

3 The welfare state

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3.1 Introduction

The consolidation of the Portuguese democracy rested on the mutual implication between democratic politics, social citizenship, and integration in the European community. The welfare state came to embody a substantive democratic citizenship based on the provision of social and economic rights, legitimized by the normative aspiration to be a part of the ‘European social model’. In the aftermath of the revolutionary period of 1974 to 1976, the simultaneous transition to a pluralist democracy and welfare capitalism, which combined political democratization with the expansion of social protection and economic liberalization, followed a path that has been described as ‘social democratic’ (Pereira and Przeworski 1993).

The evolving architecture of the welfare state over the democratic period brings together diverse protection principles and political logics. Whereas the new National Health Service (NHS) is the result of a deep institutional reorientation in a social-democratic (or Beveridgian) direction, the same cannot be said of the financially burdensome social security system, which kept the Bismarckian, occupational design, carried over from the authoritarian period. Since the 1990s, demographic ageing and the ‘new social risks’ associated with the changes wrought by the employment patterns typical of a post-industrial society have intensified the tensions within this hybrid construct. Over time, the main expenditure items, the NHS and the pension system, along with the sphere of labour market regulation, have sustained a constant pressure to reform originated from European integration and the financial markets.

This chapter studies the transformation of social policies in the early decades of the 21st century under the European linkage, understood in terms of a constraint but also capabilities inherent in the process of Europeanization, membership in the EMU/Eurozone and the insertion in international financial and debt markets. This linkage conveys no overriding single, homogeneous, and constant policy direction. Rather, the valence of the European link has changed direction and scope over time, as governments and domestic actors jostle to shape the content of social policies by mobilizing European material, institutional, and cognitive resources.

The next section presents the theoretical and analytical framework. Then follow three empirical sections dedicated to the reform of social policies over different time periods. The first looks at the period ranging from accession to the Economic and Monetary Union (EMU) in 1992, through joining the euro zone, up until the sovereign debt crisis in 2010. The second deals with the Great Recession in which social policy reforms were carried out under external conditionality by a centre-right coalition to bring about internal

devaluation, from 2011 to 2015. Finally, we shall look at the post-Troika period, in which external pressures wane and a centre-left government with the parliamentary support from the radical left takes office, only to break down by the end of 2021, giving way, after the 2022 snap elections, to a centre-left, single-party majority government. The conclusion reiterates the main empirical findings and discusses the significance of the recent ‘social turn’ in European governance.

3.2 Social policies and the European *Vincolo Esterno*: modes and mechanisms

European integration followed from the start the institutional settlement ‘Keynes at home and Smith abroad’ (Gilpin 1987, 355), leaving ‘market-making to the EC, market correcting to the member states’ (Ferrera 2005, 113). The Treaty of Rome gave social policy more of a productive role, that is, one geared to easing the integration of product and labour markets by harmonizing the terms of competition and removing hurdles to the ‘four freedoms’. The social policy function of protecting against, or compensating for, the social risks typical of the industrial economy (old age, unemployment, and sickness) and market-based inequalities was the charge of member states. However, the route followed by European integration since Maastricht, the EMU and Stability and Growth Pact’s rules, step by step brought more and more social policies under the remit of the European shadow.

European social policy became ever more important to the reform of *national* welfare states, through European primary law mechanisms as well as the adoption of modes of governance, such as the open method of coordination, relying on benchmarking through ‘diffusion of best practices’ and ‘scorecards’ (Silva 2011). The sphere of social protection, once the almost exclusive province of the national state, has been Europeanized within the framework of an expansive *vincolo esterno*, to recall Dyson and Featherstone’s moniker (1996).

The scope of social policy Europeanization has only ever risen, starting from a modest core concerning the social security of mobile workers and gender pay equality by the 1970s. It then gained steam from early 1990s with the setting up of the EMU all the way to the Next Generation EU recovery and resilience facility, both in intensity and scope: from social protection (social safety net and social minima, pensions, and unemployment protection) to labour market regulation (anti-discrimination, job security, activation, gender equality, and lately minimum wage and collective bargaining), to cross-border policies (including poverty, social exclusion, and recently even healthcare) to regional cohesion policies. Decision-making in these policy areas moved from being exclusively national to show some European influence by 1993, and then to a more mixed pattern, sometimes with national, other times with European predominance, by 2017 (Schmidt 2021, 406).

Social policy-making within the European multi-level governance implies direct and indirect (or adaptive) pressures. The former grew as each new Treaty have conferred more social competencies onto the Union; the latter have stemmed from the process of economic and monetary integration, along with the insertion of national economies in the international financial markets.

Governments must abide by primary European law, directives, and regulations, always careful to respect market compatibility requirements with freedom of movement for workers, products, services, and capital. Such modes of governance perform harmonizing functions, scraping differences in order to ease economic cooperation (‘negative

integration' process), and the coordination of social security systems to guarantee worker and patient mobility within the common market. This type of social policy intent on the integration and efficient working of markets is thus 'market making'. A different type of social policy, historically underdeveloped at the European level, works through 'positive integration', performing redistributive and cooperative functions, and is of the 'market correcting' type, that is, oriented towards correcting market outcomes in line with political standards of social justice. Here, redistribution does not work between social strata or risk groups (as with national welfare states) but between regions through structural funding to underdeveloped regions.

Indirect pressures trigger adaptive responses from the more burdensome expenditure items, such as healthcare and pensions, but also in policies that impact economic competitiveness, such as labour market regulation. The SGP has wrought a constant deflationary pressure, a form of permanent austerity affecting expenditure. Here, the predominant mode of governance is voluntary cooperation through soft law mechanisms (Streeck 1995), offering incentives and cues for policy reform via benchmarking, surveillance, and the promotion of best practices. Two decades apart, the European Employment Strategy (1997) and the European Pillar of Social Rights (2017) offer apt examples.

In the original formulation by Dyson and Featherstone (1996), the European link worked as an externally imposed economic and financial discipline empowering governments to overcome domestic veto points. Since then, the literature has underlined how it also operates as a mechanism for institutional capacity building (Silva 2016).

European pressures have changed direction and scope over time. On the one hand, it has helped the expansion of historically underdeveloped areas of the Portuguese welfare system, such as non-contributory benefits, via financial and cognitive resources (Guillén, Alvarez and Silva 2003). Such expansive impact, as we shall see, was felt in combating poverty and gender inequalities, promoting social inclusion, balancing work and family, and activating employment policies, thereby driving a recalibration of the welfare state towards new social risks and underserved social strata. On the other hand, the permanent need to rationalize resources and improve efficiency in the context of economic and monetary integration was influential in pushing for retrenchment and in offering governments of different hues a way to offload the cost of austerity according to a blame-shifting logic.

The Great Recession and the sovereign debt crisis triggered a qualitative change: a more comprehensive and intrusive *vincolo esterno* (Magone 2021). As was the Portuguese case in 2011, a more extreme governance mode was set up for countries in need of financial assistance, part of the European Stability Mechanism (hard law), non-compliance to which may end up in sovereign debt default. Moreover, the European Semester cycle was strengthened. Country-specific recommendations combine the soft law of voluntary compliance with the hard law of penalized non-compliance in certain areas under the purview of the SGP and, since 2012, the Procedure for Macroeconomic Imbalance (PMI). Intensification was coupled with an increase in scope to policy areas such as labour market regulation (Jordan, Maccarrone and Erne 2021), healthcare systems (Baeten and Vanhercke 2017), or pensions (Guardiancich, Guidi and Terlizzi 2022).

There is a hierarchy of imposed constraints, depending on the severity of sanctioning mechanisms, ranging from the hardest Memoranda of Understanding for SGPs and PMIs, to the softest 'Europe 2020 Strategy'. Let us recall that Portugal was under a MoU from 2011 to 2014, under Excessive Deficit Procedure in 2002–04, 2006–08, and 2009–17 (and 2021–2022, but with suspended SGP); and in 'excessive' macroeconomic imbalance from 2015 to 2017 moving to 'moderate' from 2019 to 2021.

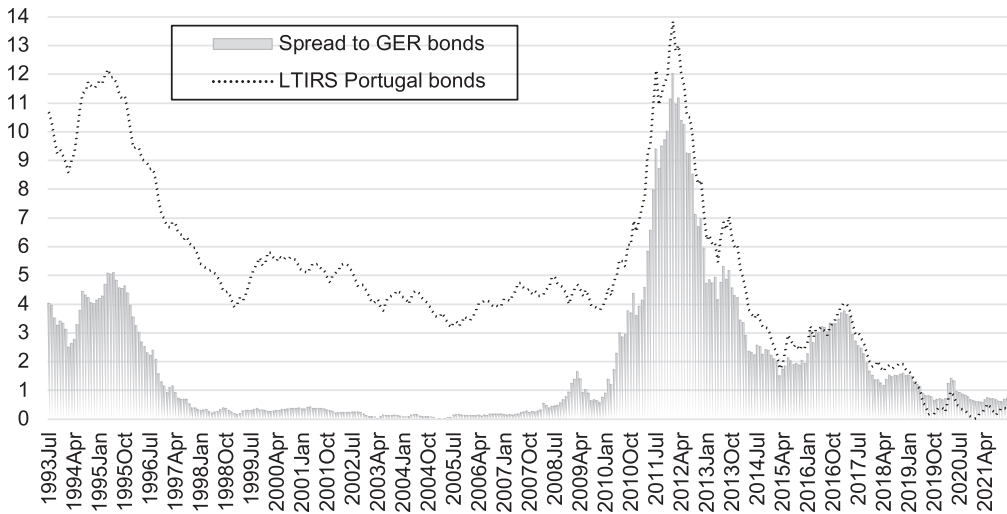


Figure 3.1 Portuguese public debt interest rates and spread to German bonds

Source: European Central Bank – Statistical Data Warehouse, own elaboration based on series for Portugal and Germany from ‘Long-term interest rate for convergence purposes, 10 years maturity, denominated in Euro’ (<https://sdw.ecb.europa.eu/home.do>, accessed on 3.2.2022).

At the same time, the crisis made clear that international economic governance institutions, such as the European Central Bank or the International Monetary Fund, and financial markets in general, were also sources of indirect pressure towards cost containment and deregulation, perceived as favourable to economic competitiveness.

The current and capital account balance and the spread relative to German debt securities (*bunds*) are widely used to assess fiscal sustainability and gauge investor and creditor confidence. The former determines external exposure, indicating, when negative, a lack of external competitiveness. This risk is measured by the requested interest on long-term debt financing and by the spread between this and the long-term *bunds*.

Figure 3.1 clearly delineates three major periods in terms of external financing needs and conditions since the mid-1990s, which we shall use to anchor our subsequent empirical analysis. From the setting up of the EMU until 2009, Portugal benefited from propitious financing conditions, with low interest rates *and* a short spread to German bonds, despite growing external deficits, on average around 8% of GDP.¹ The crisis period from 2010 set up a new regime with maximum external pressure: the hike in interest rates triggered the Troika loan under formal conditionality. Since then, the interest rate has been similar to the spread, a sign that German debt is financed at almost no cost. In the third phase, roughly from the end of 2014, Portugal has once again benefited from low interest rates *and* low spreads, close to the lower limit since the end of 2019. Let us also recall that since 2012 the valence of the external exposure has been reversed, becoming positive (an average of +1.4% between 2012 and 2021) thus contributing to a relief in pressure. However, a new period of greater pressure may be approaching, as the temporary suspension of budgetary discipline rules, activated in March 2020 to facilitate public responses to the pandemic crisis, will come to an end in 2024. The pressures from the

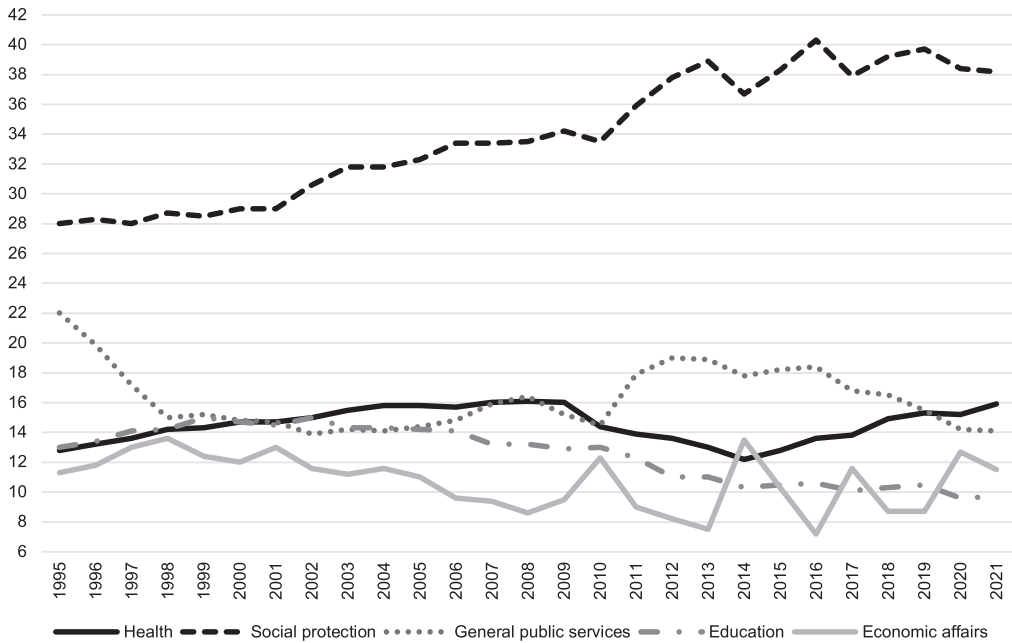


Figure 3.2 Public Expenditure by main functions 1995–2020 (% of the total)

Source: Eurostat, General government expenditure by function (COFOG) [GOV_10A_EXP], accessed on 26.9.2023 at https://ec.europa.eu/eurostat/databrowser/view/gov_10a_exp/default/table?lang=en.

markets are particularly impactful when combined with European governance rules in critical junctures such as the Great Recession.

The larger items of public expenditure are the most susceptible to cost containment pressures (Figure 3.2), while being politically harder to cut. From 1995 to 2021 the combined weight of social protection and healthcare expenditure always exceeded 40% of total public outlays, peaking at 55% by the eve of the COVID-19 pandemic. Social protection (of which pensions are about one-half) has led healthcare (mostly the NHS) on average by roughly 2:1.

The literature on the Troika era has shown that reform policies are never mechanically imposed from the top down, even in the case of the MoUs. The direction of reforms depends on how external pressures are filtered by domestic politics and actors (Graziano, Jacquot and Palier 2011). There is some room of manoeuvre for the expression of interests and ideological preferences, for deploying power resources, and for the agency of political actors and institutions (Silva and Pereira 2017; Moury, Ladi and Cardoso 2021; Branco and Cardoso 2022).

Governments, parties, trade unions, employers' associations, interest groups, civil society organizations, or municipalities use European resources and frameworks as strategic levers to further their agendas. From their point of view, the European link can be used as a facilitator of reforms by legitimizing claims. This is especially the case in countries such as Portugal where there is an overlap between the social concertation and the European agendas, around themes such as pension sustainability, adequate minimum

income, labour market segmentation, or minimum wage. It can also be used as ‘policy sword’, in which case European recommendations are deployed to overcome domestic veto points or blockages, including putting pressure on the government ‘from the outside in’. Finally, it can be deployed as a ‘problem prevention’ strategy when domestic actors participate in European governance cycles to block initiatives that are harmful to their objectives or autonomy, or to influence European social policy itself (Pavolini and Natili 2020).

3.3 Dualization and recalibration before the crisis (1990s to 2010)

Until the accession to the Eurozone, workers’ protection relied more on job security than on the replacement of income in the event of unemployment. The worker with a permanent contract’s position was protected from dismissal by constitutional and legal provisions, and by the collective bargaining regime, set up in 1979, that enshrined the principle of *favor laboratoris*,² the continuity of expired collective agreements until joint replacement and the sectoral extension of collective agreements by ministerial ordinance.

Since membership in the Eurozone prevents the traditional adjustment via exchange rate devaluation (‘crawling peg’), labour (wages, productivity, non-wage costs) became a main economic adjustment variable. There followed a major re-orientation in the mode of economic intervention through the social protection system, from the demand side (income replacement as protection) to supply side management by encouraging labour market participation and economic competitiveness. Ever since, state intervention shifted from a protective role to one of enabling the liberalization of job security offset by improved unemployment protection. The European Employment Strategy (1997) and the Lisbon Agenda (2000) encouraged job creation by easing dismissals and better unemployment protection and activation, that is, by facilitating labour market participation through lifelong training. This was done through deploying the open method of coordination via tripartite agreements with the buy-in of social partners. However, job security and unemployment protection for permanent contracts (so-called ‘insiders’) remained higher than that of atypical workers (‘outsiders’), giving rise to a dual labour market.

Such was the background for Portuguese labour law revisions before 2010. The 2003 reform cut employment protections for permanent and temporary contracts, derogated the *favor laboratoris* principle and the ultra-activity of expired collective agreements, allowing employers to present unilateral expiry claims. In so doing, the union’s bargaining position was weakened. Neither the government or employers’ confederations (in favour of the reform) nor trade unions (against the reform) employed European resources. The reform delivered a liberalization across the board and not, as the Lisbon Agenda envisioned, the piecemeal liberalization of permanent contracts compensated by improved job security for temporary workers, better unemployment protection, and activation policies. The trade unions criticized the reform for violating, first and foremost, the Constitution, and only secondarily the European directives (UGT, 2003). One should note that the reform took place under the external constraint from the excessive deficit procedure opened in 2002 for non-compliance with the SGP criteria.

The 2009 reform did not fully restore the *favor laboratoris* principle. Rather, it enumerated some areas in which collective agreements could not deviate from the law for the worse, but not as regards overtime work, nor temporary employment. The expiry regime of collective bargaining was kept. Flexibility increased for permanent contracts, both external (easing dismissals) and internal (individual hour bank). Unlike in 2003, both

trade unions deployed European cognitive and normative resources, such as the concept of ‘flexicurity’, and European recommendations, to criticize the reform’s liberalizing orientation as driven by employers’ demands and contrary to the ‘European social model’ (Zartaloudis 2011, 191).

As regards unemployment protection, the focus shifted from income replacement to labour market participation, stressing the requirement of active job search or participation in training programmes. A reform in 2006 showcased this activation turn: while access to the unemployment benefit was limited, it prioritized up-skilling the workforce, long-term unemployment, and the activation of outsider groups such as youth, elderly workers, women, ethnic minorities, and people with disabilities.

The labour market developed a dual segmentation pattern or ‘liberalization at the margins’: comparatively higher job security for permanent contracts contrasting with a growing segment of temporary workers (around one in every four employees), with less job security and worse income protection when unemployed (Moreira et al. 2015; Marques and Salavisa 2017).

Social protection reforms focused, in an initial stage, on the universalization of personal and risk coverage. Then followed a path of recalibration geared towards containing costs in the ‘old social policies’, such as pensions, while ‘new social risks’ were looked after by new non-contributory benefits, such as the guaranteed minimum income, early education and childhood services, old age support services, and reconciliation policies for balancing work and family, such as parental leaves. Such movement towards the protection of ‘new social risks’ was nevertheless thwarted by insufficient levels of expenditure and remained comparatively modest (Branco 2022).

Portugal set up the NHS in 1979. Southern European countries set up universal healthcare services comparatively late, Italy in 1978; Greece in 1983; and Spain in 1986. These are, along with the United Kingdom, Ireland, and the Nordic countries, the only NHS in Europe. The remaining countries, including France, Germany, and the Netherlands, have kept health insurance systems, combining a public component with private, occupationally based elements. The NHS breaks with the past by replacing the corporatist ‘insurance funds’ by the ‘social-democratic’ logic of universal public provision financed by general taxation. The system also includes an important private sector and generous insurance schemes for civil servants. The concentration in certain groups or social strata of overlapping schemes generates a pattern in which peaks of protection for some coexist with deficits in access and coverage for others. The NHS’s weaknesses show, for example, in congested hospital emergency care or in the long waiting lists for surgeries.

Public healthcare expenditure grew from 1006 euros in 2000 to 1175 in 2010 (OECD 2021), to which should be added the fiscal expenditure on healthcare which peaked at 610 million euros in 2010 (Branco and Costa 2019). Ever since the 1990s reforms sought cost containment by acting upon the supply and demand of health services. If there was limited success in cost containment, recalibration efforts towards primary care and hitherto unaddressed needs were more successful. The generic market for drugs was expanded, price controls were set up and co-pays were hiked. User fees were created to repress the use of hospital emergency services. From 2005 to 2008 there was a sizeable cut of 12% in expenditure, mostly on drug spending and contracting with private providers (Campos and Simões 2014, 58–59). Then, expenditures shot up again. All the while, funding was separated from the provision by contracting between public hospitals and private providers, and a network of health primary care centres was created, but in an incomplete manner and poorly integrated within the hospital network. The setting up

of the National Network of Long-Term Care in partnership with private actors and the third sector filled an important gap in provision.

From 1991 to 2011 the number of pensioners jumped from around 2.5 million to 3.5 million, while the average pension value increased by 44% and pension expenditure rose from 9.2% to 13.7% of GDP. Rapid population ageing downgraded the ratio between active workers and benefit recipients from 4.7 per pension paid in 1974 to 1.4 in 2012. Concerns with financial sustainability emerged, to which we must add transnational and European pressures, ranging from the World Bank³ and the OECD,⁴ to the White Book from the Commission for Social Security Reform in 1998 (Campos 2022, 23), and those imposed by the discipline inherent in the EMU rules, putting downward pressure on public expenditure.

The policy response was cost containment. The minimum contributory period and the reference period for the pension formula were extended, and the legal retirement age of women was aligned with that of men (at 65). Early retirement was penalized and there was an openness in 2002 to consider capping contributions to the public system to promote partial privatization, under an excessive deficit procedure. The 2007 reform, again under an excessive deficit procedure, indexed pensions to a new sustainability factor, adjusting the retirement age to life expectancy, greatly reducing long-term generosity. The Minister of Labour and Social Solidarity Vieira da Silva argued that the government sought to ‘reform old-age pensions by whittling down generosity that would be incompatible with the future increase in life expectancy’. This would gradually bring ‘the pension replacement rate (the ratio between the first pension and the last wage) in line with the European standard within 40 years’.⁵ The European Commissioner for Employment, Social Affairs and Inclusion, Lazlo Andor, praised the reform for being *adopted before the sovereign debt crisis*, and for contributing to the sustainability of public finances.⁶ The ongoing EMU budgetary restrictions have provided governments with ways to legitimize and, at the same time, ‘shift the blame’ for potentially unpopular measures.

The European link can act as a brake, but also as an engine for expansion. The EU pressures member states to engage with social problems and often new social risks that otherwise would remain invisible. Such was the case with poverty and social exclusion. Similarly, with improving the market position of part-time, fixed-term and temporary agency workers (European Directives in 1997, 1999, and 2008); and in early education and child support policies to balance women’s labour market participation and family life. Case in point, the shift in the approach to care for the elderly that took place from late 1990s culminating with the creation of a Network of Integrated Long-Term Care in 2008. More than setting up new services and facilities, a new structure was created in which the state acts primarily as coordinator and funder leaving the provision of services to private institutions, commercial and nonprofit. The shift came as a response to the calls from different international forums such as the OECD or the European Commission that had been raising awareness among national states for the topic of integration of health and social care (Lopes 2016).

Similarly with the expansion of the social safety net. The guaranteed minimum income was created in 1996 as a means-tested non-contributory benefit to combat poverty in old age, social exclusion, or unemployment. In 2002, under an excessive deficit procedure, access was limited, and the benefit was renamed Social Insertion Income (SII). European legal, financial, and cognitive resources were decisive, as the creation was based on the 1992 European Council Recommendation on sufficient resources and benefits in social protection systems (92/441/EEC). The new benefit covered an extant gap in protection

typical of Bismarckian systems, with an eye to activation and not just ‘passive’ income replacement. Politically, it helped the centre-left Socialist Party differentiate from the centre-right Social Democratic Party at the 1995 general election, mobilizing the large network of ‘third sector’ civil society organizations, most of which of Catholic affiliation, as well as the main union confederations General Confederation of Portuguese Workers (CGTP) and General Workers’ Union (UGT) (Silva 2009). This European policy orientation towards social inclusion has long been reiterated, from the Lisbon Strategy all the way up to the European Parliament resolution of 15 March 2023 calling on member states to swiftly implement Directive 2022/2041 on adequate minimum wages in EU.

3.4 The great internal devaluation (2010–2014)

Finance Minister Teixeira dos Santos had warned: ‘If debt interest rates reach 7%, the Government has to consider resorting to the IMF and the European fund’.⁷ When the interest rate exceeds the lowest comparable interest rate in the eurozone – the German *bunds* – by more than 4 p.p. that conveys financial markets’ reservations about the state’s solvency. In February 2011 both criteria were met for the first time. On 23 March the fourth round of austerity measures was rejected by Parliament and the minority Socialist Prime Minister resigned; on 6 April the socialist caretaker government asked for international financial assistance. Snap general elections ensued, won by the centre-right coalition of PSD and CDS-PP.

The Memorandum of Understanding (MoU) signed with the Troika of creditors (ECB, EC, and IMF), in exchange for a €78 billion loan, set up cuts in public sector wages and healthcare, tax increases, and structural reforms in social protection, including the labour market, held to be responsible for the lack of economic competitiveness.

The MoU prescribed liberalization to reform a ‘rigid’ labour market due to the ‘excessive’ protection of permanent contracts, ‘generous’ unemployment benefits and collective bargaining unable to align wage growth with productivity and competitiveness. On the other hand, it avowedly sought to fight dualization by improving the position of temporary workers, the long-term unemployed, and active labour market policies (Cardoso and Branco 2018).

There was a qualitative change in the mode of the external constraint, now more intrusive and far-reaching, but also a clear policy direction: internal devaluation seeking to boost exports by relying on cost-competition (‘competitive impoverishment’). European Commissioner László Andor acknowledged that the EMU

excludes unilateral adjustment of its member economies through the exchange rate or interest rate (by definition), as well as by inflation or fiscal expansion (by design). The only remaining adjustment mechanism is so-called internal devaluation, which involves social damage: it is an effort to restore price competitiveness by reducing costs, including through layoffs and wage cuts in both the public and private sectors.
(Andor 2013)

In essence, wage-setting mechanisms and collective bargaining were reformed to reduce labour costs, generating downward wage adjustment. Job security and unemployment protection for permanent contracts worsened. The protection offered by collective bargaining was cut down by restricting sectoral extensions and the ultra-activity of collective agreements, and by giving firm-level agreements priority over sectoral or higher levels.

Yet, combatting dualization and recalibrating social protection towards outsiders were left by the wayside (Branco and Cardoso 2022).

The generosity and duration of the unemployment benefit was cut, plunging the income of the unemployed by 25% from 2010 to 2013 (Moreira et al. 2015). Young workers were targeted: the benefit's duration was cut from 270 to 150 days for workers under 30 with less than 15 months of contributions. Other measures expanded coverage to bogus independent workers. However, neither offset the drop in income nor was dual segmentation resolved. According to the European Commission (2016), from 2007 to 2014, the gap in quality of protection between the more and the less entitled to unemployment benefits rose. Coverage remained low due to large numbers of unprotected long-term unemployed (Pereirinha and Murteira 2020). In other words, the reform degraded the position of insiders without improving that of outsiders.

The MoU did not initially include any pension structural reform. Yet, pensions suffered nominal cuts, indexation freeze, and higher taxation. From 2010 to 2015, pensioner's income dropped significantly, albeit in a progressive manner (Silva and Pereira 2017). Before the end of the Adjustment Program, in early 2014, the executive passed a more profound reform: a 1-year increase in the legal retirement age; convergence of the public sector fund (Caixa Geral de Aposentações) with the general social security fund by adjusting the replacement rate; and a new ad hoc contribution levied on public sector pensions. After the Constitutional Court struck down the new contribution and convergence rules, the government dropped any plans for an ambitious reform.

The social safety net was retrenched by restrictions in access and cuts in generosity. From 2010 to 2015 the minimum income scheme lost one-third in value and 40% in the number of recipients. The same with the benefit supplementing the income of poor elderly pensioners, triggering a 23% drop in beneficiaries. Family allowances were retrenched by stricter means-testing and the exclusion of higher incomes, leading to a 30% drop in expenditure, and a loss of 500,000 recipients. While protection became less generous, covering fewer people, with the shrinking of public responsibilities, civil society organizations were given more responsibilities and a larger role in the welfare system. For instance, the 2011 Social Emergency Program signed by the government and the third-sector peak confederation National Confederation of Solidarity Institutions opened services such as social canteens and funerals to Catholic charities.

A concern with the NHS sustainability marked the MoU, triggering years of severe austerity. Per capita expenditure fell from €1175 to €967 from 2010 to 2013. Spending on drugs dropped 12%. Salaries, career progressions, and recruitment were frozen, and overtime pay was cut. Except for the case of long-term and palliative care networks (in partnership with the private and 'third' sectors), austerity undermined universal access, transferring costs to individuals and families at a time when private spending was reduced by the economic crisis and unemployment. The shrinking of public responsibilities led to an increase in unmet healthcare needs, especially among the unemployed, pensioners, and inactive population (Pavolini et al. 2023).

3.5 The *Geringonça* reforms: direction and limits (2015–2022)

After the 2015 general elections, a centre-left PS minority government took office with the support in parliament of radical left Communist Party (PCP) and Left Bloc (BE). This was a form of contract parliamentarianism (Bale and Bergman, 2006) based on *ex ante* political agreements setting the terms under which the cabinet was allowed to take office

(Fernandes, Magalhães and Santana-Pereira, 2018). This Left coalition of sorts came to be known in political parlance as '*geringonça*', which translates as 'rickety contraption'.

The context of resumed growth with good labour market performance, waning pressure from financial markets, and a gradual social turn in European governance presented an opportunity to reverse Troika-era measures and reform social policy.

The first order of business in 2015 was the reversal of austerity measures, restoring public sector wages and career progression, increasing the minimum wage, hiking public pensions and other social benefits, and lowering taxes for the middle and working classes, small- and medium-sized businesses. This triggered a broad-based recovery of incomes that pushed internal demand, which, coupled with increasing exports (mostly low-end manufactures and tourism), drove economic growth before the onset of the COVID-19 pandemic.

One important measure was the step increase in the minimum wage, from €505 in 2015 to €655 in 2021, backed by tripartite agreements in social concertation. Such a rise was not detrimental to labour market performance given the 8% growth in the employed population and the drop in the unemployment rate from 12.4% to 6.5% from 2015 to 2019. The initial caution in the European Semester country-specific recommendations (hikes would hurt employment creation) was countered by a domestic coalition including trade union and employers' confederations (Perista and Perista 2019) drawn by the importance of boosting incomes to drive consumption and internal demand.

Not surprisingly, given the origin story of the '*Geringonça*' as an anti-Troika austerity coalition, labour market regulation took centre stage. In the short term, the expiry regime of collective agreements was suspended for 18 months, with a return to an unbridled state-supported sectoral extension mechanism (decided by tripartite agreement). However, the long-awaited labour code reform in 2019 exposed an internal fracture: it was passed in parliament against the opposition of PCP and BE, based on a tripartite agreement signed in 2018 by the moderate trade union UGT and employers' confederations.

The reform increased the regulation of temporary contracts and bogus self-employment. At the same time, as a nod to employers, the use and duration of short-term contracts was liberalized and the trial period for first-time jobseekers and the long-term unemployed was doubled. On the social protection side, various measures granted independent workers access to cash benefit assistance for children and broadened the coverage of unemployment benefits for bogus self-employed.

However, the bill fell short of reversing certain previous reforms, a deal-breaker for both radical left parties (which voted against the bill) and their trade union ally CGTP, which had not signed the 2018 tripartite agreement. Besides opposing the flexibilization of short-term contracts and the longer trial period, left parties and CGTP demanded the full reinstatement of the *favor laboratoris* principle and the return to the ultra-activity of collective agreements, both lost in the 2003 labour law reform (the Constitutional Court struck down the trial period extension for first-time jobseekers in Ruling 318/2021).

The reform, despite increasing employment protections for atypical workers, stopped short of a two-pronged regulatory movement including both labour market segments, the line taken by the centre-left Socialist Party, the social-partnership-oriented UGT, and employers' organizations. The policymaking process, unfolding during the initial stages of the European social turn, but prior to the EU-wide response to the pandemic, gave social dialogue pride of place over parliament. Indeed, the misalignment between the preferences of radical left parties and trade union allies and the policy direction settled in

the tripartite agreement is the reason why it passed in parliament only due to the abstention of right-wing parties.

Nevertheless, the rickety political situation held until the end of the legislature in the Fall of 2019. What made it palatable to radical parties was a form of broad political exchange including trade unions and employers. The former got compensation in income, welfare, and public sector policies (minimum wage, end of the cuts in public sector wages and pensions, redrawing income tax brackets, pro-outsider reforms, and full-time integration of precarious workers in the public administration). Employers assented to an expansionary income policy but forcefully signalled that no further reversals of core labour reforms were acceptable.⁸ The political exchange set *Geringonça's* policy limits to its left, as the Socialist Party in office did not wish to forego the support of employers in the social partnership policy model, and therefore its eventual fall (Branco and Cardoso 2023).

Changes in unemployment protection increased the replacement rate, coverage, and access of the social insurance benefit. In addition, the non-contributory social assistance benefit was extended in terms of duration and updated in terms of value, while also broadening access to the self-employed and long-term unemployed. However, the government did not heed the demand from radical left parties to reverse the Troika-era shorter insurance benefit duration.

This broadly inclusive recalibration was matched in other social protection areas, historically underdeveloped, such as minimum income, safety net, and disability (Branco et al. 2024). The minimum income scheme value and access criteria, as well as those for the non-contributory supplemental benefit for the elderly, were restored, improving coverage and income security (Pereirinha et al. 2020). The protection of people with disabilities was improved by creating a new benefit, Social Assistance for Inclusion, in 2017. As for work/life balance and gender equality, new laws in 2019 reinforced the parental leave regime. All these measures were aligned with European social policy guidelines, framed in a wide range of instruments, from the open method of coordination of the 'European Disability Strategy 2010–2020' (COM 2010/636),⁹ to the Directive for Reconciliation between work and family for Parents (2019/1158 of 6/20/2019).¹⁰

Healthcare expenditure increased and changed composition. Per capita expenditure rose from €967 in 2015 to €1143 in 2019, and then to €1211 in 2020. All the while, it shifted from hospital care to primary and outpatient care, and to long-term care. The NHS staff and payroll returned to pre-2010 levels. From 2015 to 2020 NHS professionals increased by 24,618, bridging the emigration of the Troika years. Even so, the NHS faced the pandemic with personnel shortages, including of nurses and diagnostic technicians, with few intensive care beds and a deficient primary care network pushing demand onto hospital emergencies, in addition to worrying long-standing socio-economic access inequalities (Pavolini et al 2023).

As noted, the economic surveillance of health systems carried out within the European Semester was ramping up (Baeten and Vanhercke 2017). Portugal's country-specific recommendations included ensuring the long-term sustainability of the health sector without compromising access to primary care (2016); strengthening controls over spending and budgeting to reduce accumulated debt (2017, 2018, and 2019) and, already in the pandemic context, reinforcing the resilience of the system to guarantee equal access to quality health and continuous care.

Despite increasing the electoral score in the Fall 2019 elections, the incumbent Socialist Party remained minoritarian. Radical left parties either kept their score (BE) or faded (PCP), further undermining the political conditions for a renewal of the *Geringonça*.

Soon afterwards, the COVID-19 pandemic hit. Over the next 18 months a wide array of responses focused on economic, labour market, and social recovery, the protection of workers and the workplace, income protection beyond short-term work, and preventing social hardship, backed up by European financial resources via SURE, Pandemic Crisis Support, and the European Guarantee Fund. Differently from prior crisis responses, risk-sharing between member states was the defining feature of such programmes, so that solidarity between member states took the form of joint guarantees with elements of fiscal solidarity.

Authorities quickly expanded the coverage and scope of sickness benefits. A ‘simplified furlough’ scheme allowed companies to shed working hours or fully suspend work contracts all the while offering employees a payment worth two-thirds of gross salary and exempting employers from social contributions. Strengthening the safety net for those who lost their jobs or earnings, with entitlement to unemployment insurance and unemployment assistance, the minimum income scheme and the benefit for poor pensioners were extended (Moreira et al. 2021). These broadly inclusive and egalitarian policy responses protected insiders’ income with demand-side and supply-side interventions *and* protected atypical workers and vulnerable strata by raising the minimum wage and non-contributory pensions, extraordinary income support and assistance for people in economic hardship, and unemployment benefits.

The result of a coordinated European response to the pandemic against the backdrop of suspended SGP budgetary rules, the 2021 Recovery and Resilience Plan (RRP) illustrates the *vincolo esterno*’s enabling influence. Following in the footsteps of earlier pandemic responses, the Next Generation EU changed the orientation of European social policy in that it supports solidarity without conditionality. By deploying the largest European budget ever, supported for the first time by the issuance of common debt, it conveys a solidaristic logic. By loosening the link between financial assistance and budgetary requirements and by fomenting public investment, it sheds the austerity orientation that marked policy responses to the Great Recession. Finally, it strengthens the social dimension in European governance by adopting the European Pillar of Social Rights as a compass in the road to recovery, interlinking the green and digital ‘just transitions’ of the European Green Deal (Petmesidou et al. 2023).

Social interventions in the Portuguese RRP recalibrate protection towards labour market outsiders, young people, women, excluded strata, and the elderly. The Plan draws direction and legitimacy from the CSRs, though much less from the European Pillar of Social Rights, eliciting worries that market-making measures overpower market-correcting interventions, especially when inequalities of voice (namely of trade unions) in policymaking may concomitantly skew the balance from the protective to the productive dimensions of social policy (Petmesidou et al. 2023).

Pandemic politics froze political conflict for a long while. When politics thawed, the *Geringonça* unravelled in October 2021 around the same labour market reform divergences that had surfaced in 2019. Following the collapse in parliamentary support, a snap election was held in January, which the PS won with an absolute majority, taking office in April 2022. According to PCP and BE, the programmatic disagreements about labour market regulation were crucial for the breakup. Issues such as reversing the liberalization of dismissals, the expiry regime of collective agreements, the full reinstatement of the *favor laboratoris* principle, and a quicker and more generous national minimum wage increase.¹¹

Since then, a relevant labour market reform was enacted in March 2023, one of the reforms laid down in the RRP, the ‘Decent Work Agenda’. A follow-up of the 2019 effort, it further regulates atypical employment and digital/platform work, slightly increases protections against collective dismissal, and sets up an arbitration mechanism that constrains, but does not derogate the expiry regime of collective agreements. Because there was no tripartite agreement, employers have voiced low-key criticisms regarding process and content. After all, in October 2022 employers’ confederations had signed with UGT and the government a medium-term agreement until 2026, setting up a 4.8% average wage increase for the private sector and an 18.4% minimum wage step increase (to €900), offset by better tax and regulatory treatment of business enterprises.

3.6 Conclusion

This chapter evinced how the European external linkage has influenced the direction and scope of social policy reform in Portugal. Since joining the EMU and the creation of the euro, Portugal benefited from favourable financing conditions to modernize the welfare state. This period is marked by a catch-up recovery towards the European pattern in volume, coverage, and composition of expenditure. A first stage of expansion with universalization of coverage and risks was followed by an emphasis on recalibration, accompanied by cost containment in the largest expenditure items, more thorough in the case of pensions, and more episodic in that of the NHS. At the same time, new social risks were attended to by non-contributory benefits and services such as the minimum income benefit, in addition to policies to reconcile work and family, though at a level still far from the European average.

In this first period, the concern of European institutions that countries with higher protection standards would suffer the competition from ‘socially laggard’ southern countries through ‘social dumping’ made possible the creation of a social dimension in cohesion policies through structural funds. This effort was politically sustained by a coalition between donor governments in central and northern Europe and centre-left and conservative parties in recipient countries in the south.

The eurozone sovereign debt crisis raised the opposite concern, that overly generous or misdirected social protection standards triggered economic stagnation, budgetary imbalances, and lack of external competitiveness across Southern Europe. A new European policy orientation followed driven by a different political dynamic across Europe, the cleavage between creditor countries and debtor countries in the southern periphery. The enactment of the Memorandum of Understanding in Portugal triggered a sharp decline in public expenditure, retrenching social protection according to a logic of negative, or subtractive, recalibration (Ferrera 2012). In this period of maximum external constraint, Portugal reversed years of convergence to initiate a divergence relative to social Europe (Guillén et al 2021). By the end of the economic adjustment, the welfare regime was more ‘pension-centric’, less concerned with new social risks, and the access to, and the ability to provide by, the most important universalist institution, the NHS, had been jeopardized, as witnessed by the rise in access inequalities and unmet needs. The deregulation of job security for workers with permanent contracts was not coupled with an improvement in the market position of ‘outsiders’ – in contrast to the stance advocated in the 2013 ‘Social Investment Package’ (regulation of temporary work, investment in early education and child services, access to healthcare, active employment, and family support) (European Commission 2013).

The European social investment thrust was already a sign of a change of valence in the European connection. Correcting course after counter-productive policy responses to the eurozone crisis, European institutions triggered since 2016 a ‘social turn’ in European governance. This rebalancing of the EU’s economic and social dimensions includes the Commission’s ambitious social agenda, the setting up in 2017 of the European Pillar of Social Rights (followed by the Action Plan in 2021) as the European Semester’s social compass, the directive on minimum protection for workers in precarious jobs (2019/1152), the directive on decent minimum wage and collective bargaining coverage (2022/2041), and the forthcoming Platform Workers Directive. The 2021 Next Generation-EU embodies this turn to solidarity without conditionality. This ‘social turn’ has been driven by the Von der Leyen Commission and has received broad political support in the European Parliament, which went beyond left-wing parties (Greens, GUE, and S&D) to include large sectors of the centre-right EPP and of the liberal ALDE (Keune and Pochet 2023, 8).

Mobilizing such financial, legal, and cognitive resources, the minority socialist government, supported in parliament by PCP and BE, gave a central place to social protection and income policies. It reversed the cuts and labour market measures from the Troika era – although, crucially, not all – and renewed the focus on new social risks and outsider strata, always within the confines of European budgetary rules (the excessive deficit procedure was closed in 2017).

The fact that it was when the European economic governance made a propitious social turn, and in a moment when SGP budgetary rules were suspended, that divergences within the Left political majority about labour market regulation and the NHS brought down the *Geringonça* goes to show the ongoing importance of programmatic differences based upon competing power resources within Left parties and trade union allies.

Notes

- 1 Portugal: current and capital account balance (1999–2020) (actual balance in % of the GDP), available at <https://bpstat.bportugal.pt/serie/12517408>, accessed on 3.2.2022.
- 2 The *favor laboratoris* principle sets up a hierarchy within multilevel collective bargaining systems: ‘if the terms and conditions in the individual contract are more favourable to the employee than the provisions of the relevant collective agreement, then the former prevail’. Standards set in the general labour law or concluded at a higher level can be improved on (for employees) but not worsened at a lower level. <https://www.eurofound.europa.eu/observatories/eurwork/industrial-relations-dictionary/favourability-principle>, accessed 24.7.2023.
- 3 World Bank, *Averting the Old Age Crisis: Policies to Protect the Old and Promote Growth*, 1994.
- 4 OECD, *Ageing Populations, Pension Systems and Government Budget*, 1996.
- 5 The Minister of Labor and Social Solidarity, José Vieira da Silva, ‘Falemos Então de Estado Social’ (So Let’s Talk about the Social State), *Diário de Notícias* 14.8.2006, <https://www.dn.pt/arquivo/2006/falemos-entao-de-estado-social-644633.html>, accessed on 19.1.2023.
- 6 ‘Bruxelas diz: Reforma do sistema de pensões português “é um exemplo”’ (‘Brussels says: Reform of the Portuguese pension system “is an example”’), *Jornal de Negócios*, 7/7/2010, https://www.jornaldenegocios.pt/economia/europa/detalhe/bruxelas_diz_reforma_do_sistema_de_pensotildees_portuguecircs_quoteacute_um_exemploquot?act=0&cest=Aberto, accessed on 4.5.2022
- 7 <https://www.publico.pt/2011/05/16/jornal/o-caminho-ate-a-aprovacao-da-ajuda-22061169>, accessed on 4.2.2022.
- 8 António Saraiva, the Chairman of CIP (Confederation of Portuguese Business) made it clear in 2016 that ‘the government has to pay a price for an agreement’ on the minimum wage. To this end, ‘you cannot change labor legislation’, nor increase holidays to 25 days, extend the 35 hours of weekly work to the private sector, or eliminate the individual hour bank. Available at:

- https://www.jornaldenegocios.pt/economia/politica/detalhe/cip_disponivel_para_um_aumento_do_salario_minimo_mas_exige_contrapartidas, accessed on 5.1.2023.
- 9 This, however, was replaced in March 2021 by the ‘Union of Equality: Strategy for the rights of persons with disabilities 2021-2030’, which expanded the general orientation. See <https://ec.europa.eu/social/main.jsp?catId=1484&langId=en>, accessed on 20.1.2023.
- 10 This was the result of the European Commission’s political initiative, and its work dating back to 2015 to break the European legislative blockade on the ‘Maternity Leave Directive’ that had been presented in 2008. This proposal for a Directive was later withdrawn by the Commission and replaced by another in 2019.
- 11 See <https://pcp.pt/sobre-reuniao-do-comite-central-do-pcp-de-24-de-outubro-de-2021>, and <https://www.esquerda.net/artigo/quais-sao-9-propostas-do-bloco-para-o-orcamento/77418>, accessed on 7/12/2021.

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