What Capital Wants:

Business Interests and Labor Market Reform in Portugal and Spain

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On September 7, 2012, Portuguese Prime Minister Pedro Passos Coelho broadcast a message from his official residence announcing a change in the shares that workers and employers contributed to the *Taxa Social Unica* (TSU), or social security tax: workers would pay 7 percent more, while employers would pay 5.75 percent less. This was part of the strategy of austerity implemented since 2009 to recover from the Eurozone crisis, a combination of public spending cuts, tax increases, and pro-market reforms. While the Portuguese people went into the streets to protest, the main business associations had an unexpected similar reaction: immediate public rejection. Antonio Saravia, the head of the Industrial Confederation of Portugal (CIP), accused the government of not listening to social partners and added that "never should the decrease in the TSU be compensated by workers."[1] The government withdrew the measure two weeks later and subsequently changed its economic team. Afterward, the General Secretary of the Portuguese Commerce and Services Confederation (CCP) would recall the moment and say that "No one asked them to go that far."[2]

By contrast, when on July 11, 2012 the Spanish Prime Minister Mariano Rajoy went to Parliament to announce the largest economic adjustment of the democratic era—65,000 million EUR achieved through a combination of cuts to public servants, the unemployed, and dependent people, as well as an increase in taxes—the business sector applauded it. When the two labor organizations, the Workers' Commissions and the General Union of Workers, called for a general strike on July 14, business associations criticized them. Juan Rosell, the head of the Spanish Confederation of Business Organizations (CEOE), said that the economy required "deep, painful and courageous" reforms and asked for further reductions in expenditures and less increase in taxes.[3]

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The different responses from capital in Portugal and Spain were all the more surprising—and consequential—regarding the policy of labor market liberalization. These measures, designed to decrease the cost of labor, should have been widely endorsed by capital, yet in practice that varied across cases. In 2012, when the Portuguese government set restrictive conditions on the extension of agreements to the sector-level to allow wages to adjust (downwards) to firm productivity, Portuguese businesses were overwhelmingly against it. Two years later the government reversed this measure. By contrast, the 2012 labor reform in Spain that gave priority to firm-level collective agreements over sector-level ones was celebrated by the industrial export sector and remains in place.

This difference in the extent of labor marketization in Portugal and Spain is all the more puzzling given that this was the key strategy mandated by international creditors for these countries to overcome the crisis. The politics of economic adjustment in the region as determined by the international institutions, which were in turn heavily influenced by Germany, was based on the manufacturing model of cost competitiveness that prescribes the reduction in labor costs to increase exports. In the Eurozone, without the possibility of modifying the exchange rate—the standard tool for indebted countries to stimulate exports and decrease imports—internal devaluation becomes the only possibility to achieve that goal. Indebted countries, like Portugal or Spain, thus committed to a combination of austerity and structural reforms to reduce domestic demand and increase productivity. Labor reforms were the centerpiece of this response,[4] yet Portugal did not follow the prescribed path. What explains this variation?

There are two dominant comparative approaches to this period of economic adjustment. The most prominent approach has understood austerity to be the only viable response to economic hardship, heightened by the pressure from the European Commission (EC), the European Central Bank (ECB), and the International Monetary Fund (IMF). While in normal times policy-makers have a hard time implementing austerity measures, during periods of financial crises the combination of fiscal constraints, bond market pressures, and demands from international institutions that supply financial assistance provide opportunities for adjustment and liberalization, while leaving little space for deviation.[5] However, reforms were not only signals for financial markets, but also attempts at reshaping these countries' economies. As such, they have material and differential effects on societal actors that will in turn react—something that these approaches overlook. A second group of studies focused on domestic politics to understand policy responses, analyzing the impact of partisanship,[6] technocratic beliefs,[7] labor organizations,[8] and, more broadly, forms of democratic practice.[9] However, none of these variables alone can account for systematic variation in policy change across these two countries.

An analysis centered on business preferences accounts for important variation left unexplained by these other approaches. Governments are able to advance the liberalization of labor markets when there is a leading industrial export sector that benefits from it and provides a powerful domestic social partner for technocrats and the European institutions recommending those policies. Against the common assumption that the liberalization of labor markets is not only sought, but widely embraced by capital, I show that, beyond a general preference for lower labor costs, business interests are heterogeneous and influence policy in unexpected ways. I advance the theory that business positions on liberalization are shaped by sector and firm-size production strategies, as well as binding associational commitments. Corresponding to these variables, business will have different preferences for the different dimensions of labor liberalization, including employment protection legislation (EPL) and collective bargaining (CB). In addition, policy-makers mostly take into account the interests of those business sectors that are relevant to the model of economic growth they prefer and dismiss the rest.

To assess these frameworks, I turn for insight to the debtor countries in Southern Europe, a region harshly hit by the 2008 financial crisis, which constitutes a "most likely case" for a uniform shift to austerity and labor market reforms. I build this argument through a close examination of the post-financial crisis reforms implemented by Spain and Portugal, two similar countries subjected to a common crisis as well as structural pressures for austerity. I accomplish this through an in-depth qualitative analysis of interview data collected during twelve months of fieldwork in Lisbon and Madrid, where I conducted 129 interviews with politicians, policy-makers, bureaucrats, members of business associations and labor confederations, representatives from international institutions, and country experts.[10] In addition, I analyzed original documents (public statements and policy reports) concerning the relevant policy changes from government, business, and labor. I have also examined the documents produced by the EC, the ECB, and the IMF, including financial assistance agreements and regular reports on the countries' economies, as well as the specific policy evaluations and studies assessing the labor market reforms.

Labor Markets in Southern Europe

Labor markets in Southern Europe have generally been considered to be defective. The Varieties of Capitalism literature groups Southern European countries under a "Mediterranean" model,[11] characterized by delayed and state-supported industrialization, with extensive labor market regulations.[12] Levels of employment protection above the OECD average, together with intermediate levels of centralization in their CB systems (neither peak, nor firm-level), contributed to the characterization of these labor markets as overly rigid.[13] Their high levels of employment protection meant relatively strict restrictions on individual and collective dismissals—including definitions, notification procedures, length of the notice period, and severance payments—that supposedly created disincentives to hire and highly dualized labor markets. Their CB systems involved regional and sectoral employers' associations signing agreements with the corresponding unions. Because of low affiliation rates,[14] extension mechanisms made sure that agreements became binding for the whole economic sector, creating a baseline rule. Thus, while there was no coordination at the national level—since there was no one peak-level agreement—there was some coordination at the sector level. Firms that wanted to sign their own agreements had to offer better conditions than those of the sector-level, thus only the most productive firms could afford it. These agreements were also perpetuated in time thanks to "ultra-activity" clauses, which stated that—absent a new agreement—existing agreements would apply even beyond their expiration date.

These intermediate levels of centralization in the CB systems were considered particularly problematic. Throughout the 1990s, and despite joining the Eurozone, Southern Europe continued to lag in productivity levels, and in the 2000s the region's international position was hurt because of inflation.[15] Both phenomena were assumed to be tied to an inefficient bargaining system.[16] Arguably, either decentralized or centralized systems achieve the best results in terms of adjusting wages to firm productivity,[17] while intermediate ones impede it and disincentivize the management and reorganization of the production at the firm-level (internal flexibility).[18] Sector-level agreements can also become artificial barriers to entry to other firms and hinder competition, with negative effects on creation of formal employment and wages.[19]

Although the actual value of labor costs and the role they played in the economic imbalances in Southern Europe is still a matter for debate,[20] when the Great Recession hit the region, wages were the first target of policy-change. If too many labor protections and an inefficient bargaining system had led to increasing labor costs that had in turn hurt the international position of these countries, it was the labor market that had to be reformed. The measures that the international institutions demanded included the decrease in employment protection, making dismissals easier and cheaper, and the adjustment of the bargaining system to the firm-level, away from regional/sectoral bargaining between sectoral associations and unions. In the context of the post financial crisis, Southern European countries adopted these policies.

However, while reforms targeting EPL followed closely the international requirements and were fairly similar across countries, the changes in CB were not. Regarding employment protection, both countries took similar measures and moved closer to the OECD average. Yet, despite common pressures to decentralize CB and give more power to the employer at the firm-level, Portugal and Spain took different paths. While the former initially advanced a radical decentralization of bargaining and ended the (until then almost automatic) extension of collective agreements to the sector, it reversed its course two years later. In this way, it returned to the same intermediate sectoral system, also keeping substantial restrictions on the suspension of collective agreements and a longer survival date after expiration. Spain, on the other hand, altered the formal structure of bargaining, as it made firm-level agreements take precedence over sector and regional level ones, gave unprecedented power to employers to opt-out of agreements—even those at the firm-level—and reduced its survival date after expiration.[21]

Assessing Explanations of Austerity and Reform

International Constraints How well do existing theories of the politics of economic reform account for the different outcomes in Portugal and Spain? The Eurozone crisis is precisely the kind of shock that research focusing on external pressures would regard as leading to common policy change across countries. Under these expectations, convergence toward adjustment should occur because it is the subordination of domestic politics to international and structural pressures that guides it.

An initial line of studies in political economy used the neoclassical understanding of liberalization policies as a public good[22] to delineate the dynamics of policy change.[23] Following work done mostly by economists, it understood reform to have a majority of the society as a diffuse beneficiary and powerful vested interests as immediate losers, predicting that the first group would not organize in favor of change, while the second would strongly oppose it. Reform could then only result from external pressures—either in the form of international institutions, insulated decision-makers, or both—with technocrats as agents of a transnational elite consensus, who had to neutralize the losers of economic change.[24] This focus on international constraints expected countries to follow a similar pattern of policy change, but research on Latin America after the debt crisis of the 1980s showed that restrictive external circumstances did not amount to complete policy convergence,[25] and there was much unexplained variation.

Still, the Eurozone crisis could be understood as a peak of international and structural pressures that could only lead to a relatively standard package of policy change.[26] While deep fiscal restrictions and sovereign debt crises forced domestic governments to adjust their economies, the European institutions further narrowed the available alternatives of policy responses by attaching conditions to membership, in general, and to financial relief in particular. Taking membership in the Eurozone as given, its countries cannot modify the exchange rate and can only implement internal adjustments. Moreover, countries that received a financial rescue from the group formed by the EC, the ECB, and the IMF signed a Memorandum of Understanding (MoU) that established a package of policy change—including labor market liberalization—with strict external monitoring of performance and compliance. Countries that did not receive a bailout but are nevertheless facing rising bond yields and the increasing costs of servicing debt, may in turn still implement those policies to reassure the European institutions and the financial markets.[27]

In the cases of Portugal and Spain, both countries have belonged to the Union since 1986 and neither could devalue its currency. Similarly, the depth of fiscal crises and the amount of financial assistance received constrained the policy choices of these governments. Both countries were among the hardest hit of the Eurozone economies in the 2008 financial crisis, and both entered conditional financial assistance programs with the European institutions and the IMF. By 2010, the Portuguese economy accumulated two decades of sluggish growth, public debt figures over 90 percent of GDP, and banks without market access to cover their financing needs. After failing to get parliamentary approval for its fourth stability program, the government requested financial assistance from the international institutions. On May 17, 2011 it signed two separate versions of a MoU (one with the EC and one with the IMF) that, in exchange for 78 billion EUR, committed the country to fiscal consolidation (a reduction of the public deficit from 5.9

percent of GDP in 2011 to 3 percent in 2013 that was to be achieved by a drastic reduction in expenditure and a rise in taxes), financial sector reform, and “bold and upfront structural reforms to improve competitiveness.”[28] Among the latter, the liberalization of the labor market was the most important policy goal. The MoU devoted five of its thirty-six pages to detailing changes in labor policy, the same number of pages that was devoted to all goods and services markets, and more than the three and a half pages assigned to the financial sector.

With an economy in recession since mid-2008, a heavily indebted private sector, banks and government unable to access market financing at sustainable rates, and contagion fears from the sovereign debt crises in neighbor countries, the Spanish authorities signed a MoU on Financial-Sector Policy-Conditionality on July 20, 2012. In exchange for up to 100 billion EUR, the government committed to reforming its banking sector, as well as “implement the country-specific recommendations in the context of the European Semester,”[29] including as a third item “the labor market reforms.”[30] These institutional demands were accompanied by enormous pressure from financial markets.

However, even under this substantial pressure for liberalization, there is no consistent pattern whereby Eurozone membership was translated into a uniform set of labor market reforms in the region.

Domestic Politics If the focus on external pressures leaves much to be explained, how well do domestic variables—institutions and actors that inevitably filter those pressures—account for variation in reforms? Economic liberalization in Latin America had strong, concentrated supporters.[31] This led to further theoretical elaboration and the possibility of reform involving the opposite political logic—concentrated benefits and diffuse costs. Thus, it was not only about neutralizing the losers, but also empowering the winners, and a series of works explores how coalitions organize in support of liberalization. Scholars analyzed the role of electoral competition,[32] partisanship,[33] bureaucracies and ideas,[34] business,[35] and labor organizations[36] to understand policy choices.

A series of studies focused on party politics showed that party ideology mattered for labor market reform.[37] Other scholars have questioned this relation between left-wing parties and pro-labor policies, looking instead at specific constituencies among workers.[38] Still, the cross-country comparison allows me to control for the party-ideology effect and focus on differences in policy change under two conservative governments. In both countries, the adjustment process was launched by the social-democratic parties (contradicting their pro-labor ideological traditions), with conservative governments continuing and deepening the process.[39] This development also conflicts with Sara Watson’s historical work on the construction and maintenance of welfare systems in Portugal and Spain, which she ties to historical intra-left divisions.[40] She argues that the presence of a strong radical-left party may lead social-democratic and conservative parties to coalesce and implement liberalization policies to isolate it, and its absence may bring conservative parties to extend protection for workers to compete for centrist voters and weaken the social-democrats. However, in a juncture as pivotal as the Eurozone crisis, conservative parties in the two countries converged in their macroeconomic strategy: the imposition of austerity and the liberalization of labor markets.

Research has also highlighted the role of technocratic beliefs in policy change. Experts' ideas—in particular those of economists—can re-shape political discourse to legitimize certain policies and even be adopted by the government and turned into public policies.[41] These approaches have led to studies that explain the imposition of austerity in the debtor countries through the power of the beliefs held by economists and bankers in the European and supra-national institutions, and in the countries in crisis.[42] In fact, the transnational consensus around austerity and labor market reform largely coincided with the beliefs of domestic party technocrats, both left and right. Far from blaming the external institutions, the authors of the labor reforms in both countries claimed their agency.[43] Still, while there is no doubt that there was a powerful technocratic consensus around austerity, there is no systematic correlate of the extent to which it was able to change the broader economic orientation of the country. At the end of the day, this consensus did not dictate policies—technocrats converged, while policies diverged.

Beyond these arguments, other research has contended that is the differential openness of the political systems that has made Portugal more susceptible to societal pressures from below.[44] An example of this research is Robert Fishman who argues that it is the different forms of transition to democracy that helped forge diverging approaches to social and economic demands in Spain and Portugal.[45] In Portugal, a transition to democracy through social revolution created a political system where elites are more open to listening to societal demands and negotiating policies with relevant actors and groups from civil society. Portugal is thus characterized by a "broadly shared commitment of the major political actors to address social concerns through state actions."[46] This has been used as an explanation for Portugal's historically superior employment outcomes and larger welfare expenditures, as well as its more equity-friendly adjustment path during recent times of austerity.[47]

I complement these ideas and argue that this openness is also simultaneously a vulnerability of the political system, which stems from a division in the elites. The stability of elite alignments and the presence of elite allies are relevant dimensions of political opportunity structures for collective action.[48] Specifically, elite cleavages are a major impetus for mobilization given that lack of elite cohesion makes the political system more susceptible to change. Thus, I claim that the main difference across countries lays in the preferences of business and how they aligned or diverged with the government. Thus, while in Spain the leading industrial export sector supported the reform that the conservative government advanced, in Portugal business was against it. In Portugal, therefore, the pressure from below was joined from above by a segment of the elite that was divided in their preferences.

Economic Structure and Preferences for Austerity and Reforms

Rather than assigning primary importance to international and structural constraints or to the preferences of relatively autonomous technocratic policy-makers, I understand change to advance through policy-makers' ability to form coalitions of supporting social groups.[49] However, I shift the focus from organized labor—traditionally the main societal constraint on liberalization of labor markets—to business. Although this actor is generally taken to support and advance liberalization, it does not favor all dimensions equally, or uniformly. I show that even when it comes to labor reform, business can become the main obstacle for change.

The different components of the labor reform are Employment Protection Legislation (EPL) and Collective Bargaining (CB). Policy changes in both areas are destined to decrease labor costs—a demand shared by international institutions, policy-makers, and employers—yet they do so in different ways. While the first is directly destined to decrease labor costs (by making dismissals easier and cheaper, firms can lay off "old" workers and hire newer and cheaper ones),[50] the second one has the same goal, but goes through the organization of the system of CB, which affects competition issues, industrial conflict, firms' transaction costs, and the activity of business associations. While business homogeneously supported the decrease in EPL, it mostly opposed the decentralization of CB.

As mentioned, CB agreements that are extended to a whole sector of the economy set the baseline rules for all the corresponding firms. Many prefer this for a myriad of reasons that go beyond labor costs. First, it sets a level playing field and prevents unfair competition through lower wages or other practices.[51] Second, it prevents industrial conflict and the presence of worker representatives at the firm-level, given that the agreement happens at a higher level, conducted by specialized association officials and the corresponding union.[52] Third, it is cheaper for firms that do not have to negotiate their own agreements and can instead follow someone else's rules.[53] Finally, CB above firm-level is the reason for the existence (and, often, public funding) of the employers' associations that negotiate and sign those agreements.[54] If bargaining were to happen at the firm-level, associations would cease to exist,[55] or would have to transform into a lobby-type organization.

However, some firms, mostly concentrated in the industrial export sector, prefer to sign their own agreements. This is because they have the opposite characteristics: they are cost-competitive, rely on more skilled labor, and pay relatively high wages; they prevent industrial conflict by negotiating periodically with the corresponding firm-level union representatives; and are organized in associations that do not conduct CB, but instead function as a lobby group. These firms are constantly seeking to make production more flexible and to decrease costs through their own agreements. While they were already able to do that in the existing regime, a legal change towards decentralization allows them to, first, turn a practice into a law, and, second, affect the way the rest of the economic sectors are organized.

Therefore, my expectations regarding business preferences for labor market reforms are that 1) all firms in these economies will prefer low levels of employment protection legislation; 2) most firms in these economies will favor the continuation of the centralization of labor relations; and 3) only a small set of firms, concentrated in the industrial export sector, will favor the decentralization of labor relations.

Needless to say, not all preferences matter the same. To understand the connection between business interests and policy-making, it is important to take into account their power. However, I do not evaluate it only in terms of size of the sector, GDP contribution, or associational density, but also, and foremost, in terms of affinity with the preference of reformers. I argue that reformers take the initiative for policy change with a certain model of economic growth and a corresponding type of business sector in mind, export-oriented and cost-competitive. Thus, they will mostly take into account the interests of those sectors and dismiss others, either by delegitimizing them (accusing businesses that opposes these measures of being rent-seekers) or denying them outright (ascribing to businesses different preferences than the ones they express). Still, while those neglected sectors may not be able to stop the reforms they dislike, they will attempt to undermine them.

Trends from Southern Europe

I draw on evidence from Southern Europe, where governments turned to austerity and reforms after the 2008 financial crisis. In particular, labor market reforms constituted a key feature of policy-makers' strategy for economic recovery. Regardless of the competitive position of these economies (worse in Portugal than in Spain) and the actual levels of labor costs (lower in Portugal than in Spain), both governments followed the international institutions' recipe to implement a wage devaluation.

While the outcomes regarding EPL were fairly similar across the two countries, the changes in CB were not.[56] In terms of EPL, Spain and Portugal had stricter regulations than the European average and reforms in both countries were directed towards flexibilization. Moreover, in Portugal, the government went beyond what the agreement with the external institutions mandated, particularly when it came to facilitating and lowering the costs of dismissals. The changes were effective, as measured by the OECD indicator of Employment Protection that put post-reforms Portugal only slightly above the average, and Spain exactly on average.

Meanwhile, in terms of the system of CB, and despite common pressures to decentralize it, Portugal's current system is the same as the pre-crisis one—agreements are extended to the whole economic sector and become binding for all firms—while Spain's has changed to give priority to firm-level agreements over higher-level ones.

In the case of Portugal, the MoU stated the need for decentralization, suggesting the revision of the criteria for extension of agreements. Until then, agreements signed by employers' associations representing a few firms and the corresponding trade unions were extended to the whole sector by the Employment Ministry, thus covering the entire industry. The government first eliminated the extension principle and later made it subject to the representativeness of the business organization, at least 50 percent of workers of the sector.[57] However, it was precisely because of low affiliation rates among employers and workers that this extension mechanism had been imposed in the first place. With those restrictions, there would be no extensions: the government had ended the industrial relations framework as it existed until then.

Nevertheless, two years later the government reversed course. In 2014, after leaving the rescue program, the same conservative government added an alternative condition for extension. It established that if 30 percent of the firms in the association signing the agreement were Small and Medium Size Enterprises (SMEs, or firms with less than 250 workers), the agreement should be extended.[58] Since 90 percent of Portuguese firms were SMEs, this made extension almost automatic, thus essentially returning to the pre-crisis system. The external institutions deemed this measure “a major setback in the reform of collective bargaining in Portugal,”[59] and the former Secretary of State for Employment wrote an op-ed expressing his opposition to the reversal, claiming it was anti-competitive and conducive to a reduction in employment levels.[60] In addition, the government also sustained restrictions for suspensions of collective agreements and a longer survival date after expiration.

Spain, instead, altered the formal structure of CB, giving precedence to the firm-level agreements over those at higher levels, as well as granting the power to employers to opt-out from collective agreements and reducing the survival date of agreements after expiration. With the reform, firm-level agreements began to have priority over sector-level agreements, and firms were able to unilaterally decrease wages to the minimum wage.[61] Thus, firms were able to leave not only the sector-level agreement, but also the firm-level one. In addition, the reform set a twelve-month limit on the extension of expired agreements, leaving workers covered by the proximate higher-level agreement that sets lower standards and, ultimately, by the Workers’ Statute that sets the very minimum standards. This degree of decentralization of bargaining was the most radical in the region, together with that of Greece.[62]

This difference in outcomes is explained by differences in business support. Although we would expect measures destined to decrease the cost of labor to be widely endorsed by capital, in practice that varied across cases. All business supported the decrease in EPL, but only the large exporters in Spain favored the decentralization of CB. The majority of business, small firms with low productivity heavily oriented to the domestic market, rejected it.

The cases of Portugal and Spain usefully demonstrate the factors and sequence described above. A “similar systems” logic motivates the decision to focus on these two particular cases.[63] These countries share, among other relevant covariates, a sub-type of capitalism, levels of economic development, and similar types of industrial relations and social protection systems. Likewise, they were subject to a common crisis and enormous pressure towards adjustment. They are then two “most likely” cases for labor market reform, but they show variation in outcomes that demonstrates the interplay between policy-makers’ ideas and business interests, based on one key structural difference between the two cases: the presence of a strong group of industrial exporters in Spain.

Portugal Austerity and labor market reforms in Portugal between 2011 and 2015 reflect the competing pressures of technocratic policymakers and the interests of capital—a divided elite. While external institutions and markets pushed for reform, and the conservative government that took power in June 2011 following the initiation of adjustment by the socialists implemented an austerity agenda that went even beyond those pressures, business expressed opposition to the key change in labor policy. The government initially reformed the structure of industrial relations, advancing the decentralization of CB against the opposition of most business sectors. Two years later, however, the government backtracked.

In May 2011 the socialist government signed an MoU committing to a combination of austerity and structural reforms in exchange for financial support. Shortly thereafter, the Socialist Party lost the elections and the conservative government that followed implemented that reform agenda. The devotion of the new government to the austerity agenda was notable, and, arguably, it used the external institutions' pressure to carry out its own, more aggressive, plan of policy change.[64] The government put a particular emphasis on reforms in the labor market area. Indeed, the Secretary of State for Employment said that this was the area with the most changes and assured that "it was not about ticking boxes . . . we studied, we looked at data."[65]

The 2011–2015 Executive that resulted from a coalition between the Social-Democratic Party (SDP) and the People's Party (PP) was more technocratic than any previous government of the right-wing SDP. Pedro Passos Coelho, the Prime Minister, made his commitment to adjustment explicit by saying publicly that they would go "beyond the Troika." The people he chose to lead the Finance, Economy, and Labor ministries were all technocrats and outsiders, both to the country (they resided abroad) and to political parties (many of them were professors or officials in external institutions and/or banks). These economists, together with neoliberal think tanks like *Compromisso Portugal and Forum para a Competitividade*, had been debating for years the need to re-orient the economy towards export-led growth through economic adjustment, in the form of internal devaluation and labor reforms.[66]

Still, when it came to labor, the government was unable to sustain the key change: the decentralization in CB. While in the dimension of EPL the government went beyond what had been agreed with the external institutions, in the dimension of CB the government initially advanced a radical decentralization, but later backtracked. This decision was guided by the opposition of most business sectors, which not only complained publicly, but also refused to embrace the new system. The Secretary of State for Employment acknowledged this when saying that "all social partners were against the establishment of a representativeness criteria," and that they "threaten[ed] to not sign agreements, if they were not going to be extended."[67] He added that this, together with the fact that the rescue program was over and the economy growing, explained the reversal.

Most business sectors were not convinced of the general strategy of internal devaluation in order to turn towards export-led growth. The economic structure of Portugal—characterized by an overwhelming majority of small firms, with low levels of productivity and oriented to the domestic market—was a clear determinant. In 2011, only 5 percent of firms had more than ten employees,[68] the country's productivity levels were half of those in Germany,[69] and exports of goods and services accounted for 34 percent of GDP.[70] That is why the General Secretary of the CCP complained that "the government wanted to give a shock to capital via wage devaluation, but the structure does not change from one day to the next. Only very few Portuguese firms export, and we cannot compete through low wages."[71]

In particular, when it came to the labor reform, business did not embrace it uniformly. While business was generally interested in lowering labor costs, they supported the decrease in EPL, but did not agree with the decentralization of CB. Regarding employment protection, they had been asking for more flexible conditions for hiring and dismissing workers. In particular, the decrease in severance payments became the main request during the crisis, as it would allow them to lay-off workers and restructure firms. They were thus satisfied that severance payments for individual dismissals decreased and it became easier to use temporary contracts.[72] Moreover, they continued to claim a longer trial period for permanent contracts and defended the existence of temporary contracts.[73]

However, when it came to the decentralization of CB, another measure destined to decrease labor costs, business rejected it for a myriad of reasons that exceeded the effect on wages. The first issue had to do with competition. Naturally, business feared that those firms that were part of associations and signed agreements would face different conditions from those that were not in associations and would not be bound by those agreements.[74] Thus, business preferred to maintain a level playing field.[75] Second, with respect to industrial conflict, celebrating firm-level agreements would also mean having the union at the firm, something most wanted to avoid.[76] The third reason had to do with transaction costs. Small firms were unable to carry their own CB and expected support from the sector.[77] Finally, the confederations not only represented firms that were mostly against the change,[78] but also had their own existence tied to their affiliated associations engaging in CB. Without extension mechanisms, "confederations would lose their role."[79] Thus, the four business associations opposed the measure and sent a letter to the IMF complaining about it.[80]

The absence of allies in the business community meant that the Portuguese government could not sustain the labor changes. The divisions within the elite became evident. While business was not able to stop the reform, it had the capacity to undermine it: under the conditions for extensions, employers' associations refused to sign agreements. Indeed, the CCP said that the restrictions would mean "the paralysis of collective bargaining."[81] They explicitly accused the government of blocking the system, since "firms alone are not going to increase wages, risking competing in unfair conditions"[82] Thus, what was supposed to work towards a decentralization of CB and create a myriad of new (likely more flexible) agreements at the firm-level actually meant no bargaining at all.

The case of textiles and footwear is the most telling. This is an industry that exports more than 95 percent of its production and accounts for almost 4 percent of the country's total exports, which indicates they should favor policies arguably conducive to fostering export growth. However, the six associations in the sector refused to sign any agreements under the restrictive extension mechanisms to avoid exposing their associates to unfair competition from those not signing agreements and thus not covered by them. In fact, they only returned to bargaining in 2015, after the change had been reversed.[83] The concerns of this sector were mostly tied to the qualifications and skills of the labor force and not labor costs, so decentralization meant opening up to the possibility of wage rivalries and dumping without addressing their main interests.

Why did the government not take into account these interests? Policymakers delegitimized domestic firms' preferences, accusing them of being too small, risk-averse, not dynamic enough, and seeking state protection from markets, while saying the government should instead focus on attracting foreign capital.[84] The chief of staff of the Minister of Finance noted that the tradable sector was not organized and did not have a powerful single voice, adding that "it is not like what happens in Germany now with the tariffs, where auto industries are asking for changes in the regulations."[85] In the absence of the "correct" preferences from business, the government took the lead.

The Portugal case demonstrates that business did not uniformly support the deregulation of labor markets. While it embraced the decrease in EPL, it was against the decentralization of CB. A divided elite made the policy changes difficult to sustain. This opposition from business translated into a boycott of the new system, and after two years the government reversed the measure.

Spain Austerity and labor market reforms in Spain between 2011 and 2015 reflect the concurring pressures of technocratic policymakers and the interests of a leading business sector, a cohesive elite. The external and structural pressures were the same as in Portugal and so were the preferences of those in government, but different interests from business produced different outcomes in labor policy. While most businesses opposed the decentralization of CB, the government went ahead with the support of the most dynamic segment of the Spanish economy, the highly competitive industrial export sector of car manufacturing.

On December 20, 2011, the conservative People's Party took office, following almost two years of economic adjustment imposed by the Socialist Party. The new government showed its full commitment to the austerity agenda, and, specifically, to changes in the labor market. The new Economy and Competitiveness Minister, Luis De Guindos, put labor reform—together with changes in the financial sector—as the key source of economic growth for the country, adding that "the central point of the labor reform has to be the modification of the system of collective bargaining in Spain."[86] He was also captured by TV cameras when he whispered to Olli Rehn, the European Commissioner for Economic and Monetary Affairs and the Euro, that the labor reform would be "extremely aggressive" and "a true change."

As in Portugal, the government arguably used the crisis and the external institutions' demands to implement its own plan of policy change.[87] In particular, the authors of the labor reform did not hide the fact that it was part of their agenda. The

General Director for Employment and one of the writers of the reform explained that it "had to be done," and that they met with the EC only to inform them of what they would do: "We wrote it, we showed it to the EC, and we kept our word."[88] Beyond the government, the idea that economic adjustment and structural reforms were necessary to turn the economy towards export-led growth was found in universities, in the research services of the Central Bank of Spain as well as those of private banks, and in policymakers' circles.[89]

On February 12, the government approved a comprehensive labor reform that constituted a structural alteration of the framework of industrial relations. Without social consultation and ignoring a recent bilateral agreement between employers and unions, the government advanced a radical decentralization of CB. This decision responded to the preferences of a highly competitive industrial export sector—that of automobile—but went against the interests of the majority of Spanish firms. This was acknowledged by one of the writers of the reform: "Firms prefer external flexibility and sector-level bargaining."[90]

Indeed, while in general business favored the strategy of austerity, speaking publicly in favor of the successive measures of economic adjustment,[91] it was divided around labor reform. Spain, like Portugal, is characterized by a majority of small and medium firms (only 6 percent of firms had more than ten employees in 2011),[92] of low productivity and oriented to the domestic market, and an even lower share of exports (29 percent of GDP in 2011).[93] However, Spain has something that Portugal does not: a select group of firms that are extremely competitive, which is known in the economics literature as "the Spanish paradox."[94] Thus, the overall productivity levels of the country were higher than those in Portugal, and more than 77 percent of those of Germany.[95]

In this context, preferences for labor policies within business were divided and often contradictory. Regarding employment protection, they supported the changes as the head of CEOE said they were "in line with changes in Europe" and "introduced flexibility in a very rigid labor market." Moreover, business continued to ask for fewer regulations for permanent contracts,[96] but when it came to CB, most business sectors believed the change had gone too far, with one key exception: the automobile sector.[97]

Most Spanish firms rejected decentralization for similar reasons to those in Portugal. The first issue, again, was a level playing field. Sector-level agreements worked as an element to control unfair competition.[98] The second one involved industrial conflict, as formal firm-level agreements would mean bringing the union to the firm.[99] The third one concerned transaction costs. Small firms simply did not have the capacity for conducting their own bargaining and used sector-level agreements as a reference.[100] Even after the reform, around 10 percent of firms responded that they did not have their own collective agreement because they lacked the knowledge to elaborate and negotiate it.[101] Indeed, a strong advocate of the reform, from the research service of a private bank, admitted that small firms did not have a Human Resources Department to take advantage of the changes.[102] Finally, there was the CEOE, torn between the interests of their larger and more productive companies, in favor of the decentralization, and those of the small and medium-size firms that were against.[103] However, the changes, in their content and their form, attacked something more fundamental: the organization's own existence. CEOE's provincial and sectoral associations were in charge of CB with over 10,000 people involved in the process.[104] The leader of a business group, who asked to remain anonymous, explained this system in blunt terms: "They feed off collective bargaining." The reform also attacked CEOE's institutional and symbolic role, as it was passed only a few days after business and unions had signed a bilateral agreement disregarding its content.[105] In this context, CEOE's preferred model was one that allowed for firm-level bargaining—authorizing firms that wanted to negotiate at their level to do so—while keeping the sector-level as a frame—sustaining the activity and institutional role of the regional and sectoral associations.[106]

However, there was a particularly powerful voice in the sector of large export-oriented firms in support of the reform, that of the Spanish Associations of Automobile and Truck Manufacturers (ANFAC). This association represents highly competitive, foreign-owned car-makers that already bargain at the plant-level. Still, they had been pressing for change in the law favoring lower-level agreements since at least 2010, when the previous government was drafting its own reforms.[107] Crucially, this association is not an employers' one; since there is no sector-level agreement, it is not involved in bargaining, and it is simply an interest group. This sector is organized in factories distributed across the country that compete with each other. In other words, there is competition not only between different firms, but also between different factories of the same firm. While the sector decreased its share in the economy in the early 2000s because of inflation in the country, automobile firms in Spain were actively seeking to compete with other European countries through lower production costs. These costs are not only wages, but especially internal flexibility: "in the labor cost, flexibility makes the difference."[108] The reform achieved four things for the sector. First and foremost, it provided a legal status to what until then was a practice based on the agreement of two parties (employers and unions). Second, it decreased the bargaining power of unions, which could no longer threaten the firms with returning to the sector-level agreement. Third, it gave these firms even more internal flexibility and leeway to organize and differentiate working conditions and wages across factories. Finally, it affected how the rest of the economy—and, crucially, the sector of automobile suppliers—organized. Suppliers are a large part of the value chain and the most important source of value added, and their market and production conditions are controlled by car-makers.[109] While CB arrangements among suppliers varied, in many cases they were at the sector level. This reform allowed for decentralization, more flexibility, and a decrease of costs along the whole chain.

Although, just like in Portugal, employers and unions that opposed the reform and tried to prevent its enforcement, they were not successful. On the one hand, and despite specific efforts from the government, the data show that there was no transition to firm-level bargaining.[110] On the other hand, the goal of the reform—to make the content of collective bargaining agreements more favorable for employers—was achieved regardless. The possibility of moving to a firm-level agreement was a threat that employers could use when re-negotiating the sector-level agreement to force workers to accept employers' preferred conditions.[111]

So why did the government advance the interests of one sector and not of the majority? The decision was rooted in the fact that they considered a cost-competitive industry like automobiles to be a key part of the export-led model of economic growth they envisioned. "I want Spain to work as the automobile industry," said the head of the Economic Bureau of the President during the Socialist government.[112] The Minister of Economy of the conservative government also explicitly stated that the labor reform had the goal of changing the growth model away from domestic demand and towards exports.[113] When he later announced a growth in automobile production, he credited "the correct cost of labor" and the fact that "you have much more flexibility here in Spain than in other areas."[114] Instead, the interests of most firms were dismissed—as one of the authors of the labor reform said "a reform that no one likes, is a good reform."[115]

The Spanish case demonstrates that a key sector of business supported the deregulation of labor markets. While all business embraced the decrease in EPL, only the highly-competitive industrial export sector was in favor of the decentralization of CB. With the support of this sector, and by forming a cohesive elite, the government was able to advance their agenda.

Conclusion

To explain the difference in labor reforms in response to financial crises in Portugal and Spain, this article examines the effects of labor policy for export-led economic growth and the business interests of the two countries. Technocratic beliefs in favor of reform and business preferences coincided in Spain—the elite was cohesive—while they did not in Portugal—the elite was divided. Therefore, the Spanish government was able to put forward and consolidate a change in the industrial relations framework, while the Portuguese government initially advanced a more radical change, but later reversed it.

The literature's overwhelming focus on external and top-down pressures for reform obscures the material factors that can stand in the way of policy change. Countries without a relevant export sector are harder to turn towards an export-oriented growth model, no matter the economic hardship, the prescriptions from external institutions, and the set of beliefs held by the domestic technocrats. Southern Europe, a region that mostly relies on domestic consumption to generate growth, cannot swiftly reverse its economic course. While reformers have the initiative for policy-change, capital interests play a crucial role, either by promoting these changes or opposing them. Therefore, legislative changes will not go far in changing industrial relations without a broad coalition that includes at least some of the actors who will be affected by those changes.

In addition, my work shows that there is more than one road to compete successfully in the economy. Portugal and Spain chose different paths, and their trajectories since then do not overwhelmingly favor the latter, thus casting doubt on the effectiveness of the internationally-sanctioned agenda of austerity and pro-market reforms. The way to a new model of economic growth and development is long and intricate, and the trajectory is neither simple nor singular.

NOTES

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1. "Empresários não querem baixa da TSU," *Jornal de Negocios*, Sep. 14, 2012 (own translation).
2. Interview 1 (Please see Appendix for interview details).
3. "Consumidores, sindicatos y sector turístico critican los recortes y los empresarios piden más," *RTVE*, Jul. 11, 2012 (own translation).
4. Notwithstanding the fact that the deregulation of labor is surrounded by considerable theoretical and empirical controversies. See Gøsta Esping-Andersen and Marino Regini, eds., *Why Deregulate Labour Markets?* (New York: Oxford University Press, 2000) for an analysis of labor liberalization policies and the debates around them.
5. Stefanie Walter, "Crisis Politics in Europe: Why Austerity Is Easier to Implement in Some Countries than in Others," *Comparative Political Studies*, 49 (December 2016), 841–73; Klaus Armingeon and Lucio Baccaro, "The Sorrows of Young Euro: Policy Responses to the Sovereign Debt Crisis," in Nancy Bermeo and Jonas Pontusson, eds., *Coping with Crisis. Government Reactions to the Great Recession* (New York: Russell Sage Foundation, 2012), 162–97.
6. Catherine Moury and Adam Standring, "Going beyond the Troika: Power and Discourse in Portuguese Austerity Politics," *European Journal of Political Research*, 56 (January 2017), 660–79; Kenneth A. Dubin, "Coalitions Against Change. The (Real) Politics of Labor Market Reform in Spain," *Spanish Labour Law and Employment Relations Journal*, 1 (April-November 2012), 47–63.
7. Angel Pascual Ramsay, *The Management of the Economic Crisis in Spain by the PSOE Government: A Domestic Political Perspective* (Wolfson College, University of Cambridge, 2017).
8. Angie Gago, *EU Ordoliberal Intergovernmentalism and the Transformation of National Political Opportunities. Explaining Governments' and Trade Unions' Strategies in Spain, Portugal and Italy during the Eurozone Crisis* (Graduate School in Social and Political Sciences, Universita Degli Studi Di Milano, 2018).
9. Robert Fishman, *Democratic Practice: Origins of the Iberian Divide in Political Inclusion* (New York: Oxford University Press, 2019); Robert M. Fishman, "Rethinking the Iberian Transformations: How Democratization Scenarios Shaped Labor Market Outcomes," *Studies in Comparative International Development*, 45 (July 2010), 281–310.
10. Interviews with government officials included the Prime Minister of Spain when the Eurozone crisis hit the country, as well as most members in charge of the Economics and Employment areas of government before, during, and after the labor market reforms in both countries. In particular, I interviewed the authors of the labor reforms. Regarding business, my interviews cover leaders from the most relevant economic sectors in each country and from different business-affiliated organizations, including employers' associations, think-tanks, and lobby groups.
11. Alternatively, Oscar Molina and Martin Rhodes, "The Political Economy of Adjustment in Mixed Market Economies: A Study of Spain and Italy," in Bob Hancké, Martin Rhodes, and Mark Thatcher, eds., *Beyond Varieties of Capitalism* (New York: Oxford University Press, 2007), 223–52, group Southern European countries under a "mixed-market" economy sub-type.
12. David Rueda, Erik Wibbels, and Melina Altamirano, "The Origins of Dualism," in Pablo Beramendi, Silja Hausermann, Herbert Kitschelt, and Hanspeter Kriesi, eds., *The Politics of Advanced Capitalism* (New York: Cambridge University Press, 2015), 89–111.

13. Juan J. Dolado, “The Pros and Cons of the Latest Labour Market Reform in Spain,” *Spanish Labour Law and Employment Relations Journal*, 1 (April-November 2012), 22–30; Samuel Bentolila, Juan J. Dolado, Wolfgang Franz, and Christopher Pissarides, “Labour Flexibility and Wages: Lessons from Spain,” *Economic Policy*, 9 (April 1994), 55–99.

14. Trade union density in Portugal was below 19 percent in 2012 (OECD.Stat), and employer density was below 40 percent in 2011—with high variation across sectors (OECD, “Labour Market Reforms in Portugal 2011–15” (2017)). Trade union density was around 17 percent in Spain in 2012 (OECD.Stat), while it is calculated that less than 20 percent of firms are affiliated with the main employers’ confederation in the country (Interview 15).

15. The differences in prices and wages between the North and South of Europe were large and increasing: “In 1999, inflation differentials between EMU’s northern and southern economies were roughly 2 per cent. By 2001, these inflation differentials had doubled. Such inflation differentials accumulated year on year and transpired into a persistent divergence in the real exchange rate,” which membership in the Euro prevented adjusting for (Alison Johnston and Aidan Regan, “European Monetary Integration and the Incompatibility of National Varieties of Capitalism,” *JCMS: Journal of Common Market Studies*, 54 (March 2016), 318–36, 328).

16. International Monetary Fund, *Portugal. Staff Report for the 2009 Article IV Consultation* (2010); Olivier Blanchard, “Adjustment within the Euro. The Difficult Case of Portugal,” *Portuguese Economic Journal*, 6 (April 2007), 1–21; Samuel Bentolila and Juan F. Jimeno, *La reforma de la negociación colectiva en España* (FEDEA, 2002).

17. In Europe in the 1970s and 1980s, wage moderation was achieved through peak-level negotiation between centralized and encompassing business and labor organizations recognized by the state—i.e., neo-corporatism. Coordination at the highest level arguably allows wage setters to incorporate the externalities of their demands into their decisions, and ties the wage development in nontradable sectors (and protected from international competition) to those that are tradable (and exposed to international competition), leading to wage restraint (Lars Calmfors and John Driffill, “Bargaining Structure, Corporatism and Macroeconomic Performance,” *Economic Policy*, 3 (April 1988), 14–61). Southern European countries, however, lacked the preconditions for this type of exchange, as there were no centralized associations that could engage in peak-level coordination (Maddalena Ronchi and Filippo di Mauro, *Wage bargaining regimes and firms’ adjustments to the Great Recession* (European Central Bank, 2017); Eurofound, *Pay in Europe in Different Wage-Bargaining Regimes* (2015); Alison Johnston, Bob Hancké and Suman Pant, “Comparative Institutional Advantage in the European Sovereign Debt Crisis,” *Comparative Political Studies*, 47 (January 2014), 1771–1800).

18. Tito Boeri, “Perverse effects of two-tier wage bargaining structures,” *IZA World of Labor*, 101 (2015).

19. Pedro Martins, "30,000 Minimum Wages: The Economic Effects of Collective Bargaining Extensions," *IZA Discussion Paper No. 8540* (October 2014).

20. For a rich discussion on the role that labor costs played in the macroeconomic imbalances in Southern Europe, and the actual levels of labor costs in these countries see Sofia Pérez, “A Europe of creditor and debtor states: explaining the north/south divide in the Eurozone,” *West European Politics*, 42 (April 2019); Peter A. Hall, “The Economics and Politics of the Euro Crisis,” *German Politics*, 21 (November 2012), 355–371, Jay C. Shambaugh, *The Euro’s Three Crises* (Brookings Institute, 2012), Ansgar Belke and Christian Dreger, *Current account imbalances in the euro area: catching up or competitiveness* (German Institute for Economic Research: Berlin, 2011), Maurice Obstfeld and Kenneth Rogoff, “Global Imbalances and the Financial Crisis: Products of Common Causes,” in Asia and the Global Financial Crisis. Asia Economic Policy Conference, Santa Barbara, CA, October 18–20, 2009: Federal Reserve Bank of San Francisco.

21. This outcome is even more surprising given that previous attempts at decentralization of collective bargaining had failed. Throughout the 1990s and early 2000s, the two countries responded to the challenges of globalization and the European monetary unification with a series of structural reforms, including the deregulation of labor markets. However, the structures of collective bargaining remained stable (Sofia Pérez, “From Decentralization to Reorganization: Explaining the Return to National Bargaining in Italy and Spain,” *Comparative Politics*, 32 (July 2000), 437–458; Sebastian Royo, *"Still the Century of Corporatism? Corporatism in Southern Europe. Spain and Portugal in Comparative Perspective"* (Council of European Studies, 2000).

22. See David Rueda, “Insider–Outsider Politics in Industrialized Democracies: The Challenge to Social Democratic Parties,” *American Political Science Review*, 99 (February 2005), 61–74., and the volume edited by David C. Colander, ed., *Neoclassical Political Economy: The Analysis of Rent-Seeking and Dup Activities* (Cambridge: Ballinger Publishing Company, 1984).

23. For a general theory of collective action see Mancur Olson, *The Logic of Collective Action* (Cambridge: Harvard University Press, 1971).

24. John Williamson, ed., *The Political Economy of Policy Reform* (Peterson Institute for International Economics, 1994); John Williamson and Stephan Haggard, "The political conditions for economic reform," in John Williamson, ed., *The Political Economy of Policy Reform* (Peterson Institute for International Economics, 1994); Stephan Haggard and Steven B. Webb, "What Do We Know about the Political Economy of Economic Policy Reform?," *The World Bank Research Observer*, 8 (1993), 143–68; Joan M. Nelson, *Fragile Coalitions: The Politics of Economic Adjustment* (New Brunswick: Transaction Publishers, 1989).

25. Karen L. Remmer, "The Politics of Economic Policy and Performance in Latin America," *Journal of Public Policy*, 22 (October 2002), 29–59; Kurt Weyland, "Risk Taking in Latin American Economic Restructuring: Lessons from Prospect Theory," *International Studies Quarterly*, 40 (June 1996), 185–207.

26. For this framework, see Joseph E. Stiglitz, *The Euro: How a Common Currency Threatens the Future of Europe* (New York: W. W. Norton & Company, 2016) and Armin Schäfer and Wolfgang Streeck, eds., *Politics in the Age of Austerity* (Cambridge: Polity, 2013).

27. Stefano Sacchi, "Conditionality by other means: EU involvement in Italy's structural reforms in the sovereign debt crisis," *Comparative European Politics*, 13 (January 2015), 77–92; Armingeon and Baccaro.

28. International Monetary Fund, "Portugal: Letter of Intent, Memorandum of Economic and Financial Policies (Portuguese version), and Technical Memorandum of Understanding," (2011).

29. The European Semester is a "cycle of economic and fiscal policy coordination within the EU," during which "the member states align their budgetary and economic policies with the objectives and rules agreed at the EU level" (European Council, European Semester - Consilium, n.d. Available at: https://www.consilium.europa.eu/en/policies/european-semester/. [Accessed: 21-Aug-2019].).

30. European Commission, "Memorandum of Understanding on Financial Sector Policy Conditionality," (2012).

31. Jeffry Frieden, *Debt, Development, and Democracy* (Princeton: Princeton University Press, 1991).

32. Karen L. Remmer, "The Political Economy of Elections in Latin America, 1980-1991," *The American Political Science Review*, 87 (June 1993), 393–407; Adam Przeworski, *Democracy and the Market* (New York: Cambridge University Press, 1991).

33. Victoria Murillo, "Partisanship Amidst Convergence: The Politics of Labor Reform in Latin America," *Comparative Politics*, 37 (July 2005), 441–458; Carles Boix, *Political Parties, Growth and Equality: Conservative and Social Democratic Economic Strategies in the World Economy* (New York: Cambridge University Press, 1998); Geoffrey Garrett, *Partisan Politics in Global Economy* (New York: Cambridge University Press, 1998); Douglas A. Hibbs, "Political Parties and Macroeconomic Policy," *American Political Science Review*, 71 (December 1977), 1467–1487.

34. Miguel Angel Centeno, *Democracy Within Reason: Technocratic Revolution in Mexico* (University Park: Penn State University Press, 1994); Miles Kahler, "Orthodoxy and Its Alternatives," in Joan M. Nelson, ed., *Economic Crisis and Policy Choice* (Princeton: Princeton University Press, 1990); Peter Hall, ed., *The Political Power of Economic Ideas: Keynesianism across Nations* (Princeton: Princeton University Press, 1989).

35. Hector E. Schamis, *Re-Forming the State: The Politics of Privatization in Latin America and Europe* (Michigan: University of Michigan Press, 2002).

36. Victoria Murillo, *Labor Unions, Partisan Coalitions, and Market Reforms in Latin America* (New York: Cambridge University Press, 2001).

37. Murillo, 2005.

38. Rueda.

39. Moury and Standring; Georg Picot and Arianna Tassinari, "All of One Kind? Labour Market Reforms under Austerity in Italy and Spain," *Socio-Economic Review*, 15 (April 2017), 461–82; John W. Cioffi and Kenneth A. Dubin, "Commandeering Crisis: Partisan Labor Repression in Spain under the Guise of Economic Reform," *Politics & Society*, 44 (September 2016), 423–53.

40. Sara Watson, *The Left Divided: The Development and Transformation of Advanced Welfare States* (Oxford: Oxford University Press, 2015).

41. Peter Hall, ed., *The Political Power of Economic Ideas: Keynesianism across Nations* (Princeton University Press, 1989). Miguel Angel Centeno, *Democracy Within Reason: Technocratic Revolution in Mexico* (University Park: Penn State University Press, 1994); Margaret Weir and Theda Skocpol, "State Structures and the Possibilities for 'Keynesian' Responses to the Great Depression in Sweden, Britain, and the United States," in Peter B. Evans, Dietrich Rueschemeyer and Theda Skocpol, eds., *Bringing the State Back In*

(New York: Cambridge University Press, 1985), 107–51; A. W. Coats, ed., *Economists in Government: An International Comparative Study* (Durham: Duke University Press, 1983).

42. Cornel Ban, *Ruling Ideas: How Global Neoliberalism Goes Local* (New York: Oxford University Press, 2016); Mark Blyth, *Austerity: The History of a Dangerous Idea* (New York: Oxford University Press, 2013).

43. Interviews 4, 19, 20, 21, 28.

44. Fishman, 2019 and 2010.

45. Ibid.

46. Fishman, 2019, 288.

47. Fishman, 2010. The characterization of Portugal's welfare system as less liberal than Spain is not one without dispute. While some have noted that liberalization of labor was harder to achieve in Portugal than in Spain during the 1980s and the 1990s (Miguel Glatzer, "Rigidity and Flexibility: Patterns of Labour Market Policy Change in Portugal and Spain, 1981–96," *South European Society and Politics*, 4 (1999)), and others have highlighted the systematically lower unemployment figures in Portugal (Blanchard and Juan F. Jimeno, "Structural Unemployment: Spain versus Portugal," *The American Economic Review*, 85 (May 1995), 212–18), Watson—focusing on different variables of labor protection—has disputed this account and characterized Portugal's model as less protective of workers than that of Spain. Broadening the focus, Sebastián Etchemendy, *Models of Economic Liberalization: Business, Workers, and Compensation in Latin America, Spain, and Portugal* (New York: Cambridge University Press, 2011) has studied the different paths these two countries took towards liberalization, categorizing them as more state-directed in the case of Spain and more neo-corporatist (relying on concertation) in the case of Portugal.

48. Doug McAdam, John D. McCarthy, and Mayer N. Zald, eds., *Comparative Perspectives on Social Movements: Political Opportunities, Mobilizing Structures, and Cultural Framings* (New York: Cambridge University Press, 1996).

49. Peter Gourevitch begins his classic book *Politics in Hard Times* by stating that "Policy requires politics. Ideas for solving economic problems are plentiful, but if an idea is to prevail as the actual policy of a particular government, it must obtain support from those who have political power" (Peter Gourevitch, *Politics in Hard Times: Comparative Responses to International Economic Crises* (Ithaca: Cornell University Press, 1986), 17).

50. José Ignacio García Pérez and Marcel Jansen, *Un balance de los efectos de la reforma laboral de 2012* (FUNCAS, 2015), indicate that this was the mechanism behind wage decrease in Spain.

51. Fabio Bulfone and Alexandre Afonso, "Business Against Markets. Employer Resistance to Collective Bargaining Liberalisation During the Eurozone Crisis," *Comparative Political Studies*, OnlineFirst (2019).

52. Kathleen Thelen, "Why German Employers Cannot Bring Themselves to Dismantle the German Model," in Torben Iversen, Jonas Pontusson, and David Soskice, eds., *Union, Employers and Central Banks* (New York: Cambridge University Press, 2000), 138–69 and Sara Watson and Raj Arunachalam, "Firms and Social Protection: An Event Study," *Comparative Political Studies*, 51 (December 2018), 1974–2021 also point to this factor to explain the reluctance of German and French employers, correspondingly, to dismantle their collective bargaining model.

53. See Dubin for an explanation of how small size firms cannot take advantage of labor laws in the same way as larger firms.

54. Cioffi and Dubin; Dubin; Sofía Pérez, "Social Pacts in Spain," in Giuseppe Fajertag and Philippe Pochet, eds., *Social Pacts in Europe New Dynamics* (European Trade Union Institute, 2000).

55. In fact, there is evidence that extension practices had a large and positive effect on the level of density of Employers' Associations in Western Europe for 1973–2012 (Bernd Brandl and Alex Lehr, "The Strange Non-Death of Employer and Business Associations: An Analysis of Their Representativeness and Activities in Western European Countries," *Economic and Industrial Democracy*, 1 (November 2019)).

56. See Appendix for a table comparing the labor policy changes in Portugal and Spain.

57. Resolution 90/2012, by the Council of Ministers.

58. Resolution 43/2014, by the Council of Ministers.

59. Directorate-General for Economic and Financial Affairs, *The Economic Adjustment Programme for Portugal. 2011–2014* (European Commission, 2014).

60. "Portarias de extensão: regresso ao passado," *Observador*, Jun. 30, 2014.

61. Employers need to state a cause (economic or organizational) and get approval from the National Advisory Committee on Collective Labor Agreements, formed by unions, firms, and state representatives. The decision can be appealed in the Courts.

62. Cioffi and Dubin.

63. Adam Przeworski and Henry Teune, *The Logic of Comparative Social Inquiry* (New York: John Wiley and Sons, Inc., 1970).

64. This argument is developed in Moury and Standring. The Economic and Financial Affairs Advisor at the European Commission Representation in Portugal in fact complained that the government had sometimes "used" them as a scapegoat to justify the most pro-market measures they implemented (Interview 13).

65. Interview 4. Studies have also highlighted that while most of the government measures were of a cyclical nature, the labor market reform constituted a structural change (Rui Branco and Daniel Cardoso, "The Politics of Change: Labour Market Reforms During the Sovereign Debt Crisis in Portugal," 24th International Conference of Europeanists, Glasgow, July 12–14, 2017).

66. There were, of course, dissenting voices. Several Portuguese political scientists and economists held different views and argued in favor of a different response to the economic crisis. However, the economists in government had a unified and strong position around the need for austerity and the liberalization of markets.

67. Interview 4.

68. Pordata.

69. The nominal labor productivity in Portugal in 2011 was 67.5, while Germany's was 126 and the Euro area's was 111 (Eurostat).

70. This number is 45 for Germany and 42 for the Euro area (Eurostat).

71. Interview 1.

72. Interviews 1, 2.

73. Interviews 1, 2.

74. Interviews 1, 2, 5, 6.

75. "CCP: Novos critérios das portarias de extensão ameaçam contratação colectiva em Portugal," *Diario Publico*, Oct. 26, 2012.

76. Interview 7.

77. Interview 3.

78. The CIP represents mainly industrial employers (although it also affiliates commerce and services) and is formed by an 89 percent of micro, small, and medium-size firms (63 percent micro and small) (Deloitte, *As associações empresariais do futuro* (2015)). The CCP represents employers in commerce and services and is formed by a majority of micro and small companies, intensive in labor, and with very precarious employment (Interview 1). The Confederation of Portuguese Tourism (CTP, by its name in Portuguese) represents firms in the tourism sector and is formed by a 90 percent of family-owned micro-firms that co-exist with some large business groups (Interview 2). Finally, the Confederation of Farmers of Portugal (CAP, by its name in Portuguese) represents employers in the agricultural and forestry sectors, from micro-companies to large export-oriented employers (Bulfone and Afonso).

79. Interview 8.

80. "Patroes pedem a FMI mudanca no memorando," *Jornal de Negocios*, Oct. 8, 2012.

81. "CCP: Novos critérios das portarias de extensão ameaçam contratação colectiva em Portugal," *Diario Publico*, Oct. 26, 2012.

82. "Confederação do Comércio diz que há "bloqueios" que não permitem aumentar salários," *Expresso*, Mar. 28, 2013.

83. Isabel Távora and Pilar González, "Labour Market Regulation and Collective Bargaining in Portugal During the Crisis: Continuity and Change," *European Journal of Industrial Relations*, 22 (September 2016), 251–65.

84. Interview 9, 11, 12.

85. Interview 10.

86. "FT Interview Transcript: Luis De Guindos," *Financial Times*, Jan. 4, 2012.

87. This argument is developed in Cioffi and Dubin. The Economic advisor at the EC in Spain confirmed this account, stating that the domestic government had "used the Commission to advance their own agenda" (Interview 34).

88. Interview 20.

89. Just as in Portugal, in Spain too there were dissenting voices. However, austerity became the mainstream recipe to deal with crisis. See Jesús Cruces Aguilera, José Manuel Lago Peñas, Rita Moreno Preciado, Fernando Rocha Sánchez, and Esmeralda Sanz Berzal, *El Impacto de la Reforma Laboral de 2012 en la Negociación Colectiva (2013–2015)* (Confederación Sindical de Comisiones Obreras, 2016) for an explanation and a critique of this operation.

90. Interview 28.

91. José Fernández-Albertos and Alexander Kuo, "Economic Hardship and Policy Preferences in the Eurozone Periphery: Evidence from Spain," *Comparative Political Studies*, 49 (June 2016), 874–906. show evidence of widespread support for austerity measures among Spanish firms.
92. Pordata.
93. Eurostat.
94. Aránzazu Crespo Rodríguez, Gabriel Pérez-Quiros, and Rubén Segura Cayuela, *Competitiveness Indicators: The Importance of an Efficient Allocation of Resources* (Bank of Spain, 2012); Pol Antras Puchal, Rubén Segura Cayuela, and Diego Rodríguez Rodríguez, "Firms in International Trade (with an Application to Spain)," in XXXV Symposium of the Spanish Economic Society, Madrid, July 16–18, 2010.
95. The nominal labor productivity in Spain in 2011 was 97.3 (Eurostat).
96. Interview 14.
97. Oscar Molina And Fausto Miguélez, *Post-Crisis Social Dialogue in Spain: The Calm After the Storm* (International Labour Organization, 2016).
98. Interviews 16, 22, 28, 29.
99. Interview 31.
100. Interviews 20, 24, 26, 30, 28, 33. Jesús Terciado, leader of the small and medium size firms' associations CEPyME and vice-president of CEOE, expressed his concern for "firms that have less than 10 workers, that will now have trouble to have a solid agreement." ("Convenios con fecha de caducidad," *El País*, Feb. 27, 2012).
101. Data from Ministerio de Trabajo, Migraciones y Seguridad Social, Spain.
102. Interview 32.
103. While larger and more productive firms would often attempt to organize in separate lobby associations (such as the "Spanish Council for Competitiveness" created by the largest seventeen firms), smaller firms have their own organization, the Spanish Confederation of Small and Medium-Sized Enterprises (CEPyME), that is part of CEOE, though it has a distinct set of grievances (Bulfone and Afonso; Joaquim Molins López-Rodó, "Business Organizations, Democratic Consolidation and Concertation. The Case of Spain (1986-1998)," in European Consortium for Political Research General Conference, Manheim, March 26–31, 1999).
104. Dubin.
105. *II Acuerdo para el Empleo y la Negociación Colectiva 2012, 2013 y 2014* (2012).
106. CEOE's Director of Labor Relations confirmed this set of preferences by saying that "it is not necessary to go to firm-level agreements, only to have the possibility" (Interview 14). This was, in fact, the proposal the association had made only a year before the reform: enhancing the scope of firm-level bargaining, while sustaining sector-level agreements as the frame (CEOE and CEPyME, "Propuestas de los empleadores para solucionar la crisis" (2011)).
107. Interview 17.
108. Interview 17. "Anfac presenta al Gobierno un plan para volver a fabricar 3 millones de coches," *El País*, Sep. 25, 2012.
109. Josep Banyuls and Raúl Lorente, "La Industria del Automóvil en España: Globalización y Gestión Laboral," *Revista de Economía Crítica*, 9 (2010), 22.
110. The percentage of firm-level agreements went from 76 percent in 2011 to 77 percent in 2018, while the percentage of workers covered by firm-level agreements decreased from 10 percent in 2011 to 6 percent in 2018. However, the reform offered two additional tools— "inapplicability" of the agreement and "substantial modification of working conditions"—that employers could use to obtain their desired outcomes, without the need of transitioning to a firm-level bargaining. Indeed, the amount of "inapplied" agreements rose to 748 in 2012, reaching 2,512 in 2013, and decreasing to around 1,000 since 2015. There are no data on the number of "substantial modification of working conditions," because employers are not legally obliged to register it. This was expressed by one of the writers of the reform in the following terms: "The possibility of firm-level bargaining has created a different sensibility in the sector-level agreements. When unions block the negotiations, employers can threaten to move to a firm-level agreement and this will unblock the process. The threat of firm-level agreements serves to respond to the needs of the firms" (Interview 20). Moreover, a more detailed analysis of the existing information provides three relevant changes since the reform: 1. A spike in the number of collective-agreements signed (from 263 in 2011, to 338 in 2012 and 662 in 2013); 2. The prevalence of firm-level agreements among those new agreements (around 95 percent); 3. The smaller size of firms signing their own agreements (as opposed to before the reform, when it was mostly medium and large companies that had their own agreements). Data from Ministerio de Trabajo, Migraciones y Seguridad Social, Spain.
111. The percentage of firms that respond that "the sector-level agreement adapts to their needs" to the question of why they do not have a firm-level agreement went from 73.2 percent in 2013 to 77.8 percent in

2015 (data from Ministerio de Trabajo, Migraciones y Seguridad Social, Spain). This could be taken to mean that the content of sector-level agreement has changed in ways that are favorable to employers' preferences. However, this number could also mean that there was no need for a change in the system of labor relations in the first place, since employers were satisfied with their sector-level agreements. Unfortunately, this is the only period for which this information is available, so a longer comparison to sort this out is not possible. Still, additional analyses show that the content of collective bargaining agreements has changed since the reform in ways that are favorable to employers, something that would support the first interpretation of those numbers. Jesús Cruces Aguilera, José Manuel Lago Peñas, Rita Moreno Preciado, Fernando Rocha Sánchez, and Esmeralda Sanz Berzal, *El Impacto de la Reforma Laboral de 2012 en la Negociación Colectiva (2013–2015)* (Confederación Sindical de Comisiones Obreras, 2016).

112. Interview 25.

113. "De Guindos, convencido de que España dará una "buena noticia" en tres años," *El País*, Jul. 12, 2012.

114. "Spain Reaps Benefit of Austerity Measures, Says Economy Minister," *Financial Times*, Sep. 4, 2013.

115. Interview 21.

APPENDIX

Table 1. Break-down of labor policy changes in Portugal and Spain

		Policies	
Area	**Topic**	**Portugal**	**Spain**
Employment protection legislation	Individual dismissals	Redefinition of the conditions for fair dismissal (made now easier when alleging inadaptability) and of a more objective criteria for dismissing workers in the case of extinction of a work position	Redefinition of the conditions for fair dismissal (made now easier when alleging economic reasons)
		Reduction in severance payment (particularly for permanent contracts)	Reduction in severance payment for unfair dismissals No rights to reinstatement when unfair dismissals—except when it is based on prohibited grounds
		Changes to the way severance payments are to be made (creation of a dismissal and an insurance fund, financed by the employers)	
	Collective dismissals	-	Elimination of the requirement of administrative authorization for collective redundancies More clarity regarding the procedure
	New contract	-	*Contrato de Apoyo a Emprendedores* (extended trial period of one year)
Collective bargaining	Level	Priority to sector-level agreement over those at the firm level	Priority to firm-level agreements over those at the sector / regional level
	Derogation	Firms can temporarily suspend a collective agreement in times of crisis—only with the agreement of workers' representatives	Firms can opt-out from a collective agreement (derogation clause)—even in the absence of agreement of workers' representatives
	Survival after expiration	36 months after their end-date	12 months after their end-date

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List of interviews

(unless otherwise indicated all interviews were conducted in person)

Portugal:

1. General Secretary of the Portuguese Commerce and Services Confederation, Lisbon, April 16, 2018.
2. Member of the Executive Board of the Confederation of Portuguese Tourism, Lisbon, April 28, 2018.
3. Minister of Labor, Solidarity and Social Security (2005-2009 and 2015-now), Lisbon, July 31, 2018.
4. Secretary of State for Employment (2011-2013), Lisbon, May 4, 2018.
5. Director of Services of Professional Relations at the General Direction of Employment and Labor relations, Ministry of Labor, Solidarity and Social Security, Lisbon, April 5, 2018.
6. Director of Services of Collective Regulation, Ministry of Labor, Solidarity and Social Security, Lisbon, March 27, 2018.
7. Director of Services of Professional Relations, Ministry of Labor, Solidarity and Social Security, Lisbon, April 5, 2018.
8. Chief economist of the Prime Minister Jose Socrates (Socialist Party) 2005-2011, Lisbon, June 13, 2018.
9. Senior political adviser to Prime Minister Pedro Passos Coelho (Social-Democratic Party) 2011-2015, Lisbon, May 18, 2018.
10. Chief of Staff of the Minister of Finance (2011-2013), Lisbon, June 8 and July 24, 2018.
11. Member of Parliament from the Social-Democratic Party, Lisbon, July 12, 2018.
12. Researcher at Nova School of Business and Economics, Lisbon, June 7, 2018.
13. Economic and Financial Affairs Advisor at the European Commission Representation in Portugal, Lisbon, June 19, 2018.

Spain:

14. Director of Labor Relations of the Spanish Confederation of Business Associations (2015-2019), Madrid, November 16, 2017.
15. Former Director of Labor Relations of the Spanish Confederation of Business Associations, Madrid, November 21, 2017.
16. General Secretary of the National Confederation of Construction, by phone from Lisbon, May 8, 2018.
17. Executive vice-president of the National Association of Automobile and Truck Makers, by phone from Ithaca, June 19, 2019.
18. Prime Minister of Spain, 2004-2011, Madrid, February 13, 2018
19. Secretary of State for Employment 2011-2018, Madrid, October 30, 2017.
20. General Director for Employment 2011-2018 and author of the PP labor reform, Madrid, February 6, 2018.

21. Advisor to the Minister of Labor, Migrations and Social Security 2011-2017, Madrid, November 28, 2017.
22. Advisor to the Minister of Labor, Migrations and Social Security (2011-2017), Madrid, January 22, 2018.
23. Secretary of Employment and Labor Relations of the Spanish Socialist Workers' Party 2011-2017, Madrid, December 5, 2017.
24. Minister of Economics and Finance 2004-2009, Madrid, February 23, 2018.
25. Head of the Economics Office 2004-2008, Madrid, September 25, 2017.
26. Secretary of State for Economy 2009-2011, Madrid, January 12, 2018.
27. Advisor at the Economic Bureau of the President 2004-2008 and General Director of Macroeconomic Analysis and International Economy at the Ministry of Economy and Finance 2009-2011, Madrid, November 23, 2017.
28. Advisor at the Economic Bureau of the President 2012-2016, Madrid, February 29, 2018.
30. General Secretary of Workers' Commissions 2008-2017, Madrid, February 27, 2018.
30. General Secretary the General Union of Workers 1994-2016, by phone from Lisbon, May 4, 2018.
31. Director of Employment and Labor Relations at Fundación 1 de Mayo (Workers' Commissions), Madrid, December 1, 2017.
32. Head Economist of Macroeconomic Analysis at BBVA Research, Madrid, November 28, 2017.
33. Researcher at the Economics Department of University of Alcalá, Madrid, November 22, 2017.
34. Economic advisor at the Representation at the European Commission Representation in Spain, Madrid, November 16, 2017.