Panel: P114 – EU social policy in the post-crisis era

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Paper title:

'Trajectories of dismantling the welfare state in the wake of the Eurozone crisis'*

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Introduction

In the wake of the Eurozone crisis, numerous reform packages were implemented to strengthen the fiscal surveillance of countries and improve the coordination and convergence of macroeconomic policies in the European Union (EU) and the Eurozone. EU institutions acquired unprecedented power regarding the requirement of fiscal consolidation in national budgets of which welfare state spending is an important component. Almost two third of state expenditures goes to social matters (Table 1).

Table 1: Government expenditures on social issues in % of total government expenditures, 2015

	Housing and community amenities (1)	Health (2)	Education (3)	Social protection (4)	Sum of social expenditures =1+2+3+4
Austria	0,7	15,5	9,6	42,0	**67,7**
Belgium	0,6	14,2	11,9	37,5	**64,3**
Czech Republic	1,6	18,2	11,8	30,1	**61,7**
Denmark	0,4	15,6	12,8	43,0	**71,9**
Estonia	0,9	13,7	15,1	32,1	**61,8**
Finland	0,7	12,6	11,0	44,9	**69,2**
France	1,9	14,3	9,6	43,1	**68,9**
Germany	0,9	16,3	9,6	43,1	**69,8**
Greece	0,4	8,2	7,8	37,0	**53,5**
Hungary	2,2	10,6	10,3	29,9	**53,0**
Ireland	2,0	19,3	12,4	32,7	**66,5**
Italy	1,2	14,1	7,9	42,6	**65,8**
Latvia	2,6	10,3	16,2	31,0	**60,1**
Luxembourg	1,2	10,9	12,4	44,8	**69,2**
Netherlands	0,7	17,7	12,0	36,8	**67,3**
Poland	1,7	11,2	12,6	38,3	**63,8**
Portugal	1,0	12,7	12,4	37,8	**63,9**
Slovak Republic	1,9	15,7	9,3	33,0	**59,8**
Slovenia	1,3	14,0	11,6	36,1	**62,9**
Spain	1,1	14,2	9,3	39,1	**63,7**
Sweden	1,5	13,8	13,0	41,6	**69,9**
United Kingdom	1,1	17,8	12,0	38,4	**69,3**
Lithuania	0,9	16,5	15,4	31,7	**64,6**

Source: OECD 2017, Government at a glance, calculation by Christian Reiner forthc.

Furthermore, Europe 2020 objectives became increasingly subordinated within the European Semester to contribute to the proclaimed goals of fiscal consolidation and improvement of competitiveness. The two goals stem from the tradition of ordoliberal and neoliberal ideas that have long been pushed by core state powers – e.g. Germany, Netherlands, Denmark – and the European Commission. Accordingly, the European welfare states are becoming, intendedly or unintendedly, 'crisis casualties' in the cascade of economic backlashes and serious public debt across Europe, unleashed, mainly, by the 'firefighting Keynesian' measures and the bail-out of banks (cf. Hemerijck 2014, 137). The EU´s response to the Eurozone crisis and associated budget imbalances – first and foremost fiscal consolidation – and its impact on welfare state reforms deserve a more in-depth analysis.

With the simultaneous vehemence of 'multiple crises' – financial, economic and sovereign debt crisis – core state powers used their political clout to shape the post-crisis EMU in institutional and normative terms (cf. Jones and Torres 2015). Their aim was to complement the Economic and Monetary Union (EMU) to contribute to a stable currency and export-led growth strategies, which call for internal devaluation to enhance 'external competitiveness' (cf. Wigger 2015, 118). Consequently, EU member states have already enacted numerous social policy reforms which were subject to varying degrees of supranational adjustment pressure and shifts in policy paradigms. The article hypothesizes, that the revised surveillance procedure, in the realm of the European Semester, helped to overcome the 'subsidiarity trap' in economic policy coordination. Furthermore, it reduced political costs for national governments to implement unpopular reforms in social policy domains that go along with retrenchments and cuts.

The main questions addressed by the article are: How do the new procedural rights of the revised fiscal and macroeconomic surveillance regime evoke reforms, and subsequently convergence in member states´ social policies? What are the mechanisms of diffusion in this policy area, which constitutes a core national competence due to the 'principle of subsidiarity' and therefore should be less responsive for policy recommendations from the EU? And consequently, what are the limits of the increasingly important yet highly contested role of the EU in pushing neoliberal reforms in policy areas at the core of the welfare state?

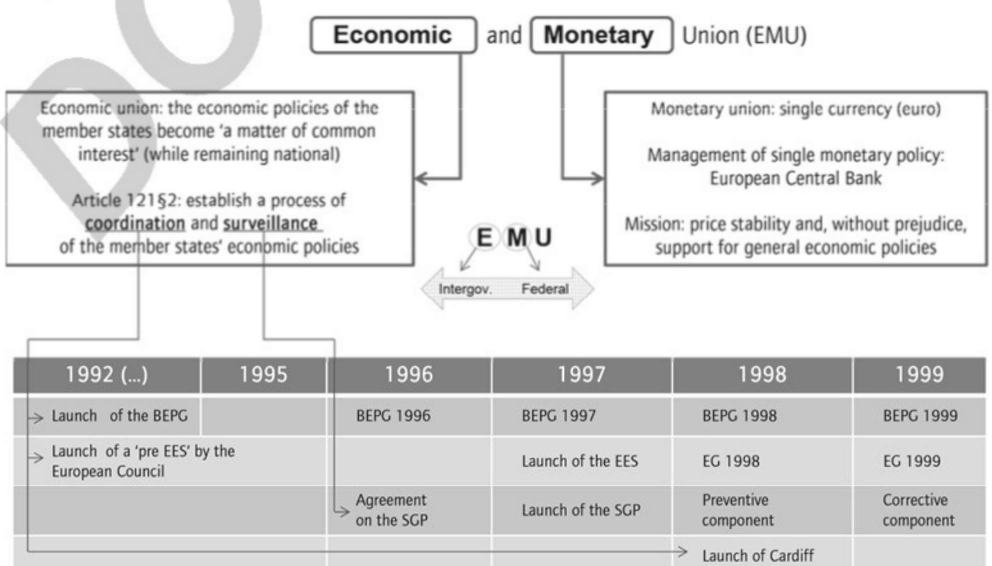
The article is organized as follows: Section one discusses the trajectories of institutional and policy change in the revised EMU-governance during the sovereign debt crisis; using the main integration theories – neofunctionalism (NF) and liberal intergovernmentalism (LI) – as the starting point in the theoretical understanding. Section two discusses analytical steps needed to explain variation in national reform agendas borrowing from the rich literature on Europeanisation (Bulmer and Radaelli 2004). (The concluding section discusses the limits of social policy cohesion as well as the political consequences of diminishing member state competences in social policy domains.)

1 Establishing a New Economic Governance (NEG) regime in the realm of neoliberal crisis management

The institutional and policy change during a period of crisis has significant characteristics, which should get our attention while analysing their output and interpreting their outcome in the long-term. First, we discuss the institutional flaws of the EMU before the crisis (Ch. 1.1), which are suspected to be complicit to causing the crisis, as well as the institutional and policy changes made in reaction to the crisis (Ch. 1.2). Second, we emphasise the role of distinct actors during crisis-management and the decisive ideas behind the invention of the new post-crisis fiscal and macroeconomic surveillance and coordination regime (Ch. 1.3).

The Economic and Monetary Union (EMU) was formulated in the 1970s, institutionalised through the Treaty of Maastricht in 1992 and refined in the following decades. It is a unique political project that started with a design fault. On the one hand, it is an association of sovereign states that have transferred their sovereignty regarding monetary policy to the independent European Central Bank (ECB). On the other hand, competences on economic and fiscal policy have remained with member states according to the principle of subsidiarity. This implied a central paradox as macroeconomic and monetary stability rely on each other but have not been consistent due to distinct competences between the ECB, the European Commission and the member states. Critics (cit.) noticed that fiscal policy takes on a large role in macroeconomic governance but are hardly harmonized throughout the Eurozone. The call for domestic structural reforms took pride of place to achieve macroeconomic convergence. Apart from that, the deepening of the Single Market also pushed for adjustments in a wide range of policy areas to adapt to new macroeconomic challenges in this regard.

Fig. 1: EMU-governance, 1992-1999



EES: European Employment Strategy; BEPG: Broad Economic Policy guidelines; EG: Employment guidelines; SGP: Stability and Growth Pact;

Source: Degryse 2012, 12

Monetary policy in the EMU is overseen and undertaken by the ECB Governing Council, which consists of six members of the Executive Board and the 19 presidents of the national central banks of Eurozone member states. It is obliged by mandate to pursue an inflation target of “below, but close to, 2% over the medium term” (ECB 1998). Its decision-making structure rests upon the notion of depoliticized steering of a common currency due to numerical thresholds and a lack of political accountability (cf. Bellamy and Weale 2015, 257). Furthermore, all Eurozone countries have committed themselves to complying with the agreed numeric deficit and debt criteria (a budget deficit-to-GDP-ratio of three percentages and a debt-to-GDP-ratio of 60 percentages). All Eurozone member states agreed to comply in their fiscal policies with this thresholds by signing the Stability and Growth Pact I (SGP I). The SGP I was introduced in 1997 with the Treaty of Amsterdam (ToA). In the context of the SGP the EU member countries are obliged to publish Stability and Convergence Programmes (SCP) which include budgetary forecasts for a three-year horizon. The debt criteria are policed by the European Commission in the realm of the SCP, whereas the member states develop a jointly-agreed corrective action plan (CAP) that addresses specific measures in policies areas of fiscal, social and labour matters as well as wage moderation (cf. Kincaid and Watson 2015, 798). Under the regime of SGP I, a failure of a member state to implement effective measures to consolidate their budget did not automatically end in sanctions, as this still were to be decided by the Ecofin-Council. Since its introduction the Ecofin-Council has never decided to impose any sanctions against its members. In 2005, the SGP was reformed to strengthen its anticyclical capacity by more flexibility to adapt to country-specific macroeconomic context if needed (cf. Chang 2015, 121). This reform was seen by critics with concern as it was suspected to weaken the efforts of member states to implement structural reforms and consolidate their budget in a sustainable manner.

A debate on the need of a coordination of fiscal and economic policies arose already in the EU concomitantly programme from the mid-1990s onwards with the implementation of the single market. Fiscal policy, structural and socioeconomic policies have remained in the competence of the member states due to distinct economical and welfare legacies. With the ToA in 1997, the member states decided to institutionalise continuous meetings of the Euro-area member states, called the ‘Eurogroup’, for a better coordination of their macroeconomic policies and including a chapter on employment matters. Moreover, in the following years, all member states agreed at several Council Summits to improve their coordination in diverse fields such as: employment policy (‘European Employment Pact’, Luxembourg 1997), market regulation and finance (Cardiff 1998), establishment of the Macro-Economic Dialogue (MED) dealing with wage and collective-bargaining policies (Cologne 1999), and a comprehensive strategy for a ten year period aiming to make the EU by 2010 to be "*the most competitive and dynamic knowledge-based economy in the world capable of sustainable economic growth with more and better jobs and greater social cohesion*" (Lisbon Strategy 2000). In order to achieve these objectives, without adopting legally binding measures, the commission designed a policy co-ordination instrument known as the Open Method of Coordination (OMC). The aim of the OMC is to establish a responsive mode of behaviour among national administrations (cf. Kahn-Nisser 2015: 1514). The OMC achieves this through five measures, the first of which is the definition of common goals. The second is the establishment of the guidelines and timetables for the implementation of the common goals. The third is the translation of guidelines into annual National Action Plans, and the fourth is the construction of comparative indicators towards the identification of best-practices. The final measure is periodic monitoring and peer review (Kahn-Nisser 2015:1514f.).

Fig. 2: Origin of economic coordination, 2000-2004

	2000	2001	2002	2003	2004
BEPG	BEPG 2000	BEPG 2001	BEPG 2002	BEPG 2003-2005	→
Cardiff	→	→	→	→	→
EES	EG 2000	EG 2001	EG 2002	EES 2003-2005	
Poverty		Launch of the OMC	→	→	→
Pensions		Launch of the OMC	→	→	→
Health					Launch of the OMC
Education		Launch of the OMC	→	→	→

Source: Degryse 2012, 14

1.1 Institutional flaws and implications for macroeconomic imbalances

All the attempts of improving the EMU governance were not effective enough to prevent the emergence of macroeconomic imbalances within the EMU and policy preferences still widely differed throughout the Eurozone member states. The EMU governance dilemma has become obvious by the crisis management after 2007/08. The financial crisis not only showed the interdependency and vulnerability of national financial markets to adverse international shocks. It also revealed that the governance of the EMU did not prevent the dynamics of an unsustainable development path of the EMU and the contagion effects that led to the Eurozone crisis. Instead, member states faced a deterioration of their public debt position because they: recapitalized the financial sector to prevent a collapse; implemented expansionary fiscal policy (e.g. subsidies for scrapping used cars in 2007 to 2009 in Austria, Germany, France, Italy, Spain and others); and, suffered from a decline of tax revenues because of the economic downturn.

This deterioration in public finances caused their sovereign debt interest rates to soar (Kincaid and Wilson 2015, 791). According to a calculation by the European Commission a total financial aid between 2008 and 2010 of € 4.5 trillion, equivalent to 37 per cent of the EU´s GDP was provided by the state authorities (COM 2011a). With rising unemployment levels, the pressure on national welfare budgets increased while at the same time fewer resources were available because of negative economic growth and declining tax revenues, rapidly shifting the fiscal balance into deficits. In combination with large rescue packages to prop up the banking sector to prevent a collapse of financial institutions and a wider economic meltdown, many Eurozone countries breached the deficit rule of the EU´s SGP and experienced - according to Table 2 – an increase in their public debt-to-GDP-ratio.

Table 2: General government consolidated gross debt in % of GDP

	2000	2007	2010	2015	Change 2007-2015 in percentage points
Greece	104,9	103,1	146,2	177,4	74,3
Spain	58,0	35,6	60,1	99,8	64,2
Portugal	50,3	68,4	96,2	129,0	60,5
Slovenia	25,9	22,8	38,4	83,1	60,3
Ireland	36,1	23,9	86,3	78,7	54,8
Cyprus	54,9	53,5	55,8	107,5	54,0
Croatia	35,5	37,7	58,3	86,7	49,0
United Kingdom	37,3	42,0	76,0	89,0	46,9
Italy	105,1	99,8	115,4	132,1	32,3
France	58,6	64,3	81,6	95,6	31,3
Finland	42,5	34,0	47,1	63,7	29,7
European Union	60,1	57,6	78,5	86,5	28,9
Latvia	12,1	8,4	47,4	36,5	28,1
Euro area	68,1	65,0	84,1	92,5	27,5
Lithuania	23,5	15,9	36,2	42,7	26,8
Romania	22,4	12,7	29,9	38,0	25,3
Netherlands	51,8	42,7	59,3	65,2	22,5
Slovakia	49,6	30,1	41,2	52,5	22,4
Austria	65,9	65,1	82,8	85,5	20,3
Belgium	108,8	87,0	99,7	106,0	18,9
Luxembourg	6,5	7,7	19,8	21,6	13,9
Czech Republic	17,0	27,8	38,2	40,3	12,5
Denmark	52,4	27,3	42,6	39,6	12,2
Bulgaria	71,2	16,3	15,3	26,0	9,7
Hungary	55,1	65,6	80,5	74,7	9,2
Germany	58,9	63,7	81,0	71,2	7,5
Poland	36,5	44,2	53,1	51,1	7,0
Estonia	5,1	3,7	6,6	10,1	6,4
Sweden	50,7	39,0	38,3	43,9	5,0
Malta	60,9	62,4	67,6	60,6	-1,8

Source: AMECO, calculation by Christian Reiner forthc.

The EU institutions failed to provide effective instruments to tackle the incremental imbalances as soon as the financial broke out in the year 2007. As a result, the financial crisis with several banks in trouble, become a serious risk for economic stability in member states, as more and more sectors got infected. The author derives three crucial institutional flaws, which made the EMU highly vulnerable to asymmetric shocks. These flaws are the following: incongruent economic models; asymmetric EMU policy coordination; and, lack of a common redistributive policies.

First, with the monetary union, participating member states are part of a hard currency regime. Thus, their governments have to comply with the 'Convergence Criteria'. However, being part of the Eurozone implies the privilege to be part of a strong currency area and thereof benefitted from low real interest rates. The access to money was eased and reduced the adjustment pressure for painful structural reforms. The expectations, that the monetary union would result in a "*giant European convergence programme […] as it would make it impossible for national governments to avoid liberal reforms by temporarily restoring competitiveness through devaluation*" (Streeck and Elsässer 2016, 6) have not been met. Streeck and Elsässer (2016) further stress that "[w]*hile monetary union offers a robust solution to some of the co-ordination problems of an increasingly internationalizing capitalist economy, it eliminates devaluation as a last resort for member countries lagging in 'competitiveness*" (ibid., 5). In addition, the reform need increased with the incremental integration of the Single Market since 1992, facilitating the movement of money, goods, services and workforce. Instead, the co-existence of export-led growth models (euro core) and domestic demand-led growth models (euro periphery) the nominal exchange rate (in soft currency regimes) and national central banks´ promotion of inflation convergence (in hard currency regimes) have become increasing incompatible (Johnston and Regan 2016: 318). As, Hemerijck (2014) emphasised "[t]*he debate on Economic paradigms has so far trapped in a moral tale of 'profligate' countries having to redo their structural reform 'homework*" (ibid., 155).

Second, the EU was not able to develop an effective framework, on the one hand, to coordinate macroeconomic policies contributing to the common currency, as a fiscal instrument was missing beyond the debt and deficit level requirement and, on the other hand monetary policy was not aligned with the economic realities on the ground. Hence, the aim to converge EMU economies failed and caused a devastating dilemma as the right response to the crisis was missing. Its policy-making is to a significant degree both supranational and intergovernmental, which causes serious flaws due to weak governance (cf. Hodson 2012; Giavazzi and Wyplosz 2015; de Grauwe and Ji 2015). The attempts to harmonise socioeconomic policies anchored in a highly veto-prone institutional setting. Whether, was the EU able to react appropriately due to a lack of competences and effective instruments, either, could the problems be solved at national level, as member states faced a too limited room of manoeuvre to avert an economic recession.

Third, the EMU lacks a redistributive element to amalgamate the disparities between its core and its periphery. Furthermore, the liberalisation measures during the Single Market integration even opened this cleavage, which revealed with the economic crisis since 2008. As, Hemerijck (2014) emphasises, "*the EMU architecture was firmly grounded in the belief that redistributive welfare provision 'crowds out' private economic initiative, consumption and investment*" (ibid., 150). Neoliberal reforms are the consequences of mainstream reform agendas. Whereas negative integration proceeds with the deepening of the Single Market, a positive integration approach is missing (cf. Bieling/Steinhilber 2000; *Ziltener 1999)*. Through the above described alterations, the nature of EMU governance has changed with an enhanced focus on economic growth, competitiveness and fiscal discipline, implemented through hard governance methods. De la Porte and Heins (2015) criticises, that "*other aims such as social equity and social investment have only recently re-gained attention on the EU agenda via softer governance method*".

The EU institutions use their power to proceed on their agenda and formulate a comprehensive reform agenda, which creates crucial spill-over effects on social policy areas which are in the national competences. Hence, the room of manoeuvre for national legislators has declined, whereas, social matters are hardly taken into consideration at the supranational stage ('silo approach'). Some initiatives have been introduced to realize a social pillar at the supranational policy-making, but until now with modest progress. The main fora for any agreements have been the Employment Committee (EMCO and the Social Protection Committee (SPC) in the Council. A crucial innovation is the introduction of qualified majority voting (QMV) with 2012. The agenda of the European Commission, who is the main initiator for any policy proposals, however, is clearly dominated by the Directorate General (DG) ECFIN compared with, f.e., the DG employment, social affair and inclusion.

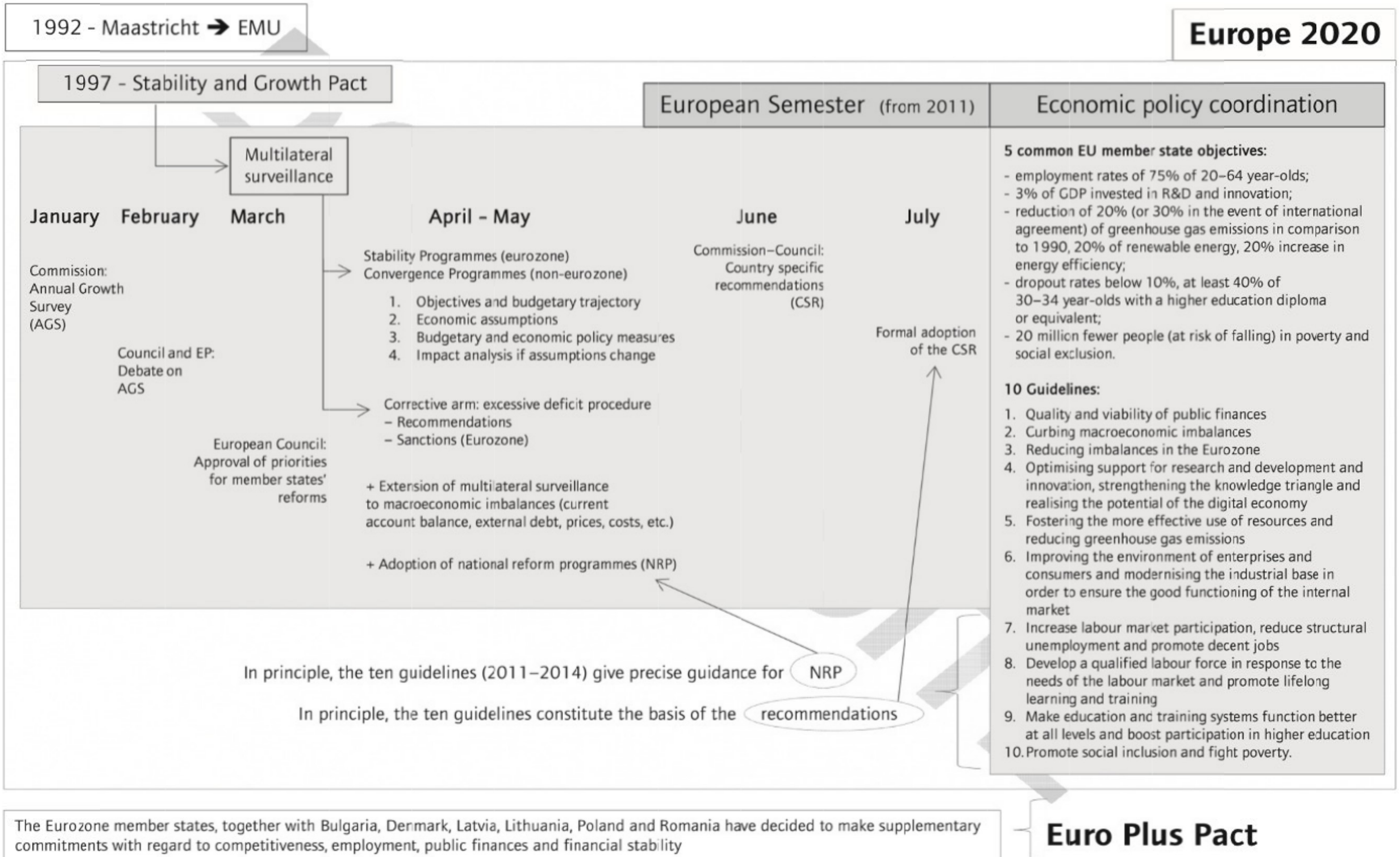
1.2 Institutional and policy adjustments to the crisis

Due to the immense sovereign debts in the member states, the stability of the euro-area was at risk and measures were undertaken to restore the trust of financial markets and their rating agencies (cf. Bermeo and Pontusson 2012). Thus, several budgetary and macroeconomic surveillance mechanisms were adopted with the goal to tighten fiscal discipline to forestall problems of 'moral hazard' and fiscal profligacy and enable structural reforms in key policy areas of the member states (cf. Hemerijck 2014, 148).

With the entry into force of the Lisbon treaty in 2009, another revision of the SGP resulted in empowering the Council to "strengthen the coordination and surveillance of [Eurozone countries] budgetary discipline" along with establishing "economic policy guidelines for them" (TFEU, Art. 136), without a treaty change via a qualified majority vote of Eurozone countries. This became important after the sovereign debt crisis began, as it allowed the euro area to strengthen economic governance, with or without the participation of non-Eurozone members (Chang 2016, 125). At the same time, the macroeconomic policy goals got revised by 2010. The ill-fated Lisbon Strategy has been succeeded by the current ten-year EU reform agenda Europe 2020, which defines five numerical headline targets to be achieved by the year 2020. It aims at helping to recover from the crisis by improving the competitiveness of national economies and social cohesion with a high level of employment and sound fiscal policies. Member states are expected to translate them into their reform agenda and have to report annually to the European Commission on the progress achieved and on the challenges encountered. Further, it counts on stronger governance by strengthening the leadership of the European Commission and the Council. It mobilises existing EU policies of the Single Market as well as financial and coordination instruments of the multiannual financial framework of the European Semester for a better monitoring and enforcement.

The fiscal and the macroeconomic reform path are now both reported by the member states within the comprehensive surveillance program European Semester. The cycle starts with the publication of the Annual Growth Survey (AGS), setting out the broader EU economic and social objectives for the year to come. Member states are to take these priorities into account when designing their annual National Reform Programmes (NRPs) and their Stability (Eurozone countries) and Convergence (non-Eurozone countries) Programmes. The European Commission assess them and give feedback via concrete Country Specific Recommendations (CSR) addressing some priority challenges Member States are requested to tackle in the immediate future. In the second part of the year, Member States must take the CSRs into account in preparing their annual budgets (the national semesters).

Fig. 3: The European Semester



Source: Degryse 2012, 44

In 2011, the 23-member states signed the Euro Plus Pact, whereas all signatories agree on following objectives: First, commitment to competitiveness which includes the reduction of labour costs (re-examining wage determination mechanisms) and an increase of productivity (open up protected sectors, encouraging research and development, education and improving the environment for companies). Second, promoting employment through labour market reforms (flexicurity, activation, lifelong learning) and reduction of taxes on labour. Third, ensuring consolidated public finances, through the viability of pensions, health care and social benefits by adapting the pension system to the national demographic situation (adjusting the real retirement age to life expectancy, increasing the activity rate and so on) and by limiting early retirement schemes and incentivising the employment of older workers (especially those over 55 years of age). These commitments must be transposed into concrete action by the member states that will be reflected in their National Reform Programmes (NRP) and their stability programmes.

Furthermore, the new Macroeconomic Imbalance Procedure (MIP) was introduced with the Alert Mechanism Report (AMR) in 2012. The MIP fills a previous void by helping to identify worrisome macroeconomic imbalances and proposing remedial policy actions (Kincaid and Watson 2015, 790). The macroeconomic surveillance is performed according to a scoreboard of 14 indicators – complemented by 25 auxiliary indicators – covering the most relevant areas of macroeconomic imbalances, most of them according their development within a three-year period. It includes thresholds on:

- Debt
  government sector debt (60%), private sector debt (133%)
- Competitiveness
  account balances (-4% to +6%), export market share (-6%), Unit Labour Costs (+9%),
- Labour market
  unemployment rate (10%), activity rate (-0.2%), long-term unemployment rate (+0.5%), youth employment rate (+2%)
- Financial market
  real exchange rates (-/+ 5%), private sector credit flow (14%), int. investment position (-35%), house prices (6%), financial sector liabilities (16.5%)

Following the AMR of 2017, in-depth reviews (IDRs) were carried out for thirteen countries[1].

The findings of IDRs are included, together with the Europe 2020 goals, into the CSRs, which Member States must consider in their annual binding NRPs. Countries under the Excessive Imbalance Procedure (EIP), have to submit additionally a corrective action plan detailing measures to address their challenges and a time frame for their execution.

The CSRs are adopted by the Ecofin-Council upon a proposal from the Commission. To ensure CSRs implementation, stricter procedures for economic and fiscal surveillance were established by the Six Pack (2011) and by the Two Pack (2013) of EU legislations. As a result, the CSRs concerning fiscal policy and macroeconomic imbalances became increasingly binding to Eurozone members. What is striking is the dominance of labour policy related recommendations. They rely heavily on the Broad Economic Policy guidelines (BPEG) and neglect the respective employment guidelines and social objectives of the Europe 2020 strategy, as they are still not binding.

[1] In 2017, Bulgaria, France, Croatia, Italy, Portugal and Cyprus are found to be experiencing excessive economic imbalances; Germany, Ireland, Spain, the Netherlands, Slovenia and Sweden are experiencing economic imbalances; Finland is found not to be experiencing economic imbalances.

Table 3: number of CSRs on social matters, 2011-2017

		CSRs 2011-2012	CSRs 2012-2013	CSRs 2013-2014	CSRs 2014-2015	CSRs 2015-2016	CSRs 2016-2017
Wages	Reviewing wage indexation	5	4	2	3	0	0
	Wage-setting mechanisms	8	8	7	11	11	12
EPL	Employment protection legislation	6	8	4	8	4	8
Labour market participation	Women	6	9	5	7	11 8	7 4
	Older workers	8	7	12	10	7	5
	Tax disincentives second / low income earners	3	2	3	8		
Youth employment	Youth guarantee	0	0	12	8 6	15	7
	Transition school-work via companies	0	2	5	15	11	7
	Apprenticeships/ work-based learning	9	12	8		5	4
	"Drop outs"	4	7	6	3	6	6
Pensions	Link between pensionable age and life expectancy	13	12	11	11	4	5
	Reducing early retirement	12	11	10	7	4	5
	Pension reform	-	-	-	-	14	13
Social protection/ assistance	Social protection systems	4 0	2 1	5 2	9 3	7 2	3 5
	Quality social services	2	4	3	10	10	4
	Targeting social assistance						
Child poverty	Effective child support	0	1	2	3	1	1
	Childcare facilities	6	7	9	9	9	7
Tax	Shift tax burden away from labour	9	9	10	9	14	14
Total n° specific social CSRs		**95**	**106**	**116**	**140**	**143**	**117**

Source: Clauwaert 2016, 13

The functioning of the European Semester was subsequently refined with the Six Pack (SGP III) of 2011, the Treaty for Stability, Coordination and Governance, leading to the Fiscal Compact of 2012, and the Two Pack of 2013. The noteworthy innovation is, that the European Commission has been entrusted with far-reaching discretionary legislative and enforcement powers "to perform surveillance, make recommendations and even sanction member states in breach of fiscal rules" (Chang 2016, 121). With the Six pack, the quorum to open an Excessive Deficit Procedure (EDP) were changed to a reversed majority voting (rQMV). It states, that instead of having the Council voting with QMV on opening an EDP, they have now to vote against the proposal of the commission with QMV within ten days.

Furthermore, the implementation of a national balanced budget rule with an automatic correction mechanism in 2014 by article three of the Fiscal Compact has quite an impact on national budgetary policies. The Fiscal Compact binds the ordinary budgetary process to a new numerical threshold of a structural deficit of 0.5 percentages to nominal GDP ('golden fiscal stability rile'). It results from a fundamental imbalance in government tax incomes and expenditures. Apart from that, it requests the introduction of automatic stabilisers, as e.g. debt brake and automatic correction mechanism in national legislation. Article eight of the Fiscal Compact sets up an intrusive enforcement mechanism. Compliance with those standards will be monitored by the European Commission; their transposition will be subjected to the jurisdiction of the European Court of Justice (ECJ) with possible financial penalties for those who fail to comply (Fabbrini 2017, 125).

1.3 Strategic selectivity: Overcoming the 'subsidiarity trap'

The governance of the EMU has been altered via a process of institutional 'layering' whereby new surveillance and enforcement mechanisms are grafted onto the pre-existent institutional frameworks incorporated into the multi-annual financial framework of the European Semester of 2010. The European Semester aims to ensure coordinated action on key policy priorities at the EU level. It integrates, synchronizes and reinforces the previously existing procedures of the SGP II and Europe 2020. Any crisis-induced changing of the rules thus requires broad intergovernmental consent, which is hard to reach in an EMU with economically as well as institutionally heterogeneity. Especially in times of crisis, when intellectual disagreement over crisis management touches deep beliefs about appropriate politics and economics, policy consensus is surely hard to come by, because of practically unmanageable collective action problems. These problems arise when asymmetric shocks have to be dealt with by national government with large debts that have little policy discretion to use automatic stabilisers (cf. Hemerijck 2014, 148).

Schimmelfenning (2015) analysed the intergovernmental bargaining during the crisis management and came to the point, that it was primarily about how to share the adjustment costs of save the euro area. He argues that the bargains and institutional choices reflected mostly the preferences of the German-led coalition. This is because Germany and its allies were less immediately threatened by the crisis than those member states facing default, exit from the euro, and overall economic collapse (cf. Ioannou et al. 2015, 165). Creditor states demanded political control in the crisis management and used the 'window of opportunity' in the wake of the Eurozone crisis to institutionalize a comprehensive fiscal and surveillance regime with the so-called European Semester as well as tight austerity requirements to curb sovereign debts (cf. Streeck and Elsässer 2016, 13; Syrovatka 2016, 36).

This procedure should increase the effectiveness of fiscal and macroeconomic surveillance contributing to the initial idea of an EMU with a stable currency and competitive markets. This implies ordoliberal elements, as strict numerical thresholds, as well as a comprehensive liberalisation of all market-related policies. As many scholars (Bruff 2014 ('Authoritarian Neoliberalism'); Oberndorfer 2016 ('Authoritarian Competitive Statism'); Syrovatka 2016, 33; Wigger 2015, 128; Gill and Cutler 2014 ('Disciplining Constitutionalism'); Bieling and Steinhilber 2013; Jackson and Deeg 2012) emphasise, the new EMU surveillance regime and its "[n]*eoliberal remedies […] are only getting further recalibrated in their most authoritarian guise* (Wigger 2015, 128). Although, the competence gain for EU institutions is equal to all Eurozone member states, the author hypothesises, that the role of core member states in the European Semester is still very strong and affect all decision of the preventive and executive arm of the procedure.

We further try to clarify why have the member states transferred crucial competences in this domain onto the supranational level, which implies less room for manoeuvre regarding domestic policy-making? The author argues, that this layering onto a higher scale ('politics of scale'; see Neo-Poulantzian concept of 'strategic selectivity') was favoured by the majority in the EU Council for the following reasons: First, to overcome the 'subsidiarity trap' and guarantee the implementation of structural reforms. Especially the creditor states pushed for that special reason; Second, head of governments expected to be more successful in advancing their agendas against resistance from possible veto-players, if their policy preferences fit with the mainstream preferences within the EU. Streeck and Elsässer (2016) argued, that:

> "[i]*n the South – not just in Italy but also in France – significant factions of the political establishment looked forward to using monetary union with Germany as a tool to discipline their national political economies, especially their trade unions*" (ibid., 2).

2 National policy response under the European Semester

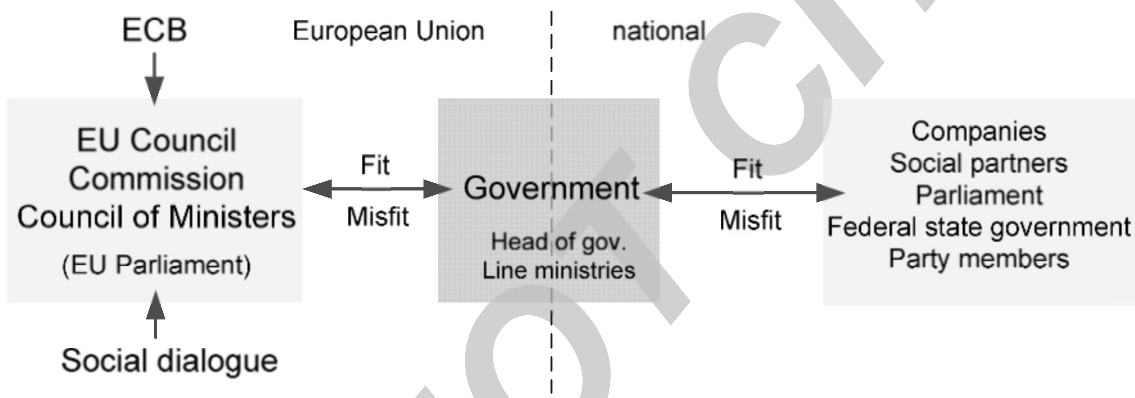
By examining state responses during the crisis this section explores potential complementarities and tensions as governments seek to tackle economic downturns while being mindful of the growing role that EU institutions gained in influencing national policy making. The purpose of this section is to examine the mechanisms through EMU governance (including binding accords) has constrained or enhanced the options available to national policymakers and influenced the degree and effectiveness of cross-border cooperation. EMU governance has a centralized (supranational) and a decentralized (intergovernmental) part. This suggests a plurality of supranational, state and non-state actors with a varying balance of power of policy-making on distinct territorial levels – supranational, national and subnational – (cf. Hooghe and Marks 2003; Jessop 2008, 220).

The objective of this section is to elaborate an analytical framework by contextualizing policy change in the realm of EMU multi-level governance in intergovernmental policy areas which constitute core national competences. Responsiveness of governments to reform demands from the EU is argued to be conditional on the institutional, political, economic or social context in which the request for policy change is received (Jahn, Kuitto, Düpont and Stephan 2014, 3).

The request for policy reforms is determined by national economic performance (public debt burden, economic growth, …) as well as the leverage of EU institutions to oblige member states to implement reforms in order to consolidate their budgets and improve their competitiveness. The European Commission emphasised in their first Annual Growth Survey (AGS) the need for structural reforms in these areas (European Commission 2011c). This leverage is rather weak, as the Eurozone consists of economies that have delegated competences for monetary policy to the ECB while fiscal policy has remained a national competence subject to fiscal rules set at the EU level.

The analysis is particularly focusing on the multi-level dimension of EU polity to provide a better understanding of policy change at domestic levels. The rich literature on Europeanisation provides a useful starting point. Accordingly, the mechanisms for policy diffusion are determined, first of all, by the degree of fit or misfit of policy preferences between EU institutions and national governments as well as between the government and other political actors that are part of the domestic policy making process (cf. Börzel and Risse 2012).

Fig. 5: Fit and Misfit of policy preferences along multi-level governance



Source: own drawing

According to their distinct policy legacies (see varieties of capitalism (Schmidt 2002), welfare state models (Esping-Anderson 1990), worlds of compliance (Falkner)) harmonized policy preferences are the exception. Subsequently, policy preferences vary throughout the Eurozone member states and, thus, facilitate or hinder a harmonisation – depending if they fit with supranational proposals.

Europeanization studies identify four mechanisms for policy diffusion. They consider the direct effects of the EU through coercion/conditionality, socialization and persuasion, but also the indirect effects through competition, emulation and lesson-drawing (c.f. Schmidt 2015, Dobbin, Simmons and Garrett 2007; Börzel and Risse 2012; Neumayer and Plümper 2012).

In case of social policies, *coercion* is, at first glance, less likely because the regulatory power in this field remains mostly with the nation states. According to the authors opinion this has changed with the introduction of the new governance regime of the EMU. With the revised fiscal and macroeconomic surveillance regime, new instruments were introduced to trigger policy reforms by political fiat. Furthermore, financial aid is used as a conditionality tool to reward reform efforts. The more a country is in need of financial assistance, the stronger is the adjustment pressure from EU institutions for – mostly neoliberal - policy reforms.

Convergence through competition occurs when policy-makers consider the economic implications of other countries´ policies for their own country (spatial interdependence). The creation of the European Single Market is dated with 1993. It aims a gradual liberalization of trade in goods and services, financial and labour markets. This have brought, inter alia, an increasing competitive pressure on internal devaluation, raising productivity gains by cutting wages, pensions and public expenditure – “euphemistically referred to as ‘structural reforms’“ (Streeck and Elsässer 2016, 5). *Emulation/lesson-drawing* as well as *persuasion* are facilitated by the OMC through information exchange and mutual learning from best practice examples provided by the peer. The soft-coordination structure is designed to enable member states to update their beliefs on the effectiveness or appropriateness of certain policies based on their observations of other countries experiences.

This bundle of mechanisms has to be supplemented by a new dimension that takes also the national policy-making process and its actors into consideration. As the author argues, the four identified mechanisms deal mainly with the interaction of the supranational actors and the national governments. But what is missing is the – perhaps quite common - scenario of having a match of policy preferences between the EU institutions and the national government but a mismatch with the other remaining policy actors in the respective member state. Because of the new fiscal and macroeconomic surveillance procedure, governments have become the dominant actors on the national level to formulate and decide on reforms in social policies. This gain of competences came at the expense of the power of distinct national veto-players, as e.g. social partners, line ministries dealing with social matters, the parliament as well as federal state governments. This suggests that government partisanship can play a bigger role in the formulation of reform plans in coordination with the European Commission and Ecofin-Council. In case of an economic liberal government, this offers new possibilities to leverage policy objectives against domestic veto-players as well as to blame 'the EU' for certain policy reforms, which lower the political costs for unpopular reforms. In addition, it enables clientelist policies, as it will be in government´s hand to decide on who must bear the main burden of retrenchments and cuts.

Fig. 6: Diffusion mechanisms

Policy preferences / Diffusion effect		direct	indirect
European Union	Fit	persuasion	emulation / lesson-drawing
European Union	Misfit	**coercion / conditionality** >> EDP-sanction, financial assistance, mandatory specifications	**competition** >> Single Market liberalisation
national	Misfit	**Decision-making** >> top-down politics (Bypass veto-players)	**Agenda-setting** >> gov. partisanship, blame avoidance strategies

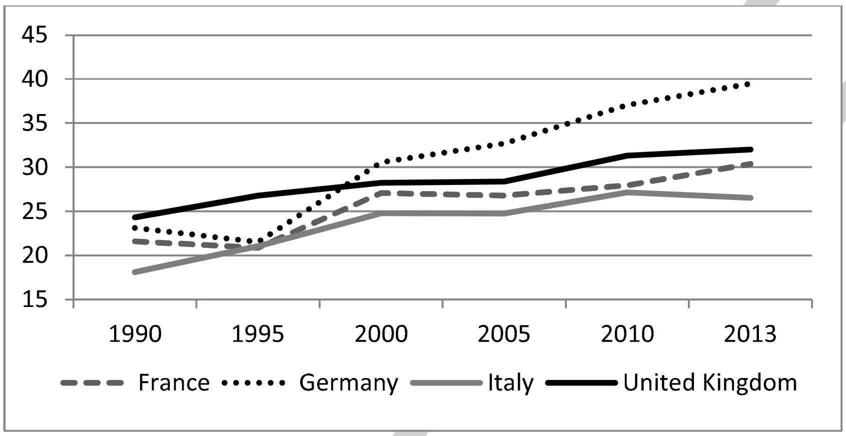
source: own drawing

In the following analysis, we scrutinize the explanatory strength of the impact on policy change by: increased competition due to a deepening the European Single Market (Ch. 2.1); and, top-down politics at domestic policy-making (Ch. 2.2).

2.1 Triggers for change: Unleashed competition and social change in a post-industrial era

Throughout the 1990s European countries were becoming increasingly concerned with the pressure which was put on them by increasing economic competition originating from both within and outside the EU (cf. Kahn-Nisser 2015:1514). The internationalisation of trade and the liberalization of the economies in the course of the establishment of the European Single Market in 1993 opened domestic markets and exposed them to financial and trading dependencies and externalities (see Figure 7).

Fig. 7: Imports of goods and services as % of GDP, 1990-2013



Source: OECD Annual accounts at a glance 2015

Especially the deepening of the Single Market put a lot of pressure on the member states. These so-called processes of ‘negative integration’ lead to an incremental removal of regulatory policies that are possible obstacles for transborder mobility of labour, capital, goods and services. Member states of the Single Market anticipate economic consequences of policy choices in other member states and reacted to avoid negative spill-over effects (cf. Jahn, Kuitto, Düpont and Stephan 2014, 6). Thus, they started to monitor each other closely and adjust their policies in cases needed to gain competitive advantage. Key indicator for competitiveness are corporate taxes and unit labour costs (ULCs), building on the relation between wages and productivity. The incremental process of further liberalisation measures increases the pressure on member states to adapt to the increasing competition for international market shares and mobile capital (cf. Dobbin, Simmons and Garret 2007).

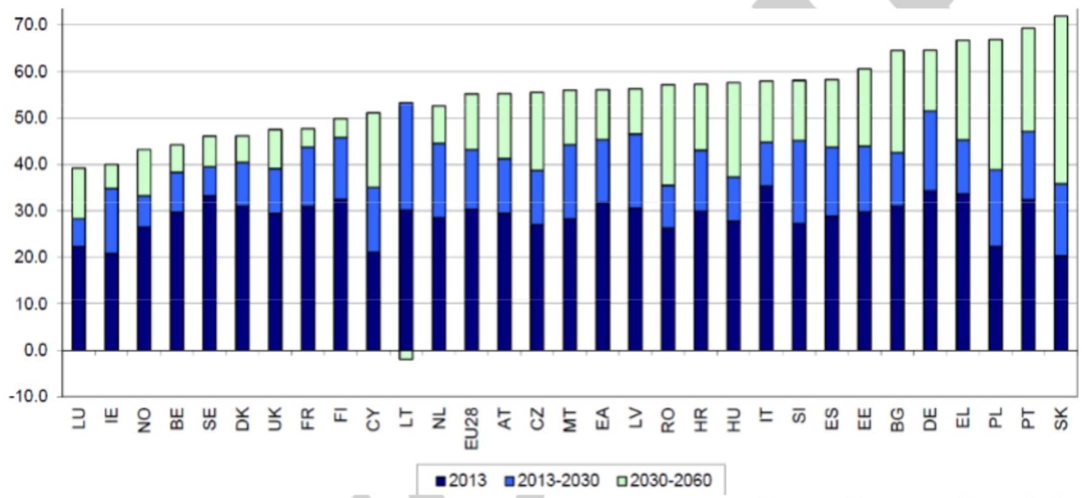
The incremental implementation of the four freedoms has induced a competition between high-wage countries (Northern core) and low-wage countries (Southern and Eastern periphery). The new competitive situation of globalisation and the ESM challenged the mercantilist economic growth model of the Northern economies. Thus, their governments emphasised neoliberal structural polices to regain international competitiveness: wage moderation, labour flexibilization and activation strategies and reduction of corporate and property taxes. This loss of tax revenues implies the necessity to reduce public expenses to achieve a balanced government budget.

Economic integration of very diverse national economies may engender a dangerous race-to-the-bottom in terms of social standards, labour market regulation or corporate taxes. As Wigger (2015) points it: “*Since the ascendancy of neoliberalism, wage shares relative to GDP have steadily declined in Europe. Pressures to cut ULCs are unequivocally linked to the relocation of production to low-cost labour areas through outsourcing and offshoring*” (p. 124). Insofar it is quite fitting that the European Commission set a maximum growth rate of the ULC´s but did not define a minimum rate of labour income shares in order to retain the competitiveness of the ESM in the world economy.

Apart from exogenous reform pressure, important socio-economic changes alter the endogenous policy environment of European welfare states. Member states are facing profound challenges due to demographic trends such as population ageing, declining fertility rates and early retirement of baby boomers (see Figure 8). Spending on family services, childcare, education, health, and care for the elderly, as well as training and employment services, has increased as a percentage of GDP practically everywhere in the EU (cf. Hemerijck 2014, 141).

In addition, rapid technological change and deindustrialisation trigger falling demand for low and medium-skilled workers across advanced European economies (cf. Hemerijck 2014, 138; Wigger 2015, 124). Public policy responses to ageing and structural change included the following measures: serious cuts and retrenchments of existing social standards and welfare provisions as well as push active labour market policies through early intervention and conditional benefits (see in this context 'workfare approach') (cf. Hemerijck 2014, 140; Brie 2005: 50).

Fig. 8: Current and projected old-age dependency ratio (ratio of people aged 65 or above relative to the working-age population)



Source: European Commission 2015

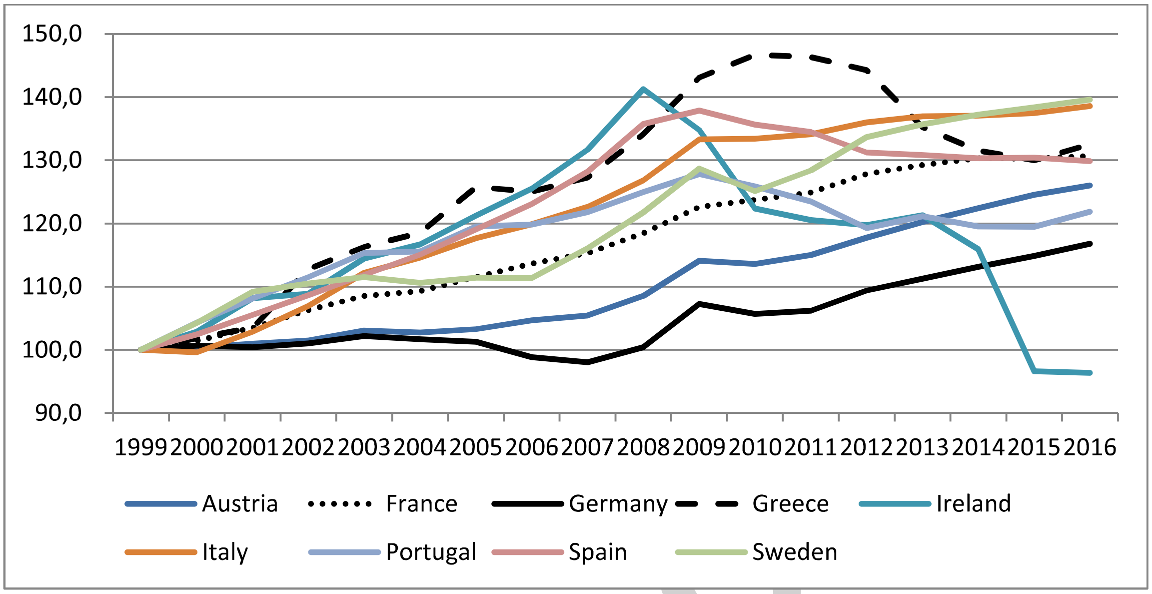
In 2007/08 the implementation of these policy reforms collided with the outbreak of the global economic crisis and the following sovereign debt crisis. In the light of the simultaneity of these developments countries came under pressure by global financial markets and debtor states have been subjected to the fiscal surveillance mechanism demanding consolidation of public budgets. Thus, the need for short-term fiscal consolidation, on the one hand, contributed to an environment of 'permanent austerity' emphasising lowering public expenses and, on the other hand, calls for increasing economic growth by improving productivity instead of welfare-related spending. Theoretically this implies a fiscal consolidation without an increase in public revenues. According to the European Commission, this should be achieved "[…] *through a 'revenue-neutral' shift from taxes on labour to taxes on consumption, as well as reduced tax burdens on exports; and third, through 'wage moderation*'" (COM 2011b). The CSRs by the European Commission, thus, follow the epitome of 'beggar thy neighbour' strategies with respect to labour market policies, such as increasing flexibilization, reducing severance pay, and allowing firms to set wage levels independent of collective bargaining agreements (cf. Wigger 2015, 118).

This trade-off of competitiveness against welfare state provisions are severely criticised by several scholars. For example, Wigger (2015) concludes that: "*the competitive undercutting of labour costs and enhancing labour profitability is believed to lead to more investment in Europe, and enhance Europe´s competitiveness. However, intense capitalist competition, together with imposing perma-austerity and wage repression will only exacerbate the crisis further by redistributing wealth from wage earners to the owners of capital*" (ibid., 128).

The Northern export-led economies, first and foremost Germany, Netherland, Denmark, Sweden, already started to reform the core elements of their welfare state models in the 1990ies to regain competitiveness in an enlarging Single Market (cf. Hemerijck 2014, 151).

Figure 9, exemplifies how the wages in the Eurozone member states developed differently, with crucial implications for their respective competitiveness.

Fig. 9: Unit Labour Costs (2000=100), 1999-2016



Source: OECD Productivity Database, own calculations.
Note: Unit labour costs (ULCs) measure the average cost of labour per unit of output.
They are calculated as the ratio of total labour costs to real output.
Annual ULCs can be expressed as the ratio of total labour compensation
per hour worked to output per hour worked (labour productivity).

The development within the Eurozone was twofold: Whereas the high-wage countries reacted with labour policy rigidities to regain competitive ULCs, low-wage countries of the periphery benefitted from low real interest rates, which increased consumption and wages. Yet, they have lost the ability to apply external devaluation as an instrument to increase their international price competitiveness to remedy macroeconomic imbalances.

During the boom period, that followed the introduction of the Euro countries in the periphery, member states avoided to implement structural reforms due to immense political costs. Thus, they missed to adapt to the challenges of the common Single Market provided by a fixed exchange rate and a low inflation phase in the core countries. Therefore, the financial and economic crisis was more severe in the periphery than in the core of the Single Market. Countries that had failed to enact efficiency-enhancing reforms before the crisis were exposed to the simultaneity of the financial crisis and long-term social challenges. The countries in the periphery needed external financial aid to prevent a collapse of their economies and societies. The debtor states used the distress of creditor states as a leverage to call for encompassing structural reforms with adverse effects for social protection and wages (cf. Stockhammer and Onaran 2012, 15). The burden on the Southern periphery is severe, as the Northern countries have already implemented reforms to increase their competitiveness at the expense of their welfare state provisions. It is questionable whether the Southern periphery will be able to catch up with the other member states.

The author argues that particularly social policy measures are mainly considered as determinants of economic productivity in the light of national competitiveness. Revised procedural competences have shifted the institutional balance between Council and Commission in favour of greater supranational autonomy in addressing macroeconomic imbalances. The increased assertiveness of supranational institutions within the EMU is finally breaking a lance for a fundamental shift in national welfare state models. Under the premise of fiscal consolidation and more strict thresholds due to the Fiscal Compact as well as the eased possibility of sanctions is a crucial leverage to call for reforms of European welfare state models. Reforms which are clearly against long-term trajectories of the social investment approach as short-term fiscal consolidation harm a long-term reorganization of European welfare state models according to the social investment approach.

> "*The European welfare model system took the blame for the region´s slow economic growth and lagging competitiveness and technological innovation, as a consequence of overprotective job security, rigid wages, expensive social insurance, and employer-unfriendly collective bargaining*" (Hemerijck 2014, 139).

Fiscal consolidation got the overall objective together with the demand to increase competitiveness of national economies to stabilize the eurozone. Both are played off against welfare state provisions and make it a neoliberal level playing field. As welfare states move deeper into an ordoliberal and neoliberal era various centripetal mechanisms help to replace 'passive', 'decommodifying' benefits with 'active' or 'activating' ones. The underlying recalibration of the welfare state aims to increase the productivity: First, through more intense competition alongside a further deregulation of product market and privatization, which is believed to reduce domestic production costs and prices; Second, through a 'revenue-neutral' shift from taxes on labour to taxes on consumption, as well as reduced tax burdens on exports; and third, through 'wage moderation' (COM 2011b). As Wigger emphasizes, "*a member state economy increases its competitiveness if wages or statutory non-wage labour costs such as employers` social security contributions are reduced*" (ibid., 123). Thus, social expenditures, health system (i.e. universal coverage, equity, solidarity and appropriate quality of care), pension scheme (i.e. pensionable age) and regulations of the labour market (i.e. wage setting, flexibilization of working hours, unemployment benefits) are inter alia at stake (cf. Syrovatka 2016; Kahn-Nisser 2015).

With respect to welfare provision and labour market structures, there is then a distinct retrenchment-deregulation bias in the original EMU policy regime, whereby long-term unemployment is primarily seen as the consequence of poor motivation and low search intensity resulting from welfare state generosity >> activation policies (Hemerijck 2014, 150).

2.2 Top-down politics at the domestic level in the European Semester

In response to the Euro-crisis, the EU member states agreed to a remarkable shift of power in the budgetary domain from the Member States to EU institutions and other forms of regulatory bodies (e.g. fiscal council). However, fiscal and social policies remain core national competences due to the principle of subsidiarity. Therefore, national policymakers have the final say and the responsibility to come up with satisfying policies with the consent of the national electorate. Economic recession, public debt and deficits, strained labour markets, doubted sustainability of pension systems and social distress in the wake of the economic crisis put pressure on politicians, especially across Europe where citizens expect a high level of social protection from economic uncertainty (cf. Hemerijck 2014, 138). They must simultaneously address demands for structural reforms and prevent the resentment of them by a welfare state-supporting public. Yet, they increasingly find their hands tied to a cautious reform agenda due to difficulties in reforming social policies because of the importance of a consensus-seeking culture involving social partners and the popularity of the welfare state (issue salience).

According to the notion of 'new politics of the welfare state' (NPWS) by Pierson (2001) we should expect strong pressures to move towards a more pragmatic reform stance as welfare states have moved deeper and deeper into an era of permanent austerity. Pierson argues that left-right related interests and values were certainly important in the expansion phase of the welfare state but that they lose explanatory clout in the austerity phase (ibid., 417). Jakobsson and Kumlin (2016) express this argument as follows: "*Cautious and centrist policy tendencies arise as all parties gradually find themselves caught between a rock (more or less severe reform pressure) and a hard place (enduring welfare state support) with associated needs for blame avoidance*" (ibid.10). Thus, we observe that governments of all ideological denominations somehow develop a more pragmatic stance towards a neoliberal reform agenda which includes retrenchment and dismantling of social and labour provisions (e.g. the 'third way'). Whereas centre/right governments face tailwind for their demands, leftist governments are cautious in carrying out unpopular reforms at high political costs for them. We argue, that the European semester provides an environment, which makes it easier for governments to implement unpopular reforms at low political costs and mitigates resistance from opposition.

The initial question here is, why have heads of governments at the Council decided to provide EU institutions with new competences which gives them the possibility to shape policy areas in the national competence and to diminish the room of manoeuvre for national policy-makers? Our argument is twofold: First, it is a matter of ‘strategic selectivity’ (forum shopping) why governments agree to transfer competences to a higher layer to overcome domestic opposition because the European Commission is better placed than national governments to impose and enforce strict rules and unpopular reforms as it is insulated from political and electoral accountability (cf. Streeck and Elsässer 2016, pp.19). Governments may transfer competences to the EU as it can be blamed in case of unpopular reforms. Second, a new layer at the supranational stage privileges the government at the expense of domestic consensual policy making.

This section attempts to scrutinize the mechanisms which enable governments to implement policy reforms at the domestic level against the consent of possible veto players. Veto players are specified in a country by the constitution (president, parliamentary majority, national courts, second chambers) or the distribution of bargaining power within the political system (party members, coalition parties, social partners) (cf. Tsebelis 2002, 2). Legislative proposals, therefore, must be acceptable to all veto players otherwise the proposal may be rejected. Obtaining an approval might be a challenge if a range of diverse and polarised veto players have a say (cf. Franzese 2002). Thus, veto players effectively filter governmental proposals.

In the case of Austria, a federal parliamentary representative democratic republic, social partners play a crucial role in policy making at the national level. Furthermore, the four main confederations – employer representatives (Arbeiterkammer), trade unions (ÖGB), chamber of agriculture (Landwirtschaftskammer) and chamber of commerce – are also involved in the preparation for COREPER-meetings and Council working groups and participate indirectly in the consultation procedures of the European Commission, which is not the case for most of the other EU member states.

With the new fiscal and macroeconomic surveillance system, the national policy making process changed. In the European Semester, the role of the government was strengthened at the expense of parliament and social partners. In addition, the head of the government and the finance ministry gained in power against other line ministries (e.g. ministries that are dealing with social affairs and labour protection). More precisely, the head of government and its cabinet are solely in charge of formulating the NRP in coordination with the CSRs. What is more, the finance ministry decides on the Stability Program (SP) as well as the domestic enforcement of the debt criteria and the implementation of the Fiscal Compact. In this context, Austria launched a fiscal council according to the Council Regulation No. 473/2013 in 2013. Its tasks are: “monitoring government compliance with fiscal rules, submitting recommendations on fiscal policy, carrying out fiscal policy studies and shaping public opinion on public finance matters” (Act on the Fiscal Advisory Council No. 149/2013). The fiscal council acts independently from any influence of the finance ministry or the head of government. It has its own resources and right of nomination of staff. Its assessments are obligatory for the government and must be implemented (cf. Nerlich and Reuter 2013, 7).

Thus, the finance ministry together with the head of the governments’ cabinet became the guardians of the process which is supervised by the fiscal council. Therefore, they gain decisive impact on the agenda-setting, formulation of reform programs and policy-making. This centralization of tasks makes the highest fiscal authorities the guardians of the procedure in the realm of European Semester with crucial implications for policy-making: First, they got a stronger mandate to decide on the allocation of public spending and reform priorities. Empirical evidence by studies of von Hagen and Harden (1995) and Hallerberg and von Hagen (1999) suggests that countries, in which budgetary and budgetary-related decision-making authorities are as centralized as it is the case with the changes described above, are less likely to suffer from budget deficits (cf. Roubini and Sachs 1989).

Secondly, supranational advocacy is affecting domestic agendas through the filter of national policy legacies. Being the guardian of the procedure governments have the agenda-setting power when it comes to the formulation of NRPs and SPs. Although they must consult other political actors and need their consent, they possess crucial advantages in the decision-making procedure. This implies, that, on the one hand, supranational paradigms in EMU governance are reflected by the national governments according to their respective policy preference. If there is a normative match between the CSRs and the government policy preferences the NRP will comply best. In accordance with EU requirements, the head of government and the finance ministry might prioritise fiscal consolidation and competitiveness against other macroeconomic objectives and/or push their own agenda in favour of their clientele. Consequently, governments favour certain interests over others by acting as a filter in terms of who has access to state bodies and public resources and the opportunity to influence and co-determine the reform agenda. Having the agenda setting power, the governments can bundle reforms to balance benefits and loss to distinct parts of the society as well as short-term success and sustainable long-term solutions and thus make them more consensual. The author criticises that by bypassing the parliament and the social partners, social matters are not sufficient represented in the policy making. Furthermore, social objectives of the Europe 2020 will not be addressed adequately in the NRPs.

To sum up, policy outcomes are the result of two factors: the preferences of the actors ('parties matter') involved and the prevailing institutions ('politics matter'). Given that the identity of players and their preferences are variable, while institutions are more stable, policy outcomes will vary depending on who controls political power as well as where the status quo is (cf. Tsebelis 2002, 8). Even under the European Semester with its strong fiscal requirements, the member states still are sovereign in their policy making in social affairs. More detailed, it is the government, who gained the agenda-setting power with the new European Semester. This article argues that the governments will use this role by pushing their own clientele reform agenda. Other political actors are hardly involved in the European Semester. Some noteworthy innovations have been the establishment of the Interparliamentary conference on stability, economic coordination and governance in the EU in 2013 with the Fiscal Compact. Further the social pacts on national level and the social dialogue, since 1992, on the EU level offer an institutionalized involvement of social partners with varying power to influence policy making.

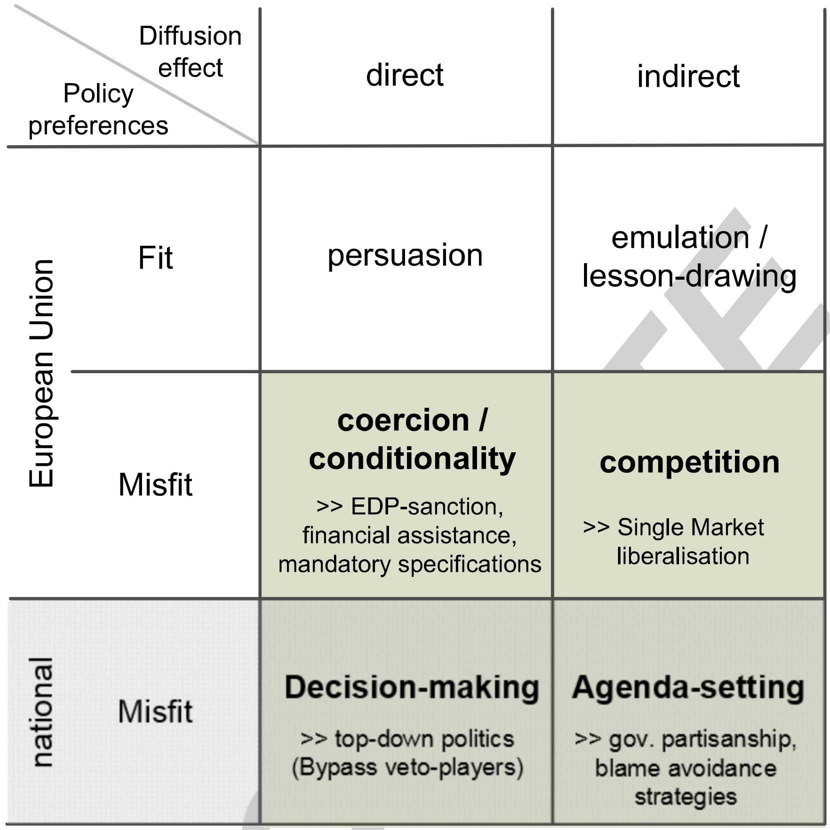
3 Conclusion & Outlook on further research steps

The institutional and policy change in the EMU has been a radical step by strengthening fiscal discipline and making intergovernmental policies contributing to fiscal policy objectives, consequently, with crucial implications for domestic politics. Irrespective of the loss of nation-based fiscal and monetary political autonomy, policy-making in social policy matters has remained overwhelmingly national. Nevertheless, we observe governments dealing with supranational adjustment pressure by implementing neoliberal welfare policy reforms, such as social retrenchment and incisive labour market reform.

Their motivation is twofold: First, governments approach a centre/right idea of a welfare state, following the international mainstream and being gripped in the 'austerity vice' and entirely at the mercy of globalisation and increasing competition through opening their economies by Single Market deregulations. Second, new surveillance and enforcement instruments within the European Semester diminish room for manoeuvre in domestic politics and superordinate fiscal policy objectives above other policy objectives, such as welfare state and environment.

The author hypothesises four main diffusion mechanisms, following the Europeanisation literature, how the new EMU regime under the European Semester affects national policy change in social matters (see Figure 6). In doing so, we examine two main levels: between the EU-level and the national level, as well as, between the governments and other political actors at the national level.

Fig. 6: Diffusion mechanisms



source: own drawing

The article focuses on a theoretical elaboration on possible impacts on social policy change. Further empirical evidence is needed to verify and support the hypothesis. To conclude on this paper, the author indicates following four hypotheses, which must be tested by further empirical analysis:

How do overcome the misfit of policy preferences between the EU level and national governments?

H1: New surveillance and enforcement instruments push member states to comply with the supranational reform agenda [coercion/ negative conditionality]

Within the new EMU regime, member states face strong adjustment pressure from supranational institutions. Supranational institutions were equipped with strong surveillance mechanisms and legally enforceable rules with verifiable thresholds. Member States who face serious debt and do not meet the debt criteria are facing the threat of an EIP or EDP, which can finally lead to penalties. In any case, the states under an EIP have to implement a correction plan in a tight timeframe. The leverage to push for social policy change is mainly indirect, as social policy is in the competence of the member states. However, as social policy measures and expenses accounts for more than two-third of the budget, direct coercion on fiscal consolidation affects the social policy reform agenda.

Further, member states, who want to access money from the ESM, must commit, first, to the provisions of the Fiscal Compact. If, a state gets money from the ESM, they are under a special treatment with the Troika and negotiate on a binding Memorandum of Understanding (MoU). Apart from that, the European Commission is providing funding from the European Structural and Investment Funds (ESIF) for the implementation of the NRPs, which must reflect the CSRs. Moreover, the Council, acting upon a proposal from the Commission, can suspend payments if a Member State does not comply with past agreements (Council of the

EU 2013). Apart from that, more than 90 percent of the Eurozone countries included fiscal rules, like debt brake, in their national legislation, often at the constitutional level. It follows, that they have a disciplinary effect on budgetary policies (cf. Nerlich and Reuter 2013: 6).

H2: An indirect diffusion is given by the incremental adjustment pressure in the wake of Single Market liberalisation and strong currency policy [competition]

The aim of increasing competitiveness is pushed by instrument within the European Semester as it is at the core of EU´s agenda for growth (Euro Plus Pact). The conclusion ponder on how the competitiveness agenda by top-down liberalisation narrows the gamut for a more progressive welfare state and business cycle policy. Social expenses and social protection are merely considered as variables affecting the competitiveness in a country and therefore are under reform pressure. Especially in times of socioeconomic shifts.

<u>Domestic indicators affecting national policy response</u>

Neither the impact of the crisis (which varied according to national legacies), nor supranational pressures (which varied with the degree of national economic vulnerability) are alone able to account for this general neo-liberal trend. On the national level, we see an increase of executive powers due to their role within the European Semester.

H3: Governments play a predominant role when it comes to the formulation and negotiation of the NRPs and SPs [decision-making]

Governments are involved, on the one hand, in the European Semester at the EU level (Ecofin-Council, European Council) and, on the other hand, in charge to elaborate, negotiate and implement the NRPs and SPs.

H4: Governments are the guardians of the procedure and at any time may use their dominant role to shape the agenda-setting and thus, the narratives of the reform agenda [agenda-setting]

Any social policy reforms will result in any losers and winners. The author suggests a correlation between the government partisanship and political costs with proposed reforms.

4 References

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