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Irene Ramos-Vielba, Richard Woolley\*

## Lokale Faktoren formen die Arbeitsbeziehungen des öffentlichen Sektors im Krisenkontext: Ein Vergleich spanischer Kommunalverwaltungen<sup>\*\*</sup>, <sup>\*\*\*</sup>

### Zusammenfassung

Die Finanzkrise zog seit 2008 schwerwiegende „Krisenmaßnahmen“ nach sich, die auf allen Verwaltungsebenen Spaniens darauf konzentriert waren, das Haushaltsdefizit zu verringern. In diesem Kontext versuchte die Zentralregierung die Ausgaben regionaler und lokaler Verwaltungen zu beschränken. Eines der zentralen Instrumente über welche die spanische Regierung verfügte, war die Reduktion der öffentlichen Beschäftigung. Der Beitrag untersucht, wie die zwei Lokalverwaltungen von Bilbao (Baskenland) und Parla (Madrid) 2010 bis 2015 auf die zentral auferlegten Maßnahmen reagierten, indem ein *Varieties of Capitalism*-Konzept zur Untersuchung sub-nationaler Institutionen angewandt wird. Es wird der Schluss gezogen, dass Prozesse wirtschaftlicher und sozialer Anpassung in Spanien auch durch verschiedene regionale und lokale politische und wirtschaftliche Arrangements beeinflusst werden. Es werden Schlüsselfaktoren der unterschiedlichen Folgen für die industriellen Beziehungen beschrieben und diskutiert. Die Befunde zeigen, dass verschiedene Typen und Grade der Koordination innerhalb einer dezentralisierten Ökonomie existieren können.

Schlagwörter: Spanien, Kommunen, Arbeitsbeziehungen des öffentlichen Sektors, Krisenmanagement

### Local factors shaping public sector industrial relations in a context of crisis: A comparison of municipal administrations in Spain

#### Abstract

The impact of the 2008 financial crisis led to the imposition of severe ‘crisis measures’ focused on alleviating budget deficits at all levels of Spanish government. In this context, the central government sought to restrict regional and local government spending. One of the key mechanisms at the Spanish

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government's disposal was restricting public sector employment. This paper examines the responses to these centrally imposed measures in two local municipal governments, Bilbao (Basque Country) and Parla (Madrid) between 2010 and 2015. The paper applies a 'varieties of capitalism' conceptual approach to investigate what it refers to as subnational institutional systems and suggests that processes of economic and social adjustment in Spain are also influenced by distinctive regional and local political economic arrangements. Key factors contributing to the different industrial relations outcomes observed in the two case study locations are described and discussed. The results show that different types and degrees of coordination can co-exist within a decentralised national political economy.

Key words: Spain, municipalities, public sector industrial relations, crisis management (JEL: J45, J5, O52)

## 1. Introduction

The recent economic, financial and sovereign debt crisis affected public sector industrial relations in Europe in quite diverse ways across countries (Bach & Bordogna, 2016). Likewise, in Spain, the crisis effects were felt in all parts of the country, but not equally. When the crisis struck, one of the most effective levers for a central government interested in limiting lower level government expenditures was a series of quite severe crisis measures directed at public sector employment, which had an asymmetrical impact across levels of government, affecting the local level to a greater extent (Molina, 2016).

Spain has been described as a quasi-federal system of government (Wollmann & Iglesias, 2011) composed of a central state, 17 regional governments known as *Comunidades Autónomas* and 8,685 local entities (mainly city councils) (Goicoechea Bilbao & López Herrera, 2014). Both the regional and local levels of government retain significant competences for delivering public services, sometimes in conjunction with the state. Municipalities administer essential public services – such as water supply, street lighting and garbage collection – along with contributions to an assorted list of social services and facilities. In fiscal terms, local municipalities account for around 12 percent of national public expenditure and depend upon central state transfer for more than one-third of their income (Wollmann & Iglesias, 2011).

This study focuses on Spanish public sector industrial relations in the period 2010–2015, with two main objectives. First, we aim to identify the main factors shaping local responses to crisis measures imposed on municipal public sector by the Spanish central government. Second, we explore institutional political-economy subsystems and their dynamics to explain differences in these responses.

The most direct and significant impact of the 2008 financial crisis in Spain was a dramatic economic policy shift, in mid-2010, toward reducing budget deficits at all levels. This was the result of the deepening of the recession and pressures from the European Central Bank and the international financial markets (Muñoz de Bustillo & Antón, 2013). By the end of 2011, the two main Spanish political parties – 'Partido Popular' (PP) and 'Partido Socialista Obrero Español' (PSOE) – had agreed on a constitutional amendment (article 135) to include debt ceiling provision to "limit the public debt and impose a balanced budget standard for the government as a whole" (Rodríguez-Ferrand, 2011). Severe fiscal aus-

terity measures were implemented in return for financial assistance for bank recapitalization. In 2012, the Spanish banking system ‘*rescate*’ headed off the potential for multiple bank implosions. This occurred at a moment in time when more than €600 billion of Spanish debt, which had largely fuelled a construction boom, was being held by banks in Austria, Belgium, France, Germany, and the Netherlands (Royo, 2013; Hall, 2014).

One of the key restraints at the disposal of the central government was to place restrictions on the public sector workforce through both a freeze in recruitment and a decrease in the replacement rate and through extraordinary pay cuts and salary withholdings (Montesinos, Pérez & Ramos, 2014; Fernández Leiceaga, Lago Peñas & Vaquero, 2016). Changes to the regulatory framework for labour expanded the possibility of using collective dismissals in the public sector similar to those available in the private sector, which could be justified on the grounds of significant changes in the economic situation. Strong central government unilateralism was evident in the implementing of short-term cuts (2010-2012) introduced as a response to the crisis (Molina, 2016).

The effects of the crisis on dependent municipal budgets were quickly felt. From 2010 to 2011 municipal budgets decreased by 12.1 percent, including reductions of 12 percent in social protection, 6.6 percent in health and 14.3 percent in education (Muñoz de Bustillo & Antón, 2013). At the same time, the crisis brought higher levels of unemployment, an increased need for local level social services and protection, which translated into a widening gap between increasing costs and decreasing incomes among municipal governments (Wollmann & Iglesias, 2011). In 2013, the ‘Rationalization and Sustainability of the Local Administration Act’ was introduced. The Act aimed to reduce administration costs, improve the fiscal responsibility of each municipality, increase the efficiency of municipal investments, and heighten municipal financial control (Ruano & Álvarez, 2016). The reinforcement of control mechanisms and ‘punishment’ plans for municipalities not fulfilling deficit requirements (Mellado Ruiz, 2015) imposed new levels of central authority over local government finances (Cerdá Aldeguer, 2014) pointing toward a recentralization process (Molina, 2016).

In effect, austerity and control measures fuelled concerns about negative impacts on social services for which local municipalities had major or conjoint responsibility (García & Fatou, 2015). Public sector trade unions were alarmed by reductions in public employment at a time of rising demand for public services. Additionally, collective bargaining processes and tripartite agreements in the public sector were in practice suspended or sidelined, public protests and political tensions escalated and, amid a more confrontational environment, the number of industrial disputes increased (Molina & Miguélez, 2013; Muñoz de Bustillo & Antón, 2013).

It is in this context of crisis that this paper examines the impact of the financial crisis on public sector industrial relations at the municipal government level in Spain. Whilst state law is binding on all parts of the public administration, and central government measures are equally applicable throughout Spain, variation could be observed in municipal level industrial relations responses to the crisis measures. We compare the responses of two municipal administrations in the realm of public sector employment, seeking to identify the main factors influencing their diverse courses of action and the disparate outcomes achieved.

In the following, we first present our conceptual framework and analytical propositions. A methodological section then summarises the design of the comparative case study

approach utilised and introduces the two case study municipalities. Section 4 presents our main results, with the final section discussing our findings and pointing out the limitations of the study.

## 2. Conceptual framework and analytical propositions

### 2.1 Varieties of capitalism applied to a sub-national institutional system

The analysis developed in this paper relies on the ‘varieties of capitalism’ (VoC) (Hall & Soskice, 2001) approach to national political economy. According to this approach, the group of ‘coordinated’ market economies (CMEs) in the ‘north’ or the ‘core’ of Europe, including Austria, Belgium, Finland, Germany, and the Netherlands, are national political economies characterized by “export-led growth models built on high levels of wage coordination, sophisticated systems of vocational training, the inter-firm relations necessary to operate collaborative research and development, and intra-firm relationships that promote continuous innovation and quality control” (Hall, 2014, p. 1226). Another group of ‘mixed’ market economies (MMEs), including Greece, Italy, Portugal and Spain, are characterized by less coordinated wage bargaining processes, less coordinated employer associations linked to a deficit in investment in skills training, and firms focused on low-cost competitiveness in domestic consumer sectors (Royo, 2008; Hall, 2014). MMEs’ weak capacity for employer-union coordination (Molina & Rhodes, 2007) is partially due to low union density rates and to supportive relations between political parties and central organizations leading to lobbying the state for protection and compensation (Hassel, 2014).

Spain has been described as a ‘state-influenced market economy’ (Schmidt, 2012) that remains corporatist in its response to forces of globalization (Royo, 2007). For example, prior to the financial crisis, processes of European Monetary Union and global integration have been argued to have prompted increased efforts to coordinate among interested parties in Spain, as firms came under pressure to improve competitiveness (Royo, 2007). The interests of employers to create more flexible labour markets whilst keeping wage growth relatively controlled was only achievable with the acquiescence of unions (Royo, 2007). ‘Social pacts’ negotiated between governments, employers and unions, “became an instrument not only to achieve wage moderation, but also to negotiate social and labour policies” (Royo, 2007, p. 50). Somewhat in contrast to the VoC MME model then, in Spain, the relative lack of strong coordinating institutions and an economy focused on domestic demand has not historically precluded the political negotiation of ‘defensive’ coordination measures.

Spanish political economy is further complicated by the decentralization of power to regional *Comunidades Autónomas* in the transition to democracy from the late 1970s. Institutional arrangements at the regional level have been found to promote patterns of coordination that differ from the national level (Royo, 2009). In the Basque Country region, for example, relatively cooperative political processes coupled with well-organised civil society organisations led to greater levels of coordination and the adoption and institutionalizing of a value-adding export-oriented model of economic development in a relatively short space of time in the 1990s (Royo, 2009). The process of institutional adjustment and

change in Spain may therefore be more strongly influenced by diverse regional dynamics and transformations than it is the case in many other European countries.

From the perspective of VoC, the advent of the financial crisis in Europe triggered a range of responses, each of which is best understood “as a product of interactions between institutions, interests and ideas” with their national political economy characteristics (Hall, 2014, p. 1232). However, when the crisis exploded fully, the Spanish government was not necessarily able to impose austerity uniformly across the country as all political reforms in Spain require cooperation from employer and labour organisations, and extensive coordination arrangements involving the regions (Schmidt, 2012).

## 2.2 Proposed factors shaping local responses

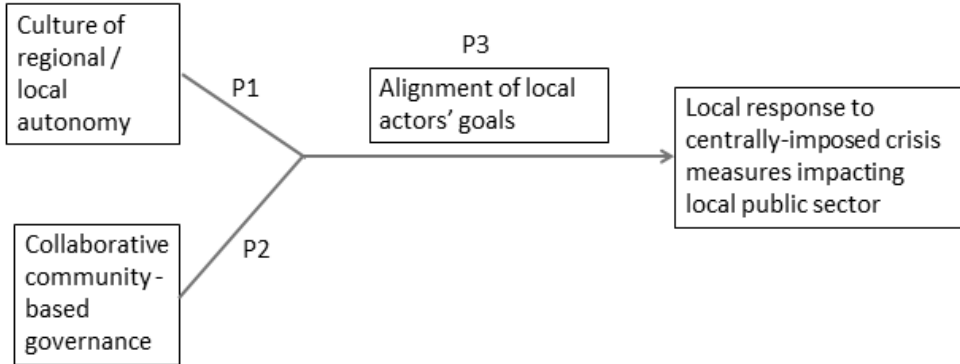
In the Spanish case then, the ‘interactions of institutions, interests and ideas’ that shaped responses to the financial crisis also took place at the sub-national level of the political economy. Based on this premise, our study examines the main factors shaping responses to crisis measures imposed on municipal public sector in Spain in the period 2010-2015.

The interactions of policies, politics and political are reflected in the spreading of ideas and discourses. Considering the decentralised model of governance in Spain and the apparent absence of a persuasive post-crisis discourse from the state toward the regions (Schmidt, 2012), the first expectation of our study was that *the existence of a culture of regional/local autonomy would shape the response to the centrally-imposed crisis measures on local public sector.*

From a VoC approach, the state has a central role in solving coordination problems between business and labour organisations in MMEs. The state matters “as a state of mind as much as the state in action” (Schmidt, 2012, p. 182). The ‘historical patterns’ (Hall, 2014) and ‘ideational imprints from the past’ (Schmidt, 2012) which shape the political economies of MMEs, we also expect to exist at sub-national levels in the case of Spain. With these factors in mind, our second expectation was that *the regional/local historical trajectory and a policy legacy of collaborative community-based governance will be decisive in shaping responses to centrally-imposed restrictions on the local public sector.*

The organisational characteristics of interested parties are also regarded as an important variable shaping MME characteristics (Molina & Rhodes, 2007), as is the quality of political leadership and the probity and competence of state officials as agents of change (Schmidt, 2012). These elements give rise to our third expectation that *a culture of regional/local autonomy (P1) combined with a historically collaborative community-based governance (P2) will align local actors’ goals (P3) in response to centrally-imposed measures impacting local public sector, creating a reinforcing effect (Figure 1).*

Figure 1 Analytical propositions on determinants of local responses



### 3. Research approach and case studies

The case study reported on this paper followed a comparative design, with explanations focused on the factors that contributed to differences between our two cases. The empirical analyses are based on primary data collected through a series of matched interviews in two local municipalities in Spain. In both municipalities interviews were conducted with representatives of the human resource department, the finance department and the two main trade unions, in January 2015. Interviews were conducted in Spanish, then transcribed and coded to explore responses related to our analytical propositions (Figure 1). The selected quotes used in this paper were translated into English by the authors. In addition, a range of relevant secondary data was compiled to characterise the cases, to document changes in regulations, and to triangulate impacts and changes reported by interviewees as much as possible.

The rationale for the selection of the cases followed three criteria. First, we considered mid-size cities with a total population between 100,000 and 350,000. According to the National Statistical Institute, there are 54 cities in this range in Spain. Second, we looked for cities with very different levels of financial indebtedness when the crisis struck, in order to test our propositions in contrasting conditions (Yin, 2003). Finally, we selected our local government cases in two regions with different systems of regional financing, again to drive contrast in our cases (Yin, 2003). The cases were thus selected on the basis of expectations regarding their information content and a strategy of seeking maximum variation (Flyvbjerg, 2001) in terms of their financial indebtedness and fiscal autonomy among mid-sized cities in Spain.

The two municipalities chosen for the comparative case study were Bilbao in the northern Basque Country region and Parla in the central Madrid region (Table 1).

Table 1 Characteristics of the Bilbao and Parla municipalities

		<b>Bilbao</b>	<b>Parla</b>
<b>Province, Region, (Location)</b>		Bizkaia, Basque Country (North)	Madrid, Madrid (Centre)
<b>Population 2015<sup>1</sup></b>		345,141	125,056
<b>Debt per person 2013 (€)<sup>2</sup></b>		20.9	2,940.7
<b>Regional spending powers<sup>3</sup></b>		Extensive + police + local level + language	Extensive + provincial level (regional sub-divisions)
<b>Govt. political party</b>	<b>Pre 2015 election</b>	EAJ-PNV (Basque Nationalist Party)	PSOE (Spanish Socialist Party)
	<b>Post 2015 election</b>		PP (Popular Party)
<b>Main public services provided</b>		Social services, local police & internal administration. Limited competences for education: maintenance of public primary and secondary school buildings Health: inspection of the health standards of local businesses	
<b>Dependent enterprises or organisations</b>		11 with around 450 employees in 2014. Mainly related to cultural activities, informatics, transportation or housing. Each has its own HR management & collective bargaining, but town hall conditions are also applied	-----
<b>Municipal public sector workforce</b>		Around 2200 in 2014, 800 of which were police	Around 630 in 2014.
<b>Employment tenure</b>		100% civil servants at town hall. Mainly salaried in municipal enterprises	36% civil servants & 64% salaried From total civil servants, 70% are police

<sup>1</sup> Instituto Nacional de Estadística (2016); <sup>2</sup> Cinco Días (2014); <sup>3</sup> Fernández Leiceaga et al. (2016, p. 29).

## Case 1: Bilbao

Bilbao is a prominent Basque city, which in the 1980's initiated a comprehensive restructuring of the existing industrial fabric (mainly metallurgy), which became a deep and long-term modernisation process. As a result, the city began to promote a new economy focused on tourism and services, including creative and cultural industries. The City Council promoted a strategic plan for the revitalization of abandoned industrial sites and deteriorated zones. A key milestone in this urban transformation was the Guggenheim Museum, which signified a radical change in the city's self-image. Likewise, especially from the second half of the 1990's, the policy of the Basque government promoted advanced manufacturing, technological centres and new industry clusters, including energy, paper-making, electronics, information and communication technology, maritime industries and aeronautics (Elola, Valdaliso, López & Aranguren, 2012). This strategy was based on the Basque gov-



ernment's decision to jointly work with the principal economic and institutional stakeholders to improve regional competitiveness (Royo, 2009). Public administrations in the region, including at the local level, participated in policy formation and contributed positively to the transformation (Royo, 2009). The city was governed by the regional nationalist party EAJ-PNV throughout this time, including the financial crisis and the period of this case study.

The Basque region is culturally distinctive with its own lexically isolated language, Euskera. Under the special *foral* community model in the Basque Country (and neighbouring Navarre), the regional treasury controls 'tax figures representing 95 percent of their total revenue' (Fernández Leiceaga et al., 2016, p. 4). This full tax autonomy in terms of regulatory capacity, management capacity and collection, leads to substantially higher per capita revenues compared to other regions (Fernández Leiceaga et al., 2016). In the midst of the financial crisis, the municipality of Bilbao had the second lowest amount of local government debt amongst all Spanish municipalities with a population of more than 75,000 (Goicoechea Bilbao & López Herrera, 2014).

Public sector employment in Bilbao was relatively stable in the period leading up to the onset of the crisis. The ratio of fixed-term salaried workers and temporary civil servants (*interinos*) within the local public sector workforce was reported to be relatively low (around 18%). Although there were no dismissals, the workforce declined by around 160 persons during the crisis, through retirements and other attrition. This impact was moderated to some extent through municipal and community mechanisms. Some replacements continued to be made in essential services such as firefighters and police and required salary cuts were softened by using a sliding scale depending on pay levels (the average reduction was around 2.8%). The elimination of the Christmas bonus in 2012 was counteracted by the municipal authorities, who brought forward the 2013 bonus in the form of a zero percent personal loan.

## Case 2: Parla

Parla is a satellite city of Madrid, the national capital and largest urban agglomeration. The predominant activity in Parla's economy is commerce (77%). The other two main sectors are hotel-related business and the provision of general services (Ayuntamiento de Parla, 2014). There is relatively little industrial activity in the area and a low level of investment by large companies. In line with a common trend propelling the Spanish economy from the mid-1990's until 2008, Parla also experienced a real estate boom. From 2000, the city underwent rapid population growth due to strong urban investment and rapid infrastructure development, including construction of 13,800 residences in East Parla and a continuing wave of immigration to Spain. This meant an increase in hiring temporary workers at the town hall to cover a higher demand for public services. When the crisis struck, Parla was governed by the centre-left social party (PSOE), but a minority conservative Popular Party (PP) government took power following the local (and regional) elections held in 2015.

The Madrid region, like all (non-*foral*) common system regions, has reduced collection and management capacity over some forms of taxation including income tax and consumption tax (VAT). At the start of the crisis the central government had divested itself of its fiscal transfer capacity (Fernández Leiceaga et al., 2016, p. 6), but without imposing signifi-

cant budgetary constraints at the lower levels (León, 2009). In Parla, the financing required to cover the increased demand for services had grown rapidly, so when conditions suddenly changed the local government found itself running one of the worst debt-to-revenue ratios of all city councils in the country – 519.4 percent in 2013 (Goicoechea Bilbao & López Herrera, 2014). To reduce the level of local government debt, the central government approved various extraordinary mechanisms from 2012, which “entailed a substantial increase in local and regional government debt vis-à-vis the state. The funding mechanisms agreed on require compliance with certain adjustment plans” (Téllez, Hernández de Cos, Hurtado & Pérez 2015, p. 6). In the specific case of Parla, the City Council participated in three central mechanisms to finance payments due to suppliers. In exchange, local managers had to report to the central government on a quarterly basis. The Parla municipality’s failure to fully satisfy fiscal duties to state institutions (tax agency, social security agency) also meant that 100 percent of certain periodic funds, dedicated for large municipalities, were withheld.

Public sector employment in Parla grew from around the year 2000, driven by an increase in salaried and temporary workers to meet the demands for new local services. Fixed-term positions rose to make up a relatively substantial proportion of the total local government workforce (around 40%). When the crisis struck, central administration control measures took effect rapidly in Parla. A decrease in salary of 5 percent was imposed in late 2010, along with an increase in working hours. The Christmas bonus was also eliminated, while days off were reduced, and a “zero replacements for retirees approach” was taken. In addition, a total of 66 non-permanent employees were made redundant in 2011, (although the vast majority appealed to the Courts and some succeeded in being reinstated).

## 4. Results

### 4.1 Decentralisation and the culture of autonomy

Decentralisation has been possibly one of the main forces in Spanish political economy in recent decades. From the mid-1980s until the early 1990s this process focused on the development of the *Comunidades Autónomas* and the regulation of local municipalities. Since then, and up to the recent crisis, there have been important changes to regulations which further emphasize a decentralisation approach (Bassols Coma, 2014). First, in 1999 a new law reinforced competences at the local level and coordination instruments with the *Comunidades Autónomas*. Second, a new Act in 2003 focused on a modernisation process and management improvements, especially for big cities. A further proposed reform (*Anteproyecto de Ley Básica del Gobierno y la Administración Local*) in 2007 was interrupted by the financial crisis and remains unfulfilled. Regional government budgets, which in Spain had become increasingly independent from the national government through decentralisation, were suddenly under pressure from all sides – the EU, the financial markets and the central government.

All municipalities in Spain share elements of a basic common institutional framework. First, internal economic and financial control is exercised for the city council by the economic chief (*Interventor*), part of a special group of central state civil servant technicians. Second, the central government delegation in the regions (*Delegado del Gobierno*) carries

out some monitoring and coordination tasks. Third, regional audit councils (*Tribunal de Cuentas*) can perform ex-post controls on budgetary execution to seek fiscal consolidation. Likewise, there is some general legal binding from higher institutional levels, for example, the central state budgetary law. From September 2011 the amendment of article 135 of the Spanish Constitution for the enforcement of the principle of budgetary stability additionally bound all public administrations at all government levels. Within this framework, local governments have varying degrees of budgetary authority over their own expected revenues and spending, which is finally approved in a plenary session. The central state and the regional government also transfer some specific subsidies to contribute to the cost of some public services provided by the municipalities.

A heightened sense of cultural and historically grounded autonomy can be said to exist in the Basque Country. The *foral* model means that the Provincial Council (*Diputación Provincial*) collects, manages and distributes tax money among the city councils in the region. In exceptional cases of unsustainable finances, the Provincial Council also supervises the budget. Interactions between these different levels of government within the region are preliminary built on professional and technical relations.

Employers and trade unions in the Bilbao municipality share a commitment to regional autonomy, especially in response to any perceived national attempts to recentralise operations.

“We support the sphere of Basque decision-making and our employers, who are politicians, also do... There is the central state’s interest in recentralisation but it will be more difficult to be implemented in the Basque country.” (B3-trade union)

As they enjoy a relatively good financial situation, the Basque Country government publicly supported maintaining public services in the region during the crisis.

“The social agents can negotiate in the Basque country to set the scope of the public sector and the public services.” (B4-trade union)

In line with this sense of cultural autonomy, the pro-independence union favours a more regionalist conception of the public sector.

As Parla was considered to be at financial risk, the municipal budget was under exceptional *ex ante* revision by the Spanish Ministry of Finance, in addition to the regular institutional mechanisms described above. The Ministry checked that budgetary figures were in accordance with the state fiscal adjustment plan. Some local actors considered that part of the current financial problems could be solved if the state actually took *more* direct decisions on local economic issues.

“A public employee could get better labour and union guarantees at a higher government level since at the local level we are going through a tougher crisis than at regional or central levels.” (P4-trade union)

Evidence of tensions between decentralisation and recentralisation were thus seen in both cases, although these tensions were very differently configured. In Parla, sentiment favouring some recentralisation was likely to be based on a growing distrust of local politicians, mainly due to prominent corruption cases and the level of indebtedness incurred. The situation generated complaints regarding an apparent lack of effective supervision and control over spending in the past. As a reaction to dismissals and the worsening of the working

conditions of public employees in the municipality, higher levels of government seemed to be considered a relatively ‘safe haven’ by some.

Our first proposition, that the existence of a culture of autonomy would determine to some extent the nature of the response to the centrally-imposed crisis measures, is supported by the empirical evidence. In the case of Bilbao, the culture of autonomy is strongly embedded in the municipality and inspired local actors to firmly oppose the central state’s impositions. This opposition can be understood as an expression of a deep-seated resistance to recentralisation attempts in general. In the case of Parla, a much weaker culture of autonomy exists. Centralised decisions were here perceived as a potential problem solution, in a context where a demand for protection and compensation from the state, characteristic of MMEs, is quite prevalent (Schmidt, 2012; Hall, 2014).

## 4.2 Collaborative community-based governance

The tradition of trade union participation in the organisation of work is strong in Bilbao. The main unions at the regional and local levels are Basque Workers Solidarity (*Eusko Langileen Alkartasuna*, ELA), which is the oldest and strongest regionalist and Basque nationalist trade union, and the Nationalist Workers’ Committee (*Langile Abertzaleen Batzordeak*, LAB), the trade union wing of the Basque independence movement<sup>1</sup>. Each of the two accounts for more than 15 percent of the workers’ delegates in the region. They are in relatively strong positions when participating in regional collective bargaining processes and have the right to representation in regional public institutions.

In terms of decision-making procedures, the development of Bilbao’s public sector seemingly relies on the strengthening of budget practices which are built on the basis of a realistic prevision of revenues and internal collaborative methods.

“Most public administrations used to include in their budgets artificially high expected revenues. That has terrible cumulative consequences if you keep equivalent levels of spending (...) There is not just a mere internal fiscal ex post control but a previous internal advisory work to fulfil the requirements and then, over that, we establish certain procedural routines to follow (...) Some projects stem from citizens’ participation in their local districts and then are included in the municipal budget.” (B1-finance department)

In Bilbao, trade unions and the local government have maintained fluent interactions, which have helped with internal decision-making and the exploration of ways to side-line the austerity measures imposed by the central government.

“Facing the recent general trend to harmonise worse labour conditions for the public employees in Spain, we endeavoured to explore all means of non-application here.” (B3-trade union)

Retrenchments that were seen as imposed by the EU for deficit reasons were not considered to fit with the local economic situation in Bilbao. Their compulsory implementation led to

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1 “ELA was founded (...) in the context of social Catholic Basque nationalism and was long close to the Basque nationalist party, the PNV (...) It is characterised by an efficient organisation and negotiating capability. Since the 1990s it has been aligned with the radical separatist LAB and has distanced itself from the CCOO and the UGT. It has around 100,000 members (...) With a strong grassroots orientation LAB developed into an effective trade union organisation which (...) participates actively in collective bargaining and interest representation activities” (Köhler & Calleja Jiménez, 2013, p. 2).

some improvisation and informal procedures became the unintended consequences of the imposition of the crisis measures.

Active interaction and information exchange practices have been fostered on the basis of promoting good general relations between employers and employees.

“Beyond a certain level of disagreement, which does exist, we keep ‘peace’, because they also give in.” (B3-trade union)

“In general terms, the city council is not a very conflictual environment of public industrial relations.” (B4-trade union)

Seeking consensus and collaboration is said to come first in the local public sector industrial realm. This is not to deny that more confrontational steps may sometimes be taken, although the record of successful past agreements is seen to have discouraged further mobilisation at times.

“Sometimes there are disputes affecting specific groups of public employees (e.g. local police) and we had to use strong protest actions, a carrot and stick approach (...) In the Bilbao city council, as we get some achievements, in the end, it is more difficult to mobilise people.” (B3-trade union)

In fact, there were no local level strikes directly related to the central labour force austerity measures imposed in 2010 and 2012. However, there were a high number of union actions and several general strikes in the region because of austerity measures and the resulting worsening conditions of all workers in Spain. These circumstances contributed to strengthening the trade unions’ positions to some extent.

In Parla, the union map has followed the national pattern more closely. The two largest unions, the socialist General Workers’ Confederation (UGT) and the post-communist Confederation of Workers’ Commissions (CCOO), have traditionally accounted for the majority of the representatives in the elections for workers’ delegates and work councils at the local level. Since its founding, UGT has kept strong linkages with the Socialist party (PSOE). This includes the municipal government level, which may have conditioned some courses of action and eventually generated some disaffection among public employees who felt that the union was *too* close to the governing socialist politicians. The large traditional unions have come to be considered “part of the political system and its institutions and are thus criticised by many civil society protest movements” (Köhler & Calleja Jiménez, 2013, p. 1). The recent crisis has intensified citizens’ demands for public accountability and the social perception of the big trade unions has progressively deteriorated.

“Workers have been devastated by the crisis. They have seen the majoritarian trade unions’ as accomplices in corruption behaviour. That is why minority radical unions are gaining more support.” (P4-trade union)

In spite of the difficult times brought about by the crisis, and the subsequent high levels of discussion and disagreement at the workplace, intermittent negotiations continued in Parla. But interpersonal and informal interactions were progressively substituted by more formal instruments.

“Being a medium-size city, the traditional functioning was more face-to-face and informal oriented. In the last years, however, every decision that is approved is provided in a written document.” (P2-human resource department)

The decision process for the implementation of cost-cutting in Parla was characterised as turbulent.

“Random and political criteria were incorporated to apply employees’ redundancies rather than a more planned and rational approach. It also counted on some other actors’ consent or connivance.” (P4-trade union)

In the opinion of some unionists, the cost-cutting process was not transparent enough and the seeds of mistrust between involved were sown.

Finally, the weaknesses of the local financing system and a broad discretion for electorally-driven economic decisions by local politicians, combined with insufficient external financial controls at the regional level, generated a perfect storm effect where all circumstances together aggravated the resulting situation. This led to speculation about the need for institutional reforms, amid the inherent conflicts and heightened potential for corruption that exists where local powers are too closely fused.

“Political and executive spheres could be separated by appointing a manager responsible for the provision of quality and cost-effective public services.” (P1-finance department)

As a consequence, the role of the implanted state financial controller, the *Interventor*, had to be reinforced with regard to local decision-making procedures.

A conflictual environment emerged in Parla in the aftermath of the crisis. Some disputed cases were taken to the Courts to be resolved, with a range of different judicial outcomes. Whilst there were some demonstrations and protest actions to oppose personnel dismissals, there was no strike. Unions refused to negotiate the redundancies and other arrangements weakening working conditions. These were then unilaterally applied, showing the futility of such refusals to negotiate.

“As unions, we are in favour of agreements to effectively facilitate savings and good services (...) Our line of work is not breaking bridges. We represent public workers and we care for them in the first place, but we will not be waiting for a few crumbs as others did in the past... We fight for labour rights, not for some privileges, so we are open to dialogue but also to mobilisation.” (P4-trade union)

In spite of significant expressions of dissatisfaction, a relatively acquiescent attitude remained. The unions did not adopt a disruptive strategy since there was a basic understanding of the critical nature of the situation, and a sense of the limitations that applied in such exceptional circumstances.

The evidence gathered quite strongly supports our second proposition, that the historical trajectory and policy legacy of collaborative community-based governance would be decisive in shaping the response to centrally-imposed crisis measures. Bilbao’s greater levels of coordination allowed the actors there to face adversity and resist to some extent. In comparison, the relatively low degree of institutional coordination among actors in the Parla case, coupled with perceived personal conflicts of interest, actually fostered the gate-keeping role of the central state.

### 4.3 Aligning local actors’ goals

In the immediate aftermath of the crisis, collective employment bargaining processes were largely suspended or side-lined in the public sector at the various levels (central, regional and local) in Spain (ILO, 2014). However, in several regions of Spain regionalist-nationalist

trade unions exert strong influence, as is the case in the Basque Country (Köhler & Calleja Jiménez, 2013). A distinctive feature, especially of ELA, is a very high union density and strong grass-roots support in the workplace. In terms of bargaining, this obviously entails a stronger negotiating position for improving working conditions.

“Our model in the Basque country is founded in a differentiated dynamic of confronting about contents. Both the financial autonomy of our unions and the fact that our strength stems from membership put us in a better position to negotiate. As a consequence, the working conditions of the public employees in the Basque country have been usually better than in the rest of the state.” (B3-trade union)

Likewise, trade unions’ participation in dense regional networks and broader social alliances provide stronger support for being more aggressive in their demands and jointly organising some complementary union and social actions.

Employer organisations, in both the public and the private sectors, also hold strong positions and play powerful roles in the configuration of regional industrial relations. The maintenance of a relatively equal balance of forces at the regional and local levels seems to have encouraged lively bargaining processes. Before the crisis, periodic bargaining rounds facilitated the relatively straightforward setting of labour arrangements in the municipality of Bilbao. After the crisis, bargaining difficulties arose due to the cutbacks imposed by the central state and implemented by the local government. As a way to circumvent those restrictions, the municipality started to make some exceptional agreements, which were sometimes presented as being somewhat unilateral. In reality, these agreements were based on prior negotiations with the trade unions to jointly find creative formulas to resist – to some extent – the austerity measures centrally imposed. The LAB union, however, still maintained their demands for the creation of new employment, further transformations or new measures to effectively counteract the restrictions imposed on public sector employment.

In Bilbao, the confluence of some elements – ranging from well-established regional nationalist political parties to a charismatic Mayor who held power for 16 years (deceased in 2014) – appeared to create a quite stable and primarily pragmatic atmosphere. Continued strong electoral support for the Basque Nationalist Party EAJ-PNV – which has governed in the city since the first democratic local elections in 1979, either alone or in coalition with others – was ratified in the most recent local elections in May 2015.

The pre-existing closeness between the main trade union ELA and EAJ-PNV was not seen as preventing them from independent action and negotiating positions.

“No matter the accumulated years in power, EAJ-PNV has had the wisdom to realise that they should keep a receptive attitude to confront different positions.” (B3-trade union)

Basque nationalist political parties in the regional and local governments inevitably had the disposition to oppose retrenchments imposed by the central government.

“In those regional institutions and municipalities where nationalist parties (EAJ-PNV and EH BILBU) were in power, the application of the central state reforms was minimized. But in those places within the Basque country where PP [Partido Popular, also the national governing party after November 2011] was governing, the reforms were applied although not in so strict a way as in the rest of the country.” (B3-trade union)

In contrast, the LAB’s project is linked to a radical-left policy and separatist movement views.

“Our demanding attitude intended to point out weaknesses in the municipal policy but we did not have expectations of approval due to the political majority in the city council.” (B4-trade union)

This political alignment was also viewed as a reason why they have been seen to be more aggressive in their demands.

In Parla, union density in the public sector is not high except for the local police force. There had been no new collective agreements for some years. Parts of a former agreement became inapplicable after the central state implemented changes to working conditions. Other parts were declared invalid by the state authorities (*Delegado del Gobierno*) and the abolition of the automatic extension of collective agreements (July 2013) intensified this unsatisfactory situation. In 2014, on-going negotiations were conducted with a positive political will, but the employer side found it difficult to fulfil some demands. From the trade unions’ view, there was a very good previous collective agreement, so to negotiate to worsen their conditions was difficult to accept.

“They are not demanding better conditions anymore. They are just seeking to keep their labour rights they already had before the crisis, and which have been eliminated in the public sector.” (P4-trade union)

Further dismissals continued to breed fear and further weakened public employees’ demands and expectations.

Another consequence of the crisis also appears to have been a weakening of trade unions’ power (Miguélez et al., 2015) and the emergence of some individualization in the negotiation of labour conditions.

“Trade unions have lost their mobilization capacity when strikes have turned ineffectively into some particular non-beneficial agreements (...) Neglecting negotiation has pushed employers to act in small groups or even to negotiate individually.” (P4-trade union)

In spite of some local social alliances that mobilized street protests, local trade unions had a limited disruptive capacity in practice.

“There were protest actions and demonstrations but trade unions have seen that these [labour] conditions, which are not negotiated, are no-matter-what applied, and subsequently have changed their attitude.” (P2-human resource department)

In the end, the unions in Parla were led to adopt a more pragmatic approach.

The Parla political climate had been characterised by close links between the main trade union UGT and, up to 2015, the predominant governing political party at the local level (the Spanish Socialist Party, PSOE). Tight interconnections and mutual dependence could have been fruitful in the past to some extent, but they became counterproductive when the crisis struck and a patronage system was exposed. This outcome was intensified significantly by the negative impact of some high-profile corruption cases (e.g. *Punica* case) involving Parla and the ensuing saturation media coverage.

“Our area has undergone string pulling practices which have hindered a stronger union opposition to the cut-backs.” (P4-trade union)

Local elections in May 2015 changed the political balance, with a minority conservative government (seven from 27 seats) and a left political representation (20 seats) fragmented among four parties.



“More political fragmentation could make it more difficult to get agreements. The final economic and financial decisions on budget issues and adjustment plans are taken in plenary sessions. If that does not happen, the administration collapses.” (P1-financial department)

Expectations of confrontations between the opposed political groupings at the local political level were viewed as likely to provide a further source of frustration in trying to develop a strategy to assist Parla to emerge from the on-going crisis conditions.

Our third proposition, that a culture of local autonomy combined with collaborative community-based governance will tend to align actors’ goals, is also supported by the evidence of our Bilbao case. Clear differences can be seen in terms of union strength and the existing bargaining conditions in the two locations. In Bilbao, historical relationships of co-operation between political parties and regional nationalist unions are linked to mutual investment in a clearly defined regional project of economic and social renewal. These elements helped generate a reinforcing effect regarding local actors’ response of measured resistance to centrally imposed crisis measures that restricted public sector employment. In Parla, public sector union density was relatively low, whilst historical relationships between the main trade union present and one of the two major national political parties were clouded in corruption. As a result, the local response to the central government imposition of crisis measures impacting public sector employment was relatively ineffectual.

## 5. Discussion and conclusions

A highly decentralised government system and the particularly strong impact of the recent economic and financial crisis make Spain a good context in which to observe contrasting effects of ‘crisis measures’ on public sector industrial relations. In this paper, we sought to explain different courses of action and outcomes in response to these centrally imposed measures through a comparative case study of two municipal administrations. Analysis of the diverse perceptions and reactions of representatives of both employers and employees at the two city councils allowed us to illustrate three main factors influencing the actual implementation of centrally imposed measures on local public sector. Local economic and socio-political developments in the context of crisis do seem to be nationally and supra-nationally determined to a very significant extent. But as we were able to show, actual outcomes are also the result of some improvised responses based on particular combinations of institutions, interests and ideas and how these configure differing degrees of coordination among relevant local actors. Interestingly, the interplay of these institutions, interests and ideas occurred at, and between, national and at sub-system levels (regional and local), presenting some challenges to the varieties of capitalism framework in which our analysis is situated.

Historical trajectories and policy legacies shape and constrain the varieties of political economy we observed (Schmidt, 2012), as well as the diverging perceptions of the crisis measures. In the Bilbao case, the measures were widely interpreted as taking advantage of the crisis context to further a recentralisation agenda. In Parla, the measures were viewed as more straightforwardly fiscal matters. In Bilbao, the existence of a stronger culture of autonomy provided the basis for actors’ convergence around the interpretation of the measures through the broader political recentralisation theme. The existence of a predomi-

nant consensus-oriented environment led trade unions and city council representatives to actively negotiate formulas to pragmatically resist both public sector retrenchments and these recentralisation attempts. In contrast, in Parla, a much weaker culture of autonomy and a more conflictive post-crisis public sector industrial relations scenario can be linked to the emergence of a degree of acquiescence to the potential recentralisation of financial controls, as a drastic, yet pragmatic means to overcome a highly precarious situation.

Our analysis reveals distinctive modes of public sector governance. The specific historical trajectory in each municipality and the degree of institutional coordination that has been developed in the contexts of their respective socio-economic transitions, appear essential in shaping these crisis responses. In the first case study, a progressive transformation over several decades, from old industries to a services-innovation economy, entailed some difficult but necessary economic and social adjustments. The adoption of a series of strategic industry, science and technology plans and the promotion of priority industry clusters was done using a process of bottom up stakeholder consultation and a focus on building a cooperative culture, both among firms within (and between) clusters, and among all institutional actors in the region (Royo, 2009). Such a process of metamorphosis also contributed to nourishing local networks and building local realignment capacities more along the model of community development. To a significant extent, aspects of the socio-economic model embraced in the Basque Country – high skills, valued added exports – more closely parallel the CME ideal-type than it does the MME typically associated with Spain. In contrast, the economic evolution in Parla could be seen as a classic example of market-driven solutions implemented amid rapid urban investment and expansion. This intense economic conversion produced a dramatic surge in demand for public services to match the rapid expansion of infrastructure and population. Following a similar logic, the type of public employment created to respond to this dramatic increase in urban demands was mainly temporary, in some cases linked to the delivery of services by private or quasi-private providers. These employees were then more easily made redundant when the crisis hit. Different underlying histories and approaches to economic development therefore also seem to partially explain subsequent ‘crisis response’ outcomes in the local public sector industrial relations realm.

Our comparative results show the importance of alignment among relevant actors in configuring both processes and outcomes in local public sector industrial relations. Both case studies are characterised by a historical single party monopoly over municipal political power. However, the consolidation of more integrated and collaborative bargaining practices in one context strengthened union power, whilst putting all local partners onto a relatively sound footing to face (and resist) an adverse situation. In contrast, the perpetuation of a localised culture of unchallenged political hegemony and patronage schemes, subsequently linked to cases of corruption, appears to be associated with both an exaggerated financial disaster and a weakened capacity of local institutions to respond to the crisis situation.

The varieties of capitalism literature places great emphasis on the degree of coordination existing between actors and institutions in shaping modes of political economy. Through our two empirical case studies, we observed the existence of markedly different degrees of coordination: on the one hand more akin to the CME model (Bilbao) and on the other hand more typical of a MME (Parla). Coordination has not been as historically absent in Spain as the MME ideal-type model might imply, rather ‘social pacts’ have played an

important role in economic adjustment, particularly in the demands for enhanced competitiveness in the face of the global integration of markets (Royo, 2007). Such forms of coordination between government, employers and unions have likely been important in resisting pressures to adopt a more liberal (Anglo-American) market model, while also externalizing the costs of adjustment by passing them on to workers through artificial wage moderation (Molina & Rhodes, 2007). However, at the same time, our case study supports the findings of other research in the Basque Country (Royo, 2009), that suggests that variation in modes of political economy may also be evident at sub-national system levels.

The role of regional government in a strategy that depends, to a significant degree, on collective investment in public goods (such as higher skills through apprenticeship training) can foster differentiation in the political economy at this sub-national level. Such a strategy is characteristic of the Basque Country and to some degree the collective organisation of institutional and social actors around such a strategy was also imprinted on the reaction to protect public sector employment from centrally imposed cuts. In contrast, in MMEs, the state is more frequently called on to regulate and correct coordination failures. In Spain, a more hierarchical logic of interaction can be said to exist, and social and economic adjustments are often state-driven (Schmidt, 2012). In Parla, acceptance of the need for the central state to 'step in' and demands for forms of compensation can both be interpreted as reflecting this logic and its historical exercise.

The characteristics of trade union actors in Spain are generally similar to those expected within MMEs. Unions have significant political influence but tend to compete for membership, suffer from low workplace density (Molina & Rhodes, 2007) and focus on lobbying the state for protection and compensation (Hassel, 2014). In both our cases, supportive relations existed between the major unions and the ruling political party. In Parla, the unions nevertheless remained relatively subjugated to the gate-keeping role of the central government and to its power over domestic actors (Molina & Rhodes, 2007). However, as simultaneously being regionalist-nationalist and worker organisations, the unions in Bilbao appear more capable of benefiting from integration in historically and culturally rooted cooperative arrangements. The alignment of institutional actors in the Basque Country reflected the tension between these unions' need to maintain some distance from government institutions in order to further its members' interests while remaining constructive participants in collective strategies.

In conclusion, we would concur with Hancké, Rhodes and Thatcher (2007) that there is scope to go beyond the ideal types of political economy described in the VoC literature, to develop more detailed understanding of the capacities for, and the modes of, coordination that shape actors' behaviour and how such coordination contributes to generating particular outcomes. As our study has shown, the interplay of institutions, interests and ideas that shape the political economy are not necessarily entirely homogeneous within a national reality. One of the limitations of the VoC approach has been its capacity to explain the dynamics of change. Our evidence points to the idea that where national institutions are more strongly decentralised, politically transformations may begin to emerge at the sub-national level. In the case of the Basque Country, a clearly articulated rationale, set of plans, and a level of collective actor support exists for a model of restructuring that is distinctive in some respects to the Spanish model (Royo, 2009).

A relatively high degree of coordination and alignment among actors was evident in our case study of public sector industrial relations in Bilbao, which was not evident in our comparative case. We are confident that our case is an accurate reflection of this broader political economy in the Basque Country. However, a limitation of our study is the extent to which a single case is able to ‘stand-in’ as a valid comparator for the national political economy. Due to this, we are more cautious in attributing the outcomes observed in Parla to existing political economic arrangements. Idiosyncratic or localised factors may also have played an important role. For this reason, further research and more detailed case studies will be required before our interpretations and explanations can be confirmed.

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