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Five Facts:

The New Country-Specific Recommendations

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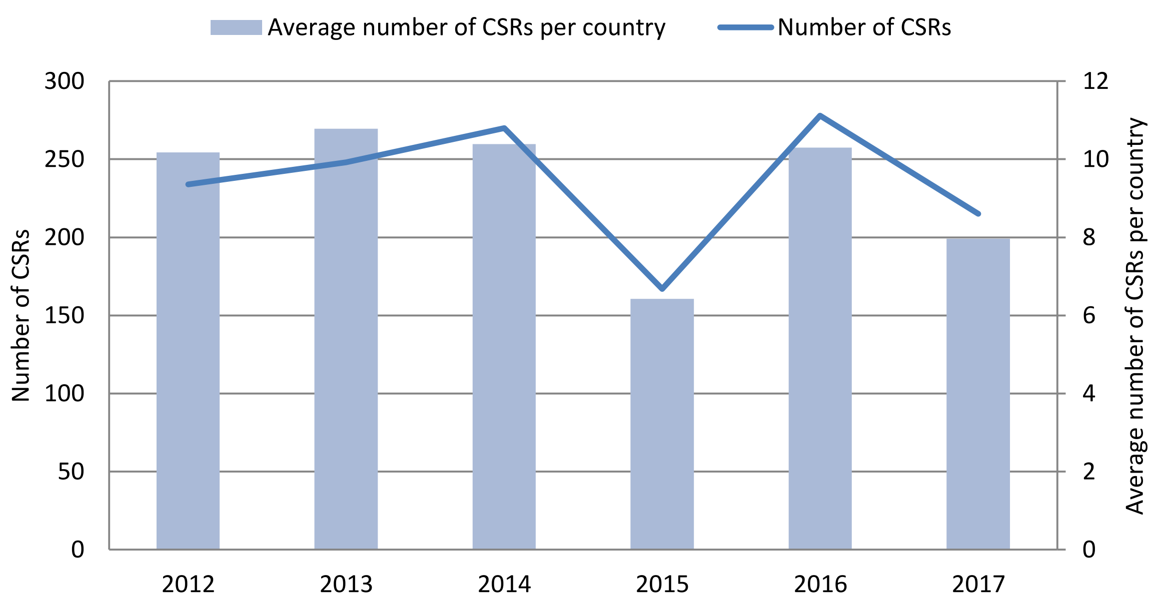
The European Council will hold its next meeting from 22-23 June. One of the items on the agenda is the endorsement of the country-specific recommendations, which the European Commission made in late May. This provides a good moment for a short review: How many recommendations are there? What are the priorities? Which countries have the longest to-do lists? Have reforms been implemented? And what does this mean for the European reform agenda?

1 Fewer recommendations

The overall number of country-specific recommendations (CSRs) has dropped since their introduction in 2011. Because headline CSRs consist of many different small reforms, I have counted the recommendations by policy area to make them as comparable as possible over the years. After some ups and downs, there are today about 20 percent less recommendations than in the beginning. If one counts the headline CSRs the number has fallen by almost 50 percent.

The average number of CSRs per country (again counted by policy areas) has decreased from about ten to less than eight over the past six years. Looking at the headline CSRs the number has fallen from six to three. Because programme countries do not receive recommendations, the number of countries has changed over the years. In 2012 Ireland, Greece, Portugal and Romania were not included (and Croatia had not joined the EU yet). In 2017 only Greece is not in the sample. As the number of countries receiving CSRs increased, the absolute number of CSRs has fallen.

Figure 1: Number of CSRs per year and country



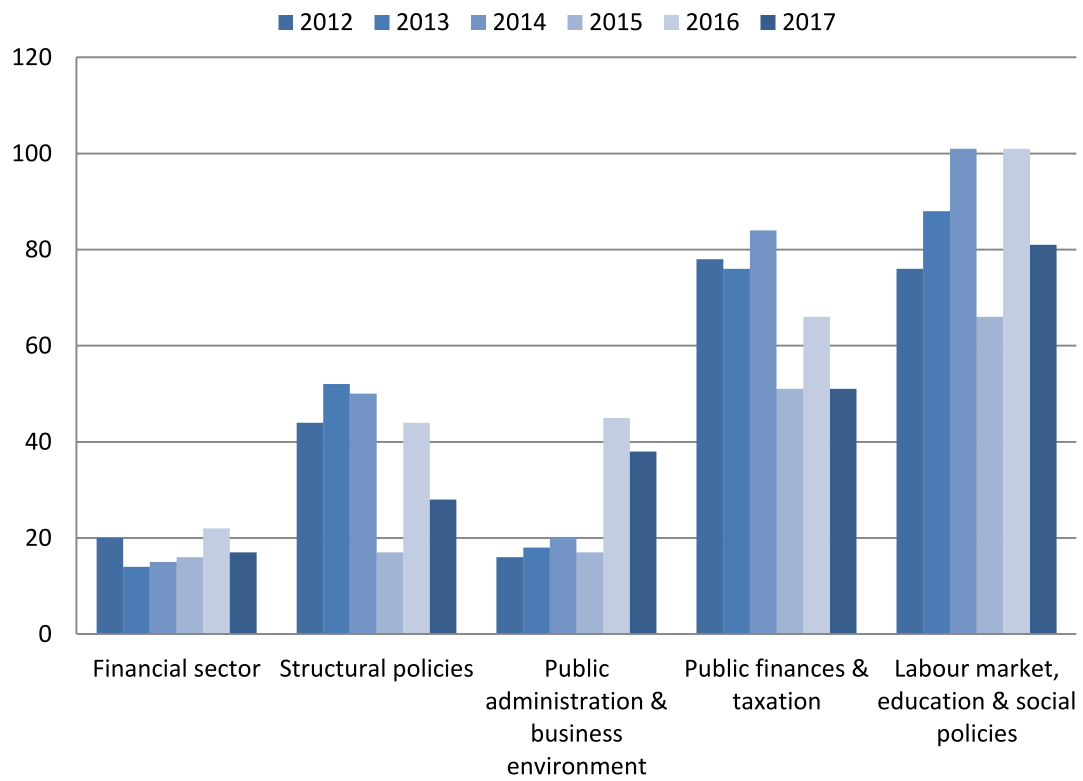
Source: European Commission 2017, own compilation. Note: CSRs were counted by policy area.

There could be at least three possible explanations for the dip in numbers: First, countries have implemented many reforms so that they are off the list. Given the low implementation rates (more on this later), this seems, however, unlikely to be the main driver. Second, as the data point towards a solid (if slow) economic recovery in the European Union reforms may appear less urgent. Third, the European Commission wants to focus on fewer recommendations to help countries prioritise. This would be in line with the overall strategy announced in 2015 in the so-called Five-Presidents'-Report and elaborated further in this spring's White Paper. The idea here is that the European Union focuses on closing the delivery gap in core competence areas rather than aiming for grand solutions everywhere. Although this may have been an intention, this explanation seems to be in tension with fact #2.

2 Priorities have not changed

While the number of CSRs has dropped, the top two priority areas have stayed the same: labour markets, education and social policies as well as public finances and taxation. This is not surprising given how long these reforms take to implement and show effect. Bringing down unemployment and public debt cannot be done within a year.

Figure 2: Number of CSRs by policy area from 2012-2017



Source: European Commission 2017, own compilation. Note: CSRs were counted by policy area.

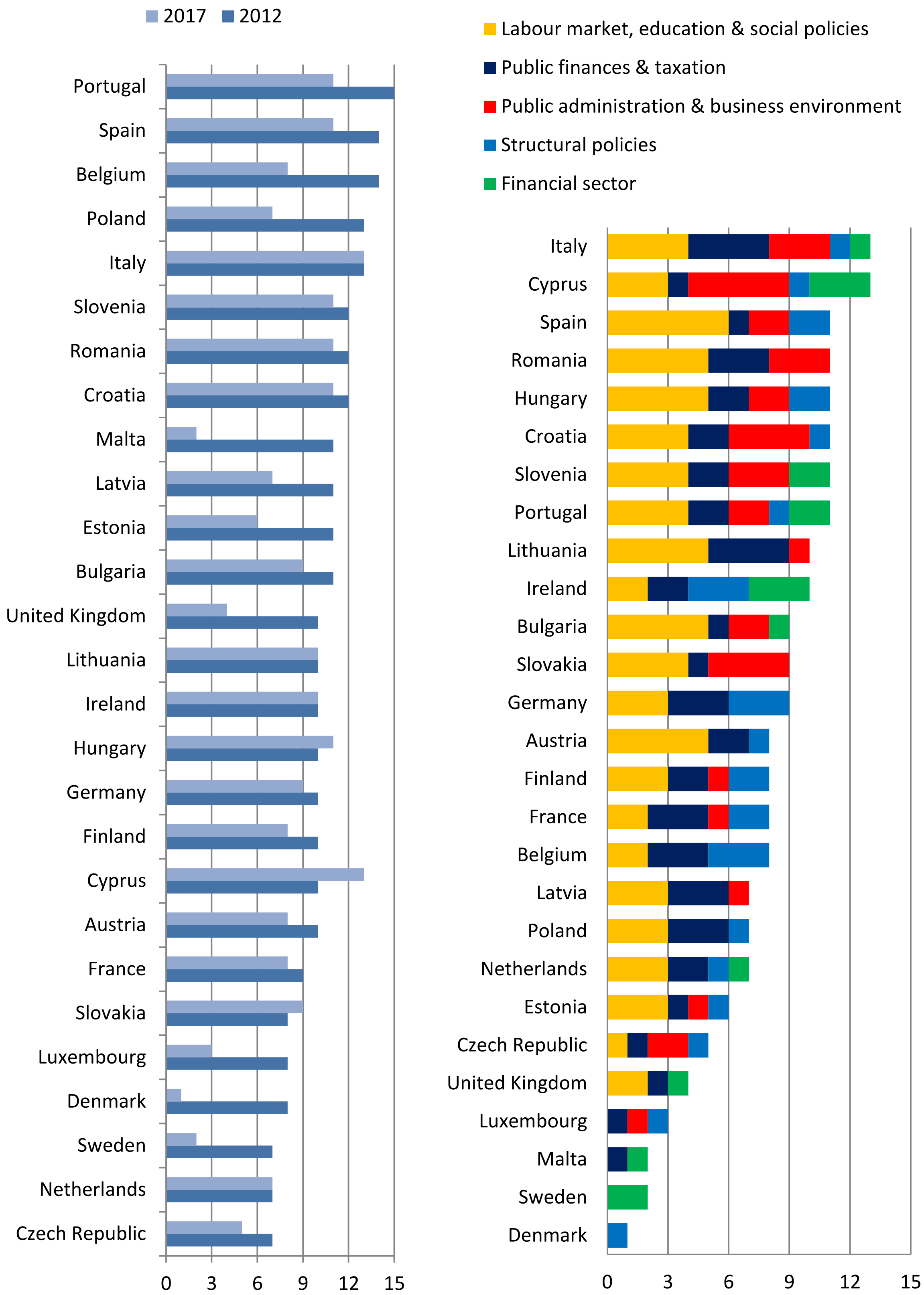
Since 2012, sound fiscal policy and the long-term sustainability of public finances have been on the top of the reform agenda every year. Among the labour market recommendations the most frequently listed were active labour market policies and other measures to raise labour market participation. Looking at the other three policy areas, reform suggestions were less concentrated: There was no unifying theme in the public administration recommendations. Among the structural policies, competition in different market segments was the main concern. Financial sector reforms have centred on banking and access to finance and financial services.

The CSRs are guided by the Europe 2020 strategy, i.e. the ten-year growth strategy that targets employment, education, fighting poverty and social exclusion as well as energy sustainability and research and development. This may to a large extent explain the continuity in reform priorities. However, it is important to note that labour market, education and social policies are not the most obvious candidates for CSRs given that the European Commission has comparably fewer competences in these areas. Where it does have an exclusive mandate and a European solution would be without doubt preferable to national solutions, for instance in competition policy, it issued fewer recommendations. Reforms that work towards the completion of the single market - such as increasing competition in the product market, integrating the service sector and supporting the digital single market – would go a long way in increasing growth and employment but are relatively underrepresented in the CSRs.

3 Some have longer to-do lists

The number of reform recommendations per country has fallen over the past six years by 2,5 on average. The largest drops were recorded in Malta (-9), Denmark (-7) as well as Belgium, Poland and the United Kingdom (all -6). By contrast, Cyprus (+3), Hungary and Slovakia (both +1) have received more recommendations in 2017 than in 2012. This year, Cyprus and Italy were assigned the most CSRs (13), while Denmark, Malta and Sweden were given less than three. The average country received three suggestions in the area of labour market, education and social policy, two in the area of public finances and taxation and one each in the remaining three policy areas.

Figure 3: Number of CSRs by country over time and 2017 by policy areas

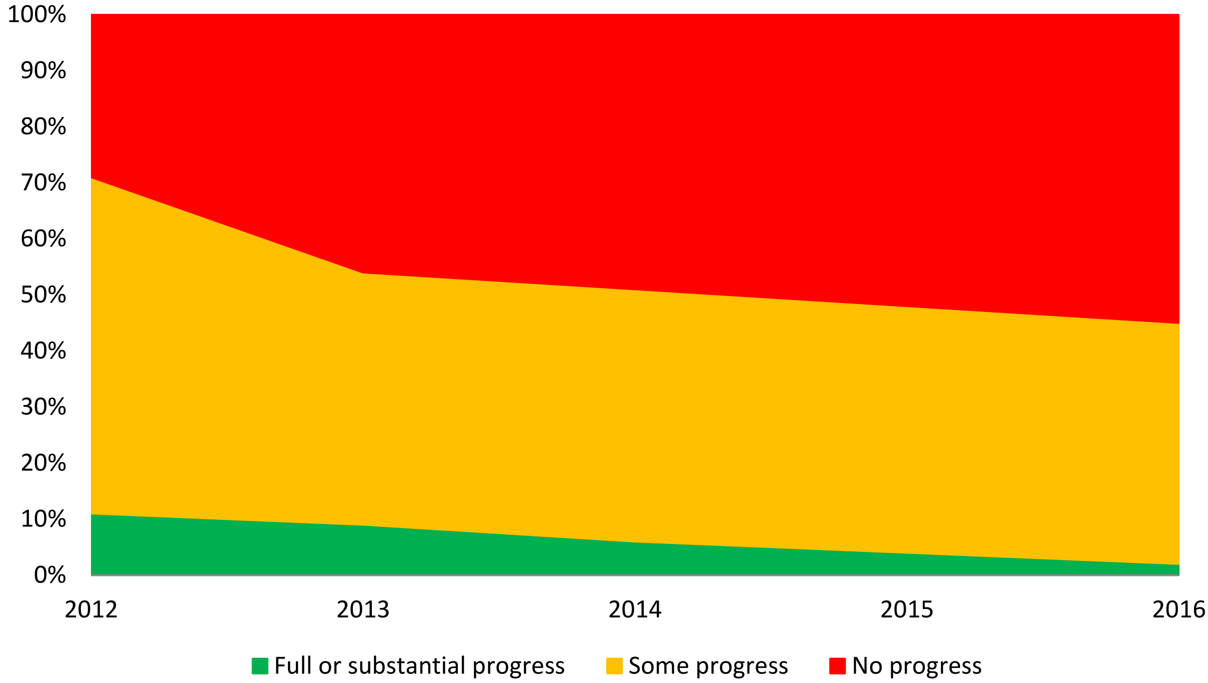


Source: European Commission 2017, own compilation. Note: CSRs were counted by policy area.

4 Implementation is going down

The share of reforms that have seen full or substantial progress has fallen from 11% in 2012 to 2% in 2017. At the same time, the share of reforms with no progress went up from 29% 2012 to 55% today. Overall implementation is going down. Different assessments point towards progress in the policy areas of employment, labour market and social policies. Yet, remember that this is the area with still the most recommendations. Little progress was achieved in the area of public administration.

Figure 4: Implementation of CSRs from 2012-2016



Source: European Parliament 2017.

Some caveats are in order: First, in this assessment full progress of a headline reform recommendation was only achieved when all sub-recommendations were satisfied. Second, easier reforms may have been implemented in the early years. Third, reforms take time and countries had less time to implement last year's CSRs. Reform progress should therefore be evaluated in the medium term and not in the short term. All three caveats point towards an underestimation of the implementation rate, yet the overall trend is hard to deny.

5 Still a mismatch

Last year, the European Commission as well as the IMF and the OECD have changed their narratives when it comes to giving reform advice: They pay more attention to win-win reforms (choose reforms that improve not only economic efficiency but also equity), take the economic climate into account (avoid reforms with high adjustment costs during a recession) and be realistic about the political costs associated with far-reaching reforms. Despite this more pragmatic approach to the reform agenda, the actual policy recommendations have not changed. This is a clear mismatch that we have described also in more detail here.

If the European Commission wants to increase the implementation rate, it may make sense to change the strategy and move away from comprehensive (and long) lists of reforms and instead focus on fewer reforms with three guidelines in mind:

1. Recommend complementary reform packages with a demand-side component where possible.
2. Prioritize reforms that have the highest short-term gains and bring growth as quickly as possible including product market and service sector reforms.
3. When it comes to labour market reforms, put all emphasize on integrating outsiders and leave the rest for later. This means: high-quality child-care provision for working parents, vocational training for the unemployed youth and immigrants, active labour market policies for the unemployed and life-long learning opportunities for all.

Herausgeber: Prof. Dr. Henrik Enderlein. Die Publikation gibt ausschließlich die persönliche Auffassung der Autoren wieder.