THE POLITICS OF UNEMPLOYMENT.
THE SPANISH EXPERIENCE IN COMPARATIVE PERSPECTIVE.

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Introduction[1]

This paper will defend two related theses. The first is that, if certain institutional conditions are absent, economic policies will have unanticipated consequences that will contradict the interests of the government and its support coalition. To quote Scharpf (1991: 161), "to be successful, an economic strategy must satisfy two requirements. It must be appropriate to the (constantly changing) economic conditions that actually obtain, and it must also be feasible under existing (but equally changeable) institutional arrangements". There are no universal blueprints that can produce similar effects whatever the institutional setting; and it is obvious that governments can hardly implement policies under conditions of their own choosing. Constraining economic and institutional conditions may indeed vary greatly. Policy goals that are compatible in some circumstances will become contradictory in others: for instance, full employment and equality for social democratic governments in different contexts. Unexpected outcomes and goals that turn out to be contradictory will force governments to make difficult choices. One of the lessons of the Spanish experience is that, besides the general difficulties faced by social democracy, specific conditions made it particularly difficult to successfully combine wages, jobs, and redistribution.

Our second thesis is that, when specific proposals for welfare policy reform are incompatible with the demands of crucial social democratic constituencies, governments of such orientation will have no incentives to carry them through, even at the cost of other preferences. If unemployment is high, perhaps as the unintended consequence of the economic policies of the government, then traditional policies of income maintenance and passive protection, focused on the main household provider, will not be easily replaced by alternative ones. This is particularly the case if the reforms reduce present entitlements, increase income inequalities, and erode the "social wage", even for the sake of an uncertain future employment of spouses, sons and daughters, and life-long opportunities of higher income. Contrary to arguments that point at political pressures from labour market "insiders" to maintain the *status quo* (Saint-Paul, 1993; 1996), we shall locate such pressures among "outsiders" –that is, the unemployed rather than the employed. Social democratic governments will hardly follow such reform proposals if they want

to preserve an electoral support that is crucial for their survival, as long as social policies that mitigate hardship among the jobless can be financed. To sustain this thesis, we shall examine the political effects of unemployment on electoral support, citizens' reactions to policies and to inequality, and whether such reactions could influence governments.

We take Spain as a paradigmatic case. Over fourteen years, the rate of unemployment under a social democratic (PSOE) government stood on average at 19.9% of the active population, with peaks of 21.6% in 1985 and 24.1% in 1994. These rates more than doubled the Western European average, which was 9.4% over the same period, with peaks of 10.0% and 11.1% in the same years (Commission Européenne, 1995: 102-3), and far exceeded that of any other industrial society. What were the causes of such unemployment? What policies were followed that appear to have failed so dramatically to create jobs? European social democracy has had for decades two policy goals that were compatible: on the one hand, an egalitarian redistribution of income; on the other, full employment. The Spanish experience may be interpreted either as an extreme example of an increasing inadequacy of social democratic policies to economic circumstances that varied very much from the early 1970s onwards; or as a case in which "objective conditions", having to do with institutions, were unfavourable to the social democratic formula. Our conclusion will defend this second interpretation. We will look at comparative unemployment trends over twenty years, at their connection with policy options, and at different combinations between economic competitiveness, unemployment, and inequality. We shall thus mostly discuss governments and policies, and policy outcomes mediated by institutions. We shall conclude that, under certain conditions, a policy option "*à-la-Scharpf*" will not lead to the expected results: a social democratic government may, on the contrary, end up with a policy-mix of increasing fiscality, growing wages, tight monetary controls, and large unemployment.

We shall examine the political consequences of vast unemployment using survey data. In the campaign of the Spanish general election of June 1986, with over 2.9 million people unable to find a job, a former Prime Minister, Adolfo Suárez, wondered why the unemployed were not occupying the streets. One may indeed wonder why the unemployed did not show their discontent either in the street or in the ballot box. A cursory glance at polls over the fourteen years' period of social democratic government indicates that support for the latter among the

unemployed, although declining, was always larger than that of any of the opposition parties, even when it was eventually defeated in the general election of March 1996. Why did these voters without jobs exonerate the government from responsibility? Were there circumstances that mitigated their hardship? We shall argue that, among those who were unemployed, a network of social policies, together with ideology, helped the government. And if a pattern of policies is electorally important, incentives for reform will be weak.

We are interested in the Spanish experience in order to contrast our two general theses with empirical evidence relating to a crucial case. We care little about whether it corresponds to a "Southern European syndrome". Rather than tools for explanation, typologies often turn into botanic exercises in classification, leading to endless discussions about whether one particular case fits in a typical box. Such exercises also tend to overemphasize similarities and reinforce stereotypes; yet when we compare countries, their differences are as important as their similarities.

A rapid examination of trends in unemployment and welfare policies shows considerable inter-country variations in Southern Europe. In 1995, the Spanish unemployment rate stood at 23.7%; but if we exclude this country, the average for Southern Europe fell to 9.8%, lower than that of the European Union as a whole (Commission Européenne, 1995: 102-3). More particularly, Portugal (6.8%) and Greece (8.8%) had lower unemployment rates than Denmark (9.0%) or Sweden (9.2%). When, rather than the percentages of unemployed in the mid-90s, we turn to the average annual rates of job creation over the thirty years period between 1961 and 1990, those of France and Greece were 1.30 and 0.90, considerably higher than the average of the European Union (0.53), and in sharp contrast with the rate of Spain (-0.03). National variations make a specific Southern European unemployment syndrome hard to detect.

Similar doubts can be expressed about a typical Southern European welfare regime. Rather than a common pattern (Castles, 1995; Ferrera, 1996), what emerge are substantial national differences. Take for instance the evolution of transfers and services between 1960 and 1990: education and health expenditures grew by 1.1 and 1.6 points of GDP in Greece, but by 3.9 and 4.1 points in Spain, in contrast to 0.8 and 3.8 points in the Nordic countries (United Nations, 1993). Over a shorter period, from 1980 to 1991, old age pensions went up by 4.1

points of GDP in Greece, but by just one point in Spain (Maravall, 1997: 100). Or consider the participation rates of women in the labour market, crucial both for unemployment and welfare policies: that of Portugal was similar to the rate of Germany, close to that of the United Kingdom, and much higher than that of Spain (OECD, 1995).

Thus, we do not intend to allocate the Spanish case to a particular typological niche, internally homogeneous and externally distinctive. Our purpose is to discuss, given this experience of high unemployment, more general trends and new dilemmas having to do with policies: more particularly, different combinations of wages, employment, and redistribution. We also want to assess the political viability of proposals for welfare reform, particularly those that present the welfare state, rather than as a remedy, as a cause of vast unemployment, incapable of catering for new social needs. These proposals argue that if enough jobs are to be provided by economies, labour markets and social policies will have to be drastically reformed, even at the cost of greater inequality. They present, therefore, the two social democratic objectives of redistribution and employment as incompatible.

1. The difficulties of virtue: the trade-offs between wages, unemployment, and welfare.

Let us start discussing our first thesis: that institutional conditions may lead to unintended policy-mixes, and to policy outcomes that contradict the interests of a government and its support coalition. We must first examine the rapid expansion of unemployment between 1975 and 1982, in order to know the conditions faced by the new PSOE government.

European cross-country differentials in long-run employment trends have been attributed to the initial distribution of labour across sectors in economies with dissimilar employment structures in the 1970s (Marimón and Zilibotti, 1996). The ensuing evolution of unemployment is thus seen as a function of vast sectoral reallocations of the labour force, mass migrations, and a decline of labour-intensive mass production. According to this view,

the exceptional growth of unemployment in Spain was not due to the long-run rates of job creation in the non-agricultural sectors, which were similar to those of the other European countries, but to the very high proportion of people employed in agriculture in 1975. However, this initial sectoral distribution of employment is not a sufficient explanation, as the contrast between Spain and Portugal shows. The Portuguese agricultural workforce was proportionally larger than the Spanish and, subsequently, fell at a similar pace: between 1960 and 1980, it declined from 44% to 24% of the active population in the first case, from 42% to 15% in the second case (Williams, 1984: 9). And yet, between 1975 and 1982, unemployment went up in Portugal from 4.4% to 7.2%, while it grew in Spain from 4.5% to 16.3% (Commission Européenne, 1995: Table 3).

An additional explanation has pointed to the varying conditions of labour markets and the evolution of fixed labour costs. The Spanish non-agricultural sectors could only have absorbed the large numbers of workers displaced from agriculture if their labour costs had grown below the European average and the labour market had been more flexible. This is actually what happened in Portugal: for instance, between 1976 and 1982, real wages grew on annual average by 0.26%, while in Spain the figure was 2.4%. Rigid labour markets and burdensome fixed labour costs not only prevented the necessary creation of jobs in the non-agricultural sectors; they also hindered the capacity of firms to adapt to economic cycles. The consequence was that they used mass lay-offs in times of crisis and were reluctant to create new jobs in times of expansion. Whenever economic conditions started to turn sour, stable jobs were the first to go (when firms were still able to pay the large costs of dismissals); when such conditions improved, employers turned to extra-time work or "black" contracts, rather than to the creation of new and regular jobs.

When Spanish social democrats came to power in 1982, they did not question in some fundamental respects a policy paradigm that was to become increasingly dominant in the course of the decade. They thought that employment in an open economy depended in the long-run on macroeconomic conditions of low inflation and a balanced budget, as well as on the competitive conditions of the supply-side. This intellectual conception substantially departed from that held by social democracy over the three decades that followed the Second World War; it was increasingly shared, however, by most social democratic parties in the

1980s. The reasons are well-known: countries with social democratic governments, Keynesian policies, and neocorporatist formulas were now experiencing high unemployment and seemed unable to achieve the "virtuous" combination of growth-cum-redistribution. As capital markets became internationalised, national governments lost their autonomy in determining the level of interest rates. This had two dramatic consequences for traditional social democratic policies: first, high interest rates increased the cost of an expansive fiscal policy with public deficits; second, only high rates of return of private productive investment could keep unemployment at low levels. The reasons were not just high wages and taxes, as neoclassical diagnosis would insist upon, but, more generally, the opportunity costs of productive investment. Unfortunately for social democrats and unions, in these new circumstances, employment, real wages, welfare transfers and services could not be expanded simultaneously. The Spanish experience shows that orthodox macroeconomic management, regarding inflation, the budget, or the balance of payments, was an inevitable part of a social democratic economic policy. And that any breach of macroeconomic discipline had dramatic effects: the only question was who would pay the costs.

Although the difficulties for neocorporatism increased, concertation with unions remained a fundamental part of a social democratic strategy. If inflation was to remain under control while public expenditures expanded, the alternatives were only wage moderation or a tight monetary policy that raised interest rates, discouraged private investment, and increased unemployment. As Scharpf has put it, "the availability of an incomes policy creates important additional degrees of freedom for macroeconomic policy makers... (For) supply-side problems, economic policy would be well served by close cooperation between government and unions" (1991: 34-5). In order to tackle investment-gap and demand-constrained unemployment, as well as cost-push inflation, wage restraint could moderate prices and promote profits, while fiscal and monetary policies could ensure demand, help productive investment, and finance social policies. Thus, it was either wage moderation, or fewer jobs, or less redistribution.

As a vast literature has shown, institutional conditions influence such outcomes. Thus, concertation and wage moderation are facilitated , on the one hand, by high rates of affiliation of the labour force to single, centralized, and encompassing trade unions; on the other, by governments with the disposition and capacity to deliver compensations (Schmitter, 1979;

Cameron, 1984; Lange and Garrett, 1985; Wallerstein, 1990; Golden, Lange and Wallerstein, 1995, 1997). In such circumstances, the unions will have a rational self-interest in avoiding the macroeconomic consequences of high wage settlements in centralized bargaining. The same argument is valid in harder times: the supply-side-oriented wage policy demanded to restore profits, facilitate investment, and create jobs is easier when unions are encompassing, solidaristic, large, and centralised. Such unions, because of self-interest, will opt for the "self-exploitation" (Scharpf, 1991: 254) of employed workers, rather than exploitation by capitalists, if it leads to more jobs and social policies. On the contrary, concertation will be difficult when a plurality of small trade-unions, representing the interests of "insiders" in the labour market and negotiating at a sectoral level, hardly internalize the consequences of high wage increases and growing unemployment. Unions will also lack incentives to moderate wages when domestic autonomy to decide fiscal and monetary policies has been curtailed and economic conditions are largely determined by exogenous factors (Scharpf, 1987: 26-8; Scharpf, 1991: 7-12, 238-255, 269-275; Regini, 1995: 37-8). If the level of employment lies largely beyond the control of domestic actors, intertemporal calculations about wages, jobs, and redistribution make little sense.

The competitive conditions of the supply-side could be promoted following different strategies. As Boix (1996) has argued, such strategies reflect the ideological preferences of governments. On the one hand, a government may undertake a "high added value" strategy: in order to improve products and production processes, the state will play an active role in promoting the productivity of the factors of production and the competitiveness of the economy; public investment in the education and training of the work force and in physical infrastructures will be high. If successful, this strategy will simultaneously achieve high levels of wages, welfare provision, and employment. On the other hand, a government may choose a neoliberal competitive route: it will keep state intervention, public expenditures and fiscal revenues at low levels, leave economic decisions to markets, eliminate wage rigidities (including minimum wage laws) which prevent labour markets from clearing, suppress generous unemployment compensations which reduce the incentive of searching for a new job, and promote favourable conditions for private investment. If successful, it will achieve high private profits, savings, and investment.

Whenever deterioration of economic conditions, technological developments, or competition from countries with lower labour costs threaten the jobs of the less skilled sectors of the labour force at present wage levels, the two strategies will react differently. The first will try to reinforce the productivity of these workers with the public provision of training and education; the second, on the contrary, will leave the acquisition of new or additional skills to individual decisions, deregulate and liberalize markets further, let wages fall until they become competitive again and bring the labour market to the market-clearing level, and improve the comparative conditions for private investment (Boix, 1996: 44-64).

The first route is more egalitarian, although the instrument is education rather than the "social wage". The argument is well-known: training may both combine employment and redistribution, as it widens occupational opportunities and eventually diminishes wage differentials; on the contrary, a high "social wage" may redistribute income, but at the cost of employment, as high unemployment benefits that extend over time detract the unemployed from getting new jobs whose wages are not high enough to act as an incentive. While the distributive consequences of the two strategies are different, both are supposed to lead to new "virtuous circles" of growth and competitiveness.

But, whatever its distributive consequences, the first ("social democratic") strategy requires specific institutional conditions. Otherwise, they will have to be created. And during the transition, the evolution of wages is particularly crucial for jobs, because in the short-run, *ceteris paribus*, the competitiveness of the economy will depend on the price differentials of foreign and domestic goods, and wages will be the crucial cost of production. If price levels are constrained by competition and if wages rise too much, as happened with Spanish industry in the 1980s, firms will be unable to preserve or create jobs. If they are not, prices will go up, as was the case with the Spanish service sector over the same period. But a "social democratic" strategy that consists of wage moderation and limits to the "social wage" will not be easily accepted by trade unions. Resistances will augment when governments cannot guarantee intertemporal pay-offs in terms of jobs, wages, and welfare in the future, due to the high dependence of the performance of their economies on international circumstances. The same will happen when governments attempt to reform over-regulated labour markets, with the hope that jobs will more readily follow upturns in the economic cycle. Concertation with unions and neocorporatist

arrangements are difficult to achieve in such conditions. While this "valley of transition" is crossed (that is, until the conditions for a social democratic supply-side strategy are created), the electoral demands of the support coalition of the government must not be contradictory with this strategy. Otherwise, a government interested in its own survival, myopic or not, will abandon its course.

When the PSOE won the general elections of 1982, 2.24 million people were unemployed. Jobs had been destroyed at an annual rate of 2.0% between 1975 and 1982. The unemployment rate had gone up from 4.5% to 17.0% in that period. The existing economic and institutional conditions were very unfavourable for the social democratic strategy that we have examined. The technological backwardness of the economy made a competitive strategy of "high added value" hardly possible in the short-term. And the stock of human capital was low, although the flow of educated and trained individuals had increased: thus, while nearly three out of every four people in the 20-24 age group had entered into secondary education, the percentage was of only 15% for the 45-64 group (Fundación Argentaria, 1995: 132). The labour market was extremely rigid, as under Francoism job protection was used to win workers' passivity in the absence of democratic rights. Real wages had risen on annual average by 5.8% between 1961 and 1982, compared to 3.9% for Western Europe as a whole (Commission Européenne, 1995: 162-3). The economy had also to provide jobs to an active population that was growing rapidly: by 18.1% over fifteen years, an addition of 2.36 million people over 16 years of age. Foreign migrations, which had displaced over 2.4 million Spanish workers to other European labour markets between 1960 and 1975, had come to an end. The participation rate of women in the labour market, which had been very low, was increasing: while it amounted to 28.7% in 1977, it went up to 37.2% in 1993, an addition of 1.99 million who were either working or in search of a job. And the cohorts entering the labour market were of growing size: the 16-25 age group was 27% larger than the 26-35 group. To sum up, this list of conditions included an economy in deep crisis of competitiveness, demographic trends that aggravated the deterioration of employment, technological backwardness,[2] increasing requirements of capital

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[2] A few examples of this technological backwardness of the Spanish economy are the following. In 1974, total expenditure in R&D amounted to only 0.34% of GDP, and in 1982 had only risen to 0.47% (the European Community average was 1.2%). Business enterprise expenditure in R&D stood at 0.26% of GDP in 1984, against an EC average of 0.81%. In 1982, the number of national patent applications per 10,000 population was 2.69, while the

per employed worker,[3] and a work force unequipped with the education and training necessary for the short-term success of a "high added value" strategy.

The institutional conditions for concertation were also absent. Two trade unions (the UGT and the CC.OO.) competed for the representation of the working class. Trade-union affiliation, which had risen rapidly with democracy, was now falling. Yet, despite their organizational weakness, unions were still able to attract over 50% of the vote in elections to works councils, and 94% of representatives on such councils were elected on trade union lists. Workplaces that mobilized when unions called a strike employed nearly two thirds of workers (Escobar, 1995: 169-60). This type of mobilizational strength and a strategy of intermediate centralization of bargaining (at the sectoral/provincial level) was more conducive to conflict and strong wage demands than to concertation and wage moderation (Soskice, 1990; Jimeno and Toharia, 1994).

In this institutional context, the management of the economy was very orthodox in fundamental aspects. Inflation was brought down from an annual rate of 14.6% to 4.9% between 1982 and 1995. The average annual variation of monetary circulation went down from 18.3% under the period of the Suárez government to 12.3% under the socialists. Exports of goods and services went up from 18.4% of GDP to 24.1% in the same period. The terms of trade, if we take 1980 as 100, improved to 116 in 1995. Foreign currency reserves measured in écus multiplied by four times in the decade from 1982 to 1991. The supply-side structural reforms tried to open the economy, transform uncompetitive sectors of production, and deregulate markets. The increasing international integration of the Spanish economy is expressed by the growing share of GDP of the sum of exports and imports of goods and services: they had amounted to only 26% in 1970, and to 29% in 1980, but reached 61% in 1995 (Consejo Económico y Social, 1996). The reconversion of non-competitive firms extended to one-third of Spanish industry, at a cost of $ 9.2 billion from public funds. The liberalization of markets had different purposes: to introduce greater competition in an over-protected financial system, to

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EC average was 9.57. And the coverage ratio of the technological balance of payments was only 0.21 (OECD, 1990: pp. 17, 25, 47, 49).

[3] Between 1974 and 1995 such capital requirements per employed worker doubled: they went up from 6.23 million pesetas to 12.95 million (Espina, 1997).

limit inflationary pricing in the service sector as a whole, to facilitate adjustments to external shocks, to stimulate the creation of jobs in times of economic expansion. Thus, a first reform of the labour market in 1984 suppressed administrative restrictions to hiring and dismissing workers, and introduced more flexible contracts for temporary or part-time jobs.

In some other crucial aspects the government departed from neo-liberal advice. First, as unemployment soared between 1975 and 1985, some economists argued that only if wages were cut by 30% would jobs be created in sufficient numbers. Rather than accept this contraposition between wages and jobs, the government only sought to moderate the evolution of real wages, if possible by concertation with the unions. Real wages grew by 0.8% on annual average from 1983 to 1995, a slightly lower rate than that of Western Europe as a whole (1.0%). Second, its fiscal policies were expansionary, contrary to neoliberal recommendations, although the government did slow down the fast increase experienced by the public budget since the mid-1970s, under the new democracy. Public revenues and expenditures went up: the first by 7.1 points of GDP, the second by 8.3 points. These increases were considerable by comparative standards: the corresponding figures for Western Europe as a whole were 1.3 and 2.7 (Commission Européenne, 1995: 160-1, 212-5). This fiscal expansion served to finance the "social democratic" supply-side strategy *cum* redistribution. Public sector investment rose from 2.9 to 5.2% of GDP between 1982 and 1991; the budget for education increased from 2.8 to 4.5% of GDP in the same period; people covered by vocational training programs went up from 67,965 in 1984 to 290,869 in 1992, while the share of GDP of active labour market policies went up from 0.22 to 1.03% between 1982 and 1991; expenditure on research and development as a proportion of GDP doubled, from 0.47 in 1982 to 0.90 in 1990 (Maravall, 1997: 88-9; Ministerio de Trabajo y Seguridad Social: annual series). As for public programs of social protection, their budgets increased from 17.5 to 23.4% of GDP between 1980 and 1993: if we look at some of these programs, expenditures on health went up from 4.7 to 6.0%; pensions from 5.4 to 7.1%; unemployment subsidies from 2.7 to 4.8% (Fundación Argentaria, 1995: 326-9). Thus, a rough calculation shows that the social democratic strategy added 11.2 points of GDP to public expenditure, of which 5.3 corresponded to state intervention on the supply-side and 5.9 to social policies. This increase led to some restructuring of the public budget, which grew 2.9 points of GDP below the cost of this sum of social and supply-side policies. But, because structural reforms of public expenditure were limited and tough choices avoided, such

expansive trends could only be preserved if fiscal revenues continued to grow and if the economic conditions were favourable.

The combination of a European economic expansion, cheaper oil prices, and the effects of economic policies led to fast economic growth in the second half of the 1980s: it reached 4.5% on annual average, compared to 3.3% in Western Europe as a whole. The number of jobs also increased by 1,468,300: the average annual rate of job creation was in this period 3.2%, far higher than the European annual average of 1.3%. But, due to the reforms of the labour market, most of these jobs were temporal: while they represented 15.8% of all contracts in 1987, the proportion went up to 33.5% in 1992. So, both greater labour market flexibility and growth over a seven-year period increased dualistic tendencies within the labour force, reinforced by the persistence of highly protective legislation for the other two thirds of jobs.[4] And, at the end of this period of economic growth, as we have already noted, unemployment still stood at 16.2%, against a Western European average of 7.6%.

Table 1 provides information on the evolution of unemployment and the active population from the first election of the new democracy, won in 1977 by a centre-right party (UCD), to the last electoral victory of the socialists (PSOE) in 1993, when growth had sharply come to an end, falling to 0.7% in 1992 and -1.1% in 1993, and unemployment had climbed again by 4.4 points in two years only. The table shows first the impact of demographic trends: between 1977 and 1993, the active population grew more than unemployment. Second, unemployment grew more under the five years of UCD rule (1977-82) than under the eleven years (1983-1993) of social democratic government (1.51 million in the first period, against 1.42 million in the second), although the active population expanded much more in the second period (by 2.1 million under the PSOE, against 0.3 million under the UCD). Third, the incidence of unemployment over the whole period was particularly large among young people of both sexes (an increase of 875,200) and women (1.51 million). Fourth, this incidence varied considerably between the two political periods: under the UCD, young people suffered the cost to a much larger extent than under the PSOE (in the first case, they represented 54.9% of the increase in unemployment, but only 3.3% in the second). On the contrary, the number of women without

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[4] Particularly due to the definition of "unfair" dismissals, and the cost of indemnity payments (Bover, Arellano and Bentolila, 1996; Jimeno, 1997).

jobs rose more under the socialist than under the conservative governments (they contributed respectively 66.2% and 37.7% to the total increase in unemployment). This was associated with the much faster growth of the participation of women in the active population under the PSOE government: while their numbers increased by 0.25 million under the conservatives, they went up by 1.74 million under the socialists.

Table 1. *Active population and unemployment trends.*

Years	Active population			Active population < 25 years old			Active population: women		
	Total	Unemployed		Total	Unemployed		Total	Unemployed	
		N	%		N	%		N	%
1977	13,047,100	754,400	5.8	2,813,200	399,000	14.2	3,732,300	236,900	6.3
1982	13,347,100	2,261,900	17.0	3,014,600	1,227,600	40.7	3,983,900	805,200	20.2
1985	13,666,800	2,999,800	22.0	2,932,900	1,430,900	48.8	4,156,000	1,073,600	25.8
1990	15,044,100	2,424,300	16.2	3,025,400	958,400	31.7	5,316,400	1,266,700	23.8
1993	15,405,800	3,682,300	23.9	2,844,000	1,274,200	44.8	5,726,600	1,745,000	30.5

Source: Instituto Nacional de Estadística, *Encuesta de Población Activa*, annual series.

The new European economic crisis in the first half of the 1990s had a devastating effect on the labour market. Unemployment went up again, reaching 24.1% in 1994. It also increased in Europe as a whole, but by 3.5 percentage points only (from 7.6% in 1990, to 11.1% in 1994), less than half the Spanish case. The standard interpretation put the blame on the expansionary fiscal policies, on the evolution of wages, and on the inefficiency of the labour market. While the economic cycle turned downwards, the budget continued to go up by an additional 3.3 points of GDP due to the postponement of reforms on public expenditures and to a further expansion of social policies. And as unemployment went up, with a segmented labour market and a trade-union movement with no institutional incentives to restrain wage demands, these also went up by 1.8% in real terms on annual average. With this evolution of the budget and wages, the government resorted to a tight monetary policy, which aggravated the recession, punished productive investment, and increased unemployment. When fiscal austerity was finally imposed,

out of the social democratic panoply the supply-side policies suffered much more from the cuts than the social policies. In hard times, the government tried to preserve the still-precarious welfare state, a "caring" and "redistributive" political image, and its core electoral support. But the whole social democratic strategy faced widespread criticisms: on the one hand, its supply-side policies needed too much time to be effective, as the country had only limited stocks of physical and human capital, and an underdeveloped R & D system. On the other hand, its social policies had swelled the budget, and their design stimulated unemployment. So, the dominant policy blueprint was (i) to balance the budget with structural reforms of public expenditures and with one-shot revenues from the privatization of public firms; (ii) to liberalize sectors where protection and the absence of competition fuelled inflationary pricing, and where wage inelasticity regarding unemployment was high; (iii) to carry further the flexibility of the labour market; (iv) to introduce drastic reforms in the welfare state.

Some of these recommendations started to be followed by the social democratic government of the PSOE in its last couple of years. It cut public expenditure by 2.7 points of GDP, real wage increases were limited to 0.4% per year, the economy was further liberalised. And a new reform of the labour market was introduced in 1994, which decentralized collective bargaining, made indefinite contracts more flexible, and limited the use of temporary job offers. When the economy started to grow again, job creation was much more sensitive than in the economic recovery of the earlier decade: in 1985, a 2.3% annual rate of GDP growth still destroyed 0.9% of total employment; in 1995 a 3.0% rate of growth produced a 2.7% increase of jobs. Between 1994 and 1996, 362,000 jobs with indefinite contracts were created, whereas 45,000 temporary jobs disappeared (Espina, 1997). But it was too late for the government to benefit from the economic recovery: after 14 years in power, the socialists lost the 1996 general elections. To put it rather crudely, social democrats, after two decades of frustration over high unemployment, appeared to believe that easier dismissals facilitated the creation of jobs, and became more orthodox in their fiscal policies. Over a long time, social demands from their support coalition had led to a rapid increase of public expenditure; due to institutional conditions, the government had been unable to attract trade union complicity; social democratic supply-side policies appeared to require a long time to produce effects, as the initial conditions were unfavourable. The result had eventually been a particular mix of social policies *cum* monetarism; both unemployment and welfare had expanded. As in pre-Keynesian times, social

democrats ended up with no economic policies of their own: they adopted orthodoxy and combined it with social "remedialism".

2. Unemployment and welfare dilemmas.

An active fiscal policy, without an incomes policy and under unfavourable conditions, ended up with an unintended outcome: monetary austerity and high unemployment. We shall now turn to discuss the consequences of such unemployment. We have already mentioned one: the cost of unemployment benefits reached 4.8 points of GDP, and this represented a considerable constraint on the expansion of other expenditure programs. Before turning to the consequences of unemployment on the electoral support for the government, we shall examine its impact on income inequalities.

Income distribution in Spain was at the beginning of the 1980s considerably unequal by Western European standards. The share of total household disposable income of the bottom decile of persons was 2.7%. This share was the lowest in the Southern European countries, where the average was 3.0%,[5] lower than the average of 3.4% in fourteen Western European countries (Atkinson, 1995: 53). If we look now at the trends over time, inequalities increased almost everywhere. Table 2 shows the evolution in the countries of the European Union, as well as in the US and Japan. Whereas inter-country comparisons must be made with caution, due to the variations of the data noted in the table footnotes, intra-country changes pose fewer problems. The US data indicate a persistent increase in inequality over a 20-years period, that accelerated in the 1980s. In Japan, on the contrary, with the exception of the first half of the 1980s, the pattern of income distribution did not vary much in the same period of time. If we turn to the European Community, whereas in the 1970s income was redistributed somewhat more equally in every country, with the sole exception of West Germany, the pattern changed in

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[5] The national figures were 3.1% for Italy (1986) and Portugal (1980), 3.0% for France (1979), 2.7% for Spain (1980). In the other European countries the shares were 4.5% in Finland (1987), 4.4% in the Netherlands (1983), 4.3% in Luxembourg (1985), 4.2% in Belgium (1985), 4.1% in Norway (1979), 4.0% in Sweden (1981) and Germany (1984), 3.5% in the UK (1979), 2.8% in Switzerland (1982), 2.3% in Ireland (1987).

the 1980s. Income inequality went up most sharply in Great Britain and Denmark. More moderately, this was also the case in the Netherlands. The changes were hardly perceptible in West Germany, Belgium, and France. Inequalities decreased, on the contrary, in Italy, Spain, Portugal, and Ireland. The trends of the distribution of income do not appear to have been related to those of unemployment: for instance, Spain and Ireland (greater equality with high unemployment) stand in contrast to Portugal (greater equality with low unemployment).

Welfare state reforms were related to such trends. If we come back to the case of Spain, we have already examined the substantial increase in social expenditure. Half of the total amount had a redistributive content, that is, it deviated from the distribution of disposable income to the benefit of the lower income groups. This was the case with non-contributive unemployment subsidies, non-contributive pensions, grants and scholarships, public housing, health, social services, primary and secondary education, which amounted to 48.5% of all social expenditure (Bandrés, 1996: 135-46). As a consequence, whilst in 1980 this "indirect wage" represented 119% of the pre-transfer monetary consumption of the poorest decile of households, by 1990 this figure had risen to 204% (Gimeno, 1993: 105-7).

Table 2. *Income distribution and unemployment*

Country	Years	Gini	Quintile 1 (%)	Quintile 5 (%)	Unemployment
Belgium	1979(1)	28.25	7.90	36.10	7.0
	1985(1)	26.22	8.60	34.74	10.3
	1992(1)	26.92	8.48	35.03	7.3
Denmark	1976(1)	31.00	6.99	38.06	5.1
	1981(2)	30.99	6.67	37.21	8.3
	1992(2)	33.20	5.48	37.83	9.2
France	1970(2)	44.00	-	-	2.4
	1979(2)	34.85	6.70	41.82	5.8
	1984(2)	34.91	6.58	41.97	9.8
Germany	1973(2)	30.62	7.01	38.00	0.8
	1978(2)	32.06	6.61	38.95	3.1
	1984(2)	32.20	6.59	38.88	7.1
Greece	1974(3)	35.11	6.40	41.73	2.1
	1981(3)	33.29	6.78	40.17	4.0
	1988(3)	35.19	6.19	41.18	6.8
Ireland	1973(1)	38.69	4.80	42.20	6.2
	1980(1)	35.65	4.90	43.60	8.0
	1987(1)	34.60	4.93	44.60	16.6
Italy	1974(1)	41.00	-	-	5.0
	1980(1)	34.29	7.91	39.05	7.1
	1986(1)	33.58	8.08	38.13	8.7
	1991(1)	32.19	8.41	37.43	8.3
Netherlands	1975(4)	28.60	8.40	37.20	5.5
	1981(4)	26.66	9.01	35.67	8.9
	1986(4)	29.68	7.21	36.83	8.3
	1991(4)	29.38	6.92	36.36	5.8
Portugal	1973(1)	40.58	5.75	46.41	2.6
	1980(1)	36.80	5.53	42.50	7.6
	1991(1)	35.63	6.14	40.42	4.0
Spain	1973(2)	37.11	6.17	39.48	2.6
	1980(3)	26.79	8.23	35.00	11.6
	1989(3)	25.91	8.39	35.28	17.2
United Kingdom	1970(5)	25.10	10.04	36.81	2.2
	1975(5)	23.30	10.45	37.29	3.2
	1980(5)	24.90	10.18	37.66	5.6
	1985(5)	27.10	8.90	37.85	11.5
	1991(5)	32.40	7.64	40.84	8.8
Japan	1970(2)	35.50	4.55	46.39	1.1
	1975(2)	34.40	5.97	43.31	1.9
	1980(2)	33.40	6.26	39.57	2.0
	1985(2)	35.90	-	-	2.6
	1990(2)	35.00	-	-	2.1
USA	1970(2)	34.06	5.50	40.90	4.9
	1975(2)	34.42	5.50	41.00	8.5
	1980(2)	35.20	5.20	41.50	7.1
	1985(2)	37.26	4.70	43.50	7.2
	1991(2)	37.94	4.50	44.10	6.7

(1) Data refer to income, households, and after taxes.
(2) Data refer to income, households, and before taxes.
(3) Data refer to expenditure, households, and after taxes.
(4) Data refer to income, households weighted by number of persons, and after taxes.
(5) Data refer to income, persons (square root of actual members of household), and after taxes.

Sources: - Deininger, Klaus, and Lyn Squire. 1996.
          - Commission Européenne. 1995.

Table 3 provides detailed data on the distribution of the major public expenditure programs by deciles of income in 1980 and 1990. It shows the percentage of the average household expenditure in each interval that these programs represented. Over the decade, public expenditure grew in each of them, with the exception of "economic services". A consequence was that distribution through public expenditure (excluding the effect of taxation) consisted basically of a non-zero sum game: if we look at the two columns furthest to the right, everybody won between 1980 and 1990, although the relative increases were greater as one goes down the income scale. This redistributive trend over time has, however, an important qualification: the 36.56% that public expenditure contributed to the expenditures of the richest 10% represented more money than the 204.34% accruing to the poorest 10%. If we transform percentages into real expenditure, the state gave more to the rich, although considerably less than the market did. Finally, the redistributive impact of public health, pensions, and "other social expenditures" was vastly superior to that of education and unemployment benefits. These considerations have relevant policy consequences. For one, if welfare reforms want to promote equality, they must turn more into zero-sum games; give much less in real terms to the top income groups; reinforce the more redistributive programs. For two, public expenditure in education and training was hardly a redistributive instrument: it mostly favoured the middle income groups,[6] although important differences existed within educational subprograms (for instance, grants and scholarships had a considerably egalitarian effect, while the public financing of universities had not). Therefore, proposals to turn the welfare state into a gigantic educational program must be handled with care: they can have a devastating effect both on equality and on the material conditions of life of the poorest groups.

The trends in unemployment and inequality were thus paradoxical. As unemployment rose dramatically, income distribution became more egalitarian, notwithstanding the limits that we have pointed out. In fact, unemployment seldom led to poverty. The key to this paradox lies in the compensatory effect of social policies and the support provided by families. Unemployment was mostly suffered by members of the family who were not the main provider. These were mostly the spouses, sons and daughters who had entered the labour market in the

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[6] This distributive impact of education was, however, largely the product of the changed social composition of the lower decile, which consisted mostly of aged people that did not use educational services.

course of the decade, swelling the volume of the active population. This incidence of unemployment can be appreciated in Table 4.

Table 4. *Rate of unemployment according to position within the household.*

	1980	1990
Main Provider	6.7	7.9
Spouse	6.8	21.2
Sons/daughters	31.8	27.1
Other members	18.4	22.5
Source: Ayala, Martínez, Ruiz Huerta. 1996.		

If we take the Spanish unemployed population between 1977 and 1994, in two thirds of the cases other family members contributed at least one wage to the household budget. In most other cases, one member of the family received a pension or unemployment benefits. Thus, while from 1975 to 1985 25% of the unemployed lived in households with no income earner, by 1994 this figure had fallen to under 10%. The average amount of transfers was above the poverty threshold: it was 111% higher in 1980, 21% in 1990.[7] And the mean per capita income of the unemployed was the equivalent of almost two thirds of that of the population as a whole (Toharia, 1995).

Let us now examine the distribution of unemployment and, out of the different components of the "social wage", unemployment benefits among deciles of income that refer to the population as a whole. As Table 5 shows, 59% of the unemployed belonged to households situated in the lower half of the income scale; only 27% to households in the two lowest deciles. Unemployment was not just concentrated in the poorest households, and it was not necessarily

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[7] The figures in current pesetas were 253,400 in 1980, with a poverty threshold of 120,000; 421,960 in 1990, with a poverty threshold of 350,000 (Ayala, Martínez, Ruiz Huerta, 1996: 385).

related to dramatic material scarcity. The table also shows, however, that, in general, people in the higher deciles were more protected by unemployment benefits when they lost their jobs. Although paradoxically, 15% of those who perceived such benefits had these as their sole income, while still belonging to the richest 30% of the population.

Table 5. *Distribution of unemployment and unemployment benefits by deciles of household income.*

Deciles of income (total household population)	Unemployed		% of unemployed receiving unemployment benefits	Households where unemployment benefits were the only income
	N	%		
1	331,589	34.4	53.7	7.1
2	294,203	24.7	61.7	7.2
3	267,280	20.3	62.5	7.6
4	235,881	17.2	64.2	7.2
5	238,571	16.0	54.4	6.6
6	234,432	15.1	62.5	7.3
7	230,083	14.5	64.1	8.0
8	206,371	12.2	69.8	8,.2
9	155,189	9.0	66.2	5.8
10	119,348	7.6	72.7	4.7
TOTAL	2,312,947	16.0	62.1	7.0

Source: Gimeno, 1996.

Internal differences amongst the unemployed were thus important, and for many, the experience of not having a job did not take them to the bottom of the income scale. This may be due to the availability of other sources of personal or family income. For the unemployed as a whole, family and welfare were the main safeguard against need.

Welfare provision became, however, a major target of criticism. Not only wages and job security, but welfare remedialism as well were presented as trade-offs with jobs. It is obvious, of course, that vast unemployment had a dramatic impact on a welfare state whose main lines had been conceived for a different world, where unemployment was only sporadic and cyclical, where families had stable male providers, where those to be protected were the aged. The new needs corresponded now to young people and women who tried to find hard-to-get and precarious jobs, the long-term unemployed, the single-person households (Esping-Andersen, 1990; 1994; 1997). Other criticisms are well-known. For instance, that traditional protection against unemployment could promote passive dependence on its economic transfers: a high social wage might diminish incentives for the low-skilled unemployed workers to look for a job or to increase their skills. Or that demographic ageing, low fertility rates and early retirement schemes had made the financing of welfare policies hardly viable. So, a fundamental reorganization of social policies became an insistent policy recommendation in order both to promote employment and to provide better protection from new needs.

Neoliberal conceptions of such trade-offs between employment, wages and welfare policies defended both a drastic deregulation of the labour markets and a roll-back of the welfare states if jobs were to increase. They argued that only if the guaranteed minimum income was suppressed and real wages fell, full employment would again be possible. That only a full deregulation of labour markets would stimulate employers to create jobs; avoid the dualism of precarious versus stable labour contracts; and eliminate the "black" economy. And that only if the welfare state were to shrink to the provision of a limited security net would passive dependence be reduced; the search for jobs stimulated; and private initiative generate employment, no longer crowded-out by the financial needs of an overburdened state.

These proposals reflected an emerging "policy paradigm" regarding the welfare state. This paradigm had influenced a panoply of OECD policy recommendations (Dell'Aringa and Ludovici, 1997) which included the reinforcement of the insurance principle, so that public financing should be restricted to assistance benefits and active labour market policies; an expansion of the private sector in the provision of transfers and services; a decentralization of social security benefits; greater differentials between unemployment benefits and wages; lower wage thresholds for first-job seekers; a much greater provision of active labour market policies.

Such recommendations try to unload both the coffers and the administrative burden of the states, to limit passive dependence on income maintenance, and to facilitate the employment of young people. Their major problem, however, is their impact on the employment/equality trade-off. We shall just refer, *en passant*, to three serious problems raised by such neoliberal formulas.

First, prolonged labour market exclusion coupled with low skills makes a large mass of workers hardly employable. Structural unemployment is not a consequence of passive dependence. In the U.S., of the 5.5 million jobs created between 1980 and 1985, only 150,000 were available to unemployed unskilled blacks. So, education and training appear to be a necessary part of any employment strategy. And, if labour market exclusion is an inevitable long-term or permanent prospect for many people, then only a minimum income will enable them to survive, even if set at a level below the minimum wage in order to prevent disincentives to work.

Second, an unlimited deregulation of labour markets, even if it were to facilitate the employment of women and first-job seekers, would erode at least temporarily the basic job and wage security, and the welfare entitlements, of adult male workers, and jeopardise the security and welfare of many families with a single wage-earner. Thus, labour market flexibility in order to facilitate entry must be compatible with a basic household security. This means that labour market flexibility may take different forms; it does not necessarily entail dismantling the whole system of rights that protects workers. The "principle of causality" of labour contracts (that is, that the nature of the task should determine the type of contract) may still be respected; unfair dismissals, unwarranted on economic grounds, due to arbitrary decisions of employers, to discriminations, to attempts to undermine the negotiating position of workers, or to attacks on individual rights, may still be prevented. There is a vast institutional territory that lies between, on the one hand, precarious labour contracts and insecure jobs subordinated to the arbitrary power of the employer; and on the other, dual labour markets with bunkers of protected jobs for male workers, at the expense of young and female outsiders.

Third, the neoliberal blueprint considers that welfare universalism is an obsolete formula. Targeted programs, however, do not adequately protect in case of need, are unable to prevent poverty traps, and are also costly to administer. If chronic losers are to be avoided, education and

training policies must be reinforced: the employability of individuals and their life chances depend on their skills. And if such chronic losers are to be protected, this requires not just a wide-ranging conception of equality of opportunity, but policies of positive discrimination in the labour market: for instance, promoting the employability of individuals whose marginal productivity is lower than the guaranteed minimum income, subsidizing jobs for young people with scarce skills and no experience, establishing quotas for handicapped workers, or introducing exceptions to fiscal and labour laws in protected areas of the labour market (Barthe, 1997). The basic goal of such policies is to protect people that lack competitiveness in the labour market from exclusion and poverty traps. And, even if the rate of unemployment falls, full employment will not be reached in the foreseeable future: many people will not have a job over long stretches of their life-cycles. If such is the case, then a guaranteed minimum income is the complement to such uncertainty. Its level must be low enough to preserve the incentives of searching for a job, but high enough to protect from need, prevent social opprobium, promote social integration, and facilitate labour mobility.

Thus, if reforms of labour market and wage regulations, as well as of welfare policies, were to be necessary in order for employment to expand, the impact of such reforms on inequality is a delicate issue, both for normative and political considerations. A greater equality and the protection from need provided by families and social policies appear to have prevented in the Spanish case, with the highest unemployment rate of OECD countries, the corrosive social and political consequences traditionally expected from high unemployment. It is to a more careful analysis of such political effects that we now turn.

3.   The political consequences of unemployment.

We have argued that the incentives of governments interested in their own survival to introduce reforms that modify the unemployment/inequality *status quo* will depend on the political reactions of their key constituencies, including the unemployed. Such incentives will be high if the negative reaction to large unemployment is strong, and that to increasing

inequality is weak. On the contrary, incentives will be low if the political reaction to unemployment is mitigated by social policies, and that to a growing inequality is strong. Spain provides a wonderful *experimentum crucis* to examine such reactions to unemployment, inequality, and social policies. To quote Goldthorpe (1987: 382), "Although the attempt may be made to present such a situation as one that is beyond government's control, and thus to induce a fatalistic response, high levels of unemployment must still be reckoned as in general rendering governments electorally vulnerable". Hibbs (1987: 203-23, 229-37, 254-7) has shown the damage that unemployment caused to the British, West German, French and Swedish executives, using empirical evidence for the 1960s and 1970s. In a study in which Cheibub and Przeworski (forthcoming) analyse the impact of economic conditions on the survival of Presidents and Prime Ministers for 222 regimes between 1950 and 1990, unemployment was the only outcome that appears to affect the political survival of heads of government in parliamentary democracies. In general, individual national studies also show that unemployment damaged the electoral support of the executives: this has been the case in the US (Fair, 1978; Meltzer and Vellrath, 1975); Mexico (Buendía, 1996); Peru (Stokes, 1996); Poland (Przeworski, 1996); the former German Democratic Republic (Anderson, forthcoming); or Great Britain (Price and Sanders, 1995).

If we study the evolution of the vote of the unemployed in Spain, their support for the government also declined, but it was always larger than that provided to any of the opposition parties. Boix (1996: 241-6) has shown that, while in their first electoral victory of 1982 the socialists won the vote of 55% of the unemployed, in their last one in 1993 they attracted the vote of 35% of those who had lost their job and only 18% of those who were unsuccessfully looking for their first job. Evidence for the period 1989-95, examined by González (n.d.), also reveals a substantial erosion of electoral support for the government among the unemployed. Yet when the PSOE eventually lost the elections in 1996, a majority of the unemployed still voted for the socialists: 38%, against 30% who chose the PP, the party that won that election. And while 40% of the unemployed declared that in no circumstance would they vote for the PP, only 15% expressed a similar rejection of the PSOE.[8] Maravall (1997: 95-98) concluded, after studying survey data for 1993, that while a negative evaluation of

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[8] The data are from survey nº 2,207 of the Centro de Investigaciones Sociológicas, carried out in March 1996.

general economic conditions detracted votes from the government, the experience of being unemployed did not. Mancha (1993: 143-51, 165-71), examining the period from 1977 to 1989, found no effect of unemployment on the vote at election time; however, evidence from surveys carried out between 1979 and 1990 revealed that the "popularity" of (that is, the vote intention for) the government was affected by the unemployment rates. Two explanations have been provided for such limited political effects. First, that hardship from unemployment was mitigated by the protection offered by families and social policies, which, in the case of the latter, was attributed to both the regime and the government (Boix, 1996: 241-6; Maravall, 1997: 95-101). Second, that a large section of the population believed that no other party would improve the performance of the government on this issue (Fraile, 1996): that is, a "there is no alternative" syndrome of particular fatalism with one out of every five people unemployed.

We have thus inconclusive evidence on the electoral consequences of unemployment. The surveys have studied subsamples of unemployed people which have generally been too small, the kind of questions posed and the statistical techniques used have been different, and the specification of the models has varied. We must therefore examine more carefully additional empirical evidence,[9] more adequate in order to know what the unemployed thought about politics and policies. That is, we now turn to the analysis of individual, rather than aggregate, data in order to contrast the effects on vote intention of being unemployed; having a particular level of income; holding specific perceptions of inequality, ideological positions, evaluations of economic conditions and of social policies.[10] The survey data that we shall use were collected in April 1995. The economic context was then as follows: the unemployment rate stood at 22.9% of the active population; following the economic crisis of 1993-94, monetary and fiscal policies remained restrictive, although the government was trying to preserve social expenditure; the 1994 reform of the labour market was largely unpopular.

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[9] The survey was carried out by the Centro de Investigaciones Sociológicas in April 1995, to a representative nationwide sample of 4,000 adults. The questionnaire and the research design were drawn by José María Maravall.

[10] There is an obvious difference between the condition of being unemployed and general views about unemployment as a problem. The latter hardly discriminated between the Spanish population. Citizens thought almost unanimously that unemployment was the most important political question in the country. Yet the influence of such a view on vote intention may depend on whether one was actually unemployed or not, on ideology, on the attribution of responsibilities to the government, and so on.

And although the economy was growing again, the socialists were only a few months away from their defeat in the 1996 general election, after 14 years in government.

Thus our dependent variable is the vote intention for the PSOE government in April 1995. As for our independent variables, we assumed that being unemployed as well as being critical of the evolution of social inequalities diminished the probability of voting for the government, *a fortiori* for a social democratic one, normally expected to have employment and equality as policy priorities. We expected however that other factors mitigated this effect: a leftist ideology and a position in the lower income levels should reinforce partisan loyalties, while positive evaluations of the general economic conditions and on social policies should also diminish hostility towards the government.[11] We ran different models of logistic regression, and the best specification and goodness of fit (see Statistical Appendix) that we found is shown in Table 6.[12]

We tried alternative models that included other social policies, such as health, pensions, and noncontributive social benefits. The evaluation of such policies made no difference on the vote intention. We thus kept unemployment benefits and education because they provided the best model from a statistical point of view. Besides, these two policies

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[11] The independent variables included in the model were thus the following. INEQUAL is a dummy variable with value 1 for those who thought that in the last ten years social inequalities had increased and 0 for those thinking that they had diminished or remained the same. UNEMPLOY is also a dummy variable with value 1 for those being unemployed and 0 for the rest of the population. SOCIOTROP expresses an evaluation of the economic situation of the country that may go from 1 (very good) to 5 (very bad). IDEOLOGY refers to self-placement on a continuum that goes from 01 (extreme left) to 10 (extreme right). INCOME represents the monthly income, going from 01 (less than 50,000 pesetas) to 10 (more than 1 million pesetas). The minimum wage in Spain in January 1995 was of 62,700 pesetas (*Anuario El País*, 1997). BETUNEMPL is a dummy variable that has value 1 for those considering that unemployment benefits had improved during the last ten years (under the socialist government) and 0 for those thinking that they had worsened or remained the same. BETEDUC is another dummy with value 1 for those who believed that education had improved during the last ten years and 0 for those who thought that it had worsened or remained the same.

[12] The goodness of fit test (Hosmer and Lemeshow, 1989) shows the following: chi2 (8) : 12.48, p>chi2 = 0.1310; Pearson chi2 (804) with 812 covariate patterns = 870.75; p>chi2 = 0.058. The overall predictive value was 74.26%. From the residual analysis, we conclude that the model specification is right. Out of the 1391 observations, eight problematic cases have been located, 4 with Pearson residuals bigger than 4.9 and 4 with the highest value of the dBeta, Pregibon's db, (and therefore the most influential cases in the calculation of the coefficients of the model). The model was run without seven of the eight mentioned cases (the other one presented the highest values in both residual and dBeta) and the coefficients remained practically the same, except for the unemployment variable which became more significant: from a level of 92% to a level of 95%, and with a bigger z: from -1.736 to –1.981. See the Statistical Appendix to identify the variables' values of each mentioned case. Finally, according to the test carried out, there was no multicollinearity between the variables included in the model. All these tests are available for the interested reader.

represent well the two traditional dimensions of income transfers and public services.[13] We found that, although the unemployed were somewhat more critical in their evaluation of these social policies, the differences were not great. It was regarding unemployment benefits that the unemployed had substantially more negative views than the rest of people. The level of education and the attribution of responsibilities to the government for reducing social inequalities were never significant, and we excluded them from the model.

Table 6. *Unemployment and vote for the government.*

Logistic Regression (see the Logit model in Statistical Appendix).

Logit Estimates					Number of obs	=	1391
					Chi2(7)	=	409.56
					Prob > chi2	=	0.0000
Log Likelihood = -675.91618					Pseudo R2	=	0.2325

Vote intention for the government	Odds Ratio	Std.Err. (without constant)	z	P>|z|	[95% Conf. Interval]	
INEQUAL	.5985038	.0810897	-3.789	0.000	.458923	.7805378
UNEMPLOY	.6969425	.144935	-1.736	0.083	.4636418	1.047638
SOCIOTROP	.5588938	.0454872	-7.148	0.000	.4764877	.6555515
INCOME	.6597459	.0341878	-8.026	0.000	.5960295	.7302738
IDEOLOGY	.7270437	.0260576	-8.894	0.000	.6777242	.7799523
BETUNEMPL	1.858197	.2573479	4.474	0.000	1.416466	2.437685
BETEDUC	3.002567	.5750355	5.741	0.000	2.062885	4.37029

If we examine the odds ratio of Table 6, being unemployed or not had a significant effect on the support for the incumbent: when the other variables are held constant, if somebody was unemployed the odds of voting for the PSOE government would be .69 times lower than if he/she was not. Perceptions of social inequalities also had an impact on electoral

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[13] Policy evaluations among citizens in general were better for social services than for income transfers: the contrasts between positive and critical views were 75% v. 15% for education, 76% v. 13% for social services for the poor, 69% v. 18% for health. As for income transfers, the variations were greater: 58% v. 24% for pensions, 36% v. 50% for unemployment benefits. Positive views among the unemployed were as follows: 75% for education and for social services, 65% for health, 54% for pensions. They were more critical regarding unemployment benefits: only 27% thought that they had improved, while 62% believed that they had worsened.

intentions: when somebody thought that the former had increased, the odds of voting for the government would decrease by a factor of .59, compared with somebody with more positive views on the evolution of social inequalites. Thus, the experience of being unemployed and critical views on social inequality had an impact on electoral intentions.

Such political impact was, however, influenced by ideology and by income, as well as by considerations about the state of the economy and about social policies. If we start with ideology, the more to the right the political identity of an individual, the less likely the vote for the socialist government was: for a one unit increase in the ideological continuum that goes from 1 to 10 the odds of such a vote were .72 times lower. If we examine the effect of levels of income, they were related to the probability of supporting the government: a one unit increase in the level of income meant that the odds of a vote for the PSOE decreased by a factor of .65.[14] It is worth noting that when we looked for statistically relevant differences in the distribution of income between the employed and unemployed groups, we only found a slightly greater concentration of the latter group in the lower income level[15] (less than 50,000 pesetas). So, besides being unemployed and having highly critical views on social inequalities, vote intention for the socialists declined as the voters' ideology moved to the right and their income levels went up.

We expected unemployment to reinforce egocentric economic judgements: not having a job should increase the concern for one's personal economic conditions, and diminish the relevance of sociotropic considerations. We also believed that such unemployed voters, due to what Stokes (1996: 13) has called the "social comparison principle", would not be likely to vote for the government. Yet egocentric views turned out to be of no statistical significance,

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[14] The interpretation of the odds ratio for a continuous variable such as INCOME or the other two included in the model: (IDEOLOGY, and Sociotropic evaluation), can be problematic due to the lack of linearity and additivity in the binary dependent variable models. As we are using a logit model, it is possible to defend linearity as the dependent variable is transformed into its logarythm. The following equation shows that the logit model is linear in the logit: $\ln \Omega (x) = x\beta$. Nevertheless, the model is linear talking in odds terms, but a constant factor change or amount of change in the odds does not correspond to a constant factor change or amount of change in the probability. (see Long, 1997, for a detailed explanation). For that reason, we turn to calculations of real probabilities in the following pages, in order to have a more concrete idea of the effect of each single independent variable on the probability of voting for the incumbent.

[15] For this category, the Adjusted Residual (AR) are positive: +5. The AR for the third category (between 100,001 and 150,000 pesetas) are also positive: +3.5. The rest of residuals are non significant. Therefore, 10% of the unemployed were placed in the poorest category of income, against 6% of the total population.

and we excluded them from the model. On the contrary, sociotropic ones were relevant: a one unit increase in the negative evaluation scale of the general economic conditions of the country reduced the odds of voting for the government by a factor of .55. But the incidence of sociotropic views among the unemployed is a potential source of exonerative voting: as it has often been argued (Fiorina, 1981; Feldman, 1982; Kiewiet, 1983), sociotropic voting means that people do not attribute the responsibility for their own personal circumstances to the government.

If we look at the odds ratio column of Table 6, the evaluation of social policies had an important and significant impact on the vote for the government. When somebody thought that unemployment benefits had improved over the last ten years, the odds of a vote for the PSOE was 1.85 times higher than if he/she believed that they had remained the same or deteriorated. And when similarly positive views were held regarding education, the odds was 3.00 times higher than if such views were negative.

Let us now move one step further and examine variations in real probabilities, in order to better assess whether this set of variables (ideology, income, views on economic conditions and social policies) altered the political consequences of being unemployed and of holding critical views on social inequality. Suppose that a voter was moderate (Voter 1): that is, that he/she believed that social inequalities had not increased, had a centrist ideological position (5 over 10) and a middle level of income (4 over 10), was neither enthusiastic nor very critical of economic conditions, and had a critical vision of social policies (that is, thought that education and unemployment benefits had worsened or, at least, not improved). In these circumstances, if he/she was unemployed, the probability of voting for the PSOE was of 12%; if he/she was not, this probability went up to 17%. Think now of a voter who shared the same traits but believed that social inequalities had increased (Voter 2): if he/she was unemployed, the likelihood of voting for the government was 8%; if he/she was not, it rose to 11%.

To what extent did ideology and views on social policies modify the combined effect of being unemployed and having a critical view on social inequalities? Imagine now a new voter (Voter 3) who shared all the traits of Voter 2, but stood more to the left (in position 3):
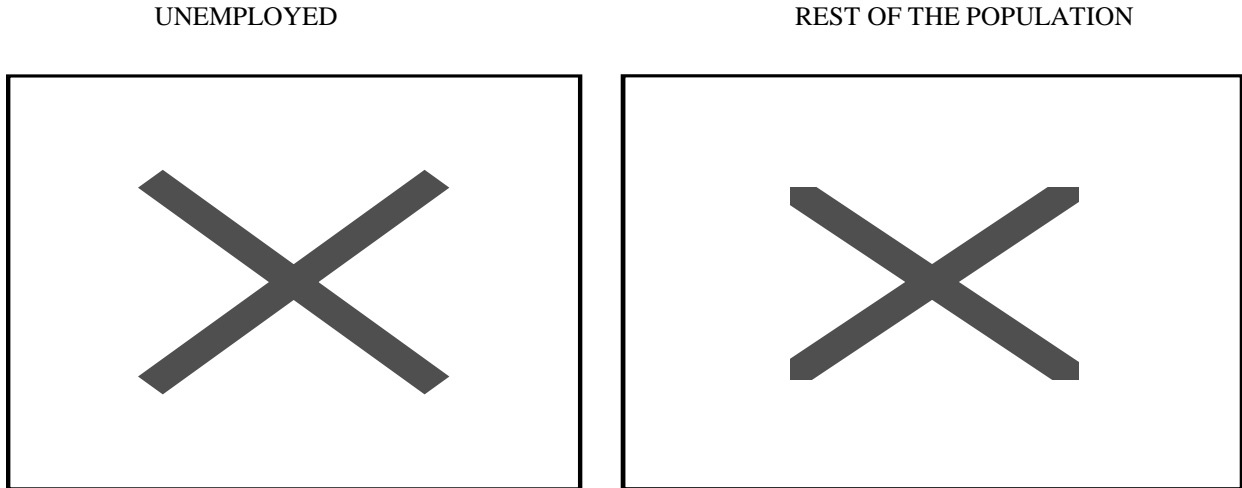
if he/she was unemployed, the probability of voting for the PSOE government was of 14%; if he/she was not, it reached 19%. Consider finally another voter (Voter 4) who shared all the traits of Voter 2 (including ideology), but thought that unemployment benefits had improved over the last ten years: if he/she was unemployed, the probability of supporting the socialists was of 20%; if he/she was not, the probability went up to 27%. If the same voter also had a positive view about education, the probability of voting for the government was of 43% if he/she was unemployed, and reached 52% if she/he was not. Thus, although important differences remained between unemployed voters and the rest, ideology and views on social policies had a strong effect on the vote intention, which was similar in both cases when the rest of the variables take the values that we have attributed to them.

We have explored further the effect of different combinations of these variables both for the unemployed and for the rest of voters. Figures 1 to 5 represent such combinations.

(i) We start with the combination of the effects of ideology and social policies. In Figure 1 we can see that the impact of ideology on the vote for the socialists varied when views on social policies (unemployment benefits and education) changed. That is, the effect of ideology was reinforced by views on social policies. The combined effect of leftism and positive opinions on unemployment benefits and education diminished the political consequences of unemployment on the vote for the government.[16]

---

[16] One can think in this point that BETUNEMPL and BETEDUC are highly correlated with IDEOLOGY. We ran a logistic regression for the two first variables, including ideology as an independent variable: ideology was not significant in the model. The correlation of the variables is also very low: IDEOLOGY and BETUNEMPL -0.0506; IDEOLOGY and BETEDUC -0.1833. In addition, the correlation of the three coefficients of our final model is very low: -0.0612 for BETUNEMPL and IDEOLOGY. Again, all these statistical results are available for the interested reader.

Figure 1: Effect of ideology on the probability of voting for the incumbent, when evaluations of social policies change (holding the rest of variables constant at their means, for sociotropic and income, and unequal=1).

UNEMPLOYED   REST OF THE POPULATION

(ii) The second combination is between income levels and social policies. As Figure 2 reveals, both for voters who were unemployed and who were not, the effect of income on the probability of voting for the government changed when views on social policies varied. In both groups of voters, the inverse relationship between levels of income and socialist vote increased when views on social policies are taken into account. An individual in the lower income groups was much more likely to vote for the socialists, but positive opinions on social policies increased this probability very dramatically both for those who were unemployed and for those who were not.

Figure 2: Effect of income on the probability of voting for the incumbent when evaluations of social policies change (holding the rest of variables constant at their mean values for sociotropic and ideology, and unequal=1).

UNEMPLOYED   REST OF THE POPULATION
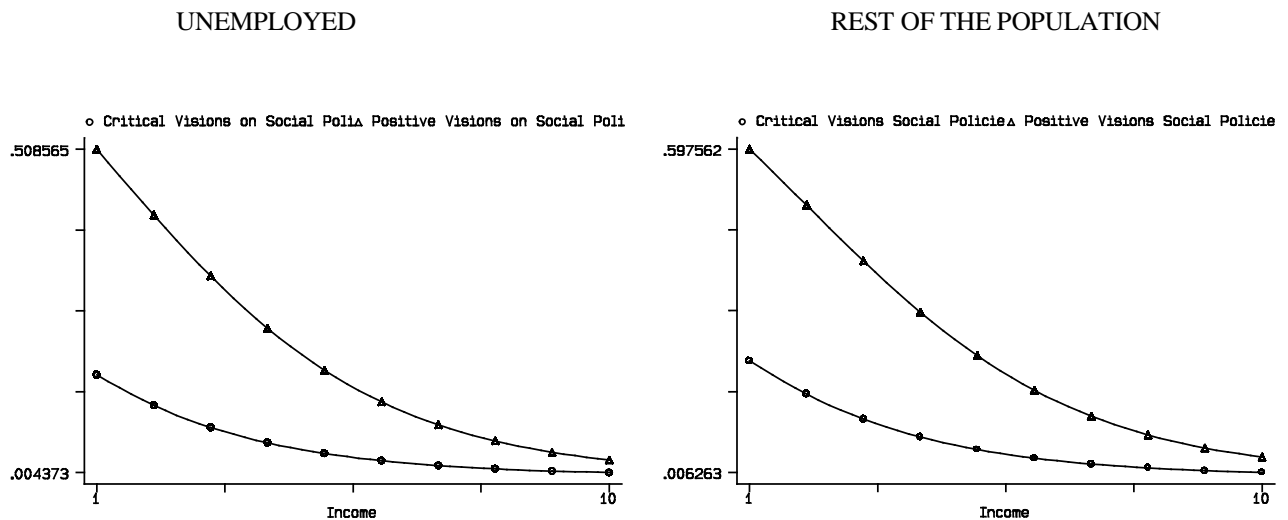
(iii) Our next combination is between ideology and income. Figure 3 also shows that the two variables went in the same direction and reinforced their effect on the vote for the socialist government. This happened both for voters who were unemployed and for those who were not. The influence of ideology on the probability of such a vote varied with different levels of income, holding the remaining variables constant. Thus, such influence was greater when the levels of income were lower.

Figure 3: Effect of ideology on the probability of voting for the incumbent when level of income changes (holding the rest of variables constant at their means for sociotropic, and unequal, betunempl, and beteduc=1).

UNEMPLOYED   REST OF THE POPULATION
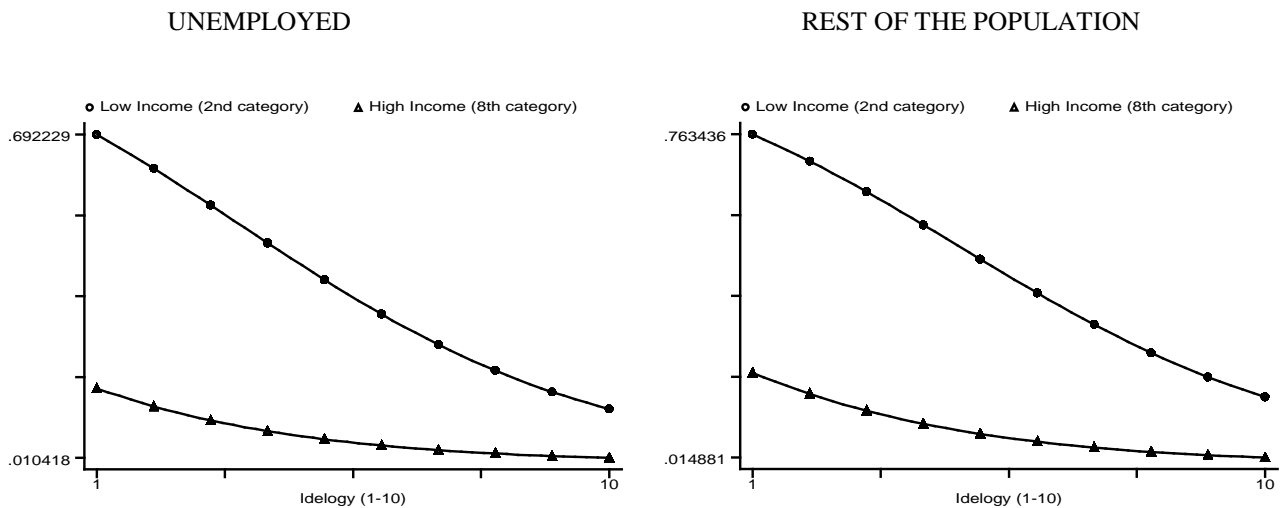
(iv) We also examined the combination between sociotropic evaluations of the economy and social policies. In Figure 4 we can see that opinions on social policies influenced the relationship between evaluations of the economy and the probability of supporting the government. As we can see, when such opinions were favourable among unemployed voters, they increased the support for the government, reinforcing the effect of sociotropic economic considerations. The same happened for the rest of voters.

Figure 4: Effect of sociotropic evaluations of the economy on the probability of voting for the incumbent when evaluation of social policies changes (holding the rest of variables constant at their means, for ideology and income, and unequal=1).


UNEMPLOYED
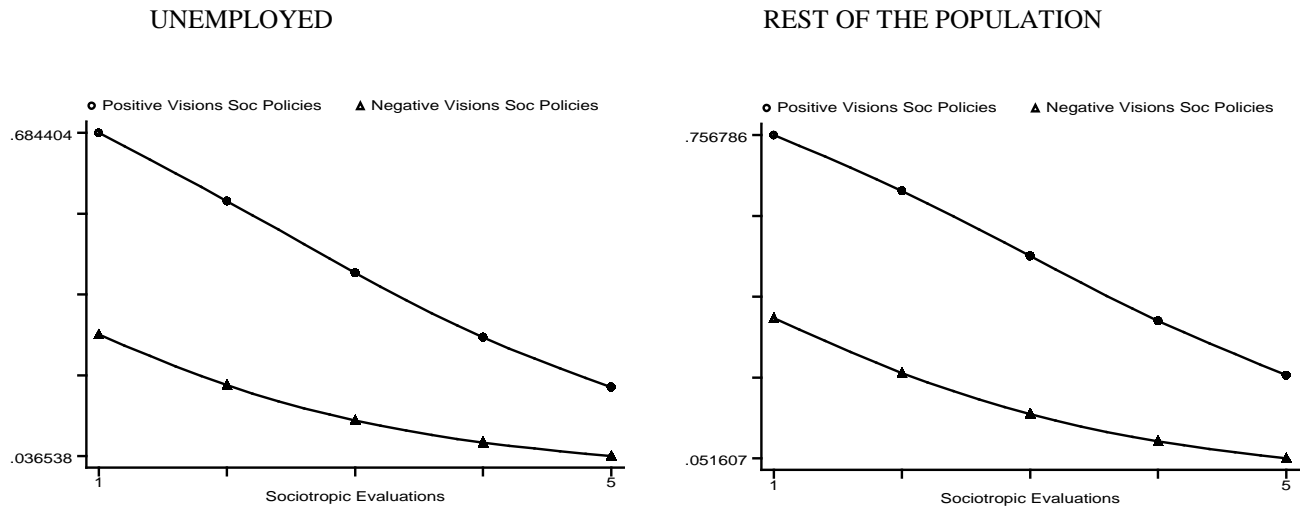
REST OF THE POPULATION

(v) We finally looked at the combination between ideology, social policies, and the impact that views on social inequality had on the probability of voting for the government, again both for unemployed voters and for the rest. In Figure 5 we considered voters that changed such views: they could be more or less critical about what had happened with social inequality over the last ten years. We assumed that voters had a positive opinion on social policies. On the contrary, their income levels and evaluations of the economy were indifferent regarding support to the government. Under these conditions, did the effect of ideology on the vote for the government change? As we can see in the figure, benevolent views on social inequalities increased somewhat the probability of support for the socialists, but the shape of the curve that represents the effect of ideology remains the same. Thus, the negative impact that critical views of social inequalities had on the likelihood of voting for the government appears to have been mitigated by ideology and by positive opinions on social policies. And this pattern existed both for voters who were unemployed and for those who were not.

Figure 5. Effect of ideology on the probability of voting for the incumbent when visions about social inequalities change (holding the rest of variables constant at their means for sociotropic and income, and positive views on social policies).

UNEMPLOYED

o Social Inequalities have increa   ▲ Soc Ineq have decr or remained

.697014

.072486

1   10

Idelogy (1-10)

REST OF THE POPULATION

o Social Inequalities have increa   ▲ Soc Ineq have decr or remained

.767486

.100827

1   10

Idelogy (1-10)
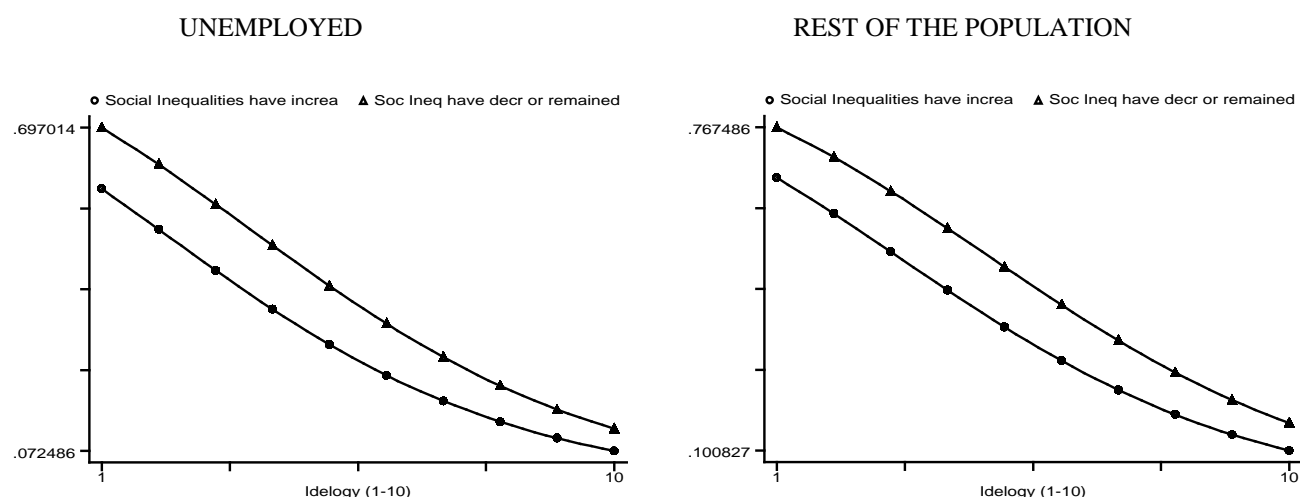
We have looked so far into the direct relationships between the vote for the incumbent and each of the independent variables included in the model. We shall now test the hypothesis that being unemployed had an indirect effect on the probability of voting for the PSOE through the rest of the independent variables. For this purpose, we tried different interactions: did being unemployed change the direct effect of ideology, income, or sociotropic evaluations on the probability of voting for the incumbent?

None of the interactions turned out to be significant except that of income. But this non-additive effect must be taken into account in order to understand the nature of the relationship between being unemployed and the vote for the government. When we examined the relationship between the unemployment rate and the general levels of inequality, we noted that higher levels of unemployment did not translate automatically into higher levels of inequality (Table 5). Social policies mediated such a relationship.

The effect of the level of social protection is shown in Table 7. The interaction between unemployment and income is indicated in the coefficient of UNE*INCO: a one unit increase in the level of income of the unemployed increased the odds of a vote for the socialists by a factor of 1.49. That is, the negative effects of being unemployed and of having

a high income on the vote for the socialist government are reversed when both effects are considered at the same time in variable UNE*INCO. The inclusion of this interaction in the model does not alter the statistical considerations that we have already stated. The Statistical Appendix provides information on the model. Note also that when the impact of those unemployed with the highest income is isolated in the interaction, the effect of being unemployed becomes statistically more significant.[17]

Table 7. *Unemployment protection and vote for the government.*

Logistic Regression (see the Logit model on Statistical Appendix).

Logit Estimates					Number of obs	=	1391
					Chi2(8)	=	415.08
					Prob > chi2	=	0.0000
Log Likelihood = -673.15809					Pseudo R2	=	0.2357

Vote intention for the government	Odds Ratio	Std.Err. (without constant)	z	P>|z|	[95% Conf. Interval]	
INEQUAL	.5887994	.0800876	-3.894	0.000	.451012	.7686816
UNEMPLOY	.2339996	.1177832	-2.886	0.004	.0872499	.6275748
SOCIOTROP	.5615281	.0457871	-7.077	0.000	.4785907	.658838
INCOME	.6346135	.0350448	-8.235	0.000	.5695135	.7071551
IDEOLOGY	.7238436	.0260296	-8.987	0.000	.6745829	.7767016
BETUNEMPL	1.863883	.258952	4.482	0.000	1.419581	2.447245
BETEDUC	3.061736	.5891557	5.815	0.000	2.099785	4.464373
UNE*INCO	1.496032	.2464823	2.445	0.014	1.083176	2.066249

This is further evidence that when the income of the jobless was protected, the political effects of unemployment were mitigated. The government was punished only by those unemployed in the lowest deciles of the income scale.

---

[17] Note that the coefficient for being unemployed was significant in the first model of Table 6 with a level of 92%, whereas in this new model the level reaches 99.9%.

To sum up, this analysis of data at the individual level shows that being unemployed as well as holding critical views on the evolution of social inequalities reduced the probability of voting for the socialist government. It also reveals that, to a considerable extent, this impact was mitigated by the influence of ideology, income levels, evaluations of the general economic conditions and of social policies. The evidence seems to indicate that trade-offs between social policies, inequality, and unemployment were hardly perceived by citizens. When they thought that inequalities had increased or were unemployed, the likelihood that they would vote for the socialist government went down sharply. However, when views on social policies were positive, the government extracted important electoral benefits, both among voters in general and among those who were unemployed. Moreover, when those who were unemployed had their incomes protected (either through social policies or other incomes in the family), the odds that they would vote for the socialist governments increased. Therefore, these mechanisms limited the negative political consequences of unemployment and of critical views on the evolution of social inequalities.

4.   Conclusions.

The relevance of the Spanish experience stems from the extraordinarily high unemployment rates from 1975 onwards. For this reason, it provides an excellent case to examine the growing policy dilemmas about how best to combine competitiveness and growth, wages, jobs, and welfare, as well as the new challenges faced by European social democracy. The high unemployment rates were largely due to the inheritance of massive sectoral reallocations of the labour force, a rigid labour market, and rapidly growing labour costs. Besides, these dilemmas were faced by a social democratic party that remained in office for 14 years: if, as Scharpf has put it (1991: 272), "unemployment has become a distributive problem", the government had to make choices on who would pay the costs. It could only be the lower groups of income if redistributive policies were trimmed; employed workers if real wages were to suffer; young people and women if not enough jobs were created.

The government tried to combine an orthodox macroeconomic management with active supply-side policies. But we have argued that two factors made the success of this strategy difficult: one was the set of economic constraints that made a "high value strategy" hardly possible; another, a trade union movement unwilling to make wage sacrifices. For a long time, a high rate of economic growth facilitated the postponement of difficult choices regarding costs. But as soon as economic conditions (and fiscal resources) deteriorated, the government had difficulties in preserving the distinctive elements of the social democratic supply-side strategy. Policy recommendations of greater labour market flexibility, lower labour costs, fiscal austerity, and strict monetary management became increasingly influential.

When the crunch came, the choice of the social democratic government was to preserve social expenditure and redistributive policies. This choice was institutionally framed: it was largely due to the failure to reach agreements with unions regarding wages and labour market reforms; it led to a tight monetary policy within the EMS and with an independent central bank. Monetary orthodoxy and expanding social welfare were the eventual, unintended policy-mix of the socialists. This outcome was at the cost of jobs. Yet, on the one hand, even under vast unemployment, income inequalities decreased; on the other, social policies helped the government to survive electorally. Both the costs and the distributive result of these policies raised proposals about welfare reform in order to avoid negative effects on the competitiveness of the economy, achieve a different trade-off between jobs and equality, and better protection from need. However, many of these proposals took for granted that better welfare formulas were viable, that they would facilitate jobs, and that growing inequalities would easily be accepted.

We finally discuss some of the conditions that enabled the government to win elections and maintain important support among the unemployed. Our evidence shows that both among voters who were unemployed and voters who were not, ideology and income contribute to explaining the persistence of partisan loyalties. It also demonstrates that, while support for the government was lower when a voter was unemployed or was highly critical of social inequalities, positive views of social policies, as well as comparatively higher levels of income among those unemployed due to welfare protection, mitigated or even reversed these

effects. If this conclusion is correct, initiatives that would increase social inequalities or dismantle popular social policies would make a government electorally vulnerable, at least one of a social democratic persuasion. As a consequence, incentives for policy reform will be weak and unemployment will remain high, unless unions are more willing to sacrifice wages and agree on greater labour market flexibility in order to achieve a different combination of redistributive social expenditure and jobs. That is, if greater market-induced inequalities are accepted as a condition for policy-induced redistribution and less unemployment.

STATISTICAL APPENDIX

We have used STATA program to analyze data. This is the initial model: (LOGIT, for the Logistic Model see Table 6).

```
Iteration 0:  Log Likelihood =-880.69816
Iteration 1:  Log Likelihood =-693.27989
Iteration 2:  Log Likelihood =-676.65111
Iteration 3:  Log Likelihood =-675.91836
Iteration 4:  Log Likelihood =-675.91618  Log Likelihood = -675.91618
------------------------------------------------------------------------
   Vote intention
 for the government
              Coeff.    Std. Err      z      P>|z|      [95% Cof. Interval]
---------+--------------------------------------------------------------
inequal  |  -.5133224   .1354874   -3.789   0.000    -.7788728    -.247772
unemploy |  -.3610524   .2079583   -1.736   0.083    -.7686431    .0465383
sociotrop|  -.5817958   .081388    -7.148   0.000    -.7413133   -.4222784
income   |  -.4159005   .0518197   -8.026   0.000    -.5174652   -.3143358
ideology |  -.3187687   .0358405   -8.894   0.000    -.3890148   -.2485226
betunempl|   .6196067   .1384933    4.474   0.000     .3481648    .8910487
beteduc  |  1.099468    .1915146    5.741   0.000     .7241057    1.474829
_cons    |  3.344708    .4360148    7.671   0.000    2.490135     4.199281
------------------------------------------------------------------------
```

GOODNESS OF FIT TESTS:

```
. lfit. Logistic estimates for vote intention for the government, goodness-of-fit test
         no. of observations =         1391
   no. of covariate patterns =          812
           Pearson chi2(804) =        870.75
                   P>chi2 =          0.0508
. lfit, group(10). Logistic estimates for vote intention for the government, goodness-of-fit
test (Table collapsed on percentiles of estimated probabilities)
           no. of observations =        1391
                 no. of groups =          10
       Hosmer-Lemeshow chi2(8) =        12.66
                     P>chi2 =          0.1241
. lstat. Logistic model for vote intention for the government
                -------- True --------
Classified |      D            ~D            Total
-----------+------------------------------+-----------
     +     |     250          114     |        364
     -     |     207          820     |       1027
-----------+------------------------------+-----------
   Total   |     457          934     |       1391
Classified + if predicted Pr(D) >= .5
True D defined as vote intention for the government ~= 0
-------------------------------------------------
Positive predictive value     Pr( D| +)   68.68%
Negative predictive value     Pr(~D| -)   79.84%
-------------------------------------------------
Correctly classified                      76.92%
-------------------------------------------------
```

RESIDUAL DIAGNOSIS A. Pearson residual (lpredict r, resid)
.To identify residuals over 3:. tab r if r>3
r 3.003 (3) r 3.151 (2) r 3.217 (1) r 3.283 (1) r 3.527 (3) r 4.365 (1)
r 4.944 (1) r 5.908 (1) r 6.000 (1) r 7.340 (1)   Total= 15 cases with residuals over 3.
There are 5 cases with very high residuals.
.To identify high negative residuals: if r<-2
r -3.211 (1) r -2.956 (1) r -2.520 (1) r -2.484 (1) r -2.228(1) r -2.065 (1)
Total= 6. Negative residuals are not a problem.

.Sort r (to put them in order).To see the probability of voting for the incumbent that our model attributes to each case.
lpredict c .To **identify the 4 cases** with the highest residuals. list r c votpsoe inequal unemploy sociotropic
income ideology betunem betedu in 1388 /1391.
 .Observation 1388 r 4.94441   c .039297   vote psoe 1 inequal 1 unemployed 0
                  sociotrop bad income 2 ideology 9   betunempl 0 beteducat 0
 .Observation 1389 r 5.908931   c .0278432   vote psoe 1 inequal 1 unemployed 1
                  sociotrop very bad income 4 ideology 8 betunempl 0 beteducat 1
 .Observation 1390 r 6.000721   c .0270207   vote psoe 1 inequal 0 unemployed 0
                  sociotrop very bad income 2 ideology 10 betunempl 0 beteducat 0

```
.Observation 1391 r   7.340306  c .0182215   vote psoe 1  inequal 1  unemployed 1
                sociotrop  very bad  income 5  ideology 10  betunempl 1  beteducat  1
```
Those are people from the extreme right, that are extremely critical of the government policies, and consequently our model predicts for them a very low probability of voting for the incumbent (concretely: 3,9%, 2,7%, 2,7%, and 1,8% respectively). Nevertheless, they finally voted for the PSOE.

B. Influential cases. (lpredict, db dbeta) We must analyze if there is any case that is influencing to a great degree the calculation of the coefficients. (They can be those cases with the highest values of residuals, but not necessarily). (see Long, 1997). We have calculated the Pregibon's db. As db can theoretically take values that go from 0 to 1, we can conclude that the model does not have any problem with especially influential cases, as db goes just from 0 to .15. Nevertheless, 5 cases can be identified as the most influential. **To identify the exact cases,** sort db (to put them in order).list db c votpsoe betedu betunemploy unemploy inequal sociotr ideology income in 1388/1391.

```
 .Observation 1387 db .114  c .088  r 3.527 vote psoe 0  betedu 1  betunemp l 0 unemployed 0
inequal 1 sociotrop very bad  ideology 4 income 5
 .Observation 1388 db .121   c .018 r 7.340 vote psoe 1  betedu 1  betunempl 1 unemployed  1
             inequal 1  sociotropic very bad    ideology 10  income  5
 .Observation 1389 db .139   c .114 r 3.003  vote psoe 0  betedu 0  betunempl 0 unemployed  0
             inequal 0  sociotropic bad  ideology  7  income  2
 .Observation 1390 db .139   c .114 r 3.003 vote psoe 1  betedu 0  betunempl 0 unemployed  0
             inequal 0  sociotropic very bad    ideology 7  income  2
 .Observation 1391 db .139   c .114 r 3.003 vote psoe 1  betedu 0  betunempl 0 unemployed  0
             inequal 0  sociotropic bad    ideology 7  income  2
```

Those are people from the right (7), that are critical of the government's policies , with a very low income (2 category) and that are not unemployed. According to our model, the probability of voting for the PSOE is low (around 11%) and they finally voted for the incumbent (except for the observation 1390). The observation 1388 is especially strange, as the person is from the extreme right (10), is very positive evaluating the incumbent's policies (except for sociotropic evaluation and social inequalities), and is unemployed but with a very high income (between 200.000 and 300.000 pesetas). Our model predicts a very low probability of voting for the incumbents (1,8%), but he or she finally voted for them.(Note: this case corresponds to the one that has been previously located, with the highest residual).

How does our model change when we drop the 4 cases with highest residuals and the 4 cases with highest db (one of them has both residuals and db high)? :

```
Logit Estimates (Logistic Regression)            Number of obs =   1384
                                                 chi2(7)       = 434.56
                                                 Prob > chi2   = 0.0000
Log Likelihood = -656.32081                      Pseudo R2     = 0.2487
-----------------------------------------------------------------------
 Vote intention
for the government
           Odds Ratio   Std. Err.      z     P>|z|     [95% Conf. Interval]
-------+---------------------------------------------------------------
beteduc |  3.314566    .6609664    6.009    0.000    2.242262    4.899672
betunempl| 1.890367   .2656603    4.531    0.000    1.435237    2.489824
unemploy| .6562412    .1395605   -1.981    0.048    .4325551    .9956015
inequal |  .594052    .0818543   -3.780    0.000    .4534585    .7782361
sociotro| .5469891    .0452866   -7.287    0.000    .4650564    .6433566
ideology| .7033701    .0261396   -9.468    0.000    .6539587    .7565148
income  | .6568157    .0345798   -7.984    0.000    .5924202    .728211
-----------------------------------------------------------------------
```

GOODNESS OF FIT TESTS (of the model without the 7 cases): (1391-7=1384 observations)
```
    .lfit. Logistic estimates for vote intention for the government, goodness-of-fit test
         no. of observations =        1384
  no. of covariate patterns =         807
          Pearson chi2(799) =       751.04
                    P>chi2 =         0.8865
    .lstat. Logistic estimates for vote intention for the government  (Positive = p>=.5)
                    ----- Classified -----
          Observed | Negative     Positive  |    Total
          ---------+--------------------------+--------------
          Negative |    816          117     |     933
          Positive |    195          256     |     451
          ---------+--------------------------+--------------
                       1011          373          1384
Classified + if predicted Pr(D) >= .5
True D defined as vote intention for the government ~= 0
```

```
-------------------------------------------------
Positive predictive value      Pr( D| +)  68.63%
Negative predictive value      Pr(~D| -)  80.71%
-------------------------------------------------
Correctly classified                      74.67%
-------------------------------------------------
```

As can be seen, the coefficients of the model do not change at all, only for the case of Unemploy variable, that becomes more statistically significant (in comparison with the model with 1391 cases).

```
LOGIT MODEL OF TABLE 7. (For the logistic model, see Table 7).
Iteration 0:  Log Likelihood =-880.69816
Iteration 1:  Log Likelihood = -690.4281
Iteration 2:  Log Likelihood =-673.88754
Iteration 3:  Log Likelihood =-673.16026
Iteration 4:  Log Likelihood =-673.15809
Logit Estimates                             Number of obs =   1391
                                            chi2(8)       = 415.08
                                            Prob > chi2   = 0.0000
Log Likelihood = -673.15809                 Pseudo R2     = 0.2357
-------------------------------------------------------------------
    Vote intention
 for the government
              Coef.    Std. Err.      z     P>|z|     [95% Conf. Interval]
---------+---------------------------------------------------------------
 Inequal | -.5296698   .1360185    -3.894   0.000    -.7962612   -.2630784
Unemploy | -1.452436   .5033477    -2.886   0.004    -2.438979   -.4658924
Sociotro | -.5770935   .0815402    -7.077   0.000    -.7369094   -.4172776
  Income | -.4547391   .0552223    -8.235   0.000    -.5629729   -.3465052
Ideology | -.3231799   .0359602    -8.987   0.000    -.3936607   -.2526991
 Betunem |  .6226622   .1389314     4.482   0.000     .3503616    .8949628
 Beteduc |  1.118982   .1924254     5.815   0.000     .7418351    1.496129
UNE*INCO |  .4028162   .1647574     2.445   0.014     .0798976    .7257347
   _cons |  3.460379   .4406197     7.853   0.000     2.596781    4.323978
-------------------------------------------------------------------
. lfit. Logistic model for vote intention for the government, goodness-of-fit test
        number of observations =      1391
 number of covariate patterns =       812
          Pearson chi2(803) =        834.42
                 Prob > chi2 =          0.2146
. lfit, group(10). Logistic model for vote intention for the government, goodness-of-fit test
(Table collapsed on quantiles of estimated probabilities)
        number of observations =      1391
              number of groups =        10
     Hosmer-Lemeshow chi2(8) =          7.71
                 Prob > chi2 =          0.4622
. lstat. Logistic model for vote intention for the government
               -------- True --------
Classified |        D          ~D          Total
-----------+---------------------------+-----------
     +     |       252         110       |     362
     -     |       205         824       |    1029
-----------+---------------------------+-----------
   Total   |       457         934       |    1391
Classified + if predicted Pr(D) >= .5
True D defined as for vote intention for the government ~= 0
-------------------------------------------------
Positive predictive value      Pr( D| +)  69.61%
Negative predictive value      Pr(~D| -)  80.08%
-------------------------------------------------
Correctly classified                      77.35%
-------------------------------------------------
```

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Table 3. *Distribution of public expenditure by deciles of income (households). 1980-90.*

Deciles	Education		Health		Economic services (*)		Pensions		Unemployment		Other social expenditures (**)		Total	
	1980	1990	1980	1990	1980	1990	1980	1990	1980	1990	1980	1990	1980	1990
1	9.59	3.49	22.39	111.28	6.79	4.32	62.06	36.06	3.83	7.52	14.49	41.67	119.15	204.34
2	7.16	7.50	15.77	55.37	9.40	4.79	34.29	38.61	5.32	9.41	8.12	20.73	80.06	136.41
3	6.33	9.68	13.02	40.28	10.56	5.36	22.05	29.41	4.58	9.40	5.43	12.14	61.97	106.27
4	5.80	10.55	10.69	30.80	11.69	5.59	14.45	24.06	5.88	10.61	4.05	8.03	52.56	89.64
5	5.72	11.00	9.63	25.48	11.78	5.66	11.15	19.22	6.53	7.75	3.62	5.98	48.43	75.09
6	4.81	10.02	7.93	20.48	11.28	5.93	10.28	16.23	6.65	7.73	3.33	4.76	44.28	65.15
7	4.79	10.04	6.92	17.22	9.01	5.66	9.75	14.29	6.78	6.92	2.27	3.58	39.52	57.71
8	4.76	8.78	6.14	13.56	7.17	5.90	9.57	14.83	6.44	5.48	2.04	3.09	36.12	51.64
9	3.69	7.78	4.45	10.22	7.17	6.25	10.86	14.55	5.93	4.86	1.95	2.58	34.05	46.24
10	2.68	5.50	2.65	3.96	7.21	6.49	11.70	14.12	4.70	4.47	2.06	2.02	31.00	36.56
TOTAL	4.73	8.21	7.56	18.25	8.87	5.95	14.55	17.57	5.78	6.36	3.41	5.28	44.90	61.62

Source: Gimeno, 1993. The study is based on the *Encuestas de Presupuestos Familiares* (surveys of households budgets) of the National Institute of Statistics (INE), of 1980-81 and 1990-91.

* "Economic services" include public expenditure in agriculture, mining, building, energy, transports and communications, commerce, and tourism.

** "Other social expenditures" include social services and housing.