Economic and fiscal policy coordination after the crisis: is the European Semester promoting more or less state intervention?

Jörg Haas (Hertie School of Governance, Berlin)

Valerie D'Erman (University of Victoria)

Daniel Schulz (TUM School of Governance, Munich)

Amy Verdun (Leiden University)

Paper prepared for the 2019 EUSA International Biennial Conference, Denver Colorado 9-11 May 2019.

Abstract

The European Union (EU) – and its Economic and Monetary Union (EMU) in particular – is often criticized as a predominantly market-oriented project. We analyse to what extent such claims can be substantiated by focusing on one key aspect of the EU's post-crisis framework for economic governance: the country-specific reform recommendations (CSRs) that the EU has been issuing annually since 2011. Based on an original dataset, we analyse more than 1200 CSRs, which show that the EU does not uniformly push for more, or for less, state intervention. Rather, the combination of reforms could be characterized as 'flexicurity'. CSRs tend to suggest fiscal restraint and less protection for the currently employed, while promoting measures that benefit vulnerable groups in society. Concerning time trends, the data show that CSRs have become more permissive of higher public spending. Contrary to earlier studies, however, we do not find that the share of recommendations advocating more social protection has increased over time. Rather it has stagnated, albeit on a high level.

Word count: 7922

1) Introduction

From the very beginning, the European integration project was unclear about how to obtain fiscal and economic policy coordination. Given member states' reluctance to give up fiscal sovereignty, any attempt to coordinate remained vague and intergovernmental. The institutional framework of Economic and Monetary Union (EMU) thus contained an asymmetry between the decentralised 'Economic' and the fully centralised 'Monetary' parts of EMU. The sovereign debt crisis, however, highlighted the shortcomings of this system. Consequently, economic coordination has been upgraded from vague guidelines to detailed policy prescriptions with clear timetables for implementation (Hodson 2018). The European Semester, first created in 2010, gives the European Commission an enhanced role in implementing economic policies (Bauer and Becker 2014).

Officially, the EU envisages to ensure sound public finances and to prevent 'macroeconomic imbalances', while also promoting employment and the social dimension of EMU. However, in light of the way the EU managed the sovereign debt crisis, various critics (including, but not limited to, academics, politicians, interest groups, and journalists) have accused it of focusing mostly on restructuring and retrenchment. This view on European integration is nothing new. Earlier criticisms targeted its emphasis on creating the single market and its insufficient focus on social concerns (Minkkinen and Patomäki 1997). At times it was argued that it simply had to do with the fact that the EU was created by law (Ardy, Begg, Hodson, Maher and Mayes 2005; Sangiovanni 2019). The central idea was that taking away barriers to trade was easier than creating new institutions – which Jan Tinbergen already in 1954 referred to as positive and negative integration (Tinbergen 1954; see also Scharpf 1999) – and that as a result the EU could not be a social market economy (Scharpf 2010).

Other critics of the European integration project have labelled the developments at the EU level as predominantly liberal, or neo-liberal, and as such are at odds with offering citizens social protection. Critics feared that monetary integration would push the EU away from a more socially embedded type of capitalism. As the *Financial Times* observed already at the launch of the euro: *"Replacing European-style capitalism with the Anglo-Saxon variety can hardly have been the aim of the politicians who concocted economic and monetary union in Europe. But that, paradoxically, is just what is likely to happen."* (cit. in. Callinicos 2001: 11).

Exactly because of the existence of those criticisms, and the fact that the European Semester was born at a time of large-scale social unrest in countries hit by the sovereign debt crisis, the Semester does have goals to enhance the social dimension. Furthermore, seen that there was insufficient space for positive integration in this policy area at that time, it builds on soft modes of governance developed around European social policy, namely the Open Method of Coordination (OMC) (de la Porte and Pochet 2002; Borrás and Jacobsson 2004; Trubek and Trubek 2005; Cram 2009; Tömmel and Verdun 2009; Tholoniat 2010; Zeitlin 2011; Menz and Crespy 2015).

In this paper, we analyse what kind of reforms the European Semester proposes. Rather than using the highly politicized and ill-defined term 'neo-liberal', however, we prefer to discuss European Semester reform in the context of advancing 'less or more state intervention'. We thus speak of 'more state intervention' whenever reforms are proposed that further embed the economy in social relations – be it through an increase in redistributive policies, more market-correcting regulations, or generally implying a bigger role of the state in the economy.

Conversely, we speak of 'less state intervention' when reform recommendations seek to free market actors from social and political constraints, and/or to reduce the amount of funding for social policies.

In our empirical analysis of the European Semester we have operationalized this dichotomy into a set of variables that indicate the 'policy direction' of a country-specific recommendation (CSR). We analyze how the EU uses its new instrument of policy coordination by coding more than 1,200 CSRs issued to euro area countries between 2012 and 2018. Does the EU promote a particular type of economic model in line with the 'disciplinary neo-liberalism' thesis? Does it speak differently to different countries? Have the priorities changed over time?

The next section reviews debates in the literature over the suggested 'market-making' or 'market-correcting' (Copeland and Daly 2018) character of European integration and summarizes how the EU's fiscal and economic policy framework has changed since the Euro Area crisis. It then proposes guiding questions for our exploration of the data. Next, we provide an overview of our dataset, followed by an interpretation of our findings. The final section concludes that Semester CSRs do not provide evidence of strict policy movement in either a solely 'more state' or 'more market' direction. Rather, they reflect a push for more flexicurity by recommending less protection for labour market insiders combined with more protection for vulnerable groups in most member states.

2) Economic governance under EMU: Supporting or undermining the welfare state?

2.1 Economic policy coordination and its critics

Already from the outset of the creation of EMU, scholars have asked whether deeper economic and monetary integration would lead to 'social dumping', 'deregulation', or a 'race to the bottom' (Leander and Guzzini 1997; Gill 1998; Verdun 2000; 2010; Magnusson and Stråth 2001; Wylie 2002; Martin and Ross 2004; Cafruny and Ryner 2007). In fact, debates about the presumably orthodox or 'neo-liberal' character of EMU are as old as the very idea of creating a single currency for the European continent. They have been a persistent feature of the literature on the convergence criteria before the euro was introduced, on economic conditionality for new members to join after 2000, and on the impact of the euro on its member states thereafter.

Based on the 'Economist' view (or 'coronation theory') that deeper monetary integration requires economic convergence to occur *prior* to the introduction of a single currency, the Maastricht Treaty included a set of institutional provisions and conditions for euro adoption. These conditions were interpreted by a critical literature as resting on a particularly orthodox vision of the economy, which emphasized 'sound money' and perceived large welfare states as a burden (Dyson 2000). This model of EMU was criticized by historical-materialist scholars as 'disciplinary neo-liberalism' (Gill 1998), which was "restricting national policymakers to choices from a neo-liberal menu" (Wincott 2008: 360). Seen from this perspective, the EMU rulebook (and the Stability and Growth Pact in particular) removed important policy options for national governments by 'locking in' commitments to orthodox and market-friendly fiscal and monetary policies to increase credibility in the eyes of financial markets (Heipertz and Verdun 2010).

Conversely, the extant literature also suggests that a significant part of European market integration offers substantive evidence of the creation of an increasingly 'social' Europe. Work in this area is suggestive of both the indirect effects of EMU, be it through increased financial space for public spending as a result of lower debt servicing during the immediate years following euro adoption (Bolukbasi 2009), or the more direct effects of explicit EU-level endeavours to maintain or even introduce welfare-related priorities among its members (see here Scharpf 2002 on the European Social Model; Martin and Ross 2004 on the European Model of Society; Bolukbasi (forthcoming) on EMU and welfare state retrenchment and Zeitlin and Vanhercke 2018 on specific nuances within the European Semester). The predominant mode of governance developed for this purpose was the above-mentioned OMC. Although various scholars wondered whether a voluntary method of coordination based on benchmarking and best practice could work, over time it became clear that it was more effective than critics suggested (Cram 2009; Tholoniat 2010; Zeitlin 2011). Anderson has examined why and how the EU has had such a profound, albeit differing, impact on social policy in the EU especially given the challenges posed to integration in this policy area. She finds that many of the developments depend on the domestic context (Andersen 2015: 7-10). Most recently Claassen, Gerbrandy, Princen and Segers (2019: 3-4) contributed to this debate on what they call ‘free markets versus social protection’ and do so by offering the notion of the ‘European social market economy’ to integrate parts from both ends of the dichotomy.

After the Euro’s first decade, scholars reported mixed results when evaluating the validity of these divergent claims about the EU’s economic policy framework (see Enderlein and Verdun 2009). Despite the Stability and Growth Pact (SGP) losing its teeth after Germany and France famously ignored its provisions in 2003 (Heipertz and Verdun 2004), Hallerberg and Bridwell (2008) provided evidence that it had nevertheless exercised significant fiscal discipline. This led Cohen (2008: 46) to conclude that, de facto, “the SGP straitjacket remains a constraint on Euro Area states, perpetuating an anti-growth bias” not only in monetary policy but in fiscal policy, too. Regarding the much-debated issue of welfare retrenchment under EMU, however, a look at member states’ social expenditure provided “little support for strong versions of the ‘disciplinary neoliberalism’ thesis, at least for Western Europe” (Wincott 2008: 375).

All this, however, was before the multiple crises of its second decade almost broke the euro. The financial crisis, the sovereign debt crisis, and the EU’s institutional responses to them have led to renewed academic criticism and, more importantly, large-scale protests against an EU perceived as excessively orthodox. In particular, the role of the European Commission and the European Central Bank (ECB) in the so-called Troika received severe criticism for imposing austerity policies on European countries in the context of its lending policies (Blyth 2013; Verdun 2013). Lütz and Kranke (2014) even found that the European institutions were more wedded to strict conditionality and policy measures associated with the ‘Washington Consensus’ than the International Monetary Fund, the third Troika institution which was traditionally associated with economic orthodoxy.

2.2 Changes in fiscal policy coordination after the crisis

Having been criticised for a lack of leadership in the ‘fast-burning stage’ (Seabrooke & Tsingou 2019) of the crisis, the EU turned to reforming its framework of economic governance in an attempt to avoid a repeat of the debt crisis. Between 2010 and 2012, it updated its framework for fiscal governance significantly, even though the reforms undertaken did not bring about a paradigm shift in the form of EU fiscal federalism or debt mutualisation. Rather, they can be regarded as mostly path-dependent changes, which left the fundamental logic of an asymmetric EMU intact (Verdun 2015). While continuing to operate within a framework of rules-based horizontal coordination and national sovereignty, EU fiscal governance saw far-reaching reforms and the addition of numerous new instruments. These encompass both ex ante prevention of fiscal shocks and the capacity to respond to them ex post, and are either based on new intergovernmental treaties – such as the Fiscal Compact and the European Stability Mechanism (ESM) – or secondary EU law.

Since a single monetary policy cannot respond to country-specific shocks, the sovereign debt crisis urgently stressed the need to provide liquidity to member states in financial difficulty. Hence, member states first created the European Financial Stability Facility (EFSF), which the ESM replaced in 2012 as the permanent institutional structure for providing financial support (with a lending capacity of €700 billion). Importantly, accessing financial assistance requires the existence of a macroeconomic adjustment program and the ratification of a third intergovernmental treaty, the Fiscal Compact. EMU member states thus receive financial help only in return for accepting *both* country-specific reforms and community-wide rules.

The primary purpose of the Fiscal Compact is to enshrine a balanced budget rule into national, and preferably constitutional, law. As the very detailed balanced-budget rule entails automatic correction mechanisms and empowers the European Court of Justice to fine non-compliant states, Fabbrini (2013: 2) argues that the Fiscal Compact "enhances the powers of the EU institutions to direct and police the budgetary policies of EU member states, thus increasing centralization". Others, however, find that the Compact is a "largely symbolic and suboptimal political outcome" (Laffan and Schlosser 2016: 245), which was realized mainly to satisfy German demands to institutionalize something resembling Germany's own constitutional 'debt brake at the EU level. Indeed, while German leadership initiated the reforms, Smeets and Beach (2019) show how EU institutions (Council Secretariat and Commission) ensured that "EU law would always trump any obligations included in the Fiscal Compact" and that the Compact's rules were aligned with the previously reformed SGP.

This brings us to a series of EU directives and regulations designed to tighten EU fiscal coordination, the so-called 'Six-Pack' and 'Two-Pack'. The former, a legislative package of five EU regulations and one directive, entered into force in December 2011 with the aim of reinforcing the SGP. The most important changes in the Six-Pack include the Macroeconomic Imbalances Procedure (MIP) as a new surveillance mechanism and the introduction of a 'reverse majority voting' scheme for imposing sanctions within the Excessive Deficit Procedure (EDP). This implies that Commission recommendations to sanction member states will be effective unless a qualified majority of member states votes against it in the Council (previously, a qualified majority voting *in favour* of sanctions had been required). Finally, the Six-Pack reflected another lesson learnt from the sovereign debt crisis by explicitly incorporating the levels of public debt in the EDP, rather than only deficit levels (see Ioannou, Leblond and Niemann 2015).

The more specific and technical 'Two-Pack' arguably provided the biggest push for centralizing fiscal coordination (Laffan and Schlosser 2016). Focused on the euro area, its main purpose was to institutionalize further the European Semester (first introduced by the Six-Pack) through a binding timetable for the coordination of national budgetary plans and clear procedures for their assessment.

The Semester now forms the 'core vehicle' to coordinate socio-economic policies, according to the European Commission (2018: 24) itself. In a nutshell, the Semester is a cycle of policy coordination that takes place over the course of a year. The goal is that EU member states align their budgetary and economic policies with commonly agreed objectives. Based on the economic situation in the EU and the member states, the EU annually issues CSRs, which cover a wide range of policy fields, including fiscal governance, financial markets, employment, competition, public administration, and social policy. Without further transferring sovereignty to the EU level, the Semester gives the EU institutions a more authoritative role to influence the economic and social policies of member states (Verdun and Zeitlin 2018: 138).

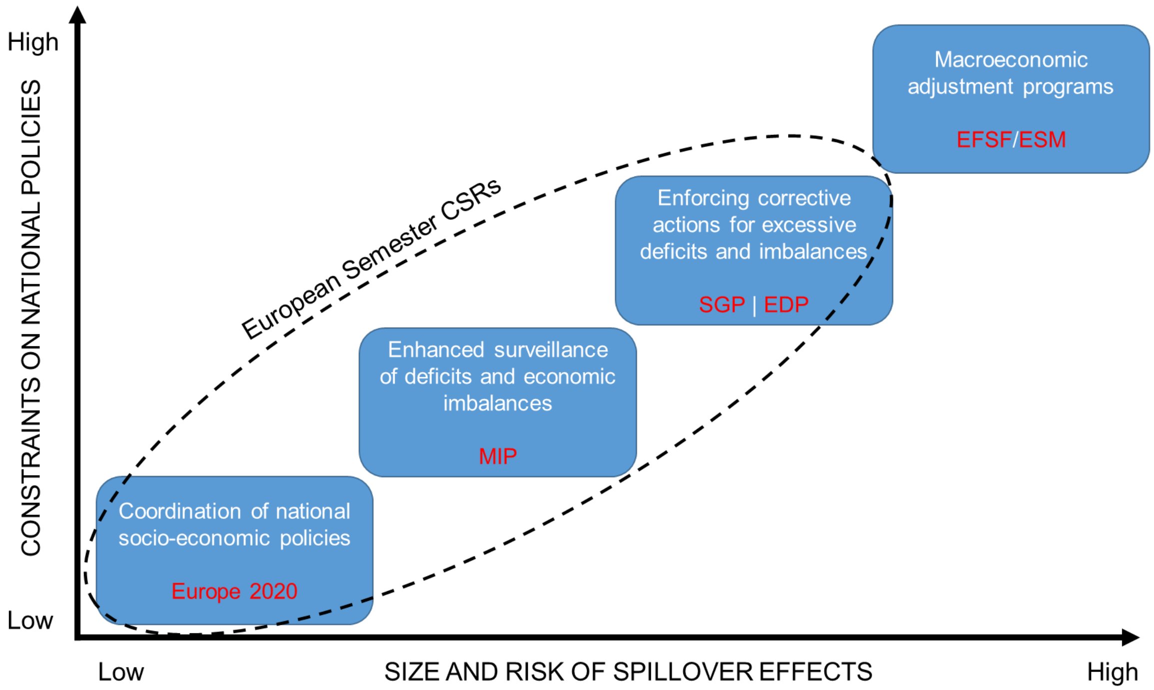

Figure 1: New instruments for policy coordination. Source: Authors' characterization based on Alcidi and Gros (2015: 50)

The Commission sees the need for policy coordination arising from economic spillover effects in a monetary union. For example, major economic reforms in one member state can produce spillover effects on others via trade and competitiveness and/or via financial markets (Commission 2013). Following this rationale, the degree of EU interference in national policies through macroeconomic coordination should be related to the risk of (negative) spillover effects and their size. Alcidi and Gros (2015) thus propose to systematically link the level of EU-level interference to spillover risks (see Figure 1 above), and argue that "the degree of economic policy coordination must be adapted to the different possible economic circumstances" (ibid: 54). By design, the European Semester allows for this flexibility, since the annual recommendations can be based on different instruments – from the Europe 2020 strategy to the MIP and the SGP – which also entail very different sanctioning regimes.

2.3 Economic governance since the introduction of the European Semester

For researchers, the introduction of the Semester has opened the door to new ways of investigating economic and fiscal policy coordination in the EU. By analysing the number and content of CSRs, we can get a detailed picture of where the EU is trying to steer its members. As a result, a growing number of publications focus on the Semester framework. Our article adds to this debate and specifically connects to three strands of literature: one about the Semester's general ideological direction, the second about factors that drive the formulation of CSRs and a third about the changes in policy priorities over the past decade.

First we analyse the content of CSRs in terms of the policy direction implied. Do reform recommendations uniformly support claims about a 'neo-liberal' EU on the one hand or 'social Europe' on the other? Or does the EU recommended less state intervention in some areas but more in others? The 'flexicurity' model, for instance, suggests a combination of labour-market flexibility with social security based on social programs and, specifically, active labour market policies (Bekker 2018). While this approach has allowed countries such as Denmark and Sweden to maintain high levels of equality and social protection, Thelen (2012: 147f.) points out that the main thrust of such policies is less about protecting individuals from the market and more about "facilitating their successful (re)integration into it." Given that the EU has often rather broadly advocated flexicurity as a model for other EU countries to follow, we analyse whether the more specific Semester CSRs reflect this stance.

Second, we focus on differences between Euro Area members. Within any trend on the aggregate level, neoliberal or otherwise, there is bound to be considerable variation. In part, this is by design: the Commission stresses that its draft CSRs are tailored to the needs and challenges of the individual member states (European Commission 2018). But research has also suggested less noble reasons for inter-country differences: powerful countries seem to be better able to change Commission assessments of fiscal policy (Baerg and Hallerberg 2016). The most public illustration of this dynamic was when Commission president Juncker admitted in 2016 that the Commission had given France leeway on fiscal rules "because it is France" (Guarascio 2016). Furthermore, higher politicisation in EU countries has been shown to correlate with more extensive CSRs and a reduced focus on social investment (van der Veer and Haverland 2018).

Finally, we scrutinize differences between the various vintages of the Semester. The temporal dimension has been the topic of intense debate intensely especially among social policy scholars, and numerous reasons for a shift in priorities have been proposed, including increased public pressure, learning, or ideational change in the Commission (Crespy and Vanheuverzwijn 2017, Sabato et al. 2017, Zeitlin and Vanhercke 2018). While some argue that social issues have become increasingly important in recent years (Zeitlin and Vanhercke 2018; de la Porte and Heins 2015), others disagree (Copeland and Daly 2018; Dawson 2018; Graziano and Hartlapp 2018) or caution that more social recommendations do not automatically result in more social policy (Crespy and Vanheuverzwijn 2017). Have CSRs advocating more state intervention in social policy increased over time? Is a similar trend visible in related areas, such as worker protection and overall spending?

3) Data: coding the 'policy direction' of EU recommendations

The following section details our process of building a dataset from CSR texts and how we address inter-coder reliability, before we turn to the three research questions outlined above. Country-specific recommendations, according to the Commission's official definition, "provide policy guidance tailored to each EU country on how to boost jobs and growth, while maintaining sound public finances" (European Commission 2018). Put simply, they spell out the reforms the EU would like a country to undertake in the following 12 to 18 months.

For our dataset, we code all CSRs issued to euro area countries between 2012 and 2018. Since countries under an economic adjustment program are subject to enhanced policy surveillance and do not receive CSRs (European Council 2018), there is no data for Greece and some years are missing for Cyprus, Ireland and Portugal. We code a total of 1764 CSRs, of which 512 are ‘headline CSRs’, i.e., longer pieces of text containing all of the guidance put forth by the Commission within a broad policy area for the country in question. Since one headline CSR often contains several individual reforms, the Commission assesses these sub-recommendations separately. Consequently, we code 1252 ‘sub-CSRs’ as the more targeted elements within a broader recommendation. This approach is in line with previous research on the Semester (Crespy and Vanheuverzwijn 2017; Efstathiou and Wolff 2018). In our analysis below, we rely on sub-CSRs unless stated otherwise.

Next to a variable for policy areas[1], our dataset includes the ‘policy direction’ of CSRs, which differentiates between reforms aimed at either more or less state intervention. In coding the policy direction, we take a conservative approach and only include those CSRs where the language unambiguously indicates a direction. As a consequence, 41 percent of CSRs include no directional indication at all. We further propose five distinct categories to capture policy direction in the sense of more or less state intervention: Public Spending, Social Protection, Worker Protection, Regulation, and Public Ownership (for details, see Appendix). For the purposes of this paper, we focus our analysis on the first three.

While the content of CSRs is interesting in and of itself, it tells us little about the hierarchy between recommendations. Arguably, CSRs carry more political weight if they are linked to sanctions. Therefore, we take the legal basis of the recommendations into account. CSRs can be linked to the relatively powerful SGP and/or the MIP, which implies a more complex and less intimidating sanctions regime.[2] In contrast, CSRs that refer only to the general economic policy coordination framework of the EU (Articles 121(2) and 148(4) TFEU) can be regarded as the least authoritative kind of guidance.

Policy direction	**Percentage agreement**	**Cohen’s kappa**
Spending	88%	0.619
Social protection	85%	0.631
Worker protection	89%	0.495
Ownership	97%	0.491
Regulation	83%	0.345

Table 1: Intercoder reliability scores. Percentage agreement ranges from 0 to 100 percent. Cohen’s kappa ranges from 0 to 1. Source: Authors’ calculations.

[1] For a more detailed discussion on our identification and formulation of policy areas, see D’Erman, Haas, Schulz and Verdun (2018).

[2] Mentions of Regulations 1466/97, 1467/97 and 1173/2011 were coded as references to the SGP; mentions of Regulations 1176/2011 and 1174/2011 as references to the MIP.

Intercoder reliability is a major challenge in coding the content of dense, technical text across several dimensions. For each country, two of the three coders on our team reviewed and coded CSRs independently. Even with extensive training and a detailed codebook, however, some degree of judgment is inevitable. But since every observation is coded twice, we can quantify the implied uncertainty for the entire dataset, not just for a small sample. Our intercoder reliability scores for the most contentious variables are summarized in Table 1. For our analysis, we draw a random sample that includes one instance of every CSR.

4) Findings: what CSRs reveal about the Commission's model of economic governance

Do the EU reform recommendations reveal a clear preference for a particular model of economic governance across the union? At the highest level of abstraction, we may compare all CSRs issued since the start of the European Semester that contain a clear push for either less or more state intervention. As outlined above, this implies a stronger/weaker role for the state in the economy regarding spending, regulation, ownership, and legal provisions for more/less social protection or worker protection. It is important to bear in mind that almost half of all CSRs fall outside of this subset of observations: they are either 'neutral' (in the sense that they do not include a clearly identifiable 'direction' of policy advice) or contain mixed signals (e.g. by including some measures aimed at increasing social protection and some that recommend decreasing protection in the same CSR).

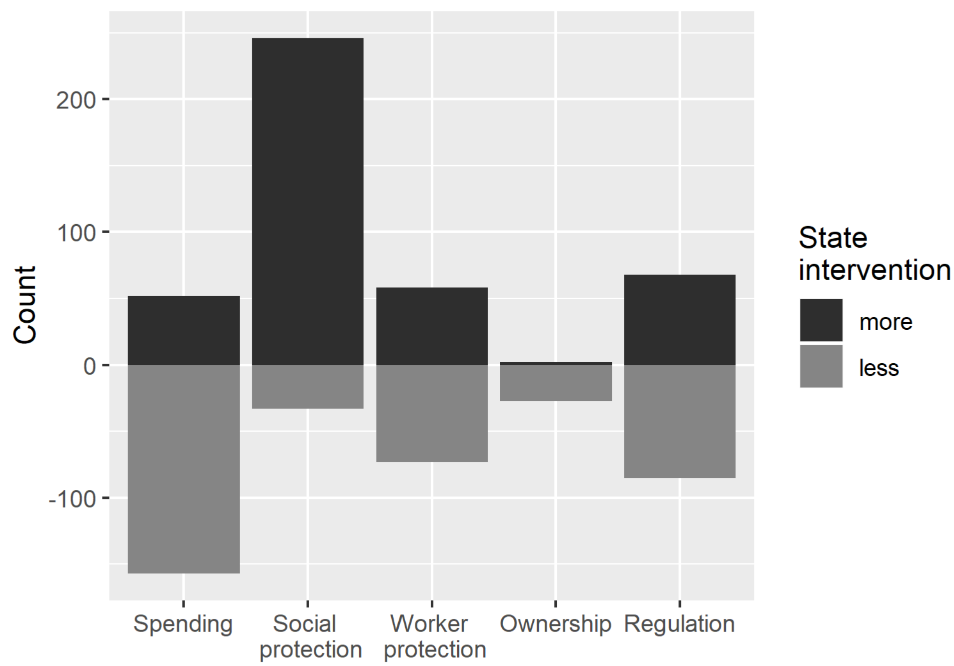

Figure 2: CSRs according to their policy direction across several areas. Excludes CSRs coded as having a 'mixed' direction. Source: Authors' calculations.

At first sight, the data do not suggest that the Commission is trying to push member states into one clear direction, as the share of CSRs promoting less and more state intervention is roughly balanced at 25 and 30 percent of all recommendations. However, there is considerable variance across different sub-indicators for 'policy direction' (see Figure 1 above). Unsurprisingly in view of the strict rules laid down in the SGP, the Commission recommends spending cuts much more frequently than fiscal expansions. When it does recommend more spending, it is mostly through additional investments in infrastructure and education. Regarding social protection, however, the opposite is the case: an overwhelming majority of CSRs in this area advocates more protection for vulnerable groups, for example through extended coverage of social assistance, increased efforts to qualify the unemployed or better child and health care. Conversely, CSRs related to the status of those currently in employment – what we call worker protection – more often than not recommend reducing their privileges. Examples of this include a reduction of early retirement schemes, decentralising wage bargaining, and efforts to better 'align wages with productivity developments', effectively implying lower wages in certain sectors.[3]

The stark difference between the Commission's approach to social protection and worker protection fits in well with the debate about 'flexicurity'. The recommendations often combine increased labour market flexibility with more social security – or, in other words, prioritize protecting 'people rather than jobs'. This finding is in line with Copeland and Daly (2018:13), who find that the Commission behaves with a "tendency to combine market-correcting and market-making proposals", and Bekker (2018) who argues that the flexicurity concept has been revitalized and increasingly encompasses social concerns in the context of the European Semester. Our data helps nuance this claim.

Figure 2 displays the relationship between recommendations to modify social protection and worker protection across member states. It plots the 'net' direction for both dimensions (CSRs for more protection minus CSRs for less protection), showing that, on balance, no country predominantly receives CSRs arguing for less social protection. In contrast, the net scores for worker protection are negative for most member states.

We find no support for the argument that CSRs uniformly push for market-oriented solutions. Rather, many CSRs seem to promote flexicurity policies. From a comparative perspective, the EU recommends flexicurity policies specifically to those countries that are struggling with problems associated with dual labour markets. But there is some variation: in countries such as Austria and Spain, the balance is skewed towards increasing social protection. In other cases, such as Belgium, Finland and Luxembourg, reducing worker protection plays a relatively big role.

[3] For particularly compelling examples, see Finland's 2017 second headline CSR, Italy's 2014 fourth headline CSR, and Portugal's 2014 second headline CSR.

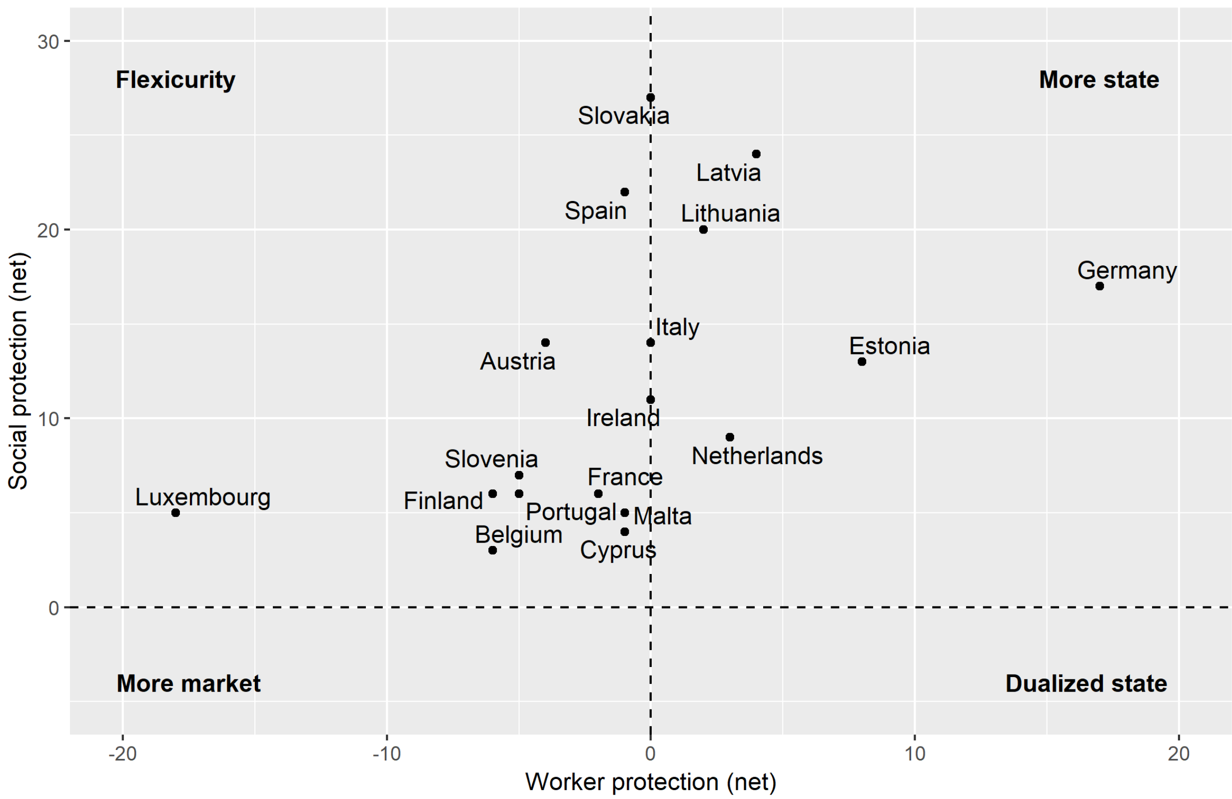

Figure 3: Policy direction of reform recommendations concerning worker protection and social protection.. Net scores are calculated by deducting the number of CSRs that call for less state from the number of CSRs that call for more state..Source: Authors' calculations.

The countries falling outside of what we may call the 'flexicurity quadrant' are Germany, the Netherlands and the three Baltic countries; they are called upon to increase the protection for *both* the currently employed as well as for those outside the labour force. For all of these countries, the 'pro-worker' CSRs focus on shifting taxation away from labour and reducing labour taxes for low-income earners in particular. Additionally, Estonia received repeated calls to address the gender pay gap, while Germany was told to introduce a general minimum wage, facilitate transition from precarious to more sustainable forms of employment and to promote higher real wage growth to support domestic demand.[4] With this strong focus on support for domestic wages, Germany is an outlier that shows how concerns for aggregate demand across the euro area can influence country-specific recommendations.

More generally speaking, the differences between countries are marked and not easily explained (see Appendix). The EU considers more social protection a priority in Germany, Latvia, Lithuania, Slovakia and Spain. Less spending is often recommended to Austria, France and Slovenia. Calls for less worker protection are especially common in the cases of Belgium, Finland and Luxembourg. These groupings do not fit neatly into traditional typologies like the worlds of welfare capitalism (Esping-Andersen 1990) or varieties of capitalism (Hall and

[4] See here Germany's 2012 third headline CSR, its 2014 second headline CSR and its 2016 third headline CSR.

Soskice 2001; Hall 2014). Furthermore, and contrary to intuition, correlations between the policy direction of CSRs and countries' current levels of social spending, employment protection or economic power are weak. The diversity could thus be interpreted as tentative support for the EU's claim that its reform recommendations are not a one-size-fits-all policy, but rather tailored to the present needs of individual member states.

Whatever the driving force behind CSR issuance may be, we can identify some reform profiles that are challenging to implement. As Figure 3 shows, the EU often recommends more social protection but also lower spending. This can be problematic as an increase in social protection rarely comes for free. Typical CSRs recommend improving education, family support or measures to fight youth unemployment. In order to implement them without disregarding calls to limit spending, the government has to cut back spending on other areas, triggering the resistance of affected stakeholders. As a result, reform implementation becomes more difficult. Lithuania, Spain and Slovakia are especially likely to be affected by this dynamic. In contrast, the reform profile for Germany seems straightforward. Its CSRs advocate more spending and more social protection, two entirely compatible objectives. To a lesser extent, this observation also applies to Estonia and Latvia.

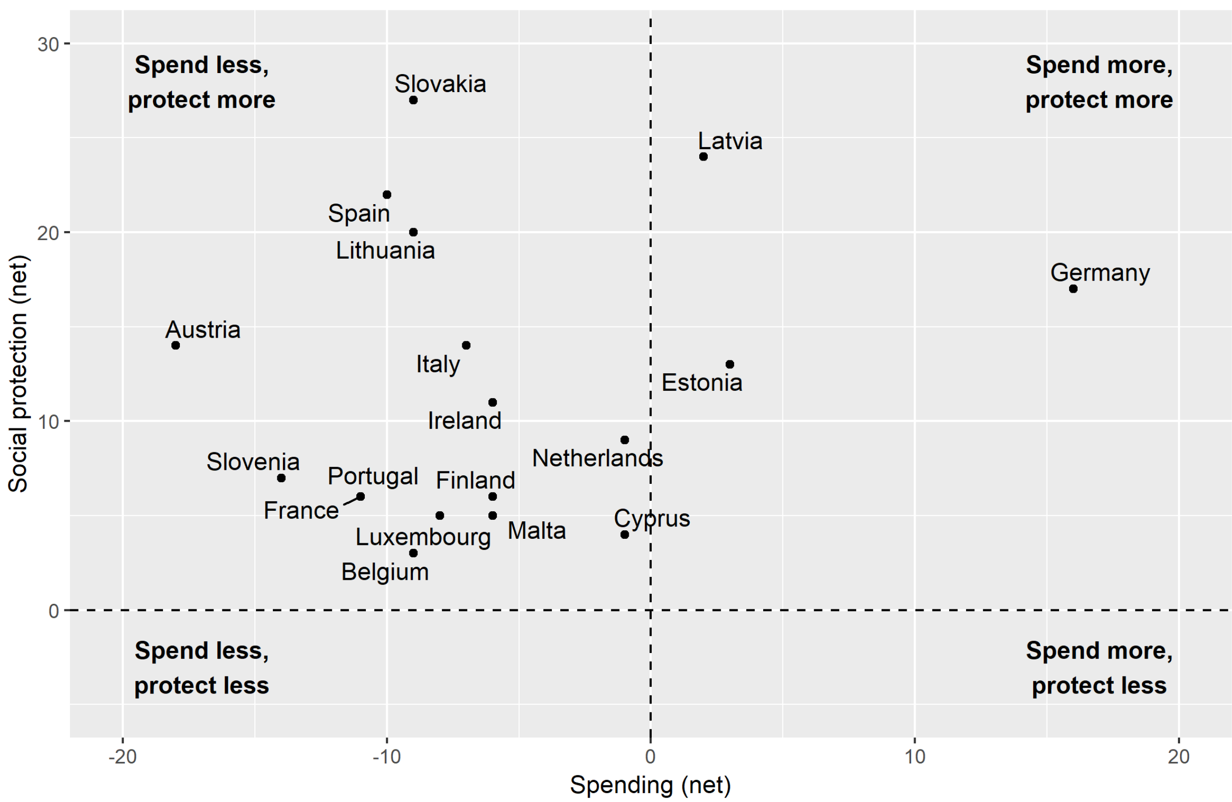

Figure 4: Policy direction of reform recommendations concerning spending and social protection. Net scores are calculated by deducting the number of CSRs that call for less state from the number of CSRs that call for more state. Source: Authors' calculations.

Given that our sample of direction CSRs covers a period of significant change in economic conditions, intertemporal changes may drive policy direction as much as country-specific factors. During times of high public debt, for example, the Commission is more likely to focus on consolidating public budgets and less likely to call for costly measures to increase social protection. As the post-crisis recovery took root and lowered the pressure on public budgets in an increasing number of member states between 2011 and 2018, we might expect recommendations advocating more state intervention to have become more common over time. Figure 4 clearly confirms this expectation for public spending CSRs: calls to loosen the purse strings have increased over time, and recommendations to spend less have become markedly less common. These CSRs focus on a small group of select countries – above all Germany and Estonia – and are outweighed by budget consolidation recommendations for the rest of the euro area in every year since the start of the Semester. Nevertheless, a clear trend towards more balanced budgetary recommendations can be identified.

Figure 5: Relative frequency of CSRs, 2012-2018. Source: Authors' calculations.

When it comes to workers, recommendations to reduce protection dominated initially. However, the balance has shifted over time and since 2017, calls for more worker protection prevail. These observations could be related to the crisis and subsequent recovery, but alternative explanations based on learning, public pressure and ideational change could equally explain this finding.

Even though recommendations favouring more social protection are common, we call for caution regarding the more general hypothesis of a progressive 'socialization' of the European Semester (Zeitlin and Vanhercke 2018). The vast majority of CSRs that address social protection recommend more intervention, but their share has not increased over time. Measured as a share of *all* recommendations, CSRs promoting more protection have stagnated at slightly above 20 percent since 2012. The share of recommendations favouring less social protection has remained constant at around three percent. What is more, CSRs in the 'softer' policy areas are often not backed by the stronger sanctioning mechanisms found in budgetary politics and fiscal coordination. As noted above, not all CSRs are created equal, and the 'direction CSRs' in the areas of social and worker protection are mostly characterized by soft modes of governance where non-compliance implies, above all, reputational costs. Only a third of all CSRs targeting a change in social protection are linked to either the SGP or the MIP. For CSRs concerned with changing the level of public spending, the share is twice as high. This finding is unsurprising because the natural point of reference for social policy CSRs is the Europe 2020 framework, which is not backed by any sanctions regime. It is reasonable to expect that calls for more state intervention will be inconsequential if member states feel that they can safely ignore them due to their weak legal basis (see also Crespy and Vanheuverzwijn 2017).

5) Conclusion: what model for EU economic policy?

In the reformed post-crisis framework for economic governance, the European Semester forms the 'core vehicle' to coordinate national policies across the EU. This annual cycle of coordination aims at a better alignment of national budgetary and economic policies with commonly agreed objectives, especially within the euro area. For researchers, the introduction of the Semester has opened the door to new ways of investigating EU economic and fiscal policy coordination, producing uniformly structured reform recommendations for all member states in regular intervals and evaluating their degree of implementation on a common assessment grid. By analysing the number and content of CSRs, we can get a detailed picture of where the EU is trying to steer its members.

In this paper we examine whether the European Semester is promoting more or less state intervention? To do so we focus on the 'policy direction' that is implied in reform recommendations: do they support claims about a 'neo-liberal' EU on the one hand or 'social Europe' on the other? Our analysis suggests a more nuanced picture. While the EU's recommendations tend to recommend reducing both public spending and protection for labour market insiders, they also encourage more social protection for vulnerable groups. Second, the direction of CSRs depends on the member state. While many member states are recommended a reform mix that could be described as 'flexicurity', the Baltic States and Germany are told to both spend and protect more. Third, there is a trend towards more state intervention over time, when it comes to public spending and protection for labour market insiders. However, we do not find evidence of a progressive 'socialization' of the Semester. Rather, our data suggests that CSRs promoting social protection have been a significant part of the Semester since 2012, and their share of all recommendations has remained nearly constant.

We find policy direction to be an important dimension of the European Semester that, thus far, has not been examined systematically. Studying the direction of Semester CSRs allows us to detect patterns regarding how EU institutions use the Semester in their attempts to influence economic governance across the euro area. It reveals to what extent policy advice differs depending on member states' characteristics, how specific ideas for economic reform evolve, and – from a bird's-eye-view – what the EU's general preferences regarding economic governance look like. Finally, analysing the direction of Semester CSRs connects the discussion of a new technocratic tool in EU economic governance to broader political debates about the EU as a presumably 'market-friendly' or 'neo-liberal' project, that is, one that tends to reduce the role of the state.

Our understanding of economic policy coordination in the EU could be enhanced further by incorporating additional information about the process of formulating CSRs, such as the role of the Council of the EU and the interaction between member state stakeholders and the EU institutions. The logical next step in this area of research would then be to connect the reform input as presented in this paper to the output side, namely the domestic political process and the likelihood of reform implementation.

References

Alcidi, Cinzia and Daniel Gros (2015) 'EMU Governance and the limits of fiscal policy coordination', in: CIDOM (ed.) *Redesigning European Monetary Union governance in light of the eurozone crisis*, Barcelona Centre for International Affairs, pp. 47-56.

Anderson, Karen M. (2015) *Social Policy in the European Union*, Basingstoke: Palgrave Macmillan.

Ardy, Brian, Iain Begg, Dermot Hodson, Imelda Maher and David Mayes (2005) *Adjusting to EMU*. Basingstoke: Palgrave Macmillan.

Baerg, Nicole Rae, and Mark Hallerberg (2016) 'Explaining Instability in the Stability and Growth Pact. The Contribution of Member State Power and Euroskepticism to the Euro Crisis', *Comparative Political Studies* 49(7): 968–1009.

Bauer, M.W. and S. Bekker (2014). 'The unexpected winner of the crisis: The European Commission's strengthened role in economic governance'. *Journal of European Integration,* 36(3): 213-229.

Bekker, Sonja (2018) 'Flexicurity in the European Semester: still a relevant policy concept?', *Journal of European Public Policy*, 25(2): 175-192, DOI: 10.1080/13501763.2017.1363272.

Bolukbasi, H. Tolga (2009) 'On Consensus, Constraint and Choice: Economic and Monetary Integration and Europe's Welfare States', *Journal of European Public Policy* 16(4): 527-544.

Bolukbasi, H. Tolga (forthcoming). *Euro-Austerity and Welfare States: Comparative Political Economy of Reform During the Maastricht Decade*, Toronto: University of Toronto Press.

Borrás, Susana and Kerstin Jacobsson (2004) 'The Open Method of Co-ordination and new governance patterns in the EU', *Journal of European Public Policy* 11(2): 185-208, DOI: 10.1080/1350176042000194395.

Blyth, Mark (2013) *Austerity: The History of a Dangerous Idea*, Oxford: Oxford University Press.

Cafruny, Alan W. and J. Magnus Ryner (2007) *Europe at Bay. In the Shadow of US Hegemony*, Boulder: Lynne Rienner.

Callinicos, Alex (2001): 'The Contradictions of European Monetary Union, in W. Bonefeld (ed.) *The Politics of Europe: Monetary Union and Class*, Basingstoke: Palgrave Macmillan, pp. 10-36.

Claassen, Rutger, Anna Gerbrandy, Sebastiaan Princen and Mathieu Segers (2019) 'Rethinking the European Social Market Economy: Introduction to the Special Issue', *JCMS: Journal of Common Market Studies,* 57(1): 3-12.

Cohen, Benjamin J. (2008) 'The Euro in a Global Context: Challenges and Capacities', in K. Dyson (ed.) *The Euro at 10: Europeanization, Power and Convergence*, Oxford University Press, pp. 37-53,

Copeland, Paul and Mary Daly (2018) 'The European Semester and EU Social Policy: The European Semester and EU Social Policy', *JCMS: Journal of Common Market Studies* 56 (5): 1001–18. https://doi.org/10.1111/jcms.12703.

Cram, Laura (2009) 'From "Integration by Stealth" to "Good Governance" in Social Policy', in Ingeborg Tömmel and Amy Verdun (eds) *Innovative Governance in the European Union*, Boulder, CO: Lynne Rienner, pp. 87-99.

Crespy, Amandine, and Pierre Vanheuverzwijn (2017) 'What 'Brussels' Means by Structural Reforms: Empty Signifier or Constructive Ambiguity?' *Comparative European Politics*, December. https://doi.org/10.1057/s41295-017-0111-0.

Dawson, Mark. 2018. 'New Governance and the Displacement of Social Europe: The Case of the European Semester.' *European Constitutional Law Review* 14 (1): 191–209. doi:10.1017/S1574019618000081.

de la Porte, Caroline and Philippe Pochet (eds) (2002) *Building Social Europe Through the Open Method of Co-ordination* Brussels: PIE Peter Lang.

D'Erman, Valerie, Jörg Haas, Daniel Schulz and Amy Verdun (2018) 'From words to deeds? Measuring economic reform under the European Semester using text as data'. Mimeo.

De Grauwe, Paul (2017) *The Limits of the Market: The Pendulum Between Government and Market.* Oxford: Oxford University Press.

Dyson, Kenneth. (2000) *The Politics of the Euro Zone: Stability or Breakdown?* Oxford: Oxford University Press.

Efstathiou, Konstantinos and Guntram B. Wolff (2018) 'Is the European Semester Effective and Useful?' Bruegel Policy Contribution, no. 9 (June).

Enderlein, H. and A. Verdun (2009). 'EMU's teenage challenge: What have we learned and can we predict from political science?' *Journal of European Public Policy*, 16(4): 490-507.

Esping-Andersen, Gøsta (1990) *The Three Worlds of Welfare Capitalism*. Cambridge: Polity Press.

European Commission (2013) 'Next steps towards a deep and genuine Economic and Monetary Union: Early co-ordination and contractual arrangements', *MEMO/13/259*. Retrieved from http://europa.eu/rapid/press-release_IP-13-248_en.htm. Last accessed on 12 March 2019.

European Commission (2018) ‘EU country-specific recommendations’, *European Commission: Commission and its priorities*. Retrieved from https://ec.europa.eu/info/business-economy-euro/economic-and-fiscal-policy-coordination/eu-economic-governance-monitoring-prevention-correction/european-semester/european-semester-timeline/eu-country-specific-recommendations_en. Last accessed on 28 October 2018.

European Council (2018) ‘Economic and fiscal policies: Country-specific recommendations approved’, *European Council Press Release 380/18 (22 June 2018)*. Retrieved from https://www.consilium.europa.eu/en/press/press-releases/2018/06/22/economic-and-fiscal-policies-country-specific-recommendations-approved/. Last access on 28 October 2018.

Fabbrini, Federico (2013) ‘The fiscal compact, the “Golden Rule,” and the paradox of European Federalism’ *Boston College International and Comparative Law Review*, 36, pp. 1-38, 2013; Tilburg Law School Research Paper No. 013/2013.

Gill, Stephen (1998) ‘European governance and new constitutionalism: Economic and Monetary Union and alternatives to disciplinary Neoliberalism in Europe’, *New Political Economy*, 3:1, 5-26, DOI: 10.1080/13563469808406330.

Graziano, Paolo and Miriam Hartlapp (2018) ‘The End of Social Europe? Understanding EU Social Policy Change’, *Journal of European Public Policy* https://doi.org/10.1080/13501763.2018.1531911.

Guarascio, Francesco (2016) ‘EU gives budget leeway to France ‘because it is France’’, *Reuters*, 31 May 2016. https://uk.reuters.com/article/uk-eu-deficit-france/eu-gives-budget-leeway-to-france-because-it-is-france-juncker-idUKKCN0YM1N0

Hall, Peter A. (2014) ‘Varieties of Capitalism and the Euro Crisis’ *West European Politics*, 37(6) 1223-1243, Http://dx.doi.org/10.1080/0142382.2014.929352.

Hall, Peter A. and David Soskice (eds) (2001) *Varieties of Capitalism: The Institutional Foundations of Comparative Advantage*, Oxford: Oxford University Press.

Hallerberg, Mark and Joshua Bridwell (2008) ‘Fiscal Policy Coordination and Discipline: The Stability and Growth Pact and Domestic Fiscal Regimes’, in K. Dyson (ed.) *The Euro at 10: Europeanization, Power and Convergence*, Oxford University Press, pp. 69-86.

Heipertz, Martin and Amy Verdun (2004) 'The dog that would never bite? What we can learn from the origins of the Stability and Growth Pact’, *Journal of European Public Policy*,11(5):765-780. DOI: 10.1080/1350176042000273522.

Heipertz, Martin and Amy Verdun (2010) *Ruling Europe: The Politics of the Stability and Growth Pact*, Cambridge: Cambridge University Press.

Héritier A., and D. Lehmkuhl (2008) ‘Introduction: The Shadow of Hierarchy and New Modes of Governance’, *Journal of Public Policy*, 28(1): 1-17.

Hodson, Dermot (2018) ‘The Macroeconomic Imbalance Procedure as European Integration: A Legalization Perspective’, *Journal of European Public Policy* 25 (11): 1610–28. https://doi.org/10.1080/13501763.2017.1340326.

Ioannou, Demosthenes, Patrick Leblond and Arne Niemann (2015) European integration and the crisis: practice and theory, *Journal of European Public Policy*, 22(2): 155-176, DOI: 10.1080/13501763.2014.994979.

Laffan, Brigid and Pierre Schlosser (2016) 'Public finances in Europe: fortifying EU economic governance in the shadow of the crisis', *Journal of European Integration*, 38(3): 237-249, DOI: 10.1080/07036337.2016.1140158

Leander, Anna and Stefano Guzzini (1997) 'European Economic and Monetary Union and the Crisis of European Social Contracts', in P. Minkkinen and H. Patomäki *The Politics of Economic and Monetary Union*, Boston/Dordrecht/London: Kluwer, pp. 133-163.

Lütz, Susanne and Matthias Kranke (2014) 'The European rescue of the Washington Consensus? EU and IMF lending to Central and Eastern European countries', *Review of International Political Economy* 21(2): 310-338.

Magnusson, Lars and Bo Stråth (eds) (2001) *From the Werner Plan to the EMU: In Search of a Political Economy for Europe*, Brussels: Peter Lang.

Martin, Andrew and George Ross (eds) (2004) *Euros and Europeans: Monetary Integration and the European Model of Society*, Cambridge: Cambridge University Press.

Menz, Georg and Amandine Crespy (eds) (2015) *Social Policy and the Eurocrisis - Quo Vadis Social Europe*. Basingstoke: Palgrave Macmillan.

Minkinnen, Petri and Heikki Patomäki (eds) (1997) *The Politics of Economic and Monetary Union*. Dordrecht: Kluwer.

Porte, Caroline de la and Elke Heins (2015) 'A New Era of European Integration? Governance of Labour Market and Social Policy since the Sovereign Debt Crisis', *Comparative European Politics* 13(1): 8–28. https://doi.org/10.1057/cep.2014.39.

Sabato, S. and Vanhercke, B., with Spasova, S. (2017) 'Listened to, but not heard? Social Partners' multilevel involvement in the European Semester'. *OSE Paper Series* no. 35, Brussels: European Social Observatory.

Sangiovanni, Andrea (2019) 'Debating the EU's Raison d'Être: On the relation between legitimacy and justice' *JCMS: Journal of Common Market Studies.* 57(1): 13-27.

Scharpf, F. W. (1999) *Governing in Europe: Effective and Democratic?* Oxford, Oxford University Press.

Scharpf, F.W. (2002) 'The European Social Model' *JCMS: Journal of Common Market Studies*, 49(4): 645-670. https://doi.org/10.1111/1468-5965.00392

Scharpf, Fritz W. (2010) 'The asymmetry of European integration, or why the EU cannot be a "social market economy".' *Socio-Economic Review* 8(2): 211-250 https://doi/org/10.1093/ser/mwp031.

Seabrooke, Leonard and Eleni Tsingou (2019) 'Europe's fast- and slow-burning crises', *Journal of European Public Policy* 26(3): 468-481. DOI: 10.1080/13501763.2018.1446456

Smeets, Sandrino and Derek Beach (2019) 'Political and instrumental leadership in major EU reforms. The role and influence of the EU institutions in setting-up the Fiscal Compact', *Journal of European Public Policy*, DOI: 10.1080/13501763.2019.1572211

Thelen, Kathleen (2012) ‘Varieties of Capitalism: Trajectories of Liberalization and the New Politics of Social Solidarity’, *Annual Review of Political Science* 15(1): 137-159.

Tholoniat, Luc (2010) ‘The Career of the Open Method of Coordination: Lessons from a ‘Soft’ EU Instrument’, *West European Politics* 33(1); 93-117.

Tinbergen, Jan (1954). *International Economic Integration,* Brussels/Dordrecht: Elsevier.

Tömmel, Ingeborg and Amy Verdun (eds) (2009) *Innovative Governance in the European Union*, Boulder, CO: Lynne Rienner.

Trubek, David M. and Louise G. Trubek (2005) ‘Hard and Soft Law in the Construction of Social Europe: the Role of the Open Method of Co-ordination’, *European Law Journal* 11(3): 343-364.

Veer, Reinout A van der, and Markus Haverland.(2018) “Bread and Butter or Bread and Circuses? Politicisation and the European Commission in the European Semester.” *European Union Politics*, April, 146511651876975. https://doi.org/10.1177/1465116518769753.

Verdun, Amy (2000) *European Responses to Globalization and Financial Market Integration: Perceptions of Economic and Monetary Integration in Britain, France and Germany*, Basingstoke: Palgrave-Macmillan.

Verdun, Amy (2010) ‘Ten years EMU: an assessment of ten critical claims’, *International Journal of Economics and Business Research*, Vol 2 (1/2): 144-163.

Verdun, Amy (2013) ‘The European Currency In Turbulent Times – Austerity Policy Made In Brussels As The Only Way Out?’ in Dagmar Schiek (ed.) *The EU Social and Economic Model After the Global Crisis: Interdisciplinary Perspectives*, Farnham: Ashgate pp. 45-69.

Verdun, Amy (2015) ‘A historical institutionalist explanation of the EU's responses to the euro area financial crisis’, *Journal of European Public Policy*, 22(2): 219-237, DOI: 10.1080/13501763.2014.994023.

Verdun, Amy and Jonathan Zeitlin (2018). ‘Introduction: the European Semester as a New Architecture of EU Socioeconomic Governance in Theory and Practice’, *Journal of European Public Policy* 25(2): 137-148.

Wincott, Daniel (2008) ‘Welfare Reform’, in K. Dyson (ed.) *The Euro at 10: Europeanization, Power and Convergence*, Oxford: Oxford University Press, pp. 359-377.

Wylie, Lloy (2002) ‘EMU: A Neoliberal Construction’, in Amy Verdun (ed.) *The Euro: European Integration Theory and Economic and Monetary Union*, Lanham: Rowman and Littlefield.

Zeitlin, Jonathan (2011) ‘Is the Open Method of Coordination an alternative to the Community Method?’, in R. Dehousse (ed.) *The ‘Community Method’: obstinate or obsolete?* Basingstoke: Palgrave Macmillan, pp. 135-147.

Zeitlin, Jonathan and Bart Vanhercke (2018) ‘Socializing the European Semester: EU social and economic policy co-ordination in crisis and beyond’, *Journal of European Public Policy*, 25(2): 149-174, DOI: 10.1080/13501763.2017.1363269

Appendix

Policy direction
(values: no direction, less, mixed, more)

Variable	Direction coded as 'more' if the recommended reform …
Spending	… increases general government spending.
Social protection	… benefits vulnerable citizens and those who are not working.
Worker protection	… benefits people currently in employment.
Regulation	… increases the regulation of the private sector.
Ownership	… increases public ownership of assets.

Table A1. Coding scheme policy direction. Source: Authors' representation.

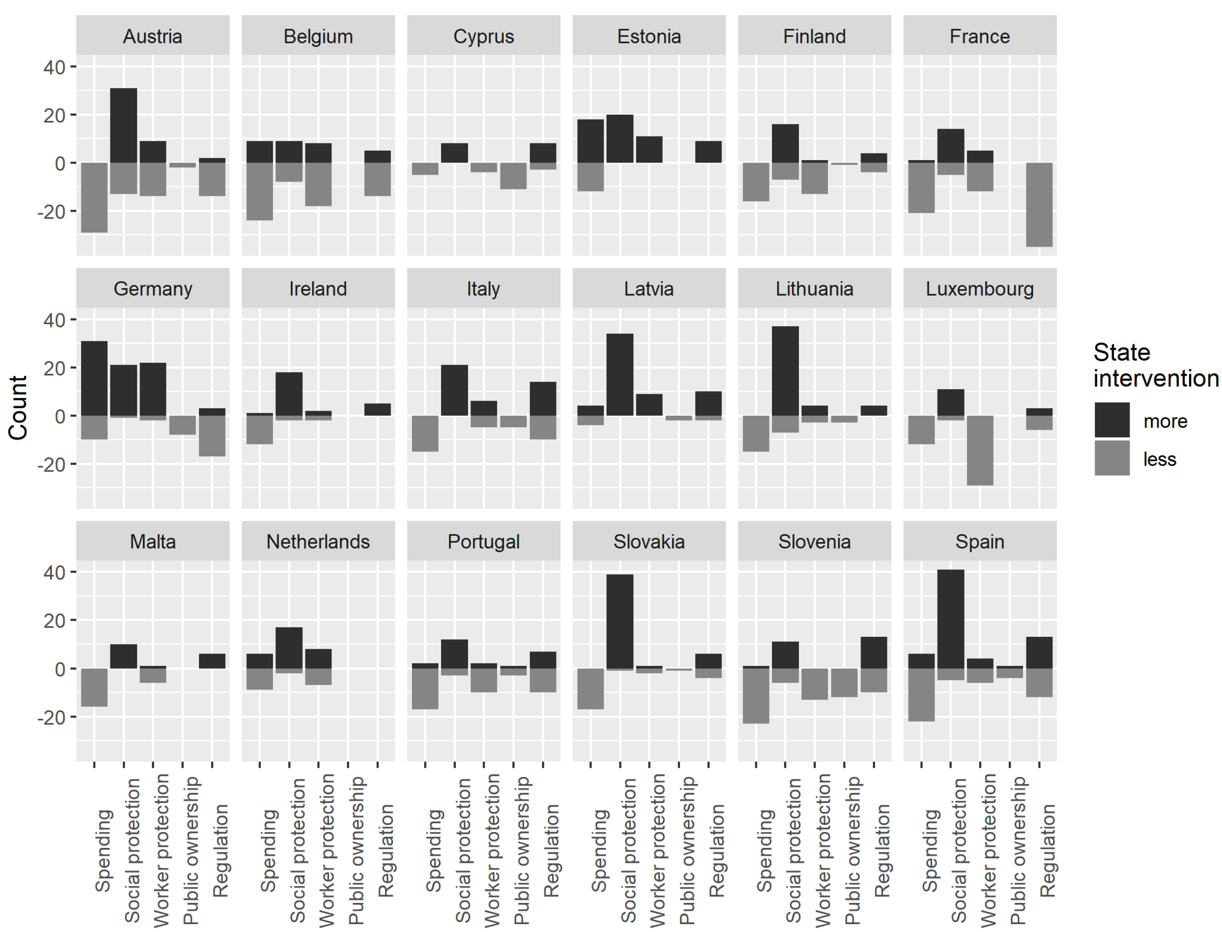

Figure A1: Policy direction of CSRs in 18 euro-area countries. Excludes CSRs coded as having a 'mixed' direction. Source: Authors' calculations.