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ARTICLE

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

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ABSTRACT

The European Union (EU) – and its Economic and Monetary Union (EMU) in particular – is often criticized as a predominantly market-oriented project. We analyse to what extent such claims can be substantiated by focusing on one key aspect of the EU's post-crisis framework for economic governance: the country-specific recommendations (CSRs) that the EU has been issuing annually since 2011. Based on an original dataset, we analyse more than 1300 CSRs, which show that the EU does not push uniformly for less state intervention. Rather, the CSRs tend to suggest fiscal restraint and less protection for labour market insiders, while simultaneously promoting measures that benefit vulnerable groups in society. During the second decade of EMU, CSRs have gradually become more permissive of higher public spending and more in favour of worker protection, while the share of recommendations advocating more social protection has stagnated at a high level.

KEYWORDS

Country-specific recommendations; economic governance; economic and monetary union; European Semester; fiscal policy coordination; state intervention

Introduction

From the very beginning, the European integration project was unclear about how to obtain fiscal and economic policy coordination. Given member states' reluctance to give up fiscal sovereignty, any attempt to coordinate remained vague and intergovernmental. The institutional framework of Economic and Monetary Union (EMU) thus contained an asymmetry between its decentralised 'Economic' and the fully centralised 'Monetary' parts (see Verdun 1996; Howarth and Verdun 2020). The sovereign debt crisis, however, highlighted the shortcomings of this system. Consequently, coordination was upgraded from vague guidelines to detailed policy prescriptions with clear timetables for implementation (Hodson 2018, 2020). The new framework, first created in 2010 and dubbed the 'European Semester', gives the European Commission more authority to influence national policies (Bauer and Bekker 2014; Savage and Verdun 2016).

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Officially, EU fiscal and economic policy coordination aims at ensuring sound public finances and preventing 'macroeconomic imbalances', while also promoting employment and the social dimension of EMU (European Commission 2019). However, in light of the way the EU managed the sovereign debt crisis, various critics have accused it of focusing mostly on restructuring and retrenchment (Blyth 2013; Graziano and Hartlapp 2018, 10). This view on European integration is not new. Earlier criticisms targeted the emphasis on creating the Single Market and its insufficient focus on social concerns (Minkkinen and Patomäki 1997). At times it was argued that it simply had to do with the fact that the EU was created by law (Ardy et al. 2005; Sangiovanni 2019). The central idea was that taking away barriers to trade was easier than creating new institutions – which Jan Tinbergen already in 1954 referred to as negative and positive integration (Tinbergen 1954; see also Scharpf 1999) – and that as a result the EU could not be a social market economy (Scharpf 2010). Other critics have labelled the European integration project as predominantly liberal, or neoliberal, and as such at odds with offering citizens social protection. They argue that monetary integration is pushing the EU away from a more socially embedded type of capitalism (Hermann 2014).

In this contribution, we analyse what kind of economic policies the European Semester promotes. Rather than using the highly politicized and ill-defined term 'neoliberal', however, we prefer to discuss European Semester reform in the context of advancing 'less or more state intervention'. We thus speak of 'more state intervention' whenever reforms are proposed that further embed the economy in society – be it through an increase in redistributive policies, more market-correcting regulations, or generally implying a bigger role of the state in the economy. Conversely, we speak of 'less state intervention' when reform recommendations seek to free market actors from social and political constraints, or to reduce funding for social policies.

Our empirical analysis operationalizes this dichotomy into a set of variables that indicate the 'policy direction' of the EU's country-specific recommendations (CSRs). We distinguish five different areas of state intervention: public spending, worker protection, social protection, regulation, and public ownership (see Table A1). This categorization allows us to analyse whether the EU recommends less intervention in some areas but more in others. For instance, the 'flexicurity' model suggests a combination of labour-market flexibility (implying less protection for labour market insiders) with more social security programs and, specifically, active labour market policies (Bekker 2018).

By coding the policy direction of more than 1,300 CSRs issued to Euro Area countries between 2012 and 2018, we analyze three interrelated questions about how the EU has coordinated fiscal and economic policies in the second decade of EMU: Does it promote a particular economic model? Does it speak differently to different countries? And have its priorities changed over time? Our central finding is that the CSRs do not provide evidence of strict policy movement in either the direction of less or more state intervention. Rather, in most countries the Semester recommends less protection for labour market insiders combined with more protection for vulnerable groups. Over time, recommendations for more spending and worker protection have become increasingly common, while more social protection has remained an important issue throughout the period of analysis.

The next section reviews debates in the literature over the suggested 'market-making' or 'market-correcting' (Copeland and Daly 2018) character of European integration and summarizes how the EU's fiscal and economic policy framework has changed since the

Euro Area crisis. It then proposes guiding questions for our exploration of the data. Next, we provide an overview of our dataset, followed by an interpretation of our findings. The final section concludes that the more extensive coordination of fiscal and economic policies during the second decade of EMU has not been accompanied by a clear turn towards either a 'neoliberal' or 'social' Europe, but by a mix that could be described as flexicurity.

Economic governance under EMU: supporting or undermining the welfare state?

Economic policy coordination and its critics

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

The Maastricht Treaty's institutional provisions and conditions for euro adoption were interpreted by critics as resting on a particularly orthodox vision of the economy, which emphasized 'sound money' and perceived large welfare states as a burden (Dyson 2000). This model of EMU was criticized by historical-materialist scholars as 'disciplinary neoliberalism' (Gill 1998), which was 'restricting national policymakers to choices from a neoliberal menu' (Wincott 2008, 360). Seen from this perspective, the EMU rulebook (and the Stability and Growth Pact in particular) removed important policy options for national governments by 'locking in' commitments to orthodox and market-friendly fiscal and monetary policies to increase credibility in the eyes of financial markets (Heipertz and Verdun 2010).

Conversely, the extant literature also suggests that European market integration offers substantive evidence of the creation of an increasingly 'social' Europe. Work in this area is suggestive of both the indirect effects of EMU, be it through increased financial space for public spending as a result of lower debt servicing during the immediate years following euro adoption (Bolukbasi 2009), or the more direct effects of explicit EU-level endeavours to maintain or even introduce welfare-related priorities among its members (see here Scharpf 2002 on the European Social Model; Martin and Ross 2004 on the European Model of Society; Bolukbasi (forthcoming) on welfare state retrenchment under EMU, and Zeitlin and Vanhercke (2018) on specific nuances within the European Semester).

After the euro's first decade, scholars reported mixed results when evaluating the validity of these divergent claims about the EU's economic policy framework (Enderlein and Verdun 2009). Despite the Stability and Growth Pact (SGP) losing its teeth after Germany and France famously ignored its provisions in 2003 (Heipertz and Verdun 2004), Hallerberg and Bridwell (2008) provided evidence that it had nevertheless exercised significant fiscal discipline. This finding led Cohen (2008, 46) to conclude that, de

facto, 'the SGP straitjacket remains a constraint on Euro Area states, perpetuating an anti-growth bias' not only in monetary policy but in fiscal policy, too. Regarding the much-debated issue of welfare retrenchment under EMU, however, a look at member states' social expenditure provided 'little support for strong versions of the "disciplinary neoliberalism" thesis, at least for Western Europe' (Wincott 2008, 375).

All this, however, was before the multiple crises of its second decade severely challenged the Euro Area. The financial crisis, the sovereign debt crisis, and the EU's institutional responses to them have led to renewed academic criticism and, more importantly, large-scale protest against an EU perceived as excessively orthodox. In particular, the role of the European Commission and the European Central Bank (ECB) in the so-called Troika received severe criticism for imposing austerity policies on European countries in the context of its lending policies (Blyth 2013; Verdun 2013; Lütz and Kranke 2014; Pagoulatos 2020).

Changes in fiscal and economic policy coordination after the crisis

Having been criticised for a lack of leadership in the 'fast-burning stage' (Seabrooke and Tsingou 2019) of the crisis, the EU turned to reforming its framework of economic governance in an attempt to avoid a repeat of the debt crisis. Between 2010 and 2012, it updated its framework for fiscal governance significantly, even though the reforms undertaken did not bring about a paradigm shift in the form of EU fiscal federalism or debt mutualisation. Rather, they can be regarded as mostly path-dependent changes, which left the fundamental logic of an asymmetric EMU intact (Verdun 2015). While continuing to operate within a framework of rules-based horizontal coordination and national sovereignty, EU fiscal governance saw far-reaching reforms and the addition of numerous new instruments. These encompass both the ex-ante prevention of fiscal shocks and the capacity to respond to them ex post, and are either based on new intergovernmental treaties – such as the Fiscal Compact and the European Stability Mechanism (ESM) – or secondary EU law (the 'Six-Pack' and 'Two-Pack') Fabbrini (2013).

The Commission sees the need for policy coordination arising from spill over effects in a monetary union. For example, major economic reforms in one member state can produce spillover effects on others via trade and competitiveness and/or via financial markets (European Commission 2013). Following this rationale, the degree of EU interference in national policies through macroeconomic coordination should be related to the risk of (negative) spillover. Alcidi and Gros (2015) thus propose to systematically link the level of EU-level interference to risk: the bigger the size and likelihood of spillover effects, the more EU constraints on national policies are justified. The European Semester is designed to allow for such flexibility, since Semester recommendations can be linked to different instruments – from the Europe 2020 strategy to the Macroeconomic Imbalances Procedure (MIP) and the SGP – which also entail very different sanctioning regimes.

The Semester is based on a series of EU directives and regulations designed to tighten EU fiscal coordination, the so-called 'Six-Pack' and 'Two-Pack'. The former, a legislative package of five EU regulations and one directive, entered into force in December 2011 with the aim of reinforcing the SGP. The most important changes in the Six-Pack include the Macroeconomic Imbalances Procedure (MIP) as a new surveillance mechanism and the introduction of a 'reverse majority voting' scheme for imposing sanctions within the

Excessive Deficit Procedure (EDP). This implies that Commission recommendations to sanction member states will be effective unless a qualified majority of member states votes against it in the Council (previously, a qualified majority voting *in favour* of sanctions had been required). Finally, the Six-Pack reflected another lesson learnt from the sovereign debt crisis by explicitly incorporating the levels of public debt in the EDP, rather than only deficit levels (see Ioannou, Leblond, and Niemann 2015). The more specific and technical 'Two-Pack' arguably provided the biggest push for centralizing fiscal coordination (Laffan and Schlosser 2016). Focused on the Euro Area, its main purpose was to institutionalize further the European Semester (first introduced by the Six-Pack) through a binding timetable for the coordination of national budgetary plans and clear procedures for their assessment.

The Semester also includes social objectives. However, seeing that there was insufficient space for positive integration in this policy area at that time, the process was built on soft modes of governance developed around European social policy, namely the Open Method of Coordination (OMC) (de la Porte and Pochet 2002; Borrás and Jacobsson 2004; Trubek and Trubek 2005; Cram 2009; Tömmel and Verdun 2009; Tholoniat 2010; Zeitlin 2011; Menz and Crespy 2015).

Economic governance since the introduction of the European Semester

The Semester now forms the 'core vehicle' to coordinate socio-economic policies, according to the European Commission (2018, 24) itself. In a nutshell, the Semester is a cycle of policy coordination that takes place over the course of a year. The goal is that EU member states align their budgetary and economic policies with commonly agreed objectives. Based on the economic situation in the EU and the member states, the EU annually issues CSRs, which cover a wide range of policy fields, including fiscal governance, financial markets, employment, competition, public administration, and social policy. CSRs are proposed by the Commission and adopted by the Council, sometimes after rephrasing or even substantially altering them (Tkalec 2019). Without further transferring sovereignty to the EU level, the Semester gives the EU institutions a more authoritative role to influence the economic and social policies of member states (Verdun and Zeitlin 2018, 138).

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

First, we analyse the *content of CSRs in terms of the policy direction implied*. Do reform recommendations uniformly support claims about a 'neoliberal' EU on the one hand or 'social Europe' on the other? Or does the EU recommend less state intervention in some areas but more in others, as the 'flexicurity' model (Bekker 2018) suggests? While flexicurity has allowed countries such as Denmark and Sweden to maintain high levels of equality and social protection, Thelen (2012, 147f.) points out that the main thrust of such

policies is less about protecting individuals from the market and more about 'facilitating their successful (re)integration into it.' Given that the EU has often rather broadly advocated flexicurity as a model for other EU countries to follow, we analyse whether the more specific Semester CSRs reflect this stance.

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

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

Coding the 'policy direction' of EU recommendations

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

For our dataset, we analyse the content of all CSRs issued to Euro Area countries between 2012 and 2018. Since countries under an economic adjustment program are subject to enhanced policy surveillance and do not receive CSRs (European Council 2018), there is no data for Greece and some years are missing for Cyprus, Ireland and Portugal. We include 512 'headline CSRs', i.e. longer pieces of text containing all of the guidance put forth by the Commission within a broad policy area for the country in question. Since one headline CSR often contains several individual reforms, the Commission assesses these sub-recommendations separately. Consequently, we code 1396 'sub-CSRs' as the more targeted elements within a broader recommendation. In line with previous research on

the Semester (Crespy and Vanheuverzwijn 2017; Efstathiou and Wolff 2018), our analysis below relies on sub-CSRs unless stated otherwise.

Next to a variable for policy areas, our dataset includes the 'policy direction' of CSRs, which differentiates between reforms aimed at either more or less state intervention.[1] In coding the policy direction, we take a conservative approach and only include those CSRs where the language unambiguously indicates a direction. As a consequence, 36 percent of CSRs were coded as 'neutral'. We further propose five distinct categories to capture policy direction in the sense of more or less state intervention: public spending, social protection, worker protection, regulation, and public ownership (for details, see Table A1 and Figure A1 Appendix). For the purposes of this contribution, we focus our analysis on the first three.

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

Intercoder reliability is a major challenge in coding the content of dense, technical text across several dimensions. For each country, two of the three coders on our team reviewed and coded CSRs independently. Even with extensive training and a detailed codebook, some degree of judgment is inevitable. But since every observation is coded twice, we can quantify the implied uncertainty for the entire dataset, not just for a small sample. Our intercoder reliability scores are reported in Table A2 in the appendix. For our analysis, we draw a random sample that includes one instance of every CSR.

What do CSRs reveal about the EU's model of economic governance?

Do EU recommendations reveal a clear preference for a particular model of economic governance across the union? At the highest level of abstraction, we can compare all CSRs issued since the start of the European Semester that imply a stronger/weaker role for the state in the economy. It is important to bear in mind that 39 per cent of all CSRs fall outside of this subset of observations. These CSRs are either 'neutral' (in the sense that they do not include a clearly identifiable 'direction' of policy advice) or contain mixed signals (e.g. some measures to increase social protection and some to decrease it in the same CSR).

Overall direction

At first sight, the data do not suggest that the EU is trying to push member states into one clear direction, as the share of CSRs promoting less and more state intervention is balanced at 29 and 32 percent of all recommendations. However, there is considerable variance across the different sub-indicators (see Figure 1). Unsurprisingly in view of the strict rules laid down in the SGP, the EU recommends spending cuts much more frequently than fiscal expansions. When it does recommend more spending, it is mostly through additional investments in infrastructure and education. Regarding social protection, however, the reverse is true: an overwhelming majority of CSRs in this area advocates more protection for vulnerable groups,

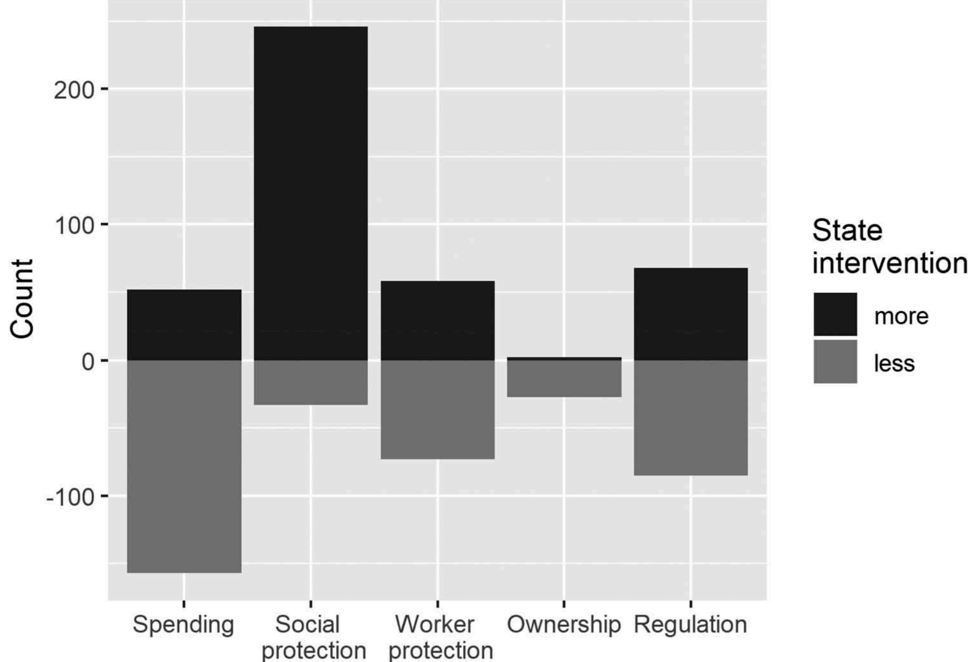

Figure 1. CSRs according to their policy direction across several areas. Excludes CSRs coded as having a 'mixed' direction.
Source: Authors' calculations.

for example through extended coverage of social assistance, increased efforts to qualify the unemployed, or better childcare and healthcare. CSRs directed to policies with regard to the currently employed – what we call worker protection – are slightly more likely than not to recommend reducing worker privileges. Examples include a reduction of early retirement schemes, decentralising wage bargaining, and efforts to better 'align wages with productivity developments', effectively implying lower wages in certain sectors.[3]

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

Differences between member states

Figure 2 illustrates in more detail the relationship between recommendations to modify social protection and worker protection across member states. It plots the 'net' direction for both dimensions (CSRs for more protection minus CSRs for less protection), showing that,

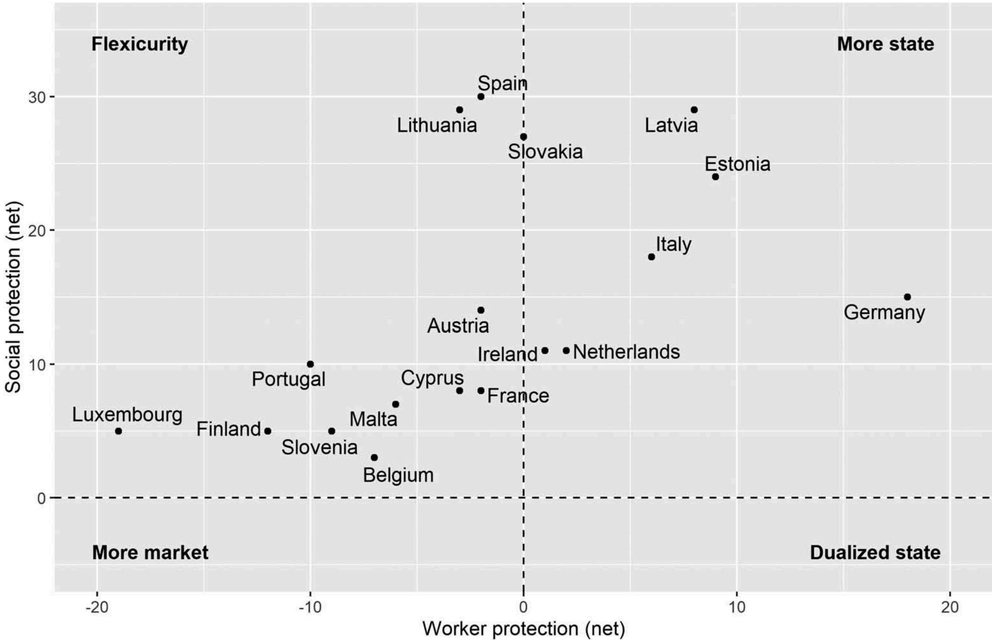

Figure 2. Policy direction of reform recommendations concerning worker protection and social protection. Net scores are calculated by deducting the number of CSRs that call for less state intervention from the number of CSRs that call for more state intervention.

Source: Authors' calculations.

on balance, no country predominantly receives CSRs arguing for less social protection. In contrast, the net scores for worker protection are negative for most member states.

From a comparative perspective, while 11 out of 19 countries fall in what we may call the 'flexicurity quadrant', there is some variation. Portugal has a balanced profile, while in countries such as Lithuania and Spain, the EU emphasizes the need for more social protection. Training for the unemployed and other active labour market policies feature heavily, as do programmes to fight poverty. In other cases, such as Finland, Luxembourg and Slovenia, reducing worker protection plays a relatively big role – for example measures to lower pensions and make wages more flexible.

The countries falling outside the 'flexicurity quadrant' are Estonia, Germany, Latvia, Italy, Ireland and the Netherlands; they are called upon to increase the protection for *both* labour market insiders and outsiders. This finding may seem especially surprising in the case of Italy, considering the country's problems with its dual labour market. But a closer look reveals that most of the 'pro-worker' CSRs for these countries focus on shifting the burden of taxation away from labour and reducing labour taxes for low-income earners. Additionally, Estonia received repeated calls to address the gender pay gap, while Germany was recommended to introduce a general minimum wage, facilitate transition from precarious to more sustainable forms of employment and to promote higher real wage growth to support domestic demand.[4] With this strong focus on support for domestic wages, Germany is an outlier that shows how concerns for aggregate demand across the Euro Area can influence country-specific recommendations.

More generally speaking, the differences between countries are pronounced and not easily explained (see Figure A1 in the Appendix). The EU considers more social protection a priority in the Baltic countries, as well as in Slovakia and Spain. Less spending is often recommended to Austria, Luxembourg, Slovenia and Spain. Calls for less worker protection are especially common in the cases of Finland, Portugal, Luxembourg and Slovenia. These groupings do not fit neatly into traditional typologies like the worlds of welfare capitalism (Esping-Andersen 1990) or varieties of capitalism (Hall and Soskice 2001). Furthermore, and contrary to intuition, correlations between the policy direction of CSRs and countries' current levels of social spending, employment protection or economic power are weak. The diversity could thus be interpreted as tentative support for the EU's claim that its reform recommendations are tailored to the present needs of individual member states, rather than following a one-size-fits-all approach.

Some countries receive a mix of recommendations that appears challenging to implement. As Figure 3 shows, the EU often recommends more social protection but also lower spending, which can be problematic as an increase in social protection rarely comes for free. Typical CSRs recommend improving education, family support or measures to fight youth unemployment. Implementing such costly reforms, while also limiting deficits, requires governments to cut spending on other areas, triggering the resistance of affected stakeholders. As a result, implementation becomes more difficult. Lithuania, Spain and Slovakia are especially likely to be affected by this dynamic. By contrast, the reform profile for Germany seems more straightforward: the CSRs it receives call for more spending and more social protection, two entirely compatible objectives. To a lesser extent, this observation also applies to Estonia.

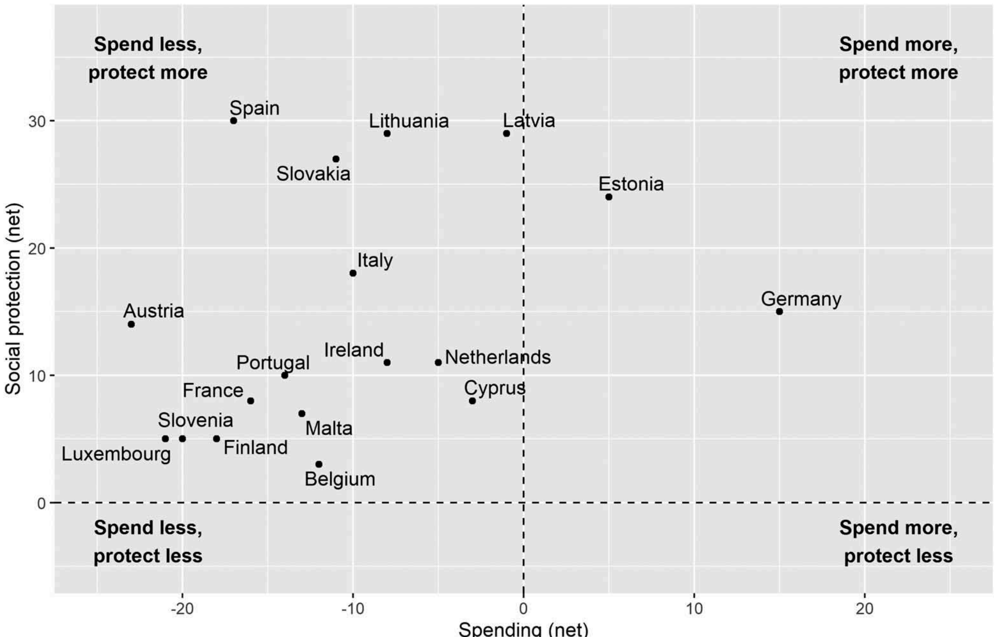

Figure 3. Policy direction of reform recommendations concerning spending and social protection. Net scores are calculated by deducting the number of CSRs that call for less state intervention from the number of CSRs that call for more intervention.

Source: Authors' calculations.

Time trends

Given that the period between 2012 and 2018 saw significant changes in economic conditions, intertemporal changes may drive the direction of CSRs as much as country-specific factors. During times of high public debt, for example, the Commission is more likely to focus on consolidating public budgets and less likely to call for costly measures to increase social protection. As the post-crisis recovery took root and lowered the pressure on public budgets in an increasing number of member states, we might expect pro-intervention CSRs to have become more common over time. Figure 4 confirms this expectation for public spending: calls to loosen the purse strings were almost unheard of in 2012 whilst they accounted for a quarter of all public spending CSRs in 2018. Recommendations to spend less have accordingly decreased in frequency. However, pro-spending CSRs are mostly found in a small group of countries – above all Germany and Estonia – and are outweighed by budget consolidation recommendations for the rest of the Euro Area in every year since the start of the Semester. Nevertheless, a trend towards more balanced budgetary recommendations can be identified.

When it comes to workers, recommendations to increase intervention initially accounted for a share of only 25 per cent. However, the balance shifted rapidly, owing to a large drop in the absolute number of CSRs promoting less protection. Since 2017, calls for more worker protection prevail. EU concerns about excessive wage growth and cost competitiveness, a recurring topic in the early years of the Semester, have clearly receded and were not mentioned a single time in 2018. Nowadays, less worker protection often means later retirement or reduced pension benefits. The changing priorities likely reflect worries about persistently low inflation, as well as the Commission's ideational turn towards demand-led growth strategies. CSRs advocating more intervention have increasingly stressed the importance of good work, for example hiring on open-ended contracts.

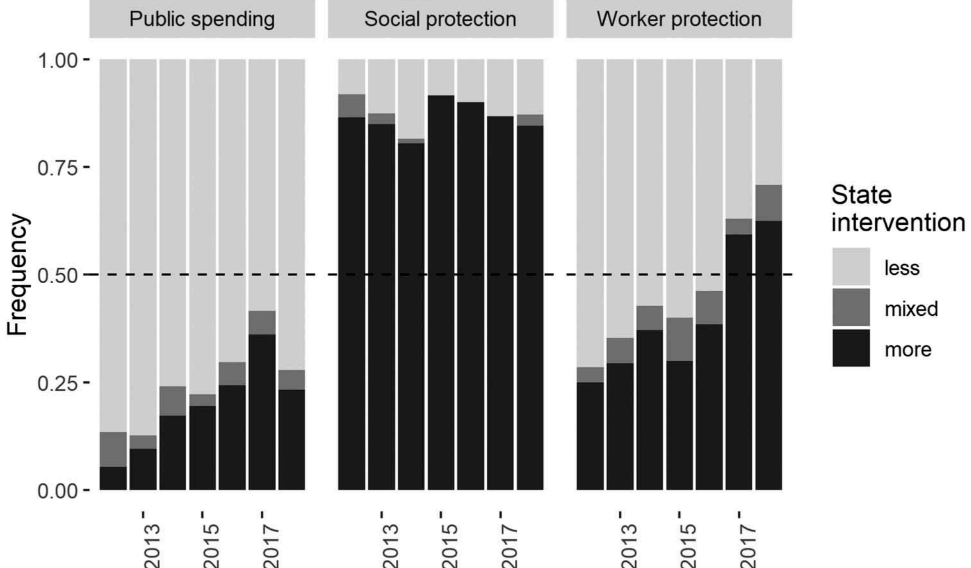

Figure 4. Relative frequency of CSRs, 2012–2018.
Source: Authors' calculations

Shifting the tax burden away from labour is regularly mentioned throughout the period, illustrating how important the issue is for the Commission, but also how reluctant member states are to act.

Recommendations about social protection are dominated by calls for more intervention, according to our data. This observation is found even as early as 2012, long before the EU announced its intention to give social concerns a greater role under the Semester. However, we find no proof for a progressive 'socialization' of the European Semester (Zeitlin and Vanhercke 2018): the share of CSRs that address social protection has not increased over time. Measured as a share of all recommendations, CSRs promoting more protection have stagnated at slightly above 20 percent since 2012, and the share of recommendations favouring less social protection has remained constant below five percent. What is more, CSRs in the 'softer' policy areas are often not backed by the stronger sanctioning mechanisms found in budgetary politics and fiscal coordination. As noted above, not all CSRs are created equal, and the 'direction CSRs' in the areas of social and worker protection are mostly characterized by soft modes of governance where non-compliance implies, above all, reputational costs. Only a third of all CSRs targeting a change in social protection are linked to any sanctions. For CSRs concerned with changing the level of public spending, the share is twice as high. From a legal perspective, this situation makes sense because the natural point of reference for social policy CSRs is the Europe 2020 framework, which is not backed by any sanctions regime. However, calls for more state intervention risk being inconsequential if member states feel that they can safely ignore them due to their weak legal basis (see also Crespy and Vanheuverzwijn 2017).

Conclusion: what model for EU economic policy?

The second decade of EMU has been marked by crises and the development of new instruments designed to promote convergence within the limitations of an asymmetrical economic and monetary union (Verdun 1996). In the reformed post-crisis framework for economic governance, the European Semester forms the 'core vehicle' to coordinate national policies across the EU. This annual cycle of coordination aims at a better alignment of national budgetary and economic policies with commonly agreed objectives, especially within the Euro Area. In view of the existential threat posed by the sovereign debt crisis, one might have expected a more forceful response. Instead of more centralization, however, the EU's response entailed more coordination.

Even though the European Semester is only a limited attempt to overcome the initial asymmetry in the EMU architecture, its introduction has opened the door to new ways of investigating EU coordination. The uniformly structured reform recommendations for all member states, issued in regular intervals and evaluated on a common assessment grid, allow us to paint a detailed picture of where the EU is trying to steer its members by analysing the number and content of CSRs.

In this contribution, we have examined how the EU uses the European Semester in terms of the 'policy direction' implied in its recommendations. Our data suggests a nuanced picture, reflecting neither a 'neoliberal EU' nor a 'Social Europe'. First, while the EU's recommendations tend to recommend reducing public spending, they also encourage more social protection for vulnerable groups. Given the tension inherent in combining such recommendations, the Semester's limited implementation record may appear less surprising. Second, the direction of CSRs depends on the member state. While

many member states are recommended a reform mix that could be described as 'flexicurity', a smaller number of countries are told to both spend and protect more. Third, there is a trend towards more state intervention over time when it comes to public spending and protection for labour market insiders. However, we do not find evidence of a progressive 'socialization' of the Semester. Rather, our data suggests that CSRs promoting social protection have been a significant part of the Semester since 2012; their share of all recommendations has remained nearly constant.

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

Our understanding of EU policy coordination could be enhanced further by incorporating additional information about the process of formulating CSRs, such as the role of the Council of the EU and the interaction between member state stakeholders and the EU institutions. The logical next step would then be to connect the reform input as presented in this contribution to the output side, namely the domestic political process and the likelihood of the Semester to shape national reforms. Future research on the politics behind choosing the Semester's policy direction could analyse the formal and information negotiations before CSRs are formulated, as well as comparisons of CSR content to policy preferences of national governments. Such insights would further strengthen our understanding of the reforms the European Semester is likely to induce.

Notes

1. For a more detailed discussion on our identification and formulation of policy areas, see D'Erman et al. (2019).
2. Mentions of Regulations 1466/97, 1467/97 and 1173/2011 were coded as references to the SGP; mentions of Regulations 1176/2011 and 1174/2011 as references to the MIP.
3. For particularly compelling examples, see Finland's 2017 second headline CSR, Italy's 2014 fourth headline CSR, and Portugal's 2014 second headline CSR.
4. See here Germany's 2012 third headline CSR, its 2014 second headline CSR and its 2016 third headline CSR.

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Appendix

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

Policy direction (values: neutral, less, mixed, more)	
Variable	Direction coded as 'more' if the recommended reform
Spending	increases general government spending.
Social protection	benefits vulnerable citizens and those who are not working.
Worker protection	benefits people currently in employment.
Regulation	increases the regulation of the private sector.
Ownership	increases public ownership of assets.

Table A2. Average intercoder reliability scores. Krippendorff's alpha is a reliability indicator that takes into account the likelihood of random agreement between coders and ranges from 0 to 1. Source: Authors' calculations.

Policy direction	Krippendorff's alpha
Spending	0.872
Social protection	0.888
Workers protection	0.824
Ownership	0.876
Regulation	0.697

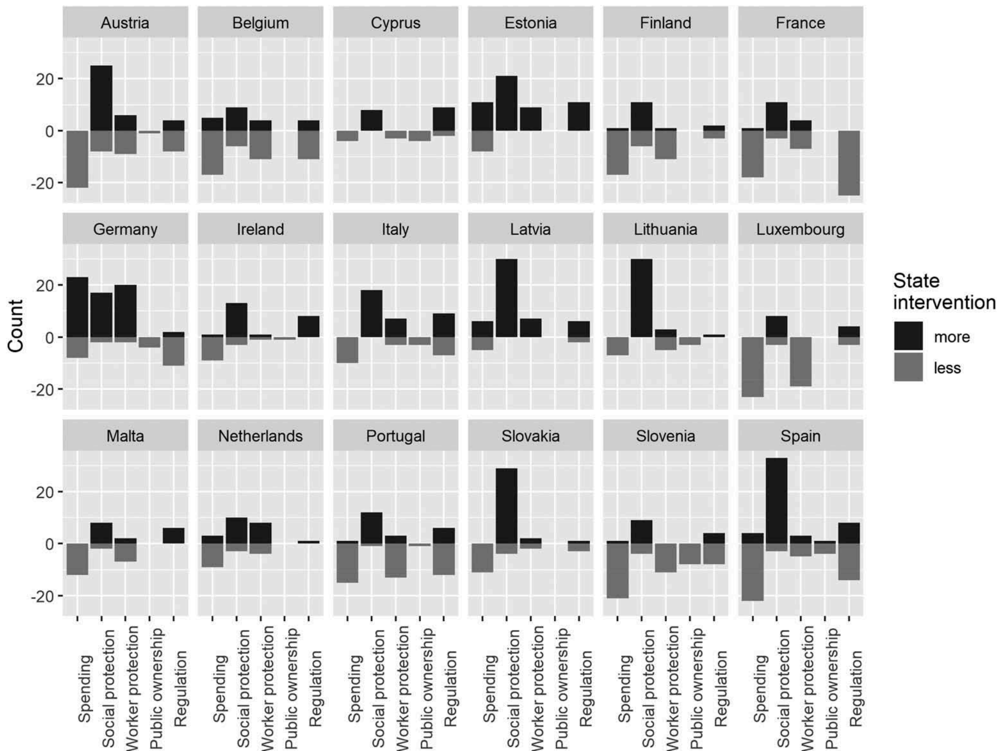

Figure A1. Policy direction of CSRs in 18 Euro Area countries. Excludes CSRs coded as having a 'mixed' direction.

Source: Authors' calculations.