The challenges of EU governance and the quest for long-term growth

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Abstract

The research paper assesses the opportunities and challenges raised by the post-crisis EU governance system with regard to the transition of European economies towards a new growth model balancing economic performance with social cohesion and environmental responsibility. It begins with questioning the term of ‘governance’ and with a hint at the 'multi-level governance' literature available in EU studies. This section suggests that the EU's nature is one of multiple and innovative policymaking methods. Any assessment of the EU's added value must investigate the actual policy direction and the effectiveness of a complex EU governance architecture, by looking in particular at how EMU coordination frameworks interacts with Community-based policies.

The paper focuses then on the goals, the processes and the financial instruments underpinning the Europe 2020 Strategy, bearing in mind the limits encountered by the Lisbon Strategy during the last decade. It finds that the Strategy, albeit carefully balanced, does not avoid the risk of a 'capability-expectations' gap. Implementation would gain, on the one side, from more consistent legal and financial instruments at EU level, and from a more supportive macroeconomic environment in the euro area on the other.

The third section examines the way in which Europe 2020 cohabits with other frameworks of coordination within the European Semester, such as the reformed Stability and Growth Pact, and the new Macroeconomic Imbalance Procedure. Potential clashes between diverging objectives and their legal bases are identified and tested against the views of practitioners (8 interviews were conducted in parallel to the research) and throughout a case-study based on how the Semester has so far impacted on three countries: Finland, France and Italy. The European Commission's Annual Growth Surveys for 2011, 2012 and 2013 are also analysed. This research reveals a prioritisation of fiscal consolidation and short-term, market-based adjustment policies over the longer-term objectives pursued by the Europe 2020 Strategy. The collective outcome of these policies, and the impact of national reforms on the whole EU, tend to be overlooked as well. Nevertheless, there is substantial room for manoeuvre and dialogue between the Commission and individual countries.

The paper concludes that ways should be found to shield Europe 2020 objectives from overwhelming stability considerations in the Euro Area, and contains some suggestions for further innovations of governance in that respect. A greater differentiation between countries according to their position might be necessary. The conclusion also argues that it fells to

national governments, parliaments and parties to seize the opportunity of the European Semester to frame challenges differently and to push for alternative solutions.

Contribution to the Project

The research paper questions the capacity of EU governance to steer the socio-ecological transition of European economies. To do so, it provides a critical assessment of the Europe 2020 Strategy's objectives, processes and instruments, and examines its integration into the European Semester.

Keywords: Economic strategy; EU integration; European economic policy; European governance; European Monetary Union; Good governance; Institutional reforms

Jel codes: E02

The challenges of EU governance and the quest for long-term growth

Renaud Thillaye*

Introduction

Under the shadow of the euro area debt crisis and the poor economic climate prevailing in Europe, deep disagreements and divergent visions of what the EU should be about have surfaced again. For some, this is a federalist moment for a core of EU countries, who should commit to greater sovereignty transfers and resource-pooling at Community level, and resolutely envisage the future together. For others, this is a repatriation moment and a time to recover national sovereignty. A lot of people have been calling for yet another grand bargain, although for disparate reasons that can hardly be reconciled.

An alternative view is to consider that both sides, despite their respective rationales, have been distracting attention from the real challenges. If anything, the crisis demonstrated that many growth models in Europe were unfit for a globalised age and that markets should not be given too much leeway in destabilising a highly interdependent region such as the EU. The far-reaching changes in economic governance undergone in the last three years aimed precisely at tackling these weaknesses and at making a coordinated move towards more resilient growth models. Institutional innovation took place at a sustained pace. With the European Semester, the EU has engaged in much closer monitoring of national policies beyond a simple regime of nominal rules and remote sanctions. A greater sense of prioritisation has also characterised the launch of the Europe 2020 Strategy and the debate about the Multiannual Financial Framework 2014-2020.

More attention should be focused on how reformed economic governance performs since the scope for further major institutional shifts seems rather limited. At a time when the EU's legitimacy and that of public institutions in general have reached record low levels, there is a strong case for analysing the impact of EU governance, identifying its untapped potential and trying hard to improve its flaws and unnecessary costs. This paper asks whether Europe 2020 and the European Semester represent a qualitative difference from past EU economic governance. To put it bluntly, do EU member states need this web of rules, commitments and processes to live successfully together in the 21st century? Under which conditions, if any, can they reap the benefits from EU economic governance?

This paper rests on the assumption that European economies do not only need stabilisation; they also have to make resolute moves towards more sustainable growth models. When debating the means of EU governance, policymakers should not lose sight of the ends. As Aiginger et al. (2012) put it, a long-term vision for Europe should encompass:

- A higher quality of life and social inclusion for its citizens;
- Economies driven by innovation and strong human capital;
- An ecologically sustainable and financially more stable production model;
- Reduced welfare gaps across countries and individuals - without hampering diversity;
- A stronger European voice in world markets and institutions.

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This paper assesses in three sections the opportunities and challenges raised by the new EU governance system in the quest for long-term growth. It begins with a brief analysis of 'governance' used in an EU context and the questions raised by the EU's institutional innovations (1). The second section assesses the goals, the processes and the financial instruments underpinning the Europe 2020 Strategy, bearing in mind the limits encountered by the Lisbon Strategy during the last decade (2). A third section examines the way in which Europe 2020 cohabits with other frameworks of surveillance within the European Semester, and the results this combination produces (3).

Overall, the paper argues that EU economic governance balances various objectives rather well on paper, and that it is better equipped today to bring about policy shifts in the member states. The Europe 2020 Strategy sets the right long term vision for all, although there should be no illusion about national governments' responsibility for implementing it. Moreover, the incorporation of Europe 2020 into the European Semester has had mixed, if not detrimental, effects so far. Instead of representing a threat to long term objectives, the new architecture should be seized as an opportunity for a more intense and far-sighted discussion going beyond procedural monitoring. More debate is necessary about the impact of EU short-term adjustment guidelines on national growth potentials, and about the feedback loops between national policy-making and collective outcomes. This represents as much a policy as a political challenge, both in Brussels and in national capitals.

1. Questions of governance in a differentiated EU

How to understand governance?

Analysing of the promises and limits of EU policy-making today can gain from an insight into the existing literature about the concept of governance, and how it has been applied to the EU. In the wake of its popularisation by the World Bank in 1989, various definitions have been given and different uses have been made depending on the context. In political science, the term 'governance' has been used to describe the changing patterns of government, namely the importance of private actors and relevant networks in the making of public policies, and the use of soft-law instruments (Peters and Pierre, 2000).This approach suggests that governance equates to a less state-centric, less vertical form of government. A broader and more widespread definition is proposed by Keohane and Nye (2000) for which governance represents 'the processes and institutions, both formal and informal, that guide and restrain the collective activities of a group'. This understanding encompasses all forms of social interaction and can apply to the governing patterns of non-state actors from the local to the global level.

Analyses of governance have raised a number of questions for social students and practitioners in public institutions. Offe (2009), for instance, notes that governance is 'subject-less': instead of an accountable government, it leaves us with various actors and processes which are difficult to hold accountable. The optimistic view about governance suggests that it increases the 'problem-solving capacity' of public actors. However, 'actual power relations and dependencies' (p. 554) may not have disappeared. Moreover, by avoiding open political conflict and enabling technocratic bodies to design optimal solutions,

governance may lack the underpinning of a public debate or discourse. These observations lead to set the positive and supposedly neutral assumptions about governance aside, and to look at the actual effectiveness and the accountability of new governing patterns.

EU innovative governance

In European studies, the concept of governance has been applied for two decades to understand better the nature of the EU. Contrary to what was expected, the deepening of the Single Market, the launch of Economic and Monetary Union and the involvement of the EU in a much greater number of policy areas has not signalled an emerging European state. For the 'multi-level governance' theorists, the EU is neither an intergovernmental organisation, nor a state-like political system. It is a *sui generis* polity based on non-hierarchical decision-making (negotiation and deliberation rather than voting); the involvement of various public and private actors at different levels; limited spending capacity and a focus on regulatory policies (Marks et al., 1996; Jachtenfuchs, 2007).

Beyond traditional legislation and financing, the EU has, indeed, developed an impressive set of decision-making and implementation procedures. A whole spectrum of 'innovative modes of governance' are today in use in the EU (Tömmel and Verdun, 2008). Börzel (2007) finds for instance 10 modes of governance interacting with each other, such as supranational centralization, supranational joint decision-making, mutual recognition, intergovernmental cooperation, the Open Method of Coordination, delegated self-regulation and private interest government (Euro area voluntary agreements). EU treaties only partially recognise this diversity: articles 3 to 6 of the Treaty on the Functioning of the European Union (TFEU) establish a distinction between 'exclusive', 'shared', coordinated and optional competences. In practice, however, several modes of governance cut across a single competence.

The added-value of the EU's multi-level and multi-method governance is a matter of vivid debate in the academic and political spheres. If the EU can tax and spend, command and control, only to a limited extent, should it really be involved and limit member states' room for manoeuvre in so many policy areas? Political scientists generally observe that new modes of governance have been introduced precisely in these salient, 'market-correcting' policy areas, in which member states divergences are high and the 'hard-law' Community method had come to a deadlock (Kohler-Koch, Rittberger, 2006; Moravcsik, 2010). For some, this confirms that the EU is biased towards 'market-making' approaches and is limiting the problem-solving capacity of the state without replacing it (Scharpf, 2002). This diagnosis is not shared by all. Case-studies reveal that the intricate mix of soft and hard law mechanisms brings about various, and sometimes unexpected, outcomes (Tömmel and Verdun, 2008).

The literature on governance and the development of new modes of governance in the EU, therefore, raise three main interrelated questions:

- What is the actual policy direction of EU multi-level governance?
- How great is the effectiveness of its various policy-making procedures? What are their direct or indirect impacts on member states' domestic policies?
- Is the EU governance system democratically legitimate?

This paper focuses on the first two and applies them to EU economic governance. It rests on the assumption that the EU's legitimacy depends to a large extend on the first two dimensions ('output-oriented legitimacy') since there is no prospect of the EU political system getting closer to that of a democratic nation-state (Scharpf, 1999).

EU, EMU and the quest for a new growth model

The notion of economic governance, albeit commonly used, reflects different realities, the consistency of which can be questioned. It includes the institutions and processes designed to govern the Economic and Monetary Union, but it cannot be restricted to them. The Europe 2020 Strategy is a growth strategy for the 27 EU member states. Like its predecessor, the Lisbon Strategy, it spells out a supply-side agenda which all member states are supposed to implement with the EU's help. Hence EU economic governance is characterised by different perimeters and policy frameworks.

The consistency of the Lisbon agenda and the stabilisation rationale prevailing in the Euro Area was questioned during the last decade (for instance by Mabbett and Schelkle, 2007). Recent reforms of governance have made this question even more relevant, especially for Euro Area countries and for those which are committed to joining. Procedures such as the Stability and Growth Pact, the new Macroeconomic Imbalance Procedure and the Europe 2020 Strategy have been brought together into the European Semester. The recent changes have been primarily designed for EMU members and 'pre-in' countries. As Pisani-Ferry (2005, p. 8) puts it, 'the rationale for undertaking reforms jointly is in fact very weak for the EU *as a whole* while it is stronger *within the Eurozone*.' Most Lisbon-type reforms of social protection, taxation and labour law impact on individual countries competitiveness, hence also on the common monetary policy. Likewise, the case for coordinated pension reforms is strong given the risk of fiscal unsustainability in one country spilling over into others.

EU economic governance, thus, presents the picture of parallel and intense pressures on member states to address both short-term macroeconomic imbalances and long-term structural weaknesses, in particular for EMU members and 'pre-in' countries. Questionable is whether this reinforced set of rules and procedures works effectively for the long term. The past decade offers no successful template: on the one side, a loose regime of coordination and an impracticable sanction regime did not shield EMU from a financial 'perfect storm'. On the other side, the Lisbon Strategy lacked a convincing institutional underpinning. Against this background, the two main sections of this paper examine:

1) The direction in which Europe 2020 is pulling, and whether its processes and instruments ensure a higher rate of delivery than Lisbon.
2) The functioning the European Semester, and its impact on the Europe 2020 agenda.

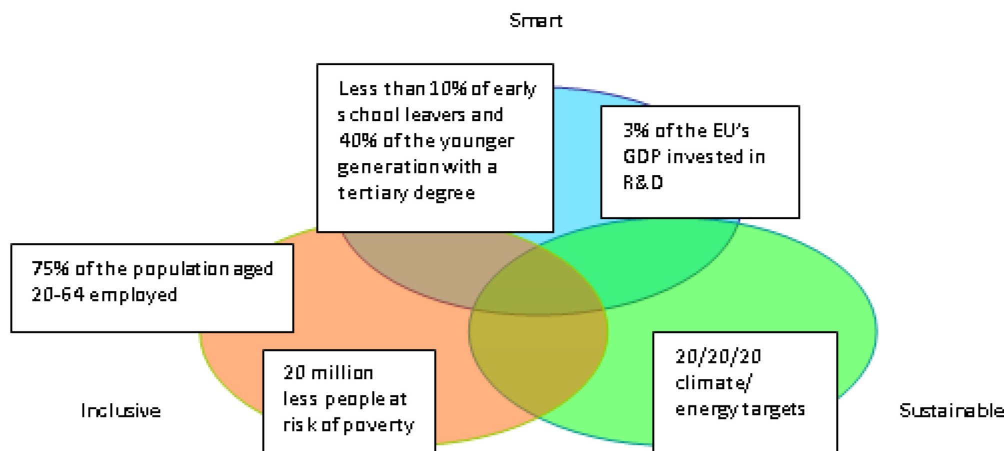
2. Europe 2020 and the socio-ecological transition: fit for purpose?

2.1 Europe 2020's toolbox for the 'new growth' agenda

In 2010, the Commission judged that the Lisbon Strategy had suffered from an 'overly complex structure with multiple goals and actions and an unclear division of responsibilities and tasks' (EC 2010a, p. 2). The focus on 'growth and jobs', and the introduction of country-specific recommendations, after the 2005 mid-term review, did not prevent a poor and uneven record. The ensuing analysis shows that the Europe 2020 Strategy strikes a good balance between economic, social and environmental objectives, but that it does not represent a sea change in terms of governance. Once again, it risks setting ambitions too high if member states do not implement it individually and collectively as a matter of priority.

Policy direction: the philosophy of Europe 2020

Europe 2020 is built upon three pillars and five 'headline targets' which are, by and large, in line with the socio-ecological transition. As the Commission puts it (EC 2010b, p. 8-9), the three priorities are 'mutually reinforcing' and 'offer a vision of Europe's social market economy for the 21st century': better education propels higher employment, which itself helps tackling poverty; investment in research and innovation increases the resilience of the economic system and is beneficial to employment in the long run.



At first glance, the consistency of Europe 2020 targets appears consensual. The targets constitute a significant yardstick to preventing national governments from sacrificing too much to short term politics (Atkinson, 2012). Policy-makers based in Brussels also think that Europe 2020 makes EU institutions more mindful of the long term (Interviews, Annex 5). Europe 2020 was signed off by a majority of right-wing governments, but left-wing and ecological forces can reclaim ownership. Arguably, it reflects the objectives enshrined in the EU Treaties, namely the vision of a 'social-market economy' promoting the 'well-being of its people', working for the 'sustainable development of Europe', pursuing 'economic, social and territorial cohesion' and fighting 'social exclusion' (Art. 3 TEU).

Inevitably, some authors criticise this consensual approach. Pro-market voices like Erixon (2010) think that any EU growth strategy should strictly focus on deepening the Single Market, the EU's *raison d'être*. He observes that Scandinavian countries are among the most open economies while at the same time performing the highest on social and environmental standards. This view is largely shared by Wyplosz (2010), according to whom competitive pressures from other EU member states and the rest of the world remain the most powerful drivers of reforms. At the other side of the spectrum, social policy experts criticise the 'inclusive growth' concept. For Daly (2012), this notion does not result in a coherent social development strategy. Peña-Casas (2012, p. 162) finds that cohesion and social inclusion are 'reduced to a basic function: to equip individuals with the ability to anticipate and manage change'. Finally, economists sensitive to political ecology are concerned that the EU does not prioritise public goods relevant to 'the well-being of populations' (Fitoussi and Laurent, 2009, p. 17-18). They warn against the dangers of peer-pressure and institutional Darwinism, and call for more cooperative approaches allowing greater investment in education and training, green technologies and infrastructure.

Hence, Europe 2020 inevitably suffers from the limits inherent in political compromise. In particular, it does not distinguish clearly what is left to competition from what requires public intervention. These pitfalls require extra attention, but they will probably not find any perfect solutions. It is largely up to political leaders and policy-makers to put more flesh on the broad socio-ecological direction suggested by the Europe 2020 Strategy.

Institutional processes: a patchwork of legal bases and methods

With Lisbon's flaws in mind, the Commission dedicated a whole section to 'governance' in the Europe 2020 Communication. It suggested that Europe 2020 represented an improvement in two main ways:

- By linking Community and national policies under a common thematic framework, namely seven 'flagship initiatives'.
- By placing the European Council in the driver's seat and increasing 'ex-ante' coordination (EC 2010b, p. 26-27).

We focus here on the first aspect and propose a critical overview of the 2020 pillars on account of the diverse modes of governance and legal imbalances cutting across them. The table in the annex (Annex 1) summarises the main elements of the seven flagship initiatives.

Smart growth

The 'smart growth' pillar looks to advancing the knowledge factor of European economies. It includes two targets on research and innovation (R&I) and education, and three flagship initiatives on innovation, the digital economy and youth. However, economic and education objectives do not rest on the same legal basis.

R&I and the digital economy correspond to shared competences between the EU and member states as provided for by Article 4 TFEU. EU law takes precedence over national law; binding measures can be imposed on national governments throughout the 'ordinary legislative procedure', i.e. the Community method; qualified majority voting applies. In the

communications detailing the 'Innovation Union' and 'Digital agenda for Europe' flagship initiatives, the Commission commits to make legislative proposals for an EU patent regime, greater standardisation in cutting-edge sectors, greater mobility of venture capital and better cross-border access to public procurement. To top the EU's action up, member states are expected to boost the effectiveness of their R&I systems and their capacity to leverage private funding. Country-specific recommendations covering these areas are based on Guideline 4, which is part of the Broad Guidelines of Economic Policy (BGEP) under Article 121 TFEU. Concretely, member states are faced with the threat of policy warnings from the Commission; the Council can adopt recommendations on qualified majority voting.

The overall conducive decision-making suffers a significant caveat. The 3% research spending target and the building of an integrated European Research Area – one of the main objectives of the 'Innovation Union' initiative - cannot really be enforced. In the TFEU, research is classified as a shared competence with important qualifications: the Union is merely invited to 'define and implement programmes', and member states cannot be bound by EU legislation. The responsibility to better integrate national systems rests, therefore, on the member states' shoulders, and the Commission merely plays the role of facilitator.

Regarding education, the EU has only very limited clout. Article 6 TFEU mentions 'education, vocational training, youth and sport' as a field in which the EU can only carry out actions to support, coordinate or supplement the actions of the Member States'. As a consequence, the flagship initiative 'Youth on the move' consists mainly in non-binding recommendations to member states such as ensuring 'efficient investment in education and training systems at all levels' and 'reducing early school leaving' (EC 2010b, p. 11). Member states are urged to put in place 'youth guarantees' ensuring 'that all young people are in a job, further education or activation measures within four months of leaving school' (EC 2010c, p. 33-38).

Country-specific recommendations are based on Guideline 9, which is part of the 'Employment guidelines' provided for by Article 148 TFEU. Contrary to the economic guidelines, they cannot lead to any formal warning or sanctions. The Open Method of Coordination applies and consists mainly of setting up benchmarks, identifying best practice and encouraging mutual learning. The Commission commits, for instance, to 'set up the modernization agenda of higher education including by benchmarking university performance'. It also envisions 'a systematic monitoring of the situation of young people not in employment, education or training'. It is then up to national governments to seize these exchange opportunities within the Council. The relative failure of this approach during the last decade casts a long shadow on the capacity of the EU to reach its education targets.

<u>Sustainable growth</u>

This pillar includes the 20/20/20 energy targets and two flagship initiatives: 'Resource efficient Europe' and 'An industrial policy for the globalisation era'.

In the field of energy and environment, the EU has had the capacity to pass legislation since the Single European Act. According to Articles 191 to 194 TFEU, environment and energy

are submitted to the ordinary legislative procedure to the exception of fiscal matters. Two of the ‘20/20/20’ targets enshrined in Europe 2020 originate from the Climate energy package adopted by EU leaders in 2007-2009. Key legislation was already passed in 2010, such as the Renewable Energy Directive (2009/28/EC) and the Emissions Trading Scheme (ETS, Directive 2009/29/EC). Each year, the ETS lowers the cap on CO2 emissions by power plants and energy-intensive industries so as to reach a 21% reduction from the 2005 level by 2020. To complement the ETS, Decision 406/2009/EC provides for national reduction targets in other sectors (agriculture, housing, waste and transport).

Only the target of 20% more energy efficiency was not formally part of the climate-energy package. This objective is central to the flagship initiative ‘Resource efficient Europe’, which contains other proposals, such as a more integrated energy market, the ‘greening’ of the Common Agriculture Policy and the revision of the Energy taxation directive. Except taxation, all of these measures would follow the ordinary legislative procedure and could lead to binding procedures. Nonetheless, more precise commitments, such as the removal of environmentally harmful subsidies and the use of market-based instruments (such as taxation and procurement) to foster change in production and consumption habits are left to member states’ responsibility.

Overall, the EU looks rather well-equipped to foster environmental policies within the member states. The method of setting long-term targets and leaving it to the member states to decide on how to reach them has proved rather consensual.

Industrial policy suffers from much greater legal asymmetry between market-making and market-correcting measures. On the one side, the EU’s exclusive competence for competition rules (Article 3 TFEU) and the strict supervision of state aid make it difficult for member states to adopt protective measures. On the other side, the competence for industrial policy remains national (Articles 6 and 173 TFEU). As a result, the EU cannot steer any sectoral development at EU level. The ‘Industrial Policy’ Communication (EC 2010d, p. 4) suggests ‘bringing together a horizontal basis and sectoral application’. However, the sectors identified are mainly subject to enhanced dialogue and extra EU resources for research and innovation. Member states, in contrast, are urged to facilitate the restructuring of uncompetitive sectors. The Commission commits merely to ‘launching a consultation of European social partners on a European framework for restructuring’ (p. 21-22).

Inclusive growth

The third and last pillar covers the employment and poverty targets. Each one of them is underpinned by a flagship initiative. Policies pursued in these areas fall mainly under Article 5 TFEU. The EU can coordinate member states’ employment and social policies, but it cannot adopt legislation. The ‘Agenda for new skills and jobs’ initiative mainly rests on non-binding roadmaps such as the Flexicurity Agenda initiated in 2008 and tools such as a ‘European Skills, Competences and Occupations framework’ (EC 2010b, p. 17). The ‘European Platform against poverty and social exclusion’ initiative must transform the open method of coordination on social exclusion and social protection into a ‘platform for cooperation, peer review and best practice’. Recommendations can be addressed to

member states on the basis of Guidelines 7, 8 and 10 under Article 148 TFEU, but there is no follow up in terms of warnings and sanctions.

As it has long been observed (Scharpf, 2002), the Union has little grasp of member states' social policies. Although Social Policy in the TFEU is based on a broad objective of upward harmonisation of 'living and working conditions' (Article 151), the need to 'take into account the diverse forms of national practices' and to 'maintain the competitiveness of the Union' is a serious limitation. The union can adopt directives only when minimum requirements are necessary to the functioning of the Single Market (Article 4, Article 152). The Council can vote by qualified majority when dealing with working conditions at the workplace. However, unanimity applies to issues related to labour law, social security for the unemployed, and the rights of trade unions. The bulk of the Social Policy title is that the EU ensures a baseline of social protection, but does not actively pursue upward harmonisation.

As Vandenbroucke (2012) argues, the fears of social dumping expressed during the Rome treaty negotiations proved largely wrong as long as member states could compensate for a loss in competitiveness by bringing down their exchange rate. Yet, this option is not available anymore to most EU countries attached to the EMU regime. In this context, the absence of a more stringent coordination mechanism for wage and social policies can be seen as a problem for the achievement of the social and employment targets in the Euro Area.

Europe 2020 financial instruments: an increasing added value

All these legislative and procedural tools are supported by the EU budget. EU experts often insist on the regulatory nature of the EU and the limited, it not symbolic, size of its budget. The 2007-2013 budgetary commitments represented only 1.12% of the EU Gross National Income[1], while national public spending ranged from 35% to 57% of member states' GDPs in 2011[2]. Moreover, two-thirds of the budget is redistributed as direct aid to farmers and structural funds. A more nuanced assessment, however, is necessary. Substantial efforts have been made over recent years to increase the 'added value' of EU money.

First, there has been an incremental shift of focus from redistribution to long term investment. The agreement reached in 2005 for the 2007-2013 budgetary framework marked already an important increase in credits for infrastructure, research and innovation (Epha, 2006). The 2014-2020 Multi-annual financial framework adopted by EU leaders in February 2013 follows the same logic. The Commission explicitly linked its proposals to the achievement of Europe 2020 targets ('A budget for Europe 2020', EC 2011e). The Connecting Europe Facility is allocated €29 billion to finance transport, energy and broadband infrastructure, a 140% boost from 2007-2013. Funding for agriculture go down by 12% while credits for 'growth and jobs' rise by 38%. According to the summit's conclusions, 'the funding for Horizon 2020 and ERASMUS for all programmes will represent a real growth

[1]European Commission, 'Financial Framework 2007-2013, http://ec.europa.eu/budget/figures/fin_fwk0713/fwk0713_en.cfm#cf07_13 [accessed 15/02/2013]
[2]Eurostat, 'General government expenditure statistics' http://epp.eurostat.ec.europa.eu/statistics_explained/index.php/General_government_expenditure_statistics [accessed 15/02/2013]

compared to 2013 level' (European Council 2013, p. 7). Finally 'climate action objectives will represent at least 20% of EU spending in the period 2014-2020' (p. 6), making EU structural funds and the direct payments conditional to 'green' practices or investments.

The second development consists in the ever expanding use of the EU budget as a leveraging instrument. This is true for structural funds, which 'account for a very significant proportion of public investment in Europe- more than half of it in several member states' (up to 90% in Hungary, EC 2012d, p. 2). Linkages between structural funding and the private sector have also been enhanced. Under the Competitiveness and Innovation Programme (future Programme for the Competitiveness of enterprises and SMEs), several financial instruments are dedicated to leveraging private investment such as the 'SME Guarantee Facility', which secured 190,000 loans between 2007 and 2011 (EC 2012g, p. 2). Other examples are the Risk Sharing Finance Facility and project bonds endowed with seed capital from the EU and European Investment Bank up and expected to leverage private investment for complex and long-term research, development and innovation projects.

For these reasons, the EU budget's role in implementing the Europe 2020 Strategy should not be underestimated, although the distribution of EU competences is, by nature, not conducive to spending in areas such as education and social policy.

2.2 Learning from two years of implementation (2011-2012)

How have Europe 2020's policy and institutional diversity, and the financial instruments attached to it, fared since 2010? Overall, implementation has been rather slow (see 'progress so far' in table, Annex 1). This comes down to three main explanations.

National interests and the narrow scope of 'hard law'

European decision making is slow and fraught with limitations even in the Community field. The Community method is no open sesame to making legislative breakthroughs and accelerating the implementation of Europe 2020. This has been visible on the economic front, where the last two years' limited legislative record contrasts with the ambitious rhetoric of the 2011 Single Market Act drawing on the Monti Report. It took three years of negotiation to adopt, on an enhanced cooperation basis, an EU patent regime which will hardly remove regulatory differences between countries (Economist, 2012). A new regulation on standardisation was passed by late 2012, with the aim of speeding up the use of standards in the services and digital sectors. Other measures such as a European venture capital regime, greater cross-border access to public procurement, and a harmonised regime of electronic signatures have only made slow progress since 2011.

Adopted legislation also tends to be watered down at implementation stage. The Commission finds for instance that member states have been slow to implement the Services Directive and the Second and Third Energy packages (EC 2011f, p. 15-18). The 'State of the Single Market' Report 2013 points to 'unjustified double regulation' and 'entry barriers' on the services sector of several member states (EC 2012l, p. 9). It also denounces national regulation of energy prices. The financial, digital and transport sectors are matters

of concern as well. All these policy areas are subject to political salience at national level, with vested interests directly threatened by deeper European integration.

The same can be said of the attempt to use market-based instruments in the field of climate change. On the one hand, Directive 2012/27/EU on Energy Efficiency represented an important step since it completed the climate-energy legislative arsenal. On the other hand, the EU has been struggling to price carbon emissions in the production and consumption processes. The Emissions Trading Scheme is failing to incite industrial companies to invest in cleaner solutions. The excess of credits available on the carbon market in a context of economic downturn has prompted the Commission to propose 'back-loading' allowances in order to push prices up. Yet this adjustment has met opposition from both the industrial sector and the centre-right group in the European Parliament (Euractiv 2012a). The adoption of the new Directive 2011 169/3 on Energy Taxation proposed by the Commission seems remote as well. A central provision consisting in aligning the light tax regime of diesel fuels with the one of other combustibles has triggered similar opposition (Euractiv, 2012b).

The limits of 'soft law'

The EU's record is difficult to evaluate in the fields of national competence, especially social and employment policies. The launch of Europe 2020 was followed by a series of action plans such as the Council recommendation on policies against early leaving from education and training and the Communication on the modernisation of higher education. The Employment and Social Affairs Council adopted in 2012 'social protection performance' and 'employment performance' monitors (Council, 2012d, p. 12). Most of these communications and benchmarks are subject to the Open Method of Coordination, namely low-profile dialogues between the Commission and member states, and between member states themselves. Policymakers based in Brussels admit that member states engage in these exercises to very patchy degrees. Countries like France and Germany are said to be much more active than Northern European countries, not so much for 'mutual leaning' purposes but rather to try to influence their peers (Interviews, Annex 5).

The absence of EU competence in the industrial field has also been deplored in several member states. The car industry overcapacity crisis, for instance, has found with only limited answers in Brussels. The 'Cars 2020 strategy' aims at establishing a level playing field for all car-makers, but it does not propel concentration nor avoid takeovers by extra-EU companies (Financial Times, 2012). In February 2013, Commissioner Tajani's call for Arcelor Mittal to stop cutting jobs and to wait for a sectoral EU plan was met with disdain by the steel multinational (New York Times, 2013). A few days earlier, EU leaders had agreed to slash the Globalisation Adjustment Fund down from € 3.5 to 1 billion in the 2014-2020 Financial Framework. Several member states had been campaigning to hand back to the national level the responsibility of dealing with the social aspects of industrial change (Euractiv, 2013). This highlighted the EU's weakness in managing the consequences of its 'hard law' of competition, and in enabling successfully the modernisation of strategic sectors.

The shadow of crisis in EMU

The severe economic conditions that have affected European economies in 2011 and 2012 have crippled delivery. Low growth and high levels of debt have left several countries suffering from deflation and a lack of investment. Very large adjustment needs mean that national targets on R&I spending, education and employment are under risk. In Spain, for instance, 'public investment has contracted by €17bn' since 2009 (Rubio-Ramirez, 2013). Although EU leaders stated in March 2012 that the targets remained 'fully relevant' (European Council, 2012), experts acknowledge that Europe 2020 has been delayed. A downward revision of the targets is not excluded in 2014 (Interviews, Annex 5).

Paradoxically, the crisis has partially improved the EU's energy records. As a high-level Commission expert recognises it, progress has been made towards emissions' and energy consumption's targets, however by accident. If growth comes back, there is a risk of moving backwards because of a lack investment in renewable energies and energy efficiency.

Finally, most member states are not on track of achieving their social and employment targets. As the Commission (EC, 2013) reported in January 2013, households' incomes have declined in several countries in the last five years. The risk of poverty and exclusion has increased. Growing divergence is pitting resilient countries against countries faced with a high level of long term unemployment. This led recently Commissioner Laszlo Andor to stress the need to 'find better macroeconomic stabilisation mechanisms in EMU and to better coordinate better social and employment policies'.[3]

The on-going debt and economic crisis, therefore, asks whether the EU is able to deal effectively with fiscal and competitiveness imbalances in a way which preserves human capital, maintains people out of poverty and advance a long term agenda altogether. This question is above all relevant for those countries in need of stabilisation. The next section examines how Europe 2020 has been connected to macroeconomic governance instruments within the European Semester. It asks whether EU governance offers any protective umbrella for countries urged to undertake market-based adjustments. Only in this light is it possible to draw a more general assessment of EU economic governance.

3. Europe 2020 in the new economic governance architecture

The banking and sovereign debt crises that EU member states have experienced since 2007-2008 have prompted a series of institutional reforms aimed at preventing the same scenario from happening again. These developments have been widely described and commented from a macroeconomic point of view. The way they impact on the long-term agenda of structural reforms has been less a matter of discussion.

Certainly, it is artificial to disentangle the two agendas. The Commission's line is precisely that they are mutually reinforcing. In too many countries, economic growth relied on credit-

[3]http://news.bbc.co.uk/democracylive/hi/europe/newsid_9782000/9782595.stm

and debt-driven consumption before the crisis, and not enough on productivity gains (EC 2010a, p. 4). Less public spending should go hand in hand with more competition; containing the cost of labour should be compensated by greater investment in research and innovation. In other words, the fiscal and macroeconomic discipline required by EMU membership compels its members to enhance their long-term growth potential.

This section challenges this reading by giving a detailed account of the European Semester. It provides an assessment of how the short- and the long-term agendas have been dealt with in parallel in the last two years (2011-2012) by looking, first, at legal overlaps between Europe 2020 and the new macroeconomic governance framework. Secondly, it compares the Annual Growth Surveys' content for 2011, 2012 and 2013. Finally, a case-study of three countries representative of different situations (Finland, France and Italy) provides insights into country-specific recommendations and National Reform Programmes.

3.1 Locating Europe 2020 in post-crisis EU governance

A new landscape of rules, commitments and surveillance frameworks

The table in Annex 3 provides an overview of the most significant governance changes intervened for EMU and 'pre-in' countries. Schematically, these reforms reinforce EU surveillance over member states in two directions: fiscal stability and competitiveness.

The fiscal pillar includes the Stability and Growth Pact (SGP) and the Treaty on Stability, Coordination and Governance (TSCG, in application since January 2013). Under the revamped SGP, deficit and debt reduction dynamics become prominent criteria in the decision to place a country under excessive deficit procedure. In the corrective phase, the Commission can propose sanctions which the Council can only oppose respectively by a simple and reversed qualified majority. The TSCG provides a parallel surveillance venue on an intergovernmental basis. It sets a cap of GDP 0.5% for the public deficit in structural terms (i.e. cycle-corrected). Signatories have to transpose this 'debt brake' into constitutional law or the equivalent lest they be sued by the Court of Justice.

The competitiveness pillar rests similarly on a Community and an intergovernmental leg. A 'Macroeconomic Imbalance Procedure' (MIP) based on Article 121.6 TFEU provides for an annual 'Alert Mechanism Report' assessing member states' macroeconomic robustness through a scoreboard of 11 indicators. The report leads the Commission to proceed to 'in-depth reviews' in some member states. Countries deemed to experience 'excessive imbalances' face the threat of binding recommendations and sanctions, for which reversed qualified majority voting applies. In parallel, the 'Euro Plus Pact' adopted in March 2011 committed its 24 signatories to very precise policy reforms in salient areas such as wage-setting, labour markets and pensions. The Commission was entrusted with monitoring its implementation. At the beginning of 2013, EU and member states officials continue to see it as a document of reference (Interviews, Annex 5). Many think that it prefigures the 'convergence and competitiveness agreements' proposed recently by J.M. Barroso and H. Van Rompuy in their roadmaps to complete EMU.

Procedural integration: the European Semester of coordination

Like Europe 2020, the SGP, the MIP and the Euro Plus Pact impose on member states to report progress to the Commission. The 'European Semester of coordination' was conceived to integrate these different frameworks and to allow a single set of consistent and visible recommendations. As the Commission puts it, the European Semester synchronises the assessment of fiscal and structural policies in order to 'bring the means and the aims together' (EC 2010b, p. 25). EU and permanent representations officials are generally convinced that the ES is a useful exercise in that respect (Interviews, Annex 5).

Though already experimented in 2011, the European Semester did not become reality in EU law before November 2011 (Regulation 1175/2011). It starts with the Annual Growth Survey (see timeline in Annex 2), initially due in January. Its release was moved to November in order to allow more time for debate in the Council and in the European Parliament, before the European Council endorses the Annual Growth Survey's priorities in March. In April, member states submit simultaneously their Stability or Convergence Programmes, which refer to fiscal obligations under the SGP (Article 126 TFEU); and their National Reform Programmes, based on the Broad Guidelines of Economic Policy (Article 121 TFEU) and the Employment Guidelines (Article 148 TFEU), both closely connected to the Europe 2020 Strategy. National Reform Programmes must also take the MIP guidelines into account. In May, the Commission issues Country-specific recommendations. They are discussed and adopted by the European Council in July.

As a result, and as the graph in Annex 2 illustrates, three different treaty bases are brought together into the European Semester. Failure to apply recommendations drawing on the Broad Guidelines can prompt a warning for any EU member state. However, failure to apply recommendations under the SGP and the MIP can lead to sanctions for euro area countries. Hence, country-specific recommendations have much more bite if they refer explicitly to the SGP and the MIP. Stability considerations are likely to take priority over Europe 2020 objectives when a country slides into an excessive *deficit* or *imbalance* situation.

Potential clashes between Europe 2020 and other commitments

There are several reasons to think that the European Semester represents as much an improvement as a threat for Europe 2020. For Armstrong (2012), the Strategy's integration into the ES potentially means its submission to short-term and stabilisation rationales.

On the competitiveness side, the wage-setting reforms and tax cuts on labour encouraged by the Euro Pact and the MIP possibly encroach on Europe 2020's social objectives. Although unemployment and low skills are by far the greatest poverty factors, income inequality, which has risen in the last three decades, means that working does not prevent people from slipping into poverty (OECD 2008).

EU fiscal rules threaten Europe 2020's targets in two potential ways. First, they constrains public expenditure whereas lifting people up from low skills' traps and improving 'non-price' competitiveness often require a high level of public spending. Whether governments can

consolidate their financial situations and increase the growth potential is a matter of debate (Alesina and Giavazzi, 2012; Van Reenen, 2012). Secondly, the impact of fiscal consolidation undertaken in several countries at the same time is overlooked. IMF experts recently admitted that 'forecasters significantly underestimated the increase in unemployment and the decline in domestic demand associated with fiscal consolidation' (Blanchard and Leigh 2013, p.5). In the Alert Mechanism Report 2013, the Commission recognised that 'the on-going adjustment to imbalances is necessary but is costly in the short term and has resulted in higher unemployment' (EC 2012i, p.5). Yet, it continued to defend the pace of fiscal consolidation as a factor key to market confidence (EC, 2012j).

Another route for boosting growth and employment in the entire Euro Area is often advocated, namely a symmetric adjustment process in countries enjoying a trade surplus and fiscal room for manoeuvre. However, the MIP does not convincingly compel them to support domestic demand or accept a greater rate of inflation at home. The Alert Mechanism Report 2013 merely informs that '[in] parallel with the adjustment in Member States with large current account deficits, the external balances of several Member States in surplus have been declining, albeit at a slower pace' (EC 2012i, p. 2).

The next sub-section checks these critical assumptions by examining how Annual Growth Surveys, National Reform Programmes and Country-Specific Recommendations have dealt so far with the social consequences of adjustment; the need to preserve growth-enhancing investment; and the macroeconomic environment at aggregate level.

3.2 Governance in practice: the European Semester since 2011

Comparative analysis of Annual Growth Surveys 2011, 2012, 2013

The Annual Growth Survey 'sets out what the Commission believes should be the overall budgetary, economic and social priorities for the coming year' (EC, 2012k). It involves three main Commission directorates: DG ECFIN, DG Employment and the Secretary General (Interviews, Annex 5). The former two provide input in the form of a Macroeconomic Report and an Employment Report. The latter coordinates and synthesises them. As Hallerberg et al. (2012, p. 42) remark, integrating policy recommendations means 'involving different departments of the European Commission. Without strong leadership […] these different assessments may lead to ineffective or even non-operational compromises'.

Overview of AGSs 2011, 2012 and 2013 (Policy Network, source EC 2010d, 2011e, 2012e)

	AGS 2011	AGS 2012	AGS 2013
General Rationale	'Europe needs to accelerate the consolidation of its public finances, the reform of its finance sector and to frontload structural reforms.' 'The proposed course of action is particularly relevant for the euro area' (p. 3)	'The focus needs to be simultaneously on reform measures having a short term growth effect, and on the right growth model in the medium-term' (p.3). Emphasis on implementation and national ownership.	Similar framing as 2012 'The short term challenge is to restore confidence and stabilise the economy […] while carrying out structural reform which will lay the foundations for a sustainable job-rich recovery' (p. 3)
Priorities	1. Macro-economic pre-requisites for growth 2. Mobilising labour markets, creating job opportunities 3. Frontloading growth-enhancing measures	1. Pursuing differentiated growth-friendly fiscal consolidation 2. Restoring normal lending to the economy 3. Promoting growth and competitiveness for today and tomorrow 4. Tackling unemployment and the social consequences of the crisis 5. Modernising public administration	Same priorities as 2012
New issues or greater emphasis (2012 and 2013)		Differentiated approach to consolidation (p.3) Tackling tax evasion (p. 5) CO2 emission trading and green investments/jobs (p. 5, p. 11) Tackling the 'social consequences' of the crisis (p.10) Promoting white jobs (health/social) (p. 5) Persistent implementation gap in application of EU legislation (p. 12); Administrative efficiency (p. 13) Apprenticeships and traineeships for young people (p. 11)	Real estate and housing taxation should be reformed(p. 6) 'rapid country-wide roll-out of high-speed internet infrastructure (p. 9) e-commerce directive (p. 9) youth guarantees for young people (11) Annex on 'growth-friendly tax policies'

From the table, several observations can be drawn. First, the three Annual Growth Surveys all give priority to fiscal consolidation. There is no other way to restore stability than to cut public spending. This matter is little related to how a supportive environment at EU level could help, such as a more active central bank or a more ambitious growth strategy. AGS 2013, however, mentions briefly two upcoming decisions with a potentially significant impact on Europe's future: the MFF 2014-2020, and measures discussed to deepen EMU. Despite a very intensive debate in the academic and media sphere, the Commission does not question the positive aggregate impact of austerity policies.

Secondly, Annual Growth Surveys 2012 and 2013 mark a significant inflection from a relatively uniform approach to consolidation in 2011. The Commission advocates 'differentiated growth friendly fiscal consolidation', which means protecting investment in education, research, innovation and energy, as well as financial support to active labour market policies. AGS 2012 (EC 2012e, p. 4) puts it bluntly: 'determined fiscal consolidation is a means to an end: it is essential to restoring macro-financial stability as a basis for growth and to securing the future of the European social model.' This approach, nevertheless, bears the risk of overlooking the need for social stabilisers in the short-term.

Thirdly, more attention is paid to the macroeconomic conditions of consolidation. Annual Growth Survey 2012 (EC 2011f, p. 4) urges member states which are not in Excessive Deficit Procedure to let automatic stabilisers play their full counter-cyclical role. AGS 2013 observes that the SGP allows for a certain degree of flexibility for countries faced with 'worse-than-expected economic situation' such as Spain and Portugal (EC 2012e, p. 4). It also stresses the need to enhance the effectiveness of tax systems as a way to tackle fiscal imbalances and to re-orient the economy. The Commission puts forward again proposals made in 2011 for a common corporate tax base, a financial transaction tax and energy taxation.

Fourthly, there are 12 mentions of Europe 2020 in Annual Growth Survey 2011, versus two in 2012 and 2013. AGS 2011 is said to be 'anchored in the Europe 2020 Strategy' (EC 2011a, p. 3). Yet, paradoxically, Europe 2020 seems to get a better treatment in 2012 and 2013. Social and environmental flagship initiatives, if not explicitly referred to, are given as much importance as economic objectives. A sense of emergency is palpable in the social than in the environmental field. With record high levels of unemployment, especially among young people, the Commission admits 'clear signs of increases in the number of people at risk of income poverty' (EC 2011f, p. 10). The support to 'youth guarantees'– a proposal originated from left-wing governments and pressure groups – marks a symbolic shift.

Finally, it is worth noticing that the Euro Plus Pact is mentioned six times in 2012, but not at all in 2013. Like for Europe 2020 in 2011, this can be explained by the political momentum of the agreement. The Pact's priorities, nevertheless, casts a long shadow on the recommendations enshrined in the Annual Growth Surveys, especially pension systems reforms, labour-market reforms, tax wedge on labour and wage setting systems. Many of these measures also reflect the MIP's indicators.

Overall, the Commission's Annual Growth Surveys reveal a growing concern about the social impact of adjustment in the euro area and the need to preserve long-term investment. Yet, these elements do not seem to translate into genuinely different recommendations. The state of play might reflect the balance of administrative and political power in Brussels. According to Commission officials, 'competition' between DG Employment and Social Affairs and DG Economic and Financial Affairs has increased since the setting-up of the European Semester. Europe 2020's social objectives present an opportunity for the former to counter-balance the latter's predominance. However, the quality of scientific evidence is key to influencing the framing of the Growth Surveys and Country-specific Recommendations. DG

Employment's interest for a proposal such as a Eurozone stabilisation fund safeguarding fiscal room for social investment strategies can be read in this light (Interviews, Annex 5).

This tension between economic and social bodies in the Commission is strikingly similar at the Council's level. In 2012, seven Council formations held debates on the Annual Growth Survey between December 2011 and February 2012.[4] The conclusions of the Employment and Social Affairs Council's meetings (EPSCO) are said to receive more attention today than they did during the last decade (Interviews, Annex 5). ESPCO called for instance in February 2012 to strike a balance between fiscal consolidation and social cohesion. In October, it expressed concerns about the marginalisation of the social dimension in the European Semester and about issues such as pension systems, wages policy and tax wedge on labour addressed by the Economic and Financial Affairs Council. The Education Council warned in November 2012 against 'cuts across the board' which would potentially harm member states' educational systems. These elements reveal a growing concern against a Semester dominated by stability considerations.

Implementation: National Reform Programmes and Country-specific Recommendations in Finland, France and Italy

How do member states take ownership of the European Semester's processes? What does the EU have to say to a 'well-doing' country such as Finland, and how are the social impact of the crisis and long-term objectives dealt with in France and Italy?

FINLAND

Finland ranks among the 'good pupils' of the Euro Area (see 'Macroeconomic situation of Finland, France, Italy, 2007-2012', Annex 4), although the Commission undertook in 2012 an 'in-depth review' on account of the country's deteriorating export market share and high level of private indebtedness. The review found that Finland was 'experiencing imbalances, which [were] not excessive but [needed] to be addressed'. Finland remains under surveillance with 14 other member states in 2013.

- National Reform Programmes 2011 and 2012

What is striking is the centrality of Europe 2020 in Finland's National Reform Programmes 2011 and 2012. The Strategy is mentioned 18 times in 2011. In a foreword, Prime Minister Katainen stresses that 'economic growth must be ecologically and socially sustainable' and he places 'the wellbeing of citizens, a high employment rate, education, comprehensive income security and effective social and health services' at the core of his objectives (Finland 2011, p. 13). A whole section is dedicated to 'National targets and measures to achieve them'.

[4] See Council's website, 'The European Semester in 2012', http://www.consilium.europa.eu/special-reports/european-semester/the-european-semester-in-2012 [accessed 15/02/2013]

EU recommendations to Finland in 2010 are listed at the end of the document and show that the National Reform Programme's scope is however broader than Europe 2020's objectives. In particular, the document answers the EU's demand for greater productivity in the public sector, more action against long-term unemployment, and greater competition in services. Measures in favour of competitiveness consist mainly in shifting the tax basis from labour and corporate bases to capital income, inheritance and fuels. Despite a very strong fiscal position (48.7% debt/GDP, 1.1% deficit in 2011), the government plans further consolidation, mainly through spending cuts until 2015. Defence, central administration and local governments are the most affected budgets; education and research also take a hit, but Finland already ranks among the best EU performers in this field.

In 2012, the Euro Plus Pact and the MIP are dedicated a significant share of the document. Finland partly contests the Commission's decision to carry out an in-depth review by arguing that its export base is 'very cyclically sensitive'. In addition, the Government notes that the social partners also bear some responsibility in wage developments (Finland 2012, p. 22). Accent is put on boosting growth, competition and jobs in the short term: on top of fiscal consolidation, the main priorities are 'diversifying the production structure', 'full utilisation of labour' and 'increasing competition'.

- Country-specific Recommendations 2011 and 2012

The five EU recommendations were very similar in 2011 and 2012: Finland should focus on ensuring fiscal sustainability, increasing the public sector's efficiency, enhancing support to long-term unemployed and boosting competition on product and services markets. Improving external competitiveness was the real new item in 2012, and the recommendation is explicitly referred to the MIP. In both cases, there was no significant variation from the Commission's draft recommendations and the Council's final version. In 2011, a reference to social dialogue practices was added. In 2012, a formulation calling for greater competition in the provision of municipal services was slightly attenuated.

- The view of practitioners

Finnish officials are rather ambivalent towards the European Semester (Interviews, Annex 5). Finland was reluctant to endorse the Europe 2020 Strategy in 2010, and the dominant feeling is still today that the EU pursues too many objectives while responsibilities are not sufficiently delimited. On one hand, the Commission's recommendations go too far in identifying policy reforms and 'lecturing' member states. On the other hand, a greater involvement of the Council and of national parliaments is called for. Peer pressure between member states should be given more room.

FRANCE

France was severely affected by the crisis and is struggling to bring its deficit below the 3% threshold at the end of 2013. In parallel, serious concerns about the country's competitiveness have been raised although this has, as yet, only translated to a single-level downgrade of France's financial creditworthiness. Under the MIP, the Commission estimated

that the country needed in-depth reviews both in 2012 and 2013. In June 2012, France was ‘experiencing *serious* imbalances, which [were] not excessive but [needed] to be addressed’.

- National Reform Programmes 2011 and 2012

France’s National Reform Programmes build upon the ‘Integrated guidelines’ adopted by the European Council in 2010. They distinguish between macroeconomic reforms (Guideline 1 on the ‘sustainability of public finances’), sector specific policies (Guidelines 2 to 6 covered by Article 121) and employment and social objectives (Guidelines 7 to 10, Article 148).

In 2011, the NRP called for a strategy combining ‘an unprecedented drive to put its public finances on a viable footing’ with ‘structural reforms geared to the determinants of potential growth’ (French Government 2011, p. 3). 12 commitments were earmarked ‘Euro Plus Pact’. Particular stress was put on the pension reform raising the retirement age passed in November 2010. However, the economic forecasts on which the macroeconomic scenario was based proved largely wrong: the Government foresaw a GDP growth of at least 2% in 2011, 2012 and 2013, far from the actual and expected below 1% figures.

In terms of innovation and competitiveness, the document lists a long series of micro-initiatives (tax credits for research purposes, improving studying conditions, funding for SMEs…), but none of them really stand out. Almost two pages (French Government 2011, p. 38-39) explain how France is progressively opening up its transport, energy and postal markets. The comprehensive section on employment and inclusion policies reflects France’s traditional insistence on social cohesion. It refers explicitly to Europe 2020 targets. Most of the measures listed are state-funded (like the *revenu de solidarité active*, a complement to low earned incomes) and it is hard to see any structural move on the labour market front.

The 2012 document does not represent any major departure from 2011, but it clearly answers the concerns raised by the Recommendations 2011 and by the Commission through the MIP. A section is dedicated to the MIP and France’s bleak exports performance. The main response is to shift part of the social security funding from taxes and contributions on labour to VAT. The document also answers the Recommendations’ insistence on tackling labour market segmentation and optimising the performance of the placement public service ‘*Pole Emploi*’. The fiscal section insists on the need for more burden-sharing between the central government, local governments and the health system without giving any further details.

- Country-specific Recommendations 2011 and 2012

They are largely framed along the same lines, although the 2012 version refers explicitly to the MIP for 3 out of 5 items, thereby indicating a greater degree of pressure: ‘combat[ting] labour market segmentation’, ‘shifting the tax burden from labour to other sources of taxation that weigh less on growth; ‘remove unjustified restrictions on regulated trades and professions’. No significant change was discernible between the Commission’s drafts and the versions endorsed by the European Council.

- The view of practitioners

The French administration uses the ES as an opportunity for domestic coordination and social dialogue. French officials try to engage the Commission as early as possible in a dialogue with all relevant stakeholders. Implicit in this method is the attempt to influence the process and to make the Commission's recommendations more adapted to national realities.

ITALY

Italy's anaemic growth and high levels of debt has been under financial markets' scrutiny for almost three years and has translated into higher yields on government bonds. Many experts also point to the responsibility of poor collective management of the Euro Area debt crisis (De Grauwe, 2012). Italy was placed under MIP-surveillance by the Commission in 2012 and 2013. In June 2012, it was said to experience 'serious imbalances, which [were] not excessive but [needed] to be addressed'. High indebtedness, low growth and poor export performances were the most pressing issues.

- National Reform Programmes 2011 and 2012

Although they don't radically differ from each other, the change of political context makes the two documents interesting to compare. In 2011, Italy seems to be on the defensive; the National Reform Programme often sounds like a box-ticking exercise. There are extensive references to the Annual Growth Survey and the Euro Plus Pact. Accent is put on restoring public and private financial stability and to improve the country's competitiveness and labour productivity. Only reforms 'with low or no impact on public accounts' (Italy 2011, p.1) are considered, such as aligning the retirement age on life expectancy, decentralising wage-bargaining and cutting back paperwork for SMEs. Europe 2020 objectives are not ignored, with indications of education reform, research incentives, a renewable energy action plan, a 'Social card' against extreme poverty.

The 2012 Reform Programme is introduced by Mario Monti in a 7-page foreword (Italy 2012, p. III-IX). The new Prime Minister takes very clearly the defence of a long-term approach to reforms anchored in the Europe 2020 vision: 'The Europe 2020 Strategy constitutes an integral part of the national agenda […] it is not enough to focus on the short-term to get over the critical phase'. Europe 2020 should not be seen as a technocratic exercise, but rather as a consistent approach to reform that promotes 'the construction of a highly competitive social market economy'. Growth-friendly and fair fiscal consolidation materialises through tax increases on consumption and property, tax cuts on business and labour, a higher quality of public spending, and a resolute fight against tax evasion. To stimulate growth and employment, the government relies on greater competition, labour-market reform, an infrastructure investment plan and a Cohesion Action Plan for Southern Italy (based on EU structural funds). M. Monti argues that the social impact of these reforms is likely to be shorter and softer if implemented quickly, at the same time and in a consistent way.

- Country-specific Recommendations 2011 and 2012

Again, some difference is perceptible between 2011 and 2012. In 2011, the EU urges Italy to act on many fronts: fiscal consolidation, tackling labour market segmentation, altering the wage-setting system, increasing competition in services, improving the business environment and the quality of spending. In 2012, Italy is rather encouraged to implement or adopt planned reforms and to make the most of EU funds. Youth unemployment and education standards are subject to a new recommendation.

Synthesis and outcomes

What does this overview of the European Semester's implementation in three countries reveal? Does this coordination exercise at EU level make any difference?

First, the dialogue between the Commission and member states has reached a very advanced level today. Member states are under permanent scrutiny. The capacity of the Commission to draft Country-specific Recommendations that are adopted almost word by word by the European Council is striking. However, this pressure is almost exclusively geared towards restoring fiscal and macroeconomic stability. It reflects by and large the expectations of financial markets. Recommendations do not provide any convincing indication on how implementing this agenda can help to achieve Europe 2020 objectives.

Secondly, member states take advantage, to various degrees, of the Semester to deliver a consistent vision encompassing short-term measures with long-term objectives. The personal endorsement of the Finnish and Italian National Reform Programmes at prime ministerial level signals a more fine-tuned and prioritised approach to the various economic, social and environmental objectives. France's National Reform Programmes and the 2011 Italian document, in contrast, lack the underpinning of a genuinely strategic vision.

Thirdly, a country like Finland does not really need to be placed under surveillance in the same way as are France or Italy. With fiscal, macroeconomic and structural well ahead of EU averages, improvements can only be made on the margin. There is no risk of Finland's imbalances spilling over onto the Euro Area. As Hallerberg et al. (2012) note, the whole process of the ES makes much more sense for countries presenting substantial risks for the monetary union, both in their capacity to adjust in the short term as regards their growth potential. As the reaction of Finnish officials shows, the legitimacy of the Commission's relatively homogenous approach is in question.

Fourthly, there was evidence of structural reforms in France and Italy in the last few years. However, it is very hard to attribute them to the merits of the European Semester. Coming back to Wyplosz (2010, see above p. 6), markets remain the most powerful drivers of reforms. After François Hollande was elected in spring 2012, the new Parliament cancelled a law passed a few months earlier, which planned a transfer from taxes on labour to VAT. This measure was subject to a recommendation from the EU in July. Yet, it was under pressure from the business sector that the Government reversed course and proposed a 'Growth and Competitiveness Pact' containing similar provisions in November 2012.

Conclusion

This paper aimed at providing an assessment of the EU's ability to steer European economies towards a sustainable growth model combining competitiveness, social inclusiveness and environmental responsibility. It was based on the understanding of the EU as a multi-level governance system implying different modes of decision-making, and leaving sizeable space for negotiation, competition and deliberation between numerous actors. It asked whether the Europe 2020 Strategy and its integration into the European Semester offered better prospects of success than the Lisbon Strategy during the last decade.

As such, Europe 2020 lays out a reasonably well articulated vision and provides a much-needed baseline to EU policy-makers. However, its patchy institutional processes and instruments should not delude anyone. The Strategy is a compromise which reflects the degree of integration, coordination and resource-pooling that member states and public opinions buy into on average. The legal imbalances cutting across flagship initiatives and playing against more ambitious 'market-correcting' measures are likely here to stay. Europe 2020 provides no magic bullet, but represents an opportunity to hold leaders and policymakers accountable for the long-term.

A common assumption is to dismiss the European Semester and the new regime of surveillance attached to the Monetary Union as a straightjacket imposed on national member states. An analysis of the first three Semesters shows that the Commission has indeed tended to push for market-based adjustment policies uniformly. The literal enforcement of rules has come to the detriment of more fine-tuned approaches to collective management and to the long-term growth potential of member states. To be fair, with national governments and parliaments reluctant to show more solidarity with each other, the reliance on market processes may have been the only option available to bring stabilisation back.

Two years of practice show nevertheless that EU economic governance is a space for administrative and political negotiation. Next to a Commission constrained by limited resources, a strict mandate and little political clout, member states have the opportunity to frame the debate differently and to make the most of the EU toolbox. Governments and parliaments can craft consistent strategies that link the current imbalances to the pursuit of more resilient growth models adapted to national realities. This process, however, would gain a lot from further governance innovations at the EU and national levels, many of which are accessible without changing EU treaties.

Ways to deal better with the contradictions between short-term and long-term objectives should be explored. Europe 2020 should not be a 'good-weather strategy' only. The schedule of fiscal consolidation should be revised in countries faced with zero-growth prospects and effectively seeking a higher quality of spending and administration. This could be the bulk of 'reform contracts' between the EU and member states, which should be set up on a voluntary basis, pursue a long term vision and open to additional EU funding. In the future, a European stabilisation fund could help member states experiencing downturns not to have to sacrifice too much to the logic of market-based adjustment. Greater consistency between the Macroeconomic Imbalance Procedure and Europe 2020 social targets should

be ensured, for instance through a ‘social corridor’ facilitating the consistent development of wages and social protection, and avoiding zero-sum policies. Broadening the EU’s competences to the industrial field would also make more collective and proactive strategies possible against the risks of global competition.

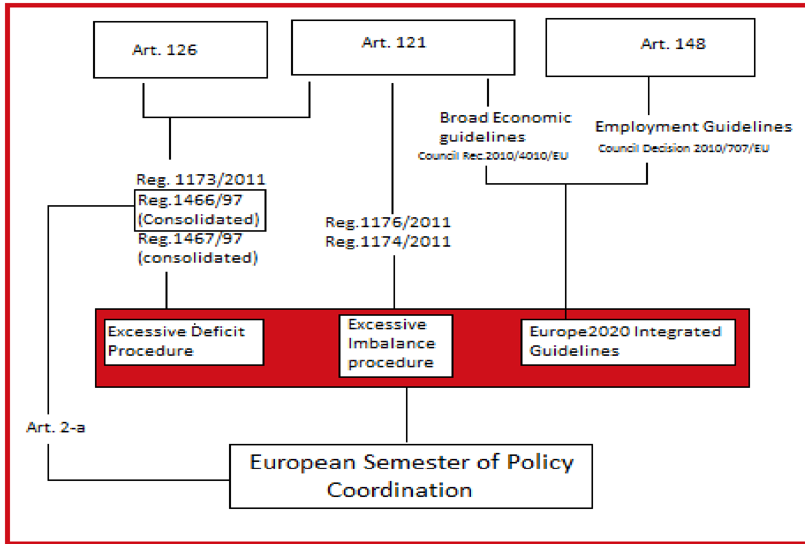
In parallel, the political steering of EU economic governance should be strengthened. National parliaments and social partners should be involved as early as possible in the discussion of Annual Growth Surveys and National Reform Programmes. In the long run, Annual Growth Surveys and Country Specific Recommendations should be adopted according to the ordinary legislative procedure, thus transforming the European Semester into a high-level political debate going beyond technocratic governance.

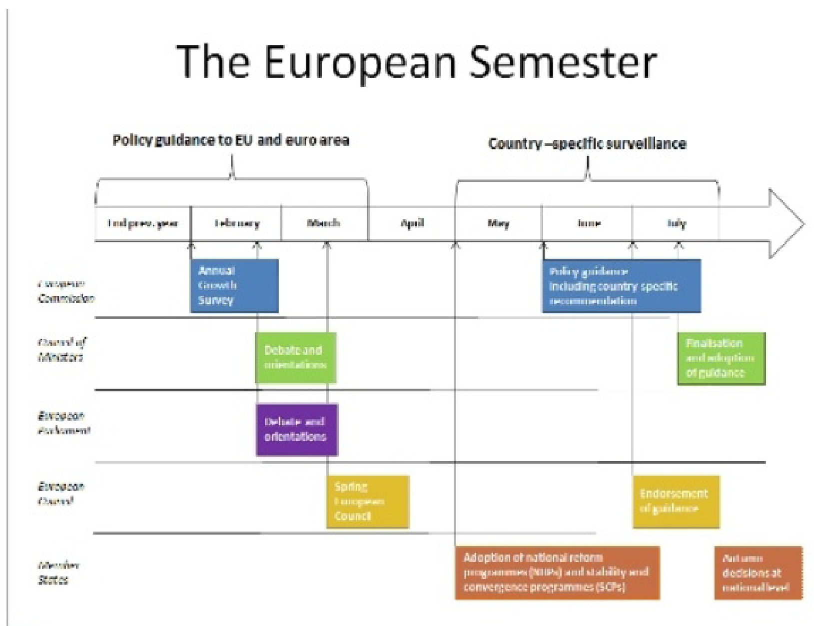
ANNEX 1: Europe 2020 policies and track record 2011-2012(source: EC)

Objective	Target	Flagship initiative	Competence / decision-making	Main actions at EU level	Main actions at national level	Progress so far
Smart	**3% spent on R&D**	**Innovation Union**	Single market: shared (Art. 4), research: shared (but non-binding) Economic Guideline 4- Art. 121	Complete ERA Improve conditions for business innovation Launch European Innovation partnerships Greater EU funding for innovation Promote knowledge partnerships and entrepreneurship	Reform R&D and innovation systems Train more researchers Prioritise knowledge expenditure and promote private R&D investments Ensure a sufficient supply of science, math, engineering graduates	2 legislative proposals adopted: EU patent, standardisation, 4 legislative proposals pending : Horizon 2020 (merging R&D and innovation funding), Cohesion 2020, public procurement, venture capital 5 EIPs launched on active ageing, agriculture, smart cities, water, materials European Public Sector Innovation Scoreboard
		Digital Agenda for Europe	Single market: shared (Art. 4) Economic Guideline 4- Art. 121	Digital Single Market Greater EU funding for investment in ICT	Draw up high speed strategies Limit the cost of network roll-out (public intervention only if market failures) Develop online public services	Adoption (2012) of the Radio Spectrum Policy programme (deployment of 4G) Communication on e-commerce (2012) = update of the E-commerce directive Draft regulation on electronic authentication (2012) Cloud computing strategy (2012) Upcoming Internet security strategy (2013)
	40% in tertiary education and less than 10% school dropping out	**Youth on the move**	education, vocational training, youth and sport: optional (Art. 6) Employment Guideline 9- Art 148	Enhance EU's mobility programmes and link them up with national programmes and resources Modernization agenda for higher education and benchmark universities Boost mobility of young professionals (EURES)	Ensure "efficient investment in education and training systems at all levels" Tackle early school leaving Improve the relevance of education systems in relation to job market needs Improve young people's entry into the job market	Experimentation of EURES Council recommendation on policies against early leaving from education and training (2011) Communication on the modernisation of higher education (2011)
Sustainable		**Industrial policy**	Single market: shared (Art. 4), industry: optional (Art. 6) Economic Guideline 6- Art. 121	Competitiveness proofing of EU regulation Support the restructuring of sectors in difficulty and the greening of services and manufacturing Improve business environment for SMEs	Support business environment for SMEs (public procurement, smart regulation, intellectual property…)	Impact assessment on competitiveness and SMEs of all legislative proposals Reviewed Small Business Act (2011) Action plan 'Access to finance for SMEs' Draft regulations on European VC and social entrepreneurship funds (2011) Sector-specific strategies: space (2011), CARS 21 (2012)

	20/20/20	**Resource efficient Europe**	Environment, energy: shared (Art. 4) Economic Guideline 5- Art. 121	Make EU and national funding more consistent Improve market-based instruments: ETS, taxation, state aid, public procurement Upgrade energy networks Energy efficiency action plan Single Energy Market	Phase out environmentally harmful subsidies Make the most of fiscal incentives and public procurement Coordinate implementation of infrastructure projects	Directive on Energy efficiency (2012/27/EU) CAP reform proposal (awaiting MFF settlement) Regulation proposal on Trans-European energy infrastructure 2020 (awaiting MFF) Decision proposal on an Environment Action Programme (Nov. 2012): includes requirements for MS to remove environmentally-harmful subsidies Proposal for a revised Energy taxation directive
Inclusive	**75% employme nt**	**Agenda for new skills and jobs**	Social policy: coordination (Art 5) Employment Guidelines 7 and 8 - Art 148	Coordination of the flexicurity agenda ESCO (common classification of jobs and skills) Integration of third country nationals/migrants Review directives on working time and posting of workers, and health and safety legislation Promote intra-EU mobility and migration policy in line with labour markets need Erasmus for young entrepreneurs	Pursue transition towards flexicurity labour markets Make work pay, review tax and benefit systems Implement the European qualifications framework Increase consistency between education, training and work Improve work-life balance and gender equality	Implement further the Communication on flexicurity (2008) and the New skills for new jobs initiative (2008) Proposal for a revamped posting of workers directive (2012) and EGAF
	-10% poverty	**European Platform against poverty and social exclusion**	Social policy (Art 5): coordination Employment Guidelines 9 - Art 148	Cooperation, peer-review, best practice EU programmes to promote social innovation and take poverty concerns into account in all EU policies Assess adequacy and sustainability of social protection and pension systems	Dedicate specific programme to vulnerable groups (elderly, Roma, minorities, one-parent families…); Ensure adequate income support and access to health care via social security and pension systems	

<u>ANNEX 2: the European Semester, legal architecture</u> (Hallerberg et al, 2012) **<u>and timeline</u>** (EC)



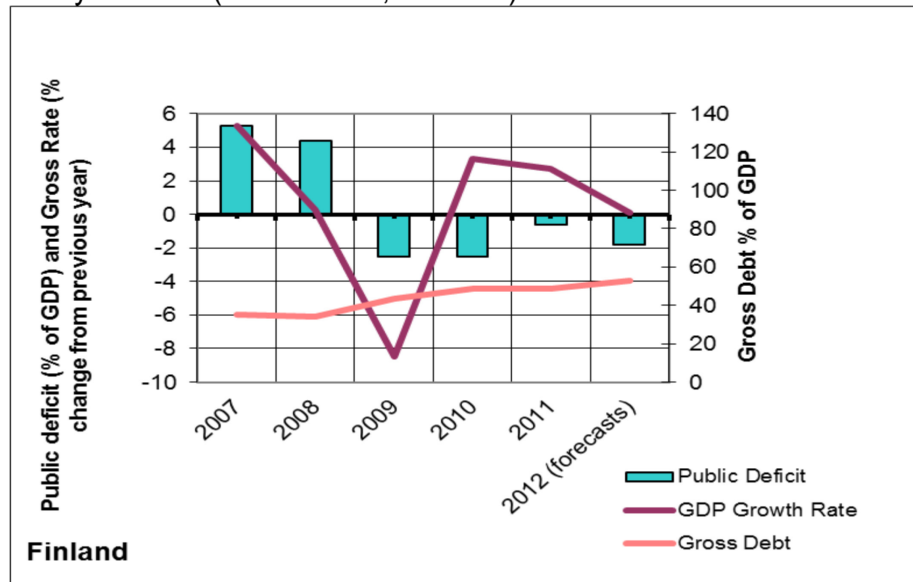


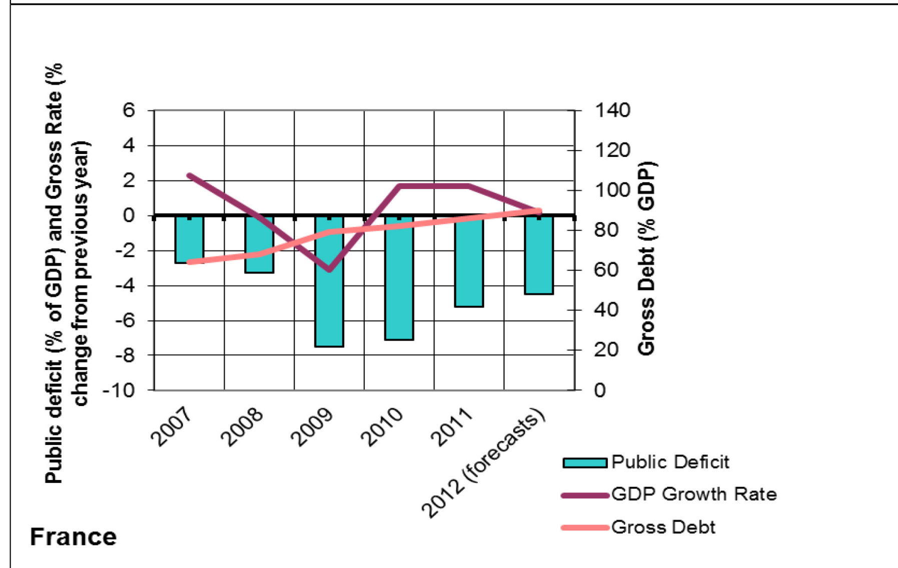
<u>ANNEX 3: Main reforms of economic governance, 2011-2012</u> (Policy Network, source: EC)

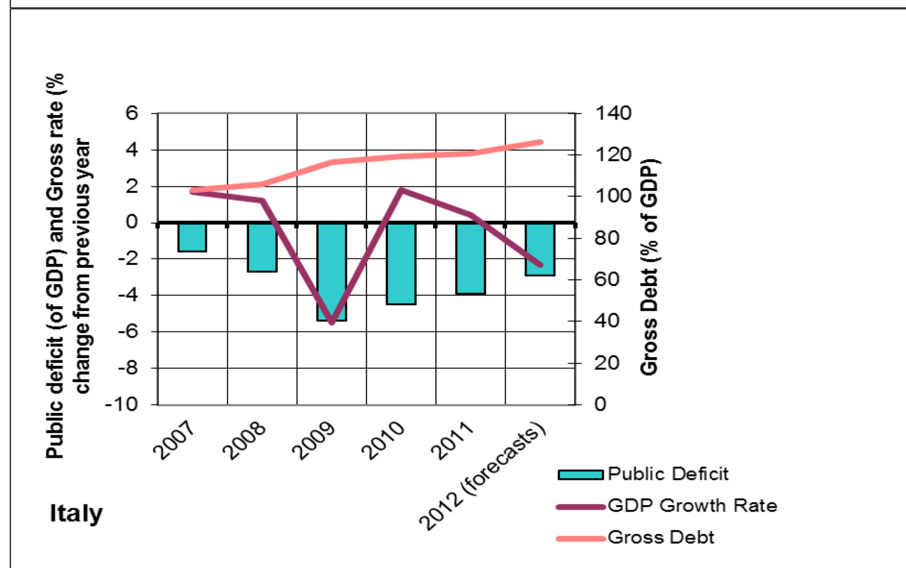
Legal basis	Perimeter	Policy targets or indicators	Decision-making process
Stability and Growth Pact (SGP) Art. 126 6-Pack, 2-Pack*	Preventive arm: EU 27 Corrective arm (sanctions): Euro area	Medium term objective of budget balance and deviations from it Debt dynamics	Stability or Convergence Programmes EC monitoring and peer pressure in the Council and European Council Semi-automatic sanctions (reverse QMV) applying only to euro area countries
Macroeconomic Imbalance Procedure (MIP) Art. 121 6-Pack	Preventive arm: EU 27 Corrective arm (EDP, EIP): Euro area	Current account balance Net international investment position Export market shares Nominal unit labour cost Real effective exchange rate Private sector debt Private sector credit flow Housing prices Public debt Employment rate Financial sector leverage**	National Reform Programmes EC monitoring and peer pressure in the Council and European Council Semi-automatic sanctions (reverse QMV) applying only to euro area countries
Euro Plus Pact	EU 27 - UK, SW, CZ, HG	Competitiveness Employment Public finances Financial stability Tax coordination	MS commitments to be included in National Reform Programmes EC monitoring and peer pressure in Euro Summits
Treaty on Stability, Coordination and Governance (TSCG)	EU 27 - UK, CZ	Lower limit of structural deficit (0.5% over term) Debt brake in national constitution or equivalent Macroeconomic coordination	Debt brake in national law EC monitoring and Euro Summits E. Council decision over ECJ involvement

*still under negotiation
** new criteria incorporated in 2012

ANNEX 4: Macroeconomic situation of Finland, France, Italy, 2007-2012, Policy Network (sources: EC, Eurostat)







Annex 5: Interviews with the author (realised on 10 January 2013 in Brussels)

- **Egbert Holthuis**, Head of Unit “Social Protection, Social Inclusion Strategy”, Directorate-General for Employment, Social Affairs & Inclusion, European Commission

- **Lukasz Kolinski**, member of Herman Van Rompuy’s cabinet, European Council

- **Jakub Koniecki**, member of Commissioner Hedegaard’s cabinet, Commissioner for Climate Action, European Commission

- **Anne Pohardy** counsellor for ECOFIN coordination and financial assistance, and **Annie Guyader**, counsellor for social affairs, Permanent Representation of France to the European Union

- **Karl Pichelmann**, Directorate General for Economic and Financial affairs, European Commission

- **Jani Pitkaniemi**, Counsellor for Economic and Financial Affairs, Permanent Representation of Finland to the European Union

- **Shahin Vallée**, member of Herman Van Rompuy’s cabinet, European Council

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WWWFOR EUROPE
WELFAREWEALTHWORK

Project Information

Welfare, Wealth and Work for Europe

A European research consortium is working on the analytical foundations for a socio-ecological transition

Abstract

Europe needs a change: The financial crisis has exposed long neglected deficiencies in the present growth path, most visibly in unemployment and public debt. At the same time Europe has to cope with new challenges ranging from globalisation and demographic shifts to new technologies and ecological challenges. Under the title of Welfare, Wealth and Work for Europe – WWWforEurope – a European research consortium is laying the analytical foundations for a new development strategy that enables a socio-ecological transition to high levels of employment, social inclusion, gender equity and environmental sustainability. The four year research project within the 7th Framework Programme funded by the European Commission started in April 2012. The consortium brings together researchers from 33 scientific institutions in 12 European countries and is coordinated by the Austrian Institute of Economic Research (WIFO). Project coordinator is Karl Aiginger, director of WIFO.

For details on WWWforEurope see: www.foreurope.eu

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Partners

Partner	Short name	Country
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Ecologic Institute	Ecologic	Germany
University of Applied Sciences Jena	EAH Jena	Germany
Free University of Bozen/Bolzano	FUB	Italy
Institute for Financial and Regional Analyses	GEFRA	Germany
Goethe University Frankfurt	GUF	Germany
ICLEI - Local Governments for Sustainability	ICLEI	Germany
Institute of Economic Research Slovak Academy of Sciences	IER SAVBA	Slovakia
Kiel Institute for the World Economy	IfW	Germany
Institute for World Economics, RCERS, HAS	KRTK MTA	Hungary
KU Leuven	KUL	Belgium
Mendel University in Brno	MUAF	Czech Republic
Austrian Institute for Regional Studies and Spatial Planning	OIR	Austria
Policy Network	policy network	United Kingdom
Ratio	Ratio	Sweden
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Hasselt University	UHASSELT	Belgium
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University of Dundee	UNIVDUN	United Kingdom
Università Politecnica delle Marche	UNIVPM	Italy
University of Birmingham	UOB	United Kingdom
University of Pannonia	UP	Hungary
Utrecht University	UU	Netherlands
Vienna University of Economics and Business	WU	Austria
Centre for European Economic Research	ZEW	Germany
Coventry University	COVUNI	United Kingdom
Ivory Tower	IVO	Sweden