

## ROUND TABLE 1 – WORK PACKAGE 1 - RESEARCH NOTE

### THE EUROPEAN SEMESTER: ORIGINS, EVOLUTIONS AND FUTURE

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#### **WP1 main research questions are:**

- \* How have ideas (re)shaped the EU's architecture and policies during the fast and slow-burning phases of the Eurozone crisis?
  - \* Have the core ideas underpinning the European project been affected by the fast/slow phases of the Eurozone crisis and what are the implications for the political union and the European economic and social models?
  - \* How have European institutional actors engaged and interacted in the transformation of EU Modes of Governance during the fast-burning phase of the €-zone crisis (2010 to 2012); and how have those actors sought to readjust the transformed EU Modes of Governance in an effort to settle them into the EU's overall governance architecture during the subsequent slow-burning crisis (since 2012)?
- To answer these questions, research in WP1 has scrutinised the dynamic nature of the European Semester from 2010 onwards. Key findings and pending research questions are summarized below.

#### PART 1 – RESEARCH SUMMARY AND FINDINGS

##### **1.1. The European Semester – a new topic of research in EU studies**

At the beginning of the Eurozone crisis, EU institutional actors established the European Semester with the aim to strengthen the coordination of macroeconomic policies at the supranational level. It was conceived in 2010 as a solution to past failures (Coman and Ponjaert 2016) and designed as an annual framework for the coordination of economic policies with the aim to ensure sound public finance, to prevent excessive macro-economic imbalances and to support structural reforms in EU member states. Since its first iteration in 2011, the Semester has brought 'the coordination of budgetary policies, structural reforms and prevention of excessive macroeconomic imbalances into one structured process' (European Commission/European Political Strategy Centre, 2016: 1). It has become the 'EU's annual cycle of economic policy guidance and surveillance' (COM 2016). It draws from a legal point of view on a series of decisions and legal documents such as the revision of the Stability and Growth Pact, the Macro Economic Imbalance Procedure, the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union, as well as the set of directives and regulations labelled the Two and Six Packs.

Since its first iteration in 2011, the European Semester has been studied in EU studies from a wide range of perspectives. While some authors have sought to understand how and to what extent the eurozone crisis has empowered EU institutional actors and altered its modes of governance (Puetter 2012; Copeland and James 2014; James and Copeland 2014; Bauer and Becker 2014; Dawson 2015; De Streel 2015; Verdun and Savage 2015; Fasone 2014; Becker et al 2016; Auel, K. and Höing, 2015; Coman and Ponjaert 2016), others have focused on the policy ideas diffused through the European Semester, seeking to understand

the substance of structural reforms (Crespy and Vanheuverzwijn 2016). Whilst some scholars have observed a 'socialisation of the content and procedures of the European Semester, in terms of an increasing emphasis on social objectives' (Zeitlin and Verhancke 2014: 13; Vanhercke, Zeitlin, Zwinkels 2015), others have adopted a more critical stance, arguing that 'there is little evidence to support such a view' (Costamagna 2013). Another body of research has questioned the legitimacy of the European Semester in terms of input, output and throughput (Schmidt, 2008; Schmidt 2015), with a group of authors examining the balance of power between supranational institutions and member states (Coman and Ponjaert 2016). Considering that the European Semester has given to some EU institutions a 'more visible and intrusive role than ever before in scrutinising and guiding national economic, fiscal, and social policies, especially but by no means exclusively within the eurozone' (Zeitlin and Vanhercke 2014: 11; Costamagna 2013), the literature on the European Semester allowed scholars to ask a series of more fundamental questions pertaining to the EU as a political regime and the construction of its legitimacy in times of crisis (Carstensen and Schmidt 2016).

Against this backdrop, research in WP1 examined both the institutional dynamics related to the emergence and evolution of the European Semester and its influence in reshaping domestic policies. WP1 has focused on the following questions:

- How and to what extent has the European Semester changed power dynamics at the EU level? How has the Semester been transformed to improve its input, output and throughput legitimacy? (1.2)
- How and to what extent has the European Semester reshaped domestic policies? (1.3)

## **1.2. How and to what extent has the European Semester changed power dynamics at the EU level?**

At the beginning of the Eurozone crisis, the European Semester strengthened the agenda-setting powers of the European Council and ECOFIN Council to the detriment of the supranational actors. Although the Commission was involved in the formative stage of the processes, most notably through the expert input of DG ECFIN, it was the report of the President of the European Council's Task Force that served as the blueprint for the institutionalization of both the content and the processes that would come to define the European Semester (Bocquillon and Dobbles 2014: 31). The decisions taken to save the Euro increased the perception that the EP and the Commission find themselves at the losing side and that they fail to shape fundamental policy choices in the new economic governance in accordance with their political views (Crum 2015: 1). From 2010 to 2012 the role of supranational institutions such as the European Commission and the EP had been drastically reduced, most of the decisions related to the Eurozone's new governance architecture being adopted through opaque negotiations in intergovernmental meetings (Coman and Ponjaert 2016). Thus, it has been argued that the room for manoeuvre of the Commission in the different stages of the policy process (agenda-setting, formulation, decision-making, implementation and evaluation) was diminishing.

In contrast, as the fast-burning crisis slowed, the Commission seized on its new responsibilities to take action and exert greater discretion in the coordination of macro-

economic policies. Ultimately the Six-Pack adopted in December 2011 would not merely enhance the Commission's authority in the multilateral budgetary and macro-economic supervisory, but more importantly it also institutionalized an increasingly far-reaching and political macroeconomic dialogue with each member state. Finally, although the role of the European Parliament had initially been relatively minimal, over time it gained greater voice and presence throughout the process. However, its effective role is disputed in the literature.

The changes in the operation of the European Semester have also aimed at improving its throughput and output legitimacy. The European Commission has sought to increase the involvement of mainly three categories of domestic actors: the state administration, parliaments and the social partners. We know from the realm of global governance that ownership by affected actors are supposed to boost both the political acceptance and the implementation of reforms which are initiated from outside the national arena. In the framework of the European Semester, we have distinguished three types of ownership: institutional (control over the outputs generated), political (acceptance of the nature of the reforms advocated) and cognitive (knowledge and awareness of the European Semester).

To sum up, those who maintain that the Commission lost power, highlight that in the new economic governance the Commission plays a "technical role" "not a decision-making one" (Fabbrini 2015: 46), which entails "a gradual transfer of decision-making authority and resources from the Commission to the intergovernmental level and to the European Central Bank" (Da Coneicao-Heldt 2016: 95). For example, Crum suggests that the new prerogatives conferred to the Commission, in particular the monitoring competences to analyse the performance of member states along a set of economic and fiscal indicators, are "administrative in kind" but also subject to political instructions from member states (2015: 5). Where some scholars see the empowerment of Member States or, conversely, the Commission, research in WP1 points out a combination of old and new, a 'hybridization' of modes of governance (Coman and Ponjaert 2016) or even a combination of an intergovernmental decision-making process with a supranationalized implementation (Dawson 2015). As Philippe De Schoutheete put it, even if the community method was not the epicenter of the decision-making in hard times, after the storm, the EU seem to be "more community-based than ever" (2012: 32).

Against this backdrop, research conducted in WP 1 has showed:

**a). how, since the first iteration of the European Semester, the EP, the Commission and member states have sought to strengthen its input, output and throughput (Coman and Ponjaert 2016).** Since 2010 onwards, the European Semester has been rationalized several times to avoid administrative overload. It has been also focused on a set of priorities in terms of policies. While some changes have been introduced through the adoption of a series of regulations and directives, other have been initiated as a result of inter-institutional agreements and informal practices. For example, the Commission has revamped the European Semester to devote more attention to specific priorities, to reduce the number of documents scrutinized and to allow more time to discuss them with national authorities. Progressively each of the EU's main actors has integrated the new European Semester and thus been in varying degrees empowered by it *de iure* (by the Two and Six Packs) or *de facto* (through interactions and interinstitutional agreements) (Coman 2017). Thus, to give unequivocal answer to the question "who governs" is rather complicated and it will always be given the *sui generis* nature of the EU and the co-existence of multiple

modes of governance in each policy area. Drawing a picture in black and white would be an oversimplification as institutional interdependencies are enshrined in the treaties. Not only the *de iure* empowerment of EU institutional actors matters, but also their behavior *de facto*.

**b). how the *raison d'être* of the European Semester has been changed by EU institutional actors, shifting from conditionality and sanctions to ownership and flexibility** (Coman and Sbaraglia 2017; Crespy and Vanheuverzwijn 2017). While at the outset of the crisis the Commission, the Council and the European Council insisted on enforcement and semi-automatic sanctions of non-compliance, in 2012 José Manuel Barroso redefined the philosophy of the Semester, arguing that this policy tool had to be conceived as a system 'based on guidance, not on corrections', as 'an informal discussion' between member states and EU institutions before deliberating and adopting their national budgets (Speech Barroso 11/29). Over time the Commission has become ever more reluctant to formulate 'harsh recommendations' because of the increasing hostile political context both at the EU and member states' levels (Interview, Principal Policy Advisor, Office of the Chairman of the Eurogroup Working Group, General Secretariat, Council of the EU). Since engaging with the European Semester, the Commission expressed an increasing concern not to be perceived as 'breaching national sovereignty' (Speech 11/724; Document 11/64). This growing political awareness in the Commission saw talk of sanctions and conditionality move to the backburner as interactions and recommendations came to focus on needed structural reforms.

Thus, the European Semester was no longer considered an instrument of ex-post coercion, but as one of ex-ante guidance and socialisation (Speech Barroso 11/29). Discourses surrounding the European Semester show that starting in 2012, Commissioners and high-level officials increasingly portrayed the European Semester as a forum to discuss Member States' macro-economic policies to strengthen its ownership and flexibility. This being said, the rules allowing for flexibility in the enforcement of fiscal discipline (e.g; for Italy, France, Spain and Portugal) have been criticised by Northern creditor States as undermining the credibility of the Commission and its commitment to a rule-based Monetary Union. As far as ownership is concerned, our research has provided evidence that it is strongest among national governments and administrations, which are able to shape the outputs of the European Semester (institutional ownership) with little political disagreement (political ownership). This contrasts with national parliaments, which display low levels of all types of ownership. While cognitive ownership is fairly strong both among employers and unions, the former seem more able to provide effective input into the process.

**c). how and why have EU institutional actors sought to take into account the diversity of member states situations and traditions by involving member states in the co-production of Country Specific Recommendations and Country Reports (Coman 2017).** The most noticeable change in the making of the European Semester is the bilateral dialogue between Commission and member states articulated around the Country Specific Reports and recommendations. The ever-growing centrality of the Commission's bilateral relationship with each member state is a core innovation at the heart of the European Semester's workings. These meetings represent crucial moments both for the Commission and for member states as the actors can exchange information and explain the nature of the reforms to be undertaken at the domestic level (Coman, 2017). In addition, the Commission has since 2012 used the 'comply or explain' rules of the European Semester to oblige the Council to provide a written explanation of its reasons for modifying any of the

Commission's recommendations (Article 2-ab(2) of Regulation (EU) No. 1175/2011 of the European Parliament and the Council). The Commission holds to this principle both in the meetings of the Council and in the technical committees with Member States experts. As one official of the Council stated, the Commission often reminds in these meetings that the Council *"is expected to, as a rule, follow the recommendations and proposals of the Commission or explain its position publically"* (Interview, General Secretariat, Council of the EU).

### 1.3. How and to what extent has the European Semester reshaped domestic policies?

The first iterations of the Semester were very much about austerity and internal devaluation. The EP contested both the input legitimacy of the European Semester (how the AGS and the Country Specific recommendations were produced) as well as its output (the ideas put forward by the Commission to shape reforms in member states). Over time the European Semester has become incrementally more progressive as attention for social and employment affairs has seemingly increased; yet this this has not led to a formal change in the Semester's priorities or enforcement mechanisms which remain primarily concentrated on fiscal and macro-economic balance.

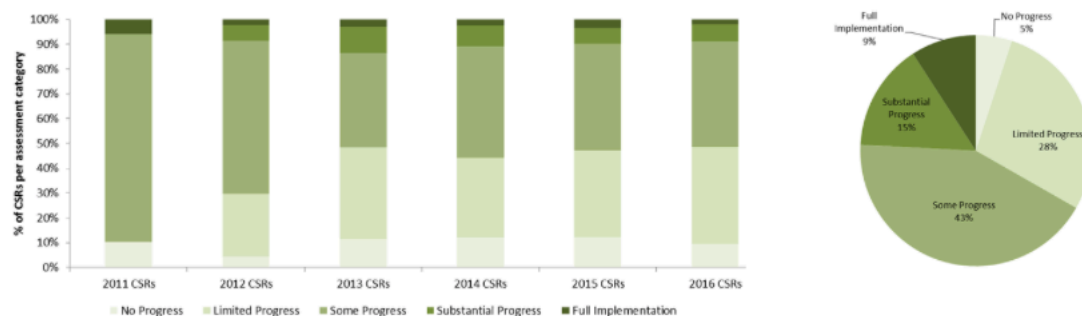
Research conducted in WP 1 has showed that:

a) It is possible to take issue with the contention that the European Semester has undergone a process of "socialisation" "in terms of an increasing emphasis on social objectives and targets in the EU's priorities and Country-Specific Recommendations; an intensification of social monitoring, multilateral surveillance, and peer review; and an enhanced role for social and employment actors, especially the EU Employment and Social Protection Committees (EMCO and SPC)." (Zeitlin & Vanhercke, 2014). For example, in 2016 42 out of a total of 89 Country Specific Recommendations have an employment and social component which allows observers to argue that social aspects are to a large extent integrated in the European Semester, thanks to the work of the Employment Committee (EMCO) and the Social Protection Committee (EMCO). However, a **more qualitative in depth analysis** shows that the alleged shift from an agenda focused on fiscal discipline and social retrenchment to one geared towards investment including social investment remains highly ambiguous. Despite floating meaning, the notion of "structural reforms" exhibits a persisting core consisting of typically neoliberal policy recipes such as the liberalization of products and services markets, the deregulation of labour markets, and public administration reform. At the same time, structural reforms have covered eclectic – if not contradictory – policy ideas thus accompanying a discursive turn towards more fiscal flexibility and (social) investment. Rather than a constructive dynamic for a renewed agenda, such ambiguity reflects a fundamental, ongoing asymmetric battle of ideas within Europe.

b). **the degree of implementation is low**; for this reason, the output legitimacy of the Semester is questioned and questionable. While the implementation was modest in 2011, it has fallen every year since then, raising doubts about the *raison d'être* of the process itself. As Zsolt Darvas and Alvaro Leandro demonstrated in 2015 and 2016, the Semester was not effective neither in the implementation of the CSRs nor at enforcing the EU's fiscal and macro imbalances rules. The level of implementation remained slow and low as illustrated

in the graph below (Source: European Commission). Although in 2016 there was some progress scored at more than 45% by the Commission, the lack or limited progress scored also about 40%.

Figure 1: Multiannual perspective of CSR implementation: yearly assessment (left) versus multiannual assessment (right)



\* 2011-2012 CSRs: Different assessment categories

\*\* The overall assessment of the country-specific recommendations related to fiscal policy includes compliance with the Stability and Growth Pact.

## PART 2 – NEW RESEARCH QUESTIONS

- 1) **Politicisation and transparency:** The European Semester touches a series of policies that are at the core of national sovereignty. Rich and substantial discussions take place in the framework of the Semester between EU officials and civil servants/experts from member states. Thus, most of discussions on fundamental socio-economic questions take place in a series of committees that prepare the works of the Council. Considering the importance of these debates, the question is: how to increase their transparency?
- 2) **Output legitimacy:** To what extent changes in input and throughput legitimacy has led to changes in output?
- 3) **Implementation:** Considering the low level of implementation of country specific recommendations at the domestic level, is the European Semester an appropriate policy instrument to avoid macroeconomic imbalances? Is the Semester still credible? For whom and why?
- 4) **What ways forward? Which institutional solutions for a reformed European Semester in a reformed EU?** How to find a balance between executive and legislative powers? Is the establishment of a Parliament of Eurozone the way forward? How to increase the cooperation between national parliaments and members of the European Parliament in the framework of the Economic Dialogue?
- 5) **How to find a balance between economic stability and national sovereignty?**

## PART 3 – POLICY RECOMMENDATIONS

1. If the European Semester is to be reformed, this process should first ask the question of the **future of the integration project**. Instead of adopting piecemeal reforms, EU institutional actors should think first about the foundations of the EU as a political regime and its *raison d'être* and second about how these ideals should be translated into a coherent and democratic institutional framework.
2. **The process has strengthened the powers of executives at the expenses of the legislatives.** The EP has to have real power in the coordination of macroeconomic

policies (some MEPs maintained that the EP should have equal powers to those of the Council).

3. **As it is now, the European Semester needs increased transparency and publicity.** Recent institutional changes in order to strengthen its input, output and throughput legitimacy have strengthened the powers of the Commission and member states. While from a bureaucratic/administrative point of view solutions have been found for past shortcomings, little has been done to increase its publicity/transparency. **Discussions about the degree of convergence and divergence in terms of socio-economic policies should take place at the EU level before the publication by the Commission of the AGS (Annual Growth Surveys).**
4. **Increased politicization:** Not only social partners and political actors should play a greater role in explaining the issues at stake in the coordination of macroeconomic policies, but also journalists and observers should be more proactive in bringing into attention the degree of convergence and divergence between EU member states.

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