

**THE SPANISH WELFARE STATE
UNDER
THE PSOE GOVERNMENT (1982-1996)**

by

MANUEL SANCHEZ DE DIOS

Depart. de Ciencia Política y de la Administración II
Fac. de Ciencias Políticas y Sociología
Universidad Complutense - Somosaguas
28223- Madrid - SPAIN
Fax: +91-3942620, Email:sopoll16@sis.ucm.es

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ABSTRACT

In this paper there is an evaluation of the atypical Spanish case in which a Social Democratic government built up a welfare state in a period of welfare retrenchment. To discuss the case the different models of welfare state must be taken into consideration. The aim of the work is to understand how close the Spanish welfare state was to the social democratic model in 1996, from the viewpoints of corporatist democracy and economic and social policies.

I.- INTRODUCTION

By the 1990s the Spanish welfare state was a well established institution in a democratic industrialized country. The Spanish welfare state has been built up in the last twenty years and mainly under a Social Democratic government. For this reason the principal interest of this paper is to evaluate whether Spain has followed the pattern of a welfare state close to the traditional social democratic paradigm or, due to the welfare retrenchment of the current period, it has become a welfare state under the dominant neoliberal model, or something in between. At the same time as reviewing the welfare state, we will evaluate the Spanish social democratic way from 1982 to 1996.

To evaluate the Spanish case we need a yardstick for comparison and analysis of the case. That is why I start by distinguishing different models of welfare state: residual, institutional-redistributive and social democratic. Thus the first part is devoted to describing the main points of each model of how to organize democracy and its economic and social policies. That is a point of departure from which to understand neoliberal proposals of retrenchment and later we can see how they affected the Spanish case. The first part will also clarify the two possibilities or trends, reformism and social-democratic, that could have been embraced by the Spanish welfare state. More attention is paid to the social-democratic paradigm since it should have been the natural one.

The second part of the work is a study of Spain in terms of democratic development and, again, of economic and social policies during the period from 1982 to 1996. One main point of the case study is the social agreements which are related with every subfield. In the case analysis the core functions of social policy are specifically studied: unemployment, pension, health, education, housing and other social services

II.- DIFFERENT WELFARE STATE MODELS

There are different ways of organizing welfare states but these are "ideal types" and hence in considering any case we find structures of all three. According to Esping-Andersen (1990, 26), Titmuss (1974), Olsson (1990) and others there are three patterns of welfare State as classified by an ideological outlook. First there is a "residual model", which is supported by neoliberals, or the new right to quote Mishra (1984, 26). Secondly there is the "institutional-redistributive" one based on liberal-reformism and Christian-democrat thinking. Finally there is a "social-democratic" model which is the goal of social democratic parties.

In general terms the "residual model" can be seen as an historical model, as the first step toward the institutional-redistributive one, typical in nineteenth century Europe. Seen as an objective by neoliberals today, it is based on minimal state intervention and inspired by the old laissez-faire theory. Neoliberals currently propose a package of policies that have been subscribed to by liberal reformists, Christian democrats and even social democrats. Called "post-keynesian" policies they are at the core of what it is thought of as welfare state retrenchment. These policies include privatization, the reform of tax system, deregulation and welfare marketization. (Müller, 34).

The "institutional redistributive model" is based on keynesian economic policy and on the Beveridge report in social policy. Also in this category falls the pattern developed in Germany from the time of Bismarck's workers' insurance scheme. The Keynes-Beveridge approach is based on the idea of "correcting" the tendencies of market economy, through judicious state intervention and a limited social policy .

The "institutional- redistributive model" is supported today by liberal reformists and Christian-democrats even though there have been some changes in it due to the rediscovery of neoliberal economic ideas after the economic crisis of the 70's and early 80's. However income maintenance, health care and other social

programs have remained as the single most important prop for the "institutional-redistributive" welfare state.

The social democratic model has the same basis as the institutional-redistributive one, but with the additional aim of building "socialism" through welfare. Taking the Keynes- Beveridge approach as its point of departure, social democrats believe state intervention appropriate not only for the creation of a more stable and efficient economy but also for the gradual transformation of society. Welfare is assumed to pave the way from capitalism to socialism. Welfare is also thought of as a progressive method of social engineering which works bit by bit with cumulative effects, that is as piecemeal reform.

The political basis of social democracy, as Esping-Andersen puts it (1985, 147-148) is state intervention through economic and welfare policies. Intervention, first of all, has to promote solidarity among the entire population and enforce collective identity. Second it must eliminate perverse effects of market on society: competitiveness among individuals and insecurity. More precisely, state intervention should help workers against the disciplinary whip of the market. Furthermore social reforms (in social policy and labour relations) must be directed to "decommodify" worker status. Third and finally, as a result of all this, the goal of state intervention is to further equality in terms of income and wealth.

As the conventional view has it (Tilton, Milner, Esping-Andersen, Olsson, Heclo and Madsen, etc.) the Scandinavian countries can be considered the most developed welfare states under the social democratic paradigm, in particular Sweden. It is due to the fact that social democratic parties have been governing these countries for a long time. In Sweden the Social Democrats governed from 1932 to 1976, from 1982 to 1991 and again from 1994 to the present, always at the margins of majority support in Parliament.

On the other hand there is another special feature of Scandinavian countries: there are strong trade unions with the

highest rate of affiliation in the western world. These unions work closely with the social democratic parties behind which the working class has been aligned. Together with trade unions employers organizations are very representative and strongly centralized also.

For these reasons, in this paper I have taken Sweden as the example of the social democratic model as well as because it can be affirmed that Swedish social democracy has developed the principal thought of social democratic ideology in the twentieth century (particularly since the Second World War). As Tilton writes (p.257) social democratic ideology is a core of values that serves as a guide which can be adjusted when conditions change. It also can be seen as Padgett and Paterson do (1991, 25) as a humanist socialism and at the same time a very pragmatic politics (Heclo and Madsen) and a regularly renewed program (Sainsbury, 51).

It should be noted that Sweden is considered in this work as an "ideal type" because I take what can be considered the maximum level of institutional organization and welfare reached by the model in the 60's and 70's. In the 80's there were some changes such as de-regulation (affecting finances), privatization of certain public sector economic activities and fiscal reforms. In the 90's it was the end of centralized bargaining in Sweden and the acceptance of a crisis package by the unions in 1992 (with cuts in transfer programs) that encouraged a policy of austerity.

In spite of this, the institutions adopted by the Swedish welfare state have been preserved. As Falkner and Talos write (p. 54), no serious changes were made in Sweden in the field of social policy or in labour law. P. Pierson (1996,171) adds that even under the extraordinary circumstances of the 90's with a fiscal crisis, a sharp rise in unemployment and a government of a "bourgeois coalition" between 1991-1994 in Sweden, there was no sign that the welfare state had been radically restructured.

We now turn to the differences between the three models.

A) Patterns of organizing democracy in a welfare state:

The three models are linked to democracy because there is a close connection between welfare and democracy, however democracy has a different meaning in each case.

The **residual model** can normally be found in democratic countries. However the residual model can be linked to authoritarian governments like Spain under francoism.

At present neoliberals propose a reduction of welfare states because they say there is a crisis of democracy as a result of government "overload" (Mishra, 1988, 36). It is argued that competitive electoral politics generate excessive expectations among the electorate. Moreover economic groups like trade unions tend to exercise their market power producing excessive and incompatible demands on government services. In addition, there is the increasing size and complexity of government itself which adds to the problem of overload. The result is a decline in government's effectiveness and control. In line with this, diagnosis neoliberals prescribe a slimmed down "minimal state" and point out that intervention in the ordering of economic and social affairs is neither necessary nor beneficial. They also want to limit trade union bargaining capacity in industrial relations - as occurred in the United Kingdom under Thatcher governments-.

Neoliberals, however, have to face two problems: electoral considerations (because not all voters agree with them) and, as Pierson puts it (175), the new networks associated with mature welfare programs which constitute a barrier to radical change.

In the case of **institutional-redistributive welfare state** the convergence theory explains that there is a close link between democracy and the welfare state. The modernization process links both and makes them converge. Democracy drives society to an institutionalized welfare system.

The institutional model is related to a democracy centered on interest-group pluralism. It supports economic and social bargaining as free collective bargaining in the industrial arena.

Consequently the decision-making process has to be based on laws of parliament, party agreements and organized groups bargaining which pursue sectional interests.

A complementary idea of democracy according to liberal reformists is social citizenship based on social rights (Dahrendorf, 1990, C. Pierson 1991,) and on social policy.

Social Democrat reformism is based on the assumption that political democracy leads to socialism which is a democratic management of the market economy. That is because a democratic government represents society's wishes and acts on behalf of citizen's interests.

Swedish Social Democrats have talked about an "integrative democracy" which means a democratic decision-making. The attainment of political democracy is the first overriding objective of social democrats but it is also a main goal to have a broad consensus, if necessary by regularly forming coalitions with non socialist parties in a kind of cross-class cooperation.

However, to Social Democrats political democracy is not enough and the democratic ideal ought to infuse social and economic organization as well (Tilton, 258). It is related with worker participation in economic decision-making first and mainly through "corporatist" agreements. So it is based also on a wide social consensus and on interdependence of economic groups which should be recognized and institutionalized (Mishra 1984, 103).

Corporatism is a distinctive feature of the framing of Swedish welfare State. The Saltsjöbaden agreement of 1938 represents the departure point of corporatist institutional arrangements between peak associations representing major economic interests and until 1990 all the economic and social policies in Sweden had been based on centralized bargaining with broad agreements. Since then in sectorial bargaining and in some general agreements (when there was a financial crisis) institutional corporatism has seen evident (Milner 1996, 161).

To Social Democrats, social citizenship in terms of social rights goes further than in the institutional-redistributive approach because the minimum assured to all citizens must be higher and has to drive towards equality (Esping-Andersen, 1985, 145). Thus through social policy redistribution can reach a maximum.

B) Patterns of economic policy

In **the residual model** what is paramount is that market forces must be given free reign. Neoliberals believe that state intervention was the cause of the economic crisis of the 70's and 80's. Nationalized industries and State subsidies to individual firms are considered inefficient and an obstacle to the self-adjustment of the market. They think that public policies require high taxation, which produces disincentives. Moreover high public debt "crowds out" private sector demand for credit and hence undermines investment. On the other hand they believe that welfare state bureaucracies are distended and inefficient, wasting resources on excessive administration and usually more concerned for their own interests than those of the citizens.

Neoliberals propose a state withdrawal from industrial ownership so that privatized firms can be better managed, the market strengthened by the removal of unfair competition conditions and the financial burden of the State reduced. They also propose a reform of the tax system that would make the economy work by creating or strengthening incentives. At the same time there should be a removal of regulations which hamper economic activity and, finally, there should be an introduction of the market into sectors which would remain within the public sector such as education, health care and housing. All these measures are intended to alter the balance between the public and the private sectors in favor of the latter (Müller, 36).

From the Keynesian point of view **the institutional-redistributive** approach the government must, on the contrary, play

a regulative and even direct role. The problem of how to ensure full employment without inflation inspires economic policy. The main instruments for intervening are: public debt, deficit in financing and fiscal and monetary policies acting from both demand and supply sides. In addition there must be a progressive fiscal system to finance welfare. Intervention includes the regulation of wages and of labour market conditions that have to be based on free collective bargaining in the industrial area. A public sector and even economic planning are admissible and the state can own industries and participate directly in the productive economy.

In the case of the **social democratic model** keynesian principles are assumed. In addition, however, social democrats believe that in a market economy both economic growth and economic efficiency are, in the long term, a drive to equality. That is an approach of the Swedish trade unions which socio-economic equality and economic efficiency are compatible with and complementary to (Tilton, 260). As a consequence trade unions have accepted that increased productivity and the rationalization of production are essential to higher standards of living.

On the other hand Swedish labour has pointed out that economic modernization, far from being just a financial problem, requires an agreement between employers and workers. The cooperation of workers must be made in an exchange for a policy of full employment and the better distribution of resources and in exchange for cooperation in business decision-taking (industrial democracy). Swedish socialists want a socially controlled market economy rather than nationalization. According to Tilton (262) they support a diffuse notion of socializing economy by public control that is preferred to formal ownership of productive enterprise.

Social control over the economy has several facets. On the one hand it is assumed that the market has to organize economic activity but, on the other, there must be some public control. That control should redistribute incomes and property in an

egalitarian direction through a solidaristic wage policy, a progressive taxation and a social welfare policy. That control should be based, moreover, on a framework of legislation to help reorganize markets by establishing standards of production, by subsidized loans or by supplying information about job seekers or subsidizing the costs of job mobility.

Finally, a form of weak economic planning is accepted in part if it is presented as the monetary and fiscal policy by which it is possible to restructure some industries and coordinate the whole economy. Any plan has to recognize consumers and producers as independent agents and it has to regulate the framework within which people act (Tilton, 265).

Control over the market is linked to a process of socialization of property. It comes from the idea that property is a bundle of rights, a multiplicity of rights divided and placed in a variety of different hands, public, private or mixed. So socialization can be a gradual process in which (in the end) all of them are fully subject to social control. As Therborn puts it (1994) the most important way to socialize property is by "decommodifying" social relations, which means taking them out of market.

Labour relations are the main and fundamental social relations to "decommodify". In the 60's and 70's Swedish Social Democrats had developed a distinctive theory and a practice of labour market relations according to the keynesian goal of full employment with two interrelated links. On the one side it was a negotiation of market relations at the top level (centralized) in which a solidaristic wage policy of income equalization was developed. The wage equalization policy constituted a mechanism by which workers with weak market power could share the benefits of economic growth.

The other leg was an active labour market policy devised by G. Rehn. It was very successful with respect to stabilization and growth with full-employment. Throughout this policy, a central board was given to the resources to promote worker mobility,

training and employment creation. This policy helped to eliminate weak firms, modernizing the economy with rapid technological change and at the same time removing the traditional stress of workers submitted to the risk of being fired. Finally, the participation of women in the labour force was also a main point of socialist labour policy. Sweden has the highest proportion of women working (and in labour market) in the world. As Therborn (1991,122) points out, the Swedish egalitarian policies have clearly benefited women in general and women workers in particular.

C) Patterns of social policy

Means-tested relief programs are the core of the social policy of the **residual model**. There should be a minimum welfare for the maintenance of a healthy business based economy in which unemployment depends on the level of business activity. There is a believe that economic efficiency must not be undermined by social policy. Social insurance is accepted only if it is largely self-financing, if it doesn't involve redistribution from rich to poor and if it is consistent with the work ethic. Welfare is subordinated to the needs of the economy and of the employers.

Social welfare is, in the **institutional-redistributive model**, a relatively autonomous realm seen as distinct from the economy. There has to be state provision of a wide range of welfare services to assure a national vital minimum below which nobody is allowed to fall. According to the Beveridge approach there must be both general and uniform coverage of benefits, which must also be universal and free and which can function as a system of social insurance (it is opposed to means-tested relief programs). The state is responsible for it when the private economy fails to produce it. Moreover, social policy is conceived under the notion of social services through which the whole system of benefits is seen as an structure of the social citizenship and the benefits as social rights (Dahrendorf, 1990, C. Pierson 1191,).

To **Social Democracy** social policy has a special importance. First of all it is not a point of departure for the welfare state as it is in the institutional-redistributive model, instead it is seen as a second step after the economic policy and as a result of it. This feature has determines that social policy is very successful once the economy grows vigorously.

As Mishra puts it (1984,104) social welfare is not seen as an autonomous realm of the economy. Interdependence and interrelationship between the social and the economic is recognized and institutionalized. There are functional relations and trade-offs between the economic and the social that inform policy-making: the social is a the feedback for the economic. It follows from it that not only economic policy but also social policy have a central role to play in socialist vote mobilization.

To social democrats social policy is closely linked to social citizenship. In Sweden the concept of "people's home" of Hansson (Tilton, 125) or the "strong society" of Erlander (Ruin, 214) were at the heart of the idea of common social citizenship for the entire population. That shows a cross class perspective in which social rights are extended also to the new middle classes.

In this way Swedish social democrats justified the creation a more egalitarian social welfare State with high-quality services and income distribution that went further than just assuring of a national minimum. It was conceived as a "social service State" (Sainsbury, 43). Moreover, in the Social Democratic tradition in Sweden, social welfare as "social democracy" has been seen as a second step after "political democracy" in a process toward a third an final step to "economic democracy" (Olsson, 113) where every decision -in particular economic ones-, should be based on general agreements among political representatives, employers, workers and other social groups (mainly "corporatist" agreements, see above "integrative democracy").

To social democrats social rights should be based exclusively on universal social services which pave the way to solidarity,

equality, freedom and security. As Esping-Andersen has noted (1985,148) social policy is the engine for an egalitarian socialist society because the granting of social rights imply equality of treatment and status. According to socialist thought means-tested benefits have a stigmatizing effect while state or private insurance schemes reinforce existing inequalities and privileges. Social policy as a result must be placed in the public sector, managed by a democratic government and financed by taxes through which citizens pay for public services.

Social policy was also a way to produce both an efficient economy and whole healthy human beings. Expenses on health, education and others are not seen as economic burdens but investments in human capital that at the same time permit the fulfillment of the potential of each individual. An example of it is the participation of women in all spheres of society.

Finally the last feature of social policy in the Social Democratic approach is that it has to be based on a social agreement. As we saw before economic and social policy have to be the main themes of the corporative bargaining process. On the other hand participation in decision-making and policy administration by organizations composed of recipients of services should also be a central principle of social policy together with universality (Milner 1989, 190).

III.- THE SPANISH WELFARE STATE BETWEEN 1982 AND 1996

a) Introduction

The aim of this paper is to explain how the governments of the Partido Socialista Obrero Español (PSOE) built up a new welfare state at the same time that the economy and society were modernized, developed, liberalized and opened to Europe.

After five years of a fractionalized and divided liberal reformist government of the Union de Centro Democratico (UCD), in October 1982, the PSOE won a landslide election. When it lost in

1996 by a mere 300.000 votes. There had been more than thirteen years of a social democratic government: between 1982 to 1993 the PSOE had strong support in Parliament and freedom to act, but from 1993 to 1996 it was a minority government. The final period the PSOE government had parliamentary support from Catalan nationalists Convergencia y Unio (CIU) (see table 1), which was a coalition of reformist-liberals and Christian-democrats. As we will see, it clearly had effects on the social and economic policies of the period.

Table 1: The Chamber of Deputies between 1982 and 1996

	1982	1986	1989	1993	1996
IU(a) -	4	7	17	18	21
PSOE -	202	184	175	159	141
UCD -	12				
CDS -	2	19	14		
PP(b) -	106	105	107	141	156
CIU -	12	18	18	17	16
PNV -	8	6	5	5	5
Others -	10	11	14	10	11

IU: Izquierda Unida (a) in 1982 Partido Comunista; PSOE: Partido socialista; UCD: Unión de Centro Democrático (governing party between 1977 to 1982); CDS: Centro Democrático y Social; PP: Partido Popular (b) in 1982 and 1986 Coalición Popular; CIU: Convergencia i Unio (Catalan nationalists); PNV: Partido Nacionalista Vasco (Basque Nationalists).

In 1982 the Spanish Social Democrats inherited an unfinished reformist process and at the same time the possibility to build a new welfare state in the social democratic mold.

What happened? Did the PSOE government build up an institutional-redistributive welfare state or a social-democratic one?

b) The Spanish transition to democracy and the welfare state

The Spanish welfare state was brought into being at the same time that democracy was established and consolidated and it can be said that building a welfare state was part of the transition to

democracy. The welfare system first appeared in Spain with Franco's dictatorship in a paternalistic, authoritarian and residual manner. Only after 1959 when an economic liberalization program began to take effect (Plan de Estabilización) and because of the industrial modernization and the need to improve workers technical training as well as because of the demands of a brand new urban middle class, was an institutional welfare state begun.

The main measures in Franco's time were a social security Law in 1963, an education Law in 1970 and a housing financial plan of 1961-76. However Franco's regime was characterized by the inability of social groups to send inputs to the political system, by a subordination of the whole welfare state to the goal of capitalist accumulation, by the welfare's financial system's weakness and, finally, by a regressive fiscal structure that didn't permit a redistributive policy (Rodriguez Cabrero, 81).

General Franco died in 1975 and the Spanish welfare state underwent a big change with the transition to democracy. The most important change was that since the first democratic moment political parties, trade unions and other pressure groups channeled social demands to the political system via some negotiated compromises by mutual accommodation. Because of this Spain is recognized as the most impressive example of consensus among the nations that comprise the so-called third wave of democratizers (Encarnation 368).

As O. Encarnation writes (p.403), in Spain the greatest political achievement of consensus was the integration of the social forces most concerned with the consolidation of democracy. In addition, the process of consensus is thought to have prevented hyperinflation -basically by restraining wages-, and established the basis for a new system of labour and industrial relations whilst it paved the way for the restructuring of the Spanish economy.

The landmark "Moncloa pact", signed by parliamentary parties in 1977 started the consensus processes. It comprised of a stabilization plan -to moderate wages and curb inflation- and it

proposed to reform the taxation system, to limit social spending and to open the way toward economic liberalization. One year after the Moncloa pact, the new Spanish Constitution was approved, stipulating that social rights and social principles must inspire any government action.

In the transition there were two more pacts (corporatist agreements) the AMI (Acuerdo Marco-interconfederal) in 1980 and the AMI-2 in 1981 signed by the socialist union, UGT, and the main employer association, CEOE. The AMI's plans aimed to restructure industrial relations after dismantling the Franquist vertical syndicate (fascist) and they served as the basis for the formulation of the Worker's Charter (Estatuto de los Trabajadores), the basic law that has governed Spanish labor relations and the bargaining process from 1980 to the present.

As a result a process of welfare institutionalization began with a liberal-reformist focus. It was grounded on income redistribution through a new progressive fiscal system of 1978 - with direct taxes on income and property- and on some universalistic welfare services; at the same time the process of government decentralization began.

Between 1977 and 1981 social expenditure increased very fast (see graphs 3 and 4) because of the explosion of social demands provoked by the arrival of democracy. At that time the Spanish economy was also strongly affected by the after shock of the 1973 crisis and by a sharp rise in unemployment. Unemployment insurance became the most important social expenditure with a growth of 38.17 per year in real value, old age pensions were second place in importance. (See graphs 3, 4 5 and 6)

During the transition to democracy transfer programs in Spain were the principal part of the social expenditure while expenses on health and education, although they also grew, were not so important. As a result, before 1982 there was still no complete-universalized social welfare system but the quality of social benefits was very low.

a) Democracy under the PSOE government

First of all the PSOE government stabilized democracy in Spain (J. P. Fusi and J. Palafox, p. 389). Even though the Constitution was approved by the end of 1978 there was a period of instability after the elections of 1979 when the UCD underwent a strong crisis. At the point of change of UCD leader and Prime Minister (in February 1981) there was an unsuccessful coup d'Etat which showed the weakness of Spanish democracy.

The consolidation of democratic process took place in three main fields: foreign policy, defense and decentralization. The foreign policy, based mainly on establishing a close relationship with western European democracies, was closely related to defense.

There were two important steps. One was NATO membership which took place during the UCD minority government in 1982. It was confirmed in 1986 by a referendum proposed by the PSOE government. The second was European Community (EC) membership, and the Treaty was signed in 1985. NATO membership was believed by Spaniards to be the best way to neutralize the army politically; participation in the EC was seen as the full acceptance of a democratic Spain by western Europe.

The neutralization of the army needed an effective policy by Minister of Defense, Mr. Narcis Serra, who through different programs from 1982 to 1991 reformed its whole structure.

The democratic consolidation was also based on a process of decentralization, that is unfinished. The constitutional consensus aim was to federalize Spain but, because of procedure to devolve autonomy, different levels of self-government among regions was established. To develop and organize decentralization, two agreements were signed between the main parties: UCD-PSOE in 1981 and PSOE-PP in 1992. These pacts were intended to increase autonomy of the 13 regions (of 17) called "of the slow way" (de vía lenta) which have had a similar equalitarian process.

For the PSOE government, the first step in federalizing Spain was completed by 1983, when the three last regional laws (Estatutos de Autonomía) were approved regionalizing the whole

territory (finished in 1995 when the Spanish Cortes approved a special charter for Ceuta y Melilla), and when the first regional elections for the group of thirteen were held in 1983. It was part of the agreements signed under the Constitution of 1978 (J.M.Vallés, 373).

Under the agreement of 1981 and the regional statutes, from 1982 the socialist government transferred powers and approved basic state laws regarding regional autonomy. However, after the agreement of 1992, the PSOE government decided to increase the extent of power transferred to the thirteen regions to create a situation in which all the regions would have the same extent of self-governance. That step remains uncompleted at the time of writing.

From the social democratic point of view it is essential to consider **the process of compromise negotiation** under the PSOE government. As we saw above consensus was really important in the transition process to create a democratic framework, however it had a different meaning for the PSOE government. Consensus had a positive connection with the widely praised program of structural economic reform undertaken by the PSOE after 1982. Perhaps most important, consensus, first facilitated acceptance of economic reform by the working class.

Before 1987 three agreements were signed falling into the category of social democratic corporatism (see table 2), but only the first one was a complete corporatist agreement. The Acuerdo Interconfederal (AI= Interconfederal Agreement) was a technical agreement, basically about wage bands related to inflation, while the Acuerdos Económicos y Sociales 1 and 2 (AES= Economic and Social Agreements), were socio-political pacts that aimed at reforming the labour market and the national economy in preparation for entry into the European Community. Because of these in 1985 the Organic Law of Union Association (Ley Organica de Libertad Sindical) was approved.

Table num. 2 Concerted agreements with the PSOE government

Accord	duration	wage band	-	real inflation	participants
AI	1983	9.5	-	12%/12.2%	UGT, CCOO, CEOE
AES1	1985	7.2	-	8.6%/8.8%	PSOE, UGT, CEOE
AES2	1986	5.5	-	7.5%/8.8%	PSOE, UGT, CEOE

AI: Acuerdo Interconfederal; AES: Acuerdo Económico y Social;
 UGT: Unión General de Trabajadores; CCOO: Comisiones Obreras;
 CEOE: Confederación Española de Organizaciones Empresariales

In 1987 a new social pact was not possible, neither was it in December 1988 when the nation's leading trade unions called a general strike. The strike was a protest against the flexibility of the labour market. The 1988 crisis had several effects: the most significant was the total divorce between government and unions. As became evident in 1989, 1990 and 1991 when the PSOE government tried unsuccessfully to reach different agreements with the unions (pactos de competitividad- agreements on economic competitiveness). On the other hand the crisis impelled trade union unity of action and they made proposals to government such as the Propuesta sindical prioritaria in 1990 or the Iniciativa sindical de progreso in 1991 etc. Finally the crisis made evident a bitter divorce within the socialists family (between the PSOE and the UGT).

Why had a new social pact been impossible since 1987 when there was a social democratic party in the government? The answer lies in the labor relations structure. There are two main national union confederations. These were aligned in the 80's, one socialist, the UGT (Unión General de Trabajadores) the General Union of Workers, and another Communist, CCOO (Comisiones Obreras) Workers' Commissions. Together they have 84% of labor representatives. On the other hand union affiliation is only 16% of salaried workers (Del Campo, 92), usually are specialized workers with long-term contracts. Thus in spite of their representativeness both unions are organizationally and structurally anemic. Finally, there is a big business association,

structured and centralized in 1979, the CEOE (Confederación Española de Organizaciones Empresariales), the Spanish Confederation of Business Associations, which has a near monopoly representation of business (about 80% of employers)

In spite of such a centralization of interest representation the determining fact is that in Spain since the democratic transition the structure of labor relations has been based on collective bargaining at sectorial level, which affects 80% of employees.

In sum the labour relations structure made it very difficult to establish a permanent system of concerted agreements (Boix, 37) particularly after 1986 when the economy was recovering quickly. Sectorial bargaining blocked the unions' capability to establish and support any agreement about wage restrictions. To the social democratic government, as the minister of economy Carlos Solchaga put it in 1990, corporatist arrangements were expensive, inefficient and, for this reason, unnecessary. Consequently, to make the necessary economic changes, the government had to practice a restrictive economic policy.

b) Economic policy of the PSOE government

The economic policy of the PSOE government must be understood above all as a process of modernization. It was targeted towards structural change, the expansion of market forces and economic development.

The first thing is that in general terms the Spanish economy in the period we are considering has been closely linked to the process of internationalization of markets based on an increase of international trade and investment (E. Gordo, 98). Spain participates in the global economy mainly through the EC.

With the socialist government a process of liberalization (that began in very narrow and limited way in 1959) was completed when Spain entered the EC under the PSOE government in 1986. The partially-open economy then had to change to a much more open one and since then and after 1993 tariffs and state aids to exports

disappeared. Because of the liberalization the Spanish economy which, in the early 70's was much inferior than that other industrialized countries, by the 90's rose through trade to the same level as the European countries and is bigger than the USA and Japan. As a result the economy achieved a high dynamism.

Analyzing the Spanish economy in the last 10 years one can see that it is completely integrated into and shaped by the European one. Spain has accepted the compromises undertaken when it entered the EC: liberalization of markets, preservation of internal stability, control over public expenses and of public deficit and the creation of an autonomous realm to the monetary policy (new rules given autonomy to the Banco de España).

The process of liberalization and modernization of the economy explains why it was so important to fight inflation in the 80's and since 1982 a program of stabilization had been developed together with a restrictive monetary policy, a very strong progressive fiscal policy, reform of nationalized industry and reform of the labor market. In this period there was also a strong expansion of investment on infrastructures and on human capital.

Because an agreement between the unions and business organization after 1987 was not possible anymore (as we saw before), the PSOE government had to implement a restrictive macroeconomics policy based mainly on monetary measures to fight inflation (Boix, 37). In addition the government modernized the fiscal system by rationalizing it and by increasing its progressiveness. In 1985 the annual personal income tax, the Impuesto sobre la Rente de las Personas Físicas (IRPF- created in 1977), was reformed in a more progressive way and the modern VAT (Impuesto sobre el Valor Añadido - IVA) was also introduced in 1986, which substituted another regressive income tax (IGTE) created in Franco's time. If income tax (IRPF) had a strong redistributive effect in the 80's, by the 90's it had exhausted its redistributive potential.

Yet Spanish's management way of the public sector was similar to that of other social democratic governments. The executive

stimulated vertical integration of firms to make the Spanish economy more competitive. This was the case in electricity, gas, electronics, oil or banking. On the other hand public enterprise were reformed. An important group of them were privatized, this was a result sometimes to EU rules (as in oil and telephone). After 1993 when the PSOE had a minority government, the privatization process was accelerated because of pressures from parliamentary coalition partners, Catalan and Basque nationalists (Christian democrats).

In sum, the industrial policy of the Spanish socialist government was directed basically to the promoting of big firms that could be competitive in the European market.

It is also important to point out that there had also been a very active policy of public investment in infrastructures. To modernize the economy the PSOE government centered its strategy on ameliorating economic structure through public investment in a typical keynesian pattern (see figures). Through fiscal policy public income increased systematically (8.3 % of the GDP between 1982 and 1995) and by containing social expenditure in the 90's public deficit was also contained, resulting in an increase in the investment rate. Between 1982 and 1990 the rate increased 2 % of the GDP (about two times the OCDE rate). Investment was channeled into motorways, roads, telecommunications, the transit system, harbors and airports, coastal defenses and dams.

Expenditure in education can also be seen as public investment in human capital and it must be added to the investment rate. The PSOE Government developed a very active policy in professional training (as it is explained below).

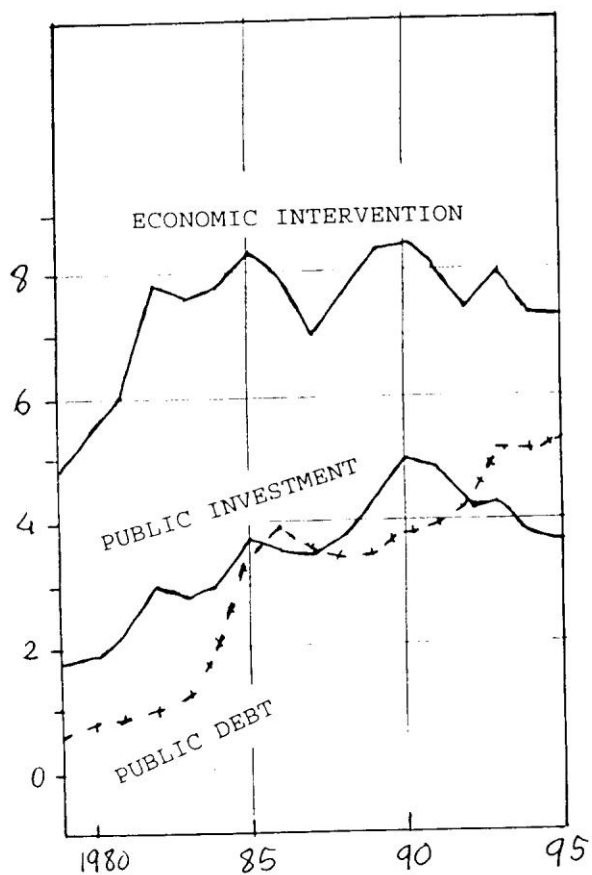
Table 3
Public income and deficit as percentage of the GDP

	1980	1983	1986	1989	1992	1995
Public Income	30,53	33,78	36,16	39,76	42,27	40,59
Public deficit	-3,23	-5,56	-5,96	-2,79	-4,13	-6,66

Source: Fundación FIES

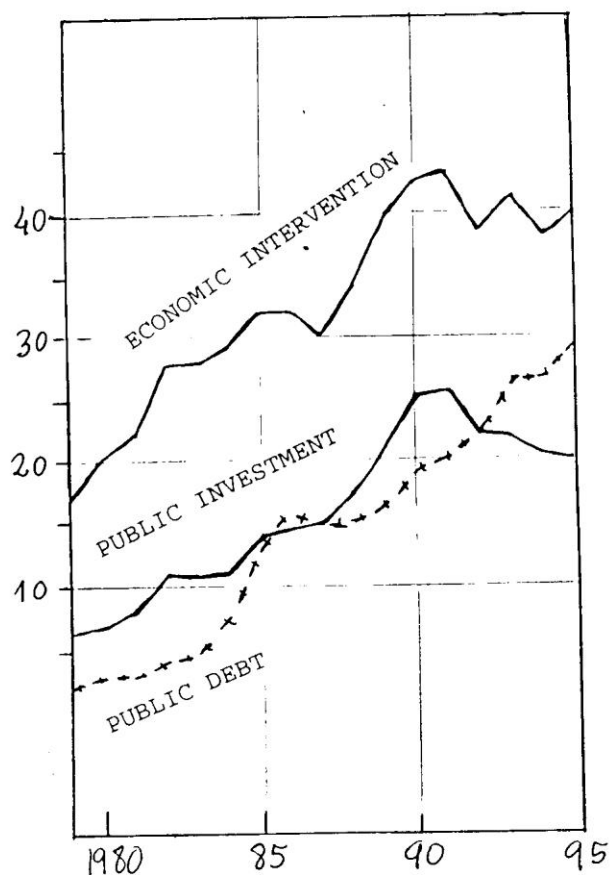
GRAPH 1

% of GDP



GRAPH 2

at constant prices (1990)
 in billions of pts.



The labor market policy of the PSOE government was conditioned by the labor relations structure but there are some other elements to consider and among these the most determining

for decades has been the high Spanish unemployment rate.

Unemployment is a structural problem of a Spanish economy incapable of creating enough jobs for the people who want to work. It is generally accepted that the Spanish economy cannot achieve full employment at present (see table 4).

In the 'eighties and 'nineties there were different causes for the high unemployment. First came the large amount of young people that arrived onto the labour market because of the sixties birth explosion; second, women's participation that began to increase; and third the economic reform (Viaña, 162). In addition there were two crisis periods, one in the late 70's and early 80's and the other after 1992, with a very fast rise in unemployment.

Related to unemployment is the question of a hidden "black" economy especially of small firms. The black economy is an unsolved problem and it is partially explained by the fact that in Spain, as in Italy and Belgium (which have the highest rates of the hidden economy in the EU), there are direct payments made by firms to the social security system to finance social transfers (Navarro, 43). With the aim of avoiding these payments firms participate in the black economy.

Another labor market problem in Spain is the lack of professional training of workers. The low qualification of workers is the main obstacle to creating jobs (Boix, 42). Part of the PSOE labour policy was the important effort to extend and improve the educational system (as pointed out). Expenditure in education increased from 3% to 4,3% of the GDP between 1982 to 1995 (see graph 5)).

The stabilization and modernization programs together with the high unemployment rate lead the PSOE government to deal with workers through wage control and labor market flexibility. As we saw before wage control was the aim of social pacts signed till 1987. However they had limited effects because of the sectorial bargaining and the opposition of the Communist union in two of them. In addition they were never planned as a solidaristic wage policy by the unions.

In 1984 a labor market law was approved that gave some flexibility: it admitted fixed-term contracts and part-time employment. The result of the 1984 reform was a split in the work force into two groups. One is the group of well paid workers, whose wages are fixed in sectorial bargaining. These workers have long term contracts with punitive firing clauses and at the same time they are unionized. The other group is those workers in the risky sectors that can be easily fired (at a very low cost) with fixed-term contracts and a low rate of membership in unions. A large number of them women. Big firms employed workers in the first group while middle size and small firms employed the second group. Moreover, because of the 1984 reform, it is very common to find different wage levels for the same kind of job.

Due to the reform of 1984 there had been a kind of equilibrium in the labor market until 1997, in which there was a limited flexibility. The equilibrium remained stable for a long time because after 1987 the unions were against labor dualization and fought any new measure of flexibility, on the other hand the government used social expenditure on transfers as pensions or unemployment benefits and on education to reorganize the labor market.

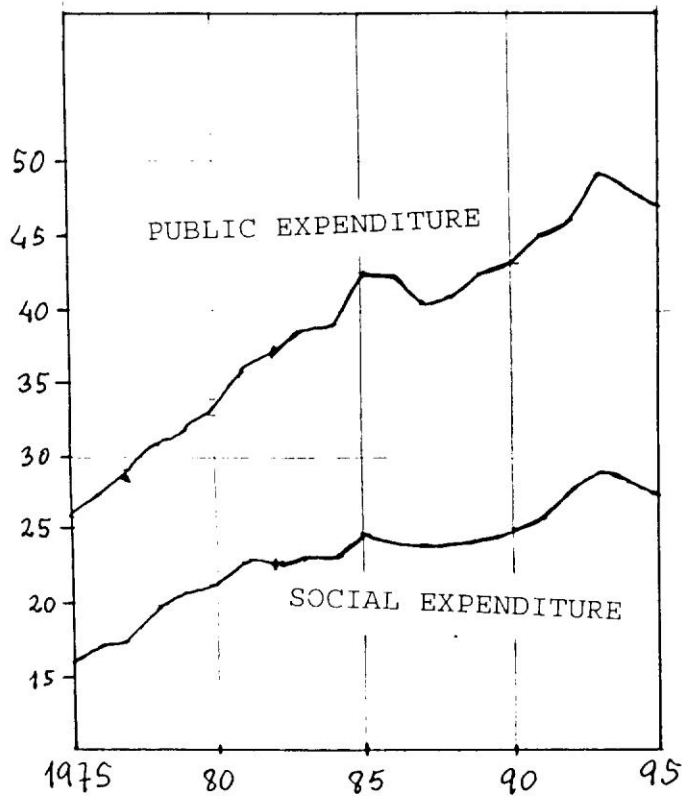
In sum, to reduce unemployment the PSOE government introduced partial flexibility to the labour market with the aim of reaching an equilibrium (Falkner and Talos, 66) and used public investment on education to adapt Spanish labour to the new conditions of a competitive global economy.

c) Social policy of the PSOE government

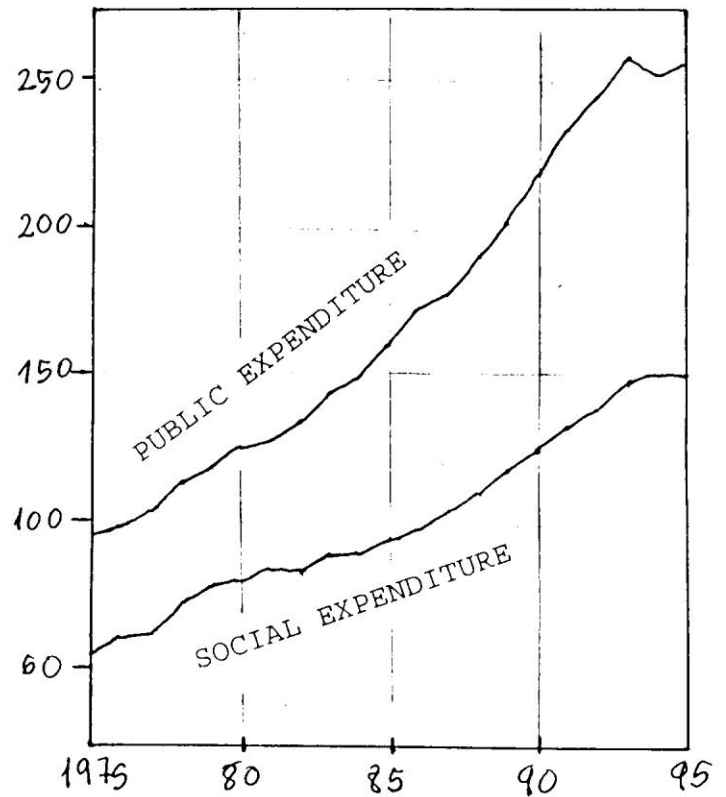
The Spanish social democratic government basically continued the liberal reformist tendency of the democratic transition improving universal programs according to the idea of welfare services as social rights. The difference is that they have been made mainly from the public sector. The socialist period was characterized by a process of universalization of programs, even though social expenditures didn't increase at the same pace as

other public expenses. Additionally, part of the welfare was left to the regional governments.

GRAPH 3
% of GD P

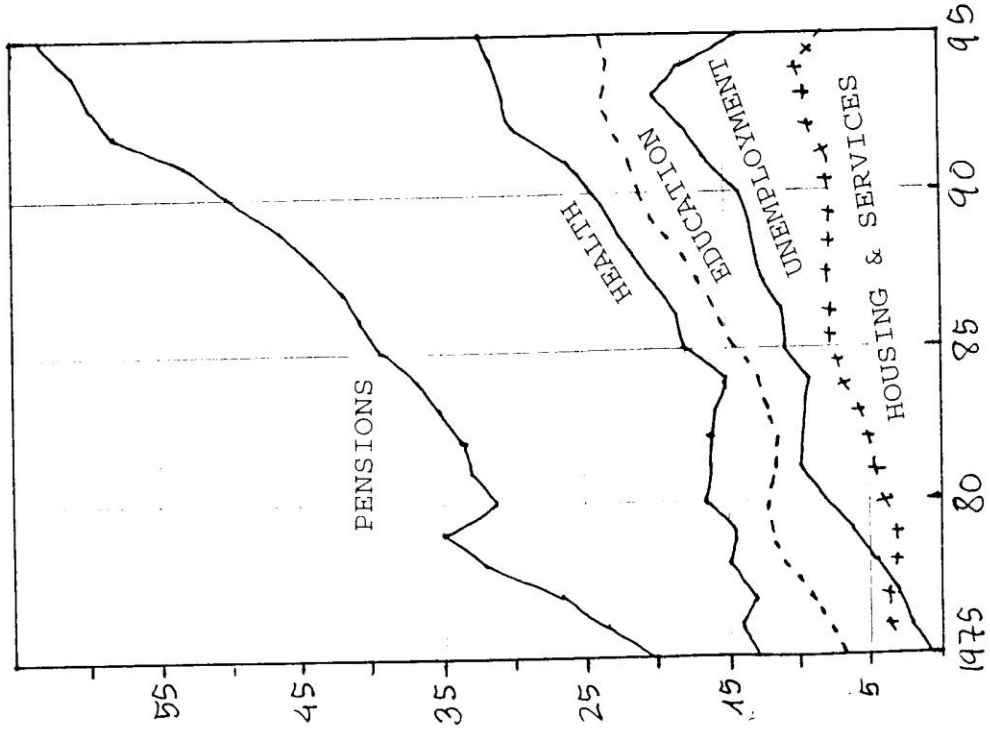


GRAPH 4
at constant prices (1990)
in billions of pts.

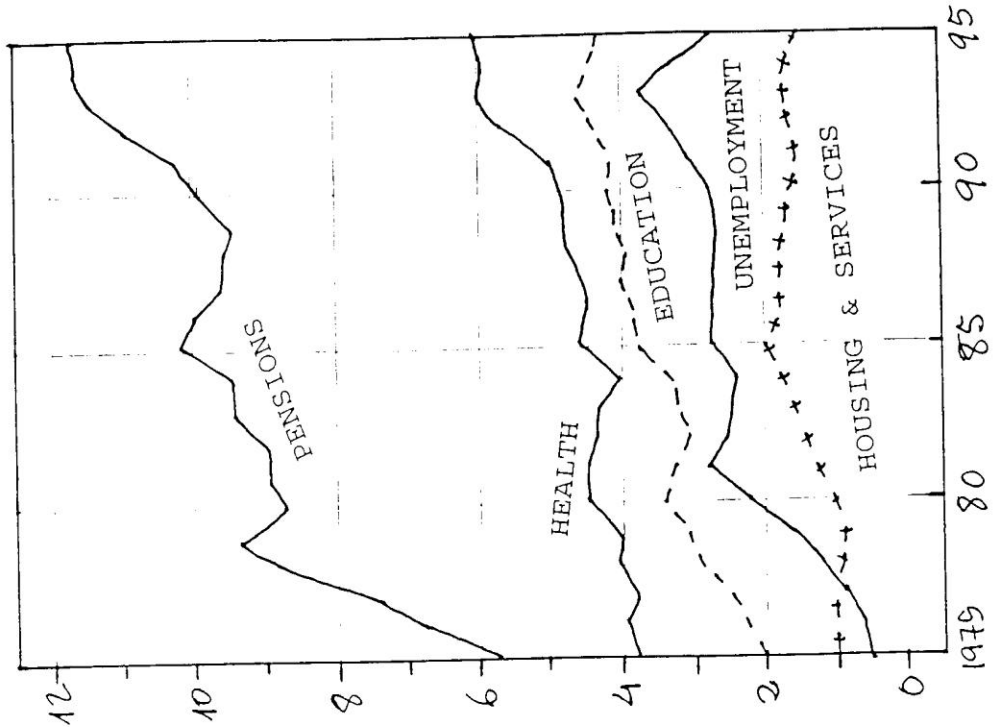


Social expenditure by main components

GRAPH 6
at constant prices (1990)
in billions of pts.



GRAPH 5
% of GDP



Between 1982 and 1995 a regular increase of social expenditure at constant prices can be seen (see graph 4) however it is not exactly related to public expenditure if magnitudes are compared both in terms of percentage of GDP (see graph 3). Social expenditures were 22.6 % of GDP in 1982 and 27.7% in 1995. In the graph 3 one can see that social expenditure remained at the same level for a long period while public expenditure increased. This fact is explained by the economic policy of modernization and the big effort of public investment in infrastructure expounded above.

There were four periods of expenditure between 1982 and 1996. First from 1982 to 1985 transfers increased, especially pension benefits, unemployment benefits and education expenses. Between 1985 and 1990, a period of rapid economic growth, social expenditure remained at the same level. Between 1990 and 1993 there was an important increase of social expenditure because of the economic crisis of 1992 and its effects on unemployment, the growth of means tested benefits and the final process of universalization of health. After 1993 the fact that the PSOE government was a minority one and a new economic policy was introduced based on the accords of the European Union Maastricht Treaty slowed public expenditure; it mainly affected unemployment and means tested benefits.

The best way to understand the social policy of the PSOE government is by looking at every function: pensions, unemployment, education, health, housing and other services.

1).- Pensions

Pensions are the most important social expenditure in Spain. They are obligatory, universal, based on a earnings-related system, and provided by the state. The present uniform structure of Spanish pensions was organized by the social security reform of 1978. Then middle classes and agriculture and farm workers were included in the general system. In the system there is also a

complementary program of special transfers for those old people who have not the right to pension that was established in 1981 and reviewed in 1990.

In 1996 80% of people over 65 have a pension, but women's pensions are a third inferior to those of men. The pension distribution is: old age 47%, survivors 26% and invalidity is 24%.

Once the universalization program was adopted what become most important was to increase the real value of pensions. The Spanish society made a big effort in old age pensions expenditure between 1975-85 and 1990-93 so that, if we relate expenditure on pensions to the GDP per capita, today in pensions expenses Spain is at the level European median (Bandrés, 320).

2) .- Unemployment

As we saw before the Spanish economy is not capable of generating full employment and tends to select workers with the best training so that the unemployed remain unemployed for a long period (Viaña, 163). In addition there were two big crisis that worsened the situation: in the early 80's unemployment affected people without family obligations while after 1992 it mainly affected men in charge of families. This effect provoked "pockets of poverty".

Table 4

Spanish unemployment

	1978	1980	1983	1987	1990	1993	1995
(a) % rate	7,1	11,5	17,7	20,6	16,3	23,9	22,8
(b) Insurance	46,6	48,6	26,3	43,9	42,9	67,2	51,4
(c) Long-term	--	--	18,0	60,5	67,4	56,6	57,0

(a) Percentage of unemployed; source: INEM (Instituto Nacional de Empleo: registered) and EPA (Encuesta de Población Activa: survey)

(b) Percentage of registered unemployed with benefits, Source: INEM

(c) Percentage expenditure in supplementary insurance (asistencial) Source: Anuario EL PAIS 1996, p.424

The Spanish unemployment benefit system has two main

categories. On the one hand it is an earning-related general insurance (contributivo), and on the other there is supplementary insurance (asistencial) for workers whose entitlement has expired or for unemployed workers over 52 or for immigrants, etc. The last one is a low benefit and it is 75% of minimum wage (it is a program mainly directed to fight severe poverty). Finally, there is a third group: a benefit for temporary agrarian workers similar to the supplementary group where it is included usually in accounting terms.

The system was set up in 1984 and there have been several reforms. In 1986 the inclusion of new groups and the introduction of new benefits for old workers and long-term unemployed in 1987, 1989, 1990 and in 1993. At the same time there was a process of reducing the duration or the level of benefits and of strengthening the conditions of eligibility.

In general the system has greatly increased the number of workers with benefits. As a matter of fact the number of registered unemployed with benefits rose from 26 % in 1983 to 70% in 1995 (see table 4). However although the total amount of money directed to it increased on the whole period it didn't increase as a percentage of the GDP. It was the same in 1982 and in 1995: 2,59 percent (see graphs 4 and 5). To explain this paradox we have to take into consideration the benefit distribution in the period. In 1984 almost three quarters of benefits were based on general insurance (contributivas) and a quarter in supplementary ones. However by 1995, with the group of temporary agrarian workers remaining the same, the benefits from the general insurance rose more than 50% while the supplementary benefits have increased five times and, as a result, more than a third of benefits are supplementary.

In sum, during the whole period we have seen that the coverage of the unemployed increased markedly but benefit rates have lowered and there has been a trend toward increasing means-tested benefits (supplementary - asistenciales).

3).- Education:

With the PSOE government there was a big reform with several laws that affected the different educational levels. First, in 1983, came a law covering university education, the Ley de Autonomía Universitaria, establishing self government for the universities and reorganizing the whole system; second, in 1984, came the Ley Orgánica del derecho a la educación that reinforced the principle of education as a public service and organized democratic participation in schools; third, in 1990, came the Ley de Ordenación General del Sistema Educativo and that makes basic education obligatory and free until 16 years under a new structure; finally, in 1995 came the Ley general de la participación, la evaluación y gobierno de centros educativos for evaluating and improving the quality of education. At the same time as the legislation decentralization took place.

By 1985-6 100% integration of children aged 4 to 13 in a nine year comprehensive primary school (EGB) was finished and the integration of children aged 14 and 15 (85%) was very advanced and almost completed in 1996 (97%). At the university level the number of students doubled between 1984 and 1995: from 787.456 to 1.440.259 students.

What is most important is that from 1982 to 1996 is that education has been restructured strengthening public sector schools. In 1982-83 there were 65.5% primary schools in the public sector while 1995-96 there were 70.6%; in high school and professional education there were 41% in 1982-83 and 55.3% in 1995-96 in the public system. University education in Spain is basically public: 96.6% of students are in public universities.

This trend to the public sector can also be seen in terms of expenditure: in 1982 about 30% of the total was private expenditure, in 1987 it was 25% and by 1993 it was 20 per cent. On the other hand public expenditure tripled on the period: in real terms this was a 73% of increase (see graphs 5 and 6). Taking into account the amount of public and private expenditure and the important part of education in private hands (because of the

number of schools) it can be said that private education in Spain (usually catholic) has been always subsidized (Gonzalez Seara, 127).

The last point is quality of education. Data about the results of the system indicated that only one of three students who finished compulsory school went to secondary or high school, and of the remaining two only 15% received the diploma for which they studied. Because of that it is said that the system had been in some way a failure that affected 57% of students in this period. So the aim nowadays is to improve the quality of the educational system.

4) .- Health

In Spain the State organizes the health system at the same time that it finances it, moreover it is in charge of producing and giving health to citizens. With the PSOE government there was an important change in health: both in reorganization and decentralization. A new arrangement was established by a General Health Law in 1986 (Ley General de Sanidad) and another law in medications passed in 1990 (Ley del Medicamento). The 1986 law didn't break with the former structure but was a clear step toward to creating a social service. Inspired by the British and the Italian examples a National Health Service (Sistema Nacional the Salud) was formed in a decentralized Spain. Today, the decentralizing process is unfinished and at least ten regions haven't yet taken on powers over health.

On the other hand the socialist government universalized the system. During the period under consideration 3.5 million of people were brought within into the system and, if in 1985 90% of the total population was covered, by 1996 it had attained 98%. In addition the Spanish health has improved as some indicators show. For example infant mortality in the first year of life has fallen to 0,6% in 1994 and life expectancy has climbed to 73.8 years for men and 81.1 years for women in 1993.

Finance of health changed a lot between 1982 and 1996 so that

public expenditure came to about 80% of the total in the period. It is lower than in Britain or Denmark but similar to that of Italy or France.

Spanish health care is mainly in the public sector although there are some curious exceptions. First, civil servants have their own system and can choose between the public or a private organization. Another exception is that chemistry and pharmaceutical services are completely in private hands. Finally there is the administration by private firms of some complementary health services as rehabilitation, oxygen therapy, etc..

Public expenses had increased faster than GDP as in other European countries because of universalization and the increase of the percentage of elder people (see graphs 5 and 6). It must be added that expenditure on pharmacy is 17% of the total health expenses which is the biggest amount in Europe and it has promoted a big debate. However the most important change in the period is that health finances were based on the budget instead of on transfers from social security, as they were in the early 80's. This has made health social service possible in Spain.

There has been a long debate on the finance of health and by 1991 a report was drawn up (Informe Abril) to review the problem of the big deficit. The main proposal of the report was to rationalize health services to improve their quality.

5).- Housing and social services

The price of houses rose dramatically between 1985 and 1991 . The price of new houses multiplied by 2,8 times in seven years. A big problem thus emerged for Spanish families for whom buying a house is the first challenge they usually face. By 1990 a new law was passed to fight against land speculation by administrative intervention. It would control the housing market with urban planning and by limiting the right of land owners. In addition a deduction of the interest paid on housing loans was introduced in the income tax (IRPF) and a new plan for 1992-95 was passed based on interest subsidies, direct and personal subsidies and loans to

buy new houses or to repair old ones.

On the other hand there was a new decree in 1985 (Decreto Boyer) on houses for rent which liberalized the sector. After 1964 tenants were highly protected by rent controls so that for many owners it was against their interests to lease houses. The reform of 1985 was just for new leases, but the results of this measure were perverse because since then to rent a house has become as expensive as buying the same house (Beltran, 443). In 1991 only 15% of houses were leased. On the other hand the 1985 decree didn't solve the situation of very old houses under lease whose owners were not interested in investing money. Finally a new law was adopted in 1994 to change the situation with measures such as those promoting public housing to rent or tax deductions for tenants.

With the PSOE government social services began to be systematically elaborated and organized (and decentralized). The INSERSO (Instituto Nacional de Sevicios Sociales) was set up in 1985 and in 1988 a Cabinet Department (Ministerio de Asuntos Sociales) was created to coordinate and manage economic resources. These services are related basically to the elderly, women, children, immigrants, drug users and organization of NGO work and volunteer help.

The most important program developed in the period was to establish a social service center in every town. It was implemented from 1988 to 1995. Other important programs were public kindergartens, programs for the elderly (holidays and home health care). In 1983 the Women's Institute (Instituto de la Mujer) was created and different programs were approved in the 90's to implement EC directives for equal treatment. At the same time some centers were created to protect women from sexual harassment and to help divorced women. The expenditure on social services had slowly increased during the period to reach 0.9% of the GDP in the 90's.

IV.- CONCLUDING REMARKS

In general terms the PSOE government had a positive balance in consolidating democracy and taking the first step towards a "social democracy" for Spain.

In terms of participation the democratic process developed by the PSOE during 1982 and 1993 is closer to the institutional-redistributive approach than to the social-democratic one. The PSOE program of socio-economic modernization was mainly supported by the electorate and only very partially included in corporatist agreements. A social contract was not possible over the whole period because of the weakness of trade unions, the sectorial bargaining system dominant in Spain and the economic and labor policy adopted by the government. The lack of concerted agreements after 1987 separated and deepened the disagreement between the PSOE government and the trade unions which made it difficult to set up the social democratic program for the welfare state.

The PSOE economic policy had great success in economic growth and development, competitiveness of the Spanish economy and general modernization of the system. Moreover it showed that there was no contradiction between a policy of intervention, direct or regulative, to promote competitiveness with a privatization process and, if necessary, some deregulation and flexibilization.

However, the PSOE's policy couldn't solve the structural problem of unemployment and had the unintended effect of rising the rate with a high level of long-term unemployed and splitting the labour market. As a consequence the successful government intervention organizing the economy and investing in infrastructure or education, cannot be compensated from a social democratic point of view against the deep disagreement with trade unions -which in spite of their weakness were the institutional representatives of the working class-.

Finally, social policy can be evaluated very positively in its spread social of rights by organizing social services. Between 1982 and 1996 there was a universalization of benefits in health, education and old age pensions and there was a very much extended

system to protect the unemployed. Health was the most important policy in terms of redistribution and equality. It is also remarkable that health (almost completely) and education (in a high degree) had been placed under the public sector as universal social services.

The economic crisis of 1992 and the stabilization policy due to Maastrich Treaty produced that unemployment benefits were modified in a restrictive way introducing some means-tested mechanisms to fight poverty. Means-tested programs were seen as the only way to assure some degree of protection to biggest number of unemployed.

Although there wasn't a social contract between the government and the trade unions about what is called "the social wage" it is evident that social policy of the PSOE had offset (from a social democratic point of view) the negative effects of the labor policy.

Finally, to better evaluate the economic and social policy one can say that there is evidence that in terms of personal income, and unlike other OECD countries, there was a reduction of inequality in the 80's, and that stopped in the 90's (Ayala, 38). Moreover, in the whole period there had been an economic redistribution greater than any time before (Bel, 85).

The increase in equality has been produced mainly by the progressive fiscal system and by the rise in social expenditure, in particular on health, income maintenance and housing.

The aim to reduce public deficit and at the same time to universalize benefits led the PSOE government in the 90's to a policy of, one, giving the highest possible number of beneficiaries, two, the kind of benefits which were the less expensive possible. On the other hand the ability to increase redistribution through the fiscal system stopped in the 90's. As a result all that, in the mid-nineties the means-tested income maintenance benefits were spreading, especially after the crisis of 1992-3. They were also related to a very deep wage inequality due to labor reforms of 1984. Low salaries affected mainly women

who began at that time massively participating in the productive process.

Lastly it can be said that PSOE social policy helped to eliminate absolute poverty in Spain but on account of what happened in the nineties there remains some vulnerability of some groups.

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