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Reassuring the Markets: The New Politics of Social Concertation in Acute Crisis Times

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(Article begins on next page)

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Abstract

Why do governments facing economic crises sometimes engage organized producer groups in policymaking through social concertation, and sometimes proceed unilaterally? I argue that governments’ choices to exclude or include unions and employer organizations from policymaking can be underpinned by a motivation overlooked by prior corporatist theory: reassuring the markets. Under conditions of financialized globalization international economic actors – creditors, credit rating agencies (CRAs), investors and international institutions – acquire a novel role as audiences to which policymakers seek to send signals to abate intensity of exogenous economic pressures. The article puts forward a novel theoretical account to explain governments’ choice of signaling strategy – concertation or unilateralism – for the purpose of reassuring the markets. The argument is substantiated through a comparative analysis of policymaking in labor market, industrial relations and pensions policy in Portugal, Italy, and Ireland during the Eurozone sovereign debt crisis (2010-2014), drawing on 73 qualitative interviews and in-depth process tracing.

Keywords: social concertation, social pacts, governments, unions, reforms, crisis

Introduction

From the oil shock of the 1970s to European Monetary Union (EMU) integration in the 1990s, theories of both ‘classic’¹ and ‘competitive’ corporatism² have consistently interpreted economic pressures arising from the international sphere as a key impetus for the emergence of cooperative behavior in domestic policymaking between the state and the organized producer groups of capital and labor: a process commonly known as social concertation.³

The relationship between exposure to international economic pressures and domestic social concertation is, however, not univocal. Never has this been more evident than during the Eurozone sovereign debt crisis of 2010-2014. Peripheral Eurozone countries such as Ireland, Italy, Portugal or Spain had all experimented with corporatist policymaking in previous crises junctures, most recently during EMU accession. Nonetheless, when faced from 2010 with intense pressures from financial markets, credit rating agencies (CRAs) and European authorities to implement austerity and liberalization, policymakers in these countries did not follow the same paths to implement crisis-responsive reforms.

In few instances, governments activated visible negotiations with unions and employer organizations to pursue liberalizing reforms of labor market and welfare institutions.⁴ In many others, however, they explicitly and deliberately excluded unions and employers’ organizations from the policy process, revindicating a centralization of prerogatives in executives’ hands which led some scholars to announce the ‘death of social pacts’.⁵

This variation – observed both *between* policy areas within countries and *across* countries – underscores how exogenous economic pressures arising from the international sphere do not – or no longer – translate homogenously into cooperative dynamics among governments and organized producer groups at the domestic level. Why, then, do governments subject to intense international economic pressures sometimes choose to visibly include unions

and employers' organizations in the negotiation of crisis-responsive measures, and why in other cases do they opt to proceed unilaterally, visibly marginalizing them from policymaking?

In this paper, I put forward a novel theoretical argument to account for this variation, which I then illustrate through qualitative comparative case studies of crisis-responsive policymaking under conditions of intense market pressures in three 'hotspots' of the Eurozone crisis: Italy, Portugal and Ireland. Despite their common history of social pacts during the 1990s and their comparably intense exogenous pressures for the implementation of similarly punitive structural reforms during the sovereign debt crisis, the three countries vary with regard to the involvement of organized producer groups in crisis-responsive policymaking.

To explain this puzzling variation, I bring together insights from corporatist theory and IPE scholarship to put forward a novel explanation of the politics of social concertation in contemporary "hard times" under conditions of financialized globalization and international economic integration. I argue that, when subject to intense exogenous market pressures and potentially damaging perceptions of low creditworthiness or low reform capacity, governments' choices to visibly *activate* or *reject* social concertation form part of the strategies through which they seek to send *signals* to external creditors and market actors to extract credibility and legitimation, increase confidence and thus abate the intensity of market pressures.

To be *credible*, the signals that policymakers send to international market actors must be both *costly* – i.e. they must be politically hard to achieve and entail the foregoing of other potential political benefits⁶; as well as *realistic* – i.e., they must entail commitments that are judged as feasible and likely to be delivered. Accordingly, I argue and show that policymakers' choices to use social concertation or unilateralism as signaling strategies to abate the intensity of external market pressures are conditioned by two sets of factors. First, the potential veto powers that producer groups can exercise in a given policy area determine how *costly* it is for

executives to either enter into open conflict or to craft visible compromises with them. Second, the perceived effectiveness of social concertation as a tool of reliable policy implementation determines how *realistic* the signal sent through social concertation actually is.

In policy areas where the potential veto powers of producer groups are high and the perceived effectiveness of social concertation as a tool of reform implementation is also high, policymakers are more inclined to consider negotiations with unions and employers a useful signal to reassure external market actors and creditors. Conversely, in policy areas where the veto powers of producer groups are high but the perceived effectiveness of social concertation as a tool of reform implementation is low, governments are instead more prone to visibly marginalize organized producer groups from policymaking as a signaling strategy to reassure market actors and creditors about domestic reforms' capacity.

Using theory-guided process-tracing and drawing on 73 qualitative interviews with policymakers and representatives of producer groups conducted in Italy, Portugal and Ireland over 2017-2018, I illustrate the causal mechanisms and the conditions associated with policymakers' choices to activate or eschew concertation for the purposes of abating external pressures.

The article proceeds as follows. Section 2 reviews the extant literature on the determinants of social concertation to highlight its limitations in accounting for the puzzle of interest intermediation dynamics during the Eurozone crisis. Section 3 introduces the case studies, highlighting their empirical features that deviate from the expectations of extant theory and thus motivate further theory development. Section 4 outlines the theoretical argument I put forward. Section 5 illustrates the data and methods used in the analysis. Section 6 reports the findings. Section 7 concludes.

1. Exogenous pressures and social concertation in times of crisis: the puzzle of the Great Recession

Why, and under what conditions, do governments visibly engage organized producer groups in policymaking, and why in other occasions do they choose to implement policies unilaterally? Tripartite social concertation has been intermittently used across most Western European countries since the 1950s to manage income policies and implement structural reforms of welfare states and labor markets. It helped governments both to achieve internal legitimation for their decisions, fulfilling an ‘expressive’ function ⁷, and solve concrete policy problems and support capitalist accumulation, fulfilling an ‘instrumental’ function (ibid.).

Extant corporatist theory highlighted a common driver motivating governments to pursue structured and visible cooperation with organized producer groups: the presence of *exogenous economic pressures* arising from exposure to international market forces. As Katzenstein⁸ notoriously argued, exposure to the pressures of the world economy was a key impetus for the emergence of democratic corporatism in the small open economies of continental Europe after WWII – both for functional and for ideational reasons. Katzenstein’s insights were subsequently incorporated in the theory of *competitive corporatism*⁹ to explain the resurgence of social pacts in Western Europe in the 1990s. Globalization and European integration were both highlighted as exogenous pressures incentivizing policymakers to seek public compromises with labor and capital.

However, the link between international economic pressures and social concertation was seemingly called into question during the post-2008 Great Recession, especially in peripheral Eurozone countries such as Ireland, Portugal, Spain, Italy and Greece. Faced with intense pressures from financial markets and European institutions to implement structural reforms and fiscal consolidation, governments only occasionally resorted to social

concertation, and very frequently engaged in unilateral policymaking. In light of this, some scholars prominently argued that the Great Recession marked the ‘death of social pacts’.¹⁰

In line with this diagnosis, most literature on the politics of social concertation in the last crisis seeks to explain only its *decline* across different countries, assuming convergence towards unilateralism. A first strand emphasizes how the *scale and depth of adjustment* required to face the crisis were too large for unions to internalize them¹¹; and how governments facing fiscal crisis lacked both time and fiscal space to negotiate with organized producer groups and compensate them for their consent to painful reforms.¹²

A second highlights *increased executive autonomy* arising from exogenous policy conditionality. Identified as conditions *reducing* government incentives to include organized producer groups in domestic policymaking in the crisis conjuncture are: the concentration of power in Prime Minister’s Offices or Financial Ministries, which came to act as gate-keepers vis-à-vis international financial institutions¹³; governments’ ability to use ‘there is no alternative’ legitimization strategies to justify retrenchment¹⁴; and the opportunity for governments to play two-level games by moving the arena of negotiation to the European sphere.¹⁵ According to this line of argument, these factors all contributed to reduce the incentives to engage in social concertation even for weak governments, usually prone to engage in such processes to bolster their political support.¹⁶

A third strand points to domestic political factors as causing concertation’s decline. Due to the parallel decline in union density and legitimacy in Western Europe, Culpepper and Regan argue, governments of crisis-struck countries no longer *needed* to include unions in policymaking to legitimize reforms in crisis times, as the costs these could impose were too low to warrant reaching compromises.¹⁷

These arguments, whilst insightful, cannot account for the observed variation in the dynamics of social concertation during the Great Recession. First, focused as they are on explaining concertation's decline, they disregard that notable agreements between governments and social partners *did* occasionally take place, even at the crisis peak, in countries experiencing intense exogenous policy conditionality. Second, the explanatory factors highlighted – intensity of macroeconomic problem-load, presence of exogenous conditionality and union weakness – do not co-vary, empirically, with interest intermediation dynamics in crisis-struck countries, as the next section will illustrate.

In sum, whilst the experience of the Great Recession shows that the relationship between the presence of strong exogenous economic pressures and social concertation is no longer univocal, as previously argued in theories of 'classical' and 'competitive' corporatism, more recent accounts fail to make sense of patterns of interest intermediation observed across crisis-struck countries. Hence, further theory development is necessary.

2. Case selection

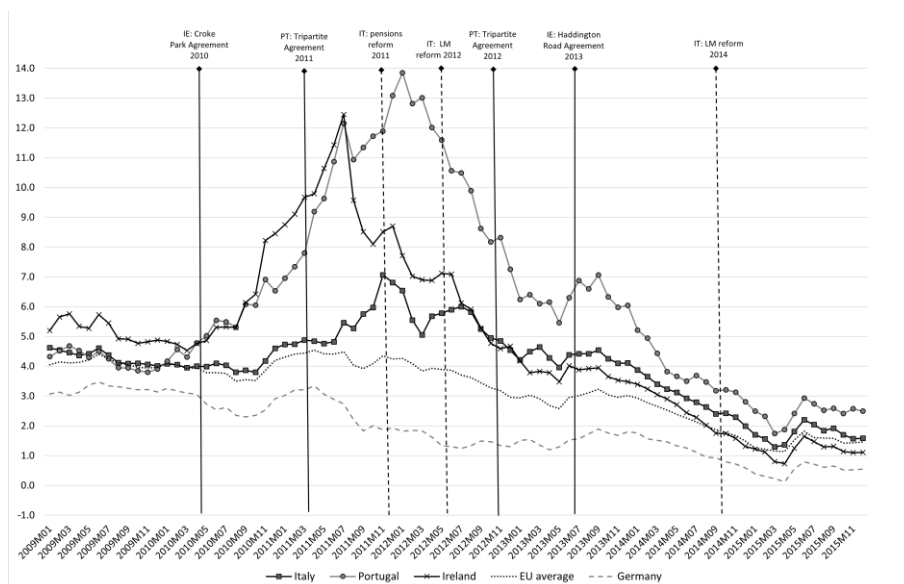
This paper focuses on three country cases at the epicenter of the Eurozone sovereign debt crisis – Italy, Ireland and Portugal between 2010 and 2014 – to illustrate the limits of prior explanations of concertation occurrence or marginalization, and to develop and substantiate a novel theoretical argument. I employ a comparative case study design, following a 'most similar' systems case selection logic.¹⁸ Italy, Portugal and Ireland faced comparably strong exogenous pressures for structural reforms and fiscal consolidation during the Eurozone sovereign debt crisis, but display variation in the dependent variable, i.e. occurrence of social concertation during the crisis. In particular, over 2010-2012, instances of crisis-responsive negotiated adjustment took place in Portugal, where two tripartite social concertation agreements over labor market reforms were signed in 2011 and 2012; and in Ireland, where

bipartite public sector austerity agreements were concluded in 2010 and 2012.¹⁹ Italy, instead, was characterized by a consistent recurrence to visible unilateral policymaking to implement major structural reforms during the crisis.²⁰

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Italy, Portugal and Ireland are ‘most similar’ insofar as they were subject to strong speculative pressures from financial markets in the wake of the Greek debt crisis. From mid-2010, they experienced rapid increases in their interest rates on government bonds and in the spread with the benchmark German bonds (Figure 1).

Figure 1 Exogenous economic pressures and main instances of negotiations and unilateralism in Italy, Spain and Portugal, 2009-2017



Legend: left axis, 10-year government bond yields, selected EZ countries (%), source: Eurostat, *teimf050*. Vertical continuous lines indicate instances of negotiated policymaking; vertical dotted lines indicate instances of unilateral policymaking.

In Ireland and Portugal, economic ‘problem pressure’ as captured by interest rates on government bonds (cf. Figure 1) was most intense. These pressures made refinancing sovereign debt increasingly difficult and, by making repayments costlier, unleashed self-fulfilling

predictions of debt unsustainability.²¹ Faced with the prospect of losing access to the secondary market, both Ireland and Portugal were forced to recur, in November 2010 and May 2011 respectively, to international financial assistance from the Troika – i.e. the trio of institutions composed of the European Commission, European Central Bank (ECB), and International Monetary Fund (IMF) tasked with managing financial crises in EU Member States – to avoid a sovereign default. Their Memoranda of Understanding (MoU) came with detailed conditionality for fiscal consolidation and structural liberalizing reforms in several fields including labor market and social policy.

Italy did not receive a bailout but was also exposed from March 2010 to increasing speculation from international financial markets over its sovereign debt stocks sustainability. Its large economy made the prospect of a bailout dangerous because of the potential destabilizing effects for the whole Eurozone. Consequently, in summer 2011 Italy became subject to ‘implicit conditionality’²²: the ECB requested the implementation of specific policy measures as condition for purchasing their sovereign debt stocks on the secondary market. Conditionality continued then to be leveraged both by financial markets and through the European new economic governance framework.

The intensity of the exogenous pressures to which the three countries were subject, despite the differing mechanisms of conditionality, is comparable – as the threat of default was, at the height of the Eurozone crisis, equally as high in all three in case of non-compliance with the creditors’ requests. The type and depth of fiscal adjustment over the period of the Great Financial Crisis and of the Eurozone crisis was, overall, also comparable across the countries (table 1).

Table 1 Austerity as a % of GDP in case study countries, 2009-2014

	Austerity (tax and spending) measures as % of GDP, 2009-2014 (period average)
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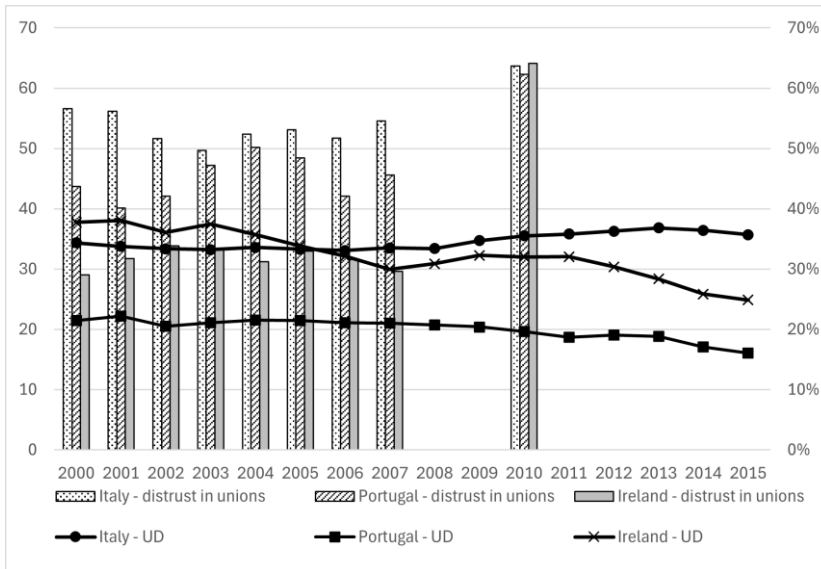
Italy	2.88
Ireland	3.79
Portugal	4.93

Source: Alesina et al. (2019); *NewComponents1978-2014.xls* data file, period average of sum of variables *tax tot* and *spend tot*.

The similarity in the level of exogenous pressure to which they were subject by international financial markets suggests that neither the *intensity* of the macro-economic problem pressure nor the *presence* of strong exogenous conditionality account by themselves for (non) occurrence of social concertation.

Alongside their similar conditions during the Eurozone crisis, all three cases were in the 1990s paradigmatic examples of ‘competitive corporatism’ in traditionally non-corporatist settings.²³ They are thus theoretically well-suited to investigate the contemporary politics of concertation against a background of comparable historical legacies. Yet, against this shared history, the cases display some variation in aspects of domestic labor politics – in particular, union density and trust in unions (Figure 2) – that had been highlighted in prior scholarship as possible causes of concertation decline during the crisis. In particular, Italy displays higher union density than Ireland and Portugal respectively; but also, prior to the crisis onset, much higher levels of public distrust in unions than Portugal and especially Ireland, where these were the lowest.

Figure 2 Trade union density as % of salaried employees (2000-2015) and levels of public distrust in unions (2000-2010)



Legend: left axis, union density (UD) as % of salaried employee, source: ICTWSS 6.0 (2019); right-axis, proportion of respondents who 'tend not to trust' unions, source: Eurobarometer 2000-2010.²⁴

However, these factors do not co-vary with the occurrence of concertation in the countries under analysis as theorized by prior literature.²⁵ In fact, during the Eurozone crisis unilateral policymaking was consistently pursued in the peripheral country with the highest level of union density, Italy, whilst social concertation occasionally initiated in the country with the lowest, Portugal (cf. Figure 2). Furthermore, levels of public distrust in unions shot up across all the Eurozone periphery after the crisis onset (cf. Figure 2). Yet, this did not stop Portuguese and Irish executives from occasionally experimenting with social concertation.

Variation in government strength across the three countries during the peak of the Great Recession additionally calls into question prior insights from the literature on social pacts in the 1990s, which highlighted the crucial role of government weakness as a driver of social concertation.²⁶ Indeed, social concertation was occasionally pursued during the crisis by *both* weak and strong governments in Portugal (where both the minority PS government of Jose

Commented [AT2]: Citation to Culpepper and Regan

Socrates and the majority coalition government of PSD and CSD of Passos Coelho pursued social concertation agreements), and eschewed by *both* the weak technocratic government of PM Monti in 2011-2013 and by the strong government of PM Renzi in 2014-2015.

Considering the limitations of prior explanatory arguments vis-à-vis empirical features of the cases under analysis, I hereby put forward an alternative theoretical account of the new politics of social concertation in contemporary hard times.

3. From constraints to audiences: domestic interest intermediation as a signal to external actors

I argue that our understanding of the politics of social concertation in contemporary hard times can be advanced by re-conceptualizing how international economic and market pressures shape dynamics of domestic interest intermediation – thus incorporating the insights of the rich International Political Economy (IPE) literature on the role of financial markets and IFIs in shaping domestic policy choices in the debate on the determinants of social concertation.²⁷ As recalled above, extant theories of corporatism emphasize how international economic pressures act as *external influences* that can engender cooperation between domestic actors to face economic challenges. The scope of social concertation is, however, conceived as being exhausted in the *domestic* sphere. Only national governments and domestic organized interest groups are involved, and the only audiences are national publics, whose consent concertation can help to secure. International economic pressures are accordingly treated solely as *exogenous constraints* on domestic interest intermediation: structural forces which present governments with accumulation and domestic legitimation challenges, yet *external* to the dynamics of interest intermediation themselves.

These accounts disregard the insights from the extant IPE literature which shows how the international and domestic spheres have become increasingly interconnected under

contemporary conditions of financialization and globalization.²⁸ In advanced capitalist economies facing deepened economic integration and high capital mobility, the tension between legitimation and accumulation imperatives facing governments, and thus the scope of social concertation as a mechanism seeking to manage this tension, are no longer contained within the domestic arena. Governments of advanced capitalist economies, especially those with high levels of external indebtedness, are indeed compelled, especially during economic crises, to act in ways that can help them secure credibility and legitimacy not only vis-à-vis domestic publics, but also vis-à-vis a range of actors constitutive of the international economic-financial sphere. Such actors evaluate national policies and politics²⁹ and are equipped with political and structural power to discipline states and influence their policy choices.³⁰ This is particularly true for countries embedded in a common currency union such as EMU and with high debt commitments, vulnerable to fluctuations in the confidence of international markets and to the evaluations of their policy choices by external actors.³¹

These 'external' actors include, first, *external creditors* – both private finance capital actors and official lenders such as IFIs, which have the capacity to withhold borrowing lines³² or alter through their pricing and purchasing behaviors the risk attached to sovereign bonds in bond markets by applying higher interest rate premia.³³ Second, *credit rating agencies* (CRAs), who can act as powerful gatekeepers to sovereign debt markets and whose assessments of sovereign credit rating scores can have far-reaching economic and political implications.³⁴ Third, *supranational organizations and international financial institutions* such as the European Commission, the ECB or the IMF who, even when not acting as creditors, have the power to evaluate domestic policy choices and in this way send signals to international market actors and investors about a country's credit-worthiness,³⁵ with potentially adverse consequences in cases where external credibility deteriorates.³⁶ Fourth, *foreign investors*, whose investment decisions impact the flow of FDI, on which many countries are dependent

for sustaining economic growth, and who thus enjoy considerable structural and instrumental power³⁷ over governments' policy decisions.

At times of high market pressures, these external actors act not only as *constraints* on domestic policymakers' choices, shaping timing or content of reforms through direct or indirect conditionality.³⁸ They act also as *audiences* with whom domestic policymakers enter into a communicative dynamic and to which they seek to send signals through domestic political choices, with the aim of gaining credibility, generating confidence and thus abating the intensity of exogenous market pressures. This signaling communicative dynamic has already been highlighted by a rich body of literature in IPE, which has shown both how market actors pay attention to signals sent through elections, policy announcements and technocratic appointments;³⁹ and how domestic policymakers often act in ways that seek to maximize their perceived creditworthiness and trustworthiness to the eyes of external creditors and IFIs – for example by tying their own hands undertaking politically difficult commitments to structural reforms and fiscal consolidation, and implementing harsh reforms which go beyond what they would have otherwise done if they were not facing a credibility problem.⁴⁰

My core argument is that the choice of *how* to carry out reforms is also one of the strategies through which governments seek to generate external confidence and legitimation among international market actors and creditors. Whilst domestic political considerations remain important, I contend that government's choices about whether to visibly include or exclude organized producer groups from the policy process in moments of high market pressures are crucially motivated by governmental actors' beliefs about which policymaking method can generate greater legitimacy and send the most credible signal to external stakeholders and creditors about the likelihood of actually keeping commitments – i.e. actually implementing the desired reforms.

What makes a signal credible? According to insights from signaling theory⁴¹, to be credible, the signals that states send to external audiences (the receivers of the signal) must be *costly* – i.e. they must entail political or material costs for the signaling party, which can be either incurred in the present or in the future. The costs attached to a signal help the receiver differentiate between a resolved and an unresolved party, as the costs would discourage unresolved parties from sending that signal.⁴² Furthermore, in situations where “*the costs are not incurred at the point of signaling but committed over a future time horizon*”⁴³ – such as, for example, commitments to the future implementation of structural reforms – the signal must also be *realistic*, i.e. it must entail commitments to incur costs that are judged as feasible and actually likely to be delivered.

I argue and show that policymakers’ choices to use social concertation or unilateralism as strategies to abate the intensity of external market pressures are conditioned by two factors which shape their evaluations of which signaling strategy will be the most credible to the eyes of external stakeholders – i.e. of which signaling strategy will both be sufficiently costly and realistic.

In principle, both social concertation and unilateralism could be used to generate credibility vis-à-vis external actors. Visible concertation could generate credibility by signaling a government’s willingness to incur political and material costs – in the form of future commitments or present side-payments - to bring reluctant actors on board with the required reforms’ effort. This, in turn, could increase the perceived credibility of the state capacity to implement reforms and secure a predictable investment environment, by securing labor acquiescence and domestic social stability. Unilateralism might however also be useful to gain credibility vis-à-vis creditors and investors. As carrying out reforms unilaterally against the opposition of powerful interest groups can generate considerable domestic political costs for governments (so-called adverse ‘audience costs’⁴⁴), unilateralism can signal governmental

commitment to the implementation of ‘difficult’ reforms regardless of domestic opposition, and willingness to discipline organized labor in line with the requirements of external investors and creditors.

Under what conditions, then, do governments opt for concertation or for unilateralism as signaling devices when pursuing their structural reforms under conditions of high exogenous pressures? I argue that two conditions interact in shaping policymakers’ choices for one or other method of policymaking: first, the *capacity of organized producer groups to credibly act as veto powers* in a given policy area (which determines whether their inclusion or marginalization is actually politically costly for governments); second, policymakers’ evaluations of the *perceived effectiveness of social concertation as a tool of reforms implementation* (which determines whether concertation as a signal is deemed realistic or not). I now outline in turn how each of these conditions operates, and their respective determinants (table 2).

First, *unions and employers’ capacity to credibly act as veto powers in a policy area* shape policymakers’ views of the reputational benefits that they believe they will extract by either visibly including or excluding them from policymaking. The potential veto powers of producer groups matter because they make the signal that governments send to external actors ‘costly’, and thus symbolically valuable.⁴⁵ To visibly marginalize powerful producer groups, or to obtain their consent to difficult reforms, governments must indeed incur political and material costs which make the effort symbolically ‘worth it’ and useful to extract external credibility.

These political costs can take different forms. To extract the consent of reluctant and powerful producer groups to a concertation agreement, executives might incur present and future costs by expending time and political resources through lengthy and difficult negotiations; granting producer groups side payments or compensations (i.e. promises of future

policy concessions); or giving them guarantees of future influence on and involvement in policymaking, for example by promising further future negotiations. The costs that executives incur by entering into concertation agreements with powerful producer groups are thus both of a material nature (time and/or resources), and of a political nature – as entering into an agreement with the social partners possibly ties the governments' hand into the future and poses a risk of future backlash and audience costs if the commitments are not kept.

In turn, excluding powerful producer groups from reforms processes via unilateral policymaking also entails material and political costs. By doing so, governments risk encountering domestic audience costs in the form of opposition, backlash or unrest by the constituencies that the excluded groups represent and can mobilize; as well as depriving themselves of the collaboration of these powerful groups in the implementation of reforms, in the present as well as in the future.

These actions have instead less symbolic value in policy areas where unions and employers have low veto powers and where either extracting their consent or bypassing their preferences is easily achievable and does not entail considerable costs. Accordingly, I theorize that at times of crisis, policymakers have incentives to visibly include (through social concertation agreements) or exclude (through deliberate unilateralism) producer groups only in policy areas where they enjoy, or have enjoyed in the past, potentially high veto powers. Otherwise, governments will either seek negotiated compromises behind closed doors or proceed without consultation but without visibly initiating conflict, as no credibility gains can be extracted.

Organized producer groups veto powers' capacity in a given policy field depends on various factors (table 2).⁴⁶ First, unions and employers can act as veto powers by leveraging credible threats of withdrawal of societal consent. This depends on their mobilization capacity, which is a function of the associational and societal power they enjoy among constituencies

affected by relevant reforms.⁴⁷ Hence, what matters is not only their *overall* density and legitimacy, but also how these are concentrated in key sectors or key constituencies which are targets of reform efforts, such as for instance the public sector. Second, unions and employers can exercise veto powers via ‘institutional’ channels. This depends on the entrenchment of their institutional power resources in a policy area, which can allow them to block decisions or disrupt implementation.⁴⁸ Third, veto power capacity depends on the absence of previously undertaken commitments. Having subscribed prior agreements consenting to reforms might ‘lock’ producer groups into compliance, preventing them from exercising veto powers further on.

Second, policymakers’ evaluations about *concertation’s effectiveness as a tool of reforms’ implementation* influence their calculations about whether this is a realistic and credible method of achieving the desired market-reassuring goals. Various factors can concur in determining governments’ *perceived effectiveness of social concertation* as a tool of reforms implementation (table 2): historical legacies – i.e. the effectiveness of prior instances of social concertation in overcoming obstacles to liberalization in that policy areas; the producer groups’ ideological willingness and disposition to cooperate with the executive⁴⁹; and the presence (absence) of a minimal consensus among the parties about the reforms to be implemented.

First, in policy spheres where past instances of social concertation have been effective in facilitating liberalization, policymakers are more inclined to consider concertation as a useful signal to increase the confidence of external market actors and creditors in the likelihood of implementation of domestic reform. Conversely, in policy areas where past experiences of social concertation are seen as having been blockages to structural reforms or liberalization, governments are more prone to opt to visibly marginalize organized producer groups from the policymaking process to reassure market actors and creditors about domestic reform capacity. How the historical legacies of social concertation are perceived by policymakers depends in

part on their concrete policy outputs and outcomes, but also on how they are represented in the national and international press and more broadly in policy discourse. If influential discourse-producing actors – such as the international financial press– express negative evaluations about the effectiveness of social concertation as a tool of reform implementation, these are also likely to influence the perceptions of domestic policymakers.

Second, the presence in the domestic associational landscape of producer groups with an ideological disposition generally positively disposed to social concertation⁵⁰ increases the likelihood that concertation efforts will actually yield a viable agreement, thus augmenting the incentives for governments to pursue this strategy of market-reassurance. Third, the presence of a minimal consensus, or at least of some basic points of convergence among the negotiating parties about the thrust of the reforms to be implemented (or about their necessity) also increases the likelihood that a viable policy compromise can be reached and actually implemented, as the parties are less likely to renege on the agreement – thus making it a more realistic signal.

Table 2 Explanatory factors of government’s choice of signaling strategy and their respective determinants

<i>Explanatory factors</i>	<i>Possible determinants</i>
Veto power capacity	<ul style="list-style-type: none"> • Organizational power (i.e. density in key sectors or constituencies affected by reforms) • Societal power (i.e. legitimacy in key sectors or constituencies affected by reforms) • Institutional power (i.e. institutionalized involvement in the governance of a specific policy area affected by reforms) • Absence of previously undertaken commitments
Perceived effectiveness of social concertation	<ul style="list-style-type: none"> • Positive/negative historical legacies of social concertation as facilitator of liberalization • Positive/negative evaluations by IFIs and creditors about social concertation

	<ul style="list-style-type: none"> • Positive/negative ideological disposition of producer groups to social concertation • Presence/absence of a minimal consensus among producer groups about necessity / thrust of reforms
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Source. author's elaboration

I theorize that these two sets of factors - the *capacity of organized producer groups to credibly act as veto powers* and the *perceived effectiveness of social concertation* - interact to shape governments' choices for concertation or unilateralism at times of high market pressures according to the two-by-two matrix below (Table 3). Accordingly, social concertation is used primarily as a strategy of market reassurance in policy areas where the potential veto powers of organized producer groups are high and the perceived effectiveness of social concertation for reforms implementation is high (quadrant I). Conversely, if veto powers are high but the perceived effectiveness of social concertation for reforms implementation is low, governments are more likely to pursue visible unilateralism as a strategy of market reassurance (quadrant II). Conversely, if the potential veto powers of unions and employers are low, governments will have fewer incentives to initiate politically 'costly' forms of interaction with them for external signaling purposes. Consequently, I theorize that they will either opt for 'quiet' forms of interest intermediation – i.e. proceed through behind-closed-doors negotiations, which might still be useful to extract useful information or support for reforms implementation from organized producer groups – or implement measures without consultation, but without seeking visible political conflict as a strategy of external credit claiming (quadrants III and IV).

Table 3 Policymakers' perceptions of concertation legacies, producer groups' veto powers, and corresponding interest intermediation strategies

	HIGH VETO POWERS	LOW VETO POWERS
HIGH PERCEIVED EFFECTIVENESS OF SOCIAL CONCERTATION	Social concertation (I)	'Quiet' intermediation (III)
LOW PERCEIVED EFFECTIVENESS OF SOCIAL CONCERTATION	Visible unilateralism (II)	'Quiet' intermediation or unilateralism (IV)

Source: own elaboration

4. Data and methods

The analysis focuses on policymaking dynamics in Italy, Portugal and Ireland over 2010-2014 in three policy fields: labor market policy, industrial relations and pensions policy. These are central to the material and distributive interests of unions and employers' organizations, key terrains of their intermediation with the state. Second, these fields capture both logics of adjustment at play during the crisis, i.e. fiscal consolidation and competitiveness enhancement. Lastly, reforms in these areas were at the center of concertation processes in the 1990s. This maximizes the scope for comparability with prior insights on social concertation.

The paper triangulates several qualitative sources: newspaper articles, primary documentary sources, and 73 qualitative semi-structured interviews conducted by the author

with government officials, representatives of unions and employers' organizations over 2017-2018 (details in Appendix B).⁵¹

To operationalize the dependent variable, I qualitatively hand-coded all instances of crisis-responsive policymaking in the three countries and policy fields over 2010-2014, systematically triangulating documentary and newspaper evidence with interview data (see Appendix C for details of the coding procedure). I distinguish between three possible outcomes: instances of *concertation* (i.e. cases where textual or interview evidence indicated that the policymaking process entailed *visible negotiations* with unions and/or employers' organizations which resulted in concrete and public trade-offs over policy options); instances of *visible unilateralism*, where governments explicitly excluded unions and/or employers' organizations from policymaking, and this resulted in visible political conflict (i.e. general strikes or other instances of political contestation); and instances of *'quiet' interest intermediation*, where textual or interview evidence shows that interest intermediation did not take place or took place behind closed doors, without resulting in either visible conflict or visible negotiations with producer groups.

With regard to the operationalization of the independent variables, unions and employer organizations are classified as having 'high' veto power capacities in a policy area if they enjoy either potential to cause disruption (arising either from associational power (high density) and/or societal power (high legitimacy) among the constituencies affected by reforms and measures in that policy area – e.g., public sector workers for public sector reforms) or institutional power (arising from involvement in governance in the affected policy area); *and* if they have not entered prior binding commitments to compliance with governments' reform plans.

The perceived effectiveness of social concertation as a tool of reform implementation in a given policy area is operationalized as high if at least two of the following three elements

are present. First, past legacies of social concertation are considered as ‘positive’– in policymakers’ views – if concertation agreements in the prior two decades facilitated liberalizing reforms. In particular, if past concertation agreements did not extract significant concessions for producer groups that changed the government’s original liberalizing reform plans in a direction of dualization or re-regulation, they are considered as ‘positive’, liberalization-enhancing legacies, which increase the perceived effectiveness of social concertation. If they instead involved de-liberalizing concessions to producer groups, they are classified as instances of ‘negative’, liberalization-obstructive historical legacies that reduce concertation’s perceived effectiveness. Second, if at least half or a majority of the labor movement (i.e. at least half of the major unions) in the country in question holds an ‘integrationist’ ideology of social concertation⁵² and a history of consistently upholding concertation agreement, this is considered as a factor that increases the perceived effectiveness of social concertation among policymakers. Third, the presence of a consensus about reforms’ content or reforms’ necessity among the negotiating parties is considered to be present if textual or interview evidence is available that signals a degree of convergence or overlap in their policy positions at the time of the reforms’ negotiation.

I then employ qualitative case study methods, applying theory-guided process tracing⁵³, to reconstruct the processes connecting these antecedents to the observed outcomes. This involves a theoretically informed examination of cases to “*identify the causal chains between the observed events*”⁵⁴, attaching special importance to understanding the causal *processes* linking determinants to outcomes.

In the case studies, I substantiate empirically my theorized causal argument in three ways. First, I consider the *timing* of governmental decisions, showing how visible agreements or acts of unilateral policymaking coincide with moments of particular intensity in exogenous market pressure. Second, I bring textual evidence of policymakers’ stated *motivations* for their

choices, collected either through primary interviews or public speeches. Third, I leverage the logic of *case comparison* to rule out alternative explanations and show how the conditions specified in my theory co-vary with the observed outcomes consistently with my expectations.

5. Findings

The results of the reforms’ mapping analysis (Table 4; in-depth results and methodological details reported in Appendix A and C) show at first glance how, during the sovereign debt crisis (2010-2014), dynamics of domestic interest intermediation varied *across* the three cases and between policy areas *within* them.⁵⁵ In Italy, all major labor market and pensions reforms over 2010-2014 were implemented *without* formal negotiations with unions and employers’ organizations. Producer groups were either visibly marginalized from the policy process, or at best involved through ‘behind closed doors’ consultations. Conversely, in Portugal and Ireland, cabinets relied repeatedly on public, formalized concertation agreements to undertake structural adjustment in specific policy areas. In Portugal, two substantive tripartite concertation agreements were concluded in 2011 and 2012 about the content of labor market policy reforms, just before and after the conclusion of the MoU. In Ireland, the government relied instead on formal negotiations (twice in 2010 and then again in 2013), to agree with public sector trade unions far-reaching reforms of public sector industrial relations, key to its fiscal consolidation efforts. To be sure, social concertation was an exception, not the norm. In several other reform episodes, Portuguese and Irish governments proceeded either through ‘behind closed doors’ forms of interaction or unilaterally.

Table 4 Variation in domestic interest intermediation dynamics: summary

	HIGH VETO POWERS	LOW VETO POWERS
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<p>HIGH PERCEIVED EFFECTIVENESS OF SOCIAL CONCERTATION</p>	<p><u>Social concertation (I)</u></p> <p><i>Portugal: labor market policy (2011-2012)</i></p> <p><i>Ireland: public sector industrial relations</i></p>	<p><u>'Quiet' interest intermediation (III)</u></p> <p><i>Portugal: labor market policy (2013-2014)</i></p>
<p>LOW PERCEIVED EFFECTIVENESS OF SOCIAL CONCERTATION</p>	<p><u>Visible unilateralism (II)</u></p> <p><i>Italy: LMP, industrial relations and pensions</i></p> <p><i>Portugal: industrial relations</i></p>	<p><u>'Quiet' interest intermediation (IV)</u></p> <p><i>Ireland: LMP and pensions</i></p>

Source: author's elaboration. Details of the coding strategy and disaggregated results are reported in Appendixes A and C.

The punitiveness of the respective reforms cannot account for the observed differences *within* and *across* countries in how they were implemented. Taking for example the field of labor market policy, the depth of liberalization involved in the main reforms implemented in Italy and Portugal respectively does not co-vary with their mode of implementation. In Italy, two reforms of very different magnitude in terms of EPL liberalization were *both* implemented unilaterally, in 2012 and in 2014. Conversely, in Portugal, two reforms of similar cumulative magnitude were implemented through social concertation in 2011 and 2012, whilst a successive LMP reforms package equal in liberalizing reach was implemented unilaterally in 2014. The same applies to structural reforms measured aimed at spending reductions. For instance, the 2011 Fornero Pensions reforms in Italy, expected at the time of implementation to deliver savings of 3bn euros per year (almost 0.2% of GDP per year) was implemented unilaterally (although the actual extent of savings actually delivered was eventually much higher – around 1% of GDP per year by 2018). In Ireland, on the other hand, the similarly

severe austerity measures entailed in the public sector industrial relations Croke Park agreement of 2010, worth savings of around 0.3% of GDP on the public sector pay and pensions bill, was instead implemented through a social concertation agreement.⁵⁶ This suggests that other factors rather than punitiveness of the reforms at stake in and of themselves must account for the observed variation in implementation method.

The variation over time in the *mode* of reforms implementation cannot also be accounted for by changes in the expressed preferences of IFIs and creditors regarding the desirability of social concertation as a mode of reforms implementation, or about the thrust and severity of adjustment required. From a review of the available documentary evidence, neither the European Commission nor the IMF – the two main institutions directly involved in exercising conditionality on Italy, Ireland and Portugal during this period – ever explicitly expressed preferences around *how* structural reforms should be implemented, focusing instead on their completion. Furthermore, no consequential changes in preferences regarding the thrust of adjustment in these crisis-struck countries took place in the period in question, between 2009-10 and 2014. In this period, the focus within both institutions was still that of imposing financial discipline and ensuring the implementation of structural competitiveness-enhancing reforms in crisis-struck countries⁵⁷, regardless of whether the implementation of these measures required at times the side-stepping of domestic democratic processes.⁵⁸ Only from 2015-2016 onwards a ‘social turn’ can be identified in the orientation the European Commission, with President Juncker’s commitment to the revival of a ‘Social Triple A’⁵⁹ and to a ‘new start for social dialogue’⁶⁰ in the EU polity. As for the IMF, whilst a ‘battle of ideas’ around austerity as the desirable response to the crash was going on between neo-classical and more Keynesian-oriented economists within the Fund at this time⁶¹, as Clift⁶² notes this ideational change was contingent and did not extend to countries lacking fiscal space and with financial assistance programs in place, such as the ones under analysis here.⁶³

Through in-depth qualitative case studies, I now show how this variation across countries and policy areas can be explained in light of the theory outlined above, consistently with the expectations summarized in the matrix in Table 3.

Portugal: reassuring the markets through social concertation

The Portuguese case illustrates the pre-conditions and mechanisms leading to the occasional use of visible social concertation as a signaling strategy to abate high market pressures.

Portugal presents a peculiar configuration of organized producer groups' veto powers and historical legacies of concertation. With regard to veto powers of unions, the 1974 revolutionary transition to democracy had left strong pro-labor regulations, but the density of Portuguese unions had declined substantively since the 1980s (see Fig. 4). Still, the two main union confederations, CGTP and UGT, retained strong political influence by virtue of their links with political parties.⁶⁴ On the one hand, the communist CGTP retained considerable mobilisation capacities and political weight by virtue of its links with the Portuguese Communist Party (PCP), as well as thanks to its concentrated membership in potentially disruptive sectors such as the public sector and transports. The ability to inflict heavy political costs on the government via strikes and mobilisations, as well as potential electoral costs, made CGTP a potential veto power against liberalization, especially in employment protection and industrial relations regulation. On the other hand, the main political parties, the center-right PSD and center-left PS, strengthened over time their links with the moderate union, the socialist UGT, in an attempt to defuse the radical left's oppositional capacity. This granted UGT considerable influence via institutional channels on the moderate front of the political spectrum, increasing its institutional power. The combination of CGTP's organizational and societal power on the one hand, and UGT's institutional power on the other, increased the

potential costs that governments would thus have to incur in order to conclude social concertation agreements with them, or to exclude them altogether from policymaking.

At the same time, specific historical legacies contributed to increasing the potential perceived effectiveness of social concertation as a realistic signal to creditors. To manage the tensions arising from the country's divided left, Portuguese centrist political forces relied extensively over the 1980s-1990s on social concertation to secure political stability, circumvent the radical left's potential opposition to reforms, and facilitate adjustment to European integration. Between 1986-2008, twenty tripartite agreements were concluded in the so-called permanent commission for social concertation (CPCS) with the four employers' confederations and UGT, easing the implementation of several liberalizing reforms both in welfare and labor market policy.⁶⁵ Consequently, concertation remained well-regarded among both center-left and center-right parties for its stabilizing political function and its capacity to facilitate policy liberalization, thus consolidating positive perceptions of its historical legacies amid policymakers. This positive perception of social concertation's effectiveness was further bolstered by the ideological orientation of the UGT confederation. In line with its 'integrationist' ideology,⁶⁶ UGT's leadership throughout the union's history held indeed a consistently positive stance towards social concertation, praised in the union's discourse for its role in upholding social peace and national unity (*ibid.*). UGT's ideological commitment to the practice of social concertation thus made the prospect of concluding agreements with the union and having them upheld more realistic in policymakers' eyes.

The combination of high potential union veto powers and 'positive' perceptions of the effectiveness of social concertation as a facilitator of liberalization thus concurred to make Portuguese policymakers positively inclined to use it as a strategy of market reassurance during the initial phase of the sovereign debt crisis. I illustrate the theorized mechanisms at play in two key episodes.

First, in 2011, the center-left minority Socialist Party (PS) government (2008-2011) of PM Socrates relied on social concertation to try and avoid a bailout when the debt crisis reached peak intensity. The PS government had implemented in 2010 three austerity packages in response to skyrocketing deficits and an excessive deficit procedure (EDP) activated by the European Commission in 2009. Reacting to the government's non-negotiated austerity agenda, CGTP and UGT organized in November 2010 their first joint general strike in over twenty years, engendering unprecedented political instability. The frequency of strikes and protests also increased markedly in early 2011. But austerity was insufficient to avoid downgrading of Portugal's credit rating in December 2010, nor to prevent a spike in the risk premium for long-term government bonds (cf. Figure 1). By early 2011, Portugal faced being forced to ask for financial assistance to avoid default.

Having recognized the damaging impacts that domestic political instability had on external actors' perceptions of Portugal's creditworthiness, the government changed strategy. In March 2011, as the spread on Portuguese bonds rose dramatically, the cabinet decided to broker a headline tripartite agreement, appealing to the sense of 'responsibility' of employers' organizations and of the moderate union confederation, UGT.⁶⁷ The agreement expressed the signatories' commitment to implement far-reaching, liberalizing structural reforms of labor markets and industrial relations to increase economic competitiveness. In particular, the Government committed to implementing by the end of March 2011 a wide-ranging LMP reform that would in principle balance unprecedented deregulation in EPL and collective bargaining with measures to strengthen economic growth and active inclusion. The overall balance, however, weighed heavily in the direction of liberalization over recalibration.⁶⁸ The measures in EPL and CB would considerably increase employer discretion at firm level and reduce individual dismissal protections. These were supposed to be 'counter-balanced' by strengthening of ALMPs and by measures aimed at employment creation. However, whilst the

timing for the implementation of the deregulatory measures was clearly outlined, the recalibratory measures only had the status of programmatic ambitions, rather than concrete policy proposals.

By presenting a position of social consensus via concertation, the PS government aimed to restore the confidence of creditors and EU institutions about its capacity to effectively overcome the veto powers of unions, and demonstrate the shared commitment of domestic actors to tackle the long-standing ‘structural’ problems of the Portuguese economy. Policymakers hoped that showing commitment to meet “*obligations*” without outside intervention would help to abate speculative pressures and pre-empt the need for external financial assistance. Representatives from the PS, CIP, CCP and UGT all echoed in interviews this interpretation of the 2011 Agreement as a last attempt, eventually failed, to increase the PS government’s credibility vis-à-vis creditors and EU institutions and avoid the bailout. According to a UGT official,

Even before the coming of the Troika we celebrated the first agreement in 2011 (...) to send the message internally and to the world that we have the capacity to maintain social cohesion and to implement our own policies without the need for foreign intervention of the international institutions.⁶⁹

The signal sent to creditors via this social concertation agreement was costly – as extracting UGT’s consent required investing time and considerable political capital in negotiations, as well as potentially incurring backlash from the hostile CGTP union. At the same time, the past successful legacies of social concertation and UGT’s ideological commitment to social concertation, as well as its reliance on institutional power resources contributed to making the signal realistic, by increasing the likelihood that the agreement would actually facilitate implementation.

The 2011 Tripartite Agreement was however insufficient to avoid a bailout. After the fourth austerity package was defeated in Parliament, the PS government resigned and asked for financial assistance, leading to the conclusion of a Memorandum of Understanding in May 2011 for a €78 billion bailout.

After the MoU with the Troika had been concluded, the new PSD-CDS center-right coalition government of PM Passos-Coelho faced persistently high pressure on its sovereign bonds (cf. Figure 1), as market actors doubted the government's capacity to deliver on its reform commitments. The PSD-CDS government had a strong mandate arising from the MoU, enjoyed a parliamentary majority and was therefore not a weak cabinet, and had an ideological orientation broadly aligned with the liberalization trajectory of the MoU, reducing theoretically the government's need to use concertation to generate domestic consensus for its reform agenda. Still, it chose to recur, in the early bailout phase, to visible social concertation as an adjustment strategy.

The path leading to the conclusion of a second 'austerity agreement' in 2012 shows clearly the 'external' signaling value that concertation acquired. In its early months in office, the government actually attempted to eschew concertation, implementing the State Budget for 2012 without prior negotiations with the social partners. This led to an escalation of opposition by CGTP and UGT; joining forces, they called a general strike on 24 November 2011, which received high levels of participation.

The government became aware of the reputational costs associated with political instability at home, as the high veto powers of unions threatened the credibility of reform commitments. The shadow of the tumultuous implementation of the Greek bailout package loomed large on the Portuguese experience, as growing social unrest jeopardized the government's ambition for smooth MoU implementation. The second Troika review visit, conducted in November 2011, highlighted that "*strict implementation*" of the structural reforms

outlined in the MoU was needed to “*restore external competitiveness*” and “*bolster confidence in the sustainability of public finances*”.⁷⁰ Negative growth forecasts for 2012 also reduced market confidence, leading to a rapid growth between October and December 2011 of the risk premium on Portuguese government bonds (see Figure 1), surpassing the previous peak of June 2011. Hence, reassuring the Troika and the markets around commitments to adjustment gained renewed urgency.

In these circumstances, the government chose again the concertation path, brokering a new agreement with UGT and the employers’ confederations in January 2012.⁷¹ This was meant to act as a blueprint to implement the major labor market measures foreseen by the MoU, which included liberalization of dismissal protection and changes to collective bargaining to achieve greater ‘flexibility’ in wage-setting. Like in 2011, liberalization in labor law was packaged with ‘compensatory’ measures in ALMPs and training aimed at extracting union consent. The ALMP measures were however less substantial than those foreseen in the 2011 Agreements, and remained largely not implemented. The EPL and CB measures, on the other hand, corresponded closely to the labor market reforms effectively implemented by the government later in 2012 that led to a deep overhaul of Portuguese labor law. The main currency of exchange offered to UGT to extract its consent was thus not policy concessions directly, but rather promises of future institutional involvement. Indeed, UGT officials defended their participation in the Agreement arguing that this allowed them to keep voice channels open over the subsequent implementation of the MoU, and continue negotiating with the government over the content of reform measures for the following two years to attempt to ‘*avoid the worst*’ and “*try and save what was possible*”.

According to government executives, conjugating politically costly liberalization with social peace by securing the consent of a major union to harsh reforms was important to gain

credibility vis-à-vis creditors, by signaling domestic responsibility and ‘ownership’ of the adjustment program.

First, according to government interviewees, managing to get at least one union to make the “impossible choice” of agreeing to such far-reaching liberalization was in itself a hard task for the government to accomplish. The success in delivering this ‘costly signal’ could thus enhance the government’s external political credibility, whilst signaling its commitment to fully delivering the reforms outlined in the MoU in a timely fashion.

In the words of the former President of the Social and Economic Council,

It was a show for Europe, achieving this agreement because during the bailout period it was so complicated, how it's possible to put social partners to agree with a reform of labor law of this kind... So when we managed, many in Brussels were very positively surprised...⁷²

Second, concluding a concertation agreement was seen as useful for preserving a positive image of Portugal, in the eyes of external market actors and investors, as a stable country, “open for business”, committed to sorting out its economy and overcoming through co-optation the social problems that unions could pose. In this regard, “not appearing like Greece” was one of the main reasons for pursuing concertation, according to policymakers and employers alike:

The role of the social partners is always very important because it's better to reach agreements and to have social peace than to have strikes and social problems, to have an environment where it is difficult to attract people or investment. Because (...) it is also the kind of image that the country has that helps growth. So, if we have an image as a country where people solve problems talking and negotiating gets one thing across, but instead if we

*have a terrible image of insecurity, of social problems that's another different thing. That's the main difference between what happened in Portugal and what happened in Greece.*⁷³

The external legitimating function of the 2012 Compromise vis-à-vis creditors and investors was reinstated also by interviewees from the manufacturing and the commerce employers' confederations.

*It was very important to show to everyone that we had a majority in Parliament, we had a social consultation agreement, we had social peace, we showed that we are a good place to invest money, we showed that we are willing to make sacrifices in order to pay our debt.*⁷⁴

In line with the theoretical argument outlined above, concertation was, however, not pursued across the board, but only at times when market pressures were especially acute, and in policy areas where the veto powers of unions were high and where concertation had in the past been useful to achieve liberalization. Variation over time in policymaking dynamics in the sphere of labor market policy illustrates the theorized connection. Indeed, after the January 2012 agreement had been concluded and interest rates on Portuguese sovereign bonds started declining, the center-right government did not hesitate to adopt a more unilateral approach to implement some deregulatory measures that would have gone beyond the content of the agreement.⁷⁵ This was possible because by this point, the potential veto powers that unions could pose had been circumvented by extracting UGT's consent, and the united front of union opposition had been successfully undermined. From then on until the end of the bailout in 2014, union mobilizations were indeed mostly ineffective in halting the government's reform attempts in the fields of EPL and industrial relations.

The Portuguese case, in short, illustrates how, under conditions of high market pressures, concertation was used strategically by both weak *and* strong governments to send ‘costly’ and ‘realistic’ signals of the credibility of their commitment to reform to external creditors and investors in policy areas where the veto powers of producer groups were high, thus projecting an image of the country as a reliable, ‘good pupil’ of austerity. This strategy was motivated by policymakers’ positive perception of concertation as an effective mechanism that could facilitate liberalization in the sphere of labor market policy and EPL reform, given historical precedents of similar ‘successes’ and the positive ideological predisposition towards compromise-making of at least one of the two main unions.

Italy: unilateralism as a strategy of market signaling

Conversely, Italy exemplifies a case where both weak and strong governments used *visible unilateralism* as a strategy to extract credibility and legitimation from external market actors in moments of high exogenous pressures.

In terms of background conditions, in *both* labor market policy and pensions, up to the early 2010s Italian organized producer groups, and unions in particular, had enjoyed veto powers which allowed them to limit the depth of liberalization. These arose from two channels: first, unions’ high mobilization capacity, and particularly high density among pensioners; and second, institutionalized involvement in specific areas of pensions and LMP governance, such as dismissals authorization and the administration of short-time-work schemes.⁷⁶

Differently from Portugal, however, past legacies of concertation were contested. Social concertation had, historically, been sporadic and coincident with periods of economic uncertainty or political turmoil.⁷⁷ In the 1990s, minority or technocratic cabinets repeatedly used social pacts to regulate incomes policy, limit inflation and facilitate structural reforms for the purposes of EMU accession.⁷⁸ After this period, concertation did not become

institutionalized but remained dependent on governmental weakness, thus becoming associated with scenarios of political instability.

In labor market policy, the 1990s tripartite agreements were routinely identified in public discourse as responsible for having impeded far-reaching liberalization, as they left employment protections for open-ended employees mostly untouched. Similarly, in pensions, the mid-1990s negotiated reforms were interpreted as obstacles to effective retrenchment, as they introduced long phase-in periods necessary to extract union consent. By the crisis onset, concertation had become discredited because of its poor policy outcomes, “*increasingly blamed for Italy’s lackluster economic performance*”.⁷⁹ Divisions on the unions front contributed to further discrediting of the practice. Whilst one of the three main confederal unions, the moderate CISL, displayed an ‘integrationist’ ideological orientation similar to that of Portugal’s UGT in terms of positive predisposition to social concertation, the other two main unions – the largest, CGIL and the third largest, UIL – were much more skeptical if not occasionally oppositional in their approach to dialogue with the government. This division and the previous failure of social concertation agreements concluded without CGIL (as the 2002 ‘*Patto per l’Italia*’) reduced considerably the perceived political effectiveness of social concertation agreements concluded only with a minority of the social partners. Furthermore, as Tassinari and Sacchi (2021: 190) write, “*the lack of shared views between employers and unions and within each camp about reforms of the collective bargaining system structure and EPL (...) reduced policymakers’ trust in the capacity of labor relations actors to deliver negotiated policy solutions*”.

As a result, governmental actors were reluctant to use ‘visible’ concertation as a crisis management tool. From mid-2011 until 2014, when market pressures became particularly intense, governments of different partisan orientations pursued visible unilateralism as part of their strategies to abate them.

The first episode exemplifying unilateralism as a strategy to abate intense exogenous market pressure dates to summer 2011. Between June and July 2011, the spread between the Italian and German government bonds jumped up (cf. Fig. 1) due to contagion effects from the Greek crisis. Italy came under growing pressure to implement structural reforms to relaunch competitiveness, as a condition for the ECB to buy Italian bonds on the secondary market⁸⁰. The requests – liberalization of EPL for open-ended contracts, pensions retrenchment and decentralization of collective bargaining to firm level - encountered resistance from the unions and, for what concerns collective bargaining, also from employer organizations.⁸¹

The center-right Berlusconi government sought to broker a compromise formulation to avoid upsetting employers, but when this was not forthcoming due to the excessively distant policy preferences of the labor and capital side respectively, it eventually decided to proceed unilaterally. In August 2011, it implemented an emergency austerity budget (Decree-Law 148/2011) that included a significant decentralizing reform of collective bargaining in its Article 8, explicitly contradicting the preferences of most domestic employers. However, this package stopped short of directly deregulating EPL or implementing pensions retrenchment.

The timing of the shift to visible unilateralism coincided with intensifying exogenous pressures from financial markets and EU institutions. Policymakers declared in interviews that taking swift unilateral action, publicly contradicting the preferences of both employers and unions, had become necessary to send a signal to the ECB and the financial markets about reform commitments.⁸² However, the reform was judged to be excessively timid by international stakeholders, as it did not tackle EPL legislation as requested in the ECB letter of August 2011. This consolidated the perception among external stakeholders of Berlusconi's inability to adequately face up to domestic producer groups' resistance, leading to a collapse in market confidence and ultimately to his resignation.

Berlusconi's government was replaced in November 2011 by a technocratic cabinet led by former EU commissioner Mario Monti. PM Monti started its mandate when financial market pressure on Italy was at its highest (cf. Figure 1) and threat of default most acute. Monti subscribed to the view that concertation was an important source of the problems bringing Italy to its present crisis situation (*'the source of the evils against which we are fighting'*).⁸³ To signal externally his willingness to circumvent veto powers, he accordingly adopted a strategy of visible unilateralism to tackle its major reforms.

The first instance, coinciding with the peak of financial market pressure on Italian sovereign bonds in December 2011 (Figure 1), was pensions retrenchment. The Fornero pensions reform was drawn up in two weeks, breaking a tradition of negotiated adjustment in pensions policy dating back to the early 1990s. Although passing the reform was in itself considered crucial to abate market pressures, due to the scale of the fiscal savings expected, the *process* of unilateral policymaking had also important signaling value. Senior cabinet members declared that marginalizing concertation demonstrated the government's resolve to act responsibly and implement the structural reforms necessary to reassure external actors without being constrained by domestic veto powers, unions in particular. In the words of a majority MP,

*"The lack of consultation of trade unions constituted also a symbolic element of the extraordinary content of the measures adopted, which was useful for the image of the country in the eyes of the European institutions..."*⁸⁴

The second episode dates to early 2012, when PM Monti moved on to tackle the issue of labor market liberalization with the intent to deregulate dismissal protection for open-ended contracts (so-called Article 18). This was a long-standing goal of Italian policymakers, always

blocked in the past by union opposition⁸⁵ and frequently highlighted by international institutions as a cause of Italy's lackluster employment performance.

Initially, the government attempted consulting unions and employers' organizations to appease high domestic social tensions. The brief and unsuccessful process came to a head in March 2012 when Monti demanded a firm commitment to dismissal protection liberalization, before embarking on a trip to China with the aim of attracting prospective investors to Italy.⁸⁶

⁸⁷ The divisions in policy preferences between the social partners on EPL reforms – which cut across the labor-capital divide, but also within the union camp itself – again made the conclusion of an agreement aligned with the government's policy priorities very difficult. The opposition of the largest union CGIL and third largest UIL to EPL liberalization also made a potential 'minority' agreement with CISL also very weak as a realistic signal. Ahead of a crucial European summit in June 2012, as the spread on Italian government bonds had once again jumped up (figure 1), Monti thus eventually decided to proceed unilaterally with the reform without seeking social partners' consent.

The decision to embrace unilateralism was related to the government's desire to have the reform 'in the bag' at crucial points of interaction with external stakeholders. However, the *process* through which this was accomplished also had symbolic signaling value. Indeed, even though the moderate union CISL would have been available to give their public assent to the reform, this option was not pursued by the government. Unilateralism was seen by actors in the Monti government as a more useful signal to acquire legitimacy vis-à-vis both domestic public opinion and, crucially, financial markets and European institutions, because it was ultimately a more costly and realistic signal of the government's reformist commitments. As stated by the then Ministry of Labor:

"I never saw my role as 'we need to teach the unions a lesson'... but in a

*way maybe Monti would have wanted it to appear more [the confrontation with trade unions]; I remember there were situations where he would have wanted me to take a tougher confrontational stance, because we needed to show to the Financial Times that we were against the trade unions”.*⁸⁸

Indeed, Monti’s unilateralism initially bought him credit in the international financial press, who shared a negative judgement about unions’ role in Italian politics. When Monti decided to proceed unilaterally with the reform in Parliament at the end of March 2012, the Wall Street Journal saluted the decision with great platitudes:

*“Italian Prime Minister Mario Monti has walked away from negotiations with Italy’s labor unions and announced that he is going to move ahead with reforming the country’s notorious employment laws – with or without union consent. If Rome is spared the fate that recently befell Athens, mark this as the week the turnaround began.”.*⁸⁹

When the cabinet had to then ‘water down’ the deregulatory reach of the reform as a result of pressure from the center-left PD, the financial press reacted with disappointment. ‘Surrender, Italian Style’ was the Wall Street Journal (2012b)’s title. This perception of having ‘succumbed’ to union pressure limited significantly the external symbolic value of the Fornero reform.⁹⁰

These experiences shaped the attitude adopted by the cabinet of PM Renzi, who came to power in early 2014. By then, Italy was forecast to record negative GDP growth for the third year in a row, with record-high youth unemployment and unresolved problems of competitiveness and low productivity, repeatedly flagged up under the European Commission’s Macroeconomic Imbalance Procedure.⁹¹ Achieving progress in structural labor market reforms, going further than Monti had managed, was seen at the time as crucial for the

government to acquire credibility vis-à-vis the Commission and obtain leeway on fiscal policy.⁹²

Visible unilateralism became a key plank of this strategy. Renzi inaugurated his premiership denouncing concertation as having slowed down the progress of Italy's structural reforms over the previous twenty years. References to the historical problems of concertation were repeatedly expressed by key figures in Renzi's cabinet.

“For us the problem was also in the history of concertation, in the sense that a weak political system that hid behind the concertation method to delegate its choices to the sharing of responsibility with the social partners ended up, due to its weakness, in becoming a victim of those vetoes which became a slowing down factor rather than a help to build reforms... Our vision was to scrap a ritual in which every part had a veto.”⁹³

Unilateralism became an important signal of discontinuity to reassure European institutions and market actors about reform commitment. The cabinet saw the marginalisation of unions as helpful to mark a disjuncture with the 'old' tradition of Italian incremental policymaking, limited by the influence of domestic interest groups⁹⁴, and Renzi's capacity to marginalise union opposition hailed by international commentators as *“the ultimate test of his credibility”*.⁹⁵ Hence, even if the moderate union CISL was again willing to start public dialogue with the government on the content of the labor market reform, the cabinet decided not to involve them formally.⁹⁶ Rather, Renzi deliberately embraced conflict with unions when disagreements over the content of its 'Jobs Act' reform emerged; and ultimately pushed it unilaterally through Parliament amid a general strike and strong union protests – thus showing its resolve to incur domestic political costs and increasing the value of the signal sent to external stakeholders.

The dynamics of interest intermediation in Italy during the sovereign debt crisis show how the visible exclusion of organized producer groups from policymaking was motivated by policymakers' desire to acquire credibility vis-à-vis external market actors and European institutions at times of high market pressures. The veto powers that Italian unions had exercised over the previous twenty years in pensions and LMP, and the perceived 'failure' of concertation in delivering far-reaching liberalization, meant that governments of all partisan orientations became convinced that they could gain credibility vis-à-vis external actors by excluding the social partners and standing strong vis-à-vis their protests and mobilization, thus incurring domestic audience costs. Unilateralism as a signaling method was not only more costly than concluding an agreement with one moderate union, but also more realistic – as the political effectiveness in facilitating liberalization of a social concertation agreement concluded only with one out of the three main unions would have been very low, given the historical precedents. The exclusion of organized producer groups, in short, became the government's preferred strategy to send a costly and realistic signal to international market actors and creditors about the government's seriousness to tackle the crisis and discipline labor.

Ireland: preserving concertation for external eyes only

The Irish case represents a hard test for my argument, as it shows how the *external*, signaling dimension of legitimation retained importance even when social concertation had become *domestically* discredited. In Ireland, interactions between governments and social partners over the Great Recession diverged across policy areas. Despite Ireland being considered a paradigmatic case of 'death of social pacts', bipartite concertation between unions and the state continued being used in the sphere of public sector industrial relations throughout the crisis⁹⁷. In other fields, such as labor market policy, governments eschewed instead all visible interactions with social partners. The resilience of social partnership-style negotiations in public sector industrial relations can be explained in light of their external signaling

functions, and of the varying configurations of concertation's perceived effectiveness and producer groups' veto powers across policy areas.

With regard to historical legacies, from 1987 Ireland had embraced a *sui generis* style of tripartite social partnership, tying together peak-level wage negotiations with policy concessions to unions. This had been crucial in supporting the Irish growth model, based around economic openness and incoming FDI.⁹⁸ Notwithstanding its high institutionalization, by the crisis onset social partnership had exhausted its capacity to ensure wage moderation, as financialization had generated upward pressures on prices and wage demands, especially in the public sector. When the fiscal crisis of the Irish state exploded in October 2008, social partnership thus became blamed by public opinion as responsible for Ireland's fiscal problems, contributing to a depletion of its public legitimacy. In the words of a senior government official, by this point "*social partnership was seen as part of the problem, so it was hard for it to be part of the solution*".⁹⁹

Although this made its use 'politically toxic', Irish policymakers retained nonetheless a positive vision of the concrete outputs that social partnership could help deliver, as the case studies will show. Indeed, the established networks between senior civil servants, politicians, employers and union leaders and a well-oiled machinery of negotiations contributed to resolving industrial relations conflicts efficiently, securing predictable investment conditions and smoothening the political costs of liberalization. This instrumental function of social concertation, therefore, was still valued by Irish policymakers as pragmatically valuable. Furthermore, the long history of prior successful social concertation and the ideological positive predisposition towards social concertation and of Ireland's peak-level umbrella union confederation, ICTU, made realistic the prospect that agreements reached would actually be implemented.

The veto powers of Irish organized producer groups in most spheres of public policy had come to depend on the institutional power resources they enjoyed via their involvement in tripartism.¹⁰⁰ The overall density of Irish unions, organized under the umbrella confederation ICTU, had declined in the pre-crisis decade (Fig. 2), especially in the private sector, and the absence of a legal right to recognition for collective bargaining limited their mobilization capacity at workplace level. In the public sector, however, Irish unions retained considerably high density (59%, compared to 19% in the private sector), and high capacity to disrupt reform attempts via industrial action and non-cooperation.

These conditions can be connected to variation in interest intermediation dynamics. Due to the negative perception of social concertation in public opinion, early attempts over 2008-2009 to negotiate a comprehensive crisis response via social partnership collapsed under political pressures. Following employers' decision to exit the centralized wage agreement in late 2009, social partnership was formally dead. All major reforms in labor market and welfare policy since were implemented without visible negotiations. However, bipartite concertation between governments and unions remained alive in the public sector.

The reform of public sector industrial relations was particularly salient in the Irish crisis response strategy. From late 2008, a policy discourse had indeed emerged within Ireland that identified excessive wage drift in the public sector under social partnership as a key contributing factor to the unfolding fiscal crisis.¹⁰¹ This contributed to politicizing labor relations in the public sector to unprecedented levels.¹⁰² The reduction of public sector wages was thus construed as necessary to achieve internal devaluation and restore the deteriorated competitiveness of the Irish economy. The focus on reducing public sector pay arose also from the 'red lines' to the adjustment strategy set by the long-lasting alliance between government and key segments of the business sector – the MNC sector in particular.¹⁰³ The option of raising revenue by increasing taxation was firmly off the table as that would have incurred risks of

damaging Ireland's FDI-led accumulation model. The burden of adjustment was thus shifted onto the public sector, and the main policy objective became the reduction of the public sector wage bill, which domestic policymakers saw as the central mechanism through which markets and investors' confidence could be restored.¹⁰⁴

After suffering two unilateral wage cuts for public servants, between late 2009 and early 2010 public sector unions organized a one-day strike and various high profile work-to-rule events against the pay cuts. The prospect of widespread industrial unrest affecting key public services led the centrist Fianna Fail (FF)-Green government to value the prospect of having an agreement in place that could guarantee an orderly management of this crucial plank of retrenchment.

More than repercussions in public opinion, governmental actors feared the damage that industrial action could infer to the perceptions of the Irish economy among external investors and creditors. At this point in time (early 2010), interest rates on Irish bonds were growing due to contagion effects from the Greek crisis. In this context, the desire to project abroad a "good image" of the country and manage retrenchment orderly so as to set Ireland apart from other 'problematic' crisis countries became a strong driver for re-opening negotiations. The FF-Green government thus invited the unions to negotiate a bipartite public sector agreement that would allow for further fiscal consolidation without compulsory redundancies, what became known as the 'Croke Park' agreement (CPA), signed in May 2010.

CPA was a 'defensive' concession bargaining deal which conformed to the necessities imposed by the markets of stabilizing Irish public finances.¹⁰⁵ In short, unions agreed to guarantee industrial peace, and to collaborate in implementing a program of far-reaching public sector reforms to enhance productivity and reduce headcount, in exchange for a promise of no further pay cuts and no compulsory redundancies.¹⁰⁶ The overall scope for political exchange was very limited, as *de facto* ICTU and the public sector unions had to accept the pay cut that

had been carried out unilaterally a few months before, to secure a commitment that the same would not be done again in the future; alongside many other adverse concessions.¹⁰⁷ Extracting unions' consent required the government to incur substantive political costs – in terms of negotiation times and efforts, political capital and potential hands-tying in the form of future-oriented policy commitment. At the same time, both the long history of consensual public sector social partnership in Ireland *and* the potential high costs involved for unions in case of breach of the agreement's content contributed to making it a realistic signal, as it could reasonably be expected that unions would stick to their commitments.

Accordingly, the CPA agreement acquired a considerable signaling value vis-à-vis external audiences. In the words of a senior civil servant,

*“We all knew that we needed some process, that having industrial actions, strikes, lack of co-operation (...) will be damaging and will be dangerous. And obviously in this period we saw what was happening in Greece, Spain and Portugal, where there were economic problems (...) but also industrial relations problems and protests and disputes. So we thought the crisis here had enough dimensions without having an industrial relations, strike dimension to it as well.”*¹⁰⁸

In the government's view, industrial unrest had potentially negative impact on investors' perceptions, on which the Irish recovery was dependent.¹⁰⁹ Securing social peace by co-opting unions was thus seen as necessary to bolster external confidence and reassure the MNC sector that Ireland remained stable and open for business. In the words of a senior civil servant:

“The reaching of the Croke Park agreement and its successful balloting [...] was a fundamental building block to our subsequent recovery (...) the fact

that the Irish public service wasn't out demonstrating in the street every second week was a huge part of how we sold our recovery story to the world".¹¹⁰

Union leaders also echoed the government's view about the external value of social peace to shore up external credibility and thus re-launch conditions for growth.

"There was a huge merit vis-à-vis the international perception and the perception of the markets in stability and the understanding that these unions weren't going to launch a major attack [...] What we were trying to do is we're trying to convince the creditor countries and the markets that we weren't Greece, and we weren't Spain, and we weren't Portugal, and we weren't even Italy.".¹¹¹

The bipartite public sector agreements traded governmental commitments to refrain from compulsory redundancies and distribute wage cuts progressively with unions' consent to large-scale restructuring, prolonged wage freezes and industrial peace.¹¹² Through bipartite concertation, the government could maintain social peace during the imposition of heavy austerity, important to reassure creditors and investors; and implement public sector restructuring that would have been unachievable without union cooperation.

By itself, the negotiated implementation of public sector austerity was not sufficient to avoid a bailout. Ireland did indeed eventually enter into a MoU with the Troika in late 2010. However, even during the MoU, public sector bipartite concertation continued. The Croke Park Agreement (CPA) remained in place as the blueprint for the delivery of public sector savings, and gained the approval of Ireland's main creditors due to its effectiveness in delivering austerity. In the words of a senior union leader, *"the Troika came to a view very, very quickly*

*that Croke Park agreement is taking costs out of the public service, they said 'leave it alone... that's part of the system that's working'".*¹¹³

This external signaling function of social concertation was once again invoked in 2012-13 when the government needed to demonstrate its reform capacity to the creditors. Whilst the worst of the Eurozone sovereign debt crisis was arguably over from summer 2012, Ireland still faced a negative outlook, as the expected growth upswing had not materialized. This jeopardized government's capacity to deliver the MoU commitments on public spending reductions. A shortfall of around €1 billion in public finances put on the horizon a fresh round of public sector cuts to avert a second bailout. To avoid industrial unrest, the Fine Gael-Labor grand coalition government decided to pursue this adjustment through another agreement with the unions, to deliver savings of €300 million in 2013 and a total of €1 billion by end of 2015.

When the deal was first put to union members in May 2013, it was initially rejected, causing an upswing in the spread on Irish sovereign bonds (cf. Fig. 1) as market actors lost confidence in the government capacity to deliver austerity. Market pressures intensification heightened the government's resolve to conclude an agreement, which was eventually signed in July 2013 (the so-called 'Haddington Road' agreements - HRA). To cajole unions into acceptance, the government used the 'shadow of hierarchy', drawing up a legislative act which could have been used to alter wages and employment conditions unilaterally in case of agreement failure. In terms of content, HRA went further and deeper than CPA, as it included further pay cuts for higher earners, as well as across-the-board increases in working time and changes to pension allowances. Compulsory redundancies were avoided, but unions had to give up some of the limited gains extracted through CPA. Nonetheless, they obtained two significant concessions. First, the direct pay of those earning below €65,000 was protected in exchange for increases in working time, thus ensuring a partly progressive distribution of the pay cuts. Second, they were granted the possibility of opening an early renegotiation of the agreement

in case of early economic recovery – thus securing their future institutional power resources. Again, the ICTU’s public sector unions commitment to upholding social concertation and their ultimate acceptance of the unavoidability of the retrenchment effort contributed to making this costly agreement also realistic in terms of commitment to implementation.

The government’s choice to stick to the path of negotiated adjustment rather than using unilateralism, even when this would have been possible and perhaps more efficient, was motivated primarily by policymakers’ views about the instrumental value that concertation’s main output – i.e. industrial peace – could have in terms of increasing creditors and investor’s confidence in the Irish economy. A senior official from the Department of Expenditure and Reform (DPER) declared:

*“There were people within Finance who at this point were [saying]... why didn’t we just do it unilaterally, wouldn’t that be faster, wouldn’t it be simpler (...) So persuading them that the benefits of industrial peace were such to the country that it was really important that we try, that was an important part of that dialogue on our side of the fence”.*¹¹⁴

This dynamic illustrates the signaling value that concertation retained vis-à-vis external actors in those policy areas where the potential veto powers of unions against liberalization were high, and where policymakers saw concertation as an effective method to overcome them. This was not the case in other policy areas, such as labor market policy and welfare, where the veto powers of producer groups had weakened since the collapse of the social partnership framework. In these fields, governmental actors did not have incentives to activate visible concertation to reassure external actors about reform commitment, and therefore engaged only in limited ‘behind closed doors’ consultations.

To sum up, the Irish case shows that whilst governments might not *need* unions anymore¹¹⁵ to implement structural reforms under crisis conditions, under specific circumstances they may still *choose* to engage in political exchange with organized producer groups to carry out structural adjustment. As the domestic legitimating function of social concertation in Ireland had been exhausted, this bolsters the theoretical argument put forward: that governments' concerns around achieving external credibility and re-assuring market actors were crucial in motivating them to choose the route of negotiated adjustment in selected policy areas.

6. Discussion and conclusions

In this paper, I have put forward a novel theoretical argument to explain the new politics of social concertation at times of high market pressure. As it is well-established in the critical and international political economy literature¹¹⁶, under conditions of financialised globalisation, external economic and market actors act not only as *constraints* on domestic political dynamics, but also as *audiences* to which policymakers seek to send signals via their political choices. Bringing these insights into dialogue with corporatist theory,¹¹⁷ I have theorized and shown that in moments of high market pressures, different forms of interaction with organized producer groups – either visible social concertation or visible unilateralism – can also be used by governmental actors as costly *signals* to extract credibility and legitimation from external creditors, investors and international institution. By reconceptualizing the relationship between international economic pressures and domestic interest intermediation we can therefore make sense of patterns of social concertation in contemporary hard times that extant theories struggle to account for.

The argument has been illustrated with reference to patterns of social concertation in countries of the Eurozone periphery during the sovereign debt crisis of 2010-2014. Through

process tracing and original interview evidence, I have shown how the choices of Irish, Italian and Portuguese policymakers to implement key reforms through social concertation or visible unilateralism at moments of high market pressures were motivated by their intention to *reassure* international market actors, creditors and international institutions about the credibility of their reform commitments and to secure conducive conditions for capital accumulation by delivering liberalization, austerity and labor acquiescence. This external-facing, signaling ‘market reassuring’ function of domestic interest intermediation is a key dimension of the contemporary politics of social concertation, which extant theory has so far overlooked.

The article has put forward an original explanatory argument to account for policymakers’ choices about which mode of interest intermediation to pursue to send signals aimed at reassuring external market actors and IFIs during crisis times. I have shown that two broad sets of conditions interact in shaping governments’ choice of which signaling strategies will be both sufficiently costly and realistic to be credible in the eyes of external creditors: producer groups’ veto powers in a given policy area, and policymakers perceptions of the effectiveness of social concertation as a tool of reliable policy implementation. The case studies have shown how the combination of these factors – which have, in turn, several historical and policy-field contingent determinants – accounts for variation *across* countries, and *within* countries both *across* policy areas and *over time*. In policy areas where producer groups retained high veto powers that could act as obstacles to structural adjustment, governmental actors pursued visible negotiations as strategies of market reassurance if they had positive views of the effectiveness of social concertation in implementing reforms and facilitating liberalization, as this combination of conditions made social concertation both a costly and a realistic signal. Successful past historical legacies of social concertation, a substantive share of the labor movement being positively ideologically inclined towards compromise-making with

governments, and the presence of a minimal consensus among the negotiating parties about the thrust of the reforms all contributed to increase policymakers' perceptions of concertation as an effective tool of policy implementation, and thus as a credible signal. Policymakers instead privileged unilateralism if the veto powers of producer groups were high, but they deemed the overall effectiveness of social concertation for policy implementation to be low. This happened in policy areas where past concertation episodes had blocked or diluted liberalization attempts; where none or only a minority of unions were willing to cooperate with the government; and where no minimal consensus on policy reforms existed among the negotiating parties – all factors which reduced the credibility of social concertation as a realistic costly signal. Conversely, in policy fields where producer groups veto powers were low, and thus the costs incurred by visibly including or excluding them insignificant, governments had fewer incentives to initiate visible and politically costly interactions with them, and thus opted either for behind closed doors negotiations, or low-key unilateralism.

The article contributes to our understanding of the comparative politics of social concertation in two novel ways. First, it updates theories of social concertation and corporatism to the contemporary context of financialized globalization and EMU integration. Putting into focus the 'exogenously oriented', expressive function of social concertation for purposes of market reassurance allows us to understand the puzzling resilience of corporatist-like forms of policymaking, even in contexts where these could be easily bypassed or where their domestic political function for executives is exhausted. By highlighting how international market actors act as *audiences* from which governments seek to extract legitimation, the argument underscores the importance of taking seriously the inter-penetration of the domestic and international political economic spheres to fully understand the evolution of contemporary industrial relations dynamics. In this way, it contributes to a more fruitful integration between the two 'IR's of *industrial* and *international* relations and between international and

comparative political economy. At the same, the findings on the ‘signaling’ function of concertation cast a rather pessimistic light on its potential to meaningfully impact on the content of policy outputs at times of acute crisis.

Second, the article adds a novel dimension to the debate on the role of financial markets and exogenous policy conditionality in shaping domestic political choices.¹¹⁸ Indeed, the findings suggest that interactions with market actors and creditors impact not only on the *concrete* macro- and microeconomic policy choices that governments make, as extant literature has already highlighted, but also on *how* these are pursued, i.e. whether unilaterally or in concerted fashion. This previously overlooked insight has implications for our understanding of the determinants of the power of producer groups in domestic politics. Indeed, it suggests that the *perceptions* of the role of producer groups in reform processes, both by domestic policymakers and by external actors such as CRAs, creditors and investors, might matter as much as their ‘objective’ power resources in shaping their capacity to exercise political influence. This calls for a more in-depth examination of the factors that shape how unions and employer organizations are perceived in domestic public opinion, among domestic elites, and by international economic and market actors.

In terms of limitations, the present research design cannot ascertain whether external market actors and creditors actually pay attention to the signals that policymakers seek to send them by either excluding organized producer groups or getting them to subscribe macro-concessionary concertation agreements. Whilst the extant literature and available documentary evidence suggests that creditors and IFIs did not hold specific preferences about the dynamics of domestic policymaking, focusing instead on the actual *implementation* of structural reforms and austerity, whether or not they paid consistent attention *ex post* to the signals sent by governments should be explored in future research. For the purposes of the present argument, what matters is that governmental actors *expected* and acted in the conviction that concertation

or unilateralism might be useful to extract credibility from these external audiences. The fact that domestic policymakers acted with such external audiences in mind when choosing whether to engage or not in social concertation reinforces concerns around the reduced relevance of domestic democratic processes in shaping governmental action in contemporary Europe, and casts a doubtful light on the progressive potential of social dialogue and social pacts within the contemporary context of European political economy.

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