THE EUROPEAN SEMESTER AND EURO AREA GOVERNANCE

The Italian Case

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ALMP = Active Labour Market Policies
CSR = Country Specific Recommendations
DG ECFIN = Directorate-General for Economic and Financial Affairs
EC = European Commission
ECB = European Central Bank
EMU = European Monetary Union
EPL = Employment Protection Legislation
ES = European Semester
FDI = Foreign Direct Investment
IMF = International Monetary Fund
LMP = Labour Market Policies
MIP = Macroeconomic Imbalances Procedures
MP = Member of Parliament
MS = Member State
MTO = Medium Term Objective
OECD = Organisation for Economic Co-operation and Development
SGP = Stability and Growth Pact

Day 1; 15:30-17:00; Session 1: Il Semestre europeo. Cos'è? Perchè è stato introdotto? Che implicazioni ha per l'Italia? (ITALIANO)

Dimitri Lorenzani (European Commission – DG ECFIN)
Macroeconomic Imbalances Procedures (MIP) - macroeconomic surveillance
Italy, Greece: Excessive imbalances
Portugal, Spain: Imbalances

Italian Case
Italy shows poor performance in some important variables: high unemployment, fragility within the banking sector, structural weaknesses and misallocation, high public debt and anaemic productivity.

Pietro Tommasino (Banca d' Italia)
Why do we need fiscal rules?

- Reducing the "deficit bias" that appears when: the electorate is imperfectly rational or imperfectly informed; current generations don't take care of the future; if taxes of the society are paying a small group.
- The bias is larger with coalitions and populist government.

The problems of the deficit bias in monetary unions:

- Hamper the single monetary policy
- Moral hazard during a crisis: financial instability in one country tends to affect all countries.
- Fiscal policy decisions in one country influence other countries' aggregate demand.

Alternative to rules: markets through the price of bonds. However, when the Euro was designed, the framers made a clear choice in favour of the rules. The rationale was clearly stated in the 1989 Delors' report. Although the EMU experience vindicates Delors' scepticism.

There might be reforms that improve market functioning.

<u>The EMU fiscal framework:</u>
The Treaty foresees a procedure aimed at correcting an excessive deficit situation, which may eventually end up with the imposition of fines -> Stability and Growth Pact (SGP) corrective arm.

In 1997, the SGP introduced further requirements and clarifications – member states were asked to pursue, as medium-term objective (MTO) a budget close to balance or in surplus -> SGP preventive arm.

In 2005, the SGP was further amended:

- MTOs are now country-specific and expressed in cyclically adjusted terms and net of temporary measure;
- Major reforms which entail long-term savings but short-term costs are taken into account (in particular pension privatization);
- Adjustment path to MTO: 0.5% of GDP per year in structural terms.

The financial and sovereign debt crisis exposed the inadequacies of the EMU framework. Four main problems emerged:

- Shortcomings of the Stability and Growth Pact;
- Budget discipline alone cannot ensure fiscal sustainability nor prevent financial tensions: macro imbalances matter;
- No mechanism for managing financial crisis;
- Shortcomings in the regulation of the financial systems.

Note: fiscal rules were not sufficient to induce countries to adopt prudent fiscal policies in good times: many countries entered the crisis with high public deficits and debt.

The rules have been strengthened:

- Inclusion of EU rules in national legislation at the Constitution level
- Expenditure rule
- Greater automaticity of procedures
- Numerical rule for debt dynamics
- European Semester

The Macroeconomic Imbalances Procedures (MIP) were introduced as a new surveillance tool to monitor and correct imbalances other than the fiscal ones.
However, it might be argued that it is too complex and lacks teeth when it comes to sanctions.

The EMU lacked an appropriate framework (including possibly a procedure for private sector involvement) and financial instruments to deal with a serious financial crisis of a Member State.

The European Semester, introduced in 2010, established a common timeline for national for fiscal policymaking and surveillance. This change has ensured that Member States discuss their budgetary plans with their EU partners in the first part of the year, so that national action could be accordingly taken in the second part of the year, notably with the adoption of the budgets for the subsequent year.

<u>Process</u>:

- In April, States present their National Reform Programmes and their Stability programmes for the following three years to the Commission.
- In May, the Commission assesses the plans of the Member States and presents a series of new country-specific recommendations. These recommendations are discussed between Member States in the Council.
- EU leaders endorse them in June before Council adopts them in July. Governments should then incorporate the recommendations into their budgets for the following year.
- In the Autumn euro area Member States must submit the Draft Budgetary Plans for the following year by 15 October.
- The Commission then assesses the Plans against the requirements of the Stability and Growth Pact and the country-specific recommendations and issues an Opinion on each of them in November, so that this guidance is taken into account when national budgets are finalized.
- Euro area Finance and Economy Ministers then discuss the Commission's assessment of the Draft Budgetary Plans in the ECOFIN Council.

Overall, the legacy of the crisis on the EMU fiscal framework has been:

- More rules (expenditure, debt)
- More exceptions.

As a result: more complexity, less transparency, more discretion for the Commission. National electorates do not know/understand the rules, so domestic political sanctions for national governments are muted.
This result was mostly an unintended consequence of mutual distrust (“*curse of the complete contract*”).

Lack of trust between the crucial actors:
- Core countries vs Periphery countries;
- Member states vs European institutions;
- National public opinions vs national and supra-national élites.

Furthermore, crucial elements are still missing. In particular, a common fiscal capacity is needed to:
- Provide insurance (risk-sharing) against country-specific shocks;
- Ensure an appropriate discretionary fiscal policy in the case of a common shock.

Day 1; 17:30-19:00; Session 2: The Political Economy of the European Semester in Southern Member States (ENGLISH)

Nicole Baerg (University of Essex) & Mark Hallerberg (Hertie School of Governance): "Explain the instability in the stability and growth pact: The contribution of member states' power and Euroscepticism to the euro crisis"

How does "economic governance" function in the European Union?
Relation between the Commission and the Council is the focus.

Formal relation between Commission and Council - the Council corrects and is attentive to what the Commission do (progress).
The reforms in 2011 stressed the informational role of the EC while leaving the corrective arm relatively weak.

Notable changes since 2011: Macro plan and micro plan; Country Specific Recommendations (CSR) each year; two-pack follow-up whether Member States adopted CSR.

Dependent variable: edits of CSRs and occasions of text being weakened.
Sample: EU 15 and EU 27 from 1999-2012.

Results:
The Council is very active in weakening the language of the CSRs as they are proposed by the Commission -> are they substantive? -> very large amount of the CSRs is rather edited stylistically / "superficially" than substantively.
There is also evidence that Countries try to strengthen the language proposed by the EC -> still noisy data.

Evidence of Italy:
Is using the European institutions to "manipulate outputs".
Italy is always at high rank in rates of editing and weakening.
"Large countries" is significant variable for more weakening.

Nowadays, Commission speaks directly to Member States.

David Bokhorst (University of Amsterdam): "The application of the European Semester in Italy: the case of the liberalisation of professional services"

Quantitative analysis isn't enough, we need qualitative - Should we judge the Semester on the basis of implementation or influence?
Observation: post 2015 literature: European Semester isn't enough.

It is important to look on the cognitive influence of the European Semester (ex: arguments, priorities, etc).
The ES as a cognitive argument: Semester ideology becomes a mainstream economic narrative difficult to capture since factors are indirect -> different interpretations among officials in the ministries, interpretations sometimes different.

How to measure influence: study different shifts (ideational, agenda, etc.) -> study certain group norms.

<u>Italian case</u>:
CSR: liberalisation of professions - effects are diffused in the long-term but in the short run win a lot of enemies - political difficulties. Influence not strong enough to help overcome opposition, but CSR helped keep the issue on the agenda.

Italian bureaucrats share a collective understanding on priorities.
The questionnaires with whom the EC comes changed the working procedure within the ministries -> reputational and social sanctions, not so much fines.
Renzi government also shared a common understanding.
Influence of reputation - > Italy wanted to show that they actually take actions.
Countries were complaining that Italy was showing policies on paper, but not really implementing them -> they wanted to show more.

<u>Conclusions</u>:
- Slight increase of the CSR recommendations in Italy - pressure in Italian case more significant than other cases;
- Government agenda shift to the topics of CSR;
- CSRs was not strong enough to convince Members of Parliament (MPs), but for bureaucrats it was extremely important as a motivation and for having a reason -> legitimacy;
- Strong collective understanding of priorities;
- Pressure is political not materia.

Fabio Bulfone (Max Planck Institute, Cologne) & Arianna Tassinari (European University Institute, Florence): "Under pressure. Electoral politics, state-business relations and labour market reforms in southern Europe 2008-2018"

2 first papers: analysis of exogenous pressures from EU authorities to reform domestic structures.

In this analysis, exogenous pressure is a common scope condition since strong exogenous pressure on Southern European countries to implement deregulatory labour market reforms.

Objective: Evaluate labour market reforms in Southern Europe.

Core claims:
South European governments package their labour market reforms differently to attempt and reconcile two imperatives:
- Restore growth & employment (was difficult since no money came into the Southern European country anymore -> need to attract money from foreign multinationals and member states need also to send signals to show that they are good investments (liberalisation reforms are good signals));
- Consolidate a large enough base of electoral support.

Common 'scope condition': all while complying with demands for internal devaluation & fiscal consolidation arising from new European economic governance framework & creditors.

Methods:
Cases: Italy, Spain, Portugal and Greece.

Labour market policy reforms implemented over crisis decade (2008-2018): employment protection legislation (EPL), unemployment benefits, active labour market policies (ALMP).

Empirical example: the case of Italy
Illustration of the argument: different labour market reform strategies pursued by successive Italian governments over crisis decade.

Two cases:
- **Renzi government, 2014-2016 (grand coalition led by the centre-left)**

Excessive Imbalance Procedure; continuing pressures for Labour Market Policies (LMP) reforms to address unemployment, segmentation, weak productivity (cf. CSRs 2013, 2014, 2014).

Growth & employment creation strategies:
- Export promotion: preferences of FIAT & large manufacturing employers for Employment Protection Legislation (EPL) liberalisation;
- Rapid and low-cost creation of employment in domestic services.

Electoral politics: attempt to re-cast support base of the centre-left
- Core voter groups: socio-cultural and technical professionals, associate managers, self-employed.
  + loosen links with 'working class' base

Reform measures:

- Deregulation of EPL for open-ended & temporary contracts
  + employer subsidies for low-cost employment creation + scaling back of short-time work;
- Embedding flexibilization: expansion of unemployment benefits coverage for atypical workers & self-employed.

=> Outcome: consolidation of links with business but electoral failure

- **Conte government, 2018-2019 (radical right – populist coalition)**

Excessive Imbalance Procedure; CSRs flag up high unemployment, labour market segmentation, ineffective ALMPs & weak productivity growth.

Growth & employment creation strategies:

- Export promotion & Foreign Direct Investment (FDI) attraction: seconding preferences of large manufacturing firms & investors to not undo progress made in flexibility & wage moderation;
- Keeping labour costs low to facilitate employment creation.

Electoral politics: attempt to forge a 'challengers' coalition':

- Core voter groups: service workers & clerks (M5S); SME owners (Lega); production workers (both)
  => contradictory LMP preferences

Reform measures:

- Protective expansion: marginal re-regulation of temporary contracts; expansion of non-contributory benefits for unemployed;
- But also: deregulation of occasional work ('vouchers'); no re-regulation of EPL for open-ended workers; no progress in minimum wage introduction

=> Outcome: tensions in coalition, eventual collapse (summer 2019)

<u>Context</u>:

- Excessive imbalance procedure under MIP from 2014 onwards
- Persistently high levels of unemployment
- Sluggish GDP growth

<u>Observations</u>:

Portugal and Spain were very effective in attracting FDI after the crisis.

South European governments packaged their labour market reforms differently to attempt and reconcile two imperatives: restore growth & employment and consolidate a large enough base of electoral support.

<u>Italian case</u>:

- Renzi Government: consolidation of businesses links but electoral failure.

- Conte and Renzi government – While pressures from external actors were the same, the outcome was very different -> can be explained by difference in social constellation of electorates of these two governments.
- Beside their original electorate (social democratic) the Renzi Tries tried to attract votes from highly educated new middle class-> new social issues

Conclusion:
In order to analyse labour reforms, isn't enough to look to external pressure.
Reform dynamics during the crisis: there is *some* room for manoeuvre in designing policy pressures even under pressure.
Competing imperatives facing governments:
- generating growth and employment;
- preserving or forging electoral base of support;

… whilst respecting constraints arising from European economic governance framework.

LMP reform strategies & their variation *within and across* Centre-left & Centre-right governments explained by the interaction between these constraining factors
- Common emphasis on EPL liberalization (*business preferences*)
- Differences in depth & type of accompanying 'compensatory measures' (*electoral politics*)

But... not all reformist strategies are equally viable and compatible with constraints of European economic governance

Fabrizio Di Mascio (University of Turin): "The dynamics of EU influence and fiscal consolidation in Italy and Spain"

No attendance.

Discussant - Mark Dawson (Hertie School of Governance)

3 common themes:
- Common interest on explanatory things – papers go the next step;
- Way of economic governance is explored;
- Very strong alignment with political economy.

Comments to the papers themselves:
Papers don't have strong arguments about mechanisms; much more about actors.

To Fabrizio Di Masio:
Where is the resistance coming from?

To David Bokhorst:
What are the mechanisms which facilitates the ideational change?
The Semester is good to facilitate a bureaucratic consensus, but not a political one – is that in accordance with the cleavage within EU.

Question to all of the panellists:
Debate between gradualists and revolutionists? Where do you position yourself in that debate?
Future of the European Semester: politicisation.

European Semester is something dynamic.

Discussant - Stefania Baroncelli (Free University of Bozen)
Constitutional change for adapting to external pressures was something very strong and particular -> was not really digested.
However, it is important to keep the balance between social rights and budget.

Problems with the ES:
Lack of legality -> Member States (MSs) opted for stretching the legislative basis, stipulating intergovernmental agreements -> the use of international treaty might jeopardise the consistency of the European law framework.

Conclusions:
A lot of conflict between the European law and the ECJ
- fragmentation between economic and monetary politics
- perception of the EU as a neoliberal and undemocratic institution -> might result from the lack of legal clarity

In Italy there is a big difference between the regions -> some regions are trying to acquire more autonomy form the central states adding towards fragmentation criticism on the EU that they cannot solve this problem and also that the CEEs are not bind to the rule.

Questions from the audience

a) Control for interaction among members state and structural factors for the European semester (markets, reputation)?
b) Francesco Felici: Control for different conditions of ministerial communication and how Italy faces the ESR in comparison to other MS -> offers a dialogue to all the scholars on the panel?
c) Future of the European Semester?

David Bockhorst (University of Amsterdam – Answer)

The legitimation of the argument is also a strong factor in negotiating the implementation of CSRs.

Day 2; 9:00 - 10:30; Session 3: Implementing and Enforcing CSRs under the European Semester (ENGLISH)

Jörg Haas (Hertie School of Governance, Berlin): "Economic Policy Coordination in the euro area: Do reform characteristics drive implementation under the European Semester?"

Country Specific Recommendations - Why some are implemented and others are ignored?

Interest of the paper: Compatibility of Government ideology and policy direction of the CSRs

Variables:

- Dependent variable: Reform Implementation and assessment of reform progress, special on policy direction and government ideology.
- Independent variable: Policy direction (how do they favour state intervention).

Method:
Logistic regression model.
Explanatory variables: Interaction between government ideology and CSR policy direction, available sanctions, salience of policy area, economic pressure, administrative effectiveness.

Results:
Left-wing government - 30% probability of implementation.
Right-wing - 72% probability of implementation.
When the CSR recommend less state intervention then there is a significant difference between left-wing and right-wing governments. No difference when there is a recommendation for more intervention -> why is that? (Question to the audience).
Effect is robust against different qualifications.

Conclusions:
Semester is a political and not only a technical process.
Relationship between government ideology and policy direction is only observable, if a CSR recommends more intervention.
Further research: expand data to all fiscal CSRs, case studies needed.

Reinout van der Veer (University of Rotterdam): "Enforcing the unenforceable: politicisation and the EU's stability and growth pact"

Questions:
How does politicisation affect the enforcement of the ES by the EC?

Method:
Mixed method on the corrective arm of the SGP: Quantitative study on implementation of CSRs depicting the reputational environment of the EC.

Theoretical model:
Politicisation is only effective, if the CSR is kind of ambiguous in terms of its enforcement.
Cases: UK 2008, Finland 2010; 2015, Italy 2018

The Italian Case:
In Italy there was politicisation of the EU visible in 2018.
Case of the Italy intentionally overstepping the fiscal rules which are enforced by the EC.
Commission broke a deal with Italy and did not open the procedure.
The European Commission accepted to delay the EDP.

Conclusions:
Politicisation and lower enforcement feed into each other (feedback effect).
How difficult is for the EC - it is impossible to pleasure everyone.

Camilla Mariotto (University of Innsbruck): "Implementing the EU economic rules: member states' compliance with the country-specific recommendations"

Research interest:
Implementation of the CSRs.

Theoretical model:
2 stage strategic model for implementation: position of the Commission and member state resistance.
Utility function about each of the possible cases.
Resistance: don't comply with the CSR. Member States want to implement their own reform.
Theoretical model also includes a "partially resist" option.
Possible outcomes - status quo (no action of the Commission), compliance (costs lower than the conflict), no compliance (costs are higher than the conflict).

Method:
- Two dependent variables: Does the EC issue a CSR? Does the MS comply?
Explanatory variable for the first DV: the College of the Commission, Risk of indebtness, Economic distress, ideological orientation, public support, elections

Results: Very preliminary

Discussant - Michele Chang (College of Europe)

Innovative papers in the topics but especially in the models.
Jörg's and Camilla's paper speak to each other very much.

To Jörg Haas:
Broader view of the view, not only CSR.
What difference do these sanctions make? Possible result: sanctions are not credible.
Answer to his question: Interactive effect as partisanship and the CSR.

To Reinout van der Veer:
Be more explicit about the political commission.
How would you prioritise different environment?
How did the Commission's reputation evolve?
When is it then the Commission behaves politically and technically?

To Camilla Mariotto:
What broader literature are you addressing?
What is the value added of the strategic model?
Political business cycle literature could be addressed.

Discussant - Paul Schure (University of Victoria)
Theoretical picture

Supply side - Is the CSR issued and what does it look like?
Demand side - to what degree are the CSRs implemented.

To Jörg Haas:
Demand side paper.
Issues:
CSRs are always generated by a supplier -> you cannot exclude the incentives playing a role here
country specific factors for issuing CSRs

Answer to Jörg's question on the irritating results:
Place the figure rather above each other, CSRs are only implemented if it is within the preference of the government anyway.

To Reinout van der Veer:
Bid of a mix between supply and demand side, but more supply side.
Empirical analysis is appropriate considering that there is a small sample.
Sample selection is a weakness -> Commission power is not fixed over the cases.

To Camilla Mariotto:
Model - purely about selection (supply side); however, the empirical is about the demand side.
Disconnection between the analysis and the model.

Question from the audience - Dimitri Lorenzani (European Commission)

Jorg - right-wing increases the social expenditure as the recent Italian case (they increase the pensions without EC recommendation).
Left-wing Greece – they didn't want to introduce minimum wage against EC and IMF recommendations.

Question from the audience - Roberto Tamborino (University of Trente)

Is anyone investing whether the CSR are right?
What is the record of countries that have followed the CSR?

Key word – politicisation.
Economic policy or political economy - wrong meaning of this term?
Technical rules without political? We cannot have this.

Question from the audience - Lorenzo Codogno (LSE)
Tricky classification about left and right - parties somewhere in the middle, some are right in some policies and from left in other.
Financial markets - missing on papers - not only a discussion between the Commission and countries.

Question from the audience - Mark Hallerberg (Hertie School of Governance)
- Selection effects: Only choose the cases because they became big, but they should also take into account why they became big.

Jorg Haas (Hertie School of Governance – Answer)
No evidence for Dimitri argument.
checked whether left governments receive left recommendations and the other way around, but it's not the case.

Reinout van de Veer (University of Rotterdam – Answer)
Legitimisation of political decisions by technical analysis.
CSRs do not necessarily have a good effect on countries.

Camilla Mariotto (University of Innsbruck – Answer)
Connect better the model and empirical parts - still on working on it.

Day 2; 11:00 - 12.45; Session 4: Roundtable - The European Semester in Practice in Italy and Its Social Implications (ENGLISH)

(Presentation - 10-12 minutes and comments (2/3 maximum), answer 5 minutes per speaker)

Pasquale Lucio Scandizzo (University of Rome Tor Vergata)

Brief presentation - several assessments recently made on past 2 years - multilateral institutions and European semester – his own opinion on that.

What are the problems related with the ES?

1st Problem: The rationale of the CSRs

Purpose of the ES: attempt to promote coordination through soft advice and consent.
Not working well – too little ownership on the side of the member states- delicate questions of governance, reputation and cognitive dissonance between the Commission and the MS.
Recommendations not widely shared by the MS.
They often reflect hard line ideas - political economy - budget and fiscal policies.

Recent assessments:
Recommendations reflect a certain narrative of the EU developed during the crisis.
Recommendations are often irrelevant for macro-financial imbalances.

2nd Problem: policy content is not clear (whether it is a convergence program or avoiding simply discrepancies).

Risk assessment of the International Monetary Fund (IMF): semantic analysis is quite similar; the language is very similar (more soften the EC).
Financial sector - recommendations appear to be much less effective than the IMF recommendations in flagging out essential problems.

Another general characteristic: recommendations language seems to respond to the narrative of the EU (5 up to 10 years). Emphasise the vision of winners/losers, North/South.

The objectives of the CSRs:
1. Avoid the "coordination failure";
2. Ensure long term sustainability of budgetary policies;
3. Eliminate national and aggregate disequilibria that threaten to become contributions to "global imbalances".

The role of structural reforms: not a clear consensus on ideas with regard to economic governance - The concept of coordination at the EU level should be elaborated more convincingly in terms of diversification, complementarity and competitiveness of policies across member states.

Problems with goals: They don't have clear priorities and mutual consistency: "ensuring sound public finance", "preventing excessive macroeconomic imbalances", "supporting structural reforms to create more jobs and growth and boosting investment" - no general consensus. Difficult to evaluate them in terms of conception and implementation.

Two sides of coordination policies: Coordination policies are of two distinct types: (1) a common policy for growth and economic development, (2) coordination of cyclical policies in response to asymmetric shocks.
The two sets of coordination policies are naturally related to each other, but also conceptually and operationally distinct.

Contradiction: Commission acts as a "responsive regulator" – not a government – but the ambition of becoming a government is there.
Ambitions that are not fulfilled. No direct fiscal power.

Italy:
Special problem of coordination.
3 problems: lack of institution capable of producing and planning consensus, no clear economic or social solutions in sight, failing positive rights -> social inequalities

Conclusions:
The danger of lack of coordination.
Difficulties in addressing EU structural imbalances of social and economic development by the ES.
Inability of CSRs to undertake common economic policies at a sufficient large scale
CSRs reflect the danger of a dichotomisation dividing Europe in two groups of over- and underperformers, increasingly serious conflict.

Enrico Marelli (University of Brescia)

The European Semester in practise in Italy and its social implications.

Main sections: examples of CSRs for Italy and how the Italian replied, Italian failures, link between economic reforms.

1st recommendation:
- Reduction of government expenditure and debt ratio. Reply (NADEF) - no engagement; OK - public finance equilibrium but fiscal space is needed for economic growth.
- Fiscal policy: shift taxation away from labour and fight tax evasion -> reduced fiscal policy, partial reduction of the taxes on labour but increase of many “micro taxes”; and better fight to tax evasion.
- Social issues - Council says past pension reforms and create space for other social and growth-enhancing spending - no answer.

2nd recommendation:
Integration of labour market, social policies and educational outcomes.
Italy’s answer (NADEF reply): Generic statements about the labour market. Continuation of “reedito di cittadinanza”; conventional declarations, school infrastructures.

3rd recommendation:
- Focus investment-related economic policy on research and innovation, and the quality of infrastructure, taking into account regional disparities.
- Improve the effectiveness of public administration.
- Address restrictions to competition.

Italy’s answer (NADEF reply): Investments into infrastructure and effectiveness of public administration. Investments in the South and structural funds, public administration. Discussion about competitiveness of firms and need to support exporters.

4th recommendation:
EC asked for the reduce of the length of civil trials and to fight against corruption.
Italy’s answer (NADEF reply): Announced reforms of civil and criminal justice and mentioned some results with the National Authority Anti-Corruption.

5th recommendation:
Bank balance sheet restructuring and Improve non-bank financing for smaller and innovative firms.

Italy's answer (NADEF reply): results already achieved, non-performing loans, and EIB loans, in order to fight foster bank balance sheet restructuring.

Where Italy failed:
Generic answers.
Low credibility financial aspect and social aspects (pension, corruption).
Political instability and other diseases -> difficulty in fighting tax evasion, corruption reforming the pension system improving efficiency of the Public Administration.
Difficult to stand for the fiscal rules -> Since 2013 Italian deficit is below 3%. In the recent years Italy always had a primary surplus.

However…
Reduction debt ratio is almost impossible without economic growth.
Krugman's self-defeating austerity.

What reforms do we need?
Short run: - More expansionary macroeconomic and fiscal policies -> more fight against unemployment and poverty-> to increase aggregate demand, in particular internal demand, investments
Long run: - reform the institutions – the EMU is not yet an economic union.

Two solutions:
1) Grand European Investment Plan
2) Adoption of a Golden rule for investments at the national level

Institutional reforms:
Eurozone's budget, for both crisis-management and stabilisation purposes; EU Finance Minister
Partial mutualisation of national public debts (Eurobonds).
New mandate for the ECB, including employment and growth objectives.
Now there is no political consensus, but a "small steps" approach can be followed.

Social problems:
Among the all indicators, the biggest failure is the poverty (only 3M less people since 2008) - poverty is relatively high and only decreasing slowly (22,4% of EU population).
Link between short-run policies and long-run institutional reforms is necessary: improving social and economic conditions to "more Europe".

Antonia Carparelli (European Commission Delegation, Rome)

The European Semester in Italy: a tale of a country under "special surveillance"

Insider: over 6 years the European Semester Officer: 2011 the EC decided to appoint one economist in each capital -> was also asked to be part of the team within the Financial Minister.

Italy is under special surveillance. Very low economic growth and inflation (Italy on the edge of a procedure).
The fiscal dimension has crowded out all the other dimensions of the Semester.

In the press CSRs are hardly mentioned.
ES has been perceived as a judicial process – Brussels judging the MS – biased communication.
Technocratic process (perception).
Stakeholders have questioned the political consistency - ES adverbial process.

Starting phase 2011-2013: strong commitment
Monti government - big effort - create structures to support the semester - parliament involved.
Italy was one of the most enthusiastic countries (comparing with other countries and colleagues)
Monti government - informing the parliament

Distancing phase 2014-2017:
More tension between Rome and Brussels expressed within the Juncker plan.

Re-balancing phase 2017-2019:
EC restructured the ES, especially within regard to social politics.
New structures with support for reforms to respond to the need of the countries.
Put the other stakeholders in the equation - cooperation between national and European actors.
Hope of the revival of the European Semester - cohesion policy.

Conclusions:

- Transformative potential of the ES has been overshadowed by the dominant budgetary surveillance.
- The effectiveness of the Semester depends very much on the commitment of the government and its willingness to implement the CSRs.

3 main big themes: Europe 2020 strategy, MIP - serious process, Eurozone recommendation.

Broadened the range of actors involved in the process.
Evolution and re-balancing of the Semester is highly likely to continue and even intensify in the coming years.

BICC – budgetary tool:
Linked with the semester - exercise of planning rather than surveillance.
Most promising part -> the BIIC -> helps to approach the semester as something what also is reflected in the national reality

Italy was going quite far. Hope: through these changes - revitalisation of capacity building.

The Semester has been a highly evolutionary process -> continue under VdL.
Several innovations which will change of the Semester. Link with cohesion funds.

Nicoletta Teodosi (European Anti-Poverty Network (EAPN) Italy)

The EAPN is present in 32 countries in Europe.

9th year of Europe 2020 strategy.
2nd year of the implementation of the Social Pillar.

Some questions about European 2020 strategy:

1. Is the fact that people are experiencing poverty reflected within EU policies?
2. Can we, Anti-Poverty Networks in Europe and Italy (EAPN), be satisfied with a more Social incoming semester?
3. Is growth a benefit to all citizens, including PEP?
4. How much progress has been achieved to reduce the risk of poverty?
5. Is the Civil Society recognised as a key partner to improve ownership toward the EU?

<u>1st</u>: NO
Focus on employment but this isn't enough by itself to reduce poverty.
Anti-poverty strategy focused on active inclusion.
We need investment in childcare, education, social housing and public health care.
Poverty in Europe from 2008 to 2018: no substantive progress: we are still over the 21% benchmark, only reduced by 2%.
Since 2008, poverty didn't decrease substantially.

Italy: what happens?
- Extreme poverty: 7%
- Relative poverty: 8,4%
- 1.8 million households are under extreme poverty
- 46,7% of PEP living in the South (Poverty Experienced People)

Who are the poorest people?
Migrant families, youth emigration, paging population, single parents, breadwinner women.

<u>2nd</u>: NOT AT ALL

The dialogue with PEP and Anti-Poverty organisations is weak at national level and especially weak at regional, local, and national level (Parliament firstly).

<u>3rd</u>: Not really
Growth does not really work for the PEPs

<u>4th</u>:
In Europe:
A stronger focus on social priorities in the Semester has been developed.
Stronger focus on poverty and inequality.
However, the levels of poverty in Europe are unacceptable.

In Italy:
The focus has been too much on the high public debt, fiscal balance, and so on
take into account the high inequality in Italy.

5th:
For the first time, the 2019 European Semester recognised the Civil Society as a key partner (Civil Dialogue) -> positive step forward.

Conclusion:
- EC is unlikely to achieve the goal on poverty within the Europe 2020 strategy.

Patrik Vesan (University of Valle d'Aosta)

2 main parts: general overview on the development of social dimensions of the European since 2011; Italian case.

Several ways to study the social dimension of the Semester: looking to the socialisation content. Looking to the procedurals and involvement of more social actors.

Several scholars stressed that European Semester changed.

The attention to social issues has increase across the different cycles (last) of the ES.

Pay attention to the final output recommendations: social oriented recommendations - Drop since 2014 but increase during the last years.
Categories protection of social risks (unemployment, risks), social retrenchment, social investment prescription (investing human capital formation)

The share of social retrenchment decreased. Social protection increased. Social investment remained stable.

Italian case:
Social Investment, Social protection, and social retrenchment (these two last variables equally share and the first the highest share).

2 final observations:
Missing issues - pension (they spoke about recalibration) and health policy, medical support.

Open questions:
What is the level of policy coherence and sustainability between socially oriented CSRs and fiscally oriented CSRs?
What the main the instruments to reinforce this policy coherence?

Questions from the audience - Dimitri Lorenzani (European Commission)

Fight over priorities within CSRs - Great relevance of poverty topics.
EC is doing its best to move to a more social ES.

Careful: Krugman vs Blanchard
Oppose to self-defeating austerity - > where is the right balance?

Top-down approach - dialogue Country and Commission

Intensive interaction between the EC and the MS
Fully consistence of the Commission.

Questions from the audience - Paul Schure (University of Victoria)
Nicoletta could have a broader perspective: still very critical about the European Union and the European Semester in particular.
The ES is a big ally in fighting poverty -> two level game.

Questions from the audience - Jorg Haas (Hertie School of Governance)
Where does the ES reinforce stereotypes?
Germany is a country with good reputation however they still receive recommendations in weak points.

Specifically, to Patrick Vesan: How do you draw the line between social and fiscal CSRs?

Pasquale Lucio Scandizzo (University of Rome – Answer)

Need for a more productive dialogue.
Dynamics: concentration of recommendations - difficult to follow. They don't help the countries in the internal politics - Depending on the topics, namely social aspects.

Institutional and economic development does not look benevolent in the moment.
Concentration of recommendations to those who are not behaving and they are difficult to follow
ES does not work.

Enrico Marelli (University of Brescia – Answer)

Expansion of fiscal contraction - IMF 10 years ago alert for the support of fiscal support.
Public investment is shrinking even though it is useful for economic growth.

Antonia Carparelli (European Commission Delegation – Answer)

The Semester is an imperfect instrument.
Not optimal fiscal stance.
Potential incoherence between social and fiscal CSRs – Italy is a special case.

Semester has influenced in certain issues Italy. Successful: regional level (cohesion policy).
The semester has influenced a lot in poverty -> is going to increase when the convergence link is enforced.
More credibility to the pillar of social rights.

Nicoletta Teodosi (European Anti-Poverty Network – Answer)

The Semester is an economic tool but doesn't support social society.
The Semester doesn't reduce poverty.
The Semester maintains the civil dialogue outside.

Patrick Vesan (University of Valle d'Aosta – Answer)
Involvement of the National Parliament is reduced and limited.

Level of cooperation between social partners and national government is limited
The cooperation between the EC and social partners is considered very good

Amy Verdun (University of Leiden and University of Victoria)
Asks the speakers to perhaps write a little essay (2000/3000 words) about their contribution to this conference.

Marcello Signorelli (University of Perugia)
Remember that we are in a global perspective.
Political way is correlated to economy.

Day 2; 12:45-13:00: Book presentation by Francisco Torres: The political economy of Adjustment throughout and beyond the Eurozone crisis – What have we learned?

Francesco Torres (Catholic Univrsity of Portugal)

2 workshops in Bruges.
Paul Schure - critical view on authority.
Look of 5 countries and take attention to the response of them.

Portugal - didn't aggravate income inequality. It was worst before crisis and after that improved.

EMU doesn't provide a single regime to the countries.

Day 2; 14:30 - 16:30; Session 5: Roundtable - Benefits, Implications and Critical Aspects of the European Semester with a Specific View to Italy: Are CSR Well Received?

Pasquale Tridico (President INPS – National Social Security Institute, University of Rome)

Country Specific Report February 2019 - challenge for Italian case -> social policies remain poorly implemented.

Past years - labour market experienced many reforms within the last 10 years;
Past months – increase of permanent contracts and decrease of temporary contracts - improve quality of jobs.
Italy was often asked to liberalise labour market regulations -> Speaker is very much against this approach.

Another issue: minimum wage - to act against poverty - Italy is one of the few Organisation for Economic Co-operation and Development (OECD) country without a 'legal' minimum wage - recommendation was to reduce in-work poverty.

In the last decade the collective bargaining system has become weaker -> high non-compliance; increasing number of pirate contracts.
Around 15% of working contracts below 9€ per hour -> issue needs to be addressed.
Issue of trade unions and their negotiation power also needs to be addressed.

Gini coefficient has been reduced in the recent years – 1.5

Income support scheme - fight against poverty and inequality > Italy was one of the last countries to develop such a scheme despite poverty and great recession.
Two most important reforms are "Reditto di inclusion" (Rel) and "Reddito di Cittadinaza" (RdC).
NPC monitors beneficiaries -> reforms get a greater impact.

Lorenzo Codogno (London School of Economics (LSE))

4 points:
- Policy making - more and more difficult
- Debate between politicians and academics
- One size fit all
- Balance between supply and demand side

<u>1st point</u>: Conditions for policymaking.
Today's world - politicians try to get the most attraction. Top down approach - they approach the issues which are most attractive.

He is pretty disappointed.

Risks: populism, ultra-technocratic approach.

<u>2nd point</u>: Debate between academics, policy-takers, and public debate.
Full ownership in the country for any reform

<u>3rd point</u>: One size fit all – not all countries are the same - responsibility at the local level.
Countries should decide as they are still sovereign.
Space for experimentation.
But at the same time, coordination.

<u>4th point</u>: Balance between demand and supply side.
You cannot have a good process without a proper balance.
You need to have a positive perception among the citizens.

Roberto Tamborino (University of Trente)

Something needs to be done - people have this idea.
Supranational innovations - people don't see this important side.
Reforms are stalemate

Is there a Game changer? None of the proposals has political support. General dissatisfaction.

Cleavage North/South, Creditors/debtors…. - large divergence.
There is a mistrust -> fixing the Euro must go beyond the economics.
New common institutions are necessary.

<u>For the future</u>:
It is important to gain political support.
Transparency.
Delimited scopes.
General principles as guidelines - control and discipline.
Decision marking mechanism.
Sovereignty share.

<u>Recommendations</u>:

- Forget about legally stronger mechanism -> useful recommendations on policies are more effective.
- Think about enforceability, ownership of the reforms.

<u>Structural reforms</u>:

- How much should we converge?
- Convergence on what?
- What can be accomplished?

Benedicta Marzinotto (University of Udine)

Academic discussion is usually concerned about two aspects with the European Semester: effectiveness and legitimacy.

<u>Effectiveness</u>:
Policy dialogue between the EC and MS is immense -> Promote best practises and dialogue!
The process isn't static - we have changed - for the better.

Substantial progress on compliance is not so promising -> only 6%.
Not much compliance and the data is even overstating -> commission does provide recommendations which are already on the table.
Is it still an economic policy coordination instrument?
Spill overs are low.

Rather than coordination instrument the ES is now an agent of change-> more legitimacy is necessary for that.
The question: agent of change in individual countries, is it legitimate? (Punishing countries that don't obey).
Much more political decision.

<u>The Italian case</u>:
Focus: fiscal recommendations.
Effectiveness: mixed results.

Ex ante results are not bad. The previous government was an exception on that -> could become a problem for the next government.
Ex-post compliance-> Problematic because rules are not rigid.
Legitimation.
Italy's parliament is discussing the reform programme in plenary.

Fabio Masini (University of Rome Tre)

Lost consensus on European integration process.

Assumption: tackle 2 policy failures.

Useless to talk about small steps of improvement.
What we need: change the frame of economic policy making and increase the European budget.
We need to provide subsidies - spill over effect.
We need to have revenues - national contributions based on resources.

<u>European Semester</u>: most effective tool of economic process.
Increasing involvement and learning process of and by the stakeholders - worked rather well.
Only problem: not all recommendations are applicable - expansionary fiscal policy is sometimes necessary.

In Italy there was a narrative of fight between the Italian government and Brussels.

<u>Suggestion</u>: have look on the five presidents.

Roberto Di Quirico (University of Cagliari)
2 main questions to answer:
- Does ES reduce economic imbalances?
- Does ES conflict with the national democracy? NO

The idea of the European Union and European economic governance as something incremental for national democracy - not true.

Quantitative approach to democracy - how many issues can be decided with the democratic ways?
European Union reduced this aspect.

More modern approaches to democracy: What is the essence of democracy? The mechanism to transmit the will of the people to the governance.

The government ask for what the people ask for?

Not necessarily: Considering that the ES was actually able to reinforce democracy.

Question from the audience - Dimitri Lorenzani (European Commission)

Is there a failure of the institutions or in the relations?

Question from the audience - Nicoletta Teodosi (European Anti-Poverty Network)
Is there an opportunity to other stakeholders can participate on the European Semester?

Question from the audience - Marcello Signorelli (University of Perugia)
Opinion on the European Stability Mechanism?

Pasquale Tridico (President INPS – National Social Security Institute, University of Rome - Answer)

Very high level of inactive people in the country.
Rigidity has not created unemployment.
Strong increase of short-term work and temporary contracts.
Law improves the quality of work but doesn't create work.

Social inclusion is necessary for activating people for the labour market.
Before people are included into labour market, they need to be included on the society.

Lorenzo Codogno (LSE – Answer)

EU massive economic response in the beginning.
Nowadays, politics react to crisis.

We are stuck - very different positions and a lot of working groups.

Alternative: countries cede in some points to receive in other.

Missed opportunities: BICC - if we look how it was designed.

Roberto Tamborino (University of Trente - Answer)

Fear: prisoner dilemma - people don't want to cooperate when they fear that others would not cooperate.

We are not prepared to a shock (not only economics).

Benedicta Marzinotto (University of Udine - Answer)

External push from outside.

Fabio Masini (University of Rome Tre - Answer)

Lost momentum for reform in 2010.

ESM: 2 aspects: political and the perspectives of the reforms.
No comment on his own opinion.
Italy is not in the position to veto any reforms.

Question from the audience - Pompeo Della Posta (University of Pisa)

Is practicable the impact of the ES on his real work?

Question from the audience - Pasquale Lucio Scandizzo (University of Rome)

Sceptical regarding to the construction of the European Semester. Implementation of social reform - reduce poverty.

Question from the audience - Alexander Schilin (Leiden University)

What kind of institutions should be established for a better governance of the euro area?

Question from the audience - Paul Schure (University of Victoria)

How can the ES be reformed? Citizens need to be on board.

Roberto Di Quírico (University of Cagliari – Answer)

Create an industrial policy.
Create the conditions for coordinate policies and after search for a wider involvement of people.

Fabio Masini (University of Rome Tre – Answer)

How to involve civil societies in the process of reform?
Eurozone budget - budget reform necessary.

Macron - leader for the European sovereignty?

We need another crisis in order to have initiative.
Problem is to find a crisis.

Benedicta Marzinotto (University of Udine - Answer)

When do we need economic policy coordination? Question to answer.
Assuming that we need: fiscal stances of the member states need to talk to each other

Roberto Tamborino (University of Trente - Answer)

Two different things: Structural policies and macroeconomic stabilisation.

<u>Macroeconomic stabilisation</u>:
Needs to be a priority.
Revise fiscal rules.
How to stabilise rules.
Financial stops (ESM, banking union).
Common Budget.
Common investments.
Fix the institutional loneliness of the European Central Bank (ECB).

Have a look in what is written in the papers.

Lorenzo Codogno (LSE – Answer)

There is a need to do more with regard to fiscal integration – postponement of reforms has associated costs.
Monetary union is a very fractious construction.
The quicker we go into this process of reforming, the better.
Because then now we are less vulnerable than we would be in a crisis.
There is no guarantee that the EU can survive another crisis.

Pasquale Tridico (President INPS – National Social Security Institute, University of Rome - Answer)

European climate for investment should be pursued.
We are even not able to establish a European unemployment scheme.

Day 2; 17:00 - 20:00; Session 6: Il futuro del Semestre europeo e il dial! ogo fra la Commissione europea e le autorità nazionali (ITALIANO)

Marco Buti (Director General DG ECFIN – The presentation was written in English)

The European Semester so far

Genesis of the European Semester

Before the crisis: ex-post assessment and focus on fiscal policy and after crisis ex-ante surveillance, broader scope of analysis (macroeconomic imbalances and European pillar of social rights.

Today's design: the year is divided in 2 parts: first, structural priorities and after that to have a look in a national point of view.

Achievements:

- Integrated surveillance with focus on imbalances (public finances)
- Guided member states through the crisis years
- Higher visibility at the national level
- Helps coordination and alignment of national reforms to EU policies
- More attention to synergies and trade-offs among policy areas

Challenges:

- Insufficient focus on redistributions and stabilisation of government policies
- Challenging to cover the wide variety of economic challenges (SDGs) whole maintaining a clear focus and to identify trade-offs
- Declining political traction as economy improved

- Focus on formal CSR drafting instead of policy dialogue with member states

<u>"Musgrave plus" functions of government</u>
Allocative function = efficiency (in the resources allocation)
Distributive function = equity
Stabilisation of the economic system
Added to Sustainability = economic, ecologic, inter-generational

<u>A new narrative necessary</u>
Productivity, Sustainability, Equality and Stability.

Productivity - efficient and competitive markets, conductive business environment, research and innovation, digitalisation, strong industrial base
Sustainability - Green investment, resource efficiency, circular economy, socially fair transition
Stability - Sound public finances, stable financial sector, preventing domestic and external imbalances, diversified economy
Equality – Investments in people and skills, decent living standards for all, future of work, upward convergence

<u>Stronger policy dialogue</u>
Stronger sense of ownership for member states of economic policy decisions
Increase reform ownership
BICC - NRPs as forward looking documents
CSRs highlighting next steps in the sequential reform process
Stronger role for the European Parliament

Greater focus on MS's own policy plans |(NRPs) + strengthened multi-annual dimension = more room for tailored policy

Annual country reports would focus on monitoring implementation of medium-term reform strategy.
Country-specific recommendations would highlight next steps in the reform process, confirming government plans or modifying/adding to them.

<u>Conclusions</u>
ES works introduced elements of ex-ante assessment and broadened the scope of surveillance
Today ES needs to evolve beyond being an instrument of crisis management:

- Strengthen dialogue with national policy makers to increase reform ownership at national level
- Give more prominence to issues such as inclusiveness, stabilisation and sustainability, without losing the focus on efficiency/growth
- Integration of the Sustainable Development Goals will be a new challenge