

**The Influence of the European Semester on
Employment Policies in Central and Eastern
Europe:
Mechanisms, Conditions and Policy Change**

By

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Submitted to
Central European University
Doctoral School of Political Science, Public Policy and International Relations

In partial fulfilment of the requirements for the degree of Doctor of Philosophy in Political Science

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Budapest, Hungary
2019

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Signature

ACKNOWLEDGEMENTS

I started writing the acknowledgements already 3 months before submission. I thought it would make things easier. Wouldn't it be tragic to have them written, but fail to finish the manuscript? Exactly. I couldn't let that happen. And here we are now.

In all honesty, this acknowledgement is written in homage to all the places that I've been to with this PhD thesis in my backpack over the last 4 years, and to all the imaginable and unimaginable places that I've been writing it in. From my bed, couch, dining table, dozens of airports, airplanes, trains, toilettes, buses, numerous libraries, parks, restaurants, cafés, offices, even parking lots, to different continents, time-zones, spaces and probably dimensions. I doubt there is a place a human mind can think of, to where my laptop did not accompany me and where I did not write at least a sentence of this PhD. For a while this seemed fun. Then it became really depressing. By the end, it was just morbid. In any case, all of this would not have been possible without my dear nerves of steel which led me to the end of this process more or less successfully, but certainly not without some form of brain damage. Hopefully I shall recover.

Now seriously, a big shout-out to my supervisor and mentor, Professor Uwe Puetter, who definitely wasn't one of those supervisors that you avoid bumping into in the hallway or whom you recognize in desperate PhD life memes on the Internet. Quite the opposite. He was supportive, encouraging, sharp and on the point. And a true friend at last. I cannot thank him enough for all the excitement he showed for my work even when I wasn't as optimistic; for all the guiding pieces of advice he gave me which crucially defined the course of the thesis; for the flexibility and room for personal preferences he always left open; for all the academic opportunities he provided us with – to work in CEUR on a massive Horizon 2020 project and to experience the writing and publishing process in a prominent academic journal; and finally for the understanding and compassion during bad times. Thank you, Uwe, for guiding me through this stormy PhD weather.

This PhD thesis has also immensely benefitted from constructive feedback by two incredibly dedicated members of my supervisory panel, Ágnes Batory and Marie-Pierre Granger. It was a truly wonderful experience having you both in my supervisory panel. Your encouraging thoughts and reassuring words made me determined to go the extra mile. I am also thankful to Professor Jonathan Zeitlin, for showing genuine interest in and support for my work on the European semester, especially during the 2017 EUSA conference in Miami. His work was a big inspiration in writing this PhD thesis from the get-go.

I am hugely indebted to Anka and Andrija who were the masterminds behind the idea to enrol in the PhD programme at CEU. They were my companions along this journey, accompanying me during all the ups and downs in this process. Daniela and Marko, thank you for having my back when I needed to fully concentrate on PhD work. Thank you, Jakov, for pumping me up in the last months. Now it's your turn (Ajmo, mrale!). Adrienn, Gorana, Kriszta and Péter, thank you for being such benevolent colleagues! I'm also grateful to everyone else for their support in the process and encouragement to strive and get this project finally done.

This journey was a rough ride all the way through. Not simply because writing a PhD consumes a person like nothing else, but also for all the sacrifices and missed opportunities. This is a homage to you too, my life, in hope I can finally experience you now. Pretty please?

I would like to dedicate this PhD thesis to my wonderful wife Milica, whom I married during my write-up period. Thinking of soon spending some time off together in a remote and scenic place somewhere in coastal Scotland or alike, kept me ashore during the last months. You are truly my sunshine. This also goes to my late dad, who unfortunately never got to see me become a PhD. And to my mom, who never stopped asking (not at all discretely) when I was about to finish. And of course, my sister Marina. She is surely proud of her little brother.

Mario Munta

Budapest | Zagreb

October – December 2019

ABSTRACT

The European Union has a tradition of coordinating national employment policies. Since 2011, EU employment policy coordination is integrated into a new streamlined framework for policy coordination and monitoring – the European Semester. The Semester integrated three goals: to ensure sustainability of public finances, to prevent macroeconomic imbalances and to stimulate structural reforms (incl. employment). The purpose of this PhD thesis is to describe to what extent the Semester matters for national employment policy, and to explain through which mechanisms and under which conditions it influenced employment policy changes in Central and Eastern Europe.

The analytical framework extracts three potential mechanisms of Semester influence on policy change: external pressure, mutual learning and creative appropriation (usage of the Semester). Each mechanism is considered to be operational only if contributing factors are present. In contrast, inhibiting factors might block or diminish the Semester's influence through the specific pathway. For each mechanism, several structural and actor-centred factors are hypothesized. The framework observes three levels of policy change or the depth of Semester impact: parametric recalibration of the policy settings, introduction of new policy solutions and paradigmatic shifts.

This contribution resorts to contextualized process-tracing in order to track causal pathways and to control for alternative explanations of policy change and inertia/resistance. The empirical analysis rests on four country cases, Croatia, Hungary, Slovenia and Slovakia. They were chosen based on several selection criteria to represent regional diversity, which allows for a broader generalization to the region. The study takes a longitudinal perspective and covers the period between 2011 and 2018. Empirically, this study observes the degree of fit between EU preferences, exemplified by the yearly list of country-specific recommendations, and national policy responses to EU suggestions, as described within the National Reform Programmes, and traces the extent

to which policy change can be attributed to the influence of the Semester. Primary documents are used as an initial mapping device to locate individual policy items. They are complemented by 51 expert interviews conducted with Commission officials and desk officers, government officials, senior civil servants, EMCO members, social partners and NGO members.

The findings confirm the importance of external pressure within the Semester, especially in circumstances of high adaptational pressure. Yet, the study exposed the limitations of implicit conditionality as the level of recorded influence was limited. The Semester did not revert existing trajectories in labour market policies, nor was it able to cause radical shifts towards retrenchment or recalibration of employment policy. The contribution finds only limited evidence of policy change through mutual learning. Despite the institutional innovations and greater learning potential of Semester's institutional setup, the EMCO environment must be more 'learning-friendly', and political levels must engage more directly in policy deliberation and foster better ties with EMCO members to reap fruits from the Semester. The greatest impact was felt indirectly through creative appropriation. Governments extensively made strategic use of the Semester by selectively choosing EU stimuli which fit the domestic agenda, thus confirming the importance of domestic (policy) ownership of reform processes among political elites.

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LIST OF ABBREVIATIONS

AGS	Annual Growth Survey
ALMP	Active Labour Market Policy
AMR	Alert Mechanism Report
CEE	Central and Eastern Europe
CES	Croatian Employment Service
CSR	Country-specific Recommendation
CSWD	Commission Staff Working Document
DG ECFIN	Directorate-General for Economic and Financial Affairs
DG EMPL	Directorate-General for Employment, Social Affairs and Inclusion
ECB	European Central Bank
ECOFIN	Economic and Financial Affairs Council
EDP	Excessive Deficit Procedure
EES	European Employment Strategy
EIP	Excessive Imbalance Procedure
EMCO	Employment Committee
EMU	Economic and Monetary Union
ENPES	European Network of Public Employment Services
EPP	European People's Party
EPSCO	Employment, Social Policy, Health and Consumers Council
EPSR	European Pillar of Social Rights
ERM	Exchange Rate Mechanism
ESC	Economic and Social Council of Croatia
ESF	European Social Fund
ESIF	European Structural and Investment funds
ESO	European Semester Officer
ESS	Economic and Social Council of Slovenia
EU	European Union
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GES	Growth and Employment Strategy
IDR	In-Depth Review
IMF	International Monetary Fund

JAF	Joint Assessment Framework
JER	Joint Employment Report
LLL	Lifelong Learning
LTU	Long-term Unemployment
MIP	Macro-Economic Imbalance Procedure
MLP	Mutual Learning Programme
MTO	Medium-Term Objective
NAP	National Action Plan
NEET	Youth not in employment, education or training
NGO	Non-Governmental Organization
NRP	National Reform Programme
OECD	Organisation for Economic Co-operation and Development
OMC	Open Method of Coordination
PES	Public Employment Service
PWS	Public Works Scheme
QMV	Qualified Majority Voting
RQMV	Reversed Qualified Majority Voting
SECGEN	Secretariat-General of the European Commission
SGP	Stability and Growth Pact
SOR	Workplace training without commencing employment measure in Croatia
SPC	Social Protection Committee
SRSS	Structural Reform Support Service
TEU	Treaty on European Union
TFEU	Treaty on the Functioning of the European Union
VET	Vocational Education and Training
YEI	Youth Employment Initiative

1 INTRODUCTION

1.1 Studying the influence of the European semester on policy change

1.1.1 Context

With the advancements of the Maastricht Treaty of 1992 and the creation of an Economic and Monetary Union (EMU) in the European Union (EU), EU Member States' instruments to tackle crises and stimulate growth became greatly reduced. Rules of the EU's Stability and Growth Pact (SGP) to keep deficit below 3 percent have constrained the domestic fiscal levers. Countries which adopted the euro as a currency (eurozone) have additionally surrendered sovereignty over monetary policy to the supranational European Central Bank (ECB) and with it the right to control inflation and exchange rates. This left EU countries with only one adjustment mechanism – internal devaluation of employment and social policies through welfare cuts, activation of unemployed, wage decentralization and tighter link between wage increases and productivity, deregulation of employment protection, lowering of labour taxes and workers' adaptability (Scharpf, 2002; Andor, 2017; Dølvik and Martin, 2017).

The financial crisis of 2008 spilt over from the US mortgage market into the highly exposed EU banking system and eventually triggered an economic and sovereign debt crisis in the EU. Drops in trade demand and the collapse of banking and housing markets in some Member States saw unemployment figures across Europe jump to record high levels (Dølvik and Martin, 2017). Those experiencing greatest GDP declines were particularly affected (Spain, Italy), as well as Southern, and Central and Eastern European (CEE) countries which already struggled with high structural unemployment amongst youth and long-term unemployed. The crisis had only accentuated tendencies of internal devaluation. The more so given the incomplete nature of the EMU as the EU lacked instruments of fiscal stabilization and redistribution in times of crisis (Martin, 2017; Vandenbroucke, 2017).

At the same time, while the sovereign debt crisis can largely be attributed to the escalating banking crisis and banks' inadequate supervision and regulation and not to irresponsible public spending, the Greek experience of irresponsible fiscal spending and falsification of statistical data locked in a narrative that 'fiscal profligacy' in the European periphery was responsible for the euro-crisis (Blyth, 2014; see also: Degryse, 2012; Pisani-Ferry, 2014; Matthijs and Blyth, 2015). After an initial recognition of the need for fiscal stimuli to counter the crisis, it was the politics of austerity and fiscal consolidation that soon came to dominate the EU's strategic agenda. The prescribed medicine was said to crowd out the 'domestic social policy space' (Hemerijck, 2014: 149) and promoted retrenchment and deregulation (Scharpf, 2002; Hemerijck, 2014), based on the 'supply-side economics' assumption that labour market problems stemmed from poor work incentives, inadequate skills and lacking motivation of unemployed (Hemerijck, 2014: 151).

The EU's institutional response to the crisis was therefore, on the one hand, to restore credibility of EU economic governance by reinforcing existing EU fiscal rules and strengthening budgetary and macroeconomic surveillance of Member States (Matthijs and Blyth, 2015; Laffan and Schlosser, 2016). On the other hand, the grip over policies under exclusive competence of Member States was tightened through more integrated EU-level coordination and monitoring, most notably in the domain of policies which were considered 'adjustment variables' to restore competitiveness and growth (Delteil and Kirov, 2017: 8) – namely, employment and social policies.

1.1.2 Reformed EU economic governance and the purpose of this study

Besides other crisis resolution and fire-fighting mechanisms introduced at EU-level in the period between 2010-2012¹, reforms of EU economic governance focused on stricter enforcement of fiscal rules, on asserting control over national budgets, on intensifying surveillance, and on identifying, preventing and correcting macroeconomic imbalances. Most importantly, in 2011 the

¹ For instance, those aimed at regulating the banking sector and setting up a permanent financial rescue institution for eurozone Member States in need of loan assistance (see: Beukers et al., 2017).

coordination and surveillance of fiscal, budgetary, macroeconomic and structural policies was integrated into one common monitoring framework – the newly introduced annual process of policy coordination which is called the European Semester (hereafter: Semester) (Regulation (EU) No 1175/2011). The Semester forms a ‘hybrid system’ (Armstrong, 2012, 2013) in that it streamlines and induces interaction between activities of hard coordination processes as in the case of fiscal and macroeconomic policy, which are underpinned by hard enforcement mechanisms (potential sanctions), and soft coordination processes as in the case of employment policy, which rely on non-legislative and non-binding soft law instruments which cannot be legally enforced (Meyer et al., 2007: 14, de la Porte, 2017: 142). The task of achieving high employment and low unemployment is therefore in the hands of national governments but is supported and monitored by the Semester through commonly agreed targets, guidelines, indicators, benchmarks, recommendations and reporting.

The Semester works on a cyclical basis (see: Section 1.2.4) and provides for continuous monitoring of fiscal, macroeconomic, employment and social developments at aggregate and member state level. For Member States, country-specific recommendations (CSRs) and National Reform Programmes (NRP) are the procedural centrepieces and key outputs of the Semester cycle. CSRs are non-binding policy suggestions prepared by the European Commission (hereafter: Commission) and approved by the Council, whereas NRPs are national strategic documents in reaction to CSRs, which explain reform implementation efforts and alignment with EU guidelines and outline future policy intension. The Employment Committee (EMCO), an advisory committee to the Employment, Social Policy, Health and Consumer Affairs Council (EPSCO), brings together expert civil servants from all 28 Member States’ (labour) administrations and Commission representatives to discuss progress on CSRs. EMCO hosts different forms of peer reviews and forms the central place for multilateral surveillance of national employment policy commitments.

The purpose of this qualitative study is to describe and explain to what extent, how and under which conditions EU employment coordination in the context of the Semester influenced

changes in national employment policy in Central and Eastern Europe between 2011 and 2018. The study is based on four country cases (Croatia, Hungary, Slovenia, Slovakia) and uses contextualized process-tracing as the method of inquiry. It draws on document analysis and 51 expert interviews as sources. This contribution employs an expansive working definition of employment policy which denotes those public courses of action, decisions, rules, regulations, legislative and non-legislative acts which are enacted by the national government while not being subject to the EU's legislative authority in the sub-fields of labour taxation (social security contribution, income tax), unemployment benefits (coverage, eligibility, generosity), welfare benefits (in-work benefits, social assistance, activation requirements), active labour market policies (job-search assistance and counselling, training, direct job creation, employment subsidies, special schemes for women, youth, elderly, low skilled, disabled), employment protection (temporary, permanent contracts, dismissal), early retirement and active ageing, wage setting (minimum wage, public wage), working time regulation and labour immigration and mobility rules². Therefore, employment policy excludes EU labour law from the consideration of labour market policies, but encompasses cross-cutting themes in social, education and pension policies whenever they address the link to the labour market, for instance regarding labour market activation of social assistance recipients, the transition from school to work in education policy or retirement provisions and parallel work and retirement regulations regarding pension policy.

1.1.3 From the European Employment Strategy to the European Semester

The EU has applied three different policy-making modes in EU employment policy since the 1960s: the classical Community method³, law-making by collective agreement between European

² The classification of employment policy areas rests on the Commission's Labour Market Reform (LABREF) database (see: Turrini et al., 2015).

³ The classic Community method is the ordinary decision-making process in the EU in which the Commission initiates legislation, the European Parliament and the Council of Ministers negotiate the content, subsequently turn it into legally-binding decisions (EU law) by qualified majority voting and subject it to sanctioning mechanisms by the European Court of Justice (ECJ) in case of non-compliance by Member States. Under the Community method, the

social partners (trade unions and employers) and policy coordination in the European Employment Strategy (Rhodes, 2015; Barnard, 2014). The first two modes create binding legislation and aspire to set minimum standards and achieve baseline harmonization between Member States. The goal was to create a level playing field for market competition, to prevent a ‘race-to-the-bottom’ in social standards which would distort the internal market and to correct obvious market failures. Areas that were typically legislated on include workplace-related issues such as directives and regulations on workers’ health and safety, working and employment condition, working environment, working time, pregnancy and parental leave, rights to information, gender-based discrimination and equal pay⁴.

Policy coordination via the Open Method of Coordination (OMC) has emerged in the mid-1990s as an alternative process with the shift of attention away from setting minimum labour standards to creating jobs in the EU. The OMC was considered a new mode of governance which included voluntary multi-level coordination and the use of non-binding and flexible soft law with the purpose of defining common goals and deliberating policy solutions in areas of national competence (Scharpf, 2002; Scott and Trubek, 2002; Kohler-Koch and Rittberger, 2006: 36-7). As opposed to the concept of government, governance denotes ‘non-hierarchical forms of decision-making’ and typically implies cooperation between multiple levels of government and private actors in ‘bolster[ing] the problem-solving effectiveness of national policies’ (Kohler-Koch and Rittberger, 2006: 28, 31). The OMC was most evidently used in employment policy known under the name of – European Employment Strategy (EES). The EES received a Treaty basis in a special chapter of the Amsterdam Treaty of 1997 (Articles 145-50 TFEU) to “work towards developing a coordinated strategy for employment and particularly for promoting a skilled, trained and

EU passes regulations and directives. They reflect “heavy-handed” policy instruments aimed at ensuring top-down uniform application of rules (Freib et al., 2007: 4).

⁴ Issues related to wage setting, the right of association and rights to strike and introduce lockouts are excluded from EU's competencies (Article 153(5) TFEU).

adaptable workforce and labour markets responsive to economic change with a view to achieving the objectives defined in Article 31 of the Treaty on European Union” (Article 146, TFEU).

The purpose of the EES was to stimulate convergence towards high employment by setting common employment objectives and guidelines, but at the same time leaving to the national governments to decide how and through which policy means these objectives would be achieved. The EES created an iterative process which operated within the context of soft policy instruments such as guidelines, recommendations, targets, indicators (benchmarking), peer reviewing and other non-intrusive mechanisms. These are intended to spell out common goals, scrutinize national policy trends and action, and facilitate voluntary transfer of policies through deliberation and learning from successful examples.

Research on the OMC has, on the one hand, focused on its ‘theoretical capacity’ to achieve promoted policy goals at both EU and domestic level (institutional ‘adequacy’) and on the actual influence exerted by the OMC on national policies (‘impact’) (Vanhercke, 2010). Pessimists or defenders of hard law have argued that greater ‘legal enforceability’ is necessary if the EES was to have an effect on domestic policies (Scharpf, 2002; Watt, 2004; Rhodes, 2015). Some have entertained the idea that EU should set common standards, monitored through the Semester (Vandenbroucke, 2017) or introduce a supranational reinsurance mechanism for unemployment (Andor, 2017). From their perspective, soft coordination is not enough. On the other hand, optimists or defenders of soft law have appreciated the learning potential of the EES and the diffusion of ideas and discourses (Trubek and Trubek, 2005; de la Porte, 2017).

A vast body of literature has studied the impact of employment coordination (the EES) on domestic policy choices (Zeitlin and Pochet, 2005, Büchs, 2007; Heidenreich and Zeitlin, 2009; Barcevičius et al., 2014). To establish a relationship of influence is particularly challenging due to the non-binding nature of employment coordination. Commonly, the scholarship explored the learning potential of the EES and to what extent the soft instruments it employed, most notably different peer reviews organized by EMCO, were able to inspire employment policy change. This

interest came naturally as one of the purposes of the EES enshrined in Article 129 of the Amsterdam Treaty was to encourage initiatives ‘aimed at developing exchanges of information and best practices, providing comparative analysis and advice as well as promoting innovative approaches and evaluating experiences’ (Casey and Gold, 2005: 26).

When it comes to the mechanisms of influence in EES, the literature found only a weak link between EES and policy learning or instances of direct policy transfers (Mailand, 2008; Heidenreich and Bischoff, 2008; Copeland and ter Haar, 2013; Curry, 2016), however ideational influence through diffusion/dissemination of ideas and selective reinterpretation by domestic actors is widely acknowledged (Jacobsson and Viffel, 2007; Büchs, 2009; Hartlapp, 2009; de la Porte and Pochet, 2012). This literature also identified numerous, typically actor-centred and structural factors (see: Saurugger and Terpan, 2016) which curb the learning potential of the EES: lack of policy fit (Mailand, 2008); shortcomings of the OMC framework, such as the fact that deliberations were confined to a narrow circle of experts without involvement of political elites (Watt, 2004; Casey and Gold 2005; Heidenreich and Bischoff, 2008; Kröger, 2009) and that benchmarking and recommendations promoted competition and bargaining as opposed to learning (Kröger, 2009); and institutional diversity in legal, administrative, industrial and political structures (Hartlapp, 2009; Kröger, 2009).

Within the Semester, employment policy coordination became part of the broader Europe 2020 strategy, EU’s medium-term plan aimed at turning the EU into a ‘smart, sustainable and inclusive economy delivering high levels of employment, productivity and social cohesion’ (European Commission, 2010: 8). Europe 2020 supports employment through two Headline targets (75 percent employment rate among 20-64-year olds, 30 percent of completed tertiary education of 30-35-year olds), three guidelines and two flagship initiatives – Youth on the move, and Agenda for New Skills and Jobs (Rhodes 2015). The reporting and monitoring of all aspects of Europe 2020 were integrated into the Semester.

One strand of the literature soon identified the potential dangers of the new policy coordination framework for national social and employment policies. Such interpretations were based on the premise that eurocrisis law, incl. the Semester, were modelled on a ordoliberal/neoliberal worldview. The Semester would set up an institutional framework that promotes austerity for the purpose of fiscal sustainability, and deregulation of welfare and labour policies as means to restore growth and competitiveness (Schmidt, 2015: 94). What they observed as a consequence of a synchronized Semester was an ever-greater interference of budgetary, fiscal and macroeconomic procedures with areas of national competencies, particularly social and employment policy. These have established an asymmetric power relationship in favour of austerity both indirectly, by narrowing the fiscal space for autonomous welfare policies, and directly, when soft coordination processes are hardened through the absorption and linkage to more coercive country-specific recommendations of the Stability and Growth Pact and the Macroeconomic Imbalance Procedure (Armstrong, 2012; Degryse et al., 2013; de la Porte and Heins, 2014a, 2014b, 2016; Goetschly, 2014; Dehousse, 2015; Martínez-Yáñez, 2016). Since the inauguration of the Semester, another strand has noted the empowerment of EU social and employment actors and Semester's capacity to facilitate policy learning. Zeitlin and Vanhercke (2014: 13) describe this process as a:

'partial but progressive 'socialization' of the content and procedures of the Semester, in terms of an increasing emphasis on social objectives in the EU's priorities and Country-Specific Recommendations; an intensification of social monitoring, multilateral surveillance, and peer review; and an enhanced role for social and employment policy actors, especially the EU's Employment and Social Protection committees'. (see: Section 1.2.2)

Both perspectives, however, assume that the EU is penetrating deeper into national employment policy. As Vanhercke and Zeitlin (2015: 8) put it, the Semester 'has given the EU institutions a more visible and intrusive role than ever before in scrutinizing national economic, fiscal, and social policies'. Therefore, it is important to study more specifically how the EU affects

domestic policies. Yet, academic research on how this role manifests itself in Member States and what kind of impact the Semester actually achieves on the ground, as opposed to studies which are primarily interested in the characteristics of the governance architecture, is still limited to only a handful of studies. These analyse the Semester's influence on policy change (Pavolini et al., 2014; Bokhorst, 2017; Eihmanis, 2017; Munta, 2017; Louvaris Fasois, 2018; Di Mascio et al., 2019) while focusing on particular aspects of influence (external incentives, policy learning, usage of Europe, agenda setting).

1.1.4 Scope of the study and focus on Central and Eastern Europe

The empirical scope of studying the impact of the Semester on employment reforms will be limited to new Member States from Central and Eastern Europe which have joined the EU the latest (2004, 2007, 2013)⁵. Along with Southern Europe, labour markets in CEE have been hit hardest by the crisis. Despite apparent differences in their systems of welfare capitalism, post-transition reform trajectories in labour market policies and divergent systems of interest intermediation (Bohle and Greskovits, 2012), CEE countries share a number of traits as a separate region which makes them suitable for studying the Semester influence together.

Most of the research on the EU's influence in CEE focused on the region's compliance record with the EU's *Acquis Communautaire* (hard law). It concluded that conditionality *via* positive and negative rewards has generally been the most effective mechanism of EU rule adoption both in the pre- and post-accession period (Schimmelfennig and Sedelmeier, 2005; Grabbe, 2006; Toshkov, 2007, 2008; Epstein and Sedelmeier, 2009; Zhelyazkova et al., 2017). With respect to EU's *social acquis*, the picture is less optimistic. Several studies on the application of EU labour law⁶

⁵ EU Member States which will be considered part of the CEE region all share a communist/socialist past from which they transitioned in the early 1990s. Those include countries of the Višegrad group (Czechia, Hungary, Poland, Slovakia); Southeastern European countries – two of which were members of the former Eastern bloc (Bulgaria, Romania) and two members of former Yugoslavia (Croatia, Slovenia); and the Baltic states (Estonia, Latvia, Lithuania) (OECD, 2001, <https://stats.oecd.org/glossary/detail.asp?ID=303>, Accessed: 18 September 2019).

⁶ Regarding working conditions, workers' representation, health and safety, working time and equal treatment at work.

have come to the same conclusion that practical enforcement/application in these areas is lagging behind (Falkner and Treib, 2008; Falkner, 2010; Delteil and Kirov, 2017; Meardi, 2017). Typically, the transposition of labour law is firmly politicized by executive actors and utilized to fit government interests and promote (usually) deregulatory preferences (Woolfson, 2006; Delteil and Kirov, 2017). Obligations arising from EU harmonization requirements have motivated government actors to use EU conditionality ‘to consolidate power, rather than for reforms’ (Börzel, 2013: 184). It is argued that EU law has not led to the convergence of labour standards in CEE with the rest of EU due to domestic resistance to ‘overregulation’ which is said to disrupt the ‘comparative advantage’ of a cheap workforce in CEE (Woolfson, 2006; Delteil and Kirov, 2017). On the other hand, practical application faces difficulties stemming from defect governance, weak administrative capacity and fragility of enforcement bodies, which are ill-equipped, under-capacitated and under-financed.

Similar patterns of neglect and systemic deficits have tormented CEE countries’ participation in the EES, which have earned CEE the title of a ‘laggard’ in OMC (Copeland and ter Haar, 2013: 26) and led scholars to describe EES’ impact on the region as ‘negligible’ (Meardi, 2017: 144). On the one hand, representatives from CEE seemed less interested and participated less frequently in peer reviews than old Member States (Nedergaard, 2006a; Curry, 2016). Policy advice from the EES was often of little relevance to CEE whose labour markets suffered from unique problems, such as ethnic discrimination, informal work, gender equality, whereas financial and administrative capacities were insufficient to better plan, monitor or evaluate policies (de la Rosa, 2005). At the same time, the ability of the public administration to transfer peer review knowledge to decision makers is seriously limited due to the politicized and party-dominated nature of employment policy in CEE (Fink-Hafner and Lajh, 2018). On the other hand, EU policy concepts such as flexicurity and lifelong learning are interpreted very broadly, and governments cherry-pick from them selectively and partially (de la Porte and Pochet, 2012: 343, Meardi, 2017: 134, Mailand, 2008). Also, one of the key assumptions of OMC, namely that it will open space for

participation and better cooperation between public and non-state actors especially in preparation of National Action Plans has not materialized (de la Rosa, 2005). This corresponds to the findings that during and after accession, the involvement of social partners and civil society in decision-making processes on EU policies was usually only a formality and consultative in nature (Sissenich 2005). Finally, implementation of CSRs is consistently below the EU-average (see: Appendix I).

Hence, there are three broad rationales for concentrating on CEE. First, new Member States constitute crucial least-likely cases – “a most-difficult test for an argument” (Gerring 2007:115). As such, they represent a true stress-test for the influence and effects of the Semester on Member States. CEE countries are critical for understanding how the Semester is capable of shaping domestic employment policies. Strengths and weaknesses of the Semester framework are most likely to be exposed on the example of CEE countries. Second, and relatedly, the study of CEE in the post-accession era should also reveal whether the Semester can constitute hard incentives in the employment field through ‘policy-related conditionality’ (Zhelyazkova et al. 2019) in the context of a reinforced EU economic governance framework and stronger linkages to EU funding. Alternatively, is the reformed system of multilateral surveillance capable of stimulating learning processes in CEE and overcoming domestic obstacles to a more meaningful engagement in mutual learning? This question is even more relevant given the changing political environment in CEE with signs of ever-greater domestic contestation of EU interference and the rise of Euroscepticism which increases ‘domestic adoption costs’ for political elites (Schimmelfennig and Sedelmeier, 2019: 17). On the other hand, high dependence of CEE on EU sources of funding in employment policy might empower EU institutions to withhold rewards or sanction non-compliance (Mailand, 2008). Finally, empirical work on the impact of EU soft law on domestic reforms in CEE is scarce, and systematic comparative analyses of the Semester influence in the region are missing despite the added value of such research to the understanding of Semester (dys-)functionalities. This project strives to fill this persistent gap in the literature.

1.1.5 Research puzzle and research question

Quantitative assessments of the effectiveness of the Semester in promoting reforms have mainly looked at the degree to which Member States have implemented CSRs, which were issued in the Semester framework. Conclusions are predominantly negative in that not only Member States address CSRs in a limited way, but that there is also a substantial decrease in implementation rates over time (Banerji et al., 2015; Darvas and Leandro, 2015; Zuleeg, 2015; Alcidi and Gros, 2017; Efstathiou and Wolff, 2018). MIP- and especially SGP-based CSRs, which are legally enforceable, are implemented more often, however their implementation rate is found to be in decline. When taking a multiannual perspective on the implementation of CSRs, as opposed to yearly assessments, the picture is also only slightly more favourable. When observed by policy areas, implementation of employment policies fully fits the grey picture. These studies have, on a speculative basis, assigned the possible reasons for poor implementation to political costs of reforms, reform fatigue, inadequacy of the governance framework and CSRs, the fading of market pressure amidst economic recovery, ineffective enforcement of SGP/MIP rules and lack of national ownership. Criticisms that such quantitative assessments can neither determine the direction and strength of influence nor the reasons behind limited fit between CSRs and national reforms are well placed. Little is known empirically about the specific factors which stand in way to Semester's influence and qualitative inquiries are best suited to open this black box. However, such findings are nonetheless puzzling in that they contradict continuous efforts to increase the Semester's reform-generating potential.

It seems that the recent intensification of EU's involvement in economic, social and employment policy within the Semester framework risks amplifying a 'soft-law dilemma' which Tholoniati (2010: 111) aptly describes as a situation in which:

'On the one hand, there is a wish to establish transparent and predictable European frameworks conducive to structural reforms at national level: this is essential to ensure delivery over time, as well as to mobilise stakeholders. On the other hand, there is a tendency to add to the EU agenda with new initiatives: policy activism is

necessary to keep the political momentum of the EU agenda, secure ownership and interest of political actors, and avoid the bureaucratisation of OMC processes.’

This dilemma proves difficult to settle. Policy activism reflected in the proliferation of employment strategies, activities and initiatives within the Semester risks ‘blurring the sense of direction of EU action’, whereas Semester’s procedural complexity, governance interactions and technical overload compounds policy co-ordination. Thus, employment coordination risks falling into a ‘bureaucratisation trap’ by creating a complicated and demanding system of routinized interactions delegated to national civil servants. As some have noted previously, the mere scope of activities that have to be covered both in EMCO and by national administrations (reporting obligations, mutual learning, monitoring, recommendations etc.) and the frequency of interactions contribute to the bureaucratization and professionalization of co-ordination⁷ (Heidenreich and Bischoff, 2008:502). The Semester clearly poses an extra ideational (policy activism) and procedural (bureaucratisation trap) challenge to national governments. Several governments from CEE, although appreciating the added value of the Semester and Europe 2020, have already expressed concerns about their complexity. They describe it as ‘administratively demanding’⁸, lambaste the cramped schedules⁹ which disable real dialogue and reflection on policies, criticize overlaps and oversupply of different reporting obligations¹⁰, and stress that some of the Europe 2020 initiatives ‘have not proved to be a catalyst of strategically oriented and coherent initiatives with clear priorities’¹¹. With the new Semester framework in mind, it is therefore worthwhile to empirically investigate the intricacies of EU employment coordination to explain whether the Semester actually creates added value, what are the obstacles to its effectiveness and how national

⁷ Bureaucratization creates a sense of ‘expertocratic deliberation’ (Jacobsson and Vifell 2007) in which it becomes difficult to translate expert interactions into commitment on the national political level without genuine involvement of (political) decision-makers, social partners, civil society and other stakeholders.

⁸ See: Ministry of Finance of the Slovak Republic (2014).

⁹ See: The Government of the Czech Republic (2014); Ministry of Finance of the Republic of Bulgaria (2014).

¹⁰ See: Ministry of Economics of the Republic of Latvia (2014).

¹¹ See: The Government of the Czech Republic (2014).

government have adapted to new circumstances. To that end, I formulate the following research questions.

First, the most basic research question asks to what extent, if at all, can domestic policy change be attributed to Semester activities and recommendations. The study takes an interest in describing both the scale of Semester influence, that is, how many policy items were influenced; and magnitude (depth) of Semester penetration into national employment policy, understood as the degree or level of change triggered by the Semester.

RQ 1.1: *To what extent has the European Semester influenced changes in employment policy in Central and Eastern Europe between 2011 and 2018?*

Second, in instances where EU impact can be detected, this contribution is interested in explaining the specific pathways or routes through which the Semester influences domestic policy change. This is done by empirically testing the applicability of three theorized mechanisms of influence. Alternatively, the qualitative analysis will account for sources of influence other than the Semester.

RQ 1.2: *How or through which mechanisms has the European Semester influenced those changes?*

Finally, it is important to locate the specific factors which have either made influence possible and contributed to the Semester's effect or have blocked and inhibited effectiveness. This allows for a more informed debate about the circumstances in which the Semester is capable of exerting influence.

RQ 1.3: *Under which conditions has the Semester been able to exert influence and under which it has not?*

1.1.6 Overview of chapters

The remainder of this (introductory) chapter introduces the Semester to the reader in a more nuanced way by contextualizing the evolution of EU employment coordination and explaining the key trends, processes and actors in the Semester cycle. Chapter 2 then outlines in detail the theoretical framework and methodology used in this PhD thesis. The theoretical chapter is followed by four highly contextualized country chapters on Croatia, Hungary, Slovakia and Slovenia. The individual country chapters are brought together in Chapter 7 which offers a synthesis of the empirical findings and generates general cross-country conclusions. The final chapter concludes with several empirical upshots and a short contribution to the ongoing debate on the future and reform of the Semester, particularly in regards to queries on how to adjust the governance framework to make it more conducive to learning and generally more apt for creating a better fit between EU guidelines/recommendations and national policies.

1.2 EU employment policy co-ordination before and after the crisis

This section seeks to establish a system of Semester background knowledge. Decent understanding of Semester procedures and developments is of essence for building a critically informed structure of the analytical framework. It also provides for a grounded understanding of empirical findings discussed in country chapters.

1.2.1 From Luxembourg to Europe 2020: Applying the Open Method of Coordination

The choice for OMC in employment policy in the early 1990s came as a reaction to the growing perception that the EU needed coordinated action to overcome the employment crisis of the 90s (Goetschly, 1999) and to successfully counter common technological and socio-demographic challenges (Borrás and Jacobsson, 2004). The reflections on a new social dimension of the EU

took place in the context of public discontent with the negative consequences of more economic integration within the EMU which pulled monetary and fiscal lever out of the hands of eurozone Member States (Peña-Casas, 2013). Harmonization of policy responses through EU legislation in the area was at the same time considered out of question as Member States fiercely opposed further delegation of powers to the EU. The EU reflected a large variety of welfare state traditions/institutions, industrial relations and employment and social protection systems which would have been tremendously difficult to reconcile with uniform application of rules (Scharpf, 2002; Crespy and Menz, 2015a). Instead, a broad alliance of social-democratic actors in the Commission, European Council and the European Parliament has opted for the creation of a European Employment Strategy (Goetschly, 1999; de la Porte, 2011: 486) roughly tailored after the soft coordination approach used in economic policy since Maastricht, called ‘the Broad Economic Policy Guidelines’ (BEPGs).

The first indication of a new coordination method in employment was given in the *White Paper for Growth, Competitiveness and Employment* in which Jacques Delors, then Commission President, proposed to develop a strategy for boosting growth and employment which ought to be implemented by Member States’ coordination of employment policies (de la Porte, 2011: 492). The White Paper and the subsequent 1994 Essen European Council summit promoted goals which later became core doctrinal elements of Employment Guidelines: activation measures to support employment, vocational training and skills development, flexible working arrangements and adaptable workforce, measures for vulnerable groups (youth, long-term unemployed) and competitive wage policies (ibid.; Goetschly, 1999). Eventually, the EES was agreed at the Luxembourg European Council summit in 1997 and institutionalized as a separate title (Employment Chapter) in the Amsterdam Treaty which also included a horizontal principle for all other policy areas to be ‘aiming at full employment and social progress’ (Article 3, Paragraph 3, TEU). Between 1997-2004, the EES fully developed into a standalone coordination process with distinct procedural elements. The iterative EES coordination cycle was already operationalized at

the 1994 Essen summit. The cycle starts with the Joint Employment Report, adopted by the European Council. The Report assessed Member States progress and formed the basis for the yearly proposal of Employment Guidelines. Member States reported on policy reforms and intentions in National Action Plans (NAPs) which were assessed in the advisory Employment Committee (EMCO). The Commission proposed specific recommendations to the Council for individual Member States. The coordination process therefore rested on soft instruments, collectively defined objectives, guidelines, targets and indicators, the use of peer reviews within EMCO to monitor reform progress and benchmarks to compare the level of success in achieving common objectives.

In 2000, the European Council launched the Lisbon strategy as a strategic plan to make the EU “the most dynamic and competitive knowledge-based economy in the world, capable of sustainable economic growth with more and better jobs and greater social cohesion” by 2010 (European Council, 2000). Most importantly, the EES was integrated into the Lisbon strategy, together with economic, social and environmental policies, which promoted the OMC “as the means of spreading best practice and achieving greater convergence towards the main EU goals” in those policy areas (*ibid.*). The 2004-2005 mid-term review of the Lisbon strategy further noted that the OMC and its main instruments, benchmarking and peer reviews, have not been as effective in catalysing domestic policy reforms as expected. Already after the rather positive first evaluation of the EES (1997-2002), the Commission considered it necessary to simplify its procedures and synchronize them with BEPGs (Watt, 2016). The Commission decided to put a greater emphasis on growth and jobs in the relaunched Lisbon Strategy which was renamed into a Growth and Employment Strategy (GES). The ‘liberal tone’ of the GES¹² reflected an ideological rebalancing

¹² Social policy was clearly on the losing end of the centre right ideological empowerment. Social inclusion and cohesion were overshadowed by growth and competitiveness concerns and were to be addressed through labour market incentives and activation policies (Crespy and Menz, 2015a: 2). Regarding the policy-orientation of employment guidelines, many authors questioned their neutrality and considered them having a neoliberal leaning, particularly by promoting the ‘active welfare state’ (Goetschly, 1999; Scharpf, 2002; Raveaud, 2007; Büchs, 2009; Kröger, 2009). A large proportion of guidelines had an underlying (supply-side) assumption that it was the individual’s responsibility to adapt to labour market conditions and actively search employment. Hence, full employment was to

to the right especially within Commission led by José Manuel Barroso (2004-2014), but also in the Council and the European Parliament (Borrás, 2009; Tholoniati, 2010). More weight was given to bilateral dialogue between the Commission and Member States on domestic reform processes to promote a more partnership-oriented approach and national ownership (Zeitlin, 2007; Armstrong et al., 2008; Borrás, 2009). This signalled that the EES had become more intergovernmental and suited to Member States' needs, which have expressed their discontent with some of the naming-and-shaming practices in the multilateral dimension of the EES (Borrás, 2009; de la Porte, 2011: 499).

The EES process lost its standalone status and saw its procedures integrate with economic policy coordination – the BEPGs in the revised Lisbon Strategy. Employment Guidelines were streamlined with BEPGs into a set of 24 Integrated Guidelines, 10 related to microeconomic policy, 8 employment-related and six macroeconomic guidelines. The once purely employment-related NAPs were transformed into broader National Reform Programmes (NRPs), and the centrality of JERs in the reporting on Member States progress was lost along the way. The JER became only an annex to the Annual Progress Report (Tholoniati, 2010). The 2005 changes were criticized for compromising the 'visibility, monitoring capacity and participatory impetus' of the EES (Armstrong et al., 2008: 444).

1.2.2 Reinventing EU employment coordination under the European Semester

In 2010, the European Council replaced the Lisbon strategy with the Europe 2020 strategy aimed at turning the EU into a 'smart, sustainable and inclusive economy delivering high levels of employment, productivity and social cohesion' (European Commission 2010: 8). A coalition of like-minded actors within the Commission, consisting of then Commission President José Manuel

be achieved through flexible working contracts, loose employment protection, activation and 'make work pay' measures, modernization (activation) of social protection systems and moderation of wages. The pursuit of quantitatively higher employment rates persistently neglected the quality and adequacy aspects of work. For a list of Employment Guidelines from 1997 to 2015, see: Appendix II.

Barroso, the Secretariat General (SECGEN) and the Directorate-General for Economic and Financial Affairs (DG ECFIN) used the opportunity of uncertainty following from the financial crisis to rebrand the Europe 2020 strategy as ‘EU’s exit strategy’ from the crisis (Copeland and James, 2014: 11). The EES became part of Europe 2020. The concern for high level of employment was reflected in one of the three priorities of the strategy (‘inclusive growth’), as well as in two out of five headline targets and two flagship initiatives (see: Frazer and Marlier, 2010). Three out of 10 Integrated Guidelines adopted by the Council to implement Europe 2020 were related to the EES and followed by-and-large a similar policy orientation towards supply-side solutions (adaptable and skilful workforce, activation and make-work-pay) as previous guidelines. These broad guidelines, which are proposed by the Commission, discussed by EMCO and approved by the Council, form the backbone of employment coordination cycle as they are expected to provide a common blueprint for action at the national level, and are expected to be observed by governments.

Europe 2020 is implemented and monitored through the Semester. The Semester emerged as a result of efforts to contain the eurocrisis. The European Council mandated a special Task Force headed by the European Council president Herman Van Rompuy and the Commission (specifically, DG ECFIN) to propose in cooperation with the Commission new legislative solutions to preserve the credibility of EU economic governance. This process resulted in the adoption of a Six-Pack of five regulations and one directive in 2011, part of which was the Semester as well, and a Two-Pack for budgetary and fiscal surveillance in 2013¹³. The Six-Pack was spilt around and ‘layered’ onto existing provisions of the SGP (Verdun, 2015; Laffan and Schlosser, 2016) whereas the Semester was modelled after coordination processes in economic and employment policy (Armstrong, 2013).

¹³ For an overview of the negotiation process and inter-institutional rivalry, see: Laffan and Schlosser, 2016.

1.2.3 Key European Semester coordination processes

The Semester merged three separate coordination processes of the revised socio-economic architecture in the EU into one coordination and monitoring framework. One of the purposes of integrating different coordination procedures into one Semester was to ensure coherence and consistency between different policies (de la Porte and Heins, 2014b; Martínez-Yáñez, 2016). Also, the Semester aimed at achieving balanced public finances, macroeconomic stability and economic growth (Alcidi and Gros, 2014). Besides the Europe 2020 strategy, two other essential elements formed the building blocks of the Semester infrastructure – the Stability and Growth Pact (SGP) and the newly-devised Macroeconomic Imbalance Procedure (MIP).

Prior to the crisis, the Stability and Growth Pact (SGP), which was originally established in 1997 prescribed a maximum 3 percent (GDP) deficit and 60 percent (GDP) debt ceiling, monitored by the Commission. In case of breaching the 3 percent criterion, a ‘corrective’ phase of the SGP would be launched, called the excessive deficit procedure (EDP) on the basis of a Commission proposal. Member States were expected to correct their deviation from the deficit criterion or otherwise risk a potential pecuniary sanction after repeated warnings. Credibility of the SGP was questioned already in the early 2000s when four Member States which breached the deficit criterion were not fined (Hodson and Maher, 2004). In an attempt to restore confidence, J. Barroso was adamant not to leave the impression that his Commission would ‘turn a blind eye’ in the reformed SGP (Hodson, 2013). The Six-Pack legislation reinforced both the preventive and corrective arms of the SGP. In the preventive arm, Member States are expected to balance their budget towards a medium-term budgetary objective (MTO) and report in their Stability Programmes intentions on how to reach long-term sustainability of public finances. The preventive arm became coercive and foresaw a 0.2 percent (GDP) interest-bearing deposit if a eurozone Member State does not converge towards the MTO. Persistent non-compliance can result in a fine. Non-compliance with the 60 percent debt criterion had become sanctionable in the corrective arm and decisions on sanctions were to be applied by quasi-automaticity, using a

reversed qualified majority voting (RQMV) rule in the Council, meaning that only a qualified majority of Member States could block a Commission's proposal for imposing sanctions.

The Two-Pack further stepped up the supervision of budgetary processes in eurozone Member States and introduced stringent monitoring/reporting obligations in eurozone countries which faced excessive deficits. Member States have to submit their medium-term budgetary plans by each April and their final draft budget projections by end of October. If assessed negatively, the Commission received the right to ask for a revision. On the other hand, euro area countries diagnosed with excessive deficits faced intensified monitoring and had to submit a detailed Economic Partnership Programme which would outline planned fiscal and structural reform efforts in meeting the deficit criterion (Beukers, 2017; Degryse, 2012).

A new Macro-Economic Imbalance Procedure (MIP) was introduced to detect, prevent and solve major macroeconomic instabilities arising in Member States, which risk jeopardizing economic stability in the Member State or could spill over to the rest of eurozone or whole of EU. It comprises of a corrective and preventive arm, similar to the SGP. For the detection of imbalances, a Scoreboard was devised with 14 indicators¹⁴ (originally 11) capturing internal and external imbalances. If the Commission determines the existence of 'imbalances' or 'excessive imbalances' in a Member State, it becomes subject to specific monitoring which implies more frequent bilateral interactions between the country and the Commission and reporting obligations. For countries experiencing excessive imbalances, an Excessive Imbalance Procedure (EIP) can be launched in the corrective arm of the MIP if corrective actions are needed to curb imbalances. In such instances, the Member State has to draw up a corrective action plan and outline how the

¹⁴ Including: 3-year backward moving average of the current account balance, net international investment position, 5-year percentage change of export market shares, 3-year percentage change in nominal unit labour cost, 3-year percentage change of the real effective exchange rates, private sector debt (consolidated), private sector credit flow, year-on-year changes in house prices, general government sector debt, 3-year backward moving average of unemployment rate, year-on-year changes in total financial sector liabilities, 3-year change in p.p. of the activity rate, 3-year change in p.p. of the long-term unemployment rate, 3-year change in p.p. of the youth unemployment rate (see: https://ec.europa.eu/info/business-economy-euro/economic-and-fiscal-policy-coordination/eu-economic-governance-monitoring-prevention-correction/macro-economic-imbalance-procedure/scoreboard_en, (Accessed: 20 September 2019).

challenges will be addressed. For eurozone countries, failure to meet the corrective measures issued under the EIP can result in a 0.1 percent (GDP) interest-bearing deposit or in cases of persistent non-compliance in an annual 0.1 percent (GDP) fine. The Council can reject sanctions only by a qualified majority (RQMV) (Degryse, 2012). While the Commission plays a central role in monitoring and evaluating compliance with the MIP, the interpretation of MIP indicators and decisions on appropriate thresholds are discretionary, leaving to the political discretion of Commission services to launch an in-depth review and to determine the existence of imbalances (Alcidi and Gros, 2014; Bauer and Becker, 2014; Hodson, 2017).

The Six-Pack and Two-Pack have thus strengthened both the surveillance intensity and formally reinforced the level of coercion in cases of non-compliance (Degryse, 2012; de la Porte and Heins, 2014a, 2014b; Martínez-Yáñez, 2016; Beukers, 2017).

1.2.4 European Semester timeline

The Semester cycle has several temporal phases (Figure 1.1), which largely reassemble the timeline employed in the EES when it was a standalone coordination process:

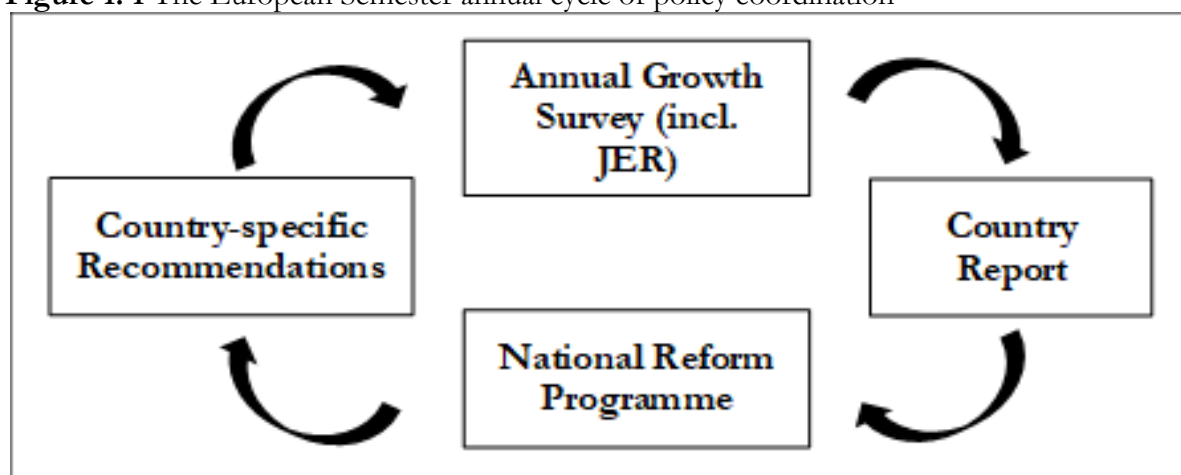
- 1) Annual Growth Survey (AGS) – The AGS is published by the Commission in November and sets out the broad priorities for the next year's Semester. The draft AGS is discussed in the Council and the European Parliament and then endorsed at the spring European Council. The AGS is accompanied by an Alert Mechanism Report (AMR), a preventive element of the MIP in which the Commission assesses whether a Member State is at risk of macroeconomic imbalances and whether it needs to be subjected to closer monitoring through an In-Depth Review. Finally, a draft Joint Employment Report (JER) is published, indicating socio-economic developments in the EU and Member States' performance in relation to employment guidelines based on a scoreboard of social and employment indicators.

- 2) Country Report (+ In-Depth Review) – In February, the Commission issues a Country Report, accompanied by an In-Depth Review (IDR) if the Commission has found that the Member State suffers from potential macroeconomic imbalances. The Country Report is the main analytical backbone of the Semester which offers, on the one hand, an in-depth analysis of the economic, social and employment developments in an individual Member State, and an assessment of progress in implementing the last year’s CSRs issued by the Council to the respective Member State.
- 3) National Reform Programmes (NRP) – By the end of April, each Member State needs to submit an NRP detailing the actions undertaken to meet the last year’s CSRs while taking into account integrated guidelines, as well as elaborating which policy actions it intends to pursue in the next 18 months.
- 4) Country-Specific Recommendations (CSRs) – Already in May, the Commission proposes new CSRs based on the assessment of progress in the Country Report, multilateral surveillance in EMCO and bilateral contacts with Member States through fact-finding missions¹⁵. The CSRs with different legal bases (MIP, SGP, employment) are placed together in one list of recommendation, accompanied by a recital section which serves as an explanatory text. Compared to the relaunched Lisbon period, the Commission was keen to construct the initial drafting of CSRs as an evidence-based process which would be insulated from Member States’ interference. Employment CSRs are initially drafted by desk officers in charge of country portfolios at the Directorate-General for Employment, Social Affairs and Inclusion (DG EMPL) but are subsequently discussed by Country Teams led by SECGEN which is in charge of horizontally coordinating the process, redrafting and prioritizing CSRs. Before they are approved by the Council in June, employment CSRs are discussed in EMCO which can propose

¹⁵ Fact-finding missions are bilateral, sectoral exchanges organized by the Commission or the Representation of the Commission in national capitals. They are attended either by sectoral high-level officials or the technical level. The number of meetings varies between three to five. Countries under specific monitoring in MIP are subject to more frequent interactions.

amendments by a qualified majority. There are very low chances of changing the substance of CSRs in EMCO, only the language (Coman and Ponjaert, 2016: 49). This demonstrates that the Commission is not ready to seek compromise on CSR formulations in EMCO (Vanhercke and Zeitlin, 2015). The Semester procedures make it difficult to revert a Commission proposal of a CSR, as all amendments to CSRs need to garner political support within the EPSCO Council and require a formal justification through a ‘comply-or-explain’ procedure (Zeitlin and Vanhercke, 2014).

Figure 1. 1 The European Semester annual cycle of policy coordination



Source: Author’s own depiction.

Although procedurally highly similar, the EES lost visibility and its ‘distinctive identity’ as part of the Semester (Barnard, 2014; Rhodes, 2015). As Peña-Casas (2013) writes, the EES is no longer to be found in the European discourse and has lost some distinctive procedural elements such as the once mandatory NAPs¹⁶ for employment which have been scrapped and replaced with the comprehensive NRPs. The European Council has called for a restoration of NAPs as a side document to NRPs, but this practice has never really materialized (European Commission, 2012).

¹⁶ Scholars hinted already after the 2005 reform that the EES was losing its distinctive character and visibility as NAPs were being replaced by NRPs (Zeitlin, 2007: 13).

Table 1. 1 The European Semester timeline

Month	European Commission	European Council/Council	Member States	European Parliament
November	Annual Growth Survey (AGS), incl. Joint Employment Report (JER) and Alert Mechanism Report (AMR) Opinion on Draft Budgetary Plans	Council (Finance ministers) discusses Commission opinions on draft budgetary plans		Dialogue on the Annual Growth Survey
December	Bilateral meetings with Member States	Council adopts euro area recommendations and conclusions on AGS and AMR	Member States adopt budgets	
January	Fact-finding missions in Member States			
February	Country Report per Member State			Resolution on the Annual Growth Survey
March	Bilateral meetings with Member States	European Council adopts economic priorities based on AGS		
April			Member States present their national reform programmes (NRPS) (on economic policies) and stability or convergence programmes (on budgetary policies)	
May	Commission proposes country-specific recommendations (CSRs)			
June		Council discusses the CSRs		
July		European Council endorses final CSRs		
August/September				
October			Member States present draft budgetary plans and adopt economic partnership programmes (EDP countries)	Dialogue on the Annual Growth Survey Debate / resolution on the European Semester

Source: Based on https://ec.europa.eu/info/sites/info/files/2018-european-semester-timeline_en.pdf.

1.2.5 Changes in the European Semester's policy orientation and procedures

Initial assessments of the Semester in action claimed that the new economic framework empowered the DG ECFIN and the Economic and Financial Affairs Council (ECOFIN) (Degryse et al., 2013: 31). They made budgetary discipline the guiding principles of the Semester (Copeland and Daly, 2015, 2018). The integration of soft and hard procedures was said to therefore create pressure on social and employment policies both indirectly by crowding out fiscal space for worker- and welfare-friendly policies and directly by subsuming social and employment policies¹⁷ under the SGP and MIP procedures (de la Porte and Heins, 2014a; de la Porte, 2017). The way the three coordination processes interact in the Semester with each other can best be demonstrated by looking at CSRs. Bekker (2017: 255) summarizes the mutual influence:

‘From 2011 onwards, the CSRs of the three coordination mechanisms have been placed together into one list of recommendations. Especially the MIP frequently assesses items that also belong to soft employment and social policy coordination domains, including topics such as unemployment, minimum wage, and the labour-market integration of vulnerable groups. This mutual influence could result in a stronger coordination of social policies.’

Stronger coordination here implies that employment policies could and have become subject to specific monitoring under the MIP or could be the basis on which sanctions are proposed under the EDP/EIP for eurozone members if no change is observed. By some accounts, the decision by the Commission to link hard coordination procedures with employment and social CSRs constitutes a ‘self-empowerment’ (Bauer and Becker, 2014: 223) that was not welcomed by Member States. Others have expressed concerns that increased surveillance and coerciveness of CSRs have crowded out ‘learning and exploration’ elements from the Semester architecture (Borrás and Radaelli, 2014a). The argument goes that the reinforced governance framework rather

¹⁷ Employment policies’ subordinated role to EU economic policy is even enshrined in the Treaties. Article 148(2) stipulates that EU employment guidelines ‘shall be consistent with’ the Broad Economic Policy Guidelines.

promotes hierarchical learning, negotiation and bargaining and reduces space for other forms of learning (Dunlop and Radaelli, 2016).

The initial impression that the Semester will cement a rigid and coercive system proved ill-judged. Bekker (2017) shows that CSRs are not written in stone. She empirically identifies both ‘adaptability’ on the Commission’s side in that CSRs reflect country specificities and can change in focus, and ‘latitude’ on behalf of Member States which feel free to disagree with the CSR, not comply or propose even radically opposing policy directions compared to CSRs. Similarly, Bekker and Klosse (2014: 16) conclude that despite the intrusion of economic coordination processes into employment and social policy, such CSRs do not necessarily promote fiscal sustainability of the social, pension or healthcare sectors, but also include more work- and welfare-friendly readings of CSRs.

One additional source of pressure emanating from the Semester comes as a result of the reinforced link between CSRs and European Structural and Investment funds¹⁸ (ESI), especially the European Social Fund¹⁹ (ESF) – EU’s main financial instrument to support the implementation of the Europe 2020 strategy. In the funding period 2014-2020, pressure comes in three forms²⁰. First, Member States need to take into account employment CSRs during negotiations of Partnership Programmes and Operational Programmes for the use of ESI funds or else risk having their Operational Programmes rejected by the Commission. Second, the Commission can initiate the reprogramming of existing Operational Programmes if new pressing policy challenges are identified in the Semester process. In case of such a request, the Member State must make sure to relocate parts of existing funds to support the implementation of a CSR. Third, the Common Provisions Regulation introduced macroeconomic conditionality between

¹⁸ Through the Common Provisions Regulation (Regulation (EU) No 1303/2013) of 17 December 2013.

¹⁹ Through Regulation (EU) No 1304/2013 of 17 December 2013.

²⁰ The 1999 reform of structural funds regulations already codified an operational link between the European Social Fund (ESF) and the EES. Member States were expected to align ESF programmes so that they ‘contribute to the actions undertaken under the EES’ (Hartwig, 2007: 124). Hartwig (2007) finds that, in practice, Member States were only loosely guided by EES guidelines and recommendations in their programming decisions.

MIP/SGP-related CSRs and ESI funds. When a Member State fails to take ‘effective action’ to correct excessive deficit (EDP) or excessive imbalances (EIP), the Commission is obliged to propose suspension of ESI funds to the Council (Sacher, 2019). The European Council and the Commission advocated this link to ‘ensure the efficiency of ESI fund spending’ (Coman, 2018). To what extent this link is taken seriously by Member States is an empirical puzzle. Sanctions have never been activated, but the threat of activation can be an equally effective deterrent. The credibility of the mechanism was however seriously damaged in 2016. The Commission decided not to propose the suspension of EU funds for Spain and Portugal as Jean-Claude Juncker was said ‘not to believe in the power of sanctions and fines’ (Coman, 2018: 551). The ESIF link to macroeconomic imbalances was applied with flexibility despite the formal automaticity enshrined in the ESIF regulations (Sacher, 2019). Use of macroeconomic conditionality remain a threat from the shadow, while activation of sanctions is only meant to be the last resort or nuclear option in case of serious reluctance to cooperate with EU institutions.

Since the early iterations, the Semester has rebalanced content-wise and procedurally in favour of employment and social policy (actors). These changes do not amount to a clear-cut shift from market- and growth-oriented social and employment policies. They do, however, reflect a gradual and deliberate rebalancing act first strongly advocated by EMCO/SPC, EPSCO, social NGOs and DG EMPL Commissioner László Andor in the early iterations of the Semester during the Barroso’s term as Commission President²¹.

In procedural terms, DG EMPL and EMCO have fought for equal standing in the Semester cycle with their economic counterparts in analysing, monitoring, peer-reviewing and evaluating national employment policies (Zeitlin and Vanhercke, 2014). EMCO and SPC increased their analytical capabilities by developing a Joint Assessment Framework (JAF). JAF is a monitoring device based on qualitative (NRP-based) and quantitative (indicator-based) assessment

²¹ For a detailed account, see: Zeitlin and Vanhercke (2014) and Copeland and Daly (2018).

of Member States convergence to Employment Guidelines. They have also developed a Scoreboard of Key Social and Employment Indicators (Scoreboard) to identify social and employment risks early. The JAF and Scoreboard have strengthened the evidence-basis of EMCO's involvement in the Semester, particularly in the drawing of CSRs, and have analytically underpinned conclusions in JEF and identification of social risk, monitoring and (peer-)reviewing of national reforms (ibid., p. 36-39; see also: Copeland and Daly, 2018). Most importantly, the successful struggle for relevance infused the Semester framework with more mutual learning experiences and intensified multilateral surveillance of national reforms. The gravity of mutual learning activities in EU employment stays firmly anchored in EMCO. Multilateral surveillance denotes the collective and continuous process of peer reviewing and arriving at a multilateral position by EMCO on the implementation of CSRs in the form of an EMCO conclusion (each May). The improvement in analytical capabilities has made the process of multilateral surveillance 'more critical, more focused, and more evidence-based' (Zeitlin and Vanhercke, 2014: 39). EMCO hosts three different types of peer reviews – thematic reviews of CSRs (in Autumn), Cambridge examinations of NRPs²² (early May) and *ex-ante* reviews (piloted in October 2014) of forthcoming/planned national reforms²³. EMCO conclusions are then used as the 'the primary evidence base' in the drafting of new CSRs. Thematic reviews look at previously issued CSRs grouped into clusters of labour market themes (one thematic review per theme). The thematic concentration brings together Member States with similar challenges to foster mutual learning. Member States are reviewed individually – The Commission prepares a background document, the Member State responds by outlining how it addressed the CSR, and a discussant Member State prepares an evaluation of progress. Cambridge examinations take a broader look at individual

²² For a detailed description of thematic reviews and Cambridge examination reviews, consult: <http://ec.europa.eu/social/BlobServlet?docId=10938&langId=en> (Accessed: 22 September 2019).

²³ Some of the remnants of the EES, such as the Mutual Learning Programme (MLP) have survived and complement the Semester process of multilateral surveillance from the outside. The MLP organizes learning events in Member States in which the host country presents a best practice, and guest Member States discuss the possibilities of policy transfer (see: Curry, 2016).

countries' implementation of CSRs and existing challenges identified in NRPs. The Member State is peer reviewed by the Commission and by one peer Member State in a workshop format comprising of 1/3 of EMCO members. The results of the Cambridge examination feed into the multilateral position in the EMCO conclusions and serve as the basis for a new cycle of CSRs. Recent innovations such as the possibility to present a planned reform (*ex-ante* reviews) have created an additional opportunity to learn from suggestions and peers' experiences (Zeitlin and Vanhercke, 2014: 43). In total, EMCO and SPC have sought to 'combine 'tougher' multilateral surveillance in employment and social policies with increased opportunities for deliberation and mutual learning' (ibid., p. 41). By some accounts, the intensification of mutual learning stimulates a 'strong learning and consensus-building effect within the [EMCO/SPC] committees' (Vanhercke and Zeitlin, 2015: 22).

Regarding the substantive dimension of the Semester, the political agenda has since 2012 become overwhelmed with employment initiatives, packages and recommendations prepared by DG EMPL which have challenged the market-making logic of employment policy of the crisis years. Initiatives that were aimed at boosting employment include: the Employment Package, the Youth Employment Package, the Compact for Growth and Jobs, the Social Investment Package²⁴, and EU-wide recommendations on: a Youth Guarantee²⁵, active inclusion, upskilling pathways, long-term unemployed, quality framework for traineeships and validation of non-formal and informal work. They addressed issues ranging from the social consequences of the crisis, quality of work, labour demand, new labour market challenges to social investment (Copeland and Daly, 2015). The assessment of progress in implementing these initiatives was integrated into the Semester. EMCO was included in reviewing and monitoring progress, Country Reports reported

²⁴ The Social Investment Package has recognized the added value of social investment and the importance of human capital, adequate safety nets and smooth labour market transitions for economic growth (Hemerijck, 2014: 155).

²⁵ The Youth Guarantee stipulates that every young person should receive an offer for work, education or training within 4 months of the change in status. The scheme focuses on the concept of NEETs, those youth most vulnerable and affected by greatest insecurity as they are neither employed, being trained nor educated (see: Cabasés Piqué et al., 2015; Escudero and López Mourelo, 2015; O'Reilly et al., 2015; Lahusen et al., 2013)

on progress, and CSRs were rebalanced to reflect the new priorities. CSRs started focusing more on the importance of investing in early childcare and education, adequacy of social protection systems and wages, quality of work opportunities (for youth) and life-long learning. The Juncker Commission (2014-2019) further developed the social agenda. In 2014, Juncker pledged to strive for a ‘Social Triple A’ and ensure greater role for social and employment objectives in the EMU and the Semester (Vanhercke and Zeitlin, 2015). This promise was supported by a rich set of legislative and non-legislative activities²⁶ in the social and employment field, culminating with the proclamation for a *European Pillar of Social Rights* (EPSR) in late 2017 which called for stronger welfare states through equal opportunities, fair working conditions and more quality social protection. Thus, it features a less deregulatory underpinning than initiatives from the Barroso era (Deakin, 2017: 194). The EPSR also presented a new, more encompassing Social Scoreboard which was agreed by EMCO and SPC. The Social Scoreboard was integrated into JER and Country Reports as the analytical basis for detecting social and employment issues, for proposing action through CSRs when the situation was assessed critical and for cross-country comparisons. The more social nature of the Semester in recent years has seen CSRs adapt to new post-crisis priorities. The 2018 CSRs have therefore highlighted problems of skills adequacy, adequacy of social protection systems and better involvement of social partners in policymaking (Clauwaert, 2018). As Bekker (2017: 258) notes, ultimately, the launch of different employment initiatives, new monitoring devices and rebalanced CSRs ‘demonstrates that the EU is able to adapt its primary goals to new challenges’.

1.2.6 European Semester streamlining

Beyond the ongoing content-related and procedural adjustments in the Semester framework, the Commission had attempted to further ‘streamline’ the Semester in 2015 (Vanhercke and Zeitlin,

²⁶ See: https://ec.europa.eu/commission/sites/beta-political/files/social_priorities_juncker_commission_en.pdf (Accessed: 26 September 2019).

2015; Alcidi and Gros, 2017). The Semester cycle was extended from 6 months to a whole year to create more time for discussion and exchange on Semester documents. The MIP-related IDRs were merged with Commission's Staff Working documents (CSWD) into one document – the Country Report. The Country Reports were to be published already in February, and the CSRs in May. The number of CSRs were drastically reduced in number but remained however comprehensive as sub-parts of individual CSRs actually started encompassing separate policy items.

In addition, bilateral exchanges between the Commission and Member States in the form of fact-finding missions and informal contacts have intensified on the premise of stimulating greater legitimacy of the Semester. While the initial fact-finding mission during the drafting of the Country Report has the purpose of getting the facts right, the exchanges which happen right after the publication of the Country Report and before the publication of CSRs open up a small opportunity to negotiate potential CSRs (Coman and Ponjaert, 2016: 48). More recently, the Commission started sharing the Country Reports with Member States shortly before publication, allowing them to propose non-essential changes to the underlying analytics. Direct Commission presence on the ground was assured since 2013 when the first European Semester Officers (ESO) were deployed to national capitals to serve as bridgeheads between the Commission and national stakeholders. They were meant to 'add weight to the Commission's capacity to conduct surveillance activities, assess policies, gather country-specific intelligence, and increase the compliance record on Semester initiatives' (Munta, 2019: 6).

1.2.7 Differentiated empowerment of European Semester actors?

In long-term perspective, the debate on whether supranational or intergovernmental actors have been empowered more in the Semester becomes obsolete after almost 10 iterations of the Semester behind us. As Coman and Ponjaert (2016: 41) note, a 'new emerging equilibrium' is settling down after a turbulent and competitive start of the Semester. The asymmetries in power, both inside the

Commission services, and between institutions and national governments have been balanced out through a gradual reshuffling of procedures, innovative solutions in multilateral surveillance, the intensification of bilateral relations and informal softening of the formally harder economic governance regime.

It is widely acknowledged that the Commission's involvement in fiscal, macroeconomic and structural issues in Member States was strengthened through greater powers to monitor, review progress and propose sanctions (Bauer and Becker, 2014; Dehousse, 2015; Laffan and Schlosser, 2016). In the first iterations the Semester was therefore a DG ECFIN and ECOFIN dominated process. However, DG EMPL has gradually strengthened its position vis-à-vis DG ECFIN, acquiring more and more functions and responsibilities, which include the initial drafting of CSRs since 2013 and social/employment chapters of the Country Report since 2015 (Copeland and Daly, 2018). DG EMPL internally adjusted to the new surveillance requirements and the need to analyse and monitor national policies by developing new capacities for desk officers not present before (Savage and Verdun, 2015). Internal disputes, rivalries and turf wars between DG ECFIN/DG EMPL still exist but have been contained. DG EMPL has become one of the core DGs for the drafting of CSRs (Vanhercke and Zeitlin, 2015). With the arrival of the Juncker Commission, DG ECFIN's influence in EU economic governance has slightly waned while SECGEN gained in importance as a key coordination body (Coman and Ponjaert, 2016: 48).

There is remarkable continuity in the dominance of the Commission, national governments and the expert committee EMCO in employment coordination at the detriment of legislative bodies and non-state actors, both at EU-level and nationally (Goetschly, 2014). Regarding the role of representative institutions, their position remains subdued. The new economic governance regime, especially the Commission's increased involvement in scrutinizing governments' draft budgetary plans and reinforced coerciveness of fiscal and macroeconomic procedures curbs governments' autonomy of decision making and responsiveness to parliaments, thus 'undermines parliamentary scrutiny and control' (Crum, 2017: 2). The Six-Pack had

introduced ‘Economic Dialogue’ between the European Parliament, the Commission and the Council through which the competent committee of the European Parliament could ‘invite the President of the Council, the Commission and, where appropriate, the President of the European Council or the President of the Eurogroup to appear before the committee’ to discuss Semester outputs in different phases of the cycle (Regulation (EU) No 1175/2011). The European Parliament denounced the practice in which the DG ECFIN and ECOFIN monopolized the drafting of the AGS. Since 2015, the AGS is finally presented in the European Parliament and enables dialogue (Coman, 2017: 56). However, while Economic Dialogue introduces a cyclical exchange of views and information between EU institutions, the role of the European Parliament remains constrained as it disposes of no decision-making function (Crum, 2017). On the national level, the role of national parliaments and parliamentary committees in the Semester process, particularly in the drafting of NRPs and monitoring of CSRs is weak, and evidence of more active involvement is scattered and highly contingent as ‘minimum standards for parliamentary involvement’ are missing. (Kreilinger, 2018; see also: Hallerberg et al., 2017; Vanheuverzwijn and Crespy, 2018).

In Commission – Member State relations, the Commission became increasingly cautious over time not to issue too provocative or ‘harsh’ CSRs (Coman, 2017: 57) following the eurocrisis period which earned the Commission a bad name for imposing austerity especially on bailout countries (Greece, Ireland, Spain, Cyprus). After a few iterations, the Commission started paying great attention to the political realities. It avoids opening too many fronts in CSRs so as not to antagonize the Member State. Too many big item tickets on the CSR list are avoided. Also, to ameliorate the low legitimacy of interference, the Commission introduced bilateral fact-finding missions. This was in line with Juncker’s promise to lead a ‘political Commission’, which was in the case of EMU reflected in the increasingly flexible interpretation of fiscal rules, adaptability to political circumstances and respect for national sovereignty (Dinan, 2016; cf. Peterson, 2017). At an administrative level, this meant that the management of fiscal and macroeconomic policy would

‘come with some discretion in highly political matters’ (Nugent and Rhinard, 2019: 216). At the same time, the Commission had not become more benevolent towards Member States in EMCO as it continues to hold a hard stance towards CSRs and prevents substantive amendments (Vanheuverzwijn and Crespy, 2018)

EMCO continues to exercise a ‘central steering role’ (Tholoniati, 2010: 102) in the Semester process as it is involved in all relevant phases of the Semester cycle, from discussing and amending Commission’s CSR proposals and Employment Guidelines to monitoring and reviewing national policies. However, it is also worth recalling that the Commission traditionally embraces a steering role in EMCO as its secretariat, which enabled the Commission to dictate the agenda, the tone of the meetings, as well as the form and direction of discussions (de la Porte and Pochet, 2004: 72) which is not always to the liking of Member States. However, while EMCO continues to be a cornerstone of the Semester process for employment, it appears to be disconnected from EPSCO ministers. Unlike the EPSCO format, ECOFIN and the Eurogroup are found to have adjusted their working methods and practices for generating deliberation and consensus. Poor substantive involvement of EPSCO in the Semester proves to be an obstacle to greater political legitimacy of the Semester (Maricut and Puetter, 2017).

Section 2.1 gave a short overview of Semester procedures, the timeline, actors, key elements and developments since its introduction in 2011. This prior knowledge is important as it forms the building blocks for the analytical framework that follows. It enables the reader a more informed and better understanding of the subsequent empirical analysis.

2 THEORIZING EUROPEAN SEMESTER INFLUENCE

The previous chapter aspired to give a better understanding of socio-economic governance within the Semester framework and the evolution of EU employment coordination. This chapter builds on existing theoretical/empirical knowledge and the post-2010 novelties in employment coordination to develop an analytical framework for studying the influence of the Semester. Three pathways of influence will be developed, namely external pressure, mutual learning and creative appropriation, all three of which are conditional on contextual factors which either facilitate or impede policy change. Prior knowledge (Beach and Pedersen, 2013) accumulated in Europeanization/governance studies will guide the form of expectations flagged in this research. First, however, a short detour through the literature is due, followed by a discussion of the new intergovernmentalism which serves as a foundation of the analytical framework in this study. It then moves on to explicate the sources of influence and the form this influence may take in the domestic employment field. Central to theorizing on the influence of the Semester is to develop three causal mechanisms, which are presented here together with their theoretical foundations and expectations (hypotheses) on factors which might inhibit or stimulate the operation of the causal mechanisms. The chapter concludes by outlining the methodology on which the subsequent empirical chapters rest.

2.1 Literature review

Research on the Semester concentrates around three broad themes (Verdun and Zeitlin, 2018) to which I add a fourth. The first theme looks into the nature of socioeconomic governance in the Semester in an attempt to assess to what extent there is a balance between the promotion of economic and social goals in the Semester, and whether the Semester favours economic actors and objectives at the expense of the social axis. A great number of authors argued that the Semester

does favour the economic dimension, which has, according to them, practically subsumed social and employment goals under economic reasoning and put the two into an asymmetric relationship (de la Porte and Heins, 2014a; Crespy and Menz, 2015b; Coman and Ponjaert, 2016; Copeland and Daly, 2018; Maricut and Puetter, 2018). Others have been more optimistic, arguing that interconnections between economic procedures and social objectives raise the profile of social issues and increase their salience (Bekker 2015; Jessoula, 2015; Urquijo, 2017).

The second topic of interest is the degree to which either supranational or intergovernmental actors were empowered in the process of building a post-crisis governance structure. There is growing consensus that the Commission has become more powerful in economic governance (Dehousse, 2016; Savage and Verdun, 2015; Bauer and Becker, 2014), yet for others, the ultimate decision-making primacy remains in the hands of Member States (Bickerton et al., 2015; Maricut and Puetter, 2018).

A third topic concerns the democratic credentials of the Semester and the questions to what extent elected representative institutions (parliaments) have been able to preserve their (budgetary) scrutiny rights and powers (Crum, 2018; Hallerberg et al., 2018), or what drives parliamentary involvement in the Semester (Kreilinger, 2018). Similarly, a number of authors addressed the wider democratic legitimacy of the Semester, particularly in regards to the consequences of imposed austerity measures for domestic ownership, the inclusiveness and substantive contribution of domestic actors to the EU phase of the Semester process and the marginalization of elected institutions, the European Parliament and national parliaments (Schmidt, 2015; Coman, 2017; Vanheuverzwijn and Crespy, 2018; Munta, 2019; Papadopoulos and Piattoni, 2019).

A final, yet scarce theme in the Semester literature concerns the domestic policy effects of socio-economic governance in the Semester, the Semester's causal influence and the effectiveness of the procedure in inspiring structural reforms. Louvaris Fasois (2018) looks into Belgium pension reform and how processes of policy learning in expert groups influence policy change. Eihmanis

(2018) studies Latvia in the period between 2008 and 2014 when the country was simultaneously in the euro convergence program, the Semester and Balance-of-Payment procedure. The author shows how the government creatively cherry-picked and outperformed EU fiscal and economic targets to use them as a justification for underperformance in other areas. Di Mascio et al. (2019) explain that policy actions of successive Italian governments on ‘fiscal consolidation, labour market policies and liberalization’ which emanated from Semester CSRs depended on the credibility of awards and fit with domestic agendas. Finally, Baeten and Vanherche (2016) are interested in how the fiscal framework of the Semester impacts the healthcare sector in Member States and find that fiscal objectives had precedence over health-related goals. Beyond these in-depth studies, some authors took interest in measuring the Semester’s effectiveness through CSR implementation rates (Hallerberg et al., 2012; Deroose and Griesse, 2014; Darvas and Leandro, 2015). This PhD thesis is clearly situated in this fourth strand of the Semester literature, trying to grasp the extent and ways in which the Semester impacts domestic policy change in the employment field.

When it comes to traditional theories of European integration such as neofunctionalism or liberal intergovernmentalism or even postfunctionalism, they are ill-equipped to underpin studies of domestic impact of European integration due to the nature of their analytical focus. Neofunctionalism argues that the process of European integration rests on functional interdependencies and pressures which create spill-over effects in the political arena (Haas, 1958). On the other hand, for liberal intergovernmentalism, supranational outcomes and integration derive from intergovernmental bargaining between Member States which arrive at their positions through a competitive process of domestic preference formation (Saurugger, 2013: 55). It follows then that both perspectives share a common interest in explaining integration outcomes. Scholarship in these two traditions has thus focused on explaining the creation of crisis management tools during the eurocrisis, rather than looking at how these tools (incl. the Semester) shape domestic actions post-negotiations (Niemann and Ioannou, 2015; Schimmelfennig, 2014,

2015). Different from the previous two, postfunctionalism claims that the period of ‘permissive consensus’ has ended and that European integration has become a highly politicized affair with (Eurosceptic) public opinion and domestic party politics playing an important role in constraining deeper integration (Hooghe and Marks, 2009). It appears that this perspective is better in explaining elite strategies and processes in the build-up of integration negotiations than accounting for specific integration outcomes (Schimmelfennig, 2014: 336).

This general lack of power of European integration theories to explain domestic policy change through integration has contributed to the rise of the Europeanization concept. Generally, the study of Europeanization ‘seeks to understand the influence of the EU and European integration more generally on political, economic and social change within each Member State’ (Saurugger, 2013: 123). While the term ‘Europeanization’ can have ‘many faces²⁷’ (Olsen 2002) and mean many different things, thus being at risk of conceptual stretching, the angle which is particularly salient for the context of this PhD thesis is its specific policy focus. The first generation of Europeanization studies demonstrated an interest in treating EU-level developments as the explanation to changes in, broadly speaking, domestic policy structures. It largely looked at harmonization with EU law and reasons why Member States reacted with differentiated responses to EU pressures to comply (Green Cowles et al., 2001; Héritier et al., 2001). Rather than analysing how national policy preferences are projected onto the EU-level through uploading, they understood Europeanization as a process of downloading formal rules or the transposition of EU law (*Acquis Communautaire*) into domestic law. This strand of literature takes the misfit between ‘European and domestic processes, policies and institutions’ as a starting point for the analysis of domestic change (Börzel and Risse, 2000: 5). The ‘goodness of fit’ hypothesis expects to find greater adaptational pressures when domestic norms, rules and procedures are not compatible or

²⁷ Olsen (2002) distinguishes between five phenomena when he talks about Europeanization, depending on what is the object of change: 1) enlargement processes or change in external borders; 2) European integration in the classical sense or institution-building at EU level; 3) the adaptation of national and sub-national levels to EU rules, norms and guidelines; 4) the export of EU norms, solutions and governance beyond EU member states; 5) and the degree of EU unification.

in line with EU norms. At the same time, the existence of a misfit is considered to be a necessary condition for domestic change to occur (Börzel and Risse, 2000; Green Cowles et al., 2001; Héritier et al., 2001). The effects of Europeanization in this model are however mediated by domestic factors. One set of factors is usually grounded in rational choice institutionalist reasoning which expects that adaptational pressure creates opportunities or constraints to be exploited by domestic actors. Another set of factors normally resides in the sociological institutionalist camp, which places the processes of socialization, persuasion and learning at the centre of explanations in policy change. Whereas the first follows a 'logic of consequences' and assumes that actors act rationally to maximize their benefits, the other draws on the 'logic of appropriateness' which conceives of actors as being guided by structures of norms, values, informal rules, philosophies and meanings which constitute appropriate behaviour (March and Olsen, 1998). Newer Europeanization literature on (non-)compliance has contested the usefulness of the 'misfit' approach by empirically demonstrating that better fit does not necessarily mean better compliance (Falkner and Treib, 2008; see also: Mastenbroek and Kaeding, 2006). Still, both perspectives have a general appetite for new institutionalist explanations of influence (sociological and rational choice). New institutionalist mechanisms of change will crucially define the theoretical contours of this thesis.

The fact that the compliance literature looked at Europeanization in policy areas in which Member States are legally obliged to transpose EU legislation or otherwise face material sanctions (as a last step in the infringement procedure), begs the question of whether Europeanization takes a similar form in areas such as employment policy which rely on policy coordination rather than hierarchical prescription, the use of soft law as opposed to legally binding acts, flexible implementation and the absence of sanctions. As the EU started using new modes of governance, typically the OMC, the Europeanization literature went through a 'governance turn' (Kohler-Koch and Rittberger, 2006) and started analysing the national influence of OMC processes. Scholarly interest into the effects of EU soft policy co-ordination on the domestic level coincided with the second phase of the 'governance turn' which treats the EU polity and governance as independent

variables and observes their impact on national policies (Kohler-Koch and Rittberger, 2006: 31). This literature paid much attention to the period of the Lisbon Strategy (2000-2010) and scrutinized the effectiveness of soft policy co-ordination both from a theoretical and empirical perspective. On the theoretical level, two camps with contrasting positions, sometimes called optimists and pessimists (Büchs, 2009), have dominated the debate. The optimists argued that the absence of legally binding rules and sanctions is a precondition for the flexibility of the process, open discussions, experimentation and learning processes, which can trigger changes domestically²⁸ (Begg and Berghman, 2002). From this perspective, non-coercive EU policy coordination can produce cognitive (discourses, concepts, understanding of causal links) and normative shifts (policy communities) in national policies (see: Borras and Jacobson, 2004). In contrast, pessimists depict soft policy co-ordination as ‘a paper tiger’, ‘beauty contest’, ‘exercise in statistics’, ‘symbolic action’ or ‘window dressing’²⁹ (see: Zeitlin et al., 2014). They raise serious doubts in soft co-ordination’s effectiveness in absence of hard law and argue in favour of greater legal backing³⁰ of its procedures (Scharpf, 2002; Bulmer et al., 2007). From this perspective, soft instruments require a ‘shadow of supranational hierarchy’ (Börzel, 2010) in the form of stronger coercive mechanisms to assure credible commitment of national actors to national policy change.

In regard to empirical studies, qualitative case studies dominate the research agenda on national influence of EU employment coordination. Three large projects present the most comprehensive empirical evidence on national influences of OMC in social/employment policy so far (Zeitlin and Pochet, 2005; Heidenreich and Zeitlin, 2009; Barcevičius et al., 2014). A common finding is that the OMC influences substantial changes in domestic policies to a lesser

²⁸ These authors point to the poor enforcement records of EU directives to prove that hard law is not superior to soft law (Trubek and Trubek, 2005).

²⁹ The understanding is that national authorities simply use procedures such as the drafting of National Reform Programmes as an administrative exercise to repaint pre-existing domestic priorities and policies so as to demonstrate their convergence/alignment with EU guidelines and recommendations.

³⁰ For instance, Scharpf (2002) proposes a combination of the Open Method of Co-ordination with framework directives in order to bolster the impact of policy co-ordination. Soft co-ordination would be used to direct national action towards agreed objectives. Then, in case of non-compliance, framework directives would be tightened.

extent, whereas the most widely felt impact is ideational ('cognitive shifts'). In Zeitlin's (2007) reading, there is evidence of positive influence of EU employment co-ordination on a number of dimensions. Co-ordination contributed to both changes in national policy agendas and substantive policy change in a number of issue areas, but also affected domestic policy co-ordination and involvement of non-state actors. Heidenreich (2009) outlines domestic institutional constraints, lack of political commitment and procedural shortcomings of EU co-ordination as prime reasons of limited direct influence. Radaelli (2008) studied the influence of EU co-ordination on learning in Member States. He reports limited success in horizontal learning from peers and bottom-up learning from local experiences. However, he acknowledges some success in absorbing EU concepts into the domestic field, such as lifelong learning, flexicurity or social inclusion. De la Porte and Pochet (2012) add fuel to Radaelli's finding by arguing that the impact of EU co-ordination through learning is limited to selective usage of knowledge that fits national priorities or purposes. For instance, Büchs (2007) gives the example of German labour market reforms in the 2000s in which the German government referred to EU initiatives to legitimize reform packages. Finally, quantitative studies are scarce. Copeland and ter Haar (2013) analysed NRPs and compared the follow-up responses by Member States to EU employment guidelines and recommendations. They reported very little impact of policy coordination upon employment policies of the Member States (*ibid.*, p.33).

As previously demonstrated, systematic research on the national influence of the Semester on employment policies is scarce, despite the fact that prominent authors in the field have called for renewed attention to the impact of soft coordination, now within the new governance architecture of the Semester (Zeitlin and Vanhercke, 2014: 58). Not only is empirical evidence on the effects of post-crisis management frameworks such as the Semester scarce, it also rarely takes the form of a systematic case comparison. This PhD thesis intends to fill this gap.

As no single theory can appropriately account for domestic influence of the Semester, this thesis takes stock of the Semester-specific literature, the Europeanization literature and new

intergovernmentalism to create an analytical framework. The research design in this study is undoubtedly top-down. Top-down models are largely attributed to the early Europeanization literature which: ‘starts from the presence of integration, controls the level of fit/misfit of the EU level policy vis-à-vis the Member State and then explains the presence or absence of domestic change’ (Exadaktylos and Radaelli, 2009: 510). The difference between a top-down and bottom-up strategy lies in the fact that the former prioritizes EU-related explanations, whereas in the latter the EU is treated exogenously and becomes only one of several possible explanations which are traced back in time to account for domestic policy changes (Bache et al., 2012). From this it follows that the top-down perspective treats domestic circumstances only as ‘mediating factors’ (Risse et al., 2001). Nonetheless, this research chooses to follow a top-down strategy. Such a design is justified by the focus and purpose of this research, which is to shed empirical light on the Semester’s capacity to influence domestic policy change in CEE. This is to say that this PhD thesis will not observe all employment changes that occurred at the member-state level since 2011, but only those policy issues which have been directly addressed by EU activity, most notably the CSRs. The research question warrants an EU-centred approach in that it seeks to explain how the Semester impacts domestic employment policy, and if it does not, how one can account for the absence of influence, regardless of whether policy change converged towards EU preferences or not.

2.2 New intergovernmentalist foundation

The evolution of the EES has been decisively influenced by intergovernmental forces. This is reflected in the ‘clear political leadership’ of the European Council (Borras and Jacobsson, 2004: 198) and the central role of EMCO which consists of national representatives. Although Member States dominated the strategic outline of employment coordination, the Commission was in charge of day-to-day management of coordination (Borras, 2009: 108). Nonetheless, Member States have been in the driving seat since early 2000s (de la Porte 2011; Goetschly, 2014). They continued to have a ‘strong grip over the decision-making process’ of crisis legislation, including the Semester

(Bressanelli and Chelotti, 2016: 512). In December 2011, the European Council stressed the importance of complementing the economic governance framework with ‘improved monitoring of employment and social policies’ (European Council, 2011). At the 2012 Spring European Council meeting, heads of state and government opted for a ‘Compact for Growth and Jobs’ to increase engagement in the employment field and to restore national labour markets (European Council, 2012). Governance reforms that culminated with the establishing of the Semester reflected the consensus between Member States to mobilize different governance procedures and to upgrade the ‘peer pressure’ on domestic (structural) reforms (ibid., 7).

This thesis understands that any endeavour to study the domestic effects of EU initiatives needs to explicate how the study conceives of the integration process. Far too often has the Europeanization literature side-tracked this question, either by being completely agnostic about the integration process, or only implicitly siding with a certain understanding of the integration dynamics. In order to avoid the usual caveat in the literature, this research explicitly adopts the prism of the ‘new intergovernmentalism’ (Bickerton et al., 2015). Although it does not claim to be a grand theory of European integration, new intergovernmentalism can add analytical weight to the Semester process. New intergovernmentalism contends that the post-Maastricht period is marked by an ‘integration paradox’ according to which Member States are increasingly willing to pursue co-operation at the EU level yet resist any further transfer of powers to EU’s supranational institutions (Bickerton et al., 2015). Even though the Commission has without doubt increased its surveillance powers over fiscal and macroeconomic policy during the crisis (Bauer and Becker, 2014; Dehousse, 2016; Nugent and Rhinard, 2016), the Council and the European Council ‘take lead roles in all stages of the policy process’ (Fabbrini and Puetter, 2016: 482) in economic governance. Member States are still drivers of European integration, however, intergovernmental relations are seen less through the lenses of power struggles and bargaining (Schmidt, 2016: 4), but more through the search for cooperative solutions *via* deliberation and commitment to consensus-building.

New intergovernmentalism highlight several key features of the post-Maastricht period. Two claims are relevant here. First, Member States favour alternative modes of governance in sensitive policy areas and delegate decision-making powers to non-supranational bodies to avoid empowerment of supranational institutions³¹. In general, EU activity in new policy areas of economic governance, foreign policy, employment policy, education or social policy has seen “little or no significant delegation” to supranational institutions (ibid. p. 10). At the same time, agenda-setting and implementing powers have remained in the hands of intergovernmental institutions (European Council and Council). Employment coordination fits well with this framework as it reflects 'intergovernmental policy coordination as opposed to traditional Community method decision-making' (Bickerton et al., 2015: 18). Second, deliberation and consensus-seeking are considered to have become the ‘guiding norms’ of the daily internal dynamics and decision making of EU’s (more or less) intergovernmental bodies (ibid. p. 29). Authors in the field have documented various instances of institutional engineering (informal working methods, closed and intimate settings) aimed at fostering open policy deliberation (Puetter, 2012). Especially in the field of EU economic governance (Eurogroup, ECOFIN), reaching a consensus is seen as a precondition for successful policy implementation (ibid.). Being at the epicentre of employment coordination, a *de novo* body – the Employment Committee, draws the attention of scholars to investigate to what extent the settings and working methods of this body really contribute to policy learning.

This debate, in turn, informs the theoretical framework in this PhD thesis in two aspects – it underlines, first, the importance of socialization, deliberation, learning and consensus-building in intergovernmental coordination frameworks such as the Semester, and second, the limited permeability of national policy systems in sensitive and contested policy fields such as employment.

³¹ It is argued that ‘de novo bodies’ of decision making on the level of ministers or senior civil servants such as the Eurogroup in economic governance, the European Central Bank for monetary policy or indeed the Employment Committee (EMCO) in employment policy have decentralized policy making away from traditional supranational institutions (i.e. the Commission and ECJ).

2.3 Policy formulation and adoption

This research benefits from the stage model understanding of the policy process (Colebatch, 2009). The stage model assumes that the policy process can be separated into distinct steps through which public policy travels. Policies are put on the agenda, goals and means are formulated, leading to the formal adoption of policies, which are then rolled-out (implemented) and evaluated based on their effectiveness before any decisions are made regarding the maintenance, modification or termination of a policy. Although simplistic in its assumption of policy realities and problematic for many other reasons not discussed here, the policy cycle can still be utilized as an ‘organizing framework’ (Cairney, 2011: 6) or a guiding ‘heuristic device’ (Hill, 2004: 20). By adopting such an understanding, this study intends to focus on the policy formulation and adoption stages of the policy cycle and has no illusion of being able to draw conclusions on how policies are being implemented. Studying the implementation of employment policies or the policy outcomes (i.e. changes in employment levels) would require a completely different research design and falls outside the scope of interest of this PhD thesis. A narrower focus on the process of designing policies has been consciously chosen to unbox the selection of choices made in the employment sector and to unravel Semester influences on changes in policy goals, policy measures or both. If this study was to analyse the implementation or evaluate the effectiveness of policies in reaching policy goals it would have to take the form of an implementation study or a policy evaluation. Sporadically, the ‘agenda setting’ stage will be of interest in cases where certain European concepts or policy ideas inspire a domestic political debate or reach the ‘policy agenda’ (Béland, 2009).

2.4 Source of influence and alternative explanations

This PhD thesis treats CSRs as the analytical starting point in the causal analysis of the Semester influence. They will be considered as the key EU stimuli to policy change in the Semester. In a different research design, CSRs would, by analogy, reflect the ‘independent variable’ or the cause

of Semester's influence. In employment, CSRs take the central stage in the Semester as they funnel the key employment policy challenges identified in the preceding policy analysis of each individual country. Activities of the Semester, including the use of employment indicators, preparation of Country Reports, the NRP and reviews in the Employment Committee, feed into the final CSRs. The formulation of CSRs has increasingly become evidence-based and insulated from the pressure of Member States, as attested by one top-ranked Commission official from the interview sample (EC1A). This makes them better suited for analysis than prior to the establishment of the Semester when the CSRs were said to be more a reflection of national priorities (Hartlaap, 2009: 6) or the result of intergovernmental bargaining in the Council (Copeland and ter Haar, 2013: 32).

While the Commission's proposals of CSRs still have to be approved by the Council and European Council, they nonetheless serve as a fair assessment of domestic policy challenges, at least in most cases. Member States generally agree with the 'meat' of the CSRs. In only a minority of cases does the Commission's assessment cause political controversy. In those rare instances, a qualified majority within the Council can overturn a CSR, which happens to around 9 to 11 CSRs yearly, in total (Vanhercke and Zeitlin, 2015: 16).

To ensure analytical focus, this PhD thesis narrows down the scope of interest to those policy problems that have been identified in the yearly CSRs. This makes it easier to identify policy items of substantial importance, and trace policy progress more systematically.

It remains vitally important not to leave out of sight alternative explanations (Haverland, 2006) and keep the door open for competing external (other international organizations such as the World Bank, ILO, OECD or external shocks such as financial crises) or internal (socio-demographic changes, economic circumstances) causes that might potentially lead to changes in domestic employment policies. A change in policy can result from stimuli other than the Semester (Hartlaap, 2009:4), which is why this research controls for such instances. The region of CEE has seen instances of alternative influences before. A case in point is the liberalization of the pension system during the 1990s, a choice that was heavily influenced by transnational policy promotion

championed by the World Bank (Orenstein, 2009). This makes it even more important to calculate in such possibilities.

2.5 What influence? Defining influence and forms of influence in the European Semester

In regard to the domestic changes (effects) to which this research devotes attention, it is useful to draw on findings from large-scale synthesis reviews of the OMC in employment and social policy conducted by Barcevičius et al. (2014), Heidenreich and Zeitlin (2009) and Zeitlin and Pochet (2005) to see what form of influence the Semester can exert on the domestic policy system. They differentiate between procedural and substantive changes in the domestic policy structure that can be expected to occur as a result of EU influence (Weishaupt, 2014: 204). In a similar spirit, this thesis defines influence of the Semester as the capacity of CSRs to cause procedural and/or substantive changes in the domestic employment policy system by means of employment coordination tools deployed within the Semester. This effectively means that the ability of tracing and finding evidence of causal mechanisms linking the Semester to policy changes at home becomes an integrative element in the definition of influence. Without such process-related evidence, linking cause (Semester) to effects (changes in employment policy) would amount to speculation.

Procedural changes can mean the creation of horizontal and vertical coordination structures for the Semester; involvement of stakeholders and non-state actors in policymaking; and statistical capacity building (see: Jacobsson and Viffel, 2007). Given the highly integrated nature of the Semester and joint policy responsibilities it creates, it is expected that governments will create national Semester bodies for cross-ministerial coordination of policy issues. On the other hand, governments might want to create vertical structures (formal or informal) between levels of government to enhance coordination and experimentation. Next, the Commission has strongly urged Member States to engage with social partners in the design and implementation of

NRPs within the Semester. In general, social partners are relatively weak and uninfluential in CEE, and previous research reveals that their involvement in OMC procedures has been minimal. Involvement could easily be described as window dressing that aims to fulfil the procedural obligation without any real chance for inputs (de la Porte, 2012: 343; Sissenich, 2005). New research which analysed the integration of social partners into European and national processes within the Semester is not too optimistic about their substantive impact on the creation of NRPs, the Country Report or the CSRs and the quality of engagement varies from country to country (Eurofound, 2017; Sabato and Vanhercke, 2017). In the absence of positive or negative incentives, it is thus unlikely to find any traces of substantial stakeholder involvement in the Semester, beyond mere consultations. Improvements in statistical capacities can result from requirements from the EU level to monitor and evaluate policies or to develop new monitoring devices in order to collect data comparable across Member States. Such improvement often results from conditions attached to funding opportunities.

Past research (see: Zeitlin, 2009: 221-226) has concluded that employment and social coordination via the EES and OMC has ‘contributed significantly to procedural shifts in governance and policy-making arrangements’. For the Semester, it would not be surprising to see a continuation of this effect, given the Member States’ procedural obligations to participate in reporting and reviewing activities of the Semester. For social partners, it is expected to see their formal integration in domestic Semester activities, but lack of meaningful participation.

Of far greater interest are substantive changes that can be observed. Substantive changes can include direct policy change; changes in the importance of policy problems (preparatory shifts) or agenda-setting. Direct changes can be defined as change in laws and regulations occurring on three levels (Hall, 1993). First, change in the setting of policy instruments – i.e. lowering the duration of unemployment benefits from 12 to 6 months. Second, change of existing policy instruments or introduction of new ways of solving policy issues – i.e. providing job counselling. Third, transformative (paradigmatic) change of both policy goals and instruments – i.e. shift from

a passive to an active approach in which activation becomes an explicitly new policy objective for the purpose of which new policy tools are devised, say by linking the benefit rights to job-search obligations. To sum up, first, changes can amount to simple parametric recalibration in the setting of individual policy instruments. Second, a deeper level of change includes the introduction of new policy solutions to pursue existing goals. The deepest level of change affects both the problem and solution definition and includes both the alteration of policy goals and means. Such changes are equivalent to tectonic, paradigmatic shifts and are hardest to achieve.

Preparatory shifts are observed when governments initiate discussions, start using EU concepts (such as pension adequacy, active inclusion or active ageing) in debates, frame forthcoming policies in accordance with EU initiatives, open discussions/consultations for a policy, establish working groups, create task forces or commissions, prepare bills, and pass strategic documents or action plans (Copeland and ter Haar, 2013). Agenda-setting refers to instances where a certain policy issue begins to occupy the attention of decision-makers or the public on a broader societal agenda as a result of Semester activities.

Table 2. 1 Forms of policy change

Procedural	Substantive
- Horizontal coordination	- Direct policy change (first order, second order, third order change)
- Vertical coordination	- Preparatory shifts
- Stakeholder involvement	- Agenda-setting
- Statistical capacity building	

Source: Modified from Zeitlin (2005), Zeitlin (2009), Copeland and ter Haar (2013) and Weishaupt (2014).

Evidence of employment coordination having a substantive influence on direct employment policy change is ‘fragmented’ and found wanting (Zeitlin, 2009; Zeitlin 2005), partly due to difficulties in documenting and tracing such instances. The literature does, however, offer plenty of examples in which EU employment coordination resulted in preparatory shifts, say through incorporation of EU concepts into domestic debates, or in shifts in domestic employment

agendas. The latter is expected to figure even more prominently than before, because dissemination activities and greater publicity of the Semester makes it easier for EU topics to penetrate national policy debates.

2.6 Linking X to Y: The mechanisms of European Semester influence

So, which causal mechanisms are likely to be found to work as transmission belts that link the Semester as the cause and employment policy changes as the effect? The Europeanization literature has extensively discussed the causal pathways leading to change. Similar to the analytical framework proposed by Zeitlin (2019), this study opts for a mechanistic understanding consisting of three potential pathways of Semester influence, namely via: *external pressure*, *mutual learning* and *creative appropriation*. External pressure describes different degrees of adaptational pressure exerted on employment policy by interlinkages in the Semester framework, be it through the existence of positive rewards or negative incentives which require policy change. The mechanism of mutual learning here is expected to operate on the basis of a voluntary process of direct or indirect policy learning *from* the EU level and *from* peers in EU fora (EMCO in specific). Creative appropriation relates to a process in which governmental, national, subnational or non-state actors strategically use the Semester for pre-existing purposes. Each mechanism is considered to be operational only if contributing factors are present. In contrast, inhibiting factors might block or diminish Semester's influence through the specific pathway. For each mechanism, several structural and actor-centred factors are hypothesized. The following sections will sketch each mechanism, ground them in existing theories and spell out the conditions under which they are (not) expected to influence domestic employment policy.

2.6.1 External pressure

How the mechanism operates

External pressure can take the form of either soft sanctions (Zeitlin, 2009) or conditionality. Both are embedded in rationalist explanations of policy change. Soft sanctions are understood as public denouncements of Member States' actions/inactions which do not conform to EU-level recommendations or peers' expectations. This form of external pressure is usually called naming and shaming and operates on the assumption that national governments will stick to EU recommendations regardless of their non-binding nature so as to avoid reputational costs among peers and in the public. (Moumoutzis and Zartaloudis, 2016). Conditionality, on the other hand, 'implies setting conditions in order for certain decisions to be implemented, typically by other institutions or countries, in a form of quid pro quo', and denotes a 'way to coordinate or bind the behaviour of institutions which are independent from each other or respond to different layers of government' (Bini Smaghi, 2015: 756). It assumes that actors have fixed preferences which they try to pursue but operate in an environment of external incentives to which they react. These incentives are either rewards, sanctions or at least the threat of sanction. Conditionality reflects a situation of asymmetrical distribution of power (Sacchi, 2016: 161). In the context of the Semester, the EU has an upper hand as it can set policy conditions to Member States that have to be fulfilled in order to receive benefits (rewards) or to avoid sanctions. The countries of CEE have a vivid memory of external conditionality being used in the pre-accession period as a mechanism of exchanging harmonization of practices with the reward of joining the EU (Schimmelfennig and Sedelmeier, 2005), and incentive-based mechanisms continue to explain influence in the region after accession (Epstein and Sedelmeier, 2009). However, conditionality is extensively used in the context of Semester governance tools as well, be it through ESF funding, the SGP or the MIP. Beyond the Semester, this mechanism has most notably been used during the eurocrisis with bailout countries such as Greece, which had to sign a Memorandum of Understanding with specific policy demands to be implemented in exchange for loan assistance (Featherstone, 2014). In that regard, countries that are likely to become bailout countries, start to react to the 'shadow of hierarchy' (prospect of MoU) (Héritier and Lehmkuhl, 2008), and operate according to 'implicit

conditionality’ – when they comply with reform requirements, including employment policies which are set out in the Semester toolbox, without a formalized procedure being attached but based on ‘an implicit understanding of the stakes and sanctions involved’ if the country were to enter a MoU (Sacchi, 2016: 159). In some Eurozone Member States that are crisis-ridden and may face the need to ask for a bailout, the threat of entering a Memorandum of Understanding will act as an incentive to accept EU recommendations in order to avoid future strict conditionalities (Di Mascio et al., 2019). The case of Italy has shown how a Eurozone Member State can fall under implicit conditionality by the ECB and the Commission to restore lending capacity, without having to enter a formal lending programme with strict conditionalities. This threat was the ‘implicit stick’ in the Italian case (Sacchi, 2016: 160).

Theoretical foundation

How can the knowledge about mechanisms of influence help us better grasp the causal paths through which the Semester is able to influence change in domestic employment policies? It is argued here that the general framework needs to be supplemented with tangible expectations emerging from the characteristics of the Semester governance arrangements within which employment coordination is embedded. Causal mechanism should not remain apolitical. Conditions, or factors, in the form of structure or agency need to be placed at the forefront of the analytical framework so that plausible hypotheses can be developed and empirically tested. This research argues that by studying the features of Semester governance, one can better understand what influences policy change (independent variable), which factors amplify or diminish the influence (conditions), how these are transmitted to the domestic level (causal mechanisms) and what form the policy takes domestically (policy change). This section will introduce the theoretical grounding of ‘external pressure’.

Since the creation of the Semester, more emphasis has been placed on exploiting interlinkages between soft employment coordination and EMU sanction-based fiscal and macro-

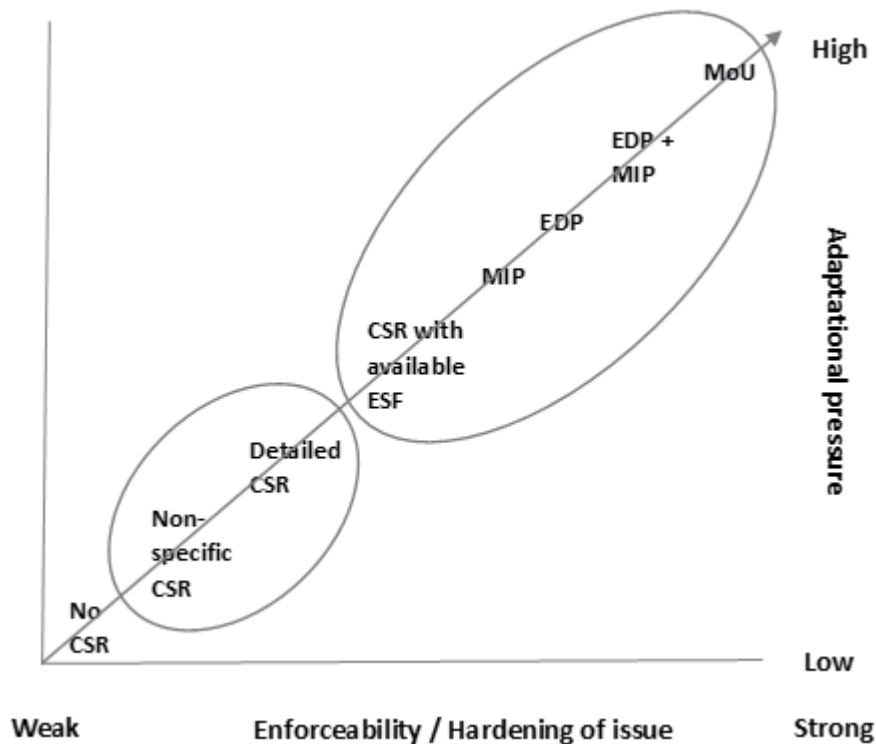
economic procedures that ‘penetrate deeper into welfare state policies than before the crisis’ (de la Porte and Heins, 2014a: 3). It is argued that a combination of binding and soft instruments can increase Semester’s ability to enforce reforms. The Semester has integrated a number of governance mechanisms (SGP, MIP, European Social Fund) which have different legal bases and enforcement capacities, and utilize a variety of soft tools (CSRs, Council recommendations, resolutions, action programs, mutual learning) and hard tools (sanctions, regulations, directives, conditions). This integrated approach leads to “mutual interaction” and heightens the interconnection between hard law and soft procedures (Coman and Ponjaert, 2016; Bekker, 2015), whereby the threat of sanctions in the former, ‘hardens’ the latter (Eihmanis, 2018). This interconnection between employment, social, economic and fiscal aspects occurs both at the level of policy analysis/monitoring/evaluation (in Country Reports, Alert Mechanism Report, Convergence Plan), policy recommendation (in CSRs) and at the level of shared competencies over portfolios in committees and Council formations. In practice, this happens when employment CSRs are issued under the heading of SGP and/or MIP recommendations.

In a nutshell, this mix of more sanction-based and learning-based governance procedures can be ordered on a scale depending on how strong their formal (*de jure*) capacity is to enforce an employment recommendation (Figure 2.1). When the Council issues a generic, non-specific employment CSR, this creates only little traction and momentum for domestic reforms, unlike detailed CSRs which create the opportunity for domestic actors to use the specific recommendations to bolster their agendas (Baeten and Vanhercke, 2016). This is true for instances when it is possible to trace that the detailed CSR is based on considerations of ongoing reforms reported in the NRP by the government. It is not unusual to find detailed CSRs being tailored to political considerations as Member States are increasingly involved in the drafting of the analytical basis (Country Report) of the CSRs and engage in bilateral discussion of NRPs with the Commission. Still, both in the case of non-detailed and detailed CSRs, Member States remain in the realm of soft coordination without any threat of sanctions. It is argued here that these two

instances create conditions conducive to policy learning because they operate in circumstances of relatively low political tension and politicization. On the other hand, once we start observing the interlinkages between soft employment coordination and other governance procedures, employment issues become gradually hardened and backed by stronger enforcement mechanisms (sanctions). First, the interlinkages between ESF funding and employment recommendations comes in the form of funding conditionality. Links have been established between CSRs and investment priorities in the 2014-2020 ESF envelope. Not only were Operational Programmes expected to converge with CSRs, but new rules allow the Commission to request funds to be redirected to align them with CSRs or to initiate the suspension of funds if the Member State does not demonstrate sufficient progress in fighting fiscal and macro-economic imbalances in the corrective arm of the SGP and MIP (Regulation (EU) No 1304/2013). Existing literature confirms that ESF money does ‘amplify’ the effects of employment coordination (Verschraegen, et al. 2011). Even greater capacity to enforce a CSR can be observed under the MIP when, based on employment indicators that are used to detect macroeconomic risks, the Council issues an employment CSR under the MIP. If the Commission identifies imbalances or excessive imbalances within the IDR, ‘specific monitoring’ is applied which then intensifies the pressure to comply. In a worst-case scenario, the Commission could suggest financial penalties for Eurozone countries which experience excessive imbalances and do not comply with the required corrective action (Hodson, 2017; Moschella, 2014). The SGP has an even greater enforcement capacity as it rests on more precise fiscal rules. When an employment CSR is linked to both the MIP and SGP, threat of double sanctions become evocative. The highest enforceability rests in the case of near-bailout and bailout countries who are experiencing market pressure and eventually sign a Memorandum of Understanding which commits them to specific policy reforms in exchange for financial rescue. It is argued here that recommendations linked to ESF, SGP, MIP and MoU belong to the realm of conditionality and heightened sense of urgency to act, and as such do not contribute to deliberative policy learning.

The nature of the Semester, displaying procedural interlinkages and intensified multilateral surveillance, brings back into the discussion the notion of ‘adaptational pressures’ created by the misfit between EU and domestic practices, initially proposed in the Europeanization literature (Risse et al., 2001; Börzel and Risse, 2000). This concept was severely criticized as it was blind to domestic political factors that mitigate the perception of misfit (Mastenbroek and Kaeding, 2006). Also, the notion of adaptational pressures could hardly be applied to soft policy coordination in which policy change is deliberate, and sanctions are absent (Woll and Jacquot, 2010: 113, Büchs, 2007: 34).

Figure 2. 1 EU leverage on employment reforms



Source: Adapted from Baeten and Vanhercke (2016).

In the context of the Semester, it is suggested here, it is admissible to reconsider the analytical value of ‘adaptational pressure’ and to redefine it in accordance with the circumstances. The degree of adaptational pressure is understood as a function of both political and administrative pressures exerted on Member States in the framework of the Semester. The higher the

enforceability of an employment CSR, it is expected that adaptational pressure will increase. In political terms, this would be reflected in high-ranked EU officials' (Commission President, Commissioners, Eurogroup President or European Council President) increased political attention to a particular employment issue, be it as part of the institutional agenda, peer-pressure or in public naming-and-shaming speeches. In administrative terms, greater enforceability of a CSR is empirically observed to result in more frequent and intensive bilateral interactions (enhanced monitoring) the more the fiscal and/or macroeconomic situation in a Member States deteriorates. These interactions materialize in the form of fact-finding missions, and reinforced reporting obligations. Additional pressure in the soft law sphere is created by new reporting requirements to the Commission. Member States now have to report on the implementation of CSRs, provide detailed intelligence on the content of undertaken policy measures and comply with deadlines for responding to requests (Bekker, 2013: 5). How does this new dynamic impact domestic policy change?

When does external pressure (not) work?

Causal influence does not operate in a vacuum. This section introduces the first set of structural, contextual and actor-related factors and conditions which are expected to impede or facilitate the causal pathway of 'external pressure'. One proposition per factor is specified.

Condition 1: Credibility of rules

Early literature on EU conditionality (Schimmelfennig and Sedelmeier, 2005) has already pointed to the importance of the determinacy and credibility of conditions. Sanctions are considered determinate if precise and unambiguous formal rules are in place that define the sanctioning process. Credibility refers to the consistency of interpreting the formal rules. As for the SGP, there is a long history of derogating the formal deficit and debt rules when formal conditions for initiating an excessive deficit procedure were fulfilled. The Commission acts with increased

volatility and interprets the rule with flexibility (Schmidt, 2016: 5), which puts the credibility at risk. Moreover, the eurocrisis has made the Commission issue guidelines on the ‘best use of the flexibility’ within SGP (European Commission, 2015), thus further blurring the determinacy of the SGP. For the MIP, Moschella (2014) concludes that ‘the absence of mechanisms to prevent arbitrariness in the application of sanctions and the asymmetry that characterizes the MIP adjustment process open the door to political interference and public backlash’. This is reflected in the Commission’s freedom to define the relevant scoreboards, indicators and thresholds for MIP and in the flexibility of interpreting macroeconomic imbalances without having to mechanically read the indicators (Hodson, 2017). Moreover, the EIP had never been activated, which has ‘reduced the credibility and effectiveness of the MIP’ (ECA, 2018: 33). This leads to the conclusion that governments are more likely to dispose of recommendations as lacking any credible threat of sanction. They learn to decipher the likelihood of sanctions and room for exploiting flexibility (Dunlop and Radaelli, 2018: 262). If seen from a new intergovernmentalist perspective, the credibility would also depend on the existence of a consensus in the European Council and the Council to impose sanctions.

***Hypothesis 1.1:** Governments’ policy response will depend on the credibility of sanctions being applied, otherwise they will ignore the requests that do not fit their domestic agendas.*

Condition 2: Political constraints

Many political factors can influence the government’s willingness to agree on a contentious policy issue. The ability of the government to impose governmental preferences as national preferences can be constrained by structural factors in the preference formation process. Two variants of political constraints stand out in the context of CEE – policy autonomy and coalition unity (Kim, 2016). Policy autonomy refers to the degree to which the government is able to create policies without interference from socio-economic actors, whereas coalition unity refers to degree to which coalition partners agree on a policy item that is politically salient. In terms of policy autonomy, one

can expect to find ‘clientelistic linkages’ (Afonso et al., 2014; Featherstone, 2014; Trantidis, 2015; Vagionaki, 2018) which decrease the margin of discretion and policy autonomy, especially on issues that imply fiscal retrenchment or disrupt employment benefits. Since the electoral survival of the government may depend on the support of societal groups that enjoy material resources in exchange for loyalty, any action that jeopardizes these benefits leads to a deterioration in relations. Furthermore, obstacles to full policy autonomy may arise from the national system of interest intermediation, particularly in countries with strong neocorporatist traditions in the social and employment system (Fink-Hafner and Lajh, 2018). Social partners can then act as veto players to important changes in employment policy, both directly when decision-making rules require their approval, and indirectly, through the capacity to mobilize their membership to initiate referenda. When it comes to coalition unity, if a party has a blackmail potential (Sartori, 2005) to obstruct the normal functioning of the government, it provides the party with a veto point (Haverland, 2000; Tsebelis, 1995) to block action on policy items they oppose as they incur high electoral costs. Constraints within the political system can be the result of the controversial nature of a policy item.

Hypothesis 1.2: *If a government acts under political constraints which block policy action, the threat of sanctions and intensified monitoring will have a lower impact on policy change.*

Condition 3: Process socialization

One pertinent micro-level factor that might determine to what extent participants in EU fora are likely to take peer pressure and the threat of sanctions more seriously is the degree to which they have learnt to ‘play the Brussels game’. In other words, civil servants who interact with peers in EMCO, but also bilaterally with Commission staff (usually with country desk teams) on Semester issues, are more receptive to pressures and suggestions because they are novel to the Semester process and procedures. When civil servants operate in an uncertain environment, they become ‘cognitively motivated to analyse new information’ (Checkel, 2003: 213) and to reflect on policy

alternatives. Hence, unlike the assumption of some scholars that administrations which are better accustomed to EU practices and norm will more easily adopt EU requirements (Cacciatore et al., 2015), this perspective assumes that novel circumstances will leave civil servants open to explore new policy possibilities. Greater emphasis on top-down monitoring and implementation in the Semester (Baeten and Vanhercke, 2016; Jessoula, 2015; Borrás and Radaelli, 2014b) also means that the Commission has stepped up bilateral contacts on the administrative level (Borrás, 2009) with more frequent fact-finding missions and interaction with domestic administrations taking place. Although this kind of monitoring can negatively impact on the process of policy deliberation and learning (Radaelli, 2008: 246), continued insistence to react to unfavourable policy indicators or persistent requests on updates on ‘state of affairs’ can eventually trigger (paper) compliance.

Hypothesis 1.3: *The less acquainted the competent domestic civil servants and ministers are with working methods, procedures and practices of the Semester, the more receptive they are to pressures from peers and surveillance activities of the Commission.*

Condition 4: Attitude towards the EU

When the EU is trying to apply pressure, the existence of ‘principled’ and ‘qualified’ opposition to EU initiatives by domestic actors in government and the public may block EU influence: ‘Euro-scepticism also represents a barrier to the impact of the EES, because references to it under such circumstances may not be helpful’ (Mailand, 2008: 167). When the government is deeply opposed to European integration and advocates an exit strategy (membership withdrawal), one can speak of hard Euro-scepticism, and when criticism towards the EU is based on concerns over encroachments in a policy area and breach of national sovereignty and the country’s interests, this is regarded soft Euro-scepticism (Taggart and Szczerbiak, 2002). Both forms of Euro-scepticism are pertinent in the case of Semester as the Euro-sceptic hardliners would question EU’s authority to pressure Member States into compliance altogether, whereas soft-liners would be worried about EU’s hard competencies in the employment field. In a Euro-sceptic context, the exercise of external pressure to comply with EU-induced policy proposals within the Semester framework can be

counterproductive as it could result in domestic resistance and lead to greater tensions between the EU and domestic system (see: Gwiazda, 2011). Also, Hallerberg et al. (2012: 2) have argued that the increased bindingness of economic governance creates a legitimacy gap. Member States might question the legitimacy of the Semester, and thus be less inclined to abide by various procedures in the Semester.

***Hypothesis 1.4:** When confronted with Eurosceptic elites and public, EU pressure in employment policy will not result in compliance, but in resistance and will potentially provoke backlashes.*

Condition 5: Cost of defection (dependence)

The introductory chapter has demonstrated high dependency of CEE countries on EU funding, which is particularly noteworthy in the case of employment policies as they remain under-funded by the government compared to other policy areas. Addiction to EU funds perpetuates the asymmetric power relationship between Member States and the Brussels administration. When proper functioning and implementation of domestic employment policies depends on the absorption of EU funds, it becomes increasingly costly for governments to oppose EU pressure. Governments might therefore face policy conditionality – either they align their policies to the ESF or else lose money (Gerven et al., 2014). For instance, if the threat of funding suspension under the EDP/EIP is looming due to policy inaction in the employment field, the government will need to make an informed choice about the costliness and affordability of inaction.

Besides funding conditionality, the costs of defection from Semester recommendations are particularly high for eurozone Member States which fear a financial bailout. The cost of non-compliance would imply further deterioration of a country's credit rating on the international markets, whereas a bailout would be tied to even harsher and less negotiable policy reforms imposed by EU institutions. Actors are expected to act on the based on a logic of consequences as they 'choose among alternatives by evaluating their likely consequences for personal or collective objectives' (March and Olsen, 1998: 949).

Hypothesis 1.5: *If the political calculation of the cost of defection outweighs the benefits of resistance to EU initiatives, the Member State is more likely to succumb to external pressure of the Semester.*

2.6.2 Mutual learning

How the mechanism operates

The OMC in employment (EES) was designed as an ‘arena for mutual learning processes’ (Heidenreich, 2009: 20). Member State representatives interact in EMCO, share their policy experiences with peers and seek to find solutions to policy problems in a deliberative exchange of information (Hartlaap, 2009: 3). In the context of soft governance and lack of coercion, policy learning in social and employment policy was considered the most promising mechanism of influence (de la Porte and Pochet, 2012: 340). Mutual learning remains an integrative element of policy coordination in the Semester framework. Civil servants and policy experts are central actors in the process (Radaelli, 2008: 251). The mechanism of mutual learning is expected to operate based on a voluntary process of direct or indirect policy learning *from* the EU level and *from* peers in EU fora (EMCO in specific). The focus in this thesis is exclusively on learning which occurs in peer reviews at the EU level. Direct forms of learning describe processes in which a Member State representative in EMCO, based on new knowledge acquired through open interaction with peers, redefines his understanding of the appropriate policy means to reach a national policy objective (instrumental learning) or becomes genuinely convinced that the country should pursue new policy objectives (social learning) (Moumoutzis and Zartaloudis, 2016: 341). In instrumental learning, actors actively screen policy alternatives and learn about best practices. This type of learning resonates with Rose’s (1991) concept of lesson-drawing, in which the initiative to learn from best practices comes from domestic actors who have set policy goals but search for appropriate policy tools to cope with policy problems. On the other hand, social learning is a more complex process which is not easy to trace. Learning here implies a change in preferences and policy goals, which does not happen by itself but through persuasion and convincing arguments from peers.

Empirical evidence from the employment OMC suggests that mutual learning exercises are rarely capable of exerting direct effects in the form of policy transfers, however there is abundant evidence of ‘indirect effects’ (Heidenreich 2009: 22, Zeitlin 2009: 229-30, 2007: 5, 2005: 472-6). Indirect learning requires that participants in EMCO reviews become, first, increasingly aware of what is out there in terms of practices and policies (heuristic learning), and second, self-reflect on the state of national policies based on benchmarks and cross-examination of comparable indicators (reflexive learning). In the later, domestic actors examine the strengths and weaknesses of a domestic policy, based on the evaluation of new information coming in from peer reviews, reports and indicators. The capacity and willingness of actors in CEE for introspection is said to be very low, however non-state actors such as NGOs, social partners and think tanks are expected to use reflexive learning as leverage (see: Section 2.6.3) (de la Porte and Pochet, 2012: 343).

Early empirical findings indicated that mutual learning within the OMC is hampered by differences in administrative, legal, institutional and economic-political conditions between countries (Nedergaard, 2006b; Casey and Gold, 2005). Others have been more optimistic in the assessment, placing mutual learning among ‘the most widely attested findings about the OMC’s national influence...’ (Zeitlin, 2009: 229). The previous chapter summarized how mutual learning works today, being embedded in the Semester framework. Since 2011, the review processes take the form of ‘multilateral surveillance’ within the Employment Committee, in which Member States thematically and multilaterally discuss the implementation of employment CSRs and the responses to CSRs in the NRP. As promised by the literature, several innovations in the Semester led to the intensification of multilateral surveillance. This trend has raised expectations for the influence of mutual learning on domestic policy reforms.

Theoretical foundation

Mutual learning as a mechanism is grounded in a sociological understanding of policy change. Within such an understanding, domestic policies change as a result of socialization and learning

processes which contribute to new understandings of policy items domestically and the change of actors' preferences (Börzel and Risse, 2000). This perspective assumes that the Commission is being more cautious not to leave the impression of imposing recommendations, trespassing into national competencies or simply using the Semester as an "instrument of ex-post coercion" (Barroso speech, quoted in: Coman and Ponjaert, 2016: 45). Originally, mutual learning was theorized as part of EU's experimentalist governance. Zeitlin (2015, 2016) describes the term 'experimentalist governance' as a collective, iterative, multi-actor endeavour to establish broad goals (i.e. quality traineeships) and monitoring tools on the EU level, which are then implemented by actors on the (sub-)national level. They have full discretion in choosing the context-specific means to achieve EU goals, however, in return they must engage in frequent reporting and reviewing activities to prove policy alignment with indicators, reform pledges and targets. Based on periodic reviews, the goals/procedures/benchmarks are subjected to revision and adjustments, thus completing the cycle. One of the main merits of experimentalist governance seems to be its capacity to encourage "coordinated learning from local experimentation" (ibid., p. 11) so that EU goals, but also national practices are improved through the process of best practice exchange or learning by listening. In pursuit of common objectives, national actors seek to find solutions to intractable problems mutually by drawing on local (and national) practices in a coordinated multilateral setting. Traits of experimentalist governance in EU employment coordination are most evident in EMCO setting. Disappointingly though, mutual learning in the past has offered only 'few examples of bottom-up learning from innovative local practices through the OMC' (Zeitlin, 2009: 231, see also: Radaelli, 2008), mostly due to limited opportunities of civil society and social partners to participate meaningfully in national employment policy making.

More recently however, leading scholars have noted a gradual 'socialization' of the Semester, with more emphasis, both in terms of frequency and intensity, being placed on mutual learning, peer reviews deliberation, and experimentation in the Employment Committee (EMCO) – a process described as 'multilateral surveillance' (Vanhercke and Zeitlin, 2014; Zeitlin and

Vanhercke, 2018). EMCO now deliberates CSRs more frequently and critically within in-depth thematic and country reviews (ibid., p. 160). This is said to be more conducive for mutual learning than ever before. As already hinted, the literature argues that the importance of EMCO in enhancing Semester's influence increased by way of its intensified monitoring capacity and more frequent and diverse peer review activities (both ex-post and ex-ante) (see: Zeitlin and Vanhercke, 2014). Latest studies claim that EMCO increasingly fosters mutual learning and reflection over domestic reforms and EU initiatives, and makes use of monitoring devices, surveillance and peer reviews (Zeitlin, 2016: 1088).

When does mutual learning (not) work?

For policy learning stemming from multilateral surveillance to be effectively transferred into the domestic policy system, four dimensions of conditions must be carefully observed and controlled for: 1) the level of institutional settings of EU's deliberation and decision-making fora (EMCO and EPSCO); 2) the level of politico-administrative relations in Member States; 3) the level of individual policy characteristics; and 4) the structural degree of fit between EU policies and governmental policy paradigms. As for actor-level factors³², whereas individual participants' motivation and willingness to engage in mutual learning is certainly an important micro-situational factor (Benz et al., 2015), it could not be included because of the practical methodological difficulty of collecting, measuring and evaluating EMCO/EPSCO participants' levels of motivation.

Condition 1: Deliberation and consensus-building

Sabatier and Jenkins-Smith (1993) argue that the presence of a reputable forum that meets regularly can significantly alter the prospect of policy learning. The key coordinative committee for employment in the EU, EMCO, has invested a lot in creating conditions conducive to policy

³² Besides actor-centred factors, the literature frequently identifies various institutional (structural) obstacles to mutual learning, ranging from poor administrative and fiscal capacities, incompatible legal traditions, compound systems of decision-making and industrial relations and divergent policy trajectories (see: Casey and Gold, 2005).

learning by intensifying peer review activities. Although some might look at peer reviews as ineffective governance tools due to the absence of sanctions (Sabel and Zeitlin, 2010: 13) and incompatible domestic traditions, they are still considered to have the highest potential of all instruments to foster learning with and from other countries (Hartlapp, 2009). This is especially true if the peer review exercise can produce a socialization effect (Radaelli, 2008: 247), which matches ‘a process of inducting actors into the norms and rules of a given community’ (Checkel, 2005: 804).

In a similar vein, deliberative intergovernmentalism would argue that ‘socialization of actors into the practice of open and consensus-oriented debate as well as collegial behaviour are also conducive to deliberation’ (Puetter, 2012: 165). If actors in EMCO or EPSCO have really developed working methods conducive to deliberation and are socialized to seek consensus, this would help them agree on a common understanding of policy issues and generate commitment on employment recommendations. Although Zeitlin and Vanhercke (2018) argue that working practices in EMCO and EPSCO have adjusted to cultivate ‘evidence-based deliberation’, these efforts are, however, shown to lag behind more informal institutional settings in economic governance (ECOFIN, Eurogroup) which are considered far more conducive to policy deliberation and learning (Maricut and Puetter, 2018).

Others have noted that civil servants in EMCO were tied by soft and hard mandates in the past, which made working practices ‘too politicized to provide significant potential for learning’ (Nedergaard, 2006a: 317). The fact that with the Semester EMCO gained a more political role in voting on CSRs does not make the setting more learning-friendly but stimulate bargaining and negotiation. These arguments are still to be tested on country-specific cases. Hence, one would expect that high-ranked civil servants and ministers will develop a sense of self-commitment to EU recommendations if the specific working methods have fostered deliberation and consensus-seeking. Socialization into these norms and practices will make them keep an open mind with regards to policy learning.

Hypothesis 2.1: *Multilateral surveillance is more likely to trigger policy learning if the working methods in EMCO and EPSCO are informal and de-politicized, and thus more conducive to policy deliberation and consensus building.*

Condition 2: Politico-administrative relations

The literature frequently assumed that the OMC was completely depoliticized. The OMC resembled bureaucratic deliberation between professionals and expert elites. There was no capacity to overcome the closeness of mutual learning activities and seriously translate technical engagement into political action (Heidenreich and Bischoff, 2008; Kröger, 2009). Similar concerns were extended to Semester coordination as well (Vanheuverzwijn and Crespy, 2018: 14). The bulk of the Semester work is carried out by high-ranked civil servants who attend EMCO meetings and take care of the day-to-day bilateral communication, including monitoring activities carried out by the Commission.

Deliberative intergovernmentalism would assume that it is of utmost importance to establish frequent, frank and close relationships between civil servants who attend peer review sessions and political leaders (ministers) (Puetter, 2012). Closeness between the bureaucratic and political tiers ensures that policy deliberation is vertically sustained and that it reaches the level of decision-making. If bureaucrats are able to speak truth to power, then the chances of policy deliberation leading to policy learning will be much higher. In some instances, national administrations successfully engage in learning processes and display great awareness of the need to change policy practices and what needs to be done, yet they operate in an environment which 'blocks' their learning experiences:

'Blocked learning is a particular type of learning which occurs when individual actors (or group of actors) acquire some knowledge, but this cognition is not embedded into the organization which they belong to.' (Vagionaki, 2018:192)

Blocked learning can be a manifestation of weak inter-departmental and inter-ministerial coordination on overlapping policy issues, especially when actors diverge in views and promote

different agendas (ibid.). Also, when politically appointed state secretaries and advisors in ministries ‘enjoy a high degree of independence in contrast to the top civil servants’, policy decisions are rather based on political priorities set by the political hierarchy than learning- and evidence-based experiences of civil servants (ibid., p. 204). CEE countries’ administrative tradition in managing politico-administrative relations in social and employment policies are particularly reflective of a party-dominated, politicized and subordinated role of public administrations (Fink-Hafner and Lajh, 2018).

Hypothesis 2.2: *The likelihood of learning spilling over into change in domestic policy will be proportionate to the closeness of members of EMCO with decision-makers, and the receptiveness of the former to policy suggestions.*

Condition 3: Policy attributes

Technical policy issues can be solved outside ordinary legislative processes and do not require legislative change nor imply significant financial costs. Technical issues create more room for manoeuvre for civil servants which participate in EMCO to transfer best practices. While low key issues can also be highly contentious and politically salient, they usually do not attract the level of political attention and publicity as more politically controversial and high-level policies which imply considerable redistributive effects, carry ideological importance or might be relevant electorally. EMCO members are more likely to be hard-wired to follow a strict political mandate on politically salient issues. The logic of interactions in EMCO in such cases is confrontational and defensive. As Nedergaard (2006a) points out, meetings become politicized when the Commission proposes politically unwelcome CSRs, and such instances crowd out the space for policy learning. Unlike controversial issues, deliberations on technical issues are ‘insulated from political pressure’ (ibid., p. 320) and thus the possibilities for policy learning are more facilitated.

Another pertinent policy characteristic is related to the level of perceived problem load that a Member State is experiencing in employment policy (Veselkova, 2015). Nedergaard (2006a) finds that EMCO members are more likely to engage in learning when their respective government

is faced with policy failure. Failure by the government to solve a pressing policy problem creates the incentive to look for alternative policy solutions and draw lessons from peers. The incentive to take the learning opportunity in EU fora seriously is the higher the less acceptable the political leadership finds the existing state. Economic crises which severely hit the labour market amplify the perceived pressure to solve a problem.

Hypothesis 2.3: *The more technical (non-controversial) a policy issue and the higher the problem pressure, the greater the potential for policy transfers through mutual learning.*

Condition 4: Policy paradigms

On some occasions, governments may be less open to persuasion and learning activities the stronger their ‘cognitive priors’ (Checkel, 2003) and the greater the distance between the policy direction proposed by EU institutions and the paradigmatic commitments of the government. That is, if policy suggestions are in conflict with the government’s publicly stated policy convictions on a policy issue, the Semester will be less effective in influencing domestic change. Policy paradigms are ‘core policy beliefs’ which are hard to change as they reflect dominant values, norms and ways of understanding the relationship between cause and effect in a specific policy issue (Sabatier and Weible, 2007). If a policy suggestion is directly pitted against and thus not compatible with core policy attitudes and norms in the domestic employment policy subsystem, the Member State administration will block persuasion attempts. In the sphere of economic and employment policies, it has often been argued that welfare state regimes (Esping-Andersen, 1990) with their path-dependent policy cultures and arrangements create a structural obstacle to reforms that follow a different tradition/paradigm. In the case of the EU’s activation paradigm, Scandinavian Member States embraced a human capital approach whereas liberal regimes such as the UK were more inclined towards workfare-oriented arrangements (Nelson, 2013; Zeitlin, 2005).

Hypothesis 2.4: *If proposed policy changes are not compatible with the government’s policy convictions, the Member State will not engage in learning and direct policy change will be actively contained.*

2.6.3 Creative appropriation

How the mechanism operates

Creative appropriation relates to a process in which governmental, national, subnational or non-state actors make ‘strategic use of European concepts, objectives, guidelines, targets, indicators, performance comparisons, and recommendations...as a political resource for their own purposes’ (Zeitlin et al., 2014: 231). Making use of the Semester then means that domestic actors selectively cherry-pick only those policy messages, facts or interpretations which are aligned with their preferences and understandings. EU stimuli are subjected to a process of filtering to see only those survive which are fit for the domestic purposes. The notion of own purposes indicates that creative appropriation takes preferences as fixed by pre-determined policy agendas which may seek legitimisation in EU incentives, which in turn lead to ‘domestic empowerment’ of actors (Zartaloudis, 2013). Thus, the mode of influence reflected in creative appropriation is not direct – EU recommendations are not a source of inspiration or a trigger to initiate reforms – they rather become a strategic tool to justify or legitimate a specific course of action which predates EU’s involvement.

In practice, creative appropriation can take many forms. For governmental actors, the Semester can be used as a ‘selective amplifier’ (Visser, 2005; Delfani, 2012) so that ideas, suggestions and initiatives from the EU level which resonate with decision-makers interest become part of the legitimisation strategy of the government to advance on a sensitive topic. This fit is an important prerequisite as predetermined interests constitute cognitive filters through which decision makers eliminate those ideas and actions which do not contribute to the fulfilment of the self-interests. Ideas, such as ‘active ageing’, can help strategically frame reform proposals so that the frame fits the political goals and the proposals appeal to constituencies (Béland, 2009: 706). To the extent that employment CSRs speak to ongoing reform processes of the incumbent government or governmental actors are successful in projecting its agenda to EU officials, it becomes easier to use the Semester process as a point of reference for policy change. Besides the

government, non-governmental actors such as agencies, subnational actors or social partners may recognize the Semester as an opportunity structure through which to prop up their leverage in the policy debate. For instance, a public employment service (PES) which copes with administrative shortages might leverage the fact that there was a CSR which suggested greater investment in administrative capacities by funnelling ESF funding to projects aimed at increasing the analytical abilities of PES staff. The Semester is then employed as a strategic tool to hold the government accountable for inaction.

Theoretical foundations

The mechanism of creative appropriation is based on the notion of ‘usage of Europe’ - probably the most pervasively used underlying theoretical concept in the soft Europeanization literature. This concept has continued to attract scholarly attention in the Semester literature alike (Weishaupt, 2014; Bokhorst, 2017; Eihmanis, 2018; Louvaris Fasois, 2018; Zeitlin and Vanhercke, 2018). It displays an actor-centred constructivist theory (Saurugger, 2013, 2016) which conceives of domestic actors as goal-oriented agents who strategically calculate opportunities and can see their preferences furthered by selectively instrumentalizing EU incentives. This approach connects two opposing perspectives which conceive of actors as either being interest-driven and operating on the basis of cost-benefit analyses or being embedded in social structures and driven by prevalent norms. Interest- and idea-based explanations are not mutually exclusive: ‘Agents are purposeful actors, embedded in ideational structures, which they use in line with their interests.’ (Saurugger, 2014: 158). Semester issues can thus be seized by framing them in line with domestic purposes and the subsequent strategic deployment of these frames. These serve the purpose of empowering actors’ existing domestic policy agendas (Zartaloudis, 2013).

The term ‘usage’ reflects ‘practices and political interactions which adjust and redefine themselves by seizing the EU as a set of opportunities, be they institutional, ideological, political or organisational’ (Jacquot and Woll, 2003). These opportunities, being either resources or

constraints from the EU level, are utilized by actors to ‘intentionally transform them into political practices in order to reach their goals’ (Woll and Jacquot, 2010). Opportunities that are seized can range from material (funding) to immaterial (discourses, ideas) tools (Jacquot and Woll, 2003). When using European incentives, policy makers and other domestic actors effectively engage in a variant of ‘political learning’ (Radaelli, 2008). Namely, they learn to cherry-pick opportunities that can bolster their political cause. Employment coordination, being a soft governance procedure, is particularly suited for usage as, in the purest form, no justiciable obligations are attached to it. According to Jacquot and Woll (2003), the types of usages can be divided into 1) strategic usage – to use EU incentives as additional levers in imposing the preferred goals; 2) legitimizing usage – when EU stimuli are used as justification to act; and 3) cognitive usage – the understanding, explanations and interpretations of EU concepts and ideas that actors translate into the domestic area by creatively adjusting the content to suit their purposes. As Eihmanis (2018) shows, legitimizing usage often comes in combination with EU conditionality in case of which external constraints (EU rules, criteria) successfully legitimized unpopular welfare reforms by reference to the EU. Legitimizing usage is, thus, empirically observed in the form of discourse of blame-avoidance and scapegoating of the EU. On cognitive usage, Louvaris Fasois (2017) has shown how Belgian politicians successfully exploited the concept of ‘tax shift’, only to ‘creatively appropriate’ the concept by changing the true meaning that was suggested in the CSR into a term that could be aligned to pre-existing agendas. De la Porte and Pochet (2012: 343) demonstrate that CEE countries were also particularly successful in reinterpreting concepts such as ‘flexicurity’ or ‘lifelong learning’ to better ‘resonate with key reform responses developed’. In a nutshell, usage of Europe is always preceded by a domestic agenda or preference which can be readily attached to the opportunity created on the EU level.

When does creative appropriation (not) work?

Condition 1: Programmatic fit

It comes as no surprise that the prospect of exploiting the Semester domestically, be it by the government or other relevant employment actors/stakeholders will depend on the degree to which their agendas, priorities, strategies and plans converge with the objectives of the Semester (cf. Weishaupt, 2009). This is a central condition on which successful creative appropriation of the Semester rests. In instances where there is high fit between the two, it is expected that the Semester can give an additional impetus to domestic actors to use this convergence as a leverage in the policy debate. This ‘resonance’ with the national level (Heidenreich, 2014: 19) implies no causal relationship between EU initiatives and domestic policy reform. On the contrary, creative appropriation, as it was argued previously, implies a situation where political actors operate in an environment of already pre-defined policy agendas, but then find in the Semester a source of legitimacy to proceed with the premeditated course of action (Zeitlin, 2005: 455).

***Hypothesis 3.1:** The potential of the Semester for creative appropriation will depend on the resonance of Semester objectives with national priorities.*

Condition 2: Prospect of rewards

The experiences from the EES and OMC prior to their integration into the Semester framework highlight the importance of available funding to incentivize domestic actors to use EU processes as a strategic tool for the promotion of reform agendas (Zeitlin, 2005). Particularly regarding the ESF, availability of financial resources can become an important argument in favour of a specific policy trajectory. Verschraegen et al. (2011: 63) have demonstrated that activation policies gained prominence in Belgium when actors made use of the ESF to further their interests:

‘...actors actively used the ESF, alongside other, domestic, instruments at their disposal, including national and regional financial instruments, legislation and expert groups. ESF funding did not put activation on the political agenda by itself: it is the fact that a variety of actors has appropriated the instrument to further their own political agendas, which ensured that the activation debate penetrated considerably faster to a variety of national, local and regional actors’.

Influential actors in the domestic policy subsystem, encouraged by available financial rewards, may exploit the situation and advocate change more legitimately by means of reference to EU recommendations and earmarked funding which is fit for the purpose. The leverage effect of available ESF funding should be particularly visible in the case of CEE countries whose employment policies, ALMPs and labour market institutions are marked by ‘chronic under-financing’ (Jacobsson and West, 2009: 117).

Hypothesis 3.2: *When in line with pre-defined reform agendas of influential domestic actors, available ESF funding will amplify the leverage effect of the Semester.*

Condition 3: Policy entrepreneurs

A reflection from a ‘usage of Europe’ perspective would suggest that ‘external constraints can provide politicians, technocrats and/or ‘policy entrepreneurs’ with leverage over the reform process to overcome otherwise insurmountable domestic opposition’ (Featherstone, 2014: 297). Policy entrepreneurs ‘seek to sell their policy ideas and, in so doing, to promote dynamic policy change’ (Mintrom and Vergari, 1996: 424). A good policy entrepreneur should ideally detect the right opportunity, have access to decision-makers and enough resources to successfully push for their preferences to be considered by decision makers (Zahariadis, 2007). They should be capable of strategically use incentives from the EU level to convince decision makers that action is desirable. At the same time, they should appeal to existing policy goals, not defy established preferences and imply little or no adaptational costs. Semester offer such an ‘window of opportunity’ (Kingdon, 1984) in the form of interlinkages between employment coordination and ESF funding. ESF money is particularly suitable for strategic exploitation from actors who can make the cognitive link between CSRs and available funding to lure decision makers into policy change. In the context of CEE, it is the bureaucratic actors who become empowered by these incentives to project their agendas into governmental policy (Rybář, 2011: 168). In a region where ‘programmatic commitments of most parties are rather weak’ (ibid.), national bureaucrats can act

as entrepreneurs and project their opinions as long as they incur no electoral risks, require little adaptational costs, and do not diverge from the broader governmental agenda. Socio-economic interests are as well expected to exploit external incentives to the extent that there exist opportunity structures to access decision makers.

Hypothesis 3.3: *The prospect of policy change will increase if policy entrepreneurs exist who are able to use the presence of tangible material rewards or sanctions to convince the government to act.*

Condition 4: Attitude towards EU

As previously elaborated, the attitude towards the EU relates both to governmental relationships with the EU generally and with the Commission more specifically, and to citizens' inclination to trust the EU in socio-economic governance. It comes naturally that governments which are sceptical towards deeper integration in employment policy or defy greater international engagement in domestic affairs would have a difficult time 'selling' an EU-induced policy reform to the public. Such manoeuvring would jeopardize the credibility of the government's negative stance towards EU initiatives and would be regarded as surrender to foreign pressures or as treason of national interests. In that sense, it is more likely to find instances of domestic legitimizing usage of the Semester when the government has a reconciliatory and productive working relationship with the Commission and the public recognizes the benefits of EU membership and economic coordination. Especially when the EU and domestic political agenda correspond on sensitive issues, it becomes much easier for the government to shift blame to Brussels for unpopular reforms, framing them as necessity which is dictated by the European institutions. The extent of blame-shifting will be higher in instances where reaping fruits (returns) from a policy reform requires putting high cost on (a segment of) the society (Weaver, 1986: 379). Previous studies have shown that references to EU employment coordination have been used strategically and selectively to weather the opposition to unpopular labour market and social reforms (Visser et al., 2005).

Hypothesis 3.4: *The more confrontational the relationship between EU institutions and the government and the lower the trust of the public towards the EU, the less likely it is that the government will use the Semester to legitimize change of status quo in employment policy.*

Table 2. 2 Summary of causal mechanism and conditions/factors

Mechanisms of change			
Factors/ conditions	External pressure	Mutual learning	Creative appropriation
	- political constraints	- deliberation and consensus	- policy entrepreneurs
	- process socialization	- politico-administrative relations	- prospect of rewards
	- cost of defection (dependence)	- policy attributes	- attitude towards EU
	- credibility of rules	- policy paradigms	- programmatic fit
	- attitude towards EU		

Source: Author's own compilation.

2.7 Summary and limitations to the theoretical framework

Studying how the Semester influences domestic employment reforms is by no means an easy task. The previous literature that looked at the effects of the OMC on domestic policy already struggled with establishing causation between EU initiatives and domestic responses. Any research in this domain is highly unlikely to find a direct cause-effect relationship between the EU and domestic level. As Radaelli (2012: 4) rightly alerts, causal research should be wary of such direct inferences:

‘...the fact that we find the same idea both at the EU level and in the country with which we are concerned does not necessarily mean that there has been a causal effect of the EU on the government of our country.’

This is why this PhD thesis turned to the study of causal mechanisms that serve as transmission belts between the observed cause (EU stimuli) and effect (domestic policy change). The previous section has outlined the analytical framework which sketched three potential pathways of the Semester's influence on employment policies in EU Member States. Each causal pathway specified under which conditions they are expected to operate and result in influence or domestic neglect/resistance (Table 2.3). Some of the causal conditions are structural, others more agency based. Each mechanism has a different theoretical basis and set of assumptions, ranging

from rationalist (external pressure), sociological (mutual learning) to actor-centred constructivist (creative appropriation). The analytical framework combines insights from 20 years of previous research on similar phenomena in EU studies. Two aspects of such an approach are particularly vulnerable to criticism, and as such should be addressed. First, one might wonder whether the relative complexity of the analytical framework is informative as, by fitting everything that is out there, one risks being able to ‘explain’ everything, but rather nothing. A theory which cannot be falsified and does not cherish parsimony cannot be considered proper science. A similar objection is raised by methodologists who regard too many ‘variables’ as problematic when the number of observations is low. Second, and related to the first criticism, one might note that there are different theoretical foundations of causal mechanisms, hence no stable, single theory is presented. The risk lies in obfuscating the contributions of individual theoretical perspectives. Also, merging multiple theories is problematic if we combine theories which are not compatible in terms of their ontology or epistemology.

This PhD thesis is fully aware of these criticisms and responds to them. Regarding the complexity of the framework, the specific theoretical framework developed for this thesis is still less complex than usually found in the (Europeanization) literature. The literature had the problem of listing endless numbers of possible mechanisms, and similarly exhaustive lists of contextual factors, without clear links to specific mechanisms and causal claims made therein. As opposed to this practice, this PhD thesis has grouped the causal mechanisms based on their theoretical underpinning and established a clear link between each mechanism and the expected conditions which might interplay with them, as suggested by Radaelli (2012: 11). Besides, the criticism of too-many-variables represents a quantitative logic of argumentation and cannot be applied to studies which process-trace causal explanations (Panke, 2012: 125). As for the use of multiple theories, this PhD thesis does not synthesize multiple theories but brings them in a relationship of complementarity and competition at the same time (Cairney, 2013). Each causal mechanism offers a competing explanation of how causal influence of the Semester works. Empirical tests should

give a clear answer which of the pathways can be rejected or confirmed. At the same time, causal pathways are not mutually exclusive as the empirical outcome (policy change) can be the result of multiple pathways being active at the same time, for which, again, credible evidence must be garnered. Theories are, thus, used and drawn on in a pragmatic and ‘eclectic’ way as ‘heuristic tools’

Table 2. 3 The direction of influence of individual conditions on policy change

Mechanism	Condition mode	Outcome: Semester influence (+) vs. Negligence/Resistance (-)
External pressure	High political constraints	-
	Low political constraints	+
	Strong process socialization	-
	Weak process socialization	+
	High cost of defection	+
	Low cost of defection	-
	High credibility of rules	+
	Low credibility of rules	-
	Positive attitude towards EU	+
	Negative attitude towards EU	-
Mutual learning	Settings conducive to deliberation and consensus	+
	Settings not conducive to deliberation and consensus	-
	Close politico-administrative relations	+
	Detached politico-administrative ties	-
	Technical and pressing policy issues	+
	Controversial policies	-
Creative appropriation	Incompatible policy paradigms	-
	Compatible policy paradigms	+
	Existence of policy entrepreneurs	+
	Absence of policy entrepreneurs	-
	High prospect of rewards	+
	Low prospect of rewards	-
	Positive attitude towards EU	+
	Negative attitude towards EU	-
High programmatic fit	+	
Low programmatic fit	-	

Source: Author's own compilation.

to build sufficiently convincing explanations of individual cases of Semester's influence (Beach and Pedersen, 2016: 12). This understanding places the PhD thesis in the realm of a pragmatist philosophical position (ibid.). The method of process-tracing, and its explaining-outcome variant more specifically, is well-suited for providing a deep understanding of the causal process.

2.8 Methodology: making use of process-tracing

This contribution resorts to contextualized process-tracing in order to track causal pathways and to control for potentially competing, alternative explanations for policy reforms, such as pre-determined reform trajectories, reactions to market and crisis-management pressure, socio-demographic and ageing society pressures and alike, with the purpose of avoiding the trap of overestimating EU influence. The study does not assume that the Semester can solely and exclusively account for policy change, nor does it reject the possibility that change can arise from multiple sources of influence. This study intends to use small-n case-based qualitative methodology to offer causal explanations of why in some cases the Semester does influence domestic employment reforms and in others not, and which pathways are more (un-)successful in yielding influence. A qualitative approach is warranted both by focus on policy change and not policy outcomes as previously described, and by the process-related ambition of this PhD thesis to unbox the causal influence of the Semester. More so, studies of soft governance and its influence on domestic policy are usually studied through process-tracing and in-depth qualitative work more broadly (Exadaktylos and Radaelli, 2015). This PhD thesis follows this tradition and responds to calls in the Semester literature to study the causal influence of the Semester on national reforms by means of comparative process-tracing (Verdun and Zeitlin, 2017: 4). Such empirical investigations are desperately needed (Zeitlin and Vanhercke, 2018: 169).

The study of the influence of the Semester on domestic policies shares the same methodological problems as previous empirical studies of the OMC and studies on the Europeanization of policies more broadly. The greatest concern lies in the difficulty to establish

causality between the Semester and domestic reform, and to identify the exact conditions and mechanisms under which such a causal relationship exists (Radaelli, 2012: 2-5). Observing a temporal regularity in Semester CSRs and the subsequent policy adjustment is not informative for drawing causal conclusions. Likewise, once we adopt a mechanism-based perspective, it remains equally difficult to exclude the possibility that multiple causes contribute to the same outcome or that the same outcome can be achieved through multiple mechanisms. This notion of equifinality both at the level of causes and at the level of mechanisms makes it hence difficult to generalize from one case to other cases (Beach and Pedersen, 2016: 90). For this reason, it is important to specify ‘the contextual conditions in which the causal relationship is expected to work’ (ibid., p. 90). Causal mechanisms, as we saw from the analytical framework in this study, must not remain an ‘isolated piece of causal knowledge’ but must be situated within the context of conditions and factors, the presence or absence of which forms a causal chain (Hedström and Ylikoski, 2010: 54). As employment coordination has been embedded in the overall framework of the Semester, it has become even more difficult to disentangle causal relationships. Hence, this study acknowledges that expecting to find any single source of influence would be naïve, and that multiple causal mechanisms can result in similar policy change (equifinality) or be in a dynamic relationship, thus creating a joint effect (Exadaktylos and Radaelli, 2009).

To overcome these methodological challenges, the methodological design of PhD thesis rests on four research strategies proposed by Miles and Huberman (1994) and Zeitlin (2009) of ensuring the quality of findings and the credibility of claims made in this qualitative research: (1) process tracing, (2) triangulation of sources of evidence, (3) weighting of evidence, (4) use of negative cases and (5) systematic comparison of cases.

2.8.1 Process-tracing

First, the method that is used to empirically trace the influence of the Semester is called process-tracing. Process-tracing is a within-case method that ‘attempts to identify the intervening causal

process – the causal chain and causal mechanism – between an independent variable (X) and the outcome of the dependent variable (Y)” (George and Bennet, 2005, in: Beach and Pedersen, 2013: 1). The underlying understanding of causality in a process-tracing tradition is mechanism-centred. Here, this mechanistic understanding of causality implies that the researcher unveils the black-box of causality and studies the complex “system of interlocking parts that transmits causal forces from X to Y” – namely, causal mechanisms (Beach and Pedersen, 2013: 29). Causal mechanisms are here understood as ‘ultimately unobservable physical, social, or psychological processes through which agents with causal capacities operate, but only in specific contexts or conditions, to transfer energy, information, or matter to other entities’ (Bennett and Checkel, 2014: 12). This definition implies that causal mechanisms are parts of a causal pathways which link causes with effects in such a way that they transmit down the causal chain. These mechanisms do not operate in isolation, for which they depend on specific conditions which may trigger, block, enhance or diminish the causal force of a mechanism.

Process-tracing does not share a counterfactual understanding of causation. From a counterfactual point of view, causation equates to observing regularities which confirm a causal relationship so that refuting a relationship would require studying whether the absence of a cause is linked to the absence of an outcome (Beach and Pedersen, 2016: 28). Observing regularities means that a causal relationship cannot be established in individual cases, but causality must be observed on multiple occasions. However, from a process-tracing perspective, not having variation in the independent variable (Semester vs. non-EU causes) is not a problem as some scholars would think (cf. Haverland, 2006). No such counterfactuals are needed for within-case analysis since the process-tracing method prioritizes a ‘careful evaluation of the theoretical uniqueness’ (ibid. p. 31) and certainty of the evidence gathered. By spelling out observable manifestations of causation that we expect to find in a causal pathway the researcher uses a mechanism-based procedure of ‘controlling’ for alternative explanations.

A specific variant of process-tracing is considered in this thesis – *explaining-outcome process tracing*. Explaining-outcome process tracing is focused on ‘crafting a minimally sufficient explanation’ (Beach and Pedersen, 2013: 19) of outcomes in single cases. In this PhD thesis, single cases denote individual policy items in four CEE countries for which policy change will be observed. Explaining-outcome process tracing is compatible with a pragmatist approach by admitting that in order to explain and account for individual outcomes, it is sometimes required from the researcher to combine different mechanisms and to include in the analysis non-systemic (that is, case-specific) elements of a causal pathway (ibid.). To explain individual outcomes, the analysis proceeds deductively through theory-testing ‘where an existing mechanism is tested to determine whether it can account for the outcome’ (Beach and Pedersen, 2016: 311). Regardless of the case-centeredness, this process-tracing variant does allow the researcher to compare the systemic parts of causal explanations in individual cases, and to subsequently draw conclusions which go beyond single cases.

Empirically, the extent of Semester influence on substantive policy change is assessed by the degree of fit between EU preferences, exemplified by the yearly list of CSRs, and national responses to EU suggestions, as described within the NRPs and regularly assessed in the Commission’s Country Reports. The NRPs are consulted with due caution as they might sugar-coat EU’s impact to create the illusion of compliance. Fit between EU recommendations and policy change is not automatically assumed to amount to ‘influence’ as the apparent fit might also be coincidental or a sign of match in priorities. Also, one has to account for the possibility of CSRs simply reflecting national priorities (Copeland and ter Haar, 2013).

2.8.2 Weighting the evidence – which observable implications?

Since causal mechanisms cannot directly be observed, we look for observable implications which are “case-specific predictions of what observable manifestations each of the parts of the mechanism should have if the mechanism is present in the case” (Beach and Pedersen, 2013: 14).

These are pieces of information about each part of the causal mechanism that should be found empirically so that hypothesized explanations are substantiated (Moumoutzis and Zartaloudis, 2016: 340). Table 2.4 gives an overview of observable implications for each of the three causal mechanisms in this study, together with the causal conditions found relevant for the operation of the mechanisms.

Still, the key question that has to be addressed is how confident can the researcher be that a specific explanation of the causal mechanism prevails over the other? In order to draw causal inferences about the presence of a mechanism and to increase confidence, one has to evaluate (test) the strength of observable implications along certain dimensions. As a pragmatic rule of thumb, Beach and Pedersen (2013:104-5) suggest that researchers should design tests that evaluate the certainty of the prediction made by observable implication. A prediction that is certain, such as a weather forecast, must be observed (i.e. rain) in order for a causal explanation to be valid and pass the test of certainty. However, failing to find empirical evidence of the observable implication, kills or disconfirms the causal explanation, and we lose confidence in the explanation (Van Evera, 1997: 31). This corresponds to Schimmelfennig's (2014) suggestions on how to build an efficient strategy for testing rival theoretical explanations via process-tracing. According to him, researchers should pay attention to those elements of the causal mechanism that are vital (crucial) for the survival of the overall causal explanation. Then, if that critical observable implication is empirically not found, one can eliminate the whole explanation and continue with the analysis until all explanations, but one is left standing. From this perspective, it is less important to formulate empirically unique observable implication which would be unique for only one causal mechanism. Such tests which include certain, but not unique predictions are called hoop tests, and as much as not passing the hoop test makes it easier to eliminate a causal explanation, passing the test does not make the researcher 100 percent confident that the mechanism was present. This PhD thesis will follow this advice in the literature.

Table 2. 4 Operationalization of causal mechanisms and causal conditions

Mechanisms and conditions	Crucial observable implication(s)
External pressure	Account: Oral account that policymakers had a stable definition of the policy problem and the goals they pursue, however considered changing course of action on suggestion by the EU after a cost-benefit analysis of electoral risks, risks of sanctions and funding suspension or financial collapse of the country.
Political constraints	Account: Written or oral evidence that the government is constrained in policy options due to opposition from close interest groups or institutional veto players.
Process socialization	Account: Oral account of civil servants or decision-makers admitting they still learn how to participate in Semester proceedings.
Cost of defection (dependence)	Account: Written or oral account of the government concluding that the cost of defying policy change disproportionately outweighs the benefits.
Credibility of rules	Account: Oral testimony which hints the government seriously doubts the EU would draw on sanctions or funding suspensions.
Attitude towards EU	Account: Written or oral account that negative public opinion towards the EU or bad government relationships with the EU are an obstacle to conflict resolution.
Mutual learning	Sequence and account: Oral account that prior to policy change participants of mutual learning activities became, as a result of participation, convinced of the need to pursue either new policy goals or learned how to tackle existing problems with new policy tools.
Deliberation and consensus	Account: Oral account of participants in mutual learning that the working methods predominantly fostered deliberation and consensus-building and not confrontation.
Politico-administrative relations	Account: Oral account of civil servants' being able to transmit their experiences to political appointees and their perception of being taken seriously.
Policy attributes	Account: Written/Oral account that high issue complexity and political sensitivity of an issue acted as obstacles to serious engagement in mutual learning.
Policy paradigms	Account: Oral or written account that the government had a fundamentally different understanding from the Commission of what the policy problem is, and what policy goals should be attained.
Creative appropriation	Sequence and account: Oral or written account that policy goals and means pre-dated EU incentives, but that policymakers made use of EU suggestions, available funding and ideas to empower their pre-existing agendas.
Policy entrepreneurs	Account: Written or oral account that specific individuals or organizations took ownership of EU initiatives (internalized and framed the issue in accordance with Semester suggestions) and worked hard to set the policy agenda or mobilize the public.
Prospect of rewards	Account: Oral account that availability of ESF funding reinforced an actor's position in the policy debate.
Attitude towards EU	Account: Written or oral account that negative public opinion towards the EU or bad government relationships with the EU are an obstacle to using the EU for legitimation.
Programmatic fit	Account: Written or oral account proving that there is a match between pre-existing policy agendas and the EU initiatives which followed.

Source: Author's own compilation.

Moumoutzis and Zartaloudis (2016) suggest that three dimensions of a causal mechanism should be accounted for to make credible claims: (1) how national policy-makers define the policy problem and goals; (2) what consideration was given to EU-suggested courses of action; and (3) the way national policy-makers evaluated these alternatives (type of assessment). Two types of empirical evidence are crucial – sequence evidence and account evidence. Sequences disentangle the temporal order of events, and accounts are oral or written references to specific content (Beach and Pedersen 2013:104).

2.8.3 Triangulation of the sources of evidence

In order to remove subjectivity and other sources of bias that each individual piece of evidence might have, this PhD thesis triangulates the techniques of data collection whenever possible. The central source of evidence on which this research draws are 51 semi-structured expert interviews conducted between March 2016 and May 2018 with senior-level officials in DG EMPL and SECGEN, former and current desk officers responsible for individual countries at DG EMPL, Semester officers in individual Member States, a former minister of labour, secretaries of state for employment, civil servants in labour ministries, national members of EMCO, Youth Guarantee coordinators, Semester coordinators, members of civil society and social partners. They were identified as relevant actors involved in the working of the Semester at EU and national level. Specific information on the dates, affiliations and other attributes of the interviewees are available in Appendix III. Another important source of information is documentary evidence, particularly the Country Reports, NRPs and CSRs, but also peer review conclusions and other minutes. Sporadically, the empirical chapters will draw on newspaper articles. Whenever possible, any piece of evidence will be triangulated to ‘multiply points of observation and offset sources of bias’ (Zeitlin, 2009: 215). One practical drawback of the evidence gathered through interviews in

Hungary³³ and Slovakia was the limited access to relevant high-ranked government officials. After repeated reminders, reliance on access points and snowballing, they did not respond. Another practical limitation was the language barrier due to which the literature in the original language on the topic could not be consulted, except for Croatian which is actively spoken by the author of this PhD thesis, and Slovenian, which the author understands passively.

2.8.4 Country-case selection and comparison of cases

In order to draw lessons beyond single country cases, this study follows a two-step approach. In the first step process-tracing is used to unfold the causal influence of the Semester in individual countries. For the reasons already specified in the previous chapter, this PhD thesis focuses on the influence of the Semester on CEE. The within-case analysis of the causal influence of the Semester on employment policy is based on four territorial units of analysis: Croatia, Hungary, Slovenia and Slovakia. The selection of the four country cases, and four in specific, has two objectives – first, to reduce the indeterminacy of the research design, and second, to ensure representativeness and diversity of CEE Member States to allow for a broader generalization of findings to the region. As for the indeterminacy problem, a greater number of cases helps with the generalization of causal inferences (Rohlfing, 2012: 7). Having four countries in the sample increases the breadth of the analysis. However, this comes at the expense of the depth of process-tracing. This is an obvious trade-off which cannot be ameliorated within the confines and limited space of this project. On the other hand, the choice of Croatia, Hungary, Slovenia and Slovakia was based on a diverse case selection strategy ‘in order to achieve maximum variance along relevant dimensions’ (Maggetti, 2015: 259) with the purpose of achieving representativeness of the sample since ‘diverse cases are likely to be representative in the minimal sense of representing the full variation of the population’ (Gerring, 2007: 89). In other words, the diversity of the whole CEE

³³ In the Hungarian case, the institutional affiliation of the author of this PhD thesis was also not particularly helpful in accessing relevant counterparts in the government.

region should be covered by the selected cases which vary on the relevant axes. The relevant dimensions for testing the Semester influence are Eurozone membership, economic importance of ESI funds, attitude towards the EU (Euroscepticism), implementation record of CSRs, date of EU membership and the extent of economic crisis measure by the country's inclusion in the EDP and/or the EIP. Table 2.4 shows how the four countries vary on these dimensions. Date of entry into the EU is considered important for the degree of experience dealing with EU institutions. In the sample, Croatia is the newest Member State, having joined the EU only in 2013. The rest joined in 2004. Public Euroscepticism and government's attitude towards EU were associated with the likelihood of being open to suggestions or complying with pressure from the EU. Although citizens in all four countries share a comparably positive image of the EU, Hungary and Slovakia belong to the Višegrad group of countries who share a Member State-centred view of EU integration and a history of opposition to EU initiatives. The share of EU cohesion policy money in total public investment reflects the country's dependence on EU funding. Croatia displays greatest reliance on EU funding opportunities to implement public policy and Slovenia the lowest. The CSR implementation record is a good indicator of the country's reform adherence. Slovenia demonstrated the greatest reform potential with an average 61.9 percent of CSRs adopted in the period 2011-15. Euro-zone membership is associated with greater fiscal/macro-economic scrutiny and sanctions. Slovakia and Slovenia are Eurozone members in the sample. The EDP and EIP add hard pressure to comply. Croatia and Slovenia have been subjected to both procedures in the past, whereas Hungary and Slovakia had the EDP procedure opened.

When it comes to the specific employment policies for which causal inferences will be made, the logic of analysis is the following. Each country chapter maps the individual, country-specific employment items discussed in the framework of Semester employment coordination between 2011 and 2018. This longitudinal perspective permits to trace instances of policy change or no change. Negative outcomes are interesting empirical instances and in each Member State at least one such instance will be traced to discern factors that inhibited or ultimately blocked any

causal influence of the Semester. Paying specific attention to these negative cases is vital to reach a holistic understanding of the capacity of the Semester to influence domestic policies. This goes against the ‘positive outcomes’ bias in the literature which tend to neglect the reasons why influence fails. A longitudinal perspective also makes it possible to follow the dynamic evolution of CSRs, the Commission’s assessments and member states’ policy responses. With CSRs which reoccur year-after-year, a longitudinal perspective can best elucidate the effect of government alternations and single out relevant explanatory factors. Chapters for each country-case also focus on the 2013 Council recommendation on establishing a Youth Guarantee after which all four country-cases received CSRs on youth unemployment. Having a case which cuts across countries creates an opportunity to compare instances of causal impact more coherently. In short, the country chapters will compare causal inferences between individual policy items within the country, whereas the synthesis and comparison chapter will look for patterns of similarity and differences across countries.

Table 2. 5 Case selection

Country case	EU member since	Euro-scepticism (2013-15 average) ^a	Share of EU funds in public investment (2015-17) ^b	CSRs implementation record (2011-15) ^c	Eurozone member (+/-)	EDP/EIP
Croatia	2013	47.33 %	79.61 %	28.57 %	-	EDP/EIP
Hungary	2004	43.33 % (Višegrad)	55.46 %	15.79 %	-	EDP
Slovakia	2004	48.33 % (Višegrad)	54.59 %	25.00 %	+	EDP
Slovenia	2004	57.33 %	29.40 %	61.90 %	+	EDP/EIP

Sources: ^a Question: Does the EU conjure up for you a positive, fairly positive, neutral, fairly negative or very negative image? Answer: positive and fairly positive. Data based on standard Eurobarometer Surveys (spring); ^b European Commission (2018); ^c Proportion of CSRs adopted or announced to be adopted. Data is based on Commission and EGOV records.

Process-tracing alone is not suitable for cross-case inferences (Beach and Pedersen, 2016:18). Hence, the second step is to conduct between-case comparisons. Systematic case comparison is scarce in studies on the influence of the EU on domestic policies (Mailand, 2008). Rarely does research draw on more than two country-cases to compare the causal influence of the EU. When causal mechanisms and conditions are studied, it becomes increasingly difficult to employ the usual comparative designs (based on Mill's methods) because knowledge about the causal pathways is revealed only ex-post, once the in-depth research has been conducted and all causal links are established. As Bengtsson and Ruonavaara (2017: 54) point out, one cannot make the ex-ante assumption about the presence/absence of mechanisms, conditions and outcomes: 'We do not know in advance the conditions in which a certain mechanism is triggered, nor can we tell in advance the consequences of its functioning'. Therefore, since the possibility of crafting a most-similar comparative design is limited, and even though the cases have been drawn from a pool of countries which share comparable historical, societal, political and economic development paths, any between-case analysis will result in sub-optimal comparisons (Rohlfing, 2012: 128). Furthermore, the selected cases share similar sets of employment policy problems identified within the Semester. Despite the limitations, this study will use process-tracing findings to compare similarities and differences between cases to locate generalizable cross-case findings with regard to systemic causal mechanisms and conditions.

3 CROATIA: CHERRY-PICKING FROM THE EUROPEAN SEMESTER

3.1 Introduction

Croatia acceded to the EU in July 2013 and therefore collected its first experiences with the Semester later than the other countries. The atmosphere in which it joined the Semester process was marked by considerable economic challenges. The country went through a protracted economic crisis at the height of which general and youth unemployment figures were the third highest of all EU Member States. The Semester reminded the authorities of all structural challenges on the Croatian labour market which contributed to the dire employment prospects in the country. Croatia was periodically issuing national employment action plans in the pre-accession period which applied the language and strategic guidelines of the EES. Pre-accession financial instruments (IPA, PHARE, mini-ESF) matched the action plans with funding opportunities to build the system of employment policy and administration. The Semester represented the most advanced form of employment coordination the country had ever participated in.

This chapter investigates the first five years of Croatia's participation in the Semester and shows to what extent and how the Semester impacted the Croatian employment field. The first part of the chapter provides relevant contextual information on political, economic, social and employment developments in Croatia, followed by an analysis of the Semester's procedural effects. The central part looks at the Semester's substantive influence on policy change. The central part of this chapter focuses on two specific policy items – the pension reform and the application of the Youth Guarantee.

3.1.1 Politics in Croatia: dominance of two parties, clientelism and government instability

Croatia's democratic and economic transition from communism and secession from former Yugoslavia was forged in conflict. The price for independence was paid in the form of an ethnic war in Croatia (see: Zakošek, 2008; Henjak et al., 2013). The war in Croatia did not only take an immediate toll on the living standard of citizens, economic growth and employment outlooks of the country in early 1990s (Fisher, 2006: 85) but continues to shape political, economic and social life to date.

Under the leadership of Franjo Tuđman, the first Croatian president and leader of the right-wing party Croatian Democratic Union (HDZ), the HDZ became the dominant political party in Croatia, which swept to victory election after election during the 1990s. The semi-presidential regime of the 1990s had all the characteristics of a defect democracy ((Zakošek, 2008: 600; Henjak et al., 2013: 451). All powers were centralized in the hands of one person. Effectively, the country failed to consolidate democracy due to Tuđman's authoritarian and isolationist tendencies.

The central role of the HDZ in building the independent Croatian state enabled the party to dominate the political arena for almost a decade. As the HDZ took complete control of the transition, it could exploit wide-ranging clientelist networks and patronage relations which penetrated the political, economic and welfare state system. War veterans in specific were able to capitalize on their heroic status in society and managed to tilt the redistribution of state funds in their favour as opposed to other less influential societal groups who suffered the hardship of war (Stubbs and Zrinščak, 2009: 128; Dobrotić, 2016: 302). Being well-organized and enjoying an undisputed and favourable social representation, Croatian war veterans tick all the boxes of an advantaged interest group (Schneider and Ingram 1993). Their position as the biggest interest group in Croatia was cemented during the Tuđman regime. Over the past 25 years, veteran organizations have advocated for an expansive compensatory system of veteran care (Bagić and

Kardov, 2018). Preferential treatment and benefits for war veterans and their families now expand to the education system, healthcare system, housing, employment policies, pension rights, financial sector, and welfare and care system, whereas issues of war veterans are regulated by a dedicated Ministry of War Veterans.

War veterans are statistically more likely to self-identify as right wing and to vote for right wing parties than the rest of the population (*ibid.*, p. 91-6) which suggest that they are a stable voter base for the HDZ, with which veteran organizations developed close ties. Although none of the mainstream political parties would question the moral or material status of war veterans, war veterans have historically been more likely to mobilize and confront left wing governments led by the Social Democratic Party (SDP) (Nikić Čakar and Raos, 2015; Dolenc, 2017). All of this suggests that any Croatian government would have a hard time derogating existing rights of war veterans or endangering their vested interests. For the HDZ such actions would be especially fatal since the party had been the main sponsor of clientelist links between the party and war veterans, and for the left-wing SDP it would mean facing popular dissatisfaction and possibly large protests with significant electoral repercussions.

By the end of the 1990s, public discontent with ‘wild privatization’, the desperate state of economy and living conditions, and international isolation of Croatia had peaked. However, it was only after the death of President Tuđman in 1999 that other political parties, primarily the communist successor party – the SDP, emerged as a credible alternative to the HDZ (Henjak et al., 2013: 452). The opposition led by the SDP was finally able to win the elections in 2000. This change of government marked the end of the authoritarian, semi-presidential period and consolidated a parliamentary democracy in Croatia. Ever since, the political landscape has been dominated by two parties, the centre-right HDZ and the centre-left SDP which have periodically exchanged in government with the support of junior coalition partners (Table 3.1).

The period after the 2011 parliamentary elections, which is of interest to this thesis, is distinct by the unusual degree of party-political dynamism. The left-wing government led by SDP’s

prime minister Zoran Milanović managed to form a minimal, ideologically homogenous coalition in 2011, however, he struggled to maintain stability. The Croatian Party of Pensioners, a junior coalition partner, disposed of 4 mandates and controlled the parliamentary majority, thus had significant blackmailing potential on issues of pension reform. Also, Milanović lost parliamentary majority in 2014 which turned his government into a minority government (Nikić Čakar and Raos, 2015). The years 2015 and 2016 were particularly turbulent because of the regular parliamentary elections in November 2015 and the subsequent early elections of September 2016. This was a period of political stalemate as the HDZ, the relative winner of both the 2015 parliamentary election and the 2016 snap elections could not form a functional government. First, the HDZ formed a minority government with the Bridge of Independent Lists (Most), a newcomer anti-ideological reformist party. However, the coalition was short-lived and lasted only four months due to the insurmountable differences between the HDZ and Most (Nikić Čakar and Raos, 2016, 2017). Early elections were called. The hostile political conditions paralyzed decision-making and slowed down reforms. A rejuvenated, more progressive HDZ leadership saw Andrej Plenković, who was at that time a member of the European Parliament (MEP), become party president. He led the HDZ to victory in the 2016 early elections and at first formed again a minority government with Most but then reverted to the support of the ideologically opposing, left-leaning HNS party (Nikić Čakar and Raos, 2018). Although this coalition was deemed ‘unnatural’ (ibid.), the Plenković government managed to avoid another round of early elections and retained parliamentary majority with the support of six other parties and coalition partner HNS. Still, the fact that the Plenković government lacked ideological cohesion and did not enjoy a stable parliamentary majority meant that the government would be seriously exposed to the blackmailing potential of the supporting parties and junior coalition partner HNS (Deskar-Škrbić and Raos, 2018: 14-5) in course of maintaining a parliamentary majority. These political constraints guide expectations for the subsequent analysis as they may confine ideologically coherent decision-making and distort the

space for consistent policymaking due to the need for catering to the preferences of HNS and other supportive parties.

Table 3. 1 Government composition in Croatia (2003 -)

Government	Coalition	Prime minister	From - Until
Sanader I	HDZ , DC ¹	Sanader, Ivo	Dec 2003 – Jan 2008
Sanader II² & Kosor I	HDZ , HSS, HSLS, SDSS	Kosor, Jadranka	Jan 2008 – Dec 2011
Milanović I	SDP , HNS, IDS, HSU	Milanović, Zoran	Dec 2011 - Jan 2016
Orešković I	HDZ , Most	Orešković, Tihomir	Jan 2016 - Oct 2016
Plenković I³	HDZ , HNS (2017-), Most (2016-17)	Plenković, Andrej	Oct 2016 - in power

Note: Party acronyms: HDZ – Croatian Democratic Union; SDP – Social Democratic Party of Croatia; IDZ – Istrian Democratic Assembly; HNS – Croatian People’s Party; HSU – Croatian Party of Pensioners; HSS – Croatian Peasant Party; Most – Bridge of Independent Lists; NS-R – People’s Party – Reformist; SDSS – Independent Democratic Serb Party; HDS – Croatian Christian Democratic Party; HSLS – Croatian Social Liberal Party; HDSSB - Croatian Democratic Alliance of Slavonia and Baranja; BM 365 – Bandić Milan 365 Labour and Solidarity Party.

¹ Governing until end of Sanader I (until Jan 2008) with the parliamentary support of: HSS, HSLS and SDSS.

² The Sanader II government ended on July 2009. Jadranka Kosor took over as prime minister on July 2009.

³ Governing with the parliamentary support of: SDSS, HDS, HSLS, HDSSB, BM 365, NS-R, and Hrast (until 2018).

3.1.2 Croatia’s relationship with the EU: Playing hot and cold

After 2000, the HDZ and the SDP signposted Croatia’s future in the direction of EU accession, together with joining NATO and highlighted the two as the highest cross-partisan political priorities. All mainstream political parties forged an *Alliance for Europe* ahead of the EU accession referendum. The alliance demonstrated a shared consensus among political elites that EU membership was the highest national interest. Despite the unequivocal agreement between mainstream political elites in Croatia about the desirability of EU membership in general, there are some differences in governing EU affairs between the two administrations covered in this analysis, the centre-left Milanović government (2011–2015) and centre-right Plenković government (2016–) which deserve a closer look. The divergent opinions of the two leaders on the desired form of European integration explain the varying degrees to which Croatia welcomed EU-level initiatives and cooperated with EU institutions under these two governments.

On the one hand, prime minister Milanović earned his reputation as a maverick politician by his blatant opposition to more supranationalism, his sovereignty-based soft Euroscepticism and conflicts with EU leaders and institutions on the eve of Croatia’s accession to the EU in 2013. On

multiple occasions, Milanović made clear that his vision of the EU does not entail more transfer of competencies to the EU-level: ‘I love Europe, but I see no point in transferring more and more competencies to, pardon my language, the Brussels bureaucracy’ (Net.hr, 2014). He advocated a tough stance towards the Commission as his rhetoric of preserving sovereignty culminated in 2015 when he showed sympathy for British prime minister Cameron’s ideas of reforming the EU and for his attempt to renegotiate the terms of UK’s membership in the EU:

‘Further extension of competencies to the Commission – enough of that. What we have now needs to be bolstered, however I am not for more transfer of powers to the Brussels bureaucracy. We have a state and the state needs to have a heart and lungs.’ (Index.hr, 2015).

The most vivid manifestation of Milanović’s aversion towards ‘dictates from Brussels’ happened right before Croatia’s accession to the EU. The government announced it would limit the application of the European Arrest Warrant only to extraditions for crimes committed after 2002 which would effectively prevent the extradition of a former member of the Yugoslav Intelligence Agency to Germany. This caused uproar in Germany and chancellor Merkel cancelled her visit to Croatia for an EU accession festivity, presumably as a sign of protest (FT, 2013a). The government eventually gave in and transposed the arrest warrant system in full (see: Nikić Čakar and Raos, 2014).

On the other hand, prime minister Plenković had a conspicuous EU background. He earned his reputation as a Europhile serving as a MEP for the EPP group. He became a respected figure in the EPP and was trusted with coordinating the negotiations between political groups on EU top jobs on behalf of the EPP following the 2019 European Parliament elections. He is often speculated by leading EU news outlets to be a credible candidate for senior EU top jobs himself (FT, 2019). Under his premiership, Croatia formalized the ambition to join the Schengen area of free movement and introduce the Euro as a currency by 2024. In 2018, the government passed a

Strategy for the adoption of the Euro (GRC, 2018a) and notified EU institutions³⁴ it would apply to enter the Exchange Rate Mechanism II (ERM II), the so-called ‘waiting room’ for Euro accession as soon as 2020. As suggested by his own words, these two initiatives also reflect prime minister Plenković’s personal ambitions and appetite for deeper European integration into the EU core (Politico, 2019). Unlike Milanović, he has consistently defended Croatia’s path towards deeper integration despite unfavourable public sentiment towards the Euro³⁵ and raised European Council discussions to a higher level both in public and in the Croatian parliament.

In contrast to political elites, the average Croatian citizen perceives the EU less enthusiastically and has become increasingly indifferent towards the EU (Jović, 2012). In 2018, 49 % of Croats considered membership of the EU neither a good nor a bad thing, 24 percentage points (pp) higher than EU-average (Jutarnji.hr, 2018a). Absenteeism from European Parliament elections and from the EU accession referendum are the most obvious reflections of the unwillingness of Croatian voters to engage with the EU. According to Eurobarometer polls, the EU evokes mainly neutral feelings for more than 40 % of Croatian citizens. The reason why the EU does not conjure neither positive nor negative emotions with most Croatian citizens can be traced back to the disappointment with the lengthy and bumpy membership negotiations (Glaurdić and Vuković, 2015). Negative feelings are related to the worries about the loss of cultural and political sovereignty (ibid.) and the fear of an open and competitive market (Blanuša, 2011). Consequently, economic ‘losers’ of EU integration might be less receptive to reforms in which the governments would draw motivation or justification from EU requirements. On the other hand, the fresh memory of war and disintegration from Yugoslavia makes Croatian citizens sceptical towards rendering powers to the supranational level or receiving dictates from above. Those would be perceived as faring negatively on the hard-fought independence during the 1990s. Instances in

³⁴ See: <https://vlada.gov.hr/vijesti/plenkovic-i-draghi-o-ulasku-hrvatske-u-europski-tecaini-mehanizam-vaznom-koraku-na-putu-prema-uvodjenju-eura/26219> (Accessed: 1 July 2019).

³⁵ At the end of 2018, a majority of 56 % of Croatian citizens were against ‘...a European economic and monetary union with one single currency, the euro’ (Eurobarometer 90.1)

which the government would argue that something ‘must be done’ because the EU said so, would likely be perceived by the public as an assault on national sovereignty.

With regards to dependence of Croatia on EU funding, in the period 2015-17 almost 80 % of all public investment was derived from EU sources, which is the second highest figure in the EU after Portugal (European Commission, 2018: 48). When the total 2014-2020 envelope for Croatia of 10.7 billion euros is calculated on a yearly basis, European Structural and Investment (ESI) funds account for some 3.3 % of GDP (European Commission, 2017: 12). The figures indicate that Croatia is a large beneficiary of ESI funding as it represents an indispensable source of public investment.

Three broad conclusions can be drawn. First, the Milanović and Plenković governments are expected to react differently to reform suggestions from EU institutions. While Milanović’s bulldog style of governing would allow him to openly express dissatisfaction with reform measures which are not in line with the government’s ideology and policy agenda, Plenković would be more cautious and open for discussion as he would risk reputational costs by simply neglecting or opposing EU stimuli. The Plenković government is also more likely to take EU economic governance rules more seriously as sound fiscal and macroeconomic governance forms de facto a precondition for Euro accession. Second, Croatian governments are not expected to use the EU reference strategically to strengthen their domestic agendas on issues which impact large segments of the society negatively or to legitimize unpopular actions. The Croatian electorate has the tendency to interpret such manoeuvres as breeches of sovereignty and submission to external dictates. This would prove electorally unwise. Third, Croatia’s reliance on ESI funds as a source of public investment leave governments no other option but to pursue a strategy of maximizing funding absorption, even when the funding opportunities which were programmed do not fit the immediate governmental agenda.

3.2 Economic, social and employment policy developments in recent years

This section explores the trajectories of Croatian socio-economic policies in order to tease out some implications for reform possibilities and to assess the permeability of the domestic employment field. Unlike Hungary and Slovakia who oriented their economic growth model towards the export of durable manufacturing goods, the post-war years in Croatia saw the economy suffer the consequences of corrupt privatization and demise of industrial branches. Tourism forms the economic backbone in terms of its contribution to the GDP (20 %). Conversely, most export-oriented industries suffer low price competitiveness (Kotarski and Petak, 2019: 10-11) and the share of technologically intensive manufacturing industries is extremely low. Growth is therefore mostly driven by domestic demand (private consumption) and government spending as was the case during the pre-crisis years (2000-08) when the real GDP growth was 4.3 % (Nestić et al., 2013: 8). Thus, the structure of the Croatian economy makes the country vulnerable to external shocks (Brkić and Šabić, 2017: 12).

The Croatian economy was badly hurt by the Great Recession. Croatia entered a deep domestic recession in 2009 and experienced a protracted fall in GDP for six consecutive years. Deficit figures were on the rise and Croatia quickly started accumulating external debt. At the time of entering the EU, Croatia recorded negative GDP growth of 5.3 % and debt figures reached 80.4 %, and thus significantly breached the SGP criteria (Maletić et al., 2019: 16-7). The real GDP was reduced by 12.5 % and the labour market situation deteriorated significantly as unemployment went from 8.9 % in 2008 to 17.0 % in 2014 (European Commission, 2015a: 3).

Therefore, soon after joining the EU in January 2014, Croatia entered both the corrective arm of the Excessive Deficit Procedure (EDP) for breaching the debt and deficit criteria, and the Macroeconomic Imbalance Procedure (MIP) for experiencing ‘excessive macroeconomic imbalances, which require specific monitoring and strong policy action’ (European Commission, 2014b).

It was particularly during the left-wing Milanović government that fiscal discipline rose high on the political agenda. The government officially declared fiscal consolidation ‘necessary’ in order to bring down debt and deficit levels (GRC, 2013: 6). Comparatively, the greatest bulk of fiscal consolidation originated during the Milanović government (Deskar-Škrbić and Raos, 2018). The government saved on capital investments, public wages were cut by 3 %, a freeze on employment was introduced and the VAT tax increased from 23 to 25 %. Eventually, Croatia reached a cyclically adjusted primary surplus by the end of 2015.

The centre right Plenković government continued the efforts to reduce government debt and deficit. This was acknowledged in June 2017 when the country exited the EDP (Samardžija et al., 2018: 40). In February 2019, Croatia was also no longer identified with excessive macroeconomic imbalances, after which enhanced monitoring stopped³⁶. In total, the fiscal adjustment occurred primarily on the revenue side, whereas expenditures have stagnated, which indicates that no major retrenchments were initiated and that there was no appetite for deep, structural reforms (Maletić et al., 2019: 118). In total, the commitment to fiscal consolidation demonstrated by both the SDP and the HDZ government creates an expectation that fiscal sustainability, cost reduction and efficiency gains might have underpinned reform actions in the employment field to a large extent.

The social policy realm in Croatia has all attributes of a hybrid welfare regime. It combines universalist elements in healthcare and education, the Bismarckian tradition of insurance-based social protection, socialist family policy, neoliberal traits in pension, healthcare and social services and clientelist elements in disability, pensions and care provision (Kekez, 2018; Dobrotić, 2016). In terms of reform trajectories, such a welfare mix contributed to the lack of policy coherence as different legacies continue to influence reform decisions (ibid.). From an employment perspective, it is especially interesting to observe how relevant family policy and social care arrangements have

³⁶ See: <https://vlada.gov.hr/news/croatia-no-longer-experiencing-excessive-imbalances-says-ec/25409> (Accessed: 5 July 2019).

been for fostering labour market participation. Also, it is worth seeing to what extent the workfare paradigm had permeated the social assistance system.

In family policy, the primary policy focus has been on leave schemes for parents which are compensatory in nature, whereas provision of (early) childcare and availability of flexible working arrangements for parents remain neglected and underdeveloped. The leave system is rather complex in design and offers different forms of flexible use and compensation levels. It sets the regular leave period to a maximum of 1 year and therefore incentivizes return to the labour market more than long leave schemes of up to 3 years present for instance in Slovakia. Provision of early childhood education and care, on the other hand, remains a weak spot and has been systematically neglected by policy makers both from the left and the right. In 2012, around 12% of children under 3 and 41% of those between 3 and 7 years of age participated in formal childcare. Responsibilities for childcare management and provision are decentralized to the local level (cities and municipalities) and therefore large differences exist in terms of quality, access to and affordability of childcare between richer and poorer areas (Matković and Dobrotić, 2013). The system of social assistance is under permanent and ongoing reconstruction. It started in the 2000s during HDZ's rule and under the sponsorship of the World Bank and extending to the left-wing Milanović government which continued with the process of financial rationalization. As cost reduction and fiscal consolidation took central stage during the economic crisis, the Milanović government reinforced the workfare approach to recipients of social assistance by tightening eligibility criteria. Workfare policies have the goal of preventing welfare dependency and base any sort of social support on the individual's activation first. Social assistance is then conditioned on active search for jobs or participation in ALMP programmes. The government claimed that social benefits are being misused and should therefore be targeted better (GRC, 2013). A discourse of excessive social spending was used to legitimize retrenchment, while in fact expenditures on social protection in Croatia fall well below the EU average (Dobrotić, 2016: 308) (see: Section 3.4).

In employment and labour market policies (see: Section 3.4), socialist legacies and early transition years significantly shaped trajectories in employment protection legislation, unemployment protection and the status of active labour market policies (ALMPs). The Croatian labour market is more rigid and employment protection is comparatively stricter by CEE standards. As Stubbs and Zrinščak (2009) write, the war period of early 1990s was not conducive to more liberal employment protection, and the 1996 Labour Act was tailored to the conservative German template. The law protected core workers on open-ended contracts and segmented the labour market between insiders and deprived outsiders. Most significant liberalizations of the Labour Act were enacted essentially in two waves and both surprisingly during the SDP (left-wing) rule in 2002/03 and 2013/14. The first wave was recorded in the context of employers' requests and Croatia's economic opening after the regime change in 2000, and the second originated from a period of deep economic shock and labour market crisis³⁷. The 2003 reform acknowledged temporary agency work as a working form, the notice period was drastically reduced and severance payments were limited to a maximum of 6 average wages. The ease of firing and hiring workers on open-ended contracts was not touched, and fixed-term work was only slightly liberalized (Matković, 2013: 6). The second wave, again, did not question the status of core workers and (in)flexibility of open-ended contracts, but led to further segmentation of the labour market by additionally increasing the flexibility of fixed-term contracts and temporary agency work (Butković et al., 2016: 10-12) (see: Section 3.4). The Croatian EPL remains rigid in comparative terms and any meddling with the rights of core workers is clearly out of sign for political elites.

In short – Croatian ALMPs frequently suffered from discontinuation in the past due to lack of finance, expenditure on ALMPs are several times below EU average, targeted measures for specific groups are often missing, and policy evaluations are irregular (Matković, 2013; Babić, 2012; Babić, 2003). ALMPs are used scarcely in Croatia with only 0.14 % of GDP being spent in 2012,

³⁷ According to the EPL index, employment protection became less strict after the legislative changes, decreasing from 3.58 to 2.76 after the 2003 change, and from 2.55 to 2.28 in 2014 (Butković et al., 2016).

which amounts to only a third of the EU-average spending (European Commission, 2013a: 19). Out of that, only a small fraction is spent on job mediation (Ostrovidov Jakšić, 2017). On paper, Croatia applied the EES since early 2000s and regularly devised national employment action plans ever since. However, not much changed in practice. The available pre-accession funding did, however, trigger better statistical harmonization and instilled a culture of policy evaluation.

A more pronounced utilization of ALMP measures arose with more substantial access to EU pre-accession funding, and most importantly with access to the ESF after accession. It was only after the crisis broke out that ALMPs became more utilized and the number of participants significantly increased. Measures which were devised between 2009 and 2013 were simply a broadened compilation of previously existing measures comprising of subsidized employment, self-employment support, training and requalification schemes, public works, job retention schemes and on-the-job training (Bejaković, 2016). Developments in this area indicate that EU funding opportunities might play an important role in creating incentives for better targeting and usage of ALMPs as national resources are often found wanting and given the fact that ALMPs have not necessarily been among the top investment areas of any government thus far.

The unemployment benefit system inherits the communist legacy of marginalizing such arrangements as the official regime strived towards full employment. Expenditures on unemployment benefits are persistently small compared to Western European countries, primarily because of low generosity (replacement rate), strict eligibility criteria and therefore low coverage of unemployed, and comparatively low duration of unemployment benefits. In the period between 2011 and 2014, only between 18 and 24 % of all registered unemployed received unemployment benefits (European Commission, 2013a, 2016a). Over the past 15 years, changes have generally been parametric, without significantly positive effect on the generosity and accessibility. Unemployment benefits remained scant throughout regardless of the party in power, which reflects a long-term trend of low flexicurity.

3.3 European Semester governance in Croatia

3.3.1 The process of national coordination of the European Semester in Croatia

This section provides evidence on the procedural effects of the Semester on inter-ministerial coordination of policies and the quality of policymaking. Starting 2013 Croatia joined the Semester cycle on an ‘informal and voluntary basis’ (Council, 2013) after submitting a reform document *in lieu* of the usual National Reform Programme³⁸. The document outlined the key policy objectives in line with the 2013 Annual Growth Survey (GRC, 2013). Although the country did not receive any formal CSRs that year, the Council did issue a conclusion with clear indications of policy bottlenecks based on the Commission’s assessment of the 2013 Economic Programme. The conclusion urged Croatia to reform the benefit and pension system alongside a reform of the labour market³⁹.

Croatia created a structure for national coordination of Semester policies only last minute to accession and struggled to adjust the domestic budgetary process to the EU cycle. The national system was frequently changed, which reflected the inexperience of Croatian authorities in EU economic governance and their tussle to find an optimal model. In 2014, an Inter-Ministerial Working Group at minister level was created under the chairmanship of the deputy prime minister and minister of Regional Development and EU Funds to coordinate the drafting of the NRP, together with monitoring and implementation of reform measures. With the creation of the Inter-Ministerial Working Group, the government intended to demonstrate ‘strong political support to the process of participation in the European semester.’ (GRC, 2014a). On a technical sub-group level, Semester coordinators, who are assistants to ministers and state secretaries, for specific issue areas, including the area of labour market and employment, were tasked with drafting the NRP, monitoring issue-relevant initiatives and recommendations from the EU, preparation of reform

³⁸ The so-called 2013 Economic Programme of the Croatia.

³⁹ At that time already, the Council suggested to reduce the rigidity of the Labour Act; to implement measures for matching the demand for labour with workers’ supply; to improve the position of youth on the labour market; to revise the incentive structure of the benefit system and to increase the effectiveness of activation policies (Council, 2013).

measures and reporting on progress with sector-specific reforms (HR2A). The system of coordination was changed with the new technocratic government of Tihomir Orešković in 2016 which decided to raise the political profile of the new Inter-Ministerial Working Group and charged the prime minister's office with coordinating the work on the Semester together with the Ministry of Economy, Entrepreneurship and Crafts (Samardžija et al., 2018: 38). This move was welcomed by the Commission as it was seen as more efficient and less vulnerable of 'privatization' by one ministry (HR1I). After the soon collapse of the Orešković government, the new prime minister Andrej Plenković brought new air into the coordination system. He introduced new transparency standards with the purpose of bringing the Semester closer to the citizens. The government now periodically issues NRP progress reports and set up a dedicated Semester section on the government's website⁴⁰. Coming from the EU institutions himself (EP), Plenković's attempted to increase the visibility of the Semester.

Members of the Ministry of Labour and the Pension System agreed that the introduction of the Semester in Croatia had a generally beneficial effect on policymaking and that it forced political elites to improve their strategic thinking (HR3A, HR4A). In their view, the periodic monitoring of policy progress and the obligation to plan activities impacted Croatian governments to take their role more seriously and to structure policy action more coherently.

3.3.2 Participation in the Employment Committee and multi-level governance

This section gathers evidence from Croatian members in EMCO and EPSCO on the learning potential in the Semester and observes the transferability of policy knowledge from EMCO to political decision-makers and process socialization. Regarding the coordination of national positions of Croatian representatives in the relevant EU committees, in this case in EMCO, representatives are in most cases mandated to strictly follow the stance agreed in the inter-

⁴⁰ The website is available in Croatian at: <https://vlada.gov.hr/europski-semestar/19453> (Accessed: 5 July 2019).

ministerial Coordination for Foreign Affairs. Sector-specific positions are drafted on the ministry level, finalized at the Coordination level and approved by the Government after which all representatives in EU institutions become obliged to apply the position (HR2A, HR3A). As some national representatives in EMCO are recruited from the implementing body, the Croatian Public Employment Service, some deviations from the common practice arise. Those members are not always informed about the position of the government, for which they express their opinions in EMCO with due caution to the assumed national interests (HR2B). Both, when the position of the Croatian government is known and when it is uncertain, representatives have little room to express their professional opinions in the formal EMCO setting beyond their immediate official mandate.

The process of drafting the NRP⁴¹ is jointly coordinated by the Semester team in the prime minister's Office and the Ministry of Economy which is the penholder. However, desk officers in the Ministry of Labour who work on EU socio-economic governance are responsible for drafting employment-related sections and for providing reform details (HR3A). They have a voice and their inputs are largely reflected in the final document.

The interviews with Croatian EMCO members reveal that deficits exist both in the quality of multilateral surveillance and in politico-administrative relations between EMCO members and political decision-makers in Croatia. Peer review sessions were appreciated as a useful exercise in a generally friendly atmosphere with supportive peers, however the level of commitment and interest is not evenly distributed among participants (HR4A). The learning exchange is described as too mechanical as all parties define their positions ex-ante:

‘In thematic reviews, everyone is trying to sell their own ideas. The Commission and the discussant country send in their questions in advance...Other colleagues seem to be bored, although good practice examples can be heard.’ (HR1B).

⁴¹ In the first year, the Ministry of Regional Development organized a working group to draft the NRP. However, according to a civil servant, this proved disfunction (HR4A).

On top of that, both thematic reviews and country examinations were occasionally not easy going because contentious issues in which views drastically diverged triggered tensions between the Commission and the Member States (HR1B). This was in the Croatian case noticeable with regard to the issue of pension reform, which was discussed in joint EMCO-EPC sessions and regarding to which the fiscal aspect dominated the debate due to the MIP procedure (ibid.). Therefore, the potential learning aspect of the process was neglected as the atmosphere of interactions was more compliance-oriented rather than soft (ibid.).

EMCO members indeed share their mutual learning experiences with political assistants and state secretaries. However, such learning stops there and EMCO members have no deeper interactions with political decision-makers on how to apply newly acquired knowledge in the domestic context (HR3A, HR2B). They are not certain what impact their briefings create as communication is one-sided and without follow-ups (HR2B). The inability to change policy even created frustration: 'People which can actually influence policy change to the better should attend these meetings. We could not apply any of that at home.' (HR2B). These findings indicate that the Croatian experience in EMCO did not create the necessary conditions which would be conducive for mutual learning, both at the level of thematic reviews and country examinations, on the one hand, and at the level of cooperation between senior officials in the Ministry of Labour and EMCO members, on the other hand.

Discussions in EMCO on CSRs are considered over-structured as open debates are being discouraged (HR2B). CSR discussions also created conflicts between Croatian representatives and the Commission. The Commission takes a hard stance on initial formulations and backtracks only upon receiving convincing arguments by EMCO members, backed by data. While consensus-building is appreciated, Member States sometimes gather support from peers for their requests for amendments. Croatia was not successful in that regard when trying to abolish the CSR on pension reform (HR2B).

As witnessed by the minister of labour during the Milanović government, Mirando Mrsić, EPSCO council meetings also left limited space for deliberation on the CSRs since disputes with the Commission are either to be resolved ‘behind the scenes’ or remain unresolved (HR1A_MRSIC). He shares the view that the Commission was assertive during the height of the economic crisis in Croatia (2014) and insisted on its stance especially on controversial issues such as the pension reform (see: Section 3.5). EPSCO meetings are rather formal and highly structured occasions in which Croatia would shortly reiterate its position, but nothing would change in terms of CSR content since the format doesn’t allow broader discussions: ‘The format is not open, you have 3 minutes to lay out your position, the Commission makes its assessment and that’s it.’ (HR1A_MRSIC).

This imprint is further corroborated by the experiences of Commission officials and civil servants from the Ministry of Labour during fact-finding missions. While from the Commission’s information-gathering perspective these meetings were useful (HR3G, EC2B), they did not help to create better working relations, stir frank exchange on policy problems or help create national ownership (HR1G, HR3G, HR3A). The Commission delegations were perceived as ‘auditors’ (HR1H) or ‘supervisors’ (HR3G) with whom national authorities communicated with suspicion, careful ‘to provide only the desired answers’ (HR3G). One officer from the Croatian desk in DG EMPL summarized the relationship as:

‘They don’t see us as partners...it’s also because Croatia is a new Member State and they don’t know exactly how to position themselves, to what extent they can express views or challenge the Commission’s views which all Member States do. But with Croatia it’s still a teacher-student relationship...With the ministry of Labour it’s not that much collaborative.’ (HR1G).

The fact that political appointees or even ministers frequently take part in meetings only adds an extra layer of formality to the occasion (HR1G). Regarding the formality, Croatian desk officers in DG EMPL and DG ECFIN agreed that employment coordination became even more structured and formalistic when Croatia entered the MIP procedure (HR2G, HR3G, HR1H). This

meant that employment was under stricter surveillance, fact-finding missions raised more stakes and the tone of discussion became more serious. These intensified interactions contributed to a feeling of pressure within the services for EU coordination of the Ministry of Labour (HR3A, HR4A). The perception of pressure came in the form of administrative pressure which Munta (2017: 191) describes as occasions of remote and on-site intensified surveillance conducted by DG's country desk officers who request in-depth reporting or inquire on progress on planned reforms and policy measures. Civil servants from the Ministry of Labour admit that they were obediently receptive to such Commission's requests in the first couple of years due to their inexperience with the Semester process: 'We only now started learning how to communicate with the Commission and how to fit their expectations to our needs.' (HR4A). This pressure leaves additional marks on civil servants who feel overwhelmed not just by the workload as such, but the speed and number of new employment initiatives and recommendations which the Commission inaugurated since 2012 (HR3A, HR4A). As small administrations such as the Croatian lack capacities, it is difficult to absorb all requests which then results in integration fatigue. As enthusiasm is faltering, administrations develop coping strategies and cross-country diversion mechanisms to keep the level of ambition low:

'For instance, through EMCO we managed to turn the Commission's Skills Guarantee draft initiative into 'Upskilling Pathways' and gather support to include confines so that practices remain 'in accordance with national circumstances'. We get that it's nice to be ambitious, but we simply cannot have everything done instantly.' (HR4A).

It follows from the nature of interaction between national authorities and the Commission in EMCO and in general that the prospect of mutual learning is weak. Conditions have not been conducive to learning, especially in the context of the MIP and dominance by DG ECFIN and EPC in the early membership years. Likewise, transmission of best practices or learning experiences is disabled since interactions are not standardized and no close politico-administrative relationships have been established to use the EMCO to the maximum.

3.3.3 Involvement of social partners and the Croatian parliament

National tripartite negotiations in Croatia take place in the framework of the consultative Economic and Social Council. Its conclusions are not binding, and the government can make unilateral decisions. Unilateralism is frequent as social partners in most cases fail to reach consensus due to structural limitations in both camps (Bagić, 2013). Still, as Grdešić suggests (2008), the strength of trade unions in Croatia should not be underestimated. While they are rarely able to exert influence on decisions through tripartite dialogue, they do possess considerable power to mobilize membership and workers on conflictual issues such as workers (labour) rights, wages and pensions (ibid.). Trade unions have demonstrated in the past that when they are able to organize successful protests or actions to initiate referenda and thereupon spill back policies. (Bagić, 2013).

Since 2015 consultations with social partners on the Semester are organized in the format of the main tripartite body, the Economic and Social Council. Thematic sessions are held in which a variety of topics is discussed, ranging from the AGS, the Alert Mechanism Report, the Country Reports and the implementation of CSRs, to preparation of policy measures for the next NRP. Social partners are given the opportunity to voice their opinion and receive back written answers (GRC, 2015: 91). Thematic sessions are also held on issues of labour market and pension system in which social partners are presented with draft measures for the upcoming NRPs (GRC, 2018b: 81). Notwithstanding these recent procedural improvements which are also acknowledged by the EMCO thematic review (EMCO, 2018), significant obstacles to meaningful participation still exist. Existing studies on social partners' involvement in national Semester processes find that there is only limited time (two to four days) allocated for providing feedback on the NRP, which is in the face of limited capacities a very tight schedule (Eurofound, 2017: 12). Social partners applaud the recent changes in the consultation setting (thematic sessions), but nonetheless remain sceptic regarding the quality of such engagements as only limited information is provided on planned

policy measures in the preparatory phases of the drafting (Eurofound, 2019: 32). Therefore, social partners' perception of concrete influence on the NRP is low (Eurofound, 2017, 2019). An interviewee from the Union of Autonomous Trade Unions of Croatia agreed that the format of the Semester consultations is not bad and confirmed that draft measures presented in thematic sessions are rudimentary: 'Governments are not interested in real dialogue on substance, therefore our influence is non-existent' (HR1D). It can be concluded that social dialogue has served the government as a window-dressing exercise in the context of the Semester. Tangible ownership of reform measures with social partners cannot be achieved under such circumstances (see: Section 3.5). Moreover, social partners express discontent with their treatment in fact-finding missions and describe their contacts with ESOs as poor (HR1D), which one of the officers from the Commissions' Representation readily admitted (EC1C).

Turning briefly to the role of the parliament, the parliamentary Committee of European Affairs *de jure* exercises scrutiny powers over government's actions in EU affairs. It can mandate the government to represent the position concluded by the committee. *De facto*, however, the committee either never exercises this prerogative or simply rubber-stamps the government's draft position. The latter controls the majority in the committee, hence the balance of power in EU policy is concentrated within the government (Briški and Špiljak, 2014: 21; HR1C). The Committee has no say over the substance of governmental positions regarding EU legislation or any other negotiating position. It is no different with the Semester's NRP as no formal procedures exist which would define the Committee's role in this process (HR1C). Its scrutiny role is reduced to an information-sharing exercise (HR1C). In the past, government representatives would inform the Committee of the NRP and the Convergence Plan after they were accepted by the government. Today's practice includes bilateral thematic consultations shortly before the documents are passed, but again without the possibility to intervene in the text. To conclude, the Semester has not empowered the Croatian parliament to hold the government accountable for commitments made

within the Semester, nor have the successive governments created conditions for more active parliamentary engagement in Semester affairs.

3.4 Croatia's employment issues, reforms and the influence of the European semester

The economic crisis had a devastating effect on the Croatian labour market. According to Eurostat (Labour Force Survey data), employment rates were steadily growing up until mid-2009 after which employment started to falter rapidly. It peaked at 64.9 % in 2008 and reached a low point at 57.2 % in 2013, more than 10 pp lower than EU-average. Unemployment went from 8.6 % (2008) to 17.4 %, which was at that time the third highest unemployment rate in the EU. Most affected were workers in the private sector, youth, men and fixed-term contract workers (Brkić, 2015; Vuksic, 2014; Matković, 2010). Public sector workers, who were predominantly on permanent contracts, were spared from the crisis whereas craftsmen, small and medium enterprises and the private sector 'took almost the whole burden of employment adjustment' (Brkić, 2015: 35). Employers on fixed-term contracts were overrepresented among job-losers as they are both easier to dismiss, and therefore at greater risk of job-loss (ibid., p. 6). As they are easier to hire too, fixed-term contracts started dominating as an employment type among labour market entrants (Vuksic, 2014: 131). While youth unemployment was already in the boom years before the crisis extremely above EU-average (23.6 % vs. 15.9 % in 2008), the crisis drastically hit the youth (19-24 yrs) and unemployment skyrocketed at 49.9 % in 2013 – again the third highest rate in the EU (European Commission, 2014b: 16). Finally, the better educated were less exposed to the crisis as opposed to low-skilled (Matković, 2010: 15).

Despite the recent labour market recovery, most important labour market indicators are still among the worst in the EU. Over the last decade, only two thirds of people in the working age (15-64) are active (either employed or looking for work) primarily due to barriers such as skills mismatches, easy access to early retirement and care responsibilities of older women (European

Commission, 2016a, 2018a). Long-term unemployment (1+ year) is widespread as almost 2/3 of unemployment was long-term in 2015. The employment rate of older workers (55-64 yrs) which was 37.8 % in 2013 is consistently worse compared to the rest of the population and the EU-average (50.2 %) and more than four fifths of them (83.5 %) belong to the group of long-term unemployed (European Commission, 2015a: 73). In 2016, the low-skilled had below EU-average employment rates (37.9 % vs 53.6 %) and they were at the highest risk of long-term unemployment as almost three quarters of low-skilled unemployed (only primary or no education) are long-term unemployed (Bejaković and Mrnjavac, 2018: 1843). Youth unemployment is in constant decline, but it was still well above EU-average in 2018 (23.7 % vs 15.2 %). Recently the problem of workforce emigration emerged similar to other CEE countries as an effect of the right to free movement after joining the EU. The biggest increases in migration inflows from Croatia are recorded in Germany, Austria and Ireland where citizens predominantly emigrate to (Pokos, 2017). Consequences of emigration are vast, not just for the revenues in healthcare and pension system (Župarić-Iljić, 2016), but for employment as well. The basin of skilled workers shrunk and in combination to economic recovery created labour shortages of both low-to-medium skilled workers in construction, transportation and tourism, and high-skilled workers in the ICT sector, engineering and medical system (European Commission, 2017a: 40).

This snapshot indicated that Croatia suffers not only from acute, cyclical or crisis-led unemployment but displays serious structural deficiencies on the labour market which leave the active population largely underutilized. As can be seen from Table 3.2, CSRs prepared by the Commission have attempted to grasp the underlying reasons for poor labour market outcomes. They can be grouped into seven different issue areas which will be analysed beneath. First, the Commission expressed concerns regarding the rigidity of the Croatian employment protection legislation. Second, much emphasis was put on the activation of social benefit recipients and better tax and benefit incentives to work. Third, the Commission urged the government to pay special attention to the capacities of the Croatian Employment Service to provide quality assistance and

targeted measures to vulnerable groups, including low-skilled, elderly and long-term unemployed. Fourth, a dedicated CSR focused on the particularly difficult situation of youth and the Youth Guarantee which should prioritize the provision of apprenticeships and reach out to inactive youth. Fifth, the importance of ensuring better labour market relevance of education, particularly in vocational education and training (VET) was further reiterated. Sixth, the issue of up- and re-skilling of adults through adult learning and training possibilities figured frequently on the CSR list. Finally, the Commission persistently suggested to tackle the issues of effectiveness, adequacy and sustainability of the pension system. Before analysing each of these recommendations individually, a few reflections are offered on the context, direction, content and implementation progress of employment CSRs issued to Croatia.

Table 3. 2 Overview of country-specific recommendations in Croatia (2011 – 2017)

Year	(Component of) Country-specific recommendation	Commission assessment of progress
2014 ^a	Reform pension system (early retirement, retirement age, special provisions, disability pensions) by March 2015	No progress
	Implement second phase of Labour Act by March 2015	Full progress
	Strengthen ALMPs by reinforcing administrative capacities of PES	Some progress
	Prioritize apprenticeships and outreach to NEET as stipulated in YG	Substantial progress
	Improve labour market relevance of educational outcomes (VET system)	Some progress
	Review tax & benefit system end. 2014, consolidate social protection benefits	Some/Limited progress
2015 ^a	Discourage early retirement and tighten special provisions	Limited progress
	Strengthen work incentives for unemployed/inactive (LTU, older, youth)	Limited progress
	Consolidate social protection benefits	Limited progress
2016 ^a	Discourage early retirement	No progress
	Provide up- and re-skilling measures to low-skilled and LTU	Limited progress
	Consolidate social protection benefits	No progress
2017 ^a	Reform pension system (early retirement, retirement age, special provisions)	No progress
	Improve coordination and transparency of social benefits	Limited progress
	Improve adult learning, especially for low-skilled, LTU and elderly	Limited progress
	Accelerate reform of the education system	Limited progress
2018 ^a	Reform pension system (early retirement, retirement age, special provisions)	Substantial progress
	Reform adult training and education for youth to increase LM relevance	Some progress
	Consolidate social protection benefits	Limited progress

^a All CSRs were considered MIP-relevant in the Commission's assessment.

Source: Council (2014a, 2015a, 2016a, 2017a, 2018a) and European Commission (2014a, 2015a, 2016a, 2017a, 2018a, 2019a)

First, all employment CSRs issued in the period 2014 -2019 have been linked to the MIP and considered relevant for reducing macroeconomic imbalances. Therefore, especially in the early years of Croatia's participation in the Semester cycle, the employment field was under close

scrutiny of DG EFCIN and, as a Croatian desk officer agreed, ECFIN was more involved in areas such as employment which are usually not their core business (HR1H). They were, according to Croatian desk officers, the true pen holders in employment in year 2014 (and preparatory year 2013) and the power to set the tone of the country report and the CSRs was in their hands (HR3G). This did not necessarily make the relationship between the two desks conflictual. However, the differences in opinions were pronounced and impacted the dominant angle of the Country Report and the CSRs.

This leads to the second point, namely that the content of the Croatian employment CSRs gives much more analytical weight to DG ECFIN-supported economic goals of reaching effectiveness, sustainability and efficiency. The trend is reflected in the suggestion to preserve sustainability of the pension system, to further increase flexibility of employment legislation, to revise the tax and benefit system to ‘make work pay’ and to simplify the social benefit system. These goals were in contrast to DG EMPL-promoted measures, which focused on the adequacy of the pension system; bigger capacities for the public employment service to offer services; better activation of vulnerable groups; social investment in education of youth; vocational education, and adult re- and up-skilling (HR3G). At the height of the crisis, a common objective was also not to suggest measures which would impose new costs but improve the efficiency of the employment field.

Third, in most years, CSRs were very prescriptive, and sometimes suggested not just the preferred goal to be attained, but also the specific course of action to be taken. At times CSRs even indicated the timeframe in which the measures should be adopted (pension reform, Labour Act, and review of the tax and benefit system). For instance, the CSRs often prescribed how effectiveness and sustainability of the pension fund should be achieved or what actions to take in order to consolidate the social benefit system.

Finally, on most issues only limited or no progress was recorded by the Commission in implementing the CSRs, except for the Youth Guarantee. The suggested pension reform saw no

progress during the Milanović government, however in 2018 the Plenković government passed a package of pension laws. Most CSRs are repeated year after year, which did not go unnoticed by the Commission (European Commission, 2017a). The Commission previously also criticized Croatia's limited efforts to present a 'full strategy of addressing root causes of low employment' (European Commission, 2014a). The chapter will now analyse the influence of the Semester on the outlined issues. Two separate analyses will follow on the contentious pension reform, which was resisted for a long time, and on the implementation of the Youth Guarantee.

Reform of the public employment service and active labour market policies

In 2014, one CSR focused on building capacities of the Croatian Employment Service (CES) to offer quality counselling, individualized services and effective ALMP measures. CES is the main employment agency in Croatia, responsible for the day-to-day management and implementation of active and passive (unemployment benefits) labour market policies. Although it applied an 'active and preventive approach' with unemployed people since early 2000s, CES had always lacked human resources and analytical capacities to fully implement a targeted approach to beneficiaries. However, in late 2014 a Restructuring Action Plan envisaged an intensified process of CES restructuring and modernization, which was to be financed by the ESF (GRC, 2014a: 23-24). A career guidance information system (ALMIS) was rolled-out, the network of Lifelong Career Guidance Centres expanded, specialized counsellors for long-term unemployed were introduced and statistically assisted profiling of risk groups was designed (European Commission, 2015a, 2016a).

One executive actor in CES of that time recalls that the CES reform process benefitted immensely from the CSR. The CES management skilfully exploited the opportunity created by the recommendation from the Semester. The CES coupled the CSR with the process of programming the OP Efficient Human Resources to convince the Ministry of Labour to assign greater importance to CES capacities (HR1B). For CES as a stakeholder, domestic experiences of EMCO

colleagues was particularly enlightening as they shared their tactics of how to utilize the Semester: ‘A Slovenian colleague taught me to use the Semester for things one otherwise wouldn’t be able to do because of your politicians. So, we did when we saw the CSR on CES capacities.’ (HR1B). Beyond CES’s policy entrepreneurship, availability of ESF funding was equally crucial to bolster the existing reform agenda. The CSR crucially underpinned the argument for greater capacity needs of CES in the Operational Programme which was being finalized in late 2014 (HR2B). As a result, the ongoing, but until then slow restructuring process of CES was accelerated thanks to CES’s creative appropriation of the targeted CSR. Regarding the effectiveness of ALMPs, design-wise they remained largely the same throughout the analysed period. Only 7% of those unemployed participated in ALMPs in 2016, and improvements were recorded only in the youth cohort (European Commission, 2018a). By and large, ALMPs remained poorly targeted and no tailor-made training measures applied to low-skilled or long-term unemployed, notwithstanding the enhanced counselling activities that were introduced as part of the CES reform (European Commission, 2013a, 2015a, 2018a; Botrić, 2017). The Plenković government redefined, simplified and streamlined the package of ALMPs in recent years (GRC, 2017), still content-wise measures did not change much. One high-ranked official from the Ministry of Labour noted that, while authorities are generally not opposed to learning from best practices, there is an understanding that Croatia is policy-wise ‘well profiled’ in ALMPs and had ‘advanced significantly’ (HR2A). Such exclusivist policy convictions certainly did not contribute to greater importance of mutual learning activities. The interviewee also confirmed that ESF funding in the period 2014-2020 only served the purpose of strengthening existing ALMPs as resources for ALMPs are scarce and measures are costly (HR2A). ALMPs that focused on (self-)employment incentives, public works and Youth Guarantee completely crowded out other measures. Also, the process of introducing new measures would have required a long process of piloting, evaluation and eventually complete roll-out (HR2A). In the context of mass unemployment, authorities were in search for quick fixes,

therefore such an elaborate endeavour of re-designing ALMPs was neither on the agenda nor an option.

Activation of social assistance recipients

Another issue which frequently figured in CSRs is related to the Commission's concerns that the social protection system does not incentivize people to work as welfare parallelisms in the form of benefit overlaps create benefit traps. Also, discontinuation of social assistance when acquiring work does not make work pay in the Commission's view (European Commission, 2013a). The recommendation found inspiration in a reform process already initiated by Milanka Opačić, the minister of Social Policy and Youth in the Milanović government. As shown in Section 3.2, the Milanović government applied economic reasoning to social policy. The 2013 Social Welfare Act introduced the workfare paradigm in social assistance and applied stricter eligibility criteria and sanctions. All capable recipients had to accept a work offer, participate in unpaid public works activation of 30-90 hours or would otherwise lose their benefit. The Law also stipulated that long-term (2 yrs) beneficiaries who acquired work would not immediately be stripped of their assistance but could continue receiving it for 3 months at a decreasing rate. As this applied only to 1.4 % of beneficiaries, the measure did not contribute much to activation (Matković, 2018: 5). As Dobrotić confirms (2016: 318), the activation elements of the law were largely influenced by an agenda of cost containment and crackdown on welfare dependency. As the reform preceded the participation in the Semester and was largely based on SDP's crisis management, the EU did not influence policy change.

Second, the Milanović government secured a loan by the World Bank in 2014 to simplify access to benefits and to improve the efficiency of social benefit provision. One of the primary objectives was to consolidate social benefits by establish a single administration point, so-called One Stop Shop, which would unite the provision of all forms of benefits, harmonize eligibility criteria, prevent abuses and create incentives through means-testing so as to avoid benefit traps

(GRC, 2016). After the Milanović government conducted an initial mapping of national and local benefits, very little progress followed afterwards. In fact-finding missions, the impression was that the Plenković government was dragging their feet on the issue and it was difficult to follow the state of progress (HR3G). The Plenković government estimated that limited space and human resource capacities are an insurmountable obstacle to the implementation of a one-stop shop (GRC, 2017: 21) and shifted the policy focus on improving transparency of national and local social benefits that a recipient is/can be entitled to (GRC, 2018b: 54). The World Bank loan was cancelled, and the reform stopped, indicating the HDZ's low ownership of the reform. The role of the EU has from the start been only the one of an observer and supporter. The Commission regularly followed progress, but in fact had no leverage in the process as funding was secured from a World Bank loan. The reform was gradually losing momentum as the Orešković, and later Plenković government lost interest in the brainchild of the former Milanović government, and Milanka Opačić. The Commission attempted to keep the reform alive and preserve the issue on the agenda by repeatedly issuing CSRs and by indicating the preferred course of action, however without much success. Pressure was not effective as the government could ignore the suggestions without costs. The EU did not support the project financially and therefore lacked the stick and carrots. Although reappearing in CSRs, the issue was not a strategic preoccupation of the Commission. On the other hand, the Plenković government was not motivated to use the recommendation since the modernization of the social protection system was not a priority, whereas any reform effort would not be particularly rewarding in the context of economic recovery and positive employment rates.

Adult education

Since 2016, more focus in the Commission's assessments is put on improving the employability of the working-age population, particularly the low-skilled and long-term unemployed, by providing quality training and education opportunities which would update their skills or re-skill

them for in-demand occupations (Council, 2016a). These efforts should be read in the context of a very low take-up of training among the long-term unemployed (European Commission, 2016a) and low engagement in lifelong learning in Croatia. Participation in life-long learning activities in 2017 for the age group 25-64, which means that they took up education or training, was only 2.3 % and for people older than 50 even lower (Ostrovidov Jakšić and Jakšić, 2018). Only 1.4 % of the long-term unemployed took part in education or training in 2017 (Bejaković and Mrnjavac, 2018). Also, in 2016 the Council issued two recommendations, one on long-term unemployed and the other on ‘upskilling pathways’, both of which emphasize the importance of providing quality training and re-qualification offers to groups in risk of human capital deterioration. While in the 2016 NRP the government endorsed lifelong learning and promised to mobilize EU funding to ‘improve the system of worker retraining’, not much changed (GRC, 2016). An Adult Education Act and a Curriculum for Primary Adult Education are still not in place. Resources for training and adult education remain scarce, access to re-training is limited as the CES finances training of only 9 % of participants, no quality assurance standards apply to providers of education and non-formal and informal learning is still not recognized (European Commission, 2018a: 38). EMCO reviews also expressed concerns over the low participation of LTU in training and the lack of resources assigned to up- and re-skilling measures (EMCO, 2016, 2017). An external evaluation concluded that training directed towards labour market reintegration needs to be redesigned. Training that was provided was considered of low quality and of little relevance for labour market outcomes, whereas participants were pushed into qualifications regardless of their interest or background (CES, 2016).

Even though the EU was trying to build pressure on the issue by linking Council recommendations, CSRs and EMCO discussions together within the Semester, external pressure was met with resistance by members of the Croatian administration. Drawing on their previous experience with the Commission’s pressure on inactive youth and the accumulated frustration with the overwhelming number of initiatives and request coming from the EU, officials from the

Ministry of Labour participated in a coordinated effort to water down the *Upskilling Pathways* recommendation together with their colleagues from other Member States (HR3A, HR4A; see: Section 3.2) to make it applicable at home only ‘in accordance with national legislation, circumstances and available resources’ (Council, 2016e). This was a manoeuvre to tone down the ambition and to keep the Commission away from forcing their preferences onto domestic practices. The general feeling among Croatian EMCO members was that the Commission was rushing with initiatives, while national administrations could not keep up with the rhythm effectively, which lowered the learning potential of multilateral surveillance in EMCO. Finally, primary reasons why Croatia could not take advantage or build on the multitude of EU initiatives in the field lie in the low policy focus on human capital development (see: Section 3.2) and the crowding-out effect of competing ALMPs, in particular the Youth Guarantee, the public work scheme and employment incentives, which left little funding left for training. There is no comprehensive social investment agenda and the Plenković government showed no intention of raising the profile of up- and re-skilling measures in the palette of ALMPs offered by the CES.

Reform of the Labour Act

In 2014, the Commission encouraged the government to proceed with the second phase of a Labour Act reform initiated in 2013 with amendments to the Labour Act. The first phase targeted the provisions governing temporary employment. The amendments eased the use of temporary contracts by de-limiting the duration of the first temporary contract which was previously set at 3 years (Brkić, 2015: 25). The Commission considered the Croatian labour market to be nonetheless ‘relatively inflexible’, which, the Commission believed, negatively affected employment growth (European Commission, 2013a). The 2014 IDR concluded that Croatian employment provisions negatively affect the country’s competitiveness due to high labour costs to employers (European Commission, 2014b). Although the 2014 CSR did not explicitly advocate for specific solutions, it

was clear that the Commission's ambitions were higher and that it favoured removing barriers to hiring as well.

The second phase introduced more flexible use of working hours, temporary agency work was further liberalised, and the notice period could now run during annual and paid leave (Butković and Samardžija, 2016). However, provisions on dismissal and hiring of permanent workers, on severance and on sick leave payments remained untouched (Brkić, 2015). The government passed the 2014 Labour Act unilaterally, without managing to forge a compromise with social partners in the framework of the tripartite ESC. Intentions to change the Labour Act with the 2013 amendments and 2014 recast preceded any activities within the Semester.

Whereas international pressure to reduce the rigidity of the labour market existed, changes should primarily be considered in the context of the dire state of economy and the almost 400 000 unemployed. Then minister of labour, Mirando Mrsić said in the interview:

‘Although pressures always existed, we initiated the reform primarily to protect workplaces, to enable the restructuring of the economy more efficaciously and to correct a certain rigidity which prevented the better functioning of the labour market’ (HR1A_MRSIC).

The government's intention was to take the burden off employers without jeopardizing workers' rights and to get people back to work even if it implied temporary work contracts (HR1A_MRSIC). As one high-ranked official in the Ministry of that time attests, the labour market reform was not exactly ‘the most social-democratic reform’ and favoured employers' interests (HR2A). The reform neither completely conformed to the suggestions of international institutions, nor were employers and trade unions satisfied as the former blamed the government for lack of ambition, and the later deemed the legislation too flexible (Butković and Samardžija, 2016: 10). By and large, the interests of the core workers (on permanent contracts) were left intact, and most changes affected temporary work. Therefore, the existing policy legacy was preserved as job security and employment protection of permanent employees were not significantly distorted.

Furthermore, the government did not publicly justify their preference for policy change by referencing the EU or the Semester process. Such instances of usage of Europe would not have empowered the government's agenda but rather subjected it to additional criticism by those who already accused it for giving in to pressures from external actors. Also, it would not have been politically expedient as it would have damaged the government's preferred image of resisters to 'dictates from Brussels'.

Vocational education and training

Another area of concern is the markedly outdated system of vocational education and training (VET) which is considered not to be in line with labour market needs. Despite the high share of students in VET (70%), the mismatch between low-quality educational outcomes and labour market needs prevents better school-to-work transition and higher employment rates in the field of study (European Commission, 2014a, 2016a, 2019a). Work-based learning, which is a key element of dual education systems and has its tradition in the Croatian crafts sector, is largely absent from the rest of the VET system. Early reform attempts to modernize VET date back to the Croatian Qualifications Framework which foresaw the creation of sectoral councils. These were tasked with adopting up-to-date qualification and occupation standards which would be better aligned with real economic needs. During election year 2015, the crisis in government of 2016 and first half of 2017, there was no appetite for a reform as it couldn't create tangible political gains and no government took serious ownership of the reform. No EU funding was mobilized either. The ex-ante condition to create a strategic framework for VET was not fulfilled on time, however the Commission allowed the authorities to postpone the fulfilment of the condition (HR1E). The flexible application and politicization of ex-ante conditionality decreased the threat of permanent suspension of the earmarked funding and thus did not create external pressure. The Programme was passed only in December 2016. After the reconstruction of the government in 2017 when the HDZ signed a coalition agreement with the HNS, the later pledged to finally reform

the education system. Blaženka Divjak, an independent university professor was installed as minister of Science and Education. She initiated amendments to the Vocational Education and Training Act in 2018, which created the legal basis for work-based learning and a new national VET curriculum was soon passed (European Commission, 2019a). As labour shortages surfaced with the economic recovery, the skills mismatch issue transformed from a slow- to a fast-burning crisis and there was increasing need to do something. Minister Divjak frequently referred to the Semester publicly to demonstrate that the Commission approves of the progress made and endorses future directions of vocational education and training (Iportal.hr, 2019). She used favourable assessments in the Country Report and CSRs as legitimation tools which lend external validation to existing efforts and add an additional layer of legitimacy to the ongoing reform process. The reference to the Semester was also made to reiterate existing problems in matching educational outcomes with skill demands and the need to mobilize EU funding (Jutarnji.hr, 2018b). She also used the Semester reference as a strategic lever to strengthen her reform argumentation. One officer at DG EMPL summarized her tactics as:

‘Minister Divjak is using the semester a lot in the argumentation as back-up for things she wants to do – she’s the example of a minister taking on board our support as a wind in the back. In communication with the prime minister and other authorities, she is using this as an argument.’ (HR1G).

Available ESF funding which was earmarked for ‘improving the labour market relevance of education and training systems’ (GRC, 2014b) was finally mobilized in 2018/2019 to establish Regional Centres of Competences. They will be designed as in-school vocational hubs for education, training, lifelong learning and non-formal education. Finally, a broad-scale promotion campaign was launched in the public to increase the attractiveness of VET among youth.

3.5 Pension reform

The recurrent CSR on the reform of the pension system was one of the most controversial issues since Croatia joined the Semester. It raised eyebrows both in the Commission and domestically – in the political arena and in the public alike. This section will analyse the most important elements of the pension reform dispute which bear relevance to the labour market participation of older workers – early retirement provisions, the statutory retirement age, equalization of retirement age for men and women and special provision pensions. In 1999 Croatia introduced a two-pillar pension system advocated by the World Bank which combined a public, *pay-as-you-go* pillar and a funded second pillar which accumulated individualized savings (Guardiancich, 2011a; Stubbs and Zrinščak, 2009). Although this shift from a Bismarckian system was radical, old incentive structures survived. As Guardiancich (2011a) writes, the HDZ introduced pensions based on merit, mostly for war veterans, which were not aligned with general provisions. Also, the system limited pension funds' investment opportunities and stopped the gradual increase of the second pillar's contribution rate. The inconsistent application of the new pension system triggered a series of interventions later to fix previous mistakes.

As the labour market situation deteriorated during the crisis and the ratio of employed (insured) to retirees reached its low point, the Milanović government announced a pension reform in 2013 with the goal to ensure long-term fiscal sustainability of the pension system (GRC, 2013: 7; GRC, 2014a). The reform was a mix of sticks and carrots. The statutory retirement age would gradually increase from 65 to 67 years for both men and women in the period between 2030 and 2038. The reform left open the possibility to retire 5 years earlier than the statutory retirement age, however stricter penalties applied. The 2013 reform also enacted activation provisions aimed at prolonging working life, which were, according to a high-ranked official, partly inspired by the EU's active ageing agenda to promote longer participation in the labour market (HR2A). Workers eligible for old-age pensions were stimulated to remain at work by a monthly increment to their future pensions, whereas old-age pension claimants could work part-time and retain their pension

payments. However, these activation elements together with higher retirement age and greater penalization of early retirement, were in contradiction with other provisions which encouraged early retirement without penalization. Namely, people with 41 years of service (and 60 years of age) and people who lost their job due to solvency issues of their employer could retire without penalization. There was no large opposition to the new pension law and social partners, except for the Independent Trade Unions of Croatia which objected to the whole act, had only objections to individual provisions of the law (ESC, 2013).

The Commission was not entirely satisfied with the ambivalent efforts of the Milanović government and advocated for more ambitious measures to increase labour market participation of older people, and to preserve the sustainability of the pension system and adequacy of pensions. It believed that the enacted provisions were being phased-in too slowly and would therefore not contribute to the prolongation of working life and to the decrease of the effective retirement age at the required pace (European Commission, 2014a: 25). Instead, the Commission called on statutory retirement age to be linked to life expectancy, costs on pensions under privileged conditions to be cut and both new and old (war veterans' pensions and disability schemes) entry points for early retirement to be closed (European Commission, 2014a: 15-16). Weak incentives both in terms of penalization and bonification and the fact that special pension schemes, particularly for war veterans, contributed significantly to early retirement were identified as key obstacles to longer working lives which stood in average at 31 years, compared to 35 years in EU-28 for 2013 (European Commission, 2015: 71, 2016: 43). The existence of special pension schemes is particularly problematic as they entitle different groups in the society to higher pension payments or lower retirement age or both. At the same time, some categories of privileged pension beneficiaries, such as war veterans, have on average far shorter working lives than the rest of the population (Jutarnji.hr, 2019a). The Commission also expressed concerns that the demographic decline and the low activity rates for those above 50 years of age (52 % compared to 64 % EU-28) will have negative medium-term effects on the labour market (European Commission, 2015a).

Socio-demographic trends, notably low fertility, population ageing and emigration were also worrisome from the perspective of the pension system. The population is shrinking as the fertility rate fluctuates around 1.5, the share of elderly (65+) in the population exceeds those of youth (0-14) and net migration is negative since the outburst of the crisis and after EU-accession (Dobrotić, 2016: 303). In short, the Commission strongly suggested that early exits from the labour market should be further discouraged, higher statutory retirement age introduced earlier, retirement age for man and women equalized sooner and pension schemes with special provisions aligned with general provisions. The evolution of the interaction dynamics between the Commission and the successive Croatian governments can be broken down into three episodes.

First, The Milanović government reacted to EU's suggestions with principled opposition and openly blocked any possibility of convergence to the Commission's viewpoints. The government took a determined policy stance and argued that neither greater penalization of early retirement nor harmonization and acceleration of the statutory retirement age were effective policy solutions to greater participation on the labour market. With regards to early retirement, as labour minister Mrsić recalls, greater sanctions would have been not just futile in the crisis context of little labour demand but would result in unintended negative consequences:

‘...we considered the current level of penalization appropriate as any further reinforcement would have been ineffective. People would still retire early because they have no choice with the current labour market situation. Greater penalization would only manifest itself as costs to the social welfare system.’ (HR1A_MRSIC).

Also, a large segment of the early retired consisted of war veterans and people who lost their job during the transition and were therefore irreversibly lost and could not be reactivated (HR1A_MRSIC, HR2A). On the harmonization of the retirement age between men and women, the gradual increase until 2030 which was enacted in 2013 was considered appropriate enough by the Milanović government to stimulate longer working life (GRC, 2014a: 20). The government was convinced there was no need to accelerate the increase of the statutory retirement age to 67

in 2027 as advocated by the Commission because life expectancy at birth was lower than the EU-average (HR1A_MRSIC, HR2A). This argument, however, contradicted the fact that Croatia was converging to EU-average life expectancy and that the mortality rate of older age groups improved considerably (Ostrovidov Jakšić and Jakšić, 2018). Finally, the government referred to projections in the 2015 Ageing Report which anticipated a reduction in pension expenditures from 10.8 % of GDP to 6.9 % in 2060. In a nutshell, the Milanović government believed that the 2013 law sufficiently stimulated activation and that tighter disability assessments decreased new disability pensioners. The 2015 NRP unequivocally concluded that the Commission recommendation ‘was not accepted.’ (GRC, 2015: 18). This determined stance indicated that Croatia was not even ready to pay lip service to the Commission’s suggestions. As a result, the Commission softened its pension CSR in 2015 and no longer insisted on faster harmonization and retirement age increase but encouraged the government to further discourage early retirement.

As the pension reform was one of the key issues linked to the MIP, the Commission applied considerable pressure on Croatia. Nevertheless, three factors inhibited the effect of external pressure. First, at that time, the government did not find the threat of corrective actions within the MIP credible. This reduced the leverage of the Commission’s pressure considerably, as attested by labour minister Mrsić:

‘We were guided by previous experiences of other Member States. It would take much more for the Commission to set the EIP in motion. Their threats were bluffs, and the Commission knew that we knew.’ (HR1A_MRSIC).

The government argued that the Croatian pension system was not a macroeconomic risk, neither to the EU nor to Croatia (HR1A_MRSIC). Second, political circumstances were unfavourable, especially since 2014. The Milanović government effectively became a minority government in 2014, and junior coalition member Croatian Party of Pensioners (HSU) which held 4 mandates, disposed of considerable blackmail potential and kept a strong veto position in course of any interventions in pensioners’ rights (HR2B). While pension reform is always a big-ticket

item, election years, such as parliamentary elections in 2015, offer little incentive to open up controversial issues and thus risk re-election. Third, prime minister Milanović instructed the labour minister to keep a tough stance towards the Commission and to ‘protect national interests’ (HR1A_MRSIC). This stance was in line with the conspicuously sovereigntist attitude towards the EU promoted by prime minister Milanović. Pension reform was an issue in which Milanović could ‘show off his muscles’ (HR1D).

There are two reasons why multilateral surveillance did not help to even out disparate policy preferences either. First, the government had strongly cemented policy convictions. The policy paradigm was in contrast with the Commission’s understanding of the problem and applicable solutions. The government thought there was no problem, and that Commission’s solutions would not help. Effectively, both sides stuck to their positions. The minister commented: ‘We had strong arguments, but the primary problem was that the Commission staff had its fixed opinion which they thought had to be carried out.’ (HR1A_MRSIC). Croatian representatives in EMCO had to strictly adhere to the official standpoint of the government because of the controversial nature of the issue. Secondly, and pursuant to the inflexible policy views, conditions for frank debate and deliberation were not conducive. One EMCO member recalls that the Commission was very assertive and ‘domineering’, which antagonized the Croatian side, rather than pacified the discussion (HR2B). Exchanges between Commission officials and Croatian authorities were conflict-laden for which neither side could convince the other of being right or wrong (HR1A_MRSIC, HR2A). Therefore, external pressure was not effective.

After the parliamentary elections in late 2015, the pension reform issue was back on the agenda already in early 2016. During the short-lived rule of the HDZ-Most coalition, Most insisted to install a neutral, non-partisan prime minister which could execute reforms in an apolitical way. Tihomir Orešković became the technocratic prime minister in January 2016 without having served a single day in politics before. His political inexperience was put to test a month later when the Commission issued the 2016 Country Report for Croatia and vice-president of the Commission

for Euro and Social Dialogue, Valdis Dombrovskis, visited Croatia to present the newest report. Dombrovskis used this opportunity to send signs of warning and applied naming-and-shaming tactics to create an atmosphere of urgency to act on recommendations issued under the MIP procedure. Reflecting on the fact that no other country had yet entered the EIP, he hinted that the Commission would seriously take into consideration Croatia's efforts to implement structural reforms in its decision on initiating corrective actions in the coming weeks (Poslovni.hr, 2016). Commission staff in DG ECFIN confirmed that this statement was not simply an attempt to rhetorically intimidate the government (HR1H). Commissioner for Economic and Financial Affairs, Pierre Moscovici announced to the services that he was determined to propose the application of the EIP to those countries which would not demonstrate enough ambition in their upcoming NRPs (HR1H). A consternated prime minister with zero political experience and a technocratic reform agenda immediately bit the bullet by commenting that Croatia is 'facing corrective measures' as the first country ever '...which would not be a good message to Croatia' (ibid.). The mentioning of corrective actions was immediately picked up by the media, some of which generated considerable scaremongering and disinformation about potential sanctions (Hrt.hr, 2016). The 2016 NRP was tailored accordingly, and the Orešković government promised to come up with an ambitious pension reform with the key purpose of 'encouraging a longer working life' (GRC, 2016). The NRP announced to penalize early retirement more stringently by applying a linear 0.3% decrement for each month, to equalize the retirement age for men and women already until 2023, to increase the statutory retirement age to 67 for both sexes starting from 2027 and to reduce the list of professions entitled to special pension schemes by 50 %. This episode showed that the Commission was quick to seize the opportunity offered by the change of government. Although they toned down the pension requests during the Milanović mandate, political circumstances of 2016 saw an increase in external pressure, both in terms of naming-and-shaming in front of the domestic audience and the threat of sanctions. Both the shaming and the threat of corrective actions were perceived as credible by the technocratic leadership, which lacked

political experience and internalized the Commission's wishes. With the government paralysis which ensued, the reform momentum was nonetheless lost. However, the incoming Plenković government was ready to bring the reform back to life in 2018.

According to a DG EMPL desk officer, the Commission made sustained efforts to keep the pension issue on the government's agenda by grounding the argumentation in strong analysis (HR1G). These persistent signals clearly indicated that progress on pension reform was a precondition to decide that excessive macroeconomic imbalances no longer existed in Croatia. In the 2018 NRP, the government announced it would implement a comprehensive pension reform (GRC, 2018b). By the end of the year, the government introduced stricter penalties with a linear decrement of 0.35% for each month of early retirement. Statutory retirement age for men and women would be harmonized in 2027, instead of 2030, and the statutory retirement age was accelerated so that both genders would retire at age 67 as of 2033. The right to work part-time and receive pension was extended to other categories of pensioners. Prime minister Plenković and minister of Labour Pavić actively employed the 'sustainability and adequacy' concept to justify the enacted changes with the need to enhance the long-term sustainability of the pension fund and prolong people's working life (NN 115/18). The 'active ageing' concept was never used. Only a few months later, in February 2019, the Commission welcomed the changes in the Country Report and announced that no excessive macroeconomic imbalances applied anymore, citing significant progress on all CSRs as reasons, including the pension reform (Lider.hr, 2019).

The reform should ultimately be understood in the context of Croatia's efforts to join the Eurozone, announced in the Euro Strategy of April 2018. In the Strategy, Croatia pledged to 'reduce economic vulnerabilities' with a 'special emphasis' on long-term sustainability of the pension fund (GRC, 2018a: 65). Plenković knew that reforming the pension system was informally necessary to create a solid fiscal and macroeconomic setting before formally initiating the application for ERM II – the eurozone 'waiting room'. Therefore, the pension reform was used strategically to empower this domestic pro-integration agenda. Whilst adherence to the MIP is not

officially a convergence criterium for joining the Eurozone, it was equally important from the government's perspective to demonstrate determination not just in keeping public coffers in control but also in tackling macroeconomic imbalances. That it was indeed essential to exit excessive macroeconomic imbalances to stand a credible chance of entering the ERM II mechanism and join the Eurozone was also signalled by vice-president Dombrovskis in Spring of 2019 after the Commission announced that no 'excessive' imbalances applied to Croatia anymore. He noted that it was 'good news, especially in the context of Croatia's preparation of joining the ERM II and eventually the Eurozone that Croatia experienced no excessive imbalances' (Euractiv.hr, 2019).

In preparation of the pension acts, the government never referred to the CSRs to justify the pension reform. The pension reform was a controversial issue as 81 % of people were against raising the retirement age (Ostrovidov Jakšić and Jakšić, 2018: 88). Hence, it was not politically prudent to use EU's stimulus as a justification to act, especially given the negative public sentiment towards 'dictates from Brussels'. Such usage could be seen by the public as a breach of national sovereignty (see: Section 3.1.2). Instead, the government quickly used the fact that the Commission described the reform as 'significant progress' and lifted the country from 'specific monitoring' and excessive imbalances. Commission's approval was to add an external and independent layer of legitimacy to the reform and to create the impression of a good job done. Both Plenković and Pavić defended the reform from criticism by arguing in public that the pension reform influenced the Commission's decision on the MIP (Jutarnji.hr, 2019b, 2019c), which indicated that the reform was devised strategically from the get-go.

Three conditions were crucial in the efforts to empower the domestic agenda with the Semester's insistence on pension reform. Most importantly, a tangible system of rewards was identified. The government knew that in pursuing euro-entry, the pension reform was a game-changer concerning the MIP procedure and would directly affect the credit risk, which indeed improved in 2019 as agencies Fitch and Standard & Poor's raised Croatia's credit rating. Second,

to creatively appropriate the Semester, there needed to be general policy overlap or fit between the Commission's stance and the government. Indeed, although the Commission worked hard to keep the pension issue on the agenda, pension reform was in any case a programmatic commitment made by the HDZ in its election manifesto ahead of the early elections in 2016. The party dubbed the pension system 'unsustainable' in the long run and saw the 'need for urgent reform' to ensure 'pension adequacy and fiscal sustainability' (HDZ, 2016). This fundamental agreement that change is needed was a precondition to use the Semester as a tool in pursuance of higher causes – entering the Eurozone. Finally, another facilitating factor was certainly prime minister Plenković's strong pro-European and pro-integration inclination which was outlined in Section 3.1.2. The impression amongst interviewees is that the pension reform was an area in which Plenković could demonstrate commitment to implement structural reforms and score loads of points in the Commission (HR1A_MRSIC, HR1D). It was important to the government that the Commission did not consider Croatia a laggard or unambitious in pursuing reforms.

The pension reform did not result from external pressure because the government did not completely conform to Commission's preferences. The maximum gap between early and statutory retirement was not reduced to 3 years but remained at 5 years. Existing routes to early retirement remained. Also, new provisions abolished stimulations for late retirement for those who had accumulated 40 years of pension insurance and thus discouraged longer working life for this group. Curiously, the reform did not revise the system of special provision pensions and the related system of benefits which is reflected in lower retirement age provisions, merit-based calculation of pensions and higher pension accruals. War veterans were among those whose rights were not questioned but were further enhanced with a special Law on War Veterans in 2017 which reduced their retirement age and consolidated a merit-based pension system in parallel to the general system (European Commission, 2018a: 37). Asked about this, minister Pavić rejected the option of cutting 'privileged' pensions, arguing that inherited rights 'could not be taken back' (Jutarnji.hr, 2019c). Hence, the interests of the strongest interest group acted as a political constrain. As a stable

promoter of veterans' rights, the HDZ had a vested interest not to antagonize their stable voter base whose rights they have been persistently extending over the years in a clientelist manner. Finally, besides these political circumstances, the pension reform did not result from external pressure due to the change in economic circumstance. Croatia made substantial improvements in decreasing debt and deficit, the economy was in full swing, unemployment went down and all MIP indicators improved in 2017/18, hence no threat of entering the EIP procedure applied any more.

3.6 Youth Guarantee

The Youth Guarantee's key objective which was set out in the Council recommendation of April 2013 stipulated that Member States should make sure that: 'all young people under the age of 25 years receive a good-quality offer of employment, continued education, an apprenticeship or a traineeship within a period of four months of becoming unemployed or leaving formal education.' (Council, 2013b). Member States are encouraged to apply a partnership approach with relevant stakeholders, set up early intervention systems for vulnerable young people and those hardest to reach (such as youth not in employment, education or training, the so-called NEETs), and put in place ALMPs (wage subsidies, entrepreneurship support, apprenticeships, trainings, outreach activities and individualized support) or skills-oriented educational services, while making sure effective monitoring takes place to assure quality. The implementation of the Youth Guarantee was backed with financial resources from the ESF and from the YEI for those regions in the EU with youth unemployment rates higher than 25 %. Funding was made available for establishing apprenticeship practices, training and educational programmes, job subsidies, and other support instruments to help young people escape inactivity.

The economic crisis exacerbated the already subdued and structurally weak position of youth on the Croatian labour market. In 2012, youth unemployment (age 15-24) stood at 43 % and was 3.2 times higher than in the age group 25-64 (MLPS, 2014: 2). Between 2008 and 2012, unemployment of youth with vocational attainment more than doubled, whereas for those with

finished undergraduate and graduate studies unemployment increased between 162 % and 178 % (ibid., p. 4). A particularly worrying feature of youth unemployment is the share of youth without prior work experience. In 2013 nearly 40 % of youth (age 15-29) had no work experience (GRC 2014c: 3), which reflected employers' hesitance to hire untrained workers without prior experience. The share of those aged 15-24 not in education, employment or training (so-called NEETs) stood at 19.3 % in 2014, which was nearly 7 pp higher than EU-average (Tomić, 2015: 1). Those who found work, received fixed-term contracts in over 90 % of cases and do not enjoy job stability (Butković and Samardžija, 2016). In short, Croatian youth was among the hardest hit by the economic crisis in the entire EU and policy action was desperately needed to prevent human capital deterioration and prolonged periods of inactivity, particularly for those without prior working experience.

In June 2013, the minister of labour Mrić announced a package of youth unemployment measures called 'Young and Creative'. The package included self-(employment) subsidies⁴², public work schemes which include community services and assistance with applications for EU funds, up-skilling and retraining measures and a workplace training measure without commencing employment (European Commission 2016: 69). Interestingly, minister Mrić victoriously announced that the package made Croatia a frontrunner of the Youth Guarantee campaign, that the national package was already in line with the Commission's agenda and would even expand the application of the YG to youth up to 30 years of age (Jutarnji.hr, 2013). In reality, however, the Ministry had at that point not prepared a YG Implementation plan which would outline a strategy of early intervention and labour market integration for youth.

Youth organizations, led by the leading youth confederation in Croatia – the Croatian Youth Network, together with social partners publicly condemned the Ministry's attitude. They

⁴² CES offers two types of employment incentives to young people up to 30 years of age. The 2012 Act on Employment Promotion introduced the option to cover 30 % to 50 % of wage costs for employers who take on youth without prior working experience. With the amendments to the Act on Contribution, employers who offer an open-ended contract to young persons are exempt from paying contributions for 5 years.

called for the creation of a new Implementation Plan in close coordination with civil society and social partners. Their activism created anger in the Ministry but eventually led to the creation of a wide, inter-sectoral Council for Drafting of the Youth Guarantee Implementation Plan (HR1D, HR1F). While the drafting process was qualified as surprisingly participatory and collaborative by members of the civil society (HR1D, HR1F), the outcome was disappointing as minister Mrsić prevented any discussion about ALPMs for youth, which were said to be hard-set and undebatable (HR1D, HR1F). As a result, the Youth Guarantee Implementation Plan (MLPS, 2014) offered only a wish-list of 44 measures to be implemented and was thin on early intervention measures.

The plan lacked substance on measures to motivate youth to stay in education and to reintegrate dropouts from secondary and tertiary education back into the education system (see: MLPS, 2014). Wider promotion of quality apprenticeships received no specific attention, despite the wanting reforms in the outdated VET system and huge skills mismatches reported by employers (EESC, 2014: 35). The Plan did not strictly focus on the Youth Guarantee but forced non-related or ongoing, much broader reform processes such as the education reform into the scheme. Most importantly, no new ALMPs were envisaged. The Plan drew on existing measures within the 'Young and Creative' youth package presented in June 2013. In other words, room for innovations in ALMPs was cramped and the EUR 133 million that were mobilized for the Youth Guarantee from the ESF and the Youth Employment Initiative (YEI) (Bejaković et al., 2015: 6) were predominantly used for expanding one specific pre-existing measure – the workplace training without commencing employment (known as SOR).

Traineeships in Croatia do not operate on an open-market basis as a contractual arrangement between a trainee and traineeship provider. They are mediated by CES as part of the available ALMP package. The standard traineeship form which preceded SOR is regulated by the Labour Act and is defined as a contractual arrangement for a probation period in which the trainee received 70 % of the regular salary before completing the traineeship with a vocational examination (EESC, 2014: 34). However, in 2012 the government passed the Act on Employment Promotion

which extended the possibility to use SOR to all youth without prior work experience notwithstanding their occupation, educational background and sector of traineeship (public/private) (Tomić, 2018). The measure was further applied to three-year vocational programmes during the Plenković government in 2017. In circumstances of deep economic crisis, although SOR was officially a training measure, it effectively became the ‘exclusive pathway of (first) labour market entry for youths in Croatia, especially for university graduates’ (ibid., p. 4). It crowded out both regular pathways to employment and the regular traineeship scheme. SOR was a substitute for the ill-functioning apprenticeship system which failed to prepare the youth for the labour market. It had the purpose of compensating for a deficient education system by providing work-based training (HR2A). Therefore, SOR did not conform to the Council recommendation on a Quality Framework for Traineeships which considered 6 months to be a maximum period of duration. The SOR traineeship lasted for at least a year. Participants’ remuneration was well below minimum wage, set at first at EUR 210 and increased to EUR 315 in 2015 (GRC, 2015: 66).

Interviewees agreed that the Milanović government politically instrumentalized the Youth Guarantee and subordinated it to the expansion of the SOR measures (HR1D, HR1E, HR1F). Minister Mrsić recalled:

‘I was constantly riding on the wave of the Youth Guarantee with the purpose of opening up workplaces for youth. Eventually, SOR enabled the youth to receive one year of working experience.’ (HR1A_MRSIC).

While he was aware of the negative consequences of the measure, the administration considered it a temporary, crisis measure. Nonetheless, SOR was responsible for an eightfold increase in ALMP participation between 2009 and 2014 as around 49.5 % of all participants were being placed in SOR (Tomić, 2015: 3). By 2016, expenditures on SOR accounted for two thirds of all available ALMP funding (ibid., p. 8), thus eating up most of the available funding and crowding out alternative youth unemployment measures. Money that was made available from the ESF and YEI was used to de-escalate the labour market crisis. The SOR measure was the central

element in minister Mrsić's 'Young and Creative' policy mix, and the available funding accompanying the Youth Guarantee made SOR pervasively used, thus contributing to the empowerment of the existing policy agenda. In fact, as a former State Secretary from the Ministry of Labour recalls, the functioning of SOR was dependent on EU funding to the extent that the measure went through periodic implementation standstills in which the government lacked budgetary resources to meet the demand whilst waiting for the Commission's authorization (disbursement) of reserved ESF funding (HR2A). Although authorities pointed to the CES's under-capacitation as an official reason for the slow rollout of the measure (MLPS, 2014: 21), it was evident that the government could not have undertaken such a large-scale operation without EU funding. The Youth Guarantee was therefore used strategically by the Milanović administration to promote existing policy solutions and particularly SOR which hinged upon available Youth Guarantee financial resources.

Whereas consecutive government not just preserved but even expanded SOR and showed no signs of rollback, studies started highlighting the measure's deficits. Tomić and Zilić (2018) find that the SOR programme had a neutral effect on employment and increased the chances of unemployment. In 2016, an external evaluation financed by the EU also found that SOR participants are often overqualified for the performed work, they lacked quality mentoring and were often used as substitutes for regular job positions in the context of the public sector employment freeze (CES, 2016: 7). Although the revised Youth Guarantee Implementation Plan for 2017-18 was more condensed and offered 18 easy-to-monitor measures in four reform areas, including previously neglected measures to reintegrate (vulnerable) youth into education (HE1E), it did not express any intention to cut down on the SOR measure or to financially encourage the use of regular traineeships (see: MLPS, 2017a).

The reasons why the Plenković government was not just hesitant to abandon the SOR measure but also had interest in preserving it were twofold. First, employers grew fond of the measure because it offered access to mostly highly educated, yet cheap labour force. The CES

covered both the costs of trainees' allowances and contributions. The regular traineeship scheme, on the other hand, although it covered 50 % of the trainees' wage independent of the amount, would be a much more costly alternative and administratively more burdensome to employers. The government's interest was to reduce the youth unemployment rate, and SOR was more effective than regular traineeships in achieving this goal. Secondly, the SOR measure was administratively quite easy to implement and ESF funding could be 'burnt easily' as demand for the measure was high (HR1E). Therefore, although the authorities were from the start aware of SOR's negative effects and the desirability to reduce it (HR2A, HR1E), the political benefit was decisive in upholding the SOR measure.

The initial pressure to reduce the use of the measure, which was created by trade unions and the Croatian Youth Network, and which was followed up by pressure exerted by the Commission, were key in the government's decision to eventually phase out SOR. As the revised Youth Guarantee Implementation Plan 2017-18 did not assign any relevance to regular traineeships, trade unions and the Croatian Youth Network launched an initiative in June 2017 named 'I am worth more' which requested the SOR measure to be abandoned and regular traineeships be reinstalled (UATUC, 2017). Around the same time, the government opened public consultations for ALMP Guidelines for 2018-19 which planned 18.146 SOR participants and only 6.325 people in regular traineeships during 2018-2020. Pressure was mounting as civil society brought to the attention of Commission's representatives in the OP EHR Monitoring Committee the fact that the new ALMP Guidelines did not respect the findings of the ESF-financed External Evaluation of ALMPs which questioned SOR's effectiveness. This was a clever move since the national administration was aware that the Commission insisted that policy measures financed by the ESF be evidence-based (HR3A). The Croatian desk in DG EMPL got a taste of the problem from the Croatian Youth Network and trade unions during fact-finding missions and started questioning the authorities in the Semester framework on why there was no intention to rebalance the SOR measure in favour of regular traineeships (HR1G). ALMP Guidelines which were finally

adopted in December 2017 conformed to the Commission's suggestions and the plan foresaw only 6.100 participants in SOR and expected 22.552 regular trainees during 2018-2020 (MLPS, 2017b).

There was a clear temporal correlation between the synergic domestic and external pressure and the government's U-turn on regular traineeships which followed. Actions by the political leadership prior to and following the re-shuffled Implementation Plan demonstrate that there was no serious willingness to cut down on SOR. By mid-2018 only 250 regular traineeships were concluded, partly thanks to the government's belated decision to annul the ban on employment in the public sector, and partly due to employer's unwillingness to give up on SOR. Traineeships were given more importance only on paper, whereas there was no real intention to phase out SOR. Hence, the U-turn cannot be attributed to the government's change of mind, but to a synergic effect of administrative pressure in the Semester, monitoring of ESF spending and domestic initiatives. Pressure was credible as the government was watchful of the Commission's reaction had the strategic framework for ALMPs remained the same. The objective assessment of SOR's deficiencies in the External Evaluation formed the evidence basis on which the Commission could demand a re-balancing of measures. Had the government not complied, the Commission would have banned further use of Youth Guarantee money for SOR. Given the immense dependency of youth ALMPs on EU sources, the government could not afford such a gamble and chose to formally conform. The cost of defection was therefore a key contributing factor to the strategic shift to regular traineeships.

Finally, the status of those youth not in education, employment or training (NEET) received special attention in Commission's assessments of the Youth Guarantee in Croatia. The 2014 CSRs highlighted the challenge of reaching out to youth not registered with the CES (Council, 2014). The Commission was keen to see a NEET tracking system developed, which would first allow authorities to determine the status of youth, i.e. their drop out from the system, and then develop outreach activities with the purpose of raising from idleness and reactivating those inactive NEET which do not register with the CES. EMCO thematic reviews additionally

stressed the importance of establishing a tracking system in Croatia to enable outreach to NEET (EMCO, 2015). Croatian authorities were not particularly motivated to address this issue. While the NEET rate stood at 20.9 % in 2013 and was 5 pp higher than the EU-average (GRC, 2014c), Croatian authorities did not share the sense of urgency to develop special policies aimed at the NEET target group. In fact, as multiple interviewees point out, both the term 'NEETs' and NEET issue were previously not on the radar of authorities and youth organizations and only entered the policy discourse and agenda after the Youth Guarantee Council recommendation was passed in 2013 (HR2A, HR1D). Both, political representatives and career civil servants during the Milanović government argued that there was no need for specific outreach activities because Croatia had a very low drop-out rate from education (early leavers) and low proportion of non-registered youth (HR2A, HR3A). In addition, authorities argued that multiple access points for inactive youth already existed or were being developed, such as the Lifelong Career Guidance Centres and Youth Centres with specialized youth counsellors (see: Tomić, 2015: 3). Therefore, it was argued, no further outreach activities were needed. Since the Youth Guarantee recommendation overlapped with the programming of ESF funding, the Commission insisted on earmark funding for NEET. To be at least compliant on paper and despite low ownership, Croatian authorities included plans into the OP Effective Human Resources to develop a tracking system for NEET as a basis on which further outreach would be designed (GRC, 2014b). According to an informed interviewee, the authorities never planned to create such activities, but only wanted to leave the impression that work is being done regarding inactive NEET to appease the Commission (HR1B). In fact, low priority of non-registered NEET was further confirmed during the early implementation of the OP when the Ministry of Labour initiated a relocation of ESF funds from NEETs to unemployed youth (HR2E). The Commission was, nonetheless, adamant to see a NEETs tracking system being implemented.

External pressure rested on a multitude of sources which together amplified adaptational pressure – the Semester's CSR, earmarked ESF funding, the Youth Guarantee Council

recommendation and enhanced monitoring of macroeconomic imbalances. In the framework of the Semester, Commission staff applied administrative pressure and monitored progress on the NEET recommendation, persistently requesting status updates on the NEETs tracking system. As Youth Guarantee measures were financed from the ESF and YEI, the Commission expected (in)actions to be accounted for more substantially than usually (HR1B). Civil servants from the Ministry of Labour confirmed to have been periodically pressured by Commission staff to implement the NEET tracking system to identify those in risk of inactivity (HR3A, HR4A). From their perspective, the Youth Guarantee recommendation had the weight of a directive, rather than recommendation: "We were told it's a recommendation, that you can get money for it, that it's country-specific...but in the end, we implement it as if it a directive, for God sake. It really feels that way." (HR4A). Eventually, the ministry put the tracking system into operation by linking databases between educational institutions, the CES, the tax authorities and the Pension Insurance Authority (Tomić, 2015). Interviewees explained that their initial inexperience in multi-level governance was crucial in their uncritical absorption of the Commission's request to establish a NEET tracking system (HR3A, HR4A). While the Commission recently praised the Youth Guarantee for reaching greater numbers of NEETs (54 % vs. EU-average 42.5 %) and favourable employment outcomes of Youth Guarantee participants (European Commission, 2018a), the effects of the scheme are far from conclusive and the design stays faulty. Once established, the NEET tracking system proved to be a paper tiger as the data generated from the tracking database offered no information which could help target those youth in risk of becoming inactive NEETs (Tomić, 2018: 23). The outcome indicates that the Commission's pressure incentivized creative compliance – a result which is to be expected when the national administration has a limited degree of reform ownership.

3.7 Conclusion

This chapter identified four instances of direct and indirect influence of the Semester, whereas in three policy items the Semester influence was excluded. The indirect effect of the Semester was most evident. Croatian governments extensively drew on creative appropriation of Semester incentives to pursue domestic policy objectives. Creative appropriation was mostly reflected in the strategic use of CSRs and ex-post legitimation of policy change. External pressure was largely resisted.

The substantive impact of the Semester on policy change in Croatia was, however, on average limited. On pension, the longitudinal dimension explored the evolution of the Semester impact from the Milanović government to the Plenković government. The Semester's influence on policy change boiled down to keeping the issue on the political agenda. The Milanović government explicitly resisted any suggestions of reforming the pension system and the Semester could not exert external pressure due to political constraints (HSU, junior partner), the perception of low credibility of MIP threats and a predominantly negative stance of the governing elite towards EU's interference. Conditions for finding common understanding through mutual learning did not materialize either. The government disposed of deeply rooted policy convictions which were in sharp contrast to the Commission's line of argumentation. In addition, the setting in EMCO was not considered conducive to deliberation and learning. The Plenković government, however, used the pension issue strategically to leverage their euro entry agenda and to demonstrate reform determination. Compared to the Milanović period, a number of conditions changed. The Plenković government, unlike Milanović, had a clear, pro-integration agenda rooted in the prime minister's EU background. The pension reform resonated with the ideological and programmatic stances of the government, and the system of awards was clearly set – exiting excessive macroeconomic imbalances, improvement in credit rating and credibility of ERM II application.

The Youth Guarantee and the concomitant CSR did not at first contribute much to change but have reinforced existing youth policies designed by the Milanović government. Minister Mrsić capitalized on available ESF and YEI funding for the Youth Guarantee to primarily expand the application of the SOR crisis measure to damp down the fast-burning fire. However, external pressure was applied to change the technical capacity to track non-registered NEETs and to shift the balance from SOR to regular traineeships. Pressure was manifest in intensified monitoring, reporting obligations and progress surveillance on issues which coupled Semester, ESF funding and Council recommendation processes into a hybrid regime. On NEET tracking, despite the unwillingness of the domestic administration to ‘comply’, they admitted to having succumbed to pressures due to their inexperience. Albeit in place, the NEET tracking system has no functional purpose and cannot be used for designing outreach activities. With traineeship, pressure was first mounting domestically and eventually reached the Commission level. The government was wary of the Commission’s potential accusations of squandering Youth Guarantee funding on ineffective and inefficient measures and wanted to avoid an eventual relocation of funding. The government had to commit to phasing out SOR and to expanding normal traineeships instead, although the practice did not change too much. In effect, both changes only create the illusion of alignment with EU’s proposals, when in fact changes amounted to paper compliance.

The reform of the Croatian Employment Service showed how canny policy entrepreneurs can jump on a relevant CSR and couple it with available EU funding to accelerate existing reform processes and empower their agenda with the help of the Semester. On the other hand, ALMPs largely stayed the same in design as there was neither appetite for piloting measures and experimentation nor was there sufficient EU funding for potentially re-designed measures. In three areas in which reforms were initiated and/or implemented (activation of social benefit recipients, Labour Act reform, VET system), change cannot be attributed to the Semester. Reform pathways in those cases can be assigned to alternative explanations, such as pressure created by economic crisis (Labour act, VET system), domestic policy paradigms (activation) or reform agendas (VET

system). In the VET reform, the education minister Divjak actively used the Semester to legitimize the ongoing policy change. In adult education, Semester pressure was resisted as the national administration increasingly became experienced and found ways to outmanoeuvre EU stimuli. Since education and training of adults did not figure highly on the agenda and other policies (ALMPs) soaked up available EU resources, greater policy focus could not be attained.

Table 3. 3 Summary of the European Semester influence in Croatia

Employment issue	Reform outcome	Explanation (mechanisms)	Facilitating (F) and inhibiting (I) factors (hypotheses)
Pension reform	No change -> Substantive change	Resistance first, then -> M3 : creative appropriation	I: Political constraints, negative attitude towards EU, low credibility of rules (M1); policy paradigm, deliberation (M2) F: Available rewards, positive attitude towards EU, programmatic fit (M3)
Youth Guarantee	Empowerment /technical capacity building	M3 : Creative appropriation M1 : External pressure	F: Available rewards, agenda fit (M3), low process socialization, cost of defection (M1)
PES reform and ALMPs	Acceleration of existing reforms	M3 : Creative compliance Resistance	F: Policy entrepreneurs, available rewards, agenda fit (M3) I: agenda misfit, lack of rewards (M3); policy paradigm (M2)
Activation of social assistance beneficiaries	Preparatory work	Alternative : workfare paradigm	I: Programmatic misfit (M3)
Reform of the Labour Act	Substantive change	Alternative : crisis	I: Negative attitude towards EU (M3)
Adult education	Preparatory work	Resistance : not a priority	I: Process socialization (M1); agenda misfit, lack of rewards (M3)
Matching education with labour market needs and VET system	Substantive change	Alternative : economic conditions, reform agenda M3 : creative appropriation	I: Low credibility of rules (M1) F: available rewards, programmatic fit (M3)

Source: Author's own compilation.

Procedurally, the European semester created the incentives to initiate inter-ministerial coordination of reform processes and in this way improved policy planning and alignment with the budgeting process. However, inter-ministerial coordination and responsibilities were unstable and changed frequently, thus hindering that an optimal working method could be found. The role of domestic actors (social partners and parliamentarians) was symbolic and their substantive impact on Semester processes was absent, despite the inclusiveness of consultations.

Several conclusions follow from the Croatian case. The direct substantive influence of the Semester was modest, and instances of external pressure being an effective route of influence are rare to find. When external pressure worked (NEET monitoring, traineeship), it related to technical and non-controversial issue which had no legislative implications or political weight. Even then, authorities used the strategy of ‘creative compliance’ to conform to expectations only on surface-level and to leave the impression of policy progress. In contrast, the indirect effect of the Semester was high. Croatian authorities extensively used the Semester as a strategic lever when the EU agenda matched the domestic political/policy agenda and a generous system of EU rewards existed. These circumstances are instrumentalized to amplify the effect of existing reform processes or pre-existing intentions. Mutual learning was not beneficial in the Croatian case as it was plagued by lack of open deliberation, politico-administrative disconnection and tense relationships between the Commission and national authorities. Multi-level coordination, especially in the context of fact-finding missions, is too formalized and hence not successful in creating domestic ownership of reforms. Finally, the under-capacitated and relatively unexperienced administration such as the Croatian finds it hard to follow the plenitude of EU-level employment initiatives, the intensity of coordination activities and the over-bureaucratization of the Semester. Consequently, they become over-saturated with European integration stimuli and develop creative reaction mechanisms which essentially help limit domestic policy adaptation to the bare minimum.

4 HUNGARY: A CASE OF NEGLECT?

4.1 Introduction

Hungary has been regularly taking part in the Semester cycle since 2011 and received several CSRs related to employment, many of which, such as the question of public works scheme or the tax burden on workers with low income persistently appeared in the CSRs for 6 or 7 years. The analysed period between 2011 and 2018 coincides with the Eurosceptic government of Viktor Orbán being in power. In that period, policymaking has become completely centralized in Hungary and the political elites have nurtured an adversarial approach to EU's involvement in national socio-economic governance.

The first section paints the political, economic and social picture of Hungary after Viktor Orbán swept the political landscape in 2010 by acquiring a qualified majority in the National Assembly. The second section concentrates on the effects that the Semester had on the governance structure in Hungary, followed by a concentrated discussion on Semester's influence on employment policy with a special focus on the public works scheme and the Youth Guarantee.

4.1.1 Political system of Hungary: A Fidesz dominated political environment

In 2010, the populist right-wing party Fidesz⁴³ and its leader Viktor Orbán secured a landslide victory in the general elections for the Hungarian parliament (the National Assembly) having won 52.7 % of votes which translated into a 2/3 supermajority (Várnagy, 2011). The rise of Fidesz would very soon completely change the political, economic and social landscape of the country. In the years to come, the Orbán regime radically centralized political power in the hands of the governing party Fidesz, penetrated into all spheres of society, and eliminated important horizontal and vertical checks and balances (Ágh, 2016). For once, the supermajority in the parliament

⁴³ Fidesz ran on a joint platform with the Christian Democratic People's Party (KDNP) in the 2010, 2014 and 2018 general elections.

enabled Fidesz to impose a new constitutional order. The government curbed the constitutional courts' jurisdiction and right to exercise constitutional review (see: Bánkuti et al., 2012; Várnagy, 2012: 129; 2014: 152). The new constitution has also created new and expanded existing 'reserved domains' by specifying 32 legislative fields in which a 2/3 majority is needed to legislate (Bogaards, 2018: 9). New provisions on 'cardinal laws', which covered areas such as pension, family policy or taxation, now required a 2/3 majority to overturn existing legislature, which makes it practically impossible for any new government to exercise their democratic right to set policy. Fidesz soon took control of the media and changed existing media laws to establish a Media Council, a four-member independent body chaired by a person close to Fidesz on a 9-year term, with unprecedented power to monitor content and fine media outlets (Bajomi-Lázár, 2013; Bánkuti et al., 2012: 140). Finally, Fidesz was quick to change electoral rules and engineered a new electoral system with a pronounced majoritarian element which would leave the fragmented left parties in Hungary without a chance of scoring high in the 2014 general elections. Based on the new rules, Fidesz won a 2/3 majority in the parliament following the 2014⁴⁴ and 2018 elections.

These and many other reforms had the intention to strengthen the control of the governing party in Hungary over key electoral, judicial, media and other resources. A rich scholarly debate on the nature of the Orbán regime post-2010 had documented this erosion of Hungarian democracy⁴⁵ (Bajomi-Lázár, 2013; Bogaards, 2018; Bozóki and Hegedűs, 2018; Krekó and Enyedi, 2018). According to Ágh (2016: 280), it boils down to the fact that Fidesz was able to expand its informal clientelist network of patronage relationships and colonize large sections of political, social, economic and cultural life.

The rapid overhaul of the political and socio-economic system in Hungary had three sources. First, the majoritarian character of the electoral system made it possible for Orbán to

⁴⁴ The Fidesz-KDNP coalition subsequently lost a qualified majority in the parliamentary term 2014-2018 due to by-elections in Veszprém which were lost to an independent candidate and far-right Jobbik.

⁴⁵ In a nutshell, all relevant international organization which measure the quality of democracy, incl. Freedom House, World Economic Forum and the Bertelsmann Foundation have found Hungary diverging from the democratic path and slipping into the category of defect regimes (Bogaards, 2018: 4).

initiate a ‘perfect storm’ (Bogaards, 2018: 10). The fact that Fidesz was able to secure a 2/3 qualified majority offered a window of opportunity to initiate a complete reconstruction of the political, economic and social landscape. Second, Viktor Orbán became the personification of a charismatic leader and the legitimacy of the regime seemed to rest on his personal authority (Krekó and Enyedi, 2018: 43). Thanks to his skills, Fidesz was able to exploit to their advantage a third factor, namely the political and public dissatisfaction with how the previous, scandal-ridden Socialist (MSZP) government led by Ferenc Gyurcsány (2004-2009) and Gordon Bajnai (2009-10), handled the financial crisis. High unemployment rates, inflation, debt and deficit levels were tackled by austerity measures, creating discontent with the electorate which lost trust in the MSZP party and their corrupt leadership (Johnson and Barnes, 2015: 544). This was a perfect setting to come up with a new nationalist rhetoric.

Table 4. 1 Government composition in Hungary (2006 -)

Government	Coalition	Prime minister	From - Until
Gyurcsány II	MSZP, SZDSZ	Gyurcsány, Ferenc	June 2006 – April 2009
Bajnai I	MSZP, SZDSZ	Bajnai, Gordon	April 2009 – May 2010
Orbán II	Fidesz, KDNP	Orbán, Viktor	May 2010 – June 2014
Orbán III	Fidesz, KDNP	Orbán, Viktor	June 2014 – May 2018
Orbán IV	Fidesz, KDNP	Orbán, Viktor	May 2018 – in power

Note. Party acronyms: MSZP - Hungarian Socialist Party (socialists); SZDSZ – Alliance of Free Democrats (liberals); Fidesz – Hungarian Civic Union (conservatives); KDNP – Christian Democratic People’s Party (conservatives).

4.1.2 Hungary’s relationship with the EU: Orbán’s soft Euroscepticism

Prime minister Orbán has been on a steady collision course with the EU, however, he virtuously avoids direct crashes with potentially dire consequences. The Hungarian government leads the group of Eurosceptic ‘challenger governments’ in the EU who directly contest the liberal underpinning of the European project, supranationalization of European integration, fundamental values and the rule of law (Hodson and Puetter, 2019). Under Orbán’s leadership, Fidesz consolidated a Eurosceptic cleavage in the left/right spectrum in Hungary (Pisciotta, 2016: 2015) between the centre (‘evil Brussels’) and the periphery (‘sovereign Hungary’). Orbán is not among the Eurosceptic hardliners who would propagate Hungary’s exit from the EU. On the contrary,

he believes he can expand his vision of illiberal democracy, Christian traditional values and the concept of sovereign states from within the EU:

‘When I mention the European Union, I do so not because I believe that it is impossible to construct a new state built on illiberal and national foundations within the European Union. I think this is possible. Our membership of the European Union does not rule this out.’ (Orbán, 2014).

In the past 8 years, several conflict lines between Hungary and the EU were opened, most notably on issues related to rule of law, freedom of media, the independence of the Constitutional Court and the Central Bank and refugee relocation quotas. In some cases, The Commission launched infringement procedures (see: Sedelmeier, 2014), however, Hungary’s compliance efforts amount to nothing more than ‘creative compliance’, meaning that Hungary ‘pretends to align its behaviour with the prescribed rule or changes its behaviour in superficial ways that leave the addressee’s original objective intact.’ (Batory, 2016: 689). The Orbán regime stabilized the public perception that the government does not like being told by ‘Brussels’ what to do, and that it intends to stand firmly against supranational encroachments into Hungarian sovereign rights or any other international attempt of influencing Hungarian policy making from outside. Soft Euroscepticism and the negative attitude towards EU’s interference into domestic affairs are therefore expected to block external pressure from the Semester and reduce the possibility to use the EU as a reference for legitimizing domestic change.

At the same time, Hungary has hugely benefitted from EU funding on which it heavily depends. A study by KPMG and GKI⁴⁶ found that Hungary would have grown by only 1.8 % between 2006-2015 without EU funding, compared to the actual 4.6 % growth. Since many of the public procurement procedures for EU funds have been found suspicious of corruption by the Commission and Transparency International, it tells that the Hungarian regime has benefitted from EU funds, but that the EU has functioned as a tacit regime supporter by providing resources

⁴⁶ https://bbj.hu/economy/hungarys-economy-heavily-depends-on-eu-funds-study-finds_130880 (Accessed: 8 May 2018).

to the Hungarian elite (Bozóki and Hegedűs, 2018: 1181). The regime's dependence on EU funds could also be seen following the Council's decision to suspend 495 million euros from the Cohesion Fund due to 'failure to comply with the Council's previous recommendations under the EU's excessive deficit procedure.' (Council, 2012b). Despite improvements in deficit rates, the Council was not happy with the unorthodox fiscal measures taken by the Hungarian government and opted for suspension. However, it was soon lifted as Hungary complied with the recommendation. Thus, opposite to Euroscepticism, Hungary's high reliance on EU money could be amongst the factors that actually facilitate the effectiveness of external pressure.

4.2 The economic, social and employment policies in Orbán's Hungary

Economic policy of the post-2010 Orbán regime is marked by financial nationalism, unorthodox fiscal policy and a shift from a welfare to workfare model in the social sphere.

During the economic transformation in the 1990s, high indebtedness which was inherited from the socialist period led successive governments to start selling state-owned companies. A rapid process of liberalization and deregulation took place, which saw the Hungarian industry crumble, and lead to many bankruptcies and an irremediable loss of 30 % of workplaces (György and Veress, 2016: 365). In parallel, a new type of capitalist growth model was developing, dubbed 'dependent market economy' by Nölke and Vliegenthart (2009). It was premised on attracting foreign direct investments (FDI) into 'the assembly and production of relatively complex and durable consumer goods' to create an export-based economy (p. 672). Having integrated into the global market, Hungary could use the comparative advantage of a cheap, but skilled workforce to conduct work and assemble semi-complex products.

This neoliberal turn in the Visegrad countries after the transition was, unlike in the Baltics, counterbalanced by social expenditures with the intention of compensating the losers of the

transition⁴⁷. Between 2000 and 2010, however, government debt accumulated to over 80 % of GDP as the cost of social expenditures rose (Bohle and Greskovits, 2012). It was during the left-wing Gyurcsány II government that things spiralled out of control. The Forint started falling, thus affecting the many households who acquired foreign currency denominated loans. Government bonds were rated as trash. The International Monetary Fund (IMF) and the EU jointly provided 20 billion euros for debt refinancing, and the government subscribed to conditionality which prescribed austerity.

This history of Hungary's fiscal struggles explain Orbán's rise. In 2010, Orbán offered a way out by promising to take back control from foreign financial institutions and create economic policy autonomously without the dictates of international conditionality or the Maastricht criteria. He embraced a crisis narrative according to which the Western 'scientific capitalism' failed and should not be followed (Illés et al., 2018: 797). Once in power, Fidesz shifted the burden of adjustment from the citizens to the financial industry and corporations as a result of an 'explicit and political decision to prioritize domestic needs over the demands of international markets' (Moses, 2017: 147). Interestingly, Orbán remained committed to orthodox fiscal policy targets set in the SGP, but it was the unorthodox fiscal measures he used to achieve them which raised many eyebrows. He imposed a special 'crisis tax' in the banking, insurance, telecommunications, retail and energy sectors which were, due to the extent of privatization in Hungary, largely foreign-owned (Piasecki, 2015). This move created international consternation. The Commission (2013c: 9) reacted negatively in the 2013 IDR by stating that Hungarian unorthodox policies 'cannot be considered market friendly (*and*) have contributed to losses in the country's growth potential'. In regard to international institutions, Orbán refused to 'give in to the IMF' and decided not to seek financial assistance from the IMF and the EU after negotiations broke multiple times (Johnson and Barnes, 2015: 550). Hungary was able to implement controversial fiscal measures without a

⁴⁷ A generous social protection system was developed, which included comprehensive early retirement schemes for laid-off workers, disability pensions, family support and unemployment benefits.

reaction of the market mainly due to the fact that the country was not in the eurozone, hence had the policy autonomy and flexibility of using monetary and fiscal policy (Johnson and Barnes, 2015; Moses, 2017).

In the social and employment sphere, Orbán made sure to communicate clearly the new vision of the Hungarian society:

‘...until now we have known three forms of state organisation: the nation state, the liberal state and the welfare state. And the question is, what’s next? The Hungarian answer to this question is that the era of the work-based state is approaching. We want to organize a work-based society...’ (Orbán, 2014).

Unlike the period preceding Orbán’s rule when various entitlements to social benefits were used as a tool to compensate the losers of transition, the post-2010 period brought about change in the welfare paradigm and shifted to a workfare system. In the Hungarian context, the official rationale of this paradigm shift was both financial, to cash-in on unemployment benefits and social transfers, and employment-related, to pull the able-bodied, low-skilled, low-educated inactive citizens out of welfare dependency and into the labour market⁴⁸ (György and Veress, 2016: 371). After all, the Széll Kálmán Plan, the governments’ structural reform plan for 2011-14, envisaged ‘the creation of one million new and tax-paying jobs within a decade in Hungary’ for the purpose of which the government should ‘encourage inactive groups (those who no longer seeking a job) to re-enter the labour market’ (MNE, 2011: 14). This paradigmatic commitment was followed by a patchwork of policy interventions which had little policy coherence (Szikra, 2014). In the employment sphere, the manifestation of the workfare paradigm was the public works scheme (see: Section 4.5), and in the social sphere – cuts in the duration and amount of unemployment benefits. In the Orbán period, social policy instruments have, on the one hand, become tools for

⁴⁸ Vidra (2018) adds another level of complexity into the discussion of the reasons for a paradigm shift. She argues that the choice for workfare programmes and the PWS in specific comes from welfare chauvinist sentiments in the public which see recipients of benefits, particularly the Roma as ‘passive parasites’ who live a comfortable life on benefits. The political elites react to these sentiments and introduce punitive elements to prevent welfare abuse.

achieving economic policy objectives, and, on the other hand, a channel of catering to parts of the population loyal to the regime as well. This is reflected in the restoration of traditional, Christian Democratic family policies, in particular long paid parental leaves of up to 3 years and tax credits for working families with children (Szikra, 2014: 494-5).

To conclude, the paradigmatic commitment to workfare is expected to act as a strong obstacle to policy learning whenever CSRs implicitly or explicitly question the workfarist underpinning of employment policies.

4.3 European Semester governance in Hungary

4.3.1 The process of national coordination of the European Semester in Hungary

The structure of horizontal and vertical coordination of Semester items follows a similar pattern as the Hungarian system of EU policy coordination in general (Batory, 2012). There are two separate units within the Ministry of National Economy which are the core responsible bodies for the Semester – one specialized unit deals with the Semester in general, the Country Report and the CSRs, whereas another unit in the Department of Competitiveness is responsible for coordinating and collecting inputs for the NRP. For employment CSRs and work in EMCO, the State Secretariat for Employment in the Ministry of National Economy gives instructions on the main positions to be taken by Hungarian members of EMCO. Detailed starting positions are written on the technical, desk officer level after which they are coordinated in inter-ministerial meetings within the European Coordination Committee. The committee formally approved the Hungarian positions for EMCO meetings which must be respected in all other working parties as well (HU2A). On the technical level, working groups exist with a coordinator on top who is the responsible contact person for each ministry. Participants in EMCO meetings report back in written form to their respective working group (HU2A) and to deputy state secretary level (HU4A), but no in-person meetings are held between EMCO members (desk officer level) and the political level (deputy or state secretary) on the outcomes of multilateral surveillance and peer

reviews (HU4A). This disconnection is telling because the absence of direct vertical coordination limits the possibility of knowledge transfer and policy learning on the political level. The absence of close ties between the technical and political level and difference of opinion seems to be a widespread phenomenon in Hungary. This is a finding shared both by Hungarian civil servants who consider themselves uninfluential and blocked by the political elites, and EU officials who are aware of this disconnection between the two levels⁴⁹ and the fact that there is engagement and deep understanding of policy issues on the civil servant level, but friction when it reaches the political levels (HU1A, HU2A, HU4A, HU1B, HU2B, EC1A).

Regarding the drafting of NRPs, the responsible unit distributes a sheet to each ministry to be filled with information on policy progress regarding last year's CSRs, challenges identified in the Country Report and future policy reforms and measures (HU3A). These inputs are taken on board by the responsible unit which drafts the NRP and sends it back to each ministry for comments, suggestions and corrections (HU2A). The Juncker Commission introduced the possibility to comment on the Country Report before publication. The Semester unit coordinates the process of commenting on the Country Report between ministries, and the final decisions on the employment sections are done at the level of head of department or deputy state secretary (HU3A). Country Report comments usually focus on the politically sensitive issues and their formulations, but also factual corrections to the text of the Country Report (HU3A).

The Semester also introduced fact-finding missions in which EU officials visit national authorities and social partners/civil society in separate meetings to get a better sense of current policy developments before the final version of the Country Report is written and CSRs are formulated. In the Hungarian case, the general feeling among interviewees was that these meetings make less sense when they are convened on the political level as the meeting becomes a formal, conciliatory diplomatic exchange (HU1B, HU2B) in which the two sides perceive each other in a

⁴⁹ For specific examples, see section 4.3.1 on the public works scheme.

teacher-student manner (HU1, HU2B). Besides the perception of a hierarchical relationship, Hungarian authorities use these meetings as an opportunity to anticipate what CSRs will be proposed (HU1B) and to signal to the Commission in which areas they wish to receive a CSR (HU2B). The EU officials use these interactions to give the national authorities more choice over sequencing of reforms and prioritization of items in order to build national ownership of reforms (EC1A). On the government's side, this approach is pragmatic in the sense that it brought to attention the link between CSRs and EU funding as CSRs can form the rationale for budgetary reallocations (HU2B). On the Commission's side, the benevolence comes from the appetite to build mutual trust and national ownership by being attentive to governmental priorities (EC1A). With a more partnership-oriented approach the Commission intends to wash off potential notions of reform imposition.

4.3.2 Hungary in the Employment Committee

Hungarian members of EMCO were generally disappointed by EMCO peer reviews in that they considered them to be formal occasion without much room for frank discussions (HU1A, HU4A, HU1B). Much of this discontent with the proceedings in EMCO comes from the fact that review sessions in EMCO tend to be only a formal exercise in which Member State stand no or little chance of changing EMCO conclusions which are pre-prepared by the Commission. One quote from a civil servant summarizes the frustration:

‘EMCO meetings are an absolute waste of time. That’s just a theatre, nothing serious happening there. Regardless of what the Member State has to say, the EMCO conclusions are already prepared in advance. I can’t really see EMCO as a place where people are really negotiating. Most members are civil servants, so what can you expect? If the government is sending you, then you have to defend your government’s position.’ (HU1A).

Especially on sensitive issues, room for discussion is extremely limited, especially if the Member State forms a stable position. In those cases, EMCO members simply play their part as

instructed by their capital (EC1A, HU1A). On such occasions, informal rules apply according to which other peers would not put pressure on a Member State representative if there is disagreement between the Commission and the Member State on a policy issue:

‘Regarding other Member States, I have the experience that they are very supportive. Normally they don’t push you, they don’t try to convince you after a certain level. It’s very friendly and there’s room for professional dialogue. However, there is an informal rule that you normally should not turn your back against your peers.’ (HU2A).

In a nutshell, although Hungarian members see little added value in the EMCO meetings due to their limited impact on policy developments, they generally regard the atmosphere in those meetings as friendly and professional. At times, the dynamics between Commission representatives and Hungarian EMCO members can be tense with regard to controversial issues, but instances of cooperation do exist when there is convergence in opinion on the technical level. EMCO members then attempt to use insights from those meetings as a lever to challenge the official position at home: ‘Sometimes the Commission has insights that we can use at home, that can help us push our politicians towards certain ideas.’ (HU4A). As we will see, such attempts predominantly stand no chance and are blocked by the political level.

4.3.3 Involvement of social partners and the Hungarian parliament

Hungary fares poorly by any standard of social partnership or collective bargaining. Already in his first mandate between 1998 and 2002 did Viktor Orbán not bother too much about social partners’ interests⁵⁰. The picture did not change when Orbán came back to power in 2010. Having secured a supermajority in the National Assembly, Orbán had no intention to see his authority thwarted by social partners. The two-thirds majority was considered as a sufficient source of legitimacy. The

⁵⁰ He abolished the tripartite National Council for Interest Reconciliation in 1999 and created a fragmented structure of loose policy-specific fora with broad, diverse and flexible membership. This system lacked horizontal coordination, and consultative bodies were perceived as merely ‘top-down information devices’ which clearly undermined previous consultative structures (Sissenich, 2005: 171-2).

very nature of Orbán's governance style, which he termed 'political governance', constraints the possibility of any interference with governmental interests (Boda and Patkós, 2018: 407). The tripartite National Interest Reconciliation Council was soon abolished, and the government installed a multipartite National Economic and Social Council which convened representatives of traditional social partners, NGOs and churches, all of which were invited by discretion and without a representativeness requirement (HU1C). The Commission and other EU bodies could not oversee the limited role social partners play in Hungarian policymaking. In EMCO's 2017 thematic review, the committee expressed concerns with the state of social dialogue in Hungary (EMCO, 2017). The Commission also made a meticulous assessment of bipartite and tripartite social dialogue in the 2018 version of the Country Report (European Commission, 2018b: 21). It considered the multipartite National Economic and Social Council to be inappropriate for tripartite social dialogue and condemned the exclusion of social partners from Semester processes.

Social partners are effectively excluded from the Semester process in Hungary. They are not consulted on the NRP or the Convergence Report at all. When they are, it is in the form of 'workshops' (GRH, 2017) which act as dissemination mechanisms with no feedback. In a recent study by Eurofound (2017), Hungarian employers organisations and trade unions jointly agreed with the assessment that they received little time to engage with and prepare for a discussion of the NRP (HU1C), never receive feedback or acknowledgment on their contribution and had no influence on the content of NRPs. Again, these problems resonate well with the civil servants in the Ministry of National Economy, however their attempts to initiate changes are seen with no sympathy by the authorities:

'Hungary is not doing well, because the whole system is not very good, it's absolutely not powerful, social partners have not much opportunity to share their views and opinions...We tried to send messages to the European semester unit and to the higher levels such as deputy and state secretariat that we should involve social partners much more into this process, but we were always refused.' (HU2A).

The government simply circumvents the question of social partners' participation in the Semester by pointing to instances not related to the Semester in which social partners are consulted (HU3B). Therefore, in Hungary there is neither a formally nor informally institutionalized relationship with social partners regarding the Semester.

Involvement of the national parliaments is equally important. The authority to enact the budgetary commitments and reform promises made to the Commission ultimately rests with the national parliaments and it is vitally important to create national ownership and accountability procedures. Just like social partners, the National Assembly and its committees have no active or meaningful involvement in the Semester cycle, be it in the preparation of the NRP and Stability/Convergence Plans or discussions of Country Reports and CSRs. The Hungarian NRP clearly states every year that the document is discussed at the meetings of the Committee on European Affairs only after it is submitted to the Commission. The discussion is then only a formal exercise without any real possibility of meaningful engagement with the NRP. It seems, however, that parliamentary involvement is limited all across the EU.

4.4 Hungary's employment issues, reforms and the influence of the European semester

In the years following the financial crisis, Hungarian labour market indicators were in freefall. Although never anywhere near the devastating unemployment figures of countries like Spain and Greece whose unemployment rates rose to 25 % at the height of the crisis, Hungary entered the new decade with double digit unemployment rates, above the EU average. Long-term unemployment rates were also not particularly conspicuous, but issues of low activity rates, a pronounced gender gap in employment rates in favour of men and youth unemployment were of particular concern. In its worst, the activity rate, measuring the ratio of employed and unemployed people (actively looking for work) compared to the total population, fell to 54.9 % (age group 15-64), almost 10 pp below the EU average. Youth unemployment (15-24) stood at 28.3 % in 2012,

5 pp higher than the EU average. The activity rate of women in Hungary was persistently around 10 pp lower for men.

Keeping in mind this context, the EU concentrated in the period between 2011 and 2017 on a limited number of important employment and labour issues in the Semester, which were thought to prevent a normal functioning of the labour market. Table 4.2. brings an overview of the sub-parts of employment-related CSRs passed by the Council, together with the Commission's assessment of progress towards meeting the CSR, which are found in the Country Reports. Five broad topics of interest can be distilled: 1) the problem of a high tax-wedge on low-income workers, 2) lack of childcare facilities to stimulate female participation in the labour market, 3) weak and under-capacitated Public Employment Service (PES) and the client profiling system, 4) quality an targeting of ALMPs, 5) the widespread use of public works schemes since 2011, with a weak activation and training dimension, 6) introduction and implementation of the Youth Guarantee, and 7) question of adequacy, coverage and duration of unemployment and social benefits.

A few conclusions can be drawn immediately from the table. First, in a timespan of 7 years, the Commission has focused its analysis on a limited number of very specific employment topics. Same recommendations are repeated year after year, indicating that they were thought to be important enough to figure regularly in the CSRs. Part of the explanation is, of course, that reforms take time and that a period of 1 year is not enough to get things done. The strategy of the Commission here is to keep an issue 'fresh' on the agenda, and incrementally follow-up on progress in areas found important enough to focus analytical time and effort in. As one high ranked official from DG EMPL explains:

'Reforms that we ask are very substantive – pension reform if you wish. Things like that make a big difference. Reforms tend to take time, especially if they are new to the agenda. Part of the role of the ES is to put things on the agenda through the analysis. Reforms take time, and then again take more time.' (EC1A).

Second, CSR to Hungary have been very detailed and prescriptive, something that is not the original purpose of employment coordination. Some of the recommendations, such as the introduction of a profiling system in the PES, reach a level of detailedness which can create a serious backlash domestically and be interpreted as interference with domestic policymaking. At the same time, things have not improved with the beginning of the Juncker Commission, albeit his promise to make CSRs less prescriptive. The text and total number of the CSRs have shrunk, but each CSR continues to consist of multiple sub-parts or sub-CSRs.

Third, the substantive orientation of the employment CSRs reveals that economic objectives have received less consideration compared to the social orientation of employment items. The paradigm shift from a neoliberal to a social investment perspective on employment policy is noteworthy. Many of the recommendations have a social investment underpinning, highlighting the importance of investment in early childcare, adequate unemployment benefits, incentivizing low-income earners and training-oriented activation measures.

Fourth, in the period between 2012 and 2013, employment CSRs were directly linked to and found relevant for the MIP. This was a period of high tension and pressure on Hungary to comply with SGP and MIP rules, ultimately leading to a proposal by the Council to suspend funding from the Cohesion Fund. This episode was, however, immediately resolved. Hungary was never subjected to specific monitoring or the EIP under the MIP, which would imply intensified monitoring and potential funding suspension down the line.

Fifth and finally, before this section takes a closer look at how the Semester process influenced progress on these items, one should note how dominantly negative the yearly assessments of progress prepared by Commission staff are. It is striking to see that only in a couple of areas some or substantive progress in CSR implementation could be found, i.e. on the provision of childcare facilities, the implementation of the Youth Guarantee and ALMPs. In other areas, notably regarding the tax-wedge on low-income earners, the inadequacy of unemployment and

social benefits and ultimately the public works scheme, little progress was recorded only until recently.

Table 4. 2 Overview of country-specific recommendations in Hungary (2011 – 2017)

Year	Country-specific recommendation	Commission assessment of progress
2011	Tax-wedge on low-income workers	Limited progress
	Childcare and preschool facilities	Limited progress
	Strengthen public employment services	No progress
	Reinforce active labour market policies	Some progress
2012	Tax-wedge on low-income workers ^a	Partial implementation
	Childcare and preschool facilities ^a	Partial implementation
	Strengthen public employment services ^a	Partial implementation
	Increase training aspect of public works ^a	Partial implementation
2013	Tax-wedge on low-income workers ^a	Limited progress
	Implement a Youth Guarantee ^a	Some progress
	Client profiling system in PES ^a	Some progress
	Increase training aspect of public works ^a	Limited progress
	Reduce public works scheme ^a	No progress
	Expand childcare facilities ^a	Substantial progress
2014	Tax-wedge on low-income workers ^a	Limited progress
	Client profiling system in PES	Some progress
	Youth mentoring network	Some progress
	Increase training aspect of public works	Limited progress
	Reduce public works scheme	No progress
	Eligibility for unemployment benefits	No progress
2015	Tax-wedge on low-income workers ^a	Limited progress
	Reduce public works scheme	No progress
	Increase active labour market measures	No progress
	Adequacy and coverage of benefits	No progress
2016	Tax-wedge on low-income workers	Some progress
	Reduce public works scheme	Limited progress
	Increase active labour market measures	Some progress
	Adequacy and coverage of benefits	Limited progress
2017	Tax-wedge on low-income workers	Some progress
	Better target public works scheme	Some progress
	Reinforce active labour market measures	Some progress
	Adequacy and coverage of benefits	Limited progress

^a CSR was linked to the MIP.

Source: European Commission (2012b, 2013b, 2014c, 2015b, 2016b, 2017b, 2018b), Council (2011a, 2012a, 2013b, 2014b, 2015b, 2016b, 2017b).

A detailed and closer look will be taken in the next section on two issues, one where limited progress was recorded over a long period of time and another in which some positive changes have occurred over a shorter period. The first issue that will be traced is one of the most contested employment issues in the last 7 years – the public works scheme, and the second issue concerns

the introduction of a Youth Guarantee scheme in Hungary aimed at tackling youth unemployment. The remainder of this section discusses the rest of the CSRs.

Unemployment benefits

In 2011, the government reduced the period of unemployment insurance from 9 months to 3 months, making it the shortest period of coverage with unemployment benefits in the EU. The move was clearly embedded in the wider agenda of a workfare society by incentivizing the inactive to seek employment. The first NRP already made clear that the government ‘considers work as a source of value creation and consequently put work at the forefront of Hungarian economic policy’ (GRH, 2011: 9). Reducing the time for being eligible for unemployment benefits and slashing the amount of social assistance to 15 % of the average wage were two elements in the policy mosaic aimed at ending welfare dependency. In addition, receipt of the benefits was made conditional on spending 30 days in public works if no suitable employment was found, a condition which would apply indiscriminatory, regardless of age, educational background or skills (Szikra, 2014: 492).

The reform of the social benefit system was considered to be ‘drastic’ even by the Commission’s standards (European Commission, 2011a: 15). The Commission warned that a drastic shortening of the benefit period would discourage people from searching jobs as the average length of unemployment in 2012 was 18 months, whereas the unemployment allowance covered only 3 months. For that reason, people would eventually be forced to join the public works scheme or conduct undeclared work (European Commission, 2012b, 2013b). Despite continuous calls to extend the coverage period and adequacy of unemployment and social allowances in the framework of the Semester, these CSRs had no influence (HU2A). As one official from the Ministry of National Economy explained: ‘The government maintained its position on the unemployment benefits and did not change it. The main message is that the government is trying to incentivize people to live from work and not from social benefits.’ (HU3A). The government completely disregarded expert opinion and evidence-based suggestions on the

ineffectiveness of the benefit system and remained true to the initial paradigmatic commitment to workfare.

Childcare facilities

In 2011, the gap in employment rates of women without children and those with children aged 0-6 was the second highest in the EU at a 33.6 pp difference. This stems both from the socialist legacy of lengthy parental leaves in Hungary (Fodor and Kispeter, 2014) which was reinstated to 3 years of paid leave, but also from lack of available childcare facilities especially outside urban areas (European Commission, 2012b: 18). The Commission insisted the government starts investing in the construction of new day-care services and other facilities for children, especially those under 3 years of age, with the purpose of motivating women to participate in the labour market. Although EU funding was available for this purpose already in the 2007-2013 funding period, the amounts have been too small to have any macro-effect. As there was a CSR on expanding the network of childcare service right amidst the negotiations on the new funding period 2014-20, the Commission had a good reason to push hard on sufficient allocation of money for childcare facilities. According to a Commission official who was involved in the negotiations:

‘Creating more childcare facilities has been taken on board because of the linkage of the CSR to funding, which was very strictly allocated based on the CSR. We insisted that the OP Territorial Cooperation had sufficient funds allocated for childcare facilities, and although the Hungarian government was not in favour of allocating that amount, we had to insist as this was one of our red lines during negotiations.’ (HU2B).

Although apparently the Commission and the Orbán government were not on the same page regarding the salience of the childcare services issue, the link between CSRs and funding programming was decisive. More important even, the Commission did not antagonize the Hungarian government regarding the radically long, paid parental leave scheme. Although the Commission did express the opinion that the parental leave scheme does not serve the purpose of

better integration on the labour market, it wasn't a vocal opponent as it knew the scheme was a popular instrument in the public and part of the conservative, familialist agenda of the government. The Commission acted strategically and never asked the government in a CSR to shorten the leave period. The Commission knew that it was politically too sensitive an issue and the move in the opposite direction would have been perceived as an attack on the Hungarian social fabric (HU2B). The calculation on the Commission's side on what is feasible and what not, prevented the Orbán regime from directly denigrating the EU in front of the domestic audience. This item shows that the Commission takes political circumstances very seriously, which is reflected in how it carefully crafted the wording of CSRs for Hungary so that they do not open new lines of confrontations. A high-ranking official from DG EMPL summarized the Commission's tactics by saying:

'Let's say, we are not politically naïve. Hungary is a nice example where we still try to recommend things, but not in a frictional way, which is why we do pay attention to the wording of CSRs.' (EC1A)

Tax burden on poor workers

Hungary has one of the highest tax-wedges in the EU on low income single earners. This means that the tax burden, or difference between wages before taxes and after taxes is comparatively high and stood at 45 % compared to the EU-average of 37 % (European Commission, 2017b: 15). The Commission became interested in this topic in 2011 when the Hungarian government abolished a tax credit (*adojovairas*) for low- and middle-income earners (LABREF database). Nearly at the same time, a flat-rate tax on personal income was introduced, set at 16 %. The intention was to make work pay so that people would take up more work (GRH, 2011). However, with the new personal income, the actual tax burden on those who earn the least has raised, creating in the opinion of the Commission a countereffect as the higher tax wedge 'reduced the incentives to participate in the formal labour market' (European Commission, 2012b: 16). In the years to come, the government gradually lowered the tax wedge for some categories of disadvantaged workers. Through the Job Protection Act, social contribution rebates (tax allowances) were eventually

expanded to a broad group of workers: younger than 25, older than 55, those who were long-term unemployed, disabled, workers in agriculture, low-skilled, those returning from parental leave, women with children (GRH, 2016). Finally, as of 2017 employers' social contributions went down by 7 pp and another 2 pp in 2018 for all categories of workers (European Commission, 2017b). Family tax credits for those with two and more children put single low earners into a comparatively even more dire position.

The Commission generally approved of the direction of all these measures but condemned the lack of targeting of measures on low-income earners. There was no engagement with the Commission on this issue on the government's side. Measures that were taken were universal and favoured low, as well as high-income earners. With the more favourable economic conditions after 2015, the government continued with universally popular measures, reducing the flat income tax by another pp and reducing social contributions. Actions that were taken were: 'in line with government's long-term goal on enhancing employment and activation rates' (HU3A) and as such were not affected by the Commission's continuous recommendations. Eventually, the Commission staff decided to move away from this CSR after 8 years as their frustration about the government's inaction on low-income workers had reached its peak (HU1B).

PES capacity and profiling system

Finally, the Commission saw some progress over time in the PES's capacity to establish a profiling system, offer job guidance, quality job search assistance to job-seekers and provide targeted ALMP measures. The introduction of a profiling system was meant to increase PES's capacity in offering individualized and targeted measures to jobseekers. The profiling system is a technical issue, however it became politically important when the 2013 CSR on setting up such a system became an ex-ante conditionality for absorbing ESF funds (HU1A). The profiling system quickly became an incentive in itself to satisfy the ex-ante conditionality (HU4A). The profiling system became operational in 2016 and placed job-seekers into three broad categories of clients based on basic

attributes such as age, education and work experience: those who are most likely to find a job themselves, those who need assistance and those who are not likely to find a job (HU1B). The third category was a pretext for the public works scheme. Although the profiling system ought to work based on an algorithm, in practice, the system was rigged according to a Commission official in a way that the employment officer could distribute jobseekers into categories as instructed by their superiors on the basis of quotas for public works or other activation measures (HU1B). The system does not operate properly and has far too many leaks which enable cherry-picking of individuals predominantly into the public works scheme (HU2B).

The government's approach was pragmatic in the sense that, on surface, it 'ticked the box' by having an operational profiling system, whereas underneath the surface, the system was not functional (HU1A). It represented a Potemkin village which left the original objective intact – to arbitrarily and indiscriminately place people into the public works scheme. This was exacerbated when the government abolished the Head office of PES (the National Labour Office) in 2015 and transferred responsibility for the design and implementation of employment measures and service lines to the Ministry of National Economy. The restructuring created a comparatively unique situation in which county, district and local PES offices are directly responsible to three different instances – the Ministry of Interior which manages the public works scheme; the Ministry of National Economy, which is in charge of EU-funded activation policies and the prime minister's Office as the local PES offices are officially integrated into local government offices (Eurofound, 2015). For some interviewees, the abolishment of the head office meant that local PES offices became less independent, whereas the absence of an intermediary level (the head office) meant that the central government could more easily command, politically control and instruct the street-level bureaucracy (HU1A).

4.5 Public works scheme

In the seven years (from 2012 to 2017) that it continuously figured in the Council's CSRs, the Hungarian public works scheme (hereafter: PWS) has become the principal source of direct confrontation between Hungarian authorities and the Commission in the employment field. On no other policy measure had Hungary resisted change and snubbed Commission's opinion so much as with the PWS. In theory, public work refers to one type of ALMP measure which creates jobs directly in the public sector, mainly in public maintenance, construction, environmental, social or cultural projects. Public work is characterized, first, by its punitive workfare orientation as rejecting a placement in public works implies loss of benefits, and, second, by their moderate human capital orientation since public work is not intended for increasing employability of participants but to preserve individuals' human and social capital from further deterioration. They are not market oriented because they do not invest in the improvement of skills that can be commodified. Participation is usually restricted to long-term unemployed, unskilled and disadvantaged groups who would benefit both mentally and physically from being integrated into society (Nelson, 2013: 258).

In contrast to a limited use of direct job provision, the PWS in Hungary became the dominant entry point for jobseekers after it was radically expanded and reformed in 2011. The previous socialist government had already introduced a public work programme called 'Pathway to Work', but compared to the Orbán era, it had targeted long-term unemployed only and had run on a modest budget. The introduction of the PWS in 2011 however resonated well and became the central manifestation of the official governmental agenda to shift from welfare to workfare by slashing social protection. As one civil servant in the Ministry of National Economy described it: 'The current government has an image of a job provider, a provider of living for everyone who is willing to work, wherein those who don't work are regarded useless for the society.' (HU4A). It soon became the largest state-financed activation measure, largest both by scope (eating up two thirds of all available funding from the employment fund) and coverage of all ALMP instruments

(Vidra, 2018: 76). The PWS was until mid-2011 administered and coordinated by the Ministry of National Economy but authority over the scheme was then moved to the Ministry of Interior allegedly because the leadership, State Secretary Laszlo Csaba in particular, was not fond of the scheme (HU2B).

One key element of the scheme was the obligation to participate at least 30 days yearly in public works to be eligible for employment and social assistance. Workers in the scheme received remuneration below minimum wage, which was made possible by creating a ‘public works minimum wage’. This effectively meant that they were not protected by the Labour Code (Szikra, 2014: 493). Local governments were responsible for the organization and implementation of the PWS, however they had no obligation to offer a place in the scheme to all unemployed people, which opened the door for discrimination of Roma. Their social benefit entitlements would then be cancelled as they did not fulfil the condition of participating in the PWS. Furthermore, unemployed workers had to accept an offer for placement in the scheme regardless of their educational level. Otherwise, they would risk losing their allowances. Finally, those participating in the PWS were officially counted as ‘employed’, which had a rejuvenating effect on the employment figures from 2011 onwards.

The Commission took a very critical stance towards the PWS from the start. It looked with distain at the fact that in 2011 other ALMP measures such as training opportunities were scaled down, whereas funding was doubled for PWS, and that half of the PES capacities was dedicated to handling the PWS instead of offering individualized services to jobseekers (European Commission, 2012b). In 2013, the Commission started expressing concerns that the PWS was not effective in activating people and was crowding out employment in the primary, competitive labour market (European Commission, 2013b). Signals were sent to Hungarian authorities that the training dimension of the scheme should be increases so as to equip participants with marketable skills. Tensions between the Commission and the Hungarian government reached escalation point in years 2014 and 2015 in parallel with the PWS’s increase in size. The Commission was critical of

the high number of participants involved in the scheme, the increase in budgetary allocations and low transition to regular employment on the primary labour market. In 2013 the number of PWS clients reached almost 400 000 people, 183 billion forints were earmarked for the scheme in 2014 compared to 64 billion in 2011 while at the same time only 5 % of participants joined the open market after exiting the scheme, unlike the 60 % who remained locked into the scheme (European Commission, 2014c: 23). The Commission then raised the stakes in the 2015 Country Report in which a whole chapter was dedicated only to the PWS. This was highly unusual as the Country Reports normally have a boringly stable structure, but this time the Commission staff allocated 14 % of pages on an in-depth analysis of the PWS. The report noted that the rapid improvement in unemployment figures was to a large extent driven by the PWS but questioned the effectiveness of the scheme medium-term. The Commission cited empirical literature which showed that the PWS does not raise the prospects of finding a job in the open market (European Commission 2015, see also Koós, 2016). However, the most extensive criticism was expressed in 2016 when the Commission assessed that there was no progress in shifting budget money to other ALMP measures (European Commission, 2016b). Despite official claims of good targeting of the PWS to those most disadvantaged, it appeared that some 47 % of participants in 2014/2015 had a secondary or tertiary degree (see also: Busch, 2015).

EMCO conclusions in that period were also not conciliatory in their tone and reflected the Commission's disapproval of the scheme in its first years. One civil servant notes: 'The Commission did not understand this whole system and they were very sceptical. They made a clear message that this is not the right direction for the Hungarian labour market.' (HU2A). EMCO continuously stressed that the PWS should be complementing with a training component and that proper monitoring of effects on participant's employability was needed (EMCO, 2014, 2015). It was in 2016 that the EMCO conclusions acknowledged that Hungary 'has not implemented the CSR' to encourage PWS participants to enter the primary labour market (EMCO, 2016).

Hungary sharply disagreed with the Commission's position. In the 2014 NRP, the government sent a clear message that the PWS will not be reduced in the foreseeable future, but that the measure was anyhow temporary by design: 'Hungary disagrees with the recommendation on the reduction of the dominance of the PWS, as the Government considers it to be implemented only in the long run, in parallel with the long-lasting increase of the labour market demand.' (GRH, 2014: 13). There was no indication the scheme would be put to rest any time soon. The government contested the assessment that the disproportionate effects of the PWS on labour market both in written, through the NRP, and in European fora as the country kept providing independent declarations on the PWS recommendations in the Council meetings on claims that the Commission's analysis was not correct (HU2B).

On the other hand, the government was willing to integrate training elements into the PWS. At first, on a small scale for agricultural public workers, then with a one-off winter training in 2013/14 aimed primarily at improving basic competencies like reading. From then on, the PWS focused on improving skills and providing professional qualifications to participants during the wintertime (Busch, 2015) when the majority of public work activities stall. Officers from DG EMPL were of the opinion that the government was happy to strengthen the activation element of the PWS in line with the CSR partly due to the fact that during wintertime not enough public work opportunities could be provided, which would then distort (un)employment figures (HU1B, HU2B). It was also due to pragmatism as Hungary was allowed to use funding from the ESF for the training component, which in turn catered to the government's interests of keeping the PWS running, albeit with a training component in it. The two sides came to terms only after 2016, five years after the scheme was rolled out, when the government announced it would start decreasing the PWS and start incentivizing public workers to take on jobs on the primary labour market (GRH, 2016). Participants in the PWS would become eligible for an 'incentive bonus' in case they found regular employment; employers could receive a subsidy for employing a PWS participant and a special, ESF-funded public employment training programmes such as the 'Training of low-

skilled and public workers' programme was introduced (European Commission, 2017b). The CSR on PWS did not appear in the new set of recommendations in year 2018.

The PWS case offers a longitudinal perspective and demonstrates a striking dynamic of both stability and change. The Hungarian government opposed policy change for more than 5 years, only to become more amenable to shifting the focus to other ALMP measures and more vigorously reinforce the training component after 2016. Interviewees' insights can give some indication on why the PWS survived for so long, and why we eventually saw its demise. Interviewees' opinions can be grouped around four informative topics: 1) the dynamics of the relationship between the Commission and Hungarian authorities on the PWS, 2) anomalies and misuses of the PWS, 3) the influence of the CSRs on the reform of the PWS compared to favourable economic trends, and 4) the tension between Hungarian professional bureaucracy and politicians.

First, interviewees agreed with the assessment that in the first few years the Commission was very pushy in trying to impose their analysis on Hungarian authorities, whereas in the last few years the discussions in EMCO and during fact-finding missions became more productive and discussions focused more on better understanding measures the government would implement to reintegrate PWS participants into the labour market (HU2A, HU3A). So, there is a clear change in dynamic from a destructive into a constructive relationship as the government's preference slowly converged with the Commission's. Before this shift, the Hungarian administration tried to use the fact that a Hungarian, László Andor, was Commissioner in DG EMPL, to lobby directly with the Commissioner's office for an approval to grant access to EU funding for PWS purposes (HU2B). This request was declined because of the fundamental disagreement on PWS effectiveness and the fear that nothing would be left for other ALMP measures if the Commission accepted the Hungarian request. This vignette is nonetheless indicative of the vigorousness with which the Hungarian authorities were fighting for a strong PWS.

Second, interviewees explained why the political leaders were so keen not to let go of the PWS. The way the PWS was implemented on the ground raised considerably suspicion in the Commission that the scheme was partly a paravane for clientelism and party patronage (HU1B, HU2B, EC1A). As local mayors had the discretion to decide who will enter the scheme and who not, there was the risk that vulnerable groups, particularly in remote, rural areas with scarce labour markets, would be drawn into a relationship of dependence and patronage in which their inclusion into the PWS would be traded for electoral support. Empirical studies on the Hungarian PWS have reported similar outcomes in some local communities (Keller et al., 2016, Szőke, 2015). For instance, Keller et al. (2016: 21) find:

‘Cases were also encountered, however, where the misuse of SMP was evident; indeed, there were villages where public employment has become a tool of exercising control over the Roma poor. There were also villages where loyalty to the mayor is a prerequisite for becoming employed on the programme, or where public works programmes are used as disciplining tools to punish, reward, maintain and strengthen the dependence of unemployed, poor families on representatives of local power.’

Third, when asked about the influence of the Semester on changes in the PWS design and its downsizing, interviewees largely converged in opinion that the Orbán government did not react to Commission’s sustained soft pressure, but rather reacted to the internal labour market dynamic characterized by rising labour shortages, the economic recovery and consequently higher demand for skilled labour (HU1A, HU4A, EC1A, HU2B). In their opinion, the Hungarian leadership realized that the PWS did not have too much fuel left after the economy was picking up, and more qualified workers were needed in a number of sectors, such as retail (in which wages have grown due to labour shortages) or manufacturing (Bakó and Lakatos, 2015). To remain committed to the full employment objective whilst at the same time keeping the politically opportune PWS alive, they used EU funding to supplement the existing scheme with training components.

Fourth, civil servants who worked on the PWS issue both domestically and in EU fora such as EMCO, shared the opinion that the PWS was not a good thing from the start, but were

denied by the political functionaries the opportunity to suggest alternative solutions for the grim labour market situation of the early 2010s (HU2A, HU4A, HU3B). The words of a Hungarian EMCO member are telling: ‘We tried to send the message to decision-makers that the public works scheme is probably not the best way to handle unemployment and activate people...but we were always refused.’ (HU2A). Their testimonies confirm that the technical level was powerless against the will of the political elite on this particularly salient item.

Two sets of broad conclusions can be drawn from this analysis. First, regarding the strong resistance of Hungarian authorities not to reduce the PWS, it was demonstrated that the scheme presented a flagship initiative of the government to bring into life the workfare paradigm in Hungary. The room for manoeuvre was very limited for the government both for the rhetorical entrapment in which it found itself and because of the deep policy belief that public works are the best means to achieve a workfare society. This strong ideological commitment, together with the lack of closeness between technical and political level, a low deliberative potential of EU fora and tense relationship between the EU and Hungarian authorities, made mutual learning impossible. Despite abundant evidence, there was no possibility to seriously challenge the core assumptions of the political elite on the role and function of the PWS.

Second, changes in the policy mix, marked by measures which incentivize PWS participants to enter the primary labour market, and significantly enhance the training aspect of the PWS, had nothing to do with the Semester process. Policy change was largely a reaction to domestic trends on the labour market, hence were driven by market pressures. However, the Hungarian government nonetheless strategically used the EU and funds that were made available for hybrid public work types which combined a classic public work component with a training component. As all other ALMP measures but the PWS were financed from EU funds, the training component was a good chance to channel more money into the system without challenging the existing programmatic commitment of keeping the PWS running. The training components of the PWS, at times more ineffective than not, and surrounded by controversy on how the money was

used, solved the problem of employment figures in the wintertime when there was limited activity in public works. The training component was therefore used to bolster the existing objective of full employment and at the same time legitimized and bolstered the existing PWS. The training element also reinforced the centralized nature of the PWS and all potential malfunctions and clientelist networks. The effect of the Semester was therefore only indirect. CSRs offered a good justification for allocating EU money into the training component, which would probably not have been strengthened without funding from outside. Finally, it seems that the Semester was successful in keeping the PWS topic alive on the political and broader agenda for almost 7 years, sparking and encouraging a rich scientific, technical and political debate on the use of PWSs in crisis moments.

4.6 Youth Guarantee

The Youth Guarantee was a completely different pair of shoes. The issue of youth unemployment appeared in the CSRs only in years 2013, when the initial Council recommendation on the Youth Guarantee was passed, and a year later when Hungary was asked to implement a youth mentoring network. The Youth Guarantee was never a particularly salient issue that could be politically exploited or high on the agenda of the government, nor did it create the sort of excitement that the PWS brought to the table.

With one of the lowest youth employment levels in the EU, the Hungarian government engaged with the issue of youth integration on the labour market already in 2011-12. The government initiated a reallocation of funding from the Social Renewal Operational Programme to mobilize money for ALMPs targeted at youth, including social contribution benefits to employers who employ people younger than 25, assistance to young entrepreneurs and apprenticeship programmes (GRH, 2012). In 2012, the government initiated its own variant of a state-funded youth guarantee called ‘First Job Guarantee’ in which employers were compensated for social contributions and full wage for a period of 4 months if they employed a young person

(GRH, 2013). Since the beginning of 2013, the Job Protection Act was applied to young people as well, meaning the employers would receive certain rebates on social contributions paid for an employee under 25 (GRH, 2014). In a nutshell, a set of activation measures targeted at youth, both EU-funded and state-funded, existed in Hungary before the roll-out of the Youth Guarantee. The government took youth unemployment during the crisis seriously at least rhetorically and put it high on the agenda by stating that ‘Hungary still considers tackling youth unemployment as a top priority and an important challenge.’ (GRH, 2014: 13). When the Youth Guarantee was announced, it was immediately followed up by a CSR urging Hungary to address youth unemployment with a Youth Guarantee. This came with a considerable financial envelop of some 80 million euros envisaged in the new programming period (HU4A). Hungarian authorities declared themselves committed to offering a job, training or education opportunity to young people under 25 within 4 months of unemployment but opted for only a gradual roll-out of the scheme as the PES had only limited institutional capacity (human resources) to individually process large numbers of young people (MNE, 2017). The Youth Guarantee Implementation Plan had envisaged a variety of ALMPs in the future and the development of a mentoring and counselling network. The slow pace of setting up an operational Youth Guarantee program was criticized also in EMCO meetings in which Hungary was encouraged to accelerate the introduction of the Youth Guarantee (EMCO, 2015). The Youth Guarantee was eventually implemented in the beginning of 2015 and has included around 50 000 young people into activation measures until 31 March 2017 (GRH, 2017). After the scheme was introduced in Hungary, the Commission pointed to several problems. Namely, outreach to those NEETs who are inactive and most vulnerable was weak, the capacity of PES to offer individualized services was limited, there was little involvement of youth organizations and social partners in the design, implementation and monitoring of the Youth Guarantee, and public work was considered ‘quality offer’ if requested by an individual (EMCO, 2018; European Commission, 2017, 2016). As expected, the government had little interest in involving the civil society or social partners in any form in the policymaking of the Youth

Guarantee. Although it was formally established, the Youth Guarantee Monitoring Committee is dysfunctional and does not convene, hence there is no policy monitoring (HU1C).

A number of mechanisms can be traced through which the Semester influenced youth unemployment policy in Hungary through the Youth Guarantee. First and foremost, the existence of a Youth Guarantee recommendation was linked to the new 2014-20 programming period and significantly influenced the allocation of funding and the specification of priorities in operational programmes. Youth became a special investment priority, whereas at the same time, the government started feeding in the PWS, emptying out national funding for any other ALMP measure. In that sense, the Youth Guarantee became ‘the only game in town’ and had considerable leverage on the prospect of employment policy development:

‘Would anything within the Youth Guarantee have been done without the recommendation and subsequent funding, definitely not. We wouldn’t have the counsellor network, the 4-month activation period etc. We certainly wouldn’t have designated that much money had the Youth Guarantee recommendation not been issued’ (HU4A).

This indicates that the Youth Guarantee was used as a leverage to continue with some previous and introduce some new measures for which money otherwise would not have existed because the PWS took priority. Furthermore, the concept and the basic idea of the Youth Guarantee was also gaining traction in the public, as well as among politicians. Political leaders started using the concept of the Youth Guarantee as a reference point in the domestic arena to demonstrate commitment to youth employment⁵¹. The scheme is increasing its visibility as new campaigns promote the Youth Guarantee and more young people become aware of the existence of it (HU4A). The cognitive use of the Youth Guarantee has helped place the initiative on the societal agenda.

⁵¹ See for instance, State Secretary Péter Cseresnyés introduce a new Youth Entrepreneurship Programme within the Youth Guarantee: <http://www.kormany.hu/hu/nemzetgazdasagi-miniszterium/munkaeropiaci-es-kepzesi-allamtitkarsag/hirek/elindult-a-fiatalok-vallalkozova-valasat-tamogato-program-a-kozponti-regioban> (Accessed: 5 January 2019).

Rare instances of mutual learning were also reported, where the intensive reporting obligations in ESF/YEI funded project brought to the attention of participant in the EMCO meetings the weakness of outreach activities in Hungary to those youth that are farthest away from the labour market and cannot be easily traced. Discussions in EMCO stressed the importance of ‘identifying the inactive and improving outreach to NEET’ (EMCO, 2018). These EMCO thematic reviews made one Hungarian EMCO member ‘determined to try and finally influence the NEET outreach problem as there will be lots of pressure on Member States to put in place outreach activities and monitoring systems’ (HU4A). Eventually, decision-makers listened to the suggestions of the civil servants and a monitoring system is being introduced, linking the educational system with the employment services to create an early warning mechanism of those who leave education and ‘disappear’. This was partly possible due to the rather technical and benign nature of the intervention. As this is only a procedural reform without any substantive change in policy, it is not in conflict with any ideological or policy reasoning. Also, it is important to note that, unlike the PWS example, the monitoring system could not be politicized to the extent that it creates conflict between the Commission and Hungarian authorities, hence it wasn’t affected by the soft Euroscepticism exercised by the government. Finally, this specific example shows that EMCO reviews can be inspiring, the more so when EMCO members successfully garner support and encouragement by their peers.

4.7 Conclusion

This chapter found that the direct effect of the Semester on substantive change in employment policies has been minimal (childcare facilities). Hungary mainly ignored the Semester incentives to carry out employment reforms, and instead directly opposed change (PWS) and followed through on governmental priorities (unemployment benefits, taxation of low-income earners, PWS).

Hungary mostly resisted external pressure. The Orbán government offered sustained political opposition to any imposition of policies and intrusion into areas of national sovereignty.

The only two instances in which the Semester was able to build sufficient external pressure for change relate to rather low-key, small-ticket items – to invest in childcare facilities and to set up a profiling system for unemployed. These issues were not high on the government’s agenda and were not perceived by the political elites as a threat to the established system and policy trajectories. Investment into childcare facilities was made a funding priority based on the Commission’s insistence and Semester conclusions. Hungary is highly dependent on EU funds and could not afford to see the earmarked funding go to waste. Investing in early care did not thwart nor undermine the government’s familialist conception of care and implicitly supported the commitment to full employment. Regarding the PES profiling system, Hungarian authorities acted pragmatically and adeptly navigated around the conditionalities for accessing EU funds. They complied with the ex-ante conditionality only on surface level and set up a system which left intact the politically instructed, informal practices of selecting candidate into ALMP measures.

Mutual learning was not effective in inspiring domestic policy change. Three factors narrowed the space for learning and disabled domestic application. First, political elites’ resolute application of the workfare paradigm as an overarching policy principle. Second, low autonomy of Hungarian EMCO members and their domestic political subordination. Finally, there was low deliberation potential in EMCO as a result of the Commission’s disciplinary and tutor-like attitude on the one hand, and a hard sovereigntist Hungarian stance on the other, which epitomized the tense relations between Hungary and the Commission. A fourth factor was identified in the PWS – the politicized and controversial nature of the policy item. The empirical analysis spotted only one instance in which Hungarian EMCO members were able to transfer knowledge from thematic reviews to establish a monitoring system of inactive youth. The uncontroversial and technical (statistical) nature of the request did not raise eyebrows back home, and as such represented more of a procedural change, than substantive policy change.

Table 4. 3 Summary of the European Semester influence in Hungary

Employment issue	Reform outcome	Explanation (mechanisms)	Facilitating (F) and inhibiting (I) factors (hypotheses)
Unemployment benefits	Resistance to change	Alternative: Paradigmatic commitment to workfare	I: policy paradigm (workfare), politicized politico-administrative relations; low deliberation potential and confrontational relations in EMCO (M2)
Childcare facilities	Conditioned, parametric reform	M1: External pressure	F: funding dependency (M1)
Taxation of low-income earners	Initial resistance -> Change, but no targeted reform	Alternative: Income tax and social contributions went down for all categories of workers (universal) under favourable economic conditions	I: negative attitude towards EU (M1, M3)
PES and profiling system	Technical surface reform	M1: External pressure, however constitutes 'creative compliance', with the original objective (PWS) left intact	F: funding dependency (M1)
Public works scheme	Explicit resistance to change -> pragmatic modification and policy roll-back	Alternative: workfare commitment and labour shortages (flagship initiative) M3: Creative appropriation	F: programmatic fit, available rewards (pragmatism) (M3) I: policy paradigm (workfare); politico-administrative relations; low deliberation potential and confrontational relations in EMCO; politicized issue (M2); negative attitude towards EU (M1)
Youth Guarantee	Status quo, technical upgrading	M2: Mutual learning M3: Creative appropriation	F: deliberation, technical (depoliticized) issue (M2); programmatic fit, available rewards (M3)

Source: Author's own compilation.

Whenever feasible (Youth Guarantee, PWS), the Hungarian government attempted to instrumentalize EU incentives to advance or further preserve domestic policy preferences. The financially backed Youth Guarantee was used to sustain existing programmes and roll-out new youth measures at times when public employment coffers were drained by PWS expenditures. On the other hand, the government used CSRs which suggested to shift focus from the PWS to training measures, only to continue with a modified PWS. The renewed PWS contained a training component, however the logic of the scheme was left intact. Besides these two examples of strategic usage, the Orbán administration shied away from using the Semester as a legitimization

tool. Strained relations with EU institutions and a strong anti-Commission sentiment which was inherent to Orbán's publicly proclaimed position posed an overarching, almost systemic obstacle to positive usage of the Semester.

This chapter identified instances of resistance and active opposition to Semester recommendations in three policy items (unemployment benefits, tax burden on poor workers, PWS). Opposition was the strongest regarding the controversial public works scheme in which Hungary questioned the legitimacy of the Commission to apply pressure. EU's influence was successfully contained owing to Hungary's fixed policy preferences, the political sensitivity of the issue and the strained relationship between Hungarian elites and the Commission, which also translated into tightened interactions between politically instructed civil servants and Commission representatives within EMCO.

On a procedural level, the Semester process made Hungarian authorities set up a national Semester coordination system which contributed to better horizontal coordination of policies between technical staff. Vertical coordination between national authorities and other levels of government did not improve as Hungary continued on a path of political centralization. Also, closer coordination between political elites in the Ministry of Economy and Hungarian EMCO members did not materialize, which is not conducive to policy learning. As the status of social dialogue became completely marginalized by the Orbán regime, so was the role of social partners in the national arm of the Semester process. In some rare instances, the Semester was able to inspire statistical capacity building through intensified monitoring and exchanges of views in EMCO. These deliberations made Hungarian civil servants determined to advocate for better statistical monitoring of inactive youth.

To conclude, several instances of the Semester's direct and indirect substantive impact were indeed detected in Hungary, however the level of impact was very limited and mostly superficial. When substantive policy change did occur and converged towards EU's preferences, it resulted either from Hungary's apparent reliance on EU funds; a coincidental match in EU and

national priorities; or from a calculated utilization of available rewards to advance an existing domestic agenda. One implication of these findings is that access to EU funds seems to be the (only) glue which holds the Hungarian government loyal to the EU. A pessimistic reader will, however, note that the effectiveness of the Semester's link to funding conditionality was only illusory in employment policy. It will incentivize 'creative compliance' as long as the monitoring system lacks sufficiently effective control mechanisms to ensure proper implementation at home. Furthermore, mutual learning is seriously restricted and falls victim to a highly centralized and politicized policy environment in which the political establishment keeps civil servants on a tight leash. Weak politico-administrative linkages and cognitive disconnection between the two tiers inhibit policy learning. In addition, the strong policy orientation of the Orbán government towards workfare objectives prevents any substantive deliberation on alternative policy solutions, let alone ideational influence.

5 SLOVAKIA: REINFORCING EXISTING TRAJECTORIES

5.1 Introduction

Fight against unemployment was a continuous challenge in Slovakia in the last decade. This chapter follows the same structure as the other case study chapters. It first outlines the political, economic, social and employment context in the country, followed by a short description of political relations between Slovakia and the EU, on which it might depend to what extent the country will be cooperative in soft governance. The empirical sections outline how the Semester affected the national system of policy coordination, after which specific CSRs are discussed. The chapter concludes with individual assessments of the Semester's influence on domestic policies directed at fighting long-term unemployment (Action plan on long-term unemployed) and youth unemployment (Youth Guarantee).

5.1.1 Political system of Slovakia: From isolationist Meciarism to Smer rule

Slovakia went through a peaceful transition from communism to an independent republic established in 1993 by succession from Czechoslovakia. Ever since, Slovakia has maintained a unicameral parliamentary system with the National Council serving as the only national legislative chamber (Deegan-Krause, 2013: 290). Slovakia's post-communist transition resembles a thorny path from international isolationism and criticism in the 1990 to accession to the EU as part of the 2004 'big bang' enlargement process. The period between 1992 and 1998 was marked by an increasingly authoritarian rule of Vladimír Mečiar, the three-time prime minister of Slovakia from the Movement for a Democratic Slovakia (HZDS). The 1990s are remembered as a period of authoritarian rule, crony capitalism and exclusion from the EU integration processes (Henderson, 2002; Fisher, 2006; Fisher et al., 2007).

The democratic regression of the 1990s brought together a coalition of ideologically diverse parties led by Mikulaš Dzurinda during the 1998 elections. The coalition took down the

Mečiar regime in a joint effort to reverse the nationalist turn, to take Slovakia out of international isolation and bring closer to EU membership (Deegan-Krause, 2013: 271; Fisher et al., 2007: 989). Dzurinda secured a second mandate in 2002 and formed this time an ideologically coherent coalition of four centre-right parties which enabled the government to embark on a road of fiscal consolidation and far-reaching neoliberal reforms (Domonkos, 2016: 7-8). Reforms were largely motivated by the ideological convictions of the political elites within the Dzurinda government, most notably the finance minister Ivan Mikloš who was in the driving seat of structural changes (Pula, 2018).

Voters expressed their discontent during 2006 elections when the government's reforms backfired and the leader of the left-wing Smer (Direction) party Robert Fico became prime minister and formed a government with the nationalist SNS party, the party of the former prime minister Mečiar. He promised to end the enacted reforms and establish a 'strong social state' (Malová and Učeň, 2011: 1122; Bohle and Greskovits, 2012: 245). During that period of the Great Recession, Slovakia fell victim to faltering export demand and deficit increase (7.8 % in 2010) for which the government had to enact anti-crisis measures (Malová and Dolný, 2016).

Opposition parties were quick to point out that the Fico government handled the crisis poorly and in 2010 opposition leader of the centre-right SDKU-DS party, Iveta Radičová, formed a diverse coalition government (see: Table 5.1) (Malová and Učeň, 2011). The internal divisions between the coalition partners soon culminated when in 2011 Robert Sulik from the coalition partner SaS refused to support an increase in funding for the European Financial Stability Facility (EFSF), a temporary EU financial aid mechanism (Malová and Učeň, 2012). Being under pressure from European partners, Radičová put the change of EFSF under vote and tied it to a vote of confidence to the government. However, both coalition partner SaS and opposition leader Fico (although in favour of EFSF) voted down the government. As a result, Slovakia held early elections in March of 2012 (Malová and Učeň, 2012: 285). Fico's party Smer won 55.3 % of seats in the parliament and managed to form the first single-party government since 1989 (Malová and Učeň,

2013: 208). Smer continued ruling Slovakia beyond the 2016 elections, although it had lost the support of nearly 400 000 voters (Baboš and Malová, 2017).

These turbulent political circumstances have implications for the analysis of the Semester influence on policy change. It is reasonable to assume that the ideological heterogeneity of the Radičová government (2010-12) could act as a political constrain particularly in controversial policy issues in which coalition partners had divergent ideological standings. Disputes between coalition partners could reflect negatively on the reform momentum and pace of reforms. On the other hand, the Fico II government enjoyed a comfortable majority in the parliament until 2016, thus allowing Smer leader R. Fico to act unconstrained by party political considerations.

Table 5. 1 Government composition in Slovakia (2006 -)

Government	Coalition	Prime minister	From - Until
Fico I	Smer-SD/SNS/L'S-HZDS	Fico, Robert	July 2006 - July 2010
Radičová I	SDKU-DS/SaS/KDH/Most-Hid	Radičová, Iveta	July 2010 - April 2012
Fico II	Smer-SD	Fico, Robert	April 2012 - March 2016
Fico III	Smer-SD/SNS/Most-Hid/Network	Fico, Robert	March 2016 - March 2018
Pellegrini I	Smer-SD/Most-Hid/SNS	Pellegrini, Peter	March 2018 - in power

Note: Party acronyms: Smer-SD – Direction-Social Democracy (socialists); SDKU-DS – Slovak Democratic and Christian Union-Democratic Party (centre-right); SNS – Slovak National Party (right-wing); Most-Hid – Bridge (centre-right), L'S-HZDS - People's Party - Movement for a Democratic Slovakia (centre); SaS – Freedom and Solidarity (centre-right); KDH – Christian Democratic Movement (centre-right); Network – Slovak Conservative Party (centre-right).

5.1.2 Slovakia's relations with the EU: A pragmatic actor committed to European integration

The Mečiar period created serious tensions with the EU. While Mečiar was rhetorically committed to a European path of his country, his domestic actions proved however damaging for Slovakia's prospects of joining the EU and made Slovakia by the end of the 1990s the 'odd man out' (Henderson, 2002: 94). Following the break-up of the Mečiar regime and the U-turn in EU relations since the 1998 elections, Slovakia has traditionally remained pro-European and pro-integration (Auer, 2014). This concerns both the support of political elites and ordinary citizens.

When it comes to citizens, the EU has enjoyed fairly stable support in the Slovak population over time. In the regular Eurobarometer polls, Slovak citizens persistently (2010 –

2017) reach some of the highest scores compared to other CEE countries and the EU-average in levels of attachment to the EU⁵², perception of benefit from EU membership⁵³ and support for EMU and euro⁵⁴. These forms of support can be explained by the place the EU takes in the Slovak identity as a ‘safe harbour for a small, vulnerable country’ in which Slovakia can strive for ‘economic, political and living standards’ better than outside of the EU (Malová and Dolný, 2016: 303). The EU played an important role in the democratic and economic anchoring of Slovakia within the European club, and citizens have recognized the EU as a symbol of prosperity.

In the political sphere, since the early 2000s Euroscepticism has become more an exception than a rule. A consensus has emerged among mainstream political parties that EU accession is a good thing for Slovakia (Deegan-Krause, 2012: 264-5). Some parties on the fringe of the political spectrum such as SNS have kept Eurosceptic stances, but the political mainstream does not question Slovakia’s role and membership in the EU. During the Dzurinda and Fico I governments, Slovakia demonstrated considerable adherence to European integration by joining the EU, the Schengen area and the Eurozone as the only country of the Višegrad Group, leaving the impression of a ‘good pupil’ (Bilčík, 2017: 64).

However, Europe’s crises repeatedly put Slovakia’s commitment to EU integration to a serious test. Issues such as the Eurozone crisis and the refugee crisis demonstrated that support for EU integration is selective and contingent on strategic calculus and domestic political interests (Malová and Dolný, 2016: 301-2). The second Greek bailout and the revision of the EFSF have particularly exposed the limits of Slovakia’s EU socialization. The Radičová government was of the opinion that Slovakia as a small country which abides by EU fiscal rules should not be responsible for bailing out irresponsible bigger countries (Auer, 2014: 330).

⁵² <http://ec.europa.eu/commfrontoffice/publicopinion/index.cfm/Chart/getChart/themeKy/26/groupKy/314> (Accessed: 16 May 2019).

⁵³ <http://ec.europa.eu/commfrontoffice/publicopinion/index.cfm/Chart/getChart/themeKy/4/groupKy/4> (Accessed: 16 May 2019).

⁵⁴ <http://ec.europa.eu/commfrontoffice/publicopinion/index.cfm/Chart/getChart/themeKy/29/groupKy/183> (Accessed: 16 May 2019).

Once back in power since 2012, Fico promised to uphold targets of the SGP as Slovakia went through the EDP and welcomed deeper integration of EMU (Malová and Dolný, 2016). In sharp contrast to rational compliance with strict Eurozone rules, Fico was less willing to subscribe to supranational solutions to the refugee crisis such as the mandatory relocation quotas proposed by the Commission and developed an Islamophobic narrative amidst the 2016 parliamentary elections (Henderson, 2017: 233; Kissová, 2017: 761). However, during the Slovak Presidency of the Council in 2016, Fico acted as a ‘honest broker’ by proposing the principle of ‘effective solidarity’ in dealing with the migration crisis (Bilčík, 2017: 70). According to Baboš and Malová (2016: 235), the selective attachment to European rules and norms in the EFSF dispute, the Eurozone crisis and the refugee crisis ‘indicates a superficial and instrumental understanding of European rules and norms in Slovakia’. In addition, Henderson (2017) and Malová and Dolný (2016) argue that EU funds constitute the main strategic reason of attachment to the EU. EU funds were responsible for 75 to 86 % of all public investment in Slovakia by 2016 (Henderson, 2017: 231). It is therefore reasonable to think that Slovakia has a material incentive to comply with requirements of sound economic governance.

To sum up, the latest period saw Fico catering to the domestic public by portraying himself as the protector of Slovak national interests on the one side, and to European elites on the other as he was demonstrating sustained support for deeper economic and monetary integration. Mainstream parties in Slovakia and the Fico government have never openly questioned Slovakia’s membership in the EU or European integration as such. As a general rule Slovakia aspires to be a constructive member of the EU core and remains committed to deeper EU integration and economic coordination. This should translate into adherence to Semester initiatives, however only selectively, to the extent that they fit the government’s strategic consideration of domestic costs and benefits or to the extent that they are followed by tangible material incentives. Generally, favourable attitude of the public towards the EU should make Slovakia more receptive to suggestions or even requests from the Commission. Also, the positive public sentiment towards

the EU enables Slovak governments to use the Semester as a reference point to legitimize policy action. On the other hand, great reliance on EU funding as a source of public investment creates a relationship of dependence in which in the Slovak case the costs of forgoing funding in allocated areas would be immense.

5.2 Economic, social and employment policies in Slovakia

Slovak employment and labour market policies are marked by two divergent patterns. On the one hand, Slovakia has witnessed a gradual shift towards an ever more workfare-centred logic in the provision of ALMP measures and income support, whereas on the other hand employment and unemployment protection lived through periods of restrictions and expansions depending on whether the right-wing or left-wing option was in government. Notwithstanding these differences, employment policies follow a common thread. Namely, their provision was always secondary compared to the objective of sound public finance which is taking precedence over employment policies in periods of austerity. As Domonkos (2016: 5) writes, the fact that Slovakia had to implement austerity measures to meet requirements under the EDP did not significantly change the context, but has solidified the existing course of fiscal consolidation from the 2000s:

‘While EU-led austerity may have played a role, it rather prolonged and reinforced the existing tendency towards increasingly strict punitive measures, underfinanced ALMPs and cuts affecting the capacity of public institutions to provide material and nonmaterial help to jobseekers’.

Traditionally, Slovak ALMPs favour activation of people through direct creation of public works or with incentives (subsidies) to employees to offer work to disadvantaged groups, whilst training-based measures are not too widespread (Domonkos, 2018: 242). Changes in ALMPs remained incremental over the years and did not drastically shift the balance of measures favoured by successive governments. Since the 90s, Slovakia has been promoting the understanding of activation policies as a conditionality to receiving unemployment benefits. Entitlements were not

unconditional but had to be ‘earned’ by participation in activation measures or would otherwise result in loss of benefits (Sirovátka, 2008: 11). A further important step into enforced activation was made during the right-wing Dzurinda II government (2002-2006) which initiated a radical labour market reform and deployed an even more pronounced punitive activation strategy. The activation requirement was extended to social assistance recipients whose social benefits were partially replaced by an activation allowance to be distributed after completing so-called activation works of 64 to 80 hours a month (Domonkos, 2016: 19, Sirovátka, 2008). Activation works or ‘small municipal works’ were installed in 2004 as part of a large-scale public works scheme, which at its beginnings covered almost 88 % of all ALMP beneficiaries and ate up nearly half (48 %) of all ALMP funds. It remains, although on a smaller scale, the key ALMP in Slovakia to this date (European Commission, 2013e: 60). It targets long-term unemployed who receive social assistance (a so-called ‘benefit in material need’) for the duration of maximum 12 months⁵⁵. Other more human-resource oriented measures have secondary status as the Slovak PES lacks resources for individualized support for jobseekers and training and upskilling measures remain underfinanced and of poor quality (Grill, 2018; Dhéret and Roden, 2016; Sirovátka 2008).

Unemployment and employment protection are areas which display greater cross-party ideological tensions between policy objectives such as workers’ protection, on the one hand, and the flexibilization of work and costs for employers, on the other hand. Whilst the period of the 1990s and early 2000s was a period of ‘cuts in the entitlement period and the tightening of eligibility criteria’ and imposition of a job search requirement (Domonkos, 2016: 12), the Smer-led governments introduced more generous unemployment benefits and the inclusion of precarious (atypical) workers in the coverage of unemployment benefits (ibid.). Despite these incremental back-and-forth changes, Slovakia has the strictest unemployment benefit system in the EU, the lowest replacement rates and shortest coverage period (6 months) (European Commission, 2018c;

⁵⁵ The scheme is implemented by local labour offices and municipalities which have the responsibility to organize and discretion to choose candidates in public works, which creates the risk of political patronage and misuse (European Commission, 2013e: 70).

Kahanec and Sedláková, 2016). Employment protection legislation follows a similar pattern of changes in power being followed by moderate shifts in policy direction. Pervasive liberalization of the Labour Code⁵⁶ initiated during the centre-right Dzurinda II government broke with the period of worker-friendly labour legislation during socialism. Employees could not, in case of losing their job, accumulate notice-period and severance payments. With the change in government, the Fico I government reinstated the accumulation of severance and notice-period payments in 2007⁵⁷. The ping-pong game of flexibilization and de-flexibilization of employment protection continued with the Radičová and Fico II governments, as the former further restricted the severance pay period while the latter annulled these decisions again.

A coherent regime or welfare state tradition is less evident in the case of Slovak social policy. In the area of social assistance, up until today, Slovakia stubbornly applied the liberal workfare principle which prioritizes employment through activation. Meagre unemployment and social benefits are in line with an Anglo-Saxon tradition of labour market policies. Concerning family policy, a ‘gendered familialist approach’ applies. Leave and childcare policies in Slovakia have motivated women to stay on long leave of up to 3 years with substantial financial compensation. The model explicitly discourages women to re-enter the labour market but to rather take care of children (Michoń, 2015). Evidence from international surveys suggests that traditional gender roles of the ‘male-breadwinner’ and ‘female-caretaker’ are deeply rooted in CEE (incl. Slovakia) and are being spilled into conservative policy (ibid.). On the other hand, Slovakia inherited a Bismarckian tradition of social security linking workers’ protection to their contributions (Szikra and Tomka, 2009). Under socialism, a universalist principle of social security existed, which was manifested through the compulsory employment requirement, on the basis of

⁵⁶ The changes eased the limitations on overtime work from 150 to 400 hours a year, relaxed the process of firing, relocating and hiring people and fixed-term contracts and other flexible forms of employment could be used more freely (Pula, 2018: 11).

⁵⁷ Yet, it was not a period of complete deliberalization of the labour market as the government introduced flexible accounts of worktime (*flexikonto*) and short-work in 2009 in order to prevent dismissals in the crisis-ridden automotive industry (Kahancová, 2013: 176).

which social transfers could be provided (ibid.). Because of these differences in the Slovak welfare system, Slovakia cannot be placed in any of the traditional categories of welfare state. Slovakia's welfare mix reflects a distinct post-socialist trajectory and constitutes a post-socialist welfare regime (Domonkos, 2016; Szikra and Tomka, 2009), similar to Hungary and Croatia.

The overview of economic, employment and social developments in Slovakia shows that areas such as fiscal discipline, ALMPs, activation of social assistance recipients and family policy find common ground across party lines and successive governments. Divergence from the long-lasting policy trajectories proves difficult and therefore any Semester initiatives which would challenge the traditional policy logic and underlying rationale of these areas might be futile. Mutual learning activities on these issues have a much lesser chance of success in instances when the ideological and policy position is fixed. Conversely, the field of employment protection and unemployment benefits show that the Radičová and Fico governments might have different ideological standpoints regarding Semester items, indicating that ideology would play an important role in how the government reacts to incentives from the Semester.

5.3 European Semester governance in Slovakia

5.3.1 The process of national coordination of the European Semester in Slovakia

Slovakia responded to the creation of the Semester by creating new governmental coordination structures to prepare for the different stages of the Semester, from drafting the NRP to assessing the extent to which actions have been put in place to reach the CSRs. Since 2011, the Ministry of Finance has been the central coordinating body both for the Europe 2020 strategy and the Semester (GRSK, 2011: 6). The Ministry of Finance and the prime minister's Office consult other ministries dealing with socio-economic policies during the course of preparation and implementation of the NRP (MFSK, 2015: 53). This takes place in the form of inter-ministerial coordination at the ministerial level, but also between state secretaries at working group level who coordinate the preparation of the NRP (GRSK, 2013: 58).

For employment issues, EMCO members distribute the draft version of the NRP to related sections and departments for comments, which is then sent back to the Ministry of Finance (SK2A). Therefore, the process is more top-down as the Ministry of Finance is the penholder. Formally, the process of preference formation on the NRP is open to consultation for civil society, social partners, academia, other stakeholders and the wider public through an online inter-ministerial review procedure which is commonly used for consultations on legislative proposals as well (ibid.). National authorities have been criticized for how short the consultations are open to the public, leaving very little time for substantive commenting (SK2A).

No dedicated mechanisms of national coordination of the Semester with stakeholders has been developed, however the most important socio-economic issues from the NRP which are of wider societal interest are discussed in the Solidarity and Development Council which convenes a broad spectre of stakeholders including social partners, civil society, expert, church etc. Economic, social and regional actors are involved informally in the national semester through dissemination platforms such as seminars and conferences (GRSK, 2011: 6) rather than in any structured and systematic form. The government is in complete control of drafting the NRP, whereas individual legislative proposals foreseen in the NRP become subject to consultation as part of the ordinary process of online consultations with the public, tripartite and multipartite council meetings and formulation in dedicated working groups.

5.3.2 Slovakia in the Employment Committee and relations with DG EMPL

Slovak EMCO members evaluate the discussions in EMCO on average as quite balanced and the atmosphere as friendly (SK1A, SK2A). Although meetings regarding CSRs, thematic reviews and country examinations can be extended, the imposed time restrictions can stifle deliberation according to interviewees (SK1A, SK2A). EMCO meetings as such are considered to be very formal events in which, in the Slovak case, EMCO members have a strict mandate on the country position regarding the Commission's proposal for CSRs, thereby leaving no possibility to Slovak

EMCO members to express their personal views or concerns regarding the CSRs or to ‘fight for the wording like some other members do, such as Dutch, French, German or Swedish members’ (SK1A). Although the Slovak position is coordinated with sections and departments within the Ministry of Labour, Social Affairs and Family and EMCO members do provide inputs, the Ministry of Finance is in the driving seat regarding the final position which has to be observed in contacts with EU institutions.

EMCO members report on the outcomes of EMCO meetings on a horizontal basis with relevant departments and the general director for the section of labour, whereas direct contacts with the level of state secretary do not exist (SK1A, SK2A). This means there are no formal direct lines of vertical communication on the outcomes of peer reviews and debates within EMCO with relevant political actors and policymakers. When politically salient issues are discussed in EMCO, officials from the Slovak Permanent Representation take part in the debate to ask for support from other members on issues of disagreement with the Commission (SK1F). However, such situations are rare as for Slovakia there is usually agreement between the Commission and Slovakia on the challenges in the employment field (SK1F). If there is disagreement, the Commission insists that the country provides more evidence to support their claims, which is difficult to achieve as the Commission insists heavily on data and evidence gathered in the preparatory fact-finding missions (SK1B, SK2F). Once the CSRs reach EPSCO council level, changes to the text are exceptionally rare and the ministerial level does not engage in substantive deliberation which confirms that the Commission’s proposals are rarely challenged unless there is hard evidence that justifies an EPSCO intervention, in case of which the Member State must prepare the diplomatic ground to garner support (SK2F).

Apart from the process of multilateral surveillance, EMCO members participate in the coordination of the comment procedure on the draft Country Reports prepared by Commission staff and in sectoral fact-finding missions, which serve the purpose of scanning progress on reforms and identifying policy problems for the upcoming Country Report (SK1H). Informal

bilateral contacts between the Commission and national authorities on the Country Report are appreciated as a useful tool to create mutual agreement on the policy analysis behind Commission's recommendations (SK1F). Slovak representatives in the Permanent Representation agreed that this innovation within the Semester and more time that was created between the release of Semester document are generally beneficial for reaching consensus on policy problems and actions that are needed:

‘...there is much more time for negotiations, bilateral meetings, for getting or giving comments to the Commission now. These contacts are much more valuable and also the ownership in the Member State therefore becomes much stronger.’ (SK2F).

In the opinion of the Slovak ESO, fact-finding missions are ‘the highlight of discussions’ between the Commission and Member States as they open the floor for discussing existing policy challenges and implementation of measures with relevant authorities and stakeholders (SK1H). In the Slovak case this is further stimulated by the particular working method between Slovak desk officers at DG EMPL and civil servants in the labour ministry:

‘The practice is that we send questions in advance, then we receive the more general answers so that you can use the meeting time to go deeper into the things they suggest or something you wish more clarification on.’ (SK2B).

Desk officers consider fact-finding missions to be particularly helpful in building national ownership of the analytical basis of the Country Report as they give the chance to authorities and stakeholders to make their case and provide new evidence. However, openness and frankness in debating can at times be subdued by the big size of the meetings or the presence of political functionaries as they add an additional layer of formality (SK1B).

5.3.3 Involvement of social partners and the Slovak parliament

Although tripartite institutions in Slovakia are formally stable and well developed (European Commission, 2018c), the involvement of social partners in policymaking does not mirror a strong

neocorporatist tradition (Kahancová, 2013). The strength of social partners and trade unions in particular is contingent on political cycles and governments' interests or goodwill to seek societal consensus over social and employment issues (Kahancová, 2013: 177). Slovak political elites do not shy away from unilateral decisions whenever there is disagreement between social partners or when disputes remain unresolved (European Commission, 2016c: 25, see also: Bohle and Greskovits, 2010) which confirms that policy consultations in Slovakia remain 'only a formal and effectively empty mechanism' (Rybár, 2011: 163).

Operating in this context, social partners' engagement with the Semester can be considered modest at best. Besides the possibility to participate in the online inter-ministerial procedure on the Semester, the final version of the NRP is discussed in the tripartite format of the Economic and Social Council. As attested by interviewees, the schedule for preparing comments are tight and social partners have limited time to engage in detail with the content of the NRP. The extent to which amendments are taken on board by the government is partial although comments are generally non-specific and generic (SK2E, see also: Eurofound, 2018: 13). More importantly, however, social partners face capacity constraints (time and expertise) for which they find it more useful to concentrate work on specific legislative initiatives which are of higher priority to them, than on the Semester process and NRPs which are not legislative acts (SK1C, SK1E; EMCO, 2018). Social partners neither internalized the importance of the Semester for setting policy priorities and agenda setting of structural reforms nor are they offered a chance to play a more substantive role in the drafting of the NRP. Social partners are, on the other hand, increasingly involved in the EU-level discussions with the Commission and EU-level umbrella organizations regarding Semester topics (SK1E, SK2E).

As for parliamentary involvement, the Slovak parliament generally has a minor say over European affairs and does not have strong parliamentary scrutiny mechanisms to make the government accountable for its actions. Likewise, parliamentary actors have no proactive role in the drafting of the NRP for Slovakia (SK1G). The European Affair Committee is consulted by

the Government on the NRP only once the programme is adopted by the government which limits the possibility to have any substantial influence on the content as described by one member of the European Affairs Committee: ‘Since the NRP is already finalized and approved by the Government, the committee cannot have substantial inputs.’ (SK1G). The NRP is then approved in the plenary which is usually a formal exercise of no particular importance.

To sum up, the involvement of social partners and parliamentary actors in the preparation of Semester priorities boils down to an information provision exercise with no possibility of engaging in serious debate on substantial issues. This has negative consequences for their degree of ownership of Semester reforms. On the other hand, limitations in their expertise and low influence squeeze out the possibility to instrumentalize CSRs or the Country Report as a reference point in domestic policy debates and in formulating policy positions (SK1E; Kahanec and Sedláková, 2016: 22). Accordingly, they are not expected to act as policy entrepreneurs in pushing for Semester policies.

5.4 Slovakia’s employment issues, reforms and the influence of the European Semester

Scholars (i.e. Zeman, 2018), the Slovak governments (GRSK, 2010), and the Commission (2011b) consider the problem of high unemployment as the biggest structural challenge to the Slovak economy in the crisis and post-crisis period. Slovakia brought public finances relatively swiftly into order and recovered comparatively well. However, unemployment, especially structural, non-cyclical unemployment continues to plague the country for almost a decade and is the country’s weak spot both in comparison to the EU-average and the Višegrad countries. Compared to the pre-crisis 2008, the registered unemployment rate almost doubled to peak at 14.1 % (Petrušová et al., 2018: 22). Slovakia was a laggard in terms of unemployment and long-term unemployment figures even before the crisis, however the economic recession which hit the export-oriented businesses led to a loss of more than 140 000 workers (Zeman, 2018: 3). The economic structure

made the country vulnerable to external shocks and dependent on export markets especially in the manufacturing sector (automotive industry in particular) (ibid.). Once the country has recovered economically, this growth was not reflected in employment rates as it derived from less labour-intensive sectors (Hvozdíková and Studená, 2016: 10).

While the country was praised for efforts in fiscal consolidation, labour market problems have been the central preoccupation of the Commission in the Semester process in the post-crisis period until 2014-15. However, it was only after the EDP procedure was closed for Slovakia in 2014 that the Slovak government under Fico made issues of the labour market the key topic of policy action. Until 2014, from the government's perspective, the consolidation of public finances was number one priority, which is why employment policies suffered during that period and employment goals were subdued to the objective of a balanced fiscal position of the country:

‘After the current successful consolidation of public finance, employment represents the biggest challenge of the economic policy; it is therefore the key topic of the NRP 2014.’ (GRSK, 2014: 5).

The labour market started recovering in 2014 with the manufacturing sector driving employment growth and decrease in long-term unemployed constituted the main driving factor in the unemployment fall (Hvozdíková and Studená, 2016: 12-6). In 2016, Slovakia reached the lowest unemployment rate since the outbreak of the crisis in 2008 with a rate of 9 % (MFSK, 2017). A year later, the country recorded the lowest unemployment rate in the history with 7.7 % of unemployed (MFSK, 2018). Although some positive signs of general recovery on the labour market were recorded recently, this general improvement did not spill over into structural unemployment (European Commission, 2016c) and the labour market outcomes of specific target groups and sectors still pose challenges (European Commission, 2018c). The newest challenge comes in the form of labour shortages mostly in the IT and manufacturing sectors which inhibits further economic growth (European Commission, 2017c: 6) and for which the government had to additionally liberalize work permits for foreigners (European Commission, 2018c: 22). The

long-term unemployment rate, even though on the fall is still the highest in the entire EU at 4.9 % and constituted 44 % in total unemployment. The prospects for low-skilled are still grim compared to medium- and high-skilled (ibid., p. 22). Employment rates have picked up substantially but are still lowest in the EU at 35.9 % (ibid., p. 22). The unemployment rate of low-skilled youth is still very high at 46.5 % compared to EU-average of 26.5 % (ibid., p. 24). Furthermore, employment rates for women remain substantially lower than for man, recording 14.6 pp lower rates at 62.3 % (ibid., p. 24).

Successive governments largely acknowledged what the problems are and agreed with the Commission's assessment especially on the issues of low-skilled and long-term unemployed (MFSK, 2016: 6). The Commission's (2016c) expressed concerns that limited progress was achieved up until 2016 on the position of unemployed despite the fact that tackling unemployment was proclaimed the single-most important issue for the Slovak government. The question is then which policy measures were put in place to address policy problems raised within the Semester and to what extent can policy changes be attributed to the influence of the Semester.

The Semester addressed several labour market issues. Eight issues stand out in particular which have been translated into CSRs: the issue of underdeveloped ALMPs for disadvantaged groups, lack of capacity in PES to offer quality individualized services to jobseekers, long-term unemployment, the high tax burden on low-income earners, limitations to women's participation on the labour market, youth unemployment, low retirement age, and the role of social assistance in motivating job take-up.

First, the Commission criticized the Slovak system of ALMPs for their underdevelopment – both in terms of efficiency of bringing people back to work, and the underfinancing of measures compared to other countries which is also reflected on the lack of monitoring and evaluation mechanisms (European Commission, 2011b: 10). This is especially important for disadvantaged groups such as youth, women, low-skilled, Roma, long-term unemployed and older workers for which there is lack of individualized services. This problem is reflected also in the limited capacities

(staffing and expertise) of public employment services to create targeted, tailored and individualized services to help jobseekers find jobs. Long-term unemployed are a particularly sensitive category due to the fact that in 2013 almost two thirds of all unemployed were without a job for more than one year (Domonkos, 2016: 9). Another issue is the tax wedge on workers with low salaries. The high tax burden comes from comparatively high social security contributions which stand at 24 % of labour costs in Slovakia compared to 14.3 % of the OECD average (Zeman, 2018: 5). When it comes to women's participation, the Commission identified 'the shortage of good quality, affordable early childhood education and care' as the biggest obstacle to better integration in the labour market of women with children (European Commission, 2013d: 4) which are incentivized to stay home due to long parental leaves and generous childcare benefits (Kahanec and Sedláková, 2016: 11). With regards to youth unemployment, the situation is particularly dire, especially for long-term unemployed youth. The Commission had asked for a reform of the VET system to improve labour matching, but also proposed to introduce targeted measures for youth (European Commission, 2013d: 23). In the early days of the Semester, the Commission was worried about the long-term financial sustainability of the pension system for which it found could be improved by, among other measures, linking retirement age to life expectancy (European Commission, 2012c). Finally, the benefit system in Slovakia did not incentivize long-term unemployed and low-skilled to take on jobs (European Commission, 2013d: 22).

Table 5.2. gives an overview of employment-related CSRs which were issued by the Council for Slovakia in the period between 2011 and 2017. A number of interesting observations can be made regarding the content of these CSRs. The first observation is related to the Commission's assessment of largely limited progress in addressing CSRs in the period of the worst employment situation in Slovakia (2011-15). This period has at the same time seen the greatest analytical focus by the Commission on employment both in the amount and intensity of CSRs. Although there seems to be widespread convergence between EU and national administrations on

the perceived challenges and priorities in employment policy (SK1A, SK2F), it is noteworthy that no component of employment CSRs has been fully implemented thus far in the framework of the Semester, except of the reform in the pension system which linked retirement age to life expectancy. This should not be read only as an indication of inaction on the Slovak side, but speaks to the character of reforms proposed by the Commission. As most issues pop-up repeatedly in the CSRs over the course of 5 and more years, it is evident that problems such as capacity of PES, provision of childcare facilities, improvements in the design of activation measures or the implementation of the dual system of secondary education are recurring problems (SK1B) and have a long-term character which the Commission readily acknowledges (SK1H). As quick fixes are rarely possible, the same recommendations stretch out over time, which nonetheless makes them analytically interesting for observing policy developments.

One general impression by the Slovak country desk at the Commission, which can be traced in individual issues, was that there was policy action on most issues, however what is missing are 'long-term tangible structural changes' (SK2B). The first cycle of the Semester was particularly unsuccessful for Slovakia as it went through a domestic political crisis regarding the EFSF which put a halt on policy reforms. This was reflected in a rather unambitious NRP of 2012 prepared by the Radičová administration and submitted by the Fico government, which was criticized by the Commission for 'not (being) sufficiently underpinned by clear and detailed measures to achieve commitments' (European Commission, 2012c: 5). Therefore, the early exercise suffered from the political paralysis.

A second noteworthy observation concerns the very prescriptive and detailed nature of Slovak CSRs. While there are some generic recommendations which leave plenty of room for national, domestically crafted solutions such as with increasing the capacity of PES, most of the CSRs are clearly directed, if not ideologically painted, and prescribe a concrete 'medicine' to be implemented. This is the case for instance with the request to provide more and better childcare options for women with children or the recommendation to strengthen the link between social

assistance and activation requirements. However, the Commission draws on multiple paradigms, not just strictly economically oriented and workfare-centred solutions. It gives equal weight to the importance of social investment through re-skilling and lifelong learning opportunities and social inclusion of disadvantaged groups on the labour market such as Roma, youth, elderly, long-term unemployed and low-skilled.

Another interesting observation concerns the linkage between employment CSRs and the SGP and MIP procedures. In the Slovak case, only one (although indirectly) employment-related issue was subsumed under the EDP procedure, whereas no other employment issue has ever featured under either SGP or MIP as Slovakia never experienced macroeconomic imbalances which would put the country under specific monitoring. This takes a large source of pressure to reform out of the equation.

One final observation concerns the importance of the link between ESF programming for the period 2014-20 and CSRs in the Slovak case. It appears that around 90 % of all ESF allocations for that period were CSR-relevant and are based on the assessments made within the Semester, meaning that 'Slovakia's ESIF programmes are strongly focused on priorities and challenges identified in the context of the European Semester' (European Commission, 2016c: 11). According to a Commission official, the Commission stressed the importance of allocating adequate financial resources to CSR-relevant priorities during negotiations with Slovak authorities on the programming of the Operational Programme Human Resources and insisted on policy coherence (SK1H). As a consequence, the three priority axes of the operational programme focus on improvements in labour market relevance of secondary education, lifelong learning, the Youth Employment Initiative as a separate axis with an allocation of 194 million euros and disadvantaged groups, childcare provision and modernization of PES in the employment axis. On the other hand, ex-ante conditionalities have not proven important or influential in the Slovak case. Three conditions had to be fulfilled: to deliver personalized, active and preventive ALMP measures; to modernize PES offices so they can deliver the ALMPs and to introduce a strategic policy

framework for youth employment (MoLSAF, 2014). Of the three employment-related conditionalities, only one (Youth Guarantee Implementation Plan) was satisfied until 2018, whereas for the other two no action plan has been submitted. However, there were no sanctions for Slovakia in terms of funding suspension even though they are formally foreseen in such instances. Ex-ante conditionalities have therefore not served as an incentive to improve the capacity of PES to offer personalized and early-stage services.

Table 5. 2 Overview of country-specific recommendations in Slovakia (2011 – 2017)

Year	(Component of) Country-specific recommendation	Commission assessment of progress
2011	Link retirement age to life expectancy ^a	Partly implemented
	Reduce tax wedge on low income earners	Not implemented
	Increase administrative capacity of PES	Not implemented
	Improve design, implementation and monitoring of ALMPs	Not implemented
	Speed up VET reform to improve labour market relevance	No progress
	Encourage participation of low-skilled in life-long learning	No progress
2012	Link retirement age to life expectancy	Implemented
	Ensure administrative capacity of PES	No progress
	Offer individualized services to youth, LTU, women and old	Insufficient progress
	Reduce tax wedge on low income	Insufficient progress
	Ensure childcare facilities	Insufficient progress
	Adopt and implement Youth Action Plan and apprenticeships	Partly implemented
2013	Ensure labour market reintegration of adults through training	Limited progress
	Enhance capacity of PES for personalized services	Limited progress
	Strengthen link between social assistance and activation	Limited progress
	Address LTU through active measures and training	Limited progress
	Enhance provision for childcare	No progress
	Reduce tax wedge for low-income workers	Some progress
	Implement Youth Guarantee	Limited progress
	Reinforce work-based learning in VET	Limited progress
2014	Introduce professionally oriented bachelor programmes	Limited progress
	Address LTU through activation, education and training	Limited progress
	Strengthen link between activation and social assistance	Some progress
	Enhance capacity of PES to offer individualized services	Limited progress
	Implement Youth Guarantee	Some progress
	Enhance child-care facilities for women participation	Limited progress
	Reinforce work-based learning in VET	Some progress
2015	Introduce professionally oriented bachelor programmes	Limited progress
	Address LTU through activation, education and training	Limited progress
2016	Improve provision of childcare to foster women's participation	Some progress
	Activation for LTU and disadvantaged groups w/individualized services and training	Some progress
2017 ^b	Facilitate employment of women with childcare facilities provision	Some progress
	Activation, upskilling and individualized services of disadvantaged	Some progress
	Implement the action plan for LTU	Some progress
	Foster employment of women with affordable quality childcare	Some progress

^a CSR was linked to the SGP's Excessive Deficit Procedure. ^b CSRs for year 2018 are the same as for year 2017.

Source: European Commission (2012a, 2013a, 2014a, 2015a, 2016a, 2017a, 2018a), Council (2011b, 2012c, 2013d, 2014c, 2015c, 2016c, 2017c, 2018b).

Interestingly, both the Radičová and the Fico governments made some policy interventions in the area of employment protection even though the Commission did not consider this area to be problematic and no recommendations have been made on the flexibility of employment protection. The Radičová government, as was previously described, increased the flexibility of employment protection with the explicit aim of reducing ‘employer costs and administrative burdens’ of firing and hiring workers (GRSK, 2010: 18). Although the Commission acknowledged that ‘flexibility can support the creation of new jobs’, it also made the remark that ‘excessive rigidity’ is not a real problem in the Slovak labour market (European Commission, 2011b: 10). The Fico government, on the contrary, was quick to revert these provisions and strengthened employer protection in the Labour Code in two waves. First, to reinstall the accumulation of severance pay and notice period and increase the severance pay quickly after coming to power in 2012, and then in 2018 by increasing the minimum bonus for night work and work during holidays and weekends and second, by introducing the right to be informed of the wage level during job offers (MFSK, 2018: 15). Domonkos (2018) argues that domestic politics and ideological differences between the left and the right can explain both courses of action, rather than compliance with the EDP or inspiration from the EU. It is evident from the Commission’s assessment of Slovakia’s NRP in 2011 that nothing similar was hinted to Slovakia.

The following paragraphs will briefly take a look at the individual Slovak employment CSRs to assess the Semester's role in their policy development, followed by two dedicated and detailed sections on one recommendation which received positive remarks from the Commission for significant progress (long-term unemployment) and one recommendation in which not much progress was recorded (Youth Guarantee).

Retirement age and life expectancy

In 2011 and 2012, the Commission asked the government to link retirement age to life expectancy as part of the overall pension reform in Slovakia which was entirely motivated by the need to

ensure long-term financial sustainability of the pension system. At the same time, this was the only CSR to Slovakia which was SGP-related and as such was relevant for assessments of compliance with the EDP that was opened at that time. The Radičová government introduced an automatic provision by which the retirement age would be adjusted to life expectancy calculations with the explicit purpose of ‘stabilizing financial flows in the long-run’ (GRSK, 2012: 19). As it was previously outlined, stability of public finances was the top priority for the Radičová government. The decision to link retirement to life expectancy and the abolition of early retirement was consistent with their ideological position but was further potentiated by the fact that Slovakia found itself in the EDP which it wanted to exist as soon as possible. Compliance with this CSR was taken into account in future assessments of soundness of public finance. External pressure created by the Semester was not decisive as there is no evidence to suggest the government found the threat of sanctions within the EDP credible in the context of the pension reform.

Administrative capacity of the PES

Slovakia received a CSR on the administrative capacity of the PES to offer personalized services to disadvantaged clients four straight years in a row (2011-2014). Assessments in the Country Reports have continuously found limited progress on this item (European Commission, 2016c). The PES has historically been neglected, lacking staff and expertise and has governed activation measures in a bureaucratic fashion (Sirovátka, 2008). With the workload going up after 2010, things only got worse (Domonkos, 2018: 248). During the Radičová government, labour offices became victims to the austerity measures of cost reduction in ALMP expenses and the number of PES workers was reduced, by which the workload of individual front-line workers increased substantially (European Commission, 2012c: 16; EMCO, 2012). The Fico government opened new space for counselling services in PES by reducing ineffective ALMPs as this reduced the workload to some extent (GRSK, 2013: 13). An online guidance service was introduced, however it could not compensate for personal counselling (European Commission, 2014d: 17). Despite the

recent improvements in workload due to the internal reorganization initiated in 2014 and the establishment of a one-stop-shop principle⁵⁸, EMCO reviews concluded that the capacity to offer tailor-made services, especially for the long-term unemployed, was weak and needs strengthening (EMCO, 2016, 2018). The reform of the PES which was announced in 2014 and was to be finalized by 2020 only foresaw changes in the management of PES to increase efficiency and flexibility in using existing capacities (GRSK, 2014: 45). No substantial increase in capacity has been initiated. On the contrary, individualized support deteriorated. As of 2014, individual action plans for vulnerable groups are no longer mandatory (European Commission, 2016c: 23).

After a study conducted by the Ministry of Finance, the government finally admitted that these incremental changes have not improved the situation of front-line workers in PES compared to other countries. In reality, the individualized support has still not been applied consistently due to overload and lack of expertise at desk officer level (SK1D). Drastic improvements are however not in sight, as this is clearly not a priority area for the government. The role of the Semester has been reduced to the form of financial support for the attempted modernization in the 2014-20 OP Human Resources, which gave the government a material incentive not to waste earmarked funding. However, the funds available cannot solve the type of problems which would require substantial expenditures on the side of public finance. The Semester has not been able to bring about real change just by offering material incentives.

Activation of social assistance recipients

Regarding the activation of unemployed on social assistance, the Radičová government announced already in 2010 it would reform the system of material need by making the conditions for assistance stricter to motivate people to look for jobs (GRSK, 2010: 18). This issue was then inserted in the Semester process. The Radičová government first introduced an activation allowance in 2011 for

⁵⁸ The Fico government created a single point of contact in the PES for employment, social services and benefits (European Commission 2014: 22).

recipients of social assistance who participate in public works (European Commission, 2012c). The Fico government continued in the same direction by promising to prepare a new Act on Assistance in Material Need which would reward social assistance recipients for accepting low-paid jobs or activation measures (GRSK, 2013: 38). Eventually, the government made social assistance conditional on participation in public work in 2014 (European Commission, 2014) and in-work benefits were introduced in 2015 which has the aim to offer a financial incentive for social assistance recipients to take on jobs. They could temporarily keep their right to receive social assistance in parallel to their regular wage (European Commission, 2015c: 18; Kahanec and Sedláková, 2016: 27). There is no evidence to suggest that the Semester in any way influenced this course of action. The issue preceded the Semester cycle and was taken up by the Commission from the Slovak reform programme in 2010. Although the general preference by the Commission followed the logic of ‘making-work-pay’, this was already a principle which both the Radičová and Fico government embraced as part of the dominant workfare paradigm. While the Commission did stress the human capital dimension by pointing to the need to provide social assistance recipients with possibilities for (re-)training and education and higher levels of benefits (European Commission, 2014d), the country saw a ‘further erosion of the purchasing power of needs based allowances’ (Domonkos, 2018: 247).

Tax-wedge on low income earners

Another obstacle for unemployed which received attention by the Commission is the comparatively high tax burden on low-paid earners which disincentivizes social assistance and activation allowance recipients to accept low-paid jobs (European Commission, 2012c: 16). At first, no measures were adopted to reduce the tax burden, which was ascribed to the political gridlock in Slovakia in 2012 (EMCO, 2012). In reality, although sympathetic to the idea of reducing health insurance contributions for low-income earners to create positive incentives, the Fico government explicitly expressed concerns that such a measure would have ‘significantly negative

impact on public finances' (GRSK, 2013: 37). Instead, the government used subsidies for employers to increase their willingness to accept disadvantaged jobseekers into employment. However, this measure had no impact on the disposable income of low-paid workers. This changed in 2015 when the government, encouraged by greater fiscal leeway, amended the Act on Health Insurance to lower healthcare contributions which reduced costs for employers and created more disposable income for low-wage earners (MFSK, 2015). There is no evidence to suggest that recent changes were motivated by the CSRs. Although it might at first glance seem that these recent changes came as a reaction to the Commission's criticism (Kahanec and Sedláková, 2016: 19), budgetary constraints and fiscal considerations took precedence. With economic growth more fiscal space was created for this measure which was in any case in line with government's preferences. The measure was also in line with the overall workfare paradigm to which mainstream parties in Slovakia subscribed to, and as such constituted a continuity in policy. For these reasons the measure would have been introduced even in absence of the Commission's criticism. The tax wedge on low-paid earners is nonetheless still above EU-average (European Commission, 2016c), but the Commission has not found this topic particularly important after 2015.

Participation of women with children on the labour market

Participation of women with children on the labour market attracted considerable attention. It was a CSR for 7 consecutive years. What is seen as problematic is the fact that women with children have far worse labour market outcomes than men and women without children. Women (24-49) with children under 6 have an employment rate of 40 %, whereas men of same status have an 83 % rate (European Commission, 2015: 18). The effect of motherhood on employment prospects is high and the employment rate for women with children was 32.5 pp lower than for women without children in 2010 (European Commission, 2012c: 17). At the same time, the paid leave period is very long (36 months) and childcare facilities are of limited availability. Together, this genderizes labour market prospects. Therefore, the Commission has consistently stressed the

importance of building new childcare capacities to eliminate the effect of motherhood on employment chances. Actions in this direction have predominantly been supported by EU funding in the 2014-20 programme period. The Commission insisted on including the provision of childcare facilities and flexible working arrangements as an investment priority. Improvements have been visible but are still incremental (SK1E) and have a negligible statistical effect (European Commission, 2016c: 24). EMCO has advocated an integrated approach in alleviating the effect of motherhood on the labour market which would increase the availability of flexible working forms, reform the leave system and improve quality and access to childcare (EMCO, 2018). The take-up of flexible arrangements has nonetheless been slow and childcare provision for children under 3 years of age is 'critical'. Only 0.9 % of children under 3 have access to childcare facilities whereas the costs of childcare provision are among the highest in the EU (European Commission, 2018: 26; SK1C).

In total, it seems that the awareness among politicians and the public in Slovakia on the importance of childcare provision is weak (European Commission, 2015c: 18). As one EMCO member noted, the social investment paradigm is not deeply rooted in Slovakia, and the issue of childcare is not a real issue in the public (SK2A). Long maternal leave is part of the welfare tradition which cannot fade away easily as it is generally accepted by the public (SK1) and policymakers. Progress can to a large extent be thanked to the soft pressure created by the EU funds' relevance for achieving this specific CSR. The government was motivated to initiate improvements because of the money which was allocated for the construction of new buildings and renovation of existing ones, the expansion of nursery schools, flexible working arrangements for employers and the provision of child benefits. On the other hand, as one Slovak representative to the EU notes, this example is illustrative of the often-criticized nature of policy reforms in Slovakia which are too often project-based and not founded in strategic planning and public investment besides the EU funds (SK1F). This patchwork approach works only as long as EU funding is available. It also proves that this area is not of particular importance to policymakers. It was not on the agenda

before. The fact that the Fico government continued to increase parental leave benefits speaks to the present policy incoherence and to the fact that external pressure was responsible for the improvements.

5.5 Action plan on long-term unemployment

In the period between 2007-2017, Slovakia spent 1.1 billion euros on ALMPs, which is well below 1 % of GDP per year, and nearly half the EU average (Karasová et al., 2019: 16). The country almost completely relies on subsidy schemes to incentivize jobseekers and employers to create jobs. Training and re-training programmes are traditionally scarce, of low relevance to labour market outcomes and of small coverage (European Commission, 2018c: 25). Only 0.01 % of GDP is earmarked for building human capital and upskilling, compared to the OECD average of 0.13 % (ibid.). This is worrisome given that 33 % of jobs in Slovakia are in risk of automation (Karasová et al., 2019: 26) and lifelong learning programmes are desperately needed. However, neglect of skill-based training is consistent with the Slovak workfare tradition, and the fact that since accession to the EU the ALMPs that were predominantly financed from the ESF have not changed the balance between human capital-oriented and incentive-based measures but only substituted the source of funding (Domonkos, 2018). However, compared to some other target groups such as Roma and elderly for which no targeted set of measures was created and they remain an ‘untapped resource’ (European Commission, 2015c: 18), recent years have seen a change in treatment of long-term unemployed.

Long-term unemployment has for a long time been a pressing issue in Slovakia as most of unemployed people are at the same time long-term unemployed (for more than 12 months). As already said, Slovakia is placed well above the EU- and Eurozone-average of long-term unemployed and has one of the worst figures in the entire EU with at around 70 % of all unemployment being long-term in 2012 (Harumová, 2016; Zeman, 2018). In 2015 approximately 50 % faced an unemployment spell longer than two years (European Commission, 2015c: 6). The

Commission continuously argued that a different set of solutions was needed than what was initiated by the Slovak government. As much of the long-term unemployment can be traced back to low-skills, lack of human capital and marginalization (of Roma) (European Commission, 2011b), individualized support and training-based ALMPs would be more suited to reduce unemployment (European Commission, 2015c). The problem of individualized support has been directly linked to the limited capacity of the PES to offer such support. Instead, the Fico government had opted for activation measures which incentivize both employers to offer, and long-term unemployed jobseekers to accept jobs. In 2013, long-term unemployed could retain the activation benefit for 6 months after accepting a job and were exempt from healthcare contributions, whereas the employer was exempt from social security contributions in the next 12 months (GRSK, 2014). These measures represented a continuation in policy. They were in line with the liberal and workfare paradigm according to which employers and employees needed to be stimulated to participate in the labour market (Domonkos, 2016: 22). However, in 2016 the area of long-term unemployment (LTU) was significantly changed. An Action plan for the integration of long-term unemployed was introduced to be gradually implemented in the period 2017-20. The plan departed from the usual sporadic interventions. It introduced a comprehensive strategy supported by ESF funds which includes: the introduction of individual activation plans, individualized/personalized counselling, a profiling system of job-seekers' needs and education/requalification programmes (EMCO, 2016; MFSK, 2018; SK1H).

The creation of an action plan came as an effort of the Commission to assist Slovakia in the context of the 2016 Council recommendation on LTU (SK1H). The Commission organized a dedicated workshop which gathered Commission services and national actors to work together on sketching a comprehensive, ambitious, yet feasible action plan (ibid.). Following numerous bilateral meetings, the plan was finally approved at the ESF Monitoring Committee in 2016 and policy progress is subject to regular review as part of the ESF Monitoring Committee (SK2B). The plan is being implemented and although criticisms exist about the quality of the profiling system

and training opportunities, capacities of the PES, the lack of outreach to unregistered LTU and the quality of cooperation with employers on needs, the action plan marks a turning point in the individualized policy planning and design of activation policies.

What makes the case of the action plan on LTU so special is the degree of agreement between both national and European actors in the interview sample on the centrality of the Commission in initiating and designing the action plan (SK1F, SK1H, SK1C, SK1B, SK2B). Some interviewees were quick to acknowledge the quality of cooperation and guidance in the process: ‘The Commission was supportive throughout the process in helping us create this plan’ (SK1F). Others consider the action plan to have the potential to offer a structural change in Slovak activation policies (SK1B). In essence, however, one common observation is that the push and leadership for having the action plan discussed and realized came from the Commission. One Commission official was of the opinion only external pressure was the only effective way of getting reforms through:

‘When you look at it, it was not Slovakia who came up with this brilliant idea to create an action plan, but each and every time there needs to be pressure from the Commission which has to behave like a policeman who pushes you to do things’ (SK1H).

Another crucial aspect of the story is that the action plan garnered support from the political level in Slovakia, more specifically from the state secretary for labour which created political backing (SK1B). Commission officials were smart to co-opt the political leadership in Slovakia by offering comprehensive guidance not just in sketching out concrete measures, but also planning the monitoring and how to move from paper to action. During its presidency over the EU in 2016, Slovakia also internalized the issue of LTU (Kahanec and Sedláková, 2016: 34) which raised the political profile of the issue. Although the long-term unemployment issue has persistently troubled Slovakia, there was never real political will nor the expertise to create a comprehensive approach to the problems of this problematic target group. Strategic behaviour and leadership by the Commission was however only one piece in the puzzle which explains why

Slovakia was able to make substantive policy progress. Other elements beside the Commission's impetus in creating the action plan that were extremely important are: available ESF funding, the Council recommendation on long-term unemployed from 2016 and Commission's intensified monitoring.

The action plan did not only pay lip service to the issue of LTU but was backed up by substantial allocation of funding for implementation. In order to match the ambition of the action plan, additional resources had to be found. The Commission initiated the reallocation of funding from the employment priority axis in the OP Human Resources to channel over 100 million euros to LTU (SK1B). The repeated CSR on long-term unemployment and the policy analysis from the Country Reports served as the basis on which a reallocation was activated. This reciprocal relationship between the Semester process and the EU funding management proved to be an important link without which the plan could not have mobilized sufficient public funding to become fully operational. As a consequence, LTU measures financed from ESF are subject to special monitoring within the ESF Monitoring Committee and oblige the Slovak authorities to regularly report on results and implementation efforts. One Slovak official realizes that this can 'create certain pressure in the country to fulfil the commitments' (SK2F). The third element in the puzzle relates to the fact that in February 2016 the Council passed an EU-wide Recommendation on the integration of the long-term unemployed into the labour market (2016/C67/01). The recommendation encourages national authorities to offer personalized advice to long-term unemployed and arrange 'job-integration agreements' with them after 18 months of unemployment the latest. Given that this initiative was supported at the political level by EU labour ministers, the timing for suggesting an individual action plan for Slovakia was perfect. The Commission could build on the momentum created by the Council recommendation.

In sum, the Semester had a decisive role in inspiring the action plan on an issue which was recognized in the country as a crucial labour market deficiency a long time ago, but for which there were no sufficient capacities, financial and expert, to create a comprehensive plan with innovative,

path-breaking measures. Although the action plan is still being phased in, the Semester has inspired second-order changes in the management of LTU. The existence of a synergy between different governance modes – the Semester with the LTU recommendation, the EU funding process together with reporting obligations, and a dedicated Council recommendation on LTU, supports the argument that different processes, as long as they are mutually supportive, can create sufficient external pressure to motivate policy change. The fact that the Slovak political authorities were supportive of the Commission’s exhaustive initiative, also recognized the problem load and that policy action was extremely dependent on availability of additional resources from the ESF created the necessary conducive factors to apply the action plan.

5.6 Youth Guarantee

Youth unemployment is a constant and pressing issue in Slovakia, similarly to long-term unemployment. The crisis years left a heavy scar on young people. Youth unemployment figures reached the highest point in 2012 at 35 %, almost 11 pp higher than the EU-average (Veselkova, 2015: 8). Compared both to EU-average and the rest of the Višegrad group, Slovakia recorded the highest youth unemployment rates (Štefánik et al., 2016: 99). Unemployment weighted particularly heavily on unskilled (primary education) and less skilled young people with technical (vocational) education background. The two groups comprised up to 81 % of all unemployed youth during the crisis (EESC, 2014: 79). In 2011, the unemployment rate of recent graduates with secondary vocational education stood at 19.3 % compared to only 4.5 % for youth graduating from university. This mismatch indicated a crisis in the VET system despite the desperate need for skilled, qualified workers (Veselkova, 2015: 10). A vast number of these unexperienced youth with skills that cannot be monetized end up as long-term unemployed (Pawera and Jančíková, 2017; Štefánik et al., 2016). Low labour market outcomes for youth, and especially for those finishing technical schools in Slovakia are seen by relevant stakeholders as a consequence of the failing education system which does not equip pupils with quality skills that are needed on the labour market especially in technical

fields, the sciences and the IT-sector (EESC, 2014: 84). Besides the apparent skills mismatch, regional disparities are another important reason behind youth unemployment. The region of East Slovakia⁵⁹ which has a strong presence of Roma communities is consistently lagging behind in development and employment (Dhéret and Roden, 2016: 34). Despite improvements in youth unemployment since 2014, the skills gap is still very high and a cause for concern as low-skilled continue to occupy a significant proportion of those youth register with the PES (SK1H).

The Commission gave this problem the needed attention very early in the Semester process. The 2011 and 2012 CSRs called for more relevance of the VET system for the labour market and to adopt a Youth Action Plan which would set out the priorities of how to improve employment outlooks for youth. These recommendations were motivated by already existing and ongoing projects in Slovakia to reform the VET system and plans to pass an Action Plan. They can be seen as an attempt to additionally encourage the Fico government to go through with the reform intentions. Namely, coming to power in 2012, the Fico administration let the public know that his government recognized the problem load in youth unemployment (Veselkova, 2015: 8). In their 2012 NRP, the administration identified better education and training as the key determinant of better labour market outcomes and prioritized the reform of VET and the existing graduate practice (internship) scheme for young graduates under 26 (GRSK, 2012: 15). The government was determined and filled a request with the Commission to reallocate 70 million euros of unused EU funds to youth ALMP measures in regions most affected by youth unemployment (European Commission, 2012c). The additional money was spent on a wage subsidy scheme, which already received ESF funding for those between 25-29 in regions with highest unemployment (European Commission, 2014d). A VET reform was at the centre of the Youth Action Plan and identified better identification of needs, greater labour market relevance of school curricula and cooperation with companies as key priorities (GRSK, 2013: 15). In 2014,

⁵⁹ The NUT2 statistical region of East Slovakia consists of self-governing regions Prešov and Košice.

the Fico government also modified the design of the internship scheme ('Practical Training for Graduates') for graduates under 26 who are registered for at least a month with the PES. The scheme wanted 'its participants [to] acquire professional skills and practical experience for future employment, relevant to their respective education' (Štefánik et al., 2016: 104), but it was not considered cost effective despite the increase in employability that it created (European Commission, 2012c: 15). The modifications explicitly introduced the principle of linking the internship to an 'occupation for which the graduates were prepared' and decreased compensation for interns (GRSK, 2013: 15).

Already in the 2013 NRP, the government announced it would implement a Youth Guarantee in accordance to the Council recommendation and the CSR to Slovakia. It pledge to specifically focus 'on professional consultancy services of the labour offices, introduction of better targeted and individualised activities and, on their basis, identification of those young people who are at risk of not being able to find a job or continue in other form of education' (GRSK, 2013: 37). The Youth Guarantee Implementation Plan was adopted as an annex to the 2014 NRP in a very rudimentary fashion as an action plan with table of listed priorities and measures, rather than as a strategic document. The Youth Guarantee in Slovakia extended the eligibility for an offer of training, apprenticeships, education and jobs to young people of up to 29 years of age and focused activities in two thematic areas – integration into the labour market and early prevention and activation (GRSK, 2014). Measures supported in the first area largely reflected previous traditions and appetite for subsidized employment. The existing graduate practice was retained as a measure within the Youth Guarantee, as well as the 6-12 months subsidies for employers who offered a job to those younger than 29 without a work experience of more than 6 months. Other measures included a traineeship subsidy followed by a support if the employer decided to keep the trainee, and a self-employment subsidy (Hvozdíková and Studená, 2016: 38-9).

Therefore, a clear line of continuity can be discerned in terms of activation measures integrated into the Youth Guarantee. They included existing, combination of existing or updates

to existing ALMP measure for youth. New measures that were subsequently phased into the Youth Guarantee follow the same logic. All measures heavily relied on funding from the ESF and the YEI for regions with high unemployment. For instance, in the period 2014-15, of the total 200 million euros that were earmarked for the Youth Guarantee, only 50 million came from the state budget (ibid.).

The apprenticeship system of the reformed VET system was another important element which was integrated into the Youth Guarantee. The VET reform culminated with the new Act on Vocational Education and Training in 2015. The Youth Guarantee would support the implementation of the new act and the principle of work-based learning which featured in the CSRs for Slovakia. The new act introduced dual education in technical schools which enables private businesses to enter the education system as providers of practice and work-based training in companies. Besides these measures, the Implementation Plan introduces so-called Youth Centres and a single point of contact within public employment offices which should ensure that young people received individualized counselling and support. The second area of activity concentrated on early intervention in primary and secondary schools to inform young people about career choices and to invest in the promotion of vocational training and education.

At the mid-term review of the Youth Guarantee after 3 year, the Commission ranked Slovakia among the countries in which reforms were limited (European Commission, 2016d: 8). This assessment does not come as a surprise as it was evident from the very beginning that the design of the Slovak Youth Guarantee did not follow the contours of the Council recommendation. Already in 2014, the Commission services identified challenges to a proper delivery of the Youth Guarantee in the form of: 1. greater importance assigned to counselling services as opposed to a job, education, traineeship or apprenticeship offer within 4 months; 2. overreliance on EU funding in the programme delivery; 3. limited capacities of PES services to offer career guidance and profiling for activation measures; and 4. absence of outreach activities towards inactive NEETs (European Commission, 2014d: 18). Independent think-tanks were also

critical in pointing out that ‘some measures mentioned in the implementation programme had already been tried in the past and had not achieved good results’ (EESC, 2014: 88), and primarily singled out the graduate practice. Services were not tailored to the specific problems of low-skilled and long-term unemployed youth (European Commission, 2017c: 22). Not enough youth received a timely offer (within 4 months) and no regional specificities were taken into account during the formulation of the Youth Guarantee despite the dire conditions in East Slovakia (Dhéret and Roden, 2016: 38).

Taken together, the design of the Slovak Youth Guarantee fell short in almost all priority axes⁶⁰ recommended by the Commission. Slovakia largely failed to engage with stakeholders (social partners and youth organizations) in designing, monitoring and evaluating the Youth Guarantee. A variety of interviewees confirmed that youth organizations and social partners were not involved in designing the Youth Guarantee (SK3A, SK1D). The government did not draw on local expertise to improve the system (SK1D; EMCO, 2015) and their capacity to monitor progress within the ESF monitoring committee is limited (SK2E, SK1A, SK1D, SK3A). The process was led by the executive, despite advice coming from Brussels to involve stakeholders. Secondly, the Slovak plan was overly dependent on sources from the ESF. One interviewee which was directly in charge of the Youth Guarantee confirmed that EU funds were crucial for the sustainability of the Slovak plan (SK3A). The interviewee was also certain that Slovakia would have carried on with its own guarantee, which would not have been as ambitious in scale without access to EU money: ‘The Youth Guarantee would be launched anyway, but it would be very restricted without EU money.’ (SK3A). When it comes to measures to integrate youth on the labour market, interviewees confirmed that the Slovak plan was merely a repetition of existing measures which included cosmetic changes in the design of measures such as the graduate practice link to occupation

⁶⁰ These include cooperation with stakeholders, early intervention/prevention of NEET status, integration of young people into the labour market with ALMPs, targeted allocation of funding, continuous evaluation through mutual learning and quick implementation of the Youth Guarantee (for details, see: Cabasés Piqué et al., 2015: 690).

(SK1D). It reflected a patchwork of individual projects rather than a coherent structural reform (SK3A). Graduate practice and subsidized employment remained the building blocks of the scheme in Slovakia. Finally, the plan featured no specific actions to prevent or reach out to inactive NEETs (European Commission, 2017c).

These findings suggest that the Fico government used the Youth Guarantee to strengthen the existing youth unemployment programme, first outlined in the Youth Action Plan of 2012, which speaks to a process of ‘creative appropriation’. The government could capitalize on the fact that they had already started a national programme, which at least rhetorically, if not programmatically, fit well to the Youth Guarantee initiative. Having received a CSR to implement the Youth Guarantee, and amidst the pressure to act on youth unemployment in the crisis, integration of the Youth Guarantee into the OP Human Resources created an opportunity to use additional sources for existing measures (SK1H). Therefore, the impact of the Semester and the CSR were not substantial in terms of creating impetus for mutual learning or innovative solutions (SK1D). It empowered the Fico government to follow their ideologically preferred path of incentivizing activation.

Looking at the second important component of the Slovak Youth Guarantee, namely the VET system, a similar pattern emerges. Veselkova (2015: 3) demonstrates in her empirical analysis of the evolution of the dual system in VET that the reform was ‘driven by employers in the car producing sector, who were concerned about shortages of qualified workforce’, whereas the EU ‘acted as a facilitator of learning and a funding agency’. In her account, the Act on Vocational Education and Training of 2015 which emphasized the dimension of practical training in education, was only a culmination of a process of policy entrepreneurship primarily on behalf of employers led by Štedan Chudoba, who became deputy minister of education in 2012 after being the director of Automotive Cluster Slovakia. This was around the time when the Commission issued a CSR in which it urged Slovakia to ‘implement the youth action plan, in particular as regards the quality and labour market relevance of education and vocational training, including through

the introduction of an apprenticeship scheme' (European Commission, 2012c: 12). The first pilot projects were introduced by Automotive Cluster Slovakia already in 2002, however a legislative adjustment was needed. Keeping a long discussion short, the automotive industry was key in pushing the agenda, whereas the EU facilitated the process within the European Alliance for Apprenticeships to establish cooperation with German, Swiss and Austrian experts on their dual education model. The facilitation did not happen within the framework of multilateral surveillance, but in bilateral agreement with Germany and in a series of meetings based on a memorandum signed in 2012 (European Commission, 2014d). The ESF first financed pilot projects and then the full reform in the new financing period. It can therefore be argued that the primary impetus for reform came from domestic actors in the industry who acted as policy entrepreneurs. They were integrated into a wider transnational network and accessed the lever of power through the Ministry of Education. The policy solutions were well known before the start of the Semester. However, the Semester finally cemented the debate by raising the prospects of rewards and opening a new window of opportunity in the new financial perspective to create the much-needed financial backing for the reform. Domestic actors then successfully 'used' EU's material incentives to bring their domestic agenda to fruition.

It would be wrong to argue that the Semester only had an amplifying effect on youth unemployment policies in Slovakia. The problem of unknown exits from Youth Guarantee measures is a good example of how regular reporting obligations can create pressure to provide information, even when the monitoring system is defunct. In 2015, the status of 79.5 % of all youth who exited the Youth Guarantee programme was unknown, largely due to the failure to track their status (ECA, 2017a). In order to feed the Commission with accurate information, as one official recalls, the Ministry of Labour was pressured by the need to report on the status of NEET regularly as part of ESF monitoring, and therefore connected the databases of the Central Office of the Ministry of Labour and the social insurance agency to coordinate entries and exists to/from the system (SK3A). Consequently, the rate of unknown exists fell from nearly 80 % to 44

%.

Another official agreed: ‘...because we have to report on results within the Youth Guarantee, it can create certain pressure to fulfil the commitments made.’ (SK1F). Overall, however, the Semester influence on substantive policy change in youth unemployment policies has been limited. The process mostly served for advancing predefined policy trajectories and amplified the domestic policy mix which allowed the Slovak administration to appropriate the Youth Guarantee funding made available through the programming of the OP Human Resources. Money thus became the key enabling factor for upscaling the domestic youth policy agenda.

5.7 Conclusion

On a general note, the findings suggest that conditions for mutual learning were largely not present and could not materialize due to a weak information transmission belts between EMCO members and decision makers, but also largely to the formalistic nature of multilateral surveillance in EMCO. In terms of individual policy items, in most cases influence of the Semester was absent, or the impact was relatively marginal (Table 5.3). Reform patterns have preserved existing policy trajectories and governmental priorities, whereas external pressure was not able to trigger deeper policy change. External pressure was effective only when it was applied in a holistic and sustained manner (LTU).

On the link between retirement age and life expectancy, the reform did not follow any of the three Semester pathways of influence (external pressure, mutual learning, creative appropriation) but was fully explained by the commitment of the Radičová government to fiscal consolidation. One reason why change cannot be attributed to the Semester lies in the fact that, although this issue was closely related to Slovakia’s EDP procedure, there is no evidence to suggest Slovak authorities were bothered by formally foreseen sanctions down the line. Hence, they did not take the threat of financial penalties seriously. On the activation of social benefit recipients and the tax burden on low income earners, evidence shows that, despite alignment in the Commission’s preferred policy outcome and the government’s actions, the explanation for change

cannot be attributed to the Semester, but, first, to the cross-party attachment to the workfare paradigm in activation policies; second, to fiscal space (economic situation) and, finally, mainstream parties' commitment to making work pay. The CSR on childcare facilities circulated for 7 years, however, it did not produce significant improvements in the system. The mechanism of influence went through external incentives as the Commission increased pressure to deal with women's participation in the EU 2014-2020 programming period and drew inspiration for investment priorities from the CSRs. As the Fico government had no other option but to absorb funding, greater investment was targeted towards childcare. Yet, policy change was only incremental, the reasons for which can clearly be attributed to the dominant familialist paradigm in Slovakia which hindered greater participation of mothers on the labour market. The urgency to act was not matched with equal policy importance/weight on the Fico government's side. This research reports a similar pattern of pragmatism in regard to the PES's increase in capacities to deal with vulnerable groups of unemployed. The synergy between the Semester and the EU funds produced only a surface reform through the mechanism of external incentives, facilitated by the perceived costs of withdrawing from the earmarked funding.

Table 5. 3 Summary of the European Semester influence in Slovakia

Employment issue	Reform outcome	Explanation (mechanisms)	Facilitating (F) and inhibiting (I) factors (hypotheses)
Retirement age and life expectancy	Full reform	Alternative path: fiscal consolidation	I: Credibility of rules (H1)
Administrative capacity of PES	Surface reform	M1 - External pressure (EU funding)	F: Cost of defection I: Programmatic fit (H3)
Activation of social benefit recipients	Substantial reform	Alternative path: workfare paradigm	-
Tax burden on low-income earners	Substantial reform	Alternative path: Fiscal considerations, economic situation and workfare paradigm	-
Women's labour market participation and childcare	Incremental reform	M1 - External pressure (EU funding)	F: Cost of defection I: Policy paradigm (H2) I: Programmatic fit (H3)
Long-term unemployment	Substantial reform	M1 – External pressure (governance synergy)	F: Cost of defection
Youth Guarantee	Moderate to substantial reform	M3 – Creative appropriation	F: Policy entrepreneurs F: Prospect of rewards F: Programmatic fit

Source: Author's own compilation.

The Action plan on LTU was a success story mainly due to the fact that the Commission consistently applied pressure to proceed with the reform from start to finish. Multiple soft governance tools and additional allocations from the ESF were utilized to create a synergy effect. The coupling of policy solutions with the right political moment (Council recommendation on LTU, and the Slovak Presidency) helped, as well as the fact that cost of defection from the reform path would have been too high as the Commission's initiative created a unique opportunity to receive comprehensive technical guidance. The key difference why this instance of external pressure did work as compared to other issues described above can be traced back to the fact that there was no programmatic disagreement on the importance of tackling long-term unemployment.

The detailed discussion of the Youth Guarantee indicated that Fico strategically drew on the Youth Guarantee to continue a pre-existing youth employment agenda. This was possible primarily due to the availability of funding which largely substituted domestic finance and amplified the strategic use of the Youth Guarantee. The fact that the Youth Guarantee's broad goal of increasing youth employment was programmatically aligned with Fico's priorities served as a precondition. The second element of the Youth Guarantee, namely the VET reform, although preceding the CSR on work-based learning, largely benefited from the Semester process as there were policy entrepreneurs which pushed the domestic reform and became additionally empowered by the prospect of EU funds being channelled to the VET reform. Policy transfers predated the Semester mutual learning process.

On a procedural level, this chapter finds that the Semester instigated the creation of new inter-ministerial coordination mechanisms and contributed to more coherent and inclusive policy planning. Although channels for inclusion of non-governmental actors were created, Slovakia is still lagging behind in terms of stakeholder involvement in the drafting of the NRP and in strategic debates on policy priorities and preferred courses of action. Domestic actors cannot draw on the CSRs 'leverage effect' and act as policy entrepreneurs as they must prioritize attention to other

issues due to capacity constraints. Furthermore, it was shown that Commission's activities to create ownership of reforms through fact-finding missions was helpful. However, the baseline agreement on policy issues and good working relations between the EU and national tiers generally did not translate into more and better policy change inspired by the Semester.

Taken together, the Semester was in the Slovak case mostly used by the national administration and domestic political actors as a tool for reinforcing existing policies or for supporting existing reform objectives. Slovakia demonstrates strong dependence on EU funding, which is far too often used as a substitute for public investment and thus rarely triggers deep policy changes. External incentives seem to work only when there is substantial synergy between governance instruments and no obstacle in terms of ideological opposition or low policy prioritization which hinder influence. The Action plan on LTU is a case in point in that it testified how important it is to create sufficiently robust incentives in CEE which would guide governments towards employment policy reforms.

6 SLOVENIA: CRISIS PRESSURE, SOCIALIZATION AND STRATEGIC USE OF THE SEMESTER

6.1 Introduction

‘We don’t need any outside help, we know how to solve the problems and we are going to do it.’ (FT, 2013b). This statement by Slovenian centre-left prime minister Alenka Bratušek presents the gist of Slovenian struggles during the darkest hours of its debt and banking crisis in November 2013. Since the beginning of the crisis in 2009 successive governments operated under great pressure from EU institutions and even at threat of an bailout intervention and supervision by the Troika of ECB, European Commission and IMF to implement a series of structural reforms in the fiscal, banking, labour market and pension areas in order to curb the lavish deficit figures and prevent the collapse of the banking sector which had accumulated excessive amounts of bad loans. Employment policy was not exempt from these reform pressures. However, Slovenian political elites persisted that the country was capable of handling the situation autonomously. The crisis-mode of governing, external pressures and the urgency to act were, however, incompatible with established traditions of policymaking in socio-economic policies through social dialogue. This placed the Slovenian political elites in an unenviable position – having to simultaneously signal responsiveness to EU demands in the framework of the Semester and show respect for domestic traditions of incremental, lengthy tripartite negotiations in a politically sensitive policy domain.

Before discussing the specific policy items, most notably the labour market and pension reforms, the following sections contextualize the evolution of a Slovenian ‘exceptionalism’ in CEE, the consensual mode of policymaking and gradualist economic development.

6.1.1 Political context: Exercising consensual politics in an ever-fragmenting political environment in Slovenia

Unlike other peers from the region, Slovenia deliberately opted for a ‘gradualist’ transition path to market economy and favoured an inclusive and balanced development trajectory instead of embracing the neoliberal doctrine of comprehensive deregulation and liberalization, as advocated by international institutions of that time (Bohle and Greskovits, 2012). Crowley and Stanojević (2011) point out that the socialist legacy of strong trade unions with immense strike potential⁶¹ and employers’ strong interest in creating neocorporatist institutions to retain international competitiveness proved to be crucial factors in determining the contours of the future political and economic system in the early transition years. Trade unions and their vast membership fervently opposed wage restraints, whereas at the same time it was crucial to tame inflation pressures to preserve economic competitiveness of exporters. As a compromise, trade unions agreed to negotiate wage policy if granted systematic access to policymaking (ibid, p. 281).

Consequently, the state institutionalized neocorporatism and locked in a system of social dialogue personified in the Economic and Social Council (ESS), which was established in 1994 and which brought together representatives of state, trade unions and employers to coordinate and discuss socio-economic policies. Its role in policymaking is considerable as the custom prohibits the national parliament to debate socio-economic policy without a prior opinion by the ESS. Social, employment, macroeconomic, pension and wage policy fall under collective negotiations in the ESS. Therefore, over the years, the ESS enabled social partners to take on a ‘quasi-compulsory advisory role’ (Guardiancich, 2012: 389). Neocorporatism effectively promoted incremental policy change and prevented big reforms in the welfare system and economic restructuring, which became problematic in the build-up to the Great Recession (Guardiancich,

⁶¹ In the early 1990s, the government tried to respond to inflation pressures by freezing wages and suspending collective bargaining, which created social unrest and triggered almost 200 strikes in 1992 alone (Crowley and Stanojević, 2011: 277). Trade unions were unified and fervent in their opposition to the planned deterioration in living standards.

2012; Bugaric and Kuhelj, 2015). Naturally, proper social dialogue prolongates the policymaking cycle (SI2B) and limits the manoeuvring space for governments, especially in crisis situations.

Besides neocorporatist institutions, the political system was also tailored to promote consensual decision-making and prevent excessive accumulation of powers. The lower house, the National Assembly, is the central legislative body. The second chamber, the National Council, consists of 40 representatives of a wide range socio-economic interest groups and has rights to propose legislation and ask the National Assembly to reconsider a bill (Zajc, 2013). Initiating referenda was relatively easy and the trade union successfully exploited this instrument to prevent labour and pension reforms. However, the centre right Janša government initiated a constitutional amendment in 2012 making it harder to reject an act. The government had argued that previous referendum provisions: 'limit the country in decisive and efficient reactions to changes in the environment' (GRSI, 2013a: 4). In a nutshell, the Slovenian political system historically promoted a delicately engineered system of consensual policymaking with numerous checks and balances in place to prevent societal polarization.

When it comes to the Slovenian party system, for a long period after independence the political landscape was dominated by the left-wing Liberal Democratic Party (LDS). LDS formed successive coalition government and nurtured a consensual political culture up until the 2004 change in government when the conservative Slovenian Democratic Party (SDS) led by Janez Janša took over. Janša attempted to initiate neoliberal reforms in the advent of EU accession (Johanssen and Krašovec 2017: 53, Bohle and Greskovits 2012: 248). However, he was quickly countered by rising public dissent, protests organized by trade unions and a drastic decline in support. He lost the 2008 parliamentary elections to the centre leftist Borut Pahor, the leader of the Social Democrats (SD). As prime minister, Pahor formed a left-wing government which soon started faltering under the weight of a heavy economic and banking crisis. His coalition was internally divided on how to best tackle the crisis, whereas some of the proposed crisis reforms (pension and labour) failed the test of a popular vote (Zajc 2015: 182-3). Pahor unilaterally passed the

reforms as he could not co-opt trade unions. His strategy backfired in referenda and he lost a vote of no confidence in late 2011.

The crisis left a mark on the entire political system as well. It exposed the weaknesses of the economic transition in a series of revelations (Buharic and Kuhelj, 2015). Revelations of widespread corruption and political capture of public institutions and state-owned companies largely undermined citizens' trust in political elites (Perković and Učakar, 2017; Johanssen and Krašovec, 2017). Citizens increasingly turned to newly established parties which claimed to break with the past, i.e. to Positive Slovenia (PS) and Gregor Virant's Civic List (DL) (Johanssen and Krašovec, 2017). In the 2011 early elections, 38 % of all votes went to new parties which lead to higher fragmentation and polarization of the party system (Zajc, 2015: 190).

Table 6. 1 Government composition in Slovenia (2008 -)

Government	Coalition	Prime minister	From - Until
Pahor I (LW ^a)	SD, LDS, Zares, DeSuS	Pahor, Borut	Nov 2008 – Feb 2012
Janša II (RW ^b)	SDS, DL, NSi, DeSuS, SLS	Janša, Janez	Feb 2012 – Mar 2013
Bratušek I (LW)	PS, DeSuS, SD, DL	Bratušek, Alenka	Mar 2013 - Sep 2014
Cerar I (LW)	SMC, DeSuS, SD, ZaAB	Cerar, Miro	Sep 2014 - Sep 2018
Šarec I ¹ (LW)	LMŠ, SMC, SD, SAB, DeSuS	Šarec, Marjan	Sep 2018 - in power

Note: Party acronyms: SDS – Slovenian Democratic Party (centre-right/right-wing); SMC – Modern Centre Party (centre/centre-left); LMŠ – List of Marjan Šarec (centre/centre-left); LDS – Liberal Democracy of Slovenia (centre)PS – Positive Slovenia (centre-left); DeSuS – Democratic Party of Pensioners of Slovenia; SD – Social Democrats (centre-left); SAB – Party of Alenka Bratušek (centre/centre-left), formerly known as: Alliance of Alenka Bratušek (ZaAB); DL – Civic List (centre); NSi – New Slovenia – Christian Democrats (centre-right); SLS – Slovenian People's Party (centre-right); Zares – Social Liberals (centre/centre-left);

^a LW – left-wing; ^b RW – right-wing.

¹ Prime minister Šarec formed the first minority government since independence with parliamentary support from The Left (Levica) and The Italian and Hungarian National Minorities (IMNS).

Although Positive Slovenia won the 2011 elections, Gregor Virant's Civic List was the kinsman and decided to join a centre right coalition formed by SDS's Janez Janša based on common programmatic commitment to fiscal consolidation (Haughton and Krašovec, 2013). After one year as prime minister, Janša was forced to step down after a massive corruption scandal affecting him personally (Fink-Hafner and Krašovec, 2014). Alenka Bratušek from the centre left PS managed to garner support from DeSuS, SD and DL to form a new, left-leaning government in March 2013 without new elections. Bratušek continued to prioritize fiscal consolidation at the

height of Slovenia's dispute with the Commission over public finances (Zajc, 2015: 186). After 14 months in office, Bratušek resigned from her function after losing the race for the president of *Positive Slovenia* which triggered early elections scheduled for July 2014.

A moderate left-centrist coalition came to power led by another political newcomer, university law professor Miro Cerar from the Modern Centre Party (Krašovec, 2015: 271). Interestingly, however, each coalition government since 1997 featured the Democratic Party of Pensioners of Slovenia (DeSuS), a party which pragmatically represents retirees' rights. As will be shown, DeSuS had often acted as a crucial veto player and 'troublemaker' in pension reform attempts, preventing radical changes due to its pivotal position in a generally unstable political environment.

To conclude, the economic and financial crisis challenged the established patterns of neocorporatist policymaking and exposed the wrongdoings of mainstream political elites. The result was greater electoral competition and the rise of alternative, reformist political parties. Yet, decision-making remained firmly anchored in social dialogue. The influence of social partners did not diminish but was further amplified by their ability to mobilize the general public on labour and pension issues. Social dialogue is 'highly developed' (SI1E). Pivotal political forces such as DeSuS, opportunity structures favouring direct democratic instruments (referenda) and an appetite for consensual policymaking should be factored in as important conditions when trying to make sense of the scope, direction and depth of socio-economic reforms in Slovenia. Distinct characteristics of the Slovenian political and policymaking system act as a powerful web of political constraints to sweeping reforms, especially those which challenge existing social and employment rights.

6.1.2 Relationship with the EU: Euroscepticism only in traces

Traditionally, Slovenia has been a dedicated supporter of deeper European integration and an aspiring member of the EU core. In the pre-accession period (1998 - 2004), a broad cross-party consensus existed on the desirability of joining the EU. Accordingly, harmonization with EU

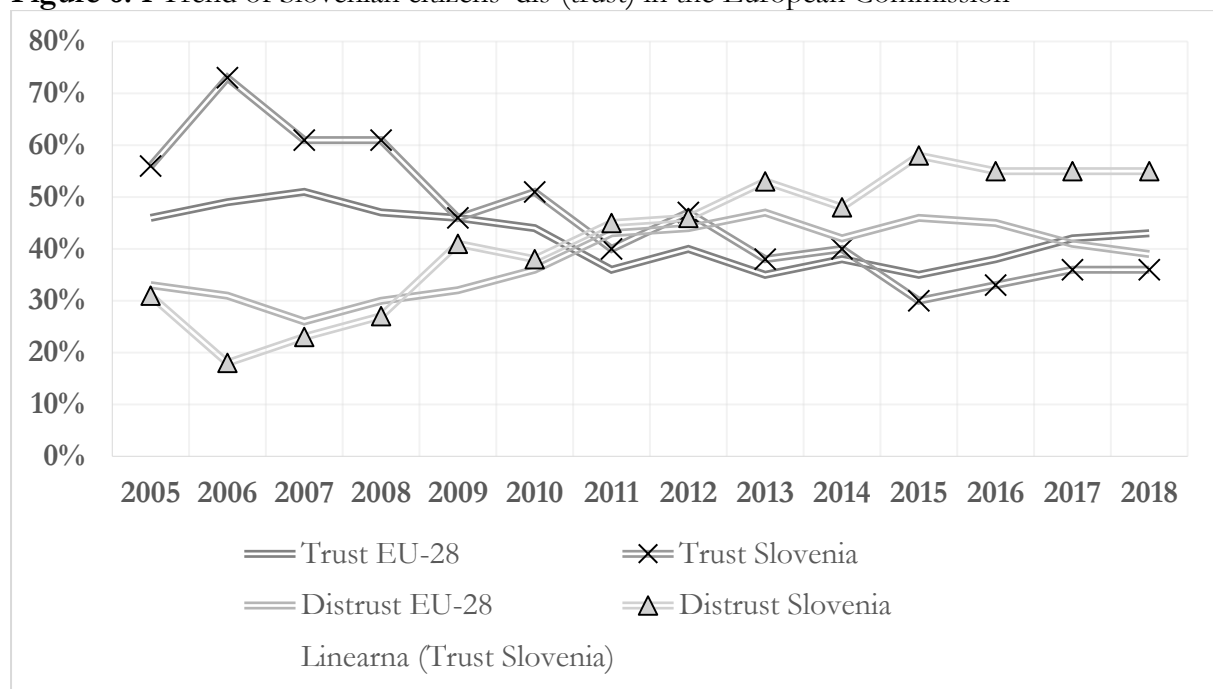
norms and rules was not an area of political contention. Slovenia was determined to join the EU and developed the reputation of a ‘good pupil’ of EU accession, which eventually paid off as the country joined the EU in 2004 and was the first among CEE countries to enter the Schengen area and adopt the euro (Bugaric and Kuhelj, 2015: 274). EU accession was also the glue which held together political parties of opposite colours, which is why more pronounced politicization of EU affairs ensued only afterwards (Guardiancich, 2016: 223).

Most importantly, however, and in stark contrast to the rest of the EU, Slovenia has so far been spared from Euroscepticism among political elites, apart from a few sovereigntist voices at the political margins. Even at the height of the euro crisis, no mainstream political party attempted to exploit the crisis to denigrate the EU or to capitalize on EU’s pressure on Slovenia in order to gain extra election votes. Political elites in Slovenia are firmly committed to the course taken by the Franco-German engine (Haughton and Krašovec, 2013). In short, Slovenian political elites demonstrate devotion to constructive cooperation with the EU.

At the same time, the EU also enjoys immense support among ordinary citizens. 90 % of all voting citizens expressed support to EU accession during the 2004 referendum on joining the EU (Zajc, 2013: 342). For many Slovenians, joining the EU completed their national identity since ‘belonging to Europe and the EU would also cement Slovenian superiority in the Balkan region’ (Perković and Učakar, 2017: 295). Recently, however, there has been a decline in support for the euro in Slovenia (Fink-Hafner, 2011: 1137), as well as increase in distrust in the Commission during the economic and financial crisis. As seen in Figure 6.1, until 2010 there were more Slovenian citizens that trusted the Commission, however the trend was reverted in 2011 and the gap between those who distrust and those who trust the Commission has grown significantly in favour of the former. When compared to the EU-average, Slovenian citizens distrust the Commission significantly more, and trust the Commission somewhat less than the average EU citizen. The increase in distrust coincided with the mounting pressure on Slovenia exercised by the Commission in the framework of the Semester to ensure sustainability of public finances and

macroeconomic stability (see: Section 6.1.3). Distrust could then be interpreted as dissatisfaction of Slovenian citizens with the way the Commission treated Slovenia. Therefore, it is expected that the use of the Commission's policy suggestions as additional legitimation tools to support reform processes in Slovenia would not be politically prudent strategy by governments. It would likely reinforce the spiral of distrust in the Commission, the government and political elites.

Figure 6. 1 Trend of Slovenian citizens' dis-(trust) in the European Commission



Source: Standard Eurobarometer (2005-2018).

Generally, compared to other peers from the region, Slovenia benefits considerably from access to structural funds, however it is not excessively reliant on cohesion policy financed from EU funds. The financial allocation for Slovenia from ESI funds in the financial perspective 2014-2020 equaled 3.9 billion euros, which is (only) around 1.4 % of the Slovenian GDP (European Commission, 2016e: 11). The share of cohesion money in public investment for 2015-17 amounted to 29.4 %, significantly lower than in all other CEE countries⁶². At the same time, only a small fraction, around 18.5 % of structural funds was earmarked for the ESF from employment

⁶² <https://cohesiondata.ec.europa.eu/Other/-of-cohesion-policy-funding-in-public-investment-p/7bw6-2dw3> (Accessed: 23 February 2019).

policy is largely funded. Thus, Slovenia has a small allocation in absolute terms and while the investments financed from EU funds do create added value, the EU practically cannot exercise financial conditionality given that Slovenia is generally not dependent on EU funding. Therefore, it is expected that access to EU funds will not create sufficient external pressure to set in motion reforms with large redistributive effects.

6.2. Gradualist economic development, strong welfare state and neglected employment policy

This section introduces evidence to describe external pressure under which Slovenia pursued economic policy during the crisis and explores the consequences of the crisis on welfare and employment policies. The 2008 economic crisis hit Slovenia extremely hard and the country entered a deep recession in 2009 following the slowdown of its export markets in combination with a serious banking crisis (Bohle and Greskovits, 2012: 248-9). The banking sector, consisting mostly of state-owned banks, was exposed to an excessive amount of bad loans and was therefore in desperate need of financial rescue (European Commission, 2012). This triggered a doom loop – the state was expected to recapitalize the banking industry, which in turn created concerns on international markets of a sovereign debt crisis. Credit rating agencies started to heavily downgrade Slovenia. By the end of 2013, all three leading credit rating agencies, Moody's, Fitch and Standard & Poor's, graded Slovenia's credit worthiness the worst ever⁶³, and the international markets' willingness to buy bonds faltered as the yield on Slovenian bonds more than doubled in the period 2010-2012 (Guardiancich, 2016: 214). The markets reacted, and the governments feared that further policy inaction would only worsen the markets' response. The economic decline also triggered a rise in unemployment in construction and manufacturing industries, in some cases even causing massive layoffs of workers in export-oriented industries (Fink-Hafner, 2010: 1165).

⁶³ See: <https://tradingeconomics.com/slovenia/rating> (Accessed: 23 February 2019).

Debt figures almost quadrupled in the period between 2008 (20 %) and 2014 (80 %). As the government debt and deficit was rapidly rising since 2008, fiscal consolidation became the lite motif of all crisis governments' responses, and in some cases as with the Janša government, became the 'principal economic policy objective' (GRSI, 2012: 5). Besides the apparent market pressures, EU's fiscal and macroeconomic rules caused trouble domestically. Already in 2009, the Council initiated an EDP and urged Slovenia to bring public finances in order until 2013 by implementing fiscal consolidation measures (European Commission, 2013f: 19). In addition, in 2012 the Commission's IDR found excessive macroeconomic imbalances stemming from the instability of the corporate and banking sector (Council, 2012d: 5). To demonstrate adherence to EU fiscal rules, the Bratušek government sent a Letter to the Commission and reiterated Slovenia's commitment to meet the SGP requirements and to implement the measures outlined in the NRP (European Commission, 2013g: 5). While the deadline to correct the excessive deficit was extended to 2015, the Commission stepped up monitoring and requested Slovenia to submit an Economic Partnership Programme under the new Two-Pack regulations to present policy actions that would contribute to an 'effective and lasting correction of the excessive deficit' (GRSI, 2013b).

As the crisis unfolded, the Pahor government, but also the Janša and Bratušek governments came under time pressure to act resolutely and unilaterally because social partners were unlikely to subscribe to neoliberal reforms (Feldmann, 2016: 39). Pahor's centre left government unilaterally, that is without the support of social partners, initiated an 'Exit strategy' in 2010 which consisted of public sector retrenchment⁶⁴ and pension and labour market reforms to counter the debt and deficit rise (European Commission, 2012d; Stanojević et al., 2016). The subsequent Janša government continued in the same tone in 2012. A Fiscal Balance Act slashed costs even further and reduced unemployment benefits, childcare benefits, sick leave and labour costs in the public sector (GRSI, 2013a: 33-35). During the 2012/13 winter, a series of mass

⁶⁴ Cuts in bonuses, freeze on promotions and hiring, wage freeze.

protests across the country were organized by trade unions, which signalled opposition to wage reductions and austerity (Stanojević, 2018). However, Janša managed to negotiate an 8 % decrease of wages in the public sector, as well as a pension and labour market reform.

The centre left Bratušek government felt the greatest pressure to act as the crisis reached its peak in the second half of 2013. A potential financial rescue package was a true sword of Damocles hanging above Slovenia, threatening to fall at any time were the government's policy actions deemed insufficient for successful recovery by the Troika. Interviewees from the Commission representation and a senior official from the Ministry of Labour explicitly pointed out that the bailout option was both seriously considered by the Troika and seriously received by the Janša and Bratušek governments (SI1A, SI1H). The second half of 2013 was critical as market pressures, the EDP and EIP converged and created synergic pressure to act (SI1H). Rumours started circulating of the Troika already looking for a permanent headquarter location in Ljubljana (SI1A). While they indeed feared the bailout, Slovenian authorities were relieved by the appointment of Mr István Székely⁶⁵, director at DG ECFIN, as the responsible figure for managing the Slovenian crisis (SI1A). He was a respected figure in Slovenian circles, known for the successful management of the Irish crisis, and was considered a man of compromise and reasonable judgment (SI1A). Bratušek extended the commitment to restrict public expenditures and promised in the 2013 Economic Partnership Programme to further slash the cost of public wages, stop pension indexation and limit maternity benefits (GRSI, 2013a: 4). By end of 2013, fears of a bailout were appeased since the Bratušek government demonstrated commitment to solving the sovereign and banking crisis as it also initiated a bank recapitalization, raised the VAT tax and amended the constitution to enshrine the 'golden rule' (Stanojević et al., 2016; Fink-Hafner and Krašovec, 2014). Ultimately, the government managed to convince the Commission that it was capable of balancing the budget and initiating a sound recovery on its own, without external

⁶⁵ https://ec.europa.eu/economy_finance/bef2010/speakers/istvan-szekely/index.html (Accessed: 25 February 2019).

assistance. This episode of uncertainty and fear of a bailout is relevant for the analysis of the Semester influence on employment policy. Slovenia's prospect of avoiding a bailout was implicitly conditioned on the compliance with employment CSRs, which created significant external pressure to act.

Economic decline was reverted in 2014 when the real GDP grew strongly by 3 % and 2.5 % in 2015 respectively (European Commission, 2015d, 2016e). Credit rating agencies re-established trust in Slovenia's creditworthiness and the Commission initiated Slovenia's exit from the EDP in mid-2016 (Krašovec, 2017: 245). Previously, in February 2015 the Commission had characterized Slovenia's macroeconomic imbalances as not excessive anymore (Council, 2015d), however requiring further specific monitoring⁶⁶, which alleviated fears of sanctions and made the reforms seem paying off.

As the country escaped from bailout and corrective actions within the SGP and MIP, a general feeling among commentators and scholars was that successive governments were faced against the wall and succumbed to EU and market pressures to apply the same neoliberal policy options as the euro zone's bailout countries (Stanojević et al., 2016; Nahtigal, 2015; Fink-Hafner and Krašovec, 2014), which would have meant a mixture of retrenchment and structural reforms. Crisis-driven pressure and logic of retrenchment should therefore be kept in mind as a potential transmission belt for reform choices in the employment field. At the same time, although weakened, social dialogue and social partners' protest power remained important institutional limitations to more drastic measures, hence fiscal consolidation was evened out by job retention measures, minimum wage increases and negotiated labour and pension reforms.

The evolution of the Slovenian welfare state was strongly path dependent on the socialist legacy and influenced by early choices made by left-wing political elites during transition and the country's neocorporatist policymaking style (Kolarič et al., 2009: 459). Consensual decision-

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http://www.vlada.si/en/media_room/news_from_slovenia/news_from_slovenia/article/slovenia_no_longer_has_excessive_imbalances_51469/ (Accessed: 23 February 2019).

making and resistance to neoliberal reforms translated into incremental reforms of many sectors, such as education, healthcare, family policy and pension policy, whose paradigmatic underpinning remained largely untouched since independence. The Slovenian model favours social investment and social protection (Filipovič Hrast and Rakar, 2017: 117), public spending on social policy is near the OECD average and the state provides for well-developed, and to a large extent universally available social service (Filipovič Hrast and Kopač Mrak, 2016, Filipovič Hrast and Rakar, 2017).

The recent economic crisis put the welfare state under some pressure. At first, the Pahor government reacted to the economic decline by increasing social expenditures, which impacted negatively on the state deficit, but preserved the welfare state (Fink-Hafner, 2011: 1132). Pahor's government attempted to balance between social retrenchment and the preservation of the welfare state, unlike the subsequent Janša government which overtly favoured austerity and neoliberal reforms (Fink-Hafner, 2012: 292). Retrenchment hit the generosity of some allowances such as childcare allowances and parental benefits (Filipovič Hrast and Kopač Mrak, 2016: 710). However, despite the crisis pressure for more austerity, drastic changes in social policy were resisted thanks to a balancing act between social retrenchment and social investment and a consensual political tradition which prevented major overhauls of the welfare state (Filipovič Hrast and Kopač Mrak, 2016: 715; Filipovič Hrast and Rakar, 2017: 126).

High unemployment which was generated at the beginning of the transition led, on the one hand, to a proliferation of early retirement, and on the other hand, to a rigid employment protection system which favoured insiders – those employed on open-ended contracts (Filipovič Hrast and Rakač, 2017: 119). Due to a strong influence of social dialogue in labour relations, reforms of the employment protection legislation have been 'endlessly postponed' (Guardiancich, 2011: 328) up until the crisis. The level of employee rights was high and employers' cost of hiring, firing and wages significantly higher than in the rest of CEE. Changes in the Labour Code during the 2000s were mostly compromise deals which increased flexibility and labour rights at the same time (*ibid.*, p. 332).

A wide variety of measures in ALMPs exist, however financial allocations are persistently sparse (Filipovič Hrast and Kopač Mrak, 2016: 703). Interestingly, in the advent of the crisis when unemployment started rising particularly in the construction sector, the Pahor government was actively looking for best practices at EMCO level of how to quickly and relatively easily defuse the situation and avoid massive layoffs (SI2A). A couple of crisis measures⁶⁷ were designed by drawing from peers' experiences and the learning desire was triggered by the emergency situation of an erupting economic crisis.

In the area of passive labour market policies, a paradigm shift towards the activation principle followed after 1998 so as to promote transition to employment (Kolarič et al., 2009: 448). Unemployment benefit recipients became obliged to search for work and accept activation measures as a way of increasing their employability. During the 2000s, similar to Germany, Slovenia also abandoned unemployment assistance which was paid out to unemployed after their earning-based unemployment benefit expired and replaced it with social assistance. The shift in paradigm was grounded in the employment guidelines of the EU, the ILO and Council of Europe which emphasized the need 'to reorganize unemployment social security schemes in such a way as to allow the more rapid (re-)integration of unemployed persons into the labour market (Lajh and Štremfel, 2011: 83). Therefore, the shift in focus from passive to ALMPs served partly the function of adaptation to EU norms as part of pre-accession convergence, but also to mitigate structural unemployment amidst a changing economic structure (ibid., p. 82). The left-wing governments tended to increase the amounts and ease eligibility criteria for unemployment benefits, whilst the right-wing Janša government dismantled the changes. The duration of unemployment benefits is now shorter, and hence the coverage of unemployed lower than the EU-average (European Commission, 2016e: 56). Simultaneously, unemployment benefits are comparatively more

⁶⁷ The first was a job retention measure which subsidized the pay check of workers who were forced to work shorter hours, and the second was a temporary layoff measure in which the state covered the cost of training and up-skilling of temporarily laid-off workers (Filipovič Hrast and Kopač Mrak, 2016: 702).

generous and have a high replacement rate especially for low earners (80 %) (European Commission, 2018d: 33).

In short, until the start of the crisis in Slovenia, the labour market was far more rigid compared to other CEE countries, ALMPs lacked financial backing and a workfare model in passive labour market policies took strong roots (Guardiancich, 2011: 333).

6.3 European Semester governance in Slovenia

6.3.1 The process of national coordination of the European Semester in Slovenia

This section takes an interest in the procedural changes triggered by the Semester. The creation of the Semester triggered adjustments in the national system of EU policy coordination. In the post-accession period, Slovenia established a centralized system of coordinating EU affairs with, nonetheless, considerable competencies and responsibilities assigned to line ministries in charge of sectoral policies (Fink-Hafner, 2014). In practice, this means that a dedicated Sector for European Affairs, currently placed within the Ministry of Foreign Affairs, is responsible for the overall inter-ministerial coordination of Slovenian positions on EU legislation and proposals⁶⁸. It oversees the work of 35 sectoral working groups which mimic the structure of Council working groups. However, the primary responsibility to actually prepare and draft Slovenian positions lies in line ministries and their European units (Fink-Hafner, 2014). Once a draft position is approved, all Slovenian representatives in EU institutions are required to follow the position. In that sense, when it comes to Slovenian positions for EMCO meetings, especially when draft CSRs are discussed, the same process of inter-departmental coordination applies. In case of employment policy, the primary penholder is the Ministry of Labour, Social Affairs and Equal Opportunity (hereafter: Ministry of Labour).

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http://www.mzz.gov.si/si/o_ministrstvu/organiziranost/direktorat_za_zadeve_eu/sektor_za_evropske_vsebine/ (Accessed: 25 February 2019).

The obligation to submit a yearly NPR created pressure to set up a coordination system for the preparation of the NRP. In the early years, an independent government office, the Institute for Macroeconomic Analysis and Development (UMAR), was in charge of coordinating the drafting on an inter-ministerial level. Each ministry was drafting their respective sections, after which UMAR was responsible for the overall framework. One senior civil servant from the Ministry of Labour described this process as efficient and neutral because it left ministries sufficient autonomy (SI2A). Soon after, issues of EU economic governance and the preparation and coordination of the NRP became the responsibility of the Department for General Government Analysis and Coordination of Economic Policies within the Ministry of Finance⁶⁹. This new set-up created frustration in the Ministry of Labour as it completely changed the cooperation mode (SI2A). The Ministry of Finance took control of the drafting process and reduced the role of line ministries to simple ‘double-checking’, which made the process less inclusive and less transparent. Ministries lack ownership of the policy assessments and policy measures proposed in the NRP. Also, the Ministry of Labour does not consider itself as an equal partner to the Ministry of Finance which monopolizes the NRP preparation process.

6.3.2 Multi-level coordination in the European Semester

This section looks in greater detail into the interactions and socialization between the Ministry of Labour and EU institutions and explores the experiences of EMCO participants in multilateral surveillance. The Ministry of Labour took the Semester framework and responsibilities deriving from it very seriously from the very beginning (SI1A). As the crisis hit the rooftop around the time of Semester’s inauguration, the Ministry realized that the analytical outputs from the Semester will be an important tool for assessing Slovenia’s compliance with the SGP and MIP. The Ministry adjusted internally to bring together the best and most experienced civil servants to work on

⁶⁹ http://www.mf.gov.si/en/areas_of_work/economic_governance/ (Accessed: 25 February 2019).

Semester coordination, to interact with the Commission and to participate in EMCO and SPC meetings (SI1A). This group of people was knowledgeable of processes and well-socialized in the EU network which allowed them to ‘play the Brussels game’ competently. Participation in EMCO was seen as an important venue for strategically influencing the formulation of CSRs (SI1F) and they knew that reform processes could be leveraged through CSRs (SI1B).

One high-ranked official highlighted that the political leadership in the Ministry of Labour invested a lot in fostering good informal contacts and trustworthy relationships with Commission officials in the Semester framework during the crisis years (SI1A). They knew how important it was to build credibility and trust with officials in DG ECFIN, SECGEN and DG EMPL in order to preserve national interests and avoid sharpening the relations with the Commission. Also, the rich process socialization allowed the employment sub-system to interact strategically with the Commission and to minimize adaptational pressure coming from the Commission’s monitoring activities (SI2A, SI1C). Policy proposals made in the NRP and in multilateral surveillance indicated the policy direction but were purposely not too narrowly defined or detailed in order to allow enough leeway for alternative actions since the Commission would follow up on every commitment very seriously.

Regular participants in EMCO thematic and country reviews suggest that the Commission’s stance towards Slovenia during the crisis years was very adversarial, especially when Slovenian employment CSRs were discussed (SI2A, SI1F). According to interviewees, DG ECFIN and DG EMPL were often in disagreement over policy measures and were sending contradictory messages and offered incoherent perspectives, which at times confused Slovenian authorities (SI1A, SI2A, SI2B). In the early years of the Semester, DG ECFIN and EPC were in the driving seat, which was especially pronounced in the Slovenian crisis context and fiscal and economic goals clearly dominated in the Commission’s interactions with Slovenian authorities (SI1A). The relationship later softened.

The atmosphere in EMCO review sessions was considered friendly and conducive to learning, although it is said that the usefulness of such exercises mostly depends on the individual enthusiasm of EMCO members and their willingness to engage (SI2A). Opportunities to establish informal contacts for exchanging practices are abundant (SI3A). It is thought that most often these sessions resembled ‘debate clubs’ which yet in the end have no concrete benefit for actual policymaking as the participating civil servants find it very hard to reach top-level decision-makers. EMCO participants recalled having no direct contacts with senior officials and their reports never reached the hands of decision makers (SI2A, SI1F). One EMCO member recalled bitterly: ‘You work hard to change something for the better, yet you end up running in circles like a hamster until...nothing happens.’ (SI2A). The only time politicians asked the administration to search for good practices from EU peers was when ‘quick fixes’ or crisis responses were needed to mend ailing policy problems.

These findings correspond to previous research by Fink Hafner and Lajh (2018) on the Slovenian administrative tradition. In employment policy, the public administration is subdued to and politically controlled by the governing elite or the ruling party, whereas the positions of top civil servant are politicized: ‘...since the transition to democracy public administrations appear to serve a range of parties as power changes hands with each election cycle.’ (Fink-Hafner and Lajh, 2018: 57). Technical cadres’ autonomy is particularly confined in areas with strong (re)distributive effects such as employment (ibid., p. 69). As Fink-Hafner and Lajh (2018) demonstrate, multi-level learning processes are traditionally less effective in Slovenian employment policy as they are blocked by the political level. The domestic policy regime is dominated by tripartite social dialogue and path dependency. Consequently, the policy field is traditionally strongly politicized and less open to innovations.

Furthermore, it was confirmed that EPSCO meetings, unlike some other Council configurations, amount to no more than a formal exercise in which no substantive discussions on CSRs or EMCO conclusions take place (SI1F). In stark contrast, the practice of holding informal,

thematic EPSCO meetings on specific employment issues such as female employment or long-term unemployment were hailed as a useful opportunity for focused policy discussions and best-practice learning at top political level (SI2A, SI1F).

Beyond the ordinary, interactions between the Commission and national authorities were intensified in circumstances of a looming bailout in the period between 2012 and 2013. Slovenia was subjected to intensified monitoring and fact-finding missions were more frequent than usual (SI1A, SI2A). As the stakes were high, sectoral fact-finding missions were less of a technical nature, and were attended by executive officials from both sides instead, therefore adding a layer of formality. The experienced administration in the Ministry of Labour skilfully used these opportunities to hint at both the political no-go areas, and areas of greater interest to the government (SI2B). In addition, the Troika representatives were visiting the Ministry of Labour every two weeks. According to a senior official, the Troika would repeatedly underline their request to proceed with the labour and pension reforms and hence built pressure (SI1A).

One significant consequence of employment coordination in the Semester framework for policymaking in Slovenia, which was highlighted by multiple interviewees, was that awareness for the importance of building a culture of policy analysis, evidence-based policymaking and evaluation was increased (SI1A, SI2A, SI2B). The Commission's insistence to 'depoliticize' policy debates in EMCO and fact-finding missions by drawing on analytical evidence as the basis for discussion, together with the development of employment monitoring tools (Scoreboard and Joint Assessment Framework) have urged the national administration to pay attention to indicators and to closer monitoring of policy outcomes (SI2A). As one high-ranked official summarized it: '...until the introduction of the Semester, Slovenia had no analytical tradition and it was for the Commission that we started doing what we should have already 15 years ago.' (SI1A).

It can be concluded that the Slovenian labour administration entered the Semester with considerable experience of how to handle Commissions' stimuli and was capable of tailoring multi-level interactions to their needs. The EMCO setting was generally considered conducive to

learning, however divisions during the deep crisis years (2011-2013) and disconnected politico-administrative relations formed considerable obstacles to domestic application of mutual learning. Finally, the creation of the Semester and the use of indicators has stimulated processes of analytical upgrading and evidence-based policy in Slovenia.

6.3.3 Involvement of social partners and the Slovenian parliament

It was already shown that tripartite social dialogue within the ESS plays a crucial role in the policymaking process in Slovenia. The crisis of social dialogue and eroded trust between social partners during the peak of the crisis was translated into the early years of the Semester's implementation in Slovenia. However, since 2014 cooperation between social partners and the government on drafting the NRP stabilized and the government involves the social partners in multiple rounds of consultations before the adoption of the final version of the NRP. Draft versions of the NRP are circulated in advance of the ESS meetings so that social partners have a chance to provide both oral and written comments on the NRP (GRSI, 2016: 36) for which they receive written feedback. Individual sectoral measures are discussed bilaterally between social partners and responsible ministries (GRSI, 2017: 37). Social partners regard the procedural aspect of these interactions as adequate, in terms of the improvements in allocated time, the appropriateness of the institutional setting (ESS) and feedback that is provided (Eurofound, 2019: 31).

In contrast to the procedural adequacy of social partners' involvement in the drafting phase of the NPR, they have persistently reported limited influence on the NRP without any improvements over time (Eurofound, 2018, 2019). Their influence on the final design of individual employment policy proposals announced within the NRPs is nonetheless significant.

Besides their involvement in the NRP drafting process, the Commission established dialogue with trade unions and employers on the Country Report and CSRs at ESS level (SI1H) through the ESO for Slovenia and in fact-finding missions. Interactions with the Commission

have, according to social partners, helped them in recent years after the crisis to soften their opposition to Commission's reform suggestions (Guardiancich, 2017: 245).

As for the National Assembly, the relationship between the government and the parliament in EU affairs, the National Assembly participates in the formulation of governmental positions in EU affairs and can overrule a position. However, in practice the involvement of the National Assembly and the relevant Committee on EU Affairs is reduced to a rubber-stamping exercise as there is no tradition of strong parliamentary control (Fink-Hafner, 2014: 46). Likewise, parliamentary committees also formally discuss Semester documents⁷⁰. While the final draft of the NRP is discussed by the parliamentary Committee on EU Affairs and other relevant sectorial committees such as the Committee on Labour, Family, Social Policy before the final adoption by the government, their involvement leaves little room for substantive exchange of views and does not foresee accountability mechanisms to make sure that the views of MPs are reflected in the final document (SI1G). Parliamentary involvement therefore boils down to a formalized provision of information by members of the government and Commission representatives on key Semester documents without substantive parliamentary influence.

6.4 Slovenia's employment challenges, reform efforts and the influence of the European Semester

The economic crisis had a negative effect on unemployment in Slovenia. The unemployment figures were far below the EU-average in the pre-crisis period and stood at 4.4 % in 2008 compared to EU's 7.0 %, For the crisis years the Eurostat's EU labour force survey data shows a clear deterioration. At one point, unemployment more than doubled (10.1 % in 2013), but overall the employment situation was not as dramatic as in some other CEE countries such as Croatia or Slovakia which recorded unemployment rates of 17.4 % and 14.2 % in 2013 respectively. The

⁷⁰ <https://www.dz-rs.si/wps/portal/en/Home/ODrzavnemZboru/KdoJeKdo/DelovnoTelo?idDT=DT032> (Accessed: 1 March 2019).

comparatively worse labour market situation of some groups raised however eyebrows in the Commission. In the period between 2008 and 2014, the employment rates of low-skilled, older workers (55-64) and older women were persistently lower than the EU-average. Low-skilled were hit hardest by the crisis and their employment rate fell from 52 % in 2008 to 37 % in 2014, whereas the employment rate of older workers remained constant at around 33 % which is the worst figure among EU member states (European Commission, 2015d: 55). The activity rate of the overall population is consistently close to EU-average, however there is a large negative gap for the elderly group (55-64). The pool of long-term unemployed increased by two times in the period 2008-2014. Another pronounced problem is the overreliance on temporary (fixed-term) contracts as opposed to permanent contracts, as well as slow transition from fixed-term to open-ended contracts. The difference in job-security of fixed-term and permanent workers creates segmentation on the labour market. The youth cohort (15-24) is affected by this segmentation the most as more than two-thirds of workers in this group are employed on fixed-term contracts, compared to less than 20 % of the overall population (Guardiancich, 2017: 237). Finally, the participation rate of adults (25-65) in lifelong learning, although persistently above the EU-average and peaking at 16.4 % in 2010, deteriorated rapidly during the crisis and fell below 12 % after 2015. Adult learning is nevertheless still significantly higher than in the other three CEE countries analysed in this thesis which gravitate around the lower end, single-digit figures (3–6 %). Underinvestment in lifelong learning takes a particularly high toll on low-skilled and older workers (European Commission, 2016: 52).

Several of these issues, such as skills mismatches, the segmentation of the labour market and difficult situation of older and long-term unemployed, represent long-standing concerns in Slovenian employment policies. They are structural problems which exceed the notion of short crisis-related shocks on the labour market (GRSI, 2011). Accordingly, CSRs between 2011 and 2017 largely concentrated on these structural weaknesses on the labour market (Table 6.2).

Table 6. 2 Overview of country-specific recommendations in Slovenia (2011 – 2017)

Year	(Component of) Country-specific recommendation	Commission assessment of progress
2011 ^a	<ul style="list-style-type: none"> • Increase employment of older workers through later retirement, ALMPs and lifelong learning (sustainability and adequacy of pension system) • Reduce asymmetries between permanent and temporary contracts and labour segmentation of ‘student work’ • Improve matching of skills with labour market needs by setting up a forecast system and improve career guidance and counselling in PES 	No
		No
		No
2012	<ul style="list-style-type: none"> • Increase employment of older workers through later retirement, ALMPs and lifelong learning, and increase (by linking to life expectancy) and equalize retirement age for men and women (sustainability and adequacy of pension system) • Reduce asymmetries between permanent and temporary contracts and labour segmentation of ‘student work’ • Improve matching of skills and labour market needs (for low-skilled and tertiary graduates) and continue reform of VET • Ensure minimum wage supports competitiveness and job creation 	Partial
		Partial
		Partial
		Limited
		Limited
2013 ^b	<ul style="list-style-type: none"> • Strengthen long-term sustainability of pensions through linking retirement age to life expectancy while preserving adequacy • Monitor effects of labour market reform, regulate student work • Improve effectiveness of ALMPs and provide tailor-made measures for tertiary graduates, low-skilled and elderly • Improve attractiveness of VET and assessment of labour market needs • Ensure minimum wage supports competitiveness and job creation 	Limited
		Some
		Limited
		Limited
		Limited
2014 ^b	<ul style="list-style-type: none"> • Ensure sustainability and adequacy of the pension system by linking retirement age to life expectancy • Further decrease segmentation by addressing the efficiency of incentives to hire young and elderly, adopt Act on Student Work, prioritize outreach to non-registered NEETs • Encourage longer working life and create tailor-made measures for low-skilled and elderly • Address skills mismatches by improving attractiveness of VET and assessment of labour market needs • Ensure minimum wage supports competitiveness/job creation, review indexation system 	Some
		Some
		Limited
		Some
		Limited
		Limited
2015 ^b	<ul style="list-style-type: none"> • Progress with the long-term reform of the pension system • Target measure for low-skilled and elderly to improve employability, address long-term unemployment and incentivize longer working life • Review minimum wage re. in-work poverty, competitiveness and job creation 	Limited
		Some
		Some
2016	<ul style="list-style-type: none"> • Adopt pension reform by end of 2017 ^c • Target ALMP measure and lifelong learning activities for low-skilled and elderly to improve employability 	Limited
		Limited
2017	<ul style="list-style-type: none"> • Adopt measures to ensure sustainability and adequacy of pensions ^c • Target ALMP measure and lifelong learning activities for low-skilled and elderly to improve employability 	Limited
		Some

^a All CSRs were considered SGP-relevant in the Commission’s assessment.

^b All CSRs were considered MIP-relevant in the Commission’s assessment.

^c CSR considered SGP- and MIP-relevant in the Commission’s assessment.

Source: Commission (2011c, 2012d, 2013f, 2014e, 2015d, 2016e, 2017d, 2018d) and Council (2011c, 2012d, 2013e, 2014d, 2015d, 2016d, 2017d)

Slovenia's employment CSRs can be broken down into five separate policy issues: 1) modernization of the Slovenian PES, targeted ALMP measures and life-long learning for low-skilled, older workers and long-term unemployed 2) flexibility of employment protection legislation and labour market segmentation 3) the appropriateness of the minimum wage in light of competitiveness and job creation; 4) pervasive use of student work, outdated vocational education and training, and the position of inactive NEETs; and 5) the retirement age and pension reform. Before individually analysing the Semester influence on each issue separately, several general remarks on these CSRs are in order.

First, in 2011 all employment CSRs were linked to the SGP procedure, whereas between 2013 and 2015 all were considered relevant for the MIP procedure, which means that employment issues were also subject to specific monitoring by the Commission. A general impression shared by members of the Ministry of Labour and Commission staff is that the linkage of employment CSRs to the SGP and MIP procedures added considerable political importance to and focus on the employment field (SI2A, SI2B). By coupling the employment OMC process with the fiscal and macroeconomic strand, the Semester strengthened the coordination process and made employment coordination a more seriously taken exercise most notably in the crisis context (SI1B, SI1F). This linkage was perceived not just in the sense that employment CSRs linked to SGP and MIP could in theory contribute to the activation of corrective actions, but also other 'negative multiplications' (SI2A) were made aware of through these linkages. For instance, governments feared that the importance assigned to employment CSRs would increase attention to vulnerabilities in the employment system in the context of assessments of Slovenia's credit rating, which in turn also increased the urgency of acting. Employment CSRs were also under greater scrutiny by DG EFIN. The formal linkage, enhanced monitoring and intensified interactions, together with the threat of a Troika intervention, contributed to the feeling of external pressure and hardening of employment issues. As one senior civil servant mentioned:

‘A monitoring system is in place, everything is reported, reform assistance is offered and there are no more excuses for inaction. There was less of open method of coordination and socio-economic issues were much more integrated into economic governance, so that they de facto became part of macro-economic conditionality.’ (SI2A).

Some scholars even commented that ‘EU’s restrictive framework [*was*] limiting the prospect of socio-economic reconstruction’ (Nahtigal, 2015: 249). It can therefore be concluded that in the early Semester years (between 2011 and 2014) the Slovenian case exemplified the hybridization of employment coordination with greater emphasis being placed on the budgetary and (macro-)economic implications of employment issues.

Next, the fact that all employment CSRs in 2013 and 2014 were found relevant for achieving macroeconomic stability and subject to enhanced monitoring also crucially shifted the balance of power to the Commission’s side in the negotiations of the 2014-2020 partnership programme for cohesion policy and therefore the funding allocations from EU funds (SI1F). One member of the Slovenian Permanent Representation which was closely involved in the process confirmed that the Commission insisted that funding priority be given to investments in ALMPs for vulnerable groups, active ageing and lifelong learning activities, vocational education and training – all of which were in line with the issued CSRs (SI1F, see also: Council, 2016d: 3; European Commission, 2016e: 11). This way, the Semester process helped inform funding priorities for the current multiannual financial period and influenced the thematic concentration and direction of employment investment.

Furthermore, Slovenia had good ownership of the CSRs. Multiple interviewees, both from the Commission and Slovenia’s Ministry of Labour confirmed that most employment recommendations resonated with the Slovenian authorities which considered them as a fair assessment and largely appropriate (SI1B, SI2B, SI1A, SI2A). The Ministry of Labour appreciated the outside view offered by the Commission and the established pattern of frequent interactions which facilitated a structured approach to policymaking (SI1A). There was awareness that it would

be inherently good (from the governmental perspective) if most of the proposed measures were implemented regardless of the Semester CSRs. However, political will to act, especially on some contentious items, was scattered. As will be shown, on some issues which were high on the policy agenda, the CSRs empowered the government to initiate reforms, whereas on others the pressure created within the Semester forced governments to take actions which were of uncertain societal legitimacy and faced political constraints. At the same time, good multi-level working relationships and the ability to discuss policy issues openly and frankly with Commission officials allowed Slovenia, even at the height of the crisis, to openly argue against policy suggestions which it did not consider appropriate, such as with the issues of minimum wage and the link between retirement age and life expectancy (SI1A).

Also, *prima facie* it is surprising to see that until recently almost all CSRs were repeated year after year and the Commission did not assess progress in implementing the CSRs as significant or full in not a single CSR between 2011 and 2017. This is puzzling given the usual 'good pupil' reputation Slovenia developed. The analysis of individual policy items should reveal why there was little convergence between the policy designs proposed by the Commission and the actually enacted policy changes.

Minimum wage

Throughout 2012-2015, the Commission addressed the issue of wage setting in its CSRs and had the opinion that the minimum wage was set too high. As such it did not stimulate the creation of new jobs and negatively impacted on the economic competitiveness of the Slovenian industry. Slovenia's indexation of the minimum wage was tied to inflation, but not to economic trends. It was also one of the highest in relative terms in the EU. The Commission furthermore found problematic the 'large discretionary increase' of 15 % in the minimum wage (Council, 2013e), enacted by the Pahor government in 2010 as a symbolic side-payment to trade unions, trusting

that the government would win over their support for the more contentious reforms in the pension system and on the labour market by ‘containing increases in inequality’ (Feldmann, 2016: 38).

While there was general agreement among successive governments during the crisis that wage growth should follow productivity gains, they argued that concrete wage setting modalities should be a matter of social dialogue, enshrined in a social pact as a mutual commitment (see: GRISI, 2011: 15). The repeated message from the CSRs which targeted the minimum wage did not resonate in Slovenia as it was a very sensitive area. The Cerar government which came to power in late 2014 did break the deadlock to some extent, signing a biannual Social Agreement (2015-16) with social partners in January 2015 in which all sides agreed that wage growth in the public sector should not outpace the levels of wage growth in the private sector and that not only inflation but productivity trends should be incorporated into calculations of sectoral wage negotiations (GRISI, 2015: 14). However, agreement on minimum wages was not part of the Social Agreement. It was later in November 2015 that the government, acting under pressure from trade unions and without the employers’ consent, passed a bill which amended the definition of the minimum wage. The act stipulated that allowances and bonuses had to be excluded from the calculation of the minimum wage (European Commission, 2016: 52). This made labour more expensive to employers, which were appalled by the backdoor deal and decided to withhold support for the Social Agreement.

DG ECFIN was the principle initiator and advocate of this CSR. It was adamant in arguing that the lowering of the minimum wage and an automatic link to productivity increases would serve economic recovery and restore competitiveness (SI1A). DG EMPL did not agree, and the CSR became one of the playgrounds of inter-institutional clashes between the two DGs during the crisis. In bilateral discussions, Slovenia argued that the government could not unilaterally intervene in the area of minimum wage since the issue had been one of the traditional strongholds of social partners and was subject to lengthy tripartite negotiations (SI1A, SI2A). While the issue remained on the CSR list until 2015, the political leadership in the Ministry of Labour established productive informal contacts with the then Secretary-General of the Commission, Catherine Day

and István Székely from DG ECFIN, who sympathized with the Janša government concerns that ‘lowering the minimum wage would be like a red flag for Slovenes’ (SI1A). The Ministry was especially worried about this CSR in the context of ongoing pension reform negotiations in 2012 because any unilateral action on the minimum wage would have jeopardized consensus with social partners on the pension reform. As a result of productive informal contacts and the shift in inter-institutional power settings between DG ECFIN and DG EMPL, the Commission’s stance on the minimum wage softened over time. The 2014-2015 CSRs on the minimum wage were more balanced and acknowledged DG EMPL’s concerns over the adequacy of the minimum wage, and not just the job creation and competitiveness effects. The CSRs recognized the importance of upholding the principle of social dialogue. In the 2014 CSR, the message remained the same, however it acknowledged that any decision on the minimum wage should result ‘following consultation with social partners and in accordance with national practices’ (Council, 2014d). The 2015 CSR was more balanced in substance, indicating that competitiveness, job creation and should not be the sole concerns, but that the adequacy of the minimum wage should be assessed ‘in light of the impact on in-work poverty’ (Council, 2015d), which marks a clear shift in attention to the social aspect of the minimum wage.

To summarize, although the minimum wage was an area in which external pressure was high especially during the Janša mandate, two factors made the Commission backtrack from the initial formulation. First, the government acted under political constraints and the risk of mass protests. The realization that absence of trade unions’ approval of change would heighten the crisis of social dialogue and risk a deadlock in parallel negotiations on the pension reform averted the government from converging to the Commission’s standpoint. The institutional importance of tripartite negotiations and the recent history of mass protests and referenda brought political elites to a dead-end – they could either embrace the tradition of neocorporatism or risk protests or eventually electoral loss. Second, the leadership of the Ministry of Labour was skilful enough to defuse the situation by fostering good working relations with senior officials in DG EFCIN and

SECGEN. They were immensely important actors because they were knowledgeable and socialized into the Semester process to a great extent. Having realized that informal contacts and solid argumentation can result in positive outcomes for the government, they located the key, most-influential actors who could influence the formulation of CSRs and managed to convince them to moderate their stance on minimum wages.

Activation of vulnerable groups

In recent years, the Commission criticized the deficiencies of the activation system and investment in employment incentives and employability of marginalized groups on the labour market, especially the underrepresentation of low-skilled and elderly in ALMPs (European Commission, 2012d). As Nahtigal (2015) notes, the crisis and the Semester brought to daylight the weak institutional embeddedness of the system of ALMPs, training and lifelong learning. Until the crisis, these areas slipped under the radar and suffered from under-investment, but they resurfaced in the Semester. Initially, crisis management held the Pahor, Janša and Bratušek administrations occupied with devising various crisis-fighting measures, and there was no appetite for greater investment in adult learning, incentives for low-skilled, long-term unemployed and older workers and the modernization of the PES. These issues were overshadowed by more pressing ones. Also, these policies could not produce immediate improvements on the labour market. Interventions in these areas required a stepwise approach and, in some cases, systematic changes (adult learning) and therefore would not bring immediate benefits but would be visible long-term instead (SI2A). On the other hand, the Commission also gave priority to the pension and labour market reform. That is why successive governments were less enthusiastic and focused on more politically salient issues with wider societal implications.

With the economic recovery, policy changes were initiated on several fronts. For low-skilled, amendments to the Labour Market Regulation Act in September 2018 made working pay off for low-skilled recipients of unemployment benefits as they could now keep 20 % of their

benefit while becoming employment (European Commission, 2018d). For older workers, new activation measures were prepared. In the context of an ageing society and low participation of elderly on the labour market, Slovenia embraced the 'active ageing' concept which the EU promoted already in the 2000s. The concept has the meaning of 'helping people stay in charge of their own lives for as long as possible as they age and, where possible, to contribute to the economy and society'⁷¹. In the Slovenian case, the focus was on extending the working life of elderly and creating incentives for activation of elderly on the labour market. This issue is also considered important from the sustainability aspect of the pension system. The Lisbon strategy and the EES have motivated the preparation of an Active Ageing Strategy in 2009 (Lajh and Štremfel, 2011). Although it was not new on the agenda, the active ageing concept had once again penetrated the domestic agenda (SI2A). The Semester helped the Ministry of Labour to remind the government of its importance and contributed to the importance assigned to active ageing in the 2014-2020 Operational Programme as a separate investment priority. More than 43 million euros were earmarked for active ageing policies (GRSI, 2015). Recently, a new Active ageing strategy was written, highlighting the need to invest in adjustments of the working environment for elderly, the health of older workers and their upskilling through lifelong learning opportunities and training in accordance with technological advancements (GRSI & IMAD, 2018). Actions will draw heavily on EU funding to achieve these goals. Also, new financial incentives were introduced to employ those older than 55 (social contribution exemptions) and to extend the working life of workers eligible for retirement (GRSI, 2016: 22-3). Regarding the declining trend of adults' participation (25-64) in lifelong learning, Slovenia initiated a National Skills Strategy in 2015 to reform the adult learning system with the professional help of OECD experts and in cooperation with a wide range of domestic stakeholders (OECD, 2018). The Strategy identified deficiencies in the governance of the skills system, in inter-ministerial cooperation and in the partnership approach as social partners

⁷¹ European Commission. Active ageing. Retrieved from: <https://ec.europa.eu/social/main.jsp?catId=1062&langId=en> (Accessed: 3 March 2019).

and target groups do not participate in designing adult learning programmes. Reform solutions are currently being designed and will be supported by EU funds.

Different actors in the employment field seized the opportunity created by the Semester to advocate more resolute action on the activation of vulnerable groups. The Slovenian PES plays an unusually active role in employment policy. Its role is not confined to the formal implementation of ALMP measures and work with unemployed clients, but the Ministry of Labour seeks to cooperate with the PES in designing policies and measures towards target groups together (SI1C). The close and strategic cooperation between the PES and the Ministry of Labour makes them strong allies in advocating for a greater budgetary and policy focus on employment. According to senior interviewees, during the crisis they formed a strong coalition which successfully managed to advocate at central government level for more state funding for ALMPs and the modernization of PES (SI1C, SI2A). One EMCO member argued that the Semester helped empower the Labour ministry's cause by bringing to the attention of the government issues such as long-term unemployment, counsellor-unemployed ratios and profiling in PES which were previously systematically neglected. These could not be ignored in the Semester framework anymore, the more so because new funding opportunities were earmarked specifically for them (SI2A). The fact that the Semester CSRs had crucially influenced the funding allocation in the 2014-2020 Operational Programme for the implementation of EU cohesion policy contributed to their cause in inter-departmental contests for budget allocations: 'The Ministry of Labour is happy to have the Semester because it helps us say – sorry, these are the identified priorities, the money goes to us, and not you.' (SI1F). The OP's focus on vulnerable groups opened up funding for PES modernization which could be used to increase the quality of services offered to older workers, low-skilled, long-term unemployed and youth.

The leadership of the Slovenian PES had used the crisis situation and Semester CSRs strategically to deepen already existing reform processes and to redesign the existing service model (SI1C). Unlike other public services, retrenchment and staff reduction circumvented the Slovenian

PES. Opposite to that, human capacities to work with vulnerable groups were increased in accordance with the CSRs (SI1C, SI2A). The PES trained specialized youth counsellors and developed an individualized approach to long-term unemployed (EMCO, 2017). To stimulate better matching of employers' demands and available skills, the PES reoriented towards building greater partnerships with employers (SI1C). New employer-centred services were introduced to facilitate the matching process and the forecasting of labour market needs was stepped up through new methods of data collection.

To conclude, the Ministry of Labour, in strategic partnership and close cooperation with the Slovenian PES managed to use the Semester process as a strategic lever to argue for more investment and to stress the importance of avoiding retrenchment in measures addressing vulnerable groups on the labour market. Creative appropriation was possible under three conditions. First, the partnering institutions in the employment field (Ministry of Labour and PES) acted in an entrepreneurial manner and recognized the opportunity created by the Semester to further their policy interests vis-à-vis other policy portfolios. Second, access to ESF funding was a major contributing factor in their strives. EU funds which were provided for activation measures of vulnerable groups contributed to a significant budget increase for ALMPs by 35 % in 2016 compared to 2015 (GRSI, 2016: 15). The Semester helped focus the attention on low-skilled, long-term unemployed and elderly, and fed the Commission with supporting evidence in the process of programming the new multi-annual financial envelope for Slovenia. In some cases, EU funding enabled the roll-out of new policy measures (i.e. financial incentives for elderly and low-skilled), however, mostly they supported the policy agenda of the Ministry of Labour by providing financial backing for ongoing reform processes or those that stalled due to the crisis. Some areas such as adult learning are highly dependent on EU funds (OECD, 2018: 21). Finally, CSRs largely addressed what was already envisaged in domestic strategies and action plans – from multi-annual ALMP guidelines for ALMPs, the Active Ageing Strategy 2009, Adult Education Master Plan

2013-2020, the National Youth Programme 2013-2022 and the NRPs which, regardless of the government in power, reflected programmatic commitment to more targeted measures.

The following section takes a detailed look at two issue areas, the pension system and labour market regulations, which marked Slovenia's participation in the Semester. Slovenia did not live up to the Commission's reform expectations despite considerable external pressure. The section after discusses youth employment and the Youth Guarantee, an area in which the Commission welcomed progress in meeting the CSRs.

6.5 Pension and labour market reforms

Labour market reforms

In 2011 and 2012, Semester CSRs addressed the issue of Slovenian employment protection, which traditionally favoured insiders' rights and protected workers from firing. Specifically, the Commission was worried about the 'asymmetries in rights and obligations guaranteed under permanent and temporary contracts' (European Commission, 2012d). Employment legislation tilted towards permanent employees, promoted job insecurity for temporary workers and created obstacles for transition to permanent employment and full exercise of workers' rights. The disproportion in protection between different contractual arrangements created segmentation on the labour market which affected young and older workers the most. With EU-accession, labour market segmentation even worsened. Facing strict labour market regulations and strong trade unions on the one hand, and tough competition from other countries on the other, employers started using temporary contracts more and more to keep up with market pressures (Stanojević et al., 2016: 287). According to Eurostat, around 14 % of the workforce was employed on fixed-term contracts between 2005 and 2017, which is 4 pp above the EU-average. Under such circumstances, EU authorities encouraged Slovenia to decrease employment protection for permanent workers and, in parallel, to increase the protection of fixed-term workers and ease their transition to permanent employment (Council, 2011c: 2).

Two pieces of legislation addressed the issue of labour market segmentation in 2013 – the Employment Relationship Act (ERA) and the Labour Market Regulation Act (LMRA). The new legislation reduced the gap in rights and obligations between open-ended and fixed-term contracts. The duration of one or consecutive fixed-term contracts was limited to two years. Unemployment benefits as well as severance pay were made available to fixed-term workers (especially young short-term workers), but severance pay could be reduced in case of business-related termination of contract. Dismissal of permanent workers was simplified only for a limited minority of workers who worked for less than a year and more than 25 years (European Commission, 2013f: 26). The notice period for permanent workers was significantly reduced, but the workers could now participate in job-search activities already during the notice period (GRSI, 2013a: 41). Employers were stimulated for offering open-ended contracts with a 2-year exemption period from unemployment contributions. As a general undertone, new labour market regulations kept job security high and, on the other hand, extended it to precarious workers on the one hand, and simplified hiring/firing procedures, made open-ended contracts more attractive to employers and de-stimulated temporary work (Filipovič Hrast and Kopač Mrak, 2016: 705).

First policy evaluations in 2014 showed improvements in labour market segmentation and greater utilization of open-ended contracts (European Commission, 2014e: 27). Later evaluations confirmed that, while the use of fixed-term contracts was still pervasive among new workers, a much higher proportion of workers transitioned from fixed to permanent contracts (European Commission, 2016e: 51) and older workers benefited significantly from the changes (see: European Commission, 2018d: 34).

The reforms of 2013 were preceded by attempts of the centre-left Pahor government to implement labour market reforms, which was heavily criticized by trade unions and student organizations who opposed a Mini-Job Act regulating occasional and temporary work of students, unemployed and retirees. Pahor could not come to terms with trade unions and passed the bill in the National Assembly in November 2010 without any agreement with trade unions and junior-

partner DeSuS, which withdrew support for the reform (Fink-Hafner, 2010: 1165, 2011:1133). The unilateral action made trade unions and students take things to the street, after which they started collecting signatures for a referendum (for details, see: Section 6.6). The consequences of Pahor's manoeuvre were harsh. The referendum initiative collected over 40 000 signatures and a referendum was triggered, which led to the revocation of the Mini-Job Act in April 2011 (Stanojević and Klarič, 2013: 224).

The labour market reforms explicitly drew inspiration from and sought to apply the EU's reinvented flexicurity concept (Fink-Hafner and Lajh, 2018; GRSI, 2011: 36). As Bekker (2018) points out, the Semester promotes a post-crisis version of the flexicurity concepts which assigns greater importance to the 'social aspect' of flexicurity and seeks to prevent dualities on the labour market, adequate social protection of precarious workers during unemployment, and smoother transition to permanent employment. Such a balanced vision as opposed to a more neoliberal notion of flexicurity was reflected in the Commission's interaction with Slovenia, and further cemented during tripartite negotiations which resulted in more flexibility and security at the same time. Thus, while the original flexicurity concept was not new to Slovenian policymakers, the Semester helped keeping alive the reinvented flexicurity concept and contributed to its active use in the government's official policy documents.

Pension reform

The pension system was a separate issue. Rapid population ageing and unfavourable changes in the projected age structure in Slovenia attracted the Commission's attention. By 2060 the share of the 65+ population was said to increase from 17.1 % (in 2018) to 31.6 %, which would affect the sustainability of the pension system as pension-related costs were projected to increase the most of all EU countries – from 11.8 % to 15.3 % of GDP in 2060 (European Commission, 2016e: 35, 2018d: 31). On the other hand, pension provisions set a low retirement age and other labour market regulations did not incentivize longer working life, which was reflected in poor

participation of older workers on the labour market (36.5 % vs. EU-27 49.7 % in 2011) (Council, 2011c). Slovenia missed a few opportunities to modernize its pension system in the past due to both trade unions' systematic opposition to neoliberal reforms and concessions made to DeSuS, a pensioners' party which participated in each coalition government since independence, in return for their political support (Guardiancich, 2011: 324). Consequently, early reforms in the 1990 locked in a system fully reliant on a basic, publicly provided (pay-as-you-go) first pillar, low retirement age provisions, favourable indexation of pensions (tied to wage growth) and loose penalisation of early retirement (Kolarič et al., 2009). Attempts to introduce a mandatory contribution-based pillar (so-called points system) in which the pension benefits would partly depend on the income which was received during the working career never stood a chance against the strong representation of pensioners' rights in the political system.

First serious attempts to reform the pension system came with the Pahor government in 2010. Pahor contended that a reform of the pension system was 'the main planned reform among structural changes' (GRSI, 2011: 3) and key to 'ensuring the long-term sustainability of public finances' (ibid., p. 18). According to country experts, Pahor's determination was largely driven by external pressure created by the Commission and the OECD as Slovenia entered the EDP in 2009 and joined the OECD in 2010, whereas both institutions were very critical of the current pension system (Guardiancich, 2012: 391). The Pension and Disability Insurance Act was prepared and foresaw a couple of parametric changes, rather than a complete paradigm shift in the pension system (ibid. p. 392). Retirement age would increase to 65 for both sexes, indexation of pensions made less favourable and stricter penalization would demotivate early retirement.

The government was politically shaken by the reform intentions as junior coalition partner DeSuS did not support the reform and soon left the coalition, which forced Pahor to rely on the support of opposition party Slovenian People's Party to pass the bill (Fink-Hafner, 2011: 1134). Furthermore, no agreement could be found with social partners despite frequent interactions in tripartite working groups (Guardiancich, 2012: 395). Trade unions rejected any plans to increase

the retirement age and to tighten the penalization of early retirement. Pahor decided to circumvent the ESS which traditionally had to agree on socio-economic policies before a bill is to be sent to the National Assembly for voting. This government's decision to act unilaterally only antagonized workers. Trade unions were appalled by Pahor's one-sided decision to implement a pension reform and collected enough signatures to organize a referendum in June 2011 in which more than 70 % of people expressed their opposition to the pension reform and defeated the Pension and Disability Insurance Act (Stanojević and Klarič, 2013: 223). The Act was therefore suspended, and no new legislative act could be initiated in the next 1 year.

The subsequent Janša government relied on expert opinion which considered the pension system sustainable until 2020, and hence did not believe a pension reform was needed any time soon (SI1A). He held this opinion both as an opposition leader in 2011 and coming to power in 2012. However, the political and economic reality of that time dictated that something needed to be done, and the pension reform could not be postponed (SI1B).

In 2012, the Janša government passed a very similar pension reform (Pension and Disability Insurance Act) as initially proposed by Pahor. The Act extended the statutory retirement age of both men and women to 65, increased the reference period for calculating the pension age from 18 to 24 years, and set higher bonuses for later and higher penalties for earlier retirement (Filipovič Hrast and Kopač Mrak, 2016: 707). This time, however, the government assured that policy changes would be 'negotiated with the social partners to the greatest extent possible' (GRSI, 2012: 7). Social partners were closely consulted and gave their consent to changes which were somewhat watered down from the initial draft (Stanojević et al., 2016: 287). Nonetheless, the government clearly indicated that an automatic mechanism linking life expectancy to retirement age could not be enacted as trade unions disapproved of it (GRSI, 2013a: 36). Informed by previous experiences with the pension reform, the government could not risk another impasse by jeopardizing consensual decision-making.

The new act was not entirely to the taste of the Commission and similarly did not impress financial institutions which continued to downgrade Slovenia's credit rating (Fink-Hafner, 2013: 21). The Commission described the reform ambitions as 'modest', considered 'further stabilization of pension-related expenditures' necessary, and insisted that early retirement be further reduced and an automatic link be created between retirement age and life expectancy to extend the effective working age (European Commission, 2013g, 2014f). Nevertheless, the insertion of life expectancy was politically not feasible. State Secretary for Labour, Mr Pogačar discussed the issue informally with Mr Michel Servoz, Director-General at DG EMPL (2014-2018), trying to convince him that the life expectancy link was a no-zone as it was important to respect trade unions' negative position on this topic, especially in the context of ongoing negotiations on a new Social Pact 2015-16 (SI1A). Since then, Slovenia received some breathing space. CSRs continued to stress the importance of ensuring long-term sustainability of the pension system, however explicit reference to life expectancy was ditched thanks to good informal relations and favourable conditions in which the effective retirement age started rising faster than life expectancy and numbers of new old-age pension entrants dropped (GRSI, 2015: 10). Although it remained a primary concern, the insistence on fiscal stability was partially supplemented by suggestions to ensure adequacy of the pension system. As the Council's 'Comply or Explain' document for the 2014 CSRs reveals, Slovenia was able to insert existing concerns over poverty rates among retirees into the list of amendments to the 2014 CSRs to reflect suggestions of ensuring the adequacy of the pension system (The Council, 2014e). The social aspect of the pension system became a more prominent topic in the Commission's Country Reports for Slovenia, arguably, in reaction to Slovenia's diplomatic efforts and pursuant to an overall rebalancing of social and economic priorities on the Commission's side. The Commission also began to worry that the pension freeze and longer reference periods for calculating the pension base would negatively affect the generosity of pensions, especially of those with shorter careers (European Commission, 2016e: 35).

The left-wing Cerar government which governed throughout the period of economic recovery shared the concern that the pension system was not sustainable in the long run despite the 2013 reform (GRSI, 2016: 22). However, as the crisis pressure waned and policymaking returned to normal-gear incremental neocorporatism, the reform momentum was lost (Zajc, 2015: 189). An expert group was tasked with creating a White Paper that would consider the option of automatic indexation of retirement age according to life expectancy and other measures, but concrete proposals were lacking. Eventually, a White Paper was presented and recommended to introduce an increase of the retirement age to 67, to disincentivize early retirement and to consolidate the second (voluntary) pillar (European Commission, 2017d: 20). However, as the Commission noted, it is ‘uncertain when the new reform will be passed and how closely it will follow the ambition proposed by the White Paper’ (ibid.). Social dialogue will dictate the pace of legislative actions. A working group of the ESS was established to discuss reform pathways on the basis of the White paper (GRSI, 2017: 10), which further postponed policy change. At the time of writing this chapter, no legislative solutions have been proposed to ensure financial sustainability of the pension system post-2022. Consensual policymaking effectively postponed discussions about the alignment issue and disregarded ‘rapid solutions’ (Guardiancich, 2016: 225), whilst at the same time seemingly demonstrating governments’ reform commitment.

Explanation of outcomes

Turning to an assessment of the effectiveness of different mechanisms of influence, a general agreement among experts and commentators was that both the left-wing Pahor and right-wing Janša government acted under immense pressure from EU authorities to enact labour market and pension reforms in order to escape corrective actions (Fink-Hafner, 2011; Stanojević and Klarič, 2013: 223). Together with the pension reform, labour market segmentation was the greatest fixation in the Commission (SI1A, SI2A). It featured on the EU’s coordination agenda before the Semester’s inauguration as it was considered a structural problem, and it continued to figure highly

on the Commission's agenda. The change in economic context made political elites aware that the reform was inevitable and could not be postponed (SI1B). Assessment of compliance with the rules of the SGP was, among other things, explicitly brought into connection with the implementation of the labour market reform. Adaptation pressure was high and rising not simply because of the linkage to the SGP, but as a result of a synergic effect of different processes – the Semester pressure, the markets which closely followed the reform process and the mounting threat of a sovereign debt crisis requiring a bailout. Pahor, who had previously pacified trade unions by agreeing to raise the minimum wage from EUR 459 to EUR 600, also faced pressures from employers to increase the flexibility of the traditionally rigid employment protection legislation in Slovenia. He was caught between a rock and a hard place, finding it difficult to balance between the expectations of the left-wing voters and the crisis-exposed employers who asked for more flexible labour market regulations. Seeing how (electorally) costly it was for the Pahor administration to disregard social dialogue, the Janša government had to employ different tactics in the area of pensions and labour market. Janša brought the two issues back to the table of the ESS and reassured that social partners would play a central role in determining the reform outcomes (Stanojević et al., 2016: 287). Which it did, however at the expense of failing to meet the Commission's ambitions. Janša came to realize that only by attempting to reach consensus among social partners his government could respond to EU demands. Eventually, the government came to an agreement with social partners thanks to the intensive involvement of the experienced labour minister Mr Vizjak in negotiations, and trade unions' reasonable assessment that the crisis situation necessitated willingness to compromise on their side as well (Guardiancich, 2017: 242-3; Guardiancich, 2016: 225).

Three factors have contributed to the effectiveness of external pressures. First, as the empirical findings indicated, Slovenian authorities took the reinvented SGP rules seriously during the eurocrisis and found the use of punitive measures credible in case of non-compliance. In the early years of its implementation, it was difficult to assess with what level of flexibility the

corrective arm of the SGP would be applied, so the worst scenario had to be counted with. Second, the costs of not implementing the labour market and pension reforms were too high. The Janša government was effectively cornered by both external pressures and domestic constraints and could not afford to let go of the reforms as it attempted to restart the economy and demonstrate commitment to structural reforms and fiscal discipline in the eurozone. The perceived costs of defection ranged from market punishments, through penalties in the SGP to more harsh reform conditionalities in the case of a bailout. A bailout would have implied a strict set of lending conditionalities which would impinge on the autonomy and traditional way of policymaking in Slovenia. Third, Slovenian elites never questioned the eurozone rules, and were strongly committed to fiscal and macroeconomic stability. They did not react to EU pressures with disgust nor did they exploit the crisis momentum to slander the Commission for trying to encroach Slovenian economic sovereignty. On the contrary, Slovenian authorities acted cooperatively and respectfully and kept the relationship with EU institutions productive, which made Slovenia amenable to suggestions, and the Commission ready to compromise.

As regards the potential of mutual learning, the interactions in EMCO were not particularly helpful in designing the pension and labour market reforms. EMCO was side-lined because the two issues transcended the technical level. On the one hand, the pension and labour market reforms were controversial and politicized. Thus, they became objects of discussion and negotiation between the highest political levels during the eurocrisis, which decreased the learning potential. On the other hand, the expert level was subordinated to the political interests of the government and to the principle of social partnership. Social partners claimed the right to be closely involved in the reforms and wanted to keep a firm grip over the formulation of potential policy solution. However, EMCO peer reviews, which were attended even by the State Secretary for employment, Mr Peter Pogačar, were said to be very useful for receiving ex-post feedback and tips on how to analytically monitor the implementation of the two labour market acts (SI1A).

Finally, it was due to the systemic involvement of social partners and the constraining role of trade unions that the policy change was not as ambitious as the Commission would have hoped (European Commission, 2013f). After the labour market and pension reform of the Pahor government failed in a referendum, newly initiated reforms by the Janša government as a reaction to the Commission's persistent pressure could not be passed without substantial involvement of social partners. Again, trade unions' power during the crisis to mobilize members and citizens in mass street protests, new referenda initiatives and potential repercussions for re-election would have been the only alternatives to tripartite social dialogue (SI1A). The new labour reform therefore only moderately decreased the employment protection of permanent workers, and the pension reform did not introduce a life expectancy link. For the pension reform, another constraining actor was the pensioners' party DeSuS which was junior coalition partner in both the Pahor and Janša government and thanks to which the pension reform was put 'on the back burner' (Haughton and Krašovec, 2013: 203). In political circumstances in which strong veto players existed – paradigm shifts or comprehensive changes were excluded as options. Whereas policy change can be attributed to external pressure, the consensus-seeking tradition and readiness to accept only incremental changes inhibited a more radical shift in labour market flexibility and pension paradigm but promoted a balanced notion of flexicurity and active ageing instead.

6.6 Youth Guarantee and student work

Similar to other crisis-ridden EU member states and CEE peers, young workers and unemployed youth had to shoulder the greatest burden of crisis adjustment in Slovenia and experienced a deepening of an already weak structural position on the labour market. In the period 2008-2013, youth unemployment in the age group 15-24 more than doubled (from 10.4 % to 21.6 %) whereas the employment rate plunged from already low 34.8 % to 26.5 % (GRSI, 2015: 162). Youth in the less-developed NUTS2 cohesion region Eastern Slovenia (*Vzhodna Slovenija*) are particularly marginalized with youth unemployment rates above 25 %, which makes the region eligible for

additional funding from the YEI. The share of inactive youth, the so-called NEETs, also increased significantly from 6.5 % in 2009 to 9.3 % in 2012 which amplified the urgency to develop outreach activities (European Commission, 2014e: 27-9).

Besides these unfavourable statistical movements partly caused by the crisis, some structural conditions have also contributed to the bad situation. Young persons were especially exposed to temporary and part-time forms of employment which ‘reduced the possibility of economic and social independence of the young population’ (GRSI, 2011: 33). Precarious work among youth was exemplified by the fact that the share of young workers on temporary contracts was the highest in the EU before and during the crisis and remained so after the crisis as more than 70 % of all youth work on temporary contracts (European Commission, 2018d: 34; Ule and Leskošek, 2018). Overreliance on temporary work was made possible by labour market provisions which created barriers to permanent employment, but also by studying provisions which incentivized student work. Student work, mediated by the Student Employment Services, was a largely precarious part-time employment relationship with low concessions, low income tax rate and no employers’ contributions. It was an attractive work scheme both for students, who could earn some extra money during studies, and to employers who had access to cheap and highly educated labour. Student work was considered problematic as it virtually blocked access to regular employment for young people through open-ended contracts. The Council denoted this employment practice as constituting ‘sizeable, largely unregulated, tax-advantageous, parallel labour market’ (Council, 2012d).

In short, four reasons explain the weak position of youth on the Slovenian labour market: 1) the widespread use of fixed-term contracts and slow transition to permanent employment; 2) the disadvantaged position of youth without prior experience when competing for jobs; 3) the large scale of student work; and 4) the mismatch in recent graduates’ skills and the demands on the labour market (MLFSA, 2014: 5-6). These were reflected in Council recommendations to Slovenia and the Commission’s assessments in the period 2011-2015 which stressed the need to

eliminate root causes of youth marginalization on the labour market. The CSRs specifically targeted the need to eliminate segmentation on the labour market created by student work through new legislation and incentives on the labour market (2011-2014), to modernize the vocational education and training system so that it is aligned with labour market needs and prevents skills mismatching (2012-2014) and to reach out to non-registered NEETs and create targeted ALMPs in line with the Youth Guarantee (2013-2014).

The policy response particularly by the centre-left Bratušek government was substantial and operated on two fronts – 1) reforming the system of student work and creating incentives for more permanent employment on the one hand, and 2) implementing the Youth Guarantee to reform the system of apprenticeships/traineeships, and improving the capacity to offer individualized job-search and counselling services. Regarding student work and the precarious position of temporary workers, two legislative changes were initiated in 2014. First, the Occasional Student Work Act tried to give youth greater social security by increasing social security contributions and minimum remuneration per hour (GRSI, 2013a: 21; European Commission, 2015d: 56). While student work was not entirely eradicated and remained the comparatively cheapest form of work for employers and popular among students, it became less attractive (more costly) for employers with the new regulations in place (European Commission, 2016e: 51). Second, the government introduced incentives for employers to offer permanent contracts to unemployed youth under 30 by creating ‘exempt[ions] from paying the employer’s contributions for pension and disability insurance, health insurance, parental insurance and insurance against unemployment for the first 24 months of the youth’s employment’ (GRSI, 2014a: 26).

The government adopted the Youth Guarantee in January 2014 by passing the Youth Guarantee Implementation Plan. The application of the Slovenian Youth Guarantee was extended to the age cohort 25-29 due to a high enrolment rate in tertiary education and great exposure of recent graduates to long unemployment spells during the crisis, with their unemployment rate standing above the EU-average at 14.6 % (GRSI, 2014b). The plan foresaw 36 measures, some of

them oriented to early intervention to prevent unemployment and improve skills matching, such as further investment in existing Career Centres for career counselling and guidance, surveying of employers to identify future skills needs, scholarships in shortage occupations and reintroduction of the apprenticeship system in vocational schools. Another set of measures intended to integrate unemployed youth into the labour market and improve their employability and thus employment prospects. Those included training and recruitment of special youth counsellors in the PES, mentoring schemes, short traineeships for recent graduates, 3-month on-the-job trainings and the First Challenge program for the Eastern Slovenia region which is a system of subsidies to employ a person aged 15-29 without prior experience for a period of 15 months, including a 3-month probation period. An updated version of the Youth Guarantee Implementation Plan covering the period 2016-2020 introduced no dramatic changes, but assigned much clearer responsibilities to social partners and youth organizations to promote the Youth Guarantee and to reach out to non-registered NEET, and placed a huge (financial) emphasis on incentivizing permanent forms of employment in the aftermath of a traineeship or on-the-job training (MLFSA, 2016). Furthermore, the new Implementation Plan was more specific in regards the introduction of a new apprenticeship model. Eventually, in 2017 the Apprenticeship Act was passed, defining that an apprentice would spend a minimum of 50 % of time in work-based practice at a learning site and would have the right for reimbursement and social security (GRSI, 2018: 14). Employers' efforts to carry out work-based training will be financially supported by earmarked ESF cohesion funding.

Reactions by the Commission and EMCO to these reforms were largely positive. EMCO (2015, 2016, 2018) welcomed the changes in student work regulations and the greater use of open-ended contracts, congratulated Slovenia on the implementation of the Youth Guarantee and work with NEETs. The Commission also recognized the contribution of the Youth Guarantee to the greater participation of youth on the labour market and considered the legislative measures on student work and employment protection adequate in responding to labour market segmentation of youth (European Commission, 2015d: 56).

So, what explains this plethora of policy actions undertaken in the youth employment field in the recent past and what was the role of the Semester? First and foremost, two processes need to be separately analysed – the regulation of student work on the one hand, and the Youth Guarantee on the other. Student work was a controversial issue already with Pahor’s centre-left government in 2010. As it was already described, Pahor intended to implement labour market and pension laws unilaterally after failing to collect the support of trade unions. Among other things, Pahor acted under crisis pressure from the OECD and Commission’s insistence to curb labour segmentation of young workers. This issue was part of a broader debate on labour market and pension reform which were two areas of special interest to the Commission. The government passed the Part-Time Work law (known as Mini-Job Act) in the lower house (National Assembly) in 2010, however the upper house (National Council) rejected it. In a second attempt, the law was passed. Youth organizations were hugely dissatisfied and organized riots in protest to the Act in which they mobilized around 15 000 students (Stanojević and Klarič, 2013: 224). Despite the fact that there is no homogenous umbrella network of all youth organizations in Slovenia, several youth organizations which represent different youth interests are internally very cohesive and well organized, and their influence on youth policymaking in Slovenia is considered immense (SI3A). The leading youth organizations which stand out are Mladi+, a youth trade union promoting youth employment and labour rights; Students’ Organization of Slovenia, representing students’ rights; and Youth Network Mama, which is a network of youth work centres for social integration and support for youth (SI1D). One of them, the Students Organisation of Slovenia, supported by the Association of Free Trade Unions of Slovenia, started collecting signatures for a referendum and eventually defeated the law in a referendum on 10 April 2011. The law would have limited students’, unemployed’ and pensioners’ right to work to 60 hours a month without the usual employment rights such as commuting costs, sick leave, severance pay, parental leave or annual leave reimbursement. Youth organizations had proven that they are capable of mobilizing the youth population and the broader public on youth issues and sent a warning signal to political

elites not to circumvent them on policy issues of their direct interest. In 2011, student work was off the government's agenda, but remained one of the hot potatoes in Slovenian CSRs which the Commission was hopeful to see solved and the pressure was not waning. The Janša government was from the start 'of the view that the tax burden on student work must be increased' (GRSI, 2013a: 8). While their opinion converged with the Commission's point of view, student work appeared to be a restricted area especially after the successful referendum. However, as the crisis culminated and EU pressure to implement structural reforms to fiscal and macroeconomic rules rose, labour segmentation of youth remained a key concern which could not be disregarded (SI1A). The government decided to approach the issue more wisely by starting negotiations with youth representatives in 2013 to find alternative ways of regulating student work. Negotiations were led by State Secretary for Labour, Mr Peter Pogačar who was the central figure and mastermind behind the negotiation strategy (SI1A). The plan was to advance the policy agenda by employing the Semester recommendations, bolstered by the bailout threat and crisis momentum, to drive students into a corner. The State Secretary drew strategically on the importance of implementing the student work CSR to avoid a bailout, whilst at the same time promoting the government's preference. One senior official which was involved summarized the tactics as:

'We misused the Commission's recommendation in our domestic debates with the Students' Organization. Student work was legal, but very precarious, cheap and flexible and it was a real problem. As we couldn't agree with the Students' organization initially, we told their leadership they would have to confront Commission officials and would end up without any student work whatsoever' (SI1A).

The argument was well-known – the government's hands were said to be tied and policy change externally imposed, and there was nothing that could be done about it. Students were ready to give in and contribute to exiting the crisis, but the government could not afford to only simulate debate but needed to ensure the Students' organization some genuine impact. The end-result was not as satisfying, but the Bratušek government eventually managed to close the deal with a

compromise, preserving student work whilst limiting somewhat its attractiveness. To summarize, two factors contributed to the government's strategy of using the Semester. First, the Janša government explicitly agreed with the Commission on the preferred course of action and their agendas correlated. Second, State Secretary Pogačar recognized in a policy entrepreneurial manner that the CSR and crisis context combined could serve as an impetus for change and as additional justification of why student work had to be reformed. The Student Organizations' veto power and institutional policymaking role had acted as a constrain to the introduction of new legislative solutions or the complete overhaul of student work which would have been the preferred option for the Commission. Instead, the enacted changes offered only a fine-tuning of existing student work provisions.

The Youth Guarantee displayed a similar mechanism of Semester influence. Several youth organizations led by the Trade Union Mladi+ leveraged the Youth Guarantee and related youth CSRs to pressure the Bratušek government to create more sustainable conditions for youth on the labour market (SI3A, SI1D). On the political front, there was not much excitement about the Youth Guarantee, however Youth organizations took ownership of it and initiated a nation-wide campaign to raise awareness in the public, and in parallel pressured the government from bottom-up to draft a Youth Guarantee Implementation Plan (SI1D). They managed to convince the government to draw up the plan in late 2013 in close partnership with different ministries, the PES and them. Therefore, youth organizations were considered key initiators and agenda setters of the Youth Guarantee in Slovenia (SI3A, SI1D).

The overall ambition of the Youth Guarantee Implementation Plan was rather modest as it mostly offered a face-lift of previously existing measures and followed the strategic employment objectives of the National Youth Programme 2013-2022 (SI2A, SI3A, SI1D), and there was no particular desire to innovate or learn from peers' experiences. Measures which were considered effective in increasing the employability of youth were 'continued and upgraded with new content' (MLFSA, 2014: 6). The new and most important elements of the Implementation Plan related to

specialized youth counsellor services, the provision of practical experience through traineeships and apprenticeships were however crucially informed and influenced by youth organizations' persistent advocacy activities and in close strategic partnership with the Ministry of Labour and the PES who shared the same reform agenda.

Interviewees had the impression that the Ministry of Labour indeed closely cooperated with other ministries and youth representatives (Student Organization of Slovenia, Network MaMa, Career Centre UP and UL, Nefiks, Youth Council of Slovenia, Trade Union Mladi+), and carried through in practice the officially proclaimed partnership approach in the implementation of the Youth Guarantee (SI1C, SI3A, SI1D). Youth organizations were not just actively involved in the preparation of the Youth Guarantee, but closely monitored and openly debated progress on different measures every three months in an atmosphere of trust and mutual understanding as part of a Youth Guarantee monitoring group (SI1D, SI3A). The Ministry had taken the position that youth representatives be treated as partners on equal footing (SI3A). At the same time, youth representatives were in close contact with Commission officials, and provided them with information on reform progress. They hoped the Semester would build momentum through the Country Reports and the CSRs and thus motivate the government to speed up the apprenticeship reform and upgrade labour market policies to incentivize more permanent employment (SI3A, SI1D). The Semester interactions between the Commission and youth representatives during fact-finding missions added to the administrative pressure and intensification of monitoring, especially on portfolios which saw little or no progress over time like the Apprenticeship Act (SI3A). Hence, CSRs and the regular assessment of progress in Country Reports allowed youth organizations to use the Semester process for advancing their agenda. In some cases, such as with the CSR on non-registered NEETs, youth organizations managed to present the CSR as a justification to demand measures which would finance collaborative outreach activities in youth centres (SI31A). It can be concluded that youth organizations, empowered by their mobilization potential, acted as policy entrepreneurs and took advantage of the EU youth employment agenda to strengthen their

domestic position. Two other factors enabled youth organizations to push for youth employment reforms. The available funding which accompanied the Youth Guarantee and YEI was one of the reasons why the Bratušek government was happy to give in to youth organizations' demands to subscribe to the Youth Guarantee (SI2A). Youth unemployment was included as an investment priority in the Slovenian Operational Programme 2014-2020 and could not be ignored. ESF funding allocations created an opportunity for youth organizations to participate in the implementation of outreach activities to NEETs, whereas the PES could use additional resources to train and employ specialized youth counsellors, none of which would have been possible without EU funds (SI3A). The Slovenian PES ended up being a great beneficiary of the Youth Guarantee, receiving 38 % of all Slovenian Youth Guarantee funding (ENPES, 2015: 9). Finally, the government had both rhetorically and programmatically entrapped itself into promoting the youth agenda and could not backtrack on its strategic orientation to promote youth matters. The programmatic commitment was evident from the National Youth Programme 2013-2022⁷² passed in 2011 and backed by a resolution of the National Assembly in October 2013. Despite its low priority status at that time, youth unemployment was nonetheless officially on the political agenda (SI3A) and could not be ignored by the Bratušek government.

6.7 Conclusion

While some have argued that employment CSRs have 'only a limited impact on labour market improvement' (Nahtigal, 2015: 250), this research found that the Semester influenced the employment field in Slovenia in multiple ways. The most important policy changes, the labour and pension reforms, resulted from external pressure. On youth unemployment and activation of vulnerable groups, key state and non-state actors resorted to strategic usage of Semester incentives to push for change. External pressure was also used to legitimize change on student work.

⁷² Available at: <https://eacea.ec.europa.eu/national-policies/en/content/youthwiki/13-national-youth-strategy-slovenia> (Accessed: 16 April 2019).

On a substantive level, Slovenia's experience with the Semester in its early days was marked by the economic crisis and the threat of a bailout which was most evident between 2012 and 2013. The combination of market pressures, the corrective arm of the SGP and the MIP with enhanced monitoring created immense adaptational pressure on Slovenia in the Semester framework. One senior official from the Ministry of Labour summarized how external pressure influenced decision-making: 'The things we did under pressure of the Semester framework were things we should have done regardless, but we managed to stand against those things we did not believe in.' (SI1A). The perception of one desk officer from DG EMPL (SI2B) that in the Slovenian case the crisis mode created both external pressure on the one hand and empowered existing reform agendas on the other was confirmed. With some issues, such as with the Youth Guarantee, student work and measures for vulnerable groups on the labour market, Semester pressure opened a window of opportunity for policy entrepreneurs and helped them reinforce existing arguments and mobilize additional funding, be it from the national budget or through new allocations in the EU's 2014-2020 financial framework to accelerate reform processes. On other issues which were high on the Commission's agenda during the crisis, such as with the pension reform and labour market regulations, external pressure was the driving mechanism which crucially 'informed the policy direction' (SI1A) taken by the Janša government. Policy change was, however, diluted and in some respects even resisted by tripartite social dialogue and the neocorporatist tradition of consensus politics. In rare cases, such as with the politically very sensitive issue of minimum wage setting, Slovenia overtly refused to comply with recommendations despite pressure. The domestic struggle to preserve social peace and the goodwill of social partners were more important than playing by the Commission's book. The fact that the Janša government and subsequent governments realized that unilateral actions could carry inconceivable political costs made tripartite social dialogue indispensable in socio-economic policymaking, despite the short crisis of neocorporatism during Pahor's mandate. On top of that, constructive bilateral relationship and deep socialization of Slovenian officials in the EU bubble helped tone down the Commission's request.

In respect to dominant factors which have facilitated or inhibited the Semester's influence, they differed depending on the mechanism of influence at play. When acting under external pressure such as with the pension and labour market reforms, three factors stand out: 1) the fact that political elites took the threat of bailout and activation of corrective actions seriously and considered the rules as credible; 2) a general openness to cooperate with EU institutions and appease tensions, as opposed to blatant refusal of EU's authority; and 3) the perceived cost of not playing by the book, which exceeded the benefit of preserving policymaking autonomy as a potential bailout was equated with a complete loss of sovereignty and therefore needed to be avoided. On the other hand, both cases elucidate the limits to external pressure as it did not trigger the suggested scope and degree of policy change. The informal veto power and traditionally strong role of tripartite social partners inhibited the depth and breadth of changes advocated by the Commission in both instances. In the two other issues, those of the Youth Guarantee/student work and activation of vulnerable groups, three factors facilitated the creative appropriation (strategic usage) of the Semester process: 1) the existence of goal-determined and skilful policy entrepreneurs who recognized the opportunity offered by the Semester; 2) the availability of EU funding which could be used as an additional argument in pitching policy actions; 3) and a general policy fit between the EU agenda and the direction of national strategic and action plans. In terms of degree of policy change, when the Semester was used to empower existing reform agendas, changes were not just parametric, but included the introduction of entirely new policy instruments.

On the procedural level, a rather superficial system of Semester coordination was established, preventing any substantive involvement of social partners, parliamentary actors and line ministries in the preparation of the National Reform Programme. However, the Semester did induce a new culture of analysing, monitoring and evaluating employment policies in the Ministry of Labour. The Commission's persistent emphasis on evidence-based policy, experiences in EMCO as well as the strengthened analytical basis ('socialization') of social and employment coordination strongly contributed to changes in practices. The Semester also revived some well-

known concepts of flexicurity and active ageing, which contributed to their ideational proliferation in the Slovenian policy discourse.

Table 6. 3 Summary of the European Semester influence in Slovenia

Employment issue	Reform outcome	Explanations (mechanisms)	Facilitating (F) and inhibiting (I) factors
Pension reform / Labour market segmentation and contractual flexibility	Partial reform	M1: external pressure	F: credibility of rules, attitude towards the EU, cost of defection I: political constraints, process socialization (M1); politico-administrative relations, politicized issues (M2)
Minimum wage	Divergent reform path	Alternative explanation: Social dialogue	I: political constraints, process socialization (M1)
Youth guarantee / student work	Substantial reform	M3: Creative appropriation (strategic)	F: Entrepreneurship, funding opportunities, programmatic fit (M3)
Activation of vulnerable groups	Gradual reform	M3: Creative appropriation (strategic)	F: Entrepreneurship, funding opportunities, programmatic fit (M3)

Source: Author's own compilation.

The Slovenian case informs the debate on Semester influence in several important respects. First, it showed that there are limits to external pressure which the EU institutions can exercise. Formal and informal institutional settings act as political constraints to external pressure. Second, the policymaking tradition in the employment field and its politicization do not promote policy change through mutual learning. Disconnected politico-administrative relations block the transmission of experiences. Also, besides some well-known obstacles to mutual learning such as administrative traditions, budgetary limitations and political circumstances, other contingencies such as the preoccupation with crisis management can additionally demotivate engagement in lengthy, time-consuming learning processes. On the other hand, the crisis can trigger a search for quick fixes if any exist, in which case mutual learning can be of great value. Third, threats of deeper crises or sanctions seem to amplify the effects of creative appropriation. Such instances of uncertainty enable domestic policymakers to use the Semester process even more effectively in order to pursue a preferred policy option. They increase the urgency of acting and target groups

are somewhat more willing to bear the burden of recovery. Domestic opposition to policy changes is then easier to overcome when the argument of external pressure to act is accepted by target audiences as was the case with the student work reform.

7 HOW DOES THE EUROPEAN SEMESTER INFLUENCE EMPLOYMENT POLICIES IN CENTRAL AND EASTERN EUROPE?

The preceding chapters offered very detailed, contextualized analyses of how the Semester framework influenced the employment field in Croatia, Hungary, Slovakia and Slovenia. This chapter takes a bird's-eye perspective. It intends to synthesize and compare findings from country cases and link them back to theoretical propositions. It will distil some general conclusions with regards to the role of causal pathways of Semester influence (external pressure, mutual learning, creative appropriation), and the extent to which Member States had 'complied' with Semester recommendations or resisted change. Ultimately, the following sections will return to the main research question and elaborate to what extent, how and under which conditions⁷³ the Semester influenced changes in employment policy in CEE. In doing so, this chapter has no intention of generalizing beyond CEE, however some of the findings can serve as good illustrations of broader tendencies in the Semester and guide policymakers towards making better use of soft coordination in employment policy, as discussed in the concluding Chapter 8.

7.1 The varied impact of external pressure

External pressure played an important role in steering policy change in CEE. It influenced both non-controversial and big-ticket items. The empirical chapters found that the four country cases were exposed to varying degrees of adaptational pressure. Highest pressure (Slovenia), however,

⁷³ The reader should keep in mind that the analysis of conditions which facilitate or inhibit the working of hypothesized causal mechanisms will not be framed in terms of sufficient or necessary conditions, although the empirical findings give more weight (importance) to the role of some factors, rather than others. Also, some authors (Saurugger and Terpan, 2015) made a considerable effort to systematically study which structural and actor-based 'variables' best explain why Member States generally resist complying with soft law. Compared to their effort, this chapter divides the relevant inhibiting factors by causal mechanisms, arguing that different pathways of change have their own set of challenges.

Table 7. 1 Mechanisms and observed degrees of change in the empirical analysis

Mechanism	Policy issue	Degree of change	
External pressure	<i>Croatia</i> Youth Guarantee	Procedural	
	<i>Hungary</i> Childcare facilities PES profiling system	First order Procedural	
	<i>Slovakia</i> Long-term unemployment Women's labour market participation and childcare PES administrative capacity	Second order Procedural Procedural	
	<i>Slovenia</i> Pension reform Labour market segmentation	First order First order (mostly)	
	Mutual learning	<i>Hungary</i> Youth Guarantee	Procedural
		<i>Slovenia</i> Labour market segmentation	Procedural
	Creative appropriation	<i>Croatia</i> Youth Guarantee Pension reform PES reform and ALMPs Matching and VET system	First order First order First order Second order
		<i>Hungary</i> Public work scheme Youth Guarantee	Second order First order
		<i>Slovakia</i> Youth Guarantee	First & second order
		<i>Slovenia</i> Youth Guarantee Student work Vulnerable groups	First & second order First & second order First & second order
Alternative pathways of change and inertia		<i>Croatia</i> Pension reform Activation of social assistance recipients Labour Act PES reform and ALMPs Adult education	Resistance to change Preparatory work First order First order Preparatory work
		<i>Hungary</i> Unemployment benefits Taxation of low-income earners Public work scheme	Inertia First order Resistance to change
		<i>Slovakia</i> Activation of social benefit recipients Taxation of low-income earners Retirement age and life expectancy	Second order Second order Second order
		<i>Slovenia</i> Minimum wage	Resistance to change

Source: Author's own compilation.

did not translate into most expansive policy changes. Less coercive, but combined forms of pressure proved most effective in supporting deeper policy changes (Slovakia).

External pressure is based on conditionality – in order to receive rewards or to avoid sanctions, Member States have to comply with policy recommendations identified within the Semester cycle. The empirical country cases probed the assumption that the Semester strengthened the ‘shadow of hierarchy’ in employment coordination by subordinating soft law to economic governance procedures. It was argued that a combination of binding and soft instruments can be more effective than soft law alone. From this perspective, the Semester had introduced varying degrees of adaptational pressures depending on the enforceability of policy recommendations, and intensified tools of monitoring and policy surveillance to ensure more and better compliance. A crucial background condition for external pressure is the existence of a distance in policy objectives between the EU and national level, and a general unwillingness of the government to tackle a policy issue.

Judging based on the four country cases, policy change through external pressure was present in eight out of altogether twenty-six analysed policy issues (see: Table 7.1). The direct influence of the Semester *via* external pressure was identified in all four countries and covered a variety of issues, ranging from more controversial topics with high redistributive effects such as pension and labour market reform (Slovenia) to more technical and less politicized topics such as tracking of non-registered NEETs (Croatia) and increase of administrative capacities of the public employment service (Slovakia). While at face value external pressure seems to be an effective way of creating reform momentum, a deeper analysis reveals a less optimistic view. In reality, the degree of change that external pressure was able to trigger in employment policies of the analysed countries is limited. There is hardly any evidence to suggest that external incentives (negative or positive) had significantly distorted existing policy trajectories or created structural changes, be it in the form of new policy instruments or by initiating paradigm shifts or change in policy objectives. In seven of the eight cases in which external pressure played a role, changes that were

observed were of procedural character or implied only minor to little parametric adjustments of existing policies. In the cases of Croatia and Hungary, governments and administrations have accommodated Commission's request only at surface-level, complying only superficially, which was clearly a coping strategy. Such outcomes showcase the hard limits of applying pressure in the presence of discrepancies in policy preferences. The only isolated instance which envisioned second-order changes was the case of long-term unemployment in Slovakia. At the same time, the Slovak case is puzzling given the rather low adaptational pressure that was applied as the issue was linked neither to the SGP nor the MIP. The process-tracing analysis in this specific example showed that sustained soft pressure in the form of Commission's continued investment in a policy portfolio, synergies between soft instruments (CSRs, Council recommendation, EU funds) and intensified/constructive coordination with the domestic tier can be much more effective than strict economic conditionality. Compared to the Slovak case, the pension and labour market reforms in Slovenia were conducted under comparatively high adaptational pressure and the threat of a bailout, but the degree of policy changes were nonetheless very modest and unsatisfactory from the Commission's perspective. So, what explains the influence, yet modest effects of external pressure and under which conditions are governments in CEE able to completely resist policy change even in such adversarial circumstances?

The domestic cost of defecting from EU policy recommendations was the single most important contributing factor found relevant in all four countries and at times in multiple policy issues in a single country (Slovakia, Hungary). High costs were found either in the form of threat of even harsher policy conditionality (Slovenia) or funding dependency (Croatia, Hungary, Slovakia) for which governments could not avoid complying at least symbolically. Inaction would consequently result in funding withdrawal or retention. The Semester cycle and CSRs proved immensely influential in setting many of the funding priorities for the 2014-2020 financial perspective. This way, many of the issues for which there was little political ownership such as childcare provision in Slovakia or traineeship system in Croatia were eventually addressed.

A positive attitude of domestic political elites towards the EU in general and respect for EU's involvement in employment policy and authority in economic governance was also a conducive factor in Slovakia (long-term unemployed) and Slovenia (pension reform, labour market), despite a gap in policy preferences between the EU and domestic level. In contrast, when the governing elites were Eurosceptic and questioned EU's legitimacy to meddle with social and employment policy as was the case with the Orbán government in Hungary and centre-left Milanović government in Croatia (pension reform), governments resisted policy change or resorted to creative compliance when the perceived cost of defection was deemed too high.

In Slovenia (pension reform, labour market), the perceived credibility of EU's fiscal and macroeconomic rules and the prospect of applying punitive actions in case of non-compliance was found relevant in the government's decision to comply with EU recommendations. The government acted under uncertainty and threat of a bailout was considered real. Alternatively, the Croatian government under the Milanović administration blatantly resisted changes in the pension system and did not fear punitive actions as they did not consider them credible. The flexibility of applying existing rules, lack of examples of countries being sanctioned and the largely 'political' role the Juncker Commission has taken in economic governance (Nugent and Rhinard, 2019) have all eroded the credibility of the linkage between employment policy and economic governance.

The comparison between Croatia and Slovenia brings to the attention yet another factor. External pressure seems to depend on the degree to which the domestic administration developed productive working relations with the Commission, had learnt how soft policy coordination works and how the Semester process can be used to their advantage. The highly experienced Slovenian administration knew how to resist pressure to adjust the minimum wage and influence the Commission's position. Being well socialized in the soft governance processes and drawing on informal contacts, they were able to convince the Commission to moderate their position. In contrast, the Croatian administration admitted to having succumbed to high administrative pressure on establishing a NEET tracking system due to their inexperience. Over time, the

administration grew in experience and got accustomed to the Semester process, realizing its opportunities and limitations. Therefore, they became less receptive to external pressures and learnt how to outmanoeuvre unwanted EU stimuli.

Finally, different aspects of political constraints, such as the existence of formal (Slovenia, Croatia) or informal veto players (Croatia), and domestic systems of interest intermediation which can limit autonomous policy making (Slovenia) inhibit the effectiveness of external pressure. Governments in Croatia and Slovenia have found themselves trapped between divergent requests from EU authorities and domestic veto players. In such instances, governments either completely resist compliance (pension system in Croatia, minimum wage in Slovenia) or initiate reforms, however with policy designs not completely in line with EU's preferences due to the need to accommodate to the preferences of influential domestic actors, as was the case with the Slovenian pension and labour market reforms.

Table 7. 2 Prevalent causal conditions in the European Semester mechanisms

External pressure	Mutual learning	Creative appropriation
<p><u>Facilitating:</u></p> <p>Credibility of rules (Slovenia 2x)</p> <p>Attitude towards the EU (Slovenia, Slovakia 2x)</p> <p>Cost of defection/dependency (Slovenia, Croatia, Slovakia 3x, Hungary 3x)</p> <p>Process socialization (Croatia)</p>	<p><u>Facilitating/Enabling (tentative):</u></p> <p>Deliberation (Hungary)</p> <p>Technical issue (low politicization) and pressure load (Hungary, Slovenia)</p>	<p><u>Facilitating:</u></p> <p>Policy entrepreneurs (Slovenia 3x, Croatia, Slovakia)</p> <p>Funding opportunities (Slovenia 2x, Croatia 3x, Slovakia, Hungary 2x)</p> <p>Programmatic fit (Slovenia 3x, Croatia 4x, Slovakia, Hungary 2x)</p> <p>Attitude towards the EU (Croatia)</p>
<p><u>Inhibiting:</u></p> <p>Political constraints (Slovenia 3x, Croatia)</p> <p>Attitude towards the EU (Croatia, Hungary)</p> <p>Credibility of rules (Croatia, Slovakia)</p> <p>Process socialization (Slovenia 2x, Croatia)</p>	<p><u>Inhibiting:</u></p> <p>Politico-administrative relations (Croatia, Hungary, Slovakia, Slovenia)</p> <p>Policy paradigms (Croatia 2x, Slovakia, Hungary 2x)</p> <p>Deliberation (Croatia, Hungary, Slovakia, Slovenia)</p> <p>Politicized/controversial issue (Croatia, Slovenia, Hungary)</p>	<p><u>Inhibiting:</u></p> <p>Lack of resources (Croatia 2x)</p> <p>Agenda misfit (Croatia 3x, Slovakia 2x)</p> <p>Attitude towards EU (Croatia, Hungary)</p>

Source: Author's own compilation from country chapters.

7.2 The untapped potential of mutual learning

As far as the subset of CEE countries is concerned, the potential of intensified mutual learning experiences to trigger policy transfer remained relatively untapped. As a reminder, mutual learning operates on the basis of a voluntary process of direct or indirect policy learning *from* the EU level and *from* peers in EU fora, occurring mostly in peer reviews at the EU level. Direct learning might include processes of learning through persuasion based on genuine deliberation with peers or targeted search for policy solutions (lesson-drawing). Indirect learning assumes that participants of EMCO reviews become, first, increasingly aware of what is out there in terms of practices and policies (heuristic learning), and second, reflect on the state of national policies based on benchmarking and cross-examination of comparable indicators (reflexive learning). In the later, domestic actors reflect on the strengths and weaknesses of a domestic policy, based on an evaluation of new information coming in from peer reviews, reports and indicators.

Instances of direct learning could not be found in any of the 26 analysed policy items. Such an outcome was not completely unexpected due to the complexity of the mechanism of change and the methodological difficulty of pinpointing the exact causal processes at play without employing an experimental design. Still, it is surprising given that the opportunities and potential of mutual learning in fact increased in recent years and were complemented by parallel processes outside the Semester framework – the Mutual Learning Programme and bench-learning reviews in the European Network of Public Employment Services. The case of the NEET monitoring system in Hungary (see: Section 4.6) and evaluation of the labour market reform in Slovenia (see: Section 6.4) are the only two examples in which multilateral surveillance was highlighted as the crucial source of, not substantive, but procedural changes affecting the statistical monitoring capacity (Hungary) and tools for effective monitoring of reform effects (Slovenia). While such a small sample of ‘successful’ cases makes it impossible to draw any meaningful conclusions on what facilitates mutual learning in general, both cases illustrate the importance of a number of structural

and actor-based factors for policy learning to take place. First, as demonstrated by the Hungarian case and confirmed by interviewees from other countries, the personal investment in a topic and determination of EMCO members to take peer reviews as a serious opportunity to receive feedback and advice from peers on how to address a policy issue is crucial. Far too often did interviewees report that the usefulness of multilateral surveillance was contingent on the individual motivation of EMCO members, many of which participate only formally as passive observers and lack commitment to deliberation. This could be due to language barriers, personal interest in the topic and limited influence on decision-making. When EMCO members are well socialized into multilateral surveillance, when they develop good working relationships and informal contact with peers and cultivate deliberation, their willingness to initiate reform processes is higher. Settings that are conducive to deliberation and cooperation between peers are, therefore, an important contributing factor for learning. Furthermore, both cases were of very technical nature that ran a very low risk of politicization and attracted almost no attention of decision-makers. In such instances of non-controversial procedural change, the adjustment costs are usually small and require no legislative changes and are therefore politically unattractive. Finally, it is not entirely clear what implications economic crises have on the prospect of policy learning. On the one hand, there is some indication (Slovenia) that governments are prone to scan for best practices at EU level when confronted with situations which require quick fixes due to a high problem load and policy pressure. Thus, it is surprising that more instances of lesson-drawing in crisis mode were not found empirically. On the other hand, it is equally possible that governing in crisis-mode directs governments' and administrations' attention towards urgent, fire-fighting activities, rather than investing energy into lengthy and complex processes of policy learning. In any case, a deeper investigation into this specific topic is warranted.

Far more empirical evidence was collected on the conditions which inhibit or block policy change through mutual learning. Weak politico-administrative relations (Croatia, Hungary, Slovakia, Slovenia), the distance in policy objectives (Croatia, Slovakia, Hungary), and settings in

EU fora that were considered not conducive for deliberation (Croatia, Hungary, Slovakia, Slovenia) featured pervasively in interviewees' explanations across countries. First, civil servants in all four countries reported difficulty in fostering direct, close and productive ties with politically appointed superiors or decision-makers. To their frustration, their work in EMCO is not sufficiently acknowledged and opportunities to transfer knowledge acquired in EMCO or influence policy change are limited. At times, their efforts are directly blocked by the political leadership and their inputs are mostly disregarded. This disconnection between the public administration and the political level reflects the politicized nature of socio-economic governance in CEE in which the public administration has low autonomy and policy decisions are firmly in control of political elites who enjoy high decision-making discretion. On top of that, when the policy-making regime is further politicized by the existence of strong tripartite traditions, as in Slovenia, the success of mutual learning is even more limited.

Second, when there is *a priori* low compatibility in policy convictions (early retirement and ALMP issues in Croatia), differences in policy paradigms (women's participation and childcare in Slovakia) or incompatible ideological commitments (public work scheme in Hungary), mutual learning seems to be less effective since attempts to challenge deep-seated ideological or policy beliefs stand little chance of success and rather risk escalation of conflict in the EMCO setting. At the same time, such instances additionally curb EMCO members' room for manoeuvre. Despite their willingness to engage in discussion, the fact that they have to defend the mandated national preference especially on such controversial issues, inhibits mutual learning. It was shown that more often than not, such policy issues only heighten the division between the Commission and national authorities.

Third, while most EMCO member consider the general atmosphere in EMCO meetings and peer reviews as friendly, they do not consider the setting conducive to deliberation and consensus seeking. Sessions are considered overly structured and too formal, leaving little room for deep deliberation and persuasive action. Interactions with the Commission were at times tense

and adversarial. The experience became even worse when contested policy issues were on the agenda. An extra layer of formality and strictness was added on top when an employment issue was linked to enhanced monitoring under the MIP procedure. The confrontational style was further translated into bilateral meeting in fact-finding missions, especially when political representatives attended and the possibility of finding common language was seriously disabled. Occasions for informal socialization were considered much more useful for finding common ground and mutual understanding between the Commission and national authorities. Furthermore, interviewees which participated in the preparation of EPSCO council meetings or attended themselves, confirmed that room for substantive discussion of Semester CSRs was limited and very formal. Again, informal thematic meetings were considered more useful for socialization and learning from best practices. In contrast to the formal settings, most EMCO members appreciated establishing informal contacts and opportunities to exchange views in more casual settings.

Finally, empirical evidence suggests that multilateral surveillance under the Semester continues to foster indirect forms of learning. National administrations were particularly affected by the Commission's increased reliance on performance indicators in EMCO and insistence to monitor and evaluate progress on reforms. Interviewees realized (reflexive learning) during multilateral and bilateral interactions the importance of having in place a solid analytical evidence base in policy making. In Croatia, multilateral surveillance reminded national authorities of the importance to strategically plan policy interventions and monitor their effectiveness. In Slovenia, interviewees appreciated the fact that EMCO reviews stimulated processes of analytical upgrading and evidence-based policy. In general, the proliferation of new indicators brought to the attention of policy makers new trends that had to be watched. In some cases, Member States had to update their statistical capacities to be able to follow trends as they had not previously gathered data on certain phenomena, for instance, the position of youth not in employment, education nor training. Thus, whereas there is little evidence of intensified multilateral surveillance triggering direct

learning in CEE, the increased emphasis on evidence, intensified monitoring and use of performance indicators certainly made national authorities in the region aware of the shortcomings of existing policy-making practices at home.

7.3 Pervasiveness of creative appropriation in the European Semester

Compared to other pathways of influence, indirect effects of the Semester were felt the strongest in CEE. Creative appropriation was based on the notion of ‘usage of Europe’. It relates to a process in which governmental, national, subnational or non-state actors selectively use the Semester process and cherry-pick only those policy messages, facts or interpretations which are aligned with their preferences and understandings. The theoretical framework distinguished between strategic, legitimising and cognitive use of the Semester. Actors use the Semester strategically to strengthen their preferred position in a policy debate. Legitimising use refers to instances when the Semester serves as a justification to act. Cognitive use is manifested when EU concepts and policy ideas penetrate into domestic policy discourse and actors utilize or adjust the meaning of those ideas to suit their interests. Influence through creative appropriation is not direct and the Semester is not a source of inspiration or a trigger for change.

Domestic usage of the Semester framework was the most common form of influence found in all four country cases. Creative appropriation as an indirect mechanism of change was widely (mis-)used and featured in ten out of twenty-six analysed policy items. Of the three causal mechanism that were probed, only creative appropriation could foster predominantly second order policy changes. This comes as no surprise knowing that the inspiration for change was rooted in domestic policy preferences, and the Semester served only as a ‘selective amplifier’ for intended changes (Visser, 2005). At the same time, in most cases the strategic use of the Semester served the purpose of maintaining the status quo or led only to a slight amplification of existing policy measures.

Strategic use of the Semester was represented the most and comprised cases of governments' creatively cherry-picking Semester recommendations as suited to pursue domestic policy objectives. It included instances when influential policy actors and institutions/ministries leveraged the Semester advice to demonstrate validity of their requests for policy change in an environment of constant inter-institutional and societal competition for funding and governmental support. Governments displayed a tendency to creatively reinterpret EU requests and recommendations and embraced a flexible understanding of how to apply Semester advices. The Youth Guarantee is a good example of an EU initiative which was largely instrumentalized by governments in CEE to empower their pre-existing policy trajectories, and hence deviated from the original Council recommendation. The Croatian, Hungarian and Slovak (mis-)application of the Youth Guarantee was a deliberate attempt to continue already existing policy measures and shift the financial cost to the EU.

In some cases, greater adaptational pressure and bail-out threats offered new opportunities for governmental actors to strategically exploit EU policy recommendations to their favour, as was the case with the student work reform in Slovenia. However, there was no broad evidence in the studied cases of deliberate rhetorical misrepresentation of the 'imperative dimension of conditionality' to legitimize deregulation of the labour market, as was the case in Romania (Deltiel and Kirov, 2017: 7). Such forms of legitimizing usage in which the Semester pressure serves as a justification for policy change would make governments appear weak in front of domestic audiences. Shifting blame to Brussels would be interpreted as an act of succumbing to external pressure. Some governments, such as the centre right Plenković government in Croatia preferred to use the ex-post blessing of initiated reforms in the Semester to demonstrate that the taken course of action is considered appropriate and legitimate.

The cognitive impact of the Semester was much higher. Active and continued promotion of new concepts in Semester documents, such as the 'Youth Guarantee' and the 'NEETs' was found decisive in bringing to the attention of policy-makers issues which did not feature previously

on the domestic agenda. These were widely used by policymakers and stakeholders in all four countries and adjusted to domestic circumstances. For instance, the domestic meaning of the Youth Guarantee was often flexible, projecting domestic policy priorities more than the intended purpose. Similarly, old but reinvented concepts of 'active ageing' and 'flexicurity' (Slovenia) were often utilized by the EU to keep policy ideas alive.

It was confirmed in all four CEE countries that creative appropriation highly depends on two factors: the resonance of Semester messages with national priorities or strategic commitments (programmatic/agenda fit) and the availability of EU funding which can be used to specifically advance the pre-existing reform agenda. The analysis shows that a match between the Semester stimulus and government agenda is practically a pre-condition which enables the government to make strategic use of Semester recommendations. Likewise, for actors struggling to demonstrate importance of policy change in inter-ministerial battles for attention, it was necessary that there was no ideological discrepancy or deep disagreement over policy between the incumbent government's stance and what the CSRs advocated. Policy responses which deviated from Semester recommendations or instances of resistance/inertia were underpinned by alternative policy agendas.

On the other hand, all four empirical cases confirmed the continued centrality of financial incentives in facilitating policy responses in the context of traditionally scarce national resources especially for ALMPs in CEE. ESF funding had supported the continuation of existing ALMPs, in some cases helped devise new activation measures for youth and other vulnerable groups and provided important resources to improve institutional capacities for job-search and labour market monitoring tools. This support often leads to over-reliance on EU sources and a substitution of national resources with EU funds due to the high rate of EU's co-financing. Many times available ESF funding was insufficient or lacking, especially to initiate substantive and profound policy change with great redistributive costs. The analysis of adult learning and ALMPs in Croatia showed that limited resources were more likely to reinforce status quo.

Agency is equally important. The presented empirical evidence confirms that policy entrepreneurs play a significant role in propelling policy change. In relation to five different policy issues influential actors were able to either leverage external pressure (Slovenia) or exploit available funding (Slovenia, Croatia, Slovakia) to set in motion change. Policy entrepreneurship was dominantly exercised by governmental actors, members of ministerial management and executive in national agencies, all of which had an institutional role in policymaking and thus comparatively better access to power than non-institutional actors. Notably, examples of societal actors and interest groups leveraging Semester recommendations or Commission's policy reports to push for policy change in CEE are scarce. Exceptions were the traditionally powerful youth organisations in Slovenia (Youth Guarantee) and industrial representatives in Slovakia (Youth Guarantee) which irrespective of the Semester process managed to position themselves as influential domestic actors in policy debates. Low substantive influence on policy-making and limited organizational capacities to meaningfully engage with the Semester cycle account to a large extent for their passivity.

Finally, the cases offered supportive evidence for the claim that negative attitudes of governments towards EU's involvement in employment policy and existence of Eurosceptic domestic publics inhibit the legitimising use of the Semester. In Slovenia, increased distrust of citizens towards EU institutions in the wake of the euro crisis disabled the government from justifying changes in pension, student work and labour regulations by EU requests. The Croatian experience with the Labour Act changes showed that the centre left Milanović government could not shift blame to the EU as it promoted a confrontational approach to the Commission. The longitudinal analysis of the pension reform, however, revealed that prime minister Plenković's pro-integrationist agenda and attachment to EU integration allowed him to make strategic use of EU recommendations. In Hungary, the Orbán government systematically opposed international interference in domestic affairs, hence making the legitimising use of the Semester impossible.

7.4 The importance of alternative pathways of change and inertia

Alternative explanations for policy change and instances of active resistance to change play an important role in CEE. By using contextualized process-tracing it was possible to distinguish direct or indirect influence of the Semester from instances in which alternative explanations accounted for policy change and reform outcomes simply coincided with the EU's preferred course of action. Sometimes the impression is left that the Semester put an issue on the domestic agenda or influenced reforms trajectories, whereas in fact these are instances in which CSRs reflect already pre-existing national priorities (Copeland and ter Haar, 2013) and simply aim at speeding up reform intentions or endorse intended policy trajectories.

This study found alternative explanations for policy change, sources of influence other than the Semester or instances of resistance to change (incl. inertia) in 46 percent of all analysed policy items. This is a stunning finding because it indicates that almost every second employment policy issue that was coordinated within the Semester was neither directly nor indirectly influenced by EU-level coordination processes. Again, second-order policy changes that were identified in some of these items were not directly inspired by EU-level coordination, confirming that initiatives for policy change which move beyond parametric adjustments are by default 'home-grown'.

Two sets of circumstances were identified in which governments pursued policy change independently and did not bother about EU advice. The first is situational. Economic circumstances, be it a recession or recovery, can create pressure to act, limit the fiscal space or generate more fiscal leeway for policy priorities. Negative migratory trends in combination with economic growth also create pressure as they trigger labour shortages. In Croatia, the economic crisis forced the government to rethink the vocational education and training system and deregulate labour to stimulate job creation. In Hungary, the Orbán government reinvented the public work scheme under pressure of labour shortages triggered by a combination of economic recovery and emigration. In Slovakia, decreasing the tax burden on labour became a reality only once enough financial resources were secured during the economic upswing.

The second circumstance is linked to the pursuit of clearly pre-defined and explicit policy objectives, which may coincide with the Commission's point of view. These are usually anchored in stable policy trajectories which exhibit traits of path dependence and on which agreement exists among political elites independently of party lines. Such was the case with the workfare paradigm in Croatia, Hungary and Slovakia. Measures to activate social assistance beneficiaries (Croatia, Slovakia), the tax burden of low-income workers (Slovakia) and regulation of unemployment benefits (Hungary) have one thing in common – they are a manifestation of the activation paradigm shift from the late 1990s and early 2000s. Policy-makers directly referenced commitment to 'making work pay' and eradication of 'idle-ism' as reasons for policy action. Another example is fiscal consolidation as a policy objective. In all four country cases, mainstream political elites, albeit to a varying degree, pursued fiscal consolidation during the crisis as the primary government objective. For instance, the decision to link retirement age to life expectancy in Slovakia was explicitly inspired by long-term budgetary considerations and commitment to fiscal sustainability.

8 CONCLUSIONS AND RECOMMENDATIONS

Employment policy has a very long tradition of coordination at EU level. In fact, the application of the OMC was most evident and advanced in the employment field. In 2011, employment policy coordination was integrated into a new governance arrangement, the Semester. The Semester framework integrated three goals: to ensure sustainability of public finances, to prevent macroeconomic imbalances and to stimulate structural reforms, including in the field of employment and labour market. The purpose of this PhD thesis is to investigate to what extent the Semester matters for national employment policy, and to explain the mechanisms of how and the conditions under which the Semester influenced changes in employment policies of CEE Member States in the period between 2011 and 2018. This study is motivated by the curiosity to find out whether the new Semester framework lived up to the promise and was capable of generating more impetus for national employment reforms than previously. The empirical focus was on four country cases in the CEE region: Croatia, Hungary, Slovakia and Slovenia.

The theoretical framework of the thesis followed a three-pillar structure, consisting of three different causal pathways through which the Semester was expected to have an impact on employment policies in CEE: external pressure, mutual learning and creative appropriation. This study used process-tracing methodology to untangle complex causal pathways through which employment coordination under the Semester framework is capable of stimulating change in employment policy. Empirical findings were primarily based on 51 original interviews, official (Semester) documents, online sources, media resources and a vast body of secondary literature.

The Semester created considerable external pressure in the employment field of CEE countries. This study identified several instances in which high adaptational pressure or advanced soft pressure (enhanced monitoring) induced domestic adaptation. Member States usually reacted under conditions of high perceived costs of non-compliance and when domestic political elites did not perceive the EU's threat of negative rewards as credible or did not consider EU's involvement

to be illegitimate from a normative perspective. However, Member States largely adapted to the unfavourable demands by applying different, sometimes creative coping strategies which preserved original policy objectives. The extent to which the application of external pressure was effective is therefore limited.

Whereas only limited empirical evidence could be found to support the ‘mutual learning’ pathway of change in CEE, interviewed EMCO members nevertheless largely appreciated learning and socialization opportunities therein. In other words, this feature of the Semester is still considered to be important by policymakers, yet it is difficult to pin down concrete effects on substantive policy change. Evidence from this study on four CEE countries suggests that multilateral surveillance had not just intensified in terms of quantity of opportunities for mutual learning. In parallel, it was accompanied by greater formalization and politicization of EMCO. The crucial role of EMCO meetings in discussing draft CSRs and amendments, together with the application of the qualified majority voting rule and in the context of greater public visibility and scrutiny of CSRs within the Semester, raised the political stakes in the previously purely technical, expert-based nature of policy exchange in EMCO. Especially when controversial issues are discussed, EMCO members are confined by political mandates.

By and large, CEE Member States exhibited traits of reluctant reformers in employment policy. Nonetheless, whenever there was an opportunity to use the Semester framework to advance a domestic agenda, policy makers and influential stakeholders were quick to leverage the Semester. Thus, the indirect effect of the Semester through ‘creative appropriation’ features strongly in the thesis’ findings and thus echoes previous findings in the literature relating to other country contexts. These findings imply that domestic actors, unsurprisingly, grow fond of those Semester elements which resonate well domestically, create domestic ownership and easily pay dividends.

Still, the role of the Semester should not be underestimated purely on the basis of direct influence on policy change. The Semester was widely appreciated for offering an external view on

progress in policy reforms and a scan of the situation in the employment field. The increased emphasis on social and employment indicators and new, targeted EU employment initiatives are bringing to the attention of policy-makers new policy ideas and stimulating policy debate on previously neglected policy problems.

8.1 Key takeaways from the empirical findings

The empirical findings point to several conclusions about the influence of the Semester on employment policy in CEE. The Semester displayed little direct impact on employment policies in Croatia, Hungary, Slovakia and Slovenia in the period between 2011 and 2018. With the introduction of the Semester, one strand of the literature saw greater integration of economic and social/employment coordination and hardening of the latter. The other strand argued there was an intensification of multilateral surveillance which translates into greater potential for learning and policy transfer. This thesis could not find unequivocal support for either claim in CEE. It is not evident that more legalization and enforceability of soft law (Scharpf, 2002) leads to more compliance. Compliance was mostly superficial as it was not grounded in domestic preferences. On the other hand, the increase in mutual learning opportunities did not translate into more policy learning. Neither mechanism, with the stellar exemption of the LTU issue in Slovakia, helped address structural problems on the labour market, but contributed to further *patchworkization*, creative compliance and fragmentation of employment policy in CEE. Continued external pressure proved counter-productive when faced with explicit resistance from domestic Eurosceptic elites, risking accusations of illegitimate intrusion and scapegoating (see: Section 4.5). Also, while the Semester cycle was decisive in setting funding priorities, the Commission is struggling to meaningfully engage in sustained policy advice throughout the policy cycle. For that to happen, the Commission far too often lacks sufficient policy expertise in its own ranks to be able to follow through with assisting Member States in structural reforms. Mutual learning largely fell victim to the economic crisis, however several structural impediments at the EU (quality of

deliberation) and national level (politico-administrative connections, domestic policy objectives) distort the quality of multilateral surveillance.

By and large, Semester's influence was felt domestically only indirectly, that is, only when influential domestic actors could suit the framework to their pre-existing policy agendas. As long as governments and institutional actors could cherry-pick elements of recommendations and guidelines that suited them, the Semester was considered a welcome addition to their domestic strives. The Semester was often misused as domestic actors tend to adjust the meaning and mis/reinterpret EU suggestions. The empirical cases showed that availability of (financial) rewards and programmatic/policy fit significantly condition the ability to use the Semester strategically. On the other hand, the existence of Eurosceptic audiences or governments' negative attitude towards EU's involvement in a policy issue, significantly reduce the possibility of using the reference to the Semester to justify policy change. Alternatively, the Croatian examples of the pension reform and VET reform during Plenković's mandate shows that governments can use the Semester surveillance process for new forms of legitimizing use (see: Sections 3.4, 3.5). Instead of justifying change by EU requirements or by blaming shift to Brussels, which would be interpreted as a sign of weakness, governments use the Semester as an extra source of legitimation to demonstrate success when the Commission endorses the preferred policy direction.

In contrast to the EES which was revised in 2003/2005 and, according to some scholars (Mailand, 2008) had not produced a qualitative improvement, the Semester definitely further formalized, deepened and complemented the OMC process. The Semester undeniably succeeded in raising the political profile and visibility of EU employment coordination, promoting the analytical basis of policymaking, maintaining the relevance of certain policy issues on the governments' policy-making agenda, and coupling the European and national level better than before through multilateral and bilateral cooperation. To remind the reader, previous research had argued that the impact of the EES was 'negligible' in the region (Meardi, 2017: 144) and that 'soft *acquis* has played a much more limited structuring role [*in CEE*], reflecting more obviously the

weight of the dominant domestic actors, in using, interpreting and filtering EU rules and recommendations' (Delteil and Kirov, 2017: 5). From that perspective, employment OMC had not prevented a race to the bottom and CEE countries were said to instrumentalize soft law to advance their domestic social deregulation agendas. Whilst arguing that such a deregulatory agenda has remained a common characteristic of CEE Member States would be empirically unfounded, claims that domestic political/policy priorities, reform trajectories and traditions in the region take precedence over care for policy coordination and EU convergence are largely supported by the findings in this PhD thesis. The Semester has a hard time penetrating into the domestic employment systems in CEE with policy recommendations and objectives which transcend domestic agendas. Despite the attempted 'hardening' of employment coordination and the intensification of multilateral surveillance, governments continue to value the prospect of cherry-picking and instrumentalizing only favourable elements of the Semester framework the most. When external incentives are not matched by domestic support, governments still find ways how to resist change or to create the impression of compliance. The direct impact of the Semester on employment policy change stays inconsiderable. These findings resonate with Bekker's (2017) conclusions. On the one hand, as the Semester matured and inter-institutional balance was established, a more visible shift in the Commission's approach from a disciplinary, top-down logic towards adopting more flexibility took place. The Commission became less intransigent, particularly in regard to hot-potato policy items, and demonstrated readiness to adapt their policy focus to political realities and home-grown policy preferences. On the other hand, Member States increasingly felt free to consume subsidiarity in employment policy. They enjoyed latitude to adopt alternative policy solutions, to adapt EU recommendations as needed, and in case of controversial topics to directly oppose CSRs without the need to sugar-coat their position.

Evidence on the procedural effects of the Semester largely match previous findings on the effects of the EES. The summary of procedural changes in Table 8.3 shows that some effects emanate from the legal obligation to participate in the Semester cycle, so that national authorities

had to create national systems of Semester coordination. Their set-up is contingent on the national context and lends more (Croatia, Slovakia) or less (Hungary, Slovenia) discretion to labour ministries in defining employment-related paragraphs of the NRPs. The Semester did not induce new ways of involving social partners, civil society and parliamentary actors in setting strategic priorities in the NRPs. The intensity of consultations with social partners varies from moderate (Slovenia) to very weak (Hungary). Still, in most cases, their involvement is reduced to a window-dressing exercise and they lack substantive influence in the domestic coordination of the Semester. Only recently did the poor quality of social dialogue in the Semester become a topic of EMCO reviews and country reports as the Juncker Commission realized its importance in fostering democratic legitimacy of the Semester. Finally, intensification of multilateral surveillance and requirements to keep track of employment trends and monitor the effectiveness of policies inspired improvements in statistical capacities across the board, and in some instances (Croatia, Slovenia) contributed to better and more evidence-based policy making.

One often found criticism of the EES during the 2000s was that it favoured a deregulatory, neoliberal ideological position which put social and employment policy in the mission of fostering competitiveness and economic growth (Mearidi, 2017: 133). In the Semester context, fear of a growing power asymmetry between DG ECFIN and DG EMPL in favour of the former, which was said to be reflected in the neoliberal underpinning of structural reform requirements and dominance of fiscal consolidation and austerity objectives (Delteil and Kirov, 2017) only exacerbated the criticism. The empirical analysis showed that in the early Semester years, the Commission's internal struggle to find a balance between promoting retrenchment (DG ECFIN) and investment (DG EMPL) had deteriorated the quality of interactions with Member States from CEE in EMCO and bilaterally (see: Sections 3.3.2, 4.3.2, 6.3.2). The vigorousness by which DG ECFIN advocated fiscal consolidation was hugely adversarial. However, as EMCO, SPC and other advocates of social investment managed to induce 'some degree of ideational change in the EU's socioeconomic governance', employment recommendations in the Semester gradually reoriented

towards more social investment (Crespy and Vanheuverzwijn, 2019: 94) and market correction (Copeland and Daly, 2018). Empirical findings from CEE confirm the rebalancing of policy objectives in favour of the social investment paradigm. In substantive terms, employment CSRs did not systematically prefer retrenchment (cost containment, fiscal sustainability of pension systems, link between productivity and wages, liberalization of labour regulations, reduction of labour costs, workfare) over investment (improving employability, childcare facilities, active ageing, adult learning, skills upgrading and quality of training, adequate unemployment benefits and social protection). In total, the Semester agenda had not disproportionately promoted growth, competitiveness, efficiency and productivity in CEE.

Table 8. 1 Summary of employment policy items influenced by the European Semester

	Croatia	Hungary	Slovakia	Slovenia
Substance	Youth Guarantee Pension reform PES reform and ALMPs Matching and VET system	Childcare facilities Youth Guarantee Public work scheme	Long-term unemployment Women's labour market participation and childcare PES administrative capacity Youth Guarantee	Pension reform Labour market segmentation Youth Guarantee Student work Vulnerable groups
Procedures	Strategic policy planning National ES coordination system Involvement of social partners and parliament (weak) Statistical capacity	Statistical capacity National ES coordination system Involvement of social partners and parliament (very weak)	National ES coordination system Public consultations Involvement of social partners and parliaments (weak) Statistical upgrading	Policy analysis, indicators and monitoring National ES coordination system Involvement of social partners and parliament (moderate)

Source: Author's own compilation from country case chapters.

8.2 Contribution to the literature and avenues for further academic research

By focusing on the influence of the Semester framework on policy change in the employment field, this study contributes to the literature on soft Europeanization, the influence of new modes

of governance and to the specific subfield of studying the effects of socio-economic governance in the EU (see: Chapter 2). The contribution of this thesis is theoretical, methodological and empirical. In theoretical terms, this study applied a three-pillar conceptual framework which is comprised of competing, yet complementary mechanisms of Semester influence. They managed to capture the rich and complex empirical dynamics in CEE and structure the findings in a comprehensible way. This analytical framework proved to be useful and robust and can be applied also outside the CEE region in order to further enhance the understanding of how the Semester impacts on domestic politics. Existing studies largely narrowed down their analytical focus on one or two aspects of the Semester's influence on policy change (Pavolini et al., 2014; Bokhorst, 2017; Eihmanis, 2017; Louvaris Fasois, 2018; Di Mascio et al., 2019). More comprehensive, multi-case studies, which will systematically examine the theoretical spectrum of influence would be a welcome contribution. The testing of competing and complementary pathways of change would further elucidate the comparative advantages and empirical effectiveness of each pathway.

In terms of its methodological framework, this study was based on the explicit claim that attempts to explain the Semester's domestic impact by way of a quantitative assessment of CSR implementation rates are not fit for the purpose of unboxing the process of European semester influence. Hence, the existing claims on the extent to which the Semester effectively stimulated policy change were flawed. A different methodology, qualitative in nature, was needed to describe and explain to what extent and how the Semester impacts employment policies domestically. Thus, this PhD responded to the calls by prominent scholars in the field (Zeitlin and Vanhercke 2014, 2018) to apply contextualized process-tracing methodology and in-depth, qualitative empirical evidence to be able to make claims with more certainty. In some cases, the longitudinal perspective allowed for a more situated analysis of the reasons why interest in policy change shifted (Croatia, see: Section 3.5; Hungary, see: Section 4.5) or prevailed over time. In addition, the trap of positive case selection was avoided and negative empirical cases in which no Semester influence was detected helped understand what fuels resistance to change or the neglect of EU stimuli.

The empirical focus of this thesis on CEE countries demonstrates that the region deserves a closer, more detailed exploration and can offer some interesting insights into the operation of the Semester. This original research fills an empirical gap in the literature which neglected or marginalized CEE Member States without any reasonable justification. To the best of the author's knowledge, this is the first original, systematic and comprehensive research which studies how the Semester permeates the domestic policy system in CEE almost a decade after the Semester was inaugurated. The four country cases contextualized in great detail the practical operation of the Semester. Many of the previous findings from the OMC literature in relation to CEE were resounded in this thesis. The analysis confirmed that funding dependency increases the pressure to act (Mailand, 2008). Furthermore, just as with the OMC process (de la Rosa, 2005), the Semester did not significantly alter the domination of political and state actors over non-state actors in employment policy coordination. Also, the impact of mutual learning continues to be limited as political elites show minimal interest in the outcomes of peer reviews and politicize the policymaking subsystem (Meardi, 2017; Fink-Hafner and Lajh, 2018). In contrast, indirect effects of the Semester in the form of strategic use of concepts and recommendations for political purposes remains highly popular in CEE (Mailand, 2008; de la Porte and Pochet, 2012; Meardi, 2017). Finally, the Hungarian (see: Section 4.5) and Croatian (see: Section 3.5) case confirmed that negative attitudes of political elites towards EU's interference make compliance with external pressure less likely (Schimmelfennig and Sedelmeier, 2019: 17). These findings indicate that the Semester does not constitute a radical breakthrough in terms of OMC's effectiveness and inclusiveness. The insights offered by these cases open a new perspective for CEE countries as objects of academic research and this study invites other researchers on the topic to include the region more prominently in their work.

This study opens new space for academic research on the topic of domestic effects of EU-level policy coordination in social and employment policy. Future research should integrate CEE Member States into studies of the effects of soft law, and systematically compare them to Western

EU Member States. Causal conditions identified in this research can be further tested in samples representative of the whole EU to see to what extent they explain the variation in the Semester influence across the board and outside the region, that is, more generally.

Furthermore, the effects of tangible improvement in multilateral surveillance need further testing. Whereas this research was able to confirm the general importance of multilateral surveillance, it could not identify too many instances of direct influence of mutual learning activities in CEE countries. This could, in part, be due to the methodological limitations as it is particularly difficult for interviewees to pinpoint exact occasions to which causal influence could be assigned or due to the specific context of CEE in which political elites firmly control employment policy and weak politico-administrative relations hinder policy learning. Future research might apply quasi-experimental designs and hence better elucidate the factors which facilitate successful policy learning. Also, the study of mutual learning opened up new questions worth exploring such as what impact crises have on the potential for mutual learning. There is some indication that governments are, on the one hand, less willing to substantially engage in learning processes as crisis management takes priority. On the other hand, they are more motivated to look for ready-made, quick solutions and seek policy advice when crisis pressure dictates policy change.

Finally, students of the European administrative space and multi-level governance might be interested in further exploring what effects the quality of different forms of multi-level relations (fact-finding missions, ESOs) has on the general legitimacy of the Semester process, domestic actors' perception of policy problems and their readiness to initiate policy change. It would also be worth looking deeper into the added value of intensified monitoring and concomitant administrative pressure created through an intensification of policy exchanges between Commission services and domestic administrations.

8.3 Increasing the effectiveness of EU employment coordination

Besides the academic findings in this thesis, the practical implications of this study are highly important too. Albeit the focus was largely on the Semester influence in CEE specifically, the empirical findings inform a much wider debate on how the Semester could be reformed to make better use of policy coordination at EU level. Thus far, the question of how to improve the effectiveness of the Semester has been widely discussed in both academic (Zeitlin and Vanhercke, 2014; Vanhercke and Zeitlin, 2015) and practitioners circles (Hallerberg et al., 2012; Banerji et al., 2015; Darvas and Leandro, 2015; Alcidi and Gros, 2017), as well as by EU institutions (Gern et al., 2015; Juncker et al., 2015; Zuleeg, 2015; European Commission, 2017e). All of them have presented their own, sometimes opposing views, visions, and proposals on the ways to move forward with the Semester framework.

With some exceptions (Alcidi and Gros, 2017), most commentators are positive about the Semester's future and their suggestions do not envisage drastic updates to the framework but a gradual reform of the Semester which could improve its effectiveness. For obvious reasons, it should be in the strategic interest of Member States to stay committed to coordination of employment policy on the EU-level, especially to more and better mutual learning experience. The Commission (2017a: 17) is right to point out in the *Reflection Paper on the Social Dimension of Europe* that currently 'a new world of work is taking shape'. Career patterns and labour contracts are being reshaped amidst the rise of the collaborative and platform economies. Linear career pathways are becoming a thing of the past and new, flexible forms of employment are taking precedent. These new realities present both an opportunity for new generations of more adaptable workers, but also a challenge for labour markets in terms of the quality of work, adaptability of skills, job (in-)security, social protection and working conditions. For national labour markets to adapt to these changes it will therefore be crucial to utilize opportunities for sharing experiences, transferring knowledge and learning from best practices through EU policy coordination. While it is true that too often the Semester is considered an 'administrative burden' by national administrations (Alcidi

and Gros, 2017: 5) primarily as a result of the ‘multiplication of procedures, documents and legal steps at EU level [*which*] risk overloading the process and damaging its clarity’ (European Commission, 2014g: 20), domestic actors recognize the added value of the Semester framework for domestic policy-making (see: Sections 3.3.1; 4.3.1; 5.3.2; 6.3.2).

There are multiple avenues which could lead to better synchronization between EU employment objectives, guidelines and recommendations on the one hand and national policy responses on the other, while stimulating a greater feeling of usefulness and satisfaction with the Semester cycle both at the level of EU authorities and domestic actors. The majority of proposals that have circulated lately consider improvements in financial incentives, different ways of tightening the enforcement, and actions to foster greater national ownership of reforms to be beneficial (Banerji et al., 2015; Gern et al., 2015; Juncker et al., 2015; Alcidi and Gros, 2017; European Commission, 2017f, 2017g, 2018e). In light of the empirical findings in this thesis, recommendations on how to improve the Semester process emerge with regard to four thematic areas: 1) actions aimed at reaping positive synergies within the Semester framework; 2) increasing the Semester’s efficiency; 3) improving the quality of multi-level cooperation and 4) fostering greater legitimacy and ownership of Semester’s policy recommendations.

8.3.1 Reaping positive synergies

One implicit expectation in the Semester framework was that political costs of structural reforms could be overcome by setting negative and positive incentive structures right and complementing the soft nature of employment CSRs with other soft and hard tools from the governance toolkit which would together propel a synergic effect. Linking EU structural funding to CSRs was the most obvious attempt. The 2014-2020 EU funding regulations required Member States to consider in the preparation of their Operational Programmes those Semester CSRs which can be addressed through structural funding. Ciffolilli et al. (2018) estimate that around 85 % of total structural funding that was allocated actually targets relevant CSRs. Indeed, our country cases

also confirmed that CSRs were largely reflected in ‘strategic choices set out in ESI Funds programmes’ (ibid., p. 12). Besides this general provision, current funding regulations include two types of negative conditionalities geared at better implementation of policy reforms – policy ex-ante conditionalities and macroeconomic conditionalities. The first requires Member States to set up strategic policy frameworks for the implementation of funds, whereas the other foresees the possibility of funding reprogramming or even suspension of funding if the Member State fails to address challenges identified in relevant SGP, MIP or employment-related CSRs. Neither was there evidence that these ex-ante conditionalities had any significant impact on policy choices in the country cases beyond formal compliance, nor did Member States fear sanctions (see: Section 7.1).

On the other hand, linkages between soft CSRs and the fiscal and macroeconomic procedures within the Semester attempted to tighten the enforcement of structural reforms through the backdoor. However, it is no secret that the Commission has not made full use of enforcement mechanisms foreseen in the SGP and MIP framework, and sanctions have never been imposed on Member States, but the use of existing rules was made flexible (Banerji et al., 2015). Evidence suggests that the inclusion of social and employment recommendations under the MIP and SGP has not helped in building pressure as the rules lack credibility, except in circumstances in which the economic conditions were already dire and threats of a bailout were looming (Slovenia, see: Section 6.5). The logic of linking social and employment issues to the fiscal and macroeconomic strand is also often blurred and criteria for including them are not transparent enough (Vanhercke and Zeitlin, 2015: 28). Ideally, the Commission should refrain from such linkages and unbundle social and employment CSRs from the SGP and MIP unless there is sufficient and transparent evidence to suspect that problems in the social/employment field pose a serious systemic threat to the financial and macroeconomic stability of the Member State.

Recently, the Commission entertained the idea of making the coordination process more binding through ‘a set of common high-level standards’ or benchmarks which would be agreed at

EU level, monitored as part of the Semester framework (CSRs and MIP) and would target, for instance, convergence towards minimum social and employment standards (Juncker et al., 2015; European Commission, 2017g). It is, however, unlikely that binding shared standards will be introduced any time soon. If the setting of national benchmarks would be left to the discretion of national governments, they would probably remain unambitious to avoid strict commitments. On the other hand, setting binding benchmarks at EU-level would come at the cost of potential domestic backlash and lack of national ownership. Accordingly, Member States have been wary of potential competence creeps and were very sceptical of recent attempts to open up this Pandora box as part of the *European Pillar of Social Rights* which proposed ‘to develop social and employment benchmarks for upwards convergence’ (Vanhercke and Zeitlin, 2015: 25). In such circumstances of contestation, it is questionable to what extent benchmarks would be enforceable, especially given the potential difficulty of measuring and monitoring progress (Banerji et al., 2015).

Lately, the Commission came out with its proposal on the ESF+ for the financial perspective 2021-2027 which intends to strengthen the link between Semester CSRs and funding by requesting Member States to ‘allocate an appropriate amount of its resources of the ESF+ strand’ if it received a ‘relevant’ CSR (European Commission, 2018e). Other proposals to maximize the convergence potential of linking EU funding to reforms include: the creation of a ‘dedicated fund to provide incentives to Member States to carry out reforms’, making EU funding conditional on ‘progress in implementing concrete reforms to foster convergence’ (European Commission, 2017f) or ‘upon a commitment to reach certain benchmarks’ (European Commission, 2017e). Commonly, such proposals sustain the centrality of conditionality and fail to acknowledge that funding conditionality risks being ‘seen by domestic stakeholders as a bribe by which European partners want to enforce a reform on the country’ (Darvas and Leandro, 2015: 18). As the country cases in this PhD showed (see: Sections 3.5; 4.4; 6.4; 6.5), attempts to use conditionality to impose employment reforms which lack national ownership rarely achieve the desired policy outcomes. Also, use of ex-post conditionality would be a daunting task given the

methodological difficulty ‘to measure the implementation of the CSRs precisely enough to make implementation a condition for certain funds’ (Alcidi and Gros, 2017: 24).

Instead, the synergic coupling of EU funding and Semester economic governance should be based on positive incentives (‘carrots’) which would additionally reward Member States for full implementation of CSRs, instead of using sanctions or funding withdrawal as a ‘stick’. Such positive incentives could take the form of ‘a specific reserve to reward MSs for on time and complete CSRs implementation’, ‘increased EU co-financing rates for all the interventions when CSRs are implemented correctly’ or higher co-financing for actions directly targeting a CSR (Ciffolilli et al., 2018). For this to happen, CSRs would have to become better integrated into Operational Programmes, and a transparent monitoring system would have to be in place. Finally, the Commission should step up administrative support activities of the Structural Reform Support Service (SRSS) and engage more frequently in partnerships with other expert institutions (OECD, World Bank) to incentivize structural reforms, especially during fast-burning economic crises when Member States act in crisis-mode and instead focus on firefighting measures mostly aimed at fiscal stabilization in the short-term.

8.3.2 Increasing efficiency or – ‘Less is more’

One of the early weak spots of the Semester was that it tried to concentrate on too many policy issues at the same time. The Commission had recognized early on that it will be important to ‘reinforce the institutional and administrative infrastructure underpinning the Semester, while making sure it remains a politically-driven and focused process (not a bureaucratic one)’ (European Commission, 2014g). Accordingly, as part of the ‘streamlining’ efforts of the Juncker Commission, the number of CSRs issued to Member States was first reduced, with each CSR integrating several sub-recommendations belonging to the same thematic circle. While at first such condensed CSRs were simply a compendium of sub-parts which previous used to figure as standalone CSRs, the

CSRs have lately (2018-19) become a succinct expression of only the most important domestic issues. In the drafting process, SECGEN makes sure to prioritize in the selection of CSRs.

The Semester should consolidate the practice of prioritizing only those policy issues which are of serious concern for the proper functioning of the national labour market or have obvious implications for the functioning of the EMU. CSRs should be clearly result-oriented, whilst leaving up to the national government on how to best reach policy goals. Proliferation of initiatives, pacts, recommendations and packages in the employment field since the crisis added to the over-bureaucratization of the Semester, which serves as their main monitoring framework. This also comes at the risk of *patchworkization*, adding to the dysfunctionality and incoherence of national employment systems rather than contributing to rapid convergence of employment outcomes in the EU. National administrations in CEE report integration fatigue and express frustration as they become administratively overburdened in an under-capacitated environment of small public administrations (see: Sections 3.3.2). It thus comes as no surprise that they tend to reach for pragmatic solutions and creatively fit domestic policies into EU frames of reference.

The Commission is advised to concentrate its scarce human resources efficiently on priority issues. The example of the Slovak Action plan on long-term unemployment offers good guidance. The Commission offered full operational guidance on a long-lasting domestic policy issue which lacked sufficient political will to be addressed. The Commission, together with the SRSS, should offer technical support, from A to Z, throughout the lifecycle of a policy problem – from formulation to implementation and evaluation, it should apply enhanced monitoring tools to maintain the reform momentum, encourage the national administration to make full use of mutual learning and (re-)allocate sufficient EU funding for the purpose. In the context of already very limited resources in EU funds, which are not generous enough to support structural reforms with large implementation costs (Banerji et al., 2015: 30), EU funds should be made more effective by strengthening the link to policy priorities in CSRs (see: previous section). This should ensure that greater financial incentives are made available for a smaller list of priority issues. At the same

time, it is paramount that a well-functioning monitoring system is put in place to better control how the money is spent and to what extent policy actions contribute to the fulfilment of a specific CSR. Having in place such a system would lower the risk of political misuse and creative compliance with the CSR.

8.3.3 Improving the quality of multi-level cooperation

EU institutions and national governments should invest more in the quality of multilateral surveillance and multi-level governance arrangements created within the Semester framework. Quality relationship between the Commission services and national authorities is the founding block for mutual trust-building, open interactions and frank exchange of views. Good quality of interactions fosters mutual understanding and facilitates learning processes. At present, a number of obstacles inhibit the quality of multi-level cooperation. In CEE, fact-finding missions are far too often considered occasions for only formalized and diplomatic exchange of views. Policy dialogue at EPSCO level is deficient compared to other Council configurations and policymakers in EPSCO remain largely disconnected from the multilateral surveillance process (Maricut and Puetter, 2018), besides formally endorsing EMCO conclusions on multilateral surveillance and confirming CSRs. Policymakers are also vastly disconnected from their national EMCO members and rarely recognize the opportunity for promoting national policy preferences by establishing senior contacts in DG EMPL, DG ECFIN and SECGEN. On the Commission's side, desk officers in DG EMPL are rotated far too often, which disrupts potentially quality working relationships previously nurtured between the levels of administration.

Therefore, it is important that desk officer in core DGs for the Semester are less frequently rotated to preserve productive and often informal ties with national administrations, experts and stakeholders. The Commission should encourage more informal fact-finding missions to create conducive conditions for policy dialogue. Informal EPSCO Council meetings should be held more frequently as there is some indication that this format is more appropriate for policy discussions

and best practice learning (see: Section 6.3.2). Follow-ups to EMCO peer reviews should be integrated into these informal occasions to make policy transfers more effective. Leaderships of labour ministries should recognize the strategic importance of creating informal executive-level contacts in the Semester framework in order to better represent national policy interests. They should also improve vertical communication domestically with EMCO members, invest in staff training and carefully select national representatives on the basis of professional motivation to participate in multi-level governance. With those important preconditions for meaningful engagement satisfied, mutual learning should improve.

As a centrepiece of employment policy coordination, mutual learning deserves special attention. Despite the increase in opportunities for learning and proliferation of different forms of peer reviews, Member States still do not make full use of the potential created by multilateral exchanges in the Semester framework. The effectiveness of multilateral surveillance could be further improved if more innovative, informal and experimental working methods were to be applied. It is time for the Commission and the Council to invest in the quality of learning, not just the form and quantity of peer activities. Remnants of the old employment OMC process (EES) which still run in parallel, such as the Mutual Learning Programme (MPL), should be better integrated with the Semester process. So should the activities of the European Network of Public Employment Services in order to support the evidence basis for Semester documents.

8.3.4 Fostering legitimacy and ownership

Various commentators and the Commission have come to an understanding that lack of legitimacy and national ownership of reforms proposed by the Commission are a serious obstacle to Semester's effectiveness (Banerji et al., 2015; Juncker et al., 2015; Alcidi and Gros, 2017; European Commission, 2017f). To that end, a variety of ongoing changes to the Semester framework were devised in order to improve the legitimacy of the process. The Semester cycle was streamlined to leave more time for interaction between the Commission and national authorities and greater

involvement of stakeholders between the publication of Semester documents. The Country Report is now shared with governments for comments before publication. ESOs were sent to national capitals to establish closer dialogue with authorities and stakeholders, and to stimulate better ties. Also, the Commission encourages Member States to create independent National Productivity Boards (NPB) which would ‘help to analyse economic productivity and competitiveness developments and challenges’⁷⁴. Establishing NPBs was seen as a potential ‘move towards a more decentralised approach in the monitoring and surveillance activities’ (Alcidi and Gros, 2017: 22, see also: Darvas and Leandro, 2015) so that the analytical basis for CSRs, policy proposals and monitoring were more home-grown and as such infused with more domestic legitimacy. The Commission envisaged further actions in the *Reflection Paper on the Deepening of the EMU* to stimulate ‘cooperation and dialogue with Member States, involving also national parliaments, social partners, National Productivity Boards and other stakeholders’ (European Commission, 2017f: 24).

To strengthen national ownership of reforms, as Vanhercke and Zeitlin (2015) stress as well, it remains key that CSRs do not prescribe how the Member States are to achieve policy outcomes, but they should retain sufficient freedom to specify the exact policy means, in accordance with national policy-making practices and policy traditions. While Juncker’s ‘political Commission’ has been increasingly aware of the importance to concentrate CSRs on issues which resonate with domestic audiences, further effort should align the formulation of CSRs with national investment and regulatory priorities. The Semester should respect deep-seated policy beliefs and policymaking practices and avoid creating animosity by insisting on incompatible policy solution. It is important to ensure respectful treatment and acknowledgement of national policy-making traditions, as well as social dialogue practices. At the same time, the Commission should ensure that the CSRs promote convergence and encapsulate the EU’s common interest as defined through integrated guidelines.

⁷⁴ https://ec.europa.eu/info/business-economy-euro/economic-and-fiscal-policy-coordination/national-productivity-boards_hr (Accessed: 5 November 2019).

The Commission should also do more and better to ensure meaningful participation of domestic stakeholders, parliaments and social partners in the preparation of the Country Report, assessment of NRPs, formulation of CSRs and monitoring of progress. Currently, there is limited evidence that the deployment of ESOs has helped in translating the views of domestic stakeholders into Commission's priorities (Munta, 2019; see also: Section 3.3.3). The ability of ESOs to foster wider societal ownership of reforms is limited by their administrative capacities, individual preferences to interact with stakeholders, lack of standardized instructions and Commission's internal rules of conduct which constrain ESOs in taking a more active role in the public. It is also not transparent enough how interactions with stakeholders during fact-finding missions contribute to the Semester process. The Commission should target these limitations. Likewise, the Commission should explore new ways of motivating government to engage with domestic stakeholders more substantially in the domestic phase of the Semester, especially in preparation of NRPs. Formalistic requirements to report on consultations in the NRP have only proven to be a paper tiger. Furthermore, the new multi-annual financial framework should earmark funding for social partners to overcome current limitations in capacities to participate more meaningfully in the Semester process. Finally, as for the mutual learning aspect of the Semester, it will be important to explore new possibilities and guidelines for political leaders of how to create better politico-administrative relations with EMCO members so that expert involvement in policy debates effectively translates into greater ownership at the political level.

9 APPENDICES

Appendix I EU employment objectives and guidelines (1997 – 2015)

Period	EU objectives and guidelines
1997-2002	<p>Improving employability</p> <ul style="list-style-type: none"> • Tackling youth unemployment and preventing long-term unemployment ('fresh start' after 6/12 months, preventive and employability-oriented strategies) • Transition from passive measures to active measures (review benefit and training system, active support to raise employability, active ageing policies) • Encouraging a partnership approach (social partner contribution to lifelong learning, traineeships and training) • Easing the transition from school to work (improve the quality of school systems and drop-out rates; apprenticeships and skills development for the labour market) <p>Developing Entrepreneurship</p> <ul style="list-style-type: none"> • Making it easier to start up and run businesses (simplify administrative and tax burdens, encourage self-employment) • Exploiting the opportunities for job creation (social economy and innovation) • Making the taxation system more employment friendly (reduce labour taxes and non-wage labour costs without jeopardizing public finances) <p>Encouraging adaptability in businesses and their employees</p> <ul style="list-style-type: none"> • Modernizing work organization (encourage flexible working arrangements, part-time work, lifelong training and flexicurity) • Support adaptability in enterprises (examine tax obstacles to human resource investment and in-house training) <p>Strengthening the policies for equal opportunities</p> <ul style="list-style-type: none"> • Tackling gender gaps • Work-family reconciliation (raise levels of access to care services) • Facilitating return to work (reduce obstacles of return after absence) • Promoting the integration of people with disabilities into working life
2003-2005	<p>Full employment</p> <ul style="list-style-type: none"> • Active and preventive measures for the unemployed and inactive (job search assistance, modernizing labour market institutions, retraining and work practice)

	<ul style="list-style-type: none"> • Job creation and entrepreneurship (simplify administrative and regulatory burdens, improve education in managerial skills) • Promotion of active ageing (discourage early retirement, increase flexibility, working conditions, health and safety and vocational training) <p>Improving quality and productivity at work</p> <ul style="list-style-type: none"> • Promotion of adaptability and mobility, social dialogue and corporate social responsibility (diversify contractual and working arrangements, flexicurity, work-life balance, health and safety conditions, access to training) • Promotion of the development of human capital, education and lifelong learning • Tax and financial incentives to enhance work attractiveness (reforming the tax and benefit systems) <p>Strengthening social cohesion and inclusion</p> <ul style="list-style-type: none"> • Promotion of gender equality by reducing gender gaps (address sectoral and occupational segregation, improve access to childcare facilities, and access to training and education) • Integration of and combating discrimination • Addressing regional employment disparities (conditions for local private sector investment and activity) • Transformation of undeclared work into regular employment (incentives in the tax and benefit system)
2006-2009	<p>Attract and retain more people in employment and modernise social protection systems</p> <ul style="list-style-type: none"> • Implement employment policies aiming at achieving full employment, improving quality and productivity at work, and strengthening social and territorial cohesion • Promote a lifecycle approach to work (reduce youth unemployment, eliminate gender gaps, reconciliation of work and life, affordable childcare, discourage early retirement, ensure adequacy, financial sustainability and responsiveness of pension and health systems) • Ensure inclusive labour markets for jobseekers and disadvantaged people (active and preventive approach, job assistance and guidance, review of tax and benefit systems) • Improve matching of labour market needs (modernize labour market institutions, facilitate mobility, better anticipation of skill needs, shortages and bottlenecks) <p>Improve adaptability of workers and enterprises and the flexibility of labour markets</p> <ul style="list-style-type: none"> • Promote flexibility combined with employment security and reduce labour market segmentation (adapt employment protection legislation, facilitate adaptation during

	<p>economic restructuring, support transitions in occupational status through training, self-employment, business creation, better contractual and working time arrangements, improve quality and productivity at work, tackle undeclared work)</p> <ul style="list-style-type: none"> • Ensure employment-friendly wage and other labour cost developments (review the structure and level of non-wage labour costs for the low-paid, encourage appropriate wage-bargaining systems) <p>Increase investment in human capital through better education and skills</p> <ul style="list-style-type: none"> • Expand and improve investment in human capital (lifelong learning, incentives for enterprises, public authorities and individuals, more apprenticeships and entrepreneurship training, workplace training throughout the lifecycle) • Adapt education and training systems in response to new competence requirements (better identification of needs, recognition of non-formal and informal learning, broadening the supply of education and training tools)
2010-2014	<p>Increasing labour market participation of women and men, reducing structural unemployment and promoting job quality</p> <ul style="list-style-type: none"> • Activation to increase labour market participation, integrate flexicurity principles, social dialogue, boost the role of Employment Services, ensure adequate social security systems, tackle segmentation and gender inequality, introduce “policies to make work pay”, wage development consistent with price stability and productivity trends, review tax and benefit systems <p>Developing a skilled workforce responding to labour market needs and promoting lifelong learning</p> <ul style="list-style-type: none"> • quality initial education and attractive vocational training complemented with incentives for lifelong learning, qualification recognition, remove barriers to occupational and geographical mobility of workers, ease acquisition of transversal competences, offer career guidance and training, tackle youth unemployment <p>Improving the quality and performance of education and training systems at all levels and increasing participation in tertiary or equivalent education (raise the skill level of the workforce to meet the demands of the labour market)</p> <p>➔ Promoting social inclusion and combating poverty (Extension of employment opportunities is essential to reducing poverty and promoting full participation in society and economy, promoting labour market participation of the most vulnerable, preventing in-work poverty to fight social exclusion, enhancing social protection systems, active inclusion policies)</p>
2015 -	<p>Boosting demand for labour</p> <ul style="list-style-type: none"> • Shift tax burdens from labour, reduce barriers to business and entrepreneurship, follow productivity developments in wage setting <p>Enhancing labour supply, skills and competences</p>

- Invest in education and training, work-based dual learning, active and individualized support, improve access to lifelong learning, school-to-work transition of youth, implement the Youth Guarantee, ensure equal pay, gender equality and female participation, work-family reconciliation, affordability of early childhood care and long-term care

Enhancing the functioning of labour markets

- Implement flexicurity principles; reduce segmentation and fight undeclared work; EPL with suitable protection; quality conditions for work, education and training; involve social partners and parliaments in the design of policies; strengthen active labour market policies (effectiveness, targeting); rights and responsibilities approach to passive measures; improve labour-market matching and transitions; more effective public employment services with tailored services; promote mobility

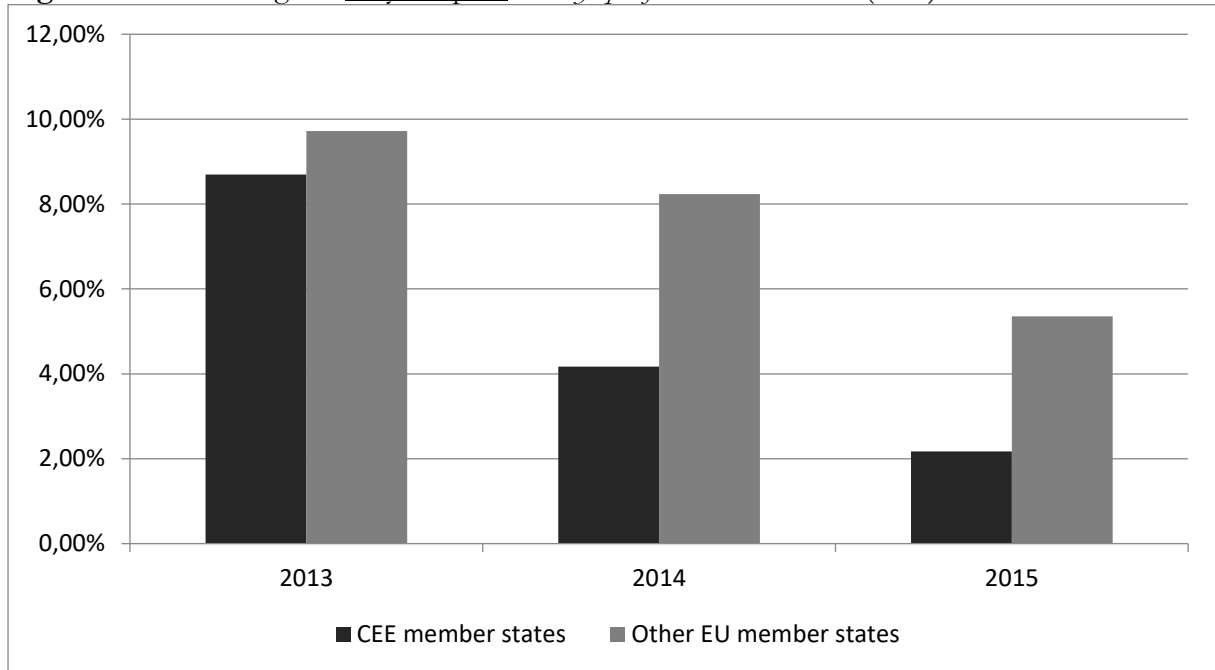
Fostering social inclusion, combatting poverty and promoting equal opportunities

- Modernize social protection systems (efficient and adequate protection); provide affordable, accessible and quality services in childcare, out-of-school care, education, training, housing, health services and long-term care; fight in-work poverty and social exclusion; sustainability and adequacy of pension systems

Sources: COM(2005) 141 final, Council (1997), COM(1999) 441 final, Decision (EC) No. 578/2003, Council Decision 2010/707/EU, Council Decision (EU) 2015/1848

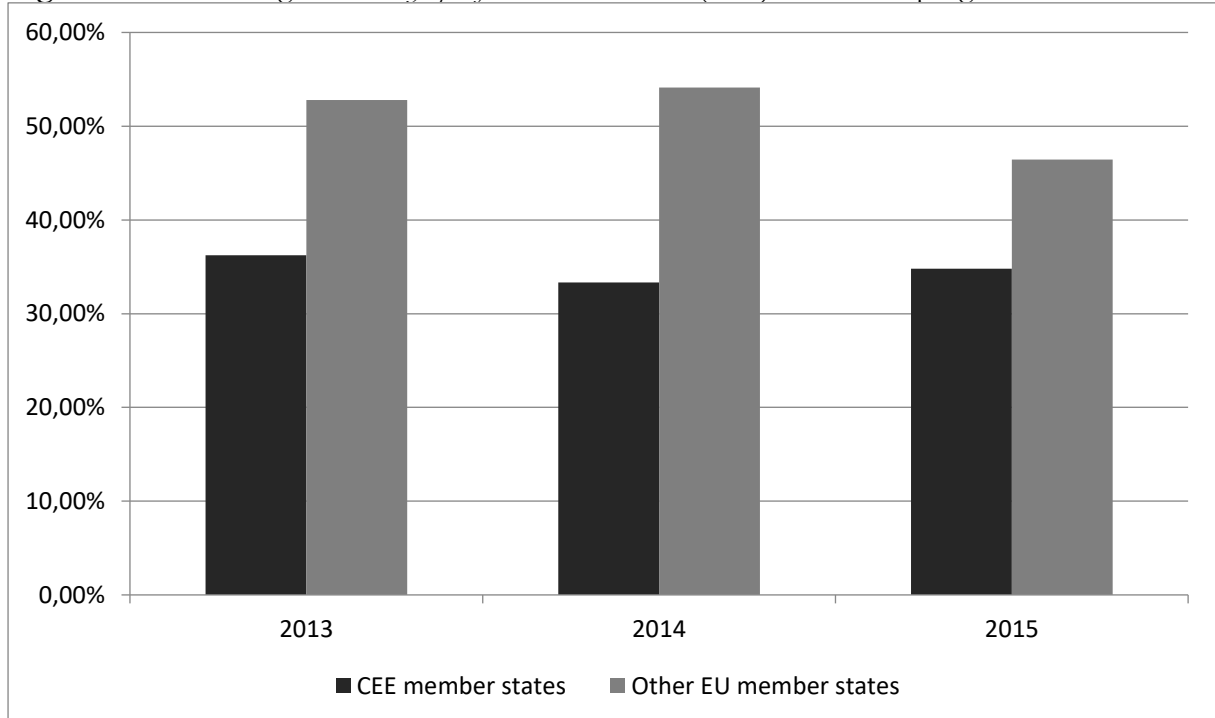
Appendix II Comparison of CSR implementation rates between CEE and EU-28

Figure II.1. Percentage of fully adopted *country-specific recommendations* (CSR)



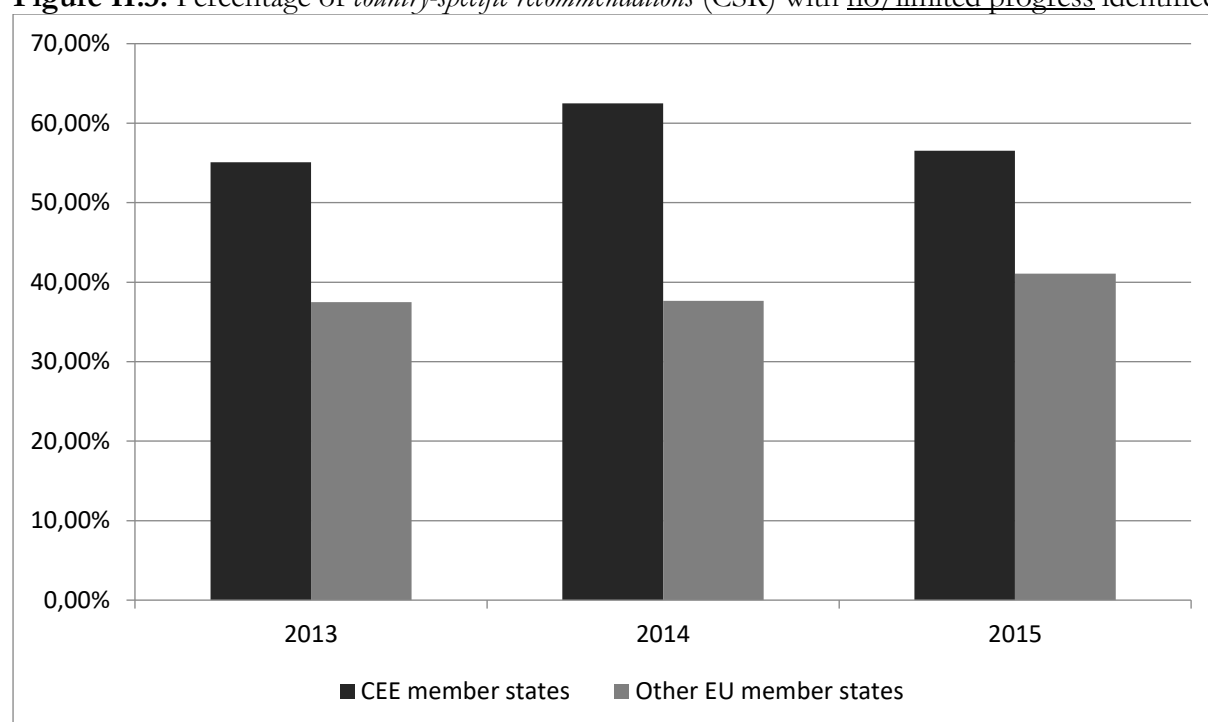
Source: Author's own calculations. DG Internal Policies and EGOV (2016, 2015, 2014)

Figure II.2. Percentage of *country-specific recommendations* (CSR) with some progress identified



Source: Author's own calculations. DG Internal Policies and EGOV (2016, 2015, 2014)

Figure II.3. Percentage of *country-specific recommendations* (CSR) with no/limited progress identified



Source: Author's own calculations. DG Internal Policies and EGOV (2016, 2015, 2014)

Appendix III List of interviewees

Country	Code	Affiliation	Date of interview
Croatia	HR1A_MRSIC	Ministry of Labour, Minister M. Mrsić (2012-2016)	15 February 2018
	HR2A	Ministry of Labour, State Secretary	7 March 2017
	HR3A	Ministry of Labour, EMCO	14 November 2016
	HR4A	Ministry of Labour, EMCO	14 November 2016
	HR1B	Croatian PES, Director's Office, EMCO	8 March 2017
	HR2B	Croatian PES, EMCO	11 November 2016
	HR1C	Croatian Parliament, European Affairs Committee	15 March 2017
	HR1D	Union of Autonomous Trade Unions in Croatia	16 February 2018
	HR1E	Monitoring Committee for OP EHR 2014 – 2020	13 April 2018
	HR2E	Monitoring Committee for OP EHR 2014 – 2020	5 April 2018
	HR1F	Croatian Youth Network (<i>Mreža mladih Hrvatske</i>)	27 February 2018
	HR1G	DG Employment, Croatian desk	26 April 2018
	HR2G	DG Employment, Croatian desk	26 April 2018
	HR3G	DG Employment, Croatian desk	25 April 2018
	HR1H	DG ECFIN, Croatian desk	18 July 2017
HR1I	Commission representation to Croatia	11 June 2016	
Hungary	HU1A	Ministry of National Economy, Hungary, EMCO	8 May 2018
	HU2A	Ministry of National Economy, Hungary	10 April 2018
	HU3A	Ministry of National Economy, Hungary	8 May 2018
	HU4A	Ministry of National Economy, Hungary, EMCO	5 February 2018
	HU1B	DG EMPL, Hungarian desk, EMCO	20 April 2018
	HU2B	DG EMPL, Hungarian desk	19 April 2018
	HU3B	Commission Representation to Hungary	12 May 2016
	HU1C	Forum for the Cooperation of Trade Unions	13 March 2018
	EC1A	DG EMPL, Unit A.1	16 April 2018
	EC1B	DG SECGEN	24 April 2018
Slovakia	SK1A	The Ministry of Labour, Social Affairs and Family	27 March 2018
	SK2A	The Ministry of Labour, Social Affairs and Family	27 March 2018
	SK3A	The Ministry of Labour, Social Affairs and Family	27 March 2018
	SK1B	DG EMPL, Slovak desk	17 April 2018
	SK2B	DG EMPL, Slovak desk	17 April 2018
	SK1C	Federation of employers' associations (AAAZ)	11 April 2018

	SK1D	Youth Council of Slovakia (<i>Rada mladeže Slovenska</i>)	28 March 2018
	SK1E	Confederation of Trade Unions (KOZ SR)	27 March 2018
	SK2E	Confederation of Trade Unions (KOZ SR)	27 March 2018
	SK1F	Permanent Representation of Slovakia to the EU	16 April 2018
	SK2F	Permanent Representation of Slovakia to the EU	16 April 2018
	SK1G	National Council, European Affairs Committee	10 October 2018
	SK1H	Commission Representation to Slovakia	28 March 2018
Slovenia	SI1A	Ministry of Labour, senior official	29 Jul 2017
	SI2A	Ministry of Labour, EMCO	17 Jul 2017
	SI3A	Ministry of Labour, EMCO	11 Sep 2017
	SI1B	DG EMPL, Slovenian desk	04 May 2018
	SI2B	DG EMPL, Slovenian desk	26 Apr 2018
	SI3B	DG EMPL, Slovenian desk	26 Apr 2018
	SI1C	Employment Service of Slovenia	12 Jul 2017
	SI1D	Youth Trade Union (<i>Mladi+</i>)	27 Feb 2018
	SI1E	Association of Free Trade Unions of Slovenia	14 May 2018
	SI1F	Permanent Representation of Slovenia to the EU	16 Apr 2018
	SI1G	National Assembly, European Affairs Committee	09 Aug 2017
	SI1H	Commission Representation to Slovenia	13 Feb 2017

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