Development Policy-Making in Democratic Spain

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1 INTRODUCTION

1.1 From Democracy to Democracy

The Spanish experience does not seem to show a unilinear relationship between democracy and economic development. Under the dictatorship of General Franco, Spain experienced a deep recession in the 1940s, as well as the fastest economic growth in contemporary Spanish history in the 1960s. Democracy has also been compatible with both a bitter recession, from the mid-1970s to the mid-1980s, and visible expansion in the second half of the 1980s, as shown in Table 6.1.

From the point of view of development, the recent trends of growth in the 1960s, recession in the second half of the 1970s, and expansion at the end of the 1980s, have emphatically reflected the international trends of their respective periods. This relationship between Spanish development and international economic trends has been significant, from 1959, when the Spanish economy was opened up to international trade, migration and investment.

But from the point of view of democracy, the key issue is the comparison of the instability of the Spanish republic in the 1930s, which ended in a bloody civil war, and the stability of the parliamentary monarchy since the end of the 1970s. Clearly, economic development contributed to the creation of favourable conditions for this second successful opportunity at establishing democracy.

Spanish society in the 1930s was a polarized society with high levels of political and social mobilization. Its dynamic led to a general confrontation between two social and political blocs, which made constitutional legitimacy and democratic stability non-viable.
In the 1970s, in contrast, Spanish society had changed as a result of economic growth and new cultural and political attitudes. Briefly, one can say that Spain after Franco's rule was characterized by social complexity or multi-dimensionality, social moderation, and, correspondingly, rather centrist positions, relatively low intensities of preferences, and gradualism among social and political actors. It is interesting to observe that some of the main issues in the constituent period of 1977–8 were the same as those which split Spanish society in the previous contemporary history at the end of the nineteenth century and the beginning of the twentieth century: the economic system, religious education and territorial organization of political power. But on this new occasion, these issues became subjects of vote trading, log-rolling, and parliamentary coalitions among political parties, in order to build a political consensus which left nobody totally satisfied but nobody totally dissatisfied, compared to a general confrontation in two opposing blocs. (For an exposition of vote trading and political bargaining in the Spanish transition to democracy, see Colomer, 1995, or the brief abstract in Colomer, 1991.)

1.2 Economic Development in Democracy

The aim of this chapter is to describe and explain how economic policies to promote development have been decided under democracy since the mid-1970s. In fact, the macroeconomic policy choices of Spanish governments show a visible continuity based on orthodox monetarist orientation, in spite of governments alternating between a centre-right party, the Unión de Centro Democrático (UCD), which came to power in 1977, and a social democratic party, the Partido Socialista Obrero Español (PSOE), which won the elections in 1982. This chapter seeks to explain this continuity, and particularly the conditions which enabled a social democratic party to maintain a monetarist policy. Electoral motives and its interactions with the workers' unions are specifically modelled as a very relevant part of those conditions.

In a more comparative perspective, it should be noted that parties of the same general ideological orientation, particularly European social democratic parties, chose different macroeconomic policies in different periods. Therefore, the rise and fall of Keynesian policies seem to have to be explained not only by ideological shifts but as a response to diverse economic requirements and institutional constraints.

A basic explanatory framework for our case places the political initiative and strategies of political actors in the macroeconomic policy game within the context of several variables:

(a) Economic requirements, including the position of the Spanish economy in international cycles of depression or growth, and the corresponding menu of available policies.

(b) Voters' preferences, simplified in the following presentation into two groups of people with different interests, for whose votes it is assumed that parties compete.

(c) Institutional constraints for political actors' decisions.

In a more standard vocabulary, available alternatives, actors' preferences, and political structure are taken to be the main elements to explain collective choices (some ideas for this framework come from Bates, 1988). Accordingly, in Figure 6.1 I present a chart showing the context and the interaction to be studied.

<table>
<thead>
<tr>
<th>Table 6.1</th>
<th>Macroeconomic variables</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Dictatorship</strong></td>
<td><strong>Democracy</strong></td>
</tr>
<tr>
<td>Autarchy</td>
<td>Liberalization</td>
</tr>
<tr>
<td>GDP (average annual growth at constant prices %)</td>
<td>3.9</td>
</tr>
<tr>
<td>Inflation (annual average %)</td>
<td>2.0</td>
</tr>
<tr>
<td>Unemployment (% of active population)</td>
<td>na</td>
</tr>
<tr>
<td>Real wages (average annual change %)</td>
<td>3.0e</td>
</tr>
<tr>
<td>Public expenditure (% of GDP)</td>
<td>9.0</td>
</tr>
</tbody>
</table>

*: estimated
na: not available
Source: Instituto Nacional de Estadística, Banco de España, OECD.
Actors’ choices are strategically interdependent in the sense that none of them can achieve their most preferred outcome as a result of their own decisions, but only as a joint product of several actors’ decisions. Since macroeconomic policy is, therefore, the result of the interactions of a plurality of actors with different preferences, incentives and constraints, it is reasonable to expect that game-theory, which focuses on situations in which the relevant actors have contradictory and at the same time interdependent interests, may provide useful tools to clarify that choice.

First, I will present the basic traits of the economic and institutional context outlined above. Then, policy choices and their consequences will be simplified and formalized. This analysis will allow us to represent the economic and political outcomes derived from the strategic choices of the players and their valuation. Finally, several payoff matrices will show the interactions and equilibria to be expected and the relevance of these formal representations to interpreting empirical data of the real world.

2 THE ECONOMIC AND POLITICAL CONTEXT

2.1 Democracy in Economic Crisis

Like the Republic in the 1930s, Spain’s second democratic period this century, which led to the establishment of a constitutional parliamentary monarchy, began against a backdrop of deep international recession. Indeed, the latter transition to democracy, which began after the death of General Franco in 1975, coincided with the worldwide economic crisis that began in 1974. Spanish income per capita was then about 80 per cent of the EC average, but the gap increased because, for a decade, the Spanish economy grew at an annual average rate of only 1.7 per cent of GDP – compared with more than 7 per cent a year in the preceding decade – while it experienced high rates of inflation and increasing unemployment levels.

Under these conditions of ‘stagflation’, governments were unable to fight inflation and unemployment at the same time. A Keynesian policy to increase aggregate demand would have damaged price levels, while orthodox monetarist policy for stabilization would hardly have reduced unemployment significantly. Most European social democratic parties in government at the time applied Keynesian policies during the years of growth, and were surprised by the new characteristics of the economic crisis. Some were tempted to shift towards monetarism, but, reacting slowly, most of them failed in both economic and political terms (for a comparative analysis, see Scharpf, 1987 and 1988; see also Hall, 1986, and Lindberg and Mayer, 1986).

The clash between the British unions and the Labour party, which paved the way for the Thatcherite era, shocked the Spanish social democrats, then in opposition. Trying to learn from that experience, they were able to change some of their beliefs in the virtues of economic interventionism; to get rid of some ideological rigidities and, in particular, to embrace a more orthodox macroeconomic perspective. The Spanish social democrats consolidated these changes in the run-up to victory at the general election of 1982, and subsequent formation of the government.

For the Spanish Socialist Party, which had not been in government since the 1930s, this ideology and policy shift was easier than for other labour or social democratic parties, such as those of Britain, Sweden or Germany, which had applied Keynesian policies during recent, long periods in government. It was also possible for the French Socialist Party to shift to a post-Keynesian macroeconomic policy in 1982, after a few months in government, but this delay forced it to contradict its own electoral programme more openly.

This interpretation assumes that parties have strong electoral motives in their policy choices, but it also introduces a factor of credibility which limits their mobility in the policy space. Therefore we may say that it was partly thanks to the absence of past performance open to comparison, that the Spanish Socialist Party rose to government at about the same time as most European social democratic parties moved into opposition.

2.2 The Appeal to Middle Class Voters

The standard spatial theory of voting explains how electoral motives lead parties, with some restrictions, to moderate their ideological policy
platforms and converge around the median of voters' preferences (that is, of course, the classic statement by Anthony Downs, 1957; further developments have been compiled by Enelow and Hinich, 1984, for parties with fixed preferences, see Wittman, 1990, and Roemer, 1991; for a discussion of the particular case of social democratic parties, also Przeworski and Sprague, 1986). In social terms, this spatial statement approximately means that parties tend to compete for the electoral support of the middle classes, although in order to win they cannot afford to lose the votes of their core clientele, concentrated in the working class in the case of the social democrats.

Among middle-class voters, sensitivity to rising unemployment was widespread in the mid 1970s, when it was first experienced after several decades of full employment. In the case of Spain, this contrast with past performance should be balanced against the fact that about two million workers chose to emigrate to other European countries in the 1960s, thereby creating the fragile illusion of full employment at home. However, in the second half of the 1970s, the memory of social and political instability associated with mass joblessness in the 1930s contributed to the view that Spanish democracy could support only a limited number of unemployed, which was initially symbolically fixed at one million, and when this figure was reached it was raised to one and a half million, two million, and so on. In the election campaign of 1982, the PSOE still used the promise of creating 800 000 jobs as an effective tool both to strengthen the support of its core followers and to attract more distant voters, who at the time felt mass unemployment was a collective evil.

However, it seems reasonable to argue that, once unemployment was seen to persist without threatening democracy its political implications changed. Throughout the 1980s, many middle-class voters began to think that it was highly unlikely that they would personally be affected by unemployment, which in fact was rife among young, unskilled people; it was even widely suspected that official unemployment figures were inflated. Unemployment, therefore, ceased to be considered a collective evil and, as a consequence, middle-class voters became more electorally sensitive to other economic issues, especially inflation and taxation.

On the other hand, the PSOE's relationship with its core voters was damaged by continuing unemployment, although the workers could hardly have expected any better performance from the liberal or conservative alternative. On the contrary, they had good reason to fear that a shift to the right-wing opposition would make unemployment still worse. Given the authoritarian past of some of the Conservative opposition leaders, the Socialist Party also benefited from that line of reasoning on other issues, particularly when it came to the character of candidates. This explains why the PSOE, in spite of losing some of its initial electoral support in the legislative elections of 1986 and 1989, was able to survive in spite of failing to fulfil its electoral promise to create mass employment.

2.3 Institutional Constraints

The policy shift of the PSOE towards monetarist orthodoxy and, in general, the macroeconomic policy choices of democratic governments, were facilitated by the broad margin of social autonomy of the political class in Spain. This feature of Spanish politics may be explained in two ways: the difficulties of collective action after a dictatorship, and the legacy from the process of the transition to democracy. The Spanish case is a good test of the theory which predicts low levels of social and political organization and collective action after an authoritarian regime.

According to Mancur Olson (1965 and 1982), those countries in which pressure groups and distributive coalitions were damaged or destroyed by an authoritarian or foreign government, will tend to grow relatively fast after the establishment of a free and stable legal order. The explanation of this paradox lies in those countries' higher receptiveness to technological innovation, their capability of human and capital mobility, and the high degree of free government initiative. On the contrary, a long period of stable democracy will tend to induce cooperative behaviour and to overcome the 'free-rider' paradox in collective action, giving rise to pressure groups able to persuade the government in favour of redistributive intervention, to the detriment of efficiency and growth. This interpretation has been used to explain the post 1945 'economic miracles' of defeated nations, such as West Germany and Japan, as well as those of the 'Asian dragons' in the 1970s, a theme treated in depth by Olson.

Spain after Franco's rule is a good example of this type of situation: low levels of collective action and quite fast economic growth. In particular, party membership was the lowest in Europe, with roughly one party member for every 100 voters. Specifically, PSOE won the elections in 1982 with more than 10 000 000 votes and less than 100 000 members – a proportion close to 1:100, compared with a ratio of 1:3 to 1:10 for other social democratic parties in central and northern Europe, such as those already mentioned.

For this reason, the Socialist government was relatively free of party pressures. Both the government and the party had the same leader, Felipe González, and more or less the same small leading group, and the party was usually conceived as the instrument of government, rather than the
other way round. Therefore, in the formal analysis which follows I will consider the party and the government as a single player, referring indiscriminately to both.

Spanish workers have the lowest union membership in Europe: 11 per cent according to the EU and 16 per cent according to the Centro de Investigaciones Sociológicas (CIS); the International Labour Office (ILO) speculates on a figure between 10 and 30 per cent, and the unions themselves estimate 20 per cent (for a discussion of Spanish trade unions see Míguez and Prieto, 1991). The EU average is 42 per cent union membership.

According to collective action theory, the reason is that the Spanish unions do not provide significant exclusive benefits, such as the management of working conditions or social security for members, but collective goods, such as wage increases, which can be enjoyed by all without contributing to the unions, which encourages 'free-riding' among workers. In contrast to other European unions, they provide fewer services to their members which could act as selective incentives, such as housing, banking, or leisure organization, partly because the typical closed-shop is associated with the authoritarian 'unionist' practices of the Franco regime and consequently refused by democratic organizers. Union membership is concentrated in the traditional branches of industry and public administration, and it is low or non-existent among more widely dispersed people, such as workers in small companies, technicians, women and the unemployed.

This union weakness is partly offset by the wide electoral support given to the union candidates in company elections, in which about half the workers vote (although participation is highly concentrated in a relatively small number of large companies, where average participation is 80 per cent). There is also pluralism and competition between unions, which tends to lead to rivalry in calling for mobilization: especially the Unión General de Trabajadores (UGT), traditionally linked to the Socialist Party, and the Comisiones Obreras (CCOO), traditionally influenced by the Communists; as well as a nationalist union in the Basque country, and other independent branch unions, such as those for civil servants. However, high levels of unemployment reduce the free-riding temptation to press for higher wages at branch or company level against the general agreements on wage moderation. (See Zafir, 1985, and Míguez and Prieto, 1991, provide an interesting analysis of the Spanish trade unions.)

By contrast, the majority of employers are affiliated to an employers' organization, partly because of its very decentralized structure. The Confederación Española de Organizaciones Empresariales (CEOE), founded in 1977, included about 60 per cent of all companies, and ten years later 95 per cent of companies belonged, with an absolute level of membership not far from that of the unions – about 1.3 million people. These different relative levels of workers' and employers' organization are consistent with some deductive statements of collective action theory, inversely relating action to the size of the group.

The second point which explains the social autonomy of Spanish leaders was the legacy of the Spanish transition from authoritarian rule to democracy, in particular the decision-making style and institutional constraints which enabled a high concentration of collective decisions to be taken by a handful of politicians.

The process of change, especially between 1976 and 1978, was brought about by a series of secret negotiations and pacts between the political leaders. First, agreement was reached between the moderates and the far right within the authoritarian regime, and later between the moderates in the-party and the democratic opposition. Private threats and promises, vote-trading, log-rolling, and parliamentary coalitions were the main mechanisms for reaching agreement and compromise, creating a social consensus to bring about a peaceful and successful change of regime. However, this decision-making style continues in the democracy, with the result that the level of political and social participation among Spanish citizens remains low.

Moreover, the institutional framework designed in the Constitution of 1978 reflected the politicians' fear of reproducing the political instability which had preceded the breakdown of democracies in numerous European countries between the two world wars. The result of several risk-averse constitutional choices on electoral, voting, and parliamentary institutions has been even more perverse than expected. Briefly, the Spanish electoral system enables an absolute parliamentary majority to be obtained with less than one-third of the popular vote, while the parliamentary rules tend to strengthen the stability of governments. In fact, Spain has the highest electoral deviation from proportionality in Europe (about 15 per cent) and only single-party governments with a plurality of popular votes have been formed since 1977.

All these 'path dependent' democratic features have been self-reinforced by mechanisms of adaptation by political actors in later periods. (The concepts of path dependence and self-reinforcing mechanisms have been explored by North, 1990.) In particular, the public financing of parties and unions has had multiple effects: first, it reduced the leaders' estimation of the importance of the contribution made by party members; second, it reinforced the tendency of the leaders to use collective action in
demanding institutional positions and to accept financial rewards as side-payments for renouncing their platforms.

On the whole, the difficulties of collective action and institutional constraints gave the rulers room to manoeuvre away from the revealed preferences of voters. Since 1982, when one party achieved an absolute parliamentary majority, the leaders have promoted ‘decisionism’ rather than a negotiated consensus in Spanish politics.

3 POLICY CHOICES

The economic requirements of monetarist stabilization in the post-Keynesian era, the appeal to middle-class voters, the weakness of the workers’ unions and the social autonomy of the political leaders may, therefore, account for the continuity of orthodox monetarist macroeconomic policy during the recent democratic period in Spain, both by the UCD and PSOE governments.

In fact, not many months after the PSOE was elected to government, the first Socialist Minister of the Economy, Miguel Boyer, announced ‘ten years of stabilization’. This took the form of high interest rates and recommendations for wage moderation, as well as the liberalization of the capital and labour markets, industrial reconversion, entry into the European Community, and attracting foreign investment (Dehesa, 1988, argues this case, based on the international interdependence of modern economies).

One result that must be mentioned, was the doubling of the annual average growth rate compared to the preceding decade (3.6 per cent of GDP). At the same time inflation was halved, down to an average annual rate of 8.5 per cent. Unemployment, however, rose to 20 per cent of the active population.

In order to analyse the corresponding interactions of factors in the process of macroeconomic policy decision-making, I will simplify and formalize the available alternatives, their foreseeable effects, and the corresponding valuations by the actors. I will use some tools of game theory, not in a purely theoretical way, but merely as an applied analysis of the real world.

3.1 Monetarism and Social Policy

The first actor, the government, together with its supporting party and the central bank, whose preferences are assumed to be roughly the same, faces two possible alternatives: a monetarist or stabilization policy, which I will call $M$, and a social policy, which I will call $S$. As mentioned before, following the crisis of the 1970s, the latter is no longer a Keynesian policy in Europe, but entails the inclusion of welfare counterweights within the basic monetarist framework of high interest rates and wage moderation, such as unemployment benefits and other transfers of income, as well as legal, institutional and financial concessions to unions.

Obviously, there could be a continuum between the two alternatives, monetarism and social policy, but each of them also has a limit, for example, when unemployment benefits cover all unemployed people and the unions are totally financed from public funds. Through shifts towards one or other extreme, that is, increases or reductions in the values of the key variables — mainly, the interest rate and the level of social expenditure — governments induce diverse expectations and reactions in the public; for this reason, it may be said that, at any specific moment, government decides by choosing one of the two basic strategies, $M$ or $S$.

It is assumed that the second player, the workers’ unions, also has two available strategies: to accept a general pact with the government and/or the employers’ organizations to curb wages, which I will call $P$, or to try to act and bargain in a decentralized way for higher wage increases, which I will call $A$. In this case, the two alternatives are clearly discrete, since they imply either a public and formal commitment by the union leadership to other actors, or the contrary.

Table 6.2 shows some of the effects of each strategy on selected variables, chosen on the basis of their visible political consequences. It is assumed, for example, that monetarist stabilization, $M$, tends to produce relatively low inflation and high unemployment, while increasing social expenditure, $S$, provokes inflation and normally brings about tax increases. An agreement or pact to moderate wages, $P$, can limit inflation and unemployment, while the unions’ decentralized action and bargaining usually produces higher wage increases. A consideration of the consequences of these latter alternatives, $P$ and $A$, on the number of strikes and public order has been included in the last column. In fact, the average number of strike days in the years without pacts, that is, 1979 and after 1986, is about 60 per cent above the average of the years of social pacts, 1980–5, according to the data in Miguélez and Prieto (1991, p. 424).

3.2 Actors’ Preferences

Different combinations of the strategies of the two actors, respectively monetarism ($M$) and social policy ($S$) for the government, and pact ($P$) and free action ($A$) for the unions, produce four possible outcomes: $MP$, $MA$, $PM$, $AM$. 

Table 6.2  Macroeconomic policy choices and consequences

<table>
<thead>
<tr>
<th>Actor</th>
<th>Social expenditure</th>
<th>Unemployment</th>
<th>Wage increases</th>
<th>Taxes</th>
<th>Inflation</th>
<th>Public order</th>
</tr>
</thead>
<tbody>
<tr>
<td>Government</td>
<td>M</td>
<td>low</td>
<td>high</td>
<td>low</td>
<td>low</td>
<td>low</td>
</tr>
<tr>
<td></td>
<td>S</td>
<td>high</td>
<td>low</td>
<td>high</td>
<td>high</td>
<td>high</td>
</tr>
<tr>
<td>Unions</td>
<td>P</td>
<td>low</td>
<td>low</td>
<td>low</td>
<td>good</td>
<td></td>
</tr>
<tr>
<td></td>
<td>A</td>
<td>high</td>
<td>high</td>
<td>high</td>
<td>bad</td>
<td>bad</td>
</tr>
</tbody>
</table>

M: Monetarist policy; S: Social policy
P: (general) Pact; A: Action (decentralized bargaining)

SP, SA. In the light of the means used and their consequences presented above, Table 6.3 sketches a valuation of each outcome by every actor. For each variable, the 'high', 'moderate' or 'low' values are derived from the corresponding combined consequences of the pairs of strategies shown in Table 6.2. This is just a way of building the preference orders of actors and their formal interaction.

It is assumed that, in the case of the workers' unions, they will value positively high social expenditure, low unemployment, and high wages. Although it might be argued that other variables, and particularly inflation, also damage workers' living conditions, their impact is less specific and, for analytical purposes and at relatively modest levels of price increase and fiscal pressure, they may be ignored.

In the case of an electorally motivated party, however, it will tend to value highly and positively those variables which have a greater impact on middle-class voters, especially low levels of taxation, inflation, and public disorder.

There are, in fact, two different and simultaneous games in this decision process: an electoral game played between party and voters, as outlined above, and a social concertation game, here more expressly modelled, linked by the fact that the government party is a player in both. They are, indeed, 'nested games', in the sense that there are games with variable payoffs: their values in one game are determined by events in the other game (Tsebelis, 1990).

However, in the present case it is not the concertation game that produces results, that is, specific combinations of levels of inflation, unemployment, and other relevant variables, to which the diverse groups of voters react in the electoral game. The opposite interpretation is
proposed by Scharpf (1987, p. 243) for some central and northern European countries, in which the social democratic parties obtained long periods of social concertation from the government before the economic crisis of the 1970s. But given that the Spanish social democratic party came to government after its shift to a post-Keynesian programme, and given the relative weakness of the unions and, consequently, the high autonomy of the party, it is the situation prevailing in the electoral game which determines the pay-offs of the party in the concertation game. This is, therefore, presented as a particular sub-game in which party pay-offs are derived from middle-class voters’ preferences in the electoral game.

Valuations of outcomes by each actor will be functions of their sets of variables – roughly, the weighted sums of their positive or negative impacts. Accordingly, I present the actors’ ordinal values on outcomes in the corresponding columns ‘Unions’ and ‘Party’ in Table 6.3. Some discussion is necessary in order to clarify these results.

As already mentioned, the party’s first preference is clearly for union agreement to a monetarist policy, that is, the outcome MP, and the last preference is to have pay for social policy without any restraint on union pressure, that is, the outcome SA. The party’s second and third preferences require weighting for high taxes and public disorder (since inflation remains at a similar level in both outcomes). Obviously, different voters may attach a different degree of importance to each of these two variables and, consequently, they may order outcomes in different ways. However, when dealing with this specific issue, the party can only take into account the global result of diverse voters’ sensitivity and, in principle, it is assumed that it will choose that combination which produces the strongest electoral support. In my interpretation, Spanish middle-class voters, in whom some cultural traces of having lived through the Franco period are still visible, express greater electoral sensitivity to taxes than to public disorder caused by workers’ strikes, and it therefore pays an electoral party to choose an outcome in which taxes are lower, even if this means greater labour conflict and tough bargaining. Its preference order would thus be: MP > MA > SP > SA. Only in the case of widespread strikes, involving or significantly concerning some strata of middle-class voters, would the government have any incentive to alter these preferences. For the moment, we may conclude that broad similarity of the government’s ordering with the priorities of employers makes it unnecessary to introduce the latter as a different formal player in the interaction (arguments in this direction can also be found in the opinions expressed in the entrepreneurs’ survey presented by Peréz-Díaz, 1985).

Rankings are less straightforward on the unions’ side. It seems reasonable that any workers’ union will prefer those outcomes in which the government opts for social policy, that is, those placed in the third and fourth rows of Table 6.3, SP and SA, to those in which a monetarist policy prevails, MP and MA.

It must be added that, over a long period, the socialist union, UGT, clearly preferred the outcomes in which a general pact with the CEOE and, even better, the government, was signed, to those where workers had to bargain independently with each industrial sector or company. Thus, this union’s leadership acted according to the expectation that wage moderation would make new private investment possible and consequently reduce unemployment. In practice, the trade-off was very hard, since the wage freeze only slightly smoothed unemployment growth. In our scheme in Table 6.3, this means that, between the most preferred outcomes in the third and fourth rows, the UGT values ‘low unemployment’ (second column) more highly than ‘high wage increases’ (third column), and, between the less preferred outcomes in the first and second rows, it also values ‘moderate unemployment’ (second column) more highly than ‘moderate wage increases’ (third column). Therefore its preference order is: SP > SA > MP > MA.

The Communist-influenced union, CCOO, on the contrary, always preferred worker mobilization to passivity, in order to achieve higher wage increases and to feed the workers’ fighting spirit, even though that contributed to higher unemployment (it would have preferred the direct creation of jobs by the government through public investment rather than the recovery of surplus and profit rates by private companies). Its preference order is, thus: SA > SP > MA > MP.

These diverse valuations on outcomes by the two unions were labelled ‘industrial democracy’ and ‘vindicative unionism’, respectively. The fact that the UGT had a higher membership and more votes among small company workers than the CCOO, whose members and voters are more highly concentrated among workers in large companies, probably also has some relationship with the diverse strategic options.

3.3 Games of Interaction

According to the above reasoning, the players’ preference orders may be summarized as shown in Table 6.4. Interactions between players can be presented in the form of 2 × 2 games, that is, separately analysing, first, the interaction between the government and the Socialist union, UGT, and, second, the interaction between the government and the Communist-
influenced union, CCOO. Using the standard strategic form of games, we obtain the matrices given in Figure 6.2.

The government has a dominant strategy, the same in both games, which is to choose a monetarist policy. In the first game, the UGT also has a dominant strategy, P, which leads the union to accept pacts, producing an equilibrium at the outcome MP (placed in the lower left-hand cell of the left matrix of Figure 6.2). For the CCOO, in contrast, the dominant strategy is A, and the corresponding equilibrium is the outcome MA (placed in the lower right-hand cell of the corresponding matrix).

In these equilibria choices (circled in the matrices in Figure 6.2), the government reaches its first and second preferences, respectively in its interactions with the UGT and CCOO, while the unions have to accept their second worse pay-offs. With the above-defined preferences on outcomes of macroeconomic policies, no player has any incentive to alter their strategies, so the outcomes of the games are strongly stable equilibria.

In real terms, that means that the social concertation for wage moderation is accepted by the UGT, while the influence of the CCOO among workers promotes decentralized action in an attempt to exceed the agreed limits of wage increases. This reflects the various unions’ predisposition to a social concertation from the Moncloa agreements, which were signed in 1977 by the parliamentary parties, without the unions or entrepreneurs’ organizations, until 1985. On the one hand, the UGT signed six general pacts for wage moderation, four of them in the period of UCD governments – the Acuerdo Básico Interconfederal in 1979, the Acuerdo Marco Interconfederal (AMI) in 1980, and AMI-2 and Acuerdo Nacional de Empleo (ANE) in 1981 – and two in the period of the PSE governments – Acuerdo Interconfederal (AI) in 1983, and Acuerdo Económico y Social in 1984. On the other hand, the CCOO reluctantly accepted only two of these pacts, mainly for political reasons to consolidate democracy (the ANE, a few weeks after the coup d’état in 1981, called ‘the pact of fear’, and the AI, immediately after the electoral victory of the PSE in 1982). (A full compilation of the social concertation is given in Zaragoza, 1988.)

3.4 From Concertation to Conflict

These formal schemes show that the unions were rather dissatisfied with the outcomes of concertation games, since, as already observed, they only achieved their second-worse preferences.

In the mid-1980s, however, the situation began to change, offering the unions new opportunities to try to improve their relative positions.

First, the international economic cycle shifted towards expansion, including a visible reduction of unemployment in Spain. Thus, for the unions the trade-off between wage increases and unemployment lessened; they could ask for better wages with less fear of causing a large increase in unemployment.

Second, the creation of new jobs was concentrated among the unskilled, temporary and casual workers, where the level of union membership was low. This restructuring of the labour market appeared to threaten the more traditional base of union affiliation, and their members tended to react against it.

Finally, the opportunity to offer institutional side-payments to unions was reduced, partly because many legal provisions were fulfilled (such as paid time off for union delegates, laws on collective negotiations, union
participation in the management of public companies and national assistance institutions, and partly because of the large amount of financial help they received (including public buildings and state subsidies of about US$400 million in the first six years of the socialist government).

All these new factors encouraged the unions to improve their valuation of wage increases.

The UGT leadership arrived at a negative assessment of the concertation years, stressing that real wage increases had been below the EC average and that the share of workers' income in GDP had fallen over ten years. The general pacts for wage moderation were abolished, and the socialist union decided to start decentralized collective negotiations.

To understand this change, it is not necessary to assume that the UGT drastically altered its preference order on outcomes, but simply that it preferred the hypothesis of conflict – strategy A – rather than remaining in a position of resignation and passivity in the face of the stable monetarist strategy of the government. In other words, I presume that the UGT reversed the order of its third and fourth preferences (values 2 and 1) and consequently, the former equilibrium MP vanished and a new equilibrium in conflict, represented by the outcome MA, was created. The new situation is reflected in Figure 6.3.

In this interaction, the outcome is MA, conflict against monetarism, as in the previous game with the other union. But now this is no longer a stable equilibrium, as was the outcome in the previous game, but a force-vulnerable one. This means that one player, in this case the government, has some incentive to alter its strategy, forcing the other player to shift his strategy, thus creating a cycle.

Specifically, the government can temporarily cede to a social policy (S), reasonably expecting a positive reaction from UGT towards acceptance of pacts (P). Observe that, if the government moves the outcome to S, in the upper row of the matrix in Figure 6.3, the UGT is better off choosing P than choosing A, as it will obtain pay-offs 4 and 3, respectively. In this way, the government can take the initiative to move the outcome towards SP. But once the UGT has turned again towards a pact strategy, the government will again have an incentive to shift towards a monetary policy, expecting its preferred outcome, MP. But this will happen just before the UGT reacts appropriately, thus starting the cycle all over again. The outcome will have moved from the lower right-hand cell of the matrix in Figure 6.3 to the upper right-hand, the upper left-hand to the lower left-hand, and the lower right-hand cells of the matrix, anti-clockwise.

In any case, the game can produce the single Nash equilibrium, MA, in which the UGT raises the level of conflict with the government and joins the CCOO in its vindicative tactics for wage increases and higher social expenditure. The main events in this conflict were the already-mentioned cancellation of the general pacts in 1987, an acrimonious rupture of the traditional model of relationship between the socialist union and the socialist party, and a successful one-day general strike against the economic policy of the government jointly called by the UGT and CCOO on 14 December 1988. But it is illustrative of our analysis that the UGT's general secretary, Nicolás Redondo, said on that occasion that 'the government and the PSOE could have avoided that (general) strike' (Julía, 1989).

This interpretation does not require the two unions to coincide exactly in their valuation of economic outcomes, or the UGT to be converted to the preference of the CCOO, as some socialist politicians seemed to complain. Understandably, the socialist government asked the UGT to make 'the same sacrifices that it had made under right-wing governments', as the president of the government, Felipe González, said. But with its new preferences the UGT itself did not significantly improve its position, as it still had to settle for its second worse outcome; it did not have a dominant strategy, and it was vulnerable to new government initiatives.

In fact, the government's move towards making social concessions and the corresponding cycle occurred approximately in the brief period 1991-2. In the general election of 1989, the PSOE won less than 40 per cent of popular votes (compared to 48 per cent of votes in 1982 – a loss of about 20 per cent), and its absolute parliamentary majority was in danger.
In fact, only the absence of the Basque Separatists from Parliament and a single favourable vote by a Canary Island regionalist deputy gave the Socialists more than half the votes, and allowed them to form a single-party government again.

These results showed that the Socialist core electoral clientele was beginning to be shaken by social conflict. The memory of the fatal break between the British unions and the Labour Party ten years earlier was revived again. Probably anticipating a longer expansionary cycle, the government then accepted a visible increase of current spending and social expenditure – especially unemployment benefits and pensions – including important future commitments, which were reflected in the budgets of those two years. However, the corresponding increase in fiscal pressure soon provoked an angry reaction from the commercial and industrial sectors, threatening the electoral coalition supporting the PSOE. The common priorities of government and employers, previously taken as a roughly but analytically viable assumption, began to split. In the middle of 1992, the sudden onset of a new period of international economic recession again forced the government towards its dominant strategy of stabilization and monetarism. Finally, completing the tour around the matrix, the unions again adopted a strategy of conflict, which led them to call for a new round of general strikes.

4 IN CONCLUSION

By way of conclusion, at least two main arguments can be summarized. First, the Spanish case shows the exceptional experience in Europe of a social democratic party following a monetarist macroeconomic policy, both in years of recession and of growth. Institutional factors have largely been stressed to explain this fact. In the first place, the party’s lack of any previous experience in applying Keynesian policy in government facilitated a shift towards a traditionally conservative policy without openly contradicting its past performance. In the second place, the weakness of collective action and the high level of autonomy of the political class allowed the government to take electorally motivated decisions as the basis for its interaction with the workers’ unions.

Second, strategic explanations make it possible to avoid any determinism in the relationship between democracy and development. On the contrary, the international economic cycle, institutional constraints and strategic choices can explain the continuity of macroeconomic policy in spite of a change of the party in government. All this should allow us to understand better the rationale of changing situations in democracy: recession with social concertation in the period 1977–85; expansion with social conflict, from 1986 to 1990; and probably recession with social conflict since 1991.

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