundancies between both courses. Yet some obvious overlapping remains; hence, the general references included at the end of the book also list some basic works on Spanish economic history that complement the present text. That being said, the reader should always bear in mind that history, as any field of social science, only represents *one* aspect of a multidimensional reality, so that any attempt to compartmentalise it will be futile or will induce an undesirable bias. As the noted economist and sociologist Joseph Alois Schumpeter stated:

“Social facts appear to be unitary. From that immense stream the ordering hand of the researcher picks out violently aisled facts. [...] But there is no exclusively “pure” reality [in social science]; there will always be other —often more important— facets to be considered.”⁴

We therefore encourage students to make an active effort to connect the contents of this handbook with those of other related subjects. While the handbook has been conceived together by the three authors, each one has contributed specific chapters, according to the following scheme: chapters 3, 4, 6 and 12 have been written by Prof. Carmen Paradinas; chapters 5, 8, 9 and 10 are due to Prof. Andrés Sánchez; while the remaining chapters (1, 2, 7 and 11) have been written by the undersigner, who has also acted as co-ordinator of the work. All three authors would like to thank the team of the ESIC Press—especially Gema Bolaños, Arancha Rivero and Jesús Domínguez—for their support and good work, express their deep gratitude to Professor Pedro Galván for contributing the excellent drawing that accompanies and complements the opening quote, and are thankful to Laura Orbe Valls for reading her careful reading both the first and second edition of the book.

THOMAS BAUMERT
Madrid, 2nd of May 2024

⁴ Schumpeter, J. A. (1912), *Theorie der wirtschaftlichen Entwicklung*, Leipzig: Duncker & Humblot (the quote is taken from the second edition of 1931, p. 1).

Chapter 1

Introduction: Why institutions (and their history) matter

- 1.1. Why institutions matter.
- 1.2. Institutions: definition and classification.
- 1.3. Non-institutional factors that affect development and growth.
- 1.4. References.

1.1. Why institutions matter

Institutions—we distinguish between economic, defensive/military, legal, socio-political and religious ones (Perpiñá, 1958)—matter. And not only by playing a crucial role in any nation’s political development, but also by significantly catalysing its economic progress, as has been proved by many empirical studies.⁵ The reasons for this are manifold, but may be summarised in the following points:

One of the first authors to refer to institutions in social science was Giambattista Vico in his *Scienza Nuova* of 1725.

- Institutions may help to **accumulate production factors** (for example, favouring savings by stimulating citizens to invest in private pension funds).
- Through the **education system**, institutions will also affect the **quality of those factors**, such as labour (that is, human capital).
- Institutions not only determine the **general economic model** (for example a free market vs planned economy), but also set the **specific rules for its functioning** (e.g. by setting the legal opening times for shops, facilitating the creation and closure of firms, et cetera).
- In addition, institutions will favour—or, on the contrary, hinder—**international commerce** (for example, by levying taxes on imports, setting trade quotas and other barriers, et cetera), another crucial factor for economic growth and development.
- Institutions play a relevant part in setting the **legal framework for favouring innovation through industrial and intellectual property rights**. (An often-cited

⁵ Among the empirical works referred to different sets of countries the following may be pointed out: Acemoglu *et al.* (2005), Flachaire *et al.* (2014), Góes (2016), Alexiou *et al.* (2020), Acquah *et al.* (2023), as well as Almeida *et al.* (2024). However, authors such as McCloskey (2016) stress the prevailing importance of innovations over institutions in terms of economic growth.

“negative” example is the late introduction of the printing press in the Muslim Ottoman Empire which, due to a governmental decision, did not occur until 1726, that is, 290 years after its invention by Johannes Guttenberg, thus heavily undermining the region's scientific development! However, they adopted gunpowder and firearms nearly immediately).

- As economic development is not only a matter of growth but also of seeking certain equity, institutions will intervene in defining the **mechanisms for income redistribution** (for example, by imposing a progressive tax system).
- Institutions also play a significant role in **limiting the political power** by two means: through the separation of powers and increasing people's participation in the political system (democracy). Doing so should, if not avoid, at least **limit corruption**.
- Finally, institutions are in charge of creating the necessary security required for a nation to flourish: **legal security** through the so-called “rule of law” and **physical security** guaranteed by the army and police forces.

Generally speaking, institutions represent the “**rules of the game**” of social organisation—i.e., humanly devised constraints that shape human interaction—and as such will have a lasting impact on political, social and economic performance, becoming a major determinant in understanding the vast cross-country differences in prosperity.

Thus, in modern societies, and from an **economic** point of view, good institutions will boost investment in physical and human capital, as well as in technology, favour market expansion and integration and shape economic incentives and norms (through property rights, contract enforcement, et cetera); from a **political** perspective, they will promote greater equality of opportunity, strengthen civil political involvement, reinforce democracy, distribute political power, set constraints on political elites, fight corruption and stress international co-ordination in critical affairs; and from a **social** standpoint, they will encourage integration, steer demographic development, care for environmental and ecological issues as well as raising and aiming to solve health issues.

Let's look at a practical example: institutions can influence innovation (a determinant of growth in advanced economies) through regulation. Excessive regulation may strangle creativity, causing companies to relocate to other countries with laxer legal rules; or it can create a legal and business ecosystem that is conducive to creativity. But it is not always easy to find the optimal balance between the two extremes that fosters creativity and sustainable progress while protecting public and private rights.

An example of this is the recent debate on the regulation of Artificial Intelligence (AI), with the European Parliament being the first institution worldwide to address this delicate issue (agreement in December 2023 to enact the first AI Regulation and the creation of the Office of AI in the European Commission as the guarantor of compliance with this regulation in the framework of the European Union).

“Institutions are the kinds of structures that matter most in the social realm: they make up the stuff of social life. The increasing acknowledgement of the role of institutions in social life involves the recognition that much of human interaction and activity is structured in terms of overt or implicit rules” (Hodgson, 2006:2).

Despite everything said so far, it has to be stressed that public institutions (i.e., those who render a public service) are neither the sole nor even—according to some authors—the main actors that shape a society. On the contrary (a few exceptions made), their purpose is to set the adequate framework in which other agents—private companies, foundations, families, consumers—will act and interact. Governments have the purpose of promoting the public interest and providing the framework that produces the goods and services that society needs, while “private corporations are part of the attainment of that public purpose, and government establishes laws, regulations, taxation, and partnerships that align the private purposes of companies with the public well-being of societies. Through law, it enables corporations to promote their private purposes, through regulation it restricts them, through taxation it incentivises them, and through partnerships and public ownership it participates in them” (Mayer, 2018:8).

1.2. Institutions: definition and classification

As stated by North (1990:3-5), “**institutions are the rules of the game in a society or, more formally, are the humanly devised constraints that shape human interaction.** In consequence, they structure incentives in human exchange, whether political, social, or economic [...] Conceptually, what must be clearly differentiated are the rules from the players. The purpose of the rules is to define the way the game is played. But the objective of the team within that set of rules is to win the game [...] Modelling the strategies and skills of the team as it develops is a separate process from modelling the creation, evolution, and consequences of the rules.” Hence, on one side is the government, lawmakers and regulators setting the boundaries—the rules of the game—within which, on the other side, companies play hard in the pursuit of their profit-led interest.

Institutions can be classified according to different criteria, the following being the most usual ones (observe that some of these classifications can occasionally overlap):

It is important to distinguish between **formal and informal institutions** (or formal rules vs. informal constraints). The former refers to the codified rules, that is, written laws, such as a Constitution or the Civil Code, while the latter are related to how formal institutions are used to distribute power, social norms, and equilibria. Although it may seem surprising at first sight, countries with very similar Constitutions, that is, very similar formal institutions —such as the USA and Mexico or Spain and Germany— might nevertheless present very different informal institutions, which thus might

result in quite divergent economic, political and social performances. However, the difference between these two types of institutions is not shared by all authors, and another—more casual—definition would state that **formal rules are imposed by the courts while informal rules are imposed by our peers** or others who impose costs (or sanctions) on us if we do not live up to them.

Informal institutions very much coincide with **spontaneous institutions**—although it would be more proper to talk about **spontaneous order**—such as it was defined by Hayek (in opposition to **designed institutions**, Hayek, 1973). They include language, laws, money, morals and religion and are not established intentionally by the government but emerge spontaneously as a means to make social coexistence more efficient and smoothen social interaction. The spontaneous order favours people adopting certain patterns of common behaviour that make their decisions more predicable and comprehensible for the rest of society, thus favouring their co-ordination and cooperation.

“The significance for the individual of the knowledge that certain rules will be applied is that, in consequence, the different objects and forms of action acquire for him new properties. He knows of man-made cause-and-effect relations which he makes use of for whatever purpose he wishes. The effects of these man-made laws on his actions are of precisely the same kind as that of the laws of nature: his knowledge of either enables him to foresee what will be the consequences of his actions, and it helps him to make plans with confidence” (Hayek, 1960:153).

Another important classification refers to the difference between **extractive and inclusive institutions**. Extractive institutions are those in which a “small” group of individuals do their best to exploit the rest of the population, while in inclusive institutions “many” people are included in the process of governing. In this sense it could, for example, be argued, that one of the main extractive institutions—*inherited from the Roman Empire*—would be political corruption (cf. Fernández-Vega, 2015).

“*Inclusive economic institutions* [...] create broad-based economic incentives and opportunities [while] *extractive economic institutions* do not. The source of these institutions is political. [...] *Inclusive political institutions* have two dimensions: a broad distribution of political power and a strong (or effective or capable) state. When either condition fails —when power is narrowly concentrated or when there is a weak or ineffective state— we say there are *extractive political institutions*. In a nutshell, poor countries have extractive economic institutions as a consequence of extractive political institutions. Rich countries have the opposite combination, inclusive economic institutions underpinned by inclusive political institutions” (Acemoglu and Robinson, 2019a:16).

According to Acemoglu and Robinson (2012), inclusive institutions enable innovation and lead to continued growth; extractive institutions, on the other hand, can only deliver growth when the economy is catching up to the technological frontier:

hence, when innovation is needed to push the frontier the latter institutions will fail. Later, these authors (Acemoglu and Robinson, 2019b) have pointed out the critical role played by institutions in accomplishing and maintaining liberty.

“By structuring, constraining and enabling individual behaviours, institutions have the power to mold the capacities and behaviour of agents in fundamental ways: they have the capacity to change aspirations instead of merely enabling or constraining them. Habit is the key mechanism in this transformation” (Hodgson, 2006:7).

Another difference to be made is the one between **hard and soft institutions**. If we may define institutions as systems of established and prevalent social rules that structure social interactions, hard institutions would include all those which can either emit new codified rules or those from which those rules can derive (Parliaments, Governments, Constitutions, et cetera, i.e. mainly those who have their own legal personality), while soft institutions would include language, money, systems of weights and measures, table manners, but also recognised and respected symbols such as flags and national anthems. This point of view fits the beliefs of authors such as Searle (2005), who considers that **the mental representation of an institution or its rules are partly constructive of that institution**, since an institution can exist only if people have particular and related beliefs and mental attitudes.

The importance of language as an element of social integration and as an institution that facilitates political expansion was already pointed out by Antonio de Nebrija in the “Foreword” to his famous *Gramática de la lengua castellana* published in 1492, when stating that “Language has always been the companion of Empire [...] the members and pieces of Spain, until now scattered over many different places, have been reduced and joined together in the body and unity of the kingdom. The form and bond of which, has been now ordered in such a way, that centuries, injuries and times will not break nor untie it.”

Another possible division of institutions consists in differentiating the source of power, that is, depending on whether they exercise the **executive, legislative or judicial power**; based on their field of action, they could be classified as **political, economic, cultural, sports**, etc., institutions. Finally, and according to their geographical scope, institutions could be divided into central, territorial (in Spain, the autonomous communities) and **local, municipal and district** ones.

To finish this section it seems worth reviewing some relevant definitions as presented by Hodgson (2006:17-18):

- **Social structures** include all sets of social relations, including the episodic and those without rules, as well as social institutions.
- **Institutions** are systems of established and embedded social rules that structure social interactions.

- **Rules** in this context are understood as socially transmitted and customary normative injunctions or immanently normative dispositions, that in circumstances X do Y.
- **Conventions** are particular instances of institutional rules.
- **Organisations** are special institutions that involve (a) criteria to establish their boundaries and to distinguish their members from non-members, (b) principles of sovereignty concerning who is in charge, and (c) chains of command delineating responsibilities within the organisation.
- **Habituation** is the psychological mechanism by which individuals acquire a disposition to engage in previously adopted or acquired (rule-like) behaviour.

1.3. Non-institutional factors that affect development and growth

As has already been stated, formal institutions are not the only relevant element that affects a nation's development and growth, although recent studies have stressed their increasing relevance over other aspects, such as geography, latitude —and, closely related to it, climate—religious beliefs and culture, the availability of natural resources, the tightness of social bonds, “national character”, etc. Although numerous authors have studied one or more of these factors, five of them might be highlighted:

Charles Louis de Secondat, Baron de **Montesquieu** (who lived from 1689 to 1755), considered that geographical aspects, such as latitude, determined human attitudes, believing that a hot climate, such as around the Mediterranean, would weaken people, robbing them their strength to work and making them passive and lazy. People living in colder climates, on the other hand, would not only be braver but also work harder and be more productive. Montesquieu also thought that people in hot climates would be more inclined to accept authoritarian and despotic regimes, while people from cold regions would favour democratic systems. Although there is still an ongoing debate about the degree to which Montesquieu's hypothesis might have been historically true, today any differences in productivity on account of climate differences have become obsolete due to the use of technology (such as air-conditioners). This notwithstanding, other closely related aspects, such as the daily number of sunlight hours, might still be significantly relevant.

Max Weber (1864-1920), among other important works, studied the influence of religious beliefs on economic development. In his pathbreaking book *The Protestant Ethic and the Spirit of Capitalism* (the first German edition was published in 1905), Weber argued that capitalism in Northern Europe evolved when, as a result of the Lutheran reform, the Protestant ethic (specifically in its Calvinist version) spread, influencing large numbers of people to engage in work in the secular world, becoming

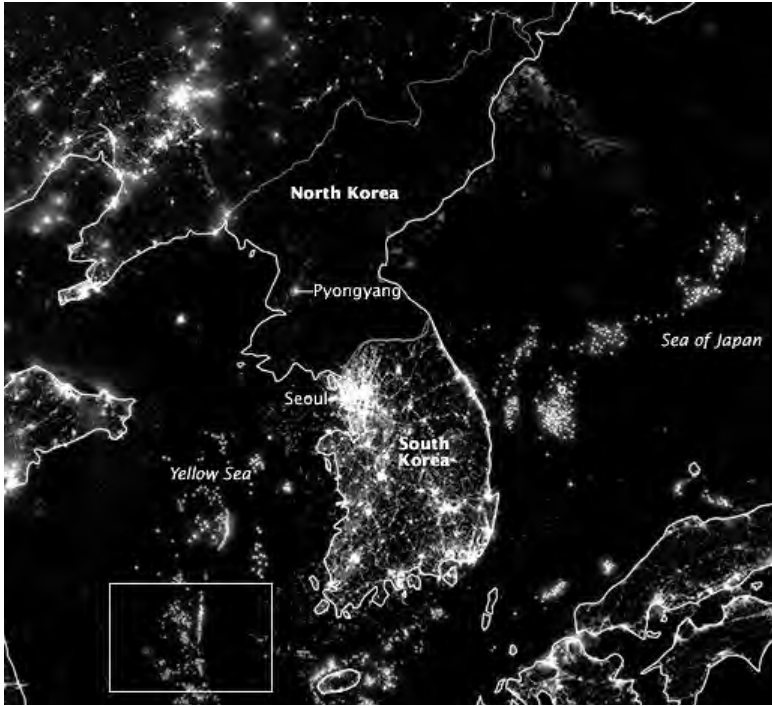
entrepreneurs and engaging in trade and the accumulation of wealth. Thus, faith would have become a key determinant in the spreading and consolidation of capitalism.

Jared Diamond (1997) pointed out the importance of geographic and ecological differences in agricultural technology and the availability of crops and animals. Diamond tries to answer the question of why Eurasian peoples conquered and/or displaced Native Americans, Australians, and Africans, instead of vice versa. He argues that this outcome was not due to biological advantages of Eurasian peoples themselves but instead to features of the Eurasian continent, in particular, its high diversity of wild plant and animal species suitable for domestication and its east/west major axis that favoured the spread of those domesticated people and technologies throughout long distances with little change in latitude.

Natural experiments in history: In 2010, Diamond co-edited (together with James Robinson) *Natural Experiments of History*, a collection of seven case studies illustrating the multidisciplinary and comparative approach to the study of history that he advocates. The book's title stems from the fact that it is not possible to study history by the preferred methods of the laboratory sciences, i.e., by controlled experiments comparing replicated human societies as if they were test tubes of bacteria. Instead, one must look at natural experiments in which human societies that are similar in most respects have been historically perturbed, either by different starting conditions or by different impacts. In the case of the relevance of different institutions on such aspects as development and economic growth, there are several nations that serve as natural experiments in history, because after having shared a common history, beliefs, culture, language, climate, etc., opted for different institutional paths: North and South Korea, the Federal and Democratic Republics of Germany, China and Hong Kong, etc. Put in terms of statistical analysis, where in addition to the observed group there is an equivalent control group. These cases allow for a direct comparison of the outcome due to different institutions, as the risk of an omitted variable bias is minimised. The satellite image pictured in Figure 1.1 shows the drastic difference in the luminescent concentration—a good proxy for economic development—between North and South Korea after five decades of opposite economic regimes.

Jeffrey Sachs et al. (1999) have defended that economies in tropical ecozones are nearly everywhere poor, while those in temperate ecozones are generally rich because certain parts of the world are geographically favoured. Geographical advantages might include access to key natural resources, access to the coastline and sea—a factor that was already pointed out as significant for economic development by Adam Smith—advantageous conditions for agriculture, better settings for human health, et cetera. Sachs points out two examples: (a) Tropical agriculture faces several problems that lead to reduced productivity of perennial crops in general and of staple food crops in particular; and (b) the burden of infectious diseases is significantly higher in the tropics than in the temperate zones.

FIGURE 1.1
AN EXAMPLE OF A NATURAL EXPERIMENT



Source: NASA.gov.

However, Sachs's arguments have been criticised by authors such as Easterly (2006) and Banerjee & Duflo (2011), as history shows that an **institutional reversal is indeed possible** and that foreign aid does often not help to overcome poverty: they do so by pointing out a series of examples of richer societies which ended up with worse institutions, while also the opposite holds true, regions which shifted to better institutions were able to overcome the “poverty trap.” In this context, the example of different institutions imposed by colonial powers might be considered: Europeans introduced relatively good institutions in sparsely-settled and poor places but implemented or kept previously-existing bad institutions in densely-settled and rich places (e.g.; slavery in the Caribbean, forced labour in South America, tribute systems in Asia, Africa and South America). In this context, one interesting question to be studied is whether having been colonised by Spain, Great Britain, the Netherlands, France or Germany—and having inherited their institutional system—might have had a lasting and differentiating impact on their social and economic development (see, for example, Acemoglu *et al.*, 2001, Lange *et al.*, 2006).

The case of Spanish colonisation of the Americas is also relevant in another sense, stressed by **Ronald Wright** (2004:49-50), and that is worth quoting at length:

“What took place in the early 1500s was truly exceptional, something that had never happened before and never will again. Two cultural experiments, running in isolation for 15,000 years or more, at last came face to face. Amazingly, after all that time, each could recognize the other’s institutions. When Cortés landed in Mexico he found roads, canals, cities, palaces, schools, law courts, markets, irrigation works, kings, priests, temples, peasants, artisans, armies, astronomers, merchants, sports, theatre, art, music, and books. High civilization, differing in detail but alike in essentials, had evolved independently on both sides of the earth.

The test case of America suggests that we are predictable creatures, driven everywhere by similar needs, lusts, hopes, and follies. Smaller experiments running independently elsewhere had not reached the same level of complexity, but many showed the same trends. Even on remote Polynesian islands, settled by people descended from a boatload or two of intrepid seafarers, mini-civilizations sprang up complete with social rank, intensive farming, and stone monuments.”

Box 1.1

SPAIN – THE ORIGIN OF ITS NAMES

Spain, on its Peninsula, sits at a significant geographic crossroads. Travellers did not just pass through the Peninsula, but settled and left their cultural imprint, making Spanish history and culture a rich blend that still reveals deep layers of the past. This is reflected, among others, by the fact that, unlike most other European nations (exception made of Germany), Spain has received through history many different appellations, reflecting the variety of cultures that settled in the Peninsula, each of which coined a new, idiosyncratic name for the territory.

The Greeks called it *Iberia*, after a small river near Huelva, at the same time also referring to the river Ebro.

Hesperia (Ἑσπερία)—Hesperos means “occident” but also “morning star” in Greek—was the poetic name given to the Peninsula by the Hellenic settlers and traders, who considered it to be the most western, that is, the occidental border of Europe.

The Romans preferred the name *Hispania*—which was already used by the poet Ennio around 200 BC and appears repeatedly in the writings by Pliny the Elder and other authors of the period—a name which is believed to derive from the Phoenician *Spania*, and which probably referred to the abundance of rabbits that were found on the Peninsula (“island of the rabbits”, is a term frequently used by Roman authors such as Cicero, Caesar, Strabo and Catullus, among others). However, more recent research points towards the fact that the Phoenician word *i-spn-ya* actually meant “land where metal is forged”, stressing the importance of metal extraction and manufacturing that turned the Peninsula into a key element of early European development (see chapters 2 and 3). Figure 1.2 shows two examples of Roman coins in *Hispania* in the time of emperor Hadrian. Their reverse represents a female figure with a rabbit at her feet. However, it seems that this might be the result of a wrong translation from Phoenician, mistaking the hyrax, which was then widespread on the Peninsula, for a rabbit, which it resembles.

Box 1.1 (continuation)

The Semitic tribes also coined new names for the territory: the Jews named it *Sefarad* (i.e. “paradise”) and the Arabs *al-Andalus* (meaning “land of the vandals”), a term that later only described the south of the Peninsula (today’s Andalusia). However, despite this later naming, in the long run only the Greek (*Iberian Peninsula*) and the Roman options would prevail, as the current form *España* derives from the Roman term *Hispania* (and the Phoenician *Spania*) — but now spelled with the characteristic ñ, a letter which is exclusive of the Spanish alphabet and that has become a recognisable and unifying symbol of Hispanity, for example as the logo of the *Instituto Cervantes*.

FIGURE 1.2

ROMAN COINS MINTED IN HISPANIA



1.4. References

- ACEMOGLU, D., JOHNSON, S. and ROBINSON, J. A. (2001): “The colonial origins of comparative development. An empirical investigation”. *American Economic Review*, 91(5), pp. 1369-1401.
- (2005): “Institutions as the fundamental cause of long-term growth”. En: Aghion, P. y Durlaus, S (2005): *Handbook of economic growth*. North Pole.
- ACEMOGLU, D. and ROBINSON, J. A. (2012): *Why Nations Fail: The Origins of Power, Prosperity, and Poverty*. Crown Business.
- (2019a): “Rents and economic development: the perspective of why nations fail”. *Public Choice*, n. 181, pp. 13-28.
- (2019b): *The narrow corridor. States, societies, and the fate of Liberty*. New York: Penguin.
- ACQUAH, E., CARBONARI, L., FARCOMENI, A. and TROVATO, I. (2023): “Institutions and economic development. New measurements and evidences”. *Empirical Economics*, 65, pp. 1693-1728.
- ALEXIOU, C., VOGIAZAS, S. and SOLOLEV, N. (2020): “Economic growth and quality of institutions in 27 post socialist economies”. *Journal of Economic Studies* 47(4), pp. 769-789.
- ALMEIDA, J. S. DE, ESPERIDIAO, F. and RODRIGUES DE MOURA, F. (2024): “The impact of institutions on economic growth. Evidence for advanced economies and Latin American and the Caribbean using a panel VAR approach”. *International Economics*, 178.

- BANEREE, A. and DUFLO, E. (2011): *Poor Economics: A Radical Rethinking of the Way to Fight Global Poverty*. Public Affairs.
- CASTRO, A. (1973): *Sobre el nombre y el quién de los españoles*. Madrid: Taurus Sarpe.
- DIAMOND, J. (1997): *Guns, germs, and steel*. New York: W.W. Norton.
- DIAMOND, J. and ROBINSON, J. (2010): *Natural Experiments in History*. Boston: Belknap Press of Harvard University Press.
- EASTERLY, W. (2006): *The White Man's Burden: Why the West's Efforts to Aid the Rest Have Done So Much Ill And So Little Good*. Oxford: Oxford University Press.
- ENGERMANN, S. L. and SOKOLOFF, K. L. (2008): "Debating the Role of Institutions in Political and Economic Development: Theory, History and Findings". *Annual Review of Political Science*, n. 11, pp. 119-135.
- FERNÁNDEZ-VEGA, P. A. (2015): *Corrupta Roma*. Madrid: La Esfera de los Libros.
- GÓES, C. (2023): "Institutions and growth. A GMMIV Panel VAR approach". *Economic Letters*, 138, pp. 85-91.
- HAYEK, F. A. von (1960): *The Constitution of Liberty*. Chicago: Chicago University Press.
- (1973): "Law, Legislation and Liberty". *Volume I: Rules and Order*. London: Routledge.
- HODGSON, G. M. (2006): "What Are Institutions?". *Journal of Economic Issues*, XL(1), pp. 1-25.
- LANGE, M., MAHONEY, J., and VOM HAU, M. (2006): "Colonialism and Development: A Comparative Analysis of Spanish and British Colonies". *American Journal of Sociology*, vol. 111, n. 5, pp. 1412-1462.
- MCCLOSKEY, D. (2016): "Bourgeois Equality". *How Ideas, not Capital or Institutions Enriched the World*. Chicago: Chicago University Press.
- MAYER, C. (2018): *Prosperity. Better business makes the greater good*. Oxford: Oxford University Press.
- MICHALOPOULOS, S. and PAPAIOANNOU, E. (eds.) (2017): *The Long Economic and Political Shadow of History*. 3 vols. London: CEPR Press.
- NORTH, D. C. R. (1990): *Institutions, Institutional Change, and Economic Performance*. Cambridge: Cambridge University Press.
- (2003): *The Role of Institutions in Economic Development*. Gunnar Myrdal Lecture. Geneva: Economic Commission for Europe.
- PALACIO ATARD, V. (ed.) (2005): *El nombre y el concepto de España a través de los siglos*. Madrid: Temas de Hoy.
- PERPIÑÁ GRAU, R. (1958): "Instituciones económicas y paraeconómicas". *Revista de Estudios Políticos*, n. 97, pp. 47-81.

- SACHS, J. D., GALLUP, J. L. and MELLINGER, A. D. (1999): "Geography and economic development". *International Regional Science Review*, vol. 22(2), pp. 179-232.
- SEARLE, J. R. (2005): "What is an Institution?". *Journal of Institutional Economics*, 1(1), pp. 1-22.
- WEBER, M. (1930): *The protestant ethic and the spirit of capitalism*. London: George Allan & Unwin Ltd.
- WRIGHT, R. (2004): *A short history of Progress*. Toronto: House of Anansi.