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## Too little, too late for the PSOE

Manuel de la Rocha-Vázquez

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### **Spain's defeated socialist government was indecisive in its response to the crisis and duly lost the confidence of both its left and right wing support bases**

Like a Chronicle of a Victory Foretold, last month's Spanish general elections surprised no one by delivering an ample and long anticipated victory for the Popular Party (PP), the conservative party led by Mariano Rajoy, which obtained 184 of the 350 seats. Despite the right-wing media triumphantly portraying the results as an overwhelming display of the PP's dominance of the Spanish political landscape, a closer look reveals a much more nuanced picture. The conservatives proved once again that they have a strong and solid voting base, but with 44.6% of the vote they only increased their share by 4.5%. On the other hand, the Spanish Socialist Party's (PSOE) share of the vote slumped 15.1 percentage points compared to the 2008 elections; over 4.4 million voters abandoned the socialists, the vast majority in favour of other smaller left-wing parties, whilst close to 500,000 crossed the party divide and voted for the PP. In addition many simply did not vote at all.

This was not so much a great triumph for the PP, but rather a tough defeat for the PSOE. Clearly, the dire economic crisis the country is enduring took a heavy toll on Alfredo P. Rubalcaba's - the socialist candidate - electoral prospects. But other factors also had a big part to play. In order to understand what went wrong for the socialists one needs to look back at the last few years of Spain's political debate.

Since the PSOE got to power in 2004, an embittered PP, fuelled by its far-right faction and media friends, embarked on a confrontational and irresponsible course, attacking the government on every political front with all means at their disposal, regardless of the cost. As part of this radical strategy, during the first four years of Zapatero's government, the conservatives abandoned a long-standing agreement among all democratic parties not to use terrorism for political advantage, to the point of accusing the then prime minister of conniving with the Basque terrorist group ETA. Interestingly, at this time, the economy was not even on the PP's political horizon. You can count on one hand the number of economic inquiries they made in parliament up to 2008. Indeed it was not until the second PSOE victory in March 2008 that Rajoy decided it best to moderate his radical Spanish nationalistic demagoguery and adopt the PP political strategy.

## **The economic battleground**

The advent of the economic crisis soon after the 2008 election duly provided the catalyst for the PP to advance its new strategy of attacks. When the economic problems emerged in 2007, the country had experienced 14 years of continued economic growth, the longest in the EU. Unemployment, at 8%, was at its lowest level in 40 years. Moreover, government public finances were sound; in 2006 and 2007 the government ran surpluses for the first time in many decades, and public debt had decreased to 37% of GDP. However, macroeconomic figures disguised deeper problems; growth was much eschewed towards residential construction, and current account balances showed persistent deficits of about 10% of GDP: a clear sign of the country's continued loss of competitiveness.

During the first two years, in 2008 and 2009, the government went along with the international consensus, and like all EU countries, put in place Keynesian-style expenditure programmes to avoid the total collapse of the economy, and financial measures to support the financial system and reactivate lending.

Ignoring its international origins and dimension, the PP blamed Zapatero and his government for Spain's deteriorating economic situation, while at the same time refused to negotiate any of the initiatives the government had launched or propose any alternatives. In effect, the PP's plan consisted of harnessing the crisis as a hammer against the government and hence riding to power without a scratch.

Despite the criticisms from the PP, the rapid deterioration in public finances in those years was not due to the government's discretionary public expenditure. In fact, about two thirds of the deficit can be accounted for by the slump of government revenues caused by the economic slowdown, and the kick-in of automatic stabilisers, mainly unemployment subsidies. Even today, Spain's public debt remains below the EU average.

The crisis has hit the Spanish economy hard, driving unemployment rates to 21% of the active labour force, the highest among the industrialised countries. Over 60% of the job losses have taken place in the construction and related sectors, which experienced huge bubbles initiated and fuelled during the PP governments between 1996 and 2004.

## **Mistakes in government**

In truth, the government made mistakes in handling the crisis, as did almost every country in the face of the worst recession since the Great Depression of the 1920s. Zapatero did very little to tackle the housing bubble until it was too late. Moreover, for much of 2008 he refused to acknowledge there was a crisis at all. Yet, his main mistake was his slow understanding of the seriousness and evolving nature of the problem, especially after December 2009 once the Greek government revealed the real state of its public accounts: what started as an international financial crisis demanding government stimulus turned rapidly into a sovereign debt crisis, requiring strong action to regain the confidence of the markets. But for months Zapatero made big announcements for reform plans, which were either short in details or got bogged down in bureaucracy.

It was not until spring 2010, under strong pressure from Brussels and the financial markets, that Zapatero realised the severity of the crisis and reacted in earnest. In May 2009 the government adopted an important fiscal package to drastically reduce the public deficit, cutting civil-servant salaries, freezing pensions and social benefits and increasing some indirect taxes. From that moment onwards, the

government committed firmly to a 4-year plan to reduce public deficit to 3% by 2013, and embarked on deep and bold structural economic reforms. The reforms that affected key sectors and policies, such as labour markets, pensions and the financial system, were long overdue in order to modernise the economy, rendering it more flexible and capable to compete in a globalised world, without altering the role of government in the economy, nor the welfare state.

However, such measures take time to bear fruit and were only approved after difficult and often protracted negotiations with small parties. This was necessary since the PSOE did not have an absolute majority in Parliament and the PP refused to cooperate. In its lowest moment, the PP even voted against the austerity package, although Rajoy was well aware that a defeat in the parliamentary vote would have been catastrophic for the country. Outside parliament, the trade unions considered many of the measures as a sellout to international financial markets and publicly lambasted Zapatero and his government. In this dire context, the government's political capital was quickly draining away.

Since mid-2009, Spain has become the best pupil in following the EU prescriptions and Zapatero has taken international credit for his reformist credentials, which probably prevented an early run on the sovereign debt that would have inexorably pushed the country into a rescue package. Nevertheless, as the eurozone debt crisis has continued unabated and economic growth stalled, Spain has been unable to avoid the contagion problems in the financial markets, which continue to drag on today. By now, it is clear that the ability to solve the euro crisis lies outside the scope of any national government and have to be addressed at a European level.

### **Too little, too late**

In the social sphere, as the crisis unfolded and unemployment soared, an increasing number of citizens felt alienated from the political class; they perceived them to be more worried about gaining electoral advantage than in working together to solve the crisis. Prominent cases of political corruption, exposed in 2008-2009, mostly within the PP's ranks, further fueled deep public dissatisfaction towards the main parties. Hundreds of thousands of 'indignados' demonstrated peacefully in the streets against the political establishment, calling for greater democracy.

While the anger was directed at the political classes in general, it was the PSOE that suffered most with the electorate. In Spain, far-right parties have minimum presence and the PP carries almost all the votes of non-nationalistic centre-right to extreme-right citizens; clearly an electorate base that has proved extremely resilient in the last decade. For the PSOE the picture has turned out to be very different. From mid-2009 polls showed it losing voters from both sides: left-wing citizens were abandoning it disappointed with the market-oriented reforms and austerity measures adopted; on the other side, with no sign of improvement in the economic situation, many centre voters lost confidence in Zapatero's capacity to reign in the crisis.

Ultimately, it was Zapatero's slow initial reaction and constant over-optimism about the end of the crisis, coupled with the poorly communicated sea-saw shift of policies from Keynesianism to drastic austerity that ended-up dilapidating all his public credibility. By April 2011 he announced he would not run for re-election, and soon after the party leadership nominated Mr. P. Rubalcaba, the deputy prime minister and long term interior minister, as the new candidate.

With elections approaching, the severity of the crisis and the high prospects of victory helped to moderate Rajoy's discourse. In the summer of 2011 he even agreed with the government on a constitutional reform to cap public deficits. During the campaign he continued blaming the socialists for the disastrous economic situation, without offering any concrete alternatives, only vague statements about reforms and further austerity. The PP's plan was still clear, to avoid any concrete measures or commitments that could scare away moderate voters or tie their hands once in office.

On the other hand, Rubalcaba had no choice but to go on the offensive and ran a bolder, pedagogic and more honest campaign. He had to walk a fine line between admitting some government mistakes during the crisis, and proposing concrete initiatives that appealed to the most progressive electorate, which all polls suggested were intent on massively deserting the PSOE. Yet, for many voters this turn to the left proved to be too little, too late. Towards the end, Rubalcaba resorted to a somehow more negative strategy, raising fear among voters about the PP's plans to dismantle public services and undermine the welfare state.

In the end, the PP's four-year strategy of "the worse for the country, the better for the party" paid-off, paving Rajoy's way into government, but at a high cost for the nation. In a welcome turnaround, Rajoy's speech on the night of his victory was moderate and inclusive, calling for collaboration between all political parties; exactly the opposite of what the PP practiced during most of their eight years in opposition. For the sake of the country, one can only hope that this sudden conversion into statesmanship will last long.

### **Learning the lessons of defeat**

Zapatero's management of the crisis was certainly not flawless. Yet, despite the current disenchantment with his personality, history will vindicate him. Generations of Spaniards will enjoy the social rights and anti-discrimination measures that were approved under his mandate, mainly during his first term, which have made Spain a more open and tolerant society. This will be his main legacy; it is no small thing.

After the election the PSOE is on the defensive, in terms of both political power and ideas. Bereft of almost all political power at the national, regional and municipal level, it faces difficult times ahead. The first and most urgent tasks should be to renovate its leadership, through an open, democratic and credible process; and start building a strong and responsible opposition. The PSOE should by no means follow the PP's radical and confrontational practices, which have done so much damage to the country. While defending its core values and principles, Spanish socialists need to quickly step up to the plate and collaborate with the new conservative government in order to implement the remaining reforms that are necessary to restore growth and overcome the crisis.

The PSOE cannot remain static and, like most social democratic parties in Europe, must confront some difficult questions that go right to the core of its political thinking and concepts. They range from the prospects for advancing equality, social justice and environmental sustainability while enhancing competitiveness in a globalised and integrated world; the relationship between the state and the market, and the interpretation of solidarity in an individualistic society; the future of Europe (and of the euro); the strengthening of democratic participation and the safeguarding of individual freedoms and social rights.

Alongside those, the PSOE also needs to review some of its internal practices, opening the party to society and incorporating a democratic mechanism to select its leaders. All together, the answers to these questions will provide the foundation of a new political narrative, which can regain the confidence of a majority of progressive Spaniards. Throughout its 130 years of history, and certainly since the restoration of democracy, the PSOE has been at the centre of all modernising efforts in Spain. This time it should be no different.

**Manuel de la Rocha-Vázquez is member of [Fundación Alternativas](#), a progressive policy thinktank based in Madrid**

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