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# Is there flexibility in the European Semester process?

## Exploring interactions between the EU and member states within post-crisis socio-economic governance

Sonja Bekker

THE EUROPEAN INTERNAL MARKET – CHALLENGES FOR FREE MOMENT

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# Preface

Since the outbreak of the Eurocrisis the EU has developed a series of economic governance instruments aiming at ensuring Eurozone members' compliance with fiscal targets in order to ensure policy coherence and financial stability throughout the Union. The European Semester has certainly implied a greater degree of communitarian involvement in individual member states' budgets since the Commission is involved in dialogue with member states regarding their responses to policy recommendations. This process of communitarian surveillance of member state's budgetary affairs can be perceived as a major step forward in the field of economic integration, but this tandem governance process between the Commission and the Council also involves elements of negotiation and bargaining way on policy recommendations. This kind of Open Method of Coordination (OMC) thus reveals the shaping of the macroeconomic governance of the EU.

In this report Sonia Bekker analyses the degrees of flexibility and leeway within the scope of the European Semester between 2009-2014 in the field of Macroeconomic Imbalance Procedure (MIP), Stability and Growth Pact (SGP) and Europe 2020 Strategy between, on the one hand, the Commission, and, on the other hand, France, Germany, Poland and Spain respectively.

Since the member states involved in this report are all situated in varying degrees of financial and economic hardship, the results will show that different situations will generate different degrees of corrective pressure as well as differing salience in terms of developing their own roads to economic recovery.

Eva Sjögren
Director

# About the author

Sonja Bekker is assistant professor in European governance and social policy at Tilburg University, the Netherlands. Her research interests include European coordination, EU economic governance; European labour market policies and social policies; Europe 2020; Dutch labour market developments; flexicurity; youth and exclusion; labour market segmentation and the position of vulnerable groups.

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# Executive summary

Post-crisis EU socio-economic governance has introduced new features to the coordination process, mainly aimed at better national compliance with EU fiscal and economic targets. Accordingly, these new measures have been labelled as 'stricter' or 'strengthened' economic governance. While stricter economic governance implies less flexibility in the coordination process, the question is the degree to which this has indeed been the case. Do the EU and the member states still have the leeway to develop alternative policies, to learn from practice or to suggest new targets? This contribution answers this question in view of important socio-economic dossiers: unemployment, wages and pensions. These are all topics in the European Semester's Stability and Growth Pact (SGP), Macro-economic imbalances procedure (MIP), and Europe 2020 Strategy. The contribution analyses EU-level steering within the European Semester, as well as the reactions of four member states to EU targets between 2009 and 2014: France, Germany, Poland and Spain.

Overall, both the EU level coordination and the member state response show that, on the one hand, coordination has become more strict, and on the other hand, the flexibility for members states to develop alternative policies has remained part of the socio-economic coordination process. Thus, in the four case countries, post-crisis socio-economic governance has not totally reduced coordination to a command- and-control practice, and important differences remain between the four countries in the years scrutinised. Compared to 2009, a strengthened coordination may be seen in the greater number of Country-Specific Recommendations (CSRs) and in the increased precision of CSRs, especially in 2013 and 2014. Spain, in particular, has received a large number of very precise CSRs. However, countries do not necessarily comply with all of the recommendations. The cases demonstrate ample flexibility for countries to argue for and implement alternative policies, regardless of the stricter economic governance regime.

Changing EU-level targets also reflect flexibility within the European Semester processes, including new or adjusted recommendations for member states. At times, member states use new EU-level priorities to explain national policy choices. France defended its policy choices by referring to the Commission's views on the need to restore growth and jobs and to implement the Youth Employment Initiative. The postponement of the deadlines by which the SGP criteria must be met is another signal of leeway, and Poland, France and Spain are examples of member states that have benefited from postponements. The diversity in the priorities communicated to the different countries and the changes in the priorities and CSRs over time also reflect the flexibility of the European Semester. For instance, the German pension system was only an item

in the 2014 CSRs, and this was directly related to the revision of the German pension system. For Poland, combating in-work-poverty was only converted into a CSR in 2012 and 2013, although, in 2014, this issue was unresolved. The type of coordination mechanism used to explore a certain item may also vary: For example, the ongoing CSR on German wages was only tied to the in-depth review of the MIP in 2014, while being under 'soft' surveillance in other years. Overall, the CSRs and the use of certain coordination mechanisms are still tailored to the individual situation of a country.

The four cases also show member states arguing for more flexibility and making use of the space the European Semester offers. All four countries have dossiers in which the Commission continually found that insufficient progress was made. In such cases, the CSRs remain similar throughout time or start addressing the same issue in a more detailed way, yet this does not mean that the suggestions are always converted into national practices. On the contrary, France's increase in minimum wages and the rollback of the pension reforms are examples of policy implementations going against a CSR, and Germany's revision of the pension system soon became a topic for the Commission's and the Council's concern about public expenditures. Importantly, the German and French pension reforms relate to the instalment of a newly elected government, and obviously, this is relevant input from a national level to justify alternative reform choices. Another indicator of leeway is that all four countries argue that some unfavourable national trends are, in fact, beyond government control, such as the poor economic performance of other EU countries, which, in turn, has hindered their domestic growth. Some countries argue that national austerity measures do not generate results when the overall EU economy is in recession. France, Germany and Poland also contest certain calculation methods used by the Commission to predict future trends. Countries have argued more than once that investing in growth is also important, and some more openly state that investing is difficult when this is combined with consolidation. Such differences of opinion on the calculation methods to estimate reform effects or the required balance between investments and consolidation show that there is no consensus on how to obtain the Europe 2020 goals of smart, sustainable and inclusive growth. The findings permit the scrutiny of the European Semester, including the SGP, as a process in which there is flexibility for member states to come up with alternative socio-economic policies. EU socio-economic governance may thus be a process of exchanges between the EU and member states, rather than a one-sided communication of fixed targets only.

# 1 Introduction

Post-crisis EU socio-economic governance has introduced new features to the coordination process, mainly aimed at better national compliance with EU fiscal and economic targets. Accordingly, these new measures have been labelled as 'stricter' or 'strengthened' economic governance, yet, EU fiscal and economic demands have also had an impact on national social policies, essentially broadening the scope of stricter surveillance beyond economic issues (compare Barnard 2014; Bekker 2015; Clauwaert and Schömann 2012; Costamagna 2012; Degryse *et al.* 2013; Doherty 2014). Reducing public expenditure often results in limiting entitlements in the social domain, and calls for structural reforms mostly entail amending labour law and worker's protection (Schmidt 2014; Suárez Corujo 2014). While stricter economic governance implies less flexibility in the coordination process, the question is the degree to which this has indeed been the case. Do the EU and the member states still have leeway to develop alternative policies, to learn from practice or to suggest new targets? In order to explore the flexibility in current socio-economic coordination, this contribution analyses EU-level policy-steering as well as the reactions of four member states to EU targets between 2009 and 2014. It includes the EU on the one hand, and the reactions of France, Germany, Poland and Spain on the other hand, and specifically looks at the topics of pensions, wages and unemployment. The conclusion is that at times the four member states have contested EU-level analyses and recommendations, as well as proposed or even implemented alternative policies. The Commission has also changed its evaluation of countries from time to time, coming up with new challenges, for instance, and allowing deadline extensions for reducing deficits. This shows that in the four case-study countries, the new EU socio-economic coordination retains flexibility, and that there is some leeway for countries to develop their own policies.

# 2 Strengthened economic governance and OMC traditions

The reinforcement of EU economic governance has been introduced in order to make member states comply more closely with EU fiscal and economic targets. In 2010, soon after the crisis emerged, the Commission (2010a) proposed a set of new regulations while strengthening existing coordination mechanisms in the fiscal and economic fields, including the Six-Pack regulations. It also introduced the European Semester for joint socio-economic coordination activities. The Commission explained the perceived inadequate functioning of the European Monetary Union (EMU) as due to "… earlier failures to comply with the underlying rules and principles" (European Commission 2010a: 2) which necessitated "… reinforcing compliance with the Stability and Growth Pact and extending surveillance to macro-economic imbalances." (ibid.: 3) (see also Europa 2012). The implementation of stricter economic governance, as well as other crisis-related measures, has also had an impact on social policy domains (Barnard 2014; Bekker 2014; Clauwaert and Schömann 2012). This impact is especially evident in the so-called 'programme countries' that have received bail-out loans under strict conditions (Costamagna 2012; Doherty 2014; Kilpatrick and de Witte 2014). These countries have been taken out of the ordinary socio-economic surveillance of the European Semester and are placed under more stringent reform conditions. Member states that are not in bail-out situations have also lowered social security entitlements, however, or diminished the protection of workers as a way of meeting EU fiscal and economic targets. Some countries have increased pension ages or reduced unemployment benefit entitlements in order to reduce public expenditure. Such an overlap in steering social, employment and economic policies might be easily explained by the inability to make a sharp distinction between social and economic domains (see also Schiek 2013). In practice, social policies have economic and fiscal implications, for instance because social policies are likely to involve public expenditure, and economic policies might have social consequences as well (Zeitlin 2010). This contrasts with the Treaty, which makes clear distinctions between the different policy fields and gives the EU quite different competences for each policy field. As such, social domains have traditionally been subject to 'soft' coordination, for instance using the Open Method of Coordination (Zeitlin *et al.* 2005; Trubek and Trubek 2005; Goetschy 2001). Arguments for using these softer forms of coordination are not solely based on the absence of EU competences to deal with these issues. The literature has given a range of reasons why, at least in certain cases, soft coordination has benefits over hard legislation. Thus, if such harsh language on firmer economic governance also impacts the social domains, this is not only remarkable given the competencies of the EU, it is also remarkable from the viewpoint of finding the best solutions to deal with socio-economic challenges. A key idea for reaching optimal solutions is to give member states space to develop their own policies while meeting EU-level targets, because nationally created solutions are better when taking a complex sets of factors and institutions into account (Lenoble 2005; Scott and Trubek 2002). New modes of governance may offer a higher degree of flexibility, the participation of actors in various stages of policy or law formation, and voluntary guidelines which may be adjusted to fit new emerging needs and realities (Eberlein and Kerwer 2004; Mosher and Trubek 2003). Such enabling characteristics might also be relevant when searching for an optimal balance between social and economic goals, assuming that these domains are not separate issues, but rather acknowledging that social and economic goals influence each other, and, if designed well, may strengthen each other (Schiek 2013). Irrespective of the stricter economic coordination rules, the creation of socio-economic coordination within the European Semester still includes points at which the EU and the member states exchange information. There is still the option of changing targets each year, and this can be done for instance, in the Annual Growth Survey. After all, following the Treaty (Art. 148 TFEU), the Commission proposes policy recommendations, but it is the Council that adopts the recommendations to be communicated to member states, thus allowing member states to adjust the policy suggestions to some extent. This option is used by representatives of national governments, and even earlier in the coordination process the Commission has informal meetings with national governments to discuss the main socio-economic challenges and possible policy routes to tackle these (Zeitlin and VanHercke 2014). Thus, the reality of the European Semester might be more pluricentric than stricter economic governance suggests (Van Kersbergen and van Waarden 2004) and include ingredients such as negotiation, accommodation, cooperation and alliance formation (Scott and Trubek 2002). In theory, this should be valid, especially in the preventative stages of coordination mechanisms such as the Stability and Growth Pact (SGP) and the Macro-economic Imbalances Procedure (MIP).

This contribution establishes the degree to which new EU socio-economic coordination contains elements of flexibility, according to the characteristics of soft law processes. It therefore confronts EU targets and suggestions with the actual response of member states. Such interaction between the EU and member states is analysed taking a longitudinal approach, cross the time span 2009 to 2014. This allows examination of both the changes in strictness of EU steering as well as changes in response of member states to EU suggestions. Having such a longitudinal perspective permits flexibility in the coordination process throughout time, potentially including some of the reactions of member states to the EU and vice versa. It thus builds on conceptualising the process of stricter economic governance not only as a result of the crisis, but also as a normative framework that needs to be developed over time because economic and fiscal policies and their outcomes are uncertain, as well as subject to change (Armstrong 2011 compare also Ferrera 2014). To this end both the degree of leeway given by the EU to develop national policies, as well as the degree of freedom countries take to develop their own policies are part of the exploration. Alternative policy choices at national level could be based on the belief that such policies will generate better results, yet could also stem from the fact that goals and performance measures have been adjusted as a response to new problems or possibilities (Sabel and Zeitlin 2008).

The analysis encompasses three means of socio-economic coordination that are part of the European Semester. These three distinct yet interrelated coordination mechanisms are the SGP, the MIP and the Europe 2020 Strategy. While the SGP and the MIP are hybrid coordination mechanisms that combine a soft preventative arm with a hard corrective arm (including the option for placing sanctions on non-complying Eurozone countries), the Europe 2020 Strategy remains a form of soft coordination. The Commission uses all three of these coordination mechanisms to explore the socio-economic state of the member states, and the outcomes of this exploration may result in a country-specific recommendation (CSR) for improving national performance. These CSRs are proposed by the Commission and endorsed by the Council. From the outset, the CSRs on social and employment issues have been presented in a separate list of non-binding recommendations. As of 2011 this changed and all socio-economic recommendations are merged into a single list of CSRs with different legal bases, including the MIP and the SGP (Bekker and Klosse 2014; Thillaye 2013). For Eurozone countries, the CSRs related to the SGP or MIP are thus linked to sanctioning mechanisms. The three distinct coordination mechanisms overlap in the topics they address in their evaluation, thus displaying a certain level of interconnection (Bekker 2015). Via this interaction, the SGP and MIP have an effect on employment and social policies. An overview of the 141 CSRs that have been given to 23 countries in 2013, shows that 55 per cent of the CSRs address at least one social or employment policy item, such as unemployment, poverty, health care, pensions, or a growth-friendly consolidation. Half these 'social dimension' CSRs are the result of a fiscal and/or economic coordination cycle (SGP/MIP) (Bekker 2015).

This contribution focuses on the coordination process between the EU and four member states; France, Germany, Poland and Spain; and reviews these member states in-depth, covering the time period 2009 to 2014. Because socio-economic coordination encompasses a large range of issues, this contribution further focuses on three key employment and social policy dossiers that are also relevant from an economic and/or fiscal perspective: unemployment, pensions and wages. The choice for the four country cases is based on the different degrees of leeway these countries might have experienced to develop their own pathway towards economic recovery. These differences in perceived pressure to comply with EU demands spring from the fact that these countries face different economic challenges and are therefore put in different preventative or corrective stages of the SGP or MIP. What is also relevant in terms of perceived pressure is that Poland is not a Eurozone member, and therefore may face less pressure to comply, because non-Eurozone countries are not liable to sanctions under the MIP and SGP. Following this line of argument, the assumption of this study is that Germany and Poland are likely to experience the lowest pressure under the stricter economic governance regime, while Spain and France are expected to perceive the highest pressure to comply with EU demands. Similarly, the assumption is that Spain and France have less room to develop alternative policies, while under more stringent EU-level surveillance.

The assumptions translate into detecting the following indicators in the EU-level and country-level reports. *Flexibility* within EU level surveillance of national practices may be observed when:

- Targets are changing from country to country or from year to year. This includes different recommendations for each individual member state as well as changing the recommendation to a single member state through time;
- Changes in the 'strictness' of coordination, exploring whether or not countries are placed in progressive surveillance modes, for instance going from preventative to corrective stages, or from corrective into preventative stages of surveillance;
- Emergence of new topics in recommendations while other topics disappear;
- Recommendations which are broad enough to allow for further development at national level.

Such flexibility at the EU-level is not seen if targets, the level of coordination, and the content of proposed intervention remain the same. If recommendations are very precise, the leeway offered to countries is assumed to be smaller.

Analysis of this EU-level surveillance is complemented with the reactions of member states to the proposed policies in the different stages of the different coordination cycles. The following indicators suggest some degree of flexibility, or indicate that countries contest EU-level evaluations:

- (Some of) the four member state present alternative approaches to socio-economic challenges, or propose alternative calculation methods to calculate the exact size of the challenge;
- (Some of) the four member states implement different policies than those suggested;
- (Some of) the four member states refrain from developing certain policies, or even implement policies that go against a country-specific recommendation.

Because this contribution is able to explore the exchange between the EU and the member states over a time period of six years, the analysis can to a certain extent capture the reasons why the EU or the member state have made certain choices regarding policy suggestions and implementation. For instance, the fact that a topic disappears from the list of recommendations, might be the result of a member state having met the recommendation (leaning towards compliance) or of the member state making it clear that the proposed policies will not be implemented (leaning towards more flexibility).

The issues of pensions, unemployment rates and wages are of particular interest, as they are subject to all three coordination mechanisms. These topics are thus examples of how the absence of a clear demarcation between the social and the economic in practice leads to interlinked coordination. For instance, in its preventative scoreboard the MIP evaluates both the unemployment rate and nominal unit labour costs. Pension systems have featured in several country-specific recommendations related to the SGP, and even in its corrective arm the Excessive Deficit Procedure (EDP), as a proposed source for cutting public expenditure (Bekker 2015).

Data sources for this study include documents written by national governments, including policy responses, as well as documents including EU-level analyses of country performance and subsequent country-specific recommendations. These documents belong to the official European Semester coordination activities. The national documents are those of the annual National Reform Programmes (NRP) and the Stability and Convergence Programmes (SP for Germany, France and Spain and CP for Poland), which were written between 2009 and 2014. EU-level documents include the Council documents including the country-specific recommendations, and documents written by the Commission: the staff working papers providing background information for progress on CSRs, and the in-depth reviews (IDR) that belong to the MIP. All analyses have been based on the English version, which has led to a full exploration for Poland, Germany and France. For Spain the 2009 NRP and SP are not available in English and therefore not explored, nor are the 2012 NRP, the SP 2013 and the NRP 2014 available in English, while the NRP 2013 has only provisionally been translated into English. 2009 could thus not be included in the analyses for Spain, and the national level analyses for the years 2013 and 2014 have been based on one document only: either the NRP or the SC. This disadvantage is partly offset because the NRPs and SPs are always updates that build on former documents, meaning that sufficient data was available. In total, 43 national level documents were explored for the four countries, and more than 44 EU-level documents were included in the analysis.[1] Using the qualitative content analysis technique (White and March 2006), these documents were analysed to determine whether

[1] In 2012 the first in-depth reviews were undertaken based on scoreboard alerts. For this first year 12 member states were surveyed in this manner, and in 2013 and 2014 this number grew to 13 and 17 respectively. Of the four case countries, France and Spain were included in the in-depth review in all years, and Germany received an in-depth-review only in 2014. Poland has not been involved in an in-depth-review procedure at all.

the EU suggestions encompassed unemployment, wage or pension issues. As the topic of unemployment is related to the topic of employment, this was included in the analyses if relevant to understanding the position and development of a country. Similarly, matters of labour taxation were also included in wage issues where deemed relevant. The search for flexibility in the policy-making process was based on the issues included in the list above. Although European Semester documents and their predecessors have been used before to appraise the employment policy coordination (see, for example, Copeland and Ter Haar 2013; Thillaye 2013), both the EU-level and the national-level documents should be regarded as political documents. This means that conclusions based on these documents need be drawn with care. Another limitation of the study is that it does little to triangulate findings with information from interviews and alternative national sources, however, as this contribution is one of the first attempts to include the interaction between member states and the EU in a longitudinal perspective, its contribution to determining the degree of flexibility in new socio-economic governance is relevant. Enriching the data with information from additional sources is a good aim for future research.

# 3 Country cases: general trends in France, Germany, Poland and Spain

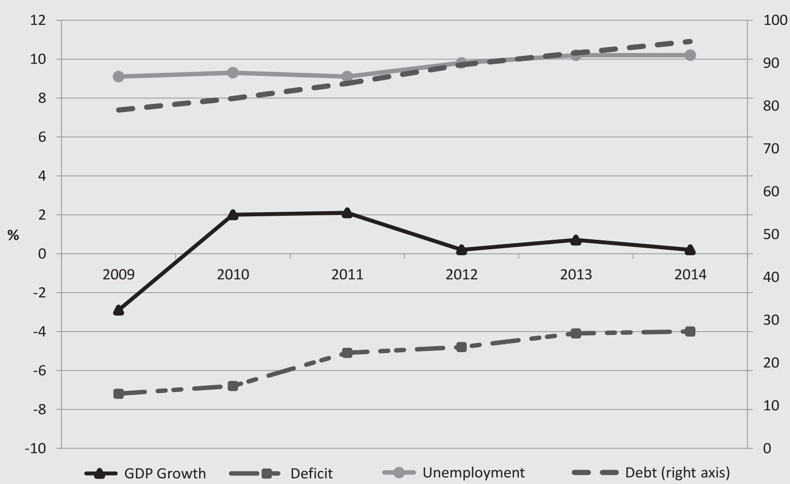
Much has been written about the austerity measures that countries were recommended to take by the EU, in order to stabilise public expenditure. But initially the European Commission came up with a plan to stimulate the economy by increasing, where possible, public expenditure. This European Economic Recovery Plan (EERP) was thus a first and quite different reaction to the crisis. Such an investment approach is relevant in order to assess the coordination activities around 2009 (European Commission 2009a). Since the introduction of the European Semester in 2011, all four case countries have become part of this coordination cycle. In the first European Semester cycle the four countries received more CSRs than in 2009. From 2011 France started receiving an increasing number of country-specific recommendations, eventually ending up with seven CSRs in 2014, while Germany has received a stable number of four CSRs each year. At first Spain also received an increasing number of CSRs each year, but had its peak of nine in 2013 and 2014 saw the number decline to eight. After 2011, Poland occasionally received six or seven CSRs. For all countries, some of the CSRs address social policies, and as of 2011 some of these social policy suggestions were attached to economic coordination cycles: either the SGP or the MIP or both. Being in the EDP, the corrective phase of the SGP, for the entire 2009-2014 time frame, France and Spain might have experienced more pressure to comply with EU targets than Germany and Poland. Germany has been out of the EDP since 2012. Poland was in the EDP constantly between 2009 and 2014, yet as a non-Eurozone country is not liable to receive fines. Both Spain and France have also been part of an IDR as of 2012, while Germany was subject to an IDR only as of 2014. Such IDRs are a second step in the MIP and involve in-depth studies of a country's macro-economic situation in order to judge whether adverse developments on certain indicators reflect a serious macro-economic imbalance or not. Poland has never entered the IDR stage, meaning that there is no reason to suspect macro-economic imbalances in the Polish economy, at least not from the Commission's perspective. The following section gives in-depth descriptions of each of the four countries.

# 4 Socio-economic governance: the case of France

In first instance, the economy of France recovered from the crisis quite quickly. In recent years growth has been at or a little over zero. The deficit has decreased gradually, but is still far from meeting the three per cent criterion, and public debt is growing considerably (Figure 1). The country has been in the EDP since 2008 and subject to the IDR as of 2012. Following the 2014 IDR, the Commission urged France to take decisive policy action. As such, the pressure has increased to meet the EU target. At the same time there is also some leeway. While France was in the EDP between 2002 and 2007, received a policy advice from the Commission in 2008, and subsequently was put in a new EDP, the deadlines for meeting the deficit rule were postponed more than once. In 2012 the deadline shifted to 2013; the 2013 deadline shifted to 2015, and the current deadline has been set at 2017. Such absence of sanctions was also seen in the mid-2000s (Morris *et al.* 2006). Apparently this may also occur under the regime of stricter economic governance.

**Figure 1: Main indicators France 2009-2014**

| 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
|---|---|---|---|---|---|
| EDP | EDP | EDP | EDP & IDR | EDP & IDR | EDP & IDR |




Source data: Eurostat. EDP = Excessive Deficit Procedure; IDR = In-depth review

The 2010 Commission (2010b) review of the French budgetary situation recalls the long standing troubles France has had meeting the EU-level targets. Apart from the crisis the ageing society is also a concern for France's economic and budgetary position, making accelerated structural reforms to support potential growth essential to the Commission. The Commission also notes other factors that relate to the deficit, however, one being the EERP and the stimulation of the economy, which at that time was in line with the Commission's ideas for fighting the crisis. Following such analyses the Council gave France relatively contradictory advice in 2010, which was to invest as well as to consolidate: implement stimulus measures in line with the EERP and within the framework of the SGP while avoiding a further deterioration of public finances (European Commission 2010b: 5).

The next sections focus on the topics explored in this paper: the pension system, wages and unemployment.

## 4.1 Unemployment

Of the three themes explored in this paper, unemployment has been the least pressing issue in the Commission's analyses of France. In 2009, unemployment is only mentioned in a CSR addressing the support of labour market entry and transition, especially of young people, however, the expectation is that unemployment will increase due to economic stagnation and job losses in some sectors. Two years later, however, the Council concluded that France has had less impact on the financial and economic crisis than other member states, partly because of sizeable economic stabilisers. These stabilisers contribute to deteriorating public finances, however (Council 2011a). Moreover, the Commission sees the relatively high unemployment rates as a result of labour market weaknesses, and this weakness is something which cannot be fixed by automatic stabilisers. These observations are translated in a CSR to make active labour market policies more suitable for supporting people who are at risk of becoming long-term unemployed. In 2012, youth unemployment was mentioned specifically, as well as the French government's commitment to creating additional apprenticeships. The collection of youth policies should better fit education and labour market needs (Council 2012a). In 2013, unemployment was still not seen as the most urgent matter for France, but the recommendations related to unemployment were expanded considerably and started to address many different elements (Council 2013a). This seems in line with regulations suggesting that the Commission will start drafting more specific recommendations as soon as countries progress in various coordination cycles and start moving towards corrective stages (see Table 1). Indeed, in 2013 and 2014 unemployment recommendations were tied to the IDR, placing France under more precise as well as stricter scrutiny. This does not necessarily result in fast compliance, as in 2014 the Commission (2014a) found that France has made only some progress in the (un)employment CSR, especially regarding the employment rate of older workers. One exception is the French Public Employment Services (PES), which has become more effective, as noted by the Commission.

**Table 1: Recommendations for France on unemployment 2009-2014**

| | *Unemployment* | *CSR # & matching coordination* |
|---|---|---|
| **2009** | Labour market entry notably for youth | (CSR 2) |
| **2011** | Improve public employment service to strengthen services and individualised support provided to those at risk of long-term unemployment | (CSR 3) |
| **2012** | Improve youth employability especially for those most at risk of unemployment, by providing, for example, more and better apprenticeship schemes which effectively address their needs; | Soft (CSR 4) |
| **2013** | Launch urgently a reform of the unemployment benefit system […] while ensuring that it provides adequate incentives to return to work. Enhance the employment rate of older workers and stimulate their participation in the labour market. Take specific action to improve the employment perspective of older unemployed people, in particular through specific counselling and training. Increase adult participation in lifelong learning, especially of the least qualified and of the unemployed. Ensure that public employment services effectively deliver individualised support to the unemployed and that active labour market policies effectively target the most disadvantaged. Take further measures to improve the transition from school to work through, for example, a Youth Guarantee and promotion of apprenticeship. | IDR (CSR 6) |
| **2014** | • Take additional measures to reform the unemployment benefit system in association with social partners, in order to guarantee its sustainability while ensuring that it provides adequate incentives to return to work. Ensure that older workers benefit from adequate counselling and training and re-assess the relevant specific unemploy¬ment benefit arrangements with respect to their situation on the labour market. | • IDR (CSR 6) |
| | • Ensure that active labour market policies effectively support the most vulnerable groups. Improve the transition from school to work, in particular by stepping up measures to further develop apprenticeship with a specific emphasis on the low-skilled. | • Soft (CSR 7) |

## 4.2 Wages

In the 2009 CSRs, wages were not addressed at all, but this topic received increasingly more attention after 2011 and turned into the main issue of Commission scrutiny and advice on France's competitive position, while being tied to the IDR after 2012. The attention to wages culminated into long and rather precise CSRs in 2013 and 2014. In the 2011 CSRs, especially the minimum wage level, were addressed in relation to job creation. The Council (2011a) found that the relatively high minimum wages and the high tax and social security burdens on labour hinder employment and competitiveness (see also European Commission 2011a). The Commission (2011a) and Council (2011a) acknowledged that recent reforms (such as the SMIC, *salaire minimum interprofessionel de croissance*) have moderated the increase in minimum wage, but found that a discussion in the NRP of the level and differentiation of the minimum wage was lacking. The French minimum wage is among the highest in the EU, making low-skilled labour relatively expensive. In 2012 the Commission (2012a) acknowledged that France was partly implementing the minimum wage CSR, but in 2013 the Commission again pointed out that France's minimum wage had risen by 16 per cent in real terms over 10 years. In combination with high nominal unit labour costs, this was believed to have a detrimental effect on employment and the competitiveness of companies. A recent decision by France to make a small increase to the minimum wage goes against the 2012 CSR. This is a clear example showing that France seems to have enough space to go against the recommendations of the Council, also if this recommendation is tied to an economic coordination mechanism such as the IDR. The Commission (2013a) found that there are better ways to give low-income employees a decent income level, such as specific tax systems that are targeted more towards individual situations. Minimum wage development should therefore be monitored to assess its effects on the employment prospects of the low-skilled. In 2014 the Commission was somewhat milder, concluding that some overall progress had been made on different aspects of wages and labour costs. The Commission (2014a) referred to the fact that France decided not to increase the minimum wage in 2013 and 2014 beyond the minimum level set in the law. In 2014 the minimum wage was no longer mentioned in the CSRs, although other issues related to wage remained under surveillance.

The Council (2011a) also found that the tax system should become more balanced by shifting taxation away from labour towards the environment and consumption. This broader approach to wage issues remained at the top of the agenda in subsequent years and progressively found its way into CSRs 2012-2014 (see Table 2). As of 2013 the CSRs on wages also become rather precise, referring to specific policies, and being connected to the IDR as of 2012. For instance, referring to the *credit d'impôt pour la compétitivité et l'emploi* France was asked to ensure that this resulted in the planned amount of labour cost reduction and that no other measures would offset its effects. In 2014 the Commission addressed this policy again and requested that the results be sustained. Labour costs become an item, notably employers' social security contributions. In 2013 and 2014 CSRs were broadened to the French responsibility and solidarity pact, also addressing groups at the lower end of the wage scale. As of 2012 CSRs included shifting taxes away from labour. Such Commission concerns mainly relate to the competitiveness of France, among other because since 2000, nominal wages have increased at a faster pace than productivity (European Commission 2013a). This loss of external position was also a main item of the IDR in 2012, although it also noted that France had implemented some reforms (European Commission 2012b). In the IDR for 2014 the weak competitive position was still a main concern, together with the high public debt. It was a reason for the Commission (2014b) to increase pressure on France to comply with the CSRs, calling for decisive policy action and placing the country under more stringent scrutiny. Reasons for these decisions include the potential spill-over effects on other economies in the Euro area, as well as repetitive requests to change course. "Given the need for policy action already called in the 2013 IDR, the Commission will put in motion a specific monitoring of the policies recommended by the Council to France in the context of the European Semester, and will regularly report to the Council and the Euro Group." (European Commission 2014b: 1).

In 2014 the European Commission noted the CICE (*crédit d'impôt compétitivité-emploi*) that reduces labour costs for people who earn less than 2.5 times the minimum wage and which should result in more jobs. On the one hand it concluded that France had made some progress in this dossier, and on the other hand found that France was more optimistic about the impact of CICE on export competitiveness than the Commission (European Commission 2014a). The Commission also referred to the reduction of labour costs following the responsibility and solidarity pact. The 2014 IDR emphasised that France's progress in the wage dossier was not sufficient, however, as although wages had developed in line with productivity, labour costs remained high and weighed on firms' profit margins. The perceived rigidities in the wage setting system were discussed, including its impact on firms' ability to adjust wages to productivity. Here, the Commission further broadens the scope of wage issues, even though it did not convert it to a CSR in 2014.

## 4.3 Pension system

France has received a CSR on pensions in all years, and as of 2011 this was always tied to budgetary requirements set by the SGP, and also linked to the IDR as of 2013. After 2013 the CSRs become much more detailed, with 2013 in particular including a very precise description of how to go about reforming pensions. This reflects the increased surveillance the pension system has received throughout the years. At first, the Council (2011a) seemed satisfied with the pension reform of 2010, which increased the pension age to 67, set a higher minimum pension age (from 60 to 62) and phased out early retirement schemes, but, in the same year the Council predicted that more measures would be needed, especially due

**Table 2: Recommendations for France on wages 2009-2014**

| | *Wages* | *CSR # & matching coordination* |
|---|---|---|
| **2009** | - | |
| **2011** | Ensure that minimum wage development is supportive of job creation | Soft (CSR 2) |
| **2012** | • Ensure that minimum wage development is supportive of job creation and competitiveness | • IDR (CSR 2) |
| | • Shift tax burden from labour to other forms of taxation | • IDR (CSR 4) |
| **2013** | • Ensure that the reduction in the labour cost resulting from the 'credit d'impôt pour la compétitivité et l'emploi' yields the planned amount and that no other measure will offset its effect. Take further action to lower the cost of labour, in particular through further measures to reduce employers' social-security contributions, in association with social partners. Ensure that developments in the minimum wage are supportive of competitiveness and job creation, taking into account the existence of wage support schemes and social contribution exemptions. | • IDR (CSR 2) |
| | • Take further measures shifting the tax burden from labour to environmental taxation or consumption. | • IDR (CSR 5) |
| **2014** | • Ensure that the labour cost reduction resulting from the 'crédit d'impôt compétitivité emploi' is sustained. Take action to further lower employer social security contributions in line with commitments under the responsibility and solidarity pact, making sure that no other measures offset its effect and that the targeting currently envisaged is maintained. Further evaluate the economic impact of social security contribution exemptions, putting the emphasis on employment, wage developments and competitiveness, and take appropriate measures if necessary. Further reduce the cost of labour in a budget neutral way, namely at the lower end of the wage scale in particular through targeted reductions in employer social security contributions taking into account the various wage support schemes. | • IDR (CSR 2) |
| | • Reduce the tax burden on labour | • IDR (CSR 5) |

to high public debt (Table 3). In 2012 a similar CSR was given, adding the need to review the adequacy of the pension system in addition to its sustainability. The language of 2013 CSR was much firmer, stating that France should take new measures to bring the pension system into balance by no later than 2020, and giving a precise list of examples of how France could do this. This firm language related to the partial rollback of the 2010 pension reforms, which explicitly went against the 2012 CSR (European Commission 2013a; Council 2013a). This rollback was installed by the newly elected French government, and for some categories of workers, the gradual increase in the minimum retirement age allowed them to retire at age 60 (European Commission 2013a). This again shows that France found opportunities to implement reforms that countered a CSR, also if such a CSR is tied to the SGP, the language at EU-level is firmer, and the policy suggestions are more precise. In December 2013 France implemented

**Table 3: Recommendations for France on pensions 2009-2014**

| | *Pensions* | *CSR # & matching coordination* |
|---|---|---|
| **2009** | Further improvement of the pension system, in order to ensure long-term sustainability of public finances | Soft (CSR 1) |
| **2011** | Continue to review the sustainability of the pension system and take additional measures if needed. | SGP & Euro Plus Pact (CSR 1) |
| **2012** | Continue to review the sustainability and adequacy of the pension system and take additional measures if needed. | SGP & Euro Plus Pact (CSR 1) |
| **2013** | Take measures by the end of 2013 to bring the pension system into balance in a sustainable manner no later than 2020, for example by adapting indexation rules, by increasing the full-pension contribution period, by further increasing the effective retirement age, by aligning the retirement age or pension benefits to changes in life expectancy and by reviewing special schemes, while avoiding an increase in employers' social contributions | SGP & IDR (CSR 1) |
| **2014** | Take steps to reduce significantly the increase in social security spending as from 2015 as planned, by […] containing pension costs, […] take additional measures when and where needed to bring the pension system into balance by 2020 in a sustainable manner covering all schemes, with a special focus on existing special schemes and complementary schemes. | SGP & IDR (CSR 1) |

yet another pension reform that the Commission valued to some extent. It was supported by the somewhat milder pension CSRs in 2014, especially in not increasing pension costs and balancing the system by 2020. The Commission also found that France was too optimistic in its projections, however, and judged that more needed to be done to decrease the pension system deficits (European Commission 2014a). Such conflicting prognoses of reform effects, which may also be seen in the wage-dossier, turn out to be very relevant elements in France's reply to EU demands (see section 4.4). There is, moreover, an interesting element in discussing the degree of flexibility that is needed in order to have credible coordination processes, as reform effects are hard to predict and the results of their implementation may only be evaluated after some time.

## 4.4 France's response to EU-level socio-economic targets

Each year France writes in its NRPs and SPs how it is meeting EU-level targets and CSRs. The 2011 NRP for instance notes the pension reform of 2010 which should have helped to improve the sustainability of public finances, while maintaining pensions at an adequate level. Regarding labour market reforms, France focuses, among other things, on the participation of young people and older workers, and long-term job seekers and women also receive attention. Regarding labour costs, the moderation of the minimum wage and general reductions in social insurance contributions have had priority, with the eventual aim of stimulating demand for low-wage labour. Such topics resemble the Commission's suggestions and are more or less still relevant in subsequent years, although many more reforms covering other policy domains were also implemented (see e.g. French SP 2014). The 2012 NRP gives insight into the reform philosophy of France, which is to combine fiscal consolidation with high growth potential in order to revive economic growth and support the labour market. This also means limiting the negative social consequences of the crisis and promoting social cohesion. Simultaneously, the French government states that it remains determined to meet the recommendations it has received.

It is especially interesting in the remainder of this analysis to focus on the replies France gave to the strengthened EU coordination activities around 2013-2014. The NRP 2012 gives insight into the awareness France had of being placed in the IDR and what this eventually may mean in terms of financial penalties. France's reaction is quite mild and cooperative, as it was sure that it would be able to correct imbalances in the economy, based on past and new reforms. The SP 2014 gives a more actively pronounced view on issues and explains that not meeting fiscal targets is related to matters that lie outside the scope of influence of the French government. France also contests the Commission's prognoses of the effects of already implemented reforms. The SP says that "After remaining flat for 5 years, France's economic activity returned to its pre-crisis level at the end of 2013. […] However, adjustments in the euro area, particularly in countries with major imbalances, put a drag on France's external environment at a time when France itself was ambitiously tackling deficits." (French Government 2014: 4).

Using the word 'ambitiously' signals that France believed it had done well in past years, and that reform effects were limited due to the general economic slack in the EU. Such reviews of its good performance may be found throughout the document, for instance using phrases such as "…unprecedented efforts to slow spending…" (p. 4), "… unprecedented and bold target…" (p. 5), and "… the government passed a bold pension reform in 2013…" (p. 64). The statements on reform efforts are combined with contradictory views on calculation methods and different expectations of the effects of reforms. This leads France to conclude that these opposing views have great consequences for judgments about whether or not EU targets will be met, while the country keeps saying it is committed to bring the deficit down to 3 per cent in 2015 (French Government 2014:5 & 13). Predictions might change quickly, however, turning endorsed draft budgets into new worries about deficits. The French SP recalled that the Commission did endorse a draft budget in November 2013, and the Eurogroup agreed with this reading, but, as soon as the winter 2014 forecast showed a deviation from the targets, the Commission changed their opinion and gave a specific recommendation that France should take additional corrective measures. France replied that it would take steps to comply with its fiscal commitments but also noted that the Commission's opinions are not legally binding, although failure to comply could lead to an acceleration of the EDP (compare French Government 2014:44& 73). Simultaneously France noted that the growth of government spending was much slower than the Commission expected in its winter 2014 forecast. This deviation in forecasts and actual spending paces had "… major consequences for the assessment of effective action in accordance with the Commission's methodology". (French Government 2014: 44). It also underlines, according to France, that the country is capable of meeting the SGP target by 2015. Where the lowering of spending is offset by other developments, such as lower tax revenues, France found that this was due to the two consecutive years of very weak growth, which were beyond the Government's control. France also consciously chose not to implement an over-adjustment (i.e. coming below 3% deficit), because this would have negative consequences for future growth. There are also other points in which calculations of France and the Commission deviate. For example, France argues that SGP predictions by the Commission do not take into account additional savings that were announced more recently, whereas 2015 forecasts by the Commission are computed on the basis of a no policy change assumption, and therefore do not incorporate all the effects of new rules, such as a reduction of central government expenditure, the lowering of the national healthcare expenditure growth target, and the delay in the increase of social benefits. The impact of the Responsibility and Solidarity Pact on revenue is also not taken into account in the Commission's calculations.

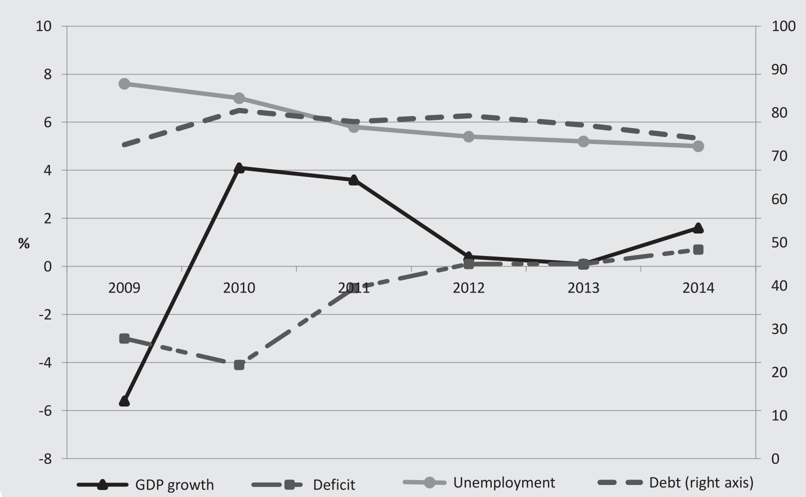
On the one hand this review of France 2009-2014 shows increased pressure at EU-level, for instance by putting France in the IDR and letting the country progress in the corrective arm of the EDP towards more specific recommendations. Leeway may be found as well, however, for example in France actively arguing for different approaches to getting past the economic crisis, by giving sufficient space to growth, and also giving alternative views on calculation methods and future reform effects. Apart from debating conflicting views, France's policy implementation also deviates from the Commission's suggestions. It has even rolled back pension reforms, thus going against the recommendations in the CSRs. France points out that the economic growth rate has lagged behind for reasons that fall outside the influence of government intervention. It also argues that the Two-Pack of budgetary surveillance does not have binding effects (French Government 2014; Reuters 2014). France was granted leeway, most notably the deadline extensions to meet the deficit criterion, but the entire process also shows flexibility by adding new topics to the coordination process, using different or stronger coordination instruments, and in giving some topics either more or less priority over time. Many of these elements are also visible in the next three country cases.

# 5 Socio-economic governance: the case of Germany

Around 2009, Germany suffered from the effects of the financial crisis, but, in later years its economy grew and unemployment decreased. Germany's deficit did not meet the three per cent criterion at first, but as of 2012 Germany was taken out of the EDP. Public debt is high, although it has recently started decreasing. In 2014, the German economy was surveyed more closely in an in-depth-review, concluding that there are imbalances related to the persistently high surplus on Germany's current account. On the one hand this reflects strong competitiveness, but on the other hand it signals restrained domestic growth and a possibly inefficient allocation of economic resources (European Commission 2014c). The risks of a surplus are also judged to be less aggravating than a deficit, however. As such, the expectation is that in most of the period covered by this paper, Germany had not experienced strong pressure at EU-level to move policies in a given direction (see Figure 2). According to the new EDP rules, Germany can enter the EDP for not meeting the 60 percent debt rule only after 2015 (Burret and Schnellenbach 2013).

**Figure 2: Main indicators for Germany 2009-2014**

| 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
|---|---|---|---|---|---|
| EDP | EDP | - | - | - | IDR |




Source: Eurostat

## 5.1 Unemployment

Of the three topics explored in this paper, only unemployment was addressed in the CSRs for Germany in 2009, focusing on high structural unemployment and high unemployment among the low-skilled. Alternating from year to year, these two groups of long-term unemployed and low-skilled people remained a topic in Council decisions (see Table 4). Looking beyond the scope of unemployment alone, the quality of labour was also addressed, such as the transition of people holding a 'mini-job' into stable work and the increased participation of females in work (see also Bekker and Klosse 2013). The 2012 Council evaluation shows that not all groups benefited from the good German labour market situation, and high taxation was seen as one of the elements blocking the labour market entrance of low-wage earners. The German education system also plays a role in this. In 2013 this issue was furthered by addressing the need for better measures to integrate the long-term unemployed into the labour market, also

**Table 4: Recommendations for Germany on unemployment 2009-2014**

| | *Unemployment* | *CSR # & matching coordination* |
|---|---|---|
| **2009** | Proceed with planned measures that enhance the efficiency and effectiveness of job placement services and promote the integration of the low skilled and long-term unemployed into the labour market through a flexicurity approach which combines better access to qualifications with improved incentives to work. | Soft (CSR 2) |
| **2011** | Enhance participation in the labour market by [....] improve work incentives for persons with low income perspectives. | Soft (CSR 3) |
| **2012** | Maintain appropriate activation and integration measures, in particular for the long-term unemployed. | Soft (CSR 3) |
| **2013** | Maintain appropriate activation and integration measures, especially for the long-term unemployed. Take measures to improve incentives to work and the employability of workers, in particular for second earners and low-skilled workers, also with a view to improving their income. | Soft (CSR 2) |
| **2014** | Improve the employability of workers by further raising the educational achieve-ment of disadvantaged people and by implementing more ambitious activation and integration measures in the labour market, especially for the long-term unemployed. | IDR (CSR 2) |

looking at taxation and social security contributions attached to low wages, and suggesting that mini-jobs' transitions into regular employment should be improved. However, only some of such concerns are translated into a CSR. In 2014 the analysis was that despite some progress in improving activation and reintegration measures, long-term unemployment remained challenging. On this occasions such findings were translated into a CSR and this was even tied to the IDR. Mini-jobs are still a concern, but this issue was not converted into a CSR (Council 2014). The high long-term unemployment was also addressed in the 2014 IDR and the Commission (2014c) saw this as a challenge that was increasingly more difficult to tackle, because this group mainly existed of low-skilled workers, and people aged over 50. The IDR also concluded that the growing employment rates in fact masked disparities in the German labour market, which involved increasing numbers of non-regular contracts, and also that the at-risk of poverty rate had increased somewhat (although it was still low compared to other countries). The Commission (2014c) concluded that on the one hand skill shortages appeared in certain regions, and that in other regions unemployment remained high, meaning that work volume had to increase and that the educational performance of certain groups had to improve. In short, the Commission (2013b; 2014d) determined that there was insufficient progress in integrating the long-term unemployed into the labour market, and that in 2013 and in 2014 there was still limited progress in maintaining appropriate activation and integration. Parts of such challenges are therefore set within the CSRs stemming from the IDR, thus strengthening the surveillance to some extent.

## 5.2 Wages

High tax wedges were introduced in CSRs as of 2011, and in 2012 this was related to the unemployment of low-wage earners, and further defined into reducing high taxes and social security contributions for this group in 2013 and 2014 (see Table 5). Attention to wage growth was introduced as of 2012, first to let wages grow in line with productivity, and later to support domestic demand (see also Bekker and Klosse 2013). The Council (2013b) determined that real wages had been growing without adverse effects on competitiveness, but simultaneously wage disparities had increased. In 2014 a third topic was added, this being the general minimum wage. The Council found that Germany should monitor the impact of the minimum wage on employment.

Although in 2014 the Commission found that wages were growing and thus supporting consumption and domestic demand, it believed that the tax wedge is still too high, notably for low-wage earners. In 2013 real wage growth was more moderate than the year before, although the tightening labour market could result eventually in accelerated wage increases. The plan to introduce a minimum wage could also have a positive impact on wages, but close monitoring of potential employment effects is called for. It could have beneficial effects for some sectors and some groups of low-wage workers, and the Commission found it likely that there would be less use of additional social support for low-income earners. In other sectors it may lead to reduced labour demand. In its IDR the Commission (2014c) related labour income to weak consumption, as the disposable income of households has grown more modestly than in other Eurozone countries. The pension income has also increased slightly. The IDR also concluded that the high labour taxation for low-income earners may reduce the volume of work for this group because it increases labour costs and weakens incentives to work. Thus, the Commission found that this dossier was not taken up very ambitiously by Germany, although there had been substantial progress in letting wages grow. It nevertheless intensified surveillance by attaching the issue to the MIP and IDR. This again shows the flexibility in the use of surveillance instruments, where similar topics may be evaluated from different coordination mechanisms. The fact that the minimum wage was included as a new topic, following choices at a national level also demonstrates a certain flexibility to add topics to the coordination process, although certain issues, such as the high tax wedge in Germany, remained a steady topic between 2009 and 2014.

**Table 5: Recommendations for Germany on wages 2009-2014**

| | *Wages* | *CSR # & matching coordination* |
|---|---|---|
| **2009** | None | |
| **2011** | Enhance participation in the labour market by [....] taking further steps to reduce the high tax wedge in a budgetary neutral way. | Soft (CSR 3) |
| **2012** | Reduce the high tax wedge in a budgetary neutral way, in particular for low-wage earners, [...] Create the conditions for wages to grow in line with productivity. | Soft (CSR 3) |
| **2013** | Sustain conditions that enable wage growth to support domestic demand. To this end, reduce high taxes and social security contributions, especially for low-wage earners [...]. Take measures to improve incentives to work and the employability of workers, in particular for second earners and low-skilled workers, also with a view to improving their income. | Soft (CSR 2) |
| **2014** | Improve conditions that further support domestic demand, inter alia by reducing high taxes and social secur¬ity contributions, especially for low-wage earners. When implementing the general minimum wage, monitor its impact on employment. | IDR (CSR 2) |

## 5.3 Pensions

The topic of pensions was only converted into a CSR in 2014, but was addressed in background material for longer. The Council opinion stemming from the SGP addressed the budgetary state of Germany, and found that the deviation from the pension adjustment formula of 2008 should be reversed (Council 2010). In 2012 the Council only referred to the fact that having a mini-job leads to the low attainment of pension rights, but this remark was not converted into a CSR. The staff working documents (SWD) of the Commission also addressed pensions, and in 2012 the Commission (2012c) saw the lowering of Germany's pension contribution as a partial answer to the 2011 CSR to lessen wage-related taxes, and that former pension reforms had contributed to increasing the employment rate of older workers. In 2013, the Commission (2013b) referred to a further reduction in the pension contribution rate. This minor interest in the German pension system changed significantly in 2014. Suddenly, the German pension system was placed higher on the agenda of the Council and the Commission, and the topic was even explored via the SGP and IDR cycles. This had to do with a reform, which the Council (2014) found to be at odds with the cost-effectiveness of public spending and the development of disposable income. The Council worried about the potentially negative effects on the take-up of the complementary second and third pillar pensions. The reforms involved an improvement of early retirement conditions (*'Rente mit 63'*) as well as an increase in pension level for certain groups, including extra pension for people who had raised children born before 1992 (*'Mütterrente'*). The Council also addresses the limited progress of transforming mini-jobs into regular employment with full social security contributions. This might be interpreted as tackling the lack of

**Table 6: Recommendations for Germany on pensions 2009-2014**

| | *Pensions* | *CSR # & matching coordination* |
|---|---|---|
| **2009** | None | |
| **2011** | None | |
| **2012** | None | |
| **2013** | None | |
| **2014** | Ensure the sustainability of the public pension system by (i) changing the financing of new non-insurance/ extraneous benefits ('Mütterrente') to funding from tax revenues, also in order to avoid a further increase of social security contri-butions, (ii) increasing incentives for later retirement, and (iii) increasing the coverage in second and third pillar pension schemes | SGP & IDR (CSR 1) |

pension for mini-jobs which was addressed in 2012. Table 6 shows that the CSR resulting from this analysis was quite precise in expressing concerns about the sustainability of the public pension system and called to change the financing method for the *Mütterrente*, to install more incentives to retire at a later age and to increase the coverage of the second and third pillar pension systems.

### 5.4 Germany's response to EU-level socio-economic targets

The German NRPs are interesting from the perspective that the Commission and Council judged that Germany had taken insufficient measures to fight long-term unemployment and to reduce the high tax wedge on wages. Germany seems very committed to EU targets in its NRPs, as well as to the increased coordination of countries. It also allows itself to create more space for social investments, however, while disagreeing with the Council's conclusions on some economic and budgetary prospects.

The German NRPs (2011-2014) repeatedly referred to the principles of the social market economy, emphasising the equal importance of competition and economic performance on the one hand, and on the other hand equal opportunities and social inclusion (German Government 2013: 2; see also Bekker and Klosse 2013). The NRPs also show awareness that Germany´s and the EU´s prosperity are strongly interconnected, and in 2013 Germany saw this as an argument for its commitment to enhanced economic and fiscal surveillance: "Full use should be made of the instruments available under the imbalances procedure. In certain appropriate situations, the corrective arm of this procedure may be required in addition to the preventive arm. The Federal Government also favours making the stability rules more binding and bolstering individual responsibility and a willingness to implement reforms throughout Europe. With this in mind, the Federal Government welcomes plans to formulate more differentiated, detailed and effective country-specific recommendations in future." (German government 2013: 3). Having said that, the German government continued on the next page that its 2013 NRP displayed significant progress and set additional measures.

Responding to the IDR, Germany evaluated trends and figures differently than the Commission. In the 2014 NRP Germany also showed commitment to the European Semester coordination activities and wanted to contribute to further stabilising and deepening the EU, but the government simultaneously argued "... experience also shows that the consolidation of public budgets without growth is considerably more difficult." (German government 2014: 4), and proposed among other things plans to invest more in education and research. Germany furthermore suggested developing the EMU "... in a way that makes sense" (German government 2014: 4), including improving "... the co-ordination of national economic policies and the implementation of necessary reforms and – in connection with solidarity – to make this more effective and binding also through contractual agreements on reform." This is interesting, as the mention of contractual agreements refers to a proposal of the Commission (2012d) and elements of the van Rompuy report (2012) on the deepening of the EMU. It is an example of more stringent evaluations of national reform practices and, by way of describing reform wishes in a contractual arrangement, also tends to guide in quite a detailed manner the way that member states should proceed. By putting the need for solidarity between quotation marks, however, the intentions of the reform could also take into account matters belonging to the social dimension, although it is not clear from the quote whether it refers to solidarity within or between countries. Germany moreover calls to improve democratic legitimacy and involve citizens, as well as national parliaments, better in the project, which could also point to increased national involvement and ownership. It seems a rather mixed suggestion between more stringent guidance and suggesting space for the social dimension and a role for national stakeholders.

Thus, regardless of the Commission's review of weak progress in some dossiers, Germany seems satisfied with its progress, or poses an alternative view of issues. The 2012 NRP noted that the economy was in good shape, and that this would ultimately result in more jobs and higher wages, which would raise the income of households and subsequently increase their consumption. The weak growth in the winter of 2012/13 is just a result of the weather conditions (p. 5). The NRP also reviewed the IDR procedure and, looking at possible causes of the account surplus, both agreed and disagreed with the Commission's analysis. It starts by emphasising that it welcomes the fact that the Commission sees Germany's competitiveness as a cornerstone of the EU's economy (German government 2014: 9), which in fact means that Germany's European trading partners profit from Germany's success. It also agreed with the Commission that competition on price only plays a minor role in the explanation of the expansion of the trade balance, yet argued that product quality, innovation, etcetera, are more relevant factors. The federal government also shares the Commission's opinion that the increase in consumer spending is below the Eurozone average, and that this is partly related to the moderate wage development of the past 14 years. Germany also notes a study by the Commission which concluded that wage moderation had only had a marginal effect on the current account surpluses. Germany found that wage moderation was necessary, in light of the past high unemployment rates, the weak economy and the poor profitability conditions of businesses. Recently, Germany has seen wage growth that is more favourable than in other Eurozone countries, and expects to conform with the Commission's prognosis, that this will continue to be the case in the near future, thus supporting domestic demand. The high savings are also a reason for relatively low consumer spending, and this saving is related to the ageing of society and the pension system. The government disagrees with the Commission's analysis that the slow price development in the property market has had the effect of lower consumer spending. Germany found that increasing property prices was not something to be encouraged, and rather looks at this from the perspective that a moderate growth in prices and rent enables households to spend more of their income on consumption, and that low housing prices also contribute to labour mobility.

Germany found that the Commission does not take all relevant elements into account when calculating and explaining the current account surplus – for example higher demand for industrial goods in developing countries - and that this leads to some misinterpretations. Still, Germany has made further plans to stimulate internal growth, including the introduction of a legal minimum wage and investments in childcare facilities which should support women in further integrating in the labour market.

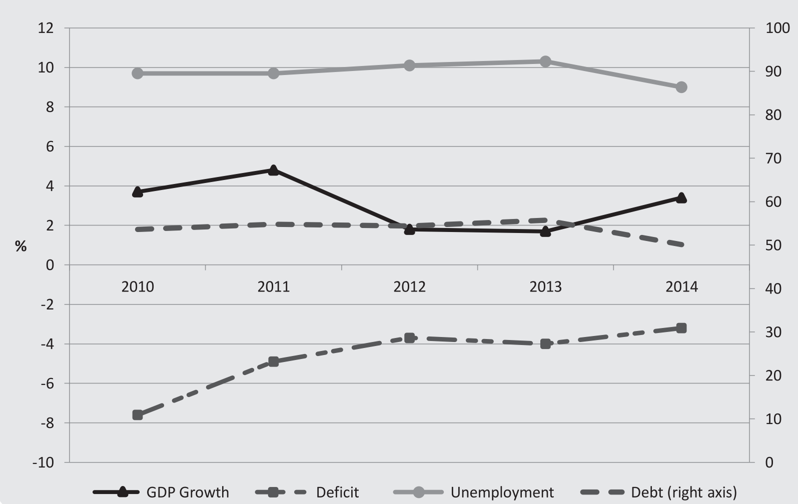
The minimum wage, as well as reorganising temporary employment, should contribute to secure adequate minimum protection, which should also have a positive effect on wages. The 2014 NRP also explained why Germany reformed its pension system, to which the 2014 CSRs objected. The reforms are actually a reaction to the EU target to promote social inclusion and reduce poverty. Germany found that people should be able to count on social security once they reach an old age and that old-age poverty should be prevented. It therefore aims at improving the pension of people with a reduced earning capacity. Germany expects to implement a life-work pension by 2017, aimed at low-income earners who were insured under the statutory pension system for many years but can only expect a very low pension. This system is based on the principle of solidarity, and the German SP 2014 explains that it does not necessarily cause a sharp increase in public spending. The NRP refers to the 2014 National Social Report (NSR) for more information on this pension reform. On the issue of the tax burden on low-wage earners, Germany refers to the introduction of the Act to Reduce the Fiscal Drag (*Gesetz zum Abbau der kalten Progression*) which has reduced the taxation burden. Germany will continue to monitor the effects of this measure, and in the future the changes in health insurance will further decrease social-security burdens on this group. Germany also points out the decreasing long-term unemployment rates and finds that its current labour market is very open to new workers, although the possible misuse of the instrument of temporary workers or contract workers is a point of attention for the government. Thus, also the German responses to the CSRs show some deviations from the line the Council and the Commission have set. The changes in the pension system moreover show that Germany has chosen to some extent to reduce old-age poverty, even if this could have an impact on public expenditure. Like France, Germany argues for a social market economy, where equal opportunities and social inclusion are also important elements. Some room to choose its own policy route is thus seen in the German case, as well as concurrence with the Commission's goals. Germany also contests certain calculation methods for predicting economic and fiscal trends.

# 6 Socio-economic governance: the case of Poland

Between 2006 and 2008 the Polish economy was still growing rapidly at a rate of six per cent on average, and unemployment was decreasing (European Commission 2010c). Although the Commission and the Council observed a slowdown in Polish growth around 2011, the country didn't enter a recession between 2009 and 2014 (see Figure 3 and Council 2011b). The 2011 SWD of the Commission gives several reasons for the resilience of the Polish economy, among which are the absence of large macroeconomic imbalances, relatively low trade openness, a good export structure and an appropriate monetary and fiscal policy response. A sharp currency depreciation also helped mitigate the impact of collapsing export markets and weak domestic demand (European Commission 2011b). Accordingly, in the absence of macro-economic imbalances, no in-depth review were undertaken. The SWD of 2013 further explained the merits of the Polish economy, including relatively cheap labour with low labour taxes and labour laws that support flexibility. In 2014, however, the Commission

**Figure 3: Main indicators for Poland 2009-2014**

| 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
|---|---|---|---|---|---|
| EDP | EDP | EDP | EDP | EDP | EDP |




Source: Eurostat

added that even though Poland had weathered the global crisis well, the country faced significant economic challenges, including further fiscal consolidation, low labour market participation, particularly of females and older workers, high youth unemployment, relatively low levels of education, weaknesses in public healthcare and business environment as well as a lack of innovative capacity. Stagnating real wages also contributed to rising poverty rates. Poland's public finances were affected by the crisis however. Debt and deficits were on the rise, although debt remained below the threshold of 60 per cent. In the 2009 text preceding the recommendations, the Commission judged that Poland had responded to the economic slowdown in line with the investment ideas of the EERP, although financial targets were also checked (European Commission 2009b). The main observations included the transition to a low carbon economy and enhancing long-term growth potential, a low level of labour productivity and underutilisation of the workforce. The Commission therefore proposed a reform of the social security systems, to bring older workers into employment, thus strengthening the labour supply as well as improving the sustainability of public finance. Improving the business environment, developing infrastructure and enhancing the quality of human capital would also support growth and employment (European Commission 2009b).

In 2009 Poland was placed into the EDP, and the country received an extension to the deadline in 2012. In 2014 the Commission observed that Poland would probably not meet the deadline to bring the deficit below three per cent by 2015 and accordingly requested Poland to hand in a detailed plan of action for its consolidation strategy. For 2015, based on the no-policy-change assumption, the deficit is projected at 3.1 per cent of the GDP, thus more than the recommended 2.8 per cent target. Still, because the Commission found that Poland was progressing sufficiently, and is minding the recommendations, it has decided to hold the procedure in abeyance and not to take further steps (European Commission 2014d). Although the Commission thus gives more leeway to Poland, the interpretation of these numbers as well as the proper way to establish economic and budgetary recovery, are challenged by Poland (see next sections).

## 6.1 Unemployment

At first the Polish unemployment rate did not suffer much from the crisis, and the SWD of 2011 showed that the Commission agreed with Poland's forecast that unemployment would drop from 9.7 per cent in 2010 to 8.8 per cent in 2012. The main remarks in 2011 were about the job prospects for groups at risk of exclusion, because having a job helps in reducing poverty. This view was underlined in the Polish response to this challenge, although the Polish government also drew a more complex picture of what needed to be done to tackle social exclusion. The Commission moreover found that efforts should focus on assisting families with children, because childcare responsibilities contribute to the economic inactivity of women, and single parents form a large part of the unemployed population. The favourable unemployment trends of 2009-2011 may explain why the EU-level observations were focused on improving *employment* rates (Council 2011b; Council 2012b). The low exit ages of older workers from the labour market were also addressed frequently. In subsequent years the participation rates of women and older workers remained a topic, and observations led to suggestions for pension reforms. As of 2012 the high youth unemployment became a growing concern. Its causes were mainly skill mismatches and underdeveloped access to apprenticeships and work-based learning. This concern was converted into a soft CSR on reducing youth unemployment in 2012 (see Table 7). The first signs of how labour market segmentation affects youth appeared (European Commission 2012e). Some types of temporary contracts did not always fall within the scope of the Polish Labour code, did not act sufficiently as a stepping-stone into regular employment, included a large wage penalty and were associated with a negative impact on human capital and productivity. This issue was taken up more vigorously the next year, among other things resulting in recommendations in 2012 and 2013 (in this contribution this is included in the wage issue in the next section). In 2013 the Commission observed increasing unemployment rates, both in general unemployment as well as youth unemployment (European Commission 2013c), but a year later unemployment was predicted to decline again from 10.3 per cent in 2013 to 9.5 per cent in 2015 (European Commission 2014f). Still, youth unemployment remained high on the agenda. The Commission still sees a need to address skills mismatches and also suggested implementation of the Youth Guarantee. In 2014 it expressed additional worries about the growing rate of young people who were not in education, employment or training (NEET). In this respect Poland also needed to improve its outreach to non-registered youth. The 2013 and 2014 evaluations emphasise that the farmers' social security scheme Agricultural Social Insurance Fund (KRUS) caused hidden unemployment. In 2014, the Council concluded that whereas early retirement options were considerably limited, further efforts were needed to enhance older worker's employability and the effective duration of working life. Concerns about both young and old people in the Polish labour market were converted into recommendations in 2013 and 2014 and the NEETs issue was added to the 2014 recommendation. Related issues were the inadequate functioning of social security and Public Employment Services (PES). The 2013 SWD noted, for instance, that in-work benefits were insufficient to prevent people from slipping into long-term unemployment.

All in all, the Commission is not negative about the development of Polish policies in most labour market dossiers, and there are efforts to reduce youth unemployment, increase female labour market participation, improve the access to childcare facilities as well as improve the employability of older workers by installing a lifelong learning strategy. In 2014, however, the Commission had not yet seen progress in fighting labour market segmentation and reforming the special pension schemes for farmers and miners. Efforts to improve skills and education could also have been taken on a more ambitious scale, including more efforts to enhance better cooperation between companies and schools and to

**Table 7: Recommendations for Poland on unemployment 2009-2014**

| | *Pensions* | *CSR # & matching coordination* |
|---|---|---|
| **2009** | Develop an integrated flexicurity approach, by implementing an active ageing strategy, stepping up actions to improve active labour market policy, notably for disadvantaged groups, reviewing benefit systems to improve incentives to work, and putting in place the lifelong learning strategy. | Soft (CSR 4) |
| **2011** | Increase female labour market participation by taking measures to ensure stable funding for pre-school child-care arrangements, to increase enrolment rates of children under three years. | Soft (CSR 5) |
| **2012** | • To reduce youth unemployment, increase the availability of apprenticeships and work-based learning, improve the quality of vocational training and adopt the proposed lifelong learning strategy. Better match education outcomes with the needs of the labour market and improve the quality of teaching.<br>• Reinforce efforts to increase the labour market participation of women and raise enrolment rates of children in both early childcare and pre-school education, by ensuring stable funding and investment in public infrastructure, the provision of qualified staff, and affordable access. | • Soft (CSR 3)<br>• Soft (CSR 4) |
| **2013** | • Strengthen efforts to reduce youth unemployment, for example through a Youth Guarantee, increase the availability of apprenticeships and work-based learning, strengthen cooperation between schools and employers and improve the quality of teaching.<br>• Continue efforts to increase female labour market participation, in particular by investing in affordable quality childcare and pre-school education, and by ensuring stable funding and qualified staff. | • Soft (CSR 3)<br>• Soft (CSR 4) |
| **2014** | • Strengthen efforts to reduce youth unemployment, in particular by further improving the relevance of education to labour market needs, increasing the availability of apprenticeships and work-based learning places and by strengthening outreach to unregistered youth and the cooperation between schools and employers, in line with the objectives of a youth guarantee.<br>• Continue efforts to increase female labour market participation, in particular by taking further steps to increase the availability of affordable quality childcare and pre-school education and ensuring stable funding. | • Soft (CSR 2)<br>• Soft (CSR 3) |

raise the quality of the teaching offered. Access to apprenticeships and work-based learning should be improved, as well as the skill profile of the workforce. In 2014, the evaluation included the presentation of the Polish Youth Guarantee Implementation Plan, but remaining challenges are the quality of offers under a Youth Guarantee, accounting for the urban/rural differences among NEETS, as well as pro-active and tailored outreach to nonregistered young people. Other challenges include developing quality partnerships between all relevant stakeholders and the use of a monitoring system.

## 6.2 Wages

Wages do not seem to be a great concern for the Commission and Council in their explorations of the Polish economy. The only way the topic is addressed in CSRs is by referring to in-work poverty. This suggests that wage levels are too low rather than too high. The 2011 SWD noted that in the first years of the crisis the Polish labour market adjusted through wages and sectoral reallocation of labour from industry to services (European Commission 2011b). Accordingly, nominal wage growth slowed in 2009-2010 and real wages remained stable. Although Poland had predicted growth for 2012, the Commission correctly found these predictions to be too optimistic. In the SWD 2013 the Commission reported a decline of real wages and also that the 2014 SWD showed stagnating real wages, which were partly driven by a nominal freeze on public sector employee salaries. This contributed to an increase in the poverty rate. In all its responses to EU targets, Poland continues to note the probability that restoring labour markets are not likely to result in large wage growth, as unemployment remains too high for labour to make high wage demands. Poverty remains a concern and the Commission found that access to work was only a partial remedy, due to the high level of in-work-poverty of around 11.4 per cent, which particularly affects low-skilled in rural areas. Low female participation and early retirement ages are related to poverty as well, as this results in inadequate pensions for females. Such wage and poverty concerns were not translated into CSRs in 2009 and 2011 (see Table 8). The 2012 SWD emphasised in-work-poverty much more and links it strongly with youth unemployment. This link is via the segmentation of the Polish labour market and the difficulties people have in making a transition from fixed-term to open-ended employment contracts. This difficulty is aggravated by the, what the Commission calls, 'partial abuse' of self-employment and civil law contracts which fall beyond the scope of Labour Law (European Commission 2012e: 7). This is a factor in explaining the in-work poverty rate, because in-work-poverty is twice as high for temporary workers as for workers on permanent contracts, also due to the wage penalty of 27.8 per cent associated with temporary contracts. The Commission found that Poland only addressed the high in-work-poverty to a limited extent, for example because of a low statutory minimum wage, low net transfers to low-income earners and stringent eligibility rules. All these elements led to the Commission's judgment that people tend to be trapped in poorly paid jobs and upward mobility is hampered. In 2013 the continuing worries on this issue were translated again into a CSR. The reviews show that the Polish government's discussion with the social partners on labour market segmentation did not lead to concrete results and that the measures for combating in-work poverty will probably not lead to noticeable effects (European Commission 2013c). For example, Poland increased its minimum wage from PLN 1500 (EUR 375) to PLN 1600 (EUR 400) and raised income ceilings for social assistance and family benefits, thus raising the level of benefits (European Commission 2013c: 18), but the Commission found these measures to be only partially relevant and not sufficient to address the scale of the challenge, for instance because many workers employed on civil law contracts are not covered by the minimum wage. Such contracts include severe wage penalties and over 50 per cent of young Polish workers (18-32 years) are employed on the basis of civil law contracts.

In 2014 in-work-poverty was no-longer a concern in the summary analysis of the Council and thus not an item in the CSRs, but, the more general concern of needing to combat labour market segmentation and to improve transitions into stable jobs, remains part of the CSRs. Moreover, in the background analysis of the SWD 2014, in-work-poverty is continually addressed as a major issue and the Commission determines that there is only limited progress in combating in-work poverty and no progress in combating labour market segmentation. Poland's social protection system is still not the most effective, and accordingly has a limited impact on poverty reduction. According to the Commission, Poland's attempts to reduce in-work-poverty via higher minimum wages overlooks other poverty drivers linked to sectoral mobility, family support and household work intensity. Not including the issue in the CSR 2014 shows that there is a certain flexibility in the way the Commission addresses topics in country-specific recommendations.

**Table 8: Recommendations for Poland on wages 2009-2014**

| | *Wages* | *CSR # & matching coordination* |
|---|---|---|
| **2009** | None | |
| **2011** | None | |
| **2012** | To combat labour market segmentation and in-work poverty, limit excessive use of civil law contracts and extend the probationary period to permanent contracts. | Soft (CSR 3) |
| **2013** | Combat in-work poverty and labour market segmentation including through a better transition from fixed-term to permanent employment and by reducing the excessive use of civil law contracts. | Soft (CSR 3) |
| **2014** | None (although combating labour market segmentation remains an item) | |

## 6.3 Pensions

Unlike wages, pensions are often mentioned in background analyses and recommendations, and this is related to the low employment rate of older workers (see section on unemployment). Frequently mentioned, both in the analyses and the recommendations, are the KRUS pension provisions for farmers. In 2009 the first CSR referred to enhancing control over expenditure, in particular by reforming the Farmers' Social Security System (see Table 9). The 2011 analysis addressed recent changes in the pension system which resulted in a reduction of a structural budget deficit by 0.7 per cent in 2011. The Council

**Table 9: Recommendations for Poland on pensions 2009-2014**

| | *Pensions* | *CSR # & matching coordination* |
|---|---|---|
| **2009** | [....] enhance control over expenditure, in particular by reforming the Farmers' Social Security System | Soft (CSR 1) |
| **2011** | Raise as planned the statutory retirement age for uniformed services, continue steps to increase the effective retirement age, such as linking it to life expectancy. Establish a timetable to further improve the rules for farmers' contributions to the social security fund (KRUS) to better reflect individual incomes. | Soft (CSR 3) |
| **2012** | Tackle entrenched practices of early retirement to increase exit ages from the labour market. Phase out the special pension scheme for miners with a view to integrating them into the general scheme. Take more ambitious, permanent steps to reform the KRUS to better reflect individual incomes. | Soft (CSR 4) |
| **2013** | With a view to improving sectoral labour mobility, take permanent steps to reform the KRUS. Phase out the special pension system for miners with a view to integrating them into the general scheme. Underpin the general pension reform with measures promoting the employability of older workers to raise exit ages from the labour market. | Soft (CSR 4) |
| **2014** | Include farmers in the general pension system, starting by speeding up the creation of the system for the assessment and recording of farmers' incomes. Phase out the special pension system for miners with a view to integrating them into the general scheme. Underpin the general pension reform by stepping up efforts to promote the employability of older workers to raise exit ages from the labour market. | Soft (CSR 3) |

found this insufficient to improve the underlying budgetary situation. Moreover the retirement regulations for uniformed services and miners continued in place, and the statutory retirement age for women was lower than for men, contributing to a low exit age from the labour market (Council 2011b). Accordingly, the 2011 CSR asked Poland to increase the statutory retirement age for uniformed services and to increase the effective retirement age. KRUS was mentioned again, and this time a more precise message was added to establish a timetable to further improve the rules for farmer's contributions to KRUS and to let these better reflect individual incomes. In 2012 the Council acknowledged that Poland had adopted a general pension reform entailing a gradually rising retirement age and a limitation of the retirement conditions for uniformed services. KRUS was reformed, but the Council found this had only a temporary nature and, from a labour market perspective, was insufficient. For instance, the reform did not change the special pension options for miners. The attached recommendations thus dealt again with tackling early retirement and phasing out the special pension scheme for miners. In addition, more ambitious, permanent steps to reform KRUS were recommended in order to better reflect individual incomes. In 2013 the analysis once more addressed KRUS and the special pension scheme for miners. The CSR added to improve also the employability of older workers so as to increase the exit age from the labour market. The 2014 CSR was very similar, although the term 'KRUS' was not explicitly mentioned. The CSR speaks instead of including farmers in the general pension scheme, as the current schemes hinder sectoral and territorial labour mobility.

## 6.4 Poland's response to EU-level socio-economic targets

In all years between 2009 and 2014 the Polish government expressed its ambition to join the Eurozone, however, the crisis affected the time frame in which accession was to be realized, as the move towards meeting the EMU criteria slowed down. Thus, in spite of its non-Eurozone membership as well as its relatively good economy, its desired membership in the Eurozone could be a factor in explaining Poland's level of compliance to EU demands.

While largely agreeing with the Commission's analyses of Poland, the country also seeks national leeway to develop policies. The Polish 2009 NRP and Convergence Programmes (CP) seem to be largely in agreement with the Commission's analysis of the Polish economy and labour market, acknowledging that the economic conditions are those of great uncertainty and that although Poland has remained the only EU country with positive GDP growth, it could not avoid fiscal deterioration. Decreasing pension contributions, as well as lower income tax rates from 2009 and changes in VAT which were favourable for tax payers, have also resulted in lower government revenues (Republic of Poland, 2009), however, and thus, despite its resilience to the crisis, Poland was placed in the EDP in 2009. The government expressed readiness to meet the recommendations to reduce the fiscal imbalance, and even found that current imbalances were a result of neglect in the past. It therefore prepared a package of reforms, whilst finding some balance between investing in growth and consolidating public finances, the latter especially looking at the reduction of administrative expenditure. Although having the ambition to meet the deficit rules, the government is thus also looking for ways to invest in growth. The NRP 2009 further explained this as an aim to create a basis for long-lasting socio-economic development which should also result in an improvement in the citizens' living standard. This translates as overall priorities which address improved public finances, but also the creation and maintenance of new job opportunities and a reduction of unemployment, as well as more adaptability of employees and enterprises via investing in human capital. Such aims, containing a search for a proper balance between consolidation, investment in growth and improving the quality of life, remain an item in subsequent national reports.

The 2011 NRP also seems to be largely in agreement with the Commission's targets, although Poland says that analyses of bottlenecks also stems from the government itself. In order to manage Poland's challenges and to effectively react to those bottlenecks, the focus should be on the implementation of reforms that will catch up or build new competitive advantages, thus clearly referring to a dual target of consolidating and investing. While pointing at the conclusions of the European Council of March 2011, that prioritise fiscal consolidation and structural reforms, Poland also emphasises the tailored approach to Poland's society and economy: "… it should be emphasized that the NRP is not only an instrument of the Europe 2020 Strategy implementation, but above all an instrument which takes into account Polish specific situation and challenges and tackles the national growth bottlenecks and at the same time contributes to the delivery of common, EU targets, including the strengthening of the global EU position." (Republic of Poland 2011: 3; see also Bekker 2014). The NRP agrees with the Commission's view that the high structural deficit should be reduced, but also finds that public expenditure should be allocated to support growth. Poland moreover carefully refers to the fact that the great majority of EU Member States are subject to the EDP, making Poland far from an exception. The country explains that the majority of state budget expenditure is fixed, meaning that in the short term a more restrictive fiscal policy or a reduction in discretionary spending, including investment, are more feasible ways of reducing expenditure. The argument that the high deficit in 2011 resulted from a peak in public investment supporting growth, is also interesting, including the absorption of EU funds, spending on infrastructure and expenses related to the preparation and organisation of the 2012 European Championship in football. Actually, Poland sees investments in social infrastructure (e.g. education, health care, culture), as a way to unleash regional potential, and contribute to social inclusion. In 2013 and 2014 Poland's emphasis on the national ownership of reforms was communicated again, stating that the NRP reflected the way that, within the 2020 perspective, Poland fulfils the national commitments, taking into account specific national conditions and activity directions, as set in national strategic documents (Republic of Poland 2013a). The CP 2013 repeated the argument that the Commission itself highlights the importance of a growth-friendly fiscal consolidation and moreover pointed out that the Commission had stated that the scope and pace of consolidation needs to mirror the different fiscal and economic situations of the countries under the EDP - which at that time amounted to no less than 20 countries. Poland thus found that a further reduction of public finances should not pose a threat to medium-term growth perspectives.

Whereas at the beginning of the crisis, Poland still sought the causes of fiscal imbalances in its own past neglects, it began arguing later that the causes of economic and budgetary troubles lay outside the country. It no longer saw further cuts in public expenditure as the sole remedy for economic misery and noted that bringing deficits below three per cent was difficult despite its restructuring efforts. The CP 2012 attempted to support this argument by referring to a letter from the Commission of November 2011, asking Poland to map out measures to correct the excessive deficit, conforming the Council recommendations. In December 2011 the Polish Minister of Finance presented further measures and Poland subsequently noted that these plans received a positive assessment by the Commission in a statement of January 2012. These measures have not resulted in meeting the deficit criteria, however. The importance of other economies for the accomplishments of Poland had already been addressed in the 2011 NRP in which Poland realized that unfavourable trends in the world economy could also affect the internal economy as well. Later reports referred to a stagnation or even decrease in the volume of exports to the largest euro area economies: Germany, France and Italy. This point was also raised in the CP of 2013. It gives two reasons for Poland's economic slowdown: the economic downturn in the main export markets, and a rather restrictive macroeconomic policy. This not only affected the economy, but also the labour market and Poland found that unemployment was a consequence of the unfavourable macroeconomic situation in Poland and Europe (Republic of Poland 2013a). The 2013 NRP moreover stated that the employment and unemployment rates were still major dossiers to be addressed. The CP of 2014 was more optimistic about the economic standing of the EU and related growth perspectives in Poland, but the economic activity of its major trade partners continued to be a basic risk factor for macroeconomic forecasts.

Although the 2014 economic developments of Poland's main trading partner countries seem sufficient, the manner in which the EU economy fares does receive a twist when combined with the theme of meeting the requirements of the EDP. At first, Poland was told to reduce the structural deficit by at least 1¼ percentage points of GDP on average, between 2010 and 2012. The CP of 2013 explains that according to the Commission forecast from February 2013, the structural deficit, which Poland explicitly stated was the part of the nominal deficit which was directly affected by the government through implemented actions, decreased from 7.9 per cent of GDP in 2009 to 2.9 per cent of GDP in 2012. It therefore exceeded the pace recommended by the Ecofin Council. If the Polish Ministry of Finance used the 'very conservative estimate' following the European Commission's methodology, however, the deficit would have reached 3.4 per cent of GDP in 2012 (Republic of Poland 2013b: 4). Poland translated this finding as follows, that "even under this conservative estimate the recommended fiscal effort has been overachieved" (Republic of Poland 2013b: 4). What falls beyond the scope of government intervention, however, is the deterioration of the economic situation in other EU countries, causing a slowdown in national economic activity and subsequently triggering a significant change in macroeconomic conditions compared to both the 2009 and the 2012 assumptions. Put differently, Poland found that in spite of a substantial, and more than planned-for decrease in the structural deficit, their efforts did not result in achieving the 2012 nominal deficit target among other things due to the economic slowdown elsewhere. Thus, targets were not met, for reasons that Poland found to be independent of the government's economic policy. Although Poland did not leave the EDP, the Ecofin Council of June 2013 gave a positive assessment of the effectiveness of the measures implemented by Poland and postponed the deadline until 2014. The CP of 2014 again took a stance in the GDP issue, particularly because the deficit was growing instead of decreasing. In the autumn of 2013, Poland estimated that irrespective of consolidation measures, their deficit would end at 4.8 per cent of GDP. This time, the deterioration of the economic growth structure and associated factors that played a role in the decrease of government revenue, were put forward as explanations. Poland explicitly referred to the impact of fiscal consolidation on economic growth, and even challenged the Council recommendations. "Considering the impact of fiscal consolidation on the economic growth, it was recognised that a reduction of the deficit in 2013 to the level of 3.6 per cent of GDP defined in the Ecofin Council recommendation would be strongly procyclical. Consequently, it would affect economic growth prospects and pose a significant risk of recession, an even deeper downturn of tax revenue and a continued increase in the general government deficit." (Republic of Poalnd 2014: 7). Still, the CP also presents further measures to limit deficit growth. In November 2013 the Commission found that Poland had still not implemented policies in line with its recommendations. The Commission had stated earlier that additional structural measures in 2014 corresponding to 1.6 per cent of GDP were needed in order to meet the three per cent rule, but Poland contends that this is a far greater effort than the Ecofin Council had recommended earlier, even though the general government deficit was much lower than in 2009 and the government debt remained below the 60 per cent threshold. The Commission has set a new deadline for the correction of the excessive deficit and related to that, the Ecofin Council adopted new recommendations and postponed the deadline to 2015. New forecasts by the European Commission published in February 2014 project a deficit of 3.5 per cent of GDP in 2015 which is significantly above the deficit target. Poland, however, says that these projections have not taken into account the consolidation measures, and the Council has also used other outdated information. Interestingly, while Poland's 2014 NRPs and CP give more elaborate counter-arguments against the Commission's views, Zeitlin and Vanhercke (2014) explain that in the same year Poland tried to amend the draft CSR on its pension system. In spite of taking this issue all the way to the European Council, the proposed amendments were not endorsed. Both examples illustrate the attempts of countries to pose alternative views to Commission analyses and even argue for alternative policy suggestions. Zeitlin and Vanhercke (2014) explain that in some cases countries do succeed in having draft CSRs amended.

# 7 Socio-economic governance: the case of Spain

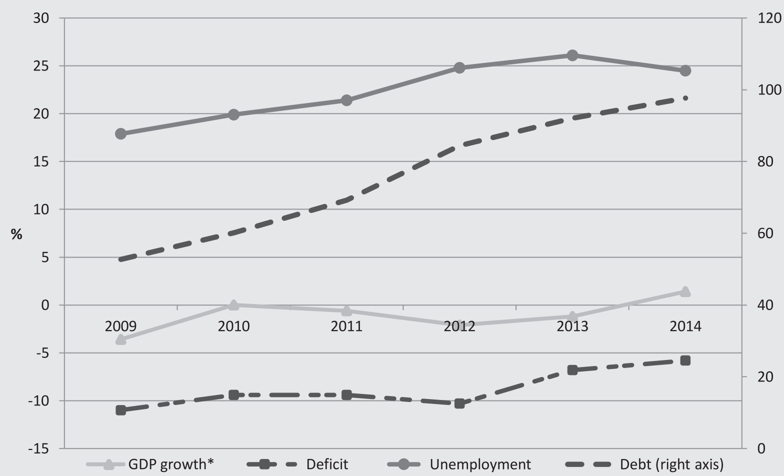
The case of Spain is in some respect different to the cases of France, Germany and Poland. This particularly involves the degree of EU pressure that Spain has been under to implement reforms, which is believed to be higher than for other EU countries that experienced economic difficulties but did not enter bail-out programmes. Kilpatrick and de Witte (2014: 2) note that Spain, as well as Italy, have received 'important EU instructions with a social focus' even though they did not enter a full bail-out programme. Spain only received loans and assistance programmes to support its financial sector, yet, it has been receiving reinforced instructions via the MIP and the SGP, including a letter from the European Central Bank with reform instructions (Kilpatrick and de Witte 2014; Rodriguez 2014). Spain has been in the EDP since 2009, with a first deadline to bring government deficits below three per cent by 2013 and this deadline is currently set at 2016. As of 2012 the country also went into stricter surveillance under the MIP. The 2012 IDR did not reveal excessive imbalances, but still defined issues that required urgent attention. In 2013 and 2014 the Commission noted excessive imbalances, but also acknowledged that adjustments were taking place, thus on the one hand not pressing for further coordinative action, while on the other hand arguing that the high magnitude of problems, including unemployment, required continued attention. The 2014 imbalances were set in the context of Spain moving towards a better state, although immediate attention was still required.

In the 2009 the evaluations of Spain do not show acute concerns, in spite of the Commission observing a significant slowing of GDP growth to 1.2 per cent in 2008 (see Figure 4). It expected a further decline for 2009, caused by a combination of contraction in construction sector, the global financial crisis and tighter credit conditions. Simultaneously labour participation rates remained strong, notably those of women. By 2011 concerns had grown rapidly, especially about the bursting of the housing bubble, the sharp contraction in the construction sector, the sovereign debt crisis and the adverse public expenditure developments. The Commission then also observed that the Spanish government was developing an ambitious reform agenda including fiscal consolidation, pension reforms, a restructuring of banks, and labour market and product market reforms (see also SWD 2011). The 2013 and 2014 observations of macroeconomic imbalances remained acute and given the magnitude of problems, reform efforts could have been improved according to the Commission. Overall the Commission judged that Spain was very much committed to implementing strategies to overcome the crisis. In the SWD 2011 the plan was still to bring deficits to below three per cent by 2013, with a further reduction to 2.1 per cent by 2014. The Commission also wrote that there were always uncertainties in such predictions, related to macroeconomic assumptions as well as the need for all levels of government in Spain to respect budgetary targets. The Commission found reassurance in the fact that the Spanish government was committed to taking extra measures, and acknowledged that reforms need some time to have measurable effects. The 2012 SWD analysis spoke of ambitious reforms in key areas such as the financial sector, the labour market, collective bargaining, and pensions. Spain announced additional plans, which the Commission found 'comprehensive and far-reaching' and which should further strengthen fiscal discipline and boost competitiveness and growth (European Commission 2012f: 3). Despite this, the Commission also wrote that efforts should be stepped up. The 2012 analysis included references to the weak external environment, the magnification of the sovereign debt crisis with negative spillover in the financial sector, declines in government spending and a larger-than-expected worsening of the labour market situation. The combination of these issues was interpreted as the Spanish economy losing momentum. The Commission also found that small wage adjustments and a still rigid labour market contributed to the aggravating situation, and not only cyclical but also structural factors contributed to rising unemployment, particularly affecting youth, the low-skilled and those with temporary employment contracts. As of 2012 another concern was the social consequence of the crisis, including a growing number of people at risk of poverty and/or social exclusion.

The 2012 and 2013 SWD noted that the imbalances in Spain's economy were closely interconnected and thus needed comprehensive and ambitious policy responses. The 2013 IDR determined that the risks and negative economic trends identified in 2012 were still 'powerful and have partly materialised' (European Commission 2012f; European Commission 2013d: 9). There were still negative feedback loops between the continuing recession, ongoing deleveraging and unstable market financing conditions, and unemployment was at a record high. The share of long-term unemployment was rising, and wages had started to adjust only recently to the economic reality, also as a result of the 2012 labour market reform. There were more imbalances noted that fall beyond the scope of this contribution. In the EDP the Council recommended that Spain put an end to the current excessive deficit situation by 2014, and, based on the 2012 autumn forecast, Spain is believed to have taken effective actions to comply with the revised Council recommendation of 10 July 2012. This meant that no further steps in the EDP were required, also signalling that the Council and Commission agreed with the reform efforts of Spain. This was similar in the 2014 SWD, which notes further progress. By then, the Spanish economy seemed to pull out of a long recession and employment had also stopped falling. The GDP was expected to grow by 1.1per cent, however, at the same time the

**Figure 4: Main indicators for Spain 2009-2014**

| 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
|---|---|---|---|---|---|
| EDP | EDP | EDP | EDP & IDR | EDP & IDR | EDP & IDR |




Source: Eurostat

Commission felt that recovery was at an early stage and fragile, especially the high levels of private and public debt, the external liabilities and the very high unemployment which contributed to vulnerability and uncertain future growth perspectives, thus, in the analysis of the Commission, calling for more structural and fiscal reforms.

## 7.1 Unemployment

Unemployment is by far the most often addressed issue in the CSRs, and the topic developed into one of the main dossiers affecting the well-being of a large part of Spain's population. Unemployment had grown to eleven per cent in 2008 with an expected further increase to 16 per cent in 2009, especially hitting the labour market status of immigrants, youth, and the low skilled. The EERP had been an important strategy around 2009, and was also being linked to SGP targets. Around that time, the Commission found that Spain had been implementing its proposed NRP reforms, and observed that reforms of the education system were required. It was expected that public expenditure should be reformed in order to enhance productivity thus sustaining employment and economic activity. In 2011 the Commission's tone was quite different. It spoke of the fact that Spain was severely hit by the crisis, with GDP falling sharply. In its 2011 SWD, a fall in employment by ten per cent was noted, and a rise in unemployment above 20 per cent by the end of 2010, ranking Spain among the countries with the highest unemployment in the EU. At this point in time the

Commission still expected unemployment to decrease after 2012, after having reached a peak of 20.5 per cent. This expectation was not met. In 2013 the Council used the word 'critical' to describe the Spanish labour market, given the rise in unemployment to 27 per cent, a youth unemployment of 56 per cent and long-term unemployment of 44.4 per cent of total unemployment. Such unemployment levels are still considered to be a result of high levels of people without qualifications and a mismatch between education and the labour market. In 2014 youth unemployment remained high and long-term unemployment grew to 49.7 per cent, although the SWD of 2014 began to see light at the end of the tunnel, with some decreases in unemployment.

To fight unemployment the Spanish government proposed a labour market reform in September 2010, aimed at reducing labour market segmentation and youth unemployment, increasing the employability of vulnerable groups, and improving flexibility at company level (see also López *et al.* 2014). In February 2011 Spain had also changed its active labour market policies, but at that time the Commission found it too early to assess the effects of these reforms and understood that further reforms were planned. The CSRs stemming from these reviews addressed the assessment of the impact of reforms and asked for further reforms to improve employment opportunities for youth, and to reduce segmentation. There was also a CSR that proposed to shift taxation from labour to consumption. In the 2012 evaluation the Commission addressed further reforms implemented in February 2012, which changed Employment Protection Legislation (EPL) as well as the collective bargaining system, aimed at reducing unemployment and segmentation. It entailed reducing severance payments for unjustified dismissals to 33 days per year of service, prioritising company-level collective agreements, allowing firms to opt out of agreements at higher levels, granting firms greater internal flexibility, and providing financial incentives for hiring workers, especially the young. The Commission found that the effects of these reforms had to be monitored, also in the light of the potential resulting wage development and reduced segmentation. Further revisions were called for to address Active Labour Market Policies (ALMP), employability and job matching. The youth action plan was expected to be implemented without delay, and this suggestion was transformed into a CSR in 2012 (see Table 10). The 2013 analysis found that the magnitude of the necessary corrections also needed continuous and strong policy measures within the scope of the labour market. The first evidence of 2012 labour market reforms was presented, suggesting that flexibility within firms has improved via lower dismissal costs and wage moderation. In March 2013, Spain presented a national Youth Employment and Entrepreneurship Strategy (2013-2016) as well as dual vocational training. The subsequent unemployment CSRs of 2013 were tied to the IDR, one calling to finalise labour market reforms and improve the effectiveness of PES, a second asking to monitor programmes to fight youth unemployment, and a third looking for ways to improve ALMP to reach people further away from the labour market. The 2013 SWD provided more background and also expressed continuous concern about Spain's economic situation, although the external financing pressures had eased since summer 2012. The structural adjustment was deep and the rebalancing efforts also caused a profound contraction of domestic demand, stemming from, among other things, high unemployment levels. Spain continued to suffer from massive unemployment amounting to the loss of millions of jobs. The SWD acknowledged the implementation of reforms in line with the CSR including the labour market and education. The problems of early school leavers and an insufficient vocational training system remained critical issues according to the Commission, and another problem was the rising poverty and social exclusion. Youth unemployment was still on the rise, amounting to 55.7 per cent. The Commission did observe the first effects of the 2012 reforms but also saw that temporary employment levels were still very high, and weak education and training systems continued to contribute to youth unemployment. In 2013 the Commission also addressed the Vocational Education and Training system (VET) and looked into the situation of the NEETs, adding that there had been no progress in combating poverty.

In 2014 the Commission continued to be positive about Spain's reforms, as well as the support of the social partners for wage moderation. Worries remained about both unemployment and the high segmentation of the labour market. The inadequate relevance of education to the labour market, and the high level of people without formal qualifications remain a concern. Four of the 2014 CSRs addressed employment or unemployment in some way. One was tied to the SGP/IDR and addressed the deficit and called for reforms that supported employment and tax systems that were more conductive to growth and job creation. Three recommendations addressed ALMP, particularly for those who have most difficulties accessing employment and the transition between minimum income schemes and the labour market. One of these CSRs is attached to the IDR and calls for effective youth programmes, especially regarding the ability to reach youth who are not registered. The Commission's background analysis in the SWD 2012 explained that young people, the low skilled, less experienced and those on temporary contracts particularly bore the burden of the crisis. It was not only unemployment that was a concern for youth, as young people are also often those in involuntary temporary and part-time work contracts or in precarious employment conditions and on low pay. Long-term unemployment had started to rise. The measures in the 2012 NRP are still considered to be in line with addressing these challenges, and also entailed a comprehensive diagnoses of challenges. The Commission moreover found that the reform effects depended on several things, and that past evidence showed that a strong emphasis on financial incentives does not ensure sustainable job creation. For example, although limiting temporary contracts should reduce segmentation, the newly installed contracts for Small and Medium-Sized Enterprises (SMEs) have long trial period of one year and may therefore substitute for temporary contracts, entailing the risk that firms will see this as an opportunity to use low-quality temporary contracts without termination costs.

**Table 10: Recommendations for Spain on unemployment 2009-2014**

| | *Unemployment* | *CSR # & matching coordination* |
|---|---|---|
| **2009** | promotes a swift transition into employment, further encouraging mobility, upgrading skills and countering segmentation in the labour market | Soft (CSR 1) |
| **2011** | Assess, by the end of 2011, the impacts of the labour market reforms of September 2010 and of the reform of active labour market policies of February 2011, accompanied, if necessary, by proposals for further reforms to reduce labour market segmentation, and to improve employment opportunities for young people; | Soft (CSR 6) |
| **2012** | Introduce a taxation system consistent with the fiscal consolidation efforts and more supportive of growth, including a shift away from labour towards consumption and environmental taxation. | IDR (CSR 3) |
| | ... Implement the Youth Action Plan... | Soft (CSR 6) |
| **2013** | Reinforce and modernise public employment services to ensure effective individualised assistance to the unemployed according to their profiles and training needs. ... Fully operationalize the Single Job Portal and speed up the implementation of public-private cooperation in placement services to ensure its effective application already in 2013. | IDR (CSR 4) |
| | Implement and monitor closely the effectiveness of the measures to fight youth unemployment set out in the Youth Entrepreneurship and Employment Strategy 2013-2016, for example through a Youth Guarantee. | IDR (CSR 5) |
| **2014** | … credible implementation of ambitious structural reforms to increase the adjustment capacity and boost growth and employment … Adopt by the end of 2014 a comprehensive tax reform to make the tax system simpler and more conducive to growth and job creation… | SGP & IDR (CSR 1) |
| | Strengthen the job-search requirement in unemployment benefits. Enhance the effectiveness and targeting of active labour market policies, including hiring subsidies, particularly for those facing more difficulties in accessing employment. ... Accelerate the modernisation of public employment services to ensure effective personalised counselling, adequate training and job-matching, with special focus on the long-term unemployed. … Ensure the effective functioning of the Single Job Portal and combine it with further measures to support labour mobility. | IDR (CSR 3) |
| | Implement the 2013-2016 Youth Entrepreneurship and Employment Strategy and evaluate its effectiveness. Provide good quality offers of employment, apprenticeships and traineeships for young people and improve the outreach to non-registered unemployed young people, in line with the objectives of a youth guarantee. | IDR (CSR 4) |
| | … support transitions between minimum income schemes and the labour market. | Soft (CSR 5) |

Apprenticeship contracts also involve such risk, and both these contracts might actually increase segmentation. Improving the quality of education is also seen as a relevant factor in decreasing youth unemployment, including a better match to the labour market, but a comprehensive education and training programme was still lacking. Thus the analysis concluded that by 2014, in spite of the ambitious reforms, the Commission found that labour market recommendations had only been implemented partially, and the effects of installed reforms remained uncertain.

## 7.2 Pensions

Whereas unemployment has been addressed frequently and urgently in the Commission assessments of Spain, pensions were much less at the core of evaluations. In 2009 no CSR on pensions had been issued. The 2011 SWD observed that part of reducing public expenditure meant dealing with the ageing population, and gave a soft CSR, stimulating the government to continue with the already planned pension reform and to review the system vis-a-vis life expectancy, as well improving lifelong learning for older workers. The 2012 SWD noted that Spain had implemented CSRs on pensions. In light of the worsening economic prospects, it was expected that the impact of the reforms would be limited. Such a remark is relevant, as it shows that the Commission acknowledged that the impact of structural reforms also depends on the economic climate. The Commission found that the 2012-2014 Global Employment Strategy for Older Workers was not underpinned by concrete measures, and therefore, the 2012 CSR again raised the issue of life expectancy and additionally requested a more detailed plan (see Table 11). In 2013 the SWD calculated a widening deficit in the social security system, making the 2011 pension reform incapable of reducing expenditure enough, partly because only activating the pension sustainability factor in 2027 places a major burden on future generations. Spain adopted additional measures in March 2013, limiting early retirement as well as partial pensions. There are also plans to legislate the sustainability factor and a ban was installed on forced retirement in collective agreements. Stricter access to special unemployment benefits for older workers were introduced. The Commission found that the proposed amendments should include a clear link between the retirement age and higher life expectancy and ensure long-term financial stability. Still further measures are called for. In the 2013 analyses the pension system was not the only challenge to public expenditure; health-care also influences expenditure considerably. The Commission also noted that the labour market situation affected the ability of people to build a sufficient pension. Overall, the 2013 SWD concluded that there had been some progress in meeting the CSR on pension reforms, and the remaining concerns were translated into an SGP and IDR related CSR, stimulating the government to finalise the regulation of the sustainability factor by the end of 2013, and to increase the effective retirement age by aligning retirement age, or pension benefits, to changes in life expectancy. In 2014, no further CSRs on pensions were formulated, which may signal that the reforms were judged sufficient.

**Table 11: Recommendations for Spain on pensions 2009-2014**

| | *Pensions* | *CSR # & matching coordination* |
|---|---|---|
| **2009** | None | |
| **2011** | Adopt the proposed pension reform to extend the statutory retirement age and increase the number of working years for the calculation of pensions as planned; regularly review pension parameters in line with changes to life expectancy, as planned, and develop further measures to improve lifelong learning for older workers. | Soft(CSR 2) |
| **2012** | Ensure that the retirement age is rising in line with life expectancy when regulating the sustainability factor foreseen in the recent pension reform and underpin the Global Employment Strategy for Older Workers with concrete measures to develop lifelong learning further, improve working conditions and foster the reincorporation of this group in the job market. | Soft (CSR 2) |
| **2013** | Finalise by end-2013 the regulation of the sustainability factor so as to ensure the long-term financial stability of the pension system, including by increasing the effective retirement age by aligning retirement age or pension benefits to changes in life expectancy. | SGP & IDR (CSR 1) |
| **2014** | None | |

## 7.3 Wages

In the CSRs, wages are only now and then an issue, however, in the SWD background analyses wages are more often addressed, and the reforms that Spain has been implementing are described. In 2009, the Commission observed that wage developments should be aligned better with productivity developments, in the context of social dialogue, in order to improve competitiveness, but these concerns were not translated into a CSR. The SWD of 2011 noted a moderation in wage growth in 2010 and expected that this would also be the case in 2011, mainly because of cuts in public sector wages. The unit labour costs also fell in 2010 and were only expected to grow again in 2012. In this 2011 review, the Commission saw that the lagged response of wages to the crisis partly explained rising unemployment rates. At this stage, the Commission found that Spain should facilitate wage and price adjustments and enhance productivity in order to regain competitiveness, including a better wage bargaining system. The current system had, for instance, inflation adjustment clauses which, according to the

Commission, conflict with price-stability-oriented policies and undermined competitiveness. This resulted in a 2011 CSR on wages stating that, in consultation with social partners and in accordance with national practice, it was necessary to proceed with the implementation of a comprehensive reform of the collective bargaining process and the wage indexation system so as to ensure that wage growth better reflected productivity development as well as local- and firm-level conditions, moreover granting firms enough flexibility to internally adapt working conditions to changes in the economic environment (see Table 12). The 2012 SWD observed Spain's large labour market reforms, which moved in the direction of the CSRs, but the Commission found the reforms not ambitious enough to tackle, among other things, the use of ex post automatic wage inflation indexation clauses in collective agreement. The Commission continued to find that the existing rigid system of wage bargaining hindered a better alignment between wages and productivity, although, on a positive note, recent reforms could lead to faster adjustments of wages, in line with the 2011 CSRs, as it prioritised company-level decisions on working hours, tasks and wages and moreover made it easier for firms to opt out of sectoral agreements. It also ended the practice of indefinitely extending collective agreements, and the system of ex-post inflation wage indexation was put on hold by a recent

**Table 12: Recommendations to Spain on wages 2009-2014**

| | *Wages* | *CSR # & matching coordination* |
|---|---|---|
| **2009** | None | |
| **2011** | Following consultation with social partners and in accordance with national practice, complete the adoption and proceed with the implementation of a comprehensive reform of the collective bargaining process and the wage indexation system to ensure that wage growth better reflects productivity developments as well as local- and firm-level conditions and to grant firms enough flexibility to internally adapt working conditions to changes in the economic environment. | # 5 soft |
| **2012** | None | |
| **2013** | None | |
| **2014** | … Consider lowering employer's social security contributions, in particular for low-wage jobs… | # 1 SGP & IDR |
| | Promote real wage developments consistent with the objective of creating jobs. | # 3 IDR |

social partner agreement for the period 2012-2014. However, improvements could be made, as agreements could still be extended beyond their term for two years, and small firms might not find it easy to implement the opt-out clauses. The Commission therefore judged that Spain had only partially implemented CSR 5 from 2011, seeing the first steps in a good direction, but still feeling uncertain about the ability of the changes to address Spain's challenge. Strict monitoring was suggested, in particular to determine whether the social partners were indeed able to negotiate trade-offs between wages and working conditions (European Commission 2012f :18). There were concerns about whether parts of the reform were in line with the Spanish Constitution.

The SWD of 2013 again saw slow wage adjustments as a reason for the job losses, however, in 2012 wage moderation had intensified, which is believed to be partly the result of reforms. Regaining competitiveness remains one of the key challenges. Perhaps due to the reform efforts along the line of the recommendations, in 2012 and 2013 no further CSRs on wages were issued. The topic arose again in the 2014 CSRs, however, in a completely different manner, considering lowering employer's social security contributions, in particular for low-wage jobs, and promoting real wage developments consistent with the objective of creating jobs. The pension and wage topics in the case of Spain thus show that after having installed reforms which were in line with the Commission's demands, the CSRs at times stop addressing the issue. This does not mean that it disappears from the monitoring cycle completely, however, and issues may recur when new challenges arise. This demonstrates a certain degree of flexibility in the process, at least at the EU-level in addressing issues.

## 7.4 Spain's reaction to EU-level socio-economic recommendations

Of the four case countries in this study, Spain's views seem to conflict least with the Commission's analyses. This fits the observation that the country-specific recommendations on certain social and labour market issues have been set within the context of the SGP and MIP, and Spain has also felt the pressure from obtaining loans to save its financial sector (compare Rodriguez 2014; Lopez *et al.* 2014). It is thus conform to the assumption that Spain would have the least room to choose its own reform pathway, viewing the range of corrective surveillance mechanisms it is in. Pressure to comply was not felt immediately after the crisis, as the 2011 national reports are fairly optimistic. Still, in spite of the relatively mild EU steering from around 2009 to 2011, both the 2011 and 2012 national reports are in line with the Commission and Council views. The 2011 Stability Programme starts by stating that Spain takes into account the on-going EU economic governance reform, and that the country is committed to presenting a programme to exit from the crisis, including fiscal consolidation as well as structural reforms. Spain calls its fiscal efforts 'very ambitious' and experiences the first reform effects in the 2010 level of debt and deficits. Spain also understands that further consolidation is vital to offset imbalances and to improve activity and employment. A main burden on the economy resulted, according to the Spanish government, from the international financial crisis as well as the adjustment in the housing sector, the increasing unemployment rate and deteriorating public finances. In addition to the sovereign debt problems in the euro area, the increased interest rate was problematic, causing Spain to consolidate more speedily. In this 2011 report Spain says that fiscal consolidation measures are mainly based on non-financial expenditure adjustments, and that it prioritised sustainable growth as much as possible, improving the efficiency of expenditure and rearranging and restructuring of the public sector. Revenues increased and tax distortions are reduced, business growth is promoted and automatic stabilisers are reinforced. Spain moreover believes that its social security system is stable, but in order to maintain sustainability in the future, it introduced a large revision of the pension system and health care system. The 2011 NRP added the reform in collective bargaining, to which the social partners made a commitment in the Social and Economic Agreement. It also displayed commitment to reducing the deficit below three per cent, whilst foreseeing economic recovery in the period 2011-2014, including stabilising employment and decreasing unemployment. In spite of considerable corrections in the first years of the crisis, Spain acknowledges that the initial imbalances remain significant and do not show a clear downwards trend, which has a negative impact on economic prospects and on confidence. The risk premium on the Spanish debt remains disproportionately high. Such findings seem to leave little room to interpret the Commission's findings, but after 2011 the economic and financial situation worsened and in the 2012 SP the reality of the crisis kicked in, as well as the inability to make quick fixes. Spain acknowledged that the economy faced significant financial and economic imbalances "whose magnitude and severity must be recognised" (Kingdom of Spain 2012: 5). The report seeks necessary measures addressing financial imbalances, negative growth and high unemployment, and moreover argued that these issues are interconnected.

Based on these lasting imbalances, the Spanish government designed an economic policy strategy for the medium and long term which should support the recovery of production and employment, as well as boost trust in the economy. It tried to build and communicate confidence based on past performance: Spain's proven ability to overcome difficult situations by committing to economic stability and structural reforms. Insofar as financial imbalances were built up for several years, these cannot be corrected overnight, but should be placed on a path of gradual and steady adjustment, albeit still setting fiscal consolidation as the major priority. Spain assures the Commission that even though a fast result is not possible, it will strive for 'the highest correction of budgetary imbalance in the shortest period of time' (p. 6). Thus, the government continues to find its reform programme ambitious, in which the already adopted labour market reform stands out. This classification of the reforms as radical is also accepted by a range of scholars (Barnard 2014; Lopez *et al.* 2014; Rodriguez 2014; Suárez Corujo 2014).

The 2013 NRP has a slightly different tone, looking not predominantly at internal imbalances, but also addressing external reasons for Spanish difficulties. One example is the unfavourable international environment marked by the increased financial instability caused by the debt crisis in the Eurozone. As the instability affected the entire European economy, there was a major contraction in domestic demand. Spain was correcting its macroeconomic imbalances and the government even speaks of a major transformation in 2012. The NRP again presents an ambitious reform plan, on the one hand building on the 2012 reforms, while having a greater focus on those elements that represented the biggest restrictions to growth, which according to Spain were similar to those in other EU countries: the targets in the Annual Growth Survey. For Spain it was especially difficult for companies to access finance, a better business environment and combat the social consequences of the economic crisis. The following sentence is interesting, in which Spain itself highlighted some words in bold: "The **limitations on the use of macroeconomic** policies derived from Spain's commitments within the **framework of Economic and Monetary Union** are well known: It is impossible to adjust the exchange rate to recover price competitiveness against countries in the Eurozone; and there are limitations on the use of active demand policies to boost growth (monetary policy is managed by the European Central Bank and fiscal policy is conditioned by the surveillance and discipline mechanisms established within the framework of the Union). This is the reason why **structural reforms,** which provide the necessary relative price adjustment against the rest of the countries in the Eurozone, i.e. the internal devaluation of the economy, are so important. In the Eurozone, with the lack of a centralised budget, the national economies exposed to **asymmetric shocks** are obliged to take a number of different measures, including the improvement of the quality of the institutional framework that determines the setting and updating of prices and income, so that the **adjustments are produced by prices rather than by amounts**. In other words, the integration of the Eurozone requires **greater flexibility**, for example in the institutional framework of the labour market or in the operation of the markets for goods and services." (Kingdom of Spain 2013: 5). It seems that Spain aligns here with the overall narrative of the Commission, yet at the same time it also argues much more clearly that the choices for Spain to act are limited, also pointing out that other countries have similar difficulties. The effects of reforms continued to be notable, including the reduction of the structural primary deficit, even though Spain said that a great effort still had to be made. The correction of imbalances would therefore continue throughout 2013 and 2014, focusing on more competitiveness and flexibility.

In January 2014 Spain exited the financial assistance programme and could then have experienced somewhat less pressure at EU-level to reform. The 2014-2017 macroeconomic scenario maintains the conservative nature of the previous Stability Programme, according to the government, however the SP of 2014 contains more positive expectations than those of previous years. Overall, the SP shows a willingness to act according to the Council and Commission recommendations, and at times even wishes to have a more ambitious consolidation pathway than required, setting the fiscal target for 2014 at 5.5 per cent of the GDP. Some flexibility for Spain is thus observed here, but it involves Spain being more ambitious than is required at EU-level, in spite of – on paper – feeling less pressure due to the abstention of the departure from the financial assistance programme in December 2013. This fits the analysis of Rodriguez (2014) who found that the reform ideas and ideals of the Spanish government were to some extent similar to the EU-level ideas.

The current macro-economic predictions show that both domestic and external demand will contribute positively to growth. Domestic demand will do this for the first time in 2014, after six years of negative contributions to growth. The improvement in consumer confidence, the better employment prospects and price moderation will encourage private consumption, which will gain momentum throughout the entire period. The recovery seems to be a job-creating one. As early as 2014, net employment was created for the first time since the beginning of the crisis, and some of this Spain attributes to the 2012 Labour reforms. The more stable global economy also contributes to recovery. The United States in particular is faring well and, to a lesser extent, also the European economies, making the context less uncertain. Favourable financial conditions and low inflation have also enabled some central banks to carry out expansionary monetary policies. New geopolitical risks (Ukraine) have emerged, however, which may lead to new uncertainty. Overall, Spain carefully concludes that the stage of job losses has been left behind, but new worries arise, as the economic situation has impacted situations of social vulnerability; those people experiencing poverty and social exclusion.

# 8 Conclusions

This study set out to explore the degree of flexibility in the EU's post-crisis socio-economic coordination process. Overall, the analysis of both the EU level coordination as well as member state response shows that on the one hand coordination has become more strict, and on the other hand that examples of 'soft' governance characteristics have remained part of the socio-economic coordination process. Thus, in the four case countries, post-crisis socio-economic governance has not totally reduced coordination to a command- and-control practice, although important differences remain between the four countries as well as in the years of scrutiny. A strengthened coordination may be seen in the greater number of CSRs compared to 2009[2], and the increased precision of CSRs, especially in 2013 and 2014. This may leave less room to find alternative policies to deal with national level challenges. As the SGP and the MIP were used not only to evaluate economic policies, but also to analyse social policies, social issues were part of strengthened coordination as well. Some of the case countries have even progressed into the corrective stages of the MIP and SGP and CSRs stemming from these economic coordination mechanisms continued to host a range of social issues. This neither means that flexibility has disappeared from the process totally, nor that countries necessarily comply with every element of a CSR. This is also valid for case countries that have progressed towards the corrective stages of the MIP and SGP. Only the national documents of Spain show a rather close alignment between CSRs and policy implementation. This suggests that the case country which is assumed to experience the greatest pressure to comply with EU demand also has the reform agenda which is most in line with the Commission's and the Council's suggestions. The analysis shows that even before having serious economic and financial difficulties, Spain's reform programme was considerable, however, and even after having left the financial assistance programme for its financial sector, Spain's consolidation plans exceeded EU targets. This calls for further exploration of exchanges between the EU and the member states in order to obtain a greater insight into who decided on which types of reforms, as well as the room to manoeuvre at member state level.

Flexibility in the European Semester processes may also be seen in changing EU-level targets, giving member states new or adjusted recommendations. The coordination process displays such flexibility in several ways: both throughout time as well as depending on the country or topic under scrutiny. The annual targets set in the Annual Growth Survey have started including the fight against the negative social consequences of the crisis in 2011, but in recent years more

[2] Although the average number of 2015 CSRs shows a sharp reduction from an average of six CSRs per country in 2014 to an average of 3.9 in 2015 (European Parliament 2015). This is probably related to the revised ideas of the new Commission Juncker.

Communications have addressed certain aspects of the EU's social dimension. Member states at times refer to the Commission's new priorities, including to defend national policy choices. The reports on France illustrate this well. France used changing Commission views on the need to restore growth and jobs as an argument in its Economic Partnership Programme, which it has had to write as part of the EDP requirements (French government 2013). Such economic partnership programmes contain a roadmap for structural reforms leading to a correction of the excessive deficit (Micossi and Peirce 2014). The French government refers to the Commission's Compact for Growth and Jobs, the Youth Employment Initiative, and the Joint EBI/Commission Investment Plan and Initiative to support SMEs to support alternative policy choices (French government 2013: 3). Indeed, the country welcomes the fact that the EU has applied the fiscal rules 'pragmatically and intelligently', granting six countries more time to correct their excessive deficits in 2013, thus giving more consideration to microeconomic trends that go beyond deficit targets. Accordingly, France (2013: 3) found that the MIP should advocate sustainable and balanced growth and moreover promote a "solidarity-based integration" to further EMU developments, connecting European integration to more European solidarity.

The postponement of deadlines to meet the SGP criteria is indeed a clear signal of leeway, and in this contribution, it can be seen that the case countries Poland, France and Spain have benefitted from postponements, regardless of being in a stricter economic governance regime. The SGP regulation allows for flexibility in viewing and reconsidering the deadline to meet the criteria (Micossi and Peirce 2014). Worsened fiscal positions resulting from exceptional events outside their control, such as natural disasters or a severe economic downturn, may be a reason for a more lenient review. Perhaps France refers to such reasons in its NRP to explain its slack economic growth stemming from the meagre performance of other EU countries. The flexibility within the SGP rules was emphasised more frequently in past years, for instance Commissioner Rehn saying in 2013 that the SGP allows that "… deadlines can be extended when the structural consolidation effort has been delivered, but when the nominal target could not be reached because of the economic cycle because of weakening of economic growth in some countries." (Rehn 2013:1).[3] In early 2015 the Commission published a Communication on the flexibility of the SGP (European Commission 2015). Such a description of flexibility seems contrary to the much firmer language of around 2010 when more efforts were devoted to improving compliance with EU rules. The change in position and the search for a better use of flexibility shows

[3] Thus, deadlines may be postponed, yet, the expectation of the Commission is also that countries use this extra time to implement structural reforms. In 2013, for France these reform expectations entailed a.o. the further reduction of labour cost through reducing social security contributions, and the functioning of the labour market should also be focused more on growth and job creation. The reform of the pension system is also mentioned as a relevant element (Rehn 2013).

that the European Semester process contains flexibility, allowing room for new insights or amending the evaluation to the new economic reality. An important comment on this finding is that this flexibility seems to involve countries that are under normal European Semester surveillance. Those countries that have been or are still in financial assistance programmes, such as Cyprus and Greece, are found to have much less room to develop their own policies (Achtsioglou and Doherty 2014).

The diversity in priorities communicated to the different countries, and the changes in priorities and CSRs over time, also reflect the flexibility of the European Semester. For instance, the German pension system was only an item in the 2014 CSRs and this was directly related to the revision of the German pension system. For Poland, combating in-work-poverty was only converted into a CSR in 2012 and 2013, and this was rather surprising as in 2014 these issues were unresolved. Spain also received a CSR on wages only in 2011 and 2014. The type of coordination mechanisms used to explore a certain item may also vary: for example the ongoing CSR on German wages were only tied to the IDR in 2014, and were under 'soft' surveillance in other years. For some countries certain CSRs have become more detailed over time, but this level of detail also depends on the country and the topic explored. The recent 2015 CSRs are often even less detailed and focus on priority themes only. Thus, the CSRs and the use of certain coordination mechanisms to explore a topic are still tailored to the individual situation of a country and consequently may vary per year.

The four cases also show differences in the degree in which member states argue for more flexibility and make use of it. France's increase in minimum wages and the rollback of the pension reforms are the most straightforward examples of policy implementation that goes against the CSRs, and Germany's revision of the pension system soon became a topic for the Commission's and Council's concern about public expenditure. Importantly, the German and French pension reforms relate to the instalment of a newly elected government, and obviously this is relevant input from a national level to justify alternative reform choices. All four countries have dossiers in which the Commission continually found that insufficient progress was made. In such cases CSRs remain similar throughout time or start addressing the same issue in a more detailed way. In the case of Poland's in-work-poverty, the topic disappears from the CSRs without having been resolved. Another indicator of leeway is that all four countries argue that some unfavourable national trends are in fact beyond government control. In this respect, the poor economic performance of other EU countries, which hinders domestic growth, is often mentioned. France, Germany and Poland also contest certain calculation methods of the Commission to predict future trends, as these do not always take into account all reform effects, or, as some countries claim, are based on outdated or partial information. Countries are not satisfied with the Commission's changing opinion: sometimes within the course of months a positive evaluation of reform plans may turn into comments about reforms not going far enough. Countries have argued more than once that investing in growth is also important, and some more openly state that investing is difficult when combining this with consolidating in order to meet the three per cent deficit target. For example, while having agreed with the CSRs for years, in 2014 Poland noted that its major efforts to reduce deficits tend to set the country in a vicious circle: consolidation damages the economy which leads to lower government revenues, which then causes a need to reduce public expenditure even further. Poland found investments in social infrastructure relevant in order to allow for regional development and to contribute to social inclusion. A similar remark was found in the 2012 SWD of Spain in which the Commission notes that the country implemented the CSRs on pensions, but that in view of the worsening economic prospects the impact of the reforms on the projected age-related public expenditure will only be limited. Such debates on the different calculation methods to estimate reform effects, as well as differences of opinion on the balance between investing versus taking austerity measures, are interesting. They show that predictions are, for obvious reasons, uncertain, and there is no consensus on the balance between austerity and investment as a recipe to improve growth and jobs.

The analysis shows that a stricter economic governance regime contains more flexibility for member states than the crisis command-and-control rhetoric seems to suggest. The European Semester, including the SGP, allows for developing alternative socio-economic policies, both at the EU and at member state level. Although the degree of flexibility varies from year to year and from member state to member state, EU socio-economic governance may be seen rather as a process of exchanges between the EU and member states than as a process of one-sided communication of fixed targets.

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# 10 Svensk sammanfattning

Den socioekonomiska styrningen i EU har efter den ekonomiska krisen tillförts nya element i samordningsprocessen, huvudsakligen för att uppnå bättre nationellt hörsamhet vad gäller EU:s fiskala och ekonomiska politik. Dessa åtgärder har följaktligen kommit att benämnas "striktare" eller "förstärkt" ekonomisk styrning. Men medan striktare ekonomisk styrning innebär minskad flexibilitet i samordningsprocessen, är frågan i vilken utsträckning det verkligen också har varit fallet. Har EU och medlemsstaterna fortfarande spelrum nog att utveckla alternativa metoder, använda sig av praktiska erfarenheter eller rentav föreslå nya mål? Den här rapporten besvarar frågan i ljuset av viktiga komponenter som arbetslöshet, löner och pensioner. De ingår samtliga i den europeiska planeringsterminens stabilitets- och tillväxtpakt (SGP), förfarandet vid makroekonomiska obalanser (MIP) och Europa 2020-strategin. I rapporten analyseras såväl styrningen på EU-nivå inom ramen för den europeiska planeringsterminen som reaktionerna från fyra medlemsstater – Frankrike, Polen, Spanien och Tyskland – när det gäller EU:s mål åren 2009-2014.

Såväl samordningen på EU-nivå som medlemsstaternas gensvar visar att å ena sidan har samordningen blivit striktare, å andra sidan har medlemsstaternas flexibilitet att utveckla alternativa åtgärder fortsatt att vara en del av den socioekonomiska samordningsprocessen. I de fyra studerade länderna har således den socioekonomiska styrningen efter krisen inte helt reducerat samordningen till en fråga om styrning och kontroll, utan betydande skillnader mellan länderna består under de granskade åren. En förstärkt samordning kan också spåras i det ökade antalet detaljerade så kallade landspecifika rekommendationer (CSR) jämfört med 2009, i synnerhet under 2013 och 2014. Särskilt Spanien har mottagit ett stort antal påfallande detaljerade rekommendationer. Länder brukar dock inte nödvändigtvis hörsamma alla rekommendationer och de fall som beskrivs visar att det finns gott om flexibilitet för länder att argumentera för och genomföra alternativa åtgärder, oavsett en striktare ekonomisk styrning.

De ändrade målen på EU-nivå speglar också flexibiliteten i den europeiska planeringsterminen, inklusive nya eller anpassade rekommendationer till medlemsstaterna. Ibland använder medlemsstaterna nya prioriteringar på EU-nivå för att förklara de nationella val man gör. Frankrike försvarade exempelvis sitt val av åtgärder genom att hänvisa till EU-kommissionens syn på behoven av att återskapa tillväxt och jobb och genomföra sysselsättningsinitiativet för unga. Uppskjutande av tidsfrister när det gäller kraven i stabilitets- och tillväxtpakten är ett annat tecken på ökat spelrum och exempelvis Frankrike, Polen och Spanien har dragit fördel av den möjligheten. Mångfalden prioriteringar som har meddelats olika länder, och de förändringar i prioriteringar och landspecifika rekommendationer som har skett över tid, speglar också de flexibiliteten i den europeiska planeringsterminen. Det tyska pensionssystemet var exempelvis bara en mindre beståndsdel i 2014 års landspecifika rekommendationer och den hade direkt samband med en omläggning av det tyska pensionssystemet. Vad gäller Polen infördes kategorin “motverka fattigdom bland personer som arbetar” i CSR först 2012 och 2013, även om frågan fortfarande var olöst 2014. Vilken koordineringsmekanism som används varierar också från fall till fall. De nuvarande landspecifika rekommendationerna i fallet med de tyska lönerna knöts först 2014 till en grundlig översyn av förfarandet vid makroekonomiska obalanser (MIP), efter under en rad år varit föremål för endast lättare granskning. Generellt är också såväl de landspecifika rekommendationerna som användningen av koordineringsmekanismer alltjämt anpassade efter situationen i enskilda länder.

De fyra fallstudierna visar att medlemsstater också argumenterar för mer flexibilitet och strävar efter att utnyttja det utrymme som den europeiska planeringsterminen medger. De fyra länder har alla en pärm där EU-kommissionen regelbundet hittar exempel på otillräckliga framsteg. I sådana fall ändras inte de landspecifika rekommendationerna eller så angriper man den fråga det gäller på ett mer detaljerat sätt. Det betyder dock inte att förslagen alltid omsätts i nationella åtgärder, tvärtom. Höjningen av minimilöner och avskaffandet av pensionsreformer i Frankrike är exempel på åtgärder som går emot de landspecifika rekommendationerna, och Tysklands revidering av pensionssystemet blev snabbt föremål för såväl Kommissionens som Rådets oro när det gäller offentliga utgifter. Det är viktigt att påpeka att de tyska och franska pensionsreformerna är kopplade till regeringsskiften och därmed – givetvis – är nationella åtgärder som kan rättfärdiga alternativa reformval. Ett annat tecken på manöverutrymme är att samtliga fyra länder hävdar att vissa ogynnsamma nationella trender i själva verket handlar om sådant som regeringen saknar kontroll över. Det gäller exempelvis dålig ekonomisk utveckling i andra EU-länder, vilket i sin tur har utgjort ett hinder för den egna tillväxten. En del länder hävdar att nationella åtstramningsåtgärder inte ger resultat när ekonomin i EU generellt befinner sig i recession. Frankrike, Tyskland och Polen vänder sig också emot vissa av de beräkningsmetoder Kommissionen använder för att förutspå framtida trender. Länder har också vid upprepade tillfällen hävdat att investeringar i tillväxt är viktigt och en del har öppet deklarerat att det är problematiskt när investeringar kopplas till konsolidering. Sådana åsiktsskillnader när det gäller sätt att beräkna effekterna av reformer eller den önskade balansen mellan investeringar och konsolidering visar att det inte finns någon enighet om hur målen för smart, hållbar och inkluderande tillväxt i Europa 2020-strategin ska kunna uppnås.

Den föreliggande rapporten utgör en detaljgranskning av den europeiska planeringsterminen – inklusive stabilitets- och tillväxtpakten – och beskriver den som en process där det finns utrymme för medlemsstaterna att komma med alternativa socioekonomiska åtgärder. EU:s socioekonomiska styrning bör således mer ses som en process av utbyte mellan EU och medlemsstaterna än som ensidiga dekret om fastslagna mål.

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"On the one hand, coordination has become more strict, and on the other hand, the flexibility for members states to develop alternative policies has remained part of the socio-economic coordination process."

Sonja Bekker

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