

Reversal of economic fortunes: Institutions and the changing ascendancy of Barcelona and Madrid as economic hubs

Andrés Rodríguez-Pose  | Daniel Hardy

Department of Geography and
Environment, London School of
Economics, London, UK

Correspondence

Andrés Rodríguez-Pose, Department of
Geography and Environment, London
School of Economics, Houghton St.,
London WC2A 2AE, UK.
Email: a.rodriguez-pose@lse.ac.uk

Abstract

This paper looks at the divergent economic trajectories of Barcelona and Madrid since Spain's transition to democracy. It highlights how Barcelona, the city that was better positioned four decades ago to emerge as the main Spanish economic hub, has lost out to Madrid. We argue that the contrasting trajectories of the two cities have less to do with the pull of Madrid as the capital of Spain, with the development of new infrastructure in the country, or with agglomeration economies, and more with institutional factors. A growing societal divide in Barcelona along economic, social, and identity lines has led to a greater breakdown of trust and to the development of strong groups with limited capacity to bridge with one another than in Madrid. This has entailed the emergence of negative externalities that have limited the economic potential for growth in Barcelona and facilitated the rise of Madrid as the main economic hub within Spain.

1 | INTRODUCTION

On 5 March 2010, Esperanza Aguirre, the Conservative then-president of the region of Madrid, smiled proudly while holding a bullfighter's cape on the front page of *El Mundo*. Meanwhile, the main piece of news on the newspaper's front cover trumpeted that "Madrid overtakes Catalonia for the first time in economic weight" (El Mundo, 2010a). In its editorial that day the Madrid daily argued that, despite

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being one million short in population relative to Catalonia, Madrid had weathered the crisis better. Catalonia, in contrast, was suffering a decline not only because the crisis had hit its manufacturing base harder, but also because of the “linguistic barriers and the controls the Catalan government is imposing on anyone who wants to set up shop in the region” (El Mundo, 2010b, p. 3). A similar scene was reproduced almost 10 years later, on 20 December 2019, when the two most important Madrid dailies, *El País* and *El Mundo*, reported about a new *sorpasso* in GDP by Madrid. Both newspapers blamed the Catalan independence process for Madrid overtaking Catalonia and Barcelona¹ as the main economic hub in Spain (El Mundo, 2019; El País, 2019). The Catalan newspaper with the highest circulation, *La Vanguardia*, adopted in its 23 December 2019 editorial a similar stance: the independence process had, indeed, led to “an exodus of Catalan companies, a fall in trust, a deterioration in consumption, and a freezing of investment” (La Vanguardia, 2019). But it added an additional twist, by indicating that “it never rains but it pours, as for quite some time the economy of Madrid has been gaining ground over that of Barcelona” (La Vanguardia, 2019).

This is true. While in the Spanish context, Barcelona and Madrid have grown above the national average and have been successful in their own ways, the two cities have followed over the last three decades divergent economic paths: Madrid has increasingly become a global city and an economic hub; Barcelona—despite its ascendancy as a tourist and a cultural beacon in Western Europe—has lagged behind its main national rival in demographic and economic growth.

The emergence of Madrid as the economic center of Spain—reflected in virtually every economic indicator, from GDP, GDP per capita and employment to stocks and foreign direct investment (FDI)—has come as a surprise to many. In the period of transition to democracy and decentralization in Spain, Barcelona was widely considered to be the Spanish city with the best economic prospects (The Economist, 1992).

Yet, since the beginning of the 1990s, and especially since 1992, the economic trajectories of both cities have confounded expectations. Madrid has, with ups and downs, steamed ahead in economic and demographic terms, while Barcelona and Catalonia have struggled to keep up with its pace.

Several explanations have been put forward in order to try to justify these contrasting economic trajectories: a) the political power concentrated in the Spanish capital; b) the development of a new, radial Spanish transport infrastructure system with Madrid at its core; and c) the presence of agglomeration economies in the capital.

In this paper, we will argue that, while the above factors go some way in explaining the contrast in economic trajectories of the two cities in recent decades, they only provide a partial explanation as to why Madrid has lunched ahead of Barcelona. We will contend that the contrasting trajectories of both cities are, to a considerable extent, down to the different institutional structures in which economic activity has taken place.

In order to do so, we apply to both cities Rodríguez-Pose and Storper's (2006) community-society framework to test the link between institutional change and economic development. We use primary data, secondary literature, and a large number of interviews conducted over a lengthy period of time (2007–2019) to examine how the institutional arrangements of both cities have shaped the capacity of economic agents to act and, therefore, their economic trajectories.

We find that institutions played a powerful role in this reversal of economic fortunes between the two cities. Moreover, Madrid, which began the transition to democracy without a strong and well-defined identity, managed to create bridges across diverse community groups and forged a reworked regional identity and institutional setting, establishing the foundations for a new, more confident and powerful city. On the other, the strong identity and communitarian groups that fostered the initial economic dynamism of Barcelona, culminating in the 1992 Olympics, have since become a drag, with excessive bonding facilitating the polarization of—already divided—communities and contributing

to a dent in inclusiveness. This is affecting the efficient use of talent, hindering development and the promotion of economic activity, and leading to a simmering conflict, which is becoming all too evident in the divisions within the city and between part of the urban agglomeration and most of the rest of Catalonia during the recent pro-independence drive.

The rest of the paper is structured as follows. The next section summarises the institutional framework on which the research is based. This is followed by an analysis of the economic trajectory of the city-regions of Barcelona and Madrid over the past four decades, underlining their increasing divergence. We then present the main arguments that have been put forward in order to explain such divergence, before proceeding to analyze how the interplay between societal and community forces in both city-regions has been crucial in shaping their divergent economic paths and in determining their current position as global economic nodes. The final section concludes.

2 | CITIES, INSTITUTIONS, AND ECONOMIC GROWTH

Cities are receiving ever-greater attention as the key locus of economic activity and growth (e.g., Glaeser, 2011). Facing unceasing pressures to adapt and change in response to new and uncertain circumstances—including the onset of globalization, the spatial re-shifting of industrial production, and new patterns of international migration and trade—cities the world over are restructuring their economic bases to remain competitive. But despite frequent talks that the 21st century is the century of the city (World Economic Forum, 2012), not all cities have had the same capacity to make the most of the opportunities offered by greater economic integration. The stark reality is that while some cities have thrived, becoming highly networked global cities, others have endured much more bumpy rides and have only managed to enjoy some of the benefits of increased connectivity in this growing archipelago economy (Veltz, 1996). As such, a great deal of attention and effort has been invested in the study of urban adaptive processes. The key contention being, what has driven some cities, rather than others, to perform better, adapt more efficiently, and secure a brighter future? Understanding why these divergences occur is one of the principal dilemmas confronting the social sciences: why do seemingly identical territories sometimes perform so differently (Safford, 2009)? Or put differently, what differentiates enviable urban success stories from non-distinct economic performances?

Different facets of these big questions have occupied social scientists. From the work of Jane Jacobs (1961) to that of Richard Florida (2002) or Edward Glaeser (2011), a number of explanations have been put forward as to why some cities grow faster than others. Cities are undoubtedly complex places and any answers to divergent economic performances remain elusive. Numerous stories have been recounted to explain successes and shortfalls, citing the significance of infrastructure, endowments of skilled workers, and industrial structures, among other things. Each of these explanations has its merits and provides powerful reasons for variations in development trajectories. However, too often they are only partial accounts. The response in some cases has been to turn toward institutional ideas to help fill important gaps in narratives or explain “residuals” in models. But, even as an “institutions matter” discourse has blossomed, it still remains the “dark matter” of economic development (Storper, 2010).

Institutions, in general, and the interaction between community and society in particular, provide in our view the missing pieces of the puzzle. We will try to demonstrate this for the cases of Madrid and Barcelona using Rodríguez-Pose and Storper's (2006) community-society framework in an analysis of the link between the evolving institutional arrangements in both cities and their sustainable economic success in response to shocks of a social, economic and political nature.

Defining institutions, in particular, at the subnational level, is notoriously difficult (Rodríguez-Pose, 2013). There are virtually as many definitions of institutions as researchers that have worked on the topic. In this paper, we focus primarily on the role of informal institutions in determining economic performance. We adopt Rodríguez-Pose and Storper's (2006, p. 1) definition of institutions as "norms, traditions and social conventions, interpersonal contacts, relationships, and informal networks," which are essential for generating trust and economic activity. Following Martin (2000) and Rodríguez-Pose (2013), we also make a distinction between the institutional environment—encompassing factors such as culture and identity—and institutional arrangements—which are more concerned with place-specific forms of interaction that shape economic exchanges. The community-society framework argues that institutions do not work in isolation for economic development. They condition the other drivers of economic activity, working "behind-the-scenes" to, *inter alia*, shape incentive structures, preference-sets, and (intra- and extra-regional) networks (Bathelt & Glückler, 2014; Gertler, 2010; Rodríguez-Pose, 2013). The community-society framework is employed to examine how processes of economic growth and adaptation actually play out in specific micro-economic contexts, assessing the dynamics through which communitarian and societal forces interact to shape territorial responses to economic (e.g., globalization, recessions, and crises), political (decentralization), or societal (technological change, social or religious conflict) transformation. The analysis involves delving into processes of bonding—mainly defined as within-group interaction—and bridging—fundamentally intergroup interaction—and their interaction at the metropolitan area level (Storper, 2013). This framework allows for greater analytical focus on contrasting institutional and economic trajectories by holding constant the basic institutional armature of the country—macro-level economic, political, and geographical factors.

The testing ground for this research is the metropolitan areas of Madrid and Barcelona. The use of a comparative case study approach responds to calls in the social sciences for more comparative research to unpack the "black box" of institutions and better understand the dynamics of change in city-regions (c.f. Barnes, Newman, & Sullivan, 2007; Boschma & Frenken, 2018; Peck & Theodore, 2007). Indeed, to use Gertler's (2010, p. 7) words, in order to "understand how institutions are produced, reproduced, and change over time, how these institutions exert their influence over economic life, how these processes unfold at different geographical scales, and the difference that geography makes, then much is to be gained by adopting a comparative approach." We also follow a growing tradition of comparing urban case studies, culminating with Safford's (2009) work into the divergent patterns of post-industrial revival in the rustbelt cities of Youngstown and Allentown, and Storper, Kemeny, Makarem, and Osman's (2015) exhaustive analysis of San Francisco's rise to stardom against Los Angeles' relative stagnation. In this respect, this paper provides timely and complementary evidence from outside of the US.

The cases involve the analysis and synthesis of patterns—similarities and differences—in Madrid and Barcelona to assess how and why changing institutional arrangements played a role in their economic development. This has implied tracking their diverging economic and institutional trajectories since the mid-1970s, a moment in history remarkable for not only its economic turbulence and oil shocks, but also by the end of a dictatorship in Spain, which sparked a rapid transition toward democracy and decentralization. The case studies were developed through a combination of a desk review of secondary sources and a set of 91 confidential, in-depth expert interviews with economic and social actors in Barcelona (38) and Madrid (53). The interviewees comprised mostly of entrepreneurs, firm managers, civil servants, and academics and were conducted over a period of 12 years, between 2007 and 2019. All interviews were conducted under the condition of anonymity and are introduced in the text when analyzing the institutional dimension.

3 | THE CONTRASTING ECONOMIC TRAJECTORIES OF MADRID AND BARCELONA

What has been the economic trajectory of Barcelona and Madrid over the last four decades? To what extent has their overall economic performance differed? By the mid-1970s a triumvirate of crises was buffeting Spain's economy, social strata, and politics. These included a deep global recession, compounded further by international oil shocks; the transition from a highly centralized, authoritarian dictatorship to a system of democratic and decentralized governance following the death of General Franco in 1975; and a major restructuring of global value chains for low and medium value-added industrial goods, shifting from post-industrial cities in developed contexts to emerging economies. Together these forces brought an end to Spain's 1960s and early 1970s economic boom, pushing its economy into a more rapid decline than many of its neighbors in Europe (Lieberman, 2005). This particularly affected Spain's metropolitan centers, which not only lacked advanced, competitive industries (Balibrea, 2001), but were also ill-equipped for the intensification of competitive pressures that followed the proliferation of new communications technologies (Kaplinsky & Farooki, 2011).

To add further context to the considerable changes that took place in the 1970s—and better understand the stories of modern Madrid and Barcelona—it is revealing to reflect for a moment on the four preceding decades. Following the Spanish Civil War in the late 1930s, a policy of autarchic isolationism instated by the Franco dictatorship dented agrarian and industrial production and led to widespread deprivation, hunger, and brutal oppression. Little changed until the late 1950s, when the realization of the futility of the autarkic system led to the 1959 Stabilization Plan. This plan set the foundations for a period of rampant industrial growth that would last until the disruptions of the 1970s. Throughout this period, as significant players in the Spanish and European contexts, the rivalry between Madrid and Barcelona intensified. As the Spanish “State of Autonomies” developed in accordance with the new 1978 Constitution, both cities represented the undisputed dominant nodes within Spain; the former its political center, and the latter its more open and industrial heartland.

In spite of clear differences between each city and the different nature of the challenges each faced, both entered the transition period in relatively similar positions. Each had roughly the same levels of GDP per capita, concentrated the top universities and research centers in Spain, was endowed with highly qualified and skilled workforces, and was a recipient of not very different proportions of the then relatively meager flows of foreign direct investment finding its way into Spain. In light of the dramatic changes that were unfolding, it remained to be seen which of the two would become the major beneficiary.

In many ways, Barcelona could be perceived as being better positioned to take-off economically in comparison to Madrid. Not only did it possess a comparatively larger proportion of Spanish industry, but also contained a solid and dynamic entrepreneurial class which had maintained strong ties with European markets throughout the forty years of Francoist dictatorship. The transition to democracy, therefore, provided an opportunity for Barcelona to take advantage of its “good hand” (Marshall, 1996, p. 164). As Spain became a member of the EU and, subsequently, of the European Single Market, Barcelona was well prepared to strengthen existing links with fellow Mediterranean metropolitan areas and develop as a dominant international business and cultural center in south-western Europe. Madrid, in contrast, had a weaker industrial base, a much more limited entrepreneurial tradition, and remained relatively closed to the outside world as the legacy of Francoist dictatorship lingered on into the early stages of the transition. As Spain's capital, Madrid's only clear advantage with respect to Barcelona was its influence as Spain's political and regulatory center.

Nevertheless, Barcelona also boasted considerable political assets. As the capital of Catalonia, a region endowed with a strong and distinct identity, Catalanian politicians were among the most

ferent drivers of democracy and devolution in Spain—galvanized by the dictatorship's restrictions of Catalan language, culture, and traditions. As a consequence, the Catalan capital acted quickly to embrace decentralization, becoming, with the Basque Country, the first region to achieve self-rule in 1979. The newfangled autonomy brought the reinstatement of Catalonia's government, the *Generalitat*. From a community-society framework perspective, Catalan identity was particularly deeply rooted in the city and the region: “(e)verybody who considers himself a Catalanian, and accepts the social values, is one” (ESPON, 2013, p. 359). The use of Catalan language was—and has been ever since—widely supported by Catalan institutions, expanding the use of Catalan in Barcelona to not just those with Catalan origins, but also to a large proportion of those of migrant stock. Barcelona further benefited from its status as a major economic hub in the Mediterranean, linked not only to its long tradition of openness and communication with its Mediterranean neighbors—including via the Port of Barcelona, one of the most important Mediterranean ports (Villarroya, 2011)—but also on its status as a world-leading tourism destination. All of these factors helped to create a perception that Barcelona was destined to become the “northern capital of the European south” (Maragall, 1986) and the economic motor of a new, modern, and open Spain.

Madrid, in contrast, entered Spain's democratic era with an image tainted by its Francoist past. Growth under Franco had left Madrid a swollen, sprawling city with a lack of facilities and strong divisions between its center and periphery (Stapell, 2010). Madrid's distinctive cultural characteristics, appropriated by the Franco regime as the basis for its vision for a more homogeneous Spanish identity, limited potential paths to redefinition. Processes of decentralization only reinforced these contrasts. While Barcelona and Catalonia quickly achieved very high levels of self-governance, Madrid was forced to build its autonomous government against a climate of distrust from the rest of Spain (and even from its most proximate provinces within its historical region, Castile, which effectively ostracized the capital). In summary, Barcelona's institutional arrangements were advantageous at the outset—a consequence of its greater balance between community (rooted in Catalan identity) and society (imposed by the Spanish state). Madrid, in contrast, suffered from a community deficit and a lack of durable cultural traditions or a historical identity, leading to discrepancies in the levels of authority and resources enjoyed by Madrid in comparison to Barcelona.

During most of the 1980s, differences in economic performance basically reflected the above-mentioned diversity in potential. In the build-up to the 1992 Olympic Games, Barcelona worked to dismantle its *Barcelona Gris* (grey Barcelona) image—a result of rapid industrialization and unplanned development in the city's periphery—and proceeded to reinvent itself as a unique urban brand, based on new cultural industries. By doing so it became an international success story (Calavita & Ferrer, 2000).

With the advent of the 1990s, and especially following the 1992 Olympics, a reversal in this trend would, however, emerge. Although slower off the mark, Madrid gradually began to quash the “lazy Madrid, busy Barcelona” stereotype (The Economist, 1992). As we show in the next section, this change in fortunes is reflected in virtually every contemporary indicator and continues to gather pace today.

3.1 | Basic indicators of divergence in economic performance

What are the indicators that point toward this reversal of economic fortunes? Since the early 1990s, Madrid has outshined Barcelona (and Catalonia as a whole) in almost every economic aspect. The overall size of the Catalan economy, 25% larger than Madrid's in 1975, is currently below that of the Spanish capital. Catalonia's level of GDP per capita, fractionally higher than that of Madrid in 1980,

was 15% lower than the capital's in 2018. Furthermore, Madrid between 2010 and 2018 attracted almost 62% (including 85% of the total in 2018) of all FDI coming into Spain. In the same period, FDI in Catalonia was below 16% of the total. Since the 1990s Madrid has become the preferred location for national and international high-growth firms established in Spain by some margin (Giner, Santa-María, & Fuster, 2017) and its stock market has grown to become one of the top in Europe by trade volume.

Going into greater detail, Barcelona, the largest urban agglomeration in Spain until 1980, has been unable to keep pace with population growth in Madrid. The end of the 1960s economic boom knocked the wind out of Barcelona's sails. Population growth stalled and the metropolitan region entered a period of relative stagnation (see Figure 1), with many new and former employees of the city becoming commuters from its periphery in response to increasing land speculation and rising house prices (Tello, 2004).

Madrid, in contrast, prevailed over many of these challenges and continued to grow well in excess of the Spanish average, consolidating its position as a large and dynamic city. With 1.7 million more inhabitants than the agglomeration of Barcelona—6.45 million in Madrid to 4.75 million in Barcelona in 2019—Madrid has become the second largest agglomeration in the European Union and the fifth largest in Europe. During the 2000s immigration boom, Madrid and Barcelona again grew rapidly, profiting from their status as gateway cities and centers of employment in Spain, but the demographic gap between the two agglomerations has continued to grow (Figure 1).

The composition of employment in each city (see Figures 2 and 3) is telling in the story of each city's evolution. Barcelona and its immediate periphery remain the industrial heartland of Spain, yet, for both metropolitan regions manufacturing has been in relative decline since the 1980s. Nevertheless, until the recent global recession, Barcelona fared significantly better than Madrid, maintaining its manufacturing employment in times of growing international competition, albeit with some volatility. Madrid had by the end of the 1970s suffered a deep industrial crisis, exceeding that of elsewhere in the country, and is yet to recover this lost ground (Tobío, 1989). However, more significant in the story of Madrid's growing primacy over Barcelona is the growth of its dynamic services and

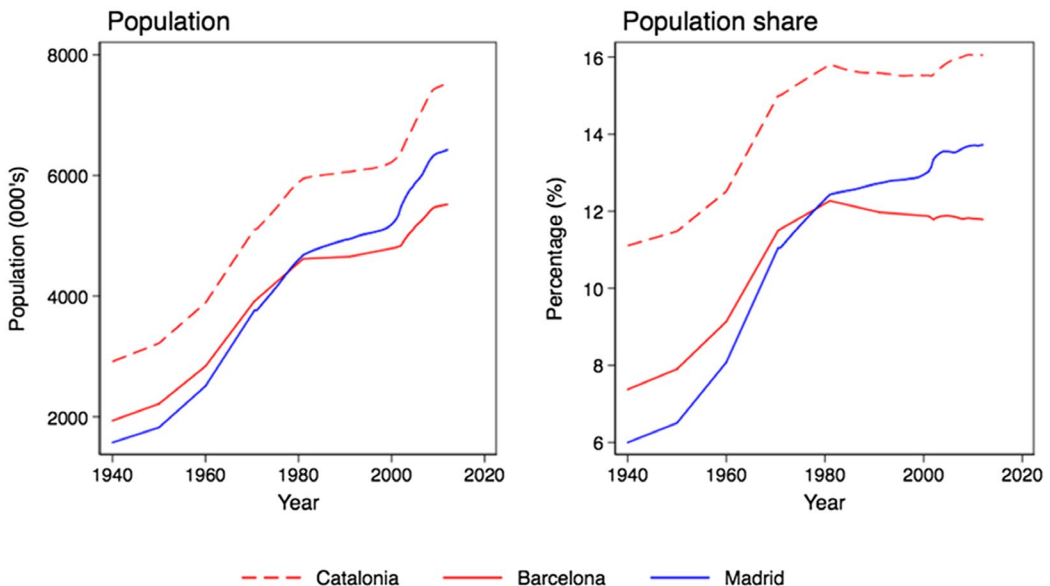


FIGURE 1 Long-term population growth in Barcelona and Madrid

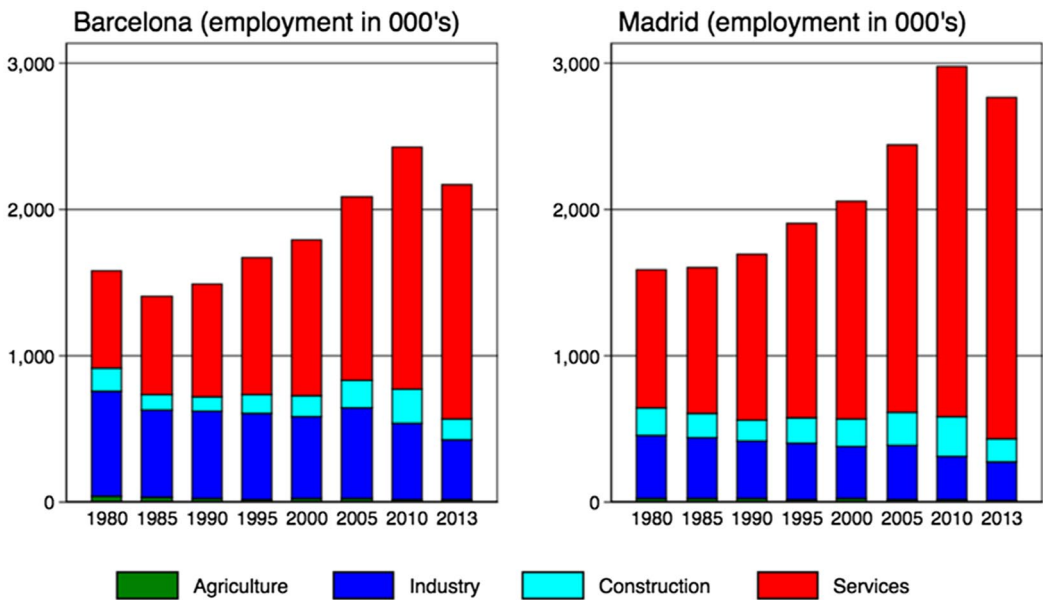


FIGURE 2 Evolution of employment in Barcelona and Madrid since 1980

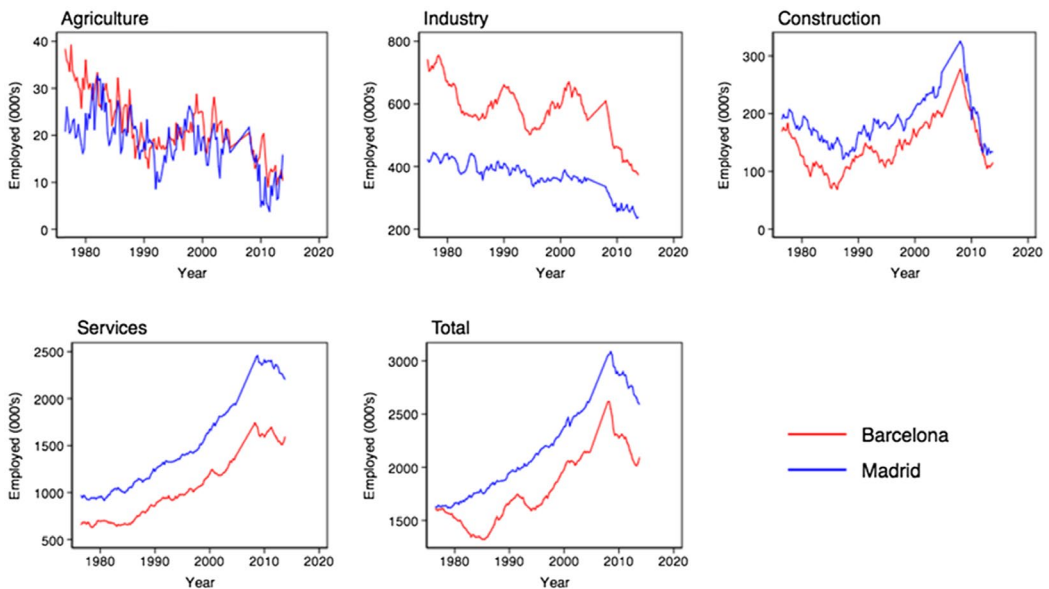


FIGURE 3 Evolution of employment by sector in Madrid and Barcelona since 1976

construction sectors in an increasingly internationalized Spanish economy. Indeed, even during a robust period of growth in Barcelona, the Metropolitan region of Madrid generated more jobs. In the last 30 years, Madrid created over 1.2 million new jobs in the services sector alone, some 300,000 more than Barcelona (see Figure 3). Both cities also evolved into important knowledge-based, service economies, and centers of culture. Madrid's economy—85% services-based—attracted the lion's share

of the head offices of multinational companies, much at the expense of the Catalan capital (Molina Ibáñez, 2002).

Since the early 1980s, Madrid has routinely outperformed Barcelona, except for a short period around the turn of the century (see Figure 4). A notable feature of the national unemployment picture is the sharp fall in unemployment rates in the build-up to the 1992 Barcelona Olympic Games—due to substantial job creation in the construction and manufacturing sectors, as seen in Figure 3. This contributed to Barcelona ending with unemployment in excess of the national average. Both cities, however, have enjoyed rates of unemployment below the Spanish average for the best of the last three decades.

The quality of the workforce in each city has also been subject to considerable change and, importantly, divergence. Figure 5 shows how despite a dramatic narrowing in the proportion of the workforce with graduate qualification over the course of the 1980s and early 1990s, the more recent trend is for growing divergence. It is possible, however, that this is the result of low-skill migration, comparatively larger in Barcelona than Madrid. Catalonia attracted the biggest share of migrants with little or no formal skills in the country. At 33.2% of the total in 2007, it was almost three times the equivalent share in Madrid (11.7%). In terms of skilled workers, the two regions are better matched, with 24% of migrants to Catalonia possessing tertiary education, compared with 26.5% in Madrid (OECD, 2010). Differences in the quality of each city's workforce are mirrored by the R&D capacity of firms. On average, a firm in Madrid employs more R&D personnel and spends more on R&D (per unit of output) than firms in Barcelona (see Figure 6). This gap has, however, narrowed in recent decades, not only with Barcelona but also with Spain as a whole.

Divergence in each city's labor market dynamics has developed in tandem with changing fortunes in terms of their economic output. In this instance, we compare GDP data at the regional (Autonomous Community) level (Comunidad de Madrid and Catalonia). The Barcelona metropolitan area corresponds to approximately 75% of the Catalan economy. As Figure 7 shows, Madrid has made substantial strides forward increasing its national GDP share from 14% in 1980 to close to 19% since the early 2010s, far in excess of its population share of around 14%. Since 1980 Madrid has gone from being the

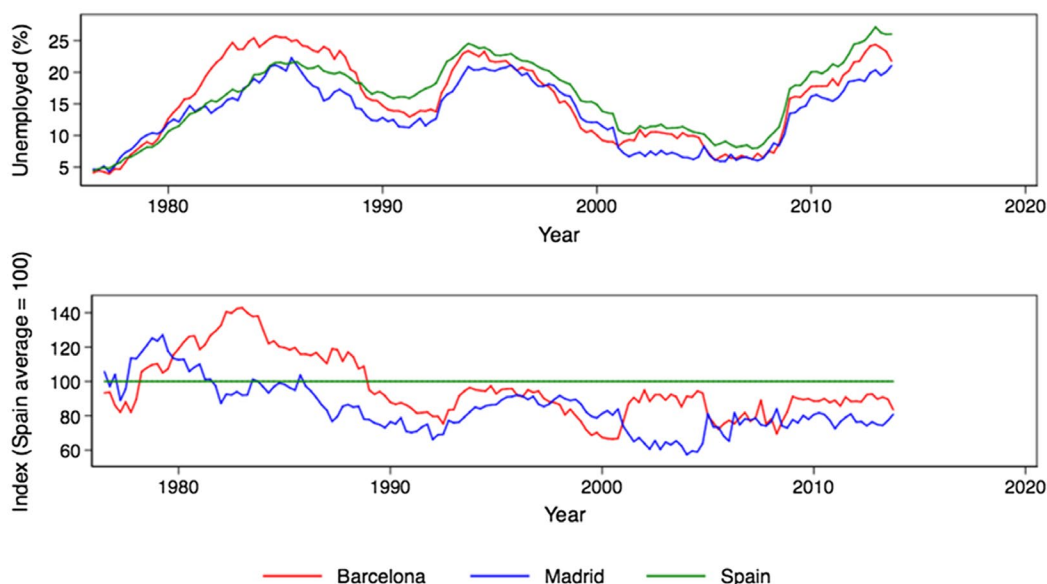


FIGURE 4 Unemployment trends in Barcelona and Madrid since 1976

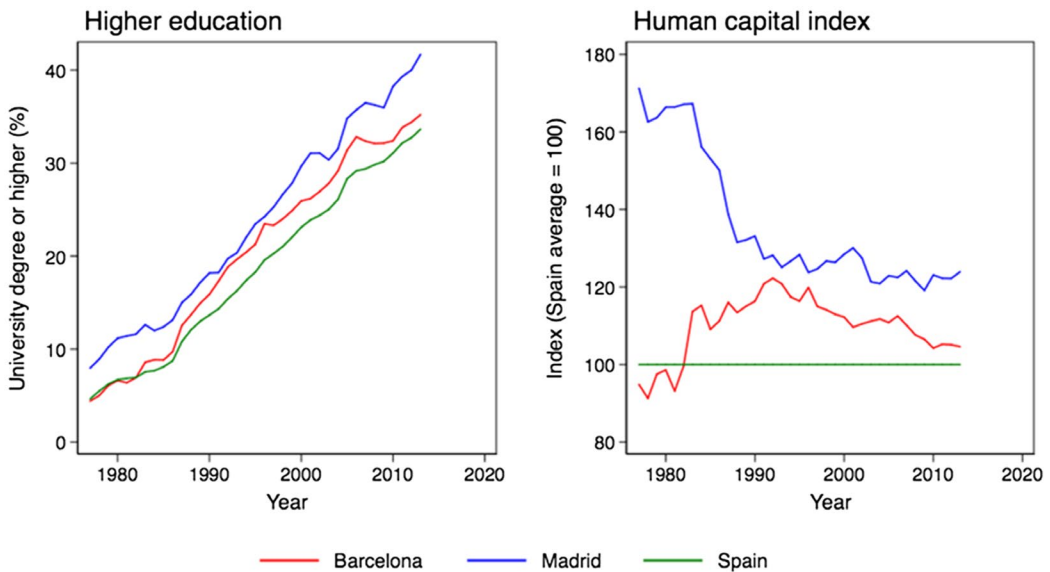


FIGURE 5 Human capital endowment in Barcelona Madrid from 1977

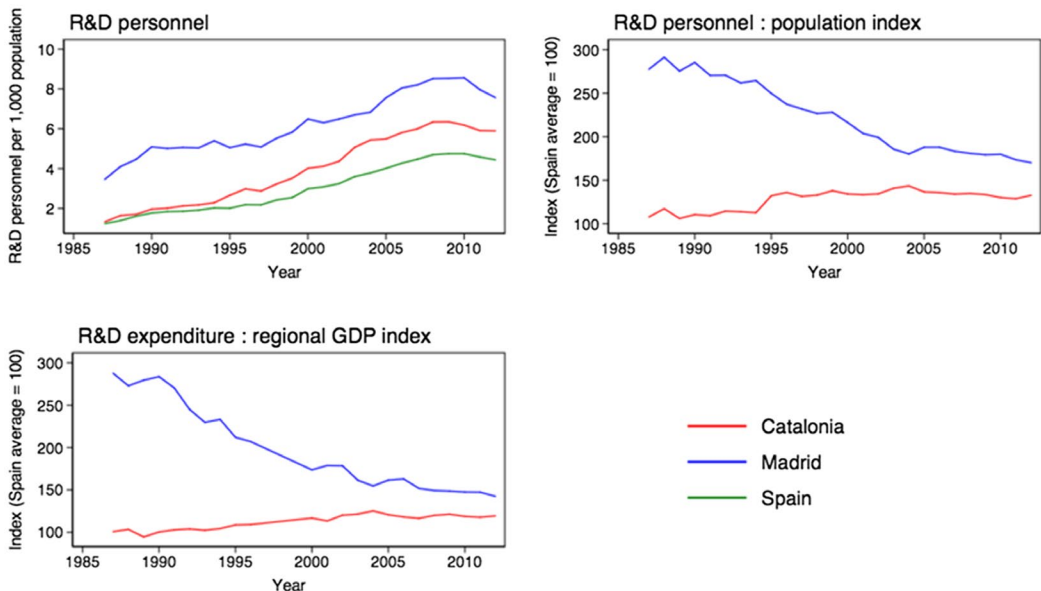


FIGURE 6 R&D personnel in Catalonia Madrid from 1986

third region in GDP per capita terms on a par with Catalonia to being the absolute leader. Catalonia has remained fourth, with a share of around 19% of national GDP (Figure 7).

The analysis of the economic growth performance of the two regions from 1980 further corroborates this. Where Madrid consistently exceeded the average growth rate of Spain, Catalonia experienced a rather more mixed performance over the period analyzed, dipping below the national average for large periods of the late 1990s and 2000s. The 3-year moving average presented in Figure 8 points toward the underlying growth trend and performance advantage demonstrated by Madrid. Under this

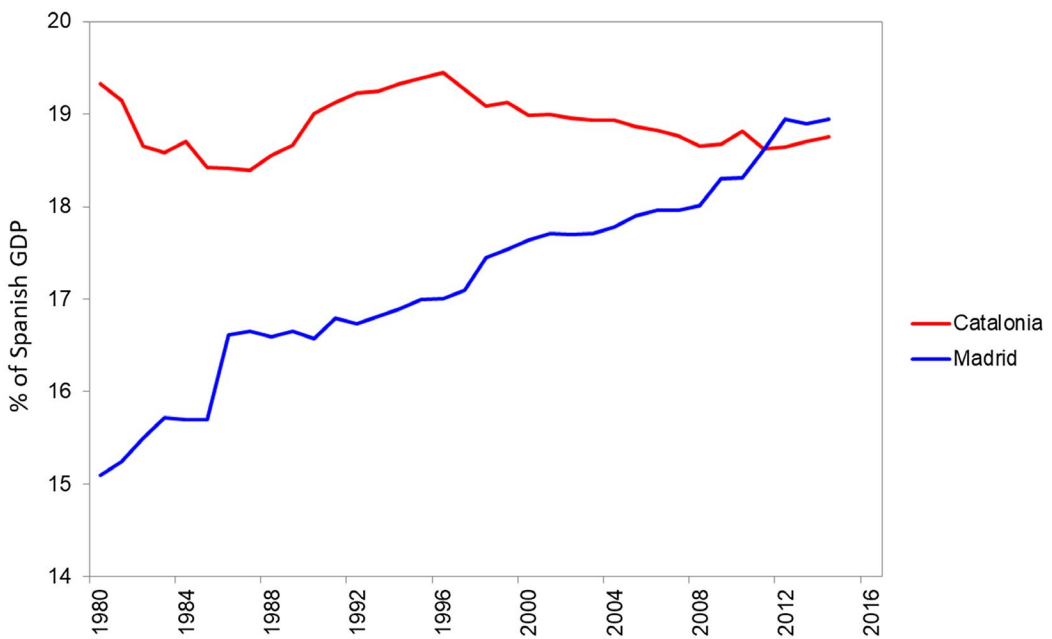


FIGURE 7 National GDP share, Catalonia and Madrid, from 1980

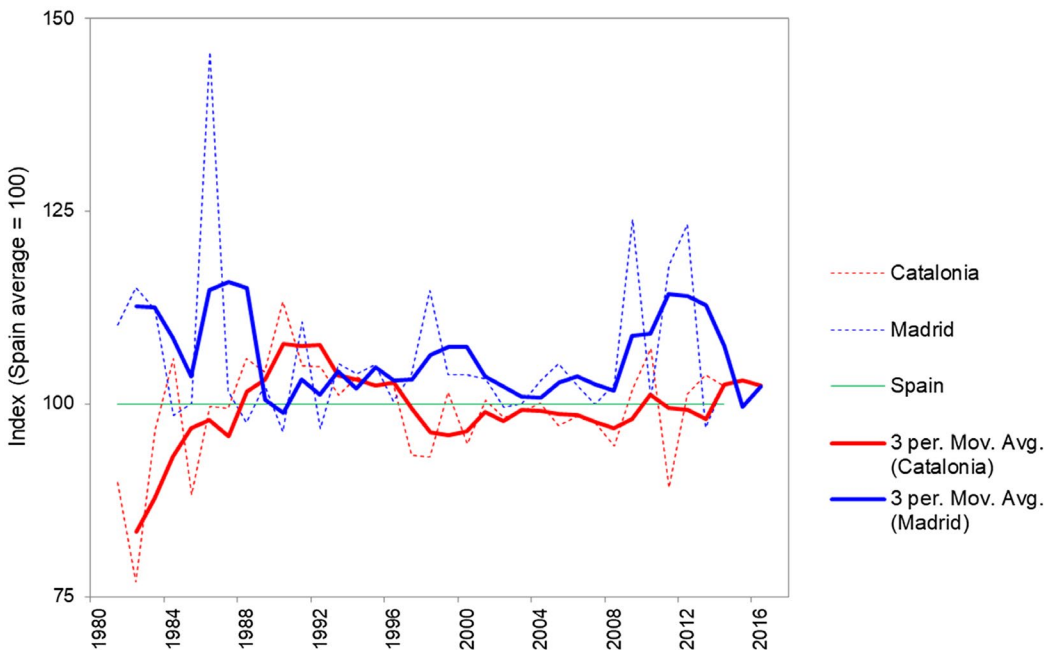


FIGURE 8 Regional GDP growth index, Catalonia and Madrid, from 1980

measure, Catalonia struggled to match Madrid's performance since the lead up to the 1992 Olympic Games. This suggests that the magnitude of the event and the massive investment and regeneration that took place in the build-up to the games played a major part in lifting Barcelona's economy and

marketing the Barcelona brand, but has not prevented Madrid from steaming further ahead in economic terms. Even during the period of the financial crisis and global recession of the 2010s, recent GDP data shows that, despite the fact Madrid was hit hardest, it has bounced back faster than its rival.

FDI has also been higher in Madrid. At the start of the 1980s, Catalonia (with Barcelona at its core) attracted almost 30% of FDI flows into Spain (Table 1). Madrid hosted the bulk of investment in services, while Catalonia acted as a principal magnet for a large proportion of industrial investment in Spain (Villaverde & Maza, 2012). Since then, Catalonia has ceded considerable ground to the Spanish capital (Table 1). In 2018, Madrid and Catalonia together accounted for 91.4% of the flows of FDI into Spain. However, the share was very uneven: Madrid drew 85.2% of the total, while Catalonia a mere 6.2%. This huge polarization of FDI toward Madrid has been a growing trend in recent decades. However, as the home of the majority of the head offices of multinationals—some of which have transferred from Catalonia—it is possible that these figures overestimate this dominance, as some firms report investments made in decentralized units (often located elsewhere in Spain) in the accounts of the head office (Gutiérrez-Portilla, Maza, & Villaverde, 2019). Nevertheless, the margin of difference is considerable and Madrid continues to pull away and, largely, at the expense of Barcelona. The recent pro-independence conflict in Catalonia has only deepened the chasm between the two cities in this respect, as the previously reported figures for 2018 indicate. Moreover, Madrid tends to attract activities with a relatively higher technological component—particularly in electronics, telecommunications, and a range of services sectors, while Barcelona continues to receive investment in more technologically intermediate activities—especially the chemical products and automotive sectors—as well as manufacturing (Gutiérrez-Portilla et al., 2019; Pelegrín Solé, 2002).

4 | EXPLAINING THE ECONOMIC DIVERGENCE BETWEEN BARCELONA AND MADRID

All economic indicators show that both Madrid and Barcelona have not just maintained, but extended their leading positions as the most successful cities in Spain. Madrid has, however, pulled away from Barcelona, becoming the undisputed economic hub in the country and attaining for the first time status of Spain's absolute capital (Bel, 2012). Why has this been the case? In this section, we explore potential explanations for the contrasting economic trajectories of both cities based on secondary literature and the in-depth expert interviews. The explanations from these sources often included the following arguments: the concentration of political power in Madrid, the organization of the transport infrastructure, the benefits of locational and agglomeration economies, and related differences in human capital endowments and technological capacities.

Spanish and Catalan researchers have highlighted the economic pull effect of the political power concentrated in Madrid. Political power has become a lure to multinational firms (Gutiérrez-Portilla et al., 2019; Pons-i-Novell & Tremosa-i-Balcells, 2005; Rama & Ferguson, 2007). One of the interviewees highlighted that “most economic decisions are taken in Madrid and firms need to influence

TABLE 1 Distribution of inward FDI in Spanish regions (1986–2002)

	1986–1990 (%)	1993–2000 (%)	2001–2010 (%)	2011–2018 (%)
Madrid	44.00	57.00	58.00	61.90
Catalonia	29.20	18.90	16.20	16.50

Source: Díaz Vázquez (2004) for 1986–1990 data, Ministry of Industry, Trade and Tourism for the rest.

those decisions, meaning that they have to be close to power in Madrid” (Barcelona interview 2013). Being the capital and hosting almost all state institutions has certainly had a positive economic effect on Madrid’s performance. But this can only be a partial explanation. The concentration of FDI in Madrid has coincided with a process of deep political decentralization. Spain over the last thirty years has transformed itself from one of the most centralized countries in Europe into the second most decentralized among the 81 countries included in the Regional Authority Index (RAI) (Hooghe et al., 2016)—below Germany, but above Belgium, the United States, Switzerland or Canada. Indeed, Autonomous Communities now control a majority of Spanish public expenditure. As highlighted by one of the interviewees, “Spain is today one of the most decentralized countries in the world. Almost two thirds of public expenditure is done at subnational level and most of this by regional governments. Catalans should take responsibility for their acts and not blame everything on Madrid” (Madrid interview 2016). Moreover, the autonomous community of Catalonia secured over considerable periods of the last three decades significant political clout in the governance of the Spanish state and was capable of shaping decision-making by the national government. This was enhanced during the 1993–2000 and 2004–2012 periods when both Socialist and Conservative Spanish governments depended on the implicit support of the then moderate Catalan nationalist party (Convergència-i-Unió)—which ruled the region for the majority of the period since the restoration of regional autonomy—to remain in power. This means that Madrid’s political pull has, if anything, experienced a relative decline in recent decades relative to the absolute dominance over Spanish politics and economics it had under the Francoist dictatorship.

A second explanation advanced by political economist Germà Bel (2012) refines the political pull argument and focuses explicitly on the various phases of state infrastructure investments. Since the beginning of the 1980s, Spain embarked upon an ambitious program of transport infrastructure construction. However, the new motorway and high-speed railway systems have mainly followed the radial scheme of 19th-century road development, which favored the connection between different parts of the country and Madrid, to the detriment of interconnection among other regions. Nevertheless, additional new motorway developments have, to a certain extent, mitigated rather than enhanced this effect. Motorways such as that along the Mediterranean coast, the *Ruta de la Plata*, or the Ebro valley have provided much needed transport links between regions outside Madrid. Barcelona, on top, has been the focus of considerable investment, including the creation of new facilities for fairs and the development of a large knowledgebase service, logistics and industrial cluster in the area of the Llobregat Delta in combination with the expansion of the airport and the port (Casellas, 2016).

The effect of high-speed rail is more difficult to assess. On the one hand, most of the early lines connected Madrid with the South, in efforts to revitalize some of the more stagnant territories of Spain and Seville, in particular (in time for the international Seville Expo 1992). On the other, since 2008 Barcelona has been integrated into the network, and by 2010, for the first time, direct high-speed connections only via Barcelona with the European rail network have been constructed. Barcelona has, thus, become a secondary hub at the strategically important interface between Spain and Europe and has seen the number of tourists increase as a consequence (Bravo Izquierdo, 2015). There are also risks that the Madrid-Barcelona high-speed line could increase the rate at which headquarters are being relocated to the Spanish capital (Vives, 2000). Nevertheless, as highlighted by Albalade and Bel (2012, p. 342), the demand for the high-speed line between the two cities does not compensate for the high initial investment (\$12.4 billion in 2010 US dollars).

In terms of air-transport, Madrid airport is the principal intercontinental airport within Spain and one of the busiest in Europe, providing a considerable boost to the capital as flights have become cheaper. Barcelona’s airport has, however, increased passenger volumes significantly, particularly following its redevelopment in time for the Olympics and the construction of a new terminal as part of

TABLE 2 Community, society, and adaptation from the 1970s to the 2010s

	Beginning of period	By the end (changes)
Madrid		
Community	<ul style="list-style-type: none"> • Diverse, atomistic, and divided community groups with few ties between the city, its metropolitan area, and beyond 	<ul style="list-style-type: none"> • Higher levels of citizen involvement in various associations (especially relative to Catalonia) • Development of more established communitarian groups and bridging, united to shake off their tainted image and recreate a new and strong <i>Madrileño</i> identity
Society	<ul style="list-style-type: none"> • Tainted by association with the Franco regime, and synonymous with a lack of liberty and centralism • The remnants of a top-down activist state lingered on, but on the whole, the post-Franco period is characterized by the limited top-down intervention (the state had more pressing concerns, including ensuring the democratic transition and reducing unemployment in a difficult economic period) • Relatively hands-off city government (particularly under Tierno Galván) 	<ul style="list-style-type: none"> • Once democracy was secured, and the new regional system of governance bedded in, a neoliberal, developmentalist focus was adopted, with particular attention shifted toward the forwarding of Madrid as a Global city, and profiting from European integration
Barcelona		
Community	<ul style="list-style-type: none"> • An intangible and well organized network of activist community groups, comprised of unions, business associations, neighborhood groups, formerly forbidden political parties, individual intellectuals, universities, and the press • Strong bonding within communities, some of them unified in their ambitions to promote Catalan identity 	<ul style="list-style-type: none"> • High prevalence of community – high entry and transaction costs, rent-seeking, and a skewed distribution of public goods • Increase in exclusive bonding between communities in power – institutions captured by elites • Growing separation between nationalist factions
Society	<ul style="list-style-type: none"> • Young, forward-looking ruling class • Durable partnerships with local elites in the promotion of territorial interests • Promotion of communitarian values based on the Catalan language, its culture, and identity 	<ul style="list-style-type: none"> • Increasing denial of civic participation in major regeneration works (such as the 22@ Activity District) • Increasing inter-tier competition between Catalonia (<i>Generalitat</i>) and the City of Barcelona (Mayor's office)

the Delta project in 2009. This expansion offset some of the air-traffic capacity divide with Madrid, which had expanded its airport in 2006. As of 2019, the airports in Madrid and Barcelona were the fifth and sixth largest in Europe, respectively, in terms of passenger traffic.

The third explanation constitutes the presence of economies of agglomeration and of large concentrations of qualified human resources and R&D centers in favor of Madrid. Whilst the capital certainly enjoys advantages in this respect today, at the beginning of the transition period the gap between Madrid and Barcelona was not substantive. If anything, Barcelona enjoyed certain advantages, especially in terms of industrial agglomeration and the attraction of industrial FDI.

5 | THE INSTITUTIONAL EXPLANATION

Given the partial and contestable nature of the above explanations, the interplay between community and society in both territories may provide an additional, compelling, and complementary account of the contrasting economic trajectories of both cities. Table 2 introduces summaries of the institutional environment, at both the society and community level, and the dimension of the institutional changes that have taken place during the period of analysis.

Barcelona, as the capital of Catalonia, has always defended its identity and idiosyncrasies—*hecho diferencial* (differential trait)—within Spain. This defense of its identity has been increasingly based on economic factors rather than on culture and history (Rodríguez-Pose & Sandall, 2008; Tortella, García Ruiz, Núñez, & Quiroga, 2016). After 40 years of repression, the arrival of democracy and regional devolution proved a boon for Barcelona. The combination of both forces gave significant power to Catalanist and democratic opposition groups that had played an active role in opposition to the Francoist dictatorship. This renewal at the helm of Catalan politics brought about two positive effects. First, the emergence of a younger and forward-looking ruling class, recruited from the ranks of—or with strong ties to—the Catalan business elite and equipped with the socio-political machinery to achieve its belated wants. Thus, the ideas forwarded in partnership with local elites created an adequate framework for greater insertion of Catalan business, identity, and territorial interests into the wider world, what Keating (2001) calls “bourgeois regionalism”. Second, devolution and self-government contributed to promote communitarian values, most prominently policies in support of the Catalan language, Catalan culture, and identity, tailored in such a way as to deal with the pluralistic nature of Catalan society (Clua i Fainé, 2017; Crameri, 2008). The process was fast and effective, quickly instating Catalan as the dominant language in public life and, to a large extent, also into the private realm. The creation of Catalan television channels reinforced this changeover.

This combination worked well during the 1980s, as it helped to redress some of the societal forces stemming from the center and contributed to a social and economic dynamism that won the admiration of the rest of Spain and the world. Particularly in the early 1980s, “the interests of grassroots residents movements coincided with those of business and financial groups and those of local government” (Balibrea, 2001, p. 195) to drive the city economically. The city had been simultaneously “Catalanised, globalised, informationised, gentrified, redesigned, and Europeanised” (McNeill, 2002, p. 245), prompting many developers and urban planners to refer to a “Barcelona model” for urban regeneration and development (Marshall, 2004). The Barcelona 1992 Olympic bid provided a further incentive for collaboration and brought out the best of this communitarian drive. Social, political, and economic groups generally worked closely together in order to secure the Games for Barcelona, boosting Catalan confidence and setting up communication channels that minimized problems of rent-seeking and reduced distributional conflicts to a minimum. Coinciding with this communitarian drive—and perhaps as a result of it—Barcelona experienced a period of relatively high economic

growth, with its pinnacle between 1986 and 1992, the year of the selection of Barcelona as the Olympic venue and the year of the games, respectively.

Madrid, in contrast, had entered the democratic era tainted by its association with the Francoist regime in the collective Spanish *imaginaire*, deemed as synonymous with a lack of liberty and centralism. The region lacked a usable regional identity and needed to forge a new one. In contrast to Barcelona and Catalonia, Madrid was much slower off the marks in its reaction to the new political and economic paradigm. Although a political shift to the left happened rather swiftly in the first democratic elections, remnants of the old regime still lingered on in the city and its surrounding area, which struggled to cope with the process of decentralization. Old elites were reluctant to let go, but lacked legitimacy, while new groups had the legitimacy, but lacked the strength and the channels to take the initiative. With collapsing old institutional arrangements, new ones still emerging, and weak and ill-defined communities, Madrid struggled both economically and politically in a period when Barcelona—and Catalonia more generally—made strident economic and political progress.

Yet, even in this period, there were signs of change in the horizon, suggesting the balance of hegemony was shifting in favor of the capital. In Madrid, a discredited and crumbling bourgeoisie and business class, a large number of extra-regional migrants (approximately 50% of the population born outside the region), and young age demographic, alongside atomistic, ill-defined community groups lacking ties, created an unpredictable, but adaptable, environment in which the embryos of different groups interacted and established the initial bridges of what later would become a closely knit community network. The persistence of certain remnants of the old regime also acted as a galvanizing catalyst for the initial bridging between disparate communitarian groups whose only common interests was the rejection of all vestiges of the previous administration. Stapell (2010) credits the city's early 1980s Mayor, Tierno Galván, for the successful distancing of the region from the stigma of its dictatorial past by allowing for greater cultural participation and acting as a catalyst for the promotion of a new, inclusive civic identity. In essence, in the first decade of the restoration of democracy, Madrid pursued its own inclusive and tolerant project in which the people of Madrid were “transformed from passive subjects of the dictatorship to active democratic citizens that identified with each other and with Madrid in a new and positive way” (Stapell, 2010, p. 124). As indicated by one of the interviewees, “Madrid lacked Barcelona's strong identity. Yet, this proved to be an asset rather than a problem, as everyone could immediately become a *madrileño* and play a part in the future of the city” (Madrid interview 2011).

In addition, the nature of Madrid as a city of immigration, where migrants from all over Spain mingled and blended easily with locals, was another factor in the foundations of a new communitarian feeling that could counterbalance the prevalence of society. At this time Madrid was an open city with no one really at the helm. Under Tierno Galván the city evolved and, although based in Madrid, the national government was far more occupied with ensuring the success of the democratic transition, negotiating moves toward decentralization, and with wider macro-economic issues, such as unemployment (Stapell, 2010, p. 33). Without having to follow the interests of a powerful, institutionally established bourgeoisie (such as the one that controlled Barcelona), regional and local authorities articulated their own regionalist projects, breaking with the authoritarian past and working to make its local young and diverse population active participants rather than mere “subjects” of the democratic transition process. This produced hybrid social and cultural experiments like the *movida madrileña* and parallel countercultural movements. The political situation also helped: having the great majority of local and regional institutions initially controlled by the Socialist party guaranteed a political dialogue that proved far more difficult in Barcelona. In spite of common interests—such as the Olympic Games—frictions were evident between the regional government—traditionally governed by a right-of-center Catalan nationalist party (Convergencia-i-Unió)—and the city of Barcelona, for many years

a socialist stronghold. The creation of new regional institutions in Madrid—cutting the historical umbilical cord that linked the city to Castile—was a key factor in the building of a new and independent identity in the capital.

These changes really came to fruition from the 1990s onwards. Communitarian groups became more established, but the bridging developed during the 1980s remained and Madrid kept its identity as an open city. The city and the region gradually shifted to the right, with political, social and economic groups adopting a more developmentalist focus on growth-inducing initiatives. Although this brought an end to the redefinition of a distinctive regional identity in Madrid, by this time the links to the past had been severed and the city could outwardly assume its role as the national capital and symbolic driving force of a confident, Europeanized Spain (Stapell, 2010). The economic returns to this approach—as described in the preceding section—in a more mature environment soon followed.

In Catalonia, the communitarian pendulum, whose initial swing had contributed to create such a dynamic environment during the 1980s, moved too far in the opposing direction in the 1990s. This let loose the first symptoms of the negative factors associated with a prevalence of community (high entry and transaction costs, rent-seeking, clientelism, and a skewed distribution of public goods) over society. The increasing importance of communitarian bonds was reflected in virtually all areas of life.

The political wrangling and dissent between the Socialist-governed city of Barcelona and the nationalistic regional government became more evident after the Olympic year (although there were infamous frictions before and during the games between the socialist leader of the city council, Maragall, and the conservative Catalan *Generalitat* leader, Pujol—see Riding, 1989). Both parties often adopted political rent-seeking behaviors, which resulted in almost constant conflict and serious delays and inefficiencies in projects (Balibrea, 2001). As put by one of the interviewees, “whereas politicians of all ilk in Madrid always found a way to reach a consensus on important issues, in Catalonia rivalries run so deep that made building consensus and, thus, decision-making far more difficult” (Barcelona interview 2009). In doing so, the conflict over Barcelona between the Catalan government and the Socialist mayor of the city may have hurt Barcelona's prospects for competing against Madrid. As the main support for *Convergència-i-Unió* was located in medium-sized cities and rural areas outside the metropolitan area Barcelona, many Catalan regional government policies became geared toward appeasing *Convergència-i-Unió*'s middle urban and rural bases, hurting the prospects of Barcelona as a pan-European business center and, to a certain extent, boosting the potential of Madrid, where no such conflicts existed during the 1990s and 2000s.

Boer and de Vries (2009) remark on the growing clientelistic tensions arising in Barcelona's redevelopments. In *La Barceloneta*, a neighborhood adjacent to the traditional center of the city, active social movements were increasingly marginalized by a power block formed by the city council, local elites, and an influential business community, resulting in a situation where decisions were increasingly made “behind closed doors” (Boer & de Vries, 2009, p. 1327), stymieing progress in the area.

Such a political paralysis had important economic consequences on which Madrid preyed. Perhaps the most pertinent was the transformation of Madrid into the main center for fairs in Spain to Barcelona's great expense. Barcelona had traditionally assumed the role of fair and conference capital in Spain. But, the old 1929 International Exposition facility located in Montjuïc—where fairs had been taking place—had become obsolete and too small for hosting modern fairs. All parties agreed that a replacement was needed, but political bickering between the city and regional governments soon followed about where a new center would be located, who will finance the costs, and who would have ultimate control over it. Madrid jumped to the occasion and acted swiftly, building modern, state-of-the-art fair facilities close to the airport (Barcelona interview 2009).

The ascent of Catalanism has also tended to polarize an already divided society. Identification with broad identitarian communities in Barcelona is far stronger than in Madrid. In recent years,

the number of Barcelona citizens identifying themselves as “Catalan only” or “more Catalan than Spanish” has increased to the detriment of the “Spanish only” community (Casanovas, Corretger, & Salvador, 2019). The identitarian divide is very strong in Barcelona. However, Catalan assertiveness has also contributed to a revival of a stronger sense of “Spanishness” among some citizens of the city (Balibrea, 2017). The divide in Barcelona is, however, not only identitarian, as there is a positive correlation between social class and Catalan-only identity (Moreno, Arriba, & Serrano, 1998). In a study of associative mating and the information content available in surnames, Güell, Rodríguez-Mora, and Telmer (2015) find that intergenerational mobility has tended to decrease over time in the whole of Catalonia. By tracking the distribution and economic outcomes between different generations of Catalans, the authors find that the process of assortative mating—“the tendency for people with similar economic status to mate with one another” (Güell et al., 2015, p. 1)—yields dividends for those with a Catalan stock. Catalans of a certain class, who speak Catalan at home, marry other Catalans of the same class who also speak Catalan (in addition to sharing similar educational levels), leading to the intensification of an institutional divide—or insider/outsider problem—which has acted as a brake for the promotion of talent, for inclusiveness, and for the development of the economic activity. This has been corroborated in multiple interviews: “Barcelona is governed by just 100 Catalan families” (Barcelona interview 2009); “There's a concealed but very strong glass ceiling in the city” (Barcelona interview 2011); “Without the ‘right’ Catalan surnames, you are no one in Barcelona” (Barcelona interview 2013); “No more than 400 families control the city” (Barcelona interview 2014). This result is particularly surprising given the rapid acceleration in educational access and attainment in both cities and throughout Spain in the latter half of the 20th century, seemingly leveling the playing field for talented individuals. However, the findings correlate well with other research that finds better economic outcomes for individuals that are able to read and speak Catalan, and even more so for those able to write in the language (Paolo & Raymond, 2012; Rendon, 2007). In Madrid, in contrast, the issue of cultural identity was conspicuously absent from discussions in interviews.

From a social and cultural point of view, the understandable emphasis by the Catalan government in promoting Catalan culture, language, and identity both in education and in cultural events, sometimes at the expense of Spanish, was not achieved without conflict and has become increasingly divisive, alienating some non-Catalan speakers and risking the objective of creating a collective Catalan character (Villarroya 2011). This has created an insider/outsider problem, which has not only promoted conflict and undermined the use of talent (Rodríguez-Pose & Storper, 2006), but has also been a contributing factor to the increasing concentration of FDI and the headquarters of foreign companies in Madrid. As indicated by a foreign manager whose company had transferred from Barcelona to Madrid, “when deciding to invest in Spain, Barcelona was the natural entry point, a luminous and open city full of talent. But it quickly became clear that things were not as easy as we had imagined [...]. Madrid is today more open than Barcelona and we are mostly left alone to mind our own business” (Madrid interview 2016).

As a whole, from an institutional point of view, Barcelona and Madrid have evolved in different directions over the last three decades. Barcelona, traditionally the most open city, has become over time a more divided, conflictual environment for economic activity, with greater insider/outsider problems than before and more affected by economic, social, and identity cleavages. Madrid, in contrast, has grown in confidence and become more inclusive than before. These contrasting trajectories have been in evidence since well before the recent independence drive in Catalonia and are reflected in a breakdown of generalized trust in the region in relation to Madrid. As shown in Table 3, which presents the results of the latest available World Values Survey Wave 6 (2010–2014) for Madrid and Catalonia in comparison to the rest of Spain, high levels of generalized trust are far lower in Catalonia—with only 13.8% strongly agreeing that most people can be trusted—relative to Madrid (31.5%). Indeed, the data

TABLE 3 Trust in Madrid and Catalonia

	Spain	Madrid	Catalonia
Most people can be trusted	19.0	31.5	13.8
Trust: Family	93.6	90.3	95.6
Trust: People you know	38.1	43.6	51.3
Trust: Neighborhood	26.8	34.2	26.8
Trust: People you meet for the first time	2.4	3.3	1.1
Trust: People of another religion	5.1	5.2	1.0
Trust: People of another nationality	6.6	9.4	1.7

Note: Percentage of people that declare a high level of trust (“trust completely”). No data were available at the city level. Regional data were used instead. Own elaboration using World Values Survey Wave 6 (2010–2014) data.

show that trust in Barcelona and Catalonia has mainly retreated to the closely knit primary networks of communities, such as the family and the people in your group, whereas Madrid is a more trusting city from a societal point of view. This can be seen in the higher degree of trust than in Catalonia at the neighborhood level and, especially, regarding trust in people you meet for the first time, people of another religion, and people of another nationality (Table 3).

This gap in trust between the two city-regions has also important implications for Barcelona's capacity to innovate and adapt. Low trust in people who are diverse reduces bridging (Putnam, 2001) and stifles innovation (Solheim & Fitjar, 2018). Low trust in people of another nationality also strongly undermines the capacity of firms to integrate into international networks (Solheim & Fitjar, 2018). Hence, low trust and greater institutional cleavages in Barcelona are denting the capacities of the city, relative to Madrid, of maximizing its economic potential and becoming a more highly networked global city.

6 | CONCLUSIONS

Madrid and Barcelona have long been the two economic powerhouses in Spain. Yet, over the last three decades, Madrid has steamed ahead of Barcelona on virtually every economic indicator, becoming a far larger city and the center of economic activity in Spain. As put by Dowling (2016, p. 79) “the consolidation of Madrid as undisputedly dominant in all terrains – whether political, administrative, financial or cultural – has produced a profound rupture in historic status of Barcelona.” This paper has aimed to analyze why this has been the case when virtually all starting conditions pointed to a greater probability of Barcelona becoming the economic capital of Spain, as has been the case of Milan in Italy relative to the capital, Rome.

The arguments presented in the paper have pointed to the fact that whereas factors such as Madrid being the capital of the country, the renovation of the radial Spanish infrastructure system converging in Madrid, and economies of agglomeration may have played a part in facilitating the economic lift-off of Madrid, these arguments alone cannot explain the contrasting economic trajectories of both cities, especially at a time when Spain has undergone profound processes of decentralization and when the development of new infrastructures have been widespread across the country and in both Barcelona and Madrid.

Hence and despite the limitations associated with this type of analysis,² the main explanation for the economic divergence between both cities has to be found in the different institutional arrangements prevalent in Barcelona and Madrid. Madrid was dominated for a long time by a constellation

of small and relatively weak social, economic, and cultural groups, incapable on their own of shaping the direction of the city and, therefore, compelled to interact with one another. This created an ecosystem in which bridging among small groups was the norm, leading to the formation of a more open and inclusive society, which facilitated the transformation of ideas and talent into economic activity. Barcelona, in contrast, started with far stronger groups—often divided along identity, economic and political lines—that, while capable of transforming the city during the transition to democracy, later led to significant insider/outsider problems and to problems of exclusion. The consolidation of very strong groups along identity and economic lines has ossified institutions in Barcelona and has had negative economic consequences. As in the case of Montréal (Polèse, 2014), a divisive community environment has bred low levels of trust across community divides and led to a lack of constructive participation in economic activities. This helps explain the hesitancy of individuals and groups to develop and collaborate on new initiatives and why, when complex and important political questions get raised – like in the recent drive for Catalan independence – both communities tend to react mechanically, retreating to their entrenched positions and turning the issue into one of identity and linguistic survival.

In brief, an increasingly divided society in Barcelona, ravaged by deep and growing cleavages, and where lack of trust has impeded the building of bridges across groups has provided the seed for a far worse overall economic trajectory than the initial characteristics of the city would have predicted. Madrid, although not exempt from problems, has managed to build a more malleable society, which has, to a non-negligible extent, facilitated the creation of a more open, internationally networked, and economically dynamic city. Hence, differences in institutional arrangements have led to a reversal of economic fortunes in which “lazy” Madrid has ended up having a better hand than “busy” Barcelona. According to Dowling (2016, p. 79), “Barcelona and the region it belongs to, Catalonia, has not accepted this increasingly secondary status, and the changing role between Spain's two most important cities.” In his view, this “has fed the turn to secession within Catalonia” (Dowling, 2016, p. 79). As one of the interviewees put it, “Barcelona and Catalonia are divided right down the middle and this has, for long, paralyzed everything and led to conflict. There is a need to start from scratch and build completely new bridges and stitch up a society that right now seems unstitchable” (Barcelona interview 2019). The capacity to build consensus and to pay attention to the institutional dimension is, therefore, as important from an economic perspective as most other economic and social factors that have been until now the bread-and-butter of development policy.

ORCID

Andrés Rodríguez-Pose  <https://orcid.org/0000-0002-8041-0856>

ENDNOTES

- ¹ To analyse in greater detail the economic performance of Madrid and Barcelona it is first necessary to define their spatial scope in light of the available data. The Spanish Statistical Office (Instituto Nacional de Estadística) provides regional data at the level of the Spanish Autonomous Communities and Provinces. In the case of Madrid, the two are the same. For Barcelona, a significant proportion of data are only available at the level of the Autonomous Community, Catalonia, with a selection also available at the provincial level. The Autonomous Community of Madrid and, to a lesser extent, the province of Barcelona both approximate the metropolitan areas of each city well. According to the latest release of major agglomerations of the world, by City Population (2019), the agglomeration of Madrid has a population of 6,450,000, while that for Barcelona, 4,750,000. The population of the Autonomous Community of Madrid, according to the Spanish statistical office, was 6,578,079 inhabitants in 2018, while that of Barcelona, 5,609,350. This implies that the agglomeration of Madrid covers the equivalent of 98% of the population of the administrative region, while that of Barcelona 84.7% of that of the province. Accordingly, when we refer to either Barcelona or Madrid with our summary statistics, we refer to the administrative zones that broadly correspond to the metropolitan area of each city.

- ² It is worth noting that other factors not considered in the analysis, such as the spatial structure of both cities or relations with the national government, could play a role in determining the different economic trajectory of Madrid and Barcelona/Catalonia.

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