

Determining the Policy Space of the Partido Socialista Obrero Español Government in Managing Spain's Economic and Financial Crisis

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Abstract : Accounts of the management of the economic and euro crisis in Spain have been dominated by an emphasis on external constraints. However, this approach leaves unanswered important questions about the role of domestic political factors. Using systematic qualitative primary research and employing elite interviewing and process tracing, this paper aims to fill this gap for the period of the Partido Socialista Obrero Español (PSOE) administration. The paper shows that domestic politics played a crucial role in the management of the crisis, most importantly by determining the shape of the measures undertaken. In its three distinct stages - downplaying/inaction, reaction/stimulus, and austerity/reform - the PSOE's response was certainly constrained by external factors, most notably EMU membership and the actions of sovereign-bond investors, the ECB and Germany. Yet while these external constraints forced the government to act, domestic political factors fundamentally shaped the content of key measures: the fiscal stimulus, the labour, financial and pension reforms, the refusal to accept a bailout or the reform of the Constitution. Seven factors were particularly influential: i) electoral and political cost, ii) party and partisanship, iii) organised interests, iv) domestic institutions, v) ideological preferences, vi) ineffective decision-making, and vii) judgement and personal characteristics of decision-makers. In conclusion, domestic politics played an important role in the management of the crisis, a role that has been underestimated by dominant approaches focusing on external constraints and weak domestic policy autonomy. The findings provide empirical evidence to support research agendas that identify significant state discretion in the face of international economic integration and an important role for domestic political factors such as institutions, material interests, partisanship and ideology in shaping economic outcomes.

Keywords : economic crisis, Euro, PSOE, Spain

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