Public Policy Portuguese Journal
2016, Volume 1, Number 1, pp. 57-67

www.umpp.uevora.pt

Economic reform under Europe 2020

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Abstract

The article asks what is the state of and prospects for economic reform under the Europe 2020 strategy and the European semester, within the context of economic policy coordination in the European Union (EU) and in the Eurozone. After briefly setting out the framework for economic policy coordination established since Maastricht, it sheds light on the Lisbon strategy's problem-laden legacy for the Europe 2020 strategy (2011-2020): the issues of non-binding member state commitment to an EU-wide reform agenda, and of member state failure to create sufficient ownership of reform. The article then examines the workings of the Europe 2020 strategy – the EU's economic and institutional modernisation strategy for the current decade – with regard to structural reform especially in the Eurozone. It addresses the question of the effectiveness of the European semester process in light of the sovereign debt crisis. The article concludes that the Europe 2020 strategy's approach continues to be valid in the EU context, but that for the strategy to deliver member states must get their act together and create ownership of reform for national adjustment capacity.

Keywords: Europe 2020 strategy, EMU, structural reforms, institutional modernisation, sustainable growth
JEL classification: E42, E61, E65, F60, O40

1. Introduction

The Europe 2020 strategy (2011-2020) is the EU's economic and institutional modernisation strategy for the decade. Its good functioning has become ever more important since the sovereign debt crisis – a Eurozone crisis – erupted in 2010, lending urgency to structural reform as to ensure the good functioning and indeed survival of the EU's monetary union. Yet, already more than half through its term, the strategy has chronically failed to even gain visibility in national economic policy discourses.

This article asks what is the state of and prospects for economic reform under the Europe 2020 strategy and the European semester, within the context of economic policy coordination in the European Union (EU) and in the Eurozone. It is organised as follows. Section 2 sets the stage by setting out the framework for economic policy coordination established since Maastricht. Section 3 sheds light on the Lisbon strategy's problem-laden legacy for the Europe 2020 strategy (2011-2020): the issues of non-binding member state commitment to an EU-wide reform agenda, and of member state failure to create sufficient ownership of reform. Section 4 examines the workings of the Europe 2020 strategy – the EU's economic and institutional modernisation strategy for the current decade – with regard to structural reform in particular in the Eurozone. Section 5 addresses the question of the effectiveness of the European semester process in light of the sovereign debt crisis. Section 6 concludes.

2. Economic policy coordination: rising coordination needs with Economic and Monetary Union (EMU)

Under the Maastricht treaty of 1992, the European Union (EU) elevated its level of ambition with respect to its economic integration objective, from a customs union and a common market (since the 1957 Rome Treaty) to Economic and Monetary Union (EMU). While this higher stage of European economic integration is associated with significant economic benefits (which were set out in the report by the Delors Committee, 1989), it brings about substantially increased coordination needs between the member states that are part of the monetary union.

EMU is of course composed of two – the economic and monetary union – spheres, which are also interdependent. The governance – and hence coordination mode – of those two parts differs, as a result of the existence (or inexistence) of a necessary consensus across member states at Maastricht: In the monetary union domain there was a consensus that allowed for sovereignty sharing but the same did not hold true for the economic union part. The difficulty to start with was that, in contrast to a monetary union, neither the concept of an economic union nor its significance with respect to the EU was well defined (Pelkmans 2006). Essentially, an economic union could mean a stand-alone construct, or one designed to meet (at least essential) requirements for the functioning of the monetary union. The resulting EU concept of economic union that was set out in the Maastricht treaty did imply some coordination of economic policies but was left incomplete with respect to the requirements of monetary union. As a consequence, coordination in the economic union assumed the character of an open compromise (Torres 2008), with posterior governance advances being left conditional upon sufficient preference convergence to occur.

The economic union sphere was developed later, notably on the fiscal side through the 1997 Stability and Growth Pact (SGP) and with regard to economic reform through the 2000 Lisbon strategy. Both of those became only weakly coordinated, relying on non-binding member state commitments; there were no sanctions for non-compliance in the case of the Lisbon strategy and ineffective sanctions in case of the SGP. Different governance and coordination modes in the economic and monetary union spheres of EMU have persisted up to the present. As Bini-Smaghi (2016) put it, Eurozone governance is characterized by a combination of centralization of competences in policy areas like monetary policy and subsequently also banking supervision (the responsibility of the European Central Bank, the ECB) as well as of competition policy, state aid and external trade (the responsibility of the European Commission), with a form of "constrained" decentralization in other areas, such as fiscal and structural policies.

The sovereign debt crisis has come to illustrate higher economic coordination needs between members of the Eurozone in the face of increased interdependencies, and the need to deal with them for the sake of the good functioning and indeed sustainability of the currency union. Economic reform, which is the object of this article, is a case in point. However, not all EU member states are members of the currency union (Eurozone). All EU member states – present and future – are to join the single currency at some time, after complying with the established prerequisites, the only two exceptions being the United Kingdom (UK) and Denmark, which obtained derogations at Maastricht.[1] Currently nineteen out of the present twenty-eight member states are members of the Eurozone. Perceptions on the desirability or urgency of advances in economic coordination may thus vary across EU member states. The issue of economic reform bears witness to the difficulties of internalising spillovers in the EU and in the Eurozone.

3. The Lisbon strategy's legacy for the Europe 2020 strategy

It is important to understand the Lisbon legacy for the Europe 2020 strategy, considering that the Europe 2020 built on the objectives and toolbox of the revised Lisbon strategy of 2005, which had in turn focused the EU's economic reform strategy on deliverables (growth and employment).

At the Lisbon European Council in 2000 all EU member states had agreed on reinforcing EU economic policy coordination by committing to a common economic reform agenda. The so-called Lisbon strategy (2000-2010), which was developed at subsequent meetings of the European Council and which became also known

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[1] After the negative referendum outcome on EU membership on 23 June 2016, the United Kingdom (UK) is expected to invoke article 50 TEU in the near future as to voluntarily exit the EU. This would leave Denmark as the only EU country with a derogation from monetary union. Denmark, however, shadows the Eurozone. See Bongardt and Torres (2016b).

as the agenda for growth and jobs after its mid-term refocus on deliverables (growth and employment) in 2005, was above all motivated by the need to address the challenges associated with world-wide competition (globalisation). The strategy did not feature any specific Eurozone dimension to economic reforms.

Rather, the Lisbon strategy defined an institutional modernisation and structural reform agenda for the ensuing decade that was EU-wide, meant to counter the EU's productivity slowdown and thereby promote growth. It was an encompassing and ambitious reform strategy, which was based on three – economic, social and environmental – pillars.[1] The strategy came to outline more than a mere common economic and social and subsequently also environmental modernisation strategy, giving rise to an emerging European model of society.[2]

The very fact that the Lisbon strategy came into existence testifies to a consensus across European varieties of capitalism on the need for structural reform and institutional modernisation. It was the competitiveness rationale, that is, the felt external pressure at the time of its enactment, which promoted the consensus across member states on an EU-wide strategy: only reforming could the EU and its member states hope to improve living standards and preserve the European social model.[3] In the reality of European varieties of capitalism, mere market liberalisation could not do away with all kinds of market distortions created by member states at the national level that were understood to hold back productivity and growth[4]; the Lisbon strategy supplemented single market supply-side liberalisation by economic and institutional reform to make the European single market deliver on economic (competitiveness, growth, employment) and also societal (social, environmental) objectives.[5] The prospect was to transform common challenges to member states – of globalisation and the information society, but also of demographic ageing, climate change and successive enlargements of the Union – into economic opportunities and growth through economic reform and institutional modernisation at the national level. The consensus embodied in the Lisbon strategy reflected member states' recognition that it was also in their individual interest to improve national economic performance and growth potential in this light, while the economic case for having EU-wide coordination was based on the additional gains associated with positive spillovers from trade. The political economy argument was that peer pressure would help implementation across member states.

3.1. An EU-wide economic reform agenda but with national policy competences

Member states did recognise the need for EU-level coordination in the reality of European varieties of capitalism but they were not prepared to abdicate of/or share competences. Rather than pooling sovereignty along the lines of single market governance instruments (the Community method) they agreed on the Open Method of Coordination (OMC) to implement the common economic reform agenda. The OMC allows member states to preserve national competences in areas of reform while trying to coordinate reforms at the EU-level.[6] Nevertheless, soft coordination looked promising at the outset: the OMC permits taking into account member state differences in their preferences regarding the state / market equilibrium as well as different traditions and path-dependency of national institutions.

What stands out as the central idea – and chief Lisbon legacy to the Europe 2020 strategy – was to thereby foster reforms that could be tailored

[1] The economic pillar was to create the basis for the transition to a competitive, dynamic knowledge-based economy, with emphasis put on the need to adapt constantly to changes in the information society and to increase research and development. The social pillar was to modernise the European social model, through investment in human resources and combating social exclusion. The environmental pillar, added at the Gothenburg European Council meeting in June 2001, called attention for the need to decouple economic growth from natural resource utilisation for sustainable development. The strategy thereby aimed at creating the bases for re-launching the EU within the decade in the changed context of globalisation, but also the paradigm shift to a knowledge economy and to an innovation-based model of growth (Bongardt and Torres 2012).

[2] Bongardt and Torres (2009) set out what a 'European model' means under the EU's economic reform agendas.

[3] Although, following Sapir (2006), there are four different categories of European social models, classified in function of their efficiency (the capacity to integrate persons in the labour market) and equity (low probability of poverty) properties. Equity is a function of societal preferences while efficiency (financial sustainability) is not.

[4] Member state intervention in the economy can give rise to non-tariff ('frictional') barriers to trade in the European single market, which are cost increasing. For a comparison of the governance of the single market and the Lisbon strategy, see Sapir et al. (2005).

[5] A more complete analysis of the evolution of the single market of the EU can be found in Bongardt (2015).

[6] For a discussion of the OMC see Radaelli (2003).

to both member states' heterogeneous situations and preferences. The OMC permits consensus seeking on values and institutions and the Lisbon strategy (like its successor, the Europe 2020 strategy) was also given an adequately long (10 year) timeframe, which in turn ought to be conducive to preference convergence as a gradual, learning process towards best practice (Bongardt and Torres 2013b). By allowing for a slow-moving convergence process of preferences on institutions (Roland 2004), the chosen governance mode also reflects a perceived need for creating ownership of reforms at the national level.

Critically however, the convergence of preferences on institutions would rely on member states' willingness – since policy instruments had remained in the national domain – and capacity – very much shaped by formal and informal institutions – of putting best practice and mutual learning to good use. Moreover, and given the absence of sanctions, enforcement of EU common goals was to hinge on public and peer pressure, to be exerted with recourse to benchmarking and ranking of member states' performance (Bongardt and Torres, 2012). Those factors were to prove the Achilles heel of the strategy.

With hindsight, had Eurozone members delivered on their commitments EMU would have been more crisis-resilient. The Lisbon strategy was thought to be a one-off strategy and to have produced the desired results – institutional modernisation and structural reform – by the end of the first decade of 2000, which incidentally coincided with the eruption of the sovereign debt crisis. Instead, progress on agreed targets by the EU as a whole and its member states – an indicator of convergence to the ultimate goal of creating the basis for competitiveness and sustainable growth – was mixed at best towards the end of the Lisbon strategy's term. The EU as such had failed to implement the Lisbon agenda with regard to agreed goals in the areas of innovation, liberalisation, entrepreneurship, employment and social inclusion, and sustainable development and the environment. Tilford and Whyte's (2010) analysis of member state and EU progress per policy area and overall shows that large differences had remained between policy areas and also between member states; with respect to Eurozone members the low ranking of most of the cohesion countries, notably of Greece, Italy, Spain and, to a lesser extent, Portugal stands out.

The findings suggest that it was those member states that failed to achieve good results on the Lisbon reform goals – after all, any member state scoring poorly would be less competitive and have (a) lower growth (potential) – that are the ones that had started or continued to diverge (Bongardt and Torres, 2016a). Large competitiveness differentials and macroeconomic disequilibria built up in the Eurozone during EMU's first decade but were not tackled.

In the sovereign debt crisis large negative spillovers ran from EMU's insufficiently coordinated economic sphere into its monetary sphere. The sovereign debt crisis was also a watershed with regard to the behaviour of financial markets. Markets now started to look at countries' growth potential, and thereby at individual member states' performance on Lisbon targets, for debt sustainability reasons, penalising those that had not made sufficient progress on economic modernisation (and hence not improved their growth potential), through high risk premiums. Now driven by market pressure, economic reforms gained urgency to ensure the good functioning and indeed survival of EMU.

Underlying the Lisbon strategy had been the idea that it would be easier to conduct reforms in favourable economic conditions. Somewhat tragically, however, EU member states largely failed to make use of EMU's first rather tranquil decade to find the most consensual national paths to common goals and implement the reform objectives they had committed to at Lisbon. As Wyplosz (2009) points out, for political economy reasons labour market reforms are easier in a growth environment while other structural reforms are easier to implement under pressure. Yet, reforming under financial and time pressure leaves member states with if at all limited capacity of compensating losers, while the need for urgent actions hardly allows for lengthy public discussions on the most consensual paths to reform to create ownership of reform.

3.2. Ownership of reform and national adjustment capacity

There are various reasons why the Lisbon strategy's reliance on non-binding member state commitments had failed to deliver on EU-wide institutional modernisation and economic reform. For once, the transmission mechanism, by means of which single market regulation would spur economic reform under the Lisbon strategy (and also its successor, the Europe 2020 strategy), largely failed to materialize (Schäffer and Baumann 2011). Perhaps even more crucially though, by and large, public opinion in member states failed to take ownership of reforms and exert pressure with a view to the implementation of the economic reform agenda that the member states had committed to. On top of that, peer pressure was largely ineffectual and official ranking abandoned. The fact that spillovers (from trade) were presumed to be positive and small can be reasonably expected to have diminished the perception of urgency of reform.

The Lisbon strategy also suffered from national governments not taking ownership of reform. Regardless of the fact that member state political systems (governments, oppositions and even social partners) may have agreed to EMU-sustaining reforms in the 1990s and made commitments to them under the Lisbon strategy during EMU's first decade, they did not feel thereby constrained to implement policies that were inconsistent with the stated objectives. Many member states largely wasted the opportunity to make use of the OMC's potential to find their own, most consensual path to EU-wide reform targets and create ownership of reforms. The fact that globalisation called for institutional modernisation and economic reforms at the national level as a precondition for maintaining living standards and indeed the European model has tended to remain somewhat opaque for the public.

The announced objectives (various times voted in national and European elections) to which various governments and political parties had subscribed were also poorly implemented. The combination of the absence of market pressure during EMU's first decade, when financial markets failed to differentiate between the sustainability of public debt and external imbalances among participants (Jones and Torres, 2015), and non-binding and not enforceable commitments in the case of the Lisbon strategy (and binding but not enforceable rules in the case of the SGP) contributed to the procrastination of some of those economic and institutional reforms. It was the lack of national reforms in some member states, in conjunction with the incapacity of financial markets to distinguish between Eurozone sovereigns, which paved the way for increasing intra-EMU macroeconomic imbalances. Beside its weak enforcement, the Lisbon strategy also lacked any specific EMU dimension to address the increased interdependencies between the members of the monetary union.[1]

Considering its perceived failure in terms of economic policy coordination, the discussion whether the EU's economic reform strategy ought to be continued at all could then hardly come as a surprise. However, the advent of the 2008/9 global financial and economic crisis made the necessity rather plain to put the Union back on a higher growth trajectory in order to recover from the (symmetric) shock, and thereby conferred renewed importance on the Lisbon goals of higher growth and employment. In the event, the Lisbon strategy was continued by the Europe 2020 strategy for the ensuing decade. Again, however, whereas all member states recognized the need for more economic coordination at the EU level and defined a new common EU-wide reform agenda for the decade, they were unwilling to concede more competences to the Union. As a consequence, the implementation of their reform commitments under the Europe 2020 strategy continues to depend on soft coordination. The creation of national ownership of reform and of national adjustment capacity continues to be critical for the success of the current EU economic reform agenda.

4. The Europe 2020 strategy and the sovereign debt crisis

Very much along the lines of the Lisbon strategy, the Europe 2020 strategy (European Commission, 2010) set out a renewed vision of a social market economy for Europe in the 21st century, aimed at transforming the EU within the present decade into a smart (digital), sustainable (green) and inclusive (social) economy with high levels of employment, productivity and social cohesion and at reinforcing the EU as an actor in global governance. The headline targets agreed for the EU to achieve by the end of 2020 include employment, research and development, climate/energy, education, and social inclusion and poverty reduction. The framework for the Europe 2020 strategy and reforms at the member state level is set out in the Europe 2020

[1] With regard to those interdependencies, Mongelli et al. (2016) show that, with the preparatory work for the launch of the euro in the mid-1990s (more precisely with the launch of EMU's second phase in 1994), the nature of European integration changed, as developments in any member state could have a much greater impact on the others. The crises have been illustrative in this regard.

Integrated Guidelines.[1] Progress towards the Europe 2020 strategy targets is promoted and monitored throughout the European Semester which designates the EU's yearly cycle of economic and budgetary coordination.

The Europe 2020 strategy (2011-2020) was presented as an EU-wide exit strategy from the global economic and financial crisis of 2008/09, meant to put the EU back on a higher, quality growth path. However, at the time it was enacted – it received the go-ahead from the Spring European council of 2010 – the sovereign debt crisis began (with the Greek crisis) and it was late in the process to take in any lessons (for the Eurozone or other). The sovereign debt crisis was a Eurozone crisis but the Europe 2020 strategy had not been equipped with any specific Eurozone dimension tailored to address increased interdependencies between its members. That notwithstanding, if reforms under the Europe 2020 strategy were effective in promoting price and wage flexibility, thereby pushing the Eurozone more towards an optimum currency area, the Eurozone would become more resilient to shocks. The Europe 2020 strategy provides instruments to address competitiveness problems – rooted in factors like inflexible labour markets, uncompetitive wage developments, inflated public sectors, unsustainable social systems – and the consequent low growth potential of certain member states. It also enshrines an adequate competitiveness notion that is wide and future-oriented, in that it captures essential drivers of future competitiveness such as institution building (Gros and Roth 2012). It is important how the EU restores competitiveness.[2] Cutting wages offers a more immediate solution but is a zero-sum game in the Eurozone, while improving competitiveness is not but takes longer.

Compared to the Lisbon strategy, the Europe 2020 strategy features a stronger recognition of interdependencies between national budgetary policies and national reform programmes (competitiveness and growth potential) and the attempt to somewhat increase pressure on bad performers. Yet, with continued reliance on non-binding member state commitments to economic reform and no substantive innovation in terms of instruments, the strategy limits itself to strengthening supervision within the existing framework. The Commission is to elaborate, in a synchronised way, reports on member states' progress on increasing their competitiveness and growth potential with specific recommendations. Those country-specific reports and recommendations should make member states' non-compliance more visible and make it more difficult for the Council to merely congratulate itself. Under the European Semester process, member states' stability and growth programmes and their national simplified reform programmes are henceforth evaluated together, which goes towards reinforcing the cohesion of economic policy coordination between the national budgetary policies and growth-relevant policies.

In essence, the Europe 2020 strategy's innovations compared to the Lisbon strategy did little to help address the fundamental problem of insufficient convergence of preferences and institutions in EMU, with the result that the very issue that held back economic reform under the Lisbon strategy – creating sufficient ownership (capacity and willingness) of reform at the national level – has remained essentially open.

The eruption of the sovereign debt crisis focused attention on the interdependencies that exist between economic and monetary policy in the Eurozone by exposing important spillovers between economic policy coordination (under the Lisbon strategy/Europe 2020 strategy and the SGP) and monetary policy (underlying the need for increased flexibility of wages and sustainable public finances). The joint impact of the economic and financial crisis and the sovereign debt crisis made it plain that member states had insufficiently accounted for negative spillovers that were running from the uncoordinated economic part of the union to the monetary side (Torres, 2015).

At the same time, the sovereign debt crisis however de facto came to provide two additional enforcement mechanisms for economic reform, as market pressure and subsequently conditionality for countries under adjustment programmes made an appearance. Economic reform in laggard countries has since accelerated somewhat, albeit often from a very low level (OECD 2015). Still, progress on the Europe 2020 targets has been mixed overall, and results and forecasts also vary significantly across member states (European Commission 2014). While the EU is on course (or comes close) to achieve its targets on education and on

[1] The Treaty on the Functioning of the EU provides for the coordination of member states' economic and employment policies within the Council as matters of common concern. For a further discussion see Bongardt and Torres (2010).

[2] On the other hand, the Euro Plus Pact of 2011 was given a Eurozone dimension, which the Europe 2020 strategy lacks. It however enshrines a more narrow, cost competitiveness notion, whereas he Europe 2020 strategy's notion is more in line with long-term competitiveness factors.

climate and energy, this does not apply to employment, research and development or poverty reduction (goals that the scale of the crisis made more difficult to achieve).

There are also two related issues that deserve to be mentioned, as they reinforce the case for creating national adjustment capacity. First, economic reforms that are perceived as imposed – i.e. lacking ownership at the national level – might not be politically sustainable. Second, the ECB's policy of 'buying time' for member states to implement structural reforms also has the side-effect of taking away pressure for reform and of making national reforms look less urgent.

5. The effectiveness of the European semester process

While the sovereign debt crisis highlighted the shortcomings of existing economic policy coordination, largely effected through the Europe 2020 strategy, and has increased pressure for structural reform, it has not proven to be a game changer. This is despite the fact that the sovereign debt crisis forged a general agreement to address competitiveness issues (structural reform) in light of the built-up macroeconomic imbalances and the need to justify the emergency coordination measures adopted to avoid the insolvency or illiquidity of member states. It gave rise to the Euro Plus Pact (2011). However, as Mongelli et al. (2016) show, while the EU did respond to the crisis by building up governance in its economic union part – with and beyond the community framework and through a variety of mechanisms[1] – with significant advances in some relevant areas (notably banking union), since 2012 least progress has been made with regard to economic coordination, especially so in the area of structural policies. Against this background the question of the effectiveness of the European Semester process, meant to make the Europe 2020 strategy more effective and strategic, became particularly relevant.

The semester process comprises an annual growth survey, country-specific recommendations (CSR) and the comparison of member state performance in key areas. Each European Semester concludes with recommendations for each EU (not only Eurozone) member state and for the Eurozone as a whole. Under the Semester process the Europe 2020 strategy and its targets are brought together into a wider coordination process that also includes the overhauled SGP and the new macroeconomic imbalances rules. However, the Semester process was also set up in 2011 with the consent of all EU member states and presents the same governance shortcomings as the Europe 2020 strategy (and the Euro Plus Pact).

According to Darvas and Leandro (2015) the European Semester process has proven rather ineffective due to the fundamental problem of policy coordination in the EU, namely that it is based on unanimity. Policy coordination with an EU rationale is held back by national competences to the extent that national policy makers focus on the national interest (being accountable to their national parliaments) and do not take into due account interdependencies and spillovers. The authors show that while implementation under the European Semester was already poor at its beginning in 2011, it has hence not improved but on the contrary deteriorated.

In Begg's (2016) view, the semester process is a case in point for compliance and implementation being the continued weak links also in the reformed areas of economic governance. He argues that delivery of results of the semester process – which was to bring about a simplification of economic policy monitoring and coordination at the EU level to make it more strategic - continues to be held back by a lack of visibility in national economic policy discourses.

One may add that the European Semester and notably CSR are also allegedly perceived as 'invasive' in member state affairs and as bringing about a short-term (annual) focus on targets, rather than promoting long-term goals.

On a more positive note, the Europe 2020 strategy does define a common European development model compatible with the competitiveness rationale (Pasimeni 2011), which continues to be recognized as potentially useful for economic reform if it could only be made to function at the member state level. The Europe 2020 strategy captures the fundamental and long-term issues for economic development and competitiveness, among which institution building.[2] Gros and Roth (2012) and Pasimeni and Pasimeni (2016) call attention for the importance of formal and informal institutions for successful economic reform. In the latters' analysis (2016), institutional variables (like good

[1] More integration has come under differentiated integration (Koenig 2015), with different configurations of member states and different governance mechanisms both within and beyond the Community framework.

[2] For a favourable comparison of the EU case with the US, see Sachs (2012).

governance and social capital) have the strongest estimated effects on countries' performance. It is also the opinion of the ECB (Draghi 2016) that the Europe 2020 strategy addresses the right issues, of which it highlights productivity and labour, among others. Monetary policy, by definition, is unable to address structural problems but is affected by them. Structural reform assumes importance with a view to the good functioning of the monetary transmission mechanism, for successful crisis exit (dealing with crisis legacy costs, i.e. debt) and for EMU's resilience to shocks.[1] In the ECB's assessment, Eurozone countries have implemented many structural reforms, especially those that were worst affected by the crisis, and with crisis-induced (market and other) conditionality playing a role in accelerating reforms in some adjustment countries. The problem remains that this did neither happen in a balanced way nor with the desirable scope.[2]

Soskice and Hope (2016) shed light on why external pressure might – and indeed often has – failed to foster structural reform at the member state level. Their argument goes that external pressure works better with respect to austerity – seen as preferable to transfers, which are politically difficult – than to reforms of institutions.[3] The reason is that austerity is a more immediate concern in contrast to reforming institutions (which takes longer to produce results), so that preference is more easily given to the former. The authors attribute the difficulties underlying reforms to different member state preferences, which are in turn rooted in countries' different growth models.[4] They argue that in the Eurozone the two pre-existing growth models have ceased to function in symbiosis since the crisis, and that the lack of reform has in turn put strain on EMU. Put differently, Eurozone countries had failed to internalise the constraints associated with being members of a monetary union. As for the issue of convergence to a compatible and consensual growth model, one may note that the Europe 2020 strategy has come to outline such a European model of development, which needs to be further fleshed out.

At present there is a conspicuous silence with regard to the announced mid-term review to the Europe 2020 strategy that, one would have expected, would have aimed at remedying its shortcomings. While there has been a preparatory public consultation, so far there has been no attempt to re-launch the Europe 2020 strategy as happened in the case of the refocused Lisbon strategy of 2005 to enhance its effectiveness. Instead, the 2015 Five Presidents' report[5] (European Commission 2015a) had launched the idea of setting up national competitiveness councils at the member state level in a quest to create ownership and promote reforms at the member state level within the 'Genuine EMU' initiative. Incidentally the report made reference to the Euro Plus Pact rather than the Europe 2020 strategy. In June 2016 the Council put forward a draft recommendation for productivity boards (rather than competitiveness councils) for Eurozone member states (encouraging other member states to do likewise), which are to analyse productivity and competitiveness and whose output could feed back into EU governance processes, among which the European semester process. Agreement on the recommendation, envisaged for the 12 July 2016 Ecofin Council,

[1] As ECB President Draghi (2016,) put it, " it matters for monetary policy whether the right structural policies are in place. Structural reforms can help limit the depth and duration of shocks, which in turn supports the anchoring of inflation expectations and keeps real interest rates low. Such reforms can also reduce the transmission lag of our measures, since a more flexible, more responsive economy is likely to transmit monetary policy impulses faster. And they produce higher potential growth, which leads to higher investment and hence a higher equilibrium real rate. That creates the conditions for the central bank to return to conventional interest rate policy as the means to deliver price stability."

[2] This is also the view of the European Commission (2014). However, while the ECB urges rapid advances on structural reforms with a view to EMU's sustainability, the Commission tends to be more lenient on the timing of structural reforms.

[3] The comparative political economy literature goes beyond OCA theory, which suggests in which areas reforms should take place to make a currency union like the Eurozone function well. The contribution of the comparative political economy literature on the Eurozone is that it adds insights as to why reforms (especially in the labour market, but not only) might have been stalling despite external pressure.

[4] In the Eurozone Soskice and Hope (2016) distinguish an export-led north, characterized as traditionally harbouring preferences for fiscal discipline, monetary stability, and wage coordination, from a demand-led south, which they qualify as more inflation-prone, with strong public sector unions and low wage coordination.

[5] The Five Presidents' Report advocated the completion of EMU ('a genuine EMU') to ensure its sustainability. Yet, Gros (2015) shows that even in a genuine economic and monetary union like the United States a state can fail (Puerto Rico). According to Buiter (2015), allowing for the possibility of bankruptcy (of a state), a country is free to choose its model of development, without putting at risk the monetary union and other member states. See Bongardt and Torres (2016a).

seemingly failed to materialize (Begg 2016). In addition to the CSR, the European Commission has also produced thematic files linked to the long-term growth objectives of the Europe 2020 strategy, on the main policy areas that are likely to be part of national reform programmes. In Begg's view, they not only evidence the Commission's disappointment with the lack of progress in many of the twenty-eight policy areas but also suggest that the low visibility of the Europe 2020 strategy in economic governance is having adverse effects.

With a view to promoting structural reform in the EU, the European Commission (2015b) has also launched a proposal for a regulation on a structural reform support programme, under which the EU provides technical assistance for all member states upon request. The proposal would generalize the availability of structural reform support (formerly only to Greece and Cyprus) and allow for addressing reform gaps as recommended by CSR in the context of the European Semester.

Regardless of the continuing weaknesses of the EU's economic reform agenda and the as yet uncertain outcome of suggested improvements, paying attention to the timing and mix of structural reforms can help ease acceptance of structural reforms at the member state levelThe fact that structural policies may often produce results with a time lag or have costs in the shorter run, makes it politically important to get the timing right, for instance by anticipating those reforms that are already beneficial in the short-run (Pisani-Ferry 2014, de Grauwe and Ji 2016) and to achieve the right mix (Caldera et al. 2016). In our view, those structural policies need to be geared to delivering a sustainable European model, adopting structural reforms that put the EU economy not only on an economically but also environmentally and socially sustainable path, in short, deliver on the Europe 2020 growth objectives. As discussed elsewhere in more detail (Begg et al. 2015), they can be implemented even under the crisis-induced constraints.[1]

In the face of the difficulties associated with structural reform in the EU and the Eurozone, one might ask what were the implications if a member state chose not to comply with their commitments. By not modernizing, those member states put at risk their respective national welfare states as well as the quality of life of current and future generations. Euro member states also put at stake the functioning of the economic and monetary union (EMU), as the Euro crisis has illustrated. If member states opted not to sufficiently reform EMU would most probably not be sustainable.

6. Conclusion

To make the European model sustainable and to ensure the sustainability of EMU calls for responding to the challenges of globalization by putting in place the structural reforms that are necessary to deliver monetary and financial stability, higher quality growth, social inclusion and environmental sustainability. This implies completing the economic part of Economic and Monetary Union (EMU) and making the necessary structural reforms to ensure national adjustment capacity.

This article concludes that economic and institutional reform under the Europe 2020 strategy is held back by member states' unwillingness to concede more competences to the EU. Still, the strategy tackles the right issues, with a governance mode that has the potential – if properly applied at the member state level – of creating ownership of structural reform. Given different traditions and the path-dependency of institutions, each member state needs to find its own, most consensual way to a sustainable development model (like the one agreed under the Europe 2020 strategy). Capacity building of formal and informal institutions emerges as a critical factor of success of structural reform. For that, a country's willingness to put available instruments to good use – such as learning through feedback – and national economic policy discussion of options are vital. In the end, member states have to ask themselves – also independently of Eurozone requirements – whether their development model is desirable in

[1] So far the more immediate concerns with economic results have somewhat eclipsed long-term sustainability concerns and their implications for future growth in the EU policy discussion (Bongardt and Torres 2013a). This was even more the case since the crisis, when many economists and politicians proposed purely Keynesian expansions, which risk perpetuating unsustainable consumption and production patterns. However, sustainable development has become better integrated in the Europe 2020 strategy than in the Lisbon strategy (Pasimeni 2011). In our view, the need to stimulate domestic demand in surplus countries – which is not irrespective of the composition of expenditure and taxation, rather the opposite – goes hand-in-hand with the need to implement structural reforms in order to reduce built-up disequilibria in deficit countries. Structural reforms that modernize the economy are a precondition for a shift to sustainable growth in all member states and for a sustainable EMU. And they can be implemented under the present constraints.

a globalized world and sustainable in the European context. A country may of course opt not to modernize institutions but in that case it should be prepared to pay the price for it (lower living standards, notably). Given the interdependencies in the monetary union, for Eurozone members that would mean exiting the Eurozone.

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