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The Influence of the European Semester: Case Study Analysis and Lessons for its Post-Pandemic Transformation*

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Abstract

This paper examines whether and how the European Semester has influenced structural reforms in member states. It does so by analysing the interaction between the Commission and the national bureaucratic and political levels. The paper presents two process-tracing exercises with a focus on those actors that directly worked with the CSRs to assess the political dynamics underpinning the CSR implementation process. First, it examines the more nuanced and indirect effects the Semester had on the liberalization of professions in Italy. Second, it shows how the debate on wage indexation in Belgium turned around over the years and how the Semester was an important factor in introducing reform. The analysis shows the influence of the Semester in terms of issue salience and agenda setting, but it also shows how the Commission can exert real pressure. This pressure may in turn affect the EU's perceived legitimacy, which holds lessons for the Semester's post-pandemic transformation.

Keywords: European Semester; case study analysis; Recovery and Resilience Facility; economic governance

Introduction

The Next Generation EU recovery fund marks a turning point for socio-economic coordination in the EU. With its key instrument – the Recovery and Resilience Facility (RRF) – member states need to show how they intend to tackle the issues addressed in the country-specific recommendations (CSRs) of the European Semester. We may expect this to provide new prominence to the Semester as the central governance framework underpinning this post-pandemic recovery strategy (Moschella, 2020; Vanhercke and Verdun, 2022).

Prior to the COVID-19 pandemic, the Semester had slowly receded in prominence, with the implementation rates on CSRs dropping and attention waning. Protagonists of a strong economic governance framework started depicting the Semester as suffering from much of the same problems as the pre-crisis Lisbon framework. Both were seen to fail in gaining sufficient traction in Europe's capitals (see D'Erman and Verdun in this special issue for an overview of the debate).

With the RRF, we may expect more heated debate around CSR implementation, as there are strings attached to obtaining the grants, thus increasing the leverage of the Commission

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on the national reform agenda (Pisani-Ferry, 2020). The Commission will have to judge whether spending plans are effective and if future changes to reforms remain sufficiently in line with plans initially agreed upon. Frugal member states have argued for strict control on structural reforms, with an emergency brake procedure to be triggered in the Council if the Commission is seen as too lenient. However, when taking an overly tough stance on ineffective plans and unmet targets, the Commission might be blamed for obstructing the economic recovery and exacerbating associated social hardship.

Against this background, and in line with the overall theme of this special issue, this paper examines how the interaction between CSRs and domestic politics in the Semester has unfolded so far. It does so by analysing the Semester's interaction with domestic reform processes, both inside the administration and in politics. It examines whether there has been an influence from the Semester and in what way this influence has unfolded. Ultimately, it draws lessons relevant for the post-pandemic transformation of the Semester with the RRF.

The paper is structured as follows: the first section lays out the paper's research strategy necessitated by the complexities associated with assessing the Semester's influence. Section two and three trace the implementation processes of two CSRs: professional services liberalization in Italy and wage indexation in Belgium. The fourth section argues for considering the Semester's influence primarily in terms of its ability toward problematizing issues and raising the political cost of non-action. Nevertheless, under certain circumstances more direct forms of pressure can also be applied. The conclusion discusses specific legitimacy issues that may arise with external pressure on reforms and links these back to the debate on the RRF.

I. Measuring Influence of the Semester

The predominant image of the Semester's output stems from studies on the aggregate implementation of all CSRs by the member states. These usually show a low and falling trend of member states' compliance to the recommended reforms (Efstathiou and Wolff, 2018). Quantitative approaches allow revealing general trends in implementation per country or theme and measure what member states do when taking the CSRs as a proxy of what should be done.

However, while implementation rates may say something about policy change at the level of the member state, they do not necessarily tell us whether the Semester had an influence on these reforms. Or, whether member states acted independently of what the EU recommended so that the national reforms only correlate with the recommendations. It therefore tells us little about whether the Semester has been relevant and useful.

At the same time, establishing a direct causal linkage between a CSR and a change in policy is often hard to establish. The CSRs address some of the major difficulties in the economies of the member states and as such there are also many domestic factors that contribute to these changes. The Semester may be among these factors, but we cannot assume a clear principal–agent constellation with member states as mere rule-takers that have to comply by the norms set out by the Commission. Instead, it should be understood as a continuous interaction between national and EU actors, where both levels try to influence one another and power dynamics are more ambiguous (Verdun and Zeitlin, 2018).

This ambiguity is reflected in its governance. The Semester includes both harder governance tools; the Excessive Deficit Procedure (EDP) and the Macroeconomic Imbalance

Procedure (MIP) and softer governance tools based on the Open Method of Coordination (Bekker, 2020). Its hard or soft character cannot be automatically assumed from reading the legal texts, but depend on the conditions in practical cases. Whether escalation within the formal procedures is perceived as truly hard can depend on the domestic political context. Whereas under other conditions, such as heavy market pressure, soft governance tools such as reporting or shaming can shape key phases of the 'hard' policy development process (Vanhercke, 2016).

The interactive nature of the Semester with its hybrid governance character complicates a clear framework of independent and dependent variables to measure output. Analysing the more subtle effects and various channels of influence of the Semester requires an analytical framework that looks at the entire policy process and includes the role of key actors and the power of ideas. In order to explain the outcome of policy change, not only the party political dynamics required to push a reform over the finish line are important, but also the preceding elements in the process, such as expert consultation and bureaucratic networks that contribute to a dominant understanding of the problem. These are commonly characterized as social learning (Hemerijck, 2013) or collective puzzling on a society's behalf (Heclo, 1974).

In concrete terms this translates to studying the role of policy actors involved in both the bureaucratic and political process of reforms in specific case studies, and assessing how the Semester plays a role in their work. Jacquot and Woll (2003) have argued that to detect the role of Europe in national policy processes, researchers should study national political games and preferences and the ways in which European ideas, norms and concepts are used by national actors to enhance their own goals. This is referred to as the 'usage of Europe'; a theoretical angle for studying Europeanizaton effects that examines how European norms are filtered through domestic usage, and in how they interact with domestic politics.

In order to identify various effects and channels of influence this paper draws on the conceptual framework set out by Zeitlin (2009), which analyses the effects of the Open Method of Coordination on national reforms. Zeitlin distinguishes between ideational shifts, agenda shifts and programmatic shifts (a change of policy) as part of the policy making process that could see an influence from policy coordination. Furthermore, there can be procedural effects from the Semester, for example on horizontal cooperation between various units in the administrative system, improvements in steering and statistical capacity or the development of new networks. As channels of influence, Zeitlin distinguishes between reputational or material external pressure (directly from the Commission or from peers), external support, leveraging by national actors (adoption of European frames to support one's own agenda) and persuasion/learning/socialization.

This paper adopts Zeitlin's approach in the study of two cases: Italy and Belgium. The next sections present contextualized process-tracing exercises on the liberalization of professions in Italy and the indexation of wages in Belgium followed by a discussion of the observed effects and channels of influence based on Zeitlin's work. The research is part of a larger study of five cases, where reforms are traced between 2011 and 2017, based on extensive document analysis and 76 supporting interviews with those most closely involved in the reform process and those working directly with the Semester (Bokhorst, 2019). For reasons of space, two shortened versions of the case studies are presented and 17 supporting interviews are used, picked on the basis of their relevance.

Italy and Belgium can be seen as paradigmatic cases (Della Porta, 2008), in the sense that the Semester has been prominently discussed so that we may study the phenomenon of interest: influence. Both countries have been subjected to the more hierarchical features of the Semester, the Excessive Deficit Procedure and the Macroeconomic Imbalance Procedure, so that we may study the harder and softer channels of influence. Both these CSRs have been continuously issued for the period under study and can be seen as controversial in the domestic setting.

Finally, the case studies do not allow for generalized conclusions on the aggregate influence of the Semester. The Semester in general embodies a wide variety of issues and member states, so that any specific case study falls short in this regard. However, the paper adds to a growing body of case study analysis on the Semester's output that collectively shows that while influence is varied, it is certainly present (Eihmanis, 2017; Di Mascio *et al*., 2021; D'Erman *et al*., 2022).

II. Liberalization of Professions in Italy

Italy has a well-known low-growth–high-debt imbalance with lagging productivity trends at its heart. From the start of the Semester, the Commission has been issuing a series of CSRs that focus on spending, the socioeconomic institutions, the quality and efficiency of the public and judicial sector, the banking sector and removing the structural impediments to growth. One segment where productivity has been especially low is the services sector. Accordingly, CSRs to Italy have repeatedly recommended to increase competition in services in order to drive investment towards more productive providers and to lower prices for allowing more efficient business practices across the entire economy. High costs for services are a drag on the Italian manufacturing sector and Italian society at large. The Commission argues that prices in the Italian services sector have grown more than the average in the euro area and have remained rigid during the beginning of the crisis (European Commission, 2010). Hence, Italy received a series of CSRs on opening up restricted markets, such as the liberalization of professional services (lawyers, notaries and pharmacists in particular).

In Italy these professions are regulated by professional orders that are particularly strong and autonomous as compared to other countries. They can set qualification standards to control entry, to set or recommend tariffs and restrict competitive pricing, and regulate the sale of certain products, advertising or restrict business structures such as multidisciplinary firms. For notaries and pharmacists there are also quantitative restrictions, driving up costs for licences. Many Italians perceive of the professionals as an elite class that enjoys special privileges – a world that is difficult to penetrate for outsiders or young people who do not have the right connections (Carboni, 2015).

Liberalization is meant to open up the sectors, increase productivity and lower prices. Conversely, the professional orders argue that liberalization will open up the market to Anglo-Saxon business models that lower quality and decrease professional autonomy. A common argument in this debate is that law is an art, not a trade. Whereas liberalization in this field can lead to potential economic gain in the long term (Lusinyan and Muir, 2013), for the professions the costs are immediately felt. Pharmacists, for example, often enrol in expensive studies and professional licensure and therefore perceive liberalization as a threat to their investments. This element of diffuse long-term gain, but immediate and concrete short-term pain has made this type of reform particularly challenging for politicians.

Before the crisis, politicians' repeated efforts toward opening this restrictive environment faced heavy resistance. Often proposals for liberalization were delayed in parliament and discarded when the government changed (Micelotta and Washington, 2013). Days after the Berlusconi government's resignation, in November 2011, a particularly difficult moment for the euro area, the Eurogroup conveyed it was well aware of this difficulty. It adopted a special report from the Commission stating:

> To secure broad and lasting support [for structural reforms], the government needs to clearly and convincingly explain the unbearably high costs of failure, pit the benefits to the society as a whole against the unavoidable resistance from vocal interest groups' loath to lose their special privileges (European Commission, 2011, p. 8).

The technocratic Monti government that followed attempted just that. Shortly after its instalment the Monti government introduced a significant set of reforms that helped calm the markets. Monti enjoyed an exceptional majority in parliament with all major parties apart from Lega supporting it, thus creating unique reform momentum to push through a bold package of reforms that was in line with the CSRs. The Semester was interpreted in the academic literature of that time as a kind of imposition upon national democracies and a clear dominance of the EU institutions over national policies (Crum, 2013; Scharpf, 2013). But in the ministries the Semester was seen as a helpful device to regain trust of the markets and lower interest rates. The Monti government and the Commission were congruent on the required action, the working relation was described as 'excellent' (Interview 1) and Monti was seen in Brussels as 'their guy' (Interview 2). Elsa Fornero, who introduced perhaps the most significant reform of that time, on pensions, shrugged off any insinuation of pressure from the EU (Interview 3). During her term she only once met with Commissioner Rehn, who primarily told her she was doing a good job on her reforms.

Just because the key actors did not feel pressured does not mean there was no nfluence. The Semester at the time was perceived as providing a framework where implementation was monitored. The government was aligned with the Commission on priorities and effort, but also wanted to avoid any negative publicity as this could lead to immediate reputational and material consequences (higher spreads). The Commission would come in regularly with long questionnaires to track and monitor the reform effort. The missions ensured that reform efforts were translated into economic language, targets, expected effects and timelines. The reports would be discussed in the Economic Policy Committee of national experts in the Council. As such, the prominence of the Semester vis-à-vis the pre-crisis Lisbon framework was much stronger (see also Di Mascio *et al*., 2021).

The National Reform Programme became a central piece outlining government strategy and the missions and questionnaires forced various units within the administration to cooperate. Codogno, who was responsible for the technical drafting of Semester documents in Italy, describes policy coordination under Lisbon as unconvincing and struggling to get the attention of directorates in the administration or Ministers themselves. But this changed in 2011:

> It changed completely when it became part of the Semester. The Semester to me is extremely important, it may seem stupid but having the same time schedule, a budgetary schedule in Europe and on reforms and having an organized discussion on this, this was a good change. Let us face it, this was extremely important. (…) This process to some extent forced the different parts of the administration to be aligned, so basically, it was a way to get everybody involved. (Interview 4)

Even if the Semester's influence was felt at the technocratic level, it did not reach very deeply into parliament. Monti might have enjoyed momentum, but his reforms also suffered from a lack of political and societal ownership. On the liberalization of professional services the setbacks soon followed. The liberalization package was stalled for more than a year in parliament and was heavily amended.

Monti at first had been reluctant to water down his measures and had also refused prior consultation with the professional orders. This strategy, however, crumbled fast. When Monti ignored a letter by Federfarma (representing almost all pharmacy owners) and signed by 73 MPs that described the liberalization measure as a very serious sign of unreasonableness he was taken by surprise when Berlusconi's PdL managed to push forward an amendment that forced the government to accept a watered down version of the proposals. Since then, the Monti government had to take a more conciliatory approach towards the professions and accept further watering down (Mattina, 2013; interview 5).

Ichino, a Partito Democratico Senator in favour of the reforms at the time, underlined that the potential growth argument for liberalized business models that the Commission (and Monti government) made to support the reforms was not recognized by some vocal groups in parliament. The many lawyers in parliament, for example, did not accept this line of argumentation and stood in a bipartisan way behind the Bar Association to oppose liberalizations. In that period, 44 per cent of parliamentarians were also member of a professional order (Carboni, 2015). Ichino, a lawyer himself, was considered a traitor for supporting the reforms (interview 6). At the same time, it would be too easy to dismiss their opposition as only driven by self-interest. For example, notaries were asked not to ask for an honorarium for approving certain easier types of business (Simplified LLC). One ministry official described this as simply wrong: 'the point is to liberalize, not to have them do it for free' (Interview 7).

The Monti government ended up only implementing parts of the liberalization package and as such the Commission described it as 'some progress'. At the same time, the Commission understood that Monti had to invest its political capital in those reforms that were most acute. Given the challenge to calm markets those days the liberalization of professions was certainly not one of these.

The Letta government that followed had a more troublesome relationship with the Semester. The elections of February 2013 created a hung parliament with months of political struggle as a result. The Excessive Deficit Procedure (EDP) was abrogated for Italy that year, but pressure from the Commission on Italy did not decrease. The Commission was worried that reform efforts would stall, so called upon Italy to 'decisively step up the pace of reforms' (EC, 2014, p. 10). Letta himself perceived the Commission as too rigid and experienced serious pressure:

> At that time the pressure was there, with sanctions, not formal sanctions, but political sanctions. This means it was a period in which an interview with a Commissioner saying

> that Italy was not doing its homework was terrible in terms of reputation for the country (Interview 8).

Nevertheless, the Semester was also useful for him, as this was the time when politicians were saying that slowly things were getting better, resulting in heavy lobbying from all sides for money. And Letta, sometimes arguing publicly with the Commission over budgetary space, leveraged the Semester as the external constraint to fend off opposition in order to keep the budget under control.

In order to sustain pressure on Italy and reassure those Member States that called for corrective action against Italy, the Commission placed Italy under 'specific monitoring' within the Macroeconomic Imbalance Procedure. In practice this meant that there were fact-finding missions to Italy almost every other month. But if the goal is to ensure that parliament adopts measures to overcome the imbalances, overburdening the administration is not necessarily very beneficial. Soon enough Italian officials challenged this approach and the number of missions decreased. As explained by one official:

> It is as if you feel that you are the kid being disciplined by the parents, you already know that they are checking on you. Then they say 'now we are going to really really check on you', you were already checking on me, what is this? (Interview 9)

This additional pressure on Italy was, however, never seriously tested. Soon after the critical statements from the Commission the government changed colour again and Renzi became Prime Minister. Renzi had stronger support in parliament and was therefore able to present a more bold reform package. Among his reforms was another attempt to liberalize the professions. In line with what was suggested in the assessments of the Commission, Renzi tried to change the business model of the professions, for example by allowing equity shareholders to own pharmacies and law firms. But the liberalization attempt faced a similar fate as the one introduced by Monti. It was stalled for two-and-a-half years in parliament and emptied out by amendments. It left those who had drafted the bill disillusioned and agreeing with the Commission on their critical assessment on the lack of progress (Interview 7).

Interviewees again pointed to the lack of political capital invested toward pushing the reform over the finish line in one piece, as the government priorities lay elsewhere. The government became convinced that it needed to focus on changing the Constitution first. Under Article 117 of the Italian Constitution the regulation of professional services is attributed to the regions, which significantly increases the number of veto points to get liberalization laws adopted. The new Constitution would attribute competence on professional services to the central state. It was believed that once a new Constitution was adopted a more significant liberalization effort could be achieved. While the Commission formally called upon Italy to be bolder in terms of liberalizations, officials admitted that in the bilateral dialogue the Commission mostly understood this political tactic (interview 1). The story of the Constitution is well known: the Italian public voted against the change of the Constitution and Renzi, who had tied his fate to the outcome, had to resign.

Six years of CSRs on the liberalization of professional services lead to a number of smaller changes, but did not lead to any breakthrough or full implementation. Multiple attempts were made, but never fully pushed through. There would be ground for arguing that therefore there was no influence of the Semester, but that would not be the full story. Inside the bureaucratic realm the CSR was seen as important in terms of agenda setting and increasing the political costs of non-action. This kind of reform does not have a lot of intrinsic political incentives for a government. And by including this CSR in a larger package toward removing structural impediments to growth and developing a more dynamic economy, the Semester helped build political narrative around this reform. One official even lamented that without the EU's insistence, liberalization in this field perhaps would not even have been a topic of discussion (interview 7).

While those who supported the reform may have perceived the CSR as helpful, its influence did not extend very far into the political arena. In part the opposition to reform can be explained by substantive concerns, which the argument of potential long-term economic growth failed to sufficiently overcome. However, broadly the Semester has also decreased in its legitimacy over the years in the public debate. For a long time, external pressure from the EU provided Italian politicians with a cover to circumvent domestic opposition and institutional sclerosis. In the run-up to the introduction of the euro this so called *vincolo esterno* was used to push through reforms and shore up public finances (Ferrera and Gualmini, 2004). During the days of Monti, proponents would make explicit references to the European context when defending structural reforms, but this changed completely in later years. Renzi himself, for example, likened the Semester to an 'old boring aunt who tells you what to do' (Dunlop and Radaelli, 2016). Well aware of Monti's fate, Renzi actively tackled the increasing wariness of Italians toward constraints from European institutions (Jones, 2017). With the legitimacy of the EU waning, it has become more difficult for the Semester to be a serious voice of influence beyond the bureaucratic realm.

III. Belgium and the Reform of Wage Indexation

The second case study of this article zooms in on the issue of wage indexation in Belgium. The call to bring wages into line with productivity and on decentralization of collective bargaining, stands out as one of the more controversial CSRs to have been issued by the Commission. Article 153.5 of the TFEU explicitly states that the issue of wages is outside the scope of EU competences. Also in the Regulation of the MIP, legal safeguards are built in to ensure that the MIP does 'not affect the right to negotiate, conclude or enforce collective agreements' (Art. 1.3 Reg. 1,176/2011). Yet, euro area leaders have identified imbalances caused by diverging wage trends as having played a key role in causing and aggravating the euro area financial crisis, albeit not the only factor (Juncker *et al*., 2015). As such, wage developments and wage-setting practices have featured prominently in the Semester (Schulten and Mueller, 2015).

In its CSR, Belgium is asked to reform its competitiveness law. This is to ensure the inclusion of corrective measures when wages grow disproportionate to productivity trends and should allow companies to derogate from the central wage agreements. The vast majority of Belgian sectors follow a practice of wage indexation, whereby wages automatically follow cost-of-living trends, thus preserving purchasing power against inflation. Most countries abolished this practice in the 1980s after the oil crises led to wage-inflation spirals. Rather than abolishing it, Belgium introduced built-in legal safeguards. These were to ensure that wages conform to that in Germany, France and the Netherlands, its main trading partners, the so-called Law of 1996.

This law initially helped to keep employers' organizations on board, but they have grown increasingly oppositional, as a wage gap with the trading partners emerged nonetheless (interview 10). However, the practice of indexation is heavily defended by trade unions and considered one of the fundamental pillars of the social system, which politicians dare not touch. In the domestic debate (excluding Commission, OECD and IMF) until the crisis, no studies exist that argue for radical changes to the index (Nationale Bank van België, 2012/Annex 6).

The Belgian trade unions traditionally have a strong position in the state structure; they cooperate and enjoy wide support. They have mostly been divided along ideological lines (Christian, Liberal and Socialist), rather than along regional lines (Flemish, Brussels and Wallonia), which has given them additional legitimacy to counter divisive trends in the Belgian state structure. And the system of indexation gives the trade unions a nation-wide negotiation baseline (for wages, but also for pensions and other social benefits); from there, they can negotiate additional top-ups in collective agreements, giving them an advantage over the trade unions in e.g. Germany or the Netherlands. Consequently, the CSR did not farewell in Belgian political circles. Interviewees recalled the CSR's reception as 'a full frontal attack on the Belgian social system' (Interview 11), 'a fetish of DG ECFIN' (Interview 12), or, 'top-down meddling in our social model' (Interview 13).

At the time, some actors believed that the Commission and ECB were on a crusade to diminish the power of trade unions. A 2012 DG ECFIN study had created bad blood (Interview 12; UNI Global Union, 2012) by suggesting that reforms leading to better employment outcomes would include ensuring that wage bargaining would be organized in a 'less centralized way' (EC, 2012a, p. 104), with reforms possibly resulting in 'an overall reduction in the wage-setting power of trade unions' (European Commission, 2012a, p. 104). In bureaucratic circles Belgian experts started pushing back arguing that wage trends were relatively in line with France and Netherlands, but rather excessive wage restraint in Germany was the real problem, whereas Germany served as a reference benchmark in much of the Commission's analysis. The Commission in their analysis for Belgium describes Germany as 'performing much better' and as achieving a 'remarkable competitive advantage' (European Commission, 2012b).

These arguments were not appreciated, as Belgians held that German-like excessive wage restraint should not be the economic strategy. Rather, the indexation-induced wage boost that Belgium witnessed just pre-crisis was noted for playing an important role in preserving demand at the start of the crisis. Prime Minister Di Rupo even brought his resistance to the CSR up to European Council level, but it did not help his case. The rationale at time was that indexation does not contribute to a well-functioning EMU, because of its inflationary effects. Belgium attempted arguing that due to its size, spillover effects would be small, but did not find support.

The Di Rupo cabinet responded to the CSR by organizing thematic sessions around cost-competitiveness and Unit Labour Costs (ULC) and ordered a study from its advisory bodies (Nationale Bank van België, Federaal Planbureau and Centrale Raad voor het Bedrijfsleven, 2011). The idea was to come to a more fact-based discussion with the

Commission, as the Belgian officials found the Commission's academic underpinnings thin and biased.[†] The study by these leading economic advisory bodies comes to a fundamentally different economic analysis. It argued that Belgian companies had primarily lost ground to Eastern European countries so that comparing ULC dynamics between Germany and Belgium does not provide the full picture.[‡] Rather than focusing on the wage component in ULC dynamics it argues that it would be better to reorient and diversify exports and focus on higher-end products.

The Di Rupo government agreed with the Commission that there should be a strategy on cost competitiveness. However, in the view of the government this related to decreasing inflationary pressures that resulted from increases in the prices of energy and commodities, due to a lack of competition and supervision, an issue which was addressed in a different CSR. Di Rupo argued that the measures the government were taking were already significant, leading to widespread social unrest. The Commission allowed the government some time, but maintained the position that the real issue was the indexation practice and as such noted that Belgium was only achieving 'limited progress' on the CSR. Belgium is a Europhile country, and despite not agreeing with the Commission and not implementing the CSR, the voice of the EU in the debate was taken serious and its influence can hardly be denied.

Over the years, the Commission realized that its heavy criticism on the indexation practice was only leading to frustration. From 2014 onwards, the tone in the documents is more nuanced and in 2015 the word 'indexation' was taken out of the CSR, as Di Rupo had urged all along. One explanatory variable here was the installation of the 'political' Commission Juncker, which decided to take a more distant approach towards politically sensitive topics. Another is the fact that the Social Affairs Commissioner came from Belgium. Yet another reason for the change is the increased interaction within the Semester. For example, trade union leaders were invited to DG ECFIN to make their case heard.

What certainly altered the impact that the recommendation had on the Belgian debate was the change of government in the fall of 2014. In the new Michel government, the socialist parties were replaced by the N-VA. This shift to the right led to a more confrontational course of the new coalition on socioeconomic issues, with a stronger focus on cost competitiveness. It is important to understand that the N-VA came into existence to establish a reform of the state to ensure more independence for the Flanders region. In the Michel government, they did not manage to secure any major concessions on state reform, which makes a clear change of course on socioeconomic issues all the more important to preserve their electoral base. A similar argument can be made for the French-speaking liberals, which needed to justify their cooperation with the Flemish nationalists. For the substance of these economic reforms, the N-VA leader Bart de Wever in his policy-outline during the formation of the government cites all the 2014 CSRs for Belgium literally and calls upon the new government to implement these (De Wever, 2014).

To close the wage gap with neighbouring countries the Michel government enacted a one-off suspension of all wage indexation agreements until inflation has eroded real wages by 2 per cent. In terms of cost competitiveness and lowering ULC growth, it did

[†] One of the underlying studies in the Commission's report was funded by an employers' organization.
[‡] In general there is a lot of criticism on ULC as a means to compare countries on their competitiveness. See Wyplosz (2013).

its job. The Commission had always preferred a fundamental reform of the system, rather than an incidental correction, but since it corrected the overall trend, Belgium was labelled as no longer experiencing imbalances.

This decision was celebrated by the government as giving legitimacy to their actions in times of heavy protests. Especially for the N-VA this was an important political signal to show they were more reform-oriented than the previous government (Interview 14). The Michel government (and especially N-VA) were in a difficult position on other right-wing issues: Belgium in 2016 experienced a relatively large influx of asylum seekers which created a lot of tension; the budget deficit increased in 2016, whereas it had decreased steadily under Di Rupo.

Belgium was now no longer subject to special surveillance under the macroeconomic imbalance procedure (MIP), but interestingly enough, pressure from the Semester increased. The Commission's decision to take Belgium out of the MIP before a definitive deal was struck on indexation was badly received by a number of member states in the Economic and Financial Committee (EFC) where the Semester is discussed. They feared that this would relieve Belgium of the necessary pressure to introduce more fundamental reform, and the Commission followed up on those concerns. As one Belgian official describes how (s)he perceived the situation of the time:

> So they took Belgium out of the MIP now, because it is clear that we will be back in if nothing happens. The Commission and the EFC gave off this warning … it creates strong pressure on this government and it is really the first time that I see that, that the pressure is so strong (Interview 15).

The threat to push Belgium back into the MIP was taken serious by Belgian officials. Politically it would look bad for a government that prides itself as reform-minded if an authoritative institution like the Commission thinks otherwise. In the fall of 2016, Belgium had to come with its draft budget in order to meet the deadline for the budgetary scrutiny. In May 2016, Belgium had just managed to escape the opening of an Excessive Deficit Procedure. The so-called Article 126 (3) TFEU assessment, had given Belgium leeway due to structural reforms being implemented that would benefit public finances in the long-term, primarily the pension reform. But for the following year Belgium needed to put in an extra fiscal effort (European Commission, 2016).

Ahead of these negotiations it was obvious to the government that they needed a broader strategy than fiscal cutbacks alone. A reform of the competition law on indexation was therefore put high on the agenda. Interviewees who were closely involved in the negotiations over this law argued that there was a clear link between the budgetary assessment of the Commission and the planned reform. This was interpreted as a signal of the political approach of the Commission (Interview 15). One interviewee expected approval on the budget, but only on the condition that Belgium would show that it is serious on structural reforms: 'and that of course includes the reform of the 1996 Law' (interview 16). Another described the role of the Semester as follows:

> The influence of the Commission on this issue is strong, it really is peer pressure. The arguments of the Commission are taken seriously in Belgium, we will have to adapt the law. (Interview 17)

As a result, in October 2016 the Michel government agreed on a new budget including a reform of the Law of 1996. The reform did not abolish indexation, but ensured that a new wage gap between Belgium and neighbouring countries does not easily re-emerge by introducing an automatic correction mechanism. This new safeguards satisfied the Commission, which concluded that – after five years of CSRs on the issue - Belgium had achieved 'substantial progress' (European Commission, 2017).

To Belgian officials the influence of the Semester on this reform was obvious. The issue had been a taboo in Belgium just a few years before, with respectable organizations arguing that changes to the law were not necessary. Also, the reform was not without collateral damage for the trade unions, whose role is supposed to be protected under the Regulation of the MIP. The element of automaticity that was introduced by definition decreases room for dialogue and negotiation between social partners. Dialogue and negotiation are the *raison d'etre* of trade unions and the reform for them left a bitter aftertaste (Van Gyes *et al*., 2017).

IV. How Should we Understand the Influence of the Semester?

The case studies hold two key lessons that require further reflection. First, they demonstrate that when the Commission labels countries with 'limited progress' or 'some progress', this does not automatically indicate a lack of willingness to reform. Secondly, when analysing the Semester's influence, CSRs should be assessed in relation to the entire policy process rather than solely to that of reform implementation.

In regards to the first lesson, the cases show how actors have actively made use of the CSRs as authority devices to support their own agendas. Examples of these include: the explicit referencing of CSRs by de Wever in the change of government in Belgium; or, the use of CSRs to fend off opposition by Letta. However, what is most noticeable is the active resistance to CSRs, which in some cases explains why they are not implemented. Especially the Belgian case stands out here, where during the Di Rupo government the government, but also the leading technocratic institutions, had a completely different reading of the CSR and its underlying economic analysis.

In later years, the Commission has focused a lot on ownership within the Semester to ensure it is aligned with member state around priorities. But the resistance still serves as warning that we cannot automatically assume that the Commission has superior knowledge over the issues and that implementation is only hindered by classic political economy obstacles. A lack of implementation can also be hindered by genuine and legitimate disagreement.

Secondly, when analysing the influence of the Semester this paper uses the framework of Zeitlin (2009). In general with the Semester, a direct link between a CSR and a programmatic shift (a change of policy) is difficult to establish, as national political factors are usually dominant. The key argument of this article is, however, that the analysis of influence should not stop there, but should also look at more indirect ways of influence. The Belgian case is somewhat of an exception as here all types of effects were at full display. In a span of a few years perceptions of policy elites changed from approaching indexation as a sacred cow that cannot be touched to introducing serious changes that affect bargaining power of trade unions, which can be seen as an ideational shift. Furthermore, despite the resistance of various groups both inside and outside of government the issue remained consistently on the agenda and the CSR was a factor in introducing change. The unique political context of the reform-minded government in a worsening economic situation gave the Commission a position of leverage in the debate. Domestic actors at times have wanted to avoid a negative assessment, because it would damage their political reputation, but also feared material consequences in the context of the SGP. These factors gave the Commission a rather strong position of leverage in the domestic debate. While the government fully supported their own reform, there was also a clear element of external pressure in the process.

In Italy it is more difficult to speak of influence on the level of ideas. The administration and the Commission were aligned and the analysis behind the CSR was also closely aligned with that of the Italian Competition Authority. And while the various reform attempts were introduced in the context of the Semester it is also difficult to speak of the CSR as a driving factor in programmatic shift. Rather, the CSR served as a way to ensure the issue would remain on the agenda as part of a structured agenda around removing obstacles to growth. Furthermore, the Semester in Italy clearly has an influence on reinforced horizontal cooperation within the bureaucracy as the Semester helps in making sure actors are aligned around reform priorities. In this sense it strengthens the networks of support behind the reform effort.

In terms of channels of influence, in Italy the strength of reputational pressure has worn off with the role of the EU becoming increasingly suspect in the eyes of the public. It shows that the influence of the Semester changes over time and is linked to domestic political factors and the perceived legitimacy of both the argument underpinning the CSR and the institution providing the argument. In Italy, policy elites might have agreed with the solution, but the EU was not a helpful actor in conveying the message.

Conclusion and Lessons for the Post-Pandemic Evolution

All in all, the analysis shows that the Semester is best described as a mechanism that confronts national actors with a European way of thinking about policy issues that increases the political costs of non-action. In other words, it helps mainstream a particular economic logic. By continuously confronting the domestic actors with evidence and demanding a response in return, it makes it harder to ignore pressing issues. Its influence is more cognitive than direct and therefore hard to measure in model-based research. Yet, the Semester's influence also has its harder edges, where domestic actors can feel serious pressure.

Italy and Belgium are both high-debt countries and are cases where we may expect the Commission to have a strong position in the debate. This decreases generalizability of the case studies, but does allow to study influence in all of its facets. In this sense the case studies also allow to reflect on the post-pandemic transformation of the Semester, where the role of the Commission is strengthened and where we may expect more heated debate around reform implementation.

In this context, the analysis in the paper warns that scrutiny of spending- and reform plans is far from a-political and cannot be done in a mechanical way. The cases show that such discretionary decision making in operating the Semester has been there from the start. With the setup of the RRF this only increases. If a government plans to change course on a reform due to street protest (or elections) the Commission will have to decide whether the reform plan is still sufficiently in line with the initially agreed plans on which the decision to allocate funds was based. This entails the risk that the EU becomes part of national political games, where oppositional forces target the EU.

The setup of the RRF strengthens discretionary decision-making that may reveal some dormant democratic accountability issues in the Semester. Even when the member states themselves propose the plans, the Commission and Council will judge whether milestones are met and outcomes are in line with initial plans. The set up can also lead to a strengthening of the executive power, since money will only be disbursed once parliament adopts the reform, meaning the milestone is met. This is the core rationale of the RRF, but it will also put pressure on democratic institutions. If parliamentarians have concerns, the bills might have to be settled by national, rather than European funds. In certain reform areas this might not be controversial and EU funds could be helpful. But given that all CSRs are relevant in the RRF, reform conditionality will also be a factor in more sensitive domains.

With the RRF, the hope is that the provision of funds will allow for a sustained economic recovery through public investment and more effective implementation of the recommended reforms. At the same time, the old adage 'with money comes power' is worth considering, also in this context. This article shows that there can also be legitimacy consequences to exerting pressure from the EU. Future research will have to show whether these concerns are also visible in practice. Indeed, with the RRF the EU will truly learn what it means to be directly invested in national reforms.

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Interview list

All interviews were conducted by the author in the context of the author's dissertation.

1. Anonymous official, Ministry of Economics and Finance, Rome, 16-01-2017
2. Anonymous official, European Commission, Brussels, 20-10-2016

3 Elsa Fornero, former Minister of Social Affairs, Turin, 23-11-2016
4 Lorenzo Codogno, former chief economist Ministry of Economics and Finance, London, 16-01-2017
5 Federfarma representative, Milan, 14-11-2016
6 Pietro Ichino, Senator Democratic Party, Milan, 07-11-2016
7 Anonymous official, Ministry of Economic Development, Rome, 20-10-2016
8 Enrico Letta, former Prime Minister of Italy, Paris, 01-12-2016
9 Economic Counselor to the Democratic Party, Bologna, 26-10-2016
10 Employer organization representative, Brussels, 18-05-2016
11 Anonymous economic advisor to the government, Brussels, 18-05-2016
12 Trade Unionist, Brussels, 26-05-2016
13 Anonymous, advisor to Prime Minister Di Rupo, Antwerp, 28-06-2016
14 Political advisor, Nieuw-Vlaamse Alliantie, Brussel, 28-06-2016
15 Anonymous official involved in wage setting practices, Brussels, 26-05-2016
16 Anonymous official, Ministry of Social Affairs, Brussels, 26-05-2016
17 Anonymous official, technocratic advisory body to the government, Brussels, 18-05-2016