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## **Failed Remedies and Implications of the Economic Crisis in Spain**



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**Alejandro Godino, Oscar Molina**  
Institute for Labour Studies-IET,  
Universitat Autònoma de Barcelona

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## **Abstract**

In this paper we critically re-examine the current debate about the crisis and exit strategies. The starting point is the need to re-focus on the structural problems facing the Spanish economy paying particular attention to low productivity level and the reasons for it. Moreover, an overemphasis on the exogenous and financial character of the crisis has shifted attention away from the demand side. The paper then moves to the analysis of strategies and policies implemented and their potential impact on the future development of the economy, paying particular attention to institutional change. Compared to other European countries under similar conditions, social dialogue has remained alive as a mechanism aimed at legitimizing a top-down adjustment strategy that is perceived as undemocratic by a large sector of the citizenry. The internal devaluation strategy imposed as a consequence of membership to the Euro will have a long-lasting impact upon the institutional pillars and dominant forms of coordination in the economy, not to mention the consequences for democratic governance both at domestic and EU levels.

## Introduction

Recent reports seem to suggest that far from being left behind, the crisis is still a reality getting closer to a new and deepest recession (OECD 2010; Banco de España 2011; European Commission 2011). The financial crisis and the risk of default by some of the euro zone countries is forcing governments of the so-called GIIPSS' countries (Greece, Italy, Ireland, Portugal and Spain) to implement additional cost-cutting packages with devastating effects on consumption, employment and growth prospects. Particularly worrying in this context are expenditure cuts in social policies and more importantly public services such as education and health as they are reducing the capacity of states to maintain social cohesion in a context of unprecedentedly high unemployment rate. Moreover, the scaling down of the public sector and institutional changes associated with it will also have effects on the role of the state and dominant forms of socio-economic coordination that open the door to further liberalization of markets.

In the case of Spain, recent data about unemployment shows it is still increasing and has already reached five million people, amounting to a 21,5% of active population. Even though in the early months of the crisis increases in unemployment were to a large extent driven by a severe adjustment of the construction sector, the ever increasing number of unemployed people highlights the need to pay greater attention to structural factors hindering employment creation. The prospects for recovering a growth path and reduce unemployment are negative due on the one hand to the pressure on public finances which is translated into cuts in public sector employment. Secondly, the restructuring of the financial sector and in particular new demands for recapitalization will make it even more difficult to have access to credit, hence adding more fuel to the fire of depressed domestic demand.

The above considerations about the economy have to be interpreted in the context of a political crisis that is not associated to any government or ideology, but has more fundamental roots of both domestic and external character. On the one hand, there is an increasing perception amongst citizenry about the need to reform the political system that is perceived as very undemocratic, both regarding the institutions as well as the functioning and representativeness of parties. These demands have been aggravated by the perception of imposition by the technocratic EU economic government of fiscal adjustment in order to solve the debt crisis (Erne 2008). Moreover, the negative impact of this adjustment for social cohesion threatens the stability and characteristics of the democratic system. The *'indignados'* movement has to be interpreted at the light of the above political considerations and not just as an expression of economic discontent (Armingeon and Baccaro 2011).

Another element of this political crisis has been the breakdown of the honey moon between social partners and the government that commenced with the first Zapatero term. Social dialogue and concertation had become one of the cornerstones for the apparent success of the Spanish economy in the 1998-2007 period. However, social dialogue broke down in 2009 due to disagreements between unions and employers on collective bargaining and labour market reform. Partly as a response to the increasing discontent and criticisms to the way the crisis has been managed as well as to the unilateral imposition of some important decisions affecting public sector employees, the labour market and social benefits, the government adopted a more favorable approach towards social dialogue since early 2011. As a result of this process a social pact was signed in February that year including an increase in retirement age as well as indications for a reform of collective bargaining. Even though it is still early to make an assessment, these reforms seem to have delivered little results as the Spanish economy is still suffering from low growth rates and increasing unemployment.

At the light of the above considerations, in this paper we critically re-examine the current debate about the crisis and exit strategies. The starting point is the need to re-focus on the structural problems facing the Spanish economy paying particular attention to low productivity level and the reasons for it. Moreover, an overemphasis on the exogenous and financial character of the crisis has shifted attention away from the demand side. The paper then moves to the analysis of strategies and policies implemented and their potential impact on the future development of the economy, paying particular attention to institutional change. Compared to other European countries under similar conditions, social dialogue has remained alive as a mechanism aimed at legitimizing a top-down adjustment strategy that is perceived as undemocratic by a large sector of the citizenry. The internal devaluation strategy imposed as a consequence of membership to the Euro will have a long-lasting impact upon the institutional pillars and dominant forms of coordination in the economy, not to mention the consequences for democratic governance both at domestic and EU levels.

The paper is organized as follows. Section I provides an overview of the structural problems facing the Spanish economy. Section II then moves into an assessment of the main policies put in place in order to exit from the crisis and the results delivered. Here we will focus on the second term of the Zapatero government going from 2008 until June 2011, when the prime minister announced anticipated elections for November of that same year. Section III analyses the evolution and contribution of social dialogue in the adjustment process. Section IV concludes.

## Section I

### *The Economic Crisis in Spain: Structural causes*

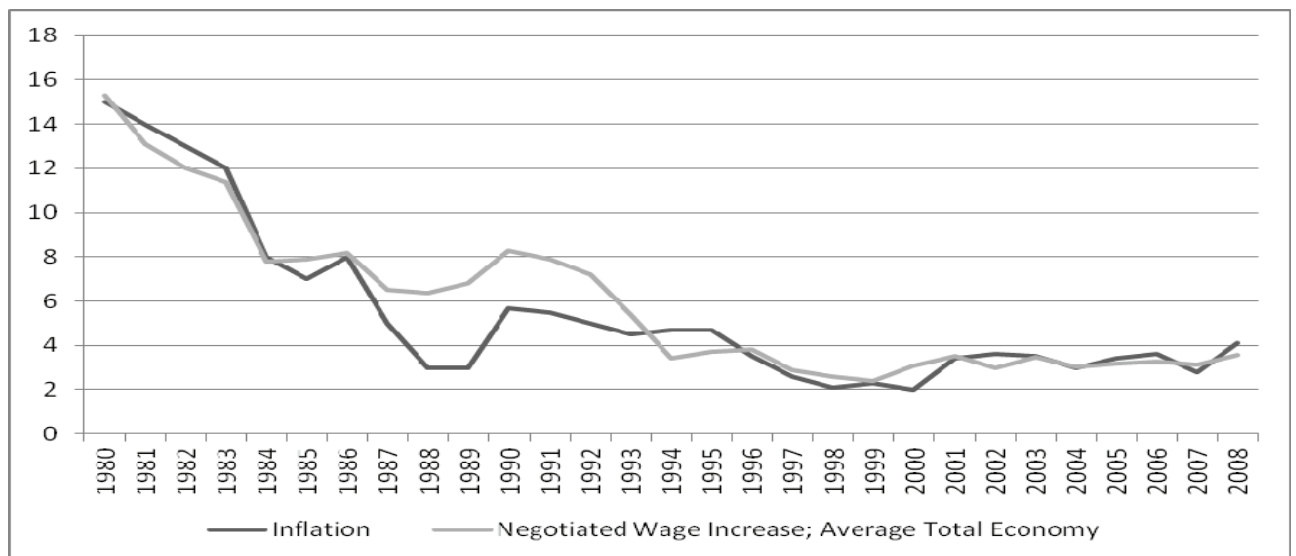
According to many analysts, the recent economic crisis and its impact on European economies has to be understood as an exogenous shock. In September 2011, a criticism by Obama to the way in which the debt crisis was managed by the EU was harshly replied by the President of the Eurogroup Mr. Juncker arguing that nothing would have happened if Lehman and Brothers would not have bankrupt (El Pais 28/09/2011). Something similar has happened in Spain, where the Socialist prime minister led by Mr. Zapatero argued first that there was no crisis and then more recently blamed external factors both for its inception as well as intensity. Contrary to what happened in the US or other EU countries, the financial sector was in principle not so seriously affected by the sub-prime crisis, but the sudden collapse of the housing bubble that had underpinned the growth of the Spanish economy in the previous years had devastating effects on the labour market.

Without denying the importance of external triggering factors, the crisis has made it very clear some of the domestic structural weaknesses of EU economies and in particular those of Spain. At the same time, the very different responses and performance observed across EU countries oblige us to consider the role played by institutions such as now employment protection or flexicurity arrangements (Sacchi et al 2011). However, there seems to be strong disagreement as to those institutions that better explain these very negative outcomes. More specifically, we find three main arguments to explain the historically poor performance of the Spanish economy: the relationship between the financial sector and production, labour market institutions and collective bargaining as well as the statist character of the Spanish variety of capitalism.

Some authors have pointed out to the financial sector as the main responsible of the crisis arguing that they have fueled the housing boom and provided excessive credit in good times due to strong business and residential investment, and then limited very significantly access to credit during the recession and debt crisis. Moreover, the problems facing the banking sector very often as a consequence of speculation with poisoned assets has obliged governments to deviate many resources to rescue this sector. A large body of literature exists about the negative impact of the financial sector in the Spanish economy due to its preferential links with large companies and privileged position that contributed to maintain high interest rates and limited access to credit for SMEs (Perez 1997). The implications of this have been on the one hand a business structure based on small and very small enterprises with little capacity to invest and hence innovate. Moreover, it has triggered a gradual specialization on sectors that are very labour intensive.

Even though this argument has been endorsed by most international organizations, including OECD (2010), it is still necessary to explain the excessive resort to borrowing by individuals in order to finance private consumption. Colin Crouch's notion of privatized Keynesianism (Couch 2008) becomes particularly useful in this context as the growth of the Spanish economy in the period 1998-2007 has been strongly dependent upon the extra-resources provided to families by credit. The housing bubble had the effect of reducing disposable income for a large number of families due to rapidly increasing prices which almost doubled from 2000 to 2008.

**Graph 1: Inflation and Negotiated Wages in Spain 1980-2008**



**Source:** INE, National Statistics Institute.

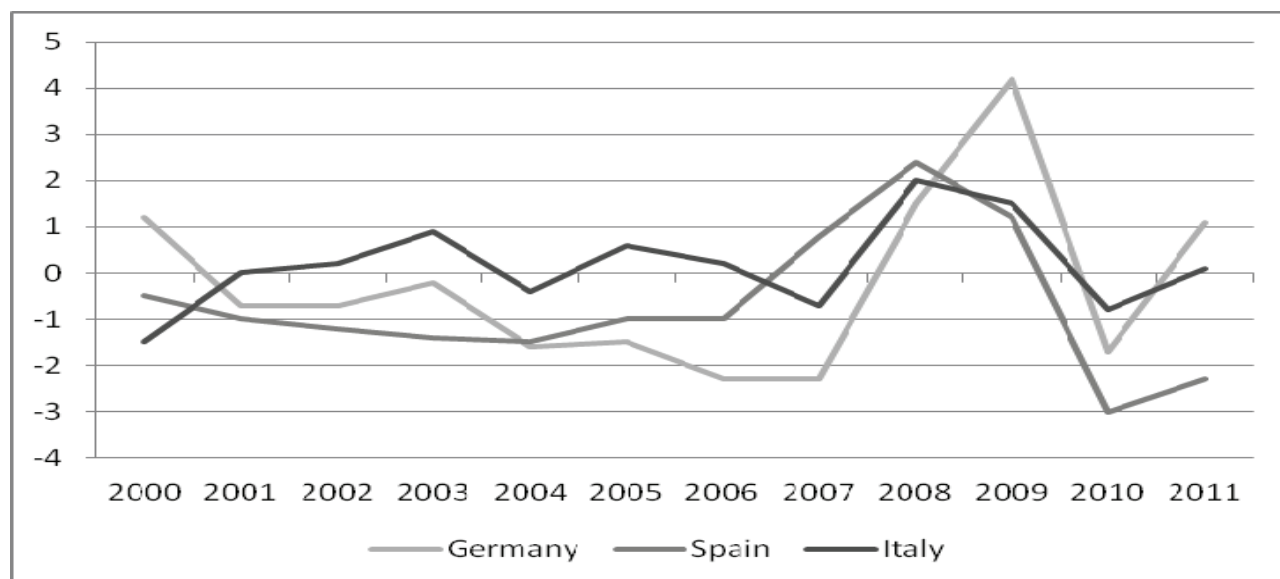
As has been already mentioned, this excessive reliance upon credit has some underlying causes, among which low wages and employment conditions of an important part of the working population. The maintenance of a high rate of temporary employment, together with wage increases which have been kept moderate during the last few years (see graph 1) thanks to the role of inter-confederal agreements amongst trade unions and employer organizations, have made it necessary for individuals to look for additional financial resources.

This evidence goes strongly against another recurrent argument to explain the structural problems experiencing the Spanish economy as well as other southern European economies, i.e., excessive wage increases. According to this argument, the lack of bargaining coordination capacities of southern European countries has delivered wage increases which have also resulted in rising unit labour costs hence reducing the competitiveness of the economy. As a result of this, the Spanish current account balance has deteriorated quite significantly in recent years. Social partners and the government have been asked accordingly to further restrain wage increases. However, when one looks at the outcomes of the bargaining process in terms of negotiated wage increases, the picture is one of considerable wage moderation. Graph 1 shows indeed how since the late 1990s, average negotiated wage increases have moved along with inflation and in some years have produced

losses in the purchasing power of wages. This evidence is reinforced when we take into account the evolution of the labour share which has exhibited a decline since the early 1980s (Arpaia and Pichelman 2009)

It is only when we take into account productivity that we start getting a clear picture of which are the real structural limitations of the Spanish economy and the implications for understanding the extent and duration of the current crisis. As a matter of fact, if we jointly consider the evolution of wages and productivity like for instance in real unit labour costs, the picture changes significantly, particularly when we compare Spain with other EU economies (see graph 2).

**Graph 2: Real Unit Labour Costs**



**Source:** Eurostat.

At this point, the question we need to answer is not why are wages so high but rather why productivity is so low. The productivity problems of the Spanish economy, and in particular, its evolution in the growth years are related to three main factors. First, the sectoral composition of GDP and the unbalanced growth path with a remarkable contribution of the construction sector and tourism. These two sectors are highly labour-intensive and have as a consequence very low productivity rates. But even when we compare similar high productivity sectors with other countries we see how Spain has lower productivity levels due to less advanced production technologies.

Another factor that helps to explain the low productivity levels of Spanish firms is the high rate of temporary employment in the labour market that reduces the incentives of both employers and employees to invest in specific skills hence reducing future productivity. Moreover, very often Spanish workers are employed in jobs for which they are overqualified which then fuels into discontent and lower performance.

In relation to the above points, the massive inflow of immigrant workers during the last ten years has also to be considered. This process has had three major effects. First of all, mass immigration has contributed to expand demand hence contributing decisively to the expansion of the Spanish economy since the late 1990s. Secondly, the incorporation of mostly medium to low-skilled workers in the service and construction sector has contributed to keep wages at low levels in a moment where shortages in the labour market were pushing wages up. Finally, the availability of immigrant labour force has led some companies to opt for maintaining the same technology and process and maintain labour-intensive techniques.

These problems have seldom appeared in proposals from organizations like OECD in order to increase productivity. As a matter of fact, the most recurrent 'institutionalist' argument in this regard points to the long holidays enjoying southern Europeans as one of the reasons for this low productivity as chancellor Merkel argued some weeks ago (<sup>1</sup>). Another recurrent argument points to the need to further liberalize product and factor markets. Some authors argue from a political economy perspective, that the weak performance of the Spanish economy is due to the fact that it doesn't belong to either of the two ideal-types characterized under the Varieties of Capitalism literature. According to this view, the hybrid character of the Spanish economy constitutes a hindrance for achieving high growth rates based on the institutional complementarities that characterize the pure CMEs or LMEs types (Hall and Soskice 2001). However it is important to acknowledge the fact that other forms of coordination are possible that could also deliver positive complementarities and good performance as the French case shows (Schmidt 2009; Molina and Rhodes 2007).

To sum up, even though the crisis has had an external trigger common to the rest of EU countries, the strongest impact it is having in Spain is due to a series of structural unbalances that have characterized the growth years. First, the Spanish economy has a productivity problem that remains unresolved. As the next section shows, little has been achieved through the reforms enacted since the beginning of the crisis in order to address this problem. Secondly, emphasis has been placed on further liberalization and downsizing the public sector which have traditionally played an important role in the economy as well as in coordinating the socio-economy. The extent to which this has contributed to achieve higher performance and hence solve some of the problems of the Spanish mixed market economy is unclear at the moment but as we will see in the following section, the reforms put in place have further moved towards the liberal ideal though many hybrid elements remain.

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1. See New York Times digital edition, 'Merkel's Blunt Talk Offends Debtor Nations', 6 September 2011, <http://www.nytimes.com/2011/09/07/world/europe/07iht-germany07.html?pagewanted=all>

## Section II

### *The Reform Process*

#### *From Denial to Accelerated Deceleration*

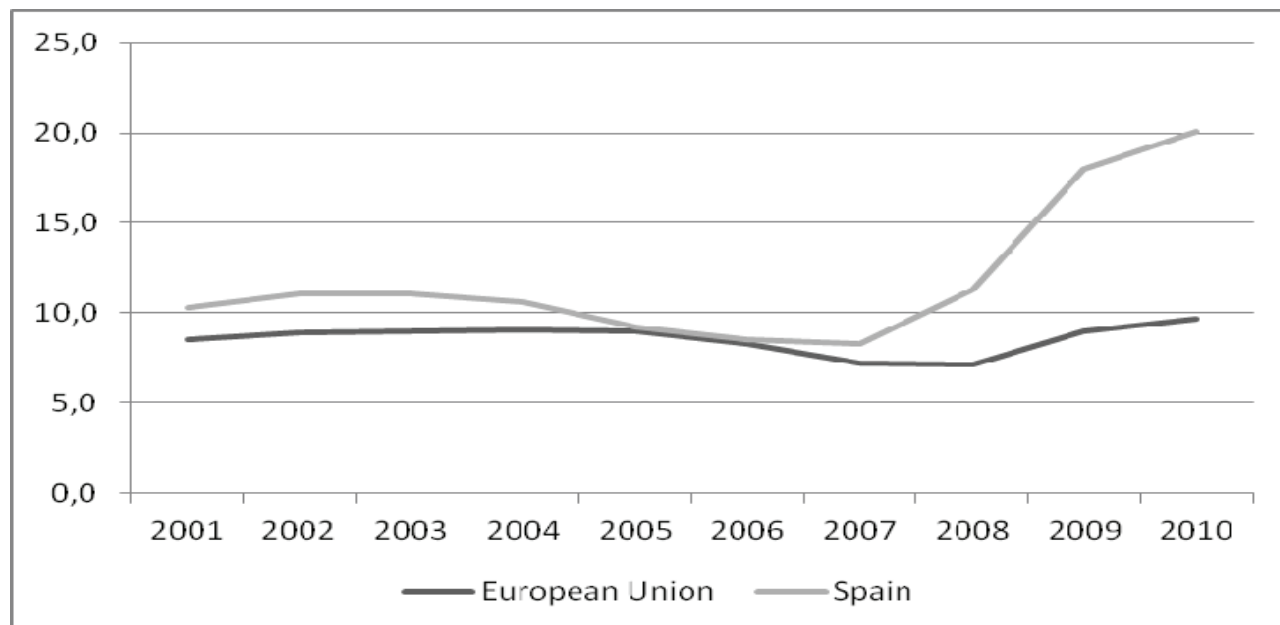
The adjustment of the Spanish economy to the financial crisis has gone through several phases which have differed significantly from the adjustment undertaken in other EU countries. The current financial crisis began at global level during the second semester in 2007 shortly after the sub-prime mortgage scandal was revealed. It was accordingly a crisis with financial roots which rapidly spread to other advanced economies. The most immediate impact of the crisis in Spain consisted in the obstacles placed by the banking sector to give credits. This not only had an automatic depressing effect on consumption, but it also put into troubles many small and medium-sized enterprises that experienced a sudden fall in demand. As a result of this, the purchasing power was severely cut, thus affecting the most important sector driving growth during the previous years, i.e., construction. The collapse of the housing bubble had a reflection in a rapid increase in unemployment.

Evidence warning about a significant deceleration and a likely recession was available to the Spanish Government already by early 2008: increasing inflation and unemployment, decreasing car acquisitions and mortgages, downward looking industrial production index, etc. However, at that time, Spain was at its pre-election period and the Socialist Government decided to deny the existence of the crisis hence refusing to take any action. Once they won the elections in March 2008, data on job losses and a significant deterioration in the labour market was evident as the unemployment rate reached 11.3% compared to 8.3% in 2007. Only then Zapatero accepted the existence of an "accelerated deceleration", but focusing its causes and effects on exogenous processes.

It was only in the fall of 2008 that the Socialist executive publicly acknowledged the difficult economic situation and hence started to enact measures aimed at encouraging economic revitalization. The first action consisted in facilitating an increase in the provision of guarantees to the banking sector with a value of 100,000 million euros. The sudden fall in the housing sector hit very hard on the banking system and the government decided to back them. However, this massive injection of money was not accompanied by clauses requiring the granting of loans to companies and individuals. This was criticized by a large sector of the citizenry, understanding that authors of the crisis were being rewarded for their misbehavior and that nothing was asked in exchange.

Those same days, the Government approved the controversial “Plan E”, with a budget of 55,000 million euros aimed at financing civil works and hence facilitating re-employing construction workers. This measure was strongly criticized because of its exorbitant budget but also because of its short-termism which had very little employment impact.

**Graph 3: Unemployment rate in Spain and EU (2001 - 2010).**



**Source:** Eurostat.

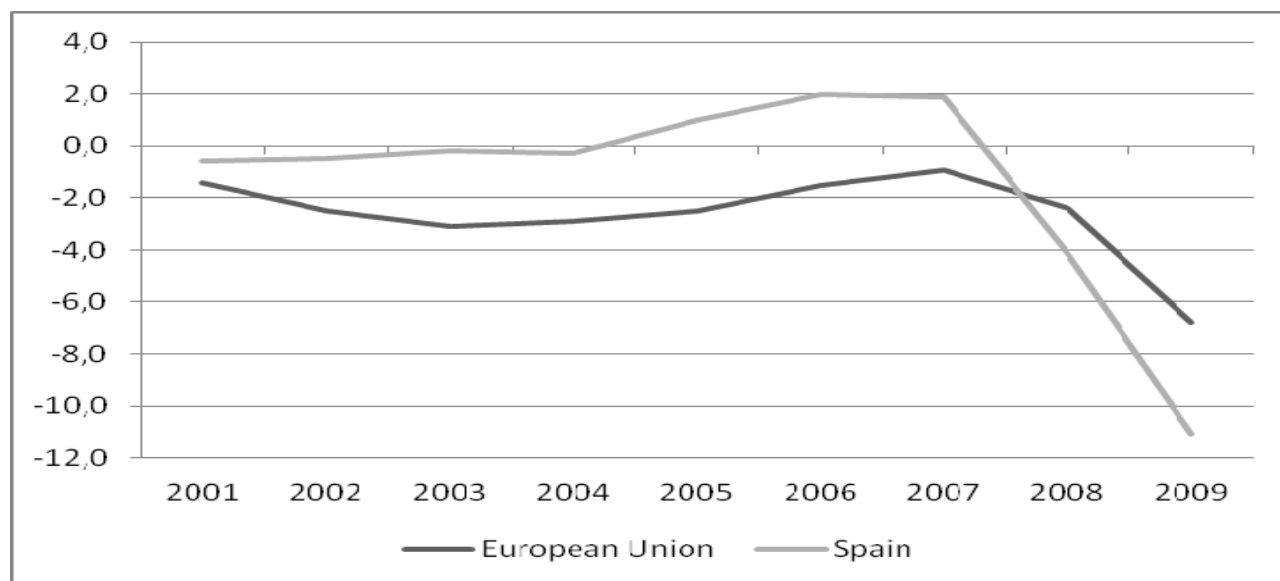
The increase in spending due to a higher unemployment rate and public investment programs, in addition to the decrease in social security contributions, led deficit figures grow from a 1.9% surplus in 2007 to a 4.2% deficit in just one year. The deterioration in labour market conditions mirrored into a 18% unemployment rate in 2009 and an increase in the long-term unemployment rate to 4,3% (graph 3). Provided the high rate of temporary employment in Spain, many of those becoming unemployed had little or no unemployment benefit rights at all. At the same time, as the economic crisis deepened, many of those whose last job was indefinite also started to exhaust their unemployment protection with the consequent threat on social cohesion.

Before this social emergency, the executive supported by trade unions approved the so-called PRODI (Temporary Program for Unemployment Protection and Integration). It consisted of an unemployment assistance of 426 euros for 6 months (extendable) to the unemployed who had exhausted their unemployment benefit rights, either contributory or assistential. All together, evidence was mounting of Spain being affected to a larger extent than other EU countries by the crisis. Moreover, as the first signs of timid recovery were starting to appear in the EU, the situation in Spain didn't exhibit any evidence of a reversal.

### *Reforms begin*

It was only at this stage, when the labour market and macroeconomic conditions had deteriorated remarkably that the Socialist executive acknowledged the structural character of the crisis and hence the need to introduce substantial reforms. Until that moment, the executive was convinced that little could be done against a crisis that had an exogenous character and hence would end once external conditions would improve. This explains the mostly reactive character of policies implemented until 2010. The first episode of structural reform was the "Sustainable Economy Act" in April 2010. The objective of this law was to transform the Spanish production model with a focus on developing the sustainable energy sector and innovation. However, most analysts agree that this law has had very little impact. As a leader of the Socialist UGT put it, the law was only 'smoke and mirrors' meaning that it was empty of content. Moreover it was also criticized that precisely in a moment of declining demand and increasingly difficult access to credit, a shift in the production model was not possible. This should have been done in the previous growth period, with increasing employment and demand, better access to credit and government surplus to support new companies in this field.

As a consequence of the worsening fiscal position of most EU countries, but particularly that of GIIPS, fears about default by some of these countries led to the Euro sovereign debt crisis. The average deficit of the European Union had increased from -0.9 in 2007 to -6.8 in 2009. In the Spanish case, it was even worse, rising from 1.9 (2007) to an unprecedented -11.1 (2009). Until that moment, the strategy to exit the crisis had been a domestic affair, but as the debt crisis deepened, the EU adopted a more active role and put pressure on the Spanish government to implement significant cost-cutting measures.

**Graph 4: Deficit in EU and Spain (2001 - 2009).**

**Source:** Eurostat.

### *The Austerity discourse*

The meeting of the Eurogroup in early May 2010 concluded with strong demands on the Spanish government to implement austerity policies aimed at calming financial markets that were attacking the Spanish and Italian debt. There was also a famous call from U.S. President Barack Obama to Zapatero insisting on the need to achieve deep reforms to overcome economic problems of Europe and, in particular, of Spain <sup>(2)</sup>.

As a result, on May 12th, the Government presented a set of "measures to accelerate the reduction of public deficit". These included a 5% reduction in the salaries of civil servants, along a freeze on salary increases in the forthcoming years; suspension of the annual increase of retiring pensions in order to guarantee maintenance of purchasing power; removal of the "cheque bebé" (lump sum aid of 2500 € to families with new born children) in addition with a significant reduction of public works and investment. These measures generated a profound rejection from trade unions and opposition parties as they considered this sudden change the result of external imposition. As a matter of fact, a large part of the population perceived it as a loss of sovereignty. Partly as a result of this, on May 15th, the so called indignados <sup>(3)</sup> movement arose as a response to the critical economic situation and to the executive's reaction.

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2. Article of El País. Retrieved from: [http://www.elpais.com/articulo/economia/Obama/presiona/Zapatero/adopte/reformas/urgentes/elpepu esp/20100511elpepueco\\_24/Tes](http://www.elpais.com/articulo/economia/Obama/presiona/Zapatero/adopte/reformas/urgentes/elpepu esp/20100511elpepueco_24/Tes)
  3. Indignez-vous!. Indigène, Montpellier (October 21, 2010).

This new austerity speech was accompanied in June by a labor market reform that introduced changes in two main respects: first, a reduction of severance pay and secondly, the possibility to opt out of collectively agreed wage agreements. This reform was unilaterally passed and was strongly criticized by trade unions hence leading to a divorce between them after several years of cooperation and concertation. A general strike was called in September 2010.

Nonetheless, tripartite concertation was restored only weeks later as the executive looked for the support from social partners around a vast number of issues. Therefore, the Economic and Social Agreement was organized on February 2011. In this agreement, social partners agreed about the pension reform, reform of active employment policies, vocational training, collective bargaining, industrial policy, energy policy and the policy of R & D + i. Negotiations around some of the issues discussed in the context of the social pact continued but had varying success. Thus for instance, negotiations around the reform of collective bargaining broke down and the government intervened unilaterally again.

After several months of austerity policies and no sign of recovery, social discontent had grown significantly as showed by the momentum of the indignados movement. Even though there are many factors that may help to explain this important social mobilization (such as high unemployment, political corruption in the two main parties, etc.) the underlying source of discontent is political and has to do with the imposition of reforms from the EU level and no participation of domestic citizens on these. In other words, the loss of sovereignty is accompanied by undemocratic procedures to undertake reforms. This can be seen in the fact that one of their main demands consist in strengthening the participation of population in public decisions. The contrast between what had been the political programme and policies implemented generated frustration amongst their voters and citizenry more generally. In this vein, 80% of the population declared to be sympathetic to the movement and approx. 20% has participated in some demonstrations, assemblies etc.

Notwithstanding its political and economic cost, the Socialist government's commitment towards further austerity policies remained strong. As a result of this, the Spanish economy witnessed a further deterioration in growth and employment figures during the summer of 2011. This would confirm the insight of some economists like now Joseph Stiglitz, arguing that "austerity policies are a suicide path" as budget cuts imply shifting risks to the private sector and raise the economic stakes, in both the short and long term <sup>(4)</sup>. Further advances in the implementation of austerity packages consisting mostly of cost-cutting measures, with little emphasis on increasing revenues certainly constitute a threat for growth and the maintenance of public provision of certain services. In this vein, some organizations like now the OECD have argued for 'tax increases that could

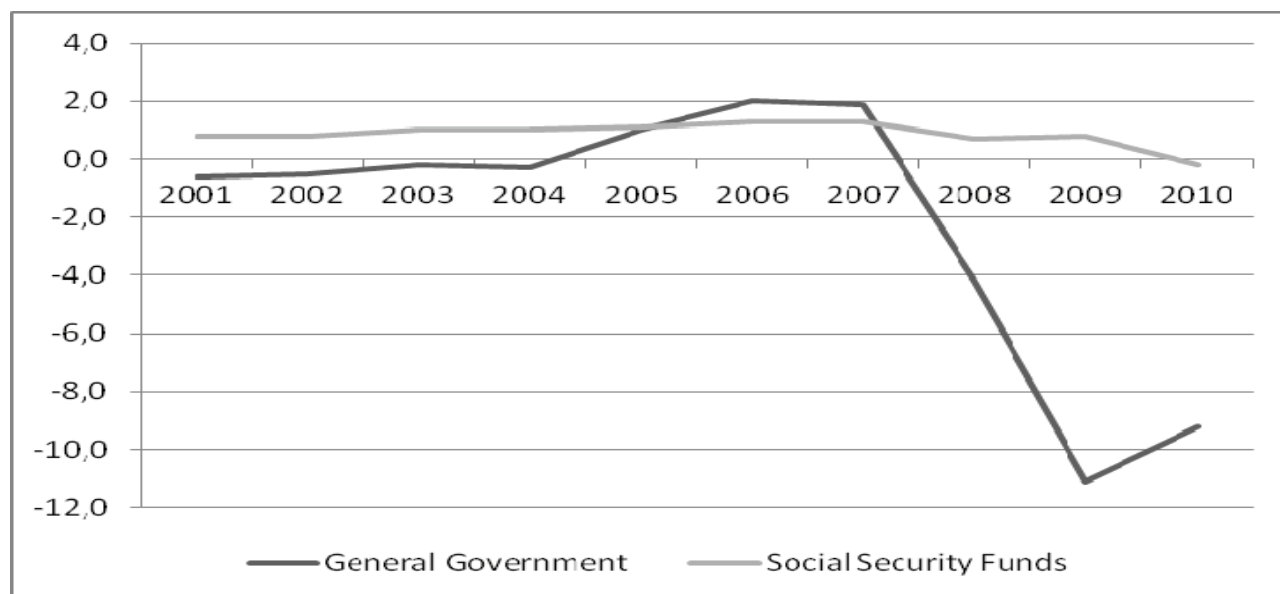
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4. Retrieved from: <http://rabble.ca/blogs/bloggers/progressive-economics-forum/2011/10/austerity-killsconservative-cure-worst-thing-wha>

complement expenditure cuts as the overall tax burden in Spain remains relatively low in comparison to other high-income European economies. Well-selected tax increases could also have a relatively more benign impact on activity than some expenditure cuts. Applying the higher VAT rate to more goods and services would be one possibility to raise revenues, as indirect taxation has a smaller adverse impact on economic activity than many other taxes' (OECD 2010: 12).

As a result of the adjustment programme, the budget deficit experienced a decrease from -11.1 in 2010 to -9.2 just one year later. In addition to the abovementioned policies, other initiatives have been implemented. Thus for instance, the local governments' deficit would be limited to 1%. Moreover, principles of stability have been introduced in the first reform of the Constitution in 33 years that was nonetheless passed without any consultation or referendum. These budgetary constraints may be detrimental to the quality of welfare services as local governments are responsible of health and education administration. There are already some far reaching cost-cutting packages being implemented at regional level in Catalonia, Madrid or Castilla-La Mancha.

**Graph 5: Government deficit and Social Security deficit in Spain (2001 - 2010).**



**Source:** Eurostat.

The discourse about unsustainability of the current public services model, including the health system, seems to be on everybody's lips. However, this contrasts with data showing that the deficit of the social security system is not so important when compared to the general public deficit (graph 5). As the debt crisis persists, many voices have begun to propose the co-payment model (both private and public) on health and education that is becoming a new roadmap for the reform of the public sector in Spain.

At the light of the above, we can think of several implications of the adjustment process for the Spanish economy. On the one hand, the reform process has not managed to address the structural problems affecting the Spanish economy. In spite of some measures aimed precisely at facilitating a gradual transition towards a more sustainable and high-productivity economic structure, little seems to have been achieved in this regard. At the same time, there has only been a cyclical reduction of temporary employment due to the fact that temporary workers are the ones to be laid off firstly. However, the structural level of temporary employment remains very high.

The expenditure-based character of fiscal adjustment is having very negative effects on the demand side hence limiting consumption and activity and reducing the prospects for employment creation. The concentration of spending cuts on public services such as education, health, housing etc. as well as the attempts in some regions to privatise some of these services, are moving the Spanish economy increasingly towards a more liberal economy. It can be argued accordingly that one of the most important implications of the recent crisis for Southern European economies in general, and Spain in particular has been the re-configuration of public sectors and more generally, the re-configuration of state role in the socio-economy.

## **Section III**

### ***The role and contribution of social dialogue***

At the light of the above, it is important to look into the contribution made by social dialogue. There are two main reasons why social dialogue and concertation could positively contribute to better face the economic and political challenges described above. On the one hand, by involving social partners and in particular trade unions, governments in the eurozone can rely upon an important policy tool like now wage policy. Moreover, negotiated reforms are in principle more effective as they are supported by employers and trade unions that could hinder the implementation of certain aspects through mechanisms like now collective bargaining, or resorting to industrial conflict in the case of trade unions. But concertation could also have a positive political contribution as it can help to socially legitimize government austerity decisions. In this vein, we could expect governments to be more eager to rely upon concertation in order to enhance both the effectiveness and legitimacy of the reform.

Thus economic emergency and democratic de-legitimization would in principle be positively associated with policy concertation and social dialogue. However, the Spanish experience during the crisis provides mixed evidence in this regard. In line with the periodization of the adjustment presented in the previous section, social dialogue has also had some significant ups and downs during the crisis. More specifically, it broke down precisely when economic conditions had

deteriorated significantly and the government had no option but to unilaterally undertake substantial reforms. But it was soon restored in order to negotiate a reform of the pension system.

### *The evolution of social dialogue*

The momentum taken by social dialogue in the years previous to the crisis came to a sudden halt in 2009 when no inter-confederal agreement on collective bargaining was signed. This ended with a period of seven years of uninterrupted bi-partite peak agreements establishing common principles for the development of collective bargaining. Even though this practice was restored some months later, this event showed the importance of economic conditions on social dialogue dynamics.

Tensions amongst social partners and the government reached a peak in 2010 when the government first announced a package of measures for fiscal adjustment and negotiations around a labour market reform broke down some days later. As a result of increasing external pressure, the government was forced to implement the labour market reform unilaterally and trade unions called for a general strike. Everything suggested that conflict would stay for long in relations amongst government, unions and employers in a context of increasing weakness of the socialist executive, high and increasing unemployment and weak growth prospects. However, the government maintained its commitment towards social dialogue and just three months later, talks re-started around the negotiation of a broad social pact including issues like pension reform, labour market and collective bargaining. Finally, on February 2011 the Social and Economic agreement was signed containing a pension reform that increased pensionable age until 67 and a commitment to negotiate in the forthcoming months a reform of the labour market and collective bargaining.

It is accordingly difficult to make an assessment of the contribution of social dialogue to allow a quick recovery and alleviate social tensions triggered by macroeconomic adjustment. On the one hand, social dialogue has played virtually no role in fiscal adjustment, where the government has intervened unilaterally first when cutting earnings of public employees and then when regional governments have introduced significant cuts in the provision of public services such as health and education which are now managed at regional level. The opposition of trade unions to these cuts took the form of a general strike in the public sector. However, this general strike had little support from citizenry as many people considered public sector employees in Spain as overprotected and benefiting from excessive employment stability and high wages. As a matter of fact, many criticisms were made to unions as they only mobilize once the executive touched the public sector, in spite of the steady deterioration in economic and labour conditions that affected Spain.

By contrast, social dialogue has played a major role in some of the structural reforms like now the labour market, pensions and collective bargaining. In the case of labour market, negotiated reforms have been criticized precisely because of their consensual character that according to many have limited their efficacy. This has also been the case for collective bargaining where negotiations amongst trade unions and employers broke down when an agreement seemed to be very close. The executive decided to legislate on this, but took the point when negotiations broke down. As a consequence, some authors have criticized a reform that has had little effective impact.

The comparison with a similar period in the recent history can help to identify the factors explaining this atypical pattern where general strikes and broad social pacts have occurred in a short period of time. Adopting a historical perspective, we could identify important similarities between the evolution of social dialogue during the early 1990s and the evolution during the most recent years. In both cases there was a Socialist government in power and the economic crisis led to a remarkable increase in the unemployment rate. Moreover, important spending cuts measures were also adopted in the early 1990s due to the need to comply with Maastricht criteria.

In spite of these similarities when one explores the role and outcomes delivered by tripartite social dialogue in these two periods, we also find remarkable differences. More specifically, whilst in the early 1990s all the attempts to negotiate social pacts failed and the government was forced to act unilaterally before the contestation of trade unions that called for two general strikes, in the most recent crisis we have found also some failures in negotiations and general strikes together with examples of successful tripartite negotiation and social pacts as has been showed.

One of the reasons for these observed differences has to be found in the years preceding the crisis and more specifically, in the political situation and the relationship between social partners and the executive. Hence, whilst the early 1990s' crisis was preceded by a period of conflict within union confederations as well as between unions, employers and the government, the recent crisis was preceded by intense and successful social dialogue delivering several bi and tri-partite pacts since 1998. Moreover, whilst the key issue in the negotiation of the early 1990s' social pacts was wage moderation, budgetary issues have played a more prominent role in the context of the recent adjustment. This seems to suggest that the vitality of social dialogue since the mid 1990s remains an important feature of the Spanish political economy notwithstanding the implications of the economic crisis.

## Concluding remarks

Since the beginning of the crisis in the early months of 2008, Spain has experienced an increasing deterioration in economic conditions and more specifically in the labour market. According to data released by the end of October 2011, the unemployment rate has reached a historical maximum of 21,5%. After four years of uninterrupted recovery plans and reforms, this data calls for an assessment of the characteristics of the adjustment and the extent to which it has contributed to address some of the structural failures of the socio-economy.

The picture that comes out from the analysis shows how, far from having solved these problems, the adjustment has delivered very poor results in restoring growth and tackling the deterioration in labour markets. Structural reforms were initially delayed and then subordinated to the needs for fiscal adjustment and the rescue of the financial sector. The expenditure-based adjustment has had two main effects on the economy. In the short term, it has further depressed demand hence limiting the prospects for a prompt recovery. In the long term, public sector adjustment and in particular cuts in public services together with privatization and liberalization have opened the door to a more significant shift towards liberal mechanisms for socio-economic coordination. Thus recent data about income inequalities reveals how Spain has been the EU country where these disparities have grown to a larger extent.

But the most important aspect coming out from the analysis of adjustment is the fact that the structural weaknesses of the economy, those that help explain not the crisis itself (as this has been common to all EU countries) but its depth and intensity, remain. In other words the abovementioned factors underlying the low productivity that exhibits the Spanish economy remain untouched. Labour market reforms have contributed very little to change the dualization that characterizes the labour market and that affects a large part of the working population, particularly those in the younger age groups. Moreover, the economy still relies upon labour intensive sectors with very limited impact of laws aimed at re-orienting economic activity towards sustainable paths. One additional aspect we have highlighted throughout the paper is the fact that the economic crisis is accompanied by a political crisis which goes beyond the ideological debate and constitutes a crisis of representation and legitimacy. The single European currency is now showing it is more than just an economic development as its stability has forced resignation of prime ministers in Greece and Italy. Moreover, the imposition of severe adjustment packages by a European technocratic economic governance mechanism in order to safeguard the Euro is having perverse effects on member states' democracies.

Even though this constitutes in itself a cause of concern, it also has negative implications for the economy as the weakness of the executive has reduced the effectiveness of its reform attempts. In order to circumvent this problem, the executive has always sought the support of social

partners, but the limited effectiveness of the negotiated reforms reinforce the idea that they have been conceived more as legitimating devices to accompany policies rather than a way of looking the contribution of social partners to enhance the effectiveness of the policy at stake.

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