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The EU's stricter economic governance: A step towards more binding coordination of social policies?

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The EU's stricter economic governance: a step towards more binding coordination of social policies?

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WZB Discussion Paper, January 2013

Zusammenfassung

Dieses Papier untersucht Veränderungen in der Beschäftigungs- und Sozialpolitik der Europäischen Union nach der Vertiefung der wirtschaftspolitischen Zusammenarbeit in Europa. Dabei wird die These vertreten, dass die Veränderungen in der wirtschaftspolitischen Zusammenarbeit zu einer Zunahme verbindlicher Elementen in den weichen Koordinierungszyklen der Beschäftigungs- und Sozialpolitik geführt haben. Das Papier zeichnet zwei Wege des ‚Aushärtens‘ der Beschäftigungs- und Sozialpolitik nach. Erstens wurden neue Instrumente in die Koordinierungszyklen von Europa 2020 (Wachstumsstrategie für das kommende Jahrzehnt) und in den Stabilitäts- und Währungspakt eingebaut und über den Euro-Plus-Pakt und die Überwachung makroökonomischer Ungleichgewichte implementiert. Zweitens schafft die Integration der beiden Politikfelder Wirtschaft und Soziales Unsicherheit, welcher Koordinierungsmethode eine konkrete Politik zuzuordnen ist.

Vor diesem Hintergrund werden in dem Papier zunächst die seit 2010 eingeführten Koordinierungselemente analysiert und auf einem Kontinuum verortet, das von verbindlicher zu weicher Koordinierung reicht. Dann wird herausgearbeitet, wo Unsicherheit über die Angemessenheit der einen oder anderen Koordinierungsmethode besteht und wie eben diese Unsicherheiten zu einer Unterordnung der Sozial- und Beschäftigungspolitik unter die verbindlichen Überwachungsinstrumente führt. Schließlich wird die Interaktion zwischen EU und vier Mitgliedstaaten (Deutschland, Großbritannien, Polen & Spanien) anhand von Länderberichten und Antworten der EU-Ebene in 2009 und 2011 untersucht. Ungeachtet der Tatsache, dass unter dem Einfluss der vertieften wirtschaftspolitischen Zusammenarbeit die Präzision der weichen Steuerungsinstrumente und hybriden Koordinierungsmethoden zugenommen haben und Unsicherheit über die angemessene Koordinierungsmethode potentiell zu einer Beurteilung der Beschäftigungs- und Sozialpolitik im Rahmen der verbindlichen Wirtschaftskoordinierung führt, zeigt sich hier, dass Mitgliedstaaten immer noch großen Spielraum bei der Erreichung der EU-Ziele in der Beschäftigungs- und Sozialpolitik haben.

1. Introduction

This paper sets out to explore the changes in the EU's coordination of employment and social policies after the introduction of stricter economic governance. It hypothesises that new economic governance has introduced characteristics of hard law into the soft law coordination cycles of employment and social policies. The paper analyses such steps towards hard law by exploring two routes. The first route is the introduction of new instruments in the coordination cycles of Europe 2020 and the Stability and Growth Pact and the implementation of two new coordination cycles, these being the Euro Plus Pact and the Macro-economic Imbalances Surveillance. The second route stems from the integration of policy fields which leads to ambiguity concerning what policy items fall within the scope of which coordination method. The paper therefore analyses the coordination elements that have been introduced as of 2010 and assesses their place on the continuum of hard and soft law coordination. Then, the paper explains the ambiguities that arise concerning the appropriateness of coordination instruments and how this ambiguity may bring employment and social policy elements within the range of hard law surveillance. Subsequently, the paper analyses the actual interaction between the EU and four member states by comparing national reports of 2009 and 2011 as well as the EU's assessment of national policies. The paper concludes that whereas stricter economic coordination has increased the precision of soft governance as well as introduced more obligation and delegation into hybrid coordination methods, countries still have ample leeway to respond to EU level targets. In addition, ambiguity still exists concerning which coordination method applies to what policy items, leaving employment and social policies as potential subjects for hard law assessment via economic and financial coordination processes.

2. Routes towards hard law: new instruments and the integration of policy fields

Traditionally, the EU's employment and social policies are executed via non-binding soft law governance, usually referred to as the Open Method of Co-ordination (OMC) (Trubek and Trubek, 2005; Zeitlin et al., 2005). The OMC sets common EU goals, yet allows member states to develop their own policies to meet these targets. Sanctions are not part of the set of tools and the effectiveness of soft law is rather explained by mechanisms such as naming & shaming, diffusion through discourse, deliberation between actors, learning, sharing best practices and networking (Trubek and Trubek, 2005). The policy goals are moreover quite flexible and may be quickly adapted to altered circumstances. The OMC furthermore aims at including a wide range of actors in policy-formation. Conversely, the legislative route involves a smaller set of actors, often being the European Commission, the European Council and the European Parliament. It exists of legally binding obligations that are rather precisely formulated and moreover entails the transference of authority for interpreting and implementing law (Abbott and Snidal, 2000). Sanctions are part of the set of instruments to trigger compliance with law.

Although the terms 'soft' and 'hard' suggest a stark contrast, the OMC should not necessarily be viewed as the opposite of hard law (Smismans, 2011; Trubek and Trubek, 2007; Trubek et al., 2005). To match the variety of different combinations of coordination methods, research should explore the interconnections between soft and hard law as well as study hybrid constellations of hard and soft law coordination processes (Smismans,

2011). Trubek et al., (2005) define hybrid constellations as coordination cycles that contain both hard and soft law elements. An example of a hybrid constellation is the fiscal coordination cycle that combines non-binding Broad Economic Policy Guidelines (BPEGs) with a fixed set of rules belonging to the Stability and Growth Pact (SGP).

Analysing hybrid coordination methods may be done by placing different forms and combinations of hard and soft law on a continuum or scale (Abbott and Snidal, 2000; Abbott et al., 2000). Such a scale could rank the coordination methods as well as its elements, and make an assessment of the degree of obligation, precision and delegation. Abbott and Snidal (2000: 422) talk about soft law as soon as at least one of these hard law elements is weakened. Obligation is defined as the degree to which states (or other actors) are legally bound by a rule or a commitment, meaning that their behaviour may be scrutinised under the general rules, procedure, and discourse of (international) law (Abbott et al., 2000). The degree of obligation ranges from a binding rule at the hard law end constituting an unconditional commitment, to an expressly non-legal norm on the soft law end with explicit negation of the intent to be legally binding. Precision is defined as the extent to which rules are defined in a clear and unambiguous way for instance concerning how these rules should be carried out and what is authorized. More precise rules thus narrow the scope for interpretation. Delegation is then the extent to which authority is granted to third parties to implement, interpret and apply rules as well as to resolve disputes and design subsequent rules (Abbott et al., 2000). A single coordination method might differ on each of the three elements in its degree of being 'hard' or 'soft'. Using these degrees of hard and soft law assists this paper in making a first analysis of the type of measures that stricter economic governance has introduced in terms of these being quite soft or rather leaning towards hard law characteristics. Scholars judge that stricter economic governance has introduced quite fundamental changes or at least changes that have the potential of leading to fundamentally new governance structures and may thus impact member states to some extent (Amttenbrink, 2012; Pochet, 2010). However, a broad scrutiny of these new measures and their impact has yet to take place.

The second route via which steps may be taken towards hard law in social policy domains is the integration of policy fields. Trubek et al. (2005) do not distinguish this option as a separate route, but look at options for interaction between coordination methods, for instance in areas where the employment strategy overlaps with EU law. Following Zeitlin (2010), this paper however argues that this second route is valuable to explore as a separate entity, as the integration of policy fields causes ambiguity as to which coordination method or instrument applies to what policy issue. This ambiguity may be a rather unintentional side-effect resulting from developing a vision on the same policy item by actors stemming from different policy domains. Thus, whereas the introduction of new coordination elements may be an intentional step on the continuum towards hard law, the integration of policy fields is a rather indirect way of bringing certain policy items within the scope of hard law coordination. Europe 2020 for instance integrates the economic, social and employment policy fields, whereas these policy areas fall Treaty-wise within the scope of different coordination methods granting different competences to the EU. A policy item such as pensions may for instance be seen as an important object for realising cuts in public spending, whereas it has also an important social dimension for instance to fight old-age poverty. Europe 2020 does not provide answers on how to

monitor mutual interactions between policies, for instance the social dimension of economic targets (Zeitlin, 2010). Dinan (2012) describes the confusion that stems from the recent EU level initiatives by observing that the EU uses the term 'economic governance' to refer to very different policy cycles ranging from fiscal federalism to less binding coordination of socio-economic policies. If this confusion also includes the type of coordination instruments to use for executing this 'economic governance', then the EU could potentially be entering domains of national sovereignty via the backdoor of economic governance (Bekker and Palinkas, 2012). From a social policy perspective such coordination ambiguity might be especially problematic when coordination cycles and its goals are rivals (view Trubek and Trubek, 2007). If separate governance cycles operate within the same policy domain, yet have opposing goals, a choice might have to be made between existing coordination systems. Such a choice may simultaneously be one between binding and non-binding policy suggestions. This paper further explores in what way policies are integrated under the new economic governance package by exploring how the same policy areas are included in different coordination cycles and whether this means that employment and social policy items are evaluated in more binding policy cycles.

3. Methodology

To make a first exploration of new interconnections between hard and soft law this paper analyses a broad range of coordination methods, which encompasses more than just employment policies. To really assess the potential impact of the new EU-level coordination package, the Europe 2020 Strategy is explored as well as the Stability and Growth Pact (SGP), the surveillance of Macro-economic imbalances, and the Euro Plus Pact. The analysis is based on relevant EU level documents. It explores the place of the new coordination elements on the continuum of soft and hard law coordination, firstly by establishing changes in obligation, precision and delegation, for instance determining changes in the leeway member states have to choose which goals to meet, how to meet them and at what pace. Next, the paper analyses the actual interactions between the EU and four member states in 2009 and 2011. This sheds light on the differences between the coordination method of the EU and the four member states before and after the introduction of the stricter economic governance package as of 2010. The four countries under scrutiny are Germany, Spain, Poland, and the UK. These have been selected based on their difference on two relevant characteristics. A first characteristic is either or not belonging to the Eurozone, as Eurozone countries face different rules than non-Eurozone countries especially in financial and budgetary policy areas. Poland and the UK do not belong to the Eurozone and may therefore experience fewer incentives to keep to stricter EU targets, while Germany and Spain may feel more peer pressure to comply with EU goals. A second characteristic is the economic situation, ranging from having an economy which has not suffered that much from the crisis (PL) to having severe troubles (ES). Some of the coordination techniques are only used when the situation in a country should be improved urgently and considerably, which could enhance both the pressure on a country to meet EU criteria and increase the level of scrutiny and guidance by the EU. This part of the analysis is based on EU documents released as part of the policy cycles of 2009 and 2011 as well as the National Reform Programmes (NRPs) 2009 and 2011 which have been written by the respective national governments. All these documents are publicly available on the website of the European Commission.

As the NRPs are written by national governments these documents are part of the political process in dealing with EU level demands. Therefore, these NRPs should be viewed as political documents rather than neutrally formulated documents. This is also valid for EU-level documents as these contain political preferences and not only policy analyses (Barbier, 2005). It is important to be aware of such biases, while recognising that the documents written for and within the different policy cycles contain relevant information to assess the changing relations between the EU and its member states. Conclusions are therefore drawn with care.

4. New coordination cycles and instruments through stricter economic governance

The shock effect of the crisis triggered reflections at EU level on how to coordinate the policies of member states more strictly. The EU not only added new coordination elements to the Europe 2020 Strategy. It also introduced a stricter economic governance package consisting of new soft law tools as well as hard regulations such as the Six-Pack legislation (Council, 2011a) (see table 1 for an overview).

4.1 Adjusting existing coordination cycles

A first coordination cycle explored in this paper is the Europe 2020 Strategy which ultimately aims at smart, sustainable and inclusive growth. Its policy cycle has roughly stayed the same and may still be characterised as a soft law policy cycle. However, new coordination elements have been introduced. Thus, the EU still communicates its policy guidelines to the member states on an annual basis, to which the member states respond by handing in their NRPs consisting of national policies that should contribute to reaching the European goals. The EU then evaluates these NRPs and gives country-specific recommendations (CSRs) to each individual member state. Yet, Europe 2020 introduced a wider set of quantitative targets encompassing employment, education & innovation, social policy and environmental targets, thus further interconnecting policy fields. Moreover it introduced the option for member states to define their own quantitative targets, also if these are below EU ambitions. Thus, on this latter aspect member states have gotten more leeway to respond to EU level goals (see also table 2). The new coordination elements also require more precision in policy responses, as member states have to give deadlines for policy conversion in their NRPs as well as spell out detailed policy steps that lead to the ultimate goals. In spite of this precision, member states may still formulate their own policy steps and set their own deadlines. The Commission however does expect that the policy steps are embedded in national budgets and laws. Another novelty is that the EU attaches deadlines to the CSRs, demanding national policy changes within 12 to 18 months (European Commission, 2011). Although these deadlines still fall within the sphere of soft law, it does increase the precision of coordination, as it indicates when a country should have taken action. Another observation is that, in spite of attempts to simplify coordination by decreasing the number of economic and employment guidelines, the overall sets of targets has expanded. Apart from the Europe 2020 goals, the Commission introduced thematic flagship initiatives, as well as spelled out short-term targets in the Annual Growth Surveys and midterm targets in the Employment Package.

A second coordination cycle under scrutiny of this paper is the SGP. This coordination cycle was implemented in 1997 as a hybrid constellation of coordination. Its preventative

arm contains soft law reporting in annual stability or convergence programmes (SCP) while its corrective arm, called the Excessive Deficit Procedure (EDP), combines a rather soft early warning mechanism with hard fines for Eurozone countries that keep failing to meet the criteria of having a maximum deficit of 3% of its Gross Domestic Product (GDP) and a debt ratio of maximally 60% of GDP. An early warning system should prevent the occurrence of an excessive deficit. However, if such a warning does not lead to better performance, the Commission will draft more specific recommendations to a member state, requesting corrective actions. Although the option to take corrective measures already existed prior to the implementation of stricter economic governance, the actual use of fines has never been decided upon, even though the situation in some countries could have justified such interventions (Morris et al., 2006). In 2005, after objections of member states to the upcoming fines, the SGP was changed to give member states more flexibility to develop policies to meet their individual economic circumstances for instance by pursuing a strategy of public investments. As of that year, member states have to set their own medium-term budgetary objectives (MTOs) which are essentially country-specific intermediate steps towards the end goal (European Commission, 2007). In 2011, when some (Eurozone) countries faced severe budgetary problems, stricter economic governance introduced new elements into the SGP via the Six-Pack legislation. Fiscal rules are now applied more strictly by defining quantitatively what a 'significant deviation' from the MTO or the adjustment path towards it means, and for Eurozone countries this is combined with an interest-bearing deposit of 0.2% of GDP in case of non-compliance, also within this preventive arm. This is a step on the continuum towards obligation of countries to comply with their own budgetary objectives. Moreover, not meeting the debt criterion is from now on also a reason to launch the EDP (EP and Council, 2011a; European Commission, 2012a). The pace at which to lower debt may be pre-defined, which brings more precision into coordination. In addition, to facilitate the operation of the corrective arm, a new voting procedure has been installed, which aims at lowering the role of political processes that could block a Council conclusion. This new procedure is based on the reverse majority rule, meaning that the Commission's proposal for imposing sanctions will be considered adopted unless the Council votes against it by qualified majority. In essence this means some transference of power from the national to the EU level. The set of sanctions for euro-area countries ranges from a non-interest-bearing deposit amounting to 0.2% of GDP to the conversion of this deposit into a fine of 0.2% of GDP if the deficit is not corrected. Further non-compliance will result in the sanction being stepped up to 0.5% of GDP, which thus increases the degree of obligation. Concluding, more soft as well as hard law elements have been introduced in the SGP, thus further developing its hybrid coordination constellation, but also taking steps on the continuum towards more precision, obligation and delegation.

4.2 Introducing new coordination cycles

Apart from strengthening existing coordination methods, two new coordination cycles have been introduced after 2010: the Euro Plus Pact and the Macro-economic imbalances procedure. The Euro Plus Pact is a soft law coordination cycle. Countries can voluntarily sign up to the Pact and report on their progress in their NRPs (European Council, 2011). 23 Countries, including six countries outside the Eurozone, have signed up to the Pact. The Pact encourages member states to translate fiscal rules as laid down in the SGP into national legislation (e.g. constitutional or framework law) as well as to improve

competitiveness, increase employment, contribute to the sustainability of public finances and reinforce financial stability. This Euro Plus Pact requires member states to announce a set of concrete actions to be achieved within twelve months, on the basis of indicators and principles (European Council, 2011). This means that there is quite some precision in the new soft law policy cycle.

The Macro-economic imbalances surveillance assists in the new Macroeconomic Imbalances Procedure (MIP) (EP and Council, 2011a and 2011b). It has a preventative and a corrective arm containing soft and hard law elements and thus forms a hybrid coordination method which has been consciously developed. The corrective arm is enforced via the Excessive Imbalances Procedure (EIP). A new scoreboard of indicators evaluates country performance, benchmarks and triggers learning effects between countries, acts as an alert system to timely assess macro-economic and competitive imbalances and serves as a basis to issue warnings to member states. This scoreboard thus combines soft governance techniques such as benchmarking with techniques that are a bit closer towards the hard law end of the continuum, such as warnings. Moreover, the scoreboard may be a first step on a path that could lead to more precise evaluations combined with gradually increasing obligations and delegation. A scoreboard alert leads to an in-depth study which considers whether potential imbalances are harmless or problematic. This evaluation goes beyond the scoreboard indicators, including a greater variety of information, thus potentially being more sensitive to specific national challenges. If excessive imbalances are revealed, the Council may adopt a recommendation for the country to take corrective action, entailing a set of policy directions as well as a deadline for handing in a corrective plan of action. By entering this stage, the member state is in the EIP. In its plan of action the member state has to write down a clear roadmap and a timetable for the implementation of policies that should correct for the imbalances (EP and Council, 2011b). Should the Council approve of the corrective action plan, it shall list recommendations of more specific actions and deadlines as well as a timetable for surveillance. The progress of a country is then closely monitored and the Council may adopt a decision establishing non-compliance in combination with recommendations and new deadlines for corrective actions. For Eurozone countries the EIP is accompanied with an enforcement mechanism consisting of an interest-bearing deposit which can be converted into a fine (up to 0.1% of GDP). The soft law benchmark between countries may thus gradually develop into more precisely prescribed policy measures including deadlines. Moreover, for Eurozone countries the option of getting fines forms a step towards obligation, whereas the supranational decision on the existence of a macro-economic imbalance forms a step on the continuum towards the delegation of power.

*Table 1: Overview of EU's coordination methods of economic policies and its most relevant elements as of 2010 (Newly introduced elements in **Bold + Italic**)*

| Coordination cycle | EU target | Reporting by member state | Evaluation instruments or elements of EU |
|--------------------|-----------|---------------------------|--|
|--------------------|-----------|---------------------------|--|

| | | | |
|--|---|--|--|
| Europe 2020 (soft) | <ul style="list-style-type: none"> - Quantitative targets - Policy guidelines - Additional short term and intermediate targets (e.g. Employment Package; Annual Growth Survey) | <ul style="list-style-type: none"> - National Reform Programme. Should now include time schedule with detailed policy steps | <ul style="list-style-type: none"> - Country Specific Recommendations should now include deadlines (in general 12 to 18 months at times combined with specific deadlines per policy item in recommendation) |
| Stability Growth Pact (hybrid) | <ul style="list-style-type: none"> - a.o. a maximum of 3% deficit and 60% debt of GDP | <ul style="list-style-type: none"> - Stability Convergence Programme - Occasional report with adjustment efforts after excessive deficit has been determined; Including timetable made by member state | <ul style="list-style-type: none"> - Recommendations with deadline¹ - Warnings via EDP - Deposits and fines (for Eurozone countries) - Predefined pace reduction expenditure - Decision sanction via reversed majority ruling (Council votes against by qualified majority) |
| Euro Plus Pact (soft) | <ul style="list-style-type: none"> - Soft law targets: Competitiveness; Employment; Public finance; Financial stability | <ul style="list-style-type: none"> - In National Reform Programme including concrete actions set by member state | <ul style="list-style-type: none"> - Deadline (12 months) - Recommendations |
| Macro-economic imbalances surveillance (hybrid) | <ul style="list-style-type: none"> - Quantitative indicators in a scoreboard indicating possible macro-economic imbalance | <ul style="list-style-type: none"> - Country report after macro-economic imbalance has been determined including time schedule roadmap to improvement | <ul style="list-style-type: none"> - More precise recommendation; - Warnings via Macro-economic Imbalances Procedure - Fines (for Eurozone countries) |

Table 1 summarises the different coordination cycles in the broad area of economic governance. It shows the most important differences between the former coordination techniques by adding in **bold** and *italic* newly introduced elements. The table shows that whereas coordination cycles that directly deal with employment and social policies have become more precise, these still fall within the range of soft law governance as the level of obligation and delegation have fairly stayed the same. Conversely, coordination cycles that predominantly deal with economic and financial affairs, have hybrid coordination constructions in which more hard law elements have been introduced, thus taking steps towards more precision, delegation and obligation. The next section however argues that this does not necessarily mean that employment and social policies are totally excluded from coordination constituting more obligation and delegation.

¹ In practice up until 2010 called Council opinion, after 2010 called recommendation

5. Stricter Economic governance and integration of policies fields

The integration of policy fields opens up another route for the introduction of hard law elements in the coordination of employment and social policies. It interconnects the different policy cycles by highlighting the same kind of policy items, yet from a different policy perspective. For instance, the introduction of the European Semester not only integrates policy fields by expecting member states to write the national reports for the Stability and Growth Pact and the Europe 2020 Strategy in joint cooperation. It also links separate coordination methods by introducing a joint evaluation of financial, economic, employment and social policies into one set of CSRs (European Commission, 2011). Although the signs of mixing coordination methods and policy domains in such a far-reaching manner may be rather recent and still too vague, this section shows that EU documents contain interest in steering employment and social policies in a more forceful manner while also discussing the distinct dilemmas this brings along, especially regarding the autonomy of member states and national social partners. The ambiguity concerning which coordination method applies to what policy items has thus not been reduced by the economic governance initiatives.

The dilemma is largest when employment and social policy items are evaluated from an economic or financial perspective. One example may be found in the Commission's Employment Package, which deals with structural changes in labour markets. It gives both the reason of interest in social and employment issues from an economic perspective as well as phrases the distinct dilemmas concerning sovereignty. It first of all argues that *"Better EU employment governance and coordination has become essential for at least two reasons. First, labour market participation, unemployment and labour cost play a role in macroeconomic stability, and are taken into consideration in the new regulation on the prevention and correction of macroeconomic imbalances..."* (European Commission, 2012b: 20). Here, the Commission refers among others to labour costs as an aspect that determines macroeconomic stability, and that these labour costs may be assessed via the hybrid coordination cycle of the Macro-economic imbalances surveillance. It thus brings labour costs within the range of the binding tools of the EIP. Yet, part of labour costs, such as the negotiation on wage growth, usually belongs to the autonomy of the national social partners. The Employment Package continues *"... Second, the crisis has further revealed the interdependence of EU economies and labour markets, underscoring the need to accompany the new economic governance with strengthened coordination of employment and social policies in line with the European Employment Strategy provided for by the Treaty."* (European Commission, 2012b: 20). The Commission thus implies that the coordination of employment and social policies should be strengthened, but also seems to suggest that this should not be done via the new economic governance package, but rather should be based on the Treaty provisions allowing a soft coordination role of the EU in employment and social policy issues. In the same text the Commission underlines the autonomy of member states and the social partners, for instance reassuring that it takes account of national sovereignty in the coordination cycle to establish macro-economic imbalances. This however seems to be in contradiction with the prior statement on labour costs and therefore contributes to ambiguity on the applicability of coordination methods. The Macroeconomic Imbalances Procedure (MIP) also shows the integration of policy fields and the awareness of potential tensions with the autonomy of member states and social

partners. It therefore explicitly refers to Treaty Article 152 TFEU on respecting national practices and institutions for wage formation. Moreover, the MIP will take into account Article 28 of the Charter of Fundamental Rights of the EU and thus not affect the right to negotiate, conclude collective agreements or to take collective action (EP and Council, 2011b). Yet, the scoreboard of indicators used to assess the situation of countries, includes the three years percentage change in nominal unit labour cost (with thresholds of +9% for euro-area countries and +12% for non-euro-area countries) as well as the 3-year backward moving average of unemployment rate, with a threshold of 10% (European Commission, 2012c). This has led to other EU level actors, such as trade union ETUC, to fear that *“Given the fact that macro economic imbalances are interconnected with a wide range of policies, this new process is giving finance ministers and DG ECFIN yet another possibility to intervene in areas where they have no competence (including collective bargaining, labour market institutions, public services,...”* (ETUC, 2010: 1).

The introduction of new coordination cycles and coordination elements as well as the coordination ambiguities stemming from the integration of policy fields are predominantly exercises on paper. It does not say much about the actual changes in the interaction between the EU and its member states. Therefore, the next sections compare the employment policy coordination cycles of 2009 and 2011, in search for differences.

6. The pursuit of EU level goals before and after stricter economic governance

It is first of all important to determine which policy cycles applied to the four case countries in 2009 and in 2011. Being in the corrective stage of a measure might improve peer pressure on a country to comply with EU-level targets. This could for instance result in quite detailed NRPs containing precise policy steps and deadlines for the implementation of laws. In both years all four case countries reported to the Lisbon Strategy or Europe 2020 ambitions. Of these four countries, only the UK was in the EDP procedure at the beginning of 2009, although Poland and Spain entered the EDP in July and April 2009 respectively. In 2011, all four countries were in the EDP. Thus, in 2011 three out of four countries could have experienced more peer pressure to meet budgetary rules than in 2009. However, not being part of the Eurozone, the UK and Poland do not run the risk of getting fines, which might decrease the countries' perceived peer pressure. In addition, Poland, Spain and Germany signed the Euro Plus Pact and reported on this in their NRPs, whereas the UK did not sign this Pact. Lastly, the state of macro-economic imbalances has not been assessed within the time frame of the European Semester 2011, making it unlikely that this coordination cycle changed the behaviour of countries in 2011.

Comparing the NRPs of 2009 and 2011, there is more diversity in the goals the four countries strive for in 2011 than in 2009. This is related to the introduction of many new sets of goals as of 2010, including quantitative targets, the flagship initiatives, the short-term goals in the Annual Growth Survey and the long-term goals in the employment guidelines. The increase in the number of different goals thus seems to have offered countries leeway to pick and choose between sets of targets to report on in their NRPs. In 2009, goals addressed by the four countries predominantly concerned the CSRs, Points to Watch (PTW that resemble the characteristics of CSRs as these are developed based on country specific assessments) and the integrated guidelines on employment and

economic policies. Germany for instance reported according to the integrated guidelines and to the CSRs and PTW, whereas Poland focused solely on the CSRs and PTW. The UK also mentions the guidelines, but reports on thematic issues that refer to the EU's priority areas set by the Spring European Council 2008. In addressing the priority areas the UK also refers to the CSRs and the PTW it has gotten. It moreover refers to the European Economic Recovery Plan (EERP) stating that it is committed to it. Spain also used the CSR to report on, however, also used broader policy themes, including economic and budgetary issues. Spain moreover mentions some quantitative targets, for instance the employment rate target. Spain's NRP not only covers the guidelines and CSRs, but also 'key challenges', Euro area recommendations, and PTW. In 2011, there is somewhat greater variety in targets to which the four countries respond. In its NRP of 2011 the UK refers to both the employment guidelines and the BPEGs. Poland also refers to some of these guidelines, however, more often chooses to relate its policies to the EU's thematic flagship initiatives. The UK, ES, and DE (sometimes briefly) refer to the Annual Growth Survey. All four countries address the quantitative headline targets, but none refers to CSRs, probably due to the start of the new Europe 2020 strategy.

Interestingly, the UK, DE and ES point at yet another set of goals in 2011: country specific bottlenecks adopted by the ECOFIN Council following the need to identify the main obstacles for growth and job creation at EU and national level (Council, 2010; European Commission, 2010). The bottlenecks integrate macro and micro level growth policies regarding on the one hand budgetary, financial, and external imbalances with labour utilisation, investment, and productivity, on the other hand. These bottlenecks thus deal with a range of policy items with an emphasis on financial and economic issues, which is also reflected in the country-specific bottlenecks. The bottlenecks should be reported on in NRPs, which three out of four countries consequently did. The UK even structured its NRP according to the bottlenecks. Four out of five bottlenecks for the UK regard economy and finances, and one addresses the education system and human capital formation. For Spain three bottlenecks address economic and financial issues, one addresses the labour market and one the education system. Germany received five bottlenecks, two of which deal with the underutilisation of labour potential and its education system that insufficiently contributes to human capital formation. Poland also mentions 'bottlenecks to growth identified for Poland', however without a reference to the ECOFIN conclusions and without really using it in policy responses. The introduction of these bottlenecks brings more financial and economic targets into the policy cycle and moreover widens the set of targets for member states. As such it contributes to the leeway countries have to pick and choose which targets to meet.

This leeway is also seen in the national responses to the quantitative targets of Europe 2020. In line with the option given by the EU, member states all set their own quantitative goals in 2011, resulting in an overall less ambitious EU 2020. The UK has defined only one of the five quantitative targets (see table 2 for part of these targets). Regarding the reduction of poverty, national definitions vary considerably, and refer sometimes to the reduction of jobless households instead of reducing the number of people in or at risk of poverty. Thus, the quantitative targets may be adjusted according to a country's ambition; however, also the definition of a target may be altered, thus also affecting the measurement and judgement of the progress of a country.

Table 2: EU and Member State quantitative targets related to employment and social policies within Europe 2020 as mentioned in 2011

| | Employment rate | Early school leaving in % | Tertiary education % | Reduction of poverty |
|---------------------------|------------------|---------------------------|----------------------|--|
| EU headline target | 75% | 10% | 40% | Minus 20 million people |
| Estimated EU average goal | 73.7 – 74% | 10.3-10.5% | 37.5-38% | Cannot be calculated |
| Germany | 77% | <10% | 42% | 330,000 (long-term unemployed) |
| Poland | 71% | 4.5% | 45% | 1,500,000 |
| Spain | 74% | 15% | 44% | 1,400,000–1,500,000 |
| UK | No target in NRP | No target in NRP | No target in NRP | Existing targets of 2010 Child Poverty Act |

Source: European Commission

6.1 Integration of policy fields in NRPs

In contrast with 2009, the 2011 NRPs show the impact of stricter economic governance in the sense that all four NRPs explicitly refer to the SCP for a more detailed outline of economic and budgetary measures. It shows some degree of integration of policy fields and coordination cycles. Yet, all four NRPs 2011 also show that countries take their own route in fulfilling EU level goals. Poland explicitly states that the NRP above all takes into account the national situation, and while tackling national growth bottlenecks also delivers EU targets. It subsequently connects its own national list of priorities to the EU targets and moreover shows leeway in response by referring to BPEGs that are not relevant for the Polish case. The NRPs also show that meeting economic and financial targets impacts employment and social security, thus showing the integration of policy fields. The Polish NRP 2011 mentions that in order to reduce the excessive deficit, it will lower its spending on less effective active labour market programmes and that it will amend its pension system. The UK puts forward the reform of its welfare system as a way to contribute to the fiscal consolidation plans. Germany, conversely, aims at fiscal consolidation without obstructing the potential for growth or threatening social balance. It plans to introduce more incentives to take up work, to reform the health care insurance system, but also to invest in education, research, and innovation.

In the NRPs of 2009, the four countries do not refer very explicitly to the stability or convergence programmes (SCP), yet they seem aware of the EU's fiscal rules. Only the UK refers to its upcoming SCP for more information about the country's financial and budgetary policies. Germany does mention some economic and financial policies, those related to the integrated guidelines, but does not mention the SCP. Contrary to the

attempts to significantly reduce public expenditure, as mentioned in the NRPs of 2011, in 2009 countries were still pursuing an anti-cyclical investment policy to counter the effects of the crisis. They report that investments are in line with the recommendations of the Commission and the Council in the EERP. Germany argues that it can make investments, because of its good financial situation and economy. Also Poland still experiences economic growth and even though it mentions a budget deficit of 3.8% of GDP, it explains not to be too hasty with reducing this deficit to avoid the risk of entering into a recession. Poland also mentions the SCP, but in relation to the CSR on budget discipline and the recommendations of the ECOFIN Council of July 2009, that opened the excessive deficit procedures for Poland and gave recommendations on corrective actions (Council, 2009b). Whereas Poland and Germany still had a relatively good economy early 2009, Spain and the UK already witnessed an economic decline early 2009. Using the Commission's EERP Spain argues that it wants to combine short-term investments in order to boost demand with longer-term structural reforms. Spain is aware it will exceed the 3% criterion, however, it is sure that it will dive below this percentage in 2012, thus meeting the EPD and other criteria. Also the UK refers to the EERP to explain its support for the economy and for those who need it most, while ensuring sound public finances.

Thus, the integration of financial and economic policy fields is much more visible in 2011 and the pressure of countries to meet the 3% deficit criteria is sometimes a reason to start cutting budgets among others in social policy domains. This is in contrast with the year 2009, where the EU still advocated an anti-cyclical investment agenda which Germany, the UK and Spain used to support their investments into their economies.

6.2 Concrete policy steps in NRPs

Also within the NRPs, steps toward more precision may be witnessed, for instance if these contain small policy steps or deadlines. Having examined the reports of 2009 and 2011, the overall conclusion is that the four countries differ in their way of reporting to the EU and that these differences neither show a division between Eurozone and non-Eurozone countries nor between countries in different economic situations. Poland for instance is not a Eurozone member, yet has quite a detailed NRP in 2011, as will be illustrated in the remainder of this section. In addition, the two member states in this study with the best performing economies, Germany and Poland, have the most detailed NRPs in 2011. Conversely, in spite of a significantly deteriorating economy, Spain's NRP of 2011 is much less detailed than that of 2009. It shows that countries had and still have leeway to choose in how much detail they spell out policy steps and give deadlines and that experiencing economic decline or being in the Eurozone does not necessarily increase the pressure of handing in more in-depth NRPs. If countries wish to, they can remain vague about their policy plans.

The content of the German NRP is rather detailed, both the 2009 and the 2011. It gives the status of the implementation of projects, its date of entry into force, and some examples of measures in the different *Länder*. Its NRPs also contain detailed descriptions of measures, the reasons for introducing the measure, and to which integrated guidelines, CSRs and PTW the measures pertain to. Germany also presents its plans in a very detailed table. The NRP for instance introduces the scheme "Networks for Effective Assistance for Single Parents" which aims at integrating single parents into the labour market by

improving the linkages between local support structures. It says to have a budget of 25 million Euros, to run in about 100 locations, and to start in April to June 2011.

The NRP 2009 of Spain includes a huge table full of programmes, containing all the measures in the report, to which CSRs these relate, whether or not the plan has been approved, what the prospective implementation date is, budgets, references to specific Acts where relevant and the role of the different Spanish regions. An impressive amount of EU targets is integrated in order to show how Spain is meeting these. Moreover, the NRP has sections with updates of certain policy measures or plans and their status. The 2011 NRP of Spain seems much less developed. It sets some long-term and midterm targets, for instance an employment participation rate of 66% in 2015. It also defines more detailed labour market obstacles to increase its participation rates and for instance mentions a labour market reform in the Act 35/2010 of 17 September 2010, aiming to reduce labour market segmentation, to enhance employer's internal flexibility and to improve the employment opportunities for unemployed who have greater difficulties with finding employment. Yet, in 2011 Spain especially reports on already implemented programmes that will keep running the next few years and it hardly includes deadlines for further policy implementation. Sometimes it says to do something with a certain speed, e.g. regarding the Euro Plus commitment to reform collective bargaining it mentions new initiatives being expressed 'shortly'. Such expression is less precise than a deadline with a specific date.

The Polish NRP of 2009 is not that detailed as the one in 2011, although it does provide some information on implementation date. Regarding unemployment benefits, Poland mentions that it amended the Promotion of Employment and Labour Market Institutions Act, meaning among others that from January 1st 2010 onwards, the amount of benefit received will be 20% higher, while reducing unemployment benefit after 3 months. Its aim is to raise the level of social protection while motivating the unemployed to seek for new employment. The Polish NRP 2011 is more precise and has for each thematic issue quite a detailed list of what actions to take by which Ministry, including a list of specific tasks to be done in 2011. For instance, concerning labour market policies, Poland defines 16 action lines and 14 tasks to be carried out in 2011. Task 3.1.12 is the facilitation of reconciling work and care and the development of child care institutions for children aged up to 3 years, to be carried out by the Ministry of Labour and Social Policy. One task for this Ministry is the implementation of the Act of 4 February 2011 on care of children up to 3 years of age and the start of the "Toddler programme". Also concerning the headline targets of Europe 2020 the Polish NRP is quite precise, including a time table with the expected labour participation rates for each year leading up to its 2020 target.

The UK is at times also quite detailed in its NRP, although fails, as table 2 showed to set concrete quantitative targets. In 2009, the UK report shows some details for instance when it presents its commitment to delivering 35,000 additional apprenticeships in 2009 and announces the Future Jobs Fund of £1 billion, aiming to support the creation of jobs for long-term unemployed young people, and other disadvantaged groups by creating 150,000 jobs, at least 100,000 of which will be aimed at 18-24 year olds who have been out of work for a year. For 2011, the UK has for each bottleneck a list of actions to take, sometimes with a deadline attached to it. To improve the education system it will for

instance establish 24 new technical colleges by 2014. The UK moreover includes the plans of Northern Ireland, Scotland and Wales.

6.3 Country-Specific Recommendations for member states

Whereas the level of detail in the NRPs 2009 and 2011 do not show a clear evolution, the CSRs have been reshaped quite considerably in the same period. A first observation is that all four countries have received much more CSRs in 2008-2009 than in 2011 and that these latter CSRs are in several ways more detailed. The number of CSRs for Germany grew from two in 2009 to four in 2011, for Poland from four to seven, for the UK from two to five and for Spain from three to seven CSRs. This growth in number of CSRs is firstly a result of the inclusion of a CSR on budgetary commitments under the EDP and is secondly caused by much more detailed policy suggestions, thus breaking up a broad policy recommendation into several more concrete recommendations. This makes the coordination cycle more precise. In the 2008-2009 CSRs, specific references to the GSP are largely absent. Only for Poland and the UK a CSR refers to the status of the public finances. For Poland the EU recommends to sustain budgetary discipline and introduce additional mechanisms to improve control over expenditure and that Poland should do so by reforming the Farmers' Social Security System. The CSRs for Spain do not mention public finances at all and only refer to broad problem areas in the labour market and the economy. Conversely, in 2011 all four countries have received a first CSR on fiscal consolidation or budgetary strategies as agreed upon in the context of the EDP. This first CSR was for three countries combined with the message that the consolidation should be sustainable and growth-friendly (DE, PL, UK). In 2011, only the UK received a CSR explicitly addressing social policy issues and was recommended to reduce the number of workless households, focusing on people who are inactive due to caring responsibilities. Plans on this should however meet budgetary commitments.

Moreover, the CSRs of 2008-2009 generally contain a few lines, whereas those of 2011 are much more pronounced. The latter CSRs therefore often also contain more detailed views on how to tackle an issue. To show in more detail what has changed, the Polish CSRs may serve as an illustration. In 2009, Poland received the very broad CSR referring to employment issues: *“develop an integrated ‘flexicurity’ approach, by implementing an active ageing strategy, continuing 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”* (Council, 2009, p. 20). Much of the same items have been addressed in the Polish CSRs of 2011, however, now spreading the single recommendation over a number of recommendations and being much more explicit about what needs to be altered. Recommendation three for Poland reads for instance: *“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.”* (Council, 2011b, p. 7). Recommendation four continues with references to specific programmes that Poland is already developing, suggesting that it should implement these. Mentioning specific programmes makes a recommendation much more precise. *“Implement the proposed lifelong learning strategy, enhance apprenticeships and dedicated vocational training and education programmes for older workers and low-skilled workers. Strengthen links between science and industry by implementing the ‘We build on*

Knowledge' programme ('Budujemy na Wiedzy'). Implement the higher education reform programme 'Partnership for Knowledge' ('Partnerstwo dla Wiedzy') so as to better align educational provision with labour market needs." (Council, 2011b, p. 7). A fifth CSR for Poland additionally calls to improve female labour market participation by improving child care facilities.

In 2011, deadlines have been given to all four countries. Such deadlines were not part of the CSRs of 2008-2009 meaning that CSRs have become more precise. The 2011 deadlines have been attached to some individual CSRs, while in general the EU expects that member states deal with the recommendations within 12 to 18 months. Especially CSRs related to financial and budgetary targets contain deadlines and the Commission refers in this respect to the SGP or EDP. For some countries deadlines also pertain to other types of CSRs. Spain has received for instance a CSR to assess by the end of 2011 the impact of two labour market reforms. The UK should adopt a comprehensive strategy to reduce early school-leaving by the end of 2012. Also Poland should by 2013 enact legislation with a view to implementing a permanent expenditure rule. Such deadlines and sometimes quite detailed CSRs show that soft coordination has become more precise.

7. Conclusion

This paper contains a first assessment of the impact of the EU's stricter economic governance on employment and social policy coordination by assessing whether the introduction of the new economic governance has introduced steps on the continuum towards hard law, also in soft law coordination cycles. It distinguishes two routes for such steps towards hard law, these being the implementation of more binding coordination elements and the integration of policy fields. The paper shows that stricter economic governance has resulted in some areas in more precision, obligation and delegation. Europe 2020 for instance gained additional soft law elements such as deadlines that form a step on the continuum towards precision in steering member state policies. Also the CSRs have become more precise in suggesting member states which policies to implement or alter and CSRs have started containing deadlines. The Euro Plus Pact is a new soft law policy cycle also containing deadlines and demanding detailed policy steps. In addition, the SGP, which already was a hybrid constellation of soft and hard coordination, gained additional hard and soft law elements and introduced more obligation, delegation and precision. Also the new macro-economic imbalances surveillance is a hybrid constellation of coordination containing quite some precision, obligation and delegation. Moreover, policy fields remain to some extent integrated while the ambiguity concerning the applicability of coordination methods is not reduced by the economic governance package. Such ambiguity is especially visible where it concerns an economic reading of social policy goals. Pension schemes and labour costs are for instance issues of interest in discussing budgetary and economic problems at EU level.

Comparing the NRPs of four countries in 2009 and 2011, the conclusion is that there is still considerable leeway in responses to EU demands, also for Eurozone countries. Due to the existence of different sets of goals, countries seem to be able to pick and choose between sets of targets and countries still have flexibility in choosing how to meet goals. Moreover, the evolution of NRPs is not necessarily an evolution towards more precision, and the extent to which NRPs contain detailed policy steps and deadlines can neither be

explained by the economic situation of a country, nor by its membership of the Eurozone. In this respect peer pressure stemming from the economic or budgetary situation is not necessarily present in NRPs. While the NRPs have not necessarily become more detailed, the CSRs do show a change between 2009 and 2011. They have become more precise, contain deadlines and at times make detailed policy suggestions, sometimes referring to specific national programmes instead of to broad policy themes. The integration of policy fields is visible in the CSRs of 2011 which now contain references to debt and deficit rules and commitments of the member states in the EDP. The NRPs also refer to these budgetary rules and some countries report to change social policies in order to reduce government expenditure, for instance Poland that changes its pension system and the UK that revises its welfare policy.

Thus, although more precision, obligation and delegation have been included in the different coordination methods, and whereas the coordination practice of the EU in setting CSRs has become more precise and encompasses several policy fields, the actual country-responses in NRPs show leeway for countries to deal with their employment policies. Perhaps more time needs to pass before the new coordination methods influence the reporting by member states. However, the actual functioning of the coordination process as well as the precise impact on social and employment policies, might also depend on the strategies that political and social actors adopt (Pochet, 2010, see also discussion in Trubek et al., 2005). Future research therefore might benefit from adding future policy cycles to the analysis and/or include the behaviour of national and European level actors into the analysis. This paper's first analysis shows that it is worthwhile to keep a close watch on the EU's economic governance and its influence on employment and social issues.

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