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Louvaris Fasois, C.

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Promotor(es):       prof. dr. J.H. Zeitlin
                   prof. dr. M. Ferrera

Co-promotor(es):

Overige leden:       prof. dr. F.I.G. Vandenbroucke
                   prof. dr. M.J. Keune
                   prof. dr. D.K. Mügge
                   prof. dr. L. Bordogna
                   dr. R. Pedersini
                   dr. M. Jessoula

Faculteit der Maatschappij- en Gedragswetenschappen

Dit proefschrift is tot stand gekomen binnen een samenwerkingsverband tussen de Universiteit van Amsterdam en de Università degli Studi di Milano met als doel het behalen van een gezamenlijk doctoraat. Het proefschrift is voorbereid in de Faculteit der Maatschappij- en Gedragswetenschappen van de Universiteit van Amsterdam en de Dipartimento di Scienze Sociali e Politiche van de Università degli Studi di Milano.

This thesis was prepared within the partnership between the University of Amsterdam and the Università degli Studi di Milano with the purpose of obtaining a joint doctorate degree. The thesis was prepared in the Faculty of Social and Behavioural Sciences at the University of Amsterdam and in the Dipartimento di Scienze Sociali e Politiche at the Università degli Studi di Milano.
Abstract

In response to the EU sovereign debt crisis, the European Semester was launched in 2011, as an enhanced framework capable of promoting fiscal stabilization and convergence among the economic policies of the member states. Having incorporated the Stability and Growth Pact (SGP) along with the Social Open Method of Coordination (OMC) and the European Employment Strategy (EES), from early on it received much attention in the literature. Although the vast majority of authors have focused on issues of legitimacy and accountability, they have failed to properly address the issue of effectiveness, from a purely empirical perspective. Even so, the few academics who also happen briefly to address the Semester’s effectiveness focus on its structure and institutional capacity to influence national policies. In the same vein, the approach of several policy analysts from think tanks and EU institutions is largely quantitative, while the Commission’s assessment of the implementation of Country-Specific Recommendations (CSRs) does not refer to the political economy of reforms. Hence, the existing strands of literature fail to analyze and distinguish the causal mechanisms that may motivate the political actors at the national level to adopt the Commission’s recommendations. At the same time, although various authors refer to potential mediating factors which could have an impact on the effects of the Semester, they do not explain these factors’ influential role in an analytically structured way.

Hence, this thesis’s main contribution to the current literature lies in filling the persisting empirical gap regarding the effects of the European Semester at the national and sub-national levels, while explaining in an analytical manner how exactly actors are incentivized to adopt EU recommendations. In particular, the thesis gives a detailed picture of the Semester’s influence on specific social and employment policies in Belgium for the period 2011-2017. Through the use of process tracing, I aim to present a theoretically and empirically grounded approach to the effectiveness of the European Semester, by analyzing the latter’s causal mechanisms as well as the mediating factors which affect its implementation. For this purpose, three particular cases have been chosen within the Belgian context: pension reforms, the ‘tax shift’ away from labour, and the integration of migrants in the labour market. These cases have been selected due to their prominence but also due to the variation they present in regard to their legal basis. Hence, the CSRs on pensions are linked primarily to the SGP, those on tax shift to the Macroeconomic Imbalance Procedure (MIP), and those on the integration of migrants in the labour market to the Employment Guidelines and Europe 2020 goals. However, this connection is not a strict one, since the legal basis may change from year to year, while the CSRs can be based simultaneously on more than one legal instrument.

Contrary to what a large part of literature contends, I argue that the Semester’s main impact lies not in its stricter institutional structure and the fear of legal sanctions, but on the signaling role of its recommendations, primarily towards EU counterparts and domestic electorates. The research findings drawn from the Belgian cases show that the legal basis of the CSRs does matter, in the sense that the SGP contributes to the external pressure mechanisms for immediate reforms, while the MIP does not seem to do so, despite the similar possibility of sanctions associated with its procedures. But again, the SGP’s importance can be found in its signaling role, primarily for the reputation of a member state towards its EU obligations – domestically as well as internationally. As a result, specific fields which are usually (and not always, since the legal basis shifts) linked with the MIP and
the Europe 2020 goals emit less prominent signals of pressure for quick change. Eventually, the only feasible way for national governments to swiftly reverse the negative signals is through a trade-off mechanism, by initiating reforms that can automatically restore the country’s fiscal projections and lower the pressure in all its forms.

In other words, apart from their reactions to the financial markets’ calls, the Belgian governments felt pressured to implement certain CSRs due to the resulting damage, domestically and internationally, to their reputation as trustworthy and effective actors. At the same time, other mechanisms of change played a prominent role as well: for example, the center-right government of Charles Michel saw in the ‘tax shift’ a notion that could be incorporated into its political agenda, thus ‘creatively appropriating’ the term and promoting it in the domestic sphere. Likewise, in the case of pensions reforms, a consultative expert body, better known as the Vandenbroucke Committee, played a significant role in the dissemination of knowledge as regards the orientation of future public policies.

Besides the Semester’s causal mechanisms of change, the thesis gives a detailed picture of the mediating factors embedded in the national context, since these played a crucial role in regard to the Semester’s influence on Belgium’s social and employment policies. First of all, a common underlying factor that applies to all three cases was the policy agenda of each government in office, which determines the extent to which the Commission’s CSRs are taken into consideration at the domestic level. The traditionally pro-EU stance of the Belgian political elites was also an significant mediating factor which affected the Semester’s mechanisms of change. In addition, Belgium’s alarming fiscal status contributed to the activation of specific external pressure mechanisms. On the contrary, the idiosyncratic and ‘centrifugal’ nature of Belgian Federalism was an important reason for the Semester’s limited effects in the case of migrant inclusion in the labour market.

All in all, given the significant lack of empirical research on the current socio-economic coordination framework, the thesis should be seen first of all as an insightful empirically-based contribution which casts light on the political economy of the Semester at the EU, national and sub-national levels. Nevertheless, it must also be understood as an novel approach to develop a comprehensive analytical framework, capable of capturing the effects, causal mechanisms of change and intermediate factors related to the European Semester.
Samenvatting

Als antwoord op de euro crisis is in 2011 het Europees Semester geïntroduceerd. Het Europees Semester betreft een verbetering en verbreding van het kader voor beleidscoördinatie in de EU. Het heeft als doel om begrotingsstabiliteit en convergentie van het economisch beleid in lidstaten aan te moedigen. Het kader omvat het Stabiliteit en Groei Pact (SGP), de Open Coördinatiemethode voor sociaal beleid (OCM) en de Europese Werkgelegenheidsstrategie. Als breed opgezet kader voor coördinatie kreeg het al direct veel aandacht in de academische literatuur. Veel kritiek betrof de legitimiteit van het kader en de gebrekkige verantwoordingsplicht. Echter, de effectiviteit is in de literatuur onderbelicht gebleven, met name vanuit de empirische invalshoek. De academici die zich wel op de effectiviteitsvraag hebben gericht focussen vooral op de structuur van het Semester en op haar institutionele capaciteiten om nationaal beleid te beïnvloeden. Tevens, de aanpak van analisten uit de wereld van denktanks en Europese instellingen betreft slechts een kwantitatieve benadering. Middels deze methode besteed bijvoorbeeld de Europese Commissie onvoldoende aandacht aan de politieke economie van hervormingen als zij een analyse geeft van de implementatie van landen specifieke aanbevelingen (LSA). We kunnen hiermee stellen dat de bestaande literatuur onvoldoende oog heeft voor het soort causale mechanismen, en de verschillen in mechanismen, waarmee nationale politieke actoren worden aangemoedigd om de beleidsaanbevelingen van de Commissie te implementeren. Tegelijkertijd zijn er analytici die wel refereren aan de mogelijke interveniërende factoren die van belang zijn in het implementatieproces, maar die op onvoldoende gestructureerde wijze uitleggen hoe deze factoren mogelijk van invloed kunnen zijn.

De voornaamste bijdrage van dit onderzoek aan de bestaande literatuur ligt in de bijdrage die zij probeert te leveren aan het empirisch gat dat zich momenteel voordoet ten aanzien van de implementatie van het Europees Semester op nationaal en sub-nationaal niveau. Hierbij richt dit onderzoek zich ook op de wijze waarop actoren worden gestimuleerd om de aanbevelingen te implementeren. Meer in het bijzonder geeft dit onderzoek een gedetailleerd beeld van de invloed van het Semester op sociaal en werkgelegenheidsbeleid in België voor de periode 2011-2017. Het doel van dit onderzoek is om door middel van beleidstraceering als onderzoeksmethode een theoretisch en empirisch gegronde analyse te geven van de effectiviteit van het Europees Semester. Om dit te bereiken zijn drie casussen geselecteerd binnen de Belgische context: pensioenhervorming, de verschuiving van belasting van arbeid naar kapitaal en de integratie van migranten op de arbeidsmarkt. Deze casussen zijn geselecteerd vanwege het belang dat aan deze casussen kan worden gehecht en vanwege de verschillen in juridische basis voor de aanbevelingen die betrekking hebben op deze casussen. De aanbeveling voor pensioenen is gerelateerd aan het SGP, de verschuiving van belasting is gerelateerd aan de Macro-economische Onevenwichtigheden Procedure (MEOP) en de integratie van migranten op de arbeidsmarkt is gerelateerd aan de werkgelegenheidsdoelen van de Europa 2020 strategie. De verdeling op basis van de juridische basis van de aanbevelingen moet niet als al te strikt worden beschouwd, aangezien deze basis van jaar tot jaar kan veranderen en soms kan een aanbeveling onder meerdere juridische kaders worden geplaatst.

In tegenstelling tot wat er in een groot deel van de literatuur wordt beweerd, beargumenteer ik dat de voornaamste impact van het Semester niet ligt in een stringentere structuur of de angst voor juridische sancties, maar in het signaal dat aanbevelingen geven, voornamelijk ten aanzien van
andere EU lidstaten en ten aanzien van het nationale electoraat. De uitkomsten van dit onderzoek naar de Belgische casus laten zien dat de juridische basis van de aanbevelingen een factor van betekenis is, in de zin dat de koppeling aan het SGP bijdraagt aan externe druk op hervormingen. Naar het blijkt is dit niet het geval voor de MEOP, ondanks de vergelijkbare mogelijkheden tot het sanctioneren van lidstaten. Tegelijkertijd blijkt ook voor het SGP dat de impact voornamelijk ligt in de functie van signalering, met name ten aanzien van de reputatie die een lidstaat heeft tegenover haar Europese verplichtingen. Deze reputatie schade geldt zowel in nationale als internationale zin. De consequentie hiervan is dat voor specifieke beleidsterreinen die normaal gesproken aan de MEOP en de Europa 2020 strategie gerelateerd zijn (dit is niet altijd het geval, de juridische grondslag is erg veranderlijk per jaar) in mindere mate bijdragen aan externe druk op nationale hervormingen. De reputatie schade voor lidstaten kan gekeurd worden door zaken tegen elkaar uit te wisselen, namelijk door hervormingen door te voeren die positiief zullen uitwerken op de toekomstige begrotingsbalans en op deze wijze de algemene externe druk doen verminderen.

Met andere woorden, als we de reactie van financiële markten buiten beschouwing laten, kunnen we stellen dat de Belgische opeenvolgende regeringen externe druk hebben ervaren om LSA’s te implementeren doordat zij anders schade opliepen ten opzichte van hun reputatie als geloofwaardige en effectieve speler, zowel in de binnenlandse discussie als internationaal. Tegelijkertijd kunnen we ook andere veranderingsmechanismen waarnemen, bijvoorbeeld: de centrumrechtse regering van Charles Michel nam de ‘taks shift’ over als beleidsterm in haar politieke agenda, daarmee gebruikte zij ‘creatieve toe-eigening’ van de Europese term als strategie om de eigen binnenlandse politieke agenda te ondersteunen. In het dossier van pensioenhervorming zagen we dat de consultatieve expert groep, het zogeheten Vandenbroucke comité, een significante rol speelde in het verspreiden van kennis ten aanzien van de toekomstige oriëntatie voor publiek beleid.

Naast het beschrijven van deze causale mechanismen van verandering geeft dit onderzoek een gedetailleerd beeld van de interveniërende factoren die ingebed zijn in de nationale context. Dergelijke factoren zijn van cruciaal belang om de invloed van het Semester op het sociale en werkgelegenheidsbeleid van België te begrijpen. Ten eerste, een onderliggende factor die in alle drie de casussen van belang is, is de beleidsagenda van de nationale regering. Deze is bepalend voor de mate waarin de LSA in overweging wordt genomen op nationaal niveau. Een andere significant interveniërende factor is de van oorsprong pro-Europese houding van de Belgische elite. Tevens speelde de alarmerende staat van de publieke schuld en het huishoudboekje van de overheid mee als activering van de specifieke mechanismen van externe druk. Daar staat tegenover dat de typische en middelpuntvliedende aard van het Belgische federale stelsel een belangrijke reden was dat het Semester slechts een gering effect had op de opname van migranten in de arbeidsmarkt.

Gezien het significante gebrek aan empirisch onderzoek naar het kader voor sociaaleconomische beleidscouördinatie, moet dit onderzoek vooral gezien worden als een op de empirie gebaseerde bijdrage aan het debat. Het biedt een inkijk in de politieke economie van het Semester op Europees, nationaal en sub-nationaal niveau. Het moet tevens gezien worden als een innovatieve aanpak om een meer alomvattend analytisch raamwerk te bieden waarmee de verschillende effecten, causale mechanismen van verandering en interveniërende factoren ten aanzien van het Semester zichtbaar worden en geanalyseerd kunnen worden.
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List of abbreviations

AGS: Annual Growth Survey
ALMP: Active Labour Market Policies
AMR: Alert Mechanism Report
Arbeitsamt ADG: Arbeitsamt der Deutschsprachigen Gemeinschaft
AT: Austria
AWG : Ageing Working Group
BEPG: Broad Economic Policy Guidelines
BHV: Brussels-Hal-Vilvoorde
CCE/CRB: Conseil Central de l’Economie/Centrale Raad voor het Bedrijfsleven
cdH: centre démocrate Humaniste
CD&V: Christen-Democratisch en Vlaams
CECLR/ CGKR: Centre pour l’égéalité des chances et la lutte contre le racism/Centrum voor gelijkheid van kansen en voor racismebestrijding
CEOOR: Centre for Equal Opportunities and Opposition to Racism
CEV : Comité d’étude sur le vieillissement
CGSLB: Centrale générale des syndicats libéraux de Belgique
CIDOB : Centre d’Informació i Documentació Internacionals a Barcelona
CNT/NAR: Conseil National de Travail/ Nationale Arbeidsraad
COCOF : Commission communautaire française
COCOM : Common Community Commission
COREPER: Committee of Permanent Representatives
CPAS: Centres Publics d’Action Sociale de Wallonie
CPCP: Centre Permanent pour la Citoyenneté et la Participation
CSR: Country Specific Recommendations
CSC: Confédération des Syndicats Chrétiens
DG ECFIN: Directorate-General for Economic and Financial Affairs
DGEMPL: Directorate-General for Employment, Social Affairs and Inclusion
DG HOME: Directorate-General for Migration and Home Affairs
DG JUST: Directorate-General for Justice and Consumers
DG TAXUD: Directorate-General for Taxation and Customs Union
DISCRI: Dispositif de concertation et d'appui aux Centres Régionaux d'Intégration
EAPN: European Anti-Poverty Network
ECB: European Central Bank
ECJ: European Court of Justice
ECRI : European Commission against Racism and Intolerance
ECOFIN: Economic and Financial Affairs Council
EDP: Excessive Deficit Procedure
EES : European Employment Strategy
EFC: Economic and Financial Committee
EGOV: European Governance Support Unit (in the Think Tank of the European Parliament)
EIP: Excessive Imbalance Procedure
N-VA : Nieuw-Vlaamse Alliantie
ODS: Ozone-depleting Substances
OECD: Organization for Economic Cooperation and Development
OMC : Open Method of Coordination
PES : Public Employment Services
PRL: Parti réformateur liberal
PS: Parti Socialiste
PSC: Parti Social-Chrétien
PWC: PricewaterhouseCoopers
RIC : Regional Integration Center
RQMV: Reverse Qualified Majority Voting
S&P : Standard and Poor’s
SECGEN: Secretariat-General
SEM: Socio-Economic Monitor
SGP : Stability and Growth Pact
SOPEMI: Système d’observation Permanente des Migrations
Sp.a: Socialistische Partij Anders
SPC: Social Protection Committee
SPPM: Social Protection Performance Monitor
SPSI : Social Protection and Social Inclusion
SRSS: Structural Reform Support Service
SSC : Social Security Contributions
SWD : Staff Working Documents
TFEU: Treaty on the Functioning of the European Union
UVCW : Union des Villes et Communes de Wallonie
VDAB: Vlaamse Dienst voor Arbeidsbemiddeling en Beroepsopleiding
VGC : Vlaamse Gemeenschapscommissie
VLD: Vlaamse Liberalen en Democrat
Chapter 1. Introduction

1.1 General Introduction

This thesis aims to understand the influence of the European Semester on Belgium’s social and employment policies as seen from a long-term perspective. The updated socio-economic coordination framework, known as the European Semester, was launched at the peak of the sovereign debt crisis in 2011, as a tool to promote fiscal stabilization and convergence among the economic policies of the member states. Having incorporated the Stability and Growth Pact (SGP) along with the Social Open Method of Coordination (OMC) and the European Employment Strategy (EES), from early on the framework received much attention in the literature. However, the vast majority of authors have focused on the issues of legitimacy and accountability, while failing to empirically address the issue of effectiveness. As explained further in the literature review section, the relatively small number of academics who also happen briefly to address the Semester’s effectiveness focus on its structure and institutional capacity to influence national policies. At the same time, the approach of a few policy analysts from think tanks and EU institutions is largely quantitative, while the Commission’s assessment of the implementation of Country-Specific Recommendations (CSRs) leaves out the political economy of reforms. From this perspective, both strands of literature fail to grasp the Semester’s nuanced causal mechanisms that motivate political actors at the national level to adopt or adapt the Commission’s recommendations. Although various authors refer to potential mediating factors which could have ‘filtered’ the effects of the Semester, for example the agenda of political parties or the economic situation of a country, they do not explain the influential role of these factors in an analytically structured way. As a result, as Zeitlin and Vanhercke observe (2017:21), “An outstanding empirical issue remains the domestic implementation and causal influence of the European Semester on national social and employment policies”. But more recently, a number of authors have conducted in-depth analyses of the Semester’s impact on different national-level policies, laying out in a structured manner the various causal mechanisms and mediating factors (for a detailed analysis: see literature review).

As a case study, my research is situated in this last strand of literature, covering three social and employment policy areas in Belgium during the period 2011-2017: pensions, the tax shift away from labour and the integration of migrants in the labour market. These areas have been selected due to their prominence but also due to the variation they present in regard to their legal basis. Hence, the CSRs on pensions are linked primarily with the SGP, those on the tax shift with the MIP and those on the integration of migrants in the labour market with the Employment Guidelines and Europe 2020 goals. However, such a connection is not strict as while the legal basis may change from year to year, the CSRs can be based simultaneously on more than one legal instrument.

Drawing to a significant degree from the framework constructed by Zeitlin (2009) referring to the OMC, which was further elaborated in Barcevicius, Weishaupt and Zeitlin (2014), my theoretical framework presents in an analytical manner the Semester’s potential different effects (whether substantive or procedural) and causal mechanisms (of external pressure or intrinsic motivation).
Additionally, it takes stock of the mediating factors which can influence each mechanism’s final outcome on national policies.

As I will elaborate further in my research design chapter, the overarching research question of the thesis is formulated as follows:

- How does the European Semester influence domestic policies and policy-making?

In turn, this can be broken down into four specific questions:

- RQ1: What are the effects of the European Semester on the three policy areas of study?
- RQ2: Through which causal mechanisms of change did the Semester influence the domestic actors and Belgium’s political economy?
- RQ3: Which mediating factors are present in each case, and what role did they play in shaping the Semester’s effects and causal mechanisms?
- RQ4: To what extent did the European Semester exert a differential influence on the three policy fields of research, in what form, and why?

Due to the current lack of information on the exact workings of the Semester’s causal mechanisms, it would be more accurate to state a set of broad expectations rather than hypotheses. The vast majority of scholars suggest - albeit not always explicitly - that the enhanced socio-economic framework, in which the imposition of legal sanctions is more prominent while being easier from a procedural point of view, could automatically lead to substantially better implementation of the CSRs, both those linked with the SGP and those linked with the MIP. However, I expect that it is not the fear of sanctions nor a recommendation’s legal basis that primarily prompted the Belgian governments to adopt specific policy measures. Instead, other incentive mechanisms could have played a more important role, such as reputational signaling, policy learning, and/or the creative appropriation of EU concepts for domestic political benefits.

For the purposes of my research I use process tracing, as an appropriate methodological approach to make causal inferences. According to Collier (2011: 823), process-tracing is defined as “the systematic examination of diagnostic evidence selected and analysed in light of research questions and hypotheses posed by the investigator”. Following this approach, my analysis is based on a broad range of sources, such as official policy documents at the EU and national level, existing literature coming from academic and policy-making circles, semi-structured interviews and press accounts. Through their careful triangulation and cross-checking, I identify and track back policy developments, ideational debates and contradicting arguments which occurred within the three case studies. At the final stage of my research, I conduct a ‘structured and focused comparison’ (George and Bennett, 2005) in order to answer Research Question No. 4. As Della Porta (2008: 204) argues, while referring to the research of Mahoney and Goertz (2006), the aim of this type of historical comparison is to grasp not only the ‘effects-of-causes’ but also the ‘causes-of-effects’, meaning the specific context and variables which influence the dependent variable.

The thesis is divided into 10 chapters. Part 2 of Chapter 1 reviews the creation and development of the European Semester, showing how its practices have shifted over the years towards more
deliberation. The third and final part of Chapter 1 reviews the relevant literature while presenting in a detailed manner the different perspectives on the Semester’s effectiveness. Chapter 2 provides the theoretical framework and an in-depth analysis of the Semester’s effects and causal mechanisms of change, as well as mediating factors at the domestic level. Chapter 3 sets out the research design of the thesis, by elaborating on the research questions, explaining the case selection and describing the methodological approach. Chapter 4 examines the Semester’s procedures and their specific operation in the Belgian context, while also examining the factors which influence it at the national and sub-national levels. Chapter 5 gives a detailed overview of the full set of CSRs to Belgium, together with assessments of their implementation over the period 2012-2017. As I move to my in-depth case studies, Chapter 6 examines the influence of the European Semester on the pension reforms of the Di Rupo and the Michel governments. Similarly, Chapter 7 focuses on the tax shift away from labour, while Chapter 8 deals with the effects of the Semester on the inclusion of migrants in the Belgian labour market(s). The penultimate chapter brings together my empirical findings and makes a structured comparison between the Semester’s effects, mechanisms and the mediating factors affecting them. Chapter 10 draws general conclusions on the Semester’s influence on Belgium’s social and employment policies, while reflecting on the external validity of findings and possible orientations for future research.

1.2 The European Semester at the EU level: paradigm shift over time

A large part of the relevant literature has given a static picture of the European Semester, not only omitting to show its discernible evolution over the years but also understating its wider political and economic context. In an attempt to address this issue, the section provides a comprehensive picture of the relatively new coordination framework seen at the EU level, by tracking back to its creation and laying out its gradual development. Hence, this section captures the gradual paradigm shift within the European Semester and the incremental change in the use of its instruments.

The European Semester came as a response to the sovereign debt crisis. The unexpected revelation in 2009 that the Greek governments had for years been running excessive deficits together with the looming structural imbalances in the economies of Portugal, Spain and Ireland sparked the sovereign debt crisis and made the EU realise the lack of “sufficient attention” (Panagiotorea, 2013). The old debates among academics and policy-makers on the weaknesses of the existing fiscal coordination resurfaced as the political actors searched for a way to enhance the blind spots of the EU economic governance. The different diagnoses pointed to specific problems which remained unaddressed by the Maastricht Treaty and the Stability and Growth Pact (SGP): weak statistical surveillance, no monitoring of macroeconomic imbalances, as well as a lack of stricter implementation mechanisms (e.g. see: Larch et al., 2010; Annet, 2006).

In the face of this crisis which demanded decisive handling, the EU institutions as well as the member states were pressured to swiftly adopt extensive regulatory reforms to mitigate the fiscal risks and prevent any spillover effects to the rest of the Eurozone. The debate on the role of the European Commission and the European Council in the creation of the European Semester has been extensive, since these two institutions fought hard over the de facto setting of the agenda (Bauer and Becker, 2014: 2019). The unprecedented crisis called for better coordination within the EMU’s
decentralised economic pillar (Puetter, 2012: 172) and enhanced the actual role of the European Council, the ECOFIN and the Eurogroup. As a result, these institutions found themselves at the epicentre of the crisis management (Dinan, 2011), a fact which, according to Schwarzer (2012: 31), led the newly-elected President of the Council, Herman Van Rompuy, to state in early 2010 that the body aimed to take over the financial and economic crisis agenda. However, the Council’s stance openly challenged the Commission’s role as policy-setter and initiator of proposals (Chang, 2013: 256; Hodson, 2015). After the European Council of March 2010, which asked the Commission to come up with proposals to upgrade the EU’s economic governance but which also charged Van Rompuy with forming a ‘task force’ to reflect on an ‘improved crisis resolution framework’, the competition between the two institutions became even more evident. Again, according to Schwarzer (2012: 31) this rivalry is also reflected in the fact that the mandate for the task force was not given to the Commission’s President, José Manuel Barroso, as many would have expected. Eventually, in May 2010, the authority of Van Rompuy’s task force (composed of the ECOFIN members) was clarified with a joint letter from the German Chancellor Angela Merkel and the French President Nicolas Sarkozy. In it, the two leaders stated that “all contributions from the European Commission and the member states should be evaluated by the working group” (Chang, 2013:259). Despite all these signs, the Commission continued its efforts to maintain its power “in a time when inter-governmentalism” was “in ascendancy” (Wyplosz, 2010a). Thus, as Savage and Verdun (2016: 104) point out, the Commission advocated for better monitoring and enhancement of the existing budgetary rules by making the imposition of sanctions a semi-automatic procedure. The suggested changes would grant it a much more substantial role in the EU economic coordination, while serving as an opportunity to build up its administrative capacities.

The creation of the European Semester (ES) came first, as an all-encompassing framework-timetable which synchronised and integrated the existing fiscal and economic coordination mechanisms. In May and June 2010, the European Commission proposed its setting-up, and the Council of Finance Ministers gave its approval on 7 September 2010 (European Commission, 2011a). The Semester brings together, in a unitary set of recommendations, the integrated goals referring to budgetary, economic, employment and social issues. Putting together – or ‘yoking together’ in the words of Armstrong (2013) - goals and instruments which refer to different policy areas has not been totally new for the EU coordination processes, since for example in 2005 the employment guidelines were already incorporated in the Broad Economic Policy Guidelines. Nevertheless, the ES must be seen as a novel institutional setup due to its wide scope, upgraded structure and enhanced interconnectedness. As Bekker (2015: 16) remarks, the Semester has led to the mutual influence of its distinct coordination mechanisms with regard to their goals and recommendations. The rationale behind its launch was the enhancement of ex-ante coordination by setting general policy goals in the beginning of the annual cycle, followed by the feedback of each MS and ending up in country-specific guidance from the Commission and the EU Council. The Social OMC was not officially included in the European Semester, but after 2010 it became clear that the Commission’s Secretariat-General (SECGEN) wanted to simplify things for the MS, which is why it streamlined social reporting in the Semester through the Europe 2020 procedures (Zeitlin and Vanhercke, 2014: 29).

With the creation of the European Semester, the momentum seemed right for passing more reforms on the “fast-track” mode (European Commission, 2011a). On 29 September 2010, the Commission proposed six legislative measures for the creation of stricter rules on fiscal and macroeconomic

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issues. The so-called ‘Six-Pack’, which is composed of five Regulations and one Directive, was backed in principle by all member states. However, among them there were substantially different views: Germany’s Finance Minister (together with the Netherlands, the UK, but also some experts in the Commission) went as far as to openly suggest the freezing of EU development funds as well as the suspension of voting rights in the Council of Ministers for the delinquent MS (FT, September 26 2010; Schild, 2013; Verdun, 2015). A milder view was put forward by states like France, Italy and Belgium, which were in favour of a wider margin for the implementation of rules. Eventually, after months of unilateral blocking from the side of France, its representatives agreed to back up the proposed system of Reverse Qualified Majority Voting (RQMV), which would enhance the competencies of the European Commission (Euractiv, 29 September 2011).

The Six-Pack introduced measures of better monitoring and closer surveillance as well as rules for enhanced implementation. First of all, the RQMV turned the imposition of the SGP’s Excessive Deficit Procedure (EDP) and the MIP’s Excessive Imbalance Procedure (EIP) into a semi-automatic decision-making process for the Euro-area countries, thus upgrading the position of the Commission and enhancing the implementation of the rules. At the same time, compliance with the Medium-Term Budgetary Objective (MTO), as the preventive arm of the Semester, was further strengthened: the Six-Pack set a threshold of an annual rate of 1/20 on the debt reduction of an MS, together with caps on the deviation from the MTO consolidation path and caps on medium-term expenditure growth. Finally, the creation of the Macroeconomic Imbalance Procedure (MIP) substantially widened the monitoring scope and capacities of the EU and contributed to the implementation of reforms. The mechanisms of the MIP’s preventive arm, namely the Alert Mechanism Report (AMR) and the In-Depth Reviews (IDR), are designed to spot and address in a timely manner imbalances which are related to its scoreboard of indicators. Over the years, these indicators have expanded in scope and number: from 10 initial primary indicators in 2011, currently they are composed of a set of 14 primary and 28 auxiliary indicators (Eurostat, 2017). The imposition of an interest-based deposit or sanctions in cases where the macroeconomic rules are breached gives the MIP’s corrective arm considerable pressuring power. Finally, with the adoption of the Two-Pack in May 2013, the European Semester was crystallised in its current form. The two Regulations comprising the Pack are a further step towards more budgetary and fiscal coordination: by 30 November of each year, the Commission must examine the draft budgetary plans of MS, in order to assess their alignment with the SGP rules, before they are adopted in December.

The correct implementation of the new coordination framework was a matter of credibility for the capabilities and independence of the European Commission, which was under pressure to learn quickly how to act effectively under the new circumstances (L’Echo, 5 May 2014). As a result, in its first cycles it adopted a strict stance, with overly prescriptive, ‘one-size-fits-all’ and bottom-down recommendations together with harsh language towards the complaints of the MS. This made a large part of academia and public opinion remark that the EU is ‘governing by the rules and ruling by the numbers’ in the Eurozone (Schmidt, 2015). For example, as the Financial Times wrote at the time, Olli Rehn, the Commissioner for Economic and Monetary Affairs, threatened to “fully use this powerful set of new tools from day one” (FT, 1 February 2012). Similarly, when officials from Hungary, France and Spain complained about the content and restricted time period between the announcement of the CSRs by the Commission and their adoption by the EU Council, the Commission’s economy spokesperson, Amadeu Altafaj-Tardio, responded that: “Independence and credibility would have been undermined had the Commission engaged in a dialogue with national
In June 2011, the Commission wanted to act quickly in order to avoid a prolonged economic recession due to low growth and growing public debt, as the statement of President Barroso shows: “We face a simple choice: a decade of debt or a generation of growth” (EUobserver, 12 January 2011). For that reason, the CSRs of the first cycles were overly prescriptive and focused explicitly on austerity measures, wage-level containment and flexibilisation of the labour market for better competitiveness. The pressure was considerable as in December 2011, 23 out of 27 Member States were subject to an excessive deficit procedure (European Commission, 12 December 2011b). With much fiscal effort this number dropped to 17 in 2014 (The European Sting, 6 June 2014) and decreased further to 11 in the summer of 2015 (European Commission, 2015b).

As the risk for a default among the Eurozone states receded, the Barroso Commission gradually softened its approach, building up trust with the MS and becoming more open to discuss its recommendations. As Barroso remarked in Italy’s open contestation letter to the Commission in October 2013, in which the country stated its intention to breach the budgetary rules: “We are involved in consultations. We continue in consultations with various governments but these are informal talks, in some cases these are quite technical discussions...The Commission feels it is better if we discuss these issues in an atmosphere of mutual trust” (EUobserver, 23 October 2014). With the arrival of the Juncker Commission, the CSRs became more explicitly focused on structural reforms while several MS, most notably Italy and France, hoped that the Semester’s budgetary rules would be interpreted in a more lenient way (EUobserver, 22 October 2014). Ultimately, they were right (see: Reuters, 3 June 2016). On 13 January 2015, the Commission published a communication on interpreting the SGP rules in a more flexible way. This was a small breakthrough, since it made more explicit the link between fiscal discipline and structural reforms through the renewal of two clauses. On the one hand, the “structural reforms clause” stipulates that when assessing the permitted deviation of a MS from its MTO, the Commission can take into consideration not only measures with direct growth impact, but also measures which can potentially lead to growth. Likewise, in its report for opening an EDP against a delinquent MS, the Commission shall adopt a wider scope when taking into account the domestic structural reforms. Until then, the reforms referred primarily to pensions, since they could lead to direct and long-term budgetary effects (Angerer, 2015). Conversely, if an MS fails to adopt the agreed reforms, this can be considered an “aggravating relevant factor” (European Commission, 2015a:13) in the assessment of the effective action taken. On the other hand, the updated “investment clause” stipulates that when a country deviates temporarily from the MTO adjustment path, the Commission can allow investment provided that GDP growth is negative and that the country does not exceed its 3% of GDP deficit – leaving out the debt reduction criterion which was previously in place. All in all, the use of structural reforms and investment became more explicit, thereby officially opening the road to implement a more flexible interpretation of the fiscal consolidation rules.

At the same time, the streamlining - or revamping - of the European Semester during the first year of the Juncker Commission came as a response to legitimacy concerns, aiming towards better national ownership and implementation of the reforms. In an effort to simplify the process and the recommendations of the European Semester but also to prioritise its policy goals, the Commission reduced the number of CRS and made them less prescriptive while increasing the visibility of the social objectives. In addition, the Commission’s Staff Working Documents (SWD) were merged with the MIP’s In-Depth Reviews into a single document, and its publication was moved to February, in
order to allow time for discussions with the national governments and social partners (Zeitlin and Vanhercke with Zwinkels, 2015). In a similar way, since 2014 the practice of bilateral meetings has gained ground within the European Semester, becoming a central factor of peer pressure and better deliberations between the MS and the Commission. Although their number may vary between countries, three meetings are the most important within each cycle, according to Coman and Ponjaert (2016: 49). The first meeting takes place after the publication of the Annual Growth Survey (AGS) and has more of an informative character. The second meeting happens after the publication of the Commission’s Country Reports, while the third one occurs before the publication of the CSRs. These two latter meetings give the countries an opportunity for Belgian representatives to “introduce some changes in the recommendations” (ibidem: 48), given that their claims are backed up by valid arguments. The Economic and Financial Committee (EFC) has recently taken stock of these positive developments, adding in turn the streamlining of macroeconomic objectives and the more balanced presentation of structural reforms as a whole (EFC, 2016a).

The events of the 2016 Semester cycle confirmed the change in the Commission’s orientation and highlighted the fact that the EU executive body’s decisions do take into account the wider political context. The Juncker Commission granted ‘unprecedented’ flexibility by not initiating an EDP for Italy (FT, 17 May 2016) in exchange for the future reduction of its traditionally high debt-to-GDP ratio. Pierre Moscovici, the Commissioner for Economic and Financial Affairs, stated that although he had a “legal obligation” (obligation juridique) to stick to the SGP rules, what mattered most was the “political will” (la volonté politique) to orient budgetary policies towards commonly agreed objectives (European Commission, 2016a). Similarly, although it was decided that Portugal and Spain had failed to take effective action to meet their deficit targets, ultimately no fines were given in July 2016. Instead, these countries were granted extensions to correct their deficit targets. The Commission’s decisions were driven by political considerations, which became even more obvious after the shock of Brexit in June 2016: the Commission took into account the reputational damage of the sanctions in the international markets (FT, 5 July 2016) as well as the potential rise of anti-austerity and EU contestation parties in the Spanish elections of June 2016, which could have had a snowball effect on the upcoming national elections of the Netherlands, France and Germany.

In summary, over its consecutive iteration the Semester incrementally evolved from a rigid top-down prescriptive exercise into a more deliberative and politicised process, in the sense that actors gradually became more actively engaged in deliberations while the Commission recognised the plurality of different views on the economic and fiscal measures. The earlier strict approach was deemed necessary to cope with the effects of the Eurocrisis but waned later on, as economies started to recover and the voices of contestation to multiply. Apart from legitimacy, the main idea that has primarily driven the creation and evolution of the European Semester is effectiveness. For that reason, all the Semester’s mechanisms were put in place in order to make sure that the MS would follow a responsible stance. As the narrative gradually shifted from tough fiscal consolidation to the promotion of growth and structural reforms, the notion of ‘national ownership’ increased its importance. As a result, the Commission crystallised its methods of dialogue with national governments and tried to include the parliaments and social actors in the European Semester.

Based on the above-mentioned description, the Semester is, de jure, a different mode of governance, when compared to the previous coordination mechanisms which now form its components. As many authors have already indicated, the ES has not only upgraded monitoring and
early prevention steering capacities but the automaticity of its sanction procedures has been substantially upgraded from a legal perspective – as regards to the de facto automaticity see the debates on the Semester’s effectiveness in the literature review chapter. For example, Chalmers (2012) and Costamagna (2013) state that in the Semester the EU institutions have gained a more “visible and intrusive role” in steering the policies of the MS. In a similar way, De la Porte and Heins (2014) argue that due to the enhanced surveillance and coercion of its mechanisms, the new framework can be seen as more intrusive towards national policy-making. Finally, Coman and Ponjaert (2016: 47) add that, with the installation of the new decision-making framework, the Commission enhanced its steering capacities and, together with the EU Council, its agenda setting competences.

But the Semester is also de facto different from previous coordination mechanisms in many ways. First of all, it grants political prominence to specific issues and mounts pressure on the MS. The sovereign debt crisis made the actors precautious with a country’s fiscal and macroeconomic situation while at the same time the weight of specific relevant CSRs has increased. Most importantly, over time the European Semester has nurtured deliberative practices and enhanced dialogue based on well-structured arguments. Although this is less apparent, the Commission eventually started using its competences more cautiously and intensified its bilateral meetings with MS (Coman and Ponjaert, 2016: 40) in a spirit of informal deliberation and enhanced trust. In addition, the Commission’s recommendations are regularly discussed in the domestic politics and media while macroeconomic issues such as wage competitiveness are framed within the wider EU debate. National parliaments have become more aware of the Semester’s recommendations – or at least the fiscal ones - as they now have the opportunity to discuss them before the adoption of the national draft budgetary plans and the Stability or Convergence Programmes (for a good and very recent overview of the relevant academic debates over the strengthening or weakening of the role of national parliaments see: Hallerberg et al. [2017]). In terms of content, the Semester has adopted a significantly expanded scope, including a wide range of macroeconomic, employment and social issues. These existed within the Europe 2020 strategy and the Social OMCs before the launching of the European Semester, something that was also pointed out by the Commission (EUobserver, 15 June 2011). However, in recent years employment and social inclusion issues have gained more exposure within the CSRs, thus feeding the domestic political debates and enhancing their link with the growth situation in the EU (and particularly in the Eurozone). Finally, the most prominent novelty of the European Semester is the creation of a more explicit relationship between fiscal responsibility and structural reforms, through the politicization of the procedure and its crystallization with the structural investment clause. Although in practice it is still not clear exactly which reforms are taken into account, it is more obvious than before that the MS efforts to take up measures contribute to a positive assessment of the fiscal rules – but also the macroeconomic ones.

1.3 Literature review: the Semester’s effectiveness and the mediating factors contributing to it

As a major event in the development of EMU governance –as Herman Van Rompuy (2010) called it - the European Semester immediately caught the interest of academics researching on EU governance
and EU integration. This enhanced socio-economic coordination framework has been addressed by multiple perspectives and continues to kindle vibrant debates on its nature and repercussions.

The introduction by Amy Verdun and Jonathan Zeitlin (2017) to the recently published special issue of the Journal of European Public Policy (JEPP) provides a concise account of the multiple strands of literature dedicated to the European Semester. Among them, the assessment of the Semester’s effectiveness is a persisting theme. Other approaches towards the new coordination framework include the analysis of its different governance characteristics – hard or soft law - but also its ability to promote economic goals in parallel with or to the detriment of social goals (for the former see: Zeitlin and Vanhercke, 2017; for the latter see: Crespy and Menz, 2015; de la Porte and Heins, 2015). Furthermore, a significant part of the current literature focuses on whether the Semester is basically intergovernmental or supranational in nature (as the authors point out, for a fuller review of the debate see: Schmidt, 2016). Finally, a major debate aims to address whether this has increased or decreased legitimacy and democratic accountability in relation to traditionally elected institutions, such as the national parliaments (again, for a fuller review, see: Crum, 2017).

Kreilinger (2016) and Maatsch (2017) rightly emphasise that “the effectiveness of the mechanism (meaning the European Semester), has received significantly less academic attention” than issues related to its legitimacy and accountability. Since my research questions basically have this issue at their epicentre, in this chapter I will not attempt to give an overview of all these strands but I will instead focus on a detailed analysis of the literature referring to the Semester’s effectiveness. For this reason, even scholars who have primarily focused on other strands of the Semester’s literature will be reviewed when they happen to address the CSRs’ implementation.

The task of categorising the relevant literature presents certain difficulties. Even though statements on the Semester’s effectiveness abound, only a small minority of the literature is based on solid empirical assessments. The rest of authors make assumptions and predictions about how the new coordination framework works based on its formal legal and institutional character; furthermore, most of the times their conclusions give an overview of the Semester design’s strengths and weaknesses. Most importantly, their analysis of the mechanisms of change and the preconditions for the Semester’s effectiveness is usually limited or – even worse - non-existent, lacking an analytical framework. So, apart from the in-depth cases which follow an obvious analytical scheme, only the reports from the Brussels-based think tanks and policy analysts present some sort of adequate empirical assessment. Yet, even in these reports, the issue of how exactly the Semester induces national actors to implement the CSRs (namely, the issue of the Semester’s mechanisms of change) is not really addressed.

Being aware of the variety of approaches, my thesis involves a combination of in-depth case studies, the goal of which is to go beyond the legalistic view and probabilistic analysis - whether the Semester could have had effects - and show whether and how it has produced visible effects among national actors and policies.

The way my literature review is structured aims at two things: firstly, to differentiate between a solid empirically based analysis of the Semester’s effectiveness and those perspectives with a more normative approach; and, secondly, to organise the analyses referring to the Semester’s effectiveness in a concise fashion, in accordance to the structure of my research question: effects, mechanisms of change, and mediating factors. Lastly, it is important to give an extended
examination of each scholar’s rationale, since this is an indispensable part of understanding the various nuanced perspectives on the subject.

The rest of the section is organised as follows: starting from the literature with the least clear empirical approach, I take stock of the assessments, whether negative, positive or even mixed, of the Semester’s effectiveness, mostly understood as the repercussions of the new framework’s structure. As I continue, I analyse what the literature has written about the mediating factors which influence the CSRs’ national implementation. In the following sub-section, I lay out a detailed analysis of the few in-depth cases which research not only the actual effects of the European Semester but the specific mechanisms that led to them. In addition, a concise presentation of the relevant legal literature is necessary to have a fuller view on the different approaches as regards to the Semester’s effectiveness. Finally, I conclude by reviewing the work of think tanks and policy institutions, since these are among the few to adopt a (relatively-speaking) empirical approach, from the Semester’s early cycles.

1.3.1 The Semester’s effectiveness: nuanced perspectives

As Zeitlin and Vanhercke (2014) point out, there are various – and often contradicting - views on the normative role of the European Semester and its effectiveness. As a starting point, almost all scholars agree that the launch of the European Semester was a significant moment in the evolution of the EU’s governance, introducing, in the legal sense, stricter and more automatic elements of monitoring and sanctioning in the new coordination framework. Particularly on the issue of effectiveness, many authors do not go further into examining the CSRs’ actual implementation but adopt a more probabilistic analysis, claiming that the establishment of the European Semester increases the likelihood of more successful reforms. This does not mean, however, that there are no limits or weak spots in the design of the new architecture when it comes to effectiveness –a fact that is usually pointed out by the same authors. Hence, the Semester’s structure is indicated as a major characteristic in its capacity to lead to national reforms.

Laffan (2014) argues that, from a normative perspective, the new socio-economic coordination framework was “a step-change” as regards the possibility of external intrusion in domestic politics and policies. This strong regulatory framework, which also includes sanctions ‘in extremis’, helped in the enhancement of the norm focused on collective fiscal and economic responsibility – primarily within the Euro area. To the extent that national governments have to commit to the constraints imposed by the EMU’s institutional order, there is an increase in the pressure to meet their agreed obligations towards their European counterparts. However, the author underlines that the new framework remains “experimental” and since 2013 the behaviour of the European Commission already reflects more flexibility in the calculation of “the pace of deficit reduction” as well as of the annual deficit. As regards the national politicians, Laffan contends that these are now openly faced with a “politics of constrained choice”, however they still remain responsible for their own choices. Finally, the perceived legitimacy of the European Semester and the reaction of the national electorates to it, she adds, are the most important factors in maintaining the momentum for constant consolidation; and since so far no rupture-oriented contestation party in any Eurozone MS has gained much executive power, we can assume that the Semester’s pressure continues to hold.
De Streel (2014) agrees that the European Semester tried to address the institutional weaknesses of the past. Apart from the strengthening of fiscal rules and the improvement of monitoring, the sanctions' de jure automaticity was a central element in increasing effectiveness: due to the application of the system of reverse qualified majority voting in the Council, the imposition of sanctions on the MS seems to be easier. As he refers to the empirical research of Van Aken and Artige (2013) concerning the use of reverse majority voting in other fields, the author claims that this change “has increased the probability of adoption” of the CSRs. However, he adds that there are a few substantial problems still present in relation to the imposition of sanctions. For example, the criteria used by the Commission to assess the situation of a MS before proposing sanctions are not adequately transparent, and are thus capable of raising political considerations among MS on the Commission’s impartiality. In addition, he claims that the imposition of fines can be an incentive for better CSR implementation, underlining however that its effectiveness is a complex issue, since it depends on the state’s capacity to “pay the fine, without undermining its financial stability”. Nevertheless, he brings up the case of Belgium as a successful example, when in June 2013 the country changed its adjustment plan under the fear of sanctions in order to reach its deficit projections.

De la Porte and Heins (2015) state that with the launch of the European Semester, the pressuring instruments for fiscal and budgetary discipline acquired more explicit policy objectives, and became stricter as regards surveillance and de jure enforcement. The authors underline the substantially new character of the fiscal instruments developed after the crisis and compare the enhanced institutional framework of the European Semester to a pair of sharper “surgical knifes, which if applied correctly can lead to a successful operation” (de la Porte and Heins, 2014).

Other scholars, who also give weight to the de jure upgraded structure of coordination, underline the Semester’s ineffective character – even if this is not always clear. Their analysis aims to show that due to the persistence of certain structural problems, the implementation of the CSRs remains dubious. For example, Nicoli (2016) appears critical towards the national influence of the Semester, by stating that “it remains burdensome but ineffective” because of the lack of means which could “induce a country to respect its own commitments”. According to him, apart from the two arms of the SGP which have the power of “enforcement”, the MIP lacks the pressuring capacities since it has never led so far to any imposed sanctions. The author contends that even with the introduction of the flexibility clause in January 2015 aiming at a more lenient interpretation of the SGP rules, the Semester’s effectiveness remains inadequate “since not all kinds of necessities on the side of member states can be met by relaxing fiscal rules”. All in all, he concludes that its current structure cannot provide substantial incentives, negative or positive, for the successful implementation of structural reforms at the national level.

Hallerberg, Marzinotto and Wolff (2012) look at the Semester’s effectiveness at both the EU and the domestic level, while pointing to several mediating factors which could have an influence. At the EU level, effectiveness is restrained by the fact that the recommendations are not adequately linked to “the logic of the common currency” and that they do not address future difficulties by forecasting scenarios. At the national level, policy compliance appears limited, in the sense that governments mostly implement the CSRs with a fiscal character, especially when countries are under the Excessive Deficit Procedure (EDP), while policy areas with vested interests remain mostly unaddressed. According to the authors, the low media coverage of the European Semester is also relevant to the
CSR’s implementation, as an average fiscal issues receive more prominence in the domestic sphere than the topics linked to structural reforms.

Begg (2017) argues that compliance with the SGP and the MIP rules “is not encouraging”, since the rules have the tendency “either to be ignored or regarded as tangential to policy priorities”. According to him, this can be partially attributed to the particular design of the European Semester and the lack of judicial instruments of control. In addition, the lack of appropriate incentives for the national political actors and the limited acceptance of the Commission’s fiscal authority by the electorates are two further shortcomings which can explain the lack of CSR implementation. The significant discretion of the European Commission to assess and to decide on the imposition of sanctions is also mentioned by Dawson (2015). Despite efforts to create a more effective and accountable legal framework, the new rules within the European Semester leave “much room” for the Commission to decide based on opaque political criteria on which MS should be pressured for more fiscal efforts. He adds that, ironically, this kind of arbitrary decision-making was exactly what the Eurozone countries tried to avoid in the first place, by establishing a decentralised fiscal coordination system, as opposed to the monetary union.

Vanheuverzijn (2017) agrees with Dawson that the “Commission still seems to hold an important discretionary role” when it comes to the interpretation and implementation of the Semester’s fiscal rules. But contrary to the perception of many scholars including Dawson, in another article he argues that many social and labour market reforms have already been implemented since 2011 (Vanheuverzijn, 2016). In that sense, the EU’s executive organ needs to constantly keep a balanced approach between a flexible interpretation and the obligation to follow the fiscal and macroeconomic rules to the letter. As I also mention myself in the following chapters, Vanheuverzijn observes that while the Barroso Commission adopted a balanced practice “by stealth”, with the arrival of the Juncker Commission this approach became explicit.

Graziano and Halpern (2016: 13) argue that the pressures of the crisis blurred the boundaries even more between soft and hard-law mechanisms of EU governance, which could potentially have repercussions on policy effectiveness. In that sense, the legal framework for sanctioning those MS that do not comply with the agreed rules was enhanced, but at the same time the use of tools based on persuasion and learning gained more ground for the rationalisation of debates and the adoption of suitable policy responses. Nevertheless, they state that eventually the intertwining of these governance mechanisms did not increase the effectiveness (or even the inclusiveness) of the governance structure, since the response to the crisis came in the form of the “hardening of pre-existing sets of policy tools and modes of governance as a way to increase coordination”.

As Buti and Carnot (2012: 908) put it in probabilistic terms, the changes in the socio-economic coordination framework “boost the chances that the rules... fix a number of technical hurdles that previously eroded their credibility and thereby their enforceability”. Nevertheless, they add that even in this new architecture national sovereignty has been preserved, and the pressures for fiscal discipline remain a challenging issue. This is explained further by Wylosz (2010a) who argues that the imposition of sanctions on the MS puts the Commission in a very difficult situation which raises political considerations, since sanctioning might “unleash a violent anti-European sentiment”, thereby even further decreasing the Semester’s effectiveness. In another article (2010b: 35), he adds that democratically elected and sovereign governments of the Eurozone MS still see fiscal
discipline as one of their “deep-seated national prerogatives”. Hence, high external pressure from the EU to change their budgetary plans would create serious implementation frictions.

A number of other scholars have addressed the issue of effectiveness, but with the inclusion of more empirical elements in their analysis. The Semester’s capacity to lead to better implementation of the CSRs is central also in their work; however these authors expand further on issues referring to agency and give a few hints as to the political economy of national reforms (but still too few when compared to the in-depth case studies analyzed in one of the next sub-sections). To bring up one example, Bauer and Becker (2014) claim that the Commission’s role in the European Semester should not be overstated as regards the domestic implementation of its CSRs. The MS are “also strong during the implementation phase” and one should not forget that during the first cycles, some of them resisted the call for reforms. Despite the plethora of doubts about the legal enforceability of sanctions within the European Semester, the authors contend that there is a degree of effectiveness, since the implementation of the CSRs became an implicit precondition for a more relaxed interpretation of the SGP’s rules. They bring up the case of France as a typical example, also referring to the Semester’s mechanisms of external pressure: given the country’s urgent request to extend its fiscal adjustment deadline, the 2013 recommendations for reforming the labour market and the pension system “were given a special meaning”, and thereby had a signalling role in a trade-off between reforms and fiscal leniency.

In the same vein, Bekker (2016) questions the premise that the enhanced coordination framework automatically implies less flexibility for the MS to implement its own policies. Despite the more intrusive rules and procedure in the current socio-economic governance, the four national cases analysed by the author show that the Commission and the MS are involved in a constant dialogue, rather than a “command-and-control practice”. Most importantly, all the countries under research enjoy a significant “leeway to argue for and to implement alternative policies” in the fields of pensions, wages and unemployment. According to Bekker’s research, the most obvious sign of flexibility is the extension of time given to France, Poland and Spain to meet their fiscal criteria, given each country’s individual situation. Notably, Bekker’s study shows the importance of the national governments’ agenda in implementing the Commission’s recommendations. The example of France as regards the Youth Employment Initiative shows how a government can use specific EU-level goals to justify its own policy choices. Likewise, the German and French pension reforms were closely linked to the election of new governments, “and obviously this is relevant input from a national level to justify alternative reform choices”. In the case of France, the newly-elected government of François Hollande took measures regarding the minimum retirement age which opposed the CSRs, even if these latter were linked to the SGP. As for Germany, after the Federal elections of September 2013, the new government coalition passed reforms including an improvement of early retirement conditions and a pension increase for specific groups. These measures were also seen by the Commission as contrary to the financial sustainability of public spending.

Finally, among the few scholars who discuss the Semester’s mechanisms of change, Erne (2015) argues that in the case of France the fear of sanctions was an effective mechanism for the adoption of labour market reforms. The Macron law was adopted by executive order only a week before the Commission was about to decide whether to fine France for not abiding by its deficit targets. This was, according to the author, an significant motive since the lack of any reform results “would have
sent the wrong signal to the European Commission”.

1.3.2 Mediating factors which influence the Semester’s effectiveness

As seen earlier, the mediating factors which influence the Semester’s implementation are mentioned by a large part of the current literature, but in a dispersed and unsystematic way. The interviews of Zeitlin and Vanhercke (2014) reveal that despite the plethora of institutional levers on the part of the Commission to pressure MS to implement its CSRs, there “are wide differences between MS in how seriously they take” them, due to a number of domestic mediating factors, including: the public’s attitude towards the EU, the pressuring fiscal situation of a country, and the prominence of the structural funds there.

Examples of the different types of mediating factors abound in the current literature. Laffan (2014) and Begg (2017) identify the support of the public but also of the political elites as a major precondition for keeping up the momentum for reforms. Although not explicitly, Hallerberg et al. (2012) add the coverage of the domestic media of the CSRs in the mediating factors. In addition, the research of Bekker (2016) underlines the importance of the agenda of national governments for pushing or openly blocking the CSRs’ implementation. Schwarzer (2012: 37) agrees with Bekker that while the new voting system in the Council for imposing sanctions has increased the Commission’s formal position as well as the reputational costs for the MS, there is still a substantial margin of “administrative and political discretion”, since the final implementation of the CSRs depends to a large extent on the strategic interests and agenda of the national actors. In a similar manner, Kawecka-Wyztkowska (2013: 15) argues that even though the legal basis and governance structure has been upgraded for reasons of effectiveness, the final outcomes still depend on the political willingness of the MS to “accept the rigorous enforcement” of the new fiscal rules. By observing two cycles of the European Semester (2014-2015) and its implementation in four different countries (Austria, France, Germany and Ireland), Maatsch (2017) claims that the successful implementation of the CSRs depends primarily on the economic preferences of the political parties in power. Hence, she suggests that within parliamentary debates, the European Semester is an opportunity for the “domestication” of the goals included in EU socio-economic governance (see also: Kröger and Bellamy, 2016).

Although he does not refer to the European Semester per se, Craig (2014) argues that the changes in the governance of the EMU due to the Euro crisis reveal the importance of financial markets and fiscal obligations within the current EU framework, as the two most prominent mechanisms of pressure on national governments. Nevertheless, he adds that the application of the new socio-economic coordination governance, which restrains the policy manoeuvre of MS “depends in part at least on whether the EU, and in particular the Commission, has the political authority to carry through such measures” (ibidem: 39). Hence, the Semester’s perceived legitimacy along with the ownership of reforms are presented as important aspects which contribute to the implementation of national reforms. Finally, it is important to mention here that both the assessments of the think-tanks and the in-depth case studies point to specific mediating factors, so their analysis will follow in the ensuing sub-sections.
1.3.3 In-depth case studies

Begg (2017: R3) correctly remarks that “much of the analysis of rules has concentrated on their technical merits, but tends to neglect the political economy of compliance”. With the goal of addressing this problem in an structured manner, several authors have conducted in-depth case studies, aiming to give a detailed picture of the exact workings of the CSRs’ implementation at the national and EU level.

In his case study, Eihmanis (2017) analyses not only the influence of the European Semester but also that of the Balance of Payments Programme and the Euro convergence criteria as regards Latvia’s economic governance for the period 2008-2014. His findings underline the significant role that national actors play in the CSRs’ implementation. In particular, he doubts the effectiveness of the “hierarchical governance structures” and argues that from early on that the Latvian governments “cherry-picked” the application of the EU rules, grasping the opportunity to focus on their policy priorities: the early repayment of the country’s loans and extremely quick fiscal consolidation. Even so, after the country’s acceptance into the Euro area in 2013, and as a result primarily of the Commission’s advocacy, the Latvian government started to further address the issues of poverty and social exclusion. All in all, the author concludes that ‘harder social policy governance’ does not always lead to increased compliance, adding that the national actors showed ‘substantial discretion in ‘soft’ social policy, as well as in hard policy areas, meaning certain areas with a fiscal dimension, such as pensions or taxation.

In his analysis of the Belgian and Italian cases, Bokhorst (2017) focuses on a particular aspect of the European Semester, that of the MIP, arguing that this has been effective, but not according to the traditional notion of legal coerciveness. Instead, the MIP helped to maintain certain issues on government agendas, through constant contact and deliberation between the Commission and the MS representatives. Hence, the author argues that the pressure mechanisms of the MIP on national governments must be better understood ‘in terms of political pressure and reputational damage’ towards both the other EU MS and their domestic electorate, rather than as a legal obligation to abide by the recommendations. These pressures, however, depend on domestic factors closely linked to the Europhilism of the political elite and public opinion.

In his empirical account of the Semester’s impact on environmental taxation in France, Schreiber (2017) also draws attention to agency and argues that the usage of the European Semester by domestic actors “actually increased the likelihood of domestic policy change”. In that sense, he states that it was not the strength of the European Semester as an “EU impulse” (a term found in: Tarrow, 1998: 76-77; and Zartaloudis, 2014: 55-56) that triggered national reforms, but “a mediating factor, the domestic usage by pro-reform actors”. Although the election of the center-left government of François Hollande opened an extra window of opportunity for environmental stakeholders and NGOs to promote their agenda even further, the eventual reluctance of the former did not add up to adequate momentum for taking up further reforms.

Finally, the work of Savage and Howarth (2017) deserves mention as a case-study with rich empirics. The authors describe how the Six-Pack enhanced the Commission’s role in conducting investigations as regards to fiscal statistics, having the right not only to review the data stemming from the national and subnational governments but also to sanction the MS in case of failing to provide true
or accurate information regarding the SGP. As proof of these rules’ effectiveness, they analyse the recent case of the Autonomous Community of Valencia, where ‘severe irregularities’ in its statistics, as investigated by the Commission, led ECOFIN to impose a fine on the regional authority, due to its ‘serious negligence’ leading to the ‘manipulation of deficit data’ (ibidem: 10). It is notable however, that eventually this fine was reduced significantly (from €94.65 million to €18.93 million) due to special circumstances which mostly had to do with the fact that the manipulation of statistics happened at the regional level and not at the level of the central Spanish government. Hence, even though the sanction came as a result of a state’s failure to provide precise statistical information and not because of the violation of the SGP rules, this case is a unique sign of the effectiveness of the new socio-economic coordination mechanism.

1.3.4 Legal scholarship

The analyses of legal scholars address the European Semester either from the perspective of legality and democratic legitimacy (Chalmers, 2012; Costamagna, 2013; Joerges, 2014; Dawson, 2015) or of governance type and constitutional structure (Fabbrini, 2013; Bekker, 2014; Armstrong, 2014; Craig, 2014; Oberndorfer, 2014; Hinarejos, 2015), without however going further into the CSRs’ actual implementation. To give several examples, Costamagna (2013) refers only to the new governance structure; he suggests that the updated socio-economic framework and the introduction of stricter budgetary rules and sanctioning procedures potentially increased the effectiveness of the EMU coordination. In the author’s words: the European Semester “gives EU institutions unprecedented capacity to take part and influence the decisions adopted by national authorities even in domains that the Treaty reserves to Member States’ competence” (ibidem: 26). In another example, Hinarejos (2015) suggests that with the launch of the European Semester, the policy coordination framework was enhanced with the introduction of elements of hard law, creating a hybrid situation in which hard and soft law “intertwine to a much higher degree than they did before”. Nevertheless, she concludes that “only time will tell how successful this enterprise is” (ibidem: 79).

Lastly, Pasini (2013) adopts a unique approach which combines legal elements with inadequately developed - empirical claims. Here, he argues that during the Eurozone crisis the socio-economic coordination framework proved ineffective for ensuring compliance for two reasons: first, despite several reform efforts over the years, the enforcement of the SGP rules remained “weak”, primarily due to the “lack of a strong, credible and enforceable mechanism for fiscal stability”. Secondly, even though the “soft law” mechanisms have in general the potential to lead to better policy implementation as the example of the IMF/World Bank Financial Sector Assessment Program shows (for more see: Brummer, 2012), in the EU’s fiscal and macroeconomic areas, soft coordination mechanisms “failed miserably in ensuring cooperation”. However, without explaining how, Pasini concludes that neither the fear of sanctions nor the pressure of international markets were adequate mechanisms to ensure the compliance of national policy-makers.

1.3.5 The assessment of think tanks
Beside the traditional academic circles, the issue of the Semester’s effectiveness has been addressed from early on by specific Brussels-based institutions and public policy think tanks. Their assessment tends to be strict, usually arguing that that much more needs to be done. Yet, there is still significant disagreement “between analysts and policy makers” as to what extent the CSRs have been successfully implemented (Zeitlin and Vanhercke, 2014).

Using a unique methodological approach, Deroose and Griesse (2014) analyse the implementation of the CSRs for the cycles 2011-2014. As I will elaborate in more detail in Chapter 5, the authors calculate that around 40% of all the Commission’s recommendations were implemented during that period, adding however that “a more stringent implementation” is needed given the EU’s current challenges. Most notably, in their analysis by policy area, they conclude that implementation is higher in the fields where market pressure necessitates immediate tackling (for example the financial sector) but also in fields where the EU enjoys increased “enforcement powers” (such as public finances).

Darvas and Leandro (2015: 1) from Bruegel argue that the Semester “is not particularly effective in enforcing the EU’s rules”, not only with regard to the MIP but also in relation to the SGP. Based on the Commission’s assessment for the years 2011-2014, the authors state that during the first cycle the implementation of the CSRs was already poor (approximately 40%) “and deteriorated since” (29% in 2014). As regards the national conditions for implementation, it seems that the MS are more prone to take up reforms when they “are under a financial assistance programme, experience market pressure or face high unemployment”. As a result, the authors add, when the economic situation becomes more favourable, the dynamics of reform lose their momentum.

Similarly, Gern, Jannsen and Kooths (2015: 6) of the Kiel Institute for the World Economy refer to the need for more effectiveness, by focusing on the first three cycles of the European Semester. Towards this end, they first call for “strict enforcement mechanisms that are based on rules and automatic sanctions”, with a particular focus on national debts. At the same time, they argue that increasing the level of ownership of reforms is indispensable for better implementation of the CSRs. For this, the Commission must improve its communication to all stakeholders at the national level, and primarily the parliament, as a tool for popular support and peer-pressure to the governments.

Again, Zuleeg (2015) of the European Policy Center (EPC) says that the implementation of the CSRs for the cycles of 2013 and 2014 was inadequate (in his words: “less than satisfactory”), adding that the problem of limited enforcement is likely to remain unchanged since the reforms suggested by the EU have to be “politically justified at the national level” (an issue of legitimacy), which is rarely the case. The few pressure mechanisms exerted within the new socio-economic coordination framework remain in the domestic sphere, being either peer pressure or pressure due to public opinion. Given the lack of political will from the side of MS, amending the treaties and granting parts of national sovereignty to the EU level seems extremely unlikely at the moment. Instead, Zuleeg argues that it is more possible that national political actors could be given the right incentives for ensuring their commitment. This can be done by officially establishing flexibility in the interpretation of the SGP rules, with the goal of promoting public and social investment. At the same time, the author suggests the creation of a “fiscal capacity” mechanism, which would provide support for national reforms in exchange for the MS’s commitment to the EU’s recommendations through “contractual arrangements”.

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Finally, by drawing evidence from the assessment of the European Parliament’s research service, Gros and Alcidi (2015: 2) of the Center for European Policy Studies (CEPS) argue that the implementation of the CSRs has declined during the period 2013-2015. According to them, this can be attributed to the fact that many MS already underwent substantive fiscal consolidation during the first cycles of the European Semester. As the economic conditions started improving, the financial markets’ pressure deteriorated, thereby leaving space for fewer reforms. As Gros and Alcidi put it exactly: “the economic rationale for coordinating reform policies is weak in ‘normal time’ and their implementation will depend on national governments’ assessment of domestic needs “. This is reflected in the more flexible approach of the Juncker Commission towards the fiscal rules. Notably, the authors doubt that the fear of sanctions and the reputational pressure play a significant role on the Semester’s influence. For example, as regards the former mechanism, they state: “Their (meaning the EU institutions’) ability to ensure enforcement is therefore uncertain, even more so when it comes to structural reforms which do not explicitly fall under MIP and SGP procedures”. As for peer pressure, it is mainly the small countries, being more susceptible to criticism, that seem to have the best record of CSR implementation.

Along general lines, the assessment methodology of the think-tank analysts and EU institutions officials is similar since it is primarily based on the Commission’s official assessment regarding the implementation of the CSRs. Hence, although these authors give an excellent overview of the MS implementation record over time, they do not provide an original evaluation of how national reforms have played out. So from this perspective, even with their synthetic indicator which gives an original quantitative analysis of the CSRs’ implementation, Deroose and Griesse do not differentiate substantially from the rest.

To give a short recap before moving to the theoretical framework, my research is situated in the literature strand which draws substantial empirical evidence on the Semester’s influence at the national level. Such an approach allows me to bypass the theoretical debates on whether the Semester has the capacity for domestic policy change, and urges me to look at the specific contextual mechanisms which incentivise political actors to adopt the Commission’s CSRs. Most importantly, it allows for a systematic analysis of the mediating factors which played a significant role in the Semester’s effectiveness as expressed in the Belgian context. Finally, this strand of literature allows me to borrow specific elements for the development of my analytical framework: for example, as regards the mechanisms of change, Eihmanis refers to creative appropriation – although not explicitly - while Bokhorst mentions reputational concerns. Additionally, the concept of mediating factors is mentioned in Schreiber, who points to “the domestic usage by pro-reform actors” as a necessary condition for the implementation of the CSRs. Authors such as Armstrong or Zeitlin have repeatedly called for the need to conduct evidence-based research, as the proper way to debunk the myths revolving around the new socio-economic coordination framework. Hence, my thesis aims to contribute towards this goal.
Chapter 2. Theoretical framework

2.1 Substantive and procedural effects

The theoretical and empirical study of the EU’s effects on the national and subnational levels has gained considerable attention since the mid-nineties (Green Cowles, Caporaso and Risse, 2001). Although the literature on institutional change had emerged a little bit earlier (e.g. March and Olsen, 1989) a new wave of studies with an institutionalist approach –whether historical, sociological or rational- focused specifically on the Europeanization processes in different fields. Following a widely-met approach, my theoretical framework reflects a ‘three-step analysis’ (Ladi and Graziano, 2014), comprising the effects of the European Semester, the mechanisms of change and the intermediate factors affecting them.

My theoretical framework is based, to a great degree, on that presented in Zeitlin (2009) and further elaborated in Barcevicius, Weishaupt and Zeitlin (2014), as a fine-grained conceptual guide capable of capturing the most subtle effects and mechanisms of EU-inflicted change. Despite the fact that the framework was designed for analyzing the Open Method of Coordination, with some adaptation it is also an appropriate tool for studying the Semester. Firstly, while the pressure mechanisms of the OMC refer primarily to ‘faming, naming and shaming’ as regards a MS commitments at the EU level, the European Semester adds one more mechanism, that of fear of sanctions, as a result of the incorporation of the SGP and MIP rules. At the same time, the learning mechanisms within the Council’s consultative bodies (the Multilateral Surveillance Reviews [MSR] and the Mutual Learning Programmes [MLP]) have remained the same since the EES and the Social OMC—although enhanced with better instruments for monitoring. But apart from their merely knowledge-promoting purpose, within the new coordination framework the MSRs contribute to evidence-based bargaining and peer pressure, thus further supporting the pressure mechanisms as I will explain later on.

As with the OMC, the European Semester can contribute to both substantive and procedural policy change. The analytical table at the end of this section presents in a concise way the whole range of the OMC effects, which are applicable in the case of the European Semester as well. Substantive policy change is not restricted only to obvious influences in the form of new legislation or regulations (programmatic shifts) but also extends to the inclusion of new topics or the greater prominence of old ones in the actors’ political agendas (agenda shifts) as well as to changes in the policy actors’ thinking and policy-making debates (ideational shifts). Closely related to the two latter types of shift, the theoretical framework on the OMC also refers to ‘intermediate effects’, which just like in the Semester, are seen as in-between steps towards the final policy outcomes. As seen in the table below, intermediate effects vary. For example, cognitive effects refer to changes in the actors’ assumptions as regards the causes of a phenomenon. Normative effects have to do with changes in the actors’ values. Discursive effects occur when the terms or categories used to discuss particular issues alter while leverage effects allude to changes in the political resources that actors can use in order to pursue their own agenda. Finally, the democratizing destabilization effect implies the empowerment of non-governmental actors to hold public institutions as well as the governments

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1 Specific passages in this chapter have previously appeared in Louvaris Fasois (2018).
accountable. As far as the procedural effects are concerned, these can manifest themselves in five forms: first, as reinforced horizontal coordination or greater cross-sectoral integration, with the support of existing structures and the creation of new bodies; but also as increased vertical coordination between the different government levels, with the creation of new or the enhancement of old cooperative structures; procedural effects can also manifest as improvements in statistical and steering capacities, for example by upgrading the data collection and analysis methods at the national level; the Semester can also lead to increased involvement of different stakeholders through participatory institutions; and finally it can help to the creation of consultative networks which include non-state and sub-national actors in order to support the EU policy-making process. The existence of all these effects, substantive or procedural, is not always immediately perceptible by the actors (in that case we talk about ‘capillary effects’) while these may occur jointly, interactively or even cumulatively (Weishaupt, 2014: 205). Finally, one must not rule out that in several cases the effects of the EU might be absent as well, due to passive and active opposition to the European policies (Crespy and Saurugger, 2014). However, while drawing evidence from the cases of Greece and Italy, Ladi and Graziano (2014) argue that the financial and sovereign debt crisis has intensified detectable policy transformation and lowered the probability for inertia, divergence or even surface adjustment. Hence, the economic pressures during the Eurozone crisis have led to the intensification (or “fast-forward Europeanization” as the authors coin the term) of employment and welfare state reforms. In a similar vein, Windwehr (2017: 1305) argues that the crisis worked as a “game changer” and led to intensified Europeanization, due to the increased economic pressure towards the MS and the upgraded instruments of fiscal consolidation. Indeed, the European integration took a new orientation in that sense, nevertheless the reformatory progress must be further assessed individually for each country, in order to see if this premise holds true also from a closer perspective.

Lastly, the temporal dimension is a significant aspect embedded in the theoretical framework, as various authors have already underlined (Goetz, 2009; Bulmer, 2009; Ferrera and Gualmini, 2004: 109). In other words, ‘when’ things happen effects on ‘how’ things happen (Pierson, 2004). This is not constrained to a top-down process from the EU to the national level, but expands to a complex two-way causality in which the political events and institutions at the domestic level have an impact on EU processes and vice versa. From that perspective, the sequencing, intensity and duration of political events at both levels matter for the existence and particular form of the mechanisms of change as well of the impact of the mediating factors.

Table 1. Substantive (including intermediate) and procedural effects of the OMC

<table>
<thead>
<tr>
<th>Substantive effects</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Programmatic shifts</td>
<td>New legislation or regulations</td>
</tr>
<tr>
<td>Agenda shifts</td>
<td>Changes in the salience of particular issues on political agendas</td>
</tr>
<tr>
<td>Ideational shifts</td>
<td>Observable changes in policy thinking and debates</td>
</tr>
<tr>
<td><strong>Intermediate effects</strong></td>
<td></td>
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<tr>
<td>--------------------------</td>
<td>--------------------------</td>
</tr>
<tr>
<td>Cognitive effects</td>
<td>Changes in the actors’ cause-and-effect assumptions</td>
</tr>
<tr>
<td>Discursive effects</td>
<td>Changes in the terms or categories used to discuss particular issues</td>
</tr>
<tr>
<td>Leverage effects</td>
<td>Changes in the political resources available to actors to pursue their existing agenda</td>
</tr>
<tr>
<td>Democratizing destabilization effects</td>
<td>Changes in the ability of non-governmental actors to hold public institutions and government accountable</td>
</tr>
<tr>
<td><strong>Procedural effects</strong></td>
<td></td>
</tr>
<tr>
<td>Reinforced horizontal coordination</td>
<td>For example, through the creation of and/or reinforcement of interministerial bodies or working groups</td>
</tr>
<tr>
<td>Improvements in national steering and statistical capacities</td>
<td>For example, strengthening of arrangements for data collection and analysis, creation of new bodies and systems for monitoring and evaluating social policy implementation</td>
</tr>
<tr>
<td>Enhanced vertical coordination between government levels</td>
<td>For example, through the creation and/or reinforcement of formal and informal structures for closer cooperation between national, regional and local administrations</td>
</tr>
<tr>
<td>Increased involvement of non-state actors</td>
<td>For example through the creation and/or reinforcement of consultative and participatory structures</td>
</tr>
<tr>
<td>Development of horizontal and diagonal networks of non-state actors’ involvement</td>
<td>For example, through participation in EU-level networks and/or transnational exchange projects</td>
</tr>
</tbody>
</table>

*Source: Barcenvicius, Weishaupt and Zeitlin (2014)*

### 2.2 Mechanisms of change in the European Semester

The boundaries between the different mechanisms of change in the European Semester are blurred (Graziano and Halpern, 2016) and no systematic attempt has been made so far to categorize or conceptualize them in a precise manner. The Semester provides a general framework for pushing and pulling mechanisms (or “the whip and the carrot” in the words of a leading Socialist MEP), while bringing together fiscal and macroeconomic coordination instruments with social and employment ones within the same cycle. Within the context of the European Semester, I conceptualize two broad categories of mechanisms of change: those based on external pressure and those based on intrinsic motivation— as I will elaborate later on. This is not a strict dichotomy since all mechanisms of

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²I refer to ‘motivation’ as ‘something that causes a person to act’ (Merriam-Webster Dictionary), including conscious and less conscious actions. The concept of ‘intrinsic motivation’ is inspired from the field of educational psychology. According to Ryan and Deci (2000: 60) in their most idealized forms: “Extrinsic motivation is a construct that pertains whenever an activity is done in order to attain some separable outcome” (e.g. reward or punishment, approval from others). “Extrinsic motivation thus contrasts with intrinsic
change are set on a continuum which ranges from more visible mechanisms related to pressure and external control to the most intrinsic ones, for example like in the process of conscious—or even unconscious-explorative learning. In addition, the presence of one mechanism does not exclude the simultaneous presence of another, in the same logic as with the effects of the OMC which can act jointly, interactively or cumulatively with each other (see: Weishaupt, 2014: 205). The fear of sanctions, reputation signaling and peer pressure, positive and negative external support, pressure of the markets and pressure due to the media or the public opinion belong to the first category. The intrinsically motivated mechanisms—which involve conscious as well as unconscious processes—include socialization, learning, and finally creative appropriation. What differentiates external pressure mechanisms from those based on intrinsic motivation is autonomy. In the former category, the actions of a MS can be restricted due to the lack of legal autonomy (such as the existence of the SGP rules) but also of effective autonomy (for example, as a result of the financial markets’ pressures). But as regards the intrinsically motivated mechanisms, these can be distinguished from one another in terms of different levels of instrumentalization, in the sense that the degree to which actors use a mechanism to attain a distinct outcome varies among them. To give an example, national political actors use creative appropriation as a medium which aims at an ultimate goal, in this case the promotion of their own interests, in contrast to explorative learning which is used primarily by administrative actors as a tool without such an obvious instrumental and teleological use.

As far as the different pressure mechanisms of the Semester are concerned, these do not represent an “automatic flow chart process” (Dunlop and Radaelli, 2016) but rather a constant procedure of political deliberation. This perspective is shared by both the Commission and the member states, which understand the legal and political considerations which encircle such mechanisms. The words of Jean Claude Juncker on March 2016 make this evident from the Commission’s side: “And it is quite impossible to dictate Europe’s direction against the will of the national governments and Member States” (Juncker, 2016: 3). A year and a half earlier, as a response to the criticisms of the Italian Prime Minister, the Commissioner for European and Monetary Affairs Commissioner, Jyrki Katainen had commented in a similar manner: “We aren’t teachers but interpreters of how well the countries respect the commitments they have made and the promises they have made to the other countries” (ANSA, 12 September 2014). Closely related to my theoretical conceptualization, the Commission’s memo of 12 January 2011 (European Commission, 2011a) reveals a broad understanding of the pressure mechanisms, albeit not clearly defined. The annexed table in this memo mentions peer pressure, fear of sanctions or fines and early warnings towards the MS. From the side of the MS, the numerous statements of national government officials over the years also show the deliberative—and certainly not automatic—character of the Semester’s pressure mechanisms. For example, in May 2013 the French President, François Hollande stated that: “The European Commission cannot dictate to us what we have to do. It can simply say that France has to balance its public accounts, which is true” (EUobserver, 30 May 2013). Likewise, in November 2016,

motivation, which refers to doing an activity simply for the enjoyment of the activity itself, rather than its instrumental value”. The ideal type of intrinsic motivation is rarely present in the political sphere, where even knowledge is used to attain policy goals, so for this reason my term is not so narrowly defined. However, the psychological framework contributes in understanding the two dimensions which position the mechanisms of change along the theoretical continuum: the gradual degradation of instrumentalization (in the sense mentioned above) and the parallel enhancement of autonomy (legal as well as effective).
Matteo Renzi, Italy’s Prime Minister, said — in one out of many occasions— that “the time of diktats is over” in relation to the Commission’s pressure on the country’s fiscal prudential policies (Euractiv, 9 November 2016).

The first mechanism of external pressure is ‘fear of sanctions’, according to which national actors push for reforms under the threat of the imminent imposition of sanctions, as prescribed in the Semester’s rules. But one has to distinguish between sanctions which threaten direct consequences (such as material and economic ones) and those with indirect effects (such as political or reputational) — the latter being closely related to other mechanisms of pressure as well. The ‘fear of sanctions’ mechanism corresponds to what the legal scientists widely refer to as enforcement mechanisms and tools (Costamagna, 2013; Pasini, 2013; Armstrong, 2014), without taking into consideration the less perceptible forms of pressure. Likewise, theorists of experimentalist governance designate the ‘penalty-default mechanism’ as a way to pressure recalcitrant actors to comply with collective decisions (De Búrca et al., 2014). However, the soft governance regimes of experimentalist governance do not oblige actors to implement a specific decision, but rather to participate in good faith. In that case, the parties are incentivized to improve the implementation of these collectively-set rules, in accordance to their local context. Otherwise, “an alternative, less attractive regime or outcome” can be imposed on them, in the sense that the control over their own policies will be reduced (ibidem: 3).

Prominent examples of experimentalist governance are the Montreal Protocol regime for the reduction and elimination of ozone-depleting substances (ODS) as well as the EU’s Forest Law Enforcement Governance and Trade (FLEGT). As mentioned in the introduction, with the launching of the Semester, the applicability of the fear of sanctions mechanism was enhanced both for the SGP and the Macroeconomic Imbalance Procedure: their “automaticity” became a default setting and hence more difficult for the MS to overrule the Commission’s decisions due to the reverse qualified majority voting (de la Porte and Heins, 2014). De Streel (2014) claims that the pressuring mechanisms of the Semester have proven effective, drawing on the example of Belgium, which in 2013 under the shadow of sanctions improved its fiscal adjustment plan, while Larch and Braendle (2017) argue that, although the results are not optimal, the outcome would have been even worse without these rules. All in all, the contrasting views on the effectiveness of the fear of sanctions mechanism come from the fact that although the legal framework has been upgraded in order to limit the degree of MS discretion, this still clashes with issues of national sovereignty and the underlying complex politics of implementation. As Schwarzer (2012: 32) explains: “the Six Pack has confirmed and strengthened the European Commission in budgetary and economic policy coordination without, however, transgressing limits of national sovereignty”.

So even after these developments, the external pressure mechanism of fear of sanctions has still certain limits, mostly due to the presence of political factors. First, there are issues pertaining to the Commission’s perceived legitimacy and the transparency of the procedure (Costamagna, 2013; Chalmers, 2012) due to the lack of “rule-like qualities and check and balances”. In addition, Kelemen (2015) and De Streel (2014) claim that courts do not have the competency to enforce rules referring to balanced budgets. Secondly, the rules concerning the automaticity of the sanctions’

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3 For a complete analysis of these examples see: De Búrca, G., R. Keohane and C. Sabel (2014) as well as Overdevest and Zeitlin(2014).
implementation are not clear (Begg, 2017) and are less likely to be put in place especially when a MS faces issues of liquidity. The recent example of Portugal and Spain in the summer of 2016, shows the reluctance of the EU institutions to impose fiscal sanctions when countries face dire economic circumstances. In fact, political considerations linked with this issue have been always present: during the preparation of the Six-Pack, the actors involved were divided into those who wanted the imposition of sanctions to be less of a “political decision” (e.g. the Netherlands and the European Central Bank) and those who supported the existing institutional status quo (Chang, 2013; Hodson, 2015). Even after the launch of the European Semester, the implementation of sanctions remained a politically tinged decision, since the Commission takes into consideration current developments in its effort to show impartiality. For example, in May 2016 the European Commission chose to delay the imposition of sanctions on Spain, due to the planned national elections of June 26 and the risk of boosting the electoral power of the anti-austerity party Podemos. As Pierre Moscovici, the Commissioner for Economic and Financial Affairs, stated at that time: “We have concluded that this is not the right moment economically or politically to take this step” (European Commission, 2016a). This indicates that the Commission tries to maintain the balance between the need for strict budgetary discipline and more flexibility towards MS in their effort to implement reforms. According to Begg (2017), this is a harsh dilemma which demands careful handling, keeping in mind a potential backlash from the national electorates and the rise of anti-EU parties. From that perspective, Wyplosz’s (2010a) concerns seem well-founded: “It will take a lot of courage – irresponsibility, some will say – for a Commission to trigger a mechanism which is bound to unleash violent anti-European sentiment. The proposal in effect puts the Commission in an impossible situation. Either it imposes a sanction, and the political reaction could be disastrous, or it shies away, and the pact is undermined, once again”.

Consequently, this fragile equilibrium and the boundaries of the Commission’s strategic movements are reminiscent of Hirschman’s theoretical framework, according to which the ultimate form of contestation by the MS is the “exit” option (Hirschman, 1970). Hirschman’s main premise, which has also been applied to comparative politics, protest movements and political parties (Dowding, 2015), is that when the members of an organization are discontented with the quality of a good, they are faced with two choices: terminating the relationship (‘exit’ option) or communicating their grievances and building up dialogue to improve the situation. Based on this scheme as well as on Rokkan’s relevant analysis, Ferrera (2005) argues that the historical ‘boundary drawing’ of the nation states and their welfare regimes has reduced the exit options for its members and interest groups, while adding that this could be also true as regards to European integration and its ‘system-building’ effects. Certainly, after 60 years of formal Europeanization –at least for the older member states- not following the obligations towards the EU is easier said than done, as Brexit and the case of Greece show. Nevertheless, with the dramatic multiplication of contestation centers all over Europe, an exit from the EU or the Eurozone has become a tangible option which still cannot be excluded as a possibility. The Commission understood this shift and adjusted its strategy accordingly, as Coman and Ponjaert (2016: 45) explain: “As one of the officials in the Council maintained, the Commission has become ever more reluctant to formulate “harsh recommendations” because of the increasing hostile political context both at the EU and Member States levels. Since engaging with the European Semester, the Commission has expressed an increasing concern not to be perceived as “breaching national sovereignty”.

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The second external mechanism has to do with reputation signaling. This also includes peer pressure and refers to the ‘naming and shaming’ process that Member States – but also the Commission - exercise among themselves, in order to incentivize the less willing. Gern, Jansen and Kooths (2015) understand the CSRs as such. Apart from the multiple Council Advisory Committees and their peer review sessions, peer pressure can take place at the political level within the Council of Ministers and the European Council. But the authors argue that this is ineffective when it comes to the implementation of the CSRs, for two reasons related to the willingness and capacity of the actors. First, as also confirmed by an EU high official, first, countries act strategically, avoiding an open confrontation with other MS knowing that in the future they might find themselves under the same dire circumstances. Especially in the case of large MS, the European Federation of Public Service Unions (EPSU, 2014: 6) argues that the Commission has been “unwilling to risk a major confrontation with certain national governments” due to their significant political and economic weight in the EU and, most prominently, in the Eurozone. However, this can be disputed, since the Commission has repeatedly criticized several big and foundung MS: France and Italy for their fiscal performance but also Germany for its trade surplus (Euractiv, 7 March 2014). Second, according to Gern, Jansen and Kooths, peer pressure is ineffective also because countries lack the time and resources to analytically disentangle the problems of their peers and thus make useful observations (labeled as the ‘small country syndrome’). This is not entirely true because, even if concrete policy-making results are not that evident, MS representatives have been proven very active within the Council’s advisory committees. As Zeitlin and Vanhercke (2014: 42) analyze, with the launching of Europe 2020 and its incorporation in the European Semester, bodies such as EMCO and the SPC, have significantly enhanced their peer pressure and peer review procedures “by challenging each other’s reasoning, discussing the rationale of the CSRs, and monitoring their results”. This was understood as a “game changer” by the committees’ members since the discussions and mutual learning on the CSRs became more inclusive and acquired a multilateral character.

While pointing to the conditions which influence a MS’s susceptibility to reputation signaling, de la Porte and Heins (2014) argue that peer pressure effects can vary depending on the sensitivity of the issue and national political culture when it comes to ‘naming and shaming’. Using a more analytical framework, Zeitlin (2009) argues that the effects of peer pressure are “highly dependent on domestic conditions” including “the perceived legitimacy, intellectual basis and procedural fairness of EU recommendations” as well as “the level of public support for the EU and sensitivity to European criticism”. Belgian political elites and public opinion are traditionally staunch supporters of the European project, a fact which did not change even during the fiscally harsh period 2009-2013. The desire of the national governments to show that they are ‘the good pupils’ is evident in the statement of Elio Di Rupo, the Prime Minister at the time: “We are meeting our commitments to the EU. We are strengthening our position in the European peloton” (De Redactie, 20 November 2012).

As I will explain in the following chapters, there are multiple signs that the use of the Semester documents as a reputation signaling mechanism have been understood by the Commission and the national governments, together with the aforementioned limits of the fear of sanctions mechanism. This, however, does not mean that the latter mechanism has lost its credibility since with every new cycle and given the context one cannot rule out that sanctions will not be imposed anew -like a sort of a ‘Damoclean sword’ hanging above the actors’ heads. But due to this understanding, both sides have eventually adopted an unofficial bargaining practice, which became increasingly explicit in recent years. This practice refers to a ‘quid pro quo’ mechanism, where the MS make reforms in
exchange for more fiscal space, thus alleviating the pressure. As Deroose and Griesse (2014: 3) mention, the Commission assesses “CSR implementation on the basis of action taken, rather than observed outcomes”, so the national governments use this in order to show good will. Zuleeg (2015) confirms that “the Commission has become a political actor” over the years, a fact “which clashes with its independent assessment and implementation role, including in the fiscal policy field”. Especially since the streamlining of the CSRs during the 2014-2015 cycle, the Juncker Commission openly promotes national ownership of the reforms. For that reason, it explicitly recognized the quid pro quo practice, which blunts the hierarchical character of the fear of sanctions mechanism and enhances its political side connected with the bargaining procedure. In the words of a Commission high official:

We have issued a communication in January 2015, the flexibility document⁴, in which we more or less explicitly said you can use it as a trade-off. If you ask me about the difference about the former Commission and this one on the Semester I would say that’s it. For the previous Commission, you had to pursue structural reforms, get your budget in order and this Commission sees it as dependent variables to some extent, like if you do this on this from you can do slightly less on this front and this flexibility communication is a symbol now. (COM01)

Schoukens, De Becker and Beke Smets (2015) along with Zuleeg (2015) add public opinion and media exposure to the pressuring mechanisms, when referring to the implementation of the employment guidelines. Within the current analytical framework this is presented as a separate mechanism, although in many occasions it is empirically related to the reactions of the markets and the reputation signaling to the EU. From their side, Dunlop and Radaelli (2016) refer to this form of pressure by pointing to the media coverage of the CSRs, which in the cases of France and Italy enhanced the feeling of “what the Council will say about us”. Likewise, Zeitlin and Vanhercke (2014) suggest that media coverage not only enhances the political prominence of the CSRs but also contributes to peer pressure and the fear of introducing sanctions (“in some countries... the CSRs make the evening news”).

The next mechanism of external pressure refers to the reactions of international markets (Darvas and Leandro, 2105) or, more specifically, the government bond markets (Kelemen, 2015) in regard to a country’s probability of default⁵. Due to the fear of a downgrade in their bond ratings or an increase of the spread on long-term sovereign debt yields, when there are signs of falling performance, MS may be ready to take swift measures in order to calm investors’ worries. Market pressures can work independently of the European Semester, but they are linked to it inasmuch they reinforce its mechanisms of change, thus contributing to the adoption of national reforms.

But to what extent international market actors take the SGP and the MIP signals into consideration? In its “Principles Of Credit Ratings” report, Standard and Poor’s (S&P) reveals that it assesses a

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⁴ The Commission’s flexibility document is discussed earlier in the introduction.
⁵ Due to their cyclical causality, it is sometimes difficult to distinguish between the pressure mechanism referring to the reaction of the markets and a country’s alarming fiscal or macroeconomic situation (the latter being a mediating factor in my theoretical framework), as also Jones (2015: 5) points out: “Market confidence is harder to assess because of the dangers of tautology linking crisis and confidence. A sudden drop in confidence will trigger a crisis but a crisis will also trigger a sudden drop in confidence”.  

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country’s rating on the basis of quantitative and qualitative factors. The former category includes both economic factors as well as budgetary and financial performance, the one referring to “demographics, wealth, and growth prospects” while the other to “budget reserves, external liquidity, and structural budget performance” respectively. As far as the qualitative factors are concerned, the analysis takes into consideration any “political risks, including the effectiveness and predictability of policymaking and institutions and the transparency of processes and data and the accountability of institutions”. In a more recent report (Standard and Poor’s, 13 February 2015) on how sovereign bonds are rated, S&P defines more precisely five areas or aspects which are taken into account when assessing a sovereign’s creditworthiness. These are: institutional and governance effectiveness and security risks, economic structure and growth prospects, external liquidity and international investment position, fiscal performance and debt burden, fiscal assessment as well as monetary flexibility. Evidently, a country’s fiscal performance, which is assessed by the agency according to the sustainability of a sovereign’s deficit and debt burden, is the area the most relevant to the SGP indicators. Accordingly, the area which corresponds to the MIP indicators is the country’s economic structure and growth prospects, having as its three primary drivers of assessment “the country’s income levels, growth prospects, and its economic diversity and volatility”. Regarding the way credit agencies assess a sovereign’s financial status, the report mentions that their analysts are informed “from published reports, as well as from interviews and discussions with representatives of the sovereign”.

As well-known policy documents, the Commission’s CSRs and SWD are studied by these financial institutions, however there are no signs that the fiscal or the budgetary aspect are taken more into consideration than the issues related to growth. Particularly in the case of Belgium and the downgrading of its credit rating in November 2011, S&P justified its decision by referring to the high debt linked to the country’s institutional uncertainty and the bad conditions for growth in the Eurozone as a result of the sovereign debt crisis. According to the agency’s press release: “In our opinion, protracted political uncertainty remains a risk to its creditworthiness, in particular given i) the likely slowdown in economic growth we anticipate for 2012, ii) increasingly difficult financial market conditions affecting most of the Eurozone governments and iii) a high level of government debt and its rollover ratio and contingent liabilities related to the financial sector” (Business Insider, 25 November 2011). Finally, for the case of Belgium, Jones (2015) argues that even though the country’s problems (including its feeble banking system and an accumulating public debt) remained unsolved in the immediately period after the Di Rupo government’s election, yet the sovereign debt markets stabilized surprisingly quickly.

Moving on to another mechanism of external pressure, negative external financial support refers to the EU funds and their capacity to pressure member states, by threatening to withdraw existing finance. Zeitlin and Vanhercke (2014: 57) identify three ‘levers’ of conditionality within the framework of the European Structural and Investment (ESI) Funds, designed to promote the implementation of goals related to Europe 2020, the SGP and the MIP. The first refers to ex-ante conditionality: according to the Council’s General Regulation 1303/2013, when the Commission judges that the operational programmes of MS have not addressed specific priorities related to the CSRs, it can reject in advance their structural funding. The second level has to do with reprogramming, meaning that in the case that new priorities emerge in the CSRs, the European Commission can ask from a MS to funnel investment there. Finally, the third level is the gradual suspension of the structural funds, as a mechanism linked with the corrective arm of the SGP and
the MIP. The inability of a MS to achieve budgetary and fiscal balance can trigger the Commission’s proposal, as seen with the recent example of Spain and Portugal, although eventually these did not undergo a suspension of their funds (Reuters, 16 November 2016).

Finally, the Commission has gradually enhanced the prominence of positive incentives towards the Member States, as a way to increase the ownership of national reforms (e.g. Zeitlin and Vanhercke, 2014; De Streeck, 2014). When it comes to positive external support, whether financial or not, there is a plethora of initiatives launched at the aftermath of the sovereign debt crisis which spread across different fields and instruments. Two prominent examples are the Youth Guarantee and its financial resource, the Youth Employment Initiative, both introduced in 2013. These aim to ensure that young people under 25 have either a ‘good quality offer’ of a job or training opportunities or continued education within 4 months from finishing school or from becoming unemployed. But also more recently, the widely debated European Commission Investment Plan announced in November 2014, shows the increased attention that the Juncker Commission gives to infrastructure investing incentives. As regards to positive external support in the form of technical assistance, the newly-formed Structural Reform Support Service (SRSS) and the European Network of Public Employment Services (PES network) are notable examples. On the one hand, since its creation in June 2015, the SRSS provides to EU countries who request it “tailor-made technical support” in a wide array of policy areas, including employment policies, healthcare, good governance, environmental issues and migration. On the other hand, the PES network was created to enhance the coordination and efficiency of national public services and provide input to the EES regarding the situation of the various labour markets. As I will explain further in my chapter concerning the integration of migrants in the Belgian labour market, the network’s practices promote mutual learning and benchmarking among MS.

Apart from these external pressure mechanisms of change, there are mechanisms situated in the continuum closer to the side of intrinsic motivation; socialization is one of them. My concept of socialization corresponds to that of Vanhercke (2016) according to which actors adopt or even internalize European concepts, norms, targets and indicators not as a result of an active behavior in the search for policy solutions, but rather as a consequence of repetitive participatory action in a gradual and long-term perspective. This differs from creative appropriation in the sense that national actors actually change their preferences as a result of contact with the EU level decision-making procedures. A typical example of such a mechanism which dates before the Semester is the participation of national administrative actors in the various committees of the Council, for example the SPC or EMCO. Through their participation, national officials adjust their behavior to the group’s methods, jargon and practices. Likewise, the annual discursive process of producing the National Reform Programme (NRP) can affect the preferences of the policy-makers involved in it.

The issue of learning as a mechanism of policy change has been addressed from early on in the field of public policy (see for example: Heclo, 1974; Hall, 1993; May, 1992; Bennett and Howlett, 1992; Braun and Gilardi, 2006; Zito and Schout, 2009). Learning plays a significant role in the Semester and can occur through ‘a combination’ of rising awareness of other MS performances and their standards together with a ‘reflexive self-assessment’ (or ‘mirror effect’) of one’s own policy orientation and institutional capacities (Zeitlin, 2005; Visser, 2009; Vanhercke, 2016). In a similar approach, Schmidt and Radaelli (2004) claim that the discourse at the EU level can contribute to a light form of learning for national policy-makers, showing new possible paths and providing
arguments for ‘policy adjustment’ especially in times of crisis or when facing persisting policy problems (Hemerijck and Schludi, 2000). But also authors such as May (1992), Bennet and Howlett (1992) or Gilardi (2010) have referred to ‘instrumental learning’, meaning that policy makers use knowledge to pursue their own political goals, rather than to substantially upgrade their understanding and re-orientate their policies. As my interviews indicate, several key-actors at the national level (e.g. members of the Belgian Committee on Ageing or of the Federal Planning Bureau) have understood their alignment with the CSRs as a confirmation sign (Vanhercke, 2016: 11), in order to point to further pension reforms going to a similar direction— thus, understood as a case of ‘mirror effect’. Finally, the creation of an epistemic body such as the Vandenbroucke Committee, served not only in increasing the legitimacy for future measures, but, most importantly, in promoting knowledge in regard to the sustainability and adequacy of the new pension system.

More specifically at the EU level, the European Semester has incorporated instruments related to knowledge and which previously belonged to the Social OMC and the EES, namely the Multilateral Surveillance Reviews (MSRs) and the Mutual Learning Programmes (MLPs). Together with other - more quantitative- monitoring instruments, such as the Joint Assessment Framework (JAF), the Employment Protection Monitor (EPM) and the Social Protection Performance Monitor (SPPM), the MSRs contribute to mutual learning between states through their implementation reviews.

But while the MLPs have the sole purpose of enhancing mutual knowledge across member states, the role of the MSRs is not confined only to mutual learning. In fact, these latter are interlinked with several categories of policy change, and are used as a tool of evidence-based bargaining and peer pressure, apart from mutual learning. Zeitlin and Vanhercke (2014: 47) refer to MSRs as a devise for evidence-based bargaining with the Commission, since the amendments of the CSRs can be “justified by reference to the results of the multilateral surveillance reviews conducted within the committees”. To show their importance in this procedure, the authors add that: “Only issues that have been extensively discussed by Member States during the multilateral surveillance process stand a chance of securing the needed qualified majority vote within the committees”. Finally, since the early cycles of the European Semester, -knowledge based- peer reviews within the Council’s various committees were used as an additional lever of peer pressure for the adoption of structural reforms.

Lastly, a common mechanism of change found in the studies of European integration is creative appropriation, according to which national political actors use the concepts, jargon and arguments of the discussions at the EU level as means to legitimize and promote their own agenda. Closely linked to what is known as ‘leverage effect’ in the OMC literature (Barbier, 2005; Zeitlin, 2009) creative appropriation has been observed in an array of national cases long before the creation of the European Semester, for example during the implementation of the Hartz laws in Germany or during Berlusconi’s labour market reform in Italy back in 2003. This behavior is not limited only to state actors but can also extend to opposition parties, social partners, the civil society as well as sub-regional actors, contributing to not only to ‘leverage effects’ but also to ‘democratizing destabilization effects’ (Sabel and Zeitlin, 2008) as these were mentioned earlier. While the former effects refer to the exerted pressure on national governments and, thus, the advancement of the non-governmental actors’ agenda, the latter has to do with the enhancement of knowledge on best practices and the improvement of policy standards for national political actors as an opportunity to hold governments accountable for their own policy choices. Creative appropriation is closely related
to the ‘usages of Europe’ by the domestic actors (Jacquot, 2008: 22) who understand the EU as ‘a set of opportunities’ for their own political and institutional advancement as well as ideological positioning. As one of my empirical cases shows, the Belgian government referred to the CSRs as a source of ‘legitimizing discourse’ (Schmidt, 2002; Stiller, 2010) for the advancement of its own political motives and the creation of a new agenda, but at the same time this had a transformative effect on their policy practices. This is in accordance with what Zeitlin (2009), Sanchez Salgado (2014) and Vanhercke (2016) have argued in the past: “If there is no impact of Europe without usage by domestic actors, there is also no usages of Europe without an impact on the actors concerned” (Zeitlin, 2009).

Table 2. Mechanisms of change in the European Semester

<table>
<thead>
<tr>
<th>Mechanisms of external pressure</th>
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<tbody>
<tr>
<td>Fear of sanctions</td>
<td>National actors push for reforms under the threat of the imminent imposition of sanctions</td>
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<tr>
<td>Reputation signaling and peer pressure</td>
<td>It refers to the ‘naming and shaming’ process that member states, but also the Commission, exercise among themselves, in order to incentivize the less willing</td>
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<tr>
<td>Pressure of the markets</td>
<td>Member states may be ready to take swift measures in order to calm investors’ worries, when there are signs of falling performance</td>
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<tr>
<td>Negative external support</td>
<td>It refers to the EU funds and their capacity to pressure member states, by threatening to withdraw existing finance</td>
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<tr>
<td>Positive external support</td>
<td>Positive incentives to the member states, as a way to increase the ownership of national reforms</td>
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<tr>
<td>Pressure due to the media or the public opinion</td>
<td>National actors push for reforms under the pressure of the media and the domestic public opinion</td>
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<th>Mechanisms based on intrinsic motivation</th>
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<tr>
<td>Socialization</td>
<td>National actors adopt or even internalize European concepts, norms, targets and indicators as a consequence of repetitive participatory action in a gradual and long-term perspective</td>
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2.3 Mediating factors

As a last step, I turn to the analysis of the mediating -or intervening- factors closely connected to the domestic context, since they play an important role in explaining the final outcome of Europeanization effects. The broader fields of institutional change (Streeck and Thelen, 2005; Mahoney and Thelen, 2010) and Europeanization studies as well as sub-fields, such as welfare state and employment policies, have extensively elaborated on the mediating factors which facilitate or constraint the implementation of EU-level policies. Particularly on the area of welfare and employment reforms, the majority of authors identify the preferences, interests, ideas and strategic positions of domestic actors as a most significant factor for determining the form and extent of Europeanization (Graziano, Jacquot and Palier, 2011; Heidenreich and Zeitlin, 2009; Ferrera and Gualmini, 2004; Graziano, 2011; Preunkert and Zirra, 2009). Whether explicitly (Weis, 2014: 619-620) or implicitly (Schmidt, 2001), the literature distinguishes between two kinds of factors, those relating to structure (institutions) and those relating to agency (actors).

A large part of Europeanization literature has brought forward the ‘goodness of fit’ hypothesis, according to which the EU creates “adaptational pressures” especially towards the MS whose national policy structure shows a significant degree of misfit with the EU structures. Nevertheless, a plethora of authors (Zeitlin, 2009; Börzel and Risse, 2000; Graziano, 2011; Green Cowles, Caporaso, Risse, 2001) have argued that such misfit alone is inefficient to automatically influence national policies, pointing out to the existence of additional factors.

Although the various existing theoretical schemes are broadly aligned, there is some nuanced variation among them. Green Cowles, Caporaso and Risse (2001: 10) identify three mediating factors relating to structure and two linked to agency. On the one hand, the multiple veto points of the actors within the domestic structure, the formal institutions of a MS which provide support for exploiting EU opportunities, as well as the cooperative policymaking culture, are seen as structural. On the other hand, the factors related to agency are defined as “the differential empowerment of domestic actors and learning”, but these seem to conceptually overlap with the effects of the EU on national policies as defined in my framework. Despite this, the conclusion to draw is that the interests of domestic actors can assist EU-induced policy changes, while these actors are more likely to change preferences, strategies and even identities after critical policy failures or periods of crisis (ibidem: 12). Börzel and Risse (2000: 7-8) present a refined version of this typology by matching

| Learning | It can occur through a combination of rising awareness of other MS performances and their standards together with a ‘reflexive self-assessment’ of one’s own policy orientation and institutional capacities.
| Creative appropriation | National political actors use the concepts, jargon and arguments of the discussions at the EU level as means to legitimize and promote their own agenda.

Source: own elaboration
specific mediating factors with Europeanization effects. According to them, the actors’ capacities to exploit new opportunities for EU domestic adaptation depend on two systemic factors: first, an institutional landscape full of dispersed institutional veto points, which can block reform attempts, and secondly, the presence of facilitating formal institutions which can provide additional material and ideational sources. Furthermore, the socialization effects of EU norms and ideas, defined as “the internalization of new norms and the development of new identities” (ibidem: 8) depend, on the one hand, on the mobilization of particular ‘change agents’ or ‘norm entrepreneurs’ and, on the other hand, on the existence of a consensus-building political culture.

Schmidt’s (2001) framework adopts a slightly differentiated perspective in which she mentions five mediating factors of Europeanization: economic vulnerabilities, institutional capacities, policy legacies, policy preferences, and discourse. Economic vulnerabilities refer to the fact that a state is more likely to take up reforms as suggested by the EU when it is faced with economic crises. Political institutional capacities correspond to the veto points mentioned earlier and have to do with the institutional structures which allow domestic actors to negotiate and pass reforms. The more the institutionally embedded centers of contestation, the less a government would be able to pass its own agenda. In addition, the fitness of the national policy legacies to the EU policy orientation matters, in a similar manner to the “goodness of fit” hypothesis. But also the ideas, interests and policy preferences of actors are a significant mediating factor on EU’s influence. Finally, Schmidt adds discourse as a factor closely related to the domestic actors’ ideas and preferences, which when present, can contribute to the Europeanization effects.

More recently and while referring specifically to the influence of the OMC, Weishaupt (2014: 205-208) identifies as well a series of mediating factors. First, he points to the architecture of the OMC, which includes ‘its objectives, indicators, learning mechanisms and support structures’. As seen in the comparative politics literature on institutional change, he identifies the political institutions of a country as well as its welfare institutions as two additional mediating factors related to structure. Finally, the interests and stance of the various actors involved, be it elected officials, civil servants or civil society organizations, can also contribute to a potential influence on institutional change and, thus, on the OMC’s impact. The author’s findings show that actors and agency have played a significant role on the OMC’s effects, while domestic institutional structures lack explanatory power when it comes to the influence of the OMC. According to Weishaupt, neither the political system nor the centralization degree is a “reliable predicator” for the national influence of the OMC/SI (OMC Social Inclusion) and the Pensions OMC. Similarly, the type of the welfare system – be it Beveridgian or Bismarckian – does not have any significantly diversified influence. On the contrary, agency matters much more for the creation of substantive and procedural effects, but only when actors decide to make use of the OMC: primarily in the case of OMC/SI (and to a lesser extent in this of the OMC/P) non-governmental organizations, as well as specific national and regional administrators of various MS actively engaged in the promotion of poverty and adequacy goals. Lastly, the variation between the different effects of the OMC strands, suggests that the architecture of each OMC is a relevant explanatory factor as regards their influence at the national level.

Having taken into account all these frameworks, I distinguish four mediating factors for my three case studies, as the most relevant to the Semester’s effects in Belgium and related to both dimensions of structure and agency. These are: the fiscal, budgetary and macroeconomic situation of Belgium; the support for the EU by the political elites and the public; the policy preferences of the
different coalition governments; and the Belgian Federalism as well as the country’s political system. In the next chapter I unfold an extensive analysis of these particular factors while operationalizing them into the Belgian context.

Table 3. Mediating factors

<table>
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<tr>
<td>Fiscal, budgetary and macroeconomic situation of Belgium</td>
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<td>The support for the EU by the political elites and the public</td>
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<td>The policy preferences of the different coalition governments</td>
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<td>Belgian Federalism</td>
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*Source: own elaboration*
Chapter 3. Research design: questions, case selection and methodology

3.1 Research questions

This thesis aims to elucidate the effects of the European Semester on national policies as well as the specific mechanisms through which these occurred during the period 2011-2017. The research contributes to the fields of Europeanisation, welfare state and employment reforms as well as EMU governance. Towards this end, it adopts a causal analytical approach, which refers to the exploratory analysis of the phenomena under scrutiny, their specific form and evolution, on the basis of empirical evidence derived from a wide range of sources. However, as Gates (2008: 27) underlines: “Theory offers the perspective through which we can interpret empirical observation... The interpretation of events in a process-tracing case study is shaped by theory”. For that reason, before moving on to the in-depth analysis of the three case studies, I present my theoretical framework as an analytical path for identifying the Semester’s effects and mechanisms of change. The combination of these two approaches operationalises my research questions from a theoretical perspective while at the same time contextualises them in the Belgian social and employment policies. The result is an integrated perspective, where interpretative evidence cannot be separated from the analytical categorisation of the Semester’s influence.

My overarching research question is formulated as follows:

- How does the European Semester influence domestic policies and policy-making?

In order to answer this, the question must be broken down further into sub-questions. In that case, it appears to be not one but four research questions:

RQ1: What are the effects of the European Semester on the three policy areas of study (pension reform, tax-shift away from labour, integration of migrants in the labour market)?
- What are the Semester’s substantive (e.g. programmatic shifts, ideational shifts) as well as procedural effects (e.g. reinforced vertical and horizontal coordination) at the national level?
- How did these play out over time and in which particular sequence?

RQ2: Through which causal mechanisms of change did the Semester influence domestic actors and Belgium’s political economy?
- Did the mechanisms of change exert external pressure or did they influence national actors in other ways (e.g. socialisation, creative appropriation, learning)?

RQ3: Which mediating factors are present in each case, and what role did they play in shaping the Semester’s effects and causal mechanisms?
- Which intervening factors ‘filtered’ the influence of the Semester on national policies and does their presence fit in the researched policy fields?

RQ4: To what extent did the European Semester exert a differing influence on the three policy fields of research, in what form and why?
- What conclusions can we draw when comparing the three case studies with regard to the different
effects, mechanisms and mediating factors?
- How did the actors and institutions act at both the EU and the national level and how this cross-case variation can be explained?

The importance of my research question lies in the fact that the impact of the new socio-economic coordination architecture on national policies has been surprisingly little studied. Various authors have pointed to the specific empirical deficit, adding that further studies are necessary to cast light on the mechanisms of change and the political economy of the European Semester. Thus, only a very small part of the existing literature has adopted an in-depth approach, while the majority of academics and policy-makers have given a rather surface, quantitative account of the Semester’s supposed effects. Congruence of the CSRs with national reforms does not imply causality, which is why my thesis aims address the explanatory dimension. As Windwehr (2017: 1305) correctly argues on this: “Obviously, the mere fact that European recommendations and national policy documents correspond in terms of content and/or wording is not sufficient to indicate a causal relationship”. The chosen theoretical framework as well as the research methodology are two crucial aspects for answering my research questions. As I have already mentioned in the previous chapter, these have been chosen for reasons of analytical clarity and appropriateness relating to the difficulty of translating the research questions into dependent and independent variables. Like the OMC, the causal mechanisms of the European Semester refer to a reflexive two-way process, which cannot be restricted only at the national level.

My ultimate goal is to provide a contextualised overview of how the Semester unfolded in the social and employment policy fields which also happened to touch upon fiscal and macroeconomic matters. Due to the idiosyncratic character of the subject and the lack of information, my hypothesis should be seen rather as broad expectations. Prima facie, I agree with the premise put forward by several authors that the legal basis influences to a great degree the implementation of the CSRs. As seen in the literature review, among several other authors, de la Porte and Heinz (2014) argue that after 2011 the rules for the implementation of the SGP and the newly introduced MIP were 'sharpened' by increasing de jure surveillance as well as coercion. Hence, the implementation capacities of the fiscal and macroeconomic goals were strengthened, in contrast to the Europe 2020 goals referring to employment and social inclusion, which, according to the authors, remained "at the very end of the list". Similarly, Copeland (2015) contends that the European Semester enhanced the long-existing hierarchical model which prioritises budgetary discipline and macroeconomic reforms over employment and social goals. Although I am aware of this upgraded framework and its legal repercussions, I expect that the link of a CSR with the SGP or with the MIP may not always lead to its implementation (and certainly not automatically), since this can be based simultaneously on multiple instruments of the Semester but also since the mediating factors which help the CSR’s implementation are not constantly present. Most importantly, I argue that causal mechanisms other than those exerting external pressure, such as creative appropriation and learning, play an equally prominent role during the process. All in all, based on these three expectations (differentiated effectiveness for a CSR linked to the SGP with another linked to the MIP, non-automaticity of sanctions, and plethora in the Semester’s mechanisms of change) my thesis aims to take a step further, by researching exactly how the Semester’s mechanisms unfold.
3.2 Case selection

According to Gerring’s definition (2009: 1138) my research has elements of both a case study and a cross-case study, in the sense that it focuses on few cases and their intensive study while at the same time it involves a sample of cases and analyses their variation. The decision to focus on Belgium was motivated by the plethora of policy developments in combination with the interchangeable presence of intermediate factors, both structural and agent-centred. During the period of 2011-2017 Belgium experienced several waves of significant policy reforms, which in their vast majority referred to the fields of employment and social policies: pensions, healthcare, active labour market policies, unemployment benefits, training and education, labour taxation, wage indexation. In addition, the particular circumstances that Belgium experienced, not only at the beginning of the European Semester but also as its consecutive cycles unfolded, makes its selection as a case study even more interesting. The various reforms over the years have been unfolded within a multi-layered context, involving factors at the national, the European as well as the global level. In regard to the European Semester specifically, many of these factors favour the existence of Europeanisation effects. The dire economic circumstances due to the financial and sovereign debt crisis, an ever-growing centrifugal Federalism since the 1970s, stable support for the EU construct as well as the recent rise to power of an outspoken reformist government count among the most important factors which could influence the final outcome. Their elaborate intertwining and subtle interchange is a most useful aspect in my search to understand the role of such preconditions on the Semester’s mechanisms. Finally, the accessibility of available data (Blatter and Haverland, 2012: 102) and the abundance of actors willing to openly discuss about the Semester’s impact was an additional advantage for the quality of my research.

Despite all the positive aspects of choosing Belgium as a case study, it is also important to mention the potential criticisms of such a decision. Since the country is traditionally one of the most staunch supporters of the European project, overall it holds a good record of implementation as regards the EU rules and recommendations. Hence, one can argue that the choice of Belgium is biased in the sense that we expect an exceptionally good record of CSR implementation. Besides, as Vanhercke correctly notices (2016: 7), Belgium “is a most likely case” for Europeanisation processes. Although this might be true when compared to other MS, this thesis aims to push things in the opposite direction: to debunk, among others, the notion that Belgium is the ‘best pupil in the class’ at all times and under any circumstances, and to show that Europhilia is balanced by the presence of other mediating factors. In addition, it is important to understand the internal motivations of the Belgian actors, which lead them to traditionally abide by the Commission’s recommendations. Due to the crystalised image of this country that is maintained by a big part of academia, the task of explaining the mechanisms of Europeanisation in the European Semester is even more urgent.

The three specific sub-cases - namely the pensions reform, the tax-shift away from labour and the inclusion of migrants in the labour market - have been chosen for cross-case study due to their relevance to my research objectives. Firstly, the different legal basis – broadly speaking - of the CSRs in each of the three fields creates expectations of the existence of specific causal mechanisms. Since pensions are more connected to the Semester’s fiscal rules, one would expect mechanisms of external pressure to be present. The same could be valid for the tax-shift away from labour, due to its relevance for the MIP. Finally, the mechanisms of learning or socialisation are more likely to be
present in the field of labour market integration of migrants, since the field is related to social inclusion goals and ‘softer’ coordination mechanisms. However, as mentioned earlier, this is not a strict categorisation since the specific CSRs have changed their legal bases over time.

Secondly, the CSRs referring to these three policy fields are among the most salient in political terms and have been recurring since the very beginning of the Semester. From that perspective, they represent a reasonable diversity for testing the heuristic value of my theoretical framework while they epitomise a significant part of broader policy areas. All in all, together with the variability criterion, my case selection aims at drawing a good balance between comparability and representativeness. As regards the former, the fact that all three cases belong to the same national context with a significant number of similar characteristics ensures a good basis of comparison. The traps related to the representativeness of the cases in explaining the effects and influence mechanisms of the European Semester can be avoided by having in mind the idiosyncratic characteristics of Belgium and by attributing their right dimension and role on the final outcome. This presupposes a deep empirically-driven understanding of the circumstances, ways and reasons due to which the Semester evolved in the particular national context.

3.3 Methodological approach: Process-tracing and comparative analysis

In my research design I combine the use of process-tracing and cross-case comparison, in order to enhance and complement the methodological advantages of each approach. I follow process-tracing as a most suitable methodological approach to deal with the challenges of causal inferences. According to the definition given by Bennett and Checkel (2014) process-tracing is: “The analysis of evidence on processes, sequences, and conjunctures of events within a case for the purposes of either developing or testing hypotheses about causal mechanisms that might causally explain the case”. This methodology has been used in a wide range of fields and their sub-fields, including Europeanisation and European integration (Schmidt, 2009; Moravcsik, 1998; Pierson, 1994; Parsons, 2003, Schimmelfennig, 2003), EU socioeconomic governance (Barcevicius et al., 2014; Zeitlin and Vanhercke, 2014; Heidenreich and Zeitlin, 2009) international relations and international political economy (Checkel, 2005) as well as welfare state reform studies (Esping-Andersen, 1990; Ferrera, 2005; Hemerijck, 2013). An analysis of a large N-sample showing the correlation between the independent and dependent variables grants confidence to the researcher, however it is not sufficient to track and describe the causal relationships in place (Schimmelfennig, 2014: 101). Specifically, Schimmelfennig stresses that this approach towards theory-testing is not appropriate for a number of good reasons: since there is no significant covariation between either the independent or dependent variables, from a methodological point of view the causal inferences are hard to observe, while from a theoretical point of view, the analysis faces problems of equifinality or over-determination. Especially in the field of EU socio-economic coordination, where there is a constant interplay between the national and the EU level, with no clear separation between the dependent and the independent variables, process-tracing is the only method capable of grasping the causal mechanisms. Finally, this approach takes into consideration the temporal sequencing of the particular causal links and the fact that a later stage depends on the existence of an earlier one.

My research design is aligned with the dynamic approach of Bachelard (‘applied rationalism’) and Vennesson (2008), according to which case studies must be understood as contributing at the same
time to different epistemological acts: the conceptualisation of the scope of the case (‘casing’), theory-building or theory-refining as well as to the inductive in-depth empirical research. As a result, my research cases serve a plethora of goals simultaneously, none of which are mutually exclusive (Lijphart, 1971). This is reflected and operationalised in the different variances of process-tracing which I use.

In particular, I adopt a joint positivist and interpretivist approach towards process-tracing, which addresses both the causal ‘what’ and the causal ‘how’ (Vennesson, 2008: 232). In this way I verify not only the existence of specific mechanisms which led to particular effects, but also I examine the ‘sufficiency’ of the causal explanation (Beach and Pedersen, 2013: 14) through the perceptions, motives and behaviour of the actors involved as well as the surrounding institutions. From that perspective, it is similar to the method of Richard Miller (1988) – as analysed in an article of Eric Jones (2015) - which is used to disentangle competing causal explanations in cases of over-determination. According to this method, to understand which correlation has the most important ‘causal significance’, we must first investigate whether this is necessary, sufficient and occurred prior to the others. My research method combines all three variants of process tracing, theory-centric as well as case-centric, as these have been presented by Beach and Pedersen (2013).

Jacobs (2014:41) underlines the usefulness of process-tracing in cases where the causal mechanisms have been designated ex-ante in a structured and analytical manner. In my case, the theoretical framework analysing the European Semester has been substantially drawn from that of Barcevicius, Weishaupt and Zeitlin (2014) referring to the Open Method of Coordination (OMC). With the use of theory-testing process-tracing, I deduce whether my empirical findings fit the generalisable typology of the Semester’s effects and causal mechanisms, thus following a sequence of theory before fact (Beach and Pedersen, 2013:16). On an initial level, my ‘ambition is not to prove that a theory is correct but instead to prove that it has utility in providing the best possible explanation’, as Beach and Pedersen (2013) have indicated. At the final stage, I refine specific parts of the existing theory, engaging ‘quasi-systematically’ in theory building (Vennesson, 2008). All in all, as Schimmelfennig (2014: 101) stresses, an “efficient” process-tracing must avoid, among others, the total lack of generalisability, which is why my research will contribute several theoretical findings. Given the small sample of cases and the specific factors which are present in the Belgian context, I am careful about the external validity of my findings, thus concluding with “contingent generalisations” (Collier and Mahoney, 1996).

But at the same time, I use outcome-explaining process-tracing by drawing evidence from my empirical analysis. At a base level, this empirical analysis plays a descriptive role, in order to track “little-studied” outcomes, in the way that a historian or an anthropologist would do (Roberts, 1996). As Della Porta (2008) explains, case-oriented research “aims at rich descriptions of a few instances of a certain phenomenon”. But contrary to a pure historical approach, these descriptions can be converted to an abstract analytical categorisation, transmittable to other cases as well. Once the case is explained to a satisfactory degree, the empirical data is used in a bottom-up approach to reveal the theoretical causal mechanisms which are in place. Ragin (2000: 31-32) underlines the iterative dynamics of such a bottom-up approach, by stressing the constant revision of the theoretical framework as a result of fresh empirical findings.
My analysis is based on a broad range of sources: official policy documents, existing literature coming from academic and policy-making circles, semi-structured interviews and press accounts. For the purposes of this research, many documents directly related to the European Semester have been carefully reviewed and incorporated in the thesis: the CSRs, the NRPs, the Staff Working Documents and the Annual Growth Surveys (AGS), reports from the EPC, EMCO and the SPC, Multilateral Surveys and Mutual Learning Programmes as well as decisions of the European Council and the Commission pertaining to the EDP and EIP procedures. I have also used documents which are less visibly linked with the European Semester but nevertheless remain relevant: national legislation, government declarations, opinions of domestic institutions and of civil society organisations, trade union publications and, lastly, publications of international organisations and of expert networks. Through the careful triangulation of all the available data and by cross-checking between the documents and my interviews to counterbalance any biases, I identify the debates, arguments and policy developments in all three case studies.

Finally, my process-tracing methodology is complemented by a ‘structured and focused comparison’ (George and Bennet, 2005: 70), with the aim to answer the fourth and final research question. Such a comparison is closer to a ‘macro-causal analysis’, one of the variants elaborated by Skocpol and Somers (1980): “a kind of multivariate analysis to which scholars turn in order to validate causal statements about macro-phenomena for which, inherently, there are too many variables and not enough cases” (Skocpol and Somers, 1980: 182). Since my research is focused on the in-depth analysis of the Semester’s procedures, my comparative approach adopts Mill’s methods of agreement and difference. According to the former method, phenomena with common outcomes are expected to also have hypothesised causal factors in common. On the contrary, according to the method of difference, “instances in which [a] phenomenon does occur” (positive case) are compared with instances in which it does not” (negative case) however, this can be “in other respects similar “ (Lijphart, 1971: 687). According to Della Porta (2008: 204) who refers to the research of Mahoney and Goertz (2006), the aim of this type of historical comparison is to grasp not only the ‘effects-of-causes’ but also the ‘causes-of-effects’, meaning the specific context and variables which influence the dependent variable. Furthermore, as Moore (1966) explains, such a comparison tries to define which configurations are “favourable” and which “unfavourable” in relation to specific outcomes that the case focuses on. Hence, the ‘dense narrative’ of my cases provides an overview of the variation between the multiple factors of influence.
Chapter 4. The European Semester in Belgium: the domestic institutional and policy context

As mentioned in the literature review and the research design chapter, few authors have focused on the specific ways that the European Semester functions at the national level. So, before moving to the in-depth cases, I attempt to first give a comprehensive picture of the wider Belgian political, social and economic context. For this reason, this chapter analyses the intermediate factors which shaped the Semester’s effects on domestic policies but also describes in detail the practices and inclusion of Belgian actors into the new socio-economic coordination framework. The following section gives an overview of the Belgian parameters which are relevant to the Semester’s impact, while the last section specifies how its processes have been rolled out within the Belgian context.

4.1 Mediating factors influencing the Semester’s impact in Belgium

Before researching the effects of the European Semester on Belgium’s policies, it is necessary to understand the broader context in which these took place. The characteristics of a country linked to its political institutions, historical development, economic circumstances and political culture are factors which shape in a tremendous degree the national perception and behaviour within the procedures of the ES. In the next sub-sections I analyse four relevant factors: the economic situation of Belgium, the support towards the EU, the agenda of the different government coalitions and the Belgian federal system.

4.1.1 The fiscal, budgetary and macroeconomic situation of Belgium

The budgetary and fiscal situation of Belgium plays an important role in the implementation of the Semester’s rules. As part of the Benelux constellation, the country pursued a stable macroeconomic policy and aimed at a monetary policy aligned with that of Germany long before 1992 (Kurzel, 1995). Yet, as Jones remarks (2005: 173), Belgium’s fiscal policies were not that strict compared with the EMU rules. Since the introduction of the Euro convergence criteria set in the Maastricht Treaty and even afterwards, with the establishment of the SGP in 1997, the country made considerable efforts to abide by the EU rules. Already by 2001 the country had impressively changed its national fiscal rules in order to fit the Maastricht criteria (Hallerberg, 2003: 17) – thus being one of the ‘best pupils’ along with the Netherlands, Denmark and Luxembourg (Cordes et al., 2015: 8). As the successive governments were absolutely committed to the multiannual budgetary plan set by High Council of Finance (Hallerberg, 2003: 16), an independent institution at the national level, Belgium showed an ‘impressive record of fiscal consolidation’ (IMF, 2015) for the period 1995-2007 aligned with its obligations towards the Maastricht criteria: public debt was reduced thanks to consecutive high primary surpluses (with an average of 4.8% of GDP), strong economic growth and the declining interest rates in government bonds. However, the country’s debt rose substantially from 87% of GDP in 2007 to 106.0% of GDP at the end of 2015 due to a combination of factors such as the financial crisis, the lower growth rate, the financial support for the banks and the contributions to other Euro area MS (European Commission, 2014). Belgium experienced high economic growth rates right after
the wake of the financial crisis (2010-2011) which, however, fell flat in 2012 and 2013. Eventually growth returned but with a lower rate compared to the pre-crisis levels, at 1.3% of GDP in 2014 and at 1.4% of GDP in 2015.

Belgium coped well with the direct effects of the 2008 financial crisis, thanks to its automatic stabilisers and the adoption of measures of fiscal stimulus. Nevertheless, these weighed heavy in its 2009 budget, which deteriorated in 5.9% of GDP from 1.2% of GDP the previous year. Since the Commission projections predicted that the deficit would only stabilise in 2011, on 2 December 2009 (Council Decision 2010/283 EU) the Council took the decision to initiate the Semester’s corrective arm, the EDP, as prescribed in article 126(7) TFEU, in order for Belgium to correct its deficit by 2012. Consequently, during the next three years the Belgian authorities took ‘effective action’ by adopting several budgetary-related measures: on the revenue side, the measures included an increase in income tax, in the excise duties on diesel and in taxes on products, while on the expenditure side the measures took the form of reductions on the cost of public administration and healthcare (European Commission [2013a]: Table 6). However, due to the simultaneous increase in certain expenses like welfare adaptations of social benefits, the expansion of wage subsidy schemes, the increased subsidies for clean cars and the unexpected financial support of Dexia bank, the effects of the above-mentioned efforts were partially offset. In fact, the period 2007 to 2012 was very troubled for the political situation of the country and from 26 April 2010 until 6 December 2012 an interim government was put in charge. In order to cope with the harsh social effects of the crisis, which was the priority, the interim government of Yves Leterme increased expenditures in social benefits and wage subsidies, at the same time having a significant reduction of the deficit from 5.9% of GDP in 2009 to 3.8% of GDP in 2010. But being a caretaker government, it was institutionally constrained from passing wide structural reforms, something that was reflected in the marginal debt reduction within 2011, reaching only 0.01% of GDP (European Commission, 2013a). The deficit of the following year reached 3.9% of GDP, but Belgium failed to correct it within the given deadline and was asked to obtain an extension to reach its deficit benchmarks by 2013. In its notice of 21 June 2013, the EU Council asked for additional measures for deficit reduction. These referred primarily to the field of pensions, for example increasing the effective retirement age and linking the statutory retirement age to life expectancy, as well as to other reforms of macroeconomic character. The country’s bad fiscal situation played a significant role in the implementation of the Semester fiscal rules, a fact which became more visible after the stabilisation of the political situation in Belgium. The Government of Di Rupo, which was sworn in December 2011, took swift measures to ensure the sustainability of pensions and reform the unemployment benefits system. At the same time, with the Sixth State Reform the Belgian Regions became competent for targeted policies in the labour market, contributing to macroeconomic measures for competitiveness. Due to “significant fiscal consolidation” efforts – in the words of the Commission in its recommendation COM(2014) 437 final abrogating the EDP - the new Belgian government managed to reduce the deficit to 2.6% of GDP for 2013 and to improve its projections for the next two years. Based on these, the Commission and the Council acknowledged that the deficit had been corrected and on 20 June 2014 they abrogated their previous decision for Belgium to enter the EDP.

After the 2014 abrogation of the decision not to enter the EDP, Belgium was put under a three-year transition period (2014-2016) to comply with the debt reduction benchmark. As a result, the Commission continued to produce annual reports, as the first step of the EDP procedure
according to article 126(3) TFEU, analysing the risks and factors leading to a potential non-compliance with the debt and deficit reference values. Despite the fact that the country continuously surpassed the maximum deviation conditions for the set debt reduction targets during the three-year transition period, the Commission eventually agreed with the country’s compliance with the debt criterion. In 2013 and 2014 the country’s annual deficit ranged around 3% of GDP (3% of GDP in 2013, 3.1% of GDP in 2014) however, from 2015 onwards the deficit ratio decreased (to 2.5% of GDP in 2015, 2.6% in 2016 and an estimated 1.7% in 2017). In fact, in its draft budgetary plan of November 2014, Belgium was at risk of non-compliance with the debt criterion and only after a series of structural measures did the Commission made a positive evaluation (Chambre des Représentants de Belgique, 5 May 2015).

2015 was the first year that Belgium experienced a decrease in its debt-to-GDP ratio since 2007. Prima facie the Commission considered that the debt reduction criterion was not fulfilled, while remaining high at 106% of GDP. However, the presence of other relevant factors such as ‘unfavourable economic conditions’, the expected compliance with the goals of the MTO and, most notably, the future implementation of ‘ambitious growth-enhancing structural reforms’, led to the Commission’s decision that Belgium had complied with the SGP rules. The debt-per-GDP ratio also kept decreasing the following year (105.9% of GDP) but Belgium requested to temporarily deviate from the adjustment measures towards the MTOs due to unusual events as prescribed in the articles 5(1) and 6(3) of Regulation EC 1466/97, referring to the arrival of refugees and the security measures after the terrorist attacks. As a result, after having taken into consideration the SGP’s rules allowing for flexibility, the Commission judged that in 2016 Belgium was compliant with its debt benchmark. Since Belgium did not manage to lower its debt in 2017 in accordance with the debt reduction rate, there is a real risk of non-compliance with the adjustment path towards the MTO.

Under the shadow of a new EDP opening, the Commission required additional budgetary measures for correction within the same year (Le Soir, 22 May 2017). As a response, in its recent letter of 9 May 2017, the government of Charles Michel announced that it would take further measures of fiscal consolidation. Despite the pressuring circumstances, the Commission has repeatedly underlined how the Belgian government since 2015 has implemented several substantial structural reforms, notably in the area of pensions, labour market competitiveness and taxation. It is notable that although many among these reforms did not have a direct fiscal character, the Commission judges that they contributed to the macroeconomic stability of the country, thereby helping to lower the deficit in the medium and long term. From 2012 to 2015, the in-depth reviews of the Commission towards Belgium signalled that the country experienced macroeconomic imbalances, due to external competitiveness and public indebtedness. In fact, the relationship between the SGP and the MIP as well as between their pressure mechanisms has not been entirely clear (EMCO, 2016; European Commission, 2016b). But the fact that Belgium was taken out of the MIP when the current government passed structural reforms in policies linked with competitiveness issues, such as the wage indexation system and lower labour taxation, shows that the improved economic prospects also play a role.

To sum up, Belgium’s economic and budgetary situation was a driving force to abide by the relevant rules at the EU level. The economic downturn of Belgium due to the financial crisis and its subsequent submission to the EDP in 2009, propelled political actors to take decisive measures. Even after the abrogating decision of 2014, when the country’s recovery was still fragile, the new government continued a wide array of reforms to meet its budgetary goals. Additionally, the
adoption of macroeconomic measures contributed to the lenient interpretation of the Semester rules.

4.1.2 Support for the EU by Belgian political elites and the public

The Europhile attitude of Belgium is a considerable factor in influencing the impact of the European Semester rules. Belgium was always one of the founding countries pushing for deeper European integration, with its elites already playing a significant diplomatic role from the creation of the European Coal and Steel Community and the European Economic Community. During its 2000 presidency, with the 8-page ‘Laeken declaration’, Belgium put on the table the issue of the institutional reforms in the EU after the Nice Treaty and the drafting of an EU Constitution (BBC, 26 June 2001). The stable support by the political elites and the public for the EU can be explained when taking into consideration Belgium’s economic and ethnic characteristics. Being a small country which relies on trade and foreign investment, Belgium understands the European single market and the EMU as a vehicle of prosperity and stability. It is notable that the country was very active in the creation of these two constructs (Maes and Verdun, 2005) since historically its top four trading partners have been Germany, France, the Netherlands and the UK in that order (Workman, 26 May 2017). In addition, its dynamic presence in the EU institutions and its good record of alignment with the European project enhances the position and bargaining power of the country in the eyes of its more powerful neighbour states (Heine, 2016).

Even during the sovereign debt crisis, the belief of the Belgian politicians and public in the EU construct remained strong, and they were primarily concerned with the management of the Eurocrisis (Jadot and Kebel, 2014) - without of course the lack of social concerns by the parties of the left such as the Greens and the French-speaking Socialist Party. During the Belgian Presidency of the European Council from July to December 2010, the caretaker government of Yves Leterme underlined the need to promote social inclusion and cohesion and to fight poverty (stating that it was "very important in our eyes" according to Euractiv [18 February 2011]). The Presidency was considered a success but in reality Belgium could not be active in advancing any agenda on its own due to the internal political stalemate. By coincidence, at the very beginning of the Presidency, the ECOFIN Council endorsed the creation of the European Semester (Van Hecke and Bursens, 2011). At the same time, in May 2010 the Belgian Christian-Democrat Herman Van Rompuy, as the newly-appointed President of the EU Council, formed a Task Force, with the goal of exploring how the EU’s economic governance could be strengthened (EUobserver, 14 September 2010). According to Vivien Schmidt, the fact that Van Rompuy happened to be in that position “was equally important in building a consensus on Eurozone governance by setting up a working group that included the main EU institutional leaders in monetary and economic policy” (Schmidt, 2015: 39). Its final report was endorsed by the European Council several months later, in October 2010, paving the way for the preparation of secondary legislation to enhance the EU fiscal governance (what later came to be the Six-Pack). Hence, the pro-EU stance of Belgian politicians not only contributed to the implementation of the Semester rules, but also contributed directly to their creation at the EU level.

Apart from the political elites, the support of the Belgian public for the EU was one of the highest in the EU during the peak of the Eurocrisis, along with Romania, Bulgaria, Cyprus, Slovakia and Spain. The Eurobarometer of August 2011 reveals that 60% of the respondents in Belgium had faith in the
efficiency of the measures already taken at the EU level (Eurobarometer, 2011:15). But also the fact that Belgium was the only country together with Luxembourg where people though that the progress towards the Europe 2020 goals was “too modest” (ibidem: 19), shows the political prominence of the EU in domestic politics. Even when the country exited the EDP in 2014, public opinion remained favourable towards the EU economic coordination mechanisms: in 2015, 71% of Belgian respondents believed that the EU level consultations result in more effective economic coordination (Eurobarometer, 2015: 72) while in October 2016 the Belgian opinion on the situation of the EU economic governance was slightly above the Eurozone average (Eurobarometer December 2016: 45).

4.1.3 The policy preferences of the different coalition governments

The different governing coalitions and their agenda also constitute an important factor in the adoption of the various CSRs. Although the numerous Belgian parties have different positions on how to manage the country’s fiscal situation, they all agree that the obligations towards the EU must be met. During the transposition of the Six-Pack to national law, parliamentary debates were limited and rather technical. In fact, all political parties were in favour of strengthening the budgetary and macroeconomic surveillance framework, with the left parties additionally underlining the need for social policies (European University Institute, VII - Six-Pack). In fact, since the creation of the European Semester, both Federal governments explicitly mentioned in their agenda their responsibility for budgetary consolidation according to the EU rules, despite the vocal discontent of some, like Paul Magnette⁶, Minister of Public Enterprises, Scientific Policy and Development Cooperation under the Di Rupo government, who questioned the legitimacy of the Commissioner (Le Monde, 7 February 2012). During the same period, in 2013 the Federal level and the Regions reached an unofficial cooperation agreement in which they pledged to formulate detailed fiscal adjustment paths (European Commission, 2017a). The Di Rupo government was elected with two overarching goals: to tackle the country’s fiscal problem and to implement the institutionally difficult reform of the Federal State. In its coalition Agreement (p. 76) under the title «assainissement des finances publiques» the government confirmed its “will to strictly respect the set objectives set by Belgium in its Stability Programme which was transmitted to the EU”⁷.

But the narrative in Belgium on the need to take further measures has been polarised during the crisis between the notions of austerity and growth, which were perceived as contrary (Jadot and Kelbel, 2014). This is reflected in the different approaches of the Di Rupo and the Michel government, in relation to reforms not so closely connected with fiscal consolidation as well as to their underlying ideological justification. In a 2012 Communication, the ruling francophone socialist party at the time stated that the liberal recipes advocated by the European right remain dominant, adding that the party will “continue to defend firmly the Belgian social model and will continue opposing new reductions in healthcare costs, a dispute on the wage indexation system as well as an increase on the retirement age⁸” (RTBF, 30 May 2012). Conversely, the focus of the Michel

⁶ “Who is Mr. Oli Rehn anyway? Nobody. And it is he who will indicate our economic policy?” (translation from French).
⁷ Translation from French
⁸ Translation from French
government on competitiveness is obvious, since its coalition agreement contains an explicit chapter on it, as well as references both to the 2013 experts group on “competitiveness and employment” and the Commission’s relevant CSRs. This different approach is even more exacerbated and explained by the presence of the conservative Nationalist Flemish Party (Nieuw-Vlaamse Alliantie or N-VA) as the larger party in the current federal government coalition. Since 2011, the party has already been a staunch supporter of budgetary discipline and the creation of the European Semester, while being vocal on the need to implement policies in Belgium which aim to fully abide by the CSRs (N-VA, 13 April 2011).

A brief review of other Belgian governments of the past reveals that the effects of the European economic and fiscal coordination mechanisms were always filtered through the political actors’ agendas. Piron (2013: 165) argues that the Dehaene governments of the 1990s have systematically legitimised their fiscal policy measures by repeatedly referring to the Maastricht objectives. Another example is the liberal-social coalition of the Verhofstadt I government, which shared a similar vision to the Commission on the employment market and the welfare state. Based on the ideas of its Pensions Minister, Frank Vandenbroucke, it promoted the notion of an active welfare state. The Amsterdam Treaty and the Luxembourg Jobs Summit of 1997 had already formed the pillars for a transformation of the labour markets of the MS but in the Council of Lisbon in March 2000 the government of Verhofstadt played a significant role in promoting and incorporating into the new Lisbon strategy the notions of active employment as well as social inclusion (Bonoli and Powell, 2003). It is notable that the Belgian Prime Minister and his British counterpart, Tony Blair, published a joint statement calling for better employment through ALMPs, social inclusion and increased coordination among MS through benchmarking (Le Soir, 23 February 2000).

4.1.4 Belgian Federalism

The country’s institutional structure has filtered the impact of not only the European Semester but also the general Europeanisation process on Belgium’s regional policies. The Belgian federal system presents several particularities which are based on the historical and socio-economic circumstances in which it was forged. On the one hand, it is centrifugal, formed after the progressive devolution of competencies to the Regions and Communities since the 1970s. Contrary to other Federal states, Belgian Federalism has been formed by ‘disaggregation’ (Swenden, Brans, De Winter, 2006) gradually shifting away from a unitary state, in order to balance the tensions between the Flemish and the Walloon communities. The product of such devolution is a non-hierarchical system between the Regions and the Federal level, which reinforces institutional competitiveness on issues of exclusive competencies (Börzel, 2002; Happaerts, 2015). On the other hand, most notably on the issues that require the shared competences of the Federal and Regional levels, the federated entities have a long tradition and several established instruments of co-determination for reaching a common position, such as cooperation agreements and the cross-national Committee of Concertation (Comité de concertation). As a senior Belgian diplomat has put it: “We’re not only a federal country, but also a practical country, which allows us to be a federal country” (BBC, 4 July 2001). All in all, the need for constant coordination makes Belgium a state of “cooperative federalism” (Kerremans and Beyers, 1997) characterized by consensus seeking and informal policy-making (Lejeune, 1999). However, at the same time the decentralising nature of Belgian federalism pushes things in the opposite direction due to the traditional ethnic-linguistic dichotomy. For that
reason, the direct involvement of other entities in issues of pure Regional competence is a sensitive political issue.

The cooperative nature of the Belgian federal system became evident under the influence of earlier Europeanisation settings. For example, EU rules require the MS to have a single representative to the Council and its consultative committees. The cooperation agreement of 8 March 1994 has set out the internal rules between the various government levels for the representation of Belgium in the Council of the EU. Accordingly, the issues discussed by the ECOFIN and the EPSCO Councils are only attended by the Federal Ministers; but while their participation in the former is exclusive, the sessions of the latter can be attended together with a federated assessor (see: Permanent Representation of Belgium in the EU). The coordination meetings for the socio-economic positions of the Regions and the Federal level are done in advance within the Directorate General of Coordination and European Affairs within FPS of Foreign Affairs (see: Federal Public Service Foreign Affairs, website). The Directorate plays an important role in managing the daily tasks and includes members of Belgium’s permanent representation, a fact that reflects the administrative character of such coordination bodies. On the rare occasions that consensus is not reached there, the matter is settled in the Inter-Ministerial Conference for Foreign Policy (ICFP) (Bursens, Hielscher and van Keulen, 2015: 79). Lejeune (1999) but also Beyers and Bursens (2013) conclude that the constitutional structure of Belgium together with the decision-making mechanisms at the EU level have led over the years to greater cooperation between the different governmental levels.

Few other examples illustrate the Europeanisation effects on Regional policies under the prism of Belgian federalism. Happaerts (2015) brings forward the case of environmental policies – which belong exclusively to the Regions - where the lack of political will from the side of Regional governments has been further amplified as a result of the centrifugal and non-hierarchical character of Belgian Federalism. Given the political sensitivity of the topic and the different ideological positions between the various actors, there were no incentives for inter-Regional coordination. But in cases of Regional exclusive competences, the EU policies can enhance inter-Regional coordination and assist the inclusion of stakeholders there. In particular in the case of Flanders, Maes and Bursens (2015) explain that the exclusiveness of competences has been a significant factor for the implementation of the Europe 2020 goals, since regional networks had to be mobilised or formed. The Flemish administration already had a strong steering capacity, and therefore under the EU influence the inclusiveness and coordination of these networks were further enhanced.

4.2 The European Semester in Belgium

Belgium needs to present a unitary National Reform Programme (NRP) document, hence its preparation and approval is a collaborative process involving the different Regions and Communities. This is not something new, since the obligation to draft National Action Plans (NAP) for employment and social inclusion already existed within the context of the various types of the Social OMC. As Vanhercke (2016: 226) reveals, this exercise had various coordination effects in Belgium. First, the drafting of the NAP for Social Inclusion has led to the creation of new coordination bodies and ‘Interministerial groups’ at the Federal level. In addition, horizontal cooperation between the Regions was upgraded. Finally, the author adds that, as a spillover effect, the OMC processes generated ‘prudent intra-regional policy learning’ (Vanhercke, 2016: 227).
Although the effects of the Pensions OMC and Healthcare OMC with regard to the inclusion of Belgian stakeholders have been limited, the OMC on social inclusion was far more encouraging. Hamel and Vanhercke (2009: 91) describe how various national stakeholders were gradually involved in the preparation of the NAPs, while the Belgian administration understood the need to further improve its existing participatory model.

Within the European Semester, the preparation of the NRP is a relatively elaborate process. At the administrative level, the Chancellery of the Prime Minister brings together a Drafting Committee which prepares the document. For this the Committee has contributors from all governance levels while specific Federal ministries play an important role in the coordination process (these are: the FPS Finance, the FPS Economy together with the Federal Planning Bureau [FPB], the FPS Social Security as well as the FPS Employment). A high official from the FPS Social Security confirmed the demanding coordination process: “We have a few meetings, but a lot of the consultations are going on via email of course, drafts are sent and we get the response and I coordinate this” (SPCS). The drafting is organised by policy area which corresponds to specific CSRs and Europe 2020 goals but shared subjects can be drawn jointly by representatives within the same Regions or at the Federal level. Furthermore, all three Regions and Communities additionally annex their own prepared programmes at the end of each NRP document. As a Belgian high official at the Federal level who coordinates the drafting process – and who happens to be a member of EMCO - underlined, this exercise is an opportunity for deliberations between the public officials involved:

It [meaning the drafting of the NRPs] doesn't lead to any specific coherence, it leads to discussion at least among some people, namely the civil servants involved in the policy-making at the different levels. At least, the NRP is basically my only legitimacy to ask the Regions: can you please provide me a description of this measure and the data? Does it work? So, it's the NRP or other European processes that give us, as Federal level, any legitimate reason to ask for this and at least this means that there is kind of information exchange. At the administrative level. (EMCO13)

At the political level, the Policy Monitoring Committee and the Consultative Committee are the institutions that receive the drafts and organise the discussions for their adoption. The latter committee consists of representatives from different authorities while the former consists of the representatives of the Community and Region Minister-Presidents, the Deputy Prime Ministers, the Minister of Foreign Affairs and the Secretary of State for European Affairs. If deemed necessary, the Policy Monitoring Committee can invite more representatives to join from relevant public services. As described by the same high official, the consultations in this committee are more on technical issues, rather than on substance, implying that the politicians would rarely change their positions due to dialogue: “My impression is that they use these meetings to discuss about formulations of the text and about the amount of lines each Region should get in the NRP rather than on how to better coordinate their policies, unfortunately” (EMCO13).

Apart from this process, administrative representatives of Belgium from all levels have frequent communications with the European Commission throughout the whole year, once again facilitated by their territorial proximity. For example, on 15 December 2016 a Commission fact-finding mission to Belgium was organised, in order to verify and specify specific points related to the CSRs. Flanders openly adopted a more proactive stance compared to Wallonia in regards to the European
Semester. As stated in its 2017 Regional NRP, such an approach aims to increase support for the Semester and its Europe 2020 goals but also to enhance ownership of the CSRs through better information and wider participation. This is relevant to the nation-building efforts of the Flemish government, which aspires to enhance the input and output legitimacy of the Region’s administration as a reliable policy maker. On this, De Blauwer (2016: 15) mentions the government’s aspirations to “assume a position among the leading European Regions by 2020”. Finally, the dialogue between the Regional and the EU level is an opportunity for Flanders to enhance its (already well-functioning) administrative structures and to reinforce its position in the domestic landscape, as Bursens (2012:400) and Maes (2016: 115) have also stated in reference to sub-national entities. Although Wallonia is less active in terms of administrative effort, public consultation and awareness-raising activities, it tries to keep up with the example of Flanders. In the words of an official from DG EMPL: “Wallonia is going reasonably well for now. Flanders was a little bit more proactive meaning that they said: let’s flood them with documents so they won’t ask. The more there is the less the Commission will ask. And Wallonia seems to be converging these days” (EMPL14).

Finally, the bilateral meetings between representatives from the Federal Ministerial cabinets and from Belgium’s permanent representation on the one side, and the high officials of the involved DGs as well as Commissioner cabinet representatives on the other side, constitute an important mechanism of better implementation. In these the Commission representatives not only have the opportunity to focus on specific issues but also to discuss and listen to counter-arguments from the Belgian side. After the first cycles of the Semester, in which Belgium faced significant economic difficulties, the Commission shifted incrementally to a more open stance, encouraging dialogue and argumentation. As the Belgian interviewees of Frédéric Rohar, a journalist at the newspaper L’Écho, state about their meetings: “From a climate of mistrust, we gradually moved to an environment of mutual understanding, a better functioning relationship9” (L’Écho, 5 May 2014).

The national legislation transposing the Six-Pack and Two-Pack did not increase the role of the Belgian Federal Chamber of Representatives (Vanden Bosch, 2014b). As a result, the parliamentary scrutiny powers on budgetary procedures, which according to Hallerberg, Marzinotto and Wolff (2012: 72) were already strong, continued within the enhanced framework of the European Semester. In that sense, the Chamber of Representatives can organise a debate on the subject, whether in its plenary or in a committee, but it cannot make amendments or decide on the Stability and Convergence Programmes and the NRPs (Kreilinger, 2016:35). Within the frame of its ex ante budgetary competences, the parliamentary Budget Committee, sometimes together with the European Affairs Committee and the Social Affairs Committee, holds regular exchanges of views with the Commission’s Semester Officer for Belgium, before the distribution of the draft budgetary plans or the NRPs and Stability Programmes or after the publication of the country reports and the CSRs. For example, before the submission of the 2013 NRPs, these three Committees organised a hearing of Commission representatives. Likewise, on 2 May 2015 and on 31 May 2017, two Commission experts were invited by the Budget Committee to discuss the reforms related to the European Semester (Chambre des Représentants de Belgique, 2015a; ibidem, 2017) while on the 28 March 2017 the Social Affairs Committee invited the Belgian Semester officer for a hearing. In the same direction, during the drafting of the budget plans of 2014 and of 2015, the Budget Committee

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9 Translation from French
auditioned representatives of the European Commission. Finally, it is notable that the Michel government participates in an exchange of views in the Chamber’s plenary session after the publication of its NRPs and Stability Programmes. At the Regional level, consultations in the Flemish parliament take place every year during the adoption of the draft budgetary plans and prior to the drafting of the NRPs (Government of Flanders, 2017: 3). The Walloon parliament has been informed only recently about the procedures of the European Semester. Being the first time that a Walloon parliamentary committee organised a debate on this, on 12 May 2016 the Committee of European Affairs invited two Commission experts to explain in depth how the Semester works and their specific role in this. The audience found the consultation such an insightful exercise that the President of the Parliament, André Antoine, promised to repeat it in 2017 (Parlement Wallon, 12 May 2016).

Compared to other countries, Belgian MPs are relatively active and get regular updates on the European Semester. Between 2013 and 2015, 8 national MPs attended the Inter-parliamentary Conference on Stability, Economic Coordination and Governance in the framework of the European parliamentary week (Kreilinger, 2016: 48). Accordingly, in 2016 and in 2017, several MPs who hold key positions in the Finance and Budget Committee and in the Social Affairs Committee of the Belgian Chamber of Representatives participated in the European Parliamentary week and the discussions about the annual Semester cycles (Chambre des Représentants, Missions a l’étranger 2007-2017). This can be explained foremost by the physical proximity of the European institutions to the Chamber of Representatives, both located in Brussels. Several positive developments during the most recent cycles show that there is increasing attention to the European Semester and its CSRs within the Chamber of Representatives, a fact that also reflects the efforts of the Semester Officer for Belgium to inform the national actors. In March 2015, the Magazine of the Belgian Chamber of Representatives (Chambre des Représentants, 2015b) dedicated several pages to the national budgetary process together with the European Semester. During the following year (March 2016) a panel of experts discussed the social dimension of the European Semester in front of the Social Affairs Commission (Chambre des Representats, 3 March 2016). Most recently, in 20 April 2017, Marianne Thyssen, the Belgian Commissioner for Employment and Social Affairs delivered a speech to the plenary of the Chamber highlighting the importance of the CSRs and the European Semester (Thyssen, 2017).

Lastly, Belgium is one of the countries with a good record on the participation of the social partners and civil society actors in the European Semester processes. The Central Economic Council (CCE-CRB) which is composed of the representatives of employers and employees from different sectors, as well as its consultative body, the National Labour Council (CNT-NAR), meet regularly with the chancellery of the Prime Minister concerning the developments within the European Semester, namely the AGS, the NRPs and the CSRs (Sabato, Vanhercke, Spasova, 2017: Annex 2). These bodies also meet with the Belgian Desk of the European Commission in March and June, to discuss on the In-depth Reviews and the CSRs respectively before their approval by the EU Council.

4.3 Conclusions

The idiosyncratic features of Belgium are a considerable underpinning factor for the Semester’s effects at the national level. First of all, the traditional Europhile attitude of the Belgian political class
and the Belgian public plays a significant role. The country’s political elites, which have long had a consistent Europhile stance towards fiscal governance measures, also remained favourable to EU institutions during the crisis. The state already pursued stable macroeconomic and monetary policies before the Maastricht Treaty, but after 1992 this attitude was enhanced and Belgium emerged as one of the best performers in fiscal consolidation as a result of the Europeanisation process. Accordingly, its budgetary prudence was evident during the harsh period of 2009-2013.

In addition, the genuine pro-EU attitude of the political elites not only served to support further measures of fiscal and socio-economic coordination but also played a significant role in their design, with the most prominent example being the task-force of Herman Van Rompuy. The contestation of several parties of the left against the specific form of austerity measures was considerable; nevertheless all political actors agreed that the country’s obligations towards the EU must be met.

Economic pressure played a significant role during the period when the sovereign debt crisis was at its peak. This culminated in the Council’s decision to open the EDP for Belgium as well as the downgrading of the latter’s credit rating by Standard and Poor’s. The dramatic increase in the country’s debt and deficit was perceived by all political parties as a threat to the country’s economic stability, especially when the prospect of an institutional break-up was still present. Hence, it is likely that the high-pressure circumstances contributed to the election of an openly reformist Federal government in May 2014, seen by some as the catalyst that could ‘restart’ the Belgian economy.

Another important factor weighing on the Semester’s influence is the policy agenda and orientation of each government coalition. As already mentioned in the theoretical chapter, there are no Europeanisation effects at the national level without the intervention of the political actors there. The Di Rupo government had as its primary task to tackle the economic downside effects of the crisis and to normalise Belgium’s political life. Thus, priority was given to fiscal consolidation measures and, as a socialist-led government, to the maintenance of stabilisation mechanisms so that the transition would be as smooth as possible. On the contrary, the Michel government presented a broader reform agenda which has as a main goal the structural enhancement of Belgium’s competitiveness –as so often repeated. For that reason, the centre of reforms changed: from the CSRs referring to fiscal reforms it shifted to certain CSRs linked with macroeconomic issues. In reality, this development is more nuanced as, for example, the Michel government continued the pension reforms. Nevertheless, the different narratives of the two governments regarding their reforms point to their different political agendas as a prominent factor that ‘filters’ the effects of the European Semester.

Finally, the particular character of Belgian federalism, which is centrifugal and non-hierarchical, thus favouring Regional competences while being cooperative, is a discernible element which influences the Europeanisation effects. Specifically on the European Semester, it supports and contributes to its effects, since inter-level or intra-level coordination is necessary to reach any set goal. In addition, the instruments and practices which supported past coordination mechanisms such as the Social OMC and the EES, opened the way for better vertical and horizontal cooperation, so the Semester’s functioning is also supported by these.

More specifically, the consultation procedures relating to the European Semester have been described in a positive way by the relevant actors in Belgium, and this is once again closely related to the country’s institutional specificities. For example, the bilateral meetings between the Commission
and the representatives of the Belgian governments are enhanced by the Belgian pro-EU spirit and the stable feeling of mutual trust while territorial proximity adds to the advantages. Furthermore, the close cooperation of the federal and the federated administrations during the NRP preparations is partially an outcome of the Belgian federal system. The same goes for the strong involvement of the Belgian social actors in that procedure, which reflects the cooperative -“social partnership” (Visser, 2008) - system of industrial relations and the presence of traditionally active institutions, such as the Central Economic Council and the National Labour Council. All of the factors above cast doubts on the generability of the factors influencing the Semester’s effects in a positive manner. In my in-depth cases, the preconditions for the successful adoption of the CSRs are particular and closely linked with the Belgian historical context. However, further research on the field of comparative studies could focus on the MS sharing a specific characteristic, such as Federalism or high rates of support for the EU, in order to ascertain whether these play a role on a larger scale.
Chapter 5. An analysis of the full set of Belgian CSRs

A necessary step in understanding the national influence of the European Semester is the examination of the full set of Belgian CSRs. For this reason, the chapter provides an overview of the CSRs towards Belgium from 2011 to 2017 as well as of their implementation for the period 2011-2016. Having this as its focus, chapter 5 is constructed as follows: first, I take stock of the different classification schemes of the CSRs while adding my own analytical framework. As I continue, I reflect on the various existing implementation schemes on the CSRs as well as their related methods of analysis. Before concluding, I review the few cases in literature where the authors focused on the effects and mechanisms of the European Semester particularly on the Belgian policies.

5.1 Existing frameworks for classifying the CSRs

The fact that the CSRs are multifaceted, scattered and do not have a standardized interface produces a "somewhat puzzling picture" in the words of Degryse, Jepsen and Pochet (2013: 22). It is not uncommon that the national response measures might address several recommendations at the same time - "mixed bags of issues" as Gern, Jansen and Koots (2015: 10) put it. For example, lowering the high taxation on labour is a measure which is counted as progress by the European Commission in both the areas of taxation and active labour market policies. As a result, for reasons of clarity and precision, some of the authors dealing with the subject have developed their own analytical framework for classifying the CSRs.

From the beginning of the European Semester, the European Commission has published its own classification schemes in an annual basis as part of the communication which accompanies the CSRs. However, the classification of the CSRs as portrayed in these schemes has changed over the years: broadly speaking, from 2012 to 2015 these remained the same but for 2016 and 2017 their analytical perspective was substantially upgraded. The number of recommendations reflects this development since for the period 2012-2017 the number of sub-policy areas almost doubled - from 17 to 32 - according to the Commission's classification (see: European Commission, 2016b: 63; European Commission, 2017a: 7).

In order to give a more comprehensive picture of the European Semester, most authors divide the actual CSRs into multiple sub-recommendations. Clauwaert (2013, 2014, 2016) has produced a series of detailed tables on behalf of the European Trade Union Institute (ETUI) analyzing the recommendations in the social field for the period 2011-2016, but without considering their actual implementation. His social and employment CSRs are classified in a detailed manner, adopting a more analytical approach than this of the European Commission. His categorization is as follows: wages, employment protection legislation, labour market participation, youth employment, pensions, social assistance, child poverty and, finally, labour taxation. But it is notable that Clauwaert’s analysis excludes the CSRs on health and long-term care, and education. Most of these categories are further broken down to ‘measures’: for example, the CSR on wages can refer to the
revision of the wage indexation or/and to the revision of the general wage system\textsuperscript{10}. Overall, the author concludes that social CSRs have been given increased attention in the European Semester; in particular for Belgium, at least half of the recommendations were always related to social issues (see: Clauwaert, 2016: Table 2: 11). Most importantly, Clauwaert remarks that for the period 2011-2016 three themes persist in the CSRs: renewal of the wage indexation and wage-setting mechanisms, pension reforms, as well as tax reform away from labour (ibidem: 12).

Based on a report by the European Parliament (2015a), Benassy-Quéré (2015) distinguishes the CSRs of that year into three different policy areas: fiscal and tax-related; labour, wages and education; and ‘other’. In another figure, she classifies them according to their legal basis, namely the SGP, the MIP and the Europe 2020 strategy. Subsequently, the author indicates their number per country, but like Clauwaert, she does not attempt to study their implementation.

From their side, Deroose and Griesse (2014) go further by creating their own analytical table for the assessment of the CSRs’ implementation during the period 2012-2013. According to this table - composed of 29 sub-recommendations- pensions and taxation are included among the sub-recommendations related to public finances while the categories of labour market, education and social policies are further broken down into numerous subcategories. These are: employment protection legislation and framework for labour contracts, unemployment benefits, active labour market policies, incentives to work, job creation and labour market participation, wage and wage setting, childcare, health and long-term care, poverty reduction and social inclusion, education, but also skills and lifelong learning. Apart from social and employment issues, the analytical framework expands to a wide array of policy areas (e.g. public finance and taxation, financial sector, structural policies, public administration and business environment), a fact that renders it one of the most detailed and thorough settings for the study of the CSRs.

With the aim to show the interaction between the different coordination mechanisms of the European Semester, Bekker (2015) presents two classification schemes for the CSRs of 2013. The first one reveals the number of country specific recommendations related with employment and social policies for all 23 MS. During that year, 67 out of the 141 CSRs contained at least one recommendation on social or employment issues. The second table categorizes the employment and social CSRs depending on their legal basis, explicitly referring to the SGP and the MIP (as well as their preventive and corrective mechanisms) but not to Europe 2020. As a result, Bekker finds that 50% of the recommendations are connected with these legally ‘hard’ coordination mechanisms.

Finally, Crespy and Vanheuverzwijn (2017) code all the CSRs of the period 2011-2016 into sub-categories, focusing on those relevant to the welfare state and excluding those ‘related to finance, taxation, the single market, and energy’ (see: note 6: 31). Aiming to debunk the meaning of the ambiguous term of ‘structural reforms’ as it appears in the European Semester, this classification distinguishes between reforms that can be seen as ‘social investment’ and those which are perceived as ‘social retrenchment’, as these are found in the work of Anton Hemerijck. For example in the field of pensions, recommendations which refer to curbing the age-related expenditure belong to the latter category. On the contrary, those referring to the adequacy of pensions or to

\textsuperscript{10} For a full analysis of these categories see: Table 1 Clauwaert (2016: 8).
active ageing measures are part of the social investment recommendations. Furthermore, in another figure the authors classify all the CSRs in which ‘policy reforms’ take place (and not only those with a social character) into nine broad categories: pension/healthcare, labour market/education, single market, social protection, taxation, education/R&D/Innovation, public administration, financial sector, and energy/environment. Based on this figure, Crespy and Vanheuverzwijn conclude that “Labour market reforms as well as reforms of pensions and healthcare gradually lost importance to the benefits of other reforms pertaining mainly to the reform of public administration, on the one hand, and measures related to the financial sector, on the other” (p. 19). They add that environmental CSRs have disappeared –something that is partially at odds with the findings of my classification table- and that the CSRs on the categories of social protection/R&D/education as well as of taxation have not changed significantly over time. Equally important, the authors argue that the CSRs related to social investment gradually held a prominent place in the European Semester, accounting two thirds of the CSRs in 2016. Although this is a positive sign of the Semester’s socialization, they add that “it is premature to conclude on this basis that the ES has moved towards a more social-friendly agenda” (p. 20). First, because this categorization might not be precise in representing the ideational change towards social investment and secondly, because, the CSRs recommending social retrenchment are usually based on more obvious legal bases, such as the SGP.

All these approaches come with their particular strengths and weaknesses. First, by choosing to create sub-categories in the existing CSRs, all authors except for Bekker and Benassy-Quéré opted for enhanced analytical clarity. Even so, this clarity varies among analyses, since some appear as extremely detailed –such as this of Deroose and Griesse. Furthermore, the indication of the broader categories of policy areas in which the sub-recommendations belong gives a more comprehensive picture of the latter’s character. Finally, as an issue closely related to the Semester’s effectiveness, by revealing the legal base of each CSR, Bekker and Benasy-Queré cast light to an important aspect of the recommendations. As seen in the literature review, many have argued that a recommendation’s capacity derives from its legal basis: thus, it is expected that the goals of Europe 2020 would be implemented less, compared to these connected with the SGP and the MIP. While indicating which CSR is linked with what coordination mechanism, the authors set the basis for further analyzing the development of ‘hard mechanism’ recommendations, as opposed to those connected to ‘soft mechanisms’. On the downside, certain authors have chosen to focus on social and employment issues (like Clauwaert or Crespy and Vanheuverzwijn) while others expanded their scope to all policy areas. This is not necessary a weakness, but in my case where I aim to analyze the effectiveness of the European Semester as whole the latter is certainly a better approach.

5.2 My own classification scheme

Taking into consideration all these schemes, and based substantially on the most recent ones made by the European Commission, I have constructed my own. For reasons of analytical rigor the unit of analysis is the sub-recommendations drawn from the Commission’s existing categorization of the
The tables of Annex I show the sub-CSRs per policy areas (17 in total), of which 10, those with an asterisk, deal with employment and/or social policy issues. Although some policy areas are closely related conceptually, for analytical clarity I have chosen to present them separately. This applies to two pairs of recommendations, the one linked to the taxation system and labour taxation and the other referring to labour market participation and the access of vulnerable groups. In addition, all the sub-CSRs are part of broader thematic categories, as also seen in the Commission’s scheme. Hence, pensions and taxation systems belong to the first category, namely ‘fiscal issues and taxation’, since these have been included in CSR no. 1 in the latest CSR documents. The category ‘labour market, education and social policies’ is the largest, comprising a wide range of recommendations: unemployment benefits, active ageing , labour taxation, active labour market policies, labour market participation, access of vulnerable and disadvantaged groups, wages and the wage setting system, but also education and training. Finally, the broad category of CSRs under the title ‘structural reforms’ refers to growth-enhancing and long-term competitive measures for the Belgian economy. It is comprised of innovation promoting measures, investment in alternative energy resources, transport infrastructure as well as measures in the retail and services sectors.

As already mentioned in the introduction, several authors indicate (Zeitlin and Vanhercke with Zwinkels, 2015) that the number of CSRs was higher during the Barroso Commission, but this was reduced with the arrival of the Juncker Commission and the streamlining of the CSRs. For Belgium, from 13 in 2012 or in 2014 the sub-CSRs decreased to 9 in 2015 (see Chart 1). Along general lines, two groups of recommendations have persisted over time: those referring to budgetary discipline and long-term fiscal consolidation, namely pensions and tax reform, and those referring to labour market issues (sub-CSRs 6-13 in Table 5, apart from active ageing). But even within the latter category, there is nuanced variation on which sub-CSRs remain, since, for example, the CSRs on active ageing and on unemployment benefits disappeared after 2014 and 2015 respectively. The fact that a past recommendation has been removed by the Commission does not mean that the issue cannot be further addressed. Active ageing was mentioned in the recital of the 2012 CSRs, but officially became a recommendation in 2013 and in 2014. With the streamlining of the Semester, the recommendation was put once again in the CSRs’ recitals in 2015 and in 2016. Likewise, although the CSR on pensions disappeared in 2016, the Commission stated it will continue to monitor closely the developments in that field. Conversely, the CSRs referring to structural reforms , apart from the one related to energy and climate change goals, appeared mostly during the Semester’s two last cycles. In particular, the recommendation on creating fiscal space for transport infrastructure is a novelty and reflects the ever-growing spirit of the Juncker Commission to promote investment measures.

The link between the goals of the Europe 2020 strategy and specific CSRs is not mentioned explicitly in the documents. Nonetheless, it is obvious that certain recommendations incorporate its goals despite the fact that sometimes other coordination mechanisms are also involved. Thus, several subcategories in my classification table reflect the targets of Europe 2020: research and development, education, climate change and energy, as well as access of vulnerable groups in the labour market. Furthermore, the number of CSRs related to the SGP or the MIP changes each year.

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11 Here I distinguish between the Commission’s official CSRs (the numbered recommendations) and my own sub-recommendations (or sub-CSRs) as these can be found in the classification table.
As the notes to my classification scheme reveal, on the one hand, the SGP-related sub-recommendations in each cycle are usually one or two – exceptionally for 2017 these are three. On the other hand, the number of the sub-CSRs related to the MIP ranged between seven and nine for the period 2012-2015. Since the In-Depth Reviews of 2016 and of 2017 did not show any excessive imbalances, Belgium did not have any MIP-related CSRs for the last two years. The sub-recommendations related to the MIP are usually part of one of the broader categories in my analytical scheme, this of ‘labour market, education and social policies’, plus the CSR on competition in services and the retail sector. The sub-CSR referring to Belgium’s sound budgetary and fiscal goals is always related to the SGP. Pensions have appeared as SGP-based recommendations in 2011 and 2015, while the sub-CSRs on the tax system and labour taxation were SGP-based only for 2016 and 2017. But during other cycles, the same policy areas were related to the MIP: in 2013 and in 2015 the CSRs on pensions appeared as MIP-based, while the same occurred with the CSRs on taxation from 2012 to 2015. Interestingly, only in 2015, the recommended measures for pensions were presented as related both to the SGP and the MIP.

My own assessment of the Belgian CSRs’ implementation was drawn from the Commission’s Staff Working Documents, hence adopting its jargon and categorization of the CSRs’ progress. During the seven iterations of the European Semester, substantial progress has been observed only four times. The first one was in 2012, when at the aftermath of the financial crisis the Belgian banks were successfully recapitalized. The second time was in 2013 on the CSR referring to fiscal consolidation, since that year Belgium managed to reduce its headline deficit to 2.6% of GDP, marginally higher than the target set by the Council some months earlier. Substantial progress has been seen also on the CSR of 2014 on pensions due to the combined efforts of the Di Rupo and Michel governments to reduce the gap between the effective and the statutory retirement age. Finally, after years of no progress on the CSR for reforming the wage indexation, the Belgian government made substantial progress in making wage formation more responsive to changes in productivity. As seen in Table 6, the vast majority of recommendations have experienced partial progress over the years, a fact which shows the incremental and ever-evolving nature of the developments in policy reforms. This fact was stressed by the Commission in its recent communication, which declared the adoption of a longitudinal assessment framework (European Commission, 2017a).

In fact, understanding the effectiveness of the Semester is intrinsically linked to the way one assesses the CSRs’ implementation. A longitudinal approach reflects a better understanding of the political economy of national reforms. First, it takes into consideration the change of governments which is a most pertinent factor for the orientation of policy goals. In the case of Belgium these are set in the beginning of each term when all the parties of the government coalition conclude the so-called government agreement, the document which sets the main policy goals for the next four years. In addition, the majority of reforms take several years to unfold. First and foremost, these need to be designed; at a second level, the various consultations with stakeholders, social partners, government agencies is not a linear process. Instead, disagreements and frictions are expected in issues that touch the very core of social justice in modern democracies, such as these related to the welfare system or taxation. My in-depth cases show the complex dynamics of a reform and the reason why significant implementation usually does not come swiftly. Conversely, assessing the progress of the CSRs’ implementation in a year-to-year basis can provide for a more detailed analysis of policy developments, nevertheless, usually the Commission’s Staff Working Documents repeat themselves in case of non-progress.
To complement the picture of the CSRs’ implementation, the evolution of the CSR on healthcare and long-term care deserves particular attention. This may be considered as a special case, since the Sixth-State Reform transferred a big part of the relevant competences from the Federal State to the Regions. The complex institutional landscape of the country did not help the pace of the reforms’ implementation, as the SPC has also pointed out (SPC, 2015a:4). All these factors contributed to the Commission’s decision to eventually stop publishing the CSRs in this area since 2013.

But also the development of the CSR referring to the tax away from labour is interesting: the CSR’s scope gradually expanded and from 2014 the Commission started underlining the need for a broader tax reform that would remove distortive tax expenditures. This came as a result of the reforms of the Michel government on labour taxation, which the Commission deemed them as a promising first step, nevertheless far from an equilibrated tax-reform, meaning budgetary neutral and not growth-enhancing.

Finally, the amendments of the CSRs can reveal a lot about the reflexivity of the European Semester, against the arguments that portray it as a rigid and authoritarian, top-down procedure. The legal framework stipulates that in order for a CSR proposal to be amended, a reinforced qualified majority is needed within the Council. When voting on a proposal that has not been made by the Commission, quality majority comprises 72% of the MS votes which must represent at least 65% of the EU population. Although the voting happens in the Council, it first takes place in the preparatory committees as a signaling device due to the existence of the “comply or explain” rule introduced in 2011. According to it: “the Council is expected to, as a rule, follow the Recommendations and proposals of the Commission or explain its position publicly” in order to promote transparency and rational arguments to the detriment of obscure political motives. Hence, the more an issue for amendment has been discussed during the multilateral surveillance process of the SPC or EMCO for example, the more chances has a MS to amend it later in the Council (Zeitlin and Vanhercke, 2014: 47). The amendment procedure is by design unwieldy, giving the higher ground to the European Commission. Despite this fact, several amendments on the CSRs have occurred over the years. While referring to the nature of these amendments, a Commission official revealed:

The basic philosophy of the recommendations and the amount of recommendations and the themes that they touch upon have never been altered, to my knowledge. Sometimes the formulation, the wording has changed, either of the recitals or the actual recommendations. For the MSs is a big deal, sometimes I think they are right to make it a big deal but most of the time it doesn't really change that much. They are more concerned about monitoring afterwards... These wordings may sometimes sound trivial, but most of the time these are not trivial, because we follow up on the recommendations the year afterwards. (COM24)

While the EPC and the EFC rarely confront the Commission on this, the SPC has been very active in the recent years. For three consecutive years, from 2012 to 2014, it managed to reframe the proposals on the CSRs which stipulated linkage of the retirement age with life expectancy. As one of the interviewees of Vanheuverzwijn (2016: 15) revealed: “Thanks to our Chairman [of the SPC], we succeeded to reach the reverse qualified majority necessary to modify the CSRs in the area of
pensions...”. In particular, the 2012 CSR proposal\(^{12}\) was amended towards a broader scope, not only focusing on the link between statutory retirement age and life expectancy but also mentioning the increase of the effective retirement age. Zeitlin and Vanhercke (2014: 44) state that although that year the SPC proposed amendments on the pensions CSRs, procedural ambiguities blocked them from being discussed in the EPSCO council at the very last minute, allowing to the ECF and ECOFIN to take the final decisions. Under the Irish Presidency in the spring of 2013, the allocation of competencies between the different Council committees became more clear while the actors were pushed to cooperate in issues of overlapping responsibility. The SPC, EMCO and EPC reached in advance an agreement for the amendments they wanted to push in the Council. This helped also Belgium to promote and eventually pass an amendment on its own CSR on pensions. According to the same Commission official:

I remember at the time that the Belgian amendment was only accepted because it was an amendment introduced by many countries. It had to do with the wording of the pension recommendation. If Belgium would have been alone introducing this amendment, no way would it have been amended but because was not alone it did happen. (COM24)

Thus, the scope of the Commission’s CSR proposals to Belgium in 2013 –but also in 2014\(^{13}\)- was eventually expanded in order to take into consideration the actual retirement age and additional pension benefits when making the link with life expectancy. In 2015 three countries (MT, AT, LU) tried to initiate amendments on their pensions CSRs, but only Malta succeeded to ensure a reinforced quality majority. As the SPC stated in its opinion on the 2015 Semester, the focus of the CSRs must be on the ‘appropriate mix of reforms’ which could enhance the effective retirement age and reform the pension systems according to the demographic and economic projections (Zeitlin and Vanhercke with Zwinkels, 2015:16).

5.3 The different assessment methods of the implementation of the CSRs

The assessment method of the CSRs’ implementation is an issue which has not been given much attention. Given its importance regarding the Semester’s effectiveness, the literature which focuses on its impact has surprisingly little to say specifically about how the Commission assesses the

\(^{12}\) CSR proposal 2012: “Continue to improve the long-term sustainability of public finances by curbing age-related expenditure, including health expenditure. In particular, implement the reform of pre-retirement and pension schemes and introduce measures linking the statutory retirement age with increases in life expectancy” vs CSR 2012: “Continue to improve the long-term sustainability of public finances by curbing age-related expenditure, including health expenditure. In particular, implement the reform of pre-retirement and pension schemes and take further steps to ensure an increase in the effective retirement age, including through linking the statutory retirement age to life” Expectancy”.

\(^{13}\) CSR proposal 2013: “Accelerate the adoption of a decision to link the statutory retirement age to life expectancy” vs CSR 2013: “Increase the effective retirement age by aligning retirement age or pension benefits to changes in life expectancy”.

CSR proposal 2014: “aligning the statutory retirement age and career length requirements to changes in life expectancy” vs CSR 2014: “aligning the retirement age to changes in life expectancy”.

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application of its yearly recommendations. Despite this, few authors have provided rich empirical insights, while confirming the evaluation’s non-formalized character. Deroose and Griesse (2014: 3) state that an ‘interdisciplinary team’ composed of country analysts comes together to discuss ‘qualitatively’ the measures which have been recently taken or announced to take place in the member states. Since it is extremely difficult to transform the countries’ efforts into a quantitative analytical table, the team of policy officials focuses on the particularities of each national case. Thus, the Commission’s policy officers enjoy relatively wide discretion to assess the degree of CSR implementation but also to justify their decision. In Zeitlin’s and Vanhercke’s (2014: 34) words “DG ECFIN holds the pen” during the preparation of the Staff Working Documents. Nevertheless, it is based on shared feedback from all relevant DGs, which is then reviewed in SECGEN’s country teams. But since this is a collective process involving several DGs, it entails different – even contrasting – approaches, negotiations and various points of disagreement. As one of the interviewees explains:

I mean these things when you see we use ‘substantial progress’ they are debated among colleagues and we have guidelines, what is ‘substantial’ what is ‘some’ [progress], what is ‘none’, and so on, and so in case of the tax shift it’s very clear that we are less in agreement with what happened with for instance pension reforms, there we say ‘substantial progress’. ‘Substantive progress’ is not completely the solution to the problem but it’s still a higher category than the tax shift and the reasons are indeed the absence of a tax reform, the fact that it’s not budgetary neutral (COM1).

Until 2013 the European Commission used three categories in its Staff Working Documents in order to track reforms: no implementation, partial implementation and full implementation. However, since 2014 the Commission slightly reframed these categories: no progress, limited progress, some progress and substantial progress. We can understand these as levels of increasing intensity, escalating from the least to the most. Apart from the categories at the margins (namely, no progress and full implementation) which are easily detectable, those in between seem like a grey zone, an issue which has raised debates over the precision of the implementation assessment of national policies. Being aware of this problem, the Commission attempted to made clarifications: ‘limited progress’ refers to the announcement of specific national measures “to address the CSR, but these measures appear insufficient and/or their adoption/implementation is at risk”. In a similar manner, ‘some progress’ is applicable when the country “has announced or adopted measures to address the CSR but their implementation is not certain” (Vanden Bosch, 2014a; European Commission, 2015c:65).

As mentioned earlier, in its 2017 Communication accompanying the CSRs, the European Commission emphasized the need to take into consideration the ‘multiannual dimension of the European Semester’. According to this approach, for the period 2011-2016, in two out of three recommendations there has been at least some progress, showing a more positive picture on the effectiveness of the Semester. Nevertheless, the pace and progress varies between MSs while the fiscal, financial and active labour market recommendations tend to get implemented more than the ones in competition services and business environment (European Commission, 2017a).

Aside from the European Commission, one of the units in the think tank of the European Parliament publishes its own reports on the effectiveness of the European Semester. The scientific team of the European Governance Support Unit (EGOV) updates the MEPs on the fiscal and economic
coordination developments and, among others, produces yearly studies on the CSRs’ implementation. Nevertheless, these reports restate the Commission’s findings in its Country Reports and do not use an assessment methodology of their own. In the words of one of the think-tank’s officials: “We take from the text of the CSRs, so we go through each and every Country Report to capture the Commission’s assessment” (Europarl18). The reasons for this practice are strategic as well as pragmatic. Legitimacy issues and lack of resources are the most defining factors for EGOV’s approach. As another official from the EGOV unit explained: “We don’t interfere with what the Commission says... Some politicians complaint or want to contest our findings and then we say: look, it’s the Commission that made the assessment...Furthermore, we don’t have the resources to do an analysis from scratch” (Europarl19).

But only for the year 2011-2012, the research team of the Governance Support Unit produced a unique “traffic-light approach” report, which gave a simplified, user-friendly picture of the Semester’s effectiveness according to three categories (fully done, serious work underway, not done). This study is slightly different from the rest, in the sense that it is a product of individual initiative and uses its own assessment on the CSRs implementation, based on more sources - namely the IMF, the OECD and Eurostat apart from the European Commission and the European Parliament. Although it was well-received by the administration of the European Parliament, it did not lead to a follow-up due to particular circumstances. As the report describes, only 20% of the recommendations were fully implemented for 2011, while 35% were on their way towards implementation and 45% remained unaddressed. Likewise, for 2012 only 16% of the CSRs were implemented, whereas 45% of the CSRs were underway and 45% did not get implemented at all (European Parliament, 2014).

In addition, each year the SPC and EMCO prepare reports on the relevant CSRs’ implementation, which feed into the Council sessions before the final adoption of the CSRs. Specifically for the SPC, these reports are based on the input of the Social Protection Performance Monitor (SPPM) profiles, the thematic reviews on MS as well as on the Strategic Social Reporting (see: Zeitlin and Vanherck, 2014: 48). Over the years, the Council advisory committees have pointed to specific issues without strictly categorizing either the policy areas or the implementation of reforms. But in its multilateral conclusions to the Council, the SPC has regularly taken stock of the gradual pension and the healthcare reforms in Belgium, stressing their good direction (see: SPC, 2012; SPC, 2015a). Similarly, EMCO has underlined the long-term progress on the areas of active ageing, labour taxation and the Belgian wage indexation system, while recognizing the limited effort made in the integration of vulnerable groups but also of migrants in particular (EMCO, 2015; EMCO, 2017a).

Several policy analysts have attempted to give an overview of the CSRs’ implementation based on the previous assessments of the EU institutions. For the period 2012-2014 Gern, Jannsen and Kooths (2015) reproduce the analysis of the European Parliament (2012, 2014, 2015a), which in turn is based on the Commission’s assessment as presented in its SWD. According to them, the percentage of full progress regarding the CSRs was already limited but this dropped from 9,4% to 6,4% over the next two years. On the contrary, the percentage of limited progress increased from 24,5% in 2012 to 44,9% in 2014. Finally, the percentage of no progress on the CSRs implementation was reduced as well, from 4,3% in 2012 to 3,2% in 2014. Gros and Alcidi (2015) also refer to the European Parliament’s analysis in order to underline the declining implementation of the CSRs between 2013 and 2014 (see European Parliament, 2015b). By using its output, they look into the CSRs’
implementation depending the GDP of each country in order to understand whether the size of a member state plays a role. Their weighted analysis shows that the full implementation rate of the 2014 CSRs is even lower than the one calculated by the European Parliament (3% instead of 7%) implying that more economically robust countries do not follow the Commission’s recommendations.

However, there are also authors who have developed their own implementation methodology. Hallerberg, Marzinotto and Wolff (2012) elaborate a singular analytical framework for the implementation of the CSRs on six countries (France, Germany, Estonia, Finland, Hungary, Ireland) for the years 2011-2012. Their assessment is based on two criteria: adherence to policy guidance by the MS and national ownership of the process. The first refers to the policy actions which the countries have taken in response to the CSRs while the second focuses on the internalization of the procedural and substantive requirements of the AGS and the CSRs (as these can be seen in the NRPs). Annex 4 of the study provides an account of their methodology: based on the NRPs and Stability or Convergence Programmes, the authors track the newly adopted measures compared to the goals of the AGS, the prescriptions of the CSRs and the assessment of the SWDs. Their findings point to a low or even moderate general implementation of the CSRs. Despite this, the MS seem to have adapted the NRPs into the Semester’s formal –procedural and substantive- requirements from 2011 to 2012 (see Table 3 p. 67).

Deroose and Griesse (2014) examine the CSRs’ implementation by country groups, policy sector as well as over time. Being aware of the difficulty to quantify the CSRs’ implementation in an accurate but also comparable manner, they construct a synthetic indicator. In their effort to draw a clear line between ‘limited progress’ and ‘some progress’, the authors created a scale from 0 to 100 and assigned each of the five assessment categories -as appeared in the Commission’s SWDs- to a specific range. When the (unweighted) average score of each CSR is drawn, the resulting synthetic indicator appears more refined than the original assessment of the Commission.

All the above show that the majority of analyses draw substantially from the Commission’s findings. Especially those of Gern, Jannsen and Kooths as well as of Gros and Alcidi, which do not break down the CSRs to further sub-recommendations, lead to homogenous conclusions on the Semester’s effectiveness. Apart from the original analyses of SPC and EMCO which do not include a classification scheme, these of Deroose and Griesse but also of Hallerberg, Marzinotto and Wolff deserve further attention. The strength of the former lies in the creation of the synthetic indicator, as an unique attempt to quantify the progress of the CSRs’ implementation. But also the positive aspect of the research of Hallerberg, Marzinotto and Wolff has to do with their hands-on approach as regards their methodology, in the sense that they do not rely on the implementation assessment of the EU institutions. However, by comparing the reforms in a year-to-year basis, the authors seem to have a limited understanding but also high normative criteria on the national ownership and implementation of the CSRs.
5.4 Previous analyses of the Belgian CSRs

Research which focuses specifically on the Belgian CSRs is scarce—and even scarcer when it comes to their implementation—nevertheless several authors have attempted to analyze specific developments in the country’s policies in relation to the European Semester.

While focusing on examples related to the EU’s coercive governance mechanisms, Degryse, Jepsen and Pochet (2013) refer to Belgium as a ‘limit case’. The authors claim that the country is an atypical category, since, on the one side, it dealt relatively well with the repercussions of the crisis due to a number of economic stabilizers whereas, one the other, it accumulated an extremely high level of public debt after 2008. While taking stock of the recommendations towards Belgium (many of which were given to other member states too) they focus on those which stand out for the period 2011-2014: the revision of the wage formation system, wage indexation as well as the increase of the effective retirement age. But eventually they do not go further in analyzing the CSRs implementation, concluding that “only the future will tell how Belgium will react and will heed—or fail to heed- these recommendations” (Degryse, Jepsen and Pochet, 2013: 36).

Vanden Bosch (2014a) appears skeptical both as to whether the CSRs have been successfully implemented in Belgium and whether the Semester has the institutional capacities to directly promote their application. According to him, the Federal government in the period 2011-2014 not only failed to take ownership of the suggested measures, but instead adopted an adversarial rhetoric towards those referring to labour market competitiveness and welfare reforms. Nonetheless, he observes that due to reasons of institutional stability but also the pressure exerted by the EDP, the government of Elio Di Rupo stepped up a number of measures, the most important of which were the increases in income tax, taxes on products and reductions in public administration costs, health expenditure and welfare state reforms. But in his assessment, these had an ephemeral character and wide socio-economic reforms came second in line after achieving institutional stability. Vanden Bosch recognizes that the CSRs in general “highlight relevant issues that ought to be addressed, and indicate where scope for national debate exists” -something that Zsolt Darvas, a policy analyst from the Brussels-based think tank Bruegel, has also argued (Euroactiv, 27 June 2014). But as far as the Belgian NRPs on structural reforms are concerned, for Vanden Bosch (2014a: 16) these are merely “little more than a bureaucratic exercise”.

Bokhorst (2017) focuses on the effects of the MIP-related CSRs, particularly on the abolition of automatic wage indexation, a very sensitive issue due to the exclusive competences of the MS and the national social actors. In this case, the added value of the MIP on the effectiveness of the European Semester is related to more elaborate mechanisms which can influence the political actors. As the author explains, the early CSRs on this issue were seen as very prescriptive and intrusive in regards to the Belgian social model. As expected, trade unions saw the recommendation as an effort by the Commission and the European Central Bank (ECB) to destabilize their wage-bargaining strength. The center-left coalition government which was in power at the time (2011-2014) was vocal in disagreeing with the CSR, pushing for its revocation in the European Council but eventually to no avail. With the inauguration of the Juncker Commission in November 2014, the CSRs acquired a softened approach and tone, a fact that reflects the EU institutions’ more open attitude to discuss the issue at a technical and political level. At the same time, the attitude of the new center-right government coalition, which emerged from the elections of May 2014, created an
important opportunity for the advancement of the CSR. Based on its own agenda, the government passed in 2015 the so-called “index-jump”, namely a temporary suspension of all wage indexation agreements until wages would be 2% lower of what they would have grown into, had they been linked with the inflation index. After additional budgetary pressure—which is not clearly connected with the MIP- the Belgian government reformed the old Law of 1996 on wage indexation, so in its 2017 SWD the Commission stated that there has been ‘substantial progress’ on the matter.

With a particular focus on Belgium, Vanheuverzwijn (2016) analyzes the interaction between the European Commission and the involved Belgian actors during the formulation of the Country Reports and the CSRs. Although he does not research on the actual implementation of reforms, he gives an insightful picture of the practices and strategies of all sides in relation to the framing of the Belgian CSRs. His article repeatedly underlines the discursive and interactive character of certain mechanisms of the European Semester. For example, at the administrative level, the particularly cooperative atmosphere of the bilateral meetings between the Commission services and the national authorities allows them to communicate their views and enrich the quality of their technical analyses. At the political level, the Belgian actors aim in transmitting their own frame of analysis to the Commission while showing their progress and good intensions. This does not mean, however, that moments of voiced political contestation are absent. During the Council discussions for the adoption of the 2012 CSRs, the Belgian Prime Minister, Elio Di Rupo, communicated his opposition to the Commission’s recommendation on wage indexation reforms (as Bokhorst’s article also mentions). All in all, Vanheuverzwijn discloses various details on the Belgian mechanisms of change within the European Semester, but as the author himself adds: “future research is still needed to understand how the formulation of the CSRs depicted in this paper can affect their implementation at national level”.

5.5 Conclusions

This chapter is an attempt to assemble and analyze the full set of CSRs towards Belgium. For this reason, I have putted together the various CSRs in a coherent fashion and added the Commission’s analysis on their implementation. From the beginning of the European Semester, numerous bodies, such as the Council’s consultative committees and civil society actors, were involved in the monitoring of the recommendations and the assessment of their implementation progress. The Commission’s framework of analysis evolved, becoming more refined and more analytical over time. At the same time, with the recent adoption of a multi-annual framework of implementation, the Commission acknowledged the existence of the subtle contextual factors which influence the CSRs’ implementation. Nevertheless, the existing literature which focuses on the full set of CSRs can lead to misleading conclusions while amplifying the biases on the effectiveness of the Semester for a number of reasons: first, it does not address the how and the why but only makes an orderly account of the CSRs in a year per year basis. Secondly, the authors take for granted the official assessment of the CSRs’ implementation, without presenting a nuanced justification why the reforms should be deemed partially implemented or not. Finally, the majority of these studies date back to the first cycles of the ES, when the latter was perceived as a more top-down process of coordination, hence playing down its interactive and reflexive nature.
As shown in Chart 1 (in Annex II), the employment and social issues have formed the majority of the CSRs over the years, indicating that much attention is given to these challenges within the Belgian context. From that perspective, socioeconomic issues have always been and still remain at the center of the European Semester. Similarly, the recommendations related to the goals of Europe 2020 strategy are constantly present, in particular the goals of social and labour market inclusion and those related to the environmental policies. But apart from the recent case of Belgian wages, no substantial progress has been observed over the broader category of labour market, education and social policies, certainly linked to the particularities of some of its sub-categories. For instance, in areas such as labour market inclusion or unemployment benefits, the actors involved spread throughout multiple government levels. In addition, some of the goals related to the employment and social issues have encountered technical, legal and political difficulties as subjects of quantification, thus making their full implementation hard to track. For example, the inclusion of vulnerable groups in the labour market is a multidimensional issue and in Belgium is seen primarily from a legal anti-discriminatory perspective. A detailed database identifying the people with a migrant background was inexistent until recently and the task of building it was an extremely time-consuming process which took several years for its completion and still has substantial room for improvement. On the contrary, reaching the fiscal and budgetary goals is much more perceptible, since they are quantifiable and inextricably linked with economic projections.

The scarcity of studies on the causal mechanisms of the European Semester points to the empirical deficit on how national policies are actually influenced by and interact with the EU level. In-depth case studies which trace the causal procedures are necessary to debunk the myths about the European Semester, which the quantitative studies of the early years have helped to consolidate. The following chapters have exactly this aim: by focusing on pensions, the tax-shift away from labour and migrant integration into the labour market, I aim to shed light on how the Semester worked there and how my findings fit with my conceptualization of the Semester’s mechanisms of change.
Chapter 6. The effects of the European Semester on Belgian pension policies

6.1 Framing the Semester effects within the wider ageing policies: the last 30 years

Pensions have been always seen as one of the ‘immovable’ objects towards any reform effort and at the same time as a difficult field to analyse when looking at the EU’s influence (Vanhercke, 2009; Natali and de la Porte, 2009). On the one hand, pensions are at the core of social policies, thus belonging to the competence of member states. On the other hand, they are inextricably linked with the sustainability of budgets and public finances. As a result, their double character has been raising multiple disagreements not only between the EU and member states but also among the various actors of the political spectrum. In order to understand better the impact of the European Semester on a field so closely embedded in national traditions and thus path-dependent, it is helpful first to review briefly Belgium’s pension policies over the past few decades.

The issue of pensions has been traditionally included in the general debate of reforming the Bismarckian social security system as a whole, including health care expenses, unemployment benefits and family allocations. For that reason, ageing strategies in Belgium have been presented since the late 1990s as something broader than the legal (or statutory) retirement age, aiming to raise the employment rate of older workers in the labour market. The term ‘prépension’ or ‘brupension’ refers to a scheme applied to dismissed employees over a certain age which aims to support the individuals materially along with the unemployment benefits and make their transition to retirement smoother. Likewise, the effective retirement age is the actual age at which employees exit the employment market while the legal retirement age refers to the age at which someone gains the legal right to a pension.

Along general lines, we can divide the evolution of the Belgian pension debate into four broad phases. Roughly speaking, the period from 1980 to 2000 saw fiscal discipline as a way to contain pension expenditures. During the two Verhofstadt governments (1999-2007), the sustainability of pensions was closely linked with the increased participation of older people in the labour market. As mentioned in chapter 4 and further elaborated in the following chapter, in the aftermath of the institutional crisis the Di Rupo government increased the effective retirement rate and tightened the criteria for access to pre-retirement schemes. Most recently, the Michel government dealt with the statutory retirement age and accelerated the measures of the previous government.

Although not so prominent, the national debate on reforming the Belgian pension system already began thirty years before the launching of the European Semester. From the beginning of the 1980s, Belgium confronted major problems of competitiveness, a topic which was understood by the politicians as vital for the country’s open and export-oriented economy. As a policy response, an

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14 Specific passages in this chapter have previously appeared in Louvaris Fasois (2018).
15 For a comprehensive view on the welfare reforms in many EU member states since the 1970s see Palier (2010).
ambitious program of austerity and devaluation strategies was put in place which more or less lasted for 20 years - the period from 1981 to 2001. Already from the mid-1980s, the Belgian government was active in the negotiations over the single market act (Natali, 2008). With the signing of the Maastricht treaty and its criteria for entering the Eurozone, the political elite unanimously found a new opportunity to promote fiscal consolidation. As Deschouver and Van Assche (2005) mention, evidence of such unanimous political support come from the fact that not only there was hardly any blame-shifting debate on the need to consolidate public finances, but instead the only criticism of the liberal opposition towards the center-left governments of the 1990s was that the latter were either “being too slow” or that they presented “figures that made the situation look better than it was”. According to Natali (2008) the politicians used the EMU and the SGP of 1997 as ‘leverage’ to advance their austerity policy reforms. Thus the enhanced efforts for fiscal consolidation during the period 1994-2003 (the so-called “glorious consolidation decade”) were closely linked with the political consensus to reach the Maastricht criteria, as well as with the enhanced Stability and Growth Pact later on (IMF, 2011 Report). The projections at the time showed that within the next 10 years Belgium’s high debt would finally reach an equilibrium. The Maastricht criteria were also seen as a positive factor for the institutional stability of the country. At the end of the 1980s and the beginning of the 1990s, Belgium experienced political tensions due to its ever-evolving and centrifugal federal structure, since the wealthier Flemish Region was asking for more fiscal autonomy and reduced transfers to the rest of the country. Traditionally, the Christian Democrats of Flanders as well as the successive alliances of Flemish nationalists were in favour of decreasing their financial contributions towards Wallonia. Although the debate on the decentralization of pensions was not so prominent compared with that on social health and family allocations, pressures over the last decades to regionalize the system have been notable. Fiscal consolidation was presented as a tangible solution that could reassure the anti-solidarity voices. In the domestic debate, the Maastricht criteria were commonly seen as a motivating pretext towards this goal, as confirmed also in the reports of the National Bank of Belgium (IMF, 2011 Report).

The politicians were aware of the growing costs of ageing for public finances, but the debate became more prominent in the late 1980s (Marier, 2002), having as its epicenter demographic developments and their fiscal effects on the pension system. Since there was a wide consensus that fiscal consolidation was a priority, the pensions problem could be tackled within this wider framework: if the public debt could be lowered, then it would be possible to save money and finance the increasing costs of pensions. In May 1990, the Federal Planning Bureau presented its report on the future of the Belgian social security system including pensions. This would be used as an empirical basis for the political debate to raise the retirement age. The projections showed that under a no policy change scenario by 2040 the cost of pensions as part of the whole social security system would rise from 36% to 50%. The first government coalition of Christian Democrats and Socialists led by Jean-Luc Dehaene passed a major reform of the state’s federalist structure and took several measures on pensions, however cautiously and eventually with little impact - as Marier (2002) notes, the government did “minor adjustments” in the pension system. At the time, the European Directive CCE 79/7 called for equality of treatment between men and women (Council of the EU, 1978). As a result of its transposition into national law, in 1990 the Belgian government voted “a system of flexible retirement age” according to which men could retire at the same statutory age as women (60 years old, instead of 65 which until then was the case) “without any additional penalty other than the calculation of the pension was still based on 45 years” (Marier, 2002). Despite this
provision, in July 1993 the European Court of Justice (ECJ) ruled that the measure remained discriminatory and needed to change, since apart from the harmonization of the retirement age pensions should be calculated in the same way for men and women.

As part of Belgium’s efforts to put public finances on track and meet the Maastricht convergence criteria, the Dehaene government tried to launch a “Global Plan” during the autumn of 1993. This aimed at lowering the social security costs by changing certain parameters. Specifically with regard to pensions, it aspired to limit the costs of the public sector pensions, by establishing a cap on their automatic indexation and eliminating the ‘tantième préférentiel’, an element in the relevant formula\(^\text{16}\). But eventually, due to the combined opposition of social actors –most prominently the FGTB and the CSC- the adoption of the plan was abandoned.

In an effort to unlink pensions from social security contributions (SSC), part of the financing has been transferred to other bases over the years, such as taxes on consumption and specific products. From the mid-1990s until the mid-2000s, more than 20% of the funding of the Belgian social security system was shifted from SSC to general taxation sources (Valenduc, 2009). Nevertheless, this shift had limited fiscal effects, not being able to give tangible and sustainable solutions to the financing and transparency-related problems stemming from the structure of the Belgian pension system.

During the Federal electoral campaign of 1995, social policy reform was on the top of the agenda of several parties –most notably the Flemish Liberals (VLD) and the French-speaking Liberals (PRL). Inspired by the Dutch example, Guy Verhofstadt, the leader of the VLD, proposed the creation of a fund to finance pensions together with the increase of social security contributions. In addition, he suggested extending sectoral pensions through financial support from employers (Marier, 2002). The party’s communication strategy at the time gained attention with a poster saying: “Pension funds will disappear in five years”. However, due to their poor performance in the elections, the Flemish Liberals did not manage to push through their agenda.

The new government of Christian Democrats and Socialists, known as Dehaene II, not only continued in the same direction with the previous one, but also increased its efforts in order reduce the debt and maintain the sustainability of the pension system at once (Anderson and Kaeding, 2008). The pension reform of 1997 was presented both as a measure of fiscal consolidation and a response to the ECJ’s rule on Belgium’s discriminatory provisions between genders, by equalizing the legal retirement age and for men and women (European Commission, 2010). The legal retirement age was set for both genders at 65 years, assimilating however all the non-contributory periods such as unemployment and pre-pension. At the same time, it established a minimum pension after a full career. Although these developments are notable, nevertheless they did not mark a significant change, in the sense that they did not reflect any significant shift in the mindset of political actors.

The Federal government which emerged from the 1999 elections was a coalition between the Flemish liberals (VLD), the French-speaking Liberals (PRL), the Flemish Socialists and the Greens (Groenen) as well as the French-speaking Socialists and the French-speaking Greens (Ecolo). The

\(^{16}\) A given pension is calculated on the basis of 3 parameters: the salary earned, the duration of career, and a fraction which represents the part of the reference salary awarded for each year in the labour market. This fraction is called ‘tantième’ and is better for certain professions, for example teachers or public officials. In these cases, it is called ‘tantième préférentiel’. (For more see: Sdworx, 2016; SdPSP, 2013).
Prime Minister, Guy Verhofstadt, brought up once again the issue of pensions. As reflected in the coalition agreement, the new government developed a different strategy from the Dehaene governments, which coincided with the country’s fiscal developments. In the first years of the new millennium, Belgium budget became balanced (0.4% of GDP budget balance in 2000 according to the Commission’s 2006 Joint Pensions Report). Since the financial capacities of the country allowed for putting aside some reserves for the first time in decades, the Liberals (with the support of both the PSC or Parti social-chrétien and PRL) promoted the idea of a fund which could lift the burden of future pensions. Thus, in 2001 under the initiative of the Budget Minister, Johan Vande Lanotte, the government launched the ‘Zilverfonds’ or ‘Fonds de vieillissement’, a move which gained wide support within the coalition government but also from some trade unions such as the Christian Confederation CSC (Marier, 2002). In reality, however, the initiative to create a fund based on surplus exerted a “paralyzing effect” on the political actors involved, postponing the need for deep structural reforms in the pension system (Vandenbroucke, 2012).

Since the beginning of the 1980s the Belgian pension system has been increasingly based on payroll contributions (Montagne, 2000) thus making it more urgent to support the system with other funding sources. The so-called ‘Vandenbroucke law’ addressed the rising cost of pensions and had as a goal to support the Belgian pay-as-you-go system, by transferring part of the costs to other forms of pensions. The law was implemented in 2003 after two years of negotiations with the social partners, aiming to promote the adoption of sectoral pensions through collective agreements and to complement the use of the statutory pension (Hemerijck and Marx, 2010).

During its second term, the Verhofstadt II government launched the Generations Pact (Contrat de Solidarité entre les Générations) at the end of 2005 as part of its broader ageing strategy against the early exit of older workers from the labour market (Eurofound, 2 June 2013). Furthermore, it introduced a pension bonus for those reaching the statutory retirement age and helped people with low skills to establish the right to a minimum pension (European Commission, 2006).

Mainly due to the institutional crisis which occurred at the same time as the global financial crisis, not much happened with regard to pension reform during the years 2007 to 2010. The most significant development in that period was the initiation of a nation-wide debate on the future of pensions, but to no great effect—in the sense that it did not initiate immediate policy initiatives. The national conference in 2008 organized by the then Pension Minister at the time, Michel Daerden, resulted in the production of a ‘Green Book on Pensions’, which reflected on the increase of the effective retirement age (European Commission, 2010). As a result of the sharp rise in the annual government deficit during that period but also the political impasse at the national level, the pressure to implement explicit pension reforms grew steadily.

6.2 The effects of the European Employment Strategy, the Social Open Method of Coordination and the Ageing Working Group on national policies

According to an extensive body of literature, the European Employment Strategy (EES), the Ageing Working Group (AWG) and the Social Open Method of Coordination (OMC) had several notable effects on Belgian policies before the launching of the European Semester. First and foremost, these coordination mechanisms helped to raise awareness of the pension system’s future fiscal challenges,
leading for example to a more comprehensive understanding of the second pillar pensions’ character in the national debate.

The EES had significant effects on Belgium’s employment policies, as highlighted by a number of writers. More generally, as countries tried to redefine their labour market policies in the beginning of the 2000s, the EES helped to introduce and enhance the concept of an ‘active welfare state’ on the domestic agenda (Vielle, Pochet, and Cassiers 2005). The first government of Guy Verhofstadt promoted this idea under two perspectives: first, as a means towards wider inclusion in the labour market using a variety of strategies (e.g. enhancement of the minimum income, vocational education and training, inclusion incentives targeting specific groups); and secondly and most importantly, as a tool which could support the sustainability of the Belgian social security system (Nicaise, 2003). This orientation continued in the government’s second term, and was enhanced by further activation policies and ‘closer monitoring measures for the unemployed. Although the government took measures to combat early exit from the labour market, such as a pension bonus, these had but marginal effects (Vandenbroucke, 2012). Nevertheless, as López- Santana (2006) mentions, this coordination mechanism helped to frame better the challenges and responses towards specific policy problems. In turn, she acknowledges the EES’s importance for the promotion of ‘active welfare’ policies in the domestic debate and the inclusion of various target groups in the employment market, such as women, the elderly, young workers and people with migrant background. Lastly, the EES was highly beneficial for the better coordination of various policies between the different government levels.

Specifically with regard to the Belgian case, the Social OMC also worked in several influential ways. Natali (2007) explains how the launching of the pension OMC - before its streamlining into a single Social OMC in 2005 - was pushed by the Belgian Minister of Pensions at the time, Frank Vandenbroucke, which not only helped to address the fiscal challenges of the system but also proposed a new governance model at the EU level. In addition, Vanhercke’s (2016) studies give a detailed overview of the OMC’s impact on Belgium. As member states entered a process of cross-national comparison, the future challenges became more evident. Although the Broad Economic Policy Guidelines and the OECD had constantly raised the alarm to Belgium on the financial sustainability of its pensions, the periodic evaluation of the system helped to raise awareness of budgetary constraints and led to cognitive shifts for certain domestic actors, sometimes including the trade unions. Furthermore, such evaluations pushed the government to reflect on its own policies. Especially for the pension OMC, the prestigious Belgian Study Committee on Ageing analyzed the EU level indicators on the replacement rate of pensions and used them subtly as an extra technical argument in the domestic public debate. By promoting the fact that the replacement rates of the Belgian pensions did not follow the evolution of prices, the usage of the OMC indicators contributed to framing the issue as relevant to social sustainability. Again, according to Vanhercke, at the political level, the OMC on Social Protection and Social Inclusion (OMC/SPSI) enhanced the government’s legitimacy for new measures by comparing the econometric projections of other member states. But also with regard to the minimum income for elderly people, or GRAPA, the OMC/SPSI proved influential as a rational authoritative argument that legitimised its increase at the national level: the OMC/SPSI created a powerful reference norm in relation to the EU poverty line, which led to the mobilisation of multiple Belgian actors in their effort to implement it at the domestic level. As has been pointed out in other country studies too (Barbier, 2005; Visser, 2005), the OMC has been widely used as a source of leverage (or ‘selective amplifier’) by national actors for
the promotion of their own interests. Others (Preunkert and Zirra, 2009) would argue that it has led generally to ‘creative appropriation’, meaning that national actors adopted the EU’s recommendations to a great extent and incorporated them into their domestic policies. In the Belgian context, this effect became visible in the area of pre-pensions, where the Commission’s proposed measures on pre-retirement gained support among trade unions. Finally, these coordination processes promoted the notion of ‘actuarial neutrality of pension systems’ as the interviews of Vanhercke indicate - although hard to assess this since the actuarial corrections for Belgian pensions were abolished in 1991 for workers and in 2012 for the self-employed.

Influenced by the imminent launching of the Euro and the fiscal convergence rules of these years, the Economic Policy Committee (EPC) advising the ECOFIN Council created an Ageing Working Group (AWG) in order to closely monitor and assess the budgetary and macroeconomic projections of ageing. Based on the population projections of Eurostat, the AWG was given the task of preparing reports on the sustainability of public finances related with ageing-costs in every member state. High officials in the Belgian administration, who are members of the national Study Committee on Ageing (Comité d’Etude sur le vieillissement or CEV) and the Federal Planning Bureau, take part in its consultations. As a result of the AWG’s reports at the EU level, the long-term and medium-term challenges of pensions have been framed in a more specific way over the years. My interviews with national and EU officials indicate the Group’s significant cognitive impact in the field of pensions, as an official from DG EMPL confirmed:

The general discourse in Europe on pension reforms has been influenced not only by the recommendations to one specific country but also by what we have been doing even before the Semester, like Ageing groups and all of that (COM15).

6.3 Identifying the effects of the European Semester

6.3.1 The Di Rupo government

Since the EES and the Social OMC have been incorporated in the European Semester, it is to be expected that some of their effects would linger on within the new framework. As one of Bart Vanhercke’s interviewees pointed out “Europe diffuses slowly and calmly”, a fact that also my interviews reflect, thus indicating an evident continuity between the pre and post-Semester era:

Belgian pension reforms have been going on since before the Semester, so I don't think that the Semester has done anything more than to encourage them to go along the way they would do it in any case (COM15).

\[\text{According to the definition provided by Queisser and Whitehouse (2006: 4): “Actuarial neutrality requires that the present value of accrued pension benefits for working an additional year is the same as in the year before (meaning that benefits increase only by the additional entitlement earned in that year). Conversely, retiring a year earlier should reduce the pension benefit both by the entitlement that would have been earned during the year and by an amount to reflect the longer duration for which the pension must be paid. Actuarial neutrality is a marginal concept, relating to the effect of working an additional year”.}\]
The framing effect and the recognition of current policy challenges by a wide range of actors both at the administrative and the political level, was one of the Semester’s earliest substantive effects. That does not mean that disagreement on the Semester’s effects among them was non-existent. But Belgium is a good example of the process, where a variety of actors (such as the Federal Planning Bureau and the Study Committee on Ageing) over the years have invoked arguments of competitiveness along with EU data and reforms in neighbouring countries as an argument for domestic reform (Le Soir, 19 July 2012). On the procedural side, the CSRs continued to enhance vertical cooperation and horizontal coordination through the preparation of the annual National Reform Programmes (NRPs).

While referring to the Semester’s cognitive effects and learning capacities one of the interviewees at the national level explained:

I do believe that the European Semester is a way to raise awareness within countries that perhaps don’t come to these conclusions themselves [...] So, not only did we see in our data that we had an ageing problem that was becoming worse and worse. We also saw that other European countries, at least the countries around us, that they were already dealing with that issue. While the last 15-10 years we were aware of the problem, we knew something had to be done (BE-CAB7).

In the aftermath of the global financial crisis, the issue of reforming the pension system re-emerged on the national agenda. The number of newspaper articles during that period is indicative (for example see: CPCP, 2012, section ‘Articles de presse’). The fiscal pressure put on the welfare state helped certain politicians and policy analysts to realize the urgency of some kind of pension reform (European Commission, 2010). Belgium under significant fiscal pressure, especially after its introduction to the Excessive Deficit Procedure in 2009 (see: Council Recommendation no. 115754/09) and the downgrading of its sovereign bond by S&P in November 2011 (WSJ, November 2011) so the new government of Elio Di Rupo rushed to stabilize the country’s political situation and balance the state budget. Fiscal consolidation was an overarching priority as seen from the earlier statements of the Prime Minister: “We respect strictly our engagements towards the European Commission. The deficit will be 2.8% of GDP at the end of the year”18 (Le Soir, 19 July 2012). As mentioned earlier, the recommendations to increase employment and reform the pension system for its future sustainability had existed many years before the Semester. Already from the late 1990s, many voices, including the EU, the OECD and the IMF, which highlighted the fiscal character of the pension system’s sustainability (Balthazar, 22 January 2014). But also several months before the inauguration of the Di Rupo government, the national Study Committee on Ageing (Comité d’étude sur le vieillissement or CEV) —which shares its administration with the Federal Planning Bureau— underlined in its 2011 Annual Report the need to design and pass a deep structural reform for the sustainability of the Belgian pension system. As one of its members at the time, Maurice Weber—who is also a member of the European Council’s Economic Policy Committee (EPC)— argued: “Since the employment rate for people aged 55 to 64 is very low in Belgium, an increase in the effective age of withdrawal from the labor market is particularly indicated”19 (La Libre, 13 July 2011).

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18 Translated from French.
19 Translated from French.
So, being in alignment with the European Semester’s CSRs, these recommendations gained more political prominence and wider attention, while the budgetary and reputational pressures that Belgium experienced during that period helped to build-up the momentum for the adoption of specific measures. As one member of the Pensions Minister’s cabinet stated:

For quite a long time, Belgian parties have been aware of the challenge of the ageing population and the alarms that were mentioned by the Federal Planning Bureau in respect to this issue were becoming louder and louder so finally the government decided to do something about it (BE-CAB7).

As a first mechanism, the pressures of the international markets contributed significantly to the adoption of an ambitious agenda including reforms of fiscal character. Especially after Belgium’s sovereign bonds downgraded repeatedly by Standard & Poor’s, Moody’s and Fitch^20, the negotiating political actors felt the pressure to finalize the formation of new a government and put the country’s finances back on track. As Jones (2015:13) explains, the formation of the Di Rupo government came only after the summer of 2011 and the onset of the Italian crisis, when financial markets started paying attention, thus mounting even more pressure to tackle the country’s institutional deadlock and lower its high debt. On this, a representative of the New Flemish Alliance (N-VA) said: “The crisis in Belgium triggered a political response to it, because indeed Di Rupo being a socialist also was urged to implement some kind of pension reform and some kind of wage moderation, although he did it in a very different way than today the government is doing it”. But also, as Di Rupo himself said in a speech almost two months after his inauguration, while referring to the international markets’ reaction: “Without significant budgetary consolidation measures, we would cause serious dangers to our country”^21 (Le Vif/L’Express, 31 January 2012).

In addition, the government’s reputational concerns towards the EU and its national counterparts was also an important motivational mechanism, supported by the strong feeling of responsibility for the EMU setup and the country’s traditionally pro-EU stance. A good example is the statement of Senator André du Bus (cdH), while defending the Di Rupo reforms:

The draft law of the pension reform has been based on the necessity and a sense of responsibility and not on a random savior ideology. Necessity because the government must face important challenges. We are engaged in reaching a budgetary equilibrium by 2015. Reconnecting with healthy finances is a demand of the European Union^22. (CPCP, 2012:7)

Moreover, the words of a high official of the Federal Ministry of Social Security and member of the SPC point to the same reputation signaling: “The pressure from the EU, the start of Europe 2020, the Semester with the CSRs, certainly had an impact and you can see it in the debate, people were referring to the CSRs as giving the argument: "we need to do something, Europe is pushing us to do something" (SPC5).

The traditionally strong Europhilic sentiment of the Belgian political elite but also of the public, is an important mediating factor for passing such a bold reform agenda, in accordance with many CSRs.

^20 For more see: https://tradingeconomics.com/belgium/rating
^21 Translated from French.
^22 Translated from French.
The Prime Minister’s statement in January 2012 made this clear: “Belgium has a long pro-EU tradition and its maintenance is in our interest. Each one can have his/her point of view but Europe remains our common basis”23 (RTBF, 12 January 2012). The Commission enjoys authority and legitimacy in the domestic political sphere, so this increases the visibility of the arguments described in the CSRs. A member of the cabinet of the current Minister of Pensions explains this effect in the Belgian context:

The fact that the European Semester actually gives us the CSRs that we have to work on that, does make it easier to explain why we take these measures. So, we take the initiative to take these measures and the fact that we see that these facts are confirmed by the CSRs is positive for us, to take the measures that are necessary (BE-CAB7).

Finally, the center-left government was also pressured by its mandate and its electoral support in the domestic sphere. The coalition was formed under particularly pressuring circumstances, so the mandate given to Elio Di Rupo and his government was focused on the stabilization of the country’s fiscal situation and the normalization of the institutional landscape through the planned Sixth Reform. From that perspective, results and output legitimacy was an outmost priority so, towards this goal, the government’s devotion to fiscal consolidation became evident: in one of his speeches only a couple of months after his inauguration, the Prime Minister said that “the government calls, more than ever, to the sense of responsibility and duty of everybody” hoping that “each responsible, on his/her level, will promote the message on the importance of the current moment in order for our country to exit the crisis”24 (Le Vif/L’Express, 31 January 2012). But at the same time, as the leader of the francophone Socialist Party (PS), Di Rupo was pressured by his electorate to keep certain red lines for the coming reforms. As noted by many (e.g. Graziano, Jacquot, Palier, 2008) and already pointed out in Chapter 4, EU-level recommendations are always ‘filtered’ through the national actors’ preferences during the implementation process. Hence, Di Rupo made it clear from the start that the statutory retirement age would not be touched and that his government’s measures would only focus on the effective retirement age. In fact, after the publication of the draft CSRs by the Commission in May 2012, the PS responded that "it will continue to strongly defend the (Belgian) social model " and that "it will oppose the new reductions in the health expenses, any questioning of the wage indexation and an increase in the legal retirement age of pensions"25 (Le Vif/L’Express, 30 May 2012). In the same vein, in one of his later statements Di Rupo said with regard to the Commission’s ability to pressure his government: “This stability isn’t due to the European Commission’s prescription of aggressive fiscal tightening, as imposed on Greece and Portugal, which caused ordinary people to suffer. We’ve perfected what I call the Belgian recipe,” (referring to a mix of fiscal consolidation with social measures). “A lot of economists say you have to first cut the deficit dramatically, which will hurt a lot, but then it will be better. I don’t subscribe to that theory at all, I think it’s mumbo-jumbo” (WSJ, 21 January 2014). Hence, due to the reputational concerns – domestically and internationally- and the pressure of the markets the Di Rupo government was urged to implement reforms for the short-term fiscal sustainability of pensions, but at the same time it abstained from pushing any reforms related to the statutory retirement age, due to ideational

23 Translated from French.
24 Translated from French.
25 Translated from French.
concerns linked with its electoral basis. The existence of the reputation signaling mechanisms does not preclude the presence of fear of sanctions, since the legal framework is well established and the imposition of fines cannot be excluded. Nevertheless particularly due to Belgium’s Europhilic attitudes, these reputation concerns played the biggest role in the country’s pension reforms.

The Commission’s recommendations framed the pensions measures as something which could improve Belgium’s public finances immediately and, as a result, the reforms were instrumental for Belgium’s situation. The 2011 CSRs explicitly linked balanced public finances with the need for a pension reform and called for incentives to “make work attractive” for older workers. Having knowledge of these, the Di Rupo government initiated a series of decisive measures as these were presented in its coalition agreement: change of the calculation of pensions, partial harmonization of the private and public sector pensions, enhancement of the second pillar as well as creating incentives for extension of working careers (CPCP, 2012). Also, the fact that the Minister of Pensions at the time, Alexander de Croo, was a liberal (Open VLD) constitutes an additional factor explaining why this agenda was pushed so decisively, according to an interviewee from FGTB.

The law of 28 December 2011 – passed only a couple of weeks after the inauguration of the new government- increased the early retirement age from 60 to 62 until 2016 as well as the eligibility requirements retirement from 35 to 40 career years. In addition, it tried – although not so effectively - to harmonize these retirement preconditions between the private and public sector and increased the eligibility age and career for pre-retirement schemes for certain groups (La Libre, 15 February 2012). Finally, it restricted the assimilation of working periods for the calculation of pensions and improved the ‘pension bonus’ (already in place from 2005) for those who decided to stay longer on the labour market. The increase in the retirement age was due to be implemented fully by 2016, while the increase of career years will be completed by 2018 for men and by 2028 for women.

In this perspective, the most notable development in the Semester is the enhancement of the political trade-off mechanism through which the reputational pressures towards the EU can be diminished but also the benefits towards the electorates can be increased: a ‘quid pro quo’ mechanism, one might say, between the national reforms that need to be taken and the fiscal space that member states enjoy. How does this work exactly? The procedure can be broken down into four steps: First, the National Study Committee on Ageing, which belongs to the High Council of Finances, makes macroeconomic projections for the country’s future pension liabilities with the technical help of the Federal Planning Bureau. As a second step, these annual projections are fed into the EU-level triennial Ageing Report, which is prepared by the Ageing Working Group of the Economic Policy Committee. The scenarios on the increase in age-related expenditure (comprising pensions, healthcare and long-term care) are based on specific parametric assumptions related to demographic and macroeconomic factors. Subsequently, the Ageing Report’s estimate is then incorporated into the EU Fiscal Sustainability Report (which in 2016 was renamed the Debt Sustainability Monitor). The latter assesses fiscal sustainability challenges for all EU countries - apart from those under an economic adjustment programme, such as Greece- and towards that goal, includes three indicators for short, medium and long-term sustainability (named S0, S1, S2 respectively26). Finally, the projected estimates of age-related expenditure feed into the formula for

26 For a fuller description of each indicator see footnotes no. 4, 6 and 10 in EFC, 2016b.
the calculation of Medium Term Budgetary Objectives (MTOs) of each individual member state. According to the ‘Code of Conduct of the Stability and Growth Pact’, an Opinion adopted by the Council’s Economic and Financial Committee (EFC) on 5 July 2016 and revised on 15 May 2017, the MTO formula should also take into account “the budgetary adjustment that would cover an agreed fraction of the increase in the age related expenditure” (EFC, 2016b: 4; EFC, 2017: 5). So in that sense, if a new pension reform generates reduced projections of age-related government expenditure, this ‘automatically’ decreases the MTO and leaves more fiscal space available to the member state as prescribed in the SGP rules\(^{27}\). Specifically on this, the EFC Opinions explicitly state that: “The MTOs could be further revised in the event of the implementation of a structural reform with a major impact on the sustainability of public finances. In particular, the MTO should be revised in the special case of systemic pension reforms with an impact on long term fiscal sustainability” (EFC, 2016b: 5; EFC, 2017: 6). So through this mechanism, a pension reform can automatically send a signal of sound budgetary policies and thus give more fiscal leeway to Belgium, at least for a short period of time. In addition, through the improved budgetary projections the pressures related to reputation towards the EU and to the international markets are reduced. But at the same time, this trade-off mechanism contributes to electoral benefits, since the government has more budgetary space to pass its own reforms.

This less obvious and incremental development could be the real novelty of the European Semester, since it has a visible impact on the actors’ understanding and behaviour. As a Commission official stated:

> Look at the case of Belgium, pension reform is acted upon by the 'reluctant' between quotes Di Rupo government, even by that government it was acted upon, why? Because by doing pension reforms you immediately get more favorable projections of public finances and so you get more room in your budget and so whenever a recommendation is directly or indirectly linked to the SGP the pressure is on. (COM1)

In its reports assessing the budgetary situation of Belgium, the European Commission states that structural reforms “are expected to contribute to enhancing the economy’s growth potential and reducing the risks of macroeconomic imbalances, thereby having a positive impact on debt sustainability in the medium to long term” (European Commission, 2017c: 17) but also that these reforms are “a necessary part of a credible debt reduction strategy” (European Commission, 2016e: 19). As expected, the orientation of the reforms but also the way they unfolded were not welcomed by all domestic actors, who appeared deeply divided. In response to these reforms, all the major trade union confederations – the Christian CSC, the Socialist FGTB and the Liberal CGSLB- have jointly called for general strikes for the first time since 1993 (Eurofound, April 2012). After several consultation rounds, they eventually managed to push for some of their own provisional measures. Then again, many perceived the government’s actions as closely aligned with the Commission’s recommendations. As a representative of the N-VA stated:

> But also pension reform is surely helping there (to increase employment rate of older people) and this is very important because if you look at the statistics on the ageing reports

\(^{27}\) The same documents state that “allowing room for budgetary manoeuvre” to a MS is included in the aims of the MTO (EFC, 2016b: 4; EFC, 2017: 5).
of the European Commission until 2014 for example we were one of the worst performing countries in terms of employment rate but also in terms of pension costs. (N-VA21)

Even after the adoption of pension reforms, the pressure stemming from the EU within the Semester remained high as the Commission’s - rather symbolic - gestures indicate: its letter of January 2012 sent to the Di Rupo government which demanded the adoption of ‘extra measures’ (De Redactie, 6 January 2012) or the statement of the Commissioner for Economic and Financial Affairs, Oli Rehn, in March 2013, saying that Belgium should focus on structural reforms, such as pensions and the employment market, in addition to measures aiming to decrease the public deficit (Le Soir, 8 March 2013). Importantly, on 21 June 2013 the European Council gave to Belgium a three-month deadline to submit its report outlining the effective action measures for sustainable correction of its excessive deficit by 2013 (European Council, 2013).

Despite the gradual implementation of the announced reforms, the 2012 CSRs repeated the need for Belgium to raise its effective retirement age and curb its ‘age-related’ expenditure. It is worth noting that the relevant CSR of 2013 was amended by the Council in order to replace a horizontal recommendation on raising the statutory retirement age with one which refers more broadly to the effective retirement age. Only in 2014 did the CSR acknowledge that the country had made ‘substantial progress’ in that field. But, together with its short-term fiscal consolidation recommendations, the Commission stressed that a long-term vision should be established as well.

6.3.2 The Michel government

The trade-off mechanism within the European Semester was understood also by the new government of Charles Michel, which after its inauguration in October 2014, took the pension reforms a step further. Even after the Council’s Decision for exiting the EDP on 20 of June 2014, Belgium was under a three-year post monitoring according to the SGP rules, so the reputation signaling mechanism remained present, together with the pressure of the markets, albeit substantially lower than in the years 2012-2013 (as it can be seen in figure 2 of the comparative chapter). The existence of this trade-off mechanism was made clear to the national political scene as well, as reflected in the narratives of some media. It is interesting, for example, that the Belgian weekly magazine, le Vif/L’Express, argues that the adoption of structural measures by the Michel government will create a ‘budgetary cushion (“matelas budgétaire”)’ (le Vif/L’Express, 9 April 2016). The 2014 CSR on pensions, which came out just a few months earlier, was more specific than its predecessors on how to proceed: it recommended reform of the early retirement system, reduction of opportunities for early exit from the labour market and promotion of active ageing, harmonization of both the effective and statutory retirement age as well as the alignment of the retirement age with life expectancy. Even before his inauguration, Michel wanted to push for more drastic measures through “consultations at the EU level” (Le Soir, 8 March 2013). As a result, in its coalition agreement the new center-right government of Belgium - tagged ‘süedoise’ after the colors of its parties which resemble the Swedish flag: the New Flemish Alliance (N-VA), Christian Democratic and Flemish Party (CD&V), the Open Flemish Liberals and Democrats (Open Vld) and the Reformist Movement (MR) - announced more extensive reforms in the pension system. These accelerated those taken by the Di Rupo government but they also took a step further by raising the statutory retirement age. In the words of the Prime Minister himself: “It is a strong agreement, with a strong political will to introduce important social-economic reforms” (EUobserver, 8 October
2014). Thus in July 2015 the Federal Chamber of Representatives passed an increase in the legal retirement age from 65 to 66 in 2026 and to 67 in 2030, a measure which prima facie seemed to be a response to the Commission’s recommendations. Furthermore, the law made the calculation of the civil servants’ service years stricter and fully harmonized the career years between the self-employed and salaried pensioners. Additionally, it tightened the criteria for early retirement from 2017 and abolished the pension bonus.

Finally, the new government created several new administrative and advisory bodies in the field of pensions, designed to have a consultative and scientific function for future reforms, as a spokesperson in the Cabinet of the Federal Minister of Pensions explained. First, the National Pension Committee (NPC) is an organ composed of representatives in the sectoral level, including the employers, the employees and the self-employed, aiming in engaging into a more inclusive consultation process for any future reforms. As a supporting instrument of the NPC, the role of the Knowledge Centre is focused on giving technical assistance to the suggested pension measures. In addition, the Academic Council, which is the evolution of the national Pensions Committee 2020-2040 and to which I will refer more extensively below, is designated to give its scientific opinion (Bacquelaine, 1 July 2015). These developments marked a ‘shift of mentality’ according to several Belgian high level officials and, were, allegedly, the first true measures from an administrative perspective “to deal with the challenge of the ageing population” (BE-CAB7).

The change of government in Belgium coincided with the arrival of the Juncker Commission, which, as already illustrated in more detail in Chapter 1, adopted a more politically flexible stance on how member states should eventually implement national reforms. The trade-off between structural measures and fiscal space existed before the Semester within the SGP, but with its launch in 2011 the pattern has been further consolidated, in the sense that the actors have better internalized it. The scheme of the ‘virtuous triangle’- or ‘omne trium perfectum’ as Juncker called it during his Investment Plan speech in November 2014 - clearly indicated this new pattern. At the same time, from that year on the CSRs decreased in number and in scope, thus leaving more room for maneuver to national actors (Zeitlin and Vanhercke, 2014). The ‘streamlining’ of the European Semester showed the Commission’s intension to promote national ownership and grant leeway to domestic actors on how to reach the jointly set goals. In January 2015, the Commission released its communication on ‘Making the best use of flexibility within the existing rules of the SGP’. There it enumerated a list of possible ‘temporary deviations’ from the SGP’s Medium Term Objectives. For example, as the ‘investment clause’ stipulated, public investments can be considered as ‘structural reforms’ under certain macroeconomic conditions. But even then, the Commission explicitly stated that “the reforms must be implemented, adopted or presented in a medium-term structural reform plan which is comprehensive and detailed” (European Parliament Briefing, 2015c). A striking example of the Barroso Commission’s different understanding of the Semester is the stance of Herman Van Rompuy, President of the European Council at the time, who stated that “in addition to make recommendations, the EU should be empowered to make these reforms mandatory for its member states” (Amcham, 25 June 2012). The shift is also confirmed by a Commission official: “For the previous Commission, you had to pursue structural reforms, get your budget in order and this Commission sees it as dependent variables to some extent, like if you do this on this from you can do slightly less on this front and this flexibility communication is a symbol now” (COM01). All the above make a clear case that the new Commission represents a change of mentality in relation to the
former one, adopting a more flexible but also politically negotiable strategy which could lead to more space for budgetary maneuvering for the member states.

At the political level, the alignment of the new government’s agenda with the CSRs became explicit with the letter sent to the Commission on 21 November 2014, in which the former confirmed its determination to follow the suggestions to combat early retirement and to increase the minimum retirement age in particular. In addition, the government announced in its coalition agreement that the new measures had as a ‘scientific base’ the report of the national Committee for the Reform of Pensions (Accord de Gouvernement, 9 October 2014). Also known as the Vandenbroucke committee, this body was formed in April 2013 at the request of the previous Minister of Pensions, Alexander de Croo and the Minister for the Middle Class, SMEs, Self-Employed and Agriculture, Sabine Laruelle, in order to design a ‘profound’ reform for the long-term. Its 12 members are experts in the field and enjoy a wide consensus among social partners and political parties. The Committee called for deep structural reforms which should be taken up by the next governments together with the broad involvement of the social partners and adopting a long-term perspective. Its main axis was the realization of a coherent and balanced reform, which would take into consideration both the prolonging of careers and the extension of the retirement age (Commission pour la Réforme des Pensions, 9 October 2014). So, the need for workers to stay longer on the labour market was mentioned by the Committee as a most urgent task. Among its most prominent recommendations was the creation of a ‘points system’ which would connect the calculation of pensions with each person’s professional income and an automatic mechanism to calculate pensions balancing the system’s financial sustainability with its social adequacy. Furthermore, the Committee brought forward the issue of a longer career as well as the increase of the retirement age. In regards to the statutory retirement age, the Committee avoided making precise recommendations, but only presented several scenarios in order to show the “conditions” for its successful increase. Other suggested measures included the enhancement of the minimum pensions and the harmonization of the pensions’ family dimension. Finally, it proposed the restriction of pension rights for certain categories such as survivors and at the same time suggested the extension of sectoral pensions to the self-employed as well. From a technical perspective, the Vandenbroucke Committee is supported by the Federal Planning Bureau, which feeds its macroeconomic projections into the EU-level Ageing Report. From its side, the government claimed that it has followed to a great extent the scenarios of the Pensions 2040 Committee. Nevertheless, the latter’s suggestions had a different character from the government’s new measures. Although considerable, the Michel reforms were not able to ensure the pension system’s sustainability as the Committee’s report indicated; instead they focused on parametric and medium-term reforms of the Belgian pension system. Furthermore, the Pensions Committee expected stronger social dialogue and wider participation in the decision-making process, as well as inclusion of social concerns related to the adequacy of pensions. As one official of the socialist General Federation of Belgian Labour (FGTB/ABVV) stated:

But with the Vandenbroucke Committee and the report they made, the Michel government used it to put all their liberal reforms. But the report also says about two other crucial conditions for a pensions reform: first, that you need more financing for pensions, because their level is too low, and two, that you need to adapt the labour market as well. So the government never spoke about these two fundamental conditions (FGTB28)
Finally, the Committee’s suggestions on life expectancy – which were aligned with the CSRs - have been included in the government’s coalition agreement, but until the time of this chapter’s writing, in October 2017, this measure has yet to be implemented. However, as I will explain later, more recently several promising steps have been made.

With the creation of the Pensions Reform Committee the public debate focused more on the long-term dimension of the system and, at the same time, the ownership of reforms was enhanced, looking more broadly on the system’s parametric changes. Interestingly enough, not only was the Committee able to work independently from the Commission’s recommendations - in the sense that the former set its own research axes and analytical methods-, but it eventually started to feed in to the EU level its plans for the future of Belgian pensions28. As an official from DG ECFIN stated: “The Vandenbroucke Committee’s report is far more detailed, it’s very extensive, very detailed, very technical as well which really blueprints almost everything so. Much more far than we can” (COM3).

This view was confirmed by an official from DG EMPL:

The people who make up the Vandenbroucke Committee are fairly big authorities and it is on their own to make their own judgments and they come from a wide political spectrum and they reached an agreement so I think they have discussed and taken into account our recommendations. But they were perfectly able to make their own (COM2).

As expected, there have been open channels of communication between the national committee and the European Commission – given also that its chair, Frank Vandenbroucke is a well-respected political and academic figure both in Belgium and at the EU. It is very interesting that the national level recommendations were warmly accepted by the EU institutions:

We take a lot from them as well. I mean, we have a general line of course about how pensions should be reformed in Europe, but then specifically in Belgium, I mean, we take a lot from the Vandenbroucke report to understand what is happening, where things can be harmonized and/or improved and how can the idea of linking the retirement age to life expectancy can be implemented in Belgium...We get some ideas from them, rather than the other way round (COM01).

The pension measures of the Michel government were certainly notable developments. Nevertheless many have understood its explicit alignment with the CSRs more as political symbolism rather than a policy breakthrough and a change of mindset, since the Commission’s long-term perspective has not really been adopted. The cognitive effects of the Semester continued and the new government kept passing reforms through the trade-off mechanism in exchange for better fiscal projections and budgetary space for domestic use, while hoping to mitigate any reputational pressures related to the EU. Again, a Commission official described this mechanism as regards pensions in clear terms: “The pension reform in Belgium is a good example of what we call a virtuous triangle, where you do structural reforms in order to get more public finance room for investment, we also advertise it as a good example. It shows a lot of good work” (COM1).

28 Of course, the Vandenbroucke committee did not work ‘in a vacuum’; many of its members were up to date and sometimes even involved in the debates and policy analysis happening at the EU level.
The Commission welcomed the efforts of the Michel government but at the same time it expected deeper structural measures, as this was shown also in the Belgian media (Le Soir, 13 May 2015). Having in mind the commitments of the 2014 coalition agreement at the beginning of the Michel legislature, the Commission recommended in the 2015 CSRs the completion of the pension reform by linking the statutory retirement with life expectancy. Likewise, although not included in its three concluding CSRs of 2016 per se but in the recitals, the Commission and the Council repeated their request for the establishment of “an automatic link to changes in life expectancy” in order to promote the pension system’s sustainability in the medium and long-term. To underline that the issue is not closed yet, it added that these “will continue to be monitored closely under the European Semester” (2016 CSRs). Finally, any reference to pensions was absent in the 2017 CSRs, which is explained by a Commission official:

So, the fact that a pensions-related CSR is not there in 2016 and 2017 is because we have to acknowledge that substantial progress has been made and the Commission’s President cabinet is clear for its wish to reduce to the maximum extent the number of CSRs, only focusing on the priorities. Typically what takes these issues off the CSRs is substantial progress. And so this was an obvious candidate. (COM24)

The Belgian government announced a series of additional measures for the budgetary year 2017 including reforms in the field of pensions. Although minor when compared to the 2015 pension reforms, these went in the same direction. Allegedly following the recommendations of the Vandenbroucke Committee, the reforms had several aims: to reinforce the link between work and pension through upgraded calculation, to limit the privileges for specific occupations such as the military, to support heavy professions, as well as to enhance the purchasing power of pensioners (Mouvement Reformateur, 16 October 2016). Furthermore, the Michel government passed several other measures in order to promote the use of complementary pensions: after the adoption of the 2015 bill on the second-pillar pensions for free-lancers, the government moved to employees and the financial instruments which could operationalize their complementary pensions, as a result of payroll deductions by their employers. Most recently, on June 26 2017, the government took small initial steps to introduce a system of automatic linkage between pensions and life expectancy. To the surprise of many, the Minister of Pensions, Daniel Bacquelaine, presented his proposal (‘note d’orientation’) before the Pensions Committee (Bacquelaine, 4 July 2017). According to one of the Commission’s officials: “The idea was to take the decision under this government, until 2019, and to introduce the system as from 2025. Whereas in the government agreement it said 2030, the administration has recommended that the Belgians should recommend it in 2025” (COM24). However, it remains to be seen whether the social partners and the Pensions Committee would eventually support such an initiative and whether this will become legislation before the end of the current legislature.

6.4 Conclusions

In sum, the European Semester had various effects in the area of pensions. It helped to introduce measures which increased the effective and early retirement age during the term of the Di Rupo government and contributed to further reforms which increased the statutory retirement age during the term of the Michel government. In addition, the CSRs on pensions mobilized actors in both
Secondly, Federal pressure during the fiscal sustainability of the pension system (see for example the notion of ‘active welfare state’ in the beginning of the new millennium or the promotion of the second-pillar of pensions) and to link pre-pension measures with the issue of effective retirement age. With the launch of the European Semester these cognitive effects were considerably enhanced and became more obvious, thus paving the way among policy-makers and politicians for comprehensive pensions reforms. The CSRs framed pension reforms as an inextricable part of Belgium’s fiscal and budgetary sustainability, which needed to be addressed immediately. Eventually, the Semester contributed to programmatic shifts and the adoption of legislation during both governments’ terms.

To this end, several mediating factors played a significant role in triggering the particular mechanisms of influence. First, the difficult fiscal position of Belgium for the period 2009-2014 (also during the period 2016-2017, but to a lesser degree) contributed to the political decision to reform the pension system and pre-pension schemes as a way to guarantee their sustainability in the short and medium term. Secondly, the political agenda and ideological orientation of the different governments contributed to the final form of the successive pension reforms. For example, the Di Rupo government pushed for a series of decisive measures, however it did not touch the statutory retirement age, which it would be seen by its electorate as an explicit attack to the ‘acquis social’ (in fact as the current opposition party, Di Rupo’s Socialist Party used frequently this argument against the current government coalition). From its side, although the Michel government repeatedly promised the creation of a credit-based system in which pensions would evolve automatically in accordance with certain parameters, in reality it did not share this long-term sustainability vision (at least until recently), which was equally supported by the Vandenbroucke Committee and the European Commission. Finally, as it can be seen by both government agreements, the traditional Europhilic stance of the political elites as well as the Belgian public opinion was important in their decision to reach the agreed SGP targets, since the issue was seen as a matter of responsibility towards their EU counterparts. This factor was particularly influential in mobilizing political actors to maintain the good reputation of Belgium as a reliable MS, faithful to the European construct.

Equally important, this case study reveals a variety of influence mechanisms linked to the European Semester. First and foremost, external pressure was a substantial factor in taking up successive waves of reform measures in such a short period. After the institutional situation returned to normal with the election of the Di Rupo government, one of its most important tasks was to deal with the country’s alarming fiscal status. The CSRs on the Belgian pensions highlighted the importance of relevant structural reforms for the sustainability of public finances. The culmination of external pressure manifested in three particular ways: first, with the pressures of the financial markets, especially after the summer of 2011, as it is apparent in the unprecedented rise of bond spreads during that period. When ‘the big three’ of ratings agencies downgraded the Belgium’s ratings during the period November 2011-January 2012, they sent a strong message that the upcoming Federal government needs to take up measures for rebalancing the country’s fiscal performance. Secondly, the mechanism of reputation signaling in relation to the EU and its specific manifestations
within the Semester played a significant role (for example the Commission’s letter in January 2012 demanding extra measures or its three-month deadline to Belgium in June 2013 to correct its excessive deficit). Besides these, the pressure exerted by the domestic public opinion but also the potential electorate benefits was an additional motivation mechanism for both the Di Rupo and the Michel governments to maintain their momentum for reforms. In the first case, the Di Rupo government was elected in order to primarily balance the public finances of the country, so a comprehensive pensions reform seemed a good way to achieve this in a short time. Likewise, the Michel government was elected in the post-EDP era by promising to restart Belgium’s economy, explicitly using the Commission’s CSRs as a blueprint. This fact made the government very vulnerable to the criticisms of the public in the case of non-delivery.

As in the statement of one of the Commission’s officials seen earlier, the reform of Belgian pensions is an excellent case to understand the use of the trade-off mechanism, which has a double function, at least in regards to the issues linked with the SGP. On the one hand, it can contribute to electoral benefits: the more fiscal reforms a government would pass, the more favourable projections it would acquire, thus gaining more leeway for budgetary deviations according to the Semester’s rules, and, in that way, being able to promote its own investment agenda. On the other hand, through the adoption of reforms, the trade-off mechanism can send automatically signals of improved budgetary performance, thus restoring the country’s reputation as a trustworthy EU counterpart. So it is through this negotiating and calculation process that the Belgian governments were able to frame the reforms they decided to take. The stronger the fiscal character of these reforms, the more these could weigh on budgetary flexibility, regardless whether they eventually brought effective consolidation results. In one of his articles, Ferrera (2015) has called for an improvement of the European Semester, suggesting that national reforms should be an official precondition for getting more budgetary flexibility. But it seems that through this procedure such a trade-off has already started happening to a significant degree.

Finally, certain intrinsic motivation mechanisms of change were also important for taking ownership of national reforms, and, as a result, for lowering the Commission’s external pressure. In the case of Belgian pensions, the creation of an epistemic learning body such as the Vandenbroucke Committee, which has the same policy orientation with the Commission and which enjoys uncontested legitimacy in Belgian politics, was seen as a guarantee that the country’s pension system would be reformed in depth. Regardless the fact that the Michel government adopted a different approach, by stalling to address the issue of automatic linkage of pensions with life expectancy, the Commission remained positive and left more space to Belgium to proceed with further measures until 2019. The stabilization of Belgium’s economic situation and the effective policy responses towards its fiscal problems, were important preconditions which contributed to the cultivation of mutual trust. Although trust was significantly lower during the early cycles of the European Semester, the fact that the Di Rupo government showed decisiveness in addressing the country’s budgetary and fiscal situation was a confirmation that it respected the SGP’s rules and shared the same vision with the European Commission. Eventually, with the arrival of the Michel government which adopted a more explicit Europhilic stance, this feeling grew stronger. Most notably, the creation of the Vandenbroucke Committee sent a clear signal to the Commission that Belgium had finally taken ownership of its pension reforms, lowering significantly its pressure. From this perspective, the creation and involvement of the Pensions Committee in the policy-making process, increased the chances of adopting the CSRs.
Chapter 7. The tax shift away from labour

7.1 Framing the Semester effects within the past labour taxation policies: the last 30 years

Belgium has always been one of the countries in the EU with the highest taxes on labour and non-wage payroll costs. Traditionally, social security contributions (SSC) are used to fund social expenses in the wider sense, including healthcare, unemployment benefits, family allocations and pensions. During the 1980s and the 1990s and until the turn of the millennium, the tax wedge on labour in Belgium had been gradually increasing, thus raising concerns about the country’s competitiveness (Laenen et al., 2011:5; Arpaia and Carone, 2004:14). As a response to the 1980s recession and the deterioration of public finances, fiscal consolidation became an overarching priority to tackle the country’s high debt ratio. Due to the sharp increase of Belgium’s public debt, direct taxes increased over the period 1981-1985. The SSC were reduced due to the same period’s strategic plan, nevertheless slightly and with caution since the consolidation of public finances was a priority. At the end of the 1980s, a group of economists known as ‘the group of seventy two’ promoted the tax burden relief on the low skilled and from 1994 onwards this was expanded to all workers (Orsini, 2006). From 1988 to 1993, an important change of paradigm took place: the government passed its tax reform towards a more individualized tax system which lowered marginal taxes and broadened the tax base. The introduction of the Maastricht criteria enhanced this process and gave an additional impetus to the Dehaene governments to push for more measures of fiscal constraint. The consensus for such a consolidation strategy was broad among political actors, thus creating a continuity in the orientation of policies for many years. The 1988-1989 fiscal federalist reform, which allocated more budgetary competencies and spending to the Regions, was followed by multiple cooperation agreements between all government levels. In order to offset the higher Regional expenses, the Federal government adopted a clear procyclical stance, aiming for cuts and austerity during the periods of recession. This strategy proved so successful for fiscal consolidation that by 2002 Belgium was able to reach the goals set in the Convergence programmes (1992-1998) and later on the Stability Programmes (IMF, 2011).

According to the IMF, the years 1994 to 2003 were the “glorious consolidation period”, during which Belgium’s average surpluses reached 5.5% of GDP and public debt diminished by almost 40% (IMF, 2011). Despite the strict budgetary stance, attempts to decrease labour taxation were numerous throughout the years, but with limited effects. Already from 1994, before the birth of the European Employment Strategy (EES) and the Luxembourg Process, the government launched the “Plus-One Plan” focusing on the self-employed, which gave companies or employers that had never previously employed personnel a three-year reduction of the social security contribution for the first worker. From 1997, this scheme extended to the second and third worker as well. The Dehaene II government (1995-1999) made competitiveness one of its priorities, and towards that end it decreased the social security contributions for employers and reduced labour costs. This was seen not only in its coalition agreement but also on the multiannual plan for employment and the social contract for the future of work (Le Soir, 13 February 1996). Furthermore, through several sectoral agreements, the government together with social actors was able to reduce the employers’ contributions. A typical example is the so-called “Maribel quarter” plan which targeting companies
hiring manual workers. The 1998 Belgian National Action Plan (NAP) for Employment confirmed the government’s intention to lower social security contributions, amounting to 1.5 billion euro (see JER 1999). Partly influenced also by the EES goals, the government reached a general cooperation agreement along with several specialized ones between all government levels aimed at lowering the SSC for targeted groups such as the young unemployed. In the autumn of that year, the government and social partners initiated a consultation process aiming to update the law on ‘wage policies, employers’ costs and working hours’. After the Federal, Regional and Communal elections of 1999, the newly elected governments promised to adopt measures on specific groups, including a decrease in social costs. Thus, the new federal government continued in the same direction by reducing taxation on low income.

In August 2001, the Verhofstadt I government passed a comprehensive tax reform set for full implementation by 2005. Its two main elements were a generalized tax reduction and the launching of the ‘refundable earned income tax credit’ or CIBRAP on low skilled workers. As Nicaise (2003) mentions, the government aimed to contribute with these measures to the newly-created notion of an ‘active welfare state’. Although it was expected that these policies would directly lead to favourable macroeconomic effects on the employment market, they raised concerns due to their budgetary cost and the need to find other sources of public funding.

Later on, in 2004, CIBRAP was replaced by the ‘Employment Bonus’, which also aimed for the reduction of low earners’ labour costs. An important development in the efforts to improve the social security system was the Generations Pact launched by the Verhofstadt II government in 2005. Having as a goal to raise the employment rate especially among vulnerable target groups but also to increase the effective retirement age (seen from a labour market perspective), the pact comprised three parts; giving incentives for higher labour market participation for the young, bringing forward measures of ‘active ageing’ as well as improving the sustainability of the Belgian social security system. Thus, the SSC of older workers were decreased to discourage them from taking up pre-pension schemes. This reduction would be financed by an increase in the excise duties on tobacco, a withholding tax of 15% on the recapitalisation bonds of certain funds and a contribution of 1,1% on specific premium assurance schemes (Franck and Lauwers, 2005). Despite these notable changes, the Generations Pact was not enough to guarantee the viability of the Belgian security system in the long term, nor could it enhance competitiveness (de Callataÿ and Thys-Clément, 2013). During the same period, the influential High Council of Finance (HCF or Conseil Supérieur des Finances) acknowledged the positive effects of SSC reductions for employability, adding however that more could be done in that direction (Conseil Supérieur des Finances, 2007).

7.2 The effects of past EU initiatives and the European Employment Strategy on national policies

At the EU level, the challenges linked to labour taxation became explicit in the beginning of the 1990s. In 1993 the ‘White Paper for Growth, Competitiveness and Employment’ launched by the Jacques Delors Commission called for the adaption of tax systems and the lowering of taxes, focusing specifically on basic wages by shifting taxes to revenues and environmental targets. Hence, the decrease in labour taxes aimed to achieve three issues: better employment, increased
competitiveness and enhanced social inclusion against poverty. As one official of the High Council of Finance explained:

At the end of this (meaning the White Paper on Growth, Employment and Competitiveness) the high actors discussed the idea of shifting the tax away from labour to other tax bases, it was the first time I think that the tax shift came in the political agenda at the EU level and the EU Member countries. (HCF23)

In addition, the “Dublin Declaration on Employment” was an outcome of the European Council of 13 and 14 December 1996 and argued among other things for a more employment-friendly taxation and a cut in non-wage costs. One of the overarching goals of this proposal was the fight against unemployment through a series of measures, including investment in human resources, modernization of the labour market and better coordination of the macroeconomic and structural policies among MS.

From its launch at the 1997 Luxembourg European Council, the EES has always referred to the decrease of labour taxation, as part of its ‘entrepreneurship’ and ‘employability’ pillars (The birth of the European Employment Strategy, November 1997). Throughout the years the EES has undergone several significant changes: in 2005 it was incorporated in the Lisbon Strategy, fusing its Employment Guidelines with the Broad Economic Policy Guidelines (BEPG) and creating the Integrated Guidelines for Growth and Jobs. With the creation of the Europe 2020 Strategy, the member states redefined their goals and set up new targets. Eventually from 2011, the EES has been part of the new coordination mechanism of the European Semester, feeding in objectives and monitoring their progress. The impact assessment of the EES in 2002 revealed that Belgium took steps to lower its taxes and burden on labour as part of the entrepreneurship pillar. The 2002 Joint Employment Report (JER) mentions that after an agreement in August 2002 between the federal government and the social partners, the various job creation schemes with lower SSC would be streamlined ‘into one simple and transparent system’(Council of the EU, 2002:147). With the introduction of the term ‘making work pay’ in 2003 the European Commission together with the member states underlined the need to balance stronger employment incentives with an adequate and low-cost social security system. To this direction, the EES also called for the reduction of labour taxes –especially on low incomes- and the introduction of work benefits and tax credits. Despite the abovementioned measures which decreased labour costs for low earners from 51,0% in 1999 to 47,5%, in 2003, the EES implementation report which accompanied the 2005 mid-term review of the Lisbon Strategy deemed Belgium’s efforts ‘limited’. Several years later, the 2009 JER was presented together with the final implementation assessment of the Lisbon strategy. These continued to recommend “employment-friendly labour cost developments” to the member states. During that years Belgium implemented cuts in the SSC of both the employers and the employees while the measures targeting specific groups such as the low-skilled workers continued. All in all, during the period 2001-2007 taxes have been lowered for the bottom incomes and at the same time the unemployment benefits and pension were increased (Decoster et al, 2015).

During the 20 years since the EES’s creation, almost all EU member states received recommendations to decrease their tax burden on labour, seen mainly from the perspective of employment promotion. Furthermore, the Commission underlined the need for more ‘employment-friendly’ tax systems and reduction of social charges for both the employers and employees with its
‘action plan for skills and mobility’ [COM(2002) 72] and the communication on ‘making work pay’ [COM(2003)842]. The vast majority of countries took measures to reduce social charges and make its tax systems more employment friendly over the years (for example see: European Commission, 2002). Although there is a significant variation among them depending the time period, much of these efforts focused on specific groups such as the young and older workers, the migrants and the low skilled. Examples of national tax reforms abound: Denmark in 1987, Finland in 1999, Spain in 2001, Germany in 2007, Hungary in 2009 and most recently Austria in 2014, all of which had received recommendations from the Commission.

But apart from the EU coordination mechanisms, several international organizations kept a close eye on the Belgian developments over the years. For many decades the OECD has been urging Belgium to lower its high labour taxation, seeing it as an impediment to growth and competitiveness. In particular, its 2010 Tax Policy Study No. 19 was well received and is considered influential as both by the officials in DG TAXUD and the High Council of Finance pointed out: “There was this influential study of the OECD on the ranking of the different basis on taxation and which were the most detrimental to growth and I think the tax shift came with this idea that you should shift taxes from other bases, from capital or labour towards consumption and property and this was really instrumental on that, on the broader taxation” (COM25). The IMF had the same approach and its reports, which repeatedly recommended shifting the tax burden to areas such as consumption, environmental taxes and capital profits, gained publicity in Belgium (EUobserver, 16 December 2014). An official from the HCF commented on the above: “There are some OECD reports on tax broadening discussing the political economy (of Belgium)… If you look at the OECD, the Commission, the IMF reports about the last 10 years, it’s always the same advice that came up” (HCF23).

7.3 Identifying the effects of the European Semester

Since the European Employment Strategy has been incorporated in the European Semester, it was expected that its recommendations would continue within the new framework. Since the Semester’s launch in 2011, the recommendations for a more growth-friendly taxation targeted 8 to 10 member states and persisted throughout the next years (Garnier et al., 2014). The first Annual Growth Survey urged to “make work more attractive” by reducing labour taxation and shifting the burden to more growth-friendly fields. During the next years the CSRs remained more or less the same, with only slight variations from year to year. For example, the 2011-2013 CSRs on Belgium underlined the need to shift labour taxation “to less growth-distortive taxes”. With the arrival of the Juncker Commission, the formulation became wider and more abstract while referring explicitly to a tax reform. The 2015 CSRs state: “Adopt and implement a comprehensive tax reform broadening the tax base, shifting the tax burden away from labour and removing inefficient tax expenditures”. Likewise, the 2016 and 2017 CSRs were also broader in scope, mentioning the simplification of the fiscal system and the removal of distortive tax expenditures respectively. Finally, it is notable that for the cycles of 2012-2015 the relevant recommendations were linked with the MIP, while for the years 2016 and 2017 these CSRs referred to the taxation system more broadly and adopted the Stability and Growth Pact as their legal basis. Most probably this has to do with the fact that after the Michel government passed a tax shift, the Commission tried to make it even more clear that the Belgian
fiscal system needs to be renewed in a more substantial way. As a result, the SGP was used both as a lever of pressure and an instrument for framing the issue differently: a more balanced taxation is necessary for Belgium’s fiscal sustainability and not only for reasons of competitiveness as the MIP would signal.

7.3.1 The Di Rupo government

The institutional crisis of the years 2007-2011 was a tough period for the country’s political economy and contributed to the deterioration of its fiscal status. After the Federal elections of June 2007, parties could not agree on the form of an upcoming state reform: the strongest Flemish parties were pushing for a transfer of competences to the Regions while the French-speaking parties wanted to maintain the Federal status quo. After tough negotiations which lasted nine months, the leader of the Flemish Christian Democrats, Yves Leterme, managed to form a government -although short-lived. The extended political deadlock for an institutional reform combined with the politically sensitive case of the sale of Fortis and BNP Paribas, led to the resignation of the Prime Minister in December 2008. After a short stay of his successor, Herman van Rompuy, in power, Leterme returned in December 2010, until the early elections of June 2011.

As mentioned in earlier chapters, after the Commission’s proposal and the decision of the European Council in 2009, Belgium entered the Excessive Deficit Procedure, which is the corrective arm of the Stability and Growth Pact (Council Decision, 2010/283/EU). According to the European institutions, Belgium’s annual deficit was almost double the threshold of 3% of GDP, prompting the country to take austerity measures of 11.3 billion in order to lower it by 2012. The French-speaking Socialists and the Flemish Nationalists emerged from the elections of June 2010 as the parties with the most votes. Due to their intrinsically contradictory positions on basic issues but also their unwillingness to cooperate, from the beginning the probabilities for these parties to conclude a government agreement seemed rather odd. After Bart de Wever of the Flemish Nationalist Party (N-VA) quit his mission as the first party leader who could form a government, the King appointed the French-speaking Socialist Elio Di Rupo to assemble a coalition (The Guardian, 10 December 2011). Thanks to certain politically bold acts on behalf of the Flemish Christian Democrats and the French-speaking liberals (MR) the majority of political parties managed to reach an agreement on the electoral division of the Brussels-Hal-Vilvoorde (BHV) region, an issue which back in 2007 had triggered the prolonged period of political instability (Le Figaro, 10 October 2011). In addition, the fact that Belgium’s sovereign debt credit had been repeatedly downgraded by the three biggest ratings agencies since the end of 2010, was also a factor which pressured the actors. Thus, to the exclusion of N-VA Elio Di Rupo was able to conclude a landmark agreement -known as the “Butterfly Agreement”- paving the way for the much awaited institutional reform, the so-called Sixth State Reform (WSJ, 26 November 2011). After a world record of 541 days without an elected government, in December 2011 the Di Rupo government sworn in, including six out of the eight parties which took part in the Butterfly Agreement (PS, MR, cdH, CD&V, Sp.a, Open VLD).

The CSRs to lower labour taxation “have been very precise from the start” (Strauss, 2013:14). From the launch of the European Semester in 2011 until 2013, the Commission’s recommendations insisted on moving taxes to less growth-distorting fields. Even after the replacement of the Barroso Commission and the inauguration of Jean Claude Juncker as its President in November 2014, the
CSRs continued in the same direction. However, the framing of the Commission’s recommendations widened as they called for “a comprehensive tax reform broadening the tax base” (2015 CSRs) and a simplification of the tax system (2016 CSRs). During my interviews, officials at both the EU and national level unanimously acknowledged that the Commission has no competence on how to direct a tax shift, since this is seen as a competence which belongs to the member states and their internal political economy. However, they understood that with the arrival of the Juncker Commission, the recommendations became less precise but more politically oriented: “At the beginning, 2011-2012, this was more stringent and quoting specific ways of financing the tax shift. Since Juncker is in force, there is a political idea in the Commission not to dictate specific tax policy to member states and to tell the story in an even more broad sense, but it’s still in the political agenda” (HCF23). This change in the Commission’s stance on labour taxation reflects the general shift to a more politicized approach. As explained in the chapter on pensions, the EU and Belgian actors commonly understood the political trade-off mechanism between reforms and fiscal space. Finally, still at the European level, the EU Council’s Employment Committee (EMCO) organised thematic reviews on several issues, including the tax wedge on labour. Interestingly, in 2014 the Eurogroup initiated talks to coordinate the national policies against the high tax wedge on labour, and one year later it managed to establish a relevant benchmarking tool.

The new government had three major issues to tackle. As the newspaper Le Soir wrote at the time, Elio Di Rupo had to “try to find common ground between future coalition partners in three main areas: fiscal consolidation, socio-economic issues and state reform” (as mentioned in Euractiv, 9 July 2010). After Belgium entered the EDP in 2009 and during the 2010 elections, apart from the controversial state reform the public debate extended to lowering the public deficit and the need to pass socioeconomic reforms. It was expected, thus, that any new government coalition would launch cost-saving measures in order to fill a deficit hole which in 2011 alone accounted for 20 billion euro according to Eurostat (Expatica, 26 July 2012). In anticipation of the new wave of austerity measures, the Belgian trade unions had begun striking long before its inauguration (Euronews, 6 December 2011). It was in this constraining context that the center-left government had to make a series of policy decisions.

The task was double: apart from keeping public finance in line, the government tried to respond to the challenge of Belgium’s decreasing competitiveness. As the N-VA representative stated: “The Di Rupo government in 2012 and 2013 also became aware of the fact that we did have a competitiveness problem”. As a response to these challenges, a plan of wide scope was concluded between all level actors under the title “Pacte de compétitivité, d’emploi et de relance”. According to it, the social security contributions were slightly reduced not only for the minimum wages but also for the highest wages. Furthermore, it introduced an annual work bonus in order to reduce the high tax wedge on labour. Finally, labour-cost reductions targeting specific groups such as younger and older workers were put in place. These seemed decisive steps in the right direction but their effectiveness in the long term was not guaranteed. In fact, the measures taken were marginal in the sense that they did not reflect a shift in the policy design and mindset of political actors, which can be explained by several factors. The Di Rupo government was facing constraints at multiple levels, so the realization of a tax shift was not feasible. The institutional constraints were the most serious obstacle. From a governance perspective, the country had recently come out from a paralyzing institutional crisis and the government’s most urgent priority was to stabilize the political situation. The task for which the Di Rupo government was formed in the first place was to conclude an
agreement, recognized by all parties on how to proceed with the devolution of competences – mainly fiscal - between the Federal and the Regional levels. An official from DG TAXUD put it in clear terms:

One of the main purposes of the Di Rupo government was to break the institutional deadlock and therefore to have this reform of the state... I mean you need to stabilize a bit the thing, it was too early... There was this big file of the reform of the state and fiscal consolidation which took some measures on just to be in line with requirements but nothing fundamental, because it was still of a fragile government. (COM25)

In other words, the government was formed to stabilize the situation and to tackle the country’s pressing issues via a prudent government. As a result, it was widely perceived that due to the extraordinary circumstances in which it was formed, the government lacked the democratic legitimacy to pass such an important tax reform: “There wasn't much room for maneuver (in the political sense). And everybody thought that you need to renew the parliament under the issue of a tax reform before you could act and as such it worked because this was the main topic of the election campaigns” (COM25). Equally importantly, the issue of a tax shift had not gained momentum in the political debate at that time and no administrative study was undertaken for the design of a tax reform. Nevertheless, the new government coalition made it known from its agreement that it was open to consultation processes for rethinking and reforming the country’s taxation system (Denis et al. 2014). But also due to its Socialist background, the government was very skeptical in implementing measures that would transfer the burden to other tax bases and possibly also to the federated entities. In fact, later on Di Rupo was highly critical against the Michel government’s tax shift, exactly because of that, calling it a “game of deceived people” – “jeu de dupes” - (La Libre, 14 March 2016). Apart from commencing the highly complex Sixth State Reform which would rationalize the public finances in the long term, the government had the hard task to reduce its deficit in the short term. The sovereign debt crisis together with the institutional uncertainty of the years 2007 to 2011, exerted considerable pressure on the country’s public finances. Belgium’s responses in the 2013 and 2014 NRPs confirm that budgetary consolidation was a constant for the government, by mentioning that each policy measure was taken always “within the available budgetary margins” (NRP 2013:9). So Elio Di Rupo not only had limited space to reduce labour taxes, but he was also induced to proceed to cost-reducing reforms, even if this was not in line with the traditional socialist practices. The extremely complex tax system of Belgium with shared competencies between Regions made the adoption of substantial reforms even more difficult, as pointed out also by EMCO (2012: 5). On the pressuring circumstances, an official of the High Council of Finance stated:

> During the Di Rupo government, it was dominated by fiscal consolidation just after the economic crisis and the political stance was that if we have to increase taxes, we shouldn’t increase taxes on labour. (HCF23)

But the issue of a decreasing labour taxation was present throughout Di Rupo’s government and as time went by it gained more and more attention in the public space, evolving into a wider dialogue on how to reorganize the tax system. The fact that the High Council of Finance was given a mandate by the Finance Minister, Koon Geens, to prepare a report on how to fund the tax reform already in November 2012 but also that a Parliamentary Commission on the same issue was formed during the
last months of Di Rupo’s term (Conseil Superieur des Finances, 2014) shows that the debate was
 evolving and reaching the high circles of policy design administration as well as of political elites. In
 an interview with the WSJ several months before the 2014 elections, Elio Di Rupo stated: “We need
to reduce the pressure on workers, but we also need to keep the state functioning. All the work
we’re doing from now until the elections, and afterward as well, is to find a much simpler, and much
fairer, tax system” (WSJ, January 2014). The representative of the N-VA confirms that the
government eventually started considering issues of competitiveness, including how to do a
comprehensive tax shift in the future. All in all, the Di Rupo government was unable to proceed to an
ambitious tax shift. As the HCF official has put it: “it decreased some (taxes) but it was more of a fine
tuning rather than a political stance”. The adverse institutional, political and fiscal circumstances
were untraversable objects so the time was not ripe for a holistic plan of a tax reform to appear. “It
was difficult to prepare for the evolution of some of the tax instruments at the regional level and at
the same time change your system. I mean you need to stabilize a bit the thing, it was too
early”(COM25).

7.3.2 The Michel government

With the elections of May 2014 and the formation of the government led by Charles Michel, the
issue of a tax shift gained significant impetus on the political agenda. As mentioned earlier, the
problem had been repeatedly pointed out by the Commission, the IMF as well as the OECD and for
years was known among national policy experts. But it seems that the formation of the right-center
coalition was a decisive factor in the decision to lower labour taxation. Shifting taxes away from
labour has been presented by the Flemish nationalists within the general context of competitiveness
as a measure that could boost the Belgian economy. As Hendrik Vos, director of the Centre for EU
studies in Ghent University wrote: “The N-VA’s economic agenda is at least as important to it as
Flemish independence, so from the start of negotiations on a new governing coalition in Belgium, it
refused to work with the francophone Parti Socialiste, which staunchly defends the country’s ‘old’
economic system with its high taxes and inflexible labour laws” (Europe’s World, 21 September
2015). The debate about a tax reform began to catch fire as the Federal elections of May 2014 -held
together with the Regional and European elections- approached and later on became evident during
the negotiations for the formation of the new government. The consensus was broad for lowering
taxation on labour and suggestions came from all political sides, including the N-VA and the MR. As
the HCF official puts it: “There is wide consensus on the fact that we have to cut taxes on labour”. However, he added: “there is no consensus at all on how to finance it. The significant VAT increase
was blocked by the left side in the political spectrum, the taxation of income and savings was
blocked by the right side” (HCF23). It was in this context that the N-VA and the MR started to use the
Commission’s rhetoric in order to present a comprehensive plan in the domestic debate.

The term ‘tax shift’, was consolidated in the Belgian politics during that period and started being
used openly by many actors and institutions. For example, in August 2014, the Belgian High Council
on Finance published a report under the title ‘Tax shifting in favour of labour and a broader tax base:
Scenarios for a comprehensive and significant tax reform’, being the only time after a 2007 report
that a comprehensive analysis has been presented in the domestic context. But also during the
negotiations for the government’s formation, the president of the New Flemish Alliance, Bart de
Wever, mentioned tax shift as one of his agenda topics (La Libre, 27 May 2014). However the N-VA
has framed it within the wider ‘competitiveness’ challenge. In the words of the party’s representative: “The tax shift was part of the same policy objective which was to strengthen competitiveness” (N-VA21). The final version of that year’s CSRs was published on 8 July 2014, pointing out once again the need for a comprehensive and wide ‘tax reform’. All these elements contributed to the creation of a ‘window of opportunity’ for policy-makers to ‘download’ the term, use it in their programme and eventually include it in the coalition agreement of the new government. From that perspective, it is likely that national actors creatively appropriated the term from the EU level, rather than simply using it as leverage for promoting their own existing agendas. As an official from DG TAXUD stated: “The main partner (of the Michel government) is N-VA and they don’t have a view for the Federal state so they take views from others. And that also fits their general position on the political spectrum, I mean the more right than left. It’s still part of the fact that Belgium wants to be the "good pupil" of Europe”(COM25).

The N-VA which holds the majority on the coalition government and members such as Johan Van Overtveldt, the current Finance Minister, has repeated many times that the designed tax shift will boost Belgian competitiveness. As an official in DG ECFIN stated: “The CSRs have set issues on the national agenda. I think that the example of Bart de Wever is a good example [meaning of creative appropriation of the CSRs] because that was in summer 2014 but the CSRs were published May-June 2014. So they (the CSRs) stood fresh and it was relevant to the elections and many parties said this gives a blueprint to reform Belgium so for us (the European Commission) it was positive that in 2014 just before the elections it could be used. They all said something about the tax shift in there, it was perfect conditions [...] So in that respect the tax shift is more obvious than the pension reform because the urgency was more clear” (COM03).

As another official from DG EMPL added:

The term entered the Belgian lexicon, part of it is of course linguistic complications of Belgium, but they just used English, both Flemish and French. That they used the word tax shift, this must be one of the relatively rare occasions when a country has adopted Commission-type language for a policy. So, I would say that the European Semester has been instrumental in pushing the tax shift. (COM15)

Finally, the words of EMCO’s chair are equally insightful:

The idea of a tax shift has been inspired by the European level, whether this is directly through the European Semester as such or partially because it was a topic that was discussed in the Euro group at some point. Other countries were doing similar things and Belgium is not much of an island, so we know what’s happening. So, there was some inspiration from outside and the European Semester has been one of the most clearly appealing for this kind of tax shift now. (EMCO13)

In its coalition agreement (which has been welcomed both by the IMF and the EU institutions) together with its November letter to the Commission, the new government led by Charles Michel highlighted its commitment to the Semester’s recommendations. As seen in its letter, the government explicitly revealed its stance: “The federal government will take consistent measures in order to finance the funds needed to lower the taxes on labour”, adding that it “will assess in this legislature how a further tax shift can be engineered” (Government of Belgium, 21 November 2014).
From the first moment, the tax shift was presented among political parties, the media and the public as a development for the country’s political economy. Inextricably linked with an ambitious “fiscal reform”, the tax shift was indicated as an answer to the country’s competitiveness problems. Within a period of four years, the government aimed to raise €3.7bn by shifting taxes to health and the environment, to anti-fraud measures and to capital taxation. These would be able to fund measures to enhance the people’s buying power as well as reductions in the social security contributions (Le Soir, 24 July 2015b). The fact that certain international organizations addressed for years the heavy tax burden on labour was highlighted in order to show the government’s mindset (Europe’s world, 21 September 2015). As the official from the HCF argued: “In politics, it’s a breakthrough. It has been clearly announced in the coalition agreement, there was a clear political stance. But in policies I am not sure”.

After almost six months of negotiations between the government parties, the law of December 2015 introduced a series of measures aiming at shifting the burden away from labour towards less growth-distorting domains. Primarily, the law stipulated a significant reduction in the employers’ SSC from 33% to 25%, targeted at low wage earners. It also foresaw a further increase of the net salary through a combination of three specific measures, namely a new increase in the lump-sum deduction for professional income, a modification of the existing tax rates and a raise in the tax-exempt threshold as of 2019. As regards tax rates, the government scheduled their reduction from 30% to 25% for incomes of 7.070 to 8.120 euros from 2019. The compensatory measures to fund such a shift increased taxes in other fields: the government decided to abolish the reduction of the VAT rate for electricity as from September 2015 (€712 millions) and to increase duties on products such as alcohol, tobacco, diesel and soft drinks -branded as the ‘health tax’- from 2016 onwards (in total €908 millions). Furthermore, it was decided that capital taxation would also be increased including dividends and interests (€150 millions). At the same time, the reductions in personal income tax in combination with lower SSC for employers have also contributed to a reduction of the overall tax burden. Besides all this, several additional measures were taken by the Regional governments, including a ‘kilometer-based road charging for heavy duty vehicles (NRP 2016:7). The personal income taxes are a shared competence of the Federal state and the Regions, while VAT belongs only to former and certain environmental taxes such as excises on fuel to the latter (Mathé et al., 2015). But this complex institutional landscape makes it difficult for the authorities to effectively coordinate the tax shift. Most recently, in March 2017, the law on the reform of the Belgian social security system introduced a ‘balanced endowment’ (“dotation d’équilibre”) in order to contribute to the system’s financing since the social security contributions have been decreased (Le Vif/L’Express, 31 March 2017).

7.3.3 Tax shift but not a tax reform

Despite the efforts of the new government to shift the fiscal burden away from labour (reflected in the 2016 CSRs but also in the 2015 OECD Economic Survey), the Commission assessed that this tax shift was to a great extent incomplete: the transfer of taxes was not balanced in budgetary terms and the system remained complex, full of exemptions and administrative costs. On top of this, its fiscal impact was modest, expected not to exceed 1% of GDP and inefficient to significantly reduce Belgium’s high debt (Bloomberg, 22 October 2015). As one Commission official has put it: “The point is that we had a tax shift, we saluted it, but we haven’t had a tax reform” (COM2). That’s why in the
2016 and the 2017 CSRs, the Commission highlighted once again that this transfer was not ‘budgetary neutral’ and called for a shift to ‘greener’ and less distortive taxes which ‘present a lot of potential’. In fact the Commission’s perspective is that its recommendations have been transformed into something new at the national level, which fits the national context as well as the actors’ ideas and agendas:

The word ‘tax shift’ easily became a catchphrase but the meaning changed. What we meant was lower taxes that are growth distorting, such as labour taxes and some kinds of taxes on capital, and compensate by increasing less growth-distortive taxes. In Belgium, it quickly became a debate about taxes on labour versus taxes on capital whereas from our point of view - and we had a lot of trouble explaining that, once the tax shift debate was going on in Belgium - from our point of view labour taxes and taxes on capital - at least most taxes on capital - are both growth distorting. We had a different framework, we were talking with the same words, using the concept of ‘tax shift’, but we were talking about going from taxes on labour to taxes on property to taxes on environment, to taxes on consumption, and they were talking about the same thing, ‘tax shift’, but they focused the debate on taxes on labour vs. taxes on capital, which was not our intention. So, that shows you how something which originated at the European level is recuperated in a country and also transformed in a country .(COM1)

According to another official from DG EMPL:

If you look at the CSRs, all we talk is about the tax reform, so the intrusion (of the Commission) has been limited to a tax shift. There are many elements which are not there, which should happen. (COM2)

Hence, despite its lack of competences, the Commission would like to shape the direction of the Belgian tax reform. As it can be seen from its constant remarks, the Commission understands a tax reform in Belgium as something much wider than the tax shift of the Michel government. That would imply not only a decrease of the burden away from labour but also a general simplification of the tax system and broadening the tax base towards other fields as well.

But also in the domestic debate, the voices of criticism abounded. A major concern was that shifting the financing of taxes to consumption—especially by increasing the VAT—would harm the Belgians’ purchasing power. Interestingly enough, as a response to these claims the Finance Minister brought up the IMF and OECD reports, arguing that they “advocate a tax shift away from labour towards consumption, environmental taxes and property, exactly in this order” (Le Vif/L’Express, 8 February 2015). Apart from that, the major opposition parties like the Socialists and the Greens stated that the tax shift should be more ambitious. This was mainly due to the fact that while negotiating the tax shift, there have been various red lines and vetoes which were left untouched, including the tax exemption of company cars, the level of taxes on capital but also property. Likewise, Dominique Berns, one of the editors of Le Soir, stated that the Michel government had too many taboos to try an ambitious tax reform, including personal income taxes and property. As his colleague, Xavier Counasse said during the same interview: “There is fear to touch the old habits...With this tax shift
we are far away from a big fiscal reform29 (Le Soir, 24 July 2015a). In addition, trade unions and several labour organizations claimed that the reform will affect low income houses, thus widening the gap between them and the middle range wages. According to Professor Frank Vandenbroucke of the UvA as well as to the National Bank of Belgium, the current tax shift could lead to another unexpected effect: due to the measures already in place for reduced social security contributions the people with lower wages would not be benefited. Instead, wage reduction measures would apply only to higher wages, thus undermining the employment of the former (European Commission, 2015b).

Since the law on the tax shift away from labour passed during the last month of 2015, for the following policy cycles the Commission broadened its scope. At the same time, the CSRs of 2016 linked for the first time the need for a comprehensive reform of the ‘tax system’ with the Stability and Growth Pact. This update had to do with Belgium’s difficulty to reach the annual debt reduction rate due to the economy’s slowdown after the 2016 terrorist attacks, so the –once again- pressuring circumstances contributed to the adoption of several new measures by the Michel government. Importantly, in December 2016 and after almost five years since the country’s previous rating cut, Fitch downgraded Belgium’s credit rating mainly due to the latter’s difficult to balance its budget and lower its debt (Bloomberg, 23 December 2016). Consequently, the government felt once again the external pressure mounting and was quick to pass the Program Act of 25 December 2016 several days after, as part of the 2017 budget, aspiring to make the tax reform more balanced: among others, the Act makes changes to the tax charge on company cars as well as to the treatment of internal gains deriving from shares owned by an individual, but also modifies the tax regarding the transactions in the stock exchange (PWC Belgium, 22 February 2017). In its 2017 SWD—and its 2017 CSRs- the Commission underlined that despite these additional measures, the government rationale remained the same, with ‘large number of exemptions, economic distortions and adverse tax incentives’ (European Commission, 2017d: 2) still in place. Thus, it seems that reputational concerns towards the EU together with the fear of financial markets’ response -which in this case worked independently from the Semester’s mechanisms- were able to trigger a few more measures for budgetary reasons, nevertheless these were not sufficient to lead to a paradigm shift and a wider tax reform in accordance with the Commission’s view.

7.4 Conclusions

All in all, the recent Belgian tax shift is a good example of the European Semester’s capacity to influence national policies. In particular, during the Federal elections of May 2014 the Semester led to the adoption of new agenda goals for certain political parties (and especially for the N-VA), taken directly from the Commission’s recommendations. When these parties became the majority partners of the new Federal government, they repeated their policy goals in the coalition agreement and soon a comprehensive tax shift away from labour was passed. Although the Michel government communicated the latter as something totally aligned with the Commission’s vision, this was not the case since the reform was far from being budgetary neutral.

29 Translation from French.
But as far as the effects of the European Semester on Belgian labour taxation are concerned, one must also take into consideration the previous EU initiatives and coordination mechanisms in order to have a better understanding. The 1993 White Paper of the Delors Commission, the 1996 Dublin Declaration on Employment and, most importantly, the European Employment Strategy set up in 1997 created cumulative cognitive effects on the need to lower labour taxation, being one of the most persistent problems of Belgium. In turn, several international organizations such as the OECD and the IMF contributed as well to these effects. As a result, by the time the European Semester was launched in 2011, the consensus was widespread among Belgian political actors on the need to reform the taxation system. This can be seen from the actions of the Di Rupo government, which even though it was unable to initiate a wide reform due to the pressuring circumstances, it gave a mandate to the High Council of Finances to prepare a report for future tax reforms. Eventually, these ideational effects were upgraded into agenda-setting effects just before the Federal elections of May 2014, when several parties incorporated the concept of ‘tax shift’ in their own electoral programmes, with more prominent the N-VA and the MR. So when the new government coalition was formed, the Semester led also to a programmatic shift with the adoption of the law of December 2015 referring to a tax shift away from labour.

Attention must also be given to the mediating factors which allowed for the Semester to bring out its effects at the national level. The pressuring economic and fiscal situation of the country was an important one: the government of Elio Di Rupo did not have the time to come up with a comprehensive plan for a substantial tax reform. Coping with the alarming situation of Belgium’s high deficit, which at the year of the government’s inauguration stood at 3.9% of GDP, was seen as a priority. Towards this end, Belgium had to opt for a number of austerity measures which, prima facie, were opposed to the decrease of social security contributions and labour taxation. In addition, the agenda and perceived mandate of each governing coalition played a significant role on the Semester’s domestic effects. In its coalition agreement, the Di Rupo government designated the constitutional reform and the rationalization of public finances at all levels as its primary aims. 

Although a reform of the tax system was mentioned in there as well, the government aspired for a slow consultation process with the parliament in order to agree on a modernization plan. From that perspective, it was aware of the need to decrease labour costs, nevertheless it lacked the mandate and technical support to pass such a wide reform right away. On the contrary, the majority parties of the Michel government (the liberal MR and the Flemish nationalist N-VA) had competitiveness as a priority in their agenda, so the concept of the tax shift at the EU level fitted perfectly with it. Despite a widely-advertised tax reform, the new government did not adopt the Commission’s vision, in the sense that it had to be budgetary neutral and growth-friendly. Finally, Belgium’s traditional support for the EU, both by the political elites and the public opinion, was a necessary precondition for the explicit use of the term ‘tax shift’ in the domestic arena. The Belgian understanding of the Commission as an impartial, rational authority has led multiple political and administrative actors over the years to refer to EU instruments as extra arguments which could help them consolidate their position in the domestic debates. Examples vary, from the Dehaene governments in the 1990s and the use of the Maastricht consolidation criteria to the national Study Committee on Ageing bringing forward the indicators on the replacement rate drawn from the Pensions OMC.

As regards the Semester’s mechanisms of change, the analysis revealed that creative appropriation was the most obvious mechanism through which the Semester influenced the country’s tax policies. As seen in the theoretical chapter, creative appropriation belongs to the intrinsic motivation
mechanisms and refers to the use of the concepts, jargon or arguments of the discussions at the EU level by national actors, as means to promote their own agenda. In this case, during the 2014 electoral campaign, the N-VA and the MR adopted the Commission’s rationale and included the term ‘tax shift’ in their own agenda for tackling the issue of the high costs of labour. This fitted well with their broader narrative on the need to enhance the competitiveness of the Belgian workers and businesses and provided solid suggestions in the domestic debate on the future of the Belgian fiscal system which had already began. When the two parties became majority partners in the 2014 government coalition the term ‘tax shift’ entered officially the domestic political scene and media. However, when the relevant law passed in December 2015, it became clear that the government understood the term differently than the Commission: in fact, the Michel government had gone halfway, taking the tax burden away from labour, nevertheless still having to shift financing to areas which would be less harmful to growth. Such a creative appropriation must be seen as an obvious form of Europeanization, in the sense that it was not a mere use of EU arguments for the legitimation of existing policies at the national level; rather, the government first ‘downloaded’ the tax shift concept but its later use showed a clear derogation from the Commission’s vision, that of a ‘comprehensive tax reform’ (2014 CSRs). Hence, tax shift was understood primarily through the N-VA’s and MR’s own perspective, focusing on competitiveness within the Belgian context. Most recently, external pressure mechanisms also became influential in the adoption of additional measures. The pressure of the financial markets and the reputation signaling linked with the update of the legal basis of the relevant CSRs from the MIP to the SGP, contributed to the government’s decision to take further measures for a more balanced tax reform. All in all, the case of the Belgian tax shift away from labour shows that both types of mechanisms of change (these of external pressure as well as of intrinsic motivation) can play an important role depending the circumstances.
Chapter 8. The European Semester and its effects on the labour market integration of migrants in Belgium

The issue of the integration of migrants in the Belgian labour market has been well-known for many years and is linked with the employment goals of the Europe 2020 strategy. At the EU level, the challenge of integrating migrants has been addressed partially by past socio-economic coordination mechanisms before the Semester’s appearance. But the integration of migrants is a less clear paradigm of Europeanisation since it involves multiple actors from the different Belgian Regions and Communities and is inextricably linked with the long-term de-federalisation process of the country. The chapter firstly attempts to put migrant integration into its general historic context by tracing the different debates and policy developments even before the appearance of the European Semester. By casting light on the interplay of the initiatives and actors between the EU and national level, it aims to understand what is the added value of the Semester. By providing a detailed account of the Europeanisation effects on the Belgian integration policies for the period 2011-2017, the study also aims to contribute to the existing literature on the Europeanisation of migrant policies (Vink, Bonjour and Adam, 2013; Adam and Jacobs, 2014) and on the effects of the EU on sub-national entities (Bursens, 2012; Happaerts, 2015; Maes, 2016) under a more specific prism.

8.1 Framing the Semester effects within the existing migration policies

8.1.1 Migration in Belgium: a short introductory history

Belgium has a long tradition as a host country that dates back to the 19th century. The internal migration of the late 19th and early 20th century evolved into a more European-oriented pattern after the Second World War. As the production of coal was very important for the country’s economic development, the Belgian governments of the 1950s, 1960s and early 1970s signed bilateral working agreements for labour supply with several Mediterranean countries. The Treaty of Rome enhanced the vision for integration, establishing the free movement of workers for the nationalities of the then European Community. Eventually, the Treaty of Maastricht in 1992 consolidated freedom of movement and established EU citizenship, widening the gap however between EU citizens and third-country nationals. Since 1991 the proportion of EU citizens living in Belgium has been steadily increasing. As Martiniello and Rea (2001) point out, the majority of the migrant population actually comes from other EU member states; nevertheless, third-country nationals are more visible due to their high concentration in urban centres.

After the energy crisis of 1972, the Belgian government made a significant shift in its integration policies: in order to cope with the high level of unemployment, it adopted the so-called ‘zero-immigration doctrine’, thus officially stopping the recruitment of migrant workers abroad. The 1980s was an active period for integration policies, during which a significant part of the competencies linked to the labour market integration of migrants was transferred to the Regions as a result of the centrifugal political forces for de-federalisation (Swenden, Brans, De Winter, 2006). At the same
time, anti-discrimination policies were enhanced: in 1980 and 1981 the Federal government passed two laws, one on the entrance, residence and return of foreigners and the other against racism. Partly due to the fact that migrants were treated as political scapegoats for the persistent unemployment of that decade, the government updated the Nationality Code in 1984 (Mandin, 2014) and thus simplified the naturalisation process by adopting the principle of *jus soli* (meaning that citizenship is given to anyone who is born on Belgian territory). 1989 marked the beginning of a new period for integration policies with the establishment of the Royal Commission for Policy on Immigrants. The events which led to its creation had to do primarily with the migrant groups in Flanders and the rise of conservative nationalist parties there during the local and national elections in 1988 and 1991 respectively (Coffé, 2005). At the same time, the upheaval of migrant populations in the Region of Brussels due to discrimination practices, led the government to take a series of social measures including regional planning, education, professional training and measures against criminality. Most importantly, in 1993 the Centre for Equal Opportunities and Opposition to Racism (CEOO, in French: CECLR, in Dutch: CGKR) was created as a successor to the Royal Commission. The current anti-discrimination law – applicable also to migrants - dates back to 2003, supplementing the 1981 anti-racism law and the 1999 law on gender equality (Mandin, 2014). Despite the fact that Belgium has been a country of permanent migration for many decades, the measures taken over the years came as a response to each period’s challenges, rather than being a product of a wide political consultation and a commonly agreed strategy for the long-term. The state did not have a targeted approach until the end of the 1980s, since there was a wide-spread belief that the migrant population would stay and work in the country only temporarily.

After the regionalisation of the party political system in the 1960s and 1970s, but even more clearly after the devolution of migrant integration competencies to the federated levels in the end of 1980s and beginning of 1990s, any Europeanisation effect on labour market integration of migrants has been manifested and filtered in that level. Hence, the polyarchic institutional framework on integration policy means that Belgium does not have ‘one national model for migrant integration’ (Adam and Jacobs, 2014) but rather two, based on the linguistic divide and the different ‘philosophies of integration’ of the Regions (Martiniello, 2012). As a result, the Regional party politics, identity and political culture play an important role in determining the debates and policies of the labour market integration of migrants.

In broad terms we can say that Flanders has opted for a multiculturalist policy, taking more positive measures towards migrants, while the Francophone policies are assimilationist in character, reflecting a more equal treatment approach. However, these different models have been blurred over the years, since Flanders has many elements of assimilationism after 2000 and a more ‘hybrid’ model (Adam and Martiniello, 2013) so it is more accurate to say that the main differences between these two Regions are centred around three aspects: the level of centralisation of migration policies, the acknowledgement of ethnic characteristics of parts of the population and the existence of an obligatory integration pathway. In the section regarding the effects of the EES and the Pensions OMC, I will analyse in more detail the Regional debates during the 1990s and 2000s relevant to the integration of migrants.

1.2 The institutional framework in Belgium: an overview
Like in the European Semester, the subject of labour market integration of migrants can be seen as part of the broader labour market integration policies in Belgium, since the general debate on migrant inclusion revolves around a wide array of individual issues: from workplace practices against discrimination, recognition of diplomas, anti-poverty measures, housing and relocation to language courses, orientation in the job centres as well as vocational training and education. Already from the beginning of the 1990s CEOOR has pushed for a broader understanding of migrant integration, addressing its ‘multi-faceted’ character (Mandin, 2014).

In broad terms, the Federal government is responsible for the admission, residence and expulsion of refugees, asylum seekers and other migrant groups, whereas the Regions are competent for issues of labour market integration, such as the issuance of work permits. Immigration policies are monitored by the Federal Ministry of Interior Affairs, while the Federal government has the prerogative to pass general legislation on labour standards, social security and anti-discrimination issues. Since employment policies belong to the Regions, each Public Employment Service there – VDAB in Flanders, Le FOREM in Wallonia, ACTIRIS and Bruxelles Formation in Brussels, Arbeitsam ADG in the German Community - enjoys a wide discretion to design and implement its own active labour market policies. However, these do not target people with a migrant background in particular, but apply to all eligible job seekers. Finally, the Federal Public Service for Employment (SPF Emploi) collects data on migrants in the labour market and meets with the social partners for general labour market legislation, including issues of equality in the workplace in which CEOOR plays an important role (OECD, 2008).

The development of the integration pathways of each Belgian Region has been unfolded in different phases. On the one hand, Flanders developed its integration policy for ethnic minority groups (‘minderhedenbeleid’) in 1998, and several years later, in 2001, presented a new programme of ‘civic integration’ (or ‘inburgeringsbeleid’) composed of language courses, social orientation as well as career orientation sessions. Since 2004 this programme is obligatory for the newly-arrived migrants. The eligible persons who decide to sign a contract with the programme are obliged to finish it under the sanctions of an administrative fine. On the other side, in 1996 Wallonia established six Regional Integration Centers (RIC) responsible for the reception of newcomer migrants and for providing administrative assistance when other public services are involved. The language training and the professional orientation are given by other public authorities or agencies and certified partners in Wallonia. Although RICs lack a central structure of coordination (Martiniello 2012), they are in contact through the electronic platform DISCRI (Dispositif de concertation et d’appui aux Centres Régionaux d’Intégration) charged with mutual consultation and exchange of best practices.

The institutional crisis of the period 2007-2011, which resulted from the political frictions over the future of the Belgian federalist model, promoted the restructuring of migrant integration policies at all governance levels. In 2008 Belgium enhanced its intra-federal coordination by concentrating all the competences regarding refugees and asylum seekers to one Federal Ministry. At the same time, the Sixth State Reform increased the competences of the Regions on wider labour market issues. Until then, the inclusion of migrants in the labour market was shared by both levels giving the legislative prerogative to the Federal level and its implementation to the Regions. From the 1st of July 2014 when the State Reform came into force, the three Regions and the German-speaking community became solely responsible for the economic measures of migrant inclusion, including
lawmaking, implementation, assessment and follow up monitoring. Finally, the linguistic Communities were given the right to develop their own ‘student permits’ as part of their role to design and implement their own educational policies (EMN, 2016).

8. 2 Activities regarding migrant integration in the labour market outside the European Semester

8.2.1 The activities of international organisations on the labour market integration of migrants

Distinguishing the effects of the European Semester becomes more difficult when taking into account that several international organisations took initiatives pertaining to the position of migrants in the labour market long before its launch. The 2013 Socio-Economic Monitor, a document produced by CEOR and the Federal Ministry of Employment (FDP Employment), underlines that already in 1997 a Report of the International Labour Organisation (ILO) dealt with the introduction of migrants in the Belgian labour market. In this field, the OECD has been one of the earliest – and allegedly most influential - actors to take up the issue. With the establishment of a network of contact points in the national administrations in the late 1990s (SOPEMI) the OECD received regular feedback on the participation of migrants in the labour market. This monitoring system feeds into the International Migration Outlook which is updated annually. Throughout the 2000s the OECD produced several reports focusing on the integration and market position of migrants in a considerable number of countries. Its 2008 publication as part of the series ‘Jobs for Immigrants’ gave a comprehensive overview of the situation in Belgium, tackling the issue of a common definition for migrants as well as the composition of such a group, the availability of relevant data but also the institutions and actors involved. After the global financial crisis, the OECD continued to address the exclusion of vulnerable groups from the labour market; as one of its reports in 2012 indicates, over the years the organisation has developed a sufficient number of indicators on migrant inclusion, which took into consideration the multiple aspects of the issue and which were covered in the national press (RTBF, 3 December 2012). Specifically on labour market participation, the report aims to identify the factors of worst migrant performance when compared to country nationals (see also: , Høj, 2013). Most interestingly, in February 2014 the OECD and the European Commission organised a joint conference on ‘Matching migration with labour market needs’. This led to the first international comparative study on the integration of migrants, published in 2015. In this the two bodies jointly indicated the challenges for the future and mentioned the occupational and educational derogation when compared with the targets of Europe 2020. Most recently, and with the assistance of experts from Antwerp University, the Economics Department of the OECD published a Working Paper on the labour integration of migrants, repeating the need for specific-oriented strategies together with more general ones focusing on skill enhancement and the decrease of labour costs. All in all, the OECD has repeatedly called for a unitary approach on migrant integration in its Social, Employment and Migration Working Papers, while explicitly referring to the goals of the Europe 2020 strategy.

The influence of the OECD on several Belgian intuitions (e.g. Bank of Belgium, as seen in De Keyser et al. [2012]) but also its diffusion on specific aspects of the political discourse is evident in recent
years, since the organisation’s reports have been mentioned regularly in domestic media. It is notable that some of the same writers who have been involved in the writing of a working paper by the Bank of Belgium published in September 2015 also produced papers for the OECD (Pina, Corluy and Verbist, 2015). In the former they also acknowledged the complexity of the migrant integration problem, stating that “different factors may play a role... Examples include discrimination, network effects, differences in preferences etc.”. Especially after the refugee crisis, the annual reports of the OECD have gained increasing attention in the Belgian media (Le Soir, 17 November 2014; Le Guide Social, 4 February 2015 and 3 June 2016). In a similar direction, Theo Francken, the State Secretary for asylum and migration under the Michel government, cited in 2015 the findings of the OECD, in order to support his argument for making professional integration courses obligatory in Wallonia after the example of Flanders (Le Guide Social, 9 February 2015).

At the same time, a few other organisations have been active for many years in the field, contributing to a better understanding of the situation of migrants. In 2009 the International Organization for Migration (IOM) formed an independent network of labour migration experts with the aim of supporting the work of the European Commission’s DG EMPL. This network lasted until 2013 but the studies of the Belgian experts gave a comprehensive overview of the country’s situation for the years 2000-2009 (Rea and Godin, 2010). Most recently, the Council of Europe recommended to Belgium that further measures need to be taken for the protection of migrants, along with groups such as people with disabilities, the Roma population and asylum seekers (RTBF, 28 January 2016).

Lastly, the Migrant Integration Policy Index (MIPEX) has also gained attention in the Belgian media (Le Soir, 7 May 2015; RTL, 7 May 2015). The Index was first published in 2004, with the aim of giving a comprehensive picture on the integration performance and institutional situation among 38 countries – not necessarily EU member states. While managed by the Migration Policy Group (MPG) and the Barcelona Centre for International Affairs (CIDOB), a think-tank, it has been funded partially by the EU and during the recent refugee crisis, it has been useful in raising awareness among the public, NGOs and the national authorities.

8.2.2 Europeanisation efforts: The EU’s past initiatives for the inclusion of migrants

Several authors have underlined the Europeanisation effects of specific processes outside the Semester (such as the Family Reunification Directive 2003/86/EC or the National Contact Points for integration) on the Belgian integration policies of migrants (Vink, Bonjour and Adam, 2013; Bourdrez, 2010). According to them, these processes have, among others, managed to modestly enhance cooperation between the Regions and to bring closer the positions of the Francophone and Flemish parties. Before the appearance of the European Semester, various EU agencies have sporadically dealt with the integration of migrants from different perspectives. For example, in 2003 the European Monitoring Center on Racism and Xenophobia (EUMC) - which in 2007 became the EU Agency for Fundamental Rights (FRA) - published a synthetic report on the exclusion of and discrimination against migrants across member states, highlighting the lack of data on the situation of migrants in the labour market along with the growing interest in the political agenda (EUMC, 2003). In 2011 FRA published its second thematic report on the situation of migrants in the labour
market, compiled by its RAXEN National Focal Points as usual, which in Belgium is the Centre for Equal Opportunities and Opposition to Racism.

The EU has also been promoting transitional networks on migrants since the 2000s. The most important among them is the European Migration Network (EMN) created in 2003 as a platform for providing reliable thorough data on migration and asylum policies among the EU member states. Its National Contact Point (NCP) in Belgium is managed by the Federal Public Service (FPS) Home Affairs, which brings its own experts together with officials from the Office of the Commissioner General for Refugees and Stateless Persons, the Federal Migration Centre Myria and the Federal Agency for the Reception of Asylum Seekers.

As part of its legislative activity against discrimination, the EU adopted the Council Directive 2000/43/EC on ‘racial equality’ and Directive 2000/78/EC on ‘the quality of employment’. In addition, the Treaty for the Functioning of the EU in 2009 indicates that “it may offer support and incentives to member states who take action to promote the integration of legally resident third-country nationals” (Art. 79.4). The EU also adopted a set of ‘Common Basic Principles’ for immigrant integration policy in 2004 with the aim of being used as a general framework of cooperation between the member states. Reaffirmed in 2014, these principles adopt a broad perspective on integration (including employment, education, access to institutions as well as social integration) while defining it as a “dynamic, two-way process of mutual accommodation by all immigrants and residents of Member States”. The principles led to several related initiatives over the years with the 2005 Common Agenda for Integration, the Stockholm Programme (being in line with its predecessors: the Tampere Programme in 1999 and the Hague Programme in 2004) and the 2011 Commission’s proposal for a European integration agenda for non-EU migrants being the most prominent. Apart from these and – still - outside the framework of the European Semester, the EU introduced a set of indicators which also focus on the integration of migrants. Known as the “Zaragoza indicators”, they were introduced in the ministerial conference of April 2010 and were adopted a couple of months later by the Justice and Home Affairs Council. At the time, the Commission primarily had in mind the targets of the Europe 2020 strategy, so the indicators aimed at monitoring the integration policies from four viewpoints: namely employment, education, social inclusion and active citizenship. The first pilot report of the Zaragoza indicators was published in 2013 and until now Eurostat updates the relevant data on an annual basis (Pina, Corluy and Verbist, 2015).

Despite these efforts at the EU level, the use of the indicators seems to not have taken off within the member states. A report by Social Platform and the Brussels-based Migration Policy Group (MPG) from 2014 points out that the Zaragoza indicators have not gained political prominence whereas the “EU member states are not sufficiently reporting on migrant integration policies and fail to use standardized indicators” (Social Platform and Migration Policy Group, 2014). The authors add that there is no explicit reference to the indicators and that the member states cherry pick which specific indicators to mention. This seems to be true, but nevertheless the Zaragoza indicators have specifically addressed the issue of migrant integration in the labour market and contributed to raising its importance within the national administrations without being perceptible most of the times. This is confirmed by an official in DG for Migration and Home Affairs:
The Zaragoza indicators were useful in the sense that they are not necessarily named and referred to as the 'Zaragoza indicators' but what matters is when you look at the employment rate, you don't look only at the gender gap for instance, which is very important for colleagues in DG JUST, but you also look at this distribution of citizenship or country of birth and whether that there is a big gap you refer to it. And that thing was the main added value of the Zaragoza indicators (...) They are not necessarily called 'Zaragoza indicators' but they pass to the national administration. (COM12)

8. 3 The labour market integration of migrants before the Semester: the European Employment Strategy and the Social Open Method of Coordination

Since the launch of the EES in the end of the 1990s and the establishment of the OMC on Social Protection and Social Inclusion (OMC/SPSI) in the beginning of the 2000s, the issue of the labour market inclusion of migrants has successively gained attention. In a period of widespread unemployment, the EES was launched as an ‘open method of coordination’ tool at the 1997 Luxembourg Jobs Summit, as foreseen in the Amsterdam Treaty. The latter was upgraded into the Lisbon Agenda of 2000, which set an employment target to be reached by 2010 (70% of the active population in employment). The integration of people in the labour market was important for the promotion of the Lisbon Agenda’s two pillars, employability and entrepreneurship. Already in 2002, the Joint Employment Report (JER) explicitly pointed out that “immigration is increasingly seen as a potential source for broadening employment”, an approach which followed in the following years’ reports. From the beginning of the EES, migrants were seen as a group with a high risk of unemployment (European Commission, 1997) and for that reason they were considered to be part of the vulnerable groups category, along with older workers, the young, the low-skilled, women, ethnic minorities and people with disabilities. The factors which led to the exclusion of these groups from the labour market were understood as structural. Thus the EES policy recommendations addressed the broader functioning of member states’ labour markets. Such general measures included effective active policies, access to training and the institutional upgrade of the public employment services. Particularly for Belgium, the rigid labour market institutions, skills mismatches and the high tax-burden on labour were pointed out as key factors for a more inclusive labour market (European Commission, 2001). From early on, the Belgian authorities were aware of the country’s bad performance, so as a response in their National Action Plans (NAP) they mentioned the gradual lowering of labour taxation and anti-discrimination measures.

An important contribution of the EES was the creation of indicators which focused on diversity and non-discrimination in the labour market: namely the unemployment gap rate for disadvantaged groups and the unemployment gap rate between non-EU and EU nationals. After the 2004 mid-term review of the Lisbon Strategy by Wim Kok, the issue of migrant integration gained prominence at the EU level and its particular dimension became more explicit. Kok’s Employment Task Force report highlighted the necessity to “pursue multidimensional integration policy for migrants and non-EU nationals which facilitate participation in education and training, combat workplace discrimination, address the specific needs of immigrant women, promote business creation by immigrants and improve recognition of qualifications and competences acquired abroad” (Council of the European
In addition, the OMC/SPSI – and later on the Social OMC - played an important role in monitoring and identifying the challenges of labour market integration of migrants. During the Belgian presidency in 2001, the Laeken European Council agreed to a first set of 20 statistical indicators (11 primary and 9 secondary) for social inclusion to facilitate comparison between member states. Migrant inclusion was not one of these initial indicators. However, in June 2005 the SPC’s Indicators Sub-Group (ISG) took “a decisive step” and agreed on an additional primary indicator on “the inclusion situation of immigrants” (European Commission, 2005). This indicator refers to the “percentage point difference between the employment rate for non-immigrants and that for immigrants” which is national (NAT), meaning that it is up to the country to decide whether the term ‘migrants’ would mean “born abroad” or not (SPC, 2015b:20). In general, although the Lisbon Agenda had set up an employment target, no poverty-related target yet existed. This changed with the Europe 2020 strategy, where it was stated that at least 20 million people must be lifted out of risk of poverty and exclusion. The SPC took advantage of this opportunity and provided valuable input for the selection of the new strategy’s appropriate indicators—the indicator of migrant employment still figures among the indicators for social inclusion within Europe 2020. As regards the inclusion of migrants, it noted that member states need to improve their measuring capacity for the “situation of the most vulnerable groups” (SPC, 2010). But along general lines, the SPC’s approach and recommendations were similar to that of EMCO’s, putting the inclusion of migrants in the more general context of vulnerable group integration. With the launching of Europe 2020, it continued to point to a more “holistic” approach, without omitting sometimes to point to specific measures in accordance to the migrants’ needs (SPC, 2010; SPC, 2011).

Despite the afore-mentioned developments, the EES and the Social OMC exerted little influence on Belgium’s domestic debates and policy choices of the Regions. This is attributed to the presence of factors merely attached to the national context. One of them has to do with the unique centrifugal character of Belgian Federalism. As Martiniello (2012) mentions, after the devolution of competences on labour market integration of migrants in the 1980s, the field is considered by the Regions as their own ‘private hunting ground’ (“chasse gardée”). Consequently, these hold a suspicious stance towards any mechanism which could touch upon institutionally embedded competencies. Such a view is in accordance with existing findings on the perception of the EES and the OMC (Zeitlin and Pochet, 2005; Büchs and Friedrich, 2005) according to which certain federated entities such as certain German Länder saw the National Action Plans as “a Trojan horse” and a
threat to their prerogatives. In addition, Bursens and Deforche (2007) suggest that the particular nature of Federalism in a country and the existence of multiple veto points in the political arena of the Regions could diminish the influence of the European Semester. The Belgian Regions are certainly more friendly to the Commission’s activities, nevertheless they consider first and foremost migrant integration policies to be their own field for action.

Especially in the case of Flanders, the rise of sub-regional nationalism and anti-immigration rhetoric in the 1990s and the 2000s is a factor which can explain the debates and policies adopted. Due to the ‘polarisation and electoral struggle over the anti-immigrant vote’ (Jacobs, 2001) since the early 1990s, the development of integration measures there unfolded quickly: after the surprising rise of the right-wing Vlaamse Blok, the Flemish Liberal Party (VLD) which was at the time the majority party in the Regional government, decided to address the issue of migrant integration as a response to the electorate’s concerns. As with other policies (e.g. pension fund) the party invoked the Dutch example as an inspiration. Consequently, a ‘civic integration’ path was established in 2001, which also became obligatory several years later in 2004.

In Wallonia, the absence of an anti-immigration feeling in combination with the widespread support for the dominant Socialist Party – also from people with a migrant background - did not lead at the time to the creation of a formal integration path. However, the issue would gain attention in later years, after the Six State Reform as I will analyse in the following section. Besides this, an important factor which helped the preservation of the dominant Francophone assimilationist view on migrant integration was the federal debate since the 1980s and the disruptive tendencies of that period. Being openly against any further de-federalisation attempt on the Belgian state, the politicians in Wallonia avoided the discussion of an ethnocentric migration policy since any reference to this could promote a dangerous parallelism on the country’s fragile political situation.

8. 4 Identifying the effects of the European Semester

8.4.1 The scope of the Country Specific Recommendations and the Multilateral Surveillance Reviews and their substantive effects

The European Semester continued to monitor and keep in the limelight the issue of labour market inclusion of migrants within Belgium’s administrative circles. This had the same direction as the past coordination mechanisms, attempting to raise the prominence of the issue. In the words of EMCO’s chairperson:

The fact that the European level has been pointing this issue for many years and told us "listen, look at this gap", if we look at this data and because of the EU system telling us that

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30 On the contrary, López-Santana (2006: 491) argues that: “In the case of Belgium, the horizontal nature of federalism partly determines the resilient impact of soft law on policy formulation”, adding “that 79 percent of Belgian interviewees argued that the EES had been beneficial in improving internal coordination of employment policies”.

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there is this gap in employment rate. Because of them repeating year after year that there is a problem with that, also this influenced agenda setting in Belgium... Now, as there’s not an easy policy recipe or remedy on the situation, this hasn’t led to a lot of concrete actions yet but it really helped to raise awareness. (EMCO13)

At the same time, the Semester’s CSRs faced the same systemic factors and domestic limitations which, as in the past, watered down its effects on Belgian policies. In addition, the complexity of the issue and the way that the recommendations frame it does not help with overcoming these limitations. According to an official from DG ECFIN:

It’s also hard to put [the issue] into words like budgetary, for example improve your budget by 6.5% - whatever - next year or like making the tax shift by decreasing labour taxation, increasing VAT, it’s easier to say it like that than like...The analysis [for migrant integration] is there but I think the migrants is a quite complex issue and it’s multi-fragmented. (COM3)

As a result, apart from the fact that the Regional governments consider migrant integration policies to be an exclusive competence, the administrative institutions there perceive the CSRs as being too general for addressing their specific needs, which unfold at the Regional level and require a more tailored approach. As a high official of the Flemish Employment Service underlined:

Yes, we (the VDAB) always give feedback in the NRPs, but one of the problems we face is that of course these CSRs are at the Belgian level and the labour market policy is Regional competence. So, the recommendations are not always for the VDAB, so we have to always say “yes, yes, yes”. We understand the recommendations but it is not always for us. (VDAB22)

Europe 2020 explicitly saw migrant inclusion as part of its headline target for employment while the Commission repeated that immigration "could play an important role in meeting labour and skills shortages" (European Commission, 2011c). But also, migrant inclusion was seen as instrumental for two other headline targets: social inclusion and poverty reduction. Through the incorporation of Europe 2020 but also the EES and the Social OMC, the European Semester continued to promote inclusion policies through coordination, monitoring and exchange of knowledge (FRA, 2017). The CSRs referring to people with a migrant background came up as early as 2012 and continue to be present to this day, despite being formulated differently over the years. Like the Semester’s predecessors, the Commission tagged these people as one of the many vulnerable groups in the Belgian labour market while, at the same time, pointing out the broader structural factors which contribute to their exclusion. For example, the recitals in the 2014 CSRs indicate high labour costs as one of these causes, while the 2015 CSR refers to skills shortages, linguistic challenges and early school leaving as “structural factors” which have a negative impact on vulnerable groups. But in their 2013 CSR the Commission and the Council recommended an “encompassing strategy specifically aimed at this target group”, thus adopting in parallel a more targeted approach for supporting the labour market inclusion of migrants. It is interesting to note that, in an attempt to focus only on people with a migrant background, the relevant Draft CSR to Belgium of 2016 was eventually amended by the Council in favour of a more expanded scope. The justification given was that training policies should be broader, targeting “the socio-economically disadvantaged” while adding that not all people from a migrant background experience educational problems. A high official of the Commission explains this point:
In our proposed CSR 2 "Make sure that everybody gets equal access to education, training and so on", they [the Belgian officials] contested the word "access". They said everybody has access but it's rather a matter of 'participation': people don't participate equally to the labour market and education systems. Which is for me a fair point. Access is a legal concept. In principle you have access but you are not reached by programmes, you don't succeed in education problems that's the real issue. (COM24)

Finally, the 2017 CSR adopted a similar approach, referring to “the most disadvantaged groups, including people with a migrant background” and the need to have “equal access to quality education, vocational training, and the labour market”.

The different perspectives on migrant integration included in the National Reform Programmes (NRPs), whether Federal or Regional, show that in Belgium the integration of migrants is a perceived in a wide manner as well. The 2015 and 2016 NRPs underline that the integration of migrants depends on the “overall amelioration of the labour market”, citing measures such as wage adjustment, more efficient public employment services and lower taxes on labour. In addition, the 2015 ECMO multilateral survey frames the issue in a similar way: “Structural labour market reforms planned by the Government will be crucial to increase the overall labour market participation levels” (EMCO, 2015). Similarly, the 2011 NRP refers to better training and qualification diplomas as well as the need to combat labour market discrimination. As a result of the Sixth State Reform, the Regions acquired the competence to launch targeted anti-poverty measures towards specific groups primarily through the social security contributions of employers (EMCO, 2017b). Since the Reform’s entry into force in 2014, the Regions can determine the extent of the reduction and choose the particular target groups. Furthermore, they are competent for the activation of unemployment benefits and the welfare guidance schemes (NRP 2014). Although migrants as a group are included, these measures are not addressed specifically towards them for their inclusion in the labour market.

A common argument brought up by the national actors at all governance levels is the difficulty of separating origin and nationality from other cultural characteristics such as the lack of skills and education as well as poor living conditions (Van Dooren, Struyven and Cooman, 2014). Like the letter of Charles Michel to the Commission and the Belgian responses in the NRPs, this reflects the approach of the Belgian institutions according to which measures of wider scope, either of a structural nature or towards vulnerable groups in particular, are also fit for addressing the specific problems of migrants. As one of the interviewees in DG EMPL explained:

To give you an example, in the labour market none of the three Regions has recognized this as an issue for specific actions, on migrants or their offspring. Brussels has some kind of diversity plan but none of the three Regions has this as a specific target group for the labour market integration. The implication and the argument - it might be a valid argument - that is often heard is that you cannot characterize them as such, it’s very difficult, so for instance a big part of these kind of persons are low-skilled or long-term unemployed and then you reach them in that way. (COM14)

As part of the European Semester’s mechanisms, the thematic reviews of EMCO – which feed into the final version of the CSRs- have addressed the issue of labour market integration during the last few years, also raising the awareness on the issue among its members. As its chairperson described, these are also called multilateral surveillance reviews (MSR) and “are the follow-up of the
recommendations (CSRs)”. On their role he added: “We really try to follow what is happening indeed, what is happening with the CSRs. Sometimes we call them thematic reviews and we group them together” (EMCO13). In 2013 EMCO organised eight different thematic reviews, one of them on the labour market position of disadvantaged groups. Again, in February 2015, EMCO and the SPC co-organized a conference under the title “Inclusive labour markets in the EU: the role of improved job quality and enhanced inclusion”. EMCO’s thematic review of May 2016 focused on the participation of specific groups in the labour market and the informal meeting on labour mobility, some of which took place some months earlier, which shows its continuous efforts to identify the challenges in these fields. The preparatory note of Frank Vandenbroucke for the latter meeting reveals the approach:

On mobility and migration, the issue is not only how to manage the movement of people, and how to balance justiciable rights attached to mobility with concerns for domestic social cohesion. The issue is, fundamentally, about professional and social integration for migrants and their children. We need to recognize the enormous waste of skills and talents when migrants and mobile citizens are not adequately integrated into the labour market, not allowed to develop their entrepreneurial potential, and when their children fall in our education systems. (Vandenbroucke, 31 March 2016)

The most recent MLS in January and in March 2017 focused respectively on active labour market policies of PES and the vocational training of disadvantaged groups. In summary, although these thematic reviews adopted a wider scope and focused on all vulnerable groups, they were a good opportunity to point out the specific traits of migrant integration and to raise awareness among administrative policymakers. Nevertheless, as an official in DG EMPL has put it, the MLS are rarely translated into policy measures right away:

The EMCO meetings are generally useful but we should not expect that a meeting changes the issues and I think there are useful for exchanging ideas between member states and are useful because they provide for a comparison between member states and for contacts. (COM14)

But a most interesting development is that the thematic reviews have become more inclusive during the last few years. With their common decision in 2014, the European Parliament and the Council of the EU launched the EU Network of Public Employment Services (PES Network) in order to support knowledge-sharing practices and benchmarking, but also to provide their feedback to the EES. As far as the integration of vulnerable groups is concerned, the PES network contributed to EMCO’s MLS in December 2015 specifically on Active Labour Market Policies, the role of PES as well as on the implementation of the Youth Guarantee (PES Network, Annual Report 2015-2016). Although the PES network has not taken any initiative on the people with a migrant background, it has produced a paper on the integration of refugees and asylum seekers in the labour market. In this way, participation of national experts and officials has increased within the knowledge-exchanging mechanisms of the European Semester.
8.4.2 Intra-regional coordination: debates and policy developments

On the procedural side and as far as intra-federal coordination is concerned, it seems that the Semester had limited effects: in Flanders it contributed only indirectly to the adoption of the latest measures there while the Regions of Wallonia and Brussels-Capital were mobilised primarily due to the pressurised circumstances of the refugee crisis and the pressure exerted by the opposition parties. According to the Belgian contact point of EMN, civic integration policies are something different from the labour market integration policies (EMN, 2016); nevertheless their difference is not always clear, since they overlap conceptually: broadly speaking, the former includes the latter.

After the Federal Elections of 2010, the apparent consolidation of the Flemish nationalism (Irish Times, 14 June 2010) continued to influence the Regional debates for the inclusion of migrants in the labour market. In the municipality elections of October 2012, the N-VA used - with great success - a mild anti-migrant rhetoric, demanding stricter rules on migrant integration, family reunification and repatriation (RTBF, 23 July 2012). Geert Bourgeois, co-founder of the N-VA and Vice-President of the Flemish government at the time, stated that the integration of specific ethnic groups in Flanders “is a big societal problem for which we are looking for a solution” (EUobserver, 15 May 2012). Since 2010, the Flemish government started working on a new migrant integration decree which would focus on the organisation of new processes and on better results for the obligatory integration path (IOM, 2012:38). Eventually, the Decree of June 2013, amended in May 2015, established an independent centralised ‘Agency for integration and civic integration’ which aims to intensify coordination and inclusion policies and to push for better results.

These developments reflected the general political will to monitor the integration policies as part of its wider plan to make the system more efficient. Already since the Sixth-State Reform the Flemish social partners had openly demanded measures to eradicate the existing structural labour shortages (EMN, 2015:7). The new government which emerged after the Regional elections of 2014 also referred explicitly to the need to design a Flemish labour migration policy, taking into consideration the Region’s needs (Vlaamse Regering, 2014). Erik De Jonge, Director of Bon (the Brussels reception agency for integration) framed the events in Flanders in similar terms: “We are at a turning point. The government wants both more control over policies and more control on the field” (Bon, 4 September 2013).

At the same time, the new Flemish government of Geert Bourgeois managed to update the integration goals for its five years’ term. The relevant note of the Minister of Integration stressed four targets, fully endorsed by the government in 2015 with its Horizontal Integration Policy Plan (HIPP). These targets are: a ‘horizontal approach’ for levelling the employment rate of migrants and Flemish individuals, increased efforts for teaching Dutch, better focus on local integration policies as well as better individual coaching and vocational training. According to Inge Hellemans, official of the Flemish Agency for Home Affairs, the newly-introduced HIPP is inspired by the 2016 European Action Plan on Integration as well as by the Common Basic Principles for the integration of migrants introduced in 2004 (Hellemans, 2016). The officials and policy-makers did not make any explicit reference to the Semester during the design and launch of the new Flemish policies, but these policies are certainly aligned with the CSRs’ approach.
Apart from reasons of efficiency, another prominent factor for centralising the migrant integration system of Flanders has been the nation-building process there. According to Adam and Jacobs (2014), sub-state nationalism and the search for legitimacy, in the form of participation and consultation, have contributed to the centralisation of migrant integration policies. The recent statements of Karl Vanlouwe, a N-VA MP in the Regional Parliament of Brussels and Rapporteur on integration within the Committee of the Regions, reveal such an effort. In his words: “we want Flanders to teach Europe how to integrate (newly-arrived) people” (De Redactie, 9 December 2016).

The issue of the integration of migrants in the labour market was also pointed out in Wallonian politics after 2010. The Region’s broader integration policies are traditionally based merely on social and anti-poverty criteria (Rea and Wets, 2014) and until 2014, its decentralised model lacked an all-encompassing programme for the newly-arrived migrants. As an opposition party, MR campaigned for many years to establish an integration path and render it obligatory, bringing forward arguments of efficiency as well as of cost. According to Willy Borsus (MR), the Federal Minister for the Middle Class, in 2015: “Without this tool [meaning the professional training] we are confronted with the immense risk of seeing an important part of the population, which has come to our territory, staying at the margin of our society”, while adding that “our budgetary argument has been opposed regularly, but not doing anything is much more costly”31 (RTBF, 13 September 2015). The electoral period before the municipality elections of 2012 was an opportunity to raise the topic once again (see: Didier Reynders in Le Soir, 3 June 2012). The issue developed into a wide and polarised debate on the efficiency and legitimacy of a possible integration path specifically for newcomers, while overlooking the existing migrant groups residing in Wallonia. The opinion of Eliane Tilieux, the Socialist Minister of Employment at the time, reflected the dominant – assimilationist and republican - understanding of the migrant integration issue: “Since immigration is not a new phenomenon in Wallonia, rendering obligatory the whole procedure of integration will not change anything. The important thing is to provide sufficient services. The newcomers need training.”32 (RTBF, 16 July 2012).

After two years of negotiations and while drawing inspiration by the Flemish example (Xhardez, 2014), the Decree of 27 February 2014 established a basic integration pathway which brings together a reception scheme, language courses, introductory sessions to citizenship as well as socio-professional orientation. The pathway’s scope is applicable only to those who reside in the country for less than three years and have acquired a residence permit no longer than three months in advance. The political debate progressed and shifted its focus on the need to make the integration pathway obligatory. In its Declaration of Regional Policy for the period 2014-2019, the partner parties of the Walloon government explicitly putted as a goal the obligatory learning of the French language (Gouvernement de Wallonie, 2014). The adoption of relevant measures was stalled for a while under the pretext of costs put forward by the socialist party, nevertheless, eventually a Decree which went even further than the government’s declaration was adopted on 26 February 2016 (Portail de la Wallonie). Under the new legislation, all the different aspects of the integration became obligatory (most notably process language learning, citizenship training and socio-professional orientation). However, their successful implementation will depend on the budgetary

31 Translated from French
32 Translated from French
abilities of the Region in the near future (RTBF, 25 February 2016). Despite all of these developments, the Semester’s discourse did not play a significant role in the regional debate. First of all, the Regional emphasis was given to the newly-arrived migrants (for example, for the budget of 2016, 5 million euros was allocated to the newcomers while 2 million euros went towards the general socio-professional services for people with a migrant background). Furthermore, the framing of the integration of people with a migrant background remained too broad and did not evolve into a more specific one. As the Minister Eliane Tilieux stated in January 2016:

The problem of the integration of people with a migrant background cannot be reduced neither in employment policies neither in the fight against discrimination. It requires a wider reflection that touches education, vocational and professional training, the learning of the French language, an integration pathway, recognition of diplomas, the inclusion of companies in diversity schemes and the transversality of policies in this field33 (Le Parlement de Wallonie, 27 January 2016).

The same goes for the Brussels-Capital Region regarding the Semester’s effects, since the landscape of migrant integration is more complex there, with two different actors involved which depend on the spoken language: the Flemish Community Commission (VGC), the French Community Commission (COCOF) as well as the Common Community Commission (COCOM) which regulates common matters (Ghesquière and Mascia, 2013). The Flemish community had established a reception agency for integration (BON) in Brussels already from 2004 but an integration Decree for the newly-arrived was passed in the regional parliament in July 2013; unlike the other Regions, this was not made mandatory. The French-speaking community is following an even more assimilationist approach than Wallonia, in which the poorest neighbourhoods are targeted (Adam and Jacobs, 2014). This is labelled as ‘social cohesion policy’ and consciously leaves out references to migrants or their integration, due to the fear of segregation and tensions between ethnic groups. The transformation of civic integration to an obligatory integration pathway has been planned and is included in the 2014 government agreement of the socialist and liberal-led coalition, but little progress has been made due to the difficulties of reaching a wide political consensus. Despite this, the public dialogue over the integration of migrants is still vibrant and there are positive signs that a concrete draft can be adopted before the end of the current government’s term (Le Soir, 16 April 2016).

8.4.3. Inter-regional coordination and the upgrade of statistical tools

The Semester’s effects on the promotion of inter-federal coordination for the labour market integration of migrants have been rather limited. The inter-federal cooperation between the regional institutions and the federated governments on this matter is traditionally undeveloped, a phenomenon linked with the administrative complexity, the multi-fragmented institutional landscape and the exclusive competencies of the Belgian Regions in the field. Martiniello (2012) attributes the historical lack of inter-Regional cooperation to a lack of willingness and shared

33 Translated from French
political vision: Flanders sticks to its nation-building goals and Wallonia does not see the added value in cooperating with Flanders. As Jossef de Witte, the director of UNIA in 2012, also pointed out:

We lack a vision, a coordination process of our policies at all levels as well as a wide social consensus on the fact that integration is a two-way process, including mutual efforts, from the part of migrants as well as from the part of the autochthones (Itinera Institute, 15 May 2012).

The first inter-ministerial conference for immigrants policy took place in 1989 and for the next ten years these functioned as an extra tool for policy coherence (Adam and Jacobs, 2014). Nevertheless, the conferences were met with little enthusiasm by the Ministers, not really stepping on the Regions’ policies but trying to establish extra projects financed at the Federal level. Despite Belgium’s announcement in 2015 of an imminent inter-ministerial conference concerning the integration of migrants in the labour market, this has still not taken place at the time of writing. According to Adam and Van Dijk (2015), the cooperation between the Regions and the Federal level usually occurs when it comes to general issues of employment, while it has never happened for discussions of the labour market integration of people with a migrant background. Likewise, one of the interviewees from the Flemish Employment Service (VDAB) made a similar argument: “On the political level there is no interaction...You have different views on migration between the Regions” (VDAB22). Hence, it appears that Belgian Regions are still reluctant to discuss the policies which are perceived as a territorial prerogative. As it was put in the conclusions of the EMCO’s thematic review in March 2017: “the division of competences does not lend itself to a unified approach, or the identification and sharing of best practices”.

Although there has been willingness from the European Commission and the Regions to intensify their bilateral meetings, the sides did not manage to organise any fact-finding mission within the European Semester. Due to the lack of time and resources, it is difficult for the parts to arrange multiple meetings each specialised in a policy topic. Instead, the fact-finding missions have the form of a Q&A document between the Federal level and the Commission, which covers a broad range of issues including the inclusion of migrants in the labour market. From a substantive point of view, even under the given circumstances, such a recurring exercise contributes incrementally to the framing the different aspects of the migrant labour market inclusion. According to one of the officials of DG EMPL:

There’s a certain recognition that there is an issue in different sectors in terms of education and access to the labour market but we are not there yet, recognizing the urgency that needs to be given to this topic. (COM14)

In reference to another category of procedural effects, the Semester contributed to the enhancement of monitoring practices at the national level, but again in a very subtle manner. In 2012 the Center for equal opportunities and opposition to racism (CEEOR) published its first ‘Diversity Barometer’, a tool designed to measure the inclusion of vulnerable groups in Belgian society. One year later, the Center, in partnership with FDP Employment, but also with the Social Security Database (la Banque Carrefour de la Sécurité Sociale), the National Registry for demographics (le Registre National), the Regional organisations and some academic experts, published the first Socio-economic Monitor (SEM). This report aimed to complement the existing
legislation against discrimination by providing a comprehensive overview of the labour market position of migrants in Belgium through the analysis of a huge body of data.

The concept of “ethnostratification in the labour market” appeared in the academic debate in the 1990s (Martens, A. and Denolf, L., 1993) but due to the difficulties linked to the technicalities of the task, the first part of CEOOR’s project was launched only in 2006, merging the data of the general census with these of social security. The 2013 SEM briefly indicates the international, supranational and national influences on its creation; there it explicitly mentions the European Commission and its constant reminders to diminish the gap between the employment rate of Belgians and people with a migrant background, but omits to point out any specific mechanism such as the Semester. It also refers to the OECD, the Council of Europe and its European Commission against Racism and Intolerance (ECRI). At the national level, it brings up the recommendations of the Commission for Intercultural Dialogue which took place in 2005, of the High Council of Labour (Conseil Supérieur de l’Emploi) but also several academic studies of a technical nature. The publication of SEM was included in the NRPs and the SWDs as a new “statistical tool to describe and monitor the labour market inclusion of people of migrant background” (European Commission, 2013c). The second edition of the Socio-economic Monitor published in 2015 continued in the same direction and complemented the detailed picture of the Belgian labour market for the years 2008-2012.

Hence, as the debate on the labour market monitoring of migrants existed for many years before the launch of the European Semester and since multiple domestic and international actors were involved, it seems that the former only had an indirect influence on these measures, following the direction of the EES and the Social OMC before it. As two policy officers of CEEOR (which in 2016 acquired the name UNIA) state: “Unia did not take part in the preparation of the National Reform Programmes...The impact of the European Commission has been limited to its influence through the recommendation without more direct effect”. At the same time, they refer to the parallel recommendations of the OECD: “Besides, international institutions such as the OECD repeatedly pointed Belgium on its poor employment rate of ethnic minorities on the labour market” (UNIA16 and UNIA17). The Semester’s recommendations did not gain attention per se in the domestic media but it was rather the OECD and Eurostat who received the most (for example see the article of Le Soir, 21 April 2015). Thus, the CSRs were added to the multiple factors which for many years exerted pressure for better data on migrants in the Belgian labour market.

8.4.4. The European refugee crisis

The refugee crisis accelerated the launching and adoption of a European Agenda for Migration in May 2015, aiming at its effective management. Its creation had been foreseen in 2014 as part of the Juncker Commission’s agenda, being one of the ten political priorities during its term. Designed for the short-term and mid-term period, the agenda is based on four pillars/goals: first, the reduction of irregular migration through a series of measures against trafficking networks and better return policies; secondly, the securement of the EU’s external borders through better management, cooperation and solidarity towards the member states in need; thirdly, the enhancement of the common asylum policy; and, finally, the development of a new comprehensive policy on migration with better entry regulations as well as integration policies.
The European Commission presented its Action Plan on the integration of third-country nationals in June 2016, delivering the goals of the European Agenda for Migration through its ‘operational and financial support’ to the member states. The Council Conclusions of 9 December 2016 (15312/16) reaffirmed the orientation of the Commission’s Action Plan and asked the latter for assistance in assessing the skills of the migrants but also to ensure increased expert coordination between the EU and the national level. Furthermore, the Council asked for a higher budget allocation in order to cope with the need for better labour market skills of migrants. The initiatives of the Commission and the Council during 2016 were positive developments for the integration of migrants in the labour market; nevertheless, the European Semester is notoriously absent in these documents.

The unprecedented crisis accelerated the launch of policy measures at the Federal and Regional levels, primarily focusing on the newly-arrived, however, as De Clen et al. (2016) argue, the framing followed the existing migrant integration context according to the “long-established culturalist, securitarian and economic discursive logics” of each Region and the party constellations there. In the letter to the Commission, which reaffirmed its alignment with the recommendations of the European Semester in November 2014, the newly-elected government of Charles Michel stated it would “strengthen labour market possibilities for specific groups”, however without mentioning migrants. From the early stages of the European refugee crisis the general attention of the Belgian media and politicians centred around the newly-arrived and asylum seekers, thus contributing to the disassociation of the new policy measures from the existing debate of migrant inclusion. DG EMPL made continuous efforts to underline this issue and push for a broader framing of migrant policies within the Semester’s context. As indicated in the 2014 and 2015 Belgian Staff Working Documents, people with a migrant background are not considered the only ‘newcomers’ but also the ‘second and third-generation’ migrants. As an official from DG EMPL confirmed: “one point that we always try to put forward is: ok, we have an issue of integration of refugees in the first generations, but let’s also not forget the big problems of the second generation migrants” (COM14). More recently, in April 2017, the Belgian Commissioner for Social and Employment Affairs, Marianne Thyssen, underlined this issue during a briefing in the Belgian Federal Chamber of representatives. While referring to the need to include more people in the labour market she stated: “This is particularly the case for the low-skilled, young people, older workers and people of non-European origin, whether newcomers or compatriots of the second or even third generation”34 (Thyssen, 2017).

In the summer of 2015 the influx of refugees reached its peak, since the number of applications for asylum in Belgium almost doubled from 2014 – around 35,500 in contrast with 17,000 (European Commission,2016d). Compared to other countries, the Belgian public opinion was favourable towards the reception of the newcomers while several demonstrations took place to express solidarity. But the issue has been greatly politicised and sceptical voices, mostly deriving from the right N-VA, expressed their concern about the migrants’ access to social security (RTBF, 27 August 2015).

Most interestingly, the refugee crisis had a political effect on the general implementation of the Stability and Growth Pact rules: due to the unexpected increased fiscal strains on the national budget, several member states asked for more fiscal flexibility. On the one hand, the EU countries on

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the Western Balkan migrant route and the Central Mediterranean route happened to already experience budgetary problems at the time. On the other hand, in countries like Austria, Hungary and Germany the migratory expenses would definitely stretch the annual budget. All these led the President of the European Commission, Jean Claude Juncker, to announce in October 2015 that: “There will be a certain amount of flexibility in the Stability and Growth Pact” for those countries which “make a huge effort” on hosting the newly-arrived migrants, adding however that this will happen during assessment and only if proven (EUobserver, 27 October 2015). Despite the Commission’s signals, Belgium did not opt for more budgetary flexibility immediately. Instead, the Minister of Finance, Johan Van Overtveldt, made it clear that no derogations would happen in the country’s plan: “Our opinion is that we should be very careful” he said while also stating that the SGP threshold shouldn’t be breached “whenever something happens in the world”. However, in its 2016 Draft Budgetary Plan, the government argued that “the budgetary impact of the exceptional inflow of refugees” was significant for the last two years, which, together with the exceptional expenditure needs after the terrorist attacks, should be considered a as a special event capable of granting temporary deviation from the MTO adjustment path.

The pressuring circumstances were seen as a substantial administrative challenge for all the government levels in Belgium. It is notable, for example, that the association of the cities and communities of Wallonia (Union des Villes et Communes de Wallonie or UVCW) and the centres for social support (CPAS) there asked for the help of the Federal government to cope up with the influx of applicants (Le Soir, 20 August 2015). Such an unprecedented event led to better awareness and also mobilised a wide set of actors, as two policy-officers from UNIA (former CEEOR) state: “From our point of view, it seems that the important influx of asylum seekers of the last years has made the topic very present in the media and that it lead to some initiatives, from employers and civil society notably” (UNIA16). Independent actors such as the King Baudouin Foundation, which has launched projects concerning integration in the labour market (‘Integratie aan het werk’) since the beginning of the 2000s, significantly increased its efforts (European Foundation Center, September 2015). But also the Federation of Enterprises in Belgium (FEB/VBO) set up its own task force in order to help the labour market integration of the newly-arrived migrants.

From the side of DG EMPL and DG HOME, the refugee crisis was seen as an opportunity on the one hand to promote the integration of all migrant groups - old and new - and on the other hand to enhance the coordination structure within the Commission. According to an official in DG HOME: “…so we are trying to use the refugee crisis as an opportunity to have more integration of migrants, even if they are not refugees, even for member states for which there was no recommendation last year…” (COM12). The creation of the task force on the labour market integration of refugees within DG EMPL in 2016 and of the inter-service group on “Integration of third country nationals” in November 2015 are unprecedented developments which show the special interest in addressing the migrant issue in the medium and long-term (Kraatz and Marschall, 2016). While gathering feedback from several DGs, the latter group has been set up to give its input during the drafting of the Legal Migration Package and the Action Plan on Integration. Similarly, the role of the task force lies in setting up connections between the existing EU networks and raising awareness on the refugee integration measures. For this, it cooperates with EMCO, the SPC and the PES Network while promoting best practices, mutual learning and benchmarking. Being part of DG EMPL, the task force adopted a similar narrative with the relevant CSRs on the need for a ‘holistic approach’ for the
integration of the newly arrived migrants and established the Semester as a point of reference. In the words of its head, Manuela Geleng:

Looking at what has already happened in the previous annual rounds of the European Semester economic policy coordination process, it appears that those countries that have a substantial number of people with a migration background are facing significant challenges... So how can we better address the current challenges these people are facing and how can we learn from past experience, to ensure that the integration of the newly arrived asylum seekers and refugees will be successful? This is our objective” (European Commission, 2016c: 21).

Despite the fact that the task force has been active in organising MLP Thematic Events, for example on ‘the integration of asylum seekers and refugees’ (which took place in June 2016), it explicitly focuses on newcomers and is unable to substantially contribute to Belgium’s situation, which performs badly on the integration of people with a migrant background in general. As one of the officials in DG EML explained: “There is also this refugee task force, but frankly speaking I haven’t found a lot of things from them and in the case of Belgium there haven’t been any inputs from them in terms of the Semester” (COM14).

8.5 Conclusions

Since its launch, the effects of the European Semester – whether substantive or procedural - have been extremely limited as regards the integration of migrants in the Regional labour markets of Belgium (accordingly there are no Semester mechanisms of influence). Looking back at the decade prior to its creation, the EES and the Social OMC, helped to raise awareness in an incremental way among officials at the upper echelons of public administration and to increase the political prominence of the issue in these cycles. Within the context of the Lisbon Agenda targets, the integration of migrants in the labour market was seen as an area for increasing employment and promoting entrepreneurship. From that perspective, however, migrants were framed as one of the various vulnerable groups and so the policy responses suggested both by the EU and the Belgian governments in their NAPs were not really tailored towards the migrants’ specific needs; instead they pointed to measures with a broader scope, including the decrease of labour taxation and the improvement of the domestic labour market. As regards the Social OMC, the SPC’s Indicators Sub-Group took “a decisive step” in June 2005 and agreed on a new primary indicator referring to “the inclusion situation of immigrants”. This indicator was eventually incorporated in the Europe 2020 strategy and is currently among the indicators for social inclusion. Due to a combination of several factors, including the complex and multi-sided nature of the issue, the presence of multiple actors which launched concrete initiatives for the inclusion of migrants in the labour market (whether at the international, EU, national, or even subnational level), the broad scope of the EES and the Social OMC recommendations as well as the complex political and institutional landscape of Belgium, these coordination mechanisms had rather limited effects, apart from a slight ideational shift.

Seen as a successor of the EES and the Social OMC for the integration of migrants in the labour market, the European Semester kept the issue under the spotlight within the Belgian administrative circles, but did not manage to produce significant effects, substantive or procedural. Although the
Commission’s CSRs tried to highlight the particular needs of migrants as a vulnerable group within the Belgian context, they still remained broad enough by recommending “equal access to quality education, vocational training, and the labour market” (CSR 2017). The same approach was adopted by EMCO, whose MLS focused more broadly on disadvantaged groups. This was not enough to influence and alter the Belgian Regional perspectives, which also continued framing migrants as part of the broader group of vulnerable people, as reflected in the NRPs.

Similarly, and as regards its procedural effects, the Semester did not exert any notable influence either. Intra-regional coordination has been enhanced in all three Belgian Regions since 2011, not as an effect of the European Semester, but rather due to the local political fermentations and motives: whereas in Flanders (and in the Dutch-speaking community of Brussels) the reform decisions referred explicitly to EU-level initiatives and principles, the political debates in Wallonia ignored any development at the EU level and mentioned only Flanders as an example of alternative models of migrant integration. More specifically, the debate on the need to make the integration of migrants more effective in Flanders preexisted the creation of the European Semester: already from 2010 political actors designed the creation of an independent centralised ‘Agency for Integration and Civic Integration’, which became reality in 2013. From its side, the Walloon government established a basic integration pathway in 2014 (albeit for newcomers) which combined a reception scheme, language courses, introduction sessions to citizenship and a basic socio-professional orientation. A couple of years later, the Walloon integration path became obligatory, basically following the example of Flanders, which had already done so a decade earlier. Apart from intra-regional coordination, the Semester also did not play an important role in enhancing inter-regional coordination. The latter has been traditionally underdeveloped in the area of employment, let alone the integration of migrants in the labour market, were the competences have been transferred to the Regions since the 1980s. For institutional and political reasons elaborated in the next paragraph, and despite the upgrade of the EU’s existing socio-economic framework, the Belgian Regions did not come closer to identifying best practices and to establishing better deliberative practices at the highest political and administrative levels. During the same period, the Federal level upgraded its statistical tools for monitoring the situation of people with a migrant background, with the launching of two ‘Socio-economic Monitors’ in 2013 and in 2015. The European Commission is mentioned in their introduction as one of the pressuring factors which contributed to their creation, however the European Semester is not pointed out at all, while several other organisations and bodies are cited as well, including the OECD, the ILO and the European Commission against Racism and Intolerance (ECRI). Given also that the operation of refining the statistics on Belgian migrants had already started in 2006, the Semester was not a significant factor in triggering the Socio-economic Monitors’ launching or any other upgrade in Belgium’s statistical capacities.

The fact that the European Semester’s effects on the Regional and Federal levels are minimal, makes this an interesting case with regard to the specific reasons why this happened. Hence, the important question here is which structural characteristics or mediating factors linked to the domestic context diminished the Semester’s influence? Firstly, the structural characteristics refer to the multi-faceted nature of migrant integration in the labour market but also the particular approach/format of the Semester and its CSRs. The subject of the integration of migrants in the labour market extends to various policy fields, from education and vocational training, to language learning and anti-discrimination schemes in the private sector (as also seen earlier in the speeches of the Walloon Minister, Eliane Tilieux, and the interviews of some Commission officials). The issue’s multi-faceted
character reduces the chances of a precise and framed policy response, promoting instead structural measures, such as the improvement of the Belgian labour market in general. In combination with the broad formulation of the labour market integration of migrants within the CSRs, as another structural characteristic, it becomes even more unlikely that the Semester’s signals are picked up by the domestic political actors. The statement of the high official from VDAB, as mentioned earlier, is particularly insightful, showing that the EU-level recommendations are not perceived as relevant to the Regional situation, since they refer to Belgium as a whole and omit to mention specific problems at the sub-national level.

Apart from these characteristics, which are linked to the subject’s complex character and the CSRs’ broad formulation, there are several other factors connected with Belgium’s domestic institutions and politics that play an important role as regards the Semester’s marginal effects. As seen in Chapter 4, the particularity of Belgian Federalism has contributed, on many occasions, to the enhancement of the Europeanisation effects. However, in the case of migrant integration, there are significant institutional and political hurdles which prevented this development. After its devolution to the Regions in the 1980s, the integration of migrants in the labour market became their exclusive competency. Any attempt of direct external involvement in this area was met with distrust both from Flanders and Wallonia (the Brussels-Capital Region follows the policies of the two linguistic communities). Furthermore, Regional politics and the configuration of the local parties played a major role. In that sense, migration was and still is a very sensitive topic, counted among the most central issues within the parties’ agendas. Hence, its usage by political actors has proven crucial for their electoral win. But, the politicians in Flanders and Wallonia did not discover any newly framed ideas within the European Semester capable of enhancing the legitimacy of their programmes and thus resulting in the CSRs’ creative appropriation. As a kind of exception, the current government in Flanders tried to legitimise their migrant integration measures aiming at nation-building by referring to the EU, but this was restricted only to the 2004 Common Basic Principles for the integration of migrants, and certainly not to the ES. In reality, the debates on the integration of migrants in the labour market were based on the historical developments and the political tradition in the different Regions: the uncontested hegemony of the Socialist Party and the recent migrant crisis were two central contextual elements in Wallonia while the rise of the right in the 1990s set the axis and contributed to gradual shift to a “stricter” approach in Flanders. Hence, the surprising lack of inter-Regional cooperation is also explained by the lack of political will, which is further reinforced by the existing gap in defining what migrant integration is and what it should be. Finally, the existence of multiple organisations – at all governance levels - which deal with the integration of migrants in the labour market, not only in a more specific way, but also in some cases long before 2011, overshadows the influence of the European Semester, which, in the best case, is perceived by national actors as an instrument that helps to keep the issue under the spotlight. All in all, Belgium’s particular institutional and historical context, together with the subject’s complexity, the Semester’s format as well as the established presence of other deliberative organisations and networks, contributed to extremely limited Europeanisation effects.
Chapter 9. Comparing the three cases: effects, mechanisms of change and mediating factors

Combining the findings of my three empirical cases, in this chapter I attempt a structured comparison of the various effects and influencing mechanisms within the European Semester as well as of the mediating factors contributing to specific outcomes. My goal is to explain their variation in an effort to draw lessons on the exact workings of the Semester. Such a comparative approach brings me closer to answering my research questions referring to the functioning and effectiveness of this new socio-economic coordination mechanism. As a first step, I present the similarities and differences with regard to the CSRs’ implementation over time. As the previous chapters have showed, the Semester’s effects unfolded earlier in the case of pensions and later in the field of labour taxation, whereas for the integration of migrants in the labour market the effects were extremely limited. The chapter then focuses on the mechanisms through which the specific effects occurred in each case. As regards pensions, it seems that pressuring mechanisms had a more visible role in the early cycles of the Semester as drivers of change (without meaning that the other type of mechanisms did not play an important role later on) while in the other two cases the presence of intrinsic motivation mechanisms was more directly observable. Finally, I refer to the presence - or absence - of the mediating factors and the role that these played in the Semester’s influence at the national and the sub-national level. The plethora of such factors as well as their elaborate intertwining, as was seen earlier in more detail, contributed to the Semester’s effects, so disentangling and systematising their influence is a major step towards understanding its operation.

9.1 Effects of the European Semester

As already set out in the theoretical chapter, the European Semester can lead to substantive as well as to procedural effects. Summarised in Table 1 of that chapter, substantive effects include programmatic shifts, which refer to the adoption of new legislation and regulations, but also to agenda and ideational shifts, referring respectively to changes in policy thinking and in the political salience of a topic. Procedural effects, on the other hand, include better coordination among the different government levels, whether horizontal or vertical; improvements in national steering and statistical capacities; and also the increased involvement of non-state actors and the development of their cooperative networks. Besides these two types of effects, the causal mechanisms of the European Semester can also lead to intermediate effects, which influence different groups of policy actors and can eventually lead to the final outcomes. These effects can have a cognitive or discursive character, referring to changes in the actors’ understanding and re-categorisation of a policy issue; or, they can take the form of leverage effects, in the sense that national actors increase their available political resources as a means to pursue their own agendas. A final intermediate effect is this of democratising destabilisation, according to which the Semester can enhance the ability of non-governmental actors to hold the government to account for its policies.

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35 Specific passages in this chapter have previously appeared in Louvaris Fasois (2018).
The Semester’s effects in the area of Belgian pensions were the first to appear, in contrast to those on labour taxation. The 2011 CSRs to Belgium framed the pension reform as a necessary measure for the sustainability of public finances, which was followed by the adoption of legislation only a couple of weeks after the inauguration of the government of Elio Di Rupo. As a result, the early retirement age increased from 60 to 62 and the eligibility requirements for retirement expanded from 35 to 40 career years. Furthermore, the government adjusted the calculation method of working periods for pensions and improved the ‘pension bonus’, which was already in place from 2005, for those who wanted to remain in the labour market. During the decade before the creation of the European Semester, the EES, the Social OMC, and the Ageing Working Group of the Economic Policy Committee had already contributed progressively to incremental ideational changes among specific national officials, politicians and social actors, linking pension reforms to the imminent demographic and socioeconomic challenges. Such cognitive effects contributed to the decision of the Di Rupo government not only to raise the effective retirement age but also to create the Vandenbroucke Committee, as a legitimate consultative body that could properly design a sustainable pension system for the future. In turn, this last development can be seen as an additional procedural effect of the Semester, which enhanced the state’s steering capacity and promoted the involvement of experts in the field.

However, in the case of the tax shift away from labour, the programmatic effects of the Semester did not manifest themselves as early. Instead, although the Di Rupo government did not initiate a wide tax reform, the Semester’s ideational effects already became visible from 2012: the centre-left government was aware of the gradual decrease of competitiveness due to high labour costs, so as a result decided to take several small-scale measures. First, with the signing of the “Pacte de compétitivité, d’emploi et de relance”, social security contributions were slightly reduced for the minimum and highest wages. Furthermore, the introduction of an annual work bonus aimed to reduce the high tax wedge on labour. Most importantly, in November 2012 the High Council of Finance was given a mandate to draft a report on how to fund a future tax reform, as can also be seen in the summary tables. These measures did not aim directly for a comprehensive tax shift away from labour but they reveal that the government understood the importance of the relevant CSRs (seen as a slight ideational shift, meaning that there was an observed upgrade in the salience of the issue) and tried to prepare the ground for a well-designed tax reform, which would take place after the 2014 Federal elections.

In relation to the integration of migrants in the labour market, the effects of the European Semester have been limited - whether before or after the 2014 Regional elections, which occurred at the same time as the Federal ones. As a continuation of the recommendations of the EES and the Social OMC – among other initiatives of the EU and of certain international organisations - the Semester helped to raise awareness of the issue amongst Belgian officials at multiple governmental levels. During the period 2011-2017, the Regions undertook several notable administrative and legislative developments in the area of migrant integration, but not because of the Semester’s influence. On the one hand, in the Region of Flanders, intra-regional coordination was upgraded. From 2010 onwards the Flemish government started developing a Decree aiming at new organisational structures and more efficiency in the obligatory integration path. Eventually, its final version was adopted in June 2013, creating an independent centralised ‘Agency for Integration and Civic Integration’. On the other hand, after two years of frequent political debates and drawing inspiration from the Flemish example, the Walloon government established a basic integration
pathway which combined a reception scheme, language courses, introduction sessions to citizenship as well as socio-professional orientation (Decree of 27 February 2014). However, this pathway’s scope is applicable only to the newly-arrived and not to people with a migrant background in general: only those who have resided in the country for less than three years and have acquired a residence permit no longer than three months in advance are eligible. Even after the Regional elections of May 2014, policy-making continued along the same general lines, without any evident link with the European Semester and its CSRs. The Flemish government updated its goals on migrant integration for its five-year term, while the Walloon government managed to pass a Decree in February 2016 which rendered the integration pathway obligatory for the newcomers. Hence, as I will elaborate later on, due to mostly structural factors, the Semester did not manage to exert any influence on Regional policy-making, either in procedural or substantive terms. Finally, the same has been observed for the Federal level as well. The Center for Equal Opportunities and Opposition to Racism (CEEOR), in collaboration with various administrative and academic partners at all governance levels, had over many years developed a tool to measure the inclusion of vulnerable groups in Belgium. The products of its efforts came out in 2013 and in 2015 under the name ‘Socio-economic Monitor’. In their introduction, the two Socio-economic Monitors briefly mention the European Commission as well as its constant reminders to diminish the gap between the employment rate of Belgians and people with a migrant background. Nevertheless, they also mention other international organisations while not referring to any EU-specific mechanisms, including the European Semester.

After the formation at the Federal level of the centre-right government of Charles Michel, the effects of the European Semester both in the fields of pensions and labour taxation were enhanced, as presented more compactly in the relevant summary table. In particular for pensions, the change was not so dramatic, as the effects continued in the same direction. The 2014 CSRs explicitly recommended Belgium to “step up efforts to reduce the gap between the effective and statutory retirement age”. In its communication, the new government appeared absolutely committed to the structural reforms proposed by the European Commission. This was reflected also in its agenda, having as a basic point the containment of public expenditure related to ageing. As a result, in July 2015 the Chamber of Representatives passed an increase in the legal retirement age from 65 to 66 in 2026 and to 67 in 2030. Furthermore, the law rendered the calculation of service years stricter for civil servants and tried to harmonise the career years between the self-employed and salaried pensioners. Finally, it tightened the criteria for early retirement from 2017 onwards and abolished the pension bonus. Notably, as part of the Semester’s indirect procedural effects, the government created several new administrative and advisory bodies – including the National Pensions Committee - designed to contribute to the preparation of future pensions reforms. Despite the unprecedented and explicit support that the Michel government showed to the Commission’s recommendations, these were not followed to the letter. But with the recent developments of June 2017 and the proposal of the current Pensions Minister to the National Pensions Committee to create an automatic credit-based pension system, the government seems for the moment to be totally aligned with the CSRs.

As far as labour taxation is concerned, the European Semester produced visible agenda-setting effects which, in turn, led to programmatic shifts. The rhetoric of the majority parties in the Michel government coalition, namely the N-VA and MR, focused primarily on the issue of competitiveness. Especially for the N-VA, which won the most seats in the Federal Chamber of Representatives, the
OMC, day participatory concerned, comprise launched through to signalling media response performance mechanism incentivise includes economic pressure influence. In chapter, By 9.2 Commission mentioned law incorporated tax CSRs economy. which focusing EU funds and their capacity to pressure member states by setting conditionality clauses in order to receive funding. Lastly, positive external support - either financial or technical- is a mechanism through which the Commission has gradually enhanced the prominence of incentives towards the Member States, as a way to increase the ownership of national reforms. The Youth Guarantee launched in 2013 and the Structural Reform Support Service (SRSS) created in 2015 are good examples that aim to engage the MS.

Intrinsic motivation mechanisms – which involve conscious as well as unconscious processes - comprise socialisation, learning, and finally creative appropriation. As far as socialisation is concerned, national actors adopt European concepts, norms, targets and indicators not as a result of an active choice in the search for policy solutions, but rather as a consequence of repetitive participatory action which unfolds gradually, as these are involved in EU level activities on a day-to-day basis. In addition, the mutual learning mechanisms which formed part of the EES and the Social OMC, such as the Multilateral Surveillance Reviews (MSRs) and the Mutual Learning Programmes
(MLPs), have been incorporated in the Semester and in many cases these played a unique and “essential” role for the MS, as the Director General of DG EML, Michel Servoz, has stated repeatedly. A good example of this can be found in Slovenia; the country’s State Secretary, Peter Pogačar, was explicit on how his administration tried to emulate foreign examples through the MLPs: “So, our colleagues from the Netherlands have helped us with pensions and measures to increase the employment rate for older workers” (European Commission, 2016f). Finally, in creative appropriation the national actors use the concepts, jargon and arguments of the discussions at the EU level as means to legitimise and promote their own agenda. This process, in turn, can lead to leverage effects or democratising destabilisation effects, as these are mentioned above among the intermediate effects of the European Semester.

9.2.1 The role of the CSRs’ legal basis in the reputation signaling mechanism

Before moving on to how the particular causal mechanisms unfolded in Belgium, I would like to refer to the role of the CSRs’ legal basis in the adoption of domestic reforms. This constitutes part of the reputation signalling mechanism since the legal basis of a recommendation is linked to certain expectations of imminent consequences according to the Semester’s rules. By analysing the role of the CSRs as well as of the different types of reputational damage, my goal is to respond to this part of the literature which argues that the Semester’s process is automatic, while showing that there are deeper reasons why national actors would implement particular CSRs, besides the fear of sanctions. Contrary to what many authors would expect, the legal basis of the CSRs does not remain constant and can shift from year to year, as seen in Chapter 5.

First and foremost, it is the recommendations linked with the SGP that seem to exert pressure on the government to speed up its reforms. The CSRs on pensions linked to the SGP were present in the cycles of 2011 and 2015. It is thus notable that the Di Rupo government initiated its pension reforms several months later, in December 2011, while the same happened with the Michel government, which passed a law modifying the statutory retirement age only a couple of months after the publication of the CSR, in July 2015. In the field of tax reforms, the relevant CSRs became linked with the SGP only recently, in 2016 and 2017. It is after this development that the Michel government felt additional pressure to adopt extra measures as part of its 2017 budgetary consolidation effort. As I will expand on later, during the previous years the government had addressed the particular issue of the tax shift away from labour in a comprehensive fashion, not primarily as a result of the SGP’s pressure but rather due to the term’s creative appropriation from the EU level and the ambition to boost the country’s economy.

Consequently, the question here is why exactly did the Belgian actors feel pressured to implement the CSRs related to the SGP? The legal basis of the CSRs and the fear of sanctions ‘per se’ do not appear to be the reasons why the Belgian governments stepped up their reforms, since even during the peak of the Euro crisis they were not convinced that the EU would impose any significant sanctions related to the EDP. Firstly, these sanctions had never been implemented previously and, secondly, there were several other Eurozone countries facing even more urgent problems that were therefore much closer to sanctioning than Belgium, which despite the steep rise in its public debt and the need for bank recapitalisation, had an economy which had absorbed relatively well the shock of the financial crisis. As a high-level official of the Belgian government commented in the
newspaper L’Echo regarding the first cycles of the Semester: “There has been a lot of work done to explain, internally, that we should not be afraid of this process, and to calm down the fears”36 (L’Echo, 5 May 2014). Yet, due to the political prominence of the SGP rules and the existence of EMU’s fiscal rules for over two decades, the CSRs linked to it were unequivocally perceived by both governments as a signalling device which draws attention to the country’s irregularities. These irregularities are perceptible not only to the EU partners but also to the domestic electorates. The pressures exerted by the financial markets also played a major role in Belgium; however, as I will explain later, there is no clear evidence that the Semester’s CSRs are monitored carefully by market actors and that are being picked up as signals of irregularities. Instead, it seems that market actors have their own independent assessment of national policies and risks.

As regards Belgium’s reputation in relation to its EU counterparts, the statement of Elio Di Rupo in the midst of the crisis demonstrates that Belgian actors give great importance to fiscal reforms, since they also see them as closely linked with the country’s status within the EU: “We are meeting our commitments to the EU. We are strengthening our position in the European peloton” (De Redactie, 20 November 2012). Additionally, the words of Steven Vanackere, Minister of Finance in the Leterme II government, show the strong feeling of responsibility and solidarity that Belgian politicians share towards the other EU states:

The second element is an integrated budgetary framework requiring sound fiscal policy at the national and the European level, as well as increased solidarity, accompanied by reinforced and more binding responsibility ...The European Semester sets out the objectives to be achieved for each Member State in an important collective effort. Belgium wishes to fully assume the objectives assigned to it. It will take the necessary decisions to reach them37. (Senate, 27 June 2012)

Furthermore, the Federal government’s agreement of 1st December 2011 reveals the importance of good fiscal performance in relation to a country’s public opinion, since reaching the SGP goals could – directly or indirectly - lead to better governance domestically: “The financial sums that our country will not have to pay to the financial markets will be invested for the welfare of the citizens”38 (ibidem: 77). Finally, the prominence of the SGP-based CSRs can be explained due to Belgium’s historical experience: the Christian Democrat-led governments of the 1990s used the Maastricht consolidation criteria – which evolved into the SGP - as a lever to make unprecedented fiscal reforms which were later praised by the electorates, the Commission and the markets. Hence, this adds to the reasons why the Belgian political class is more likely to pick up and respond to CSRs related to fiscal and budgetary consolidation.

As regards the mechanism of the markets’ pressures, Olli Rehn’s statement reveals the understanding that a country’s good performance in accordance with the SGP’s rules is a stabilisation vehicle, capable of calming the financial actors: “Without intensified fiscal consolidation across member states, we are at the mercy of market forces” (EUobserver, 12 January 2011). This view is shared equally by the Belgian governments; most prominently, in its 2011 Agreement, the Di

36 Translated from French
37 Translated from French.
38 Translated from French.
Rupo coalition explicitly stated: “The Government also intends to reduce the level of indebtedness to limit interest charges, protect our country from speculators and fulfill its obligations towards the European Union”39 (Accord de Gouvernement, 1 December 2011: 77). Hence, at both the EU and the national level, it is widely accepted that increasing levels of annual deficit and public debt increase the chances of insolvency and leave the country exposed to capital outflow due to the loss of confidence of market participants, thus being hazardous for the stability of the Eurozone as a whole.

As I mention in my theoretical chapter, according to Erik Jones it was only after the summer of 2011 that the financial markets started to pay closer attention to the fiscal situation of the Eurozone countries, including Belgium which already held a high debt burden. Although the pressures of the international markets were present during the period 2011-2017, these were not linked either with the CSRs, or with the adoption of specific national reforms. So, market actors do not appear sensitive to any of the Semester’s major events, such as the draft budgetary plans, the country reports and the in-depth reviews, the annual growth survey, the alert mechanism reports or even the CSRs. Furthermore, neither the Commission’s recommendation, nor the Council’s decision to put Belgium in the Excessive Deficit Procedure (EDP) respectively in November and December of 2009 provoked a substantial reaction of the markets, as it can be seen in figure 1. The only immediate reaction of the markets to the signals of the European Semester - as it is detected through the rise of the Belgian bond spreads - seems to have happened on 29 May 2013, when the Commission asked the Di Rupo government to take additional measures within the next three months in order to exit the EDP. As a result, Belgium’s 10 year bond spreads continued to rise but did so even more steeply, reaching their highest point (1.05%) on 25 June 2013, after the previous peak reached in November 2011. The rate of the Belgian bond spreads fell only after the 17 of July, when the federal government and sub-federal entities “agreed on a burden sharing of the general government target for 2014” (European Commission, 15 November 2013b:5). Hence, the evidence show that financial markets actors have their own independent monitoring tools and indicators concerning a country’s fiscal situation. This does not mean that the documents of the European Semester are not being taken into account: as mentioned in the theoretical chapter, the 2015 report of Standard and Poor’s on how sovereign bonds are rated reveals that its analysts are informed, among others, “from published reports, as well as from interviews and discussions with representatives of the sovereign”. But it is more probable that these financial market actors have also networks feeding them with ‘inside’ information, meaning that they do not expect from the Semester’s documents to reveal something of which they are not already broadly aware.

Lastly, although the Semester’s signals do not seem to contribute to the immediate reactions of the financial markets, nevertheless they can play an indirect role in calming them down. The markets exert pressure in order to make sure that any new government would stick to its reformatory work, so the coalition agreements and the reform declarations at the beginning of each legislature contribute in assuaging any concerns as regards the reduction of the public deficit and debt. The fact that the reformatory declarations – at least in the policy fields related to fiscal balance - in the government agreements of the two last Belgian governments were based substantially on the Commission’s CSRs, gave the Semester an ‘orienting’ role as regards the content of the national

39 Translated from French.
programmes, thus indirectly providing the ‘how’ against the markets’ demands to keep a balanced fiscal stance.

Figure 1. Belgium (5-year Spread)

![Belgium 5-year Spread Chart](image)

*Source: Dewachter et al. (2014)*

Figure 2. Belgium-Germany 10-year Spread

![Belgium-Germany Bond Spread Chart](image)

*Source: Ycharts.com (with own added notes)*

Contrary to the SGP-based CSRs, the recommendations linked to the MIP do not reveal any evident increase in the pressure felt by the Belgian actors. One reason for this is that since the MIP was put into place in 2012, Belgium was always away from the “danger” of entering its correcting arm, the Excessive Imbalance Procedure, so the fear of sanctions remained distant. As Fitch put it in one of its credit rating statements, in recent years Belgium has a persistent “record of macroeconomic stability” (Bloomberg, 23 December 2016). Instead, the prospect of exiting the MIP and having no macroeconomic imbalances was seen as more of a positive motivation for the Michel government, in order to prove its efficiency and increase its output legitimacy within Belgium’s political sphere. Another reason has to do with the fact that the MIP is not understood by the actors in the successive governments as having an important signalling role for the international markets or the other MS. The problem of high labour taxation has been known of for many years in various national and international policy circles so the newly introduced MIP did not reveal something unexpected. The
first MIP-related CSR on pensions appeared in 2013; however for the remaining time of the Di Rupo government, no further reforms were made in that field. For 2015, the same CSR was linked to both the SGP and the MIP, rendering it more likely that the SGP prevailed and thus exerted pressure. For the period 2012-2015 when the CSRs on labour taxation had the MIP as a basis, the tax shift away from labour was a product of the government’s own strategic choice to revitalise the country’s competitiveness. Finally, and aside from the centrifugal federalism of Belgium which acted as an impeding mediating factor, the fact that the CSRs on the inclusion of migrants in the labour market were linked with the MIP in 2012, 2014 and 2015 did not increase pressure among Regional or Federal actors. Instead, the local debates and developments there continued at their own pace. Hence, the evidence drawn from the three cases show that, by having a signalling role for Belgium’s policy problems, only the CSRs which have the SGP as a legal basis are more likely to contribute to a policy response at the national level. As I elaborate in the next section, these enhance the external pressure as perceived by the actors in the government, since they can potentially lead to blows to the government’s reputation first as a trustworthy European counterpart and secondly as an effective agent which can deliver on its promises. From that perspective, it is not the fear of sanctions which makes Belgian actors sensitive to certain CSRs, but rather reputational and ideational concerns.

9.2.2 Disentangling the Semester’s mechanisms of change

In the case of Belgian pensions, several external pressure mechanisms which were present simultaneously prompted the Di Rupo government to take up several reforms, as recommended in the CSRs. But during the same period, the Semester’s mechanisms did not spark any significant measures in the area of labour taxation, partly also due to the contextual pressure of improving the country’s fiscal situation, as I elaborate on in the next section. This can be seen as a ‘spillover effect’ of the Semester’s pressuring mechanisms, according to which these led to the actors’ mobilisation in one field but also to inertia in another. The reputation signalling towards the EU and the other MS, but also the pressures of the domestic public opinion, which was demanding quick results after a period of prolonged institutional instability, were the main factors which led the Di Rupo government to take particularly swift measures on pensions. The reputation signalling mechanism was visible during the first years of the Di Rupo government’s term: given that the country had entered the EDP a couple of years earlier in 2009, and that the caretaker government of Yves Leterme had lowered the public debt only marginally (0.01% of GDP), the Prime Minister was aware that the probability of not exiting the EDP by 2012 – as initially agreed - was high. At the same time - and independently of the European Semester- a possible backlash from the markets seemed even more real since in November 2011 Standard and Poor’s had downgraded Belgium’s bond rating, just a couple of weeks before the new government’s inauguration. The fear of the Belgian political class of financial market pressures can be seen in the statement of Didier Reynders, Minister of Finance in the Leterme II government: “The announcement by Standard & Poor’s reinforces further the necessity to finalise the 2012 budget in a very brief period” (Reuters, 25 November 2011). Hence, it was widely understood that the upcoming government’s best option would be the immediate adoption of fiscal-related reforms in accordance with the trade-off rationale of the European Semester. As explained in earlier chapters, at least within the context of the SGP, the reputation signalling mechanism is complemented by and diminished through the trade-off mechanism, in
which the more fiscal reforms the Belgian governments passed, the more favourable projections they would acquire, thus gaining more space to deviate from the Commission’s budgetary goals. In that sense the government’s decision was not based on fear of legal repercussions, as the statement of an official in Belgium’s Permanent Representation to the EU also indicates:

In any case, as far as structural reforms are concerned, recommendations are not really mandatory, they are not accompanied by sanctions. For example, I know that in pensions the Commission had recommended something and Belgium did something else. On the contrary, on the side of public finances, there are clear objectives to be respected and the adjustment trajectory. But structural reforms are elements taken into account as circumstances justifying that we are still at a deficit and that we do not reach the budgetary targets. So, there is a difference between the targets and the means.  

Hence, the Di Rupo government expected that with the trade-off mechanism, any irregularities previously pointed out by the Commission’s assessment and its CSRs would be corrected in due course by its more favourable projections and as a result of national reforms, thus calming down not only the EU but also the country’s electorates which expected immediate results. In particular, pressures exerted by the domestic public opinion were an additional motive for hastening reforms and showing its effectiveness. In its government agreement, the centre-left coalition sent a clear message of stability in order to reassure the Belgian public on its intentions to exit the EDP as quickly as possible: “The proposed structural reforms are designed to get our country out of the crisis, guarantee a quality of life for all inhabitants and ensure the future of the younger generations” (Accord de Gouvernement, December 2011: 2) adding that: “Our country has pledged to reduce the deficit of all public authorities to 2.8% of GDP from 2012 on. This Stability Program should enable Belgium to exit the excessive deficit procedure to which it is currently subject”  

Nevertheless, precisely because of Belgium’s dire budgetary situation and the immediate need to improve the country’s public finances, the Di Rupo government set a future tax reform only as a medium-term goal; in particular, the government did not have a plan on how to fund significant cuts from labour taxation, so any step towards a comprehensive policy reform would restrict its ability to lower the public deficit. Instead, priority was given to fiscal consolidation and, most importantly, to measures aimed at the country’s institutional stability with the completion of the Sixth State Reform. The complementary nature of the areas of labour taxation and pensions made this spillover possible in the first place, so, as a result, the absence of any influence mechanisms on the former area during that period is partly attributed to the existence of external pressure mechanisms in the latter, since the reforms there were seen as a priority.

But why did the Di Rupo government take action on pensions, rather than some other form of fiscal consolidation? This has to do with the reputational benefits gained, domestically and internationally,

40 Translated from French.  
41 Translated from French.
from the use of the trade-off mechanism. The Commission’s CSRs in 2011 pointed explicitly to reforms in fields related to “age-related expenditure” as an immediate step for meeting the SGP’s criteria. Although these reforms referred to the “long-term sustainability of public finances”, the Belgian actors were aware that the new measures would directly improve the budgetary projections as well, thus gaining substantial leverage. Another area of reforms which could contribute to the decrease of public expenses is the unemployment benefit system. However, the Commission did not frame the issue as instrumental to the sustainability of Belgium’s public finances, but rather as a way to enhance the country’s competitiveness. The relevant CSRs typically suggest the introduction of a system “in which the level of unemployment benefits decreases gradually with the duration of unemployment” (2011 CSRs), but this was part of the broader recommendation to improve participation in the labour market. Finally, having as another priority the difficult task of implementing the Sixth State Reform, the government of Di Rupo had limited space for manoeuvre and extremely few choices for lowering expenditure and correcting the country’s excessive deficit. Hence, this trade-off mechanism seemed by far the best choice: the Commission’s suggested fiscal reforms would be implemented in exchange for a better assessment. In combination with the incremental cognitive effects of the EES, the OMC and the EPC’s Ageing Working Group on the need to enhance the system’s sustainability, all these considerations contributed to the government’s final decision to undertake a comprehensive pension reform.

The reputational pressuring mechanisms continued to play a prominent role in the pension reforms of the Michel government, which also understood the relevance and use of trade-off mechanisms. Although the country managed to lower its high deficit and thus exit the EDP in 2014, Belgium remained under a three-year post-EDP monitoring. At the same time, the pressure of the public opinion became even more relevant. The decisiveness of the new government to continue the reform work of its predecessor was motivated to a large extent, by the fact that the country had not yet escaped the danger of another fiscal and macroeconomic downturn. Had the Michel government chosen not to continue the reforms in the pension system, it would have risked a steep rise in its deficit and debt levels (and from the perspective of the fear of sanctions, also a potential re-entry into the EDP). Again, this development could have sent an alarming signal to both the EU and the MS, damaging the country’s reputation. Furthermore, bad performance and the inability to conduct a large part of the promised reforms would be politically costly for the new centre-right government since it was elected on the promise of enhancing the country’s competitiveness and to restore Belgium’s status among its European counterparts, after this was affected during the Euro crisis. It is notable that the Federal coalition agreement was presented as absolutely aligned to the Commission’s recommendations, so any CSR that would bring out the government’s lack of results, or - even worse - any decision that could eventually lead to the invocation of the Semester’s corrective arm, could be used domestically to weaken the output legitimacy of the Michel government.

Outside of the European Semester mechanisms in the strict sense, the pressure of the international markets, already visible since Belgium’s introduction in the EDP but also after the summer of 2011, also played an important role in keeping the new government in line. In November 2014 – only a few weeks away from the inauguration of the Michel government - Fitch announced that it would maintain its favourable rating for Belgium, however under the condition that the new Federal coalition would cling to its reform declarations and manage to fix the country’s budgetary imbalances in due time (La Libre, 14 November 2014). According to the financial jargon, the rating
agency adopted a ‘negative outlook’ for the country’s rating, meaning that this was more likely to be lowered in the near future. As a response, the Minister of Finance, Johan van Overtveldt, rushed to calm the investors by underlying the government’s decisiveness and the exceptionally reformist character of its agenda (which is also explicitly aligned with the CSRs): “This is a significant difference with the quality of the consolidation measures since 2009, which relied too heavily on single actions and tax increases” (Ibidem).

But as regards the tax shift away from labour, the Semester’s effects became evident through the creative appropriation of the CSRs at the domestic level (see Table No. 2). So, whereas in the field of pensions one can trace a continuity in the influence mechanisms over time, in the case of labour taxation the Michel government was a catalyst, which used the relevant CSRs for the formation and enrichment of its own agenda. By using the concept already present at the EU level for the development of their own policy programme during the electoral campaign of May 2014, the majority parties of the Suédois government coalition (named after the colors of the parties composing it, which together resemble the Swedish flag) ‘creatively appropriated’ the term ‘tax shift’ with its introduction to the domestic electoral debates. Hence, when the new Federal government was formed, the N-VA and the MR repeated their policy goals in the coalition agreement and a comprehensive tax shift away from labour was passed soon enough. Although the Michel government communicated it as totally aligned with the Commission’s vision, this was not the case since the reform did not have a neutral character with regard to the budget. As mentioned in the chapter on the tax shift, the approaches of the Commission and of the Belgian government differed significantly. In the words of a Commission official: “In Belgium, it quickly became a debate about taxes on labour versus taxes on capital whereas from our point of view - and we had a lot of trouble explaining that, once the tax shift debate was going on in Belgium - from our point of view labour taxes and taxes on capital - at least most taxes on capital - are both growth distortive” (COM1).

Since significant steps were taken by the Michel government in the field of labour taxation and after the relevant law was voted in December of 2015, the CSRs of 2016 and 2017 widened their scope, recommending more broadly a reform in the “the tax system” while, at the same time, upgrading their link from the MIP to the SGP. The change of legal basis can be attributed to Belgium’s difficulties to improve its debt reduction rate during the last two years, thus marking the return of reputational pressure but also fiscal pressure: due to the extraordinary expenses to cope with the refugee crisis and the counter-terrorism measures, on December 2016 Fitch announced its cut in Belgium’s credit rating (from AA to AA-), the first time after S&P’s downgrade in 2011 (Bloomberg, 23 December 2016a). However, in its statement, there is no visible link with the European Semester, but instead the reason seems to be independent from it: “Repeated slippage against government targets is negatively affecting fiscal policy credibility, and reduces confidence in the ability to meet future fiscal targets” (Reuters, 23 December 2016). Again, the decision of S&P accelerated the adoption of several additional measures as part of the government’s budgetary programme for 2017, including the reduction of tax exemptions for the use of company cars.

Since the Semester’s influence on the integration of migrants in the labour market has been marginal, there are no relevant mechanisms of change which can be traced in that field. However, when referring to the effects of the broader EU initiatives on migrant integration not connected to the European Semester, the two consecutive Flemish governments used a light form of creative
appropriation in order to legitimise their new policies. As a result, for the creation of the ‘Agency for Integration and Civic Integration’ in 2013 as well as for the establishment of the Horizontal Integration Policy Plan (HIPP) in 2015, the governments invoked EU-level instruments such as the ‘Common Basic Principles for the Integration of Migrants’ adopted back in 2004. In the case of Wallonia, the developments of the last years and the adoption of Decrees for the establishment of an official integration pathway for migrants in 2014 and in 2016 were products of internal political factors and the debates there did not mention any development at the EU level. Hence, Europeanisation did not play a significant role in the domestic policy-making, let alone the European Semester. As I will elaborate in the following section, the lack of influence stemming from the Semester is linked to the particular character of the Belgian Federalism but also the different debates and political motivations among the Regional political actors. Furthermore, the multitude of other organisations dealing with the same subject, the multi-faceted character of migrant integration, as well as the breadth of the Semester’s CSRs contributed to the lack of any visible influence.

Lastly, certain institutional bodies in the Belgian administration dedicated to policy learning contributed to the Semester’s mechanisms of change. The mandates given to the Vandenbroucke Committee but also to the High Council of Finance to reflect upon and design a comprehensive pensions reform and tax reform respectively, were a necessary intermediate step towards substantial policy change, aimed at promoting legitimacy and inclusiveness as well as efficiency through knowledge. But it is also worth noting that the previous policy coordination processes before the Semester’s creation played a significant role, in the sense that they contributed to a plethora of ideational effects. In the field of pensions, the EES, the Social OMC and the EPC’s Ageing Working Group helped to raise awareness of the fiscal sustainability of the pension system by promoting the notion of the ‘active welfare state’, the second (occupational) pillar of pensions and the increased effective retirement age. Furthermore, in some cases their recommendations and indicators were picked up and used by domestic actors to draw attention on issues of social sustainability, such as the replacement rate of pensions or the poverty of elderly people. As regards the tax shift away from labour, the EES – along with the OECD and the IMF - contributed as well to cumulative cognitive effects on the need to lower taxation, as one of the most persistent policy problems for Belgium’s competitiveness. All these influences, in turn, led certain political actors to confer to autonomous expert-led bodies the task of preparing epistemic reports, as a blueprint for future reforms. Regardless the fact that the reports were not followed to the letter due to political frictions with the Michel government, the European Commission considered their existence central to the ownership – and implementation - of domestic measures. The case of the Vandenbroucke Committee reflects this better, where the Commission lowered the pressure mechanisms as a sign of confidence in the former’s capacity to envisage and promote a sustainable pension system. All in all, the accumulated learning effects of the EES and the Social OMC on various Belgian political and administrative actors in key positions, in combination with the economically pressuring circumstances, contributed to the creation of bodies that encouraged policy learning. In turn, these bodies’ reports were used to a certain extent as the basis for upcoming policy reforms. Despite the resemblance of the two cases in that perspective, such learning was more evident in the case of pensions than in the case of the tax shift away from labour.
9.3 Mediating factors

This section analyses the different domestic mediating factors and focuses on their specific link with the Semester’s mechanisms of influence. Unsurprisingly, a common underlying factor which applies to all three cases is the policy agenda of each government in office. This factor determines the extent to which the Commission’s recommendations are taken into consideration at the domestic level and evolve into actual reforms. The fact that the government of Elio Di Rupo chose not to touch the statutory retirement age shows how national policy agendas can place limits on the Semester’s pressuring mechanisms. In addition, the example of the government of Charles Michel, which immediately proceeded in raising the statutory retirement age but stalled for years with the creation of a system for the automatic adjustment of the retirement age, reveals how national agendas ‘filter’ the Semester’s influence with a considerable margin of discretion. Again, in a much more visible manner, the agendas of the N-VA and the MR, which promoted competitiveness and matched well with the CSRs on labour taxation, allowed for the successful creative appropriation of the Commission’s term.

The traditionally pro-EU stance of the Belgian political elites was also an important mediating factor on the majority of mechanisms of change. Even with a Socialist-led government coalition, the political actors did not challenge substantially the Semester’s CSRs on fiscal consolidation and agreed on the need to face the pressuring demands as a result of the crisis. As mentioned in Chapter 4, the discontent of several actors against the Commission’s recommendations, with most prominent this of the Minister of Public Enterprises, Scientific Policy and Development Cooperation at the time, Paul Magnette, did not change the Europhilic stance of the government. In fact, immediately after Magnette’s statement, Di Rupo rushed to reaffirm the government’s position: “Belgium has a long pro-EU tradition and its maintenance is in our interest. Each one can have his/her point of view but Europe remains our common basis”42 (RTBF, 12 January 2012). The Michel government even took a step further and openly declared its strong commitment to continuing structural reforms towards sound public finances (see its letter to the Commission in November 2014). But also, the fact that long before the European Semester, the Commission’s recommendations were seen in the Belgian political debates as an empowering argument based on expertise was an important element which led the Michel government to ‘download’ the term tax shift and thus to legitimise its broader policy-making agenda. In addition, Belgium’s Europhilism – both of policy elites and within public opinion - was a prominent factor that reinforced the subtler ideational effects of the Semester –as well as those of the Social OMC and the EES before it. Specific institutions within the Belgian administration understood the Commission’s persistent recommendations as signals to draw attention to the importance of certain policy fields and to create momentum for reforms. Finally, although the Semester per se did not have any significant effect on the integration of migrants in the labour market, the EU was used as a point of reference in the Flemish political debates. The governments there explicitly referred to the ‘Common Basic Principles on the Integration of Migrants’ of 2004 and to the 2016 ‘European Action Plan for Integration’, as a source of inspiration for their own policies and in their effort to strengthen intra-Regional coordination. On the contrary, in Wallonia, which is a less strongly Europhilic region, in the

42 Translated from French.
sense that the EU has been consistently portrayed as a neo-liberal project against the ‘acquis social’, the political debates on migrant integration did not mention any initiative at the EU level.

Belgium’s alarming fiscal status contributed to the activation of specific external pressure mechanisms. This factor refers to the economic context in which the national governments have to make their policy choices - as seen in the data published by the national statistical agencies and the annual budgets but also in the SWD and the CSR documents - and not to the legal categorisation of specific policy fields related to budgetary or macroeconomic issues. In the case of pensions, the dire fiscal situation of Belgium evidently enhanced the responsiveness of national actors with regard to the pressure of the public opinion as well as reputational concerns related to the Semester – at least within the SGP context. The same dire fiscal conditions increased the markets’ pressure and eventually contributed to the governments’ response to these mechanism as well. During the peak of the Eurozone crisis these links became visible, with the Di Rupo government passing reforms at an unprecedented speed, in order to put the country’s fiscal situation back on track.

In addition, the most recent developments in the field once again demonstrate that dire fiscal circumstances support the Semester’s pressuring mechanisms. For the period 2015 and 2016, Belgium’s GDP growth slowed significantly (to 1.5% in 2015 and 1.2% in 2016) as a result of the terrorist attacks in Paris and Brussels which had an impact on tourist numbers, retail activity and security expenses. Both in the fields of pensions and the taxation, this underlying economic context contributed to the reappearance of reputational pressures, together with the pressures of the markets. All in all, Belgium’s alarming fiscal performance in the early but also most recent cycles of the European Semester attracted the attention of the Commission – but also of the markets - on the need for further policy reforms. The Belgian government actors, as Europhiles and susceptible to market reactions, responded in a timely manner to these signals.

The ‘centrifugal’ nature of the Belgian Federalism was an important reason for the absence of the Semester’s effects in the case of migrant inclusion in the labour market. The relevant competences belong to the Regions after their devolution from the Federal level in the 1980s. The Belgian Federal state has gradually evolved into a more decentralised entity, hence, any ‘outside’ recommendation in that particular field is seen by the Regions as an attempt to interfere with their exclusive policymaking competences. The issue of migrant integration in the broader sense is a very sensitive matter, with its scope, definition and specific policies varying between – or even within - member states. As a result, it is intrinsically linked to local politics and the particular way political actors interact at that level. That is why, as shown in the empirical case chapter, the debates on the integration of migrants in the labour market differed substantially between Flanders and Wallonia: while in the former Region the political discourse was focused on efficiency and Flemish nation-building, in the latter the debates revolved around the budget but also the need to have a republican-equalitarian approach. Most importantly, the Flemish governments and administration saw the subject as an opportunity to promote their nation-building process and to legitimise their policies as part of the ‘Flemish way’, while in Wallonia the ruling party – being politically uncontested for decades - was initially cautious with regard to new measures and decided to engage into changes only under the pressure of other parties. Finally, given that the issue of migrant integration in the labour market has multiple sides, the CSRs’ broad formulation did not help in the sense that it could have been used by local actors. All in all, Belgian Federalism was a necessary but not a sufficient condition for the lack of effects, since additional elements were present - the actors’
different political motives, the fragmented character of the subject and the broad framing of the CSRs.

### 9.4 Conclusions

As a conclusion, a short but concise recap is necessary since my comparative findings will be further analysed in the following chapter. First of all, the European Semester’s primary function lies in its signaling role, and not in the stricter nature or automaticity of its sanctions. The institutional structure of the Semester gives stimuli to national actors to react to reputational pressures. In relation to the latter, the legal basis of the CSRs does matter, in the sense that the SGP contributes to the external pressure mechanisms for immediate reforms, while the MIP does not seem to do so, despite the similar possibility of sanctions associated with its procedures. But again, the SGP’s importance can be found in its signaling role, primarily for the reputation of a MS towards its EU obligations – domestically as well as internationally. As a result, specific fields which are usually (and not always, since the legal basis shifts) linked with the MIP and the Europe 2020 goals emit less prominent signals of pressure for quick change. Eventually, the only feasible way for national governments to swiftly reverse the negative signals is through the trade-off mechanism, by initiating reforms that can automatically restore the country’s fiscal projections and lower the pressure in all its forms.

As far as mediating factors are concerned, dire fiscal circumstances can assist in triggering specific external pressure mechanisms, such as in the case of pensions or tax reform during recent years. However, a government’s agenda weights on the outcomes and the final form of the reforms in the sense that it defines how much of the CSRs will be adopted. Especially when fiscal circumstances appear less urgent, a government’s agenda is the most important aspect for the Semester’s influence, along with the recognition of the CSRs’ legitimacy which is linked to a great degree with the country’s Europhilism. Support for the EU is an all-encompassing feature, capable of contributing to the adoption of national reforms: it enhances the governments’ reflexes towards the pressuring mechanisms during budgetary hard times but also, in the absence of any pressure, it renders the government agenda more aligned to the CSRs. Consequently, in periods when the country faces fewer budgetary challenges, the more the Commission trusts a government to implement substantial policy reforms on its own, the less pressure it exerts. This is why the creation of the Vandenbroucke Committee, a body comprised of well-respected experts at the EU level, was seen by the Commission as a sign that Belgium had taken definite ownership of its pension reforms. Finally, Belgian federalism is an element which can minimize the effects of the European Semester, since in politically sensitive areas in which the EU has no formal competence it is more likely that the Regions will stick to their own debates, without any visible mentioning of external actors. In the case of labour market integration of migrants, it was not that the CSRs were perceived as intrusive, but rather due to the presence of three additional factors, with only the first one being related to Belgian Federalism. First of all, the local politics and motives of the parties there as well as the strategies of the Regional governments played a significant role (for example, the national-building strategies in Flanders and power consolidation methods of the Socialist Party in Wallonia). In addition, one must take into consideration the multiple instruments at the EU and the international level which addressed the subject long before the creation of the Semester. Finally, the broad
framing of the subject in the CSRs, referring to the functioning of the labour market in general, was not particularly useful for the Regional actors as a means that could restart the debate on the multi-faceted problem of migrant integration and could contribute, as a start, to an obvious ideational shift.

9.5 Summary tables

Table 4. Effects/Outcomes

<table>
<thead>
<tr>
<th>Year</th>
<th>Pensions</th>
<th>Tax shift away from labour/comprehensive tax reform</th>
<th>Integration of migrants in the labour market</th>
</tr>
</thead>
</table>
| 2011-2014  | - Measures increasing effective retirement age  
            - Creation of the Vandenbroucke Committee | - Ideational shift  
            - Marginal measures  
            - Mandate for preparing a report given to the High Council of Finances (involvement of consultative body) | - No significant effects of the European Semester |
| 2014-2015  | - Measures increasing effective and statutory retirement age  
            - Creation of several consultative bodies | - Agenda-setting of N-VA and MR  
            - Tax shift on labour (partial) | - No significant effects of the European Semester |
| 2016-2017  | - Additional marginal measures | - Additional measures in 2016 and 2017 related more generally to the tax system | - No significant effects of the European Semester |

Table 5. Mechanisms of change

<table>
<thead>
<tr>
<th>Year</th>
<th>Pensions</th>
<th>Tax shift away from labour/comprehensive tax reform</th>
<th>Integration of migrants in the labour market</th>
</tr>
</thead>
</table>
| 2011-2014  | - Reputation signaling to the EU  
            - Reputation signaling to the domestic electorate  
            - Creation of learning bodies (Vandenbroucke Committee)  
            - Fear of the markets’ response (outside the Semester) | - Reputation signaling to the EU (spillover effect)  
            - Involvement of learning bodies (High Council of Finances) | - No mechanisms of change |
| 2014-2015  |                                   |                                                    |                                             |
| 2016-2017  |                                   |                                                    |                                             |
### Table 6. Mediating Factors

<table>
<thead>
<tr>
<th>Year</th>
<th>Factors</th>
<th>Table 6. Mediating Factors</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Pensions</td>
<td>Tax shift away from labour</td>
</tr>
<tr>
<td>2011-2014</td>
<td>- Pressuring fiscal status</td>
<td>- Pressuring fiscal status</td>
</tr>
<tr>
<td>Di Rupo</td>
<td>- Agenda of the specific government</td>
<td>- Agenda of the specific government</td>
</tr>
<tr>
<td></td>
<td>- Belgian pro-EU stance</td>
<td>- Belgian pro-EU stance</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(local politics)</td>
</tr>
<tr>
<td>2014-2015</td>
<td>- Pressuring fiscal status</td>
<td>- Agenda of the specific government</td>
</tr>
<tr>
<td>Michel</td>
<td>(but less)</td>
<td>- Belgian pro-EU stance</td>
</tr>
<tr>
<td></td>
<td>- Agenda of the specific government</td>
<td>- Belgian pro-EU stance</td>
</tr>
<tr>
<td></td>
<td>(also existence of the Vandenbroucke Committee)</td>
<td>- Belgian pro-EU stance</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(local politics)</td>
</tr>
<tr>
<td>2016-2017</td>
<td>- Agenda of the specific government</td>
<td>- Pressuring fiscal status (in 2016 and 2017)</td>
</tr>
<tr>
<td>Michel</td>
<td>(also existence of Vandenbroucke Committee)</td>
<td>- Agenda of local governments (local politics)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Belgian Federalism</td>
</tr>
</tbody>
</table>
Chapter 10. General Conclusions

The final chapter seeks to respond to the overarching research question of this thesis: how does the European Semester influence domestic policies and policy-making? Towards this end, each of the previous chapters have focused on the individual research questions posed in the beginning. So far the thesis has given a detailed picture of the specific effects, causal mechanisms, and mediating factors present in the Belgian cases under scrutiny. In addition, the penultimate chapter made an analytical comparison of empirical findings drawn from the three cases, while responding to the last research question: to what extent did the European Semester exert different influence on the three policy fields of research, in which form and why?

Hence, in this last chapter I draw some conclusions on the nature of the European Semester. More specifically, in the next section I present the most important contributions of this research to the existing literature. Next, I discuss the generalizability of my findings to other cases as well, which present similar characteristics. Finally, based on the findings of my thesis, I conclude by recommending possible directions for future research.

10.1 The contributions of the thesis to the existing literature and theoretical considerations

The thesis makes a twofold contribution to the existing literature on the effectiveness of the European Semester. Importantly, it untangles the specific mechanisms through which the Semester influenced policies at the national level. The analytical tables of the previous chapter show in a comprehensive way that the ES had visible effects on two out of the three researched policy areas in Belgium due to the combined presence of external pressure mechanisms and intrinsic motivation mechanisms. In that sense, I agree with authors such as Eihmanis and Bokhorst, who, based on empirical data, also find that the Semester was influential on domestic policies (for more see the literature review). At the same time, my findings are not in accordance with the think-tank literature strand: authors such as Darvas and Leandro (2015) or Zuleeg (2015) claim that the Semester was ineffective as regards the implementation of national reforms. Instead, my cases indicate that, over a period of six years, in Belgium there has been a variety of effects and causal mechanisms of change: for example, reputational concerns towards the EU and pressure of public opinion were more visible in the pension reforms and the tax shift away from labour during the Di Rupo government, while the involvement of learning bodies (e.g. the High Council of Finance and the Vandenbroucke Committee) and creative appropriation were mechanisms which also played a central role during the Michel government. But sometimes even during the same period, external pressure mechanisms and intrinsic motivation mechanisms coexisted and complemented each other towards the same result. For example, the Michel government felt pressured to continue, with even more zeal, the reform work on pensions due to reputational fears, but at the same time the Vandenbroucke Committee played a significant role, as a learning body of experts which affected the direction of reforms.
From that perspective, the thesis argues that a hierarchical mode of governance – in the sense of legal coercion - was less present, and that despite the upgraded character of pressuring mechanisms in the European Semester, there were other significant mechanisms at work as well. This latter view is shared by several other scholars, nevertheless these do not make a clear and analytically structured presentation of the causal mechanisms of the European Semester, as it is with this research. For example, Graziano and Halpern (2016) argue that even though the socio-economic framework became stricter, the use of tools based on persuasion and learning gained more ground for the rationalization of debates and the adoption of suitable policy responses. Similarly, although the term is not mentioned, Bekker (2016) points to the creative appropriation of the Youth Employment Initiative goals by the French government in order to justify its own policy choices. Most recently, Bokhorst (2017) argues that the pressuring mechanism of the MIP must be understood in political and reputational terms towards the MS and the domestic electorates. Finally, in accordance with the literature on previous socio-economic coordination mechanisms and on the OMC (e.g. see Vanhercke, 2016) the thesis provides support for the view that the implementation of the Semester is a two-way process, which includes downloading as well as uploading ideas and policies to the EU level. The case of the Vandenbroucke Committee is a typical example, which illustrates that the Commission’s officials learn and upgrade their analyses because they trust the experts at the national level.

Several authors have made reference to the symbolism of certain political decisions and their relevance to fiscal discipline, as signals to the EU, however without going further and without explicitly formulating the existence of a trade-off mechanism. So, from this perspective my thesis provides a novel conceptualization of the function of the trade-off mechanism, based on these signals and expectations of the actors.

Here, it would be useful to show the different past approaches. As regards the Macron Law, Erne (2015) states: “Incidentally, the government had to adopt the law by executive order because its likely rejection by the Assemblée Nationale ‘would have sent the wrong signal to the European Commission, a week before deciding whether to fine France for missing its deficit targets’” (ibidem:348). In the same vein, the research of Bauer and Becker (2014) is aligned with my findings, stating that some reforms such as those which occurred in France in 2013, “were given a special meaning” by the Commission for the extension of its fiscal deadline. Finally, Dunlop and Radaelli (2015) argue that under the excessive deficit procedure, political bargaining between the governments of Italy and France on one side, and the Commission on the other was more prominent than hierarchical practices. To show the character of such a negotiation, the authors use the following phrase: ‘if you do this, we want to talk to you about that by using our power of surveillance’.

Finally, my research recognizes the importance of market pressures as an influential mechanism of change, however not directly linked to the European Semester. Although prima facie the results of this thesis seem congruent with several authors from the think tank literature strand on the importance of market pressures for the CSRs’ implementation, they differ significantly due to their approach: the thesis shows and explains in detail the causal relationship between the actions of the financial market actors and the political decisions of the Belgian governments (and vice versa). In one of the many instances, I show that in November 2011 the downgrading of Belgium’s sovereign bond rating contributed significantly to the hastened formation of the Di Rupo government and to the
initiation of structural reforms. On the contrary, authors such as Darvas and Leandro (2015) argue in a general manner that when economic circumstances improve, then there is less pressure for reforms, so the momentum fades away.

The second key contribution of the thesis to the existing literature refers to the importance of a recommendation’s legal basis. The findings reveal that the legal basis of the CSRs influences their implementation. Nevertheless, as explained in the previous chapter, this seems to be true only for the recommendations linked to the SGP and not for those linked to the MIP, due to the long presence and prominence of the former in the domestic political sphere. Importantly, implementation of CSRs related to the SGP does not occur in an automatic manner nor does it derive primarily from the fear of legal sanctions, but has instead to do with incentives linked to the reputational concerns of national governments. In fact, the European Semester works as a signaling device for a country’s reputation: especially the CSRs related to the SGP are perceived by national actors as capable of sending negative signals not only to the their European counterparts, but also to the domestic electorates. The best way that a government can reverse this procedure is through the trade-off mechanism, according to which the more reforms are made mostly in the SGP-related policy areas, the better budgetary projections a country has, thus restoring the government’s international reputation as an effective and trustworthy actor. Furthermore, this process can also contribute to the appeasement of domestic public opinion, due to the potential benefits of reforms according to the trade-off mechanism, most notably the fiscal space left which can be used for social investment. Hence, the Belgian cases show that the implementation of reforms linked to the SGP is more usual compared to those related to the MIP.

These findings go against the probabilistic views of a big part of literature arguing that the stricter institutional rules, referring indiscriminately to the SGP and the MIP, have increased the “probability of adoption” of the CSRs (Buti and Carnot, 2012; Costamagna, 2013). In addition, my research contests the view that particularly the fear of sanctions was a successful mechanism of implementation in the cases of France and Belgium (Erne, 2015; De Streel, 2013). Consequently, the imposition of fines is not a good incentive for governments to initiate reforms and any new stricter rules are likely to remain ineffective, since this is not what primarily motivates domestic actors, contrary to the legalistic approach that the Semester needs “a strong, credible and enforceable mechanism for fiscal stability” (e.g. Pasini, 2013). Still, from an institutional point of view, fear of sanctions remains a vigorous mechanism of external pressure, since the legal framework and its “coercive” capacities are present. Thus, one cannot exclude such a mechanism for the future, especially in times of dire economic circumstances.

In the previous chapter, I analyzed the presence of various mediating factors in the three cases as well as their role on the unfolding of the different mechanisms of change. In this section, I situate these findings within the current scholarship. Again, my approach is substantially different from the existing literature in the sense that for the first time I take stock of the relevant mediating factors and analyze their role in an analytically structured manner.

First of all, the strong Europhilic sentiment of Belgian political elites and public opinion, but also their support for EMU and the euro in particular, was an important mediating factor that contributed to the influence of both mechanisms of reputational pressure and pressure of the public opinion. The acknowledgement of the Commission’s authority to recommend reforms within the
framework of the European Semester is closely connected to its perceived legitimacy. The fact that the vast majority of Belgians recognize the Commission’s authority in domestic policy making allowed some political parties to use its arguments in the public debate and, in the case of the Michel government, even to appropriate the tax shift term from the EU level (contrary to France or Italy, for example, where ideas coming from Brussels are not always seen positively43). First and foremost, these findings concur with several authors from the ‘probabilistic’ strand of literature: for instance, Laffan (2014) argues that the support of the public and the political elites constitutes a major precondition for keeping up the momentum for reforms. Also, Begg (2017) claims that the limited acceptance of the Commission’s authority by the public, primarily on fiscal issues, contributes to the Semester’s lack of effectiveness. From this perspective, my findings provide support for Zuleeg’s argument (2015), that any reform attempt which is based on the CSRs must be “politically justified at the national level”.

Furthermore, a government’s agenda has substantial influence on both external pressure and intrinsic motivation mechanisms. As seen in the case of tax shift during the Di Rupo government, it can limit the reputational pressure whereas during the Michel government, it is a most substantial factor for the initiation of creative appropriation. In accordance with my findings, a plethora of scholars (again, from the probabilistic literature strand) have pointed out the importance of this mediating factor; nevertheless, this was done in a rather general manner and without clarifying how the specific factor was played out in relation to the others. Bauer and Becker (2014: 223) argue that “member state institutions are also strong in the implementation phase” while Kawecka-Wyrzykowska (2013) claims that the successful implementation of the CSRs is dependent upon their adoption by the government. Similarly, Bekker (2016) but also Schwarzer (2012) say that the Semester’s effectiveness depends on the agenda of national governments. Finally, Maatsch (2017) contends that a most important mediating factor is the economic preferences of the political parties in power, while Schreiber (2017) agrees that “the domestic usage (of the CSRs) by pro-reform actors” can “actually increase the likelihood of domestic policy change”.

Lastly, my findings show that the gravity of a country’s fiscal situation contributes to the mechanisms of external pressure. But even though the presence of this factor is important, it does not necessarily lead to reforms since the reaction of national governments depends on the other mediating factors as well. Contrary to my approach, the literature has refrained from making causal links between dire fiscal circumstances and the adoption of national reforms, preferring to frame it more broadly. As Windwehr (2017: 1312) states: “the general budgetary situation as well as the outcomes of previous reforms, not least in terms of projections as regularly presented in the Annual Ageing Report, therefore seem to be the most adequate predictor of European influences on national pension policy in and after the crisis”. Likewise, Gros and Alcidi (2015: 2) argue that the majority of MS underwent substantive fiscal consolidation already during the first cycles of the European Semester, so “the economic rationale for coordinating reform policies is weak in ‘normal times’” adding that “their [the CSRs’] implementation will depend on national governments’ assessment of domestic needs”. Given the view of the existing literature, in my thesis I go further and describe the causal link between the pressuring circumstances and the particular initiatives

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43 For more on the use of the Commission’s arguments in the Italian debate: see Bokhorst (2017).
taken by the Belgian governments in order to step up their reform work.

10.2 External validity of the findings

In this section, I address the question of how likely are my findings on the effectiveness of the European Semester in Belgium to be generalized to other MS as well. Hence, a discussion on the domestic characteristics or mediating factors that played a role in the three particular cases is deemed necessary, with a view to understand their potential influence on other EU countries as well.

The Belgian case is atypical as regards the support to the EU, since traditionally the vast majority of political actors at the national and sub-national level (at least in Flanders) are eager to confirm that they are “the best pupils in the class” (KUL10). The same goes for public opinion: for example, in Eurostat’s Eurobarometer no. 81 of July 2014, Belgium showed much higher levels of support for EMU than the EU average. More specifically, 32% of the respondents replied that the EU “is best able to take effective actions against the effects of the financial and economic crisis”, as opposed to the EU average which stood at 24%. Likewise, the support for the Euro in Belgium is particularly strong, with 47% of the respondents recognizing it as one of “the most positive results of the EU” (compared to the EU average which stood at 25%). This outspoken pro-EU stance certainly played a substantial role in the implementation of the CSRs in three ways: first, the fiscal consolidation efforts of both the Di Rupo and the Michel governments were enhanced by concerns for their reputation at the EU level. Secondly, the acceptance - along general lines - of the EU’s strict budgetary line by the majority of the Belgian electorate reflects their belief that the relevant consolidation measures would eventually lead to beneficial results. Thirdly, the explicit mentioning of the tax shift’s creative appropriation by then Michel government, with the aim of enhancing the legitimacy of its agenda, was largely depended on the recognition of the value of the Commission’s arguments.

Given these findings, in those MSs where public support for the EU is significantly weaker, but also where the presence of Eurosceptic parties in their national parliaments is stronger, the Commission’s legitimacy to recommend reforms is likely to remain limited and unable to contribute to swift adoption of reforms. Over the years, in countries such as Italy, Greece, Cyprus, Britain, and France, political contestation towards the EU and in particular towards the EMU fiscal rules has been widespread in the political mainstream. At the same time, in the Eurozone countries of the South periphery – which traditionally have been mildly Europhilic- as well as in France, support for the Euro has been steadily declining (see: Eurostat, December 2016: 8). In addition, there were many instances over the last few years when national government officials declared their indifference to the reputational repercussions at the EU level when pressured by the Commission. A prominent example is this of the Italy during the adoption of the 2017 draft budget which deviated from the set fiscal goals. Matteo Renzi, the Prime Minister at the time, declared: “We are not making trouble, we are not intimidated by anyone. We can talk about investments but on securing school buildings no one can block us: we will keep that money outside of the Stability Pact” (Reuters, 7 November 2016). To what extent, however, this was a truly Eurosceptic declaration rather than a bargaining strategy for more fiscal flexibility needs to be studied in depth, since the electoral programme of the Renzi government had already announced many reforms which were aligned with the Commission’s recommendations, especially as regards the labour market.
Hence, one has to be careful when taking into consideration the Europhilia or Euroscepticism rates within MSs as factors that influence the CSRs’ implementation. First, because there are multiple signs that even the governments that often refer to their “sovereignty” and “national prerogatives” adopt many structural reforms in the long-term. Second, because it is often unclear whether national reforms are taken due to reputational pressures, fear of sanctions or due to fear of the financial markets’ response. Finally, Europhilic sentiment is hard to measure and can vary considerably among policy fields. As a result, each national context needs to be studied carefully in order to understand the limits of the Commission’s legitimacy there.

On the contrary, the rest of the mediating factors in the Belgian case can be found more easily in other MS as well, so for that reason the probability of generalizing the thesis’s findings to other EU polities is increased. The grave fiscal situation of a country is a most important factor which can contribute to the adoption of reforms: this was true for the Di Rupo government and the adoption of pension reforms, aiming at the improvement of the country’s budgetary projections, but also for the Michel government, which most recently took additional tax measures for similar budgetary reasons. Hence, as the vast majority of the EU’s MS were facing economic challenges (although with evident variations among them) already since the beginning of the sovereign debt crisis, the prominence of this mediating factor could be relevant to their cases as well. For instance, in December 2011, 23 Member States out of 27 were subject to an Excessive Deficit Procedure (European Commission, 2011b). As mentioned in the introduction to this thesis, with significant fiscal effort this number dropped to 17 in 2014 and further down to 11 in the summer of 2015 (European Commission, 2015d). A country’s fiscal situation can lead to a plethora of pressuring mechanisms, such as fear of the markets’ reaction or fear of sanctions according to the EDP and MIP rules. On the latter, the imposition of sanctions was perceived by the media as a very real option of the Barroso Commission in certain cases. In reference to the ‘serious deviation’ of Spain from its deficit targets back in March 2012, the newspaper The Guardian mentioned that “the Spanish government appears to be up against a European commission keen to make full use of its new powers” (The Guardian, 5 March 2012). From that perspective, it is highly probable that countries experiencing economic hardship would be eager to take up fiscal-related reforms aligned with the CSRs in order to improve the sustainability of their budgets.

Another finding from the Belgian case in relation to the effects of the European Semester, which is also generalizable to other MS, is the impact of a government’s agenda: if this is aligned with the CSRs, then there is a high probability that EU-induced reforms would be adopted at the national level. The Di Rupo government made fiscal consolidation its priority, understanding that a pensions reform would be instrumental. However, for ideological reasons, it kept certain red lines and did not touch the statutory retirement age. Likewise, the Michel government was explicit on its alignment with the CSRs, but also as regards pensions specifically, it followed the Commission’s orientation. Even if this government did not take any measures for linking automatically the retirement age with life expectancy, there are still chances that this issue will be addressed by the end of its legislature in 2019. A notable case in which the government’s agenda could push for the implementation of a big part of the CSRs is France. For many years the European Commission has been repeating that the country “is characterised by weak competitiveness and high and increasing public debt, in a context of low productivity growth” (EUobserver, 25 May 2017). The previous socialist government of François Hollande tried to take several measures against this situation, such as a pensions reform in 2013 to cope with its deficit-hit pension system or the infamous ‘Macron Law’ of June 2015 to tackle
the inefficiencies of the rigid French labour market. However, due to political contestation and strong resistance, the final content of this legislation was watered down, while not proving ambitious enough to face the country’s problems. Nevertheless, with the recent election of the Macron government, the explicit alignment of its agenda with the Commission’s recommendations was unprecedented for French politics, to the point that some media called this a “copy-paste” (“un copier-coller”) of the CSRs (Mediapart, 10 March 2017). As Bloomberg also stated after the French elections of May 2017, “the Commission’s policy recommendations for France echo much of Macron’s election program” (Bloomberg, 22 May 2017). To what degree Macron’s agenda has creatively appropriated notions from the CSRs is something to be studied in-depth, nevertheless there are many signs that with the arrival of the new government in France, the consolidation of the budget and the adoption of a big part of relevant recommendations which existed for several years already became an outright priority. So, in that case too, a new government’s agenda could be a most important factor for the promotion and implementation of the Commission’s CSRs.

Finally, the findings of this thesis on the federal system’s influence on the European Semester can be useful to the countries which share this characteristic. As explained in Chapter 4, Belgian federalism is peculiar, being a product of –relatively- recent historical developments as regards the devolution of competencies and the expression of autonomist movements linked with linguistic-identity issues. For that reason, although Belgian federalism has proved ‘cooperative’ and beneficial for inter-level coordination and cooperation for some EU issues, it also presents significant ‘centrifugal’ features. This implies that for some policy areas, which are understood exclusively through the prism of regional politics, the impact of the Semester is ‘filtered’ through the political actors’ preferences at that level. Hence, when appropriate initiatives are given to government institutions, political parties, social partners as well as to civil society actors, the CSRs can be used for the promotion of structural reforms and the enhancement of the Commission’s legitimacy. As the case of Flanders shows, one of the less visible forces driving the integration of migrants in the labour market was the domestic reputational benefits which the actors could draw: by referring to the EU’s Common Basis Principles for the integration of migrants of 2004 (and not to the Semester), the Flemish government aimed to enhance the legitimacy of its policies and promote its ‘nation-building’ efforts. Consequently, future research could focus on whether political actors in the federated entities of other MS (for example in Germany, Austria or Spain) have used the recommendations of the European Semester as a vehicle to enhance their own interests.

10.3 Suggestions for future research

For now, it seems that the European Semester will remain the dominant fiscal and socio-economic coordination framework of the EMU for the next several years, so more scientific research is necessary in order to understand better its functioning, nature and limits. Towards this goal, I would suggest two possible directions of research. On the one hand, given the significant lack of empirical research on the current socio-economic coordination framework, the need for more in-depth case studies focused on its effects and causal mechanisms is evident. This becomes more urgent, insofar as misconceptions about the Semester’s coercive power can be particularly harmful for support for the EMU and solidarity among MS and among their citizens, which is a requisite element for the EU’s survival. Specifically for the Central and Eastern European MS, which joined the EU after the
enlargement processes in 2004 and 2007, such research is even more needed: for these cases, the empirical gap is particularly wide as regards the Semester’s effects and mechanisms, so in-depth studies would substantially upgrade our understanding. In addition, since this thesis highlights the prominence of Europhilia as one of the most important factors for the CSRs’ adoption, a discursive analysis of the European Semester in domestic debates would be also interesting, focusing on the Semester’s perceived legitimacy - output as well as throughput. Besides, the examination of marginal cases in the sense that the imposition of the EDP sanctions seemed imminent, most notably those of Spain and Portugal, could be extremely insightful on how the national governments there understand the fear of sanctions mechanism and the pressures of the Commission. Finally, future research could contribute to our understanding of how the trade-off mechanism is used in other national polities apart from Belgium.

On the other hand, comparative research would be useful for understanding the different expressions of the Semester as well as the factors which influence them, across time and space. For example, since many scholars point to the fact that support for the EU is an important factor for implementation of CSRs, it would be interesting to compare the Semester’s effects in Europhilic MS to those in Eurosceptic ones. Moreover, future research could focus on the different Semester mechanisms between the Eurozone and non-Eurozone countries. For the former category, in some cases the institutional framework prescribes more ‘hierarchical’ instruments (e.g. additional sanctions as regards the implementation of MIP-related CSRs), so a comparative approach could reveal a lot on whether their presence makes a difference. Lastly, the implementation of the CSRs related to the SGP and the CSRs linked to the MIP must be put under a comparative perspective, in order to understand what differentiates them in the eyes of the national actors.

All in all, these two strands of research would not only provide fresh empirical evidence for a more nuanced understanding of the European Semester, but they could also enrich the existing theoretical framework for analyzing its effects and mechanisms. In relation to this research, they could highlight as well the importance of the Semester’s perceived legitimacy and Europhilic attitudes among political elites and public opinion as basic elements for the sustainability of the EMU.

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List of Interviews

COM1: High Official in the European Commission Representation in Belgium [May 2016]
COM2: Official of DG EML [May 2016]
COM3: Official of DG ECFIN [May 2016]
ETUC4: High Official of the European Trade Union Confederation [May 2016]
SPCS5: Belgian Member of the Social Protection Committee [May 2016]
BE-CAB6: Member of the Cabinet of the Belgian Minister of Pensions [May 2016]
BE-CAB7: Member of the Cabinet of the Belgian Minister of Pensions
FPB8: Official of the Federal Planning Bureau [May 2016]
MEP9: Member of the European Parliament [November 2016]
KU LEUVEN10: Professor of KU Leuven [November 2016]
COM11 : Official of DG HOME [November 2016]
COM12 : Official of DG HOME [November 2016]
EMCO13: Chair of the Employment Committee [May 2016]
COM14: Official of DG EMPL [January 2017]
COM15: Official of DG EMPL [May 2016]
UNIA16: High Official in UNIA [December 2016]
UNIA17: Official in UNIA [December 2016]
EUROPARL18: Official in the Think Tank of the European Parliament [November 2016]
VDAB20: Official in VDAB [December 2016]
N-VA21: Representative of N-VA [July 2016]
VDAB22: High Official in VDAB [May 2016]
HCF23: High Official in the High Council of Finance [May 2016]
COM25: Official in DG TAXUD [July 2017]
COM26: Official in DG TAXUD [July 2017]
COREPER27: Official in the Permanent Representation of Belgium in the EU [September 2017]

FGTB28: Official in the Fédération générale du travail de Belgique [October 2017]
### Annex I

#### Table 7. The Sub-CSRs towards Belgium: 2011-2017

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**Source: Own elaboration based on the table in the Spring Package-European Semester 2017**

Table 8. The implementation of the Sub-CSRs towards Belgium: 2011-2016

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Source: Own elaboration based on the table in the Spring Package- European Semester 2017

Notes

The asterisk symbol (*) indicates the policy areas which have an exclusive or parallel social or employment dimension

The data for the 2017 cycle have been taken from the Commission’s proposal for CSRs published in May.

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Progress on the implementation of the CSRs (2011-2016)

2011: Some progress: 8, No progress: 2 [Total number of Sub-CSRs: 10]

2012: Some progress: 8, Limited Progress: 4, Substantial Progress: 1 [Total number of Sub-CSRs: 13]

2013: Some progress: 5, Limited Progress: 4, No Progress: 2, Substantial Progress: 1 [Total number of Sub-CSRs: 12]


2015: Some progress: 8, Limited progress: 1 [Total number of Sub-CSRs:9]

2016: Some progress: 8, Limited progress: 3, Substantial Progress: 1 [Total number of Sub-CSRs: 12]

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Sub-CSRs related to the SGP and the MIP (2011-2017)

2011 Sub-CSRs: SGP-related: Fiscal policy, pensions. No MIP mentioned (!). (2 vs 0) [Total number of Sub-CSRs: 10]
2012 Sub-CSRs: SGP-related: Fiscal policy. MIP-related: Fiscal policy (!), wages and wage setting, all employment market policies (no. 6-13 apart from active ageing), retail sector. (1 vs 8) [Total number of Sub-CSRs: 13]

2013 Sub-CSRs: SGP-related: Fiscal policy. MIP-related: Fiscal policy, pensions, health-care, wages and wage setting system, services sector, labour taxation, tax system. [something that the 2013 SPC assessment of the CSRs also mentions] (1 vs 7) [Total number of Sub-CSRs: 12]

2014 Sub-CSRs: SGP-related: Fiscal policy and budgetary governance. MIP-related: Tax reform, labour taxation, unemployment benefits, active labour market policies, labour market participation, access of vulnerable groups, education and training, wages and wage setting system, retail and services sector [the 2014 SPC assessment of the CSRs stress that the MIP must be more clear and should not exceed its legal scope by extending to all labour issues and pensions (p. 3)]. (1 vs 9) [Total number of Sub-CSRs: 13]

2015 Sub-CSRs: SGP-related: Fiscal policy and budgetary governance, pensions. MIP-related: (all 2015 CSRs) fiscal policy and budgetary governance, pensions, taxation system, labour taxation, unemployment benefits, labour market participation, inclusion of vulnerable groups, wages and wage setting mechanism, education and training. (2 vs 9: Attention! Overlapping of CSR basis) [Total number of Sub-CSRs: 9]

2016 Sub-CSRs: SGP-related: Fiscal policy and budgetary governance, tax system and labour taxation. MIP-related: it is not mentioned which CSR exactly is related to the MIP since Belgium did not have an In-Depth Review that year (2 vs 0) [Total Number of Sub-CSRs:12]

2017 Sub-CSRs (proposal by the Commission on 22 May): SGP-related: Fiscal policy and budgetary governance, tax system and labour taxation, transport infrastructure. (3 vs 0) [Total number of Sub-CSRs: 9]
Annex II

Figure 3. Sub-recommendations per policy area for the period 2011-2017

Source: Own scheme

Notes

Empl&Soc sub-CSRs 2011: 7, other:3,
Empl&Soc sub-CSRs 2012: 9, other: 4
Empl&Soc sub-CSRs 2013: 10, other: 2
Empl&Soc sub-CSRs 2014: 9, other: 4
Empl&Soc sub-CSRs 2015: 7, other: 2
Empl&Soc sub-CSRs 2016: 6, other: 6
Empl&Soc CSRs 2017: 4, other: 5
Figure 4. Sub-CSR Implementation 2011-2016

Sub-CSR Implementation 2011-2016

- 62% Some Progress
- 26% Limited Progress
- 6% No Progress
- 6% Substantial Progress

Source: SWD 2011-2017, own elaboration