Journal of Contemporary European Research


Research Article

Measuring Economic Reform Recommendations under the European Semester: ‘One Size Fits All’ or Tailoring to Member States?

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Citation

https://doi.org/10.30950/jcer.v15i2.999
First published at: www.jcer.net
Abstract

In 2010 the European Semester was created to improve coordination of fiscal and economic policies within Europe’s Economic and Monetary Union. The Semester aims to tackle economic imbalances by giving European Union (EU) member states country-specific recommendations (CSRs) regarding their public budgets as well as their wider economic and social policies with a view to enabling better policy coordination among Euro Area member states. In this article, we develop a method to assess the way in which the CSRs have been addressing coordination and offer a systematic analysis of the way they have been formulated. We offer a way to code CSRs as well as one to analyse progress evaluations. Furthermore, we seek to use our results to address one of the reoccurring questions in the literature: whether the EU is pursuing a ‘one size fits all’ approach to economic policy making in the Euro Area? The findings indicate that recommendations for different types of market economies among the Euro Area members tend to focus on different policy areas.

Keywords

Economic governance; European Semester; Policy area; Varieties of capitalism

The Euro Area financial crisis unveiled dramatically the incompleteness of governance mechanisms in Europe’s Economic and Monetary Union (EMU) (Ioannou, Leblond and Niemann 2017). Although EMU witnessed strong growth in some member states during the first ten years of its existence, governments lacked incentives to correct macroeconomic imbalances when they occurred and compliance with fiscal rules remained weak (Heipertz and Verdun 2010). The European Union (EU) reacted to the crisis by reforming its economic governance framework. Seeing that there was no support for major treaty change (which would be needed for some reforms, such as to create a Euro Area Treasury), it opted instead for a system of macroeconomic policy coordination that became known as the European Semester (or ‘Semester’ for short).

In the words of the European Commission (2017: 24), the Semester is ‘the core vehicle’ to achieve better policy coordination in the EU. It is a mode of governance that offers a timetable for proposing, discussing and implementing economic and fiscal policy reforms over the course of a year. The goal is that EU member states (and especially members of the Euro Area) align their budgetary and economic policies with commonly agreed objectives. Based on the national economic performance and on policy output, the EU annually issues Country-Specific Recommendations (CSRs), which cover a wide range of policy fields, including fiscal governance, financial markets, employment, competition, public administration and social policy.

As these changes in governance give the EU institutions a larger role in policy coordination than before, we seek to examine what kind of reforms the EU promotes. To do so we offer a comprehensive overview of the CSRs issued to Euro Area members between 2012 and 2018. Our analysis here focuses on Euro Area members only rather than the wider EU because the Semester is a key tool developed in response to perceived insufficient economic convergence being an important
underlying cause of the Euro Area financial crisis. The research question is: when and why do member states receive recommendations focused on different thematic areas? We interpret ‘thematic areas’ as overarching policy topics. We describe how the thematic focus of CSRs has developed over time and explore whether differences in reform recommendations map onto differences in Euro Area countries’ economic models. From a methodological point of view, one major challenge is to assess the content of the hundreds of CSRs issued during the time period. We discuss how the enormous wealth of text provided by the Semester can be translated into a dataset that provides detailed information about recommendations and their policy areas. The findings from our analysis indicate that while the content of CSRs varies according to member state and as such does not support the idea of EU economic governance attempting to impose a one size fits all mechanism, the emphasis and prioritisation of different policy areas do have some similarities when looking at countries with different ‘types’ of capitalism.

Our paper contributes to the specific literature on the Semester as well as to the more general literature on economic policy coordination. It provides new input to the debate whether the EU is pursuing a ‘one size fits all’ approach to economic policy making in the Euro Area that might be damaging to certain member states (Rodrigues and Reis 2012; Regan 2017). It offers some insights into the role of the Commission in policy coordination in the post Euro Area Financial Crisis period, building on previous research by scholars such as Puetter (2012), Bauer and Becker (2014), Dehousse (2016) Savage and Verdun (2016), and Fabbrini (2017) that debates whether the changes in economic governance have empowered the European Commission as a supranational institution or whether this process must be viewed as predominantly intergovernmental, leaving most of the power with member states. The paper also contributes to the literature that asks questions about the causality and temporality of public policy (Fischer and Maggetti 2017) or the usefulness of various methods when comparing outcomes of public policy with a view to increasing the validity of cross-national findings (Brans and Pattyn 2017).

The next section reviews the literature on the European Semester. The article then provides a discussion of the method used for this paper (the coding of policy areas and calculation of intercoder reliability scores). This is in light of the fact that the study reports on an analysis of a large set of textual data; we include a discussion of the challenges that such an endeavour poses. We then discuss our findings before drawing conclusions.

WHAT IS THE EUROPEAN SEMESTER AND HOW IS IT BEING STUDIED?

The idea of creating an economic policy coordination mechanism dates back to early debates over the flexibility of (optimum) currency areas (for example Mundell 1961). The design of EMU and the various forms of domestic political resistance to centralised economic policymaking has been well documented, as has the impact of such an ‘asymmetrical’ EMU on both the circumstances leading up to the financial crisis and the policy responses in the aftermath (Verdun 2000; 1996; Enderlein and Verdun 2009). Research on the design of the Semester highlights the political manoeuvring between national actors, Commission entrepreneurs and European Central Bank (ECB) policymakers under conditions of existential crisis (Verdun 2017; 2015; Laffan and Schlosser 2016; Copeland and James 2014; Bauer and Becker 2014).

The European Semester provides a framework to coordinate economic and fiscal policies of the member states. It builds on the economic rules that had been in place since the start of EMU and have been further developed in EMU’s first decade. These include the so-called Stability and Growth Pact (SGP) that was already developed early on but also the Macro-Economic Imbalance Procedure (MIP) introduced in 2011. These two procedures seek to ensure that fiscal policies are considered a matter of common concern and include mechanisms to reduce fiscal imbalances (such as a larger budgetary deficit) or macro-economic imbalances (such as a current account deficit). Under the SGP
a system of sanctions has been developed, though this system had not been used effectively in the run-up to the crisis. Under the MIP specific monitoring procedures have been developed, such as elaborate scoreboards, and the same idea of having sanctions has been maintained, but again to date those have been rarely used (Savage and Howarth 2018).\(^1\)

The Semester cycle begins in November and ends in October. The most prominent player in the process is the Commission that provides analysis, assessments and proposals. It starts off the process by publishing its Annual Growth Survey (AGS) that identifies for the coming year the key reform priorities for the EU as a whole. It publishes detailed Country Reports that contain key challenges and reform progress of each member state. Based on its assessment, the Commission proposes CSRs. The Council grants political confirmation by formally adopting and sometimes modifying the CSRs. The European Council provides policy orientations that are based in part on the AGS, and later on endorses the Council decision on CSRs. The European Parliament (EP) accompanies the process. It adopts resolutions and reports on the AGS and the CSRs each year and may invite the Presidents of the Commission, Council, European Council and Eurogroup to discuss the Semester through the so-called ‘Economic Dialogue’. The ‘national semester’, which takes place during the second half of the year, is a period during which member states consider the recommendations as they implement socio-economic reforms and adopt national budgets for the next year (draft national budgets are due to the Commission by mid-October just before the cycle starts again) (see Verdun and Zeitlin 2018 for more details on the Semester process).

The bulk of scholarly work on the Semester can arguably be grouped into three general categories. A first category looks at whether the Semester serves as a source of monitoring and scrutiny (Fabbrini 2017; Horvath 2017; Crespy and Vanheuverzijin 2017) or convergence (Franks, Barkbu, Blavy, Oman et al. 2018; Estrada, Gali and López-Salido 2013). This includes work on reforming the Stability and Growth Pact and complementing it with the Fiscal Compact (Fabbrini 2013), on the utility of the measures involved in the ‘Two-Pack’ and ‘Six-Pack’ regulations (Verdun 2015; Savage and Verdu 2016; Roger, Otjes and van der Veer 2017; Joerges 2014; Horvath 2017), respectively, and the integrated economic and employment policy guidelines within Europe 2020 (Bekker 2018). A second category questions the political ‘ownership’ of the Semester via three channels, either through the participation of national parliaments and the European Parliament in the development and process of the Semester (Vanheuverzijin and Crespy 2018; van der Veer and Haverland 2018; Maatsch 2017; Kreilinger 2016; Hallerberg, Marzinotto and Wolff 2018; 2011; Crum 2018) or through examinations of public opinion and support (Kuhn and Stoeckel 2014) and the relative power of different institutional actors (Carstensen and Schmidt 2017). Other work in this area has thus far concentrated on the role of policy entrepreneurs in the Euro Area, and some discussions on democracy, technocracy, and competing economic ideas (Verdun and Zeitlin 2018; Kuhn and Stoeckel 2014; Hallerberg, Marzinotto and Wolff 2018; 2011; Fabbrini 2017; Copeland and Daly 2018; Carstensen and Schmidt 2017). These analyses of the Semester generally characterise it as a fundamental shift in EU socio-economic governance, both in process and substance (Verdun and Zeitlin 2018). A third category examines the twin polar strategies of austerity and investment. Research on these issues concentrates on the range of tools that the EU used, be it the Annual Growth Surveys, National Reform Programmes, and Stability or Convergence Programmes (Darvas and Vihriälä 2013; Crespy and Schmidt 2017; Bekker 2016; 2013) or on related tools such as the Excessive Deficit Procedure (Savage and Howarth 2018). Scholars also examine the question of EU social policy inherent in the Semester and whether macroeconomic policy coordination is aiding the improvement of social policy or causing retrenchment (Zeitlin and Vanhercke 2018; Roger, Otjes, van der Veer 2017; Parker and Pye 2017; Maris and Sklias 2016; Kvist 2013; Eihmanis 2018; Copeland and Daly 2018). The next logical extenuation of this research is to approach the Semester from the perspective of policy analysis and evaluation to assess systematically its effectiveness.
The literature on the Semester provides a good overview of the relative success of the Semester in selected cases, for example covering whether CSRs enable EU institutions to exert more reform pressures on member states or have instead simply motivated member state governments to implement reforms in line with their own interest (Eihmanis 2018; Copeland and Daly 2018). Some of the single or comparative case studies offer insights into how the Semester affects reform processes in particular countries or in specific policy areas such as labour markets (Bekker 2018) or environmental policy (Behrens and Rizos 2017) or a comparison of cases and countries (Bokhorst 2019). Such studies look at the implementation track record of member states (Samardzija and Skazlic 2016; Efstatthiou and Wolff 2018; Deroose and Griesse 2014; Darvas and Leandro 2015) and the way CSRs affect specific national (Schreiber 2017; Louvaris Fasois 2016) and European policies (Enderlein and Haas 2016; Behrens and Rizos 2017). Most of these studies find that, although legal competences remain grounded in the fundamental principles of sovereignty and subsidiarity, the Semester has provided the EU-level with greater access to the economic, fiscal and social policies of member states, as well as a larger role in scrutinising and providing feedback on those policies.

Research on the Semester is increasingly including analyses on the entire set of recommendations issued since the inception of the European Semester process. A notable example is the work of Crespy and Vanheuverzijin (2017) on the meaning of the term ‘structural reform’, which takes into account the content of all CSRs between 2011 and 2017. Our approach builds on the same idea: an analysis of all CSRs can detect patterns that are easily overlooked when focusing on single countries or policy areas. Our aim in constructing a large dataset, which includes refined categories of policy areas, is to offer a comprehensive picture of the reforms promoted by the EU and to explore possible reasons for differences over time and between countries. The focus on the ‘supply side’ of the European Semester is an important step on the way to finding out what exactly the Semester’s effectiveness depends on (Rodrik 2015: 17) and how it works in practice. Specifically, detailed information about the policy areas affected by CSRs gives us an idea which interest groups and ministries are affected, which in turn influences the political cost of reforms.

This article also speaks indirectly to the ongoing debate about over convergence in the Euro Area, from a broad perspective of assessing the thematic areas of policy prescriptions and recommendations. The Semester is often referred to as indicating a shift to more centralisation and a strengthened role of EU institutions in European economic governance after the crisis. Within the Euro Area in particular, the Semester is a key tool to address an important underlying perceived cause of the Euro Area financial crisis – insufficient economic and fiscal coordination. Its key components – the strengthened Stability and Growth Pact and the Macroeconomic Imbalance Procedure – signal more stringency in EU economic policymaking through both surveillance and coordination of national policies (Savage and Verdun 2016; Bauer and Becker 2014). While the effectiveness of these new governance mechanisms remains subject to considerable controversy, their mere existence has provoked renewed criticism about overly intrusive and insufficiently legitimised action by EU institutions. In particular, critics have portrayed the objective of improved convergence as part of the problem rather than the solution to the Euro Area’s troubles. In this vein, Regan (2017: 969) claims that this ‘vision of convergence is exacerbating rather than resolving the imbalance of capitalsisms at the heart of the Eurozone’.

At the heart of this argument sits an emphasis on the existence of distinct models of capitalism within the currency union, as defined by the varieties of capitalism literature. Moving beyond the original dichotomy (Hall and Soskice 2001), the comparative capitalsims literature suggests the existence of at least four distinct types of capitalism within the Euro Area: liberal, coordinated, mixed and dependent market economies (see Nölke and Vliegenthart 2009; Bohle 2018; Amable 2003). These distinct models, the argument goes, are poorly served by a ‘one size fits all’ approach to macroeconomic policymaking. While this criticism is particularly prominent when it comes to the reform packages implemented under ‘Troika’ surveillance at the height of the Euro crisis (see
Rodrigues and Reis 2012; Regan 2017), similar concerns about a one-sided focus on fiscal consolidation and supply-side structural reforms have been waged against the Semester (see Copeland and Daly 2018). The focus of the debate on the variety of economic models and their differential needs provides one interesting lens for analysis that we use in our exploration of the data.

EUROPEAN SEMESTER DATA

The Semester produces a wealth of quantitative and qualitative data. Given its strong reliance on economic statistics and formalised reports, some authors even define it as ‘an information-driven surveillance system’ (Savage and Howarth 2018: 212). The Semester thus invites both longitudinal and cross-country comparisons to identify patterns of successful policy coordination over time. The annual CSRs provided to all EU member states are particularly well-suited for comparative analysis as they follow a clearly specified format. They thus allow researchers to assign simple values to otherwise complex processes of economic and social reform.

The official definition of a CSR, according to the Commission, is a set of recommendations which ‘provide policy guidance tailored to each EU country on how to boost jobs, growth and investment, while maintaining sound public finances’ (European Commission 2018: 1). These sets of recommendations adapt priorities identified at the EU level to the respective national level and attend to potential sets of progress towards these priorities in the short-term (approximately 12-18 months following the recommendations) (European Commission 2018). Perhaps counterintuitively, the Commission evaluates the progress made on implementing CSRs midway through this short-term period, only seven months after their adoption.

For our dataset, we decided to rely on manual coding. CSR texts are highly condensed and technical and even small changes in their formulation can change the meaning drastically. Therefore, a team of coders who are familiar with EU language and policy debates promises more accurate results than the alternatives. Of course, turning text into distinct categories suitable for quantitative analysis inevitably involves some degree of judgement, regardless of the specific method chosen to build the dataset.

The four authors of this paper developed a coding template to identify whether member states complied with CSRs. The details of a coding-scheme were further developed by three of the four authors – the team that also coded all CSRs issued to Euro Area countries between 2012 and 2017. Since countries under an economic adjustment programme are subject to enhanced policy surveillance and do not receive CSRs (Council of the European Union 2017), there is no data for Greece; some years are missing for Cyprus, Ireland and Portugal. We coded a total of 1,566 CSRs, of which 457 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 a headline CSR often contains several individual reforms and is consequently also assessed in several parts by the Commission, we additionally coded 1,109 ‘sub-CSRs’: more targeted elements within a broader recommendation. This approach is in line with other research on the European Semester (Efstathiou and Wolff 2018; Crespy and Vanheuverzwijn 2017).

Our main variable of interest is the policy area. The Commission currently uses a classification scheme that comprises 32 different policy areas. Each recommendation can be assigned up to three categories. While this provides some interesting insights about Commission’s priorities (Efstathiou and Wolff 2018), it has a number of shortcomings. First, the categories are on different levels of abstraction. Some are very specific, such as ‘reduce the debt bias’, ‘insolvency framework’ or ‘active labour market policies’. Other are all encompassing, such as ‘public administration’ or ‘fiscal policy and fiscal governance’. It is especially surprising that some categories seem to be completely
included in others. For example, ‘competition in services’ cannot be a category on the same level as ‘competition and regulatory framework’ because the former is always part of the latter. Secondly (and partly related to the previous point), some categories are very well populated, while for others it is hard to find more than a handful of examples in more than a thousand CSRs. Fiscal policy is a topic in 10 per cent of all CSRs, while the categories of insolvency framework, telecoms, and unemployment benefits are only assigned to 0.7 per cent of CSRs. Third, the Commission differentiates between more and less ‘politically costly’ reforms (European Commission 2016: 82), but this separation is not explained further. Lastly, assigning a CSR several categories without any hierarchy leads to an unnecessary loss of information. Simply knowing that a CSR addresses wages, competition and education is much less useful than knowing that a CSR is primarily about wages, partly about competition, and mentions education only in passing.

In devising a new classification of policy areas, we applied three criteria:

(1) CSRs can be assigned multiple categories, but they must be ranked.

(2) The categories should reflect separations between policy areas as they are established in the public debate. For example, business environment and competition both relate to the behaviour of firms in the market, but one debate is concerned with helping companies succeed while the other is about protecting consumers. This should go some way in helping us identify which interest groups are affected by CSRs, a precondition for differentiating between more and less politically costly reforms.

(3) The number of categories should not be too high because this is detrimental to intercoder reliability, but the scheme must still include all topics that relate to economic policy in a broad sense.

Our proposed classification scheme is shown in Table 1. In its structure and the relative frequency of categories, it is similar to the findings of Crespy and Vanheuverszwijn (2017). Their article differs from our study in important characteristics: their research interest is the meaning of structural reforms, and they analyse all EU member states, not just the Euro Area. Nevertheless, a comparison can serve as a robustness check, and the results are reassuring.

Table 1: Three ways to classify policy areas in comparison

<table>
<thead>
<tr>
<th>D’Erman, Haas, Schulz and Verdun</th>
<th>European Commission</th>
<th>Crespy and Vanheuverszwijn</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Budgetary policies</strong></td>
<td>Broadening the tax base</td>
<td>Taxation</td>
</tr>
<tr>
<td></td>
<td>Fight against tax evasion, improve tax administration and tackle tax avoidance</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Reduce the tax burden on labour</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Fiscal policy and fiscal governance</td>
<td>Investment</td>
</tr>
<tr>
<td></td>
<td>Long-term sustainability of public finances, including pensions</td>
<td>Pension / Healthcare</td>
</tr>
<tr>
<td><strong>Social policy</strong></td>
<td>Health and long-term care</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Childcare</td>
<td>Social protection</td>
</tr>
<tr>
<td></td>
<td>Poverty reduction and social inclusion</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Unemployment benefits</td>
<td></td>
</tr>
<tr>
<td><strong>Business environment</strong></td>
<td>Business environment</td>
<td>N/A</td>
</tr>
<tr>
<td></td>
<td>Insolvency framework</td>
<td></td>
</tr>
<tr>
<td><strong>Competition</strong></td>
<td>Competition and regulatory framework</td>
<td>Single Market</td>
</tr>
<tr>
<td></td>
<td>Competition in services</td>
<td></td>
</tr>
<tr>
<td></td>
<td>State-owned enterprises</td>
<td></td>
</tr>
<tr>
<td><strong>Education and innovation</strong></td>
<td>Education</td>
<td>Education / R&amp;D / Innovation</td>
</tr>
</tbody>
</table>
Intercoder reliability is a major challenge in coding the content of dense, technical text across several dimensions. For this reason, we took special precautions. All four authors of our team worked together to develop the coding and the scoring system, and to discuss and analyse the results of the coding exercise. Four authors developed the coding and discussed how to put together the categories and the range of the scores. Three of the four authors formed a coding ‘team’ to review the CSRs. For each country, two of the three people on our coding team reviewed CSRs and coded independently their respective judgment. Even with extensive training and a detailed communal codebook, some degree of subjective 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 main policy area are summarised in Table 2. For our analysis, we draw a random sample that includes one instance of every CSR. This enables us to check our findings for robustness.

Table 2: Intercoder reliability scores for the primary policy area

<table>
<thead>
<tr>
<th>Coders</th>
<th>Percentage agreement</th>
<th>Cohen’s kappa</th>
</tr>
</thead>
<tbody>
<tr>
<td>1+2</td>
<td>73.6</td>
<td>0.696</td>
</tr>
<tr>
<td>2+3</td>
<td>83.2</td>
<td>0.769</td>
</tr>
<tr>
<td>3+1</td>
<td>77.4</td>
<td>0.734</td>
</tr>
<tr>
<td>Average</td>
<td>78.1</td>
<td>0.733</td>
</tr>
</tbody>
</table>

Percentage agreement ranges from 0 to 100 percent. Cohen’s kappa ranges from 0 to 1. Source: Authors’ calculations.
Of course, there are some caveats to take into account even if we manage to avoid any bias in the coding process. The relative frequency of policy areas may not only reflect the economic situation and the Commission’s preferences. Commission documents are heavily-edited texts which may be written by actors with their own agendas and might include path dependencies, some of which may be evident and measurable (for example differences between Commission drafts and CSRs adopted by the Council), while others remain hidden. It is conceivable, for instance, that the Commission is pressured by member state governments or interest groups to drop a recommendation or change its specific formulation. Faced with criticism regarding the Semester’s declining implementation scores, it may also choose to drop reform requests from the list of recommendations if they have been repeatedly ignored during past cycles. Finally, in a form of anticipatory obedience, it may shy away from recommending reforms it knows to be anathema in a given country.

WHAT CAN CSRS TELL US ABOUT THE EU’S ECONOMIC REFORM PRIORITIES?

At the highest level of aggregation, the data give us a convenient overview of EU’s reform priorities towards Euro Area members receiving CSRs. If we simply add up the number of times a category was applied, we get a picture that is similar to the one in existing studies (Efstathiou and Wolff 2018; Crespy and Vanheuverszijin 2017), although it is worth mentioning one discrepancy: public administration is a much more common policy in our own classification and the one by Crespy and Vanheuverszijin (2017) than in the one based on the Commission’s categories. Apart from this, all three schemes agree that most reforms concern budgetary policies, employment and wages and social policy.

However, if we take into account the relative importance of policy areas within the recommendations, the picture painted by our data becomes more nuanced. Three groups of policy areas emerge (see Figure 1). There are areas that are clearly related to the debt and deficit rules within the construct of EMU, for example budgetary policies or employment and wages. They are frequently addressed in CSRs and often constitute the primary focus of the reform. A second group of policy areas is frequently mentioned, but often only as secondary or third priority. This includes social policy and business environment. Finally, there is an interesting group of policy areas that are not very common, but when CSRs address them, they typically focus on them. This group comprises competition policy, and finance and housing.

Our findings remind us that headline numbers can deceive. Areas that are often mentioned only in passing might seem more important a first glance than they really are. They might be mentioned frequently, but that does not mean that most recommendations really focus on them. If we only take into account policy areas ranked as the main focus of a CSR, the predominance of budgetary and employment policies in the Semester is underlined.

Beyond this summary assessment, it is worth tracking changes in the reform recommendations over time. While the European Semester is a relatively young instrument, it has already seen a reform in response to criticism about low CSR implementation rates (Darvas and Leandro 2015; Alcidi and Gros 2017). After the Semester was introduced, the Commission increased the number of CSRs it issued each year. The number of headline CSRs grew from 79 in 2012 to 101 in 2014. In 2015, the Commission announced that it would simplify the Semester in order to help countries focus on fewer but crucial reforms. As a result, the number of CSRs then dropped precipitously to 61 in 2015 and later to 52 in 2017. In the same period, Latvia, Ireland, Portugal and Cyprus started receiving CSRs upon exiting their macroeconomic adjustment programmes, so the decline is even more pronounced on a per-country basis.

But has this trend really simplified the Semester or is the EU just cramming more content into fewer CSRs? The data shows little change. Between 2013 and 2014, the median number of policy areas per
headline CSR was three. This number dropped to two in 2015 but quickly went back to three in 2016-17. We conclude that the simplification of the Semester was a partial success in terms of efficiency. The lower number of overall CSRs means that Euro Area members receive a smaller amount of ‘homework’. This could help focus the political capital available for policy coordination. Individual CSRs, however, have not become less complex. The majority of CSRs address three or more policy areas, so it is very likely that several ministries must cooperate in order address them. A likely result is that veto players find it easier to obstruct unwanted legislation and implementation becomes more complex.

**Fig 1: The share of policy areas as a share of all CSRs over time, 2012-17**

![Graph showing the share of policy areas as a share of all CSRs over time, 2012-17](image)

*Source: Authors’ representation based on European Commission data.*

Have EU priorities changed between 2012 and 2017, either as a result of changing economic circumstances or because of the simplification of the Semester in 2015? A comparison shows several trends (Figure 1). CSRs concerning environmental policy and infrastructure and energy have fallen out of favour after 2015 and are now nearly extinct. Competition policy has slowly but steadily become less common. In contrast, business environment is mentioned more often every year, even though it is rarely the main focus of a CSR. The four top areas (budgetary policies, employment and wages, public administration and social policy) do not show a clear trend. They have remained mostly stable since the beginning and despite the streamlining.

We now return to the argument that the EU is promoting a convergence across the Euro Area’s economies that could damage established growth models. The original varieties of capitalism approach suggests ‘nations with a particular type of coordination in one sphere of the economy should tend to develop complementary practices in other spheres as well’ (Hall and Soskice 2001: 18f). This is because institutional subsystems governing capital, labour, and product markets are often mutually reinforcing: the presence (or efficiency) of one institution, such as patient capital provision, increases the returns from, or efficiency of, another (for example high levels of employment protection). In other words, each institution depends on the presence of others in order to function effectively, to which scholars have ascribed the term ‘Coordinated Market Economies’ (Soskice 1999: 110). Thus, nations should tend to converge on complementary practices across different spheres of the economy because the presence of several ‘correctly calibrated’ subsystems increases the performance of the system as a whole (Hancké, Rhodes and Thatcher 2007: 3).
Encouraging countries to leave their established path in favour of ‘one size fits all’ reforms could damage their growth prospects even if the reforms are sensible.

In this light, it appears sensible to ask whether the EU’s recommendations take the differences in economic models into account. Is it promoting ‘one size fits all’ reforms or, instead, handing out different sets of reforms to Coordinated Market Economies (CMEs), Liberal Market Economies (LMEs), and Mixed Market Economies (MMEs)? In other words: are recommendations tailored to country-specific needs or to different types of capitalism? For example, encouraging more competition in heavily regulated CMEs and making recommendations about social policies in welfare-wary LMEs might bring the models closer to convergence in the long run. In order to analyse this question, we follow what could be the called the consensus way of classifying capitalist models across Europe: we consider the Mediterranean countries of Cyprus, Italy, Greece, Malta, Portugal and Spain as MMEs, and the Northern European states of Austria, Belgium, Germany, Luxembourg and the Netherlands as CMEs. Following the three-fold distinction Bohle and Greskovits (2012) proposed for CEE countries, we label the Baltic states of Estonia, Latvia, and Lithuania as LMEs alongside Ireland, and include Slovenia as a CME. Given the fact that only one of the four Viségrad countries, Slovakia, has thus far adopted the Euro, we do not include from the analysis the category ‘Dependent Market Economies’ (DMEs) (Nölke and Vliegenthart 2009). Similarly, for simplicity we consider Finland as a CME rather than representing a distinct Nordic model in part because the other Nordic states remain outside of the Euro Area. How to classify the capitalist model of France, finally, has been hotly debated in the literature. Due to the strong role of the state in coordinating industrial relations and other areas of economic life, some authors consider it a distinct type of capitalism (Schmidt 2003; Clift 2012), while others define it as either CME (Schneider and Paunescu 2012) or MME (Amable 2003). We opt to add France to the group of MMEs, as it shares a number of characteristics with Italy insofar as current economic challenges and needs for reforms are concerned. Thus, for the purpose of the analysis it was chosen to add France to that category.

We find both surprising similarities and marked differences regarding the relative importance of different policy areas in CSRs addressed to different types of economies (see Figure 2). The presumed antipodes in Euro Area governance – the CMEs of the Northern ‘core’ and the MMEs in the Southern ‘periphery’ – differ somewhat in terms of the reform priorities indicated by Semester CSRs. However, this difference is not substantial enough to add weight to narratives of Euro Area governance as a clash between creditor and borrower states or between different economic philosophies in North and South (Brunnermeier, James and Landau 2016). A more frequent outlier regarding the reform priorities identified by the Commission are the LMEs of Ireland and the Baltic states, specifically concerning the quantitatively most important areas of reform.

The Commission addresses LMEs very much in line with what one could expect from a varieties of capitalism perspective. They have received markedly fewer recommendations primarily focused on budgetary policies, employment and wages as well as, particularly, competition policy. If we take into account second- and third-order priorities within the recommendations, however, the differences are much less pronounced in all three areas, suggesting that the EU does not consider reforms in these areas as unnecessary, rather they are just not prioritised. The priority of reform in LMEs clearly concerns social policy, education policy, and, to a lesser extent, infrastructure and energy. In all these policy areas, LMEs have received far more recommendations primarily focused on them than the Euro Area’s MMEs and CMEs. Again, differences are far less noticeable when considering second- and third-order priorities for reform. Focusing on the policy areas identified as top priority, however, paints a clear picture of a distinct path for economic reform in LMEs.
Reform priorities for the Euro Area’s CMEs and MMEs, by contrast, are surprisingly similar. This observation is particularly evident when considering the relative importance of budgetary and social policies as a top priority of reform recommendations, in the level of recommendations in finance and housing as well as infrastructure, and in the similar first priorities in social and budgetary policy areas. The similarities between these two categories of capitalism suggest that recommendations in policy areas by variety of capitalism may have more nuance in variation between liberal models and other models, rather than between and among all distinct models. Some variation between CMEs and MMEs is noteworthy when considering the CME’s most frequent first priority (employment and wages) and lowest priority (administration and infrastructure), and MMEs higher prioritisation of business environment and public administration. Taken together, analysing the recommendations by policy in aggregate suggests the importance of state-capacity and level of development for EU prescriptions coming through CSRs, rather than variation according to the model of economy alone.

CONCLUSION

In 2010 the European Semester was created for the purpose of better coordinating fiscal and economic policies within EMU. The Semester aims to tackle economic imbalances by giving EU member states reform recommendations regarding their public budgets as well as their wider economic and social policies. In this article, we developed a method to code CSR policy areas and assess the way in which the CSRs have been addressing coordination in the Euro Area. We offered a systematic analysis of the way they have been formulated and whether they attempt to provide ‘one size fits all’ recommendations.

The first contribution of this article is methodological. We propose a number of variables relevant to thematic policy areas in CSR recommendations and outline how they can be coded based on official documents. This includes salient issues pertaining to inter-coder subjectivity and reliability when coding text as data, as well as EU-specific issues for the categorisation of policy areas and the subjects which they contain. The result is a dataset that can be analysed in future studies. The second contribution of this paper is in trying to ascertain whether different market economics and
‘varieties of capitalism’ within the Euro Area obtain different sets of recommendations regarding different policy areas. By studying the full range of Euro Area member states and policy areas we may in due course be able to draw important generalisable insights. Our results speak to one of the reoccurring questions in the literature about whether the EU is pursuing a ‘one size fits all’ approach to economic policy making in the Euro Area (Rodrigues and Reis 2012; Regan 2017). We seek to provide some further insights on some of the most interesting questions posed by the qualitative literature.

We find that the recommendations that the different Euro Area members have received over time vary according to country, year, and economic model. Different types of market economies (Hall and Soskice 2001) among Euro Area members tend to obtain recommendations focused on different policy areas. However, the policy areas affected by a recommendation are mostly a proxy for the EU’s reform priorities; in and by themselves they do not tell us much about how exactly the EU is trying to alter the policies of a member state within a given policy area. For example, in its recommendation focused on labour markets and wages, does the EU promote reducing or strengthening workers’ rights? Future research could usefully shed light on these questions of the ‘policy direction’ of the EU’s recommendations.

In this vein, follow up research could examine whether CSRs promote deregulation and smaller governments, or whether the EU seeks convergence at the cost of heavily enshrined domestic practices and preferences, as well as the role of institutions, interests, and ideas in economic governance. Further research may want to investigate whether it is useful to differentiate among the impact of CSRs that contribute to (welfare) state building or rather aim at retrenchment and market making.

ACKNOWLEDGEMENTS

The authors are grateful for financial support from a Social Science and Humanities Research Council (SSHRC) Insight Grant 435-2015-0943 and the Erasmus+ programme of the European Union, which co-funded this research through a Jean Monnet Transnational Network Grant (‘EUROSEM’). Earlier versions of this article were presented at the European Community Studies Association-Canada (ECSA-C) in Toronto 9-11 May 2018 and at the workshop “New Conceptual and Methodological Developments in the Study of EU Economic Governance”, 7-8 June 2018, Luxembourg. The authors thank the participants of the ECSA-C panel and discussant Grant Amyot and the Luxembourg workshop and in particular the two formal discussants Muireann O’Dwyer and Igor Tkalec for helpful comments and feedback. The authors also thank the guest editors of the Special Issue and two anonymous referees of the journal for helpful comments on an earlier draft. Any remaining errors of course are those of the authors.

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ENDNOTES

1 Savage and Howarth (2018: 220-221) provide an account of how the use of statistics in Valencia (a Spanish Autonomous Community) triggered the first financial sanction in the EMU framework.

2 Greece has no data points for the period under investigation because countries do not receive CSRs while under a loan programme overseen by an EU-financial assistance programme in place. Therefore, there are also no data points for Cyprus, Portugal, and Ireland for some of the years analysed here.

REFERENCES


ANNEX: POLICY AREAS COVERED IN CSRS BY COUNTRY

Source: Authors’ representation based on European Commission data.