

# The Coordination of Macroeconomic Policies in the Aftermath of the Eurozone Crisis<sup>1</sup> Shaping Policies Through Executive Politics

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## Introduction

Since the onset of the Eurozone crisis, EU institutional actors have taken steps to redesign the institutional settings of economic governance in order to strengthen the rules of the Stability and Growth Pact (SGP). To remedy the deficiencies of Economic and Monetary Union (EMU), in 2010 they designed the European Semester as a coordination process through which the European Commission annually evaluates the situation of each Member State to identify economic and social challenges and avoid imbalances that could damage the economic situation in a particular country, in the euro area or the EU as a whole and, finally, to recommend reforms in order to reach the EU objectives.

To this end, the European Semester brings together policies in consequence of which Member States relinquish part of their sovereignty – but also policies that remain *de jure* in their hands. As the failure to meet the rules of the SGP activates both the Excessive Deficit Procedure as well as the Excessive Imbalance Procedure through which the implementation of the rules is mandatory, these policies are intertwined. Therefore, what is at stake in this process of policy coordination is Member States' autonomy to conduct their own economic policies and to regulate society<sup>2</sup>. By

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<sup>2</sup> H. SPRUYT, 'Unbundling Sovereign Rights through Incomplete Contracting: Empowering European Transnational Networks beyond the State', in D. KING and P. LE GALÈS (eds), *Reconfiguring European States in Crisis*, Oxford, Oxford University Press, 2017, p. 99. See also on the emergence of the open method of coordination: J. GOETSCHY, 'The European

providing binding and non-binding recommendations<sup>3</sup> resulting from discussions and deliberations at the EU level, the European Semester gives to EU institutions a ‘more visible and intrusive role than ever before in scrutinising and guiding national economic, fiscal, and social policies, especially but by no means exclusively within the Eurozone’<sup>4</sup>.

This chapter examines this process of coordination to show how EU institutions adopt the set of Country Specific Recommendations (CSRs) that are issued annually by the Commission, endorsed by the European Council and approved by the Council in the framework of the European Semester. Drawing on interviews, it demonstrates that the European Semester is a process of coordination where constraints are deliberated and negotiated at three intertwined levels: in expert committees, where national experts exchange views and policy ideas with the Commission, in bilateral meetings between Member States and the Commission where Member States express their political will or unwillingness to implement reforms and seek to persuade the Commission to take into account their preferences and to consider their domestic situation, and, ultimately, in the Council, when the vote is used as a last resort mechanism to decide on issues unsolved by national experts. As the Council has to ‘comply or explain’ its position, at each stage Member States build coalitions to vote against the Commission’s proposals. Thus, the three levels of coordination are intertwined. At each stage, political and administrative actors seek to shape the degree of constraint by convincing their peers and the Commission about the validity of their claims in an attempt to avoid unpopular recommendations being implemented at the domestic level.

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Employment Strategy and the open method of coordination: lessons and perspectives’, *Transfer: European Review of Labour and Research*, vol. 9, Issue 2, 2003, p. 281-301, M. JOÃO RODRIGUES (ed.), *Vers une société européenne de la connaissance. La Stratégie de Lisbonne (2000-2010)*, Bruxelles, Editions de l’Université de Bruxelles, 2004 and M. TELÒ, ‘La méthode ouverte de coordination. Gouvernance et gouvernement dans l’UE’, in M. João RODRIGUES (ed.), *Vers une société européenne de la connaissance. La Stratégie de Lisbonne (2000-2010)*, Bruxelles, Editions de l’Université de Bruxelles, 2004, 237-268.

<sup>3</sup> ‘From the legal perspective, the CSRs are underpinned by the EU primary legislation (Articles 121 and 148 of the TFEU) as well as the EU secondary legislation, namely:

1) Council Regulation (EC) 1466/97 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies for CSRs referring to the Stability and Growth Pact (SGP);

2) Regulation (EU) 1176/2011 on the prevention and correction of macroeconomic imbalances for CSRs referring to the Macroeconomic Imbalance procedure (MIP);

3) Integrated guidelines for implementing the Euro 2020 strategy – these guidelines consist of two legislative documents: (1) a Council recommendation on broad guidelines for the economic policies of the Member States and of the Union and (2) a Council decision on guidelines for the employment policies of the Member States’ (see European Parliament, ‘The Legal Nature of Country Specific Recommendations’, PE 528.767, 16 June 2017, p. 1).

<sup>4</sup> J. ZEITLIN and B. VANHERCKE, ‘Socializing the European Semester? Economic governance and social policy coordination in Europe 2020’, *Economic Governance and Social Policy Coordination in Europe, 2014*, 11. See also F. COSTAMAGNA, *The European Semester in Action: Strengthening Economic Policy Coordination While Weakening Social Dimension?*, Centro Einaudi, WP-LPF 5/13, ISSN 2036-1246, 2013.

The chapter concludes that although the coordination of policies has been improved in terms of process over time and has gained the support of all the actors involved (independently on their views on the policies at stake), it still lacks politicization, transparency and publicity, as most of these debates which are of great importance for European citizens take place behind closed doors, through negotiations and deliberations between representatives of the Commission, national experts and Member States' representatives in the Council. The European Semester is an illustration of *coordination of policies through executive politics*.

### ***Who governs?***

Since the onset of the eurozone crisis, a very diverse body of research has emerged focusing on how EU institutional actors have sought to douse its flames. Some authors have shown how said crisis altered EU's modes of governance, pointing out the prominent role of Member States, while others revealed the empowerment of the Commission by stealth<sup>5</sup>. Whether the crisis empowered the Commission and/or Member States, scholars and practitioners alike unanimously argued that it strengthened the powers of executives and non-elected bodies and institutions at the expenses of the legislatives. As Mario Telò put it (2017: 19), the academic community is divided, as on the one hand, some seem to suggest that 'more supranational integration within the euro area results in less legitimacy', while 'another school of thought asserts the opposite: only with more effective economic, social and security policies, supranational coordination and central regulation, reconciling austerity and growth, stabilisation and social solidarity, will it be possible to help States in crisis and to enhance the EU's legitimacy by pointing to tangible benefits'. The first view, argues Mario Telò, 'should lead to the dismantling of the single currency, while the second would suggest the need, above all, to boost the efficiency of the euro area, subject, however, to an increase in democratic accountability' (2017: 19).

Within this broad debate about power and modes of governance at the EU level, the European Semester has attracted considerable attention in academic and expert

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<sup>5</sup> J.D. SAVAGE and A. VERDUN, 'Strengthening the European Commission's budgetary and economic surveillance capacity since Greece and the euro area crisis: a study of five Directorates-General', *Journal of European Public Policy*, 23:1, 2017, 101-118: 4. See also: U. PUETTER, 'Europe's deliberative intergovernmentalism: the role of the Council and European Council in EU economic governance', *Journal of European Public Policy*, 19:2, 161-178, 2012. J. Ch. BICKERTON, D. HODSON, and U. PUETTER, *The New Intergovernmentalism and the Study of European Integration*, OUP, Oxford, Oxford University Press, 2015; S. FABBRINI, 'Inter-governmentalism and Its Limits: Assessing the EU's Answer to the Euro Crisis', *Comparative Political Studies*, 46: 9, 2013, 1-27; S. FABBRINI and U. PUETTER, 'Integration without supranationalization: studying the lead roles of the European Council and the Council in post-Lisbon EU politics', *Journal of European Integration*, 2016; E. Da CONCEIÇÃO-Heldt, 'Why the European Commission is not the "unexpected winner" of the Euro Crisis: A Comment on Bauer and Becker'. *Journal of European Integration*, 38(1), 2016, 95-100. <http://doi.org/10.1080/07036337.2015.1101957>; A. MARICUT and U. PUETTER, 'Deciding on the European Semester: the European Council, the Council and the enduring asymmetry between economic and social policy issues', *Journal of European Public Policy*, 2017, DOI: 10.1080/13501763.2017.1363271

milieu. Established in 2010, the European Semester seeks to remedy the deficiencies of the past and ‘to put pressure on Member States to address specific policy challenges’<sup>6</sup>. It starts in autumn with the publication of a set of objectives called Annual Growth Surveys (AGS), when the Commission assesses whether imbalances or excessive imbalances exist and assesses their gravity. The Council is expected to discuss the Commission’s findings emerging from the Country Reports and the In-Depth Reviews. These documents constitute the basis of the dialogue that the Commission establishes with each Member State. In April, each government submits to the Commission its plan for structural reforms detailed in National Reform Programs and the Stability or Convergence Programs (to expose the plans for sound public finance). Member States are expected to address the challenges identified in the Country Reports established by the Commission. In May, on the basis of these preliminary steps, the Commission assesses said plans and presents a series of draft country-specific recommendations (CSRs) to each Member State. The draft CSRs concern the national budgetary and reform policies. Proposed by the Commission, these recommendations are approved by the Council and endorsed by the European Council in June.

Scrutinising the evolution of the European Semester, scholars sought to shed light on who holds power and what kind of power<sup>7</sup> when it comes to decide about what kind of policies should be implemented in order to maintain the stability of the Eurozone and reach the objectives of the EU.

On the one hand, some scholars concluded that although the process involves a variety of actors, ultimately it is the Member States who determine how intrusively and in what manner the Commission may interfere in their domestic policies, as ‘the principals approve the rules the Commission must enforce, and they ultimately determine whether they themselves should be sanctioned’<sup>8</sup>. Put differently, according to Savage and Verdun, the rule-making authority and implementation remains *de facto* with the principals, who, ‘in the context of budgetary and economic surveillance, have more information than their agents’ (2015: 4).

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<sup>6</sup> J. ZEITLIN and B. VANHERCKE, ‘Socializing the European Semester? Economic governance and social policy coordination in Europe 2020’, *Economic Governance and Social Policy Coordination in Europe*, 2014: 32.

<sup>7</sup> M.B. CARSTENSEN and V.A. SCHMIDT, ‘Power through, over and in ideas: conceptualizing ideational power in discursive institutionalism’, *Journal of European Public Policy*, 23:3, 2016, 318-337, DOI: 10.1080/13501763.2015.1115534

<sup>8</sup> J.D. SAVAGE and A. VERDUN, ‘Strengthening the European Commission’s budgetary and economic surveillance capacity since Greece and the euro area crisis: a study of five Directorates-General’, *op. cit.*

In contrast, other scholars have disclosed the subtle empowerment of the Commission<sup>9</sup>, arguing that ‘intergovernmentalism and supranationalism’ are difficult to apply to an economic governance architecture which is growing more complex<sup>10</sup>.

As one German diplomat declared,

“the empowerment of the Commission is the biggest sin. Our fear is that the Commission dictates the reforms (...) for example the stabilization objective, which is not mentioned in the treaties. It goes through the back door (Interview, 5/09/2017)”.

To highlight the *va-et-vient* between supranationalist and intergovernmentalist modes of decision-making, Coman (2017) and Ponjaert (2016) maintained that the Eurozone crisis gave rise to a hybridisation of modes of governance. While initial decisions in the fast-burning phase of the crisis had been taken through intergovernmental means, over time the Commission gained subtle ways of empowerment, some conceded by Member States, others acquired ‘by stealth’. Put in other words, while in the first years of the Eurozone crisis the Commission, the Council and the European Council insisted on enforcement and semi-automatic sanctions in case of non-compliance with the rules, in 2012 José Manuel Barroso redefined the philosophy of the Semester, arguing that this policy tool had to be conceived as a system ‘based on guidance, not on corrections’, as ‘an informal discussion’ between Member States and EU institutions before deliberating and adopting their national budgets (Speech Barroso 11/29). This growing political awareness in the Barroso Commission saw talk of sanctions and conditionality move to the back-burner as interactions and recommendations came to focus on needed structural reforms.

Hence, two years after its inception, the European Semester was no longer considered an instrument of ex-post coercion, but as one of ex-ante guidance and socialisation (Speech Barroso 11/29). Starting in 2012, Commissioners and high-level

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<sup>9</sup> M. BAUER, and S. BECKER, ‘The Unexpected Winner of the Crisis: The European Commission’s Strengthened Role in Economic Governance’, *Journal of European Integration* 36: 3, 2014, 213-229; M. DAWSON, ‘The Legal and Political Accountability Structure of ‘Post-Crisis’ EU Economic Governance’, *Journal of Common Market Studies* 53(5), 2015, 976-93; A. DE STREEL, ‘The Confusion of Tasks in the Decision-Making Process of the European Economic Governance’, in F. FABBRINI, E.H. BALLIN, H. SOMSEN (eds), *What Form of Government for the European Union and the Eurozone?*, Hart, 79-93; J.D. SAVAGE, and A.VERDUN, ‘Strengthening the European Commission’s budgetary and economic surveillance capacity since Greece and the euro area crisis: a study of five Directorates-General’, *Journal of European Public Policy*, 23:1, 2017, 101-118; S. BECKER, M. BAUER, S. CONNOLLY, and H. KASSIM, (2016) ‘The Commission: boxed in and constrained but still an engine of integration’, *West European Politics*, 1-21; P. COPELAND, and S. JAMES, ‘Policy windows, ambiguity and Commission entrepreneurship: explaining the relaunch of the European Union’s economic reform agenda’, *Journal of European Public Policy*, 21:1, 2014, 1-19; S. JAMES, and P. COPELAND, ‘New Modes of Governance and the Intergovernmental Empowerment of the European Council’, *Perspectives on European Politics and Societies*, 15:4, 2014, 518-535; R. DEHOUSSE, ‘Why has EU macroeconomic governance become more supranational?’, *Journal of European Integration*, 38:5, 2016, 617-631, DOI: 10.1080/07036337.2016.1180826

<sup>10</sup> M. BAUER and S. BECKER, ‘The unexpected winner of the crisis: The European Commission’s strengthened role in economic governance’, *Journal of European Integration* 36: 3, 2014, 214

officials increasingly portrayed the Semester as a forum to discuss Member States' macroeconomic policies with an eye to strengthening its ownership and flexibility<sup>11</sup>. Since the nomination of the Commission led by Jean-Claude Juncker, the European Semester has been regularly revamped to strengthen its legitimacy, as civil servants both in the Commission and the Council feared that the weight of the process itself will prevail over the content. Moreover, the Juncker Commission presented it as being more political and sought, on the one hand, to increase the Semesters' ownership by involving social partners and elected institutions in the process and, on the other hand, to strengthen the focus on employment and social priorities. Thus, while at the inception of the crisis the struggle between Member States and the Commission was intense, with the Commission seeking to impose the rules to save the euro and Member States rejecting its intrusion in domestic policies, over time the process has become more collaborative, as the Commission – being more political since the nomination of Jean-Claude Juncker – is in search of domestic ownership and more often plays the card of flexibility.

As a result, the production of the Country Specific Recommendations (CSRs) in the European Semester has become more 'collaborative' than in the first iterations<sup>12</sup>, bringing together a variety of actors – representatives of the Commission, expert committees, social partners and Member States' representatives in the Council. As Sabel and Zeitlin have argued, in 'a functioning novel polity without a state' such as the EU, 'its regulatory successes are possible because decision-making is at least in part deliberative: actors' initial preferences are transformed through discussion by the force of the better argument' (2010: 2). This process is largely informal<sup>13</sup> and 'connects national administrations with each other without establishing a hierarchy between them'<sup>14</sup>. Despite their increased role through the adoption of the set of directives and regulations known under the name of the Two and Six Packs, national parliaments and the European Parliament remain marginal actors in this process. The EP played its role by scrutinising the process and claiming to have a say in this process<sup>15</sup>.

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<sup>11</sup> R. COMAN, 'The Legitimacy Gaps of the European Semester. Who decides, what and how', *L'Europe en formation*, 2017/2 n° 383-384, p. 47-60; See also A. CRESPI, and P. VANHEUVERZWIJN, 'Macro-economic coordination and elusive ownership in the European Union', *Public Administration*, 2018, Available at: <https://doi.org/10.1111/padm.12413>

<sup>12</sup> J. ZEITLIN, and B. VANHERCKE, 'Socializing the European Semester? Economic governance and social policy coordination in Europe 2020', *Economic Governance and Social Policy Coordination in Europe*, 2014.

<sup>13</sup> C. F. SABEL, and J. ZEITLIN, 'Learning from Difference: The New Architecture of Experimentalist Governance in the EU', in SABEL, C. F. and ZEITLIN, J. (eds), *Experimentalist Governance in the European Union. Towards a new architecture of the EU*, Oxford, Oxford University Press, 2010.

<sup>14</sup> *Idem*.

<sup>15</sup> M. TELÒ, 'The present and future of the European Union, between the urgent need for democracy and differentiated integration', in B. VANHERCKE *et al.* (eds), *Social policy in the European Union: State of Play 2017*, European Trade Union Institute, European Social Observatory, 2017, 22.

### *How are policies coordinated?*

The European Semester is an illustration of coordination of *policies through executive politics*. It is a field of struggles and forces where the bureaucratic and political centre of the EU meets the bureaucratic and political elites of Member States in three rounds of interdependent deliberations: in expert committees, in bilateral relations with the Commission, and at the Council level in multilateral negotiations. The steps of the process can be described as follows:

#### *Stage 1: Deliberation in expert committees*

The coordination of policies covered by the European Semester mostly takes place at the administrative level. Four committees are involved: the Economic Policy Committee (EPC), the Economic and Financial Committee (EFC), the Employment Committee (EMCO) and the Social Protection Committee (SPC). In these committees, national experts discuss the substance of policies. These ‘senior expert committees are efficient consensus-generating forums’<sup>16</sup>. What characterizes these institutional settings (committees) is not a clash of national perspectives but a shared concern with problem solving<sup>17</sup>. In the framework of the Semester, these expert committees exchange information and coordinate their views through persuasion, with the aim to inform and accommodate preferences of the actors involved<sup>18</sup>. Often presented as being consensual, in reality they seek to find a compromise between diverging interests. Diverging views are discussed within each committee and tensions often emerge between them.

#### *Stage 2: Persuasion in bilateral meetings with the Commission*

While national experts provide and communicate information and deal with the core of domestic policies and national situations, seeking to persuade the Commission and the 27 other representatives about the validity of their national lines of argument, in bilateral relations with the Commission each Member State seek to adapt the CSRs to its domestic situation, political agenda and preferences. To do so, while some Member States are represented by political actors at the highest level (including prime ministers and ministers), others refuse to recognise the power of the Commission and send to Brussels delegations composed of administrative actors that invite the Commission to hold the political discussion in the capital of their country (Interviews September 2017).

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<sup>16</sup> A. MARICUT and U. PUETTER, ‘Deciding on the European Semester: the European Council, the Council and the enduring asymmetry between economic and social policy issues’, *Journal of European Public Policy*, 2017, DOI: 10.1080/13501763.2017.1363271.

<sup>17</sup> J. CH. BICKERTON, ‘Nation-State to Member State: Trajectories of State Reconfigurations and Recomposition in Europe’, in D. King and P. Le Galès (eds), *Reconfiguring European States in Crisis*, Oxford, Oxford University Press, 2017, 51.

<sup>18</sup> A. BENZ, CORCACI, and J.W. DOSER, ‘Unravelling multilevel administration. Patterns and dynamics of administrative coordination in European governance’, *Journal of European Public Policy*, 23:7, 20016, 1003, DOI: 10.1080/13501763.2016.1162838

### *Stage 3: Negotiations in the Council*

Like for other decisions taken at the EU level, the agenda of the Council is simplified by the number of working meetings which deliberate and secure agreements on about 70 per cent of the issues at stake, with expert committees discussing 70 per cent of problems, leaving the ‘Committee of the Permanent Representatives of the Governments of the Member States to the European Union’ (COREPER) to deal with 10 to 15 per cent and the ministers with what remains of the unsettled matters. If the members of the committees fail to find a compromise, the discussion on that issue continues in the COREPER. If the COREPER does not find a compromise, then the topic arrives on the Council’s table.

In the framework of the European Semester, the vote is used as a last resort. When the content of a CSR is discussed in the Council, three scenarios are often met: one is when a majority of Member States find that the Commission needs to change its proposal; another situation is when some Member States seek to change the Commission’s proposal but they do not manage to build coalitions with other Member States to prepare the vote; ultimately, it also happens that one Member State seeks to oppose the Commission without having the support of its peers. At this level, the Commission can oblige the Council to comply, or explain its position when the Council seeks to deviate from its proposal<sup>19</sup>. Although Member States can *de iure* overrule the recommendations of the Commission, in practice they face several difficulties in doing so as they need to establish coalitions and to make concessions in favour of other Member States.

### **The CSRs: a negotiated European outcome for a variety of domestic reasons**

This three-level process of coordination leads to recommendations ‘which are to guide the Member States’ reform initiatives’<sup>20</sup>. The weight of said recommendations in domestic politics is disputed in the literature. On the one hand, some authors argue that the Country Specific Recommendations are ‘simply recommendations, hence, ‘their legal effects – and therefore their capacity to override limits prescribed in EU/national constitutional orders – is limited’<sup>21</sup>. On the other hand, others have underlined the interdependencies between binding and non-binding recommendations, giving the example of France in 2013, when the CSRs of the Commission to reform the labour

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<sup>19</sup> Since the entry into force of the Six Pack in 2011, the adoption of the CSRs follows a ‘comply-or-explain’ principle, whereby Member States must justify changes to the original proposals from the Commission (Council 12073/13). More specifically, article 2-ab(2) of Council Regulation (EC) No 1466/97 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies states that ‘the Council is expected to, as a rule, follow the recommendations and proposals of the Commission or explain its position publicly’ (Council 11336/13).

<sup>20</sup> M. BAUER, and S. BECKER, ‘The unexpected winner of the crisis: The European Commission’s strengthened role in economic governance’, *Journal of European Integration* 36: 3, 2014, 222.

<sup>21</sup> DAWSON, M., ‘The Legal and Political Accountability Structure of ‘Post-Crisis’ EU Economic Governance’, *Journal of Common Market Studies* 53(5), 2015, 986.



market and the pension system was perceived as a ‘precondition for the extension of the deadline for fiscal adjustment under the SGP’<sup>22</sup>. From a legal perspective, a failure to implement the recommendations might result in further procedural steps under the relevant EU law and ultimately in sanctions under the Stability and Growth Pact and the Macroeconomic Imbalance Procedure. These sanctions might include fines and/or the suspension of European Funds<sup>23</sup>.

Interviews revealed that although the European Semester gives rise to tensions between Member States or between Member States and the Commission, the actors involved support the idea of coordination and do not reject the idea of receiving specific recommendations. Although the level of implementation of the CSRs is low, Member States take the European Semester seriously<sup>24</sup>. As one diplomat from one big Member State maintained, ‘the process is even more important than the outcome’ (Interview, 6/09/2017). To this, his homolog from another big Member State argued that,

“the Semester is important because it structures the process and creates procedures (...) Before, the process was more ad-hoc, now, Member States have an obligation to coordinate, to prevent and to avoid macroeconomic imbalances. It also helps to incorporate new ideas in the policy process. For example, last year in the Council we had very good discussions about demographic change and how this is related to health...” (Interview, 5/09/2017)

Contestation arises when the content of recommendations is discussed. Since the first iteration of the European Semester, Member States have been eager ‘to diminish some of the Commission’s recommendations’<sup>25</sup> and to negotiate every single word, as ‘soft law might become stronger than before’<sup>26</sup>.

As one civil servant who has followed the Semester since its inception declared,

“no Member State would say we don’t want this recommendation or that...they rather try to discredit the Commission’s argumentation saying that well, you might think that our poverty eradication scheme is not right, but we think there are positive outcomes ... so your recommendation is without justification. So, this was a more indirect way of influencing the Commission.” (Interview, Secretariat General of the Council, 22/06/2016)

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<sup>22</sup> M. BAUER and S. BECKER, ‘The unexpected winner of the crisis: The European Commission’s strengthened role in economic governance’, *Journal of European Integration* 36: 3, 2014, 222.

<sup>23</sup> European Parliament, ‘The Legal Nature of Country Specific Recommendations’, PE 528.767, 16 June 2017, p. 1, Available at: [http://www.europarl.europa.eu/RegData/etudes/ATAG/2014/528767/IPOL\\_ATA\(2014\)528767\\_EN.pdf](http://www.europarl.europa.eu/RegData/etudes/ATAG/2014/528767/IPOL_ATA(2014)528767_EN.pdf)

<sup>24</sup> J. ZEITLIN and B. VANHERCKE, ‘Socializing the European Semester? Economic governance and social policy coordination in Europe 2020’, *Economic Governance and Social Policy Coordination in Europe, 2014*, 22.

<sup>25</sup> M. HALLERBERG, B. MARZINOTTO and G. WOLFF, ‘How Effective and Legitimate is the European Semester? Increasing the role of the European Parliament’, European Parliament, ECON, PE 464.443, 2011.

<sup>26</sup> M. BAUER and S. BECKER, ‘The unexpected winner of the crisis: The European Commission’s strengthened role in economic governance’, *Journal of European Integration* 36: 3, 2014, 222.

In practice each Member State seeks to shape the content of the recommendations proposed by the Commission to avoid unpopular reforms or measures that deviate from domestic preferences. Considering that these documents – Country Reports and CSRs – determine the content and the timing of domestic reforms, they are scrutinised carefully by the domestic actors involved in the process. Member states scrutinise each word used by the Commission in its evaluations and draft CSRs. As one diplomat declared,

“we can see in the language what the message of the Commission is. From key words, we understand the message. The tone of the Commission is very important. Words matter because the report is public. It depicts the situation of the country. The report is expected by other actors like rating agencies and it can influence their perceptions.” (Interview, 17 March 2017)

For small Member States or countries under program of adjustment, words are important because, reports ‘are read by investors’ and they can be used by domestic actors, in particular the opposition, to evaluate the activity of the government. Even big Member States scrutinise carefully how, for example, the Commission evaluates their fiscal surplus.

While some Member States seem to appreciate the iterations of the meetings and the nature of the ideas discussed in the Council, others – in particular representatives of small and medium Member States facing economic problems – see the European Semester as an additional tool to push ‘national authorities to reflect on their situations’ (Interview, 30 August 2017). Interviewees unanimously declared that, ‘it is important for countries to feel the pressure of the others to do things’ (Interview, 17 March 2016). In this respect, civil servants from the Secretariat General of the Council maintained that it is not always the Commission seeking to increase the scope and the pace of the reforms but also Member States’ delegations asking for specific recommendations saying:

“we wouldn’t mind having a recommendation on let’s say health because we think that our minister of health is too slow in implementing reforms so why don’t you put it in the recommendation? (...)” (Interview, Secretariat General of the Council, 22 June 2016)

Unsurprisingly, as most of the interviewees declared, the Commission plays the role of the ‘whipping boy’. A diplomat from a new small Member State which recently faced economic problems declared that the Commission is a necessary evil as

“it is always good to have someone who looks from outside at your reform and situation and say how to do things better. There are also difficult political choices to be made and it is always good to blame the Commission, in particular when you have to deal with very unpopular reforms.” (Interview, 6 September 2017)

For many actors from big new and old Member States directly involved in the process, the European Semester is a ‘potentially powerful instrument’ (Interview, 4 September 2017; Interview, 5 September 2017; Interview, 6 September 2017). While some Member States care about the effects of blaming and shaming their domestic situation, others seek to protect their interests as the non-implementation of the CSRs

can lead to sanctions and the suspension of EU funds (Interview, Secretariat General of the Council, 22 June 2016). In contrast, others contend that ‘there are Member States who don’t care about the cohesion policy money because ... well ... they don’t benefit sufficiently enough to feel potential punishment’ (Interview, 4 September 2017).

### *Committee deliberations*

The content of the CSRs is first discussed in the committees – EFC, EPC, EMCO and SPC – from March to May. The involvement of committees is an old feature of the EU’s decision-making, although their role in the coordination of macroeconomic policies has increased since the inception of the European Semester. Their primary task is to prepare the works of the Council. Each committee discusses the policy areas under its competence.

Established in 1974, the Economic Policy Committee provides advice and prepares the work of the ECOFIN Council and the Commission<sup>27</sup>. The EPC’s mission is to discuss public finance and economic policy, with an eye on ‘promoting greater coherence between macroeconomic, structural and employment policies’. It provides advice on structural policies for improving growth and employment. The EPC is also the forum ‘for a technical-level macroeconomic dialogue with the ECB, the EFC, the Employment Committee, the Commission, and social partners’<sup>28</sup>. The EPC comprises two representatives from each Member State, the Commission, and the European Central Bank (ECB). The members are senior officials and come from the authorities responsible for formulating economic and structural policy at the domestic level. Thus, the EPC brings together 56 experts from each Member States, representing the Ministry of Economy and/or the Ministry of Finance, two representatives of the European Central Bank and two representatives of the Commission.

The EFC is led by Thomas Wieser, former Director General for Economic Policy and Financial Markets in the Ministry of Finance in Vienna. The EFC committee was established and enshrined in article 134 of the Treaty to ‘promote policy coordination among the Member States. It provides opinions at the request of the Council or the Commission. Its preparatory work for the Council includes assessments of the economic and financial situation, the coordination of economic and fiscal policies, contributions on financial market matters, exchange rate policies and relations with third countries and international institutions’.

Both the EPC and the EFC meet in a euro area configuration in which the Commission and the ECB are represented. The EFC’s euro area composition is called Eurogroup Working Group (EWG) and prepares the work of the Eurogroup. The proceedings of the EFC and its sub-committees are restricted and participation to the meetings is limited to members appointed by national authorities, the Commission and the ECB.

On the other hand, the Employment Committee (EMCO) was created under article 150 to formulate opinions at the request of the Council and the Commission and to monitor employment and employment policy developments. EMCO is the main

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<sup>27</sup> <[https://europa.eu/epc/home\\_en](https://europa.eu/epc/home_en)>.

<sup>28</sup> <[https://europa.eu/epc/about-epc\\_en](https://europa.eu/epc/about-epc_en)>.

advisory committee for Employment and Social Affairs Ministers in the Employment and Social Affairs Council (EPSCO). Its members, two per Member State, who serve as high-level experts in the national ministries of labour and social affairs/policy, meet regularly throughout the year with trade unions and employers. In the framework of the European Semester, EMCO advises the Ministers on the employment guidelines, prepares the Council conclusions to be adopted by Ministers in the EPSCO Council on the AGS and, ultimately, prepares the employment field in the Country Specific Recommendations (CSRs) for adoption by the Council.

Ultimately, the Social Protection Committee (SPC) monitors the social situation in the EU and the development of social protection policies. The SPC is an advisory policy committee established under article 160 of the Treaty that brings together senior policy makers from all Member States and the Commission ‘to discuss and identify the most appropriate measures necessary to respond to the social policy challenges across the EU’.

Although they are all involved in the coordination of the European Semester, some committees are more powerful than others. As Maricut and Puetter put it, the EFC, ‘as the most senior economic affairs committee, endorses everything decided at lower levels and discusses outstanding issues’, ‘the EPC is a less senior expert committee at the disposal of finance ministers, which concentrates on policy guidelines, peer review and analysis’, while the EMCO and the SPC prepare portfolios for EPSCO’ (2017: 16). As a German diplomat declared, the EPC ‘is a powerful body because it is part of DG ECFIN’ (Interview, 5 September 2017). According to him, in this committee, the members ‘(...) try to balance their point of view but they never forget their agenda’. What leads to the work of these committees being appreciated, is that ‘different views are never discussed at the Council or at the COREPER’ (Interview, 5 September 2018).

These committees discuss the Country Reports and contribute to the preparation of the Council Specific Recommendations. They bring together experts whose knowledge and understanding of the evolution of policies in their country (or at the EU level) fuel the decision-making process in Brussels. The discussions in the committees lead to debates about the nature of the policies to be adopted at the EU level (Interview, 6 September 2017). While the primary focus in these committees is *a priori* technical, the content is eminently political. According to one diplomat, in the EPC

“Ce sont des gens qui sont responsables des politiques macro-économiques, ils ont une vision d’ensemble et très détaillée de l’état économique de leur pays ; cela mène à des discussions intéressantes sur quel type de politiques économiques on doit mener en Europe.” (Interview, 6 September 2017)

Similarly, the diplomat of another big Member State argued that although this is a ‘technocratic forum’ which often ‘discusses about a comma’, ‘there are also cases when members talk about the substance’ (Interview, 5 June 2017). Often the committees are faced with political issues which go beyond their area of competence or expertise. One example was the discussion of the rule of law concerns in Poland in 2017. Given the poor result obtained in its dialogue with the Polish authorities about the limitations of the judicial power in the country, the Commission mentioned the

rule of law in the recital of the CSRs in relation with the business environment. The Polish representatives asked the Commission to remove this sentence from the recital, arguing that the rule of law issue was not related to the European Semester. In this case, as the diplomat of one big Member State declared, ‘the EPC felt unconformable with this issue. For this reason, the Commission pushed the topic on the COREPER table’ (Interview, 5 June 2017).

Although these forums discuss the substance of policies, they bring together non-elected representatives, creating a ‘remarkable disconnect with political decision-makers who thus may feel little ownership in relation to individual CSRs’<sup>29</sup>. Their role however is crucial because ‘what is closed in the committee is not reopened in the council in terms of the CSRs’ (Interview, 4 September 2016). According to a diplomat, ‘the Ministers are not happy when they have to discuss about the words to be used (Interview, 5 September 2017)’, which implies that the preparatory work is done in the committees, in the Permanent Representative Committees (COREPER), and ultimately in the Council.

The committees can introduce changes in the ways the Commission frames the issues at stake. As the diplomat of one big Member State declared: ‘in theory, we can change everything. In practice, it is more difficult’ (Interview, 5 September 2017). Representatives of two new Member States argued that: ‘It is always possible to change if you have good arguments. You just need to prove that you are right (Interview, 6 September 2017; Interview, 21 March 2016)’.

However, they all agreed that ‘when it comes to the CSRs, it’s still very tough’, as the Commission is ‘very, very much unwilling to change anything in the country-specific recommendations’ (Interview, 4 September 2017). The Commission portrays itself in the same way, arguing that ‘if the recommendations were to be substantially ‘softened’, the process would lose credibility. The value of these recommendations is that they are the product of extensive and objective technical analysis – rather than being the outcome of a political compromise’ (Memo 11/382). Each Member State nevertheless tries to change the analysis of the Commission and the CSRs at different levels.

There are heightened discussions in particular when Member States come up with different ideas, inviting the Commission to reconsider its approach. For example,

“One year the Commission came with recommendations for a number of countries on increasing the pension age. And then Member States almost all agreed that there is a problem with this recommendation and there should be more flexibility left to the Member States (...)” (Interview, General Secretariat of the Council, 22 June 2016)

In general, each country seeks to persuade the other twenty-seven to support its position against the Commission (Interview, 6 September 2017). While the framework is multilateral, often it becomes ‘bilateral’ as the representatives of Member States are in *face à face* with the Commission.

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<sup>29</sup> A. MARICUT and U. PUETTER, ‘Deciding on the European Semester: the European Council, the Council and the enduring asymmetry between economic and social policy issues’, *Journal of European Public Policy*, 2017, DOI: 10.1080/13501763.2017.1363271

“Tout le jeu est un jeu d’argumentation, on essaie de convaincre les Etats qu’il faut nous soutenir nous et pas la Commission. Cela se passe dans le EPC.” (Interview, 6 September 2017)

According to Zeitlin and Vanhercke, ‘these committees have not generally sought to ‘water down’ the Commission’s recommendations or ‘give Member States leeway’, but rather, as their leaders insist, to build national support’ (2014: 55). Moreover, each modification introduced in the committees needs the approval from the Commission. For many, the Commission is in a position of power. As the diplomat of a new big Member State maintained,

“it happened (...) that the changes in the CSRs or the recitals for the CSRs, which were agreed in the discussions in the EPC committees, that they had to be still approved by so-called commission coordinators (...) Even if something is agreed at the committee and, well, had the needed and the required majority and support from the Member States, which is not easy (...), it is still the Commission that has to say ‘yes’.” (Interview, 4 September 2017)

Like in any other decision-making procedure at the EU level, COREPER involvement in the European Semester depends on the level of agreement reached in the committees. If agreement has not been reached, the COREPER can try to negotiate a settlement itself, can refer the issue back to the committee with suggestions for compromise, or can pass the matter up to the Council. With regard to the discussion about the rule of law in Poland, after discussions at the COREPER level between the Commission and Poland, the text remained unchanged. Poland did not manage to gather sufficient political support and it did not bring the issue up to the Council level (Interview, 6 September 2018).

To conclude, these committees ‘are able to add very substantial value to the European Semester process through their monitoring, multilateral surveillance, and peer review activities, which they have continuously extended and intensified since the crisis’<sup>30</sup>. They bring more explanation of the specific situation of the Member State. Moreover, ‘by demonstrating their ability to amend the Commission’s draft CSRs through QMV, these committees have also been able to force the latter to engage more deliberatively with Member States about their content in multilateral as well as bilateral fora’<sup>31</sup>. Thus, for many involved in this process of coordination at the level of the committees, the value of these preparatory works is that Member States discuss with each other (Interview, Secretariat General of the Council, June 2017).

*De iure* it is said that the technical scrutiny is ensured at the working party, the COREPER combine technical expertise and political considerations, while the political responsibility lies at the ministers’ level in the Council. *De facto*, the lines of division between political decisions and technical expertise overlap.

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<sup>30</sup> J. ZEITLIN and B. VANHERCKE, ‘Socializing the European Semester? Economic governance and social policy coordination in Europe 2020’, *Economic Governance and Social Policy Coordination in Europe*, 2014, 55.

<sup>31</sup> *Idem*.

### *Bilateral deliberations*

The most noticeable change in the making of the European Semester is the bilateral dialogue between the Commission and individual Member States articulated around the Country Report and the Country Specific Recommendations. At this level, Member States present their domestic situation and seek to persuade the Commission about their willingness to adopt reforms. The purpose of these bilateral meetings is to explain and to exchange information with the Commission outside the multilateral framework of policy coordination (Interview, 17 March 2016). These meetings are ‘crucial moments’ for the Commission and for Member States. On the Commission’s side, they bring together experts from several DGs, including ‘DG ECFIN, DG Employment, DG REGIO and DG GROWTH, the country teams, sitting together with the Secretariat General of the Commission, which plays a prominent role of coordination’ (Interview, 21 March 2016).

During the first iterations of the European Semester, Member States complained that the time devoted to interactions with the Commission in the coordination of macroeconomic policies was too short (Interview, Secretariat General of the Council, 22 June 2016). From this critique, at the end of 2012 the idea of organising meetings between representatives of the Commission and each Member State emerged. These bilateral meetings intervene in the process as an intermediary phase between the technical discussion in the committees and the vote in the Council. While in the technical committees and in the Council the framework is multilateral, in the bilateral meetings, representatives of each Member State meet the team of the Commission responsible for the evaluation of the economic and social situation in the country. From the very beginning, the Commission was favourable to this demand. As one civil servant working at the Secretariat of the Council declared:

“(...) the Commission realized “Do I really want to give country specific recommendations to Member States which they are not going to do?” (...)... and in that thinking came the idea of the bilaterals, in that thinking came a little later the new timing of discussion and I think in that thinking came also the idea of flexibility.” (Interview, Secretariat General of the Council, 22 June 2016)

These bilateral meetings with the Commission were in the past organised in three rounds. A first meeting was organised after the publication of the Annual Growth Survey in November. For Member States, this first meeting was essentially informative as it was aimed at better understanding the economics and priorities shaping the AGS (Interview, Permanent Representation of Belgium to the EU, March 2016). In this phase, the Commission determined both the meeting agenda and the list of questions to which Member State representatives had to respond. The second bilateral meeting took initially place after the publication of the Country Reports. Member states had the opportunity to propose three topics of discussion of their choice. This second meeting offered ‘a very narrow window of opportunity to evaluate the effective implementation of country specific recommendations or to react to the Commission assessment included in the annual country reports’ (Interview, 21 March 2016). The last one occurred before the publication of the CSRs.

Since 2016, the number of bilateral meetings has been reduced to two. One takes place in December, when the Commission identifies issues to be discussed with each Member State (i.e. the implementation of the previous CSRs) and the second bilateral meeting takes place in March (after the publication of CSRs). ‘This second meeting is voluntary and topics are identified by Member States, related to the challenges mentioned in CSRs’ (Interview, 6 September 2017).

Who comes to Brussels from the capitals to attend bilateral meetings with the Commission is not without relevance. Some countries are represented by political actors or members of the COREPER, others by technical experts and national civil servants (European Commission, Head of Unit, DG Energy, 18 February 2016). For Latvia, for example,

“the delegation is big, and the Head of the delegation is the State Secretary Ministry from the Ministry of Economics. At this meeting attend also other directors from relevant national ministries. There are also high-level people from capitals, attachés from the Perm Rep and the ambassador.” (Interview, 6 September 2017)

Small countries see in these bilateral meetings important political moments. For example, a Belgian diplomat declared:

“We have always seen the bilateral as highly political moments where we send high political people; others send their Mertens or their experts which the Commission doesn’t like very much.” (Interview, 17 March 2016)

In contrast, interviews revealed that some Member States do not want to involve in the dialogue with the Commission ‘people with real decision-making power’ (Interview, Council of the EU, General Secretariat, June 2016; Interview, March 2016). Some diplomats argued that Germany, for instance, ‘sees this bilateral dialogue in a very technical way’ because the political meetings with the Commission take place in Berlin, while the technical discussions are held in Brussels. Those who are represented by political actors, empowered to commit the government, prefer to meet also high-level representatives at the Commission (Interview, 6 September 2017). However,

“It happens that Member States are represented by political delegations and at the Commission they meet people who do not have the same level of representation. There were complains in this regard as the Commission cannot guarantee the same level of representation.” (Interview, 6 September 2017)

Some Member States prefer to organise video conferences to avoid meetings in Brussels.

For many, these bilateral meetings changed the relationship in the European Semester between the Commission and the Council, so that ‘instead of peer pressure in the Council, it has shifted basically to between the Commission and the Member States.’ (Council of the EU, 22 June 2016; Interview, 17 March 2016)

### *Deliberations and negotiations in the Council*

Who decides in the end and how? In the end, the Country Specific Recommendations are endorsed by the European Council and adopted by the



Council in June. Only the CSRs on which the expert committees did not reach a compromise with the Commission are discussed in the formations of the Council. The Commission has since 2012 used the ‘comply or explain’ rules of the European Semester to oblige the Council to provide a written explanation of its reasons for modifying any of the Commission’s recommendations. Some experts have argued that ‘the Council’s rational to departure from the Commission’s recommendation is not transparent’<sup>32</sup>. Changing one word could give rise to a completely new meaning. As illustrated by Darvas and Leandro (2015: 22), in 2015 the European Commission recommended Germany to foster the reduction of the fiscal surplus. The draft CSR stipulated that Germany should ‘further increase public investment in infrastructure, education and research, including by using the available fiscal space’. Despite the opposition of the Commission, Germany managed to change its draft CSR. In the end, the recommendation approved by the Council did not include references to the fiscal space, although this issue matters for the Commission and several Member States.

When the Commission is not willing to change its proposal, Member States have the tendency to support each other or ‘at least to keep quiet’ (Interview, Secretariat General of the Council, 22 June 2017; Interview, 6 September 2017). Often, they show solidarity among each other. One diplomat declared that, as a rule, a Member State should not be ‘isolated in its relationship with the Commission’. Support to other Member States is provided either because they have similar concerns or just for ‘courtesy’ to support a ‘geographical neighbour’ (Interview, General Secretariat of the Council, 22 June 2016). For example, in recent years ‘France supported other countries with similar problems’, while geographical reasons seem to guide the positions of some new Member States (Interview, General Secretariat of the Council, 22 June 2016). Nonetheless, in the Council, Member States seek to limit the number of changes to avoid watering down the process (Interview, 17 March 2016).

“Tout Etat membre peut proposer des changements. Dans la pratique cela ne se fait pas, puisqu’on veut limiter le nombre de changements et puisqu’on ne veut pas que chaque Etat commence à proposer des modifications.” (Interview, 6 September 2017)

Thus, to change a CSR when the vote is the last resort implies to convince – in a very short period of time – other Member States to provide political support. One diplomat for example recalled that one small Member State was seeking to change a CSR while the Commission was strongly opposed. With the support of the country holding the rotating presidency of the Council, the country in question obtained additional time before the vote so that other Member States’ representatives could contact the capitals to decide how to vote. In the end, the country in question received the necessary support from the Member States and, eventually, the Commission was obliged to change the text of the CSR. Similar examples are numerous. However, it also happens that Member States do not succeed in changing the words/the meaning of the CSRs. Some diplomats mentioned the example of Hungary in 2015 when it

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<sup>32</sup> M. HALLERBERG, B. MARZINOTTO, and G. WOLFF, ‘How Effective and Legitimate is the European Semester? Increasing the role of the European Parliament’, European Parliament, ECON, PE 464.443, 2011, 20.

asked for some changes in the recommendation on labour market policy. According to one diplomat, the Hungarian representatives ‘did not get the necessary support at the Committee level, failed to get it at COREPER level, brought it up to the Council, but still it was not enough without some other Member States’ support. The text remained unchanged’ (Interview, September 2017).

### Conclusion

This chapter sought to shed light on how Member States coordinate their policies at the European level in the aftermath of the Eurozone crisis. At each of its three-levels, the actors involved seek to accommodate their position: first, through deliberation in the expert committees that prepare the work of the Council and the Commission; second, through cooperation/bargaining when Member States encounter the Commission in bilateral meetings; ultimately, in the Council, when the Commission invites the Council to ‘comply or explain’ any attempt to deviate from its initial proposal. The article sought to shed light on the dynamics between political and administrative actors in their attempts to coordinate their policies at the EU level and to shape the degree of the European constrain through the adoption of the Country Specific Recommendations.

First, it shows that a process of coordination has been adapted over time to consider the need of Member States to dialogue with the Commission and to explain domestic situations so that the recommendations are closer to their preferences and national agenda.

Second, the actors involved support the process as it allows to keep an eye on the situation in other Member States. They are also willing to receive CSRs in order to put pressure on domestic actors back home while in the same time blaming the Commission and its intrusion in domestic policies.

Third, contestation arises often and at each level. The content of the CSRs is deliberated and negotiated thoroughly at each level, the vote being used as a last resort. The Commission is often confronted with Member States sticking together against its draft CSRs. Nonetheless, it happens also that the disagreement between Member States favours the Commission and weakens Member States ability to build the necessary support to go beyond its will. Overall, although the Commission is unwilling to change its drafts CSRs, interviews revealed that in practice it seems to be more open to dialogue and flexibility.

To conclude, while over time the actors managed to improve the process and to adapt it to most of their desiderata in terms of procedures and outcomes, it is still confined to a few, emanating from national and European executives. Despite various adaptations, the European Semester remains a process of policy coordination through executive politics where negotiations and deliberations take place in expert committees, bilateral relations and ultimately in the Council. Considering the importance of policies at stake, the process needs increased transparency, publicity and politicisation to ensure that it results in *policies with politics*.