

THE EASIEST CUT OF ALL: RETRENCHMENT OF THE SPANISH WELFARE STATE IN TIMES OF CRISIS

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Abstract

Based on the analysis of the main reforms carried out in the last 30 years on the Spanish welfare policies, this paper tries to anticipate its forthcoming future in the current situation of economic crisis. The Spanish Welfare State (WS) has been deeply reformed over the last decades. In general, changes have been expansive and incremental. However, despite the fact that WS is strongly supported by the Spaniards, several decisions of radical retrenchment on social spending have been made by governments. While the economic situation seems to be less important in incremental and expansive reforms, it reveals as a very important factor in achieving success in cutting back welfare policies. The economic crisis appears to be a necessary precondition for a radical retrenchment. With a crisis, even a left-wing government will be able to cut social policies that have generated strong commitments over the long term. In contrast, other factors that *a priori* might seem very relevant to predict a cut of the WS, such as a parliamentary absolute majority, or the fact that a right-wing party is in government, are insufficient to explain the cuts in times of economic boom. The analysis of several cases of retrenchment shows that in times of crisis, even when public opinion is contrary to it, governments decide to undertake cuts in the system. Crisis puts them into the situation of having to launch an unpopular reform and try to avoid being blamed by the citizens for it.

I. INTRODUCTION

In the second week of May 2010, the Spanish Prime Minister, the social democrat Rodríguez-Zapatero (PSOE) announced an important package of measures aimed to reduce public deficit. This package included hard cuts in social rights, like the elimination of some social benefits, freezing of retirement pensions and the first reduction of public officials’ wages (5%) in Spanish history. After a year of very strong foreign (EU, IMF...) and domestic pressures (political opposition, experts, academics, representatives from other state institutions, sub-national governments, media...) aiming to convince Mr. Zapatero to take anti-deficit measures, the Spanish Government has finally adopted them. The most important Spanish newspaper, *El País*, headlined on May 16th: “*PP² electoral advantage increases due to Government’s adjustment plan*”. The content of the adjustment plan took everybody by surprise, as the Spanish Prime Minister had repeated over and over again in Parliament that he would maintain his “social” commitments. But, is this reform truly surprising?

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During the 1990s, much of the most influential literature on the Welfare State (WS) held that, in spite of existing pressures (an aging population, postindustrialization or new social risks, changes in class structure or in the family sphere, economic globalization, European integration and the EMU), Western governments' ability to retrench the WS had been very modest, especially in some policy sectors, such as pensions or unemployment protection and in some kind of "frozen" welfare regimes (Pierson, 2001; Esping-Andersen, 1996). For a long time, the most relevant literature sought to explain this "modest reform" or even "non-reform" of the WS. Public opinion and vested interests linked to social policies were regarded as formidable obstacles to welfare reform (Pierson, 2001 inspired by Sckocpol 1992 and Weaver 1986). The government's tendency to avoid blame would explain why some politicians were so reluctant to make unpopular decisions on welfare reform.

Recent analyses, however, have detected some experiences of retrenchment, even radical retrenchment, around the world (Palier and Martin, 2008; Seeleib-Kaiser *et al.*, 2008; Starke, 2008; Vis, 2009). In the case of Spain, the WS has been deeply reformed over the last 33 years of democracy. In general, changes have been expansive and incremental. However, and in spite of not having achieved the same degree of development than other European WS, if we analyze it carefully we may observe that Spanish governments have certainly adopted retrenchment reforms of WS. Given that there is a strong citizen support for social protection in Spain, and given that governments usually do not tend to take electoral risks, these cuts have been carried out through hardly visible changes, incremental reforms performed by gradual changes in policies. Several decisions of radical retrenchment on social spending have been made (Del Pino and Ramos, 2009).

This raises the question of under which conditions do governments pursue unpopular social policy reforms for which they might be punished in the next election? Attempting to answer this question, this paper studies the main decisions of radical retrenchment on social policies in Spain, paying attention to political, social and economic determinants of such reforms (occasionally also failed reform attempts). This "*retrenchment episodes*" have been detected after studying the general path of the analyzed policies: retirement pensions and unemployment benefits. Policy trajectory analysis allows us to contextualize the "*retrenchment episodes*", which consist on deliberate and significant attempts to transform policies. These attempts have had different degrees of success. Analyzing a long period of time is the most adequate methodology to capture important changes in policies and the effects of these changes, specifically regarding to unemployment and pension policies (Clasen, 2005).

After analyzing each policy trajectory, an informed initial selection of several episodes has been made. This choice has been contrasted through the opinion of experts and actors involved in each policy. These episodes have been researched in a systematic way (Hall, 2006) using the conceptual framework described in the second section of this paper. Nevertheless, limitations of quantitative indicators (Green-Pedersen, 2004; Starke, 2008) and the aim of understanding the details of changes justify the use of other sources of information. The main source of information used in this paper is qualitative. It has been obtained through 25 interviews with a plurality of actors (politicians of different parties, high public officials, representatives of the main trade unions and employers associations) and experts (professors and researchers) involved in these policies in the last 20 years. Actors were interviewed during 2007 and 2008 using a semi-structured questionnaire including several blocks of questions regarding the

evolution of both policies and the economic, social, political and institutional factors that have affected them.. Afterwards, they were asked to analyze the selected processes of change in depth. The written sources utilized by the authors include scientific literature on the WS and the reform issues, official documents, institutional declarations and general and economic press news from for national newspapers El País, ABC, Expansión and Cinco Días. This information has been used to pursue a process tracing strategy to reconstruct some details of the change episodes, especially to cover gaps in actors' recollections.

Our main conclusion is that economic crisis appears to be a necessary precondition for a radical retrenchment. In contrast, other political factors that a priori might seem very relevant to predict a cut of the WS are insufficient to explain cuts in times of economic boom. We do not mean that public opinion is no longer important. It is. However, it is not always important in the sense described by the before mentioned authors. The role of public opinion should be analyzed in relation to the features of the context.

The remainder of the paper is structured as follows: in the next section, after a short review of the literature on WS reform, we present an analytical framework. Section three describes the main features of the economic, social and political context of Spanish WS in the last 30 years; in section four the case studies are presented, describing the fundamental features and institutional features of pensions and unemployment protection systems, the antecedents and the process of reform in Spain; then, in section five, the different outcomes of the cases are explained; finally, some tentative conclusions are presented.

II. AN ANALYTICAL FRAMEWORK FOR UNDERSTANDING REFORM IN THE WELFARE STATE

Clarifying the meaning of *reform* is one of the most polemic issues in WS literature. This discussion inspires many works that faced a so-called “*dependent variable problem*”. These articles debate how to estimate the direction and the scope of *reform*, regarding dimensions of WS change and best available indicators to measure change (Green-Pedersen, 2004; Palier and Martin, 2008).

The kind of WS change analysed in this paper is radical retrenchment. Starke defines it as the *political decisions to cut the level of social protection guaranty by the State* (Starke 2008:13). *In more concrete terms it could be define as those reform produces by decisions on public policy, often participated by other institutions and social actors.* Moreover, a wide concept of change is used, so it allows considering transformations of different nature in social policy. This option is justified by the wide catalogue of reforms developed in any WS. This catalogue is necessarily complex as governments have been forced to *become smarter* to perform WS reforms. Examples of this catalogue are changes in the structure, calculation rules or duration of pensions and unemployment benefits. Other reforms focus on eligibility criteria, establishing new rights, changing in service providers, etc.

Based on the pace of change, we will consider that a change is *radical* when it produces immediate effects. It is easier to reach a consensus on *incremental reforms*, thus this kind of reforms tends to be more peaceful. Governments also may prefer incremental changes as they involve less electoral risks, especially regarding social

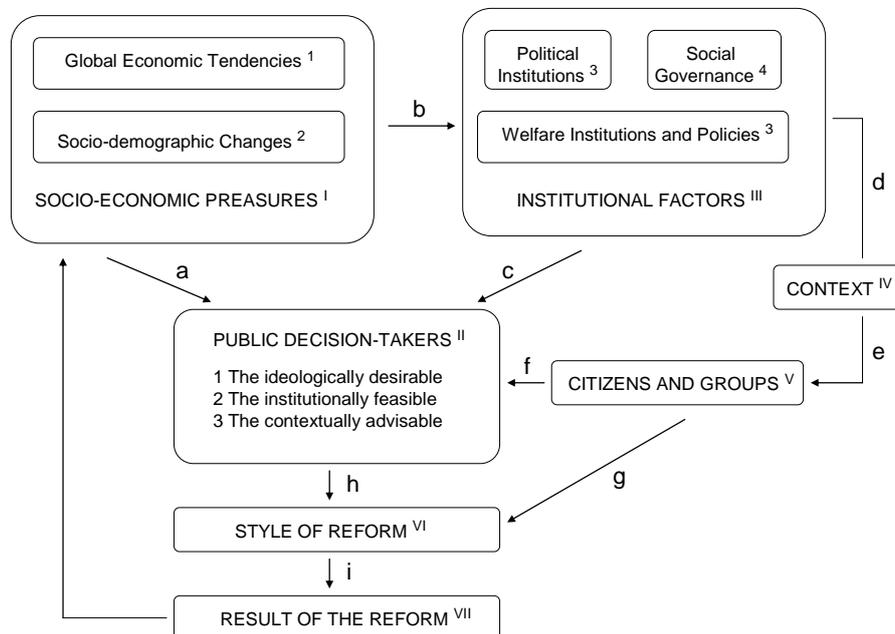
policies, which are very visible programs appreciated by the great majority of citizens in almost all Western countries.

Regarding effects on citizens, it is possible to distinguish between *expansion* and *retrenchment* from the *status quo* (Clasen, 2005). Even though we are open to observe any kind of change, this paper is primarily interested in changes with a *visible effect on citizens*, in the way that citizens see how their rights and benefits are broadened or cut after the change.

Regarding the process of change in the WS, in the last years a great amount of evidence has been collected attempting to prove how a few variables affect WS reform. Nevertheless, we don't have a comprehensive theory which can answer some important questions regarding the whole process of change: When does change happen? Why does it happen?, and which actors and institutions are the main determinants of its result? Obviously, the ambition of this section is not to present a global theory on WS change but trying to identify some variables which allow generalizing, and defining and establishing some plausible relationships between these variables.

A priori it is possible to assume that changes in social policies are provoked by different factors, some of them external to the political system implying pressures on it (see I, in figure 1). Socio-demographic changes, like the ageing of the population, post-industrialization effects, the so-called *new social risks* or changes in the family sphere; economic globalization or European integration challenge governments to reform their social policies (Scharpf and Schmidt, 2000; Pierson, 2001; Taylor-Gooby, 2004).

Figure 1. The Change in Welfare State.



Source: own elaboration with ideas of Pollit and Bouckaert (2004).

A solid WS is neither incompatible nor harmful for economic growth (Lindert, 2004). Nevertheless, contemporary neoliberal economic orthodoxy and a *permanent austerity* context (Pierson, 2001) facilitate that the above mentioned factors incline the governments' will to retrenchment of benefits and services (Clasen, 2005). Globalization, immigration and ageing of the population are usually defined as

'negative' public problems which make some degree of WS retrenchment advisable, instead of being interpreted as unavoidable grounds to expand WS.

Even though it could be assumed that such pressures would facilitate WS retrenchment over expansion (Seeleib-Kaiser *et al.*, 2008), the analysis of dozens of reform experiences have proved that there are a variety of changes in reality. Therefore, it is possible to think that the intensity and pace of pressures, the ideas of decision-makers and actors, the institutions, the public opinion, produce different contexts of change and shape it differently.

Public decision-makers (see II and line *a* in Fig. 1.) interpret pressures and they generally do so from three different points of view. Firstly, it seems reasonable that the ideology of the political party in power matters in the following way: social-democrat or christian-democratic governments, traditionally WS advocates, even assuming their willingness to cut WS in the current context, would advocate a moderate or '*less harmful*' retrenchment, followed by expansive measures for some social groups (*ideologically desirable change*). It seems also reasonable that public decision-makers anticipate institutional configuration effects and this might reduce their reform expectations (*reform institutionally feasible*; see lines *b* and *c*). Finally, it should not be forgotten that the WS and public decision-makers face pressures of different magnitudes. Nevertheless, it is possible to establish that probably the reform which would have been considered advisable by a public decision-maker would be different that the reform chosen given their ideological preferences or the institutional restrictions (*reform contextually advisable*).

Studies about the impact of institutional designs tend to confirm that institutional fragmentation makes policy changes more difficult (see III, 3 and 4 in Fig. 1). In this sense, the more veto points or veto players, the more difficult for a government to make any kind of decision regarding the WS (Tsebelis, 1995; Immergut *et al.*, 2001). Thinking, for example, in welfare policy retrenchment, the existence of institutions favouring left wing mobilization might hinder change. The presence of mechanisms to integrate trade unions in the policy-making process (Ross, 2000; Ebbinghaus, 2002) or the existence of proportional electoral systems, would probably lead to less innovative results or even to the absence of that reform (Starke, 2008). The territorial structure of the State might also matter. It is possible that subnational left-wing governments might oppose reform initiatives from the central Government.

Resistance to change by welfare institutions and policies (see III, 5 in Fig. 1) has been considered as an important obstacle to WS reform (Pierson, 2001). Four institutional variables characterize welfare programs (Bonoli and Palier, 1998): 1) eligibility criteria to receive a benefit; 2) nature and levels of in kind and in cash benefits; 3) financial mechanisms; 4) management and administration agents. The configuration of these dimensions affects the capacity to reform. It has been argued that a contributory system, with monetary transfers and social agents relevantly involved in management is more difficult to reform. Equally, long tradition programs with a wide number of middle class beneficiaries are also more resistant to reform, especially if beneficiaries are organized.

The context -e.g., economic context- (see IV, *d* in Fig. 1) has deserved little attention in reform analysis (an exception is Starke, 2008). Nevertheless, it is possible that governments find more arguments to reform during crisis than during periods of economic growth. The wide citizen support of WS, makes it reasonable to suppose that

WS reform requires sooner or later some *blame avoidance* government strategies (see V, *e* and *f*) (Pierson, 2001). It is possible to assume that a political party in power will pursue strategic goals tending not only to achieve reform (*policy-orientation*), but also in order to avoid being punished by reform (*office-orientation*). As we have shown, decision-makers do not act in a vacuum. To the extent that institutional characteristics or welfare policy configurations might mobilize voters more efficiently (see *d*, *e*), such strategies, which are called here “*style of reform*”, should be carefully taken into account by the decision-maker (see *g*).

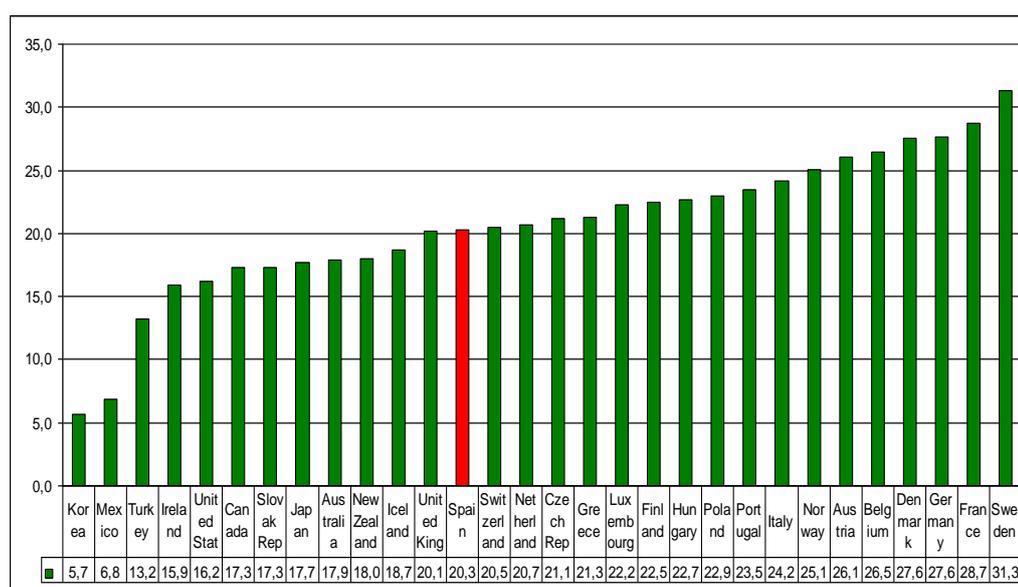
Finally, the *style of reform reflects*, the notion public decision-makers hold of the exercise of power, its definition, its purpose, and its use in a given social, economic and institutional context (see V in Fig. 1). He who proposes reform might be more or less open to negotiate (*imposed or negotiated reform*); might incur in a narrower or wider catalogue of interests for any of the pursued goals (*set menu or a la carte reform*); or might be more or less opened to use arguments, discourses or evidences in order to convince the other actors (*reform with or without persuasion strategy*) (Schimdt, 2001). With a *negotiated, a la carte, with persuasion strategy reform*, the result might be less transforming. However, it might favour its implementation (see VI). Such a reform would make decision-makers better equipped to deal with a complex institutional configuration. In other case, the reform or even their institutional position might become at risk.

III. FEATURES AND CONTEXT OF THE SPANISH WELFARE STATE

General outline of Spanish Welfare State

The Welfare State developed systematically in Spain with the re-establishment of democracy in 1977-78, and especially after the social-democratic PSOE took office in 1982. Spanish WS, in its current version, is the result of an evolutionary process parallel to other processes developed during the last decades elsewhere: political decentralization, economic development and social and administrative modernization.

Figure 1. Social Expenditure as a percentage of GDP (OECD countries, 2005)



Source: OECD web page 15/05/2010.

The country has put in place a universal education system, free and compulsory between 6 and 16 years of age. A National Health System provides primary and specialist care since 1986. It is generally considered as fair, efficient and with high quality levels compared with other European health systems. The pension system is a public *pay-as-you go* one, based on social contributions, and includes benefits for retired and disabled persons, and for their surviving relatives. A non-contributory pension system was introduced in the beginning of 1990's to protect citizens not covered by the contributory system. A network of social services was also developed, including attention to dependent persons. Lastly, it is worthwhile mentioning the system of unemployment protection, based on contributory and non-contributory benefits.

Social expenditure over GDP is low compared to other European WS (see Figure 2). Due to the limited development of WS and the important role played by the families, the Spanish welfare regime is a peculiar one which does not fit in the three Esping-Andersen (1990) classic types. In fact, Spanish WS is usually classified as Mediterranean type (Ferrera, 1996; Moreno, 2000).

As a result of a strong process of decentralization, most welfare services are delivered by regional (*Comunidades Autónomas –ACs*) or local governments, in a complex intergovernmental system in which non-public actors play a relevant role. Nevertheless, the central government maintains primary responsibility for pensions and unemployment benefits.

The Context of Welfare Reform Processes in Spain

Economic context

The first years of democratic transition (late 70s and early 80s) was a period of economic instability, with low growth rates of GDP per capita. From 1984 to 1991 there was a rapid increase of GDP per capita. Nevertheless, the increase of active population during these years (due to baby-boom generation entering the labour market and the increase of female activity rate) kept unemployment rate much higher than the EU average. The early 1990s were years of low economic growth and restrictive monetary and fiscal policies, aiming to control inflation and public deficit, in order to enter the Euro currency. From the mid 1990s until 2007 the Spanish economy experienced a continuous expansion cycle, with moderation of inflation rates and a rapid increase of job creation. This cycle helped reducing the per capita income differential with some of the richer countries of the EU. From 2008, world financial crisis hit severely Spain.

Unemployment is one of the structural problems of Spanish economy since the 1970s. From the mid-1980s until the mid-1990s the unemployment rate was quite high, reaching near 25% of active population. From the mid-1990s, the expansion cycle helped to reduce unemployment rate to 8%, still higher than European average during these years. Nevertheless, the current crisis has increased rapidly the unemployment rate up to 20%.

Spanish public expenditure was lower than European and OECD average during the analysed period (Navarro, 2007). Between 1975 and 1993 there was a significant and continuous increase of government spending, but from 1994 this tendency started to reverse. For the first time in the Spanish democratic era, in 2005 there was a public budget surplus, which continued until 2007. From 2008 onwards, the situation has been the opposite, with increasing budget deficits provoked by the economic crisis.

Inflation was a problem during the democratic transition, with an inflation rate around 20% in the late 1970s. The 1980s are a period of still high, but decreasing inflation rate. Since 1993, this phenomenon seems to be under control, with annual rates lower than 5%, induced by the restrictive policies applied to enter the Euro (Guillén, 2007).

Socio-demographic context

There is general consensus in viewing the combination of low birth rates and increasing life expectancy as one of the strongest pressures on Spanish WS. In fact, the Spanish birth rate is much lower than in other European countries such as France (1,34 vis-à-vis 2). Life expectancy, on the contrary, is comparatively high (80.23 vis-à-vis 78.3 years in Europe).

Female employment rate has grown in Spain almost 25 points in the last 15 years, reaching 55%. However, this rate is still smaller than the EU average. These tendencies of social change have a very important effect on the sustainability of the Spanish WS system, due to the role of women as informal caretakers.

In the last decades, Spain has turned into a net receiver of immigrants. Currently, immigration accounts for more than a 12% of total population and makes a positive contribution to economic growth, due to the increase of fertility rate and economic activity. In the current situation of economic crisis, immigration has started to be viewed as a problem for governments. However, the most important challenge will arise in the medium term, when immigrants will get to retirement age at the same time than baby boom generation will (Dolado and Vázquez, 2008).

Institutional context and public opinion

Spain is a parliamentary system with a strong executive. The political system has evolved from a consensual to a majority model (Hopkin, 2005). Two state-wide political parties predominate at the national level: PSOE, (a social-democratic party) and PP (a center-right party). Besides these two parties, Izquierda Unida (IU), which is placed to the left of PSOE, has representation in Parliament. Some non state-wide parties have played an important role in governmental stability. As mentioned above, subnational governments play a basic role in most welfare policies, like education, health care, social services, although pensions and unemployment benefits remain a central government competence.

In the last 25 years the two major parties have alternated in power. PSOE party took office for four terms between 1982 and 1996. PP won in the two following general elections (1996 and 2004) and PSOE got back to office in 2004 and kept power in 2008.

PSOE, after taking office for the first time in 1982, opted for pragmatic and moderate policies, far away from the social policy expansion which inspired its political program for the election (Méndez, 2005). Nevertheless, it should be recognized that PSOE has played a very important role in tax modernization and WS expansion. From 1993, the social expenditure increase started to slow down, and the gap with social expenditure average in EU-15 began to expand. The PP has also followed a pragmatic policy regarding WS in order to broaden its voter base (Balfour, 2005). Nevertheless, some PP initiatives during its second mandate, alongside explicit discussions about the PP's position on the role of the State in the economy and certain policies developed by

PP-ruled regional governments show that there are internal discrepancies regarding these questions.

The two most representative trade unions, UGT and CCOO, align to ideological left wing. The main employers' organization, CEOE, has traditionally expressed a better understanding with PP. The relationship between social agents and the government has experienced ups and downs during the current democratic period. Consultation is present in the Spanish model since the democratic transition. It has been usually promoted by the State and has been affected by economic and political factors. This pattern of relationship, also known as "social dialogue", has been classified as pseudo-corporatist or weak corporatism (Oliet, 2004: 15; Pérez-Yruela and Giner, 1988). In general, the renewal of trade union leaders and a certain kind of cultural change have contributed to develop a less conflictive relation model between social partners and governments compared to the existing one to the beginning of the 1990s.

Table 1. Percentage of the population in various Western countries answering that the Government should spend "more" or "much more" money in some welfare programs

2006	Australia	Canada	France	Germany	Ireland	Norway	Spain	Sweden	Switz.	UK	US
Health-care	90	77	60	66	93	86	87	80	48	82	80
Education	80	66	59	82	88	62	87	53	70	73	83
Old-age pensions	54	53	46	52	90	59	83	61	55	74	64
Unemp. Benefits	12	26	14	33	54	19	59	25	29	16	37

Source: Calzada and Del Pino (forthcoming) based on The Role of Government, 2006. Question: *Please show whether you would like to see more or less government spending in each of the following area. Remember that if you say "much more" it might require a tax increase to pay for it.*

In general it has been established that Spanish citizens clearly support WS policies (Table 1). Supporters for increasing public expenditure on health care and education are majority, even among those who are dissatisfied with the WS efficacy (Calzada and Del Pino, 2008).

General trends in Pensions Policy

The remote origins of the current pension system are the social reform initiatives taken in Spain in the first three decades of XX century. However, it was not until the 60s when the basis of the pension system of the democratic transition was established. Spanish pension system is composed of a general regime (which protects the majority of workers) and a diversity of special regimes. It is a pay-as-you-go system, thus its economic sustainability depends on the ability to reach and maintain an equilibrium between the collection of social contributions and the global expenditure in pensions. Achieving this equilibrium and rationalizing the structure and management of the system have been among the priorities of successive governments (Rodríguez-Cabrero, 2005; Chuliá, 2007).

During the period of political transition (1977-1982), economic crisis and social tensions were managed partly by means of broad social agreements. These agreements implied the increase of the role of government as formal welfare provider. At the same time, reforms to rationalize management structures of Social Security were taken.

During the first fourteen years of PSOE mandates (1982-1996), being Prime Minister González, the pension system was shaped into its current form. Among the most important reforms of this periods are: the redesign of the system by *Law 26/1985*; the initial regulation by Law of private pension plans and funds in 1987; the internal Government discussions regarding the financial structure of the Social Security in the

late 1980s that lead to separation of Health Care Expenditure and Expenditure on Pensions; the creation of Non-Contributory Pensions by law in 1990, and the discussion of a broad agreement about the continuity of the pay-as-you-go public pension system, signed in 1995 and known as *Toledo Agreement*. This agreement works as a general framework for pension reform in Spain. During this period, there was a tendency of increasing number of pensioners, and an effort to rise pensions (specially the lower ones) was taken, while a full awareness on the sustainability problems of the system appeared (Mota, 2006:36-42).

Between 1996 and 2008, there were two terms of PP, being Prime Minister Aznar in office, followed by PSOE Prime Minister Rodríguez-Zapatero, who assumed office in 2004. During these terms the reform initiatives were proposed, justified and developed based on the diagnosis and recommendations established by the *Toledo Agreement*. *Law 24/1997* introduces several modifications in Social Security benefits. In 2003 and in 2007, some aspects of the pension system were again reformed through *Law 40/2007*.

General Trends in Unemployment Protection Policy

Protection against unemployment is directed towards “those who, wanting and able to work, lose their jobs or have their ordinary work hours reduced”. There are two levels of protection: 1) the contributory level and 2) the assistance level, for those who, having at first had a contributory benefit, are no longer protected by it. In addition, there is the so-called *insertion income* directed towards the groups that cannot be covered by either of the above measures. The management of unemployment benefits corresponds to a public organism, the State Public Employment Service (SPE).

The first important reform of Spanish labour market from the re-institution of democracy, carried out by POSE in 1984, aimed to fight high unemployment through introducing temporary labour contracts. Even though this reform had a positive effect on job creation, helped by entrance in EU in 1986, the unemployment rate remained high, due to the increase of activity rate, mainly female activity rate. Reform also helped to create another problem of Spanish labour market: the increase of temporary labour contracts. The high and persistent unemployment (25% in 1994) and its high temporary character (affecting 35% of employees in 1995 and still over 30% in 2010) have inspired several labour market reforms, with different degree of consensus between the social agents (Marbán, 2005).

The unemployment problem significantly shaped the design, during the 1980s, of a social protection system oriented to avoid social revolt in the middle of democratic transition. The duration and coverage of unemployment contributory benefits, regulated by the *Basic Employment Law* of 1980, were broadened substantially in 1984 and 1989. Nevertheless, the 1992 reform – presented at some length below- and the 1993 reform had a clear retrenchment character (Arango, 2000). These reforms were followed by others, with a smaller scope, which had a global restrictive character (Cabeza-Pereiro, 2003).

The second reform analysed here is *Royal Decree 5/2002* which became *Law 45/2002*. This reform was proposed by a PP Government, which enjoyed absolute majority in the Parliament. It included cuts in unemployment benefits and introduced the *activation principle*, attempting to force beneficiaries to carry out an active job search.

From 2003 to 2009, with different PP and PSOE Governments, social dialogue has been a prominent feature in this policy area. After some minor reforms of the system in 2003 and 2005, the last reform with a larger impact on unemployment benefit was taken in 2006, aimed at favouring permanent labour contracts and improve protection to some specific groups. The current economic crisis and its brutal impact on unemployment in Spain have brought the debate on the functioning of labour market and unemployment protection back into public discussion.

RETRENCHMENT IN PENSION AND UNEMPLOYMENT BENEFITS POLICIES

The 1985 Pension System Reform

The final result of this process is the promulgation of *Law 26/1985, on Urgent Measures to Rationalise the Structure and Protection of Social Security*. This law is a good example of retrenchment reform, responding to a crisis situation and having fundamental consequences for system configuration. The reform is the Government's answer to the need to adjust the pension system rules to economic and social reality, while acquiring a commitment (still valid) on its basic nature as a public, pay-as-you-go system.

This reform was proposed in a context of economic difficulties with high levels of unemployment and social tension. It is also important to take into account that in the years preceding the reform, there was a consolidated tendency to increase the number of pensioners and the amount of new pensions (Barrada, 1999:407).

The reform initiative was taken by PSOE Government, presided by González, who obtained a clear absolute majority in Parliament in 1982. The Government was involved in a wider program of economic and administrative modernization, territorial reorganization and EU accession. The Social democrat executive faced the challenge to combine the electoral promises included in a reformist program with the restrictions imposed by the economic context. This situation affected negatively the relationship between the Government, which had to prove management capacity to a part of Spanish society and international observers, and the trade unions.

The reform proposal was made by the Government and was presented as a set of measures aiming to respond to “... *most notorious and urgent deviations and faults (of the system) which are putting (its) sustainability in danger*”³. Its objectives, as written later in the *Law* included: “... *reinforcement of professional, contributive and proportional character of unemployment and disability pensions, improvement of non contributory protection; improvement of efficacy of protection through restructuring resources, rationalizing the structure of the System*”⁴. The proposal had to face, from its early stage, a strong opposition by the other political parties and trade unions. CCOO called for general strike in June. The *Law* was approved by an *urgent parliamentary procedure* in two months and a half.

The content of the reform included several important aspects of system design. The number of years contributing to the system necessary to earn the right to a retirement pension expanded from ten to fifteen. The period of contributions taken into account to

³ Preamble to the *Law 26/1985*.

⁴ See note 3.

calculate the amount of the pension raised from two years to eight years prior to retirement. Some of these measures aimed to cost-containment and fraud control, while other changes tried to increase protection levels for the most vulnerable groups and to maintain the purchasing power of pensioners. Despite the hard opposition existing during the formulation and approval of the reform, most actors involved in it make a positive retrospective evaluation of its effects.

The 1992 Unemployment Protection Reform

In 1992, President González (PSOE) was leading his third term, which started in 1989 with absolute majority. The reform analysed here ended just before 1993 general elections. PSOE won again this election, but only by a plurality. There are two main grounds that seem to justify this reform. Firstly, the high increase of unemployment benefits spending between 1984 and 1992. This increase created a high financial deficit to the system, due to excess of temporary labour contracts, wage increase and expansive reforms in unemployment benefits between 1984 and 1989. The unemployment rate got close to 25% and the deficit was rocketing. This extremely dangerous situation for the Spanish Social Security treasury led the government to issue more public debt. Secondly, this reform coincided with the Maastricht Agreement in February 1992, for the Economic and Monetary Union., which trade unions conceived as “*an instrumental excuse for cutting benefits*”, and required Member States strict convergence criteria relating to inflation, interest rate, currency exchange rate, public deficit and public debt.

In February 1992, the Minister of Labour announced in Parliament that the government was preparing measures to cut spending and unemployment protection. In March 1992, the Minister of Economy, Solchaga, presented a Convergence Plan, which should be sent to the EEC. This Reform reduced unemployment benefits and hardened the requirements to access to benefits. The Minister explained that this retrenchment sought the elimination of two main faults of the existing regulation: “*abusive use*” by companies of temporary labour contracts and “*erasing social parasite*” generated by a system that did not incentive to get back to work. Interviewed actors and experts expressed a consensus about the fact that this reform “*did not show an ideological change by the Government, about how to articulate unemployment protection*”. Many considered that it was an “*unavoidable*” reform. A public representative during the reform expressed that “*public opinion... was majority against the reform... because they did not know the Spanish public finance situation...*”.

The government passed the *Royal Decree of Urgent Measures of Promoting Employment and Unemployment Protection*. Certain left-wing sectors of the political party in government (PSOE) were against the Decree. Conservative PP considered that the retrenchment was a “*useless infuriation*”. Trade unions warned the government about a “*long and heavy period of protests*”. Despite some contacts between the social partners and the Government, negotiation did not prosper. Trade Union leaders, after meeting with the main opposition party, the conservative PP, declared that PP was “*closer to trade union ideas than Government*”. Finally, trade unions called for a general strike on 28th May 1992.

After the strike, most political parties opposing the Decree minimized the strike effects and criticised it, asking trade unions to change their behaviour and attitude. Trade unions seemed to carry on negotiation without deadlines and previous conditions, accepting eventual ‘*substantial changes*’ in the Decree. Nevertheless, the reform was approved by Parliament with the votes of PSOE and the sub-state nationalist party CiU,

the surprising abstention by PP (which had been very critical during the process of reform) and other smaller parties voting against the reform.

None of the interviewed actors omitted the word '*retrenchment*' referring to this 1992 reform, beside other expressions like '*adjustment*', '*restrictive reform*', or '*rationalization*'. Both 1992 and 1993 reforms limited access and duration of benefits, transferring many beneficiaries from contributive to social assistance benefits, reducing the amount of both kinds of benefits. The joint effect of both reforms (which eliminated Income Tax exemptions for unemployment monetary benefits) is clear: if before the reform there were "*almost two million people perceiving some kind of unemployment benefit, coverage rate on registered unemployment was around 67%, in 1998, there are only one million of beneficiaries and a coverage rate that had lowered to 49%*" (Argandoña, 1999:47). Even though these figures are also justified by the economic recovery starting in 1995, it is clear that the number of unemployment benefit receivers decreased faster than unemployment.

The 2002 Unemployment Protection Reform

In 2002, when the PP had an absolute majority in Parliament, the government prepared a project to reform both the protection against unemployment and the farmers agrarian subsidy. Despite the fact that there had been a period of job creation, factors such as the massive incorporation of women to the labour market had led to persistent unemployment. The current context of economic improvement was presented as an opportunity to adopt reforms. The European Employment Strategy itself has insisted on the joint use of active policies in order to get workers back into employment more quickly. The idea was not new in the European context, since other countries in addition to the Nordic countries and the UK had begun to set up similar reforms.

The proposal presented by the government in 2002 established new requirements for access both to unemployment benefits and unemployment subsidies (now, the worker was not only required to prove that he was in a legal situation of unemployment, but also had to sign an *activity commitment*, committing himself to enter an insertion itinerary, to actively seek employment, and to accept an *adequate position*⁵). Those considered passive workers were, thus, excluded.

In April 2002, the Minister of Labour delivered a draft version of the reform project to the social partners, noting that there is "room for dialogue, provided the proposals fit the objectives of the government." The unions described the reform project as "unilateral" and rejected any negotiations. A few days later, UGT and CCOO announced a "sustained, comprehensive, strong and unified response" to what they consider an "aggression" to workers.

Left-wing parties exploited the way in which the project was presented by the Government to depict it not only as an "anti-social policy" but also as a further example of a "curtailment of freedoms". The Economic and Social Council, a consultative body on labour and social issues, expressed his concern about the deterioration of a model of industrial relations based on social dialogue "that is envied in Europe." The premiers of the regional governments of Andalusia and Extremadura (PSOE), in addition to

⁵ After a year of uninterrupted collection of the benefit, the unemployed worker must accept any job offered, even with a salary below the amount of the benefit, and within a radius of 30 kilometres, with a displacement cost below 20% of the salary received. In addition, compensation to people over the age of 52 due to employment regulation is incompatible with the benefit.

criticizing the substance of the reform, complained that the central government had not forwarded the proposal to them. Meanwhile, the main business organization CEOE supported the minister and asked him not to withdraw the project. On April 29, unions CCOO and UGT demanded Prime Minister Aznar to withdraw the project, under threat of a strike. Moreover, they reported in the media that the government was seeking to impose "extremely tough cuts" on social rights and an "unfair and unjustifiable" package of measures regarding which there could be no negotiation. In mid-May, they called a general strike for June 20. Just one day later, the government approved the reform. The parliamentary ratification of the Royal Decree was passed with the votes of the PP only. PSOE and IU, as well as four ACs governed by the socialists lodge two challenges against the approved text.

Twenty days after the strike, Aznar announced the replacement of nine of his ministers, including Aparicio, Minister of Labour. The unions considered the removal of Aparicio to be a consequence of the successful protest. From the outset, the new Minister, Zaplana, showed himself willing to negotiate some other issues regarding working conditions. The unions linked those declarations to the withdrawal of what they described as the "Decretazo". At the end of September, Zaplana unexpectedly announced that in early October he would communicate some changes in the reform to the unions. Despite some initial distrust and suspicion, Zaplana's changes were receptive to the unions' claims.

The result of the reform shows the original aims of the government were significantly reduced. In the new text, the concept of 'adequate job' had become more lax, and the signing of the so-called 'commitment to activity' was not mandatory during the first 100 days of unemployment. Trade unions, some academics and political analysts agree that the reform was a "failure".

CONCLUSIONS: UNDERSTANDING RETRENCHMENT DECISIONS IN SPAIN

With the aim of understanding when and how unpopular social policy reforms are undertaken by governments, this paper has studied the main decisions of radical retrenchment on retirement pensions and unemployment benefits in Spain, paying attention to the political, social and economic determinants of such reforms. This "*retrenchment episodes*", detected after analyzing the general path of the policies, consist of deliberate and significant attempts to transform policies.

In Spain, we have argued, although main social policy reforms have been *incremental* (Del Pino and Ramos, 2009), some *radical retrenchment* episodes have been approved by governments, with a large scope and visibility. Instances of such retrenchment have been the emergency reforms of the pension system in 1985 and reform of the unemployment protection in 1992. Other attempts at *radical retrenchment reforms* did not succeed, such as the 2002 unemployment protection reform. The aims of these reforms were manifold: to tight access requirements to benefits, modulation of amounts and reduction of the length of benefits.

Regarding the factors accounting for these reform episodes, governments from diverse party-political orientations have seemed to assume the idea that in order to maintain the social welfare system, economic competitiveness had to be protected in a global economy context. This implied that, despite the WS contribution to maintaining social equilibrium, it should not be a burden for the economy. This global demands on

the system put a strain on all policies based on monetary transfers, especially those financed through social contributions, which can act as *'extra costs'* for companies. Moreover, demographic changes (higher life expectancy, lower fertility) are decisive for bringing about retirement pensions reform proposals. The definition of social problems and EU initiatives seem also to have greatly influenced the way welfare policy reforms are faced in Spain.

Regarding context, *radical retrenchment* of the system had been attempted both during times of economic crisis and economic growth. Nevertheless, as we have shown, only the attempts occurring during economic crisis have been successful. While context seem to matter less for *incremental reforms* (Del Pino and Ramos, 2009), it seems to be a necessary condition for successful *radical retrenchment*. If serious and imminent economic problems are not present, it seems that there are not enough incentives for ambitious reforms, especially if these reforms are unpopular. This produces a dangerous paradox: precisely at the point when there are better economic conditions to undertake anticipative or preventive reforms, allowing for the setting up of attenuation mechanisms for the most *painful* effects of such reforms, it is not easy to reach enough political thrust to pursue those reforms. In the second section we hypothesized that, regardless of government ideology, in a context showing no meaningful questioning of the neoliberal economic orthodoxy, governments would tend more to retrenchment than to expansion of WS. The main political forces have reached a consensus about the idea that Spain, as an advanced democracy, cannot renounce to WS. More expansive reforms of WS were pursued during the 1980s, with a social democratic party (PSOE) in office both at the Central Government and in most regions and municipalities. The right-center party, PP, showed some resistance to some of the most relevant social policies. Nevertheless, the paradox is that the PSOE has overall adopted the most radical retrenchments (and some incremental cuts) in WS, such as the 1985 pension reform, or the 1992 *unemployment reform*. This does not mean that the PP did not try to cut WS policies. Nevertheless, despite its attempt in 2002, the PP was not able to pass a radical reform. The main difference comes from the context: while the PSOE needed a context of economic crisis to reform, PP attempted it in a period of sustained economic growth.

In the Spanish case, welfare policies are highly decentralized, with the exception of pensions and unemployment benefits, which are still controlled by Central State. Even regarding those policies Autonomous Communities play an important role. ACs have emerged as significant political actors that take position on reforms promoted by the Central Government and have the capability of putting any government pursuing retrenchment into trouble. An example of this was the failed attempt of reform of the unemployment protection in 2002, when ACs ruled by PSOE opposed PP Central Government.

Regarding the trade unions role, the so-called *social dialogue* as a working arrangement for decision-making has many advantages, agreed by all actors. Nevertheless, it is important to note that radical retrenchments in pensions or unemployment benefits have been produced by radical changes approved without social dialogue and have motivated energetic protests by citizens.

Spanish public opinion is clearly pro-Welfare. Expansive reforms of welfare have been always approved by citizens. Furthermore, retirement pensions and unemployment benefits are policy sectors with a high and sustained support by citizens for a long period of time. General complaints about these policies are that they are insufficient and only a very small percentage of citizens consider that public expenditure on pensions or

unemployment protection is excessive. Synthesizing Pierson (2001) and Weaver (1986) arguments, public opinion matters as governments decide not to reform policies if they think they will be punished in next elections. In the case governments decide to reform, they will try to search for blame avoidance mechanisms to avoid electoral punishment. Thus incremental reforms are more probable. Nevertheless, *radical retrenchment happens*. By analysing radical retrenchment attempts, it could be shown that public opinion is one factor to take into account, especially when trade unions use their mobilization capacity. However, even if relevant, the weight of public opinion not always works in the direction foreseen by the aforementioned authors. In the analysed cases, strong public opinion opposition to reform led to two different results. While in 2002 the intense mobilization of public opinion managed to stop the reform, in 1992 the government managed to approve it and implemented it. This happened even though in both cases governments counted on absolute majority in Parliament and may have approved the reforming acts.

Therefore, it seems that the role of public opinion should be analysed alongside contextual factors. During growth periods, the only fear for a government is to be punished in next election due to an unpopular reform. This is an unnecessary risk to take. The first successful radical retrenchment reform in Spain was taken in a context of economic crisis. This does not mean that the government was not concerned with electoral consequences. As a matter of fact, the government came to the conclusion that the electoral consequences would be much worse if, in case of *not doing anything*, the situation deteriorated. So, there is only one exit facing governments: to pursue unpopular reform and then hope to be able to elaborate a credible discourse to avoid (or minimize) electoral punishment.

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