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# The European Semester as Goldilocks: Macroeconomic Policy Coordination and the Recovery and Resilience Facility

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## Abstract

How and why did the European Semester end up as the main institutional vehicle of the Recovery and Resilience Facility (RRF)? To what extent did this new set-up change the power balance among key actors (for example, financial and economic actors versus social affairs actors)? Drawing on historical institutionalism and based on 28 semi-structured interviews and document analysis, our assessment suggests that while social actors were initially side-lined and national executives strengthened, over time the pendulum is swinging back. The usual actors are strategically using the institutional structures of the revised Semester as a vehicle to ‘have a say’ in the RRF. Having more carrots and sticks suggests further strengthening the pivotal role of the European Commission. Yet having the option of submitting national plans gives member states options too. The EU institutional response to the Covid-19 pandemic built on, and further cemented, the EU’s socio-economic governance architecture.

**Keywords:** European Commission; European Semester; historical institutionalism; macroeconomic policy coordination; Recovery and Resilience Facility; socio-economic governance

## Introduction

Responding to the Covid-19 pandemic the European Council took the important decision to provide unprecedented financial support to member states, to help them with the fall-out of the ensuing economic crisis. Within just a few months, the EU agreed to the creation of a temporary institutional structure to support member states in need. Its formal establishment occurred in February 2021: the Recovery and Resilience Facility (RRF) would provide financial support to member states, notably through a combination of

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grants and loans (European Parliament (EP) and Council of the EU, 2021). To access the RRF funds, member states needed to submit detailed national Recovery and Resilience Plans (RRPs). While some reporting templates were invented from scratch, others have been borrowed from the European Semester (henceforth ‘Semester’), drawing on requirements that are part of the EU macro-economic policy coordination framework.

Drawing on historical institutionalism, this article examines how and why the Semester ended up as the main vehicle underlying the governance of the RRF. To what extent did this new set-up change the power balance among key actors (for example, financial and economic actors versus social affairs actors)? This article relies on extensive document analysis as well as 28 semi-structured elite interviews, held between October 2020 and September 2021, with individuals holding senior positions. They work in different European Commission Directorates General (DGs) and with European social partners organizations. Others represent their respective member states in various capacities. In the text we refer to each interview with a dedicated code.<sup>1</sup> More details about the interviews (institutional affiliation, position, date and in-text code) can be found in Appendix S1.

The remainder of this article is structured as follows. Section I offers a historical-institutionalist perspective on institutional change in the EU and provides a theoretical framework for the empirical analysis. Section II examines how the RRF has been envisaged, so far, to work in the context of the Semester, whereas Section III looks at how the Semester is being adapted to being part of the new institutional set-up. Section IV discusses the extent to which the governance of the RRF has given a prominent place to social affairs players, while Section V explores whether the Semester may become a bit ‘harder’ in the new RRF environment. The final section revisits the research questions and concludes by reflecting on winners and losers of the revised macro-economic governance architecture.

## **I. Historical Institutionalism and EU Macro-Economic Policy Coordination**

Adopting a historical institutionalist approach to examine past crises, we can see how this theoretical lens provides insights into the chosen path (Gocaj and Meunier, 2013; Verdun, 2015; Pollack, 2019). During the sovereign debt crisis, smaller incremental steps were taken, often by trying out a new institutional structure, in first instance, sometimes outside the EU framework. When such a temporary arrangement worked, an initiative was put forward for a more permanent arrangement. The clearest example of this pattern was the move from the Greek Loan Facility (GLF) – inspired by the experiences with the International Monetary Fund (IMF) – to the European Financial Stability Mechanism (EFSM) and the European Financial Stability Facility (EFSF), which was subsequently turned into the European Stability Mechanism (ESM). Drawing on these experiences, the ESM was agreed to, also outside of the EU treaty framework. The same pattern reoccurred with the Fiscal Compact – again set up outside the EU treaty environment. Fearing opposition among citizens and interest groups, the choice fell on building on previous experiencing, or ‘copying’ (Verdun, 2015, p. 227). The new institutional structure

<sup>1</sup>We used abbreviations to reflect the general institutional affiliation of the respondents, while guaranteeing anonymity. The abbreviations are as follows: BUSINESS (BusinessEurope), COM (European Commission), EMCO (Employment Committee), EESC (European Economic and Social Committee), ETU (European Trade Union representative), IMEP (Member of the European Parliament), NOF (National Official) and SPC (Social Protection Committee).

was made more permanent only after some time. This new structure may be folded into the EU Treaty at a later stage, similar to what happened with the Schengen Agreement (Verdun, 2015, p. 226). The question on the minds of many is whether the RRF will be only temporary or eventually made more permanent. Our interviewees indicate that regardless, a lot of policy learning will occur from having this experience, including further changes to the Semester and economic and monetary union (EMU) (interviews EMCO2, MEP2, NOF2, SPC1).

From the Euro Area financial crisis, political actors had learnt the importance of offering a timely response and be more proactive in the face of a major crisis (Ladi and Tsarouhas, 2020). With a new EP in 2019, a new Commission firmly in place since December 2019 and withdrawal of the United Kingdom officially completed on 31 January 2020, the EU was better positioned to take more forceful action to face the pandemic crisis. With the outbreak of the Covid-19 crisis, the EU faced a critical juncture (Capoccia and Kelemen, 2007); there was no plan on the precise measures to be taken.

The ECB was among the first supranational EU actors to offer support, after an initial hiccup by President Lagarde on the eve of the outbreak of the pandemic (Verdun, 2022). On 18 March, the ECB announced a Pandemic Emergency Purchase Programme (PEPP) worth €750 billion, which was further increased to €1,350 billion in June, with another €500 billion on 10 December 2020, totalling €1,850 billion. The European Council held numerous videoconference meetings and by late April had spoken four times on the matter. Although at first Spain<sup>2</sup> in April, and later France and Germany (French Ministry of Europe and Foreign Affairs, 2020)<sup>3</sup> in mid-May 2020 put forward joint proposals to initiate a €500 billion recovery fund, the so-called 'Frugal Four' (Austria, Denmark, the Netherlands and Sweden) were unhappy with the idea that much discretion would go to the EU level without sufficient checks and balances (and indeed conditionality) (Lofven, 2020; Schulz and Henökl, 2020). Led by the Netherlands, these countries emerged as a surprisingly strong coalition (de la Porte and Jensen, 2021) and sought to block and delay the measures that need to be taken. The Frugal Four demanded that there be a mechanism that could hold countries to account; some form of conditionality that would enable critical member states to stop the process (Celi *et al.*, 2020; Verdun, 2021; interviews COM6, MEP2, NOF2, NOF4, NOF5). The Southern countries were keen to avoid too much conditionality in the rule, were worried about receiving a stigma (Giurlando, 2021) and had a different interpretation of the meaning of fiscal solidarity (Schure and Della Posta, 2021).<sup>4</sup>

<sup>2</sup>Spain's non-paper on a European recovery strategy, 19 April 2020, <https://g8fip1kplyr33r3krz5b97d1-wpengine.netdna-ssl.com/wp-content/uploads/2020/04/Spain-.pdf>

<sup>3</sup>These two countries historically are crucial for any major step in European integration, especially in the domain of economic and monetary integration (Dyson and Featherstone, 1999; Schilt 2020). The revival of the Franco-German alliance was crucial in enabling the grant instrument in the NGEU to be adopted (de la Porte and Jensen, 2021).

<sup>4</sup>Member states have also been provided with funds through a new European instrument called the *temporary Support to mitigate Unemployment Risks in an Emergency* (SURE). By late May 2021 the EU had provided almost €90 billion in loans from SURE to the 19 member states that had requested funds. To finance this instrument the Commission has issued what it calls 'social bonds' listed on the Luxembourg Stock Exchange ([https://ec.europa.eu/info/business-economy-euro/economic-and-fiscal-policy-coordination/financial-assistance-eu/funding-mechanisms-and-facilities/sure\\_en](https://ec.europa.eu/info/business-economy-euro/economic-and-fiscal-policy-coordination/financial-assistance-eu/funding-mechanisms-and-facilities/sure_en)).

The idea to use an EU-level budget for the RRF dated back to plans around the budgetary instrument for convergence and competitiveness (BICC) that was mentioned in earlier reports such as the 2012 Four Presidents' Report and the 2015 Five Presidents' Reports, then named 'competitiveness and convergence instrument' (CCI). The December 2018 European Council agreed to create a budgetary instrument for convergence and competitiveness and in June 2019 it agreed to a 'term sheet' and further details were agreed at the December 2019 meeting (European Parliament, 2019). Various interviewees (incl. COM3, COM6, COM10, COM11, NOF7) have indicated that the Commission and European Council could come up with a decision to use the EU budget as part of the RRF because of these prior steps taken. This is another illustration of how prior preferences determine decision-making frames.

## II. The European Semester as 'Goldilocks' Mode of Governance for the Recovery Facility

Enter the European Semester: it is based on Country Reports and non-binding (even if Treaty-based) Country-Specific Recommendations (CSRs), that are initially proposed by the European Commission, but the final adoption of the CSRs is formally in the hands of member states through the Council. Countries of the 'North' and of the 'South' have been given different recommendations in this regard, with Germany and The Netherlands being encouraged to increase wages whereas the 'South' is recommended to keep tabs on wage increases (D'Erman *et al.*, 2022).

The effectiveness of the Semester before the RRF has been mixed, even though it has served as an integral part of socio-economic governance of the EU since its inception in 2011. Given this mixed record, it is not immediately obvious that the Semester would be taken as central to the new macro-economic governance architecture, even though the Semester has been identified as a mode of governance that seeks to balance various objectives and pressures. For example, Verdun and Zeitlin (2018) point to balancing out economic and the social affairs; supranational and the intergovernmental tendencies; and technocratic and democratic governance modes. Some assessments of it focus on particular topics tackled by the CSRs and provide case studies, whereas others take stock of overall compliance with the overarching CSRs. Modest compliance with the Semester has occurred (Hagelstam *et al.*, 2019; Haas *et al.*, 2020), although it remains a challenge to identify direct causality – that is, how much influence the CSRs have had on domestic policies (COM6, NOF2, NOF3, NOF5, NOF7; D'Erman and Verdun, 2022). How seriously member states took the process varied a great deal (Bokhorst, 2022; Hennis, 2022; Van der Veer, 2022). Ultimately, responsibility over (often politically sensitive) domestic policies lie with member states, as the aim of the Semester is to inspire EU-wide coordination.

We argue that the Semester served as a 'Goldilocks' (Mure, 1831/2010) mode of governance option. This relatively soft mode of governance includes many societal actors. It is set-up as 'not too soft and not too hard', leaving ample room for manoeuvre regarding the choice of policies to be implemented (see Bekker, 2020 for a discussion of 'hardening' and 'softening' trends in CSRs regarding pensions and wages). It provides structure and direction, while not being overly intrusive. Those more in favour of EU-level intervention find the Semester insufficient because it is *not stringent enough* (Bokhorst, 2022);

those who are more dismissive of hierarchical rule from the EU to the member states find that the EU is *interfering too much*.<sup>5</sup>

In the context of the governance of the RRF, the Semester is perceived as appropriately situated between these two extremes – allowing to strike a balance between providing sufficient constraints, while leaving considerable leeway to the member states to choose and implement their preferred domestic policy options. The latter is essential, since many of the issues addressed in the context of the RRF are firmly national competences and because a significant part of the newly available funding consists of loans to countries.

The question then is, how was the alignment between the Semester and the RRF institutionalized? The broad picture of the embedding of the RRF into the Semester can be understood through various EU documents. The European Commission clearly paved the way already in its May 2020 Communication on the on the CSRs, when it underlined that the ‘close alignment between the EU budget and the Semester is essential’, while pointing to the continued importance of the (refocused) Semester, notably to guide ‘reforms and investments’ (European Commission, 2020f, pp. 15–16). While the July 2020 European Council left unsettled the detailed governance of the recovery instrument (Fabbrini, 2022), it played an important role in cementing the role of the Semester. Though it was not at all certain at the outset, the European Council (2020, §17) conclusions indeed endorsed the stonger link between the EU budget and the Semester, but also the need for further implementation of the European Pillar of Social Rights, and equal opportunities for all. These views are reflected in the eventual RRF Regulation of February 2021, which stipulates that ‘the European Semester for economic policy coordination (European Semester), including the principles of the European Pillar of Social Rights, is the framework to identify national reform priorities and monitor their implementation’ (EP and Council of the EU, 2021, 3§(4)). The alignment between the Semester and the RRF is explained in the Regulation to take place along three lines: (a) the RRP will contribute to address challenges identified in the relevant CSRs, or in other relevant documents officially adopted by the Commission in the Semester; (b) in order to streamline the content and the number of documents requested, member states *may* submit their National Reform Programme (NRPs) and RRP in a *single integrated document*; and (c) twice-yearly reporting on the progress made in the achievement of the investment and reform commitments will take place in the context of the Semester.

The final RRF Regulation also confirmed that the criteria related to (a) the CSRs; (b) the strengthening of the growth potential, job creation and economic, social and institutional resilience;<sup>6</sup> and (c) the implementation of the EPSR, ‘should require the highest score of the assessment’. In addition, ‘effective contribution to the green and digital transitions should also be a prerequisite for a positive assessment’ (EP & Council of the EU 2021, p. 21):<sup>7</sup> each RRP will have to include a minimum of 37 per cent of expenditure related to climate and a minimum level of 20 per cent of expenditure related to digital.

<sup>5</sup>Savage and Howarth (2018) show the first case of sanctions against a municipality, while Baeten and Vanhercke (2017) flag the EU’s increasingly intrusive economic surveillance of national healthcare systems.

<sup>6</sup>The RRF Regulation defines ‘resilience’ as ‘the ability to face economic, social and environmental shocks or persistent structural changes in a fair, sustainable and inclusive way’ (EP and Council of the EU, 2021, Art. 2§5).

<sup>7</sup>As specified in Article 19(3) of the RRF Regulation, the Commission also assesses other elements of the plans, in particular the justification of the cost estimates, the coherence of the reforms and investments, the ‘do no significant harm’ to the environment objectives and implementation aspects of the plan (EP and Council of the EU, 2021, pp. 65–8).

By contrast, no explicit ‘social’ targets have been included in the RRF Regulation agreed between the Council and the EP. This despite the Employment, Social Policy, Health and Consumer Affairs (EPSCO) Council formation’s request to set social targets in the context of the Pillar action plan. Despite the absence of social targets, the Commission’s initial assessment of the recovery plans shows that around 30% of total expenditure will be directed towards social policy.

The 2021 Annual Sustainable Growth Strategy (ASGS) of September 2020 (European Commission, 2020b) provides further guidance – which was updated in January 2021 (European Commission, 2021) – for the implementation of the RRF through the Semester. Thus, the Commission invites the member states to contribute, through their RRFs, to seven proposed European ‘flagship initiatives’ for investments and reforms, each of which sets targets for 2025 or 2030 (European Commission, 2020b, p. 9). One flagship initiative – ‘Reskill and upskill’ – is concerned with the adaptation of education systems to support digital skills and educational and vocational training for all ages.<sup>8</sup>

The ASGS 2021 illustrates why domestic and EU policymakers had decided that the Semester and the RRF were to become ‘intrinsically linked’ (European Commission, 2020b, p. 12): the Semester provides a well-established (i.e. predictable and encompassing) framework for the coordination of economic and employment policies to guide the EU and the member states through the challenges of the recovery and twin transition (European Commission, 2020b, p. 5). The Semester offers important informational and signalling advantages for the identification of the priority areas in the preparation of RRFs, which cover a wide variety of policy initiatives, while the timeframe for identifying a complex and multifaceted national reform agenda is very tight. As some of interviewees argued, by building on Semester tools and practices, the member states have a chance to get reform and investment priorities ‘right’ from the very beginning, especially given the one-off nature of the formulation of the RRF (COM5, ETU2, MEP1; Moschella, 2020, pp. 9, 20). In other words, as historical institutionalism predicts, the path dependence of the Semester finds its way into the governance of the RRF.

Another usage of previous instruments of the Semester can be found in the way the RRF regulation specifies the links between the RRF and the CSRs: the RRFs are expected to contribute to address ‘all or a significant subset of challenges identified in the relevant country-specific Recommendations’. In other words, *all* CSRs are deemed relevant.<sup>9</sup> This does not, however, solve the challenge that RRFs are expected to be consistent with multiple priorities, which also make it difficult for the Commission to steer the planned reforms and investments (COM6; EMCO2, ETU2, NOF4, NOF5).

While the final RRF Regulation agreed between the EP and the Council mostly formalises the arrangements agreed upon in the months prior, some key changes are worth flagging. First, while the text does not include the ‘social targets’ some have hoped for, the EP

<sup>8</sup>Targets for this flagship initiative include raising the share of adults with basic digital skills from 42 per cent to 70 per cent, reducing to below 15 per cent the share of 13- and 14-year-old students who underperform in computer and communication literacy, ensuring that at least 80 per cent of vocational training graduates are employed, and 60 per cent benefit from on-the-job training (European Commission, 2020d).

<sup>9</sup>The European Commission’s (2020c) guidance for the member states on RRF of September 2020 suggests that all CSRs are relevant, unless the Commission has assessed the progress with these recommendations as ‘substantial progress’ or ‘full implementation’. It should be noted that the initial Commission guidance provided in the 2021 ASGS (September 2020) stipulated that the RRFs (only) need to address the CSRs addressed to the member states *during the 2019 and 2020 Semester cycles* (European Commission, 2020b).

successfully undertook to give the EPSR more prominence in the final Regulation.<sup>10</sup> Crucially, as mentioned above, ‘contributing to the implementation’ of the EPSR is now added to the list of criteria that ‘should require the highest score’ of the Commission’s assessment of the plans, even preceding ‘contribution to the green and digital transitions’ (EP and Council of the EU, 2021, §42). Equally important is the fact that, while the Commission’s draft RRF Regulation was completely silent on gender issues, as a result of the EP’s strong bargaining on the RRF regulation (MEP1; O’Dwyer, 2022) the final text not only recognizes that women ‘have been particularly affected by the COVID-19 crisis’, but it also requires member states to explain how the measures in their RRFs ‘are expected to contribute to gender equality and equal opportunities for all and the mainstreaming of those objectives’ (EP and Council of the EU, 2021, 63§(o)). Another achievement was that the EP ensured that member states had to indicate whether they consulted with stakeholders about their draft RRF (see Section IV for further details). The EP also managed to somewhat counterbalance the lack of social targets in the RRF Regulation by providing the European Commission with a mandate to develop a ‘methodology for reporting social expenditure’ (EP and Council of the EU, 2021, 31§63; COM11, NOF7). Finally, albeit not exclusively related to the RRFs, the EP insisted on ensuring that the rule of law be upheld, prompting the Commission to delay the adoption of the Hungarian and Polish plans.

The above EU documents also provide a broad-brush view of how the RRF is to be managed in procedural terms. The steering of the implementation of the RRF, as well as the coordination of the Semester, is centralised within the newly established Recovery and Resilience Task Force (RECOVER), established in August 2020 within the European Commission’s Secretariat-General (SECGEN). Working in close cooperation with the Directorate General for Economic and Financial Affairs (DG ECFIN), the Task Force reports directly to the Commission President. A formal role has been assigned to the Economic and Finance Committee (EFC), even if in practice much of the actual deliberations are taking place in the ‘technical’ Council preparatory bodies (Coreper II). The Commission should ask the opinion of the EFC, which has the right to pull the ‘emergency brake’ if a member state has not fulfilled the required milestones (associated to qualitative achievements) and targets (associated to quantitative results) set in its RRF – the basis for the assessment of payment requests. In this unlikely case, the matter may be referred to the next European Council.

While the emergency brake can theoretically slow down disbursement of funds by up to three months, some argue that the RRF ‘has placed the [European Commission] in the driving seat to steer and monitor the use of funding’ (Corti and Núñez Ferrer, 2021, p. 4). One of our interviewees confirms: Member states ‘will have to heavily, heavily rely on the Commission’, as especially smaller member states ‘will have difficulties to really challenge the Commission assessment’ (COM6), especially in view of the fact that the satisfactory fulfilment of milestones and targets will be the key to unlock the money (interviews NOF6, NOF7, COM11). It would indeed seem that, by (a) encouraging member states to ‘interact with its services to informally and bilaterally discuss the draft plans’ as early as possible when preparing the plans (European Commission, 2020b, p. 13); and

<sup>10</sup>The EPSR was referred to a single time in the draft RRF Regulation, notably in the ‘Whereas’ (European Commission, 2020a, 10§3); the final Regulation refers more than ten times to the EPSR.

(b) providing member states with (initial and updated) guidance on how best to present their recovery and resilience plans (European Commission, 2020c, 2021), the Commission immediately picked up the glove in a new context where the institution does much more than manage the practical implementation of the RRF governance. The Commission can now raise resources and run a supranational economic policy, while negative assessments by the Commission (or a threat of these), however unlikely in view of the enormous pressure from the member states to disburse the money without delay, are directly attached to the question whether funds are disbursed.

This institutional setup raised concerns among numerous stakeholders interviewed for this study, in terms of (a) the inclusion of social affairs players, and (b) the incorporation of social priorities ('socialization' in the language of Zeitlin and Vanhercke, 2018) in the key RRF decisions. The issue was that these gradual achievements had been abandoned in the initial RRF set-up. However, as we discuss further in Section IV, by the end of 2020 the winds were turning and various social actors managed to have their voices heard again in the Semester, and through it, in the RRF.

### III. Temporary European Semester Adaptions to the RRF

Above we posed the question of how a historical institutionalist approach enables us to assess the linking between the RRF and the Semester. In this section we examine how the inclusion of the Semester in the RRF changes economic policy coordination. Some aspects of the Semester remained largely unaffected, whereas others were interrupted due to the pandemic. It was not always clear to stakeholders whether these changes were temporary and would break with past practices, or would eventually trend back to the usual processes.

What stayed the same was that the European Commission published its Semester Autumn package, as planned, on 18 November 2020 and, as usual, based it on its Autumn 2020 Economic Forecast. The package includes the *Opinions on the Draft Budgetary Plans* (DBP) of Euro Area member states for 2021 and the *Euro Area recommendation*, adopted by the Council in January 2021. The Autumn package provides policy guidance on the short-term priorities that Euro Area member states should pursue in their RRP to address the pandemic. The Euro Area recommendation (European Commission, 2020d), rather remarkably, advises that Euro Area countries, through their RRP, take action in four areas: (a) when the conditions allow, phase out support measures in a way that is mindful of social and labour-market impacts; (b) strengthen health and social protection systems in terms of coverage, adequacy and sustainability; (c) pay attention to the quality of budgetary measures; and (d) mitigate the risk of further divergence and enhance economic and social resilience (European Commission, 2020d, p. 7). Clearly, ideas within the Commission regarding austerity have changed considerably since the economic and financial crisis when public trust in EU institutions was at an all-time low (European Commission, 2020e, p. 6; Csehi and Schulz, 2022).

The Semester Autumn package also includes the *Alert Mechanism Report* (AMR), which finds that risks of imbalances are on the rise in the 12 Member States that were already experiencing imbalances prior to the Covid-19 pandemic. The package also contains a proposal for a *Joint Employment Report* (JER), which shows that the groups hardest hit by the Covid-19 crisis were young people – who form an important contingent

of non-standard and self-employed workers – as well as women. With its in-depth analysis, the JER helped member states identify priority areas for reforms and investment to include in their RRP.

Some other components of the Semester, by contrast, were transformed very quickly, with a view to their alignment with the RRF. Consequently, many of our interviewees felt that key aspects of the Semester were ‘on hold’, ‘frozen’ and ‘hanging in the background’, while others refer to ‘lightening’ or ‘streamlining’ (COM5, COM6, SPC1, TU2) of the Semester to decrease the reporting burden for the national and EU administrations, uphold consistency in the key messages coming from the EU, and channel the money to the member states as soon as possible.

Thus, the *Annual Sustainable Growth Strategy* (ASGS) was published two months earlier than scheduled (in September 2020), without the usual consultation at the national or EU levels (causing tensions with, among others, the European social partners; COM4, ETU1, BUSINESS). As demonstrated above, the document was transformed into strategic guidance to the member states for the implementation of the RRF (European Commission, 2020b).

An even more significant change pertains to the *Country Reports*, which have not been adopted by the European Commission in 2021, in the absence of the Semester ‘Winter package’: Country Reports are being replaced, as the Semester’s main analytical reference documents (which also constituted by basis for the annual CSRs), by the assessment which the Commission made of the RRFs during the summer of 2021. Member states were asked to submit these reports between 15 October 2020 (draft plans) and 30 April 2021 (final plans), even if the large majority submitted after these deadlines. The assessments have been published, in staggered batches,<sup>11</sup> in the form of staff working documents, together with Commission proposals for Council implementing Decisions.<sup>12</sup>

*Multilateral surveillance* between member states, one of the slowly built cornerstones of the Semester, has, in the months following the announcement of the RRF in May 2020, been continued, in a largely written procedure, in very difficult (pandemic) circumstances. While much more emphasis was being put on bilateral dialogue between the Commission and individual member states about the reforms and investments proposed in the framework of the RRF, there ‘was a clear intention not to lose what had been built up in terms of multilateral surveillance during the previous years’ (SPC1). Both the peer reviews organized in the context of the ‘Mutual Learning Programme’ of the European Employment Strategy (EMCO) and the peer reviews in social protection and social inclusion (SPC) continued as before.

The most notable change in the 2021 Semester cycle, related to the Covid-19 pandemic circumstances, is that no new Country-specific Recommendations are issued to member states that have presented an RRP, except on fiscal matters in the context of the Stability and Growth Pact (SGP).<sup>13</sup> As indicated above, during 2021 all earlier CSRs remain valid

<sup>11</sup> Depending on the respective delivery of the recovery and resilience plans and the finalization of the Commission’s assessments.

<sup>12</sup> Recovery and Resilience Plans’ assessments: [https://ec.europa.eu/info/business-economy-euro/recovery-coronavirus/recovery-and-resilience-facility/recovery-and-resilience-plans-assessments\\_en](https://ec.europa.eu/info/business-economy-euro/recovery-coronavirus/recovery-and-resilience-facility/recovery-and-resilience-plans-assessments_en)

<sup>13</sup> The general escape clause remains in place for as long as it is deemed necessary to allow member states to implement measures to contain the coronavirus outbreak and mitigate its negative socio-economic effects.

and should steer the reforms and investments proposed by the member states in their RRP. In practice, however, this guidance through the CSRs has its limitations: as the European Court of Auditors (2020) pointed out in its opinion on the RRF, ‘in certain cases, the CSRs contain a mix of issues, and generally lack clear timeframes and costs’. It can be expected that member states will endeavour to spend the new funds according to their domestic preferences, while the European Commission will use its authority to ensure that each RRP contains the required expenditure related to climate (37 per cent), digital transition (20 per cent) as well as the (Action Plan of) the EPSR. It should be noted that, for several of our interviewees, the Action Plan (which includes three EU-level headline targets to be reached by 2030) was published too late by the Commission with a view to impacting the RRP drafting process, even though this crucially depended on the state of advancement of the respective national plans (ETU2, EMCO2, NOF5),

Another illustration of the changes that are occurring relate to *stakeholder involvement* in the RRF. Both the European Trade Union Confederation (ETUC) and the Social Platform (2020) were concerned, at the time of the launch of the RRF, about the lack of involvement of social stakeholders in the design and adoption of the RRP. They point out that, at national level, prime ministers, finance ministers and ministers responsible for cohesion policy are the ones mainly steering RRP decision-making (while NRPs were largely bureaucracy driven). This means that social stakeholders, including civil society representatives, needed to develop new national and EU networks – an undertaking that takes more time than was available under the tight deadlines of the newly created instrument (BUSINESS, COM9, EESC, NOF 4, NOF5, TU2). This situation, in turn, made it attractive for powerful industrial lobbyists to seek to influence the drafting of the RRF Regulation (MEP2), while the European Parliament is scrutinising the role of the ‘Big Four’ consultancy firms in providing ‘technical assistance’ to member states to prepare structural reforms. The involvement of social stakeholders in the 2021 Semester cycle, and therefore their overall impact on the RRF, will most likely be limited: drawing on an EU-wide survey (January 2021), the European Economic and Social Committee concluded that RRP consultation processes with the social partners and civil society organisations (CSOs) were ‘far from satisfactory [...] in relation to the terms set out in the RRF Regulation’ (EESC, 2021: §5.1; interview EESC). With this prospect in mind, ETUC has recently upgraded its ‘Semester Toolkit 2.0’ with a ‘Real Time Monitoring Tool (RTMT)’ which keeps track of trade union involvement in the drafting and implementation of RRP.<sup>14</sup> ETUC also began to inform its affiliates about the most appropriate ‘entry points’ for national trade union organizations in the RRF.

#### **IV. The recovery facility: strategic actors in search for a place around the table**

Another element that raised concern following the summer 2020 European Council, was whether those actors traditionally involved in the Semester, would now also be part of the renewed macroeconomic policy coordination. Would perhaps social actors have a smaller role to play? Nearly all our interviewees (for example COM2, COM3, COM4, COM7,

<sup>14</sup>ETUC Real Time Monitoring Tool (RTMT): <https://est.etuc.org/index.php>. ETUC drew up an initial list of countries where, based on the experience in the Semester, trade unions risk not being involved in the RRF. ETUC will actively support these countries.

EMCO1, ETU1, NOF1, NOF5, SPC1) explained that, during the first weeks following the decision to launch the RRF, the ‘social affairs players’ were indeed very concerned (rightly or wrongly) that they had lost much of the voice they had, slowly but surely, acquired through ‘socialization’<sup>15</sup> of the Semester (Zeitlin and Vanhercke, 2018). Importantly, several of our respondents underline that this was not the result of a deliberate decision to rule out social actors, but rather the result of ‘crisis policymaking’ and ‘improvisation’ during a ‘storm from all sides’ when ‘everything was happening at the same time’ (COM4, NOF4, NOF5).

Arguably the concern around the exclusion of these actors is why the EPSCO Council formation encouraged the Commission ‘to build on the established processes and governance practices within the Semester cycle, thereby involving all relevant Council formations and their preparatory bodies, as much as possible, to support the effective implementation of the Recovery and Resilience Plans’ (Council of the EU, 2020, §17). The fact that the ‘territory’ gained by social affairs players over the past decade again seemed to be contested is quite striking, since the RRFs should ‘contains measures that aim to strengthen social cohesion and social protection systems’ (EP and Council of the EU, 2021, 6§2.3), which is also reflected in the RRFs that have been approved the Commission (COM9). In other words, while the member states’ RRFs include essential social investments and reforms that are, for some countries, linked to unprecedented EU funding – for member states such as Bulgaria and Croatia, the financial contribution will be above 10 per cent of GDP, while for at least five other countries the injection will be between 5 per cent and 10 per cent of GDP (Vanhercke *et al.*, 2021) – social affairs players have so far, few *formal* entry-points to the RRF decision-making process.

While the socialization of the EU’s overarching governance framework seemed to have come under pressure early on, some prudence is however warranted: there are some indications that the practices that have been institutionalized during the past decade may, in the end, prove to be quite robust (see also Vesan *et al.*, 2021). Some interview partners indeed indicated that as of late 2020 and early 2021 there was an inclination to return to the more ‘normal’ Semester practices.<sup>16</sup> Most of our respondents hope for a quick return to ‘business as usual’, even though they appreciate that key changes to the Semester will be made (COM4, COM5, COM11, NOF5, NOF7, EMCO2, ETU2 and SPC1).

The German Presidency of the Council of the EU (July–December 2020) played a pivotal role in endeavouring to involve the EPSCO Council in the RRF decisions: in its Council Conclusions of 23 November 2020, the Social Affairs Ministers decided to take the unprecedented step of explicitly invoking Article 148 TFEU. The Council ‘tasks the Employment Committee to examine – pursuant to Art. 148(3) and 148(4) of the TFEU and in light of the employment guidelines – the implementation of the relevant policies

<sup>15</sup>Socialization comprises (a) a growing emphasis on social objectives in the Semester’s policy orientations; (b) intensified monitoring, surveillance and review of national reforms by EU social and employment policy actors; and (c) an enhanced role for these actors relative to their economic policy counterparts in drafting, reviewing and amending the CSRs (Zeitlin and Vanhercke, 2018).

<sup>16</sup>The EPSCO Council formation, in November 2020, called on the Commission ‘to propose appropriate arrangements for the return to a fully-fledged European Semester process as soon as possible, including its governance’ (Council of the EU, 2020, §19). The 2022 Annual Sustainable Growth Strategy (expected November 2021) will outline the governance framework of the upcoming European Semester cycle, which will probably be a move a way from the one-size-fits-all Semester of the past decade, in view of the fact that the RRF means very different things, in terms of budget and timeline, for different Member States.

of the member states as set out in their National Reform Programmes, *including* their national Recovery and Resilience Plans, to cooperate with the Social Protection Committee where relevant, and to inform the Council of such an examination' (Council of the EU, 2020, §20; emphasis added). By underlining that the Recovery and Resilience Plans are *part of* the National Reform Programmes – which both the Employment Committee (EMCO) and the Social Protection Committee (SPC) have reviewed in the past – the EPSCO Council clearly attempts to put its mark on these strategic documents.

Consequently, the EMCO Secretariat – which is provided by DG Employment, Social Affairs & Inclusion (DG EMPL) of the European Commission – used the annual review and update of its multilateral surveillance activities to ensure a place for EMCO, in collaboration with the SPC, in the RRF process. The EMCO Secretariat argues that the RRF is to be a key instrument to promote reforms and investment in the employment, skills and social domains. While acknowledging that the European Council attributed a formal role as regards the disbursement of RRF funds (only) to the EFC,<sup>17</sup> the argument is made that '[n]onetheless, based on Art. 148 and 150 TFEU, the multilateral surveillance of employment policies in EMCO is a Treaty-based requirement that needs to be fulfilled, as recalled also in the EPSCO Council Conclusions on the ASGS 2021' (EMCO, 2020, p. 4). The EMCO Secretariat then tables a detailed proposal of how EMCO – in collaboration with the SPC for cross-cutting issues falling under competence of both committees – could examine 'the implementation of the relevant policies contained in the NRPs, including the RRFs, in this Semester cycle' (EMCO, 2020, p. 7, bold removed from original). Not only is it proposed that the CSR review meetings during 2021 would be 'providing a complete picture on the implementation progress by country gained through multilateral reviews of all relevant CSRs' (for 2020 CSRs and where relevant 2019 CSRs). The result of the CSR reviews (of February, March and April 2021) should also 'be channelled to the ECOFIN Committees' (EMCO, 2020, p. 5). In addition, and crucially, the EMCO Secretariat proposes that 'in this exceptional Semester cycle the reviews should also discuss how Member States plan to use EU funding to tackle challenges considered as persistent' (EMCO 2020: 4), even if the Semester has never been designed as a governance framework for the allocation and monitoring of funds (Crum, 2020, p. 13). Our interviewees confirm that, after months of hesitation about which role (if any) to play in the RRF, both EMCO and the SPC have revamped multilateral surveillance at the beginning of 2021 (for example, on active labour market policies and on education and skills). The objective being threefold: (a) preparing a swift return to the previous Semester practices; (b) establishing a substantive input of both committees in the RRF, to inform the EPSCO Council on labour market, social protection and social inclusion issues; and (c) provide background to the Commission in view of its assessment of the RRFs (COM7, EMCO2, SPC1). Whether this means that these committees – and by extension the EPSCO Council formation – will be able to have an actual impact on the new governance architecture, remains to be established.

The role of the Commissioner for Jobs and Social Rights (Nicolas Schmit), as well as that of his administration – DG EMPL, previously a key player in the Semester's 'Core Group' of four European Commission DGs (Zeitlin and Vanhercke, 2018) – seems to have been significantly pruned, at least in formal terms. Commissioner Schmit is not

<sup>17</sup>In relation to assessing the fulfilment of milestones and targets on which financial disbursements will depend.

included in the Steering Board of the European recovery plan, implying that his cabinet is *de facto* excluded from the central political guidance to the internal work of the Commission.<sup>18</sup> Yet, key respondents across the Commission confirm that, in practice, the SECGEN and DG ECFIN are working in close cooperation with their counterparts in DG EMPL – for example, in the ‘RECOVER ECFIN Country Teams’ made up (despite its name) of Commission officials across different DGs. DG EMPL also participates in the ‘technical’ bilateral meetings with the member states, even if they are chaired by counterparts from RECOVER or ECFIN. The reason is quite straightforward: DG EMPL’s country intelligence (on social policy and labour market issues) is needed to assess the significant ‘social’ parts of member states’ RRP. Whether this kind of cooperation will be effective, and whether DG EMPL can re-establish its voice in the process, will largely depend on the RRF *ad hoc* implemented during 2021.

It would seem that DG EMPL’s know-how in managing EU cohesion policy (through the European structural and investment funds, ESIF) would give the Social Affairs directorate additional leverage in the RRP. After all, under Article 28 of the RRF Regulation these are being negotiated (between the Commission and the member states) in a coherent package (in terms of planning and execution) that includes, amongst others, the European Regional Development Fund (ERDF), the European Social Fund (ESF) and Cohesion Fund Operational Programmes. The Commission’s detailed guidance to member states for their RRP therefore invites them ‘to discuss with the Commission the draft recovery and resilience plans together with their draft programming documents for cohesion policy’ (European Commission (2020a, p. 2).

The European Commission’s (2020c) RRP guidance stipulates that it ‘will be crucial that member states engage as soon as possible in a broad policy dialogue including social partners and all other relevant stakeholders to prepare their recovery and resilience plans’ (European Commission, 2020d, p. 13). The final RRF Regulation goes even further, requiring members states not only to include ‘a summary of the consultation process<sup>19</sup>’, but also to report on ‘how the input of the stakeholders is reflected in the recovery and resilience plan’ (EP and Council of the EU, 2021, 63§(q)). This request to document consultation and report the input, according to some of our respondents, ‘is more than has been achieved during the Semester’ (ETU2), even if strong opposition of both the Council and the Commission prevented a stronger formulation of this requirement. Both the German Presidency of the Council of the EU as well as the EP, as a co-legislator of the RRF Regulation, clearly played important roles in ensuring that social partners would be heard, at least on paper, in the process (MEP1, NOF5). Our interviewees point out that the language in the Regulation is flexible and enables a mix of speed and ability to tailor to different national circumstances: not all member states have equally institutionalized roles for social partners and other stakeholders (BUSINESS, COM9, ETU1, ETU3.). Using this new opportunity, ETUC began to inform its affiliates about the most appropriate ‘entry points’ for national trade union organizations in the RRF. For the European trade union movement, it will be important to establish whether the timespan between the first formulation of RRP and their official submission (April 2021) has effectively

<sup>18</sup>The Steering Board is composed of the three Executive Vice-Presidents – Margrethe Vestager, Valdis Dombrovskis and Frans Timmermans – and the Commissioner for Economy, Paolo Gentiloni.

<sup>19</sup>With local and regional authorities, social partners, civil society organizations, youth organizations and other relevant stakeholders.

provided a window of opportunity for social and economic actors to engage with the content of the draft RRFs (thereby increasing the political price of *not* following such stakeholder involvement). More work is needed to ensure that such an involvement is translated into operational practice and not merely ‘a kind of a ritual’ (ETU2; Moschella, 2020, pp. 20–1). Even if the guidance to the member states does not specify how this policy dialogue should be organized at the national or the EU level, the Employment Committee scheduled a review (with EMCO members, national social partners and the Commission) of social partner involvement in the Semester (as it has done since 2016) on 8 December 2020. A key question on the agenda was whether social partners have been involved in a timely and meaningful way in the design and implementation of reforms and policies, including as part of the RRF.<sup>20</sup>

The above examples demonstrate that, whereas the role of the social affairs players was not taken for granted when the RRF was launched – in this early stage much of the emphasis was on speed and reducing the number of actors involved – they have been gearing up to seize their place in its evolving architecture. Social actors gradually moved back to adopting the former Semester practices: they stayed in position, ready to jump in at the first opportunity. Many of the social actors we interviewed for this study indicated that they felt that EU level officials (notably in the different DGs of the European Commission) were in fact even more receptive to social issues, and the views of social actors, than before. Several of them point out that this change started under the Commission headed by Juncker (see also Sabato, 2020). The online meeting culture of 2020–2021 further facilitated access and consultations – with a broader range of European Commission DGs and reaching more senior officials – which was taken advantage of (BUSINESS, COM9, ETU1, ETU2, ETU3). The proof of the pudding will be whether and how social stakeholders are involved in the monitoring and implementation of the RRF: the European Parliament will have an important role to play in this regard, including in the context of the Recovery and Resilience Dialogue held every two months.

At the time of writing, summer 2021, as the EU has reached close to 70 per cent first dose vaccination rate<sup>21</sup> and the International Monetary Fund (IMF) (2021) is forecasting a strong recovery, following a deep recession, it may be that the Semester practices may be returned to sooner than initially expected. This seemingly surprising result confirms that the governance processes of the Semester continue to offer opportunities and resources for strategic agency by contending groups of actors, also with a view to reshaping pre-existing power balances (Zeitlin and Vanhercke, 2018, p. 169). It is also in line with a historical institutionalist understanding of path dependence and the use of previous institutions in the revised architecture of EU macroeconomic policy coordination of the RRF.

## V. Of Carrots and Sticks: Hardening the Semester

As a result of the linkage between the RRF and the Semester, the latter is likely to acquire new prominence. The Semester may well fundamentally change in character from being a non-binding structure for policy coordination to a vehicle for the allocation of a major

<sup>20</sup>The member states under review were those with a relevant CSR in 2019 and 2020: Hungary, Poland and Romania.

<sup>21</sup><https://vaccinetracker.ecdc.europa.eu/public/extensions/COVID-19/vaccine-tracker.html#uptake-tab>.

economic impetus (Crum, 2020; Van der Veer, 2022) which is to have more teeth. As the RRF's governance framework, the domestic ownership of the Semester could be reinforced. It would do so by allowing member states to identify the relevant targets, milestones and timetables against which implementation efforts will be assessed and by providing financial incentives for structural reforms. These developments have the potential to increase CSR implementation, as the CSRs may be taken more seriously by member states and stakeholders alike (COM9, ETU2, NOF6, MEP1; see also Moschella, 2020; Wieser, 2020).

Given Rainone's (2020) finding that the overall number of (implicit and explicit) 2020–2021 social CSRs is the highest ever registered (around 80 per cent higher than usual),<sup>22</sup> this link with the RRFs should, in principle, provide the Commission and national stakeholders with a powerful new opportunity to combine the 'sticks' of past CSRs with the 'carrots' of significant funding, including for social and labour market policies. The RRF thus 'upgrades' the Semester, in that it offers financial incentives in return for a coherent package of public investments and (potentially painful) reforms, thereby giving European governments additional means to overcome domestic institutional resistance in the face of Semester tools and recommendations.<sup>23</sup>

Monitoring of implementation of the recovery plans will be coordinated jointly by the Recovery and Resilience Task Force (RECOVER) within the Secretariat General and DG ECFIN. In addition, the newly created DG REFORM<sup>24</sup> provides detailed technical support – to those member states who request it – for drafting, implementing and monitoring the RRFs, including through the promotion of scaling up of existing policies and the exchange of best practices, both among and within member states (COM8, COM11). The question can be raised whether these bodies have the technical capacity and human resources to take care of monitoring and implementation, also in view of the risk of political pressure on the Commission; indeed, pressure to agree that there has been positive implementation may be significant (Wieser, 2020, p. 8). Since EMCO, the EPC, and SPC became significant players in monitoring, reviewing and assessing national reforms within the Semester (Zeitlin and Vanhercke, 2018), it would seem important to include them in the monitoring effort, alongside the EFC. The inclusion of these players may assist the Commission in its task to monitor milestones and targets (including judging whether sufficient progress is made to warrant payment).

Scholars have warned against rushing through the RRFs needlessly, risking waste and misdirected long-term investment: good projects are hard to find quickly, and national governments have limited capacity to channel very large amounts of public investment (Alcidi *et al.*, 2020). As Van der Veer (2022) argues, scrutiny of spending- and reform plans is far from a-political and cannot be done in a mechanical way: by funding certain investments and reforms, and not others, the EU will get, in the words of one of our interviewees, 'under the skin' of the member states, which may be 'extremely complicated' to manage (COM5, COM6). The risk, also in the absence of a clear negotiation mandate, is that the EU is captured in national political discourse – especially when reform

<sup>22</sup>The proliferation of social CSRs is likely to be an effect of the EU Commission's reaction to the socioeconomic crisis triggered by Covid-19 (Rainone, 2020, p. 4).

<sup>23</sup>For a discussion of EU funding as an effective leverage for soft governance, see Verschraegen *et al.* (2011).

<sup>24</sup>In January 2020, DG REFORM took over the mandate previously carried out by the Structural Reform Support Service established in 2015 within SECGEN.

conditionality is being applied to sensitive policy domains – while it cannot account for the consequences of the reforms.

## Conclusion

This article aimed to evaluate socio-economic governance in the EU in response to the Covid-19 crisis. We take a historical institutionalist approach to this issue. Although the crisis was dealt with, in first instance, by the ECB, and the heads of states or governments, the decisions about how to manage the crisis followed many of the existing EU institutional structures or were inspired by them. Although the novelty was to attract new funds in the financial markets, some of the older institutional structures were deployed as well. In particular, to manage the RRF the European Council decided to use some of the existing institutional structures, namely the EU budget, but also the Semester. We argue the latter was built on, in part, because of its ‘Goldilocks’ characteristics (that is, of being *not too soft* and *not too hard*). From our research we learn that the EU actors did not want to reinvent the wheel and the Semester was already doing what the Commission and the EU member states wanted to do going forward, namely provide annual assessments and recommendations and linking them back to previous CSRs. In choosing to rely on this macroeconomic policy coordination instrument, it did not seem to matter that many assessments of the Semester suggest low compliance with the recommendations.

In this article we also sought to examine to what extent the linkage of the RRF to the Semester might fundamentally change the latter, given the existence of a larger budget. In providing an assessment, we examined the path that led to the RRF being created and the link with the Semester. In terms of the actors involved in the process, our assessment suggests that initially there was a serious risk that social actors could lose some of the prominence they had previously in the Semester. In the course of the process, from late 2020 until the summer of 2021, our analysis found that these actors are reclaiming their prominence in the process, especially as the immediate urgency of creating a deal has subsided. As was discussed above, EU institutional actors were also willing to engage with social actors taking advantage of the online meeting opportunities that Covid-19 presented.

This study finds that the increases in the use of ‘carrots’ and ‘sticks’ might make the Semester more effective, as it becomes a ‘harder mode of soft governance’ (Knodt *et al.*, 2020). Seeing that earlier assessments of the Semester indicated the lack of compliance with recommendations, which is in part due to the limited enforceability, means that firmly embedding the RRF into the Semester framework and having more carrots and sticks may significantly increase Semester effectiveness. Despite the increased potential of the Semester, however, member states have also gained opportunities. Using the national reform programs and stability or convergence programmes, they may seek support for specific domestic needs. Finally, in terms of the inter-institutional division of power, based on this study, the jury is still out as to who, in the end, will gain or lose most in terms of influence. The Semester may end up becoming more effective due to the changes invoked by the attempt to embed the RRF within an otherwise soft mode of governance that the Semester was before the onset of the Covid-19 pandemic.

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### Supporting Information

Additional supporting information may be found online in the Supporting Information section at the end of the article.

### Table S1. Interview details (in chronological order)