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Abstract

Why do governments facing economic and financial crises sometimes engage organised producer groups in policymaking through social concertation, and sometimes proceed unilaterally? This article argues that during financial crises, governments' choices to exclude or include unions and employers organisations from policymaking can be underpinned by a political objective overlooked by prior theory: reassuring the markets. In the contemporary era of financialised globalisation, indeed, 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 the intensity of exogenous economic pressures. Two factors shape policymakers' choices for either strategy of market reassurance: producer groups' veto powers in a policy area, and policymakers' views on the past legacies of social concertation as enablers or obstacles to liberalisation. The argument is substantiated through a comparative analysis of policymaking in Portugal, Italy, and Ireland during the Eurozone sovereign debt crisis (2010-2014), drawing on 81 qualitative interviews and in-depth process tracing.

Keywords

Financial crises, policymaking, social concertation, Eurozone sovereign debt crisis.

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Max Weber Fellow, 2019-2020

1. Introduction

From the oil shock of the 1970s to European Monetary Union (EMU) integration in the 1990s, theories of both 'classic' (cf. Katzenstein, 1985) and 'competitive' corporatism (cf. Rhodes, 2001) have consistently interpreted economic pressures arising from the international sphere as a key impetus for the emergence of cooperative behaviour in domestic policymaking between the state and the organised producer groups of capital and labour: a process commonly known as social concertation (Baccaro & Simoni, 2008).

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 liberalisation, 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 organisations to pursue liberalising reforms of labour market and welfare institutions (Tassinari & Donaghey, 2020). In many others, however, they explicitly and deliberately excluded unions and employers' organisations from the policy process, revendicating a centralisation of prerogatives in executives' hands which led some scholars to announce the 'death of social pacts' (Culpepper & Regan, 2014).

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 organised producer groups at the domestic level. Why, then, do governments subject to intense international economic pressures sometimes choose to visibly include unions and employers' organisations in the negotiation of crisis-responsive measures, and why in other cases do they opt to proceed unilaterally, visibly marginalising them from policymaking?

I argue that our understanding of the politics of social concertation in contemporary 'hard times' can be advanced by reconceptualising the role of international economic pressures in shaping domestic interest intermediation dynamics. Prior theory emphasised how international economic pressures act as *external constraints* that can engender cooperation between domestic actors as a pragmatic response to functional economic imperatives. In contrast, I argue that under conditions of financialization and deepened economic integration such as within the European Monetary Union (EMU), the international economic and financial sphere and its constitutive actors – creditors, credit rating agencies (CRAs), investors and international institutions vested with powers to influence countries' economic standing and creditworthiness – act not only as *constraints* on domestic policymakers' choices, but also as *audiences* with whom policymakers enter into a relational dynamic and to which they seek to send signals through domestic political choices.

Specifically, I contend 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. This external-facing, 'market reassuring' function of domestic interest intermediation dynamics, I claim, is a key dimension of the contemporary politics of social concertation during economic crisis, which extant theory has so far overlooked.

I 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: the potential veto powers that producer groups can exercise in a given policy area, and the effectiveness of prior instances of concertation in overcoming obstacles to liberalisation in that policy area. In policy areas where the potential veto powers of producer groups are high and past instances of social concertation were effective in facilitating liberalisation, policymakers are more inclined to consider negotiations with unions and employers a useful signal to increase the confidence of external market actors and creditors in reform implementation. Conversely, in policy areas where the veto powers of producer groups are high but past experiences of social concertation acted as hindrances or even blockages to liberalising structural reforms, governments are more prone to visibly marginalise organised producer groups from policymaking to reassure market actors and creditors about domestic reforms' capacity.

The paper substantiates its argument 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 structural reforms during the sovereign debt crisis, the three countries vary with regard to the involvement of organised producer groups in crisis-responsive policymaking. The paper employs theory-building process-tracing and draws on 81 qualitative interviews with policymakers and representatives of producer groups in the three countries to illustrate the theorised causal mechanisms and the conditions associated with policymakers' choices to activate or eschew concertation for the purposes of abating external pressures.

2. Exogenous pressures and social concertation in times of crisis

Why, and under what conditions, do governments visibly engage organised 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 labour markets. It helped governments both to achieve legitimation for their decisions, fulfilling an 'expressive' function (Traxler, 2010), and solve concrete policy problems and support capitalist accumulation, fulfilling an 'instrumental' function (ibid.).

Extant theory highlighted a common driver motivating governments to pursue structured and visible cooperation with organised producer groups: the presence of *exogenous economic pressures* arising from exposure to international market forces. As Katzenstein (1985) 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* (Rhodes, 2001) to explain the resurgence of social pacts in Western Europe in the 1990s. Globalisation and European integration were both highlighted as exogenous pressures incentivising policymakers to seek public compromises with labour and capital. In a functional-instrumental sense, neo-corporatist social pacts helped to deliver macro-economic stability and support accumulation by establishing a new wages-competitiveness nexus (Donaghey and Teague 2005). In an expressive sense, concertation functioned as a 'blame avoidance' strategy that weak governments pursued to activate non-parliamentary channels of legitimation (Baccaro & Lim, 2007), protect themselves from the electoral consequences of unpopular reforms (Hamann & Kelly, 2007), or pre-empt the domestic politicisation of controversial issues (Afonso, 2013, p. 45).

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. Here, growing current account deficits and difficulties in servicing sovereign debt led from mid-2010 to insurmountable pressures leveraged by financial markets and through the European economic governance framework for structural reforms aimed at internal devaluation and fiscal consolidation (Bulfone & Tassinari, 2020). In the face of these exogenous pressures, there were few, significant cases where governments chose to tackle structural adjustment through concertation with organised producer groups. Notable examples include Ireland, where bipartite public sector austerity agreements were concluded in 2010 and 2012, and Portugal, where two tripartite social concertation agreements over labour market reforms were signed in 2011 and 2012 (Tassinari & Donaghey, 2020, pp. 130–133).

In many other cases, however, the ‘crisis corporatist’ arrangements of the first crisis phase (Urban, 2012) collapsed, giving way to unilateral policymaking. Instances of unilateralism were observed in Italy (cf. Culpepper, 2014), Greece (Voskeritsian et al., 2017), Spain (Cioffi & Dubin, 2016), Ireland (Regan, 2012) and Portugal (Luque Balbona & González Begega, 2015). In light of this, some scholars prominently argued that the Great Recession marked the ‘death of social pacts’ (Culpepper & Regan, 2014).

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 emphasises how the *scale and depth of adjustment* required to face the crisis were too large for unions to internalise them (Regan, 2012; Luque Balbona & González Begega, 2015); and how governments facing fiscal crisis lacked both time and fiscal space to negotiate with organised producer groups and compensate them for their consent to painful reforms (Papadakis & Ghellab, 2014, p. 3).

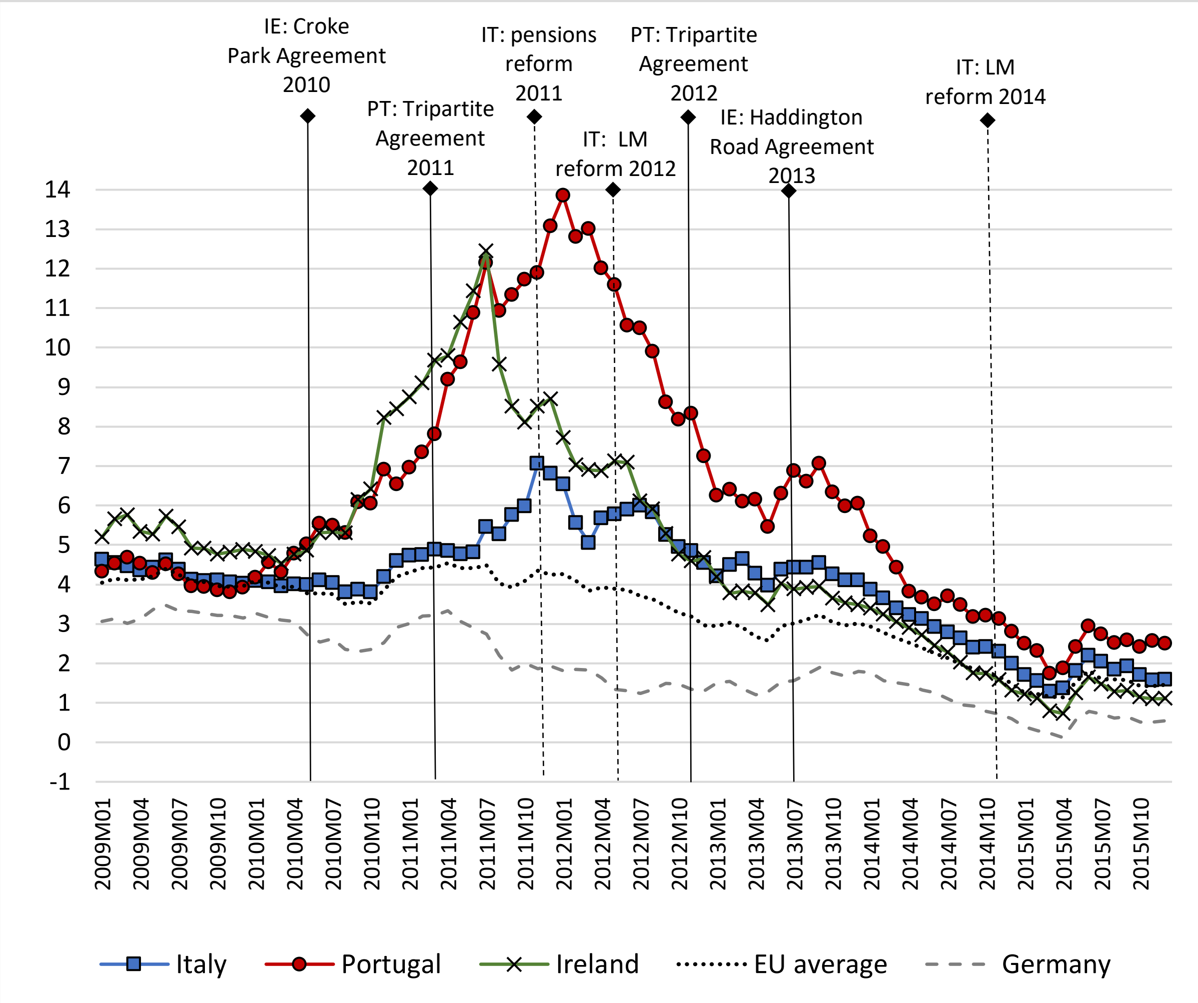
A second highlights *increased executive autonomy* arising from exogenous policy conditionality. Identified as conditions *reducing* government incentives to include organised producer groups in domestic policymaking in the crisis conjuncture are: the concentration of power in Prime Minister’s Offices or Financial Ministries, which came to act as gate-keepers vis-á-vis international financial institutions (Guillén & Pavolini, 2015); governments’ ability to use ‘there is no alternative’ legitimation strategies to justify retrenchment (de la Porte & Heins, 2015); and the opportunity for governments to play two-level games by moving the arena of negotiation to the European sphere (Moury & Standring, 2017).

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 (2014) argue, governments of crisis-struck countries no longer *needed* to include unions in policymaking to legitimise reforms in crisis times, as the costs these could impose were too low to warrant reaching compromises.

These arguments, whilst insightful, are unable to 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.

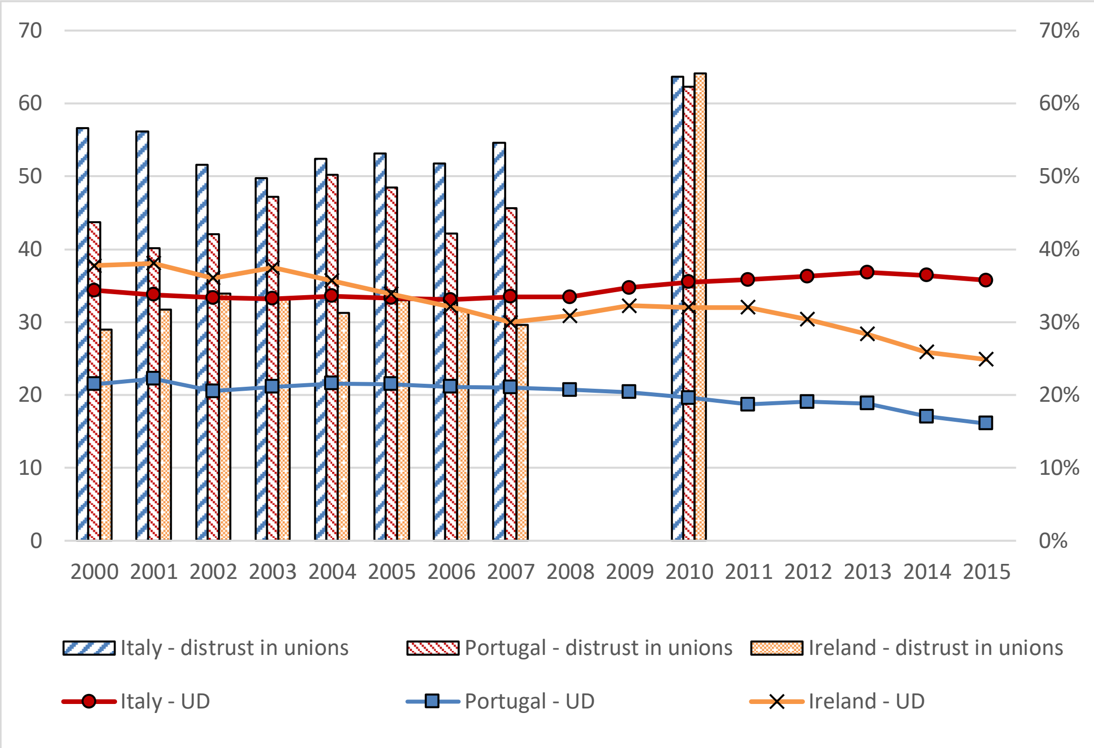
Let us take three cases at the epicentre of the sovereign debt crisis – Italy, Ireland and Portugal – as illustrative examples. Over 2010-2012, instances of crisis-responsive negotiated adjustment took place in Portugal and Ireland, where exogenous conditionality was highest – i.e. a Memorandum of Understanding with the Troika was in place – and economic ‘problem pressure’ as captured by interest rates on government bonds (cf. Figure 1) most intense. This 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. Conversely, 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.

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.

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. [1]

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. 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 intermediation as a signal to external actors

My main claim is that our understanding of the politics of social concertation in contemporary hard times can be advanced by re-conceptualising how international economic and market pressures shape dynamics of domestic interest intermediation. As recalled above, extant theories of corporatism emphasise 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 organised 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 legitimation challenges, yet *external* to the dynamics of interest intermediation themselves.

These accounts disregard how the international and domestic spheres have become increasingly interconnected under contemporary conditions of financialization and globalisation (Roos, 2019, pp.

[1] Data retrieved from the European Commission: http://ec.europa.eu/commfrontoffice/publicopinion/index.cfm/Chart/getChart/chartType/gridChart//themeKy/18/groupKy/96/savFile/201). The question on union trust was no longer asked in the Eurobarometer after 2010 and until 2018.

12–15). 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 vis-à-vis a range of actors constitutive of the international economic-financial sphere which evaluate national policies and politics (Barta & Johnston, 2018; Mosley, 2003) and are equipped with political and structural power to discipline states and influence their policy choices (Fraser, 2015, p. 176). 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 (Guardiancich & Guidi, 2020).

These 'external' actors include, first, *external creditors* – both private finance capital actors and official lenders such as international financial institutions, which have the capacity to withhold borrowing lines (Roos, 2019) or alter through their pricing and purchasing behaviours the risk attached to sovereign bonds in bond markets by applying higher interest rate premia (Mosley, 2003; Woll, 2016). 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 (Barta & Johnston, 2018). Third, *supranational organisations 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 (Mosley, 2003; Paudyn, 2013; Woodruff, 2016), with potentially adverse consequences in cases where external credibility deteriorates (Streeck, 2014, p. 171). 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 power (Bulfone & Tassinari, 2020; Culpepper, 2010) over governments' policy decisions.

The core argument I put forward is that at times of high market pressures, these external actors act not only as *constraints* on domestic policymakers' choices, shaping timing or content of reforms (cf. Mosley 2003; Guardiancich and Guidi 2020). 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.

The choice of *how* to carry out reforms is 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 organised 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 credibility vis-à-vis external stakeholders and creditors.

In principle, both social concertation and unilateralism could be used to generate credibility vis-à-vis external actors. Visible concertation could generate credibility around government's capacity to implement reforms and secure a predictable investment environment, by securing labour acquiescence and domestic social stability. Unilateralism might however also be useful to gain credibility vis-à-vis creditors and investors, by signalling governmental commitment to the implementation of 'difficult' reforms regardless of domestic opposition, and willingness to discipline organised labour in line with the requirements of external investors and creditors.

Under what conditions, then, do governments opt for concertation or for unilateralism to pursue 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 organised producer groups to credibly act as veto powers* in a given policy area; second, policymakers' evaluations of the *past legacies of concertation* as *facilitators* or *obstacles* to liberalisation efforts.

First, *unions and employers' capacity to credibly act as veto powers in a policy area* shape policymakers' views of the 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 (Hassid et al., 2007). To visibly marginalise powerful producer groups, or to obtain their consent to difficult reforms, governments must indeed incur political costs which make the effort symbolically 'worth it' and useful to extract external credibility. 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. Accordingly, I theorise that 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.

Organised producer groups veto powers' capacity in a given policy field depends on various factors (Ebbinghaus, 2011). First, unions and employers can act as veto powers by leveraging credible threats of withdrawal of societal consent. This depends on the density and legitimacy they enjoy among constituencies affected by relevant reforms. 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 (Busemeyer & Thelen, 2020; Ebbinghaus, 2011; Emmenegger, 2014). 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, *past legacies of social concertation* matter as they shape policymakers' views about concertation's effectiveness in achieving the desired market-reassuring goals. In policy spheres where past instances of social concertation have been effective in facilitating liberalisation, 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, governments are more prone to opt to visibly marginalise organised producer groups from the policymaking process to reassure market actors and creditors about domestic reform capacity. In the case studies, policy areas where concertation agreements in the previous two decades had facilitated liberalisation and retrenchment

I theorise that these two factors interact to shape governments' choices for concertation or unilateralism at times of high market pressures according to the two-by-two matrix below (Table 1). Accordingly, social concertation is used as a strategy of market reassurance in policy areas where the potential veto powers of organised producer groups are high and past experiences of social concertation have facilitated liberalisation (quadrant I). Conversely, if veto powers are high but past experiences of social concertation are negatively perceived as having hindered liberalisation, 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 signalling purposes. Consequently, I theorise that they will either opt for 'quiet' forms of interest intermediation – i.e. proceed through behind-closed-doors negotiations – or implement measures without consultation, but without seeking visible political conflict as a strategy of external credit claiming (quadrants III and IV).

Table 1 Policymakers' perceptions of concertation legacies, producer groups' veto powers, and corresponding interest intermediation strategies

	HIGH VETO POWERS	**LOW VETO POWERS**
'POSITIVE' LEGACIES	Social concertation (I)	'Quiet' intermediation (III)
'NEGATIVE' LEGACIES	Visible unilateralism (II)	'Quiet' intermediation or unilateralism (IV)

Source: own elaboration

4. Case selection, data and methods

To test the argument, I employ a comparative case study design, following a 'most similar' systems case selection logic (Ragin, 1982). I compare dynamics of domestic interest intermediation during the Eurozone sovereign debt crisis (2010-2014) in three crisis-struck countries, Italy, Portugal and Ireland, which faced comparably strong exogenous pressures for structural reforms and fiscal consolidation, but display variation in the dependent variable, i.e. occurrence of social concertation during the crisis.

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 (see Figure 1). These pressures made refinancing sovereign debt increasingly difficult and, by making repayments more costly, unleashed self-fulfilling predictions of debt unsustainability (Woodruff, 2016, p. 93). 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 to avoid a sovereign default. Their Memoranda of Understanding (MoU) came with detailed conditionality for fiscal consolidation and structural liberalising reforms in several fields including labour 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 destabilising effects for the whole Eurozone. Consequently, in summer 2011 Italy became subject to 'implicit conditionality' (Sacchi, 2015): 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. 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 (Avdagic et al., 2011). They are thus theoretically well-suited to investigate the contemporary politics of concertation against a background of comparable historical legacies.

The analysis focuses on policymaking dynamics in three fields: labour market policy, industrial relations and pensions policy. These are central to the material and distributive interests of unions and employers' organisations, 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 centre of concertation processes in the 1990s. This maximises the scope for comparability with prior insights on social concertation.

The paper triangulates several qualitative sources: newspaper articles, primary documentary sources, and 81 qualitative semi-structured interviews conducted by the author with government officials, representatives of unions and employers' organisations over 2017-2018 (details in Appendix).

To operationalise 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. 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' organisations which resulted in concrete and public trade-offs over policy options); instances of *visible unilateralism,* where governments explicitly excluded unions and/or employers' organisations 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 operationalisation of the independent variables, unions and employers' organisations are classified as having 'high' veto power capacities in a policy area if they enjoy either the potential to cause disruption (arising from high density and legitimacy) or institutional power (arising from involvement in governance), and if they have not entered prior binding commitments to compliance with governments' reform plans. I operationalise past legacies of social concertation as 'positive' or 'negative' – in policymakers' views – if concertation agreements in the prior two decades facilitated or hindered liberalising (Baccaro & Howell 2017) reforms. In particular, if past concertation agreements did not extract significant concessions for producer groups that changed the government's original liberalising reform plans in the direction of dualization or re-regulation, they are considered as 'positive', liberalisation enhancing legacies; if they instead involved de-liberalising concessions to producer groups, they are classified as instances of 'negative', liberalisation-obstructive legacies.

I then employ qualitative case study methods, applying theory-building inductive process tracing (Falleti, 2016), 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"* (Trampusch & Palier, 2016, p. 9), attaching special importance to understanding the causal *processes* linking determinants to outcomes.

In the case studies, I substantiate empirically my theorised 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 2) 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.[2] In Italy, all major labour market and pensions reforms over 2010-2014 were implemented *without* formal negotiations with unions and employers' organisations. Producer groups were either visibly marginalised from the policy process, or at best involved through 'behind closed doors' consultations. Conversely, in Portugal and Ireland, cabinets relied repeatedly on public, formalised concertation agreements to undertake structural adjustment. In Portugal, two substantive tripartite concertation agreements were concluded in 2011 and 2012 about the content of labour 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.

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 summarised in the matrix in Table 1.

Table 2 Variation in domestic interest intermediation dynamics

	HIGH VETO POWERS	**LOW VETO POWERS**
POSITIVE LEGACIES	Social concertation (I) *Portugal: labour market policy (2011-2012)* *Ireland: public sector industrial relations*	'Quiet' interest intermediation (III) *Portugal: labour market policy (2013-2014)*
NEGATIVE LEGACIES	Visible unilateralism (II) *Italy: LMP, industrial relations and pensions* *Portugal: industrial relations*	'Quiet' interest intermediation (IV) *Ireland: LMP and pensions*

[2] Full results of the reforms classification analysis are reported in the Appendix (Table A1).

Portugal: reassuring the markets through social concertation

The Portuguese case illustrates the mechanisms leading to the occasional use of visible social concertation as a signalling strategy to abate high market pressures.

Portugal presents a peculiar configuration of organised producer groups' veto powers and historical legacies of concertation. The 1974 revolutionary transition to democracy had left strong pro-labour 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 (Watson, 2015). 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). The ability to inflict heavy political costs on the government via strikes and mobilisations made CGTP a potential veto power against liberalisation, especially in employment protection and industrial relations regulation. On the other hand, the main political parties, the centre-right PSD and centre-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.

To manage the tensions arising from this divided left, Portuguese centrist political forces relied extensively over the 1980s-1990s on social concertation to secure political stability, circumvent the left's potential opposition to reforms, and facilitate adjustment to European integration. Between 1986-2008, twenty tripartite agreements were concluded with the four employers' confederations and UGT, easing the implementation of several liberalizing reforms both in welfare and labour market policy (Campos Lima & Naumann, 2011). Concertation remained well-regarded among both centre-left and centre-right parties for its stabilizing political function and its capacity to facilitate policy liberalization.

The combination of high potential union veto powers and 'positive' legacies of concertation as a facilitator of liberalisation 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 theorised mechanisms at play in two key episodes.

First, in 2011, the centre-left 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 organised 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 recognised 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' organisations and of the moderate union confederation, UGT.[3] The agreement expressed the signatories' commitment to implement far-reaching, liberalising structural reforms of labour markets and industrial relations to increase economic competitiveness.

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

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[3] *Acordo Tripartido Para a Competitividade e Emprego* (Tripartite Agreement for Competitiveness and Employment), accessed at: http://www.ces.pt/storage/app/uploads/public/58b/f17/f4e/58bf17f4edc0b556660321.pdf.

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.[4]

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 centre-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 had an ideological orientation broadly aligned with the liberalisation 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' signalling 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 jeopardises 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 jeopardised 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*" (IMF, 2011). 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 the concertation path, brokering a new agreement with UGT and the employers' confederations in January 2012.[5] This was meant to act as a blueprint to implement the major labour market measures foreseen by the MoU, which included liberalisation of dismissal protection and changes to collective bargaining to achieve greater 'flexibility' in wage-setting. According to government executives, conjugating politically costly liberalisation with social peace by securing the consent of a major union to harsh reforms was important to gain credibility vis-à-vis creditors, by signalling domestic responsibility and 'ownership' of the adjustment programme.

First, according to government interviewees, managing to get at least one union to make the "impossible choice" of agreeing to such far-reaching liberalisation was in itself a hard task for the government to accomplish. The success in delivering this 'costly signal' could thus enhance the

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[4] Interview with UGT Deputy General Secretary, November 2017.

[5] *Compromisso para o Crescimento, Competitividade e o Emprego* (Compromise for Growth, Competitiveness and Employment), accessed at: http://www.ces.pt/storage/app/uploads/public/58b/f17/f57/58bf17f573aeb017446575.pdf.

government's external political credibility, whilst signalling 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 labour law of this kind… So when we managed, many in Brussels were very positively surprised…[6]

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 then 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.[7]

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.[8]

In line with my theoretical argument, 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 liberalisation. Variation over time in policymaking dynamics in the sphere of labour market policy illustrates the theorised connection. Indeed, after the January 2012 agreement had been concluded and interest rates on Portuguese sovereign bonds started declining, the centre-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 (Branco & Cardoso, 2020). 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 mobilisations 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 governments to send 'costly' 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 a mechanism that could facilitate liberalisation in the sphere of labour market policy and EPL reform, given historical precedents of similar 'successes'.

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[6] Interview with former President of the Economic and Social Council (*Conselho Economico e Social)*, November 2017.

[7] Interview with PSD MP and former State Secretary for Employment (2013-14), November 2017.

[8] PT-EO1.

Italy: unilateralism as a strategy of market signalling

Conversely, Italy exemplifies a case where 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* labour 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 (cf. Emmenegger, 2015).

Past legacies of concertation were contested. Social concertation had, historically, been sporadic and coincident with periods of economic uncertainty or political turmoil (cf. Baccaro & Lim, 2007). 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 (Regini & Colombo, 2011). After this period, concertation did not become institutionalized but remained dependent on governmental weakness, thus becoming associated with scenarios of political instability.

In labour market policy, the 1990s tripartite agreements were routinely identified in public discourse as responsible for having impeded far-reaching liberalisation, 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 lacklustre economic performance"*(Molina & Rhodes, 2007, p. 804).

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 market (Sacchi, 2015). The requests – liberalisation of EPL for open-ended contracts, pensions retrenchment and decentralisation of collective bargaining to firm level - encountered resistance from the unions and, for what concerns collective bargaining, also from employer organisations (Bulfone & Afonso, 2020).

The centre-right Berlusconi government sought to broker a compromise formulation to avoid upsetting employers, but when this was not forthcoming, eventually decided to proceed unilaterally. In August 2011, it implemented an emergency austerity budget (Decree-Law 148/2011) that included a significant decentralising 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.[9] 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

[9] Interview with former Italian Ministry of Labour in the Berlusconi government (2008-2011), July 2018, Rome.

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*’ (Corriere della Sera, 2012). 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 early1990s. Although passing the reform was in itself considered crucial to abate market pressures, the *process* of unilateral policymaking had also important signalling value. Senior cabinet members declared that marginalising 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….[10]

The second episode dates to early 2012, when PM Monti moved on to tackle the issue of labour market liberalisation 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 opposition (Rutherford & Frangi, 2016) and frequently highlighted by international institutions as a cause of Italy’s lacklustre employment performance.

Initially, the government attempted consulting unions and employers’ organisations 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 liberalisation, before embarking on a trip to China with the aim of attracting prospective investors to Italy (La Repubblica, 2012).[11] Ahead of a crucial European summit in June 2012, as the spread on Italian government bonds had once again jumped up (figure 1), he 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 signalling value. Indeed, even though the two moderate unions (CISL and UIL) 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 useful to acquire legitimacy vis-à- vis both domestic public opinion and, crucially, financial markets and European institutions. As stated by the then Ministry of Labour:

> 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.[12]

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:

[10] Interview with PD Member of Parliament, February 2017.

[11] As confirmed by several interviewees: IT-GOV1, IT-GOV3, IT-TU7; IT-TU10.

[12] Interview with former Labour minister, Monti government, March 2017.

> 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. (Wall Street Journal, 2012a).

When the cabinet had to then 'water down' the deregulatory reach of the reform as a result of pressure from the centre-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 (Fornero, 2013; Sacchi, 2018).

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 (European Commission, 2014). Achieving progress in structural labour 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 (Picot & Tassinari, 2015).

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.[13]

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 groups (Molina & Rhodes, 2007), and Renzi's capacity to marginalise union opposition hailed by international commentators as "*the ultimate test of his credibility*" (Financial Times, 2014). Hence, even if the moderate union CISL was willing to start public dialogue with the government on the content of the labour market reform, the cabinet decided not to involve them formally.[14] 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 (Picot and Tassinari, 2015).

The dynamics of interest intermediation in Italy during the sovereign debt crisis show how the visible exclusion of organised 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 liberalisation, meant that governments of all partisan orientations became convinced that they could gain credibility vis-à-vis external actors by excluding the social partners. The exclusion of organised producer groups, in short, was a 'costly signal' sent to international market actors and creditors about the government's seriousness to tackle the crisis and discipline labour.

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[13] Interview with former Secretary to the Council of Ministers, Renzi government, April 2017.

[14] As a former PdL MP said in interview with the author: "*At the time, CISL and UIL tried to say don't treat everyone in the same way, we are not the same, there are trade unions which are ready to do certain things… but Renzi never considered this.*"

Ireland: preserving concertation for external eyes only

The Irish case represents a hard test for my argument, as it shows how the *external,* signalling 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' (cf. Culpepper and Regan 2014), bipartite concertation between unions and the state continued being used in the sphere of public sector industrial relations throughout the crisis (Tassinari & Donaghey, 2020). In other fields, such as labour 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 legacies 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 (Teague & Donaghey, 2015). 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 (Teague & Donaghey, 2015). 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".*[15]

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 liberalisation. This instrumental function of social concertation, therefore, was still valued by Irish policymakers as pragmatically valuable.

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 (Maccarrone et al., 2019). The overall density of Irish unions, organized under the umbrella confederation ICTU, had declined in the pre-crisis decade (Fig. 4), 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 labour market and welfare policy since were implemented without visible negotiations. However, bipartite concertation between governments and unions remained alive in the public sector. After suffering two unilateral wage cuts for public servants, between late 2009 and early 2010 public sector unions organised 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 retrenchment.

More than repercussions in public opinion, governmental actors feared the damage that industrial action could make 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

[15] IE-GOV1. This same formulation was used in the popular press from mid-2009 onwards (cf. Ruddock, 2009)

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, signed in May 2010. 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..[16]

In the government's view, industrial unrest had potentially negative impact on investors' perceptions, on which the Irish recovery was dependent (Brazys & Regan, 2017). 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.[17]

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..[18]

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 (MacCarthaigh, 2017). 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. 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*'".[19]

This external signalling 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 materialised. This jeopardized government's capacity to deliver the MoU commitments on public spending reductions. A shortfall of around €1 billion in

[16] IE-GOV2.

[17] IE-GOV3.

[18] IE-TU4.

[19] IE-TU3.

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-Labour grand coalition government decided to pursue this adjustment through another agreement with the unions. 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). 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.

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.[20]

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 liberalisation 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 labour 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 anymore (Culpepper & Regan, 2014) to implement structural reforms under crisis conditions, under specific circumstances they may still *choose* to engage in political exchange with organised 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. Bringing together insights from corporatist theory (cf. Katzenstein, 1985; Rhodes, 2001) and critical political economy (cf. Streeck 2013; Fraser 2015; Roos 2019), I have argued that 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. Accordingly, in moments of high market pressures, different forms of interaction with organised producer groups – either visible social concertation or visible unilateralism – can be used by governmental actors as *signals* to extract credibility and legitimation from external creditors, investors and international institution. By reconceptualising 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

[20] IE-GOV5.

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 secure conducive conditions for capital accumulation by delivering liberalisation, austerity and labour acquiescence. This external-facing, signalling '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.

Building on this core insight, I identified two conditions that shape policymakers' choices about which mode of interest intermediation to pursue to reassure external actors: producer groups' veto powers in a given policy area, and policymakers perceptions of the effectiveness of past legacies of social concertation as enabler or obstacle to liberalisation. The combination of these factors 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 legacies of social concertation as effective to facilitate liberalisation; and instead privileged unilateralism if they perceived prior experiences of concertation as problematic blockages to liberalisation. Conversely, in policy fields where producer groups veto powers were low, 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 financialised globalisation 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 'signalling' 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 (cf. Mosley 2003; Sacchi 2015; Barta and Johnston 2018; Mosley et al. 2020; Guardiancich and Guidi 2020). 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 organisations 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. This should be explored in future research. For the purposes of the present argument, what matters is that governmental actors *believed* 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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Appendix A

Table A1 Categorisation of reform processes in case study countries, 2010-2014

Country	**Negotiated reforms (social concertation) (I)**	**Visible unilateralism (II)**	**'Quiet' interest intermediation (III/IV)**
Italy	/	2011, Art. 8, D.L. 138/2011 (collective bargaining decentralisation) IT5: 12/2011, L.201/2011 (Fornero Pensions reform) IT7: 2013, D.L. 76/2013 (Fixed-term contracts liberalisation) IT8: 06/2014 Law. 78/2014 (Poletti decree) IT9: 12/2014 Law 183/2014 (Jobs Act delegation law)	IT1: 12/2008, D.L. 185/2008, Anti-crisis decree (STW expansion) IT2: 2010, L. 183/2010 (Collegato Lavoro)
Portugal	2011: Tripartite agreement for Competitiveness and Employment (*Acordo Tripartido Para a Competitividade e Emprego)* 2012, Tripartite Compromise for Growth, Competitiveness and Employment (*Compromisso para o Crescimento, Competitividade e o Emprego)*	07/2011, Lei 49/2011 (Taxation of Xmas allowance) PT10: 09/2011, Lei 53/2011 (Reduction of severance pay) PT11: 10/2011 State Budget 2012 (non-remunerated working time increase) PT13: 03/2012, D.L. 64/2012 (Unemployment benefits reduction) PT14: Lei No. 23/2012 (LMP reform) PT15: Resolution of Council of Ministers 90/2012 (restrictions on extension of CBAs) PT16: Lei no. 69/2013 (reduction of severance payment for new hires PT17: Lei 27/2014 (EPL deregulation for open-ended contracts)	2010 Employment and Investment Initiative (*Iniciativa Investimento e Emprego)* 2010, D.L. 5/2010 (increase in National Minimum Wage) PT18: Lei 55/2014 (alterations on duration and validity of CBAs)

Ireland	2010 “Croke Park” Agreement (Public Service Agreement 2010-2012) 2013 Public Service Stability Agreement 2013–2016 (Haddington Road Public Sector agreement)	2009 FEMPI (Pensions Levy) 2010 Unemployment benefit cuts (Budget 2011) 2012 Action Plan for Jobs 2012 Pathways to Work (ALMP)	2011 Social Welfare and Pensions Act (increase in pensionable age and unemployment benefits system; reversal of minimum wage cut) 2012 Industrial Relations Amendments Act

Source: own elaboration

Appendix B - list of interviewees by country

Italy

Country	Interviewee code	Category of interviewee	Role of interviewee	Date of interview	Place of interview
IT	GOV1	Policymaker	Former Deputy Minister of Labour, Monti government	14/2/2017	Rome, Italy
IT	GOV2	Policymaker	Policy adviser I, Renzi government	03/2017	Milan, Italy
IT	GOV3	Policymaker	Former Minister of Labour, Monti government	03/2017	Turin, Italy
IT	GOV4	Policymaker	Former MP, PdL	04/ 2017	Bologna, Italy
IT	GOV5	Policymaker	Government chief of staff and policy adviser, Renzi government	04/ 2017	Milan, Italy
IT	GOV6	Policymaker	MP, PD	03/ 2017	Email correspondence
IT	GOV7	Policymaker	Policy adviser II, Renzi government	05/ 2017	Rome, Italy
IT	GOV8	Policymaker	Policy adviser III, Renzi government	07/ 2018	Rome, Italy
IT	GOV9	Policymaker	Former Minister of Labour, Berlusconi government	07/ 2018	Rome, Italy
IT	GOV10	Policymaker	Government chief of staff and policy adviser, Renzi government (repeat interview)	09/ 2018	Milan, Italy
IT	TU1	Trade unionist	UIL National Confederal Secretary	02/ 2017	Rome, Italy
IT	TU2	Trade unionist	CGIL National Confederal Secretary I	02/ 2017	Rome, Italy
IT	TU3	Trade unionist	USB National Executive Member	02/ 2017	Bologna, Italy
IT	TU4	Trade unionist	CGIL Regional Confederal Secretary, Emilia Romagna	04/ 2017	Bologna, Italy
IT	TU5	Trade unionist	CGIL policy officer	04/ 2017	Rome, Italy
IT	TU6	Trade unionist	CISL National Confederal Secretary	04/ 2017	Rome, Italy
IT	TU7	Trade unionist	UIL former General Secretary	04/ 2017	Rome, Italy
IT	TU8	Trade unionist	CGIL National Confederal Secretary I	07/ 2018	Rome, Italy

			(repeat interview)		
IT	TU9	Trade unionist	CISL former National Confederal Secretary	07/ 2018	Vicenza, Italy
IT	TU10	Trade unionist	CGIL former national Confederal Secretary II	07/ 2018	Rome, Italy
IT	TU11	Trade unionist	UIL former national confederal secretary	07/ 2018	Rome, Italy
IT	TU12	Trade unionist	CGIL General Secretary	09/ 2018	Rome, Italy
IT	EO1	EO representative	Confindustria Director of Industrial Relations	02/ 2017	Rome, Italy
IT	EO2	EO representative	CNA Industrial Relations Officer	04/ 2017	Rome, Italy
IT	EO3	EO representative	Confartigianato, Director of Industrial Relations	04/ 2017	Rome, Italy
IT	EO4	EO representative	Rete Imprese, Director	04/ 2017	Rome, Italy
IT	EO5	EO representative	Confindustria, Director of Industrial Relations (repeat interview)	07/ 2018	Rome, Italy
IT	EXP1	Expert	Industrial relations expert (il Diario del Lavoro)	02/ 2017	Rome, Italy
IT	EXP2	Expert	Industrial relations scholar (University of Rome)	03/ 2017	Rome, Italy
IT	EXP3	Expert	Industrial relations scholar (University of Milan)	03/ 2017	Milan, Italy
IT	EXP4	Expert	Industrial relations scholar (University of Trieste)	03/ 2017	Treviso, Italy

Portugal

Country	Interviewee code	Category of interviewee	Role of interviewee	Date of interview	Place of interview
PT	GOV1	Policymaker	President of Economic and Social Council	7/2017	Lisbon, Portugal
PT	GOV2	Policymaker	Former President of Economic and Social Council	11/2017	Lisbon, Portugal
PT	GOV3	Policymaker	Former Secretary of State for Employment I, Passos-Coelho government	11/2017	Lisbon, Portugal
PT	GOV4	Policymaker	Former Secretary of State for Employment II (Passos Coelho government) and PSD MP	11/2017	Lisbon, Portugal
PT	GOV5	Policymaker	PSOE MP and labour and employment policy chief	11/2017	Lisbon, Portugal
PT	GOV6	Policymaker	PSOE MP and former UGT official	11/2017	Lisbon, Portugal
PT	GOV7	Party official	Bloco de Esquerda labour and employment policy chief	11/2017	Lisbon, Portugal
PT	TU1	Trade unionist	UGT former General Secretary	11/2017	Lisbon, Portugal
PT	TU2	Trade unionist	UGT deputy General Secretary	11/2017	Lisbon, Portugal
PT	TU3	Trade unionist	UGT national confederal Secretary (EU Relations)	11/2017	Lisbon, Portugal
PT	TU4	Trade unionist	UGT national confederal secretary (labour and employment policy)	11/2017	Lisbon, Portugal
PT	TU5	Trade unionist	CGTP former General Secretary	11/2017	Lisbon, Portugal

PT	TU6	Trade unionist	CGTP General Secretary	11/2017	Lisbon, Portugal
PT	TU7	Trade unionist	CGTP Service Sector Federation General Secretary	11/2017	Lisbon, Portugal
PT	EO1	EO representative	CIP Director of Industrial Relations	7/2017	Lisbon, Portugal
PT	EO2	EO representative	CCP deputy Director	11/2017	Lisbon, Portugal
PT	EO3	EO representative	CCP chief of Staff,	11/2017	Lisbon, Portugal
PT	EO4	EO representative	CTP director of Labour Relations (email interview)	12/2017	Email correspondence
PT	EXP1	Expert	Researcher, Friedrich Ebert Stiftung, Portugal	7/2017	Lisbon, Portugal
PT	EXP2	Expert	Industrial relations scholar, ISCTE-IUL	7/2017	Lisbon, Portugal

Ireland

Country	Interviewee code	Category of interviewee	Role of interviewee	Date of interview	Place of interview
IE	GOV1	Policymaker	Director, National Economic and Social Council	1/2017	Dublin, Ireland
IE	GOV2	Policymaker	Secretary General, Department for Public Expenditure and Reform	1/2018	Dublin, Ireland
IE	GOV3	Policymaker	Senior official (former) Department for Public Expenditure and Reform	1/2018	Dublin, Ireland
IE	GOV4	Policymaker	Labour Party MP and former Minister of Labour (FG-Labour government)	2/2018	Dublin, Ireland
IE	GOV5	Policymaker	Former Secretary General, Department of the Taoiseach	2/2018	Dublin, Ireland
IE	TU1	Trade unionist	Industrial Officer, ICTU	1/2017	Dublin, Ireland
IE	TU2	Trade unionist	Former ICTU General Secretary	1/2018	Dublin, Ireland
IE	TU3	Trade unionist	General Secretary, IMPACT/Fórsa	1/2018	Dublin, Ireland
IE	TU4	Trade unionist	Former General Secretary, SIPTU	1/2018	Dublin, Ireland
IE	TU5	Trade unionist	Senior Officer, UNITE	1/2018	Dublin, Ireland
IE	TU6	Trade unionist	General Secretary, ICTU	1/2018	Dublin, Ireland
IE	TU7	Trade unionist	General Secretary, INTO & President, ICTU	1/2018	Dublin, Ireland
IE	EO1	EO representative	IBEC Director of Policy and Public Affairs	1/2017	Dublin, Ireland
IE	EO2	EO representative	IBEC former Director General	1/2018	Dublin, Ireland
IE	EO3	EO representative	IBEC former Director of HR & IR	2/2018	Dublin, Ireland
IE	EO4	EO representative	IBEC Chief Executive	2/2018	Dublin,

					Ireland
IE	EO5	EO representative	Public Affairs Director, American Chamber of Commerce Ireland	2/2018	Dublin, Ireland
IE	EXP1	Expert	Industrial relations expert (IRN)	2/2017	London, UK
IE	EXP2	Expert	Industrial relations scholar (UCD)	1/2017	Dublin, Ireland
IE	EXP3	Expert	Think thank director (Social Justice Ireland)	1/2017	Dublin, Ireland
IE	EXP4	Expert	Labour sociology scholar (UCD)	2/2018	Dublin, Ireland
IE	EXP5	Expert	Industrial relations expert (IRN, repeat interview)	2/2018	Dublin, Ireland

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