The politics of change
Labour market reforms during the sovereign debt crisis
in Portugal

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Abstract

The changes to the Portuguese labour market during the sovereign debt crisis were substantial and unprecedented. In the years from 2011 to 2014 all dimensions of Portugal’s labour legislation were liberalized, markedly so for insiders. Such trend was not, however, accompanied by an attempt to recalibrate a chronically segmented labour market.

This paper finds that this outcome – liberalization with enduring dualism, at a lower level of security – was not solely the result of the measures outlined in the Memorandum of Understanding (MoU). While the MoU featured some recalibration, this goal evaporated during implementation. Also, the flexibilisation across the board went «beyond» the MoU.

The outcome yielded from the changing coalitional politics during implementation, we argue. The MoU’s direction – major liberalization and minor de-segmentation – owes to the critical juncture in May 2011 when the «austerity coalition» formed to deal with the sovereign debt crisis morphed into a «bailout coalition» of MoU signatories. The MoU set a direction and a multilateral reform process, but did not specify targets, nor the tempo. An asymmetric mix of liberalization and recalibration, foregoing alternatives (expansion or full recalibration), the MoU worked as a permission structure for the ensuing politics of implementation.

Once reform began in June 2011, the broader the bailout coalition, the more moderate the reform outcome (in terms of extent of liberalization and salience of recalibration). When the bailout coalition narrowed and veered to the right from late 2012, the outcome went «beyond the troika». As the Socialist Party and the moderate trade-union (General Union of Workers - UGT) defected, and dependent on the Troika for financing, the executive aligned with the creditors and dropped the multilateral process, both in parliament and in social concertation. Henceforward, it acted unilaterally, leveraging centralization against opposition parties, most social partners (including employers), social movements, popular protests, and increasingly the Constitutional Court. Isolated on the internal front – but also less constrained – the executive relied more on, and aligned with, the creditors’ preferences. Yet this did not come as a harsh imposition, since thus tamed neoliberal preferences emerged in tune with the creditors’ in bringing about internal devaluation.
Introduction

As an important regulatory instrument of political and socio-economic relations, labour market policy plays a decisive role in governments’ responses to crises. In Portugal, the initial reaction to the 2008 global economic and financial crisis followed European Union (EU) guidelines in taking a counter-cyclical approach supported by expansionary labour market measures. However, from 2010, as the crisis deepened, the need to control the fiscal deficit became paramount, leading to tax hikes and cuts in expenditure and social protection. These austerity measures were consolidated with the implementation of the bailout program signed between the Portuguese government and international organizations in May 2011. Besides measures regarding fiscal consolidation, the program featured economic structural reforms.

Under austerity, labour market reforms can be used to boost competitiveness and to reduce government spending. According to the literature, labour market reforms can take three different trajectories: retrenchment in all labour policy dimensions (liberalisation), a trade-off protecting those in standard employment at the relative expense of those in non-standard employment (dualisation) or the other way around (recalibration).

In Portugal, the scale and depth of changes created a new departure for labour market relations. There was unprecedented liberalisation across the various dimensions of labour legislation, which was not accompanied by an attempt to recalibrate a chronically segmented labour market. The austerity-driven reforms brought the Portuguese labour market to a liberalised dualisation (Cardoso and Branco, 2017).

This resonates with Picot and Tassinari’s (2017) study on the direction of labour market reforms during the sovereign debt crisis. Based on Thelen’s theoretical framework (2014), they concluded that, despite the overall pressure to liberalize, there were differences between countries. While their article focused on Spain and Italy, there was no reference to Portugal. Indeed, research on the causes of the direction and extension of Portugal’s labour market reforms are scarce (Ramalho, 2013; Petmesidou and Glatzer, 2015; Lima, 2016; Távora and González, 2016). However, as one of the countries hit the hardest by the crisis and where the changes to the labour were very significant, Portugal presents a good case study in this regard. Therefore, the goal of the article is to fill this gap. It asks how the outcome mentioned above came into being? What factors influenced this outcome?

Even though external intrusiveness in debtor countries was recurrent during the sovereign debt crisis, there is substantial evidence that domestic politics was crucial in determining the nature and extent of the various reforms passed in this period (Farnsworth and Irving 2011; Cioffi and Dubin 2016; Moury and Standring 2017; Hick 2017; Picot and
Tassinari 2017). The bulk of these studies tend to highlight the differences between different moments of the crisis in order to isolate the relevant variables that explain the policy change. They distinguish between the period before and during the bailout to assess the changes in the distribution of power (centralization of power hypothesis) or between moments in which the centre-left or centre-right governments were in office (ideological preferences hypothesis). Even though they make a significant contribution to understand the politics of austerity and the policies that emerged in this context, two issues require further elaboration. First, the possible lines of continuity between the two moments (before and during the bailout) and the impact they are likely to have on the overall reform trajectory. Second, they present the two periods as uniform phases, disregarding the possibility of variation within each of them. In Portugal, this variation is particularly relevant. This is the case because, as shown below, the centralization of power does not emerge with the Memorandum of Understanding (MoU). Rather, it happens later because of the struggle among domestic actors. To understand how these two different political dynamics (MoU and centralization of power) affect labour market reforms, one needs to breakdown the bailout in phases and look at their separate dynamics.

The outcome of labour market reform in Portugal during the sovereign debt crisis – liberalization with enduring dualism, at a lower level of security – was not fully baked in the MoU, and cannot be predicted from that critical juncture alone. While the MoU featured recalibration, building on earlier reforms, this goal vanished during implementation. Furthermore, the flexibilisation of the labour market went beyond the MoU.

We argue the final reform outcome resulted from the changing coalitional politics during implementation. Once reform began in June 2011, the broader the bailout coalition (programmatically and in terms of the diversity of parties and social partners included), the more moderate the reform outcome (the metric being terms of the extent of liberalization and salience of recalibration). While initial reforms were the work of a broad bailout coalition, spanning parties of the centre-right and centre-left, the more moderate trade union (the General Union of Workers - UGT), and the employers’ associations, the right-wing government’s increasing unilateralisation from late 2012 brought about more extreme outcomes: deepening liberalization, decentralized negotiation, and the erasure of recalibration. The initial bailout coalition’s break down by the defection of the Socialist Party (PS) and UGT left the Social Democratic Party (PSD) and the Democratic and Social Centre – People’s Party (CDS-PP)’ government internally isolated. It then veered programmatically to the right and aligned with the Troika’s preferences making policy outcome go «beyond the troika».
This argument builds on previous research on cross-party cooperation during the sovereign debt crisis in Portugal (Afonso et al. 2015; de Giorgi et al. 2015). It contributes to this strand of the literature by expanding the type actors analysed (not only parties, but also social partners) and by providing a dynamic approach to coalitions, that is, how their formation and disruption shapes policy over time. The article is structured as follows. We first briefly describe possible labour market reform trajectories and sum up the various approaches in the literature on the factors influencing such trajectories. Then, we describe at length labour market reforms adopted in Portugal. Next, we introduce and elaborate the argument about the factors influencing these reforms. After a stylized summary, we offer an analytical narrative detailing the interplay between politics and policy between 2011 and 2014. The conclusion sums up our findings and causal explanation.

**Direction of labour market reforms under austerity**

*Varieties of reform trajectories: liberalisation, dualisation and recalibration*

In 2010, after a brief counter-cyclical, neo-keynesian reaction, the UE’s response to the economic and financial crisis veered towards austerity. Policy goals under austerity were both fiscal consolidation and so-called «structural reforms», i.e. recasting institutions to improve international economic competitiveness (Petmesidou and Guillén, 2014).

The literature suggests that austerity-driven labour market reform can follow three different paths: liberalisation, dualisation and recalibration, looking across four dimensions: security in employment (EPL), security in unemployment, collective bargaining and active labour market policies (ALMP).

Liberalisation is the trajectory most often identified by the literature after 2010 (Baccaro and Howell, 2011; Meardi, 2012; Petmesidou and Guillén, 2014; Koukiadaki et al., 2014; Pavolini et al., 2015; Hopkin, 2015), understood as the steady expansion of market relations in areas previously reserved to democratic and collective decision-making (Streeck 2008, 2011). In labour market terms, this means the weakening of workers’ rights (both in standard and non-standard employment), accomplished through deregulation of dismissal protection as well as decentralization and limitation of mandatory extension in collective bargaining. The expectation of the advocates of liberalization – international financial forces, right wing and liberal parties, domestic representatives of capital, such as employers, economic interest associations and lobby groups – is that the labour market clears by adjusting downward the price of labour so that economic activity can pick up and employment can rebound.

Dualisation is broadly defined as the institutionalization of forms of dualism in which
the interests of those in «standard» full-time jobs with benefits (insiders) are promoted over those in various «atypical» employment relationships (outsiders) (Thelen, 2014: 6). In terms of labour market policies, this means deregulation of non-standard employment, retrenchment of needs-based unemployment benefits and of ALMP.

Recalibration is the third reform path. The focus is on the need to fix long-standing, structural socio-economic imbalances between insiders and outsiders. Therefore, the central aim is to find the best mix of policies that foster both economic competitiveness and social solidarity while promoting a more equitable distribution of the risks and opportunities of modern labour markets (Ferrera and Hemerijck, 2003: 90; Clasen et al., 2012: 5). It purports to redress long-standing imbalances in the labour market and associated social protection by targeting the peripheral workforce as the recipient of extra labour market support. This works through the erosion of dismissal protection of standard employment accompanied by re-regulation of non-standard employment, the mending of gaps and inequities in unemployment protection and improved ALMP. In strongly segmented markets, moments of economic crisis can be understood as «windows of opportunity» to address such entrenched imbalances, which in «normal times» would be difficult to tackle due to the opposition of insiders (Petmesidou and Guillén, 2014).

Picot and Tassinari (2017: 17) have suggested, based on Thelen’s «varieties of liberalization» framework, that, despite a general liberalizing reform trend across Southern Europe during the crisis, labour markets were not all flexibilised in the same way. While some applied full-out deregulation, others combined liberalization with either dualisation or recalibration, which the authors labelled “embedded flexibilisation”. This finding shows that the reform trajectories outlined above do not necessarily have to be mutually exclusive. In fact, the array of changes implemented can indicate a combination of reform outcomes.

Labour market reform: theories of direction and extension

The literature has explained in various ways the nature and the extent of labour market reforms passed during the Eurozone crisis. Armingeon and Baccaro (2012) assert that labour market deregulation in Southern European countries is explained by external factors. According to them, the European Monetary Union (EMU) drastically limited the adjustment strategies available to national governments. With monetary policy set by the European Central Bank (ECB) and fiscal policy constrained by the Stability and Growth Pact, labour market flexibilisation and wage moderation become the main adjustment mechanism available to domestic governments to improve competitiveness through «internal
devaluation». Many scholars consider that, in the case of debtor countries, the influence of external factors is even more visible, since they had to accept very specific reforms, including in the labour market, in return for bail-out loans (Clauwaert and Schömann, 2012; de la Porte and Heins, 2015:13; Petmesidou and Glatzer, 2015: 165; Theodoropoulou, 2015). As Armingeon and Baccaro (2012: 267) put it, «governments of different political orientations and of different parliamentary strength found themselves implementing essentially the same structural adjustment programme».

Other scholars have argued that domestic factors are essential in explaining the direction and extension of labour market reforms. Even though the intrusion by the Troika in debtor countries was visible, they assert that national governments still had some room of manoeuvre to determine the exact terms of the policies. In fact, as Hick mentions (2017: 3), since the Asian financial crisis, the International Monetary Fund (IMF) sought to move away from detailed policy conditionality towards outcomes-based conditionality, so that national governments have more flexibility in deciding how to achieve the agreed general targets.

Two hypotheses emerge from this strand of the literature to explain the reforms: distribution of resources among domestic actors and ideological preferences of the actors involved in the policy process. Analysing the Spanish case, Cioffi and Dubin (2016: 423) argue that the demands of international organizations for austerity policies created a window of opportunity, which the right-wing government led by PP (People’s Party) seized to pass radical labour law reforms. Looking at the Portuguese case, Moury and Standring (2017) also conclude that the centralization of power and the ideological preferences of the executive explain the type of reform implemented in the Southern European country. Their study asserted that the centre-right government exploited the window of opportunity opened by the sovereign debt crisis and the presence of Troika to pass neoliberal measures and spending cuts that they favoured, but were unable to pass before (Moury and Standring, 2017: 15).

For Picot and Tassinari (2017), ideological preferences are also crucial to explain the trajectory of labour market reforms. According to them, when a centre-left party is involved in the decision-making, as in Italy, it is likely that liberalization is balanced with an improvement of protection for labour market outsiders (Picot and Tassinari, 2017: 17). Ferrera and Gualmini (2004), Rhodes (2012) and Thelen (2014) consider that recalibration is more likely when there is a strong executive in power which can act unilaterally using the opportunity to overcome institutional and path-dependency inertia in favour of outsiders (Rhodes, 2012).
In short, all studies stressing the domestic politics approach argue that a strong executive is essential to pass reforms that challenge the status quo. Given the strong segmentation in Southern European countries, these reforms will either liberalize or recalibrate the labour market. The actors’ ideological preferences will then decide the choice between them.

In the next section we shall present the Portuguese case study. First, we will take stock of the historical context up to the bailout. Then, we will present a detailed four-dimensional account of labour market reforms from 2011 to 2014. Next, we ask how do existing explanations and theoretical expectations fare in relation with the Portuguese case? Finding a number of shortcomings, we then present our own argument.

The Portuguese case

*Historical context*

Portuguese labour legislation was not stagnant until the sovereign debt crisis. In fact, there were several changes in the four dimensions of labour law before 2011. The first major reform was the enactment of the labour code (LC) in 2003. Promoted by the centre-right coalition in power, it introduced important changes to EPL and collective bargaining (Law 99/2003). Regarding EPL, it extended the maximum duration of fixed-term contracts to six years. Regarding the latter, it restricted the «after-effect» period of collective agreements and abolished the principle that collective agreements can only set more favourable conditions than those set by the general law (Távora and González, 2014: 7).

The reformist impulse continued with the Socialist government passing a major revision to the LC in 2009 (Law 7/2009). The process leading to this reform had started a couple of years before with the preparation of two important reports on labour market relations: one in 2006 (Dornelas et al., 2006) and the other in 2007 (Comissão do Livro Branco das Relações Laborais, 2007). The tripartite agreement signed in June 2008 (CES 2008) also paved the way for the 2009 LC revision. This reform reversed some of the measures passed in the 2003 LC, namely it reinstated the favourability principle (but only in relation to specific «core» domains)\(^1\) and clarified the after-effect periods.\(^2\) On the other hand, the code enabled the expiration of successive renewal clauses and granted bargaining powers to non-union representative structures in companies with more than 500 employees, although this still

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\(^1\) These included ‘personality rights’ (such as freedom of expression and opinion, personal integrity, privacy of personal and family life, protection of personal data, prohibition of unjustified surveillance), equality and non-discrimination, protection against unilateral wage reductions, working time limits and employers’ information obligations (Távora and González, 2016: 256).

\(^2\) Should any of the parties request the expiration of an agreement, its after-effect period would be 18 months, whereas successive renewal clauses would have the maximum duration of 5 years.
required trade union authorization (Távora and González, 2016: 256). As regards EPL, despite attempts to ease dismissals, the status quo remained until the crisis broke.

These reforms of the Portuguese labour market were in line with changes taking place across Europe since the late 1990s. As a way to prepare the economies for the EMU, reforms sought to ease adjustment in the face of asymmetric shocks and to permit the correction of macroeconomic imbalances (Turrini et al, 2015: 1). Namely, the European Employment Strategy (EES) launched in 1997 was then integrated into the 2000 Lisbon Strategy, which aimed at achieving sustainable growth, with more and better jobs (Keune, 2008: 92; Costa, 2009). This was to be achieved trying to combine labour market flexibility with economic security (Ferrera and Hemerijck, 2003). Specifically, the idea behind «flexicurity» was, on the one hand, that more flexible labour markets would reduce the costs of firms in adjusting to the dynamics of a highly integrated global economy, improving Europe’s competitiveness. On the other hand, increased labour participation and higher income security would contribute to higher levels of social inclusion (Van Vliet and Nijboer, 2012).

In Portugal, besides the reforms mentioned above, there was a growing attention to ALMP policies. They were seem as a tool to address the enduring qualifications deficit of the workforce (Valadas, 2012). The urgency to train workers in new skills increased as the transition to a knowledge-based economy gained pace and the competition from developing and/or the newly industrialized countries became stronger (Valadas, 2011). ALMP were also deployed to fight long-term unemployment and support groups with special social insertion and employability problems (e.g. young people, elderly workers, women, ethnic minorities and disabled people) (Hespanha and Matos, 2000: 91). Yet, despite the ambitious goals, expenditure on ALMP was consistently lower than the Eurozone average (see below).

The labour market reforms undertaken in the 2000s were praised by the international organizations that had recommended and monitored their implementation: the Organisation for Economic Co-operation and Development (OECD), IMF and the European Commission (EC) (González and Figueiredo, 2015: 302). However, the fact is that despite such appraisals, these reforms did little to fix some of the enduring problems of the Portuguese labour market, namely its high segmentation. Since the 1980s, Portugal has had a labour market in which insiders enjoyed high levels of employment protection, higher income, better social benefits and protection by unions; whereas atypical workers (temporary contracts, service providers) faced very low levels of security, worse social benefits and lower income. The latter are mostly young qualified people working in the service sector (Centeno and Novo, 2012: 9).
Figure 1 shows the share of temporary contracts by early 2000s was consistently around 20%, well above the Eurozone average, with a tendency to widen from 2006 to 2009. In 2009, Portugal still had the second largest share of workers in temporary contracts (second only to Spain) (OECD/Pordata, 2017). In fact, excepting ALMP, liberalization was the general trend during the first decade of 2000: most measures lowered workers’ rights across the board (Figure 2). This was especially so in case of EPL for temporary contracts and the generosity of unemployment benefits. Regarding collective bargaining, many changes slightly decentralized the system, but the after-effect rule remained, and representativeness, the extension mechanism and favourability principle were not substantially modified. In sum, the reforms of employment legislation allowed «flexibility on the margins of the labour market while leaving those with permanent contracts largely protected» (Moreira et al., 2015: 205).

Following the outbreak of the financial crisis and facing a general election, the Socialist government enacted a set of counter-cyclical policies explicitly aligned with the European Economic Recovery Plan of 26/11/2008 and the measures adopted by the European Council of 11-12/12/2008 (Cabinet of the National Coordinator of the Lisbon Strategy and the Technological Plan, 2009: 6). However, the expansionary measures were short-lived. Late 2009, the EU charted a different course. Partially as a result of earlier expansionary measures, debt to GDP ratios worsened across Europe while the view of the crisis as fiscal emergency surged. In this context, the government made a U-turn in its policy response to the crisis and started fiscal consolidation and austerity. March 2010, the Socialist government launched an austerity program, known as Stability and Growth Program (SGP), which was updated three times in the following months: SGP-2 (May 2010), SGP-3 (September 2010) and SGP-4 (March 2011).

Despite increasing discontent with the austerity program, the government reached a tripartite agreement (TA) with the employer confederations and UGT in March 2011 (CES, 2011). This agreement covered a wide range of issues but focused heavily on labour market reforms, including the reduction of compensation for dismissals (and the creation of an employer fund to finance these payments) and changes to collective bargaining rules and decentralization (Távora and González, 2014: 11). However, the measures included in the TA
never came pass because the Socialist government fell in March 2011, after the rejection in parliament of SGP-4, the fourth iteration of the austerity program launched the year before.

Due to the political crisis combined with the increasing economic instability in which Portugal’s fiscal deficit and debt to GDP ratios sharply increased, the government faced a situation in which it became unable to meet its debt commitments. This forced the Portuguese government to request financial assistance to the EC, the ECB and the IMF, commonly known as Troika in April 20113, becoming the third EU member state (after Ireland and Greece) to do so. In order to receive the €78 billion loan, the Portuguese government signed a MoU consisting in a program of fiscal and current-account-adjustment measures, with the primary emphasis on fiscal austerity and internal devaluation, promoted by, among others, structural reforms.

According to the MoU the labour regulation presented a set of rigidities: excessive employment protection of permanent contracts, generous unemployment benefits; rigid working-time arrangements; and a wage bargaining system incapable of keeping wage growth aligned with productivity and external competitiveness due to excessive centralization and mandatory extension of collective agreements.

*Labour market reform: liberalization with enduring dualism at lower security*

While it was a Socialist caretaker government to request financial assistance, the responsibility of implementing the MoU laid with the centre-right coalition composed of PSD and CDS-PP that won the elections in June 2011. Labour market reforms were one of the main parts of the MoU and the centre-right government was particularly active in implementing them (Moury and Standring, 2017). As we have shown elsewhere, the changes to the labour market regulation during the sovereign debt crisis were deep, creating a «new departure for Portuguese labour market relations»: there was an unprecedented liberalization of labour legislation, which was not accompanied by an attempt to address chronic segmentation (Cardoso and Branco, 2017).

Firstly, the level of security in standard and non-standard employment fell significantly. This was one of the main goals of the structural reforms in the MoU and was reiterated in the tripartite agreement of January 2012 (CES, 2012). According to the MoU, EPL reforms aimed at reducing labour market segmentation, fostering job creation and easing job switching.

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3 For a detailed history and evaluation of the bail-out, see (Abreu, et al. 2013; Moury and Freire, 2013: 41–44; Observatório das Crises e Alternativas, 2013)
The period between 2011 and 2013 was remarkably intense in terms of legal changes. The four laws that were passed concerned mainly the reducing the cost of severance payments and the protection against the risk of unfair dismissal. These changes led to a sharp decrease in the restrictiveness of EPL for regular workers. According to the OECD index, the protection for this type of workers fell from 4.13 in 2011 to 3.18 in 2013. In the case of temporary contracts, according to the same index, employment protection decreased from 1.94 in 2012 to 1.81 in 2013 (farther below Eurozone average). The data shows that, in spite of the reforms, the MoU’s goal of fixing segmentation was not achieved. The regulatory gap between permanent and temporary contracts narrowed, but at a lower level of security (Cardoso e Branco, 2017: 12).

Secondly, there was a strong decrease in the protection of the unemployed. In tandem with the guidelines of the MoU and of the TA of January 2012, the Passos Coelho’s centre-right executive passed a comprehensive law on unemployment insurance (Law 64/2012), the most significant such reform in Portuguese labour market history (Silva and Pereira, 2012). The most important change brought about by the law was the significant reduction of income security of the unemployed. According to the composite index of security in unemployment (Moreira et al., 2015), income security dropped from 0.25 to 0.17 between 2010 and 2013. This contributed to an overall reduction of unemployment protection, which according to the same index, fell 25% between 2010 and 2013 from 0.19 to 0.14 (Figure 4).

While income security dropped, the 2012 law slightly eased access and broadened the coverage of unemployment insurance. According to Moreira et al. (2015), the increase in access and coverage, which jumped from 0.78 to 0.82 between 2010 and 2013, together with a decrease in income security was an attempt to recalibrate unemployment protection. However, the impact on this realm was limited. As Figure 5 shows, the least protected while in unemployment saw their situation worsen between 2007 and 2014. In fact, according to the European Commission, in Portugal, the maximum duration for the most vulnerable and those with the lowest entitlement (due to limited periods of contribution, type of contract or age) was further reduced (2016: 146). Instead of solving segmentation in unemployment benefits, the MoU and the legal changes that followed actually worsened it.
Regarding collective bargaining, the government launched significant reforms, which, in accordance with the method prescribed by the MoU, were negotiated at the national level and implemented after consultation with social partners, leading to the tripartite agreement of January 2012 (with the opposition of the General Confederation of the Portuguese Workers - CGTP), which then became Law 23/2012, a revision of the LC.

Of all the MoU’s prescriptions, a couple of crucial reforms stand out (and explain the downward variation in Figure 6). First, the «organized decentralization of collective bargaining», allowing works councils in firms with at least 150 employees to negotiate agreements at plant level (previously, as part of the 2009 LC revision, the threshold had been set at 500 employees), but under a mandate from trade unions (Law 23/2012). Second, after freezing administrative extensions from May 2011, criteria were introduced in October 2012 for extending collective agreements to workers and firms not affiliated to the negotiating associations (Resolution of Council of Ministers, 10/10/2012). The new criteria required the employer organisation to represent 50% of workers in the relevant sector (ILO, 2014: 12). This measure, which «may have set the bar too high, ruling out extensions in the majority of cases» (OECD, 2017: 53), expressed a break both with social dialogue, in violation of MoU dispositions, and with the executive’s pledge in the 2012 TA. It met the unheard opposition of both trade union and the associations in Social Concertation (Távora and Gonzalez, 2016: 347-48). This rule was later relaxed by allowing extensions in cases where 30% of the signatory employers are small and medium enterprises (Resolution 43/2014, 27/6).

Lastly, as regards ALMP, the MoU enunciated the goals of ensuring good practices and adequate resources, focusing employability, disadvantaged categories and tackling labour market mismatches. It sought also to address early school leaving and to improve the quality of secondary and vocational education and training for a more efficient access to the labour market (ILO, 2014: 100).

However, one should note the lack of specific measures, in contrast with EPL, unemployment protection and collective bargaining. This under-specification is even more
surprising given the importance of ALMPs in any recalibration policy agenda in order to fight the structural problem of segmentation. In the period after the MoU, the government adopted several ALPM measures (17 in total), but this did not translate in a substantial increase of the spending effort in this area. In fact, the effort dropped in 2012 and the level in 2014 was similar to that of 2011. Even if we ascribe the uptick in 2014 to new ALMP measures, the data does not support a recalibration strategy. Rather, we conclude that the opportunity offered by the crisis to curb the structural imbalance between insiders and outsiders was lost as regards ALMP.

Apart the direction and extent of reforms, their implementation process was a novelty in this policy area. Despite earlier moments of intense reform activity (2003 and 2009), the changes to labour market to date had been mostly incremental, leaving core dimensions untouched (severance payments, definition of fair dismissal, among others). During the crisis, all these aspects changed in a very short time.

The fact that a centre-right executive implemented the reforms after the adoption of the MoU indicates that the centralization of power and ideological preferences hypotheses are useful to explain the extent and the direction of reforms. As Moury and Freire (2013) and Moury and Standring (2017) point out, the MoU strengthened the government’s political and institutional power both within the political system and vis-à-vis society, allowing it to overcome the representation of organized interests and veto points and implement a reform agenda that would otherwise been implausible or impossible.

However, only part of measures (though the more extreme) resulted from the unilateral action of the centre-right executive, as did the near total disregard for recalibration. Most were included (including recalibration) in the May 2011 MoU, signed by the PS, PSD and CDS. Note that the MoU itself resulted from the March 2011 TA, and was in turn embodied in the January 2012 TA, signed by the centre-right executive, the more moderate trade union (UGT) and employers’ associations. Similarly, the voting history in Parliament regarding labour legislation shows that the Socialist party did not reject all initiatives proposed by the centre-right government, showing that, at times, there was an alignment in both sides’ ideological preferences. We shall see below that the unilateralism of the centre-right government dates from late 2012, the moment it went «beyond the Troika». Up until the unilateralisation in late 2012 there had been several instances of concertation between the parties right of centre-left (PS, PSD, and CDS). In fact, this informal concertation – or austerity coalition – had been formed before the bailout. In 2010, the PSD allowed the state budget and three SGPs proposed by the PS to pass in Parliament. Sure, this *entente* met a
crisis in April 2011 when the PSD rejected SGP-4, leading the Prime Minister to resign and call for elections – but it resumed for 15 months after the election of June 2011, albeit under different circumstances: a new centre-right executive commanding an absolute majority in parliament and a weakened PS in opposition.

These factors – support from non-governmental actors, instances of concertation between PS and PSD and the PSD’s unilateralism – suggest that the centralization of power and ideological preferences hypotheses are necessary but not sufficient to explain the direction and the extent of reform. It is key to consider the coalition dynamics ongoing during the crisis and its effect on reform outcomes. The remainder of the paper first presents and then elaborates this argument deploying a causal analytical narrative.

**Outline of the argument**

The overall outcome – liberalization with enduring dualism, at a lower level of security – was not fully baked in the MoU, and cannot be predicted from that critical juncture alone. We argue that it yielded from the changing coalitional politics during implementation: the interplay between ideological preferences, external pressures, domestic constraints and the need to secure legitimacy and consent from different «sovereigns»: the people, EU institutions and debt markets, as they affected the political calculus of parties, social partners, and institutional actors.

We separate the issue of reform direction in the MoU from the issue of reform depth during implementation. Explaining the MoU’s asymmetric balance of liberalization and de-segmentation is different from explaining why there was a change of depth during implementation, going so far in the end relative to a more moderate beginning. Both explanations tend to be conflated by projecting the result of years of contentious reform back to the MoU and the balance of power resources or preferences at its inception. This paper shows this may not be the case, and why.

The MoU opted for an asymmetric blend of liberalization and recalibration, foregoing alternatives (expansion or full recalibration). The MoU’s direction – major liberalization and minor de-segmentation – resulted from the critical juncture in May 2011 when the «austerity coalition» formed to deal with the sovereign debt crisis morphed into a «bailout coalition» of MoU signatories. The MoU set a certain direction and a multilateral reform process, but it did not specify targets nor the tempo; it worked as a permission structure for the ensuing political process of implementation.
Once reform began in June 2011, we argue that the broader the bailout coalition, the more moderate the reform outcome (in terms of extent of liberalization and salience of recalibration). When the bailout coalition narrowed and veered to the right, the outcome went «beyond the troika».

There was a consequential change in the breadth and programmatic outlook of the bailout coalition headed by the centre-right. From June 2011 to end of 2012, a broad coalition spanning parties in centre-right and centre-left, and allied social partners, delivered a more moderate reform outcome, including some recalibration measures. A harsher phase was ushered in whence the coalition broke by end 2012. As the Socialist Party and UGT defected, and dependent on the Troika for financing, the executive aligned with the creditors and dropped the multilateral process, both in parliament and in social dialogue. Henceforward, it acted unilaterally, leveraging centralization against opposition parties, most social partners (including employers), social movements, popular protests, and increasingly the Constitutional Court. Isolated on the internal front – but also less constrained – the executive relied more on, and aligned with, the creditors’ preferences. Yet this did not come as a harsh imposition, since thus tamed neoliberal preferences emerged in tune with the creditors’ in bringing about internal devaluation.

**Empirical analytical narrative**


Around March 2010, the first «austerity coalition» emerged. Following the initial counter-cyclical, expansionary response to the crisis, the EU made a U-turn, spawning an austerity orientation congruent with a reading of the crisis as fiscal emergency. As the crisis morphed into a sovereign debt crisis, the politics of pro-cyclical austerity response hinged on the ability to pass unpopular measures. The PS executive deployed moderate and concentrated (public sector) austerity. Such initial austerity from a minority executive depended from the support of the centre-right opposition PSD and the more moderate union confederation, UGT (close to both PS and PSD), as well as the employers’ associations. An informal political support *entente* – an austerity coalition – emerged, cemented by a sense of obligation and the need to avoid and/or share the blame for crisis, default and bankruptcy (de Giorgi et al. 2015: 61).

The minority Socialist executive worked a multilateral process in parliament and social concertation, seeking all the while EU approval. In parliament, it passed successive SGPs in March, May, and November 2010, as well as the budgets for the years 2010 (March)
and 2011 (October), with the vote of centre-right parties. In social concertation, the executive signed a TA in March, 2011, with the UGT and all employers’ associations.

This first austerity coalition was opposed in parliament by the Communist Party (PCP) and the Left Bloc (BE), whose censure motions to remove the government (March, May 2010), were defeated with the abstention of both PSD and CDS. In Social Concertation, the largest, PCP-allied union confederation CGTP opposed the March 2011 TA. The moderate UGT balanced the support of the TA 2011 by entering the civil servant strike (March 2010) and the general strike (November 2010) with CGTP.

The morphing of the crisis into a sovereign debt crisis put a premium on the state’s ability to finance its debt and therefore on the creditors’ demands of fiscal discipline and structural reforms. The rising bond yields and the Greek and Irish bailouts of May and November 2010 pressured the executive and the austerity coalition. During 2010, the PSD in opposition was in the increasingly costlier position of allowing successive austerity packages from a minority PS government while popular protest and strikes shot up (Accornero and Pinto, 2015). First, in March 2010, Passos Coelho replaced Ferreira Leite leading the PSD, waving labour market liberalization as campaign flag and other neoliberal viewpoints. Coelho, an economic neoliberal, had to affirm his leadership after years of socialist government, hampered by the party’s support of ever more harsher austerity. And so, the PSD created a crisis in the austerity coalition.

With the presentation of SGP-4 (March 2011), the political situation came to a head. As a PSD vice-president put it to Coelho, there would be elections, either in the party or in the country (JN, 6/12/2012). March 23, the parliament rejected SGP-4 by a negative coalition of strange bedfellows, spanning the PCP, BE, PSD and CDS. The same day PM Sócrates resigned; April 6, the PS caretaker government asked for international financial assistance; negotiations ensued; May 17, a Memorandum of Understanding was signed between the Troika and the caretaker government, but also by PSD and CDS; the centre-right coalition PSD-CDS won the June 5, 2011, general elections with an absolute majority; Coelho becomes PM; first order of business: to implement the MoU.

The SGP-4 political crisis should not cloud the fact that, though PS and PSD traded places between government and opposition, the austerity coalition endured. There was a change in leadership, not its demise, and no immediate sea change in the response to the crisis. The PSD followed the political calculus that it could not keep spending political capital supporting the PS cabinet without holding office, considering voting intentions going heavily for them (de Giorgi, Moury and Ruivo, 2015: 62-63). Despite assurances and promises to the
contrary during the campaign, Coelho’s executive went about implementing an austerity line as harsh, and eventually harsher, than the SGP-4 it had just rejected. In fact, the MoU and SGP-4 are similar (Abreu et al. 2013: 82).

The MoU was negotiated, drafted and signed in this context. The stated goals: fight rigidities in EPL, unemployment protection and collective bargaining through liberalization and decentralization, but also to combat dualism, focusing unemployment and ALMP. It combines liberalization and recalibration in a way reminiscent of the 2011 TA. Yet, except for expanding unemployment protection to a segment of self-employed, the MoU is light on specifics for outsiders – not what one would expect of the purported endeavour to solve segmentation. The specific details, timing and tempo of reform were decided during implementation since June 2011, under the auspices of the bailout coalition. We next turn to that narrative.

Reform begins under the bailout coalition (6/2011 to end 2012)

Despite the intention aired early on of going «beyond the Troika» (8/5/2011), the PSD claimed the MoU as its own. The Troika «followed the road map given by the PSD», according to future Secretary of State Moedas. PSD vice-president Relvas stated: «all austerity in the MoU comes from SGP-4, all economic growth and competitiveness measures are PSD’s» (Aníbal et al. 2011). Yet, despite commanding an absolute majority, the executive took to governing within the frame of an informal coalition and a multilateral process in parliament and social concertation. The PSD-CDS government headed this informal entente, which included the PS in opposition (new leadership from June 9), the UGT and employers’ associations in social concertation – the bailout coalition.

The first reform phase, June 2011 to end of 2012, yields relatively more moderate policy outcomes. In fact, while there were significant decreases in EPL for insiders from start (Law 23/2012), there were also measures to ease access to unemployment benefits and broaden their coverage to outsiders. The contribution requirements for accessing unemployment insurance were cut from 15 to 12 months (Law 64/2012). Unemployment benefits were extended to include self-employed whose services are provided in 80% or more of the income to the same entity (Law 65/2012). A 10% temporary hike in benefits for unemployed couples (and single parents) with children was decided. Finally, a new ALMP program «Estímulo 2012» was set up.

We argue these outcomes reflect the moderating influence of the bailout coalition’s composition and multilateral policymaking.
The Socialist Party in opposition voted for or abstained on the most important legislation during the first 15 months (de Giorgi et al. 2015: 63). In fact, the PS voted with the government for laws 3/2012 and 47/2012; and abstained in the LC law 23/2012, against the opposition of PCP and BE, which embodied the January 2012 TA. The TA was signed in Social Concertation January 2012, following the MoU’s multilateral process, by the government, UGT and the employers’ associations.

Still in Parliament, from 6/2011 to 3/2013, the PS in opposition abstained in 3 censure motions for removing the government presented by PCP (twice) and BE. Given the executive’s absolute majority, a PS censure would not have toppled the government, which objectively makes the abstention an act of implicit support. Finally, the Constitutional Court issued 2 vetoes during 2012 (vs. 7 in 2013 and 2014).

Why did the absolute majority government, empowered internally by the centralization inherent in the bailout, accepted a multilateral process and some compromise? The upside of being constrained by entering a broad coalition lay, like the minority PS cabinet before, in dispersing accountability when implementing unpopular austerity measures. The political calculus behind following the MoU’s social dialogue process, and seeking the PS’ collaboration in parliament to pass reforms, is that a wider support coalition broadens the legitimacy of harsh reforms, facilitating compliance and consent. Providing multiple accountability targets dilutes rather than concentrates the rising tidal wave of protest.

Still, in April 2013 the PS presented a censure motion to remove the government. What happened?

*Unravelling (fall 2012)*

Coelho admitted going beyond the Troika and that the «Troika’s program is our program» as early as May 2011. As PM, Coelho again admitted in parliament to wilfully go beyond the Troika (10/10/2011). One major way he did so was by presenting in September 2012 a TSU (mandatory social contribution paid by employers and workers) overhaul. According to the proposal, employers decreased their share from 23.75% to 18%, in order to «boost competitiveness and job creation». This 5.75 p.p. decrease by employers would be paid by a 7 p.p. increase by salaried workers, from 11% to 18%.

This direct transfer of resources from labour to capital was a bait-and-switch from electoral promises and a daring exercise in supply-side economics. It was a clear sign of the true adjustment program: internal devaluation. The Troika’s mission chief pointed out such «creative solution to the competitiveness issue» was the government’s idea (Faria and Aníbal
A nerve snapped and protests exploded all across the country as millions of people took to the streets (Fernandes, 2017; Accornero and Pinto, 2015). All social partners, including employers, were very critical of the proposal, one employer stating: «the pillar of social stability was attacked» (apud Távora and Gonzalez, 2016: 338). After internal turmoil, the government regrouped, but did not recoil. The TSU idea was replaced by a «huge tax increase» (Finance Minister Vítor Gaspar’s words), hiking the IRS average effective rate of by 3 p.p. to 13% and the amount collected by 28% (Público, 16/11/2015), paid for in 70% by pensioner and wage salary incomes. This was a stopgap remedy. The structural solution was a «re-foundation of the Welfare State» with permanent cuts in public outlays of 4 Bi€ (Abreu et al. 2013: 88-89).

**Bailout coalition collapse: radical reform (end 2012 to end 2014, October 2015)**

The TSU bait-and-switch signalled the radicalization to come. The reform process entered a new, extreme stage, when measures went «beyond the Troika». Specifically, the executive broke with the MoU and the 2012 TA in 4 occasions, even if afterwards it reversed course a bit due to Constitutional Court vetoes and social opposition. The break with the MoU came both in substance and in process.

**Collective agreements: criteria for government extension of sectoral agreements.** The MoU and the TA 2012 stated the need to review the criteria, with no specifics. Overt time the Troika increased the pressure and the evaluations start to mention the 50% criteria (defined in the 6th evaluation as minimum standard, November 2012). The executive decided unilaterally by Resolution of the Council of Ministers to impose the 50% criteria (30/10/2012). Both trade union confederations and the four employers’ associations opposed the measure and considered it «undermined collective bargaining» (Campos Lima, 2013; Távora and Gonzalez, 2016: 348). In June 2014, after the «clean exit», the government, always unilaterally, went back a bit, to a 30% criteria, which the Troika deemed in the last, 12th evaluation (May 2014) a «major setback».

**Security in employment: compensation for just cause dismissal.** The Law 69/2013 cuts the compensation from 20 to 12 days for all contracts. The MoU mentioned the EU average as reform target. The same with the TA 2012, but only to future contracts. The 2nd evaluation mentions 8-12 days; the 3rd refers the need for changes in social concertation; the 7th draws a favourable distinction for existing contracts.

**Security in employment: criteria for just cause dismissal (suitability and job extinction).** The MoU and TA 2012 stated the definition of the criteria fell to the employer;
the definition was included in Law 23/2014, vetoed by the Constitutional Court. In response, the executive unilaterally approved Law 27/2014, against the opposition of all parties in parliament, both unions and the largest employer confederation CIP (Martins 2014).

*Security in employment: compensation for dismissal without just cause.* Absent from the original MoU and 2012 TA, it props up later on in the 11th revision (April 2014) after the PM mentioned it in a parliamentary debate in March. By the end of April the government reversed course when facing the combined pressure of unions and employers who considered the measure unconstitutional.

The MoU operated as a framework for directionality: in 3 out of 4 measures it stated direction but not extension, i.e., either the exact criteria, number of days or target population of contracts. Still, in some cases the government legislated completely beyond the MoU. Tellingly, the executive resorted to executive fiat (RCM). When it legislated in parliament, it acted alone; it skirted social concertation altogether and, in 3 of 4 measures, it faced the combined opposition of all social partners, not just unions; it reversed course only when faced with the veto (or the prospect of it) from the Constitutional Court.

*Breakdown of bailout coalition: preferences, power and accountability*

After the TSU/«huge tax increase» sequence, more radical policy outcomes emerged. This stage is marked by centralization, the domestic concentration of power in the executive, and by a unilateral policy process relative to opposition in parliament and social partners, both employers and unions, particularly the UGT (Távora and Gonzalez, 2016: 352). This was in marked contrast with the earlier, more moderate stage.

The centralization of power came with the defection of the Socialist party, henceforth in full opposition in Parliament, and of the UGT in Social Concertation. This takes place amid rising and more strident popular protests and movements, as well as the increase in Constitutional Court vetoes.

In Parliament, the centre-right coalition passed laws 69/2013, 76/2013, 27/2014 and 55/2014 against the combined opposition of PS, PCP and BE. The fiscal budgets for 2013, 2014 and 2015, were passed against a similar combined opposition.

Significantly, the PS presented in 28/4/2013 a motion of censure (rejected, but voted by PCP and BE), marking the break from the bailout coalition. The Socialists argue «the government broke all needed balances to the good steering of the country and the adjustment. In the economy, the option for “whatever it takes” austerity and internal devaluation brought a recessive spiral, rising debt and unemployment. On the political and social dialogue front, the
arrogance and self-sufficiency led to the estrangement of the different parties, to ignore the voices and demands of civil society and to the marginalization of social partners. […] In a state of complete political isolation […] [if] the government continues […] to break its own electoral promises, devoid of political authority, incapable of listening to and mobilizing the Portuguese, to miss targets and to fail forecasts, denying reality, refusing to change course in austerity, not defending Portugal’s best interests in Europe, leading the country to immiseration, then there’s only one democratic solution for the crisis: the fall of the government, giving the Portuguese their say in elections» (Moção de Censura nº 4/XII).

In the censure motions presented until the end of the legislature in 2015 (by the Greens and PCP), the PS voted for censure with the extreme-left parties. The scene of internal isolation is compounded by the absence of any Social Concertation agreement until 10/2014 (already after the «clean exit») and by the increase in Constitutional Court vetoes: 7 in 2013 and 2014 (5 in 2013 alone, vs. 2 in 2012).

UGT followed suit and took a systematic opposition stance, namely by refusing to sign any tripartite agreement (it did so in September 2014 for a rise in the minimum wage, frozen since 2011). With a new leadership from 23/4/2013, UGT invoked the continued disrespect by the government of the multilateral process in social concertation laid down in the MoU, the freeze in negotiations following collective bargaining reform and trying not to give CGTP the monopoly of representation of social grievances. The huge demonstrations in the 1st of May 2013 were collaborative organization with CGTP, as was the general strike in 27/6/2013, amid Constitutional Court vetoes in July, September and December 2013.

The break of the bailout coalition left the executive domestically isolated (except for the PR’s support), but externally aligned with the Troika, from whom it depends for monies and legitimacy, and for whom – in a crucial sense – it governs. Less internally constrained, the government aligned its preferences with the Troika’s. Such preferences were deep-seated in the PSD leadership and some cabinet ministers and shared by some economic interests (v.g., Compromisso Portugal and Forum para a Competitividade), and sectors in the employers associations’.

Evaluation after evaluation, the Troika focused more and more on liberalising, weakening security in employment, while letting go of any pressure to recalibrate. The adjustment program may have presented an opportunity to address long-standing segmentation (Petmesidou and Guillén, 2014). Yet, the imperative to liberalize overrode all else. This is perhaps the deeper meaning of the Troika’s economic adjustment: internal devaluation paid by higher taxes, lower wages and labour market deregulation. During the
politics of reform it became clear that the MoU’s goal was never to recalibrate the Portuguese labour market (as openly stated), but to internally devaluate in order to boost competitiveness and growth (Caldas, 2015: 11). In fact, the closing of the 11th and 12th and last evaluation (May 2014) hanged on the need of additional labour market reform. For the EU and the OECD, reforms did not go far enough and further changes were necessary to lower EPL for permanent contracts (European Commission, 2014: 61; OECD, 2017: 14).

The executive’s break with the multilateral constraints in the MoU illustrates the trade-off between harsher austerity and higher legitimacy accrued through dispersion of accountability. The relative moderation imposed by the will to earn the PS’ and UGT’s consent had the benefit of a wider dispersion of political costs in implementing harsh reforms amid increasing popular protests. Conversely, political isolation turned the executive heavily dependent on the Troika’s and debt market’s approval as legitimacy source. At the same time, the government shifted blame by accusing the opposition of unwillingness to do «the necessary». Therefore, there was no alternative to the Troika’s demands – the more so when such demands were whispered to the Troika beforehand so as to present them as inevitable (Moury and Freire, 2013). Because concentration of power brings concentration of accountability, the executive’s prime goal was to conclude the program in May 2014. The «clean exit» would legitimize and validate past options. This was in fact the political narrative the centre-right coalition run on in the 2015 elections.

Breaking with the bailout coalition, the PS went into full opposition. Did the radicalization of the government bring about the Socialist’s defection or the other way around? We argue the first, and here’s why. The TSU bait-and-switch sequence was a clarifying moment of the real adjustment program: internal devaluation. Its replacement by a «huge tax increase» and Welfare State «re-foundation» compounded the problem. Amid deep economic recession, and failing to meet successive fiscal targets, even the President began talking about the dangers of a recessive spiral. This was the result of the pro-cyclical effects of frontloading the MoU with huge cuts in public sector salaries, public investment and social protections, which plunged the economy by depressing demand and begot continuing fiscal deficits and record unemployment levels. In the streets, intense and vocal popular protests were widespread, bringing together both union confederations, new social movements and common citizens and families. It was then, October 2012, that the government unilaterally changed the criteria for extension of collective agreements against the combined opposition of all social partners.
The PS exited. Sure, favourable voting intention polls, the government’s instability and the looming prospect of holding office eased the move from cooperation to conflict (de Giorgi et al. 2015: 63).

Yet, we argue there was a deeper cause. The cost of supporting the austerity neoliberal agenda became unbearable and an existential threat. Being responsible was preventing the Socialists from being responsive (Mair 2009, 2013). The Party was becoming programmatically de-aligned with the electorate’s demands (Roberts 2014, 2017), desynchronized with the Polanyian social protest (della Porta 2015: 68-71), its power resources decimated: neoliberal policies, in the labour market, welfare retrenchment, public sector cuts and privatizations, threatened to permanently remake politics in a way detrimental to the Socialists. In sum, the Socialists might face «pasokization» if unable to represent, to politically channel, societal resistance to market orthodoxy, and affirm an alternative to austerity.

The oppositional stance was tested in the summer of 2013, as the party pivoted from cooperation to opposition. Amidst a government crisis with the resignation of the leader of the right-wing coalition partner, the PR sponsored negotiations to form a «national salvation» government between the centre-right and the Socialists in exchange for anticipating the general elections from 2015 to 2014. For getting early elections, and possibly the premiership, the PS would have to follow, and then own, the harsh austerity course in a «grand coalition». This would be replay SGP-4/2011 election sequence, with yet another role reversal: the bailout coalition would endure with a new leadership. After huge internal pressures, the PS backed down from negotiations (20/7/2013). The party’s repositioning was complete by May 2014 with a change in leadership via open primaries, after disappointing European elections. The new leader and future PM, António Costa vowed to «turn the page of austerity» and never enter into a coalition with the PSD, the CDS or both after the coming 2015 elections. Instead, the PS ended up forming a minority government supported in parliament by the extreme-left parties PCP, Ecologist and BE.

Conclusions

This paper answers two main questions. What happened to the Portuguese labour market during the sovereign debt crisis? How can we explain such outcome?

Portuguese labour market changes were unprecedented. Even though the MoU built on earlier reforms, for the first time the protection of insiders was significantly lowered across the board (employment, unemployment and collective bargaining), without, however, an
attempt to recalibrate a chronically segmented labour market. The balance of power between labour market insiders, outsiders and employers shifted for the latter at the expense of both the former. A worsened situation for insiders and outsiders indicates wide market flexibilisation and enduring segmentation. After austerity-driven reform, dualism endures at a lower level of security. A more liberalized dualisation obtained.

Let us tease out and summarize the empirical findings underlying this conclusion. Despite the MoU’s stated goals of trying to recalibrate the labour market by addressing segmentation and to enhance efficacy and competitiveness through the liberalization of various «rigidities», this paper shows otherwise.

Firstly, there was a clear liberalizing thrust. Security in employment, especially for individual dismissal of standard worker, and security in unemployment, especially generosity of income security, fell significantly. The main changes in collective bargaining are congruent with this trend. A more decentralized system and the curbing of the mandatory extension of collective agreements erode the institutional mechanisms that protect wage levels from market fluctuations. Such liberalization was not offset by any unemployment compensation or activation strategy.

In fact, and secondly, there was no recalibration. The measures in terms of security in employment and unemployment, and in terms of ALMP, did not especially benefit outsiders. EPL dropped for both insiders and outsiders, even if the regulatory gap narrowed. As regards unemployment benefits, the scenario was no different. Neither the changes in access or coverage, nor the modifications in income security significantly improved the situation of outsiders. In fact, the situation worsened for the least entitled to unemployed benefits between 2007 and 2014. Regarding the spending effort on ALPM, an important tool to support outsiders’ efforts for social insertion and employability, it dropped in 2012 to one-third of the 2009 effort and it stabilised at the lowest level in 2013.

The paper argues that the outcome of liberalised dualisation cannot be described as the mechanical implementation of the MoU, and therefore cannot be explained by the MoU’s critical juncture alone. Recall that the MoU featured some recalibration, but recalibration evaporated during implementation, and that the flexibilisation of the labour market «went beyond» the MoU.

We show why reform implementing the MoU ought to be divided in two periods, with different outcomes, explained by the changing dynamics of coalitional politics. While initial reforms were the work of a broad bailout coalition, including parties of the centre-right and centre-left, the mode moderate trade union (UGT) and employers’ associations, the right-wing
government’s increasing unilateralisation from late 2012 yielded more extreme outcomes: deepening liberalization, decentralized negotiation, and the erasure of recalibration. More generally, our central hypothesis is that the broader the coalition of actors involved in the policy process, the more moderate the reform outcome becomes.

The careful analysis of the labour legislation adopted in Portugal between 2010-2015 shows that all measures that liberalized more deeply than the pattern set in the MoU took place from late 2012. This happened in a moment in which cooperation between the actors previously part of the bailout coalition collapsed. The study presented several indicators of the initial existence and later disruption of the coalition. Up until late 2012, these actors signed the TA of March 2011, the MoU of May 2011 and the TA of January 2012. Furthermore, PS and PSD exchanged support for each other in parliament. Specifically, PSD supported three out of the four austerity packages proposed by the Socialist government between 2010 and 2011 and the 2010 budget. PS, while in the opposition, voted in favour or abstained on the most important legislation during the first 15 months (June 2011 to October 2012) and abstained in 3 motions of censure for removing the government presented by PCP (twice) and BE.

The initial period is marked by some moderation and timid recalibration. While there were significant decreases in EPL for insiders from the get go (Law 23/2012), there were also measures to ease access to unemployment benefits and broaden their coverage to outsiders. All changed in late 2012 as the executive unilateralized its actions and showed less willingness to compromise within a coalition of different partners. It is then that the executive breaks with the MoU and the 2012 TA, going beyond it in four occasions (criteria for the extension of sectorial collective agreements; severance payment in the case of fair dismissal; criteria for fair dismissal; and severance payment in the case of unfair dismissal). These measures were rejected, not only by the extreme-left, but also by all the previous partners of the coalition, namely PS and UGT.

The government’s unilateral actions and political isolation from late 2012 meant that the source of its legitimacy was no longer domestic, but external, namely the Troika and the markets. The change in the locus of legitimacy and the depth of the reforms adopted in this period might have contributed to the rapprochement between PS and the radical left following the 2015 elections, which resulted in the establishment of a Socialist minority government with the support of these parties in Parliament.

The study makes theoretical and empirical contributions. In theoretical terms, the study devised the argument that coalition politics have an effect in the nature and direction of
This approach builds on previous studies, which had analysed austerity politics and polices based on cross-party cooperation and expands them by considering the role of social partners. In empirical terms, it provided a thorough analysis of the process that led to the most significant reform of the Portuguese labour market in history. It showed that the changes to this policy area were not just the product of the MoU, but also the result of the politics of its implementation. Furthermore, it demonstrated that the austerity politics in Portugal evolved from a multilateral phase in which policies were discussed and made by a large group of actors (including social partners) to a unilateral phase in which the center-right government decided alone – though aligned with the Troika’s preferences – and, in several instances, against the will of the majority of domestic stakeholders.

In the conditions of increased fluidity of crisis policymaking under external bailout, coalition politics and centralization mechanisms can obtain, each carrying distinct characteristics. Coalition and multilateral policymaking disperses accountability and moderates policy outcomes, while accruing a modicum of domestic legitimacy. Conversely, political isolation leverages centralization to yield more extreme outcomes, while concentrating accountability, turning the executive dependent on the Troika’s and debt market’s approval as legitimacy source. These findings can fuel further research in order to assess the extent to which such mechanisms coexist in countries that went through austerity-driven reform under the sovereign debt crisis. This would make it possible to examine the general circumstances influencing the formation and disruption of coalitions and the effect on policy change.

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## Figures

### Figure 1: Share of temporary contracts in total of employees in Portugal (2000-2009)

![Figure 1: Share of temporary contracts in total of employees in Portugal (2000-2009)](image)

Source: OECD Employment and Labour Statistics/Pordata

### Figure 2: Direction of labour market reforms in Portugal (2003-2011)

![Figure 2: Direction of labour market reforms in Portugal (2003-2011)](image)

Source: LABREF database

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4 Classified as «increasing» (or «decreasing») if reform has an increasing (or decreasing) effect on the associated underlying policy setting (generosity of unemployment benefits; stringency of regulation on employment protection, wage setting; the availability, generosity, or effectiveness of ALMPs) (Turrini et al., 2015: 6).
Figure 3: Security in Employment in Portugal (2000-2013)

Panel A. Individual and collective dismissals (regular contracts)

Panel B. Individual dismissals (temporary contracts)

Source: OECD Employment Protection Database

Figure 4: Security in unemployment in Portugal (2010 and 2013)  

Source: own elaboration from Moreira et al. (2015)

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5 The composite index (third column) = UB Access*Income Security [Gross Replacement Rate*Duration]
Figure 5: Maximum duration of unemployment benefits for the least and the most entitled unemployed in number of months

Source: European Commission (2016)

Figure 6: Wage Bargaining in Portugal (2000-2014)

Panel A: Centralization of wage bargaining

Panel B: Mandatory extension of collective agreements to non-organised employers

Source: Visser (2016)
Figure 7: Spending effort on ALMP in Portugal

Source: Own calculations based on OECD Social Expenditure: Aggregated data /Pordata

ALMP expenditures per unemployed persons expressed as a percentage of GDP per capita ((Expenditures/total of unemployed people)/GDP per capita)*100)*1000