

Economic Policy Coordination and the European Semester

Jörg Stefan Haas

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Advisors

Prof. Dr. Henrik Enderlein
Hertie School

Prof. Dr. Amy Verdun
University of Victoria

Prof. Mark Hallerberg, PhD
Hertie School

Summary

This dissertation asks three interrelated questions about economic policy coordination: (1) Why do we see persistent macroeconomic imbalances that make international coordination necessary? (2) What kind of economic policies does the European Union promote in its member states via its coordination framework, the European Semester? (3) What determines whether governments implement recommendations issued under the Semester?

The first paper argues that economic ideas, and their emphasis in media reporting, help secure public support for policies that result in external imbalances. It finds that the dominant interpretations of current account balances in Australia and Germany concur with distinct perspectives: external surpluses are seen as evidence of competitiveness in Germany, while external deficits are interpreted as evidence of attractiveness for investments in Australia. Survey experiments in both countries suggest that exposure to these diverging interpretations of the current account has a causal effect on citizens' support for their country's economic strategy.

The second and third papers analyse policy recommendations under the European Semester, arguably the most ambitious example of economic policy coordination worldwide. The findings show that the European Union does not use the Semester to promote a single economic model across all member states. Recommendations do not uniformly recommend more reliance on the market or the state. Rather, they tend to suggest fiscal restraint and less protection for labour market insiders, while simultaneously promoting measures that benefit vulnerable groups in society. During the second decade of EMU, recommendations have gradually become more favourable of state intervention.

The fourth paper investigates possible reasons for (non-)compliance with the Semester. It argues that recommendations are more likely to be implemented when their policy direction is in line with national governments' economic ideology. The analysis shows that recommendations advocating less state intervention in the economy are more likely to be implemented under right-wing governments.

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List of acronyms

CME	Coordinated Market Economy
CSR	Country-Specific Recommendation
DME	Dependent Market Economy
ECB	European Central Bank
EDP	Excessive Deficit Procedure
EMU	Economic and Monetary Union
ESM	European Stability Mechanism
EU	European Union
EUROSEM	Jean Monnet Network ‘The Politics of the European Semester: EU Coordination and Domestic Political Institutions’
FE	Fixed Effects
GDP	Gross Domestic Product
IMF	International Monetary Fund
LME	Liberal Market Economy
MIP	Macroeconomic Imbalance Procedure
MME	Mixed Market Economy
OECD	Organisation for Economic Co-operation and Development
OMC	Open Method of Coordination
SE	Standard Error
SGP	Stability and Growth Pact
STM	Structural Topic Model

1 Introduction

The coordination of economic policies has been a key topic of international political economy for decades. To what extent countries are willing and able to take into account other countries' preferences in their economic policy-making has been attributed variously to systemic factors (Keohane 1984; Kindleberger 2013), domestic interest group constellations (Frieden 1988; Walter 2016), an interplay between the two (Putnam 1988; Simmons 1994), and compatible ideas (Ikenberry 1992; Matthijs and McNamara 2015; Ruggie 1982).

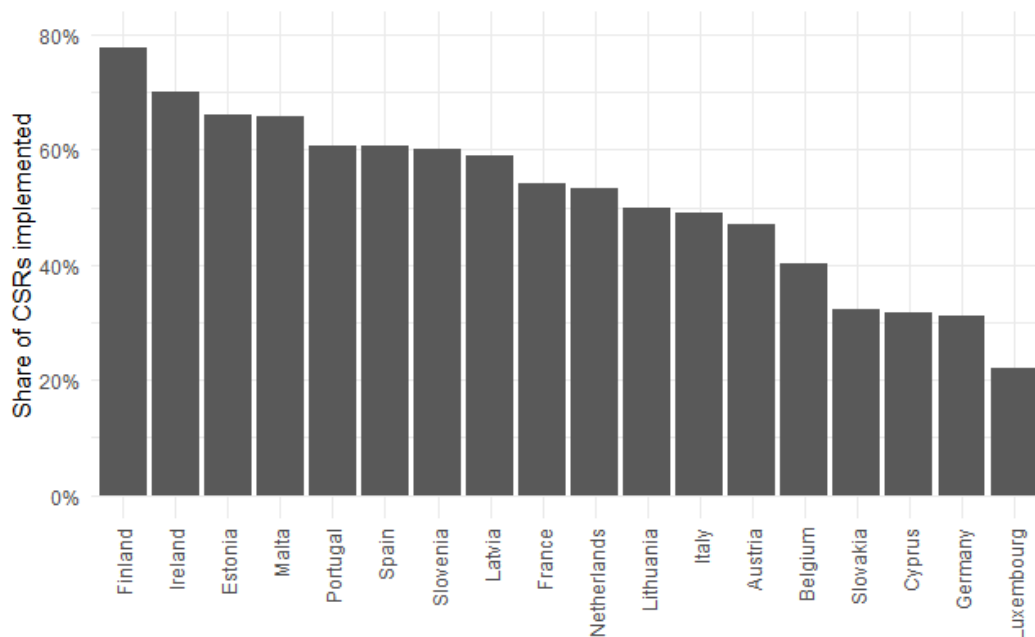
There is a large body of literature on monetary policy coordination (Broz and Frieden 2001; Cohen 2006; Simmons 1994). Coordination in this field has also proven to be relatively common and successful in practice, as the Gold Standard, the Bretton Woods System, and Europe's Economic and Monetary Union (EMU) show. Much the same can be said for global trade agreements and our theoretical understanding of their drivers (Alt, Gilligan, Rodrik, and Rogowski 1996; Hafner-Burton, Steiner-Threlkeld, and Victor 2016).

However, other macroeconomic policies, such as measures relating to the current account, state spending, and employment, have received less attention. One explanation may be that ambitious coordination projects are rare in these areas. International bodies only cover limited information-sharing and some peer review. In the context of EMU, a framework to govern the economic policies of European Union (EU) member states was implemented, yet coordination remained uneven and weak during the euro's first decade (Baerg and Hallerberg 2016; Enderlein and Verdun 2009; Hodson 2018).

Largely unchecked by coordination efforts, macroeconomic imbalances grew in the 2000s and contributed to the global financial crisis as well as the subsequent euro crisis. The latter triggered a comprehensive response by the EU, which upgraded its economic governance capabilities considerably (Fabbrini 2013; Verdun and Zeitlin 2018). A new policy coordination cycle, the European Semester, was set up. The Semester surpasses other coordination efforts around the world in scope and depth. It provides continuous surveillance of a range of fiscal and macroeconomic indicators

based on the Stability and Growth Pact (SGP) and the Macroeconomic Imbalance Procedure (MIP) (Bokhorst 2019, Heipertz and Verdun 2010, Ioannou, Leblond, and Niemann 2015, Hodson 2018). It also includes a framework for pursuing other common economic priorities, currently focused on issues like employment, education, and the environment (‘Europe 2020’). Under the Semester, the EU issues yearly ‘Country-Specific Recommendations’ (CSRs) to each country, outlining which reforms governments should pursue. Their implementation status is regularly evaluated by the European Commission (see Figure 1). The wealth of data created by framework and the marked differences between member states make the Semester ideally suited for the study of economic policy coordination as they allow for comparative and statistical analysis.

Figure 1: Share of CSRs implemented by country, 2013-18.



Note: Implementation refers to at least ‘some progress’ towards achieving a CSR component, as assessed by the European Commission. Source: Author’s calculations based on EUROSEM data.

1.1. Structure

This dissertation investigates three elements of economic policy coordination: demand, supply, and implementation. Demand for coordination arises from the need to achieve shared objectives or to prevent negative externalities. I address it in the second chapter, which analyses why current account imbalances persist over time. Coordination supply is ensured in the EU through the issuance of CSRs. I provide a

quantitative and qualitative assessment of supply in the third and fourth chapters, which ask what kind of recommendations the EU offers its member states. Finally, the implementation of coordination is the responsibility of EU member states, who address CSRs through national policies. The fifth chapter investigates implementation by asking why governments implement some CSRs but ignore others. Table 1 provides an overview of this structure.

Table 1: Three elements of economic policy coordination.

Demand	Supply	Implementation
Arises from need to achieve shared objectives or prevent negative externalities	In the EU: through issuance of CSRs under the Semester	By member states via national policies
Chapter 2: What explains persistent imbalances?	Chapters 3+4: What kind of CSRs does the EU offer?	Chapter 5: What explains differences in implementation?

1.2. Findings

The second chapter of this dissertation (co-authored with F. Ferrara, A. Peterson, and T. Sattler) is concerned with the persistence of current account imbalances. Since such imbalances have unequally distributed costs and benefits, the question arises how countries could run long-term current account surpluses and deficits without significant opposition against the policies that generate them. We show that economic ideas, and their emphasis in media reporting, help secure public support for these policies and the resulting economic outcomes. A content analysis of 32,000 newspaper articles finds that the dominant interpretations of current account balances in Australia and Germany concur with distinct perspectives: external surpluses are seen as evidence of competitiveness in Germany, while external deficits are interpreted as evidence of attractiveness for investments in Australia. Survey experiments in both countries suggest that exposure to these diverging interpretations has a causal effect on citizens' support for their country's economic strategy. Economic ideas, thus, are crucial to

provide the societal foundation of national growth strategies, which in turn create imbalances that economic policy coordination seeks to address.

In the third chapter (co-authored with V. D’Erman, D. Schulz, and A. Verdun), we introduce the EUROSEM dataset as a resource for assessing the way in which CSRs have been addressing economic policy coordination. We offer a systematic analysis of the policy areas emphasised by the Semester and discuss our findings in the context of one of the reoccurring questions in the literature: is the EU pursuing a ‘one size fits all’ approach to economic policy making in the Euro Area? The data reveals some common threads, but overall, recommendations differ considerably by country and type of market economy.

The fourth chapter (co-authored with V. D’Erman, D. Schulz, and A. Verdun) focusses on the political direction of the Semester. The EU – and EMU in particular – is often criticized as a predominantly market- oriented project. Using the EUROSEM dataset, we analyse to what extent such claims can be substantiated. We show that the EU does not push uniformly for less state intervention. Rather, the CSRs tend to suggest fiscal restraint and less protection for labour market insiders, while simultaneously advocating measures that benefit vulnerable groups in society. During the second decade of EMU, CSRs have gradually become more permissive of higher public spending and more in favour of worker protection, while the share of recommendations calling for more social protection has stagnated at a high level. Jointly, the third and fourth chapters provide an overview of the economic policies promoted by the EU in its member states.

The fifth chapter analyses the reasons behind (non-)compliance with the Semester. Some euro area members are more likely than others to implement reforms advocated by the EU. Does this variance stem from differences in the economic and political environment or from characteristics of the recommendations themselves? I argue that recommendations are more likely to be implemented when their policy direction is in line with national governments’ economic ideology. Recurring once again to the EUROSEM dataset, I show that recommendations advocating less state intervention in the economy are more likely to be implemented under right-wing governments. Conversely, there is tentative support for the claim that CSRs calling for more worker protection are more likely to be implemented when the left is in power. Party politics

thus plays an important mediating role in the implementation of recommendations under the Semester.

1.3. Contribution to the literature

While most previous literature on the European Semester has relied on case studies and small-n comparisons, this dissertation bases its analyses on a dataset of all recommendations issued to euro area member states between 2012 and 2018. It offers a comprehensive analysis of the policies promoted by the EU and their interaction with the preferences of member state governments. This approach provides it with a sound basis for evaluating the accuracy and generalizability of common claims about EU economic policy coordination.

Overall, the focus of the European Semester lies on policies concerning the government budget, employment, and social issues. In their combination, they could be interpreted as an attempt to promote flexicurity in the member states (Bekker 2018). The data also shows that coordination has increasingly emphasized state intervention in the economy in recent years. However, contrary to the literature, the findings provide little reason to worry about a ‘one size fits all’ economic policy for the EU. The recommended reform packages differ considerably among countries and really do seem to be country-specific, as implied by their name. Moreover, the fit between the political content of CSRs and government ideology has a substantial impact on recommendations’ likelihood to be implemented. The results should therefore alleviate concerns that excessive convergence will interfere with varieties of capitalism (Regan 2017) or that complementing monetary union with stronger economic policy coordination will move the EU away from socially embedded capitalism (Blyth 2013; Copeland and Daly 2018; Hermann 2014).

By stressing the important mediating role of governments in the implementation of the European Semester, this dissertation also contributes to the debate about which institutions and levels of governance benefited from the introduction of the EU’s post-crisis governance architecture (Bauer and Becker 2014; Carstensen and Schmidt 2018; Puetter 2012; Savage and Verdun 2016). It documents the considerable scope and depth of the new supranational coordination mechanisms, but also identifies their

limits: compliance still depends on national governments' support for the recommendations in question.

At a broader level, this dissertation contributes to the literature on capitalist divergence and growth models (Baccaro and Pontusson 2016; Hall and Soskice 2001). The findings suggest that macroeconomic imbalances between member states are not just a question of divergent interests, but also reflect different understandings of the economy. In this regard, they add to the literature that emphasises the importance of competing ideas in understanding political conflict in the euro area (Brunnermeier, James, and Landau 2016; Jones 2016) and connect it to the 'varieties of capitalism' perspective on the euro crisis (Hall 2014).

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2 Exports vs. Investment: How Political Discourse Shapes Popular Support for External Imbalances

Co-authored with

Federico M. Ferrara, Andrew J. Peterson, and Thomas Sattler

2.1. Introduction

Countries exploit the opportunities stemming from economic openness in very different ways (e.g. Baccaro and Pontusson, 2016; Baccaro and Benassi, 2017). Some countries, such as Germany and Japan, strongly focus on the opportunities from international trade and aim at generating growth by maximizing exports. Others, such as the UK or Australia, rely more heavily on international capital inflows to boost growth by financing domestic consumption and investment. As a result, the external economic balance has been identified as a critical aspect of a country's growth strategy in an open world economy (Baccaro and Pontusson, 2016, esp. p. 183 and 191-192). More broadly, the global macroeconomy is important to understand the workings of domestic macroeconomic regimes (Blyth and Matthijs, 2017). Export-driven economies have run large external surpluses, while investment-driven economies have run sizable deficits for most of the post-Bretton Woods period. Together, they repeatedly created a need for domestic and international economic adjustment with significant consequences for domestic political cleavages and adverse effects on international cooperation.²

The different growth strategies do not only have the potential to cause international economic conflict; they can also bring disadvantages for the domestic population.

² Some identify global imbalances as an important cause of the Global Financial Crisis of 2007/08 (Brender and Pisani, 2010). Others suggest that imbalances within the euro area have been a crucial element in the European debt crisis (Baldwin and Giavazzi, 2015). U.S. dissatisfaction over the large current account surpluses in other countries has been steadily growing during the past years and even turned into a major political conflict after the last U.S. presidential election.

Economies with large external deficits are often vulnerable to sudden stops in financing, as the euro crisis has shown (e.g. De Grauwe, 2011), or experience negative effects on labour markets in areas that house import-competing industries (e.g. Autor, Dorn and Hanson, 2013). In perennial surplus countries, wages and domestic investment are chronically low, which has a negative impact on large parts of the population (Jones, 2009).

This paper, therefore, asks how some countries could sustain their growth strategy and run such persistent external imbalances without major domestic opposition against the policies that generate them. The existing literature gives a partial answer to this question. It identifies wage bargaining institutions as a main determinant of the long-term external balance (Hall and Soskice, 2001; Hancké, 2013; Johnston, Hancké, and Pant, 2014; Manger and Sattler, 2020), which points to an important part of the mechanism. But it does not explain why this institutional setup receives broader societal support even though it is by no means obvious that a majority of the population benefits from it. In Germany, for instance, the exemplar of an export-driven surplus economy, only about a quarter of all employment is linked to exports (Bundesministerium für Wirtschaft und Energie, 2019). It remains unclear why a large majority of the population tolerates a large external surplus that deprives them of higher wages and consumption opportunities. After all, there are plenty political levers that could reduce imbalances.³ The toleration of a long-run imbalance, thus, is a political decision that requires a political explanation.

Our analysis shows that political discourses, i.e., dominant ideas about the current account, are crucial determinants of citizens' support for policies that produce external imbalances. Imbalances can be interpreted in two ways: either through a trade logic that highlights competitiveness; or a financial logic that emphasizes investment and savings. The two perspectives focus on very distinct economic mechanisms and are consistent with different sets of policies, or 'growth models.' These interpretations, then, affect how voters in a country think about economic policies and the resulting outcomes. Citizens who are primarily exposed to the competitiveness perspective are more likely to accept 'belt-tightening' and austerity policies that lead to current account

³ These, among others, include fiscal policy, changes to depreciation rules, the value-added tax, or the government's ability to influence wages via the legal framework.

surpluses. Citizens who are exposed to the investment perspective are less likely to support austerity, but favor laissez-faire policies that can lead to current account deficits.

The empirical analysis of Germany and Australia, two countries that represent polar opposites when it comes to their external economic balance, confirms these conjectures. We proceed in two steps: first, we examine how the dominant interpretations of the current account in the media vary between the two countries. Then, we test if they have a causal effect on public opinion.

For the first step, we assess the political discourse using a content analysis of 32,010 German and Australian newspaper articles. We find that media coverage about the current account differs fundamentally across countries. In Australian newspapers, reporting on the current account is more likely to mention investment and savings than competitiveness and productivity. The opposite is true for German newspapers. We validate these results in a variety of ways. Furthermore, in the Appendix, following a burgeoning literature on the politics of central bank communication (e.g. Diessner and Lisi, 2019; Cross and Greene, 2019), we examine the speeches of the Reserve Bank of Australia and the Deutsche Bundesbank to show that newspaper reports in fact proxy the dominant interpretations among key economic elites in Australia and Germany. In sum, we provide a big picture of the differences in political discourse about macroeconomic imbalances in the two countries.

For the second step, we build on the literature on framing effects on attitudes towards economic policy (e.g., Ardanaz, Murillo, and Pinto 2013; Harell, Soroka, and Iyengar, 2016; Barnes and Hicks, 2018) and make use of a survey experiment that tests how people react to a change in the political discourse. In the experiment, we randomly expose respondents to the competitiveness perspective and the investment perspective. This ensures that we properly identify the causal effect of the political discourse on attitudes, and not the other way around. The results suggest that citizens' opinions are in fact responsive to the different narratives. The two perspectives influence citizens' approval of a proposed policy package that would reduce the external imbalance. Popular support for policies undergirding external balances is thus susceptible to the economic ideas that are transported by the news media.

To our knowledge, this paper is the first to focus on the effect of the political discourse on public support for diverging growth strategies and external imbalances. The political economy literature has long highlighted the role of ideas, like those reflected in political discourse (McNamara, 1999; Blyth, 2002; Schmidt, 2002; Morrison, 2012), and their importance in stabilizing dominant social groups (Amable and Palombarini, 2009). These ideas are notoriously difficult to measure, but there is increasing evidence that they matter (Chwioroth, 2007; Ferrara, 2019; Hay and Rosamond, 2002; Helgadóttir, 2016). Our study confirms this by showing how ideas are absorbed by the mass public through the media. In this way, economic ideas also help to secure societal support for institutional arrangements that embody diverging economic strategies.

2.2. Two perspectives on external imbalances

We differentiate between two main economic ideas, or interpretive frameworks of the current account balance: the trade-competitiveness and the saving-investment perspective. From the first perspective, the current account position is defined as exports minus imports plus net income from abroad. A country will run a surplus when it sells more goods and services than it buys, which implies an important role for international competitiveness. From the second perspective, the position is defined as the difference between domestic savings and investment. A country will run a surplus when there is less domestic investment than there are domestic savings available, which implies an important role for capital flows.

Both perspectives are equally valid. In fact, both measure the same thing and will, per definition, yield the same result. However, since they emphasize different driving forces behind current account dynamics, they guide our thinking in different directions. In other words, “the way we talk about identities and our models can inadvertently shape the inferences we draw from them” (Borio, 2015, p. 2). The two perspectives yield diverging ‘policy targets’, which are consistent with different ‘growth models’, as comparative political economy research recently highlighted (Baccaro and Pontusson, 2016; Blyth and Matthijs, 2017). The current account, thus, represents the international dimension of a particular growth model as it is the entity that links the domestic to the international economy.

The trade-competitiveness perspective

The trade-competitiveness perspective played a major role in the history of international political economy, especially for the mercantilism–liberalism debate of the 17th and 18th century (Mun, 1986 [1664]; Smith, 2003 [1776]; Viner, 1948). In short, mercantilists recommended that countries run an external surplus by exporting more than they import to increase a country's power. Although the modern version of this perspective highlights the role of jobs and growth rather than power, its recommendations are remarkably similar. Research in the 'neo-mercantilist' tradition suggests that export-promoting strategies, such as exchange-rate undervaluation, promote growth (Rodrik, 2008) and secure domestic jobs (Krugman, 2016).

Versions of the mercantilist view have recently reappeared in interpretations of global imbalances and the euro crisis suggesting that the export-promoting strategy of surplus countries exploits deficit countries. Some assert that Germany consciously undercut the wages of other euro area members, thus, robbing them of significant market shares in regional and global trade (Flassbeck and Lapavistas, 2013, p. 14). Others claim that a surplus is desirable when they criticize the euro area deficit countries for their failure to follow the German example (Sinn, 2014). This interpretive framework points to persistent current account deficits in peripheral countries as the root cause of the crisis and appears to be largely inspired by neo-mercantilist ideas underpinning Germany's growth strategy.

From a less normative point of view, scholars in the field of comparative political economy argue that trade plays a decisive role in shaping current account imbalances and stress the role of institutions in managing wage growth and maintaining competitiveness (Hancké, 2013; Iversen, 2000; Johnston, Hancké and Pant, 2014; Manger and Sattler, 2020). Specifically, coordinated wage bargaining systems in combination with the broader institutional framework facilitate wage restraint and limit inflationary pressure (Hall and Franzese, 1998), which helps export-oriented industries compete internationally. That leads to a strong tendency towards current account surpluses. More broadly, countries that follow different growth models can either rely more on domestic consumption or more on exports, with diverging effects on the current account.

The saving-investment perspective

In contrast, the saving-investment perspective discounts trade flows and instead highlights international financial flows (Coeurdacier, Kollmann and Martin, 2010; Obstfeld and Rogoff, 1996). Already in the 18th century, the mercantilist focus on exports was criticized on the grounds that it was neither desirable nor possible to run a surplus and accumulate precious metals forever (Hume, 1752). More recently, scholars have argued that “forward-looking households and firms ... will generate current-account balances consistent with efficient resource allocation” (Obstfeld, 2012, p. 14) and that a current account deficit may be the desirable consequence of real capital movements (Pitchford, 1989, p. 8). Therefore, the perspective provides little rationale for actively steering the current account, be it directly via government intervention or via institutions that support surpluses.

Like its counterpart, the saving-investment perspective plays a prominent role in the interpretation of global imbalances and the euro crisis. Some scholars consider that policymakers’ overwhelming focus on restoring competitiveness via wage adjustment was misplaced and priority should have been given to stabilizing the financial system instead (Jones, 2011, 2015, 2016). In the case of the U.S., former Federal Reserve chairman Ben Bernanke claimed that the “trade balance is the tail of the dog; for the most part, it has been passively determined” (Bernanke, 2005). Such arguments do not only have important policy implications for governments, but also for the more normative question whether or not an external surplus or deficit is desirable or a problem in the first place.

Table 1: Two perspectives on external imbalances.

	Trade / Competitiveness	Investment / Savings
Drivers	Trade, dependent on competitiveness and wages	Financial flows, triggered by investment and savings decisions
Growth driver	Growth through exports	Growth through investment
Governance	Active: government intervenes or provides a framework to keep wage costs low and competitiveness high	Passive: individual firms and households know best

This is not to say that one would never worry about long-term external imbalances from the saving-investment view. However, even those who see imbalances as useful indicators of potential financial crises point out the risks of both surpluses as well as deficits (Obstfeld, 2012). Others go even further by claiming that the importance of the current account is overstated, and that more attention should be paid to financial flows instead (Borio, 2015). In the policy debate, the investment perspective is widespread in international organizations. Despite the differences between their procedures of macroeconomic surveillance (Moschella, 2014), both the European Commission and the International Monetary Fund have recently recommended that Germany act against its large current account surplus by increasing investment (European Commission, 2016; International Monetary Fund, 2016). Table 1 summarizes the two perspectives and their implications.

2.3. Building popular support for an economic strategy

How do the different perspectives matter?⁴ We argue that they affect citizens' attitudes towards economic policies via the political discourse and media reporting. The discourse represents the dominant view among elites in a country about the processes behind economic outcomes and, hence, optimal economic policy. This elite consensus feeds into the public debate via the news media, which then affects how citizens evaluate the policies that generate economic imbalances. In this way, the perspectives not only have important implications for the elite consensus over economic policy (Hay and Rosamond, 2002). They also help to promote a wider societal consensus about the national interest among those who do not directly benefit from imbalances.

Current accounts play an important role in the political discourse because they are widely accepted as a key indicator of economic performance (Financial Times, 1988; Lee, 2009). At the same time, interpretations of current account deficits and surpluses differ widely. Like many key economic terms, the meaning of a current account surplus or deficit is “contingent on the particular cultural frame and social setting” (Matthijs and McNamara, 2015, p. 225). What a current account surplus or deficit says about the state of the economy and whether it should be a policy target that requires action by

⁴ For better readability, we will refer to the two perspectives simply as ‘competitiveness perspective’ and ‘investment perspective’ in the remainder of the text.

the government is open to interpretation (Blyth and Matthijs, 2017). The competing interpretations of global imbalances and the euro crisis discussed in the previous section illustrate this point.

The political discourse regarding the ‘optimal’ current account balance varies by country. Elites rely on economic ideas to define what is in the general interest and to separate legitimate from illegitimate political demands (Amable, Guillaud, and Palombarini 2012; Amable and Palombarini, 2009). The political discourse on current accounts, therefore, is instrumental to generate broad societal support for a particular growth strategy (Baccaro and Pontusson, 2016). For instance, the competitiveness perspective motivates the reliance on foreign demand to drive long-term development in an export-led growth model. In this way, the political discourse secures support for a particular growth model among citizens by defining what constitutes a viable policy solution for their country (Best, 2004; Blyth, 2002; Matthijs and McNamara, 2015; McNamara, 1999; Schmidt, 2002).

Ideational factors are, of course, not the only possible explanations for policies that maintain imbalances. Material considerations can play an important role, given that external adjustment has distributive consequences that affect welfare across groups in the population (e.g. Frieden, 1991; Walter, 2013). However, even in an archetypical surplus country like Germany, only around a quarter of all employment is directly or indirectly linked to exports (Bundesministerium für Wirtschaft und Energie, 2019; IWD, 2020). For most Germans, prioritizing international competitiveness over consumption or investment does not yield immediate material benefits.

Given the complexity of external economic relations, it is plausible that citizens’ attitudes in fact are influenced by the ideas that dominate the political discourse in their country. Most citizens have only a vague idea about the usefulness of different growth strategies and their effects on the external economic balance of their country. Few people would doubt that higher wages or lower unemployment rates are good for them because the effects are immediate and direct. But alternative policies aimed at achieving economic growth, and their expected effects on specific actors and on the economy as

a whole, are a much more complex issue.⁵ In such a situation, a coherent set of ideas, or ideology, helps people define their interest.

The news media play an important role for the transmission of ideas that predominate among the elite to citizens. Media reporting significantly influences the economic views of the public (Barnes and Hicks, 2018; Boef and Kellstedt, 2004). Its effect on voters can even be greater than that of actual macroeconomic data (Kayser and Leininger, 2015). Furthermore, the importance of framing effects is well-established (Chong and Druckman, 2007). News play an especially important role for attitude formation when individuals feel an increased need for orientation because an issue is relevant, yet ambiguous or hard to understand (Barnes and Hicks, 2018; McCombs and Reynolds, 2009). We can therefore expect that the coverage of the different perspectives on the current account balance will shape public opinion about optimal economic policy.⁶ The divergent interpretations can have a number of different possible origins which are beyond the scope of this paper. Regardless of origin they have come to play a distinct role in different countries because they have a stabilizing effect that helps ensure continued societal support for imbalances.

The implication is that in a country where the competitiveness view dominates the political discourse, it is easier for political actors to justify ‘belt-tightening’ policies to achieve competitiveness and higher exports and, hence, an external surplus (Baccaro and Benassi, 2017; Haffert, 2017). Citizens who are continually exposed to this perspective are more inclined to accept these policies because they believe that they are in their own interest as well as that of the country. By contrast, in a country where the investment perspective dominates, we can expect citizens to tolerate policies that generate an external deficit because they tend to interpret it as an indicator of high investment levels. Painful government interventions to reduce the deficit are harder to justify in such an environment because the investment perspective stresses the ability

⁵ As the example of trade policy shows, citizens find it difficult to assess the trade-offs that are associated with international economic flows (Rho and Tomz, 2017).

⁶ Intervening variables such as an individual’s attitude and personal environment can mitigate the impact of media reporting on opinions (Petty, Priester and Briñol, 2009). People may choose to consume news that confirm their pre-existing beliefs and reject information that does not fit into their worldview (for an overview of the debate, see Barnes and Hicks, 2018). However, at least in the long term, media reporting can be expected to have a long-term effect on how the current account balance is interpreted.

of private actors to determine the optimal external balance. The empirically observable implications of this argument are as follows:

Hypothesis 1: (a) Media reporting in deficit countries highlights the investment perspective more than in surplus countries. (b) Media reporting in surplus countries highlights the competitiveness perspective more than in deficit countries.

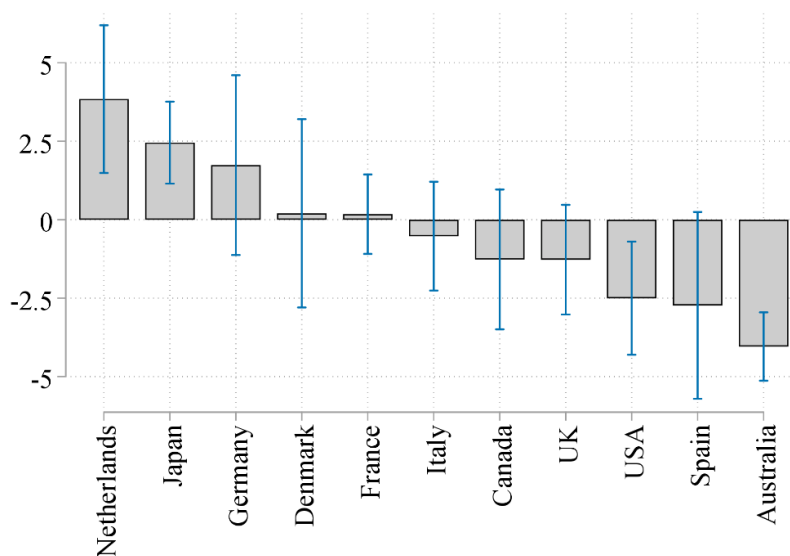
Hypothesis 2: (a) The more media reporting highlights the competitiveness perspective, the more citizens accept contractionary policies that aim at reducing the current account deficit. (b) The more media reporting highlights the investment perspective, the more citizens accept expansionary economic policies that aim at reducing the current account surplus.

2.4. Empirical analysis

Case selection

As Figure 1 shows, several advanced economies have experienced sizable imbalances over the last decades. In addition, the standard deviations in Figure 1 indicate that the current accounts for many countries do not cycle between deficits and surpluses, but remain either in deficit or surplus for most years.

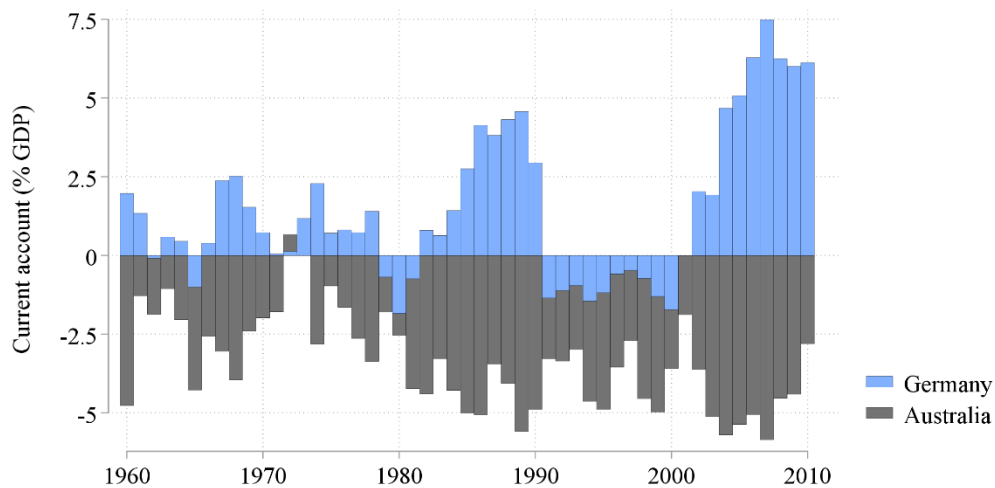
Figure 1: Average current account balances (per cent of GDP) of large advanced economies, 1977-2016.



Source: IMF Balance of Payments Statistics.

For our analysis, we choose Australia and Germany because the two countries experienced fundamental differences in the long-term external balance as Figure 2 shows. Australia has run current account deficits of 3 percent of GDP or more for the better part of the last 50 years but is nonetheless seen as a particularly successful economic model (The Economist, 2016). Among the notorious deficit countries listed in Figure 1, it is clearly the most interesting case. Spain's high average deficit is heavily influenced by the huge deficits after joining the euro, while it did not strongly lean towards deficits before. The US also runs a large deficit, but this is often attributed to the US dollar's status as reserve currency of the world (Gourinchas and Rey, 2005; Helleiner and Kirshner, 2009).

Figure 2: Current account balances of Australia and Germany (percent of GDP).



Source: IMF Balance of Payments Statistics.

Among the surplus countries, Germany is a particularly intriguing case. The country always ran surpluses except in the late 1970s after the oil shocks and in the 1990s after German unification. The country's response to these shocks underlines Germany's role as a prototype surplus country. Even the enormous costs of reunification pushed Germany into (moderate) deficit only for a decade because German society made massive efforts to move the current account back into surplus. Since then, Germany has been accumulating ever-larger surpluses. It is plausible that without unification Germany's average surplus would be in the range of the surplus of Japan or the Netherlands. Since the German macroeconomic strategy has a massive impact on

other countries, within and outside the euro area, it has spurred a significant amount of debate (e.g., Bonatti and Fracasso, 2013; Armingeon and Baccaro, 2015; Bernanke, 2015; den Haan Ellison, Ilzetzi, McMahon, and Reis, 2016). By concentrating on Germany, our analysis connects to these previous studies.

Research strategy

Following our theoretical discussion and hypotheses, our analysis proceeds in two parts. The first part, which we present in section 5, examines whether media reporting on the current account differs between Australia and Germany. This will allow us to find out whether the competitiveness perspective is more prevalent in Germany and the investment perspective is more common in Australia, as predicted by Hypothesis 1. The second part, which we present in section 6, conducts a survey experiment in both countries. We study the effect of the two different interpretations of the current account on citizens and how their attitudes towards economic policies vary with diverging exposure to these theoretical perspectives. Hypothesis 2 would predict that exposure to the competitiveness perspective increases support for policies that move the current account towards a surplus, while exposure to the investment perspective increases support for policies that move the current account towards a deficit.

For our analysis of newspaper reports, we choose quality publications that provide variation across the ideological spectrum and are sold nationwide. For each country, we include a left-leaning, a conservative, and a business newspaper. For Australia, we retrieve articles from the Sydney Morning Herald (left-leaning), The Australian (conservative), and the Australian Financial Review (business). They represent three out of four traditional Australian quality newspapers and account for about 70 per cent of sales in that sector.⁷ For Germany, we collect articles from the Süddeutsche Zeitung (left-leaning), Die Welt (conservative), and the Handelsblatt (business). Frankfurter Allgemeine Zeitung, an important conservative newspaper, could not be included because of cost restrictions. However, the media in our sample account for two thirds

⁷ The Sydney Morning Herald has a regional focus, but in order to ensure ideological variation, we have decided to include it nevertheless. The Age, the fourth quality newspaper and only alternative, is also regional.

of nationwide quality daily sales and each of them is among the top five.⁸ In all cases, we adopted the same search procedure and selected all the articles with reference to the respective country and the terms “current account balance” or “trade balance” in the main text. Data availability differed by newspaper source. Table 2 provides more detailed information on the composition of our text corpus.

Table 2: Composition of Australian and German corpora of newspaper articles.

	N° of Articles	Starting Year
Australia	17194	1986
Germany	14816	1986
The Australian	3360	1995
Sydney Morning Herald	5083	1986
Australian Financial Review	8751	1987
Die Welt	995	1999
Süddeutsche Zeitung	1440	1995
Handelsblatt	12381	1986

The newspaper articles are examined with a dictionary-based approach, for which we identify key terms associated with the two perspectives on the current account based on our theory (e.g., Burden and Sanberg, 2003; Fan, 1988; Young and Soroka, 2012). To validate these results, we also provide qualitative analysis and, in the Appendix, we employ a Structural Topic Model (STM), which allows us to identify the key topics that appear in newspaper articles mentioning the current account (Roberts, Stewart & Tingley, 2017). Furthermore, we test whether the political discourse, i.e. the prevailing ideas among the elite, are really consistent with media reporting, as claimed in the theory section: in the Appendix, we use STM to analyze portions of speeches about the current account of the Reserve Bank of Australia and the Deutsche Bundesbank.

⁸ For Die Welt, The Australian and the Sydney Morning Herald, we used LexisNexis. For the Süddeutsche Zeitung and the Australian Financial Review we resorted to Factiva. Finally, for the Handelsblatt, we retrieved data directly from the official website.

Jointly, these approaches paint a detailed picture of the role played by the two perspectives in the Australian and German debates about current account balances.

The subsequent survey experiment then directly builds on the text analysis by examining how the dominant interpretations in the newspapers and elite discourse affect popular attitudes. A key question is whether these different interpretations in fact have a meaningful effect on public support for a country's growth strategy and the associated economic policies. The survey experiment allows us to examine whether such a causal effect exists. Our demonstration of framing effects on attitudes towards external imbalances adds to similar findings in the literature on government expenditure (Jacoby, 2000), trade preferences (Ardanaz, Murillo, and Pinto, 2013), redistribution (Harell, Soroka, and Iyengar, 2016) and attitudes towards austerity (Barnes and Hicks, 2018).

In the survey, respondents in both countries are reminded how the current accounts of the respective country has developed in the past years. In other words, Australians are confronted with a deficit scenario, while Germans are confronted with a surplus scenario.⁹ We then provide respondents with different interpretations of the situation that their country faces. Each interpretation matches one of the two theoretical perspectives as we discovered them in the newspaper analysis. A German respondent, therefore, would see an expert statement that interprets the German surplus either through the competitiveness or the investment perspective. An Australian respondent would see an expert statement that interprets the Australian deficit either through the competitiveness or the investment perspective. We also have a group that does not see any of the two interpretations. We simultaneously fielded the surveys to ca. 1,000 respondents in each country in August 2018.

After confronting respondents with these interpretations, we ask all of them to what extent they approve of a set of policies that aim at altering the current account balance. In Australia, this is a set of 'belt-tightening' policies that aim at reducing the current account deficit. In Germany, it is a 'loosening' of economic policies that aim at reducing the surplus. Since respondents are randomly assigned to a particular

⁹ We considered to vary the scenarios so that a group of German respondents would see a deficit scenario and a group of Australian respondents would see a surplus scenario. We, ultimately, did not do this because these two scenarios were not experienced by the citizens in the two countries and, thus, represent unrealistic scenarios.

interpretation or the control group, the differences in their responses represent the causal effect of the different interpretations on respondents' approval of the suggested policies.

2.5. Text analysis

We analyze the media coverage of current account balances using three methods, each with its own advantages and drawbacks. Reassuringly, they reach the same conclusions. First, we apply a dictionary-based approach, which is straightforward and transparent. However, it can be susceptible to the choice of words. Therefore, we also conduct a qualitative examination of relevant articles in our corpus, providing examples of how the two perspectives on the current account balance are represented in Australian and German newspapers.

Furthermore, in the Appendix, we employ a structural topic model (STM) to identify discourses through the tendencies to employ any of a number of possible words. We make use of this technique to study both the corpus of newspaper articles and Australian and German central bankers' communication on current account imbalances. In doing so, we build on previous studies that have effectively used STM to model the framing of international newspapers (Roberts, Tingley and Airolidi, 2016), as well as to analyze elite communication on complex economic issues (Cross and Greene, 2019; Diessner and Lisi, 2019).

The application of this set of methods ensures that the different approaches validate each other in showing that there are significant differences between Australian and German newspapers in their portrayal of current account balances.

Dictionary-based approach

To perform an initial assessment of the differences in the interpretations of the current account between the Australian and German media, we apply a dictionary-based approach. Dictionaries are often used to measure text content for a wide set of issues: these range from racial policy preferences in media outlets (Kellstedt, 2000) to budget rhetoric by presidential nominees (Burden and Sanberg, 2003); from populism in election manifestos (Rooduijn and Pauwels, 2011) to sentiment in political texts (Young and Soroka, 2012). Building on the previous literature using this method, we

define the set of words whose frequency we want to assess. Keeping the procedure as simple as possible, we choose “investment” and “savings” for the investment perspective, and “competitiveness” and “productivity” for the competitiveness perspective.

Table 3 shows the relative frequencies. Generally, the frequencies for all four words confirm our expectations. Australian newspapers are more likely to mention words associated with the investment perspective than those connected with the competitiveness perspective. Indeed, one or both terms of the investment perspective appear in 8528 documents, which reflects 49.6% of the documents in the Australian text corpus. In contrast, the terms associated with the competitiveness perspective appear with a much lower frequency, i.e. slightly more than 16% of Australian newspaper articles. For German newspapers, it is the other way around. Although the absolute number of all occurrences is lower in German articles (which can be explained by the higher number of possible word variations that are specific to German language), it is straightforward to observe that competitiveness-related words are used with much higher frequency than those from the investment perspective. Competitiveness or productivity are referenced in 969 articles, constituting 6.5% of the German corpus, while investment and savings are mentioned only 314 times – namely, in 2.1% of German documents. If we consider single words, we observe that the results are driven by the words “investment” and “competitiveness”, which occur with a higher frequency in both the Australian and German newspaper articles.

The picture does not change when we disaggregate results by newspaper. The findings are not driven by any specific media outlet: all Australian newspapers reference more investment and savings than competitiveness and productivity, while the opposite is true for all German newspapers. Interestingly, in both cases the two ideologically opposite newspapers – the Australian and the Sydney Morning Herald in Australia, Die Welt and the Süddeutsche Zeitung in Germany – have very similar frequency distributions of the considered terms. This suggests that the investment view in Australia and the competitiveness perspective in Germany cut across the whole ideological spectrum of the national media. Hence, Australian and Germany citizens are likely to be exposed to them, independent of their partisan affiliations and ideological leanings.

Table 3: Results of dictionary-based analysis.

	Investment / Savings	Trade / Competitiveness	Investment	Savings	Competitiveness	Productivity
Australia	8528 (49.6%)	2802 (16.3%)	7525 (43.8%)	2901 (16.9%)	1383 (8%)	1854 (10.8%)
Germany	314 (2.1%)	969 (6.5%)	160 (1.1%)	159 (1.1%)	751 (5.1%)	313 (2.1%)
The Australian	1622 (48.3%)	467 (13.9%)	1410 (42%)	560 (16.7%)	467 (13.9%)	339 (10.1%)
Sydney Morning Herald	2384 (47%)	747 (14.7%)	2056 (40.4%)	878 (17.3%)	747 (14.7%)	475 (9.3%)
Australian Financial Review	4522 (51.7%)	1588 (18.1%)	4059 (46.4%)	1463 (16.7%)	1588 (18.1%)	1040 (11.9%)
Die Welt	30 (3%)	135 (13.6%)	16 (1.6%)	14 (1.4%)	135 (13.6%)	34 (3.4%)
Süddeutsche Zeitung	57 (4%)	198 (13.7%)	31 (2.1%)	27 (1.9%)	198 (13.7%)	313 (5.1%)
Handelsblatt	227 (1.8%)	636 (5.1%)	113 (0.9%)	118 (1%)	636 (5.1%)	206 (1.7%)

Notes: This table presents the results of the dictionary-based analysis. Each cell shows the absolute number of documents in which the considered category of words appears, and – in parentheses – the relative frequency of occurrence – namely, the ratio between the number of documents of occurrence and the total number of documents for given country (or newspaper). The first two columns present results aggregated by word category: the investment-savings category is given by the terms “investment” and “savings”, while the trade-competitiveness category consists of the terms “competitiveness” and “productivity”. The remaining columns show results disaggregated by single words. The first two rows present results aggregated by country – namely, Australia and Germany. The remaining rows show results disaggregated by newspaper within each country.

Qualitative examination

The next step of our analysis is a qualitative examination of articles in German and Australian newspapers that report about the current account, covering the period for which all newspapers are available (2000-17).

In the German press, trade and competitiveness are typically named as the main drivers of the current account balance (DW, 2006; HB, 2005, 2011; SZ, 2010). Several articles celebrate Germany’s trade surplus and its status as “world champion in exporting [Exportweltmeister]”, which is described as “the result of companies’ enormous efforts” (DW, 2007; see also SZ, 2013). The strong export performance is attributed to “wage moderation and low inflation” (DW, 2006) as well as “increased competitiveness” (HB, 2006). While critical remarks made by international organisations about the dangers of imbalances are reported, they are eclipsed by

chancellor Merkel's assertion that "current account balances are also testimonials of performance [Leistungsbilanzen sind auch Leistungszeugnisse]" (DW, 2010).

The competitiveness perspective is also clearly visible when *Süddeutsche Zeitung* reports about criticism of the German current account surplus by stating that "Germany is being pilloried for its enormous export surplus," (SZ, 2013) framing the issue as one of trade, not of financial flows. One article even seems to argue that there is no meaningful difference between the current account and the trade balance, explaining that "it is very simple: when a country consumes more than it produces, it has a negative current account balance. It imports more goods than it exports" (HB, 2012). In response to French criticism of the German current account surplus, *Die Welt* describes France as a "country that is jealous of Germany's current account balance and systematically tries to direct attention away from its own lack of competitiveness" (DW, 2011). A *Handelsblatt* article interprets criticism of the surplus as a call to "diminish the competitive advantage [Germany] has earned" and remarks that "such demands are odd [Diese Forderungen sind kurios]" (HB, 2010).

The investment perspective typically appears in German newspapers when officials from the European Commission or the International Monetary Fund are asked to explain to readers why the German surplus is not popular abroad (DW, 2017; HB, 2014). Moreover, some articles mention the role investment plays in the current account balance as a novel but interesting argument. *Die Welt* writes that "the European Commission's criticism contains a kernel of truth: the high current account surplus does not only reflect strong international competitiveness, but also a persistent and grave weakness of investment" (DW, 2013). *Süddeutsche Zeitung* reports in a surprised tone that a Bundesbank report warns against "overrating the German status as world champion in exporting" and that it points to weak domestic investment (SZ, 2006). These steps away from the competitiveness perspective are balanced by articles that stridently argue against viewing the current account through the lens of investment. For instance, when US Secretary of the Treasury, Paul O'Neill, defends the American deficit as proof of the country's attractiveness to investors, *Handelsblatt* comments that "whitewashing [Schönreden] is part of finance ministers' daily business" (HB, 2002).

Even though the competitiveness perspective is also a prominent point of reference in the Australian debate (SMH, 2013), savings and investment feature much more prominently in media reporting than in Germany. Many articles point to high investment as a driver of the current account deficit (AFR, 2014; SMH, 2010). As one author puts it, the deficit “means is that Australia is a young economy with huge potential for development” (SMH, 2004). Consequently, “no matter how prudent Australian corporates and individuals are, we cannot save enough to provide for the investment needs of the economy” (AFR, 2013). Others connect the deficit to a real estate boom and explain the current account balance through the investment perspective by writing that the current account is “equivalent to national investment minus national saving” (SMH, 2005b).

Unsurprisingly in view of the size of the deficit, some articles express concern that it might leave Australia “exposed if global economic conditions turn sour” (SMH, 2006), although others argue that “foreign capital helps [the] economy withstand external shocks” (TA, 2013). While high current account deficits are sometimes reported to negatively influence the Australian sovereign debt rating, budgetary policy is typically attributed a more important role (AFR, 2017). Even articles that are critical of the current account deficit often differentiate between ‘good’ and ‘bad’ deficits. In this narrative, good deficits are caused by high investment, while bad deficits are a result of excessive government spending (AFR, 2016). Consequently, articles that worry about the deficit typically recommend increasing private or public saving rates, rather than increasing competitiveness or lowering wages (AFR, 2000; SMH, 2000).

That is not to say that Australian newspapers never refer to competitiveness in articles about the current account. Some see the current account deficit as “a clear sign that Australian industry is not especially competitive” (TA, 2006). However, there is a tendency to portray competitiveness as a result of exogenous events. For example, the term is used in the context of exchange rate fluctuations that make it easier or harder for Australian exporters to sell their products abroad (TA, 2001). In a typical account, an article argues that the “rising dollar is corroding Australia’s competitiveness” (SMH, 2005a). Moreover, in some cases articles attack what they describe as an excessive focus on trade. For instance, The Australian questions whether competitiveness really leads to a trade surplus, arguing that “a more efficient domestic economy will increase national income and with it the taste and capacity to import. That is a wholly normal

development” (TA, 2013). In a similar vein, the Herald argues against “the obsession with international competitiveness and ‘mercantilist thinking’ - the belief that a country’s trade balance is like a business’s profit and loss statement, where the aim is to export as much as you can and import as little as you can” (SMH, 2007).

Summing up, a close reading of German and Australian newspaper articles confirms the results of the quantitative analysis and illustrates how different perspectives can shape thinking about the current account. German newspapers typically discuss the current account in the context of trade, competitiveness and wages. A surplus is depicted as the result of strong exports, while criticism of it is perceived as an attack on German success. In contrast, Australian newspapers tend to stress the effect of saving and investment on the current account balance. While the dangers of mounting debt are regularly discussed, many articles depict current account deficits as benign if they result from high domestic investment.

In the Appendix, we leverage topic modelling to validate the results of this section. First, we show that topics that are ascribable to the investment perspective are consistently more prevalent over time in the Australian media than topics about competitiveness. The opposite is true for German media. Second, we provide evidence that elite discourse in the two countries is similarly biased towards different economic ideas. Analyzing the speeches of the Reserve Bank of Australia and the Deutsche Bundesbank, we provide evidence that Australian central bankers refer extensively to inflows of foreign capital when discussing the current account balance, while they do not talk much about issues of competitiveness. Instead, German central bankers focus much more on competitiveness and pay little attention to the role of international capital flows.

While the analysis in this section and in the Appendix suggests that the Australian and the German perspectives on the current account differ, it does not clarify whether the documented divergence in economic narratives has an independent causal effect on individuals’ perceptions of macroeconomic issues related to the current account. After all, different political discourses could be the consequence rather than the cause of how individuals in different countries conceive of the functioning of the economy. By employing an experimental research design, the next section directly addresses this issue.

2.6. Survey experiment

We conduct a survey experiment to determine whether the differences identified in newspaper content in different countries have a causal impact on citizens' attitudes. A priori, one could imagine that citizens are simply uninformed about current account imbalances, that their opinions are determined by their cultural and media context, or that they are the result of their personal economic situation, such as whether they work in an export-oriented industry. An experiment allows us to evaluate how exposure to the competitiveness or investment perspectives influences their opinions and isolate this effect from other spurious correlations between these opinions and demographic, social, or economic differences.

In employing this experiment as a test of the theory that political discourse drives external imbalances, we rely on a few key assumptions. First, we presume that the policies adopted are determined in general by public opinion (democratic responsiveness). Secondly, we are assuming that the publics to which policy is responsive are like the participants of our study (external validity), in the sense that they read newspapers or consume other news that contain the investment and competitiveness frames as we identified above in newspapers. Finally, since such experimental effects have been shown to diminish over time, we expect that such exposure is repeated and/or is more common in the lead-up to important policy decisions (on the basis that journalists write about issues relevant to upcoming decisions).

In the experiment, participants are exposed to one of three conditions. All three conditions present a basic explanation of current account balances, but (1) the 'no framing' condition presents no further interpretation of the imbalance. In the two experimental treatments, participants read additional text explaining either (2) the competitiveness or (3) the investment perspective, where the interpretation of these perspectives is grounded in the text analyses of newspaper content presented in the previous section. For details of the question wording, see Figure 3, in which for simplicity we present the version for Australia. As Australia regularly runs deficits, respondents were told that the country faces a deficit and, following the possible treatment conditions, are asked whether they would support policies to reduce the deficit. The experiment in Germany, which is a surplus country, presented the opposite

condition, in which the investment treatment describes money outflow because investors decide to invest abroad, while the competitiveness treatment points to the high competitiveness and low production costs; and the government proposes a ‘loosening’ of economic policies to reduce the surplus.

Figure 3: Survey question wording example (Australia).

We will now ask you a few questions about Australia’s external economic relations and the current account. Australia has a persistent current account deficit that is expected to continue unless policy changes are made. A deficit means that Australia is importing more goods from abroad than it is exporting to other countries. It also means that more money is flowing into the country from abroad than there is flowing out to other countries.

Investment-savings treatment
 “Experts say that the persistent deficit is a result of high attractiveness of investments in the Australian economy compared to the level of savings. In particular, money comes in because foreign firms and investors are deciding to invest in Australia’s economy.”

Competitiveness treatment
 “Experts say that the persistent deficit is a result of the low competitiveness of Australian producers. In particular, Australian goods and services are expensive compared to goods and services produced abroad because of the high production costs in Australia.”

Policy Response
 “The government, together with employers’ associations, labor unions, and the central bank, has several possibilities to affect the current account. Imagine that the Australian prime minister announces “belt-tightening” measures to reduce the current account deficit.

To what extent do you approve of this announcement?
 (1-5 scale: strongly disapprove=1, somewhat disapprove, neither approve nor disapprove, somewhat approve, strongly approve=5)

While the policy package that respondents evaluate is hypothetical, respondents are presented a situation that reflects the situation of the country in which the survey is conducted. That is, in Germany, respondents are informed that the country runs a consistent current account surplus and consider policies that would reduce this surplus, while in Australia they are informed of a deficit and policies to reduce this deficit. One might object that the descriptions should be identical in both countries, such as by assigning participants in both countries to either a deficit- or a surplus- treatment as well as to the treatments suggesting how such imbalances should be interpreted. However, such an approach would simply add an artificial and unrealistic counterfactual, for example asking Germans to believe their country runs deficits, or imagine a world in which it did so, while reducing the power available to analyse the experimental condition that is of interest.

A second possible critique to this approach is that we cannot distinguish the magnitude of the effects due to the investment perspective as opposed to the competitiveness perspective. While this could be a topic for future investigation, it is not strictly necessary to our claim that such perspectives causally generate differences in opinion on imbalance-reducing policies.

The survey experiment was conducted in Germany and Australia in the summer of 2018 with 2,043 respondents. Respondents came from the survey company Respondi's standing panels. The surveys took place between August 6 and August 26, 2018. Respondents were screened to match the sex and age profile of each country based on census data (for ages 18-65). The survey included questions for other political economy experiments and the order of appearance of the experiments was randomized. The median respondent required 18 minutes to respond to the full survey, so here we drop respondents who took less than 5 minutes to respond, as it is practically impossible to respond meaningfully to the questions in such a short period.

Survey experiment results

First we consider the success of the randomization, not because there is any particular doubt about the survey firms' computer randomization but because of the small attrition created when respondents do not complete the survey or are dropped because they completed the survey in less than five minutes. We present summary statistics and balance tests in the Appendix, which confirm that the randomization was effective as expected with respect to these covariates.

To examine the causal effect of the treatments on participants opinion, we first look at the approval for the policy package to reduce the imbalance, that is to reduce the deficit in Australia and to reduce the surplus in Germany.

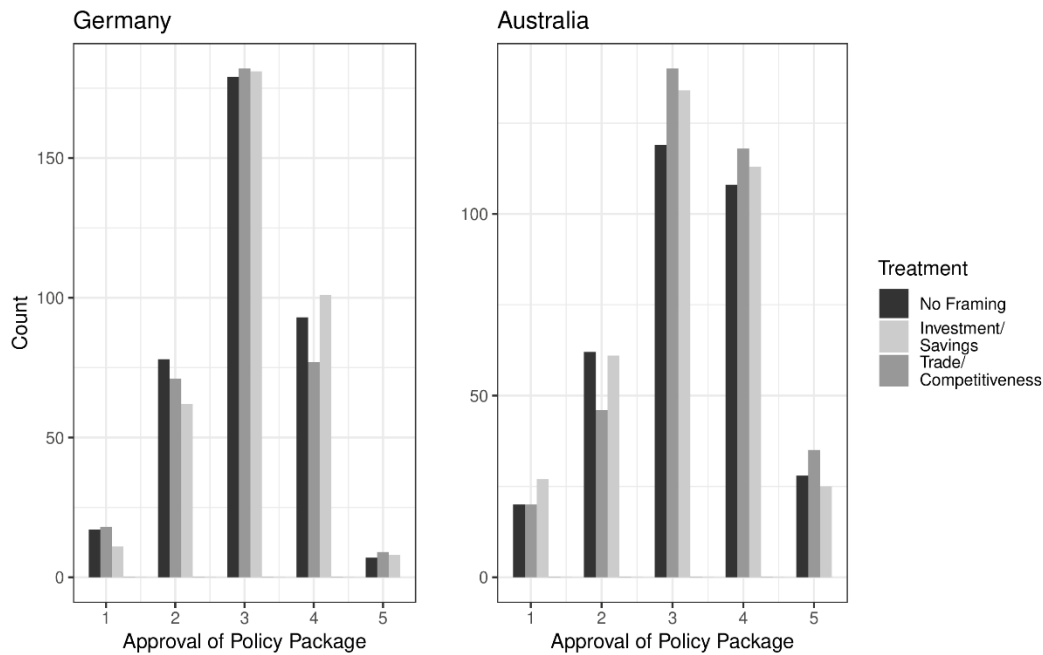
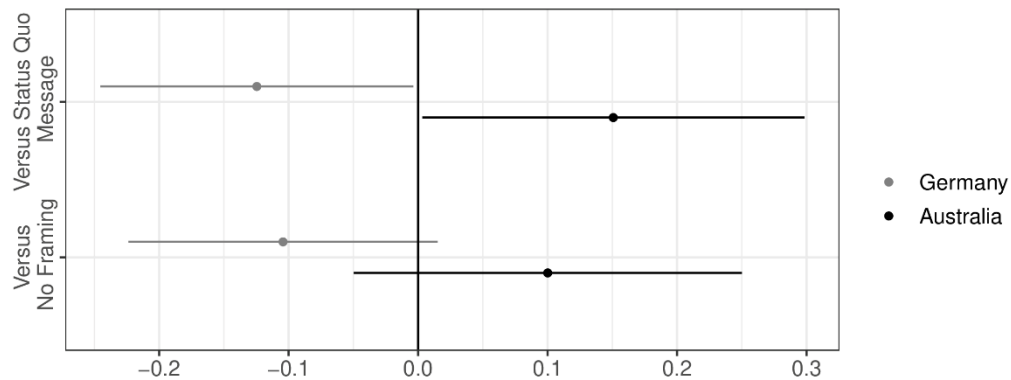
Figure 4: Histogram of policy approval responses by treatment and country.

Figure 4 shows the raw distributions of approval ratings for a package to address the current account balance, by country. Note that here “Approval of Policy Package” refers in German case to a policy to reduce the surplus while in Australia it refers to a package to reduce the deficit. It suggests that Germans are generally more reluctant to approve a policy that would reduce their surplus than Australians are willing to approve a package that would reduce their deficit. Although a fair amount of Germans responded “approve” or “strongly approve” (4 or 5), more than 40% Australians did so. It is also clear from these raw counts that the treatments caused people to move in the expected directions. In Germany, the investment perspective convinced more people to approve a policy package to reduce the surplus, while in Australia the competitiveness treatment caused more people to support a package to reduce their deficit.

To see whether these results are statistically significant, Figure 5 presents the effect of treatments with 95% confidence intervals, relative to two alternatives. (1) On top, a counterfactual perspective is compared to the opposite framing which is the status quo for that country, for which the effect is statistically significant. So, for example, in Germany the approval for a package to reduce the surplus is greater for the investment treatment than for the competitiveness perspective. (2) On the bottom, a counterfactual perspective is compared to the no-framing condition, in which only

basic information about current account balances is presented, which is not statistically significant.

Figure 5: Causal effect on policy package approval by country.



While the magnitude of the causal effect is not large relative to the full range of possible options (about one-eighth of a standard deviation), if we compare the treatment effect to the pre-treatment measure of left-right political preferences,¹⁰ we find that the treatment effect is 50% greater than the difference in right- versus left- individuals in Germany and many more times greater than the political differences in Australia (presented visually in figures in the Appendix). Similarly, the difference in each country is about four times greater than the difference of those who work in a traded versus a non-traded industry. On the one hand, these effects might diminish over time, but on the other hand, repeated exposure to these perspectives might generate effects greater in magnitude than those observed in this experiment.

These results provide support for Hypothesis 2, suggesting that media reporting on the nature of the current account balance can influence opinion on policies that help determine that balance. The results with respect to approval of specific policies that would reduce the imbalance is also consistent with the general measure, except that in Germany there is lower approval for wage increases and spending (although these results are not significant), and there is greater variance and more missing values than

¹⁰ The left right scale is a composite score of four questions on social policies reduced to one dimension using principal-components analysis. The questions ask about support for (1) redistribution of wealth (2) state-ownership of public services and industries, (3) whether government should take responsibility to provide for individuals, and (4) whether people can only get rich at the expense of others.

in the general measure.¹¹ Furthermore, the causal results are robust, that is the coefficient is of similar magnitude and significant if one includes controls for demographics, measures of sophistication, left- right- policy preferences, and participation in export-oriented industries, as should be the case in expectation given that the treatments are randomly assigned (Table 4). This suggests that the findings are not a result of a randomization failure in which by chance a particular demographic was over-represented in one of the treatment arms.

Table 4: Robustness of treatment effect controlling for demographics, industry, sophistication.

	<i>Germany</i>			<i>Australia</i>				
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Treatment	-0.125 (0.062)	-0.124 (0.062)	-0.126 (0.063)	-0.127 (0.062)	0.151 (0.075)	0.151 (0.075)	0.150 (0.075)	0.148 (0.075)
Male		0.017 (0.062)	0.023 (0.063)	0.007 (0.064)		0.204 (0.075)	0.205 (0.075)	0.180 (0.077)
% Exported			-0.165 (0.197)	-0.145 (0.197)			-0.065 (0.176)	-0.058 (0.176)
Sophistication				0.028 (0.027)				0.049 (0.030)
L vs R Values				0.039 (0.025)				-0.003 (0.028)
Age Dummies		Y	Y	Y		Y	Y	Y
N	720	720	720	720	719	719	719	719
R	0.006	0.013	0.014	0.019	0.006	0.041	0.041	0.045

Note: p<0.1; p<0.05; p<0.01

These results provide evidence that citizens' opinions are not fixed but respond to differences in the perspectives to which they are exposed. After all, exposure to these interpretations is still limited in our experiment. In reality, the dominance of one perspective in the newspapers means that citizens are consistently and permanently exposed to one of these interpretation over long periods of time. This implies that there are significant implications for the differences in newspaper coverage identified in the previous section, and suggests counterfactually that if citizens were widely exposed to different interpretations of the current account balance, their opinions on policies to adjust these imbalances would also change. Furthermore, given that citizens

¹¹The specific measures are (1) Measures to limit wage increases, (2) Measures to limit government spending, (3) Measures to reduce access to credit, and (4) Measures to promote private savings. In Germany, the variance of the general measure is 0.70 versus a mean of 0.80 for the specific measures; in Australia the variances are 1.03 and a mean of 1.56.

are generally exposed to multiple different kinds of media on repeated occasions over time, the results could be seen to suggest that at least for “sophisticated” voters, the results represent a lower bound of the real-world effects.

2.7. Conclusion

This paper examines popular support for external imbalances and the policies that generate them by examining ideas that are dominant among elites and in the media. Our comparative analysis of Australia, a notorious deficit country, and Germany, a notorious surplus country, reveals important differences. Australian newspapers and elites tend to discuss the current account balance in the context of capital flows and view the deficit as proof that their country is a highly popular investment destination. By contrast, German newspapers and elites discuss the current account predominantly in the context of trade. They consider their country’s surplus to be an expression of superior competitiveness and successful economic policy.

These differences are compatible with two distinct theoretical perspectives on external balances, which represent the international dimension of different national growth models. The investment perspective tends towards an attitude of ‘benign neglect’ and stresses the importance of capital flows that are the result of rationally acting firms and households. The competitiveness perspective stresses the role of wages and competitiveness and tends to recommend an active governance that ensures a continuous surplus. Our paper presents a systematic analysis how these ideas generate popular support for external imbalances and the underlying economic strategy that generates these imbalances. Political debates, e.g. about the imbalances in the euro area, have repeatedly pointed to the presence of such distinct theoretical lenses in different countries (Brunnermeier, James and Landau, 2016; Jones, 2016). Our analysis allows us to explore this claim in a larger context, beyond the current, politicized debates surrounding the European debt crisis.

The results illuminate the process how economic ideas help to secure support for diverging national growth strategies and the domestic economic institutions that back these strategies (Baccaro and Pontusson, 2016; Hall and Soskice, 2001). Although institutional complementarities are important determinants of economic policies, these arrangements must be supported by a broad societal coalition in order to be durable

(Amable and Palombarini 2009). We show that the presence of predominant ideas about the current account balance helps generate societal support for the policies and outcomes that follow from domestic economic institutions. The political discourse, therefore, has a stabilizing effect on a country's macroeconomic regime, or growth model. At the same time, they also suggest that growth models are by no means unchangeable. Popular support for a growth model can change over time if the economic ideas that dominate the political discourse change.

Our findings indicate that resolving international economic imbalances might be as much about communication as it is about economics, and points to the need to better understand the determinants of political discourses, such as relative power of social coalitions (Haffert 2017). The experimental results suggest that viewing economic imbalances simply as the result of different policies that are nonetheless each optimal given countries' different factor endowments falls short of a satisfying explanation. Even if such policies are welfare maximizing, it is important to understand how they are maintained given that, as our results show, citizens' support for them depends in part on the interpretation they are offered. While speculation about what or who is driving such differences in political discourse upstream is beyond the scope of this article, our research underlines the importance of seeking out more information about these processes.

2.8. Appendix

A. Structural Topic Models of newspaper articles

In this section, we use a Structural Topic Model (STM) to identify the presence of word clusters in newspaper articles that are consistent with our theoretical framework and estimate their relationship to document metadata. Topic models are increasingly used to systematically investigate and interpret discourse in large collections of texts (Jacobs and Tschötschel 2019). As explained in detail by Roberts, Stewart and Tingley, STM allows researchers to discover topics in a text corpus and conduct hypothesis testing about the relationship between topics and document metadata (Roberts, Stewart and Tingley, 2019). Here, we focus on estimating the proportion of text devoted to topics of interests both across newspapers and over time.

STM has the advantage that it may isolate word clusters that are related to the competitiveness and investment perspectives, and separate them from other, potentially confounding, topics. This ensures a more comprehensive analysis of our text corpus. Yet, STM (as any other mixed-membership topic models) suffers from the disadvantage that the results the estimation procedure comes up with are potentially sensitive to starting values of the parameters (Roberts, Stewart and Tingley, 2014). For instance, one of the key parameters that has to be set initially by the researcher is the number of topics (i.e. word clusters) to estimate.

First, we create two text corpora, one for Australian newspaper articles and one for German ones, and convert text into a structured form, using standard text processing approaches. In particular, we lowercase and stem words, remove stopwords and numbers, and reduce the size of the document-frequency-matrix by considering only terms that appear in at least 2% of the documents to improve estimation efficiency (Proksch and Slapin 2009). Second, for each country, we run models iteratively and chose the number of topics based on interpretability (Chang, Gerrish, Wang, Boyd-Graber, and Blei, 2009). In both cases, a model with 50 topics gives us a fine-grained view over the issues addressed in the Australian and German media, and yields topics that are theoretically meaningful. In the next section, we show that this number of topics constitutes a balanced choice in terms of topic exclusivity and semantic coherence.

A.1 Structural Topic Model – Selection of the number of topics

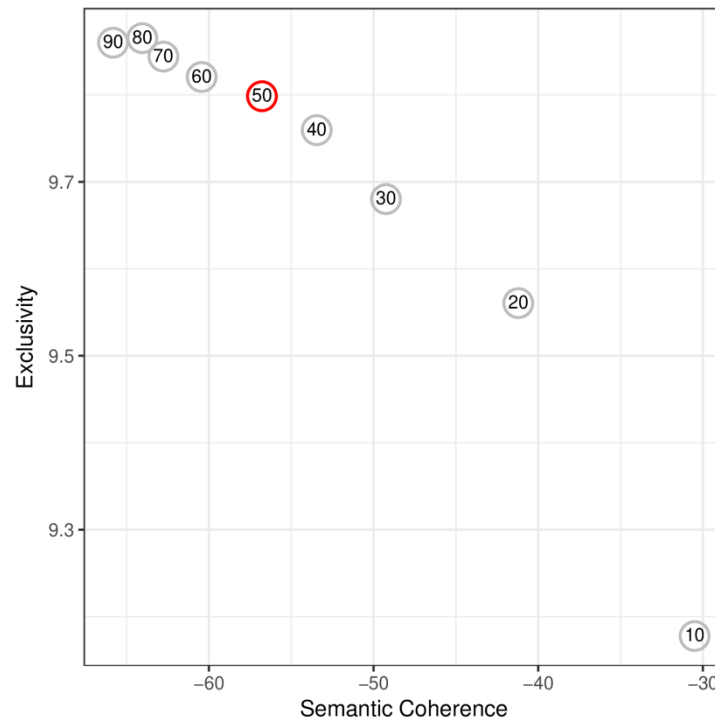
STM assumes a fixed user-specified number of topics and there is not a “right” answer to the number of topics that are appropriate for a given corpus (Grimmer and Stewart 2013). However, there are criteria to evaluate the quality of topic model performance. Following Roberts, Stewart and Tingley (2019), we focus on topic exclusivity (Airoldi and Bischof, 2016; Bischof and Airoldi, 2012) and semantic coherence (Mimno, Wallach, Talley, Leenders, and McCallum, 2011). In general, topic exclusivity is easier to obtain with higher numbers of topics, while attaining high semantic coherence is relatively easier by having a few topics dominated by very common words (Roberts et al. 2014). Hence, there appears to be a trade-off between exclusivity and semantic coherence (see Roberts et al. 2014: 1070). Given our research objective, we are interested in topics that are specific enough to be ascribed to one of the two aforementioned perspectives. Therefore, we value exclusivity relatively more than semantic coherence, although we want to avoid having too many topics without significant improvements in topic exclusivity.

First, we conduct several tests with different numbers of topics to assess the degree of exclusivity that is needed to obtain results that are easy to interpret in the light of our research question. We use the German corpus for this preliminary tests. We find that below 50 topics we cannot be confident enough that the word clusters produced by STM yield results that are easily ascribable to either the investment or the competitiveness perspective analysed in this paper. Starting from 50 topics instead, the degree of granularity of the topics is sufficiently high to have results that are appropriate to our research question.

Second, after establishing that the right degree of topic exclusivity lies around 50 topics, we assess the semantic coherence-exclusivity trade-off for a variety of models with different numbers of topics, and verify whether the model with 50 topics is on the semantic coherence-exclusivity “frontier”, namely, whether it is not strictly dominated by any other model in terms of both semantic coherence and exclusivity (Roberts et al. 2014). Given that the estimation of models with a relatively high number of topics is very computationally intensive, we initially focus on round numbers from 10 to 90. Figure A1 plots the results of our evaluation. The figure provides a measure of topic quality through a combination of semantic coherence and exclusivity of words to topics. The trade-off between exclusivity and semantic coherence emerges quite

clearly, as exclusivity appears to be an increasing function of STM topic number, while semantic coherence decreases as the number of topics increases.

Figure A1: Exclusivity and semantic coherence measures for varying numbers of topics.



Note: This figure shows exclusivity and semantic coherence scores for nine topic models estimated on the German corpus of newspaper articles. The number associated with each observation corresponds to the number of topics included for each model whose exclusivity and semantic coherence is reported.

However, two observations support the decision to use a topic model with 50 topics. First, the model with 50 topics is not strictly dominated in terms of both semantic coherence and exclusivity (which, for instance, is not the case for the topic model with 90 topics). Second, the increase in exclusivity for models with more than 50 topics is less than proportional to the loss in semantic coherence from increased topic numbers. In other words, while increasing the number of topics provides sizeable gains in exclusivity up to 50 topics, for higher topic numbers these gains are proportionally lower than the loss in semantic coherence.

In sum, we conclude that 50 is the optimal number to obtain results that are relevant for our research question. Estimating 50 topics provides us with enough leverage in topic exclusivity, while avoiding the presence of too many topics at the expense of semantic coherence.

A.2 Structural Topic Model – Results

In both the Australian and the German case, we can identify three topics that are highly relevant to our research question. In Table A1, we give an overview of such topics. “Highest probability” is a simple measure that indicates which words are the most likely to co-occur. Extremely important for our work are also “exclusive” words – namely, those that are highly likely in one topic and unlikely in other topics based on the FREX metric (Airoldi and Bischof, 2016; Bischof and Airoldi, 2012).

Table A1: Top words for Australian and German topics.

Australia	
Industrial Investment	
Highest Probability:	invest, busi, small, survey, capit, plan, firm
Exclusivity (FREX):	busi, invest, survey, small, featur, firm, plan
Financial Investment	
Highest Probability:	market, investor, fund, bond, year, global, equiti
Exclusivity (FREX):	investor, equiti, bond, portfolio, asset, fund
Competitiveness	
Highest Probability:	reform, industri, competit, polici, australia, market, product
Exclusivity (FREX):	reform, competit, tariff, protect, effici, micro-econom, structur
Germany	
Industrial Competitiveness	
Highest Probability:	unternehmen, industri, produkt, jahren, markt, entwicklung, investitionen [company, industr, produc, years, market, development, investment]
Exclusivity (FREX):	wettbewerb, bewertung, standort, bereich, produkt, unternehmen, schweden [competition, valuation, location, sector, product, company, sweden]
International Competitiveness	
Highest Probability:	deutschland, frankreich, euro, euro-zon, wettbewerbsfähigkeit, spanien, mehr [germany, france, euro, euro area, competitiveness, Spain, more]
Exclusivity (FREX):	wettbewerbsfähigkeit, österreich, löhne, spanien, währungsunion, griechenland, portug [competitiveness, austria, wages, spain, monetary union, greece, portug]
Investment	
Highest Probability:	anleg, fond, aktien, invest, investoren, manag, jahr [invest, fund, stocks, invest, investors, manag, year]
Exclusivity (FREX):	fond, invest, anleg, manag, hielten, immobilien, market [fund, invest, invest, manag, held, real estate, market]

Note: This table presents the top words of six theoretically relevant topics, three for Australia and three for Germany. The topics are produced by a structural topic model with 50 topics, run separately on the Australian and German corpora of newspaper articles. The words with highest probability of occurrence and highest FREX score are showed for each topic.

In Australia, the first investment topic expresses an industrial perspective, as the stemmed word “invest” appears in association with the terms “business”, “firm”, “small”, “capital” and “plan”. The second Australian investment topic, instead, suggests a mere financial perspective, being defined by the words “investor”, “fund”,

“bond”, “global”, “equity”, “portfolio” and “asset”. The third Australian topic of interest is the only topic produced by the model that is defined by the word “competitiveness” (“competit” in the stemmed form). This is associated with policy-relevant terms, such as “reform”, “polici”, “market”, “product” and “structur”. Therefore, the first two considered Australian word clusters can be easily ascribed to the investment perspective on the current account, while the third one reflects a narrative of the current account that is much more in line with the competitiveness perspective. This interpretation of the discussed topics is also confirmed by text excerpts containing high proportions of these topics, presented in section A.3 of the Appendix.

In Germany, the term “competitiveness” (“wettbewerbsfähigkeit”) plays a more prominent role, as it is one of the defining terms in two different word clusters. The first topic sees “competit” (“wettbewerb”) in association with business terms, such as “firms”, “industry”, “development”, “market”, “product” and “area” (“unternehmen”, “industri”, “entwicklung”, “markt”, “produkt”). The word “investment” (“investitionen”) also has high probability to appear in this topic, but it is not among the words that are most exclusive to it. We conclude that this is a topic about the competitiveness of domestic firms, and define this topic as one of industrial competitiveness.

The second German topic is characterized by the term “competitiveness” in a more international perspective, as it is associated with references to the euro area, as well as France, Spain, Greece and Portugal. “Wages” (“löhne”) is also another defining term of this word cluster, which further indicates that this is a topic about international competitiveness. Finally, we can detect the presence of a topic that can be unambiguously ascribed to investment – most notably, in financial terms – as it is defined by “invest” (both with “anleg” and “invest”), “fund” (“fond”) and “stock” (“aktien”). Thus, we conclude that, for the German topic model, two-word clusters are consistent with the competitiveness perspective, while one is more clearly in line with the investment one. As for Australian topics, Section A3 in the Appendix shows relevant text excerpts from the STM analysis of the German text corpus.

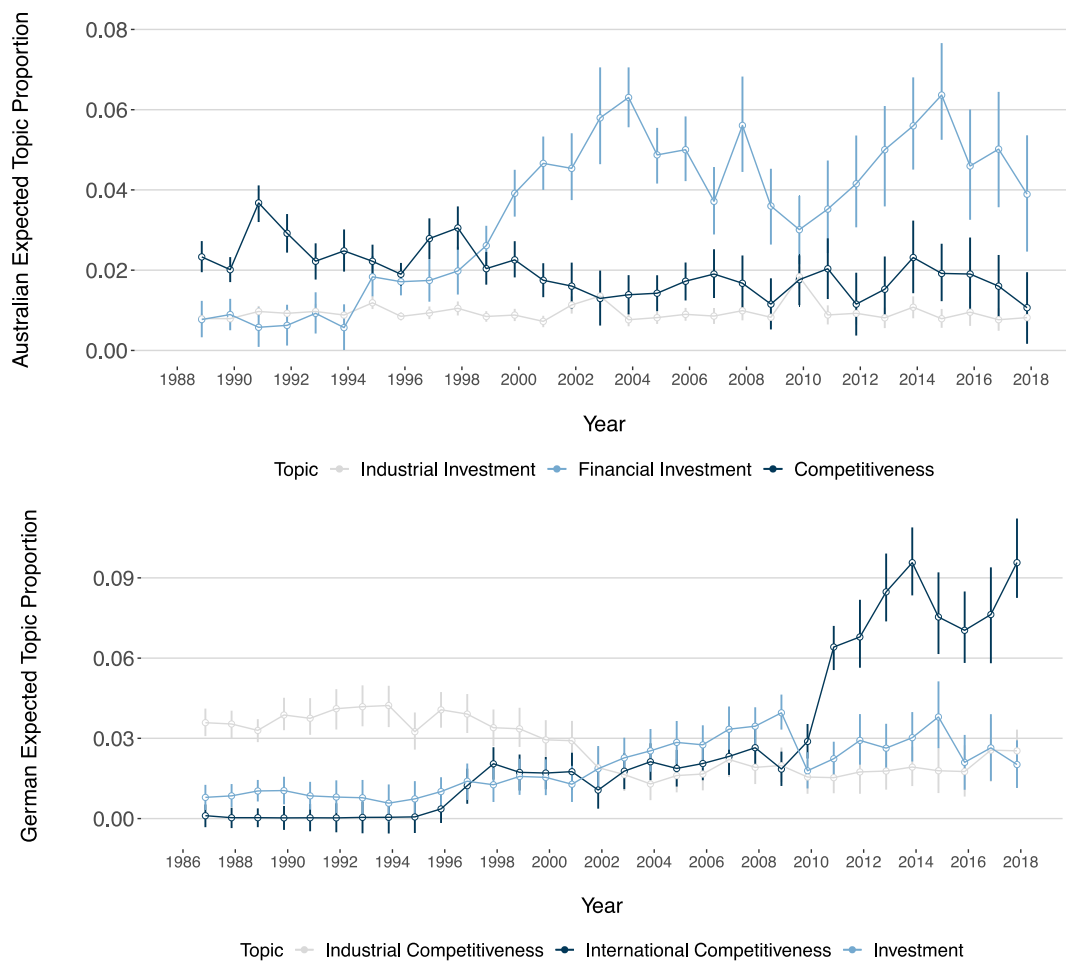
The presence of two investment topics and only one competitiveness topic in Australia, as well as the presence of two competitiveness topics and only one related

to investment in Germany, is consistent with our theoretical framework. In addition, we directly test this hypothesis by estimating the expected proportions of these topic by year and by newspaper.

Figure A2 presents time series estimates showing the evolution of these topics between 1986 and 2018 in both Australia and Germany. The upper graph clearly shows that the industrial investment topic always played a relatively minor role in Australia. In contrast, the estimated proportion of the competitiveness topic in Australia was relatively prominent in the late '80s and early '90s. However, discussions about financial investment in reference to the current account have gained increasing importance over time: by the mid-90s they started receiving more attention than issues of competitiveness, and this has consistently remained so until nowadays. It may be no coincidence that this shift happened when the so-called "Pitchford thesis" gained prominence (Belkar, Cockerell and Kent, 2007). This thesis, put forward by the Australian economist John Pitchford, suggests that a current account deficit is not necessarily a problem and can be optimal (Pitchford, 1989). That is the case if rational individuals decide to borrow money from abroad and repay these loans with returns from their investment.

The picture for Germany is the opposite. The lower graph in Figure 2A exhibits a consistent pattern of prevalence of the two competitiveness topics vis-à-vis the financial investment one: with the only exception of the years preceding the Global Financial Crisis, the two topics defined by the term "wettbewerbsfähigkeit" are estimated to always have greater coverage than financial investment. Also, it is important to notice how the German media's view of competitiveness has shifted over time from a more domestic perspective, expressed by the industrial competitiveness topic, to a European one, expressed by the cluster of words ascribed to international competitiveness. Our analysis suggests that the euro crisis has greatly contributed to shaping German sensitivity to competitiveness issues. All in all, this is consistent with our expectations on the evolution of German public discourse from the Reunification period to nowadays.

Figure A2: Time Series Estimates of Relevant Topics for Australia and Germany, 1986-20.



Overall, these results confirm the presence of two different narratives of the current account balance in Australia and Germany. In Australia, public discourse tends to highlight issues of investment more than in Germany. Importantly, financial investment is devoted most attention, which is consistent with the investment perspective's emphasis on international financial flows. Conversely, the German media tend to highlight issues of competitiveness in relation to the current account balance more than Australian ones. Hence, public discourse in Germany tends to promote a neo-mercantilist view on the current account.

To further ensure the validity of these results, in the next section, we present text excerpts from our text corpus that contain a high proportion of the topics considered above.

A.3 Structural Topic Model – Text excerpts from relevant topics

In this section, we present text excerpts from the theoretically relevant topics identified in the paper. German texts have been translated by the authors:

- **Industrial Investment - Australia**

Sydney Morning Herald - 12 October, 1994

“Small and medium-sized companies are set to lead the recovery in business investment and jobs over the coming year, new figures show. Business expects to increase investment in capital equipment by 7.7 per cent in the December quarter. [...] The high level of business investment is almost certain to be reflected in continuing high levels of imports of equipment, one of the main factors in last month’s larger-than-expected \$2.13 billion current account figure. The Opposition Treasury spokesman, Mr Peter Costello, warned that Australia’s current account deficit was as bad as in 1990 when the then Treasurer, Mr Keating, called a recession to deal with it.”

- **Financial Investment - Australia**

The Australian - 27 April, 2002

“Foreign funds, with a very much greater volume of cash under management, also want diversified investments, and they only need to put a fraction of their portfolio into Australia to have a big impact on asset prices here. The idea that Australia lacks investment opportunities is given the lie anyway by the fact that our current account deficit has averaged around 4.5 per cent of GDP over the 1980s and 1990s. The counterpart of this is a capital account surplus. In other words, investment opportunities here substantially exceed local savings, not surprising in a relatively small economy with a big resource base. The theories come and go, but Australia’s economy and equity markets continue to outperform their band of critics.”

- **Competitiveness - Australia**

The Australian - 5 September, 2013

“Increased business complaints about the burden of government regulation and the efficiency of the workplace relations system has seen Australia drop one place in a World Economic Forum ranking of global competitiveness. [...] Former Future Fund chairman David Murray said the report highlighted ‘serious weaknesses in Australia’s ability to adapt its economy to achieve higher productivity and overcome structural weaknesses in the budget and current account’. ‘In particular, it highlights the rigidity of the labour market, which is governed by a system over 100 years old which was designed for a closed, protected economy,’ he told The Australian. “This will not change until the unions make a genuine attempt to promote productivity improvement and move away from a purely political organisational stance.”

- **Industrial Competitiveness - Germany**

Handelsblatt - 17 May, 1990

“German products are in demand in Belgium. High technical standard, good quality as well as an excellent customer service, this is what Belgian companies appreciate about German products. The delivery reliability of their German partners is also praised. These factors help German companies to consolidate their market share over the years.”

- **International Competitiveness - Germany**

Süddeutsche Zeitung - 21 March, 2010

“Germany and its industry are not only in European competition. Only two-thirds of our exports remain in the EU. Beyond these borders - and increasingly, of course, in the EU territory itself - Germany is already experiencing tough price competition from technologically often equal low-wage countries, for example in Eastern Europe and China. By now, China is undercutting Hamburg’s port crane industry by 25 percent!

A general German wage increase in mechanical engineering, which indeed feeds Germany, would be extremely dangerous. And unlike the Chinese currency, the euro has been appreciably upgraded in recent years. For the weaker countries, further appreciation - which would make their exports more expensive - would be difficult to sustain.”

- **Investment - Germany**

Handelsblatt - 23 September, 1988

“There will certainly be a new bull market because, firstly, the profits of companies are much higher and, secondly, because inflation will be very high. At the same time, however, we are experiencing a massive contraction of available stocks. Since 1984, around one-eighth of all stocks in the US have disappeared from the market - through acquisitions, share redemptions, etc. In addition, there is a lot of foreign money trying to invest in US equities. And finally, the US pension funds have more and more money, which is looking for investment. Last but not least: The IRA regime (a form of US tax-advantaged stockpile) will generate huge demand for US equities.

Interviewer: So the trade and budget deficits of the US do not worry you?

Those are huge problems. Debt is generally a bad thing. And in this context, I must emphasise again and again that you should never buy stocks on a par. A top decree should be: stay free of debt.”

B. Structural Topic Models of central bankers’ speeches

In this section, we extend the analysis of political discourse to consider the role that elites in different countries play in promoting different ideas about macroeconomic

imbalances. We take into account central bank communication. By doing so, we follow a burgeoning literature that has successfully applied quantitative text analysis tools to study the politics of central banks and shed light on a wide array of phenomena, such as central bankers' inflation preferences (Baerg and Lowe, 2018), reputational concerns (Moschella and Pinto, 2018), policy agendas (Cross and Greene 2019), engagement with fiscal policy (Diessner and Lisi, 2019), and economic ideas during the euro crisis (Ferrara, 2019).

First, we retrieve the speeches delivered by the governors of the Reserve Bank of Australia and the Deutsche Bundesbank that are available on the website of the Bank of International Settlements. For the Reserve Bank of Australia, we make use of all the speeches that are available from 2009 to 2019. For the Bundesbank, we employ the dataset of speeches in English language used by Cross and Greene (2019),¹² which covers the 2007-2018 period. Taken together, the corpus consists of 508 speeches given by Australian and German central bankers.

Second, we preserve the paragraph structure of the speeches and select only those paragraphs that mention either the “current account balance” or the “trade balance”. This yields a corpus of 228 paragraphs, which constitute our dataset for the analysis. Similar to the previous section, we employ a Structural Topic Model (STM) to identify the presence of word clusters that are consistent with our theoretical framework and estimate their relationship to document metadata. In this model, we include information about the year in which the speech was delivered and about whether the speech was delivered by the Reserve Bank of Australia or the Bundesbank. Before running the model, we apply the same text pre-processing decisions outlined above.

Given the relatively low number of observations and the focus of paragraphs on the current account, we decide to estimate a topic model with only four topics. Table A2 presents all four topics. Topic 1 and Topic 4 are easily ascribable to, respectively, the competitiveness view and the investment perspective of the current account. Indeed, Topic 1 is characterized by the words “correct”, “competit[iveness]”, “price” and “crisi[s]”. Topic 4 features a strong presence of the words “net”, “[in]flow”, “foreign”

¹² We are very grateful to James Cross for providing us with the data.

and “equity[es]”. The other two topics are more directly related to issues concerning the domestic and international economy.

Table A2: Top words for topics in Australian and German central bank communication about the current account.

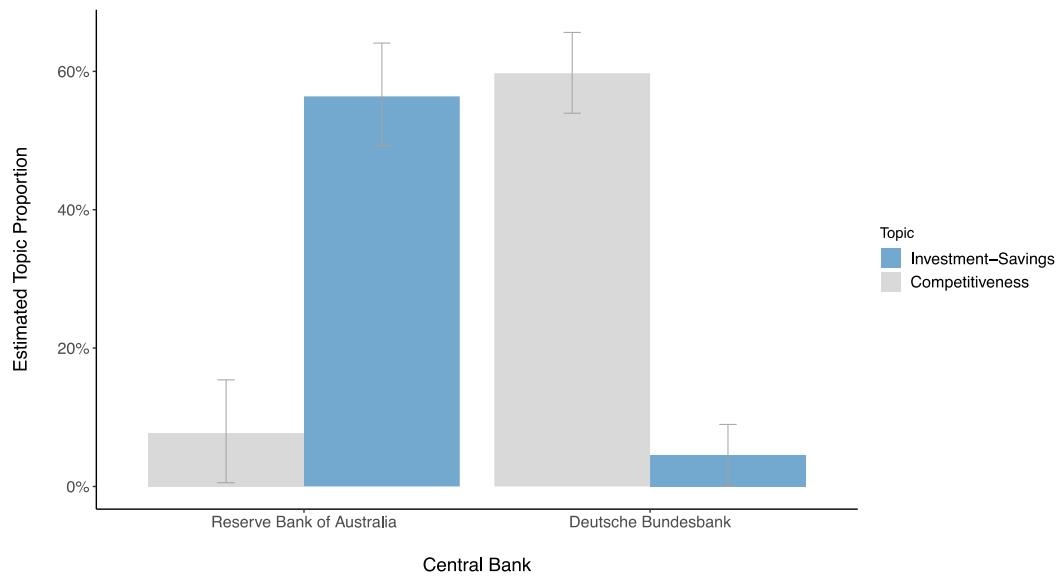
Competitiveness	
Highest Probability:	current, account, countri, deficit, surplus, imbal, crisi
Exclusivity (FREX):	correct, persist, price, competit, imbal, diverg, countri
Domestic Economy	
Highest Probability:	current, account, surplus, germani, balanc, polici, countri
Exclusivity (FREX):	german, demograph, germani, servic, appropri, enterpris, strengthen
International Economy	
Highest Probability:	financi, economi, global, bank, market, us, year
Exclusivity (FREX):	china, rmb, chines, reserv, asian, inflat, central
Investment	
Highest Probability:	capit, account, current, net, flow, australian, foreign
Exclusivity (FREX):	equiti, quarter, net, australian, foreign, inflow, flow

Notes: This table presents the top words of the topics produced by a structural topic model with 4 topics, run jointly for Australian and German central bankers’ speeches in English language. The words with highest probability of occurrence and highest FREX score are shown for each topic.

As STM is able to identify two word clusters that are relevant based on our theoretical framework, we can estimate the proportion of communication that the Reserve Bank of Australia and the Bundesbank devote to the competitiveness view and the investment perspective. The results are presented by Figure A3. The findings show neatly a divergence in the narratives of the current account between the two central banks.

In Australia, most central bank communication about the current account balance focuses on inflows of foreign capital. Instead, in Germany, the Bundesbank has mostly highlighted issues of competitiveness related to macroeconomic imbalances. It is striking to observe how small the estimated proportion is for the competitiveness narrative in Australia, and for the investment perspective in Germany. Taken together, these findings are consistent with the results of the empirical analysis of newspaper articles and confirm that political discourse about the current account is significantly oriented towards divergent economic ideas in Australia and Germany.

Figure A3: Estimates of relevant topics for Reserve Bank of Australia and Deutsche Bundesbank



C. Additional survey experiment material

Table A3: Summary statistics.

	Australia			Germany		
	No Framing	Competitiveness	Investment	No Framing	Competitiveness	Investment
Sex	0.53 [0.50]	0.47 [0.50]	0.46 [0.50]	0.48 [0.50]	0.49 [0.50]	0.49 [0.50]
Age	7.23 [3.19]	6.85 [3.25]	6.85 [3.31]	7.21 [3.27]	7.10 [3.15]	7.21 [3.20]
Percent Exported	0.09 [0.21]	0.09 [0.21]	0.10 [0.22]	0.06 [0.16]	0.06 [0.17]	0.05 [0.15]
Sophistication	1.80 [0.21]	1.68 [0.21]	1.63 [0.22]	1.74 [0.16]	1.68 [0.17]	1.69 [0.15]
Left vs Right Values	-0.28 [1.30]	-0.13 [1.27]	-0.26 [1.37]	-0.06 [1.30]	-0.15 [1.23]	-0.13 [1.25]
Duration (min)	28.86 [64.60]	31.24 [93.97]	31.12 [144.02]	117.26 [780.56]	78.36 [377.89]	80.34 [447.55]
Date started			(2018-08-10 for all)			
	[2.90]	[3.03]	[3.00]	[2.76]	[2.66]	[2.63]

Notes: Mean values reported followed underneath by standard deviation in square brackets, by treatment arm.

Table A4: Balance tests.

	Australia		Germany	
	Competitiveness	Investment	Competitiveness	Investment
Sex	-0.06 (0.04)	-0.07 (0.04)	0.00 (0.04)	0.00 (0.04)
Age	-0.38 (0.25)	-0.38 (0.25)	-0.11 (0.24)	0.00 (0.24)
Percent Exported	-0.01 (0.02)	0.01 (0.02)	0.00 (0.01)	-0.01 (0.01)
Sophistication	-0.11 (0.10)	-0.17 (0.10)	-0.06 (0.09)	-0.05 (0.09)
Left v Right Values	0.16 (0.10)	0.02 (0.10)	-0.09 (0.09)	-0.07 (0.09)
Duration (minutes)	2.38 (8.10)	2.26 (8.09)	-38.91 (41.95)	-36.92 (41.77)
Date Started	0.05 (0.23)	0.02 (0.23)	-0.07 (0.20)	-0.08 (0.20)

Notes: Mean values reported followed underneath by standard deviation in square brackets, by treatment arm.

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3 Measuring Economic Reform Recommendations Under the European Semester

*Co-authored with Valerie D'Erman, Daniel F. Schulz, and Amy Verdun.
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3.1. Introduction

The Euro Area financial crisis unveiled dramatically the incompleteness of governance mechanisms in Europe's Economic and Monetary Union (EMU) (Ioannou, Leblond and Niemann 2017). Although EMU witnessed strong growth in some member states during the first ten years of its existence, governments lacked incentives to correct macroeconomic imbalances when they occurred and compliance with fiscal rules remained weak (Heipertz and Verdun 2010). The European Union (EU) reacted to the crisis by reforming its economic governance framework. Seeing that there was no support for major treaty change (which would be needed for some reforms, such as to create a Euro Area Treasury), it opted instead for a system of macroeconomic policy coordination that became known as the European Semester (or 'Semester' for short).

In the words of the European Commission (2017: 24), the Semester is 'the core vehicle' to achieve better policy coordination in the EU. It is a mode of governance that offers a timetable for proposing, discussing and implementing economic and fiscal policy reforms over the course of a year. The goal is that EU member states (and especially members of the Euro Area) align their budgetary and economic policies with commonly agreed objectives. Based on the national economic performance and on policy output, the EU annually issues Country-Specific Recommendations (CSRs), which cover a wide range of policy fields, including fiscal governance, financial markets, employment, competition, public administration and social policy.

As these changes in governance give the EU institutions a larger role in policy coordination than before, we seek to examine what kind of reforms the EU promotes. To do so we offer a comprehensive overview of the CSRs issued to Euro Area

members between 2012 and 2018. Our analysis here focuses on Euro Area members only rather than the wider EU because the Semester is a key tool developed in response to perceived insufficient economic convergence being an important underlying cause of the Euro Area financial crisis. The research question is: when and why do member states receive recommendations focused on different thematic areas? We interpret ‘thematic areas’ as overarching policy topics. We describe how the thematic focus of CSRs has developed over time and explore whether differences in reform recommendations map onto differences in Euro Area countries’ economic models. From a methodological point of view, one major challenge is to assess the content of the hundreds of CSRs issued during the time period. We discuss how the enormous wealth of text provided by the Semester can be translated into a dataset that provides detailed information about recommendations and their policy areas. The findings from our analysis indicate that while the content of CSRs varies according to member state and as such does not support the idea of EU economic governance attempting to impose a one size fits all mechanism, the emphasis and prioritisation of different policy areas do have some similarities when looking at countries with different ‘types’ of capitalism.

Our paper contributes to the specific literature on the Semester as well as to the more general literature on economic policy coordination. It provides new input to the debate whether the EU is pursuing a ‘one size fits all’ approach to economic policy making in the Euro Area that might be damaging to certain member states (Rodrigues and Reis 2012; Regan 2017). It offers some insights into the role of the Commission in policy coordination in the post Euro Area Financial Crisis period, building on previous research by scholars such as Puetter (2012), Bauer and Becker (2014), Dehousse (2016) Savage and Verdun (2016), and Fabbrini (2017) that debates whether the changes in economic governance have empowered the European Commission as a supranational institution or whether this process must be viewed as predominantly intergovernmental, leaving most of the power with member states. The paper also contributes to the literature that asks questions about the causality and temporality of public policy (Fischer and Maggetti 2017) or the usefulness of various methods when comparing outcomes of public policy with a view to increasing the validity of cross-national findings (Brans and Pattyn 2017).

The next section reviews the literature on the European Semester. The article then provides a discussion of the method used for this paper (the coding of policy areas and calculation of intercoder reliability scores). This is in light of the fact that the study reports on an analysis of a large set of textual data; we include a discussion of the challenges that such an endeavour poses. We then discuss our findings before drawing conclusions.

3.2. What is the European Semester and how is it being studied?

The idea of creating an economic policy coordination mechanism dates back to early debates over the flexibility of (optimum) currency areas (for example Mundell 1961). The design of EMU and the various forms of domestic political resistance to centralised economic policymaking has been well documented, as has the impact of such an ‘asymmetrical’ EMU on both the circumstances leading up to the financial crisis and the policy responses in the aftermath (Enderlein and Verdun 2009; Verdun 2000; 1996). Research on the design of the Semester highlights the political manoeuvring between national actors, Commission entrepreneurs and European Central Bank (ECB) policymakers under conditions of existential crisis (Bauer and Becker 2014; Copeland and James 2014; Laffan and Schlosser 2016; Verdun 2015; 2017).

The European Semester provides a framework to coordinate economic and fiscal policies of the member states. It builds on the economic rules that had been in place since the start of EMU and have been further developed in EMU’s first decade. These include the so-called Stability and Growth Pact (SGP) that was already developed early on but also the Macro-Economic Imbalance Procedure (MIP) introduced in 2011. These two procedures seek to ensure that fiscal policies are considered a matter of common concern and include mechanisms to reduce fiscal imbalances (such as a larger budgetary deficit) or macro-economic imbalances (such as a current account deficit). Under the SGP a system of sanctions has been developed, though this system had not been used effectively in the run-up to the crisis. Under the MIP specific monitoring procedures have been developed, such as elaborate scoreboards, and the same idea of

having sanctions has been maintained, but again to date those have been rarely used (Savage and Howarth 2018).¹³

The Semester cycle begins in November and ends in October. The most prominent player in the process is the Commission that provides analysis, assessments and proposals. It starts off the process by publishing its Annual Growth Survey (AGS) that identifies for the coming year the key reform priorities for the EU as a whole. It publishes detailed Country Reports that contain key challenges and reform progress of each member state. Based on its assessment, the Commission proposes CSRs. The Council grants political confirmation by formally adopting and sometimes modifying the CSRs. The European Council provides policy orientations that are based in part on the AGS, and later on endorses the Council decision on CSRs. The European Parliament (EP) accompanies the process. It adopts resolutions and reports on the AGS and the CSRs each year and may invite the Presidents of the Commission, Council, European Council and Eurogroup to discuss the Semester through the so-called ‘Economic Dialogue’. The ‘national semester’, which takes place during the second half of the year, is a period during which member states consider the recommendations as they implement socio-economic reforms and adopt national budgets for the next year (draft national budgets are due to the Commission by mid-October just before the cycle starts again) (see Verdun and Zeitlin 2018 for more details on the Semester process).

The bulk of scholarly work on the Semester can arguably be grouped into three general categories. A first category looks at whether the Semester serves as a source of monitoring and scrutiny (Crespy and Vanheuverzwijn 2017; Fabbrini 2017; Horvarth 2017) or convergence (Estrada, Galí and López-Salido 2013; Franks, Barkbu, Blavy, Oman, and Schoelermann 2018). This includes work on reforming the Stability and Growth Pact and complementing it with the Fiscal Compact (Fabbrini 2013), on the utility of the measures involved in the ‘Two-Pack’ and ‘Six-Pack’ regulations (Horvath 2017; Joerges 2014; Roger, Otjes and van der Veer 2017; Savage and Verdun 2016; Verdun 2015), respectively, and the integrated economic and employment policy guidelines within Europe 2020 (Bekker 2018). A second category questions the

¹³ Savage and Howarth (2018: 220-221) provide an account of how the use of statistics in Valencia (a Spanish Autonomous Community) triggered the first financial sanction in the EMU framework.

political ‘ownership’ of the Semester via three channels, either through the participation of national parliaments and the European Parliament in the development and process of the Semester (Crum 2018; Hallerberg, Marzinotto and Wolff 2011; 2018; Kreiling 2016; Maatsch 2017; van der Veer and Haverland 2018; Vanheuverzwijn and Crespy 2018) or through examinations of public opinion and support (Kuhn and Stoeckel 2014) and the relative power of different institutional actors (Carstensen and Schmidt 2017). Other work in this area has thus far concentrated on the role of policy entrepreneurs in the Euro Area, and some discussions on democracy, technocracy, and competing economic ideas (Carstensen and Schmidt 2017; Copeland and Daly 2018; Fabbrini 2017; Hallerberg, Marzinotto and Wolff 2011; 2018; Kuhn and Stoeckel 2014; Verdun and Zeitlin 2018). These analyses of the Semester generally characterise it as a fundamental shift in EU socio-economic governance, both in process and substance (Verdun and Zeitlin 2018). A third category examines the twin polar strategies of austerity and investment. Research on these issues concentrates on the range of tools that the EU used, be it the Annual Growth Surveys, National Reform Programmes, and Stability or Convergence Programmes (Bekker 2013; 2016; Crespy and Schmidt 2017; Darvas and Vihriälä 2013) or on related tools such as the Excessive Deficit Procedure (Savage and Howarth 2018). Scholars also examine the question of EU social policy inherent in the Semester and whether macroeconomic policy coordination is aiding the improvement of social policy or causing retrenchment (Copeland and Daly 2018; Eihmanis 2018; Kvist 2013; Maris and Sklias 2016; Parker and Pye 2017; Roger, Otjes and van der Veer 2017; Zeitlin and Vanhercke 2018). The next logical extenuation of this research is to approach the Semester from the perspective of policy analysis and evaluation to assess systematically its effectiveness.

The literature on the Semester provides a good overview of the relative success of the Semester in selected cases, for example covering whether CSRs enable EU institutions to exert more reform pressures on member states or have instead simply motivated member state governments to implement reforms in line with their own interest (Eihmanis 2018; Copeland and Daly 2018). Some of the single or comparative case studies offer insights into how the Semester affects reform processes in particular countries or in specific policy areas such as labour markets (Bekker 2018) or environmental policy (Behrens and Rizos 2017) or a comparison of cases and countries (Bokhorst 2019). Such studies look at the implementation track record of member

states (Darvas and Leandro 2015; Deroose and Griesse 2014; Efstathiou and Wolff 2018; Samardzija and Skazlic 2016) and the way CSRs affect specific national (Louvaris Fasois 2016; Schreiber 2017) and European policies (Behrens and Rizos 2017; Enderlein and Haas 2016). Most of these studies find that, although legal competences remain grounded in the fundamental principles of sovereignty and subsidiarity, the Semester has provided the EU-level with greater access to the economic, fiscal and social policies of member states, as well as a larger role in scrutinising and providing feedback on those policies.

Research on the Semester is increasingly including analyses on the entire set of recommendations issued since the inception of the European Semester process. A notable example is the work of Crespy and Vanheuverzwijn (2017) on the meaning of the term ‘structural reform’, which takes into account the content of all CSRs between 2011 and 2017. Our approach builds on the same idea: an analysis of all CSRs can detect patterns that are easily overlooked when focusing on single countries or policy areas. Our aim in constructing a large dataset, which includes refined categories of policy areas, is to offer a comprehensive picture of the reforms promoted by the EU and to explore possible reasons for differences over time and between countries. The focus on the ‘supply side’ of the European Semester is an important step on the way to finding out what exactly the Semester’s effectiveness depends on (Rodrik 2015: 17) and how it works in practice. Specifically, detailed information about the policy areas affected by CSRs gives us an idea which interest groups and ministries are affected, which in turn influences the political cost of reforms.

This article also speaks indirectly to the ongoing debate about over convergence in the Euro Area, from a broad perspective of assessing the thematic areas of policy prescriptions and recommendations. The Semester is often referred to as indicating a shift to more centralisation and a strengthened role of EU institutions in European economic governance after the crisis. Within the Euro Area in particular, the Semester is a key tool to address an important underlying perceived cause of the Euro Area financial crisis – insufficient economic and fiscal coordination. Its key components – the strengthened Stability and Growth Pact and the Macroeconomic Imbalance Procedure – signal more stringency in EU economic policymaking through both surveillance and coordination of national policies (Bauer and Becker 2014; Savage and Verdun 2016). While the effectiveness of these new governance mechanisms remains

subject to considerable controversy, their mere existence has provoked renewed criticism about overly intrusive and insufficiently legitimised action by EU institutions. In particular, critics have portrayed the objective of improving convergence as part of the problem rather than the solution to the Euro Area's troubles. In this vein, Regan (2017: 969) claims that this 'vision of convergence is exacerbating rather than resolving the imbalance of capitalisms at the heart of the Eurozone'.

At the heart of this argument sits an emphasis on the existence of distinct models of capitalism within the currency union, as defined by the varieties of capitalism literature. Moving beyond the original dichotomy (Hall and Soskice 2001), the comparative capitalisms literature suggests the existence of at least four distinct types of capitalism within the Euro Area: liberal, coordinated, mixed and dependent market economies (see Amable 2003; Bohle 2018; Nölke and Vliegenthart 2009). These distinct models, the argument goes, are poorly served by a 'one size fits all' approach to macroeconomic policymaking. While this criticism is particularly prominent when it comes to the reform packages implemented under 'Troika' surveillance at the height of the euro crisis (see Rodrigues and Reis 2012; Regan 2017), similar concerns about a one-sided focus on fiscal consolidation and supply-side structural reforms have been waged against the Semester (see Copeland and Daly 2018). The focus of the debate on the variety of economic models and their differential needs provides one interesting lens for analysis that we use in our exploration of the data.

3.3. European Semester data

The Semester produces a wealth of quantitative and qualitative data. Given its strong reliance on economic statistics and formalised reports, some authors even define it as 'an information-driven surveillance system' (Savage and Howarth 2018: 212). The Semester thus invites both longitudinal and cross-country comparisons to identify patterns of successful policy coordination over time. The annual CSRs provided to all EU member states are particularly well-suited for comparative analysis as they follow a clearly specified format. They thus allow researchers to assign simple values to otherwise complex processes of economic and social reform.

The official definition of a CSR, according to the Commission, is a set of recommendations which 'provide policy guidance tailored to each EU country on how

to boost jobs, growth and investment, while maintaining sound public finances' (European Commission 2018: 1). These sets of recommendations adapt priorities identified at the EU level to the respective national level and attend to potential sets of progress towards these priorities in the short-term (approximately 12-18 months following the recommendations) (European Commission 2018). Perhaps counterintuitively, the Commission evaluates the progress made on implementing CSRs midway through this short-term period, only seven months after their adoption.

For our dataset, we decided to rely on manual coding. CSR texts are highly condensed and technical and even small changes in their formulation can change the meaning drastically. Therefore, a team of coders who are familiar with EU language and policy debates promises more accurate results than the alternatives. Of course, turning text into distinct categories suitable for quantitative analysis inevitably involves some degree of judgement, regardless of the specific method chosen to build the dataset.

The four authors of this paper developed a coding template to identify whether member states complied with CSRs. The details of a coding-scheme were further developed by three of the four authors – the team that also coded all CSRs issued to Euro Area countries between 2012 and 2017. Since countries under an economic adjustment programme are subject to enhanced policy surveillance and do not receive CSRs (Council of the European Union 2017), there is no data for Greece; some years are missing for Cyprus, Ireland and Portugal. We coded a total of 1,566 CSRs, of which 457 are 'headline CSRs', i.e. longer pieces of text containing all of the guidance put forth by the Commission within a broad policy area for the country in question. Since a headline CSR often contains several individual reforms and is consequently also assessed in several parts by the Commission, we additionally coded 1,109 'sub-CSRs': more targeted elements within a broader recommendation. This approach is in line with other research on the European Semester (Efstathiou and Wolff 2018; Crespy and Vanheuverzwijn 2017).

Our main variable of interest is the policy area. The Commission currently uses a classification scheme that comprises 32 different policy areas. Each recommendation can be assigned up to three categories. While this provides some interesting insights about Commission's priorities (Efstathiou and Wolff 2018), it has a number of shortcomings. First, the categories are on different levels of abstraction. Some are very

specific, such as ‘reduce the debt bias’, ‘insolvency framework’ or ‘active labour market policies’. Other are all encompassing, such as ‘public administration’ or ‘fiscal policy and fiscal governance’. It is especially surprising that some categories seem to be completely included in others. For example, ‘competition in services’ cannot be a category on the same level as ‘competition and regulatory framework’ because the former is always part of the latter. Secondly (and partly related to the previous point), some categories are very well populated, while for others it is hard to find more than a handful of examples in more than a thousand CSRs. Fiscal policy is a topic in 10 per cent of all CSRs, while the categories of insolvency framework, telecoms, and unemployment benefits are only assigned to 0.7 per cent of CSRs. Third, the Commission differentiates between more and less ‘politically costly’ reforms (European Commission 2016: 82), but this separation is not explained further. Lastly, assigning a CSR several categories without any hierarchy leads to an unnecessary loss of information. Simply knowing that a CSR addresses wages, competition and education is much less useful than knowing that a CSR is primarily about wages, partly about competition, and mentions education only in passing.

In devising a new classification of policy areas, we applied three criteria:

- (1) CSRs can be assigned multiple categories, but they must be ranked.
- (2) The categories should reflect separations between policy areas as they are established in the public debate. For example, business environment and competition both relate to the behaviour of firms in the market, but one debate is concerned with helping companies succeed while the other is about protecting consumers. This should go some way in helping us identify which interest groups are affected by CSRs, a precondition for differentiating between more and less politically costly reforms.
- (3) The number of categories should not be too high because this is detrimental to intercoder reliability, but the scheme must still include all topics that relate to economic policy in a broad sense.

Our proposed classification scheme is shown in Table 1. In its structure and the relative frequency of categories, it is similar to the findings of Crespy and Vanheuverzwijn (2017). Their article differs from our study in important characteristics: their research interest is the meaning of structural reforms, and they analyse all EU member states, not just the Euro Area. Nevertheless, a comparison can serve as a robustness check, and the results are reassuring.

Table 1: Three ways to classify policy areas in comparison

D'Erman, Haas, Schulz and Verdun	European Commission	Crespy and Vanheuverzwijn
Budgetary policies	Broadening the tax base	Taxation
	Fight against tax evasion, improve tax administration and tackle tax avoidance	
	Reduce the tax burden on labour	
	Fiscal policy and fiscal governance	Investment
	Long-term sustainability of public finances, including pensions	Pension / Healthcare
Health and long-term care		
Social policy	Childcare	Social protection
	Poverty reduction and social inclusion	
	Unemployment benefits	
Business environment	Business environment	N/A
	Insolvency framework	
Competition	Competition and regulatory framework	Single Market
	Competition in services	
	State-owned enterprises	
Education and innovation	Education	Education / R&D / Innovation
	Research and innovation	
	Skills and life-long learning	
Employment and wages	Active labour market policies	Labour market / Education
	Employment protection legislation and framework for labour contracts	
	Incentives to work, job creation, labour market participation	
	Wages and wage-setting	
Environment	Energy, resources and climate change	Energy/ Environment
Infrastructure and energy		
Private-sector credit, housing and banking	Telecom, postal services and local public services	N/A
	Transport	
	Access to finance	Financial sector
	Financial services	
	Reduce the debt bias	
Housing market	N/A	
Private indebtedness		
Public administration	Public administration	Public administration
	Shadow economy and corruption	
	Civil justice	

Source: Authors' representation based on own research, Crespy and Vanheuverzwijn (2017), Efstathiou and Wolff (2018).

Intercoder reliability is a major challenge in coding the content of dense, technical text across several dimensions. For this reason, we took special precautions. All four authors of our team worked together to develop the coding and the scoring system, and to discuss and analyse the results of the coding exercise. Four authors developed the coding and discussed how to put together the categories and the range of the scores. Three of the four authors formed a coding ‘team’ to review the CSRs. For each country, two of the three people on our coding team reviewed CSRs and coded independently their respective judgment. Even with extensive training and a detailed communal codebook, some degree of subjective judgment is inevitable. But since every observation is coded twice, we can quantify the implied uncertainty for the entire dataset, not just for a small sample. Our intercoder reliability scores for the main policy area are summarised in Table 2. For our analysis, we draw a random sample that includes one instance of every CSR. This enables us to check our findings for robustness.

Table 2: Intercoder reliability scores for the primary policy area.

	Percentage agreement	Cohen’s kappa
Coders 1+2	73.6	0.696
Coders 2+3	83.2	0.769
Coders 3+1	77.4	0.734
Average	78.1	0.733

Percentage agreement ranges from 0 to 100 percent. Cohen’s kappa ranges from 0 to 1. Source: Authors’ calculations.

Of course, there are some caveats to take into account even if we manage to avoid any bias in the coding process. The relative frequency of policy areas may not only reflect the economic situation and the Commission’s preferences. Commission documents are heavily-edited texts which may be written by actors with their own agendas and might include path dependencies, some of which may be evident and measurable (for example differences between Commission drafts and CSRs adopted by the Council), while others remain hidden. It is conceivable, for instance, that the Commission is pressured by member state governments or interest groups to drop a recommendation or change its specific formulation. Faced with criticism regarding the Semester’s

declining implementation scores, it may also choose to drop reform requests from the list of recommendations if they have been repeatedly ignored during past cycles. Finally, in a form of anticipatory obedience, it may shy away from recommending reforms it knows to be anathema in a given country.

3.4. What can CSRs tell us about the EU's economic reform priorities?

At the highest level of aggregation, the data give us a convenient overview of EU's reform priorities towards Euro Area members receiving CSRs. If we simply add up the number of times a category was applied, we get a picture that is similar to the one in existing studies (Efstathiou and Wolff 2018; Crespy and Vanheuverzwijn 2017), although it is worth mentioning one discrepancy: public administration is a much more common policy in our own classification and the one by Crespy and Vanheuverzwijn (2017) than in the one based on the Commission's categories. Apart from this, all three schemes agree that most reforms concern budgetary policies, employment and wages and social policy.

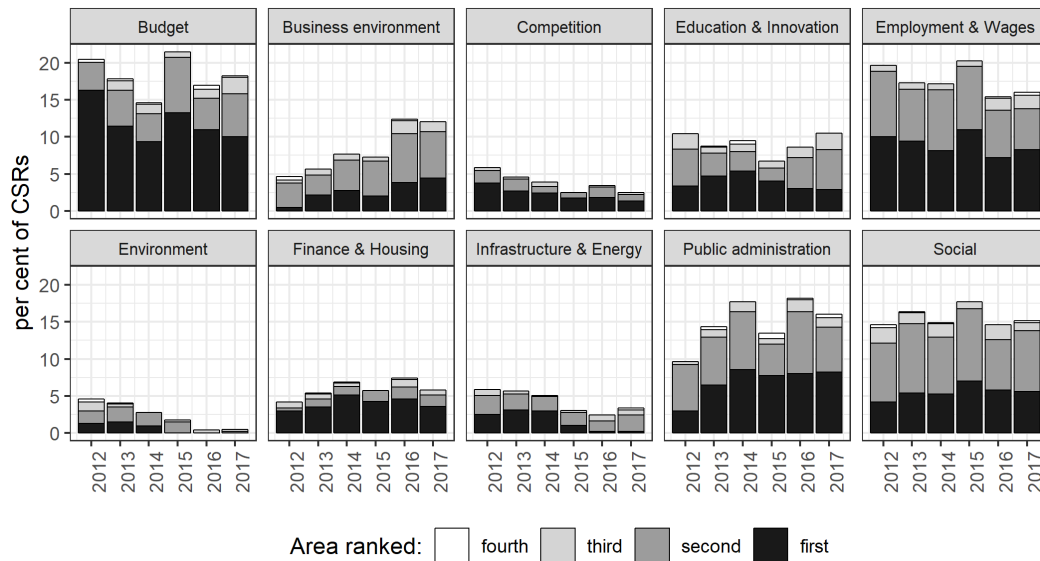
However, if we take into account the relative importance of policy areas within the recommendations, the picture painted by our data becomes more nuanced. Three groups of policy areas emerge (see Figure 1). There are areas that are clearly related to the debt and deficit rules within the construct of EMU, for example budgetary policies or employment and wages. They are frequently addressed in CSRs and often constitute the primary focus of the reform. A second group of policy areas is frequently mentioned, but often only as secondary or third priority. This includes social policy and business environment. Finally, there is an interesting group of policy areas that are not very common, but when CSRs address them, they typically focus on them. This group comprises competition policy, and finance and housing.

Our findings remind us that headline numbers can deceive. Areas that are often mentioned only in passing might seem more important a first glance than they really are. They might be mentioned frequently, but that does not mean that most recommendations really focus on them. If we only take into account policy areas ranked as the main focus of a CSR, the predominance of budgetary and employment policies in the Semester is underlined.

Beyond this summary assessment, it is worth tracking changes in the reform recommendations over time. While the European Semester is a relatively young instrument, it has already seen a reform in response to criticism about low CSR implementation rates (Darvas and Leandro 2015; Alcidi and Gros 2017). After the Semester was introduced, the Commission increased the number of CSRs it issued each year. The number of headline CSRs grew from 79 in 2012 to 101 in 2014. In 2015, the Commission announced that it would simplify the Semester in order to help countries focus on fewer but crucial reforms. As a result, the number of CSRs then dropped precipitously to 61 in 2015 and later to 52 in 2017. In the same period, Latvia, Ireland, Portugal and Cyprus started receiving CSRs upon exiting their macroeconomic adjustment programmes, so the decline is even more pronounced on a per-country basis.

But has this trend really simplified the Semester or is the EU just cramming more content into fewer CSRs? The data shows little change. Between 2013 and 2014, the median number of policy areas per headline CSR was three. This number dropped to two in 2015 but quickly went back to three in 2016-17. We conclude that the simplification of the Semester was a partial success in terms of efficiency. The lower number of overall CSRs means that Euro Area members receive a smaller amount of ‘homework’. This could help focus the political capital available for policy coordination. Individual CSRs, however, have not become less complex. The majority of CSRs address three or more policy areas, so it is very likely that several ministries must cooperate in order to address them. A likely result is that veto players find it easier to obstruct unwanted legislation and implementation becomes more complex.

Have EU priorities changed between 2012 and 2017, either as a result of changing economic circumstances or because of the simplification of the Semester in 2015? A comparison shows several trends (Figure 1). CSRs concerning environmental policy and infrastructure and energy have fallen out of favour after 2015 and are now nearly extinct. Competition policy has slowly but steadily become less common. In contrast, business environment is mentioned more often every year, even though it is rarely the main focus of a CSR. The four top areas (budgetary policies, employment and wages, public administration and social policy) do not show a clear trend. They have remained mostly stable since the beginning and despite the streamlining.

Figure 1: The share of policy areas as a share of all CSRs over time, 2012-17.

Source: Authors' calculations based on EUROSEM data.

We now return to the argument that the EU is promoting a convergence across the Euro Area's economies that could damage established growth models. The original varieties of capitalism approach suggests 'nations with a particular type of coordination in one sphere of the economy should tend to develop complementary practices in other spheres as well' (Hall and Soskice 2001: 18f). This is because institutional subsystems governing capital, labour, and product markets are often mutually reinforcing: the presence (or efficiency) of one institution, such as patient capital provision, increases the returns from, or efficiency of, another (for example high levels of employment protection). In other words, each institution depends on the presence of others in order to function effectively, to which scholars have ascribed the term 'Coordinated Market Economies' (Soskice 1999: 110). Thus, nations should tend to converge on complementary practices across different spheres of the economy because the presence of several 'correctly calibrated' subsystems increases the performance of the system as a whole (Hancké, Rhodes and Thatcher 2007: 3). Encouraging countries to leave their established path in favour of 'one size fits all' reforms could damage their growth prospects even if the reforms are sensible.

In this light, it appears sensible to ask whether the EU's recommendations take the differences in economic models into account. Is it promoting 'one size fits all' reforms or, instead, handing out different sets of reforms to Coordinated Market Economies (CMEs), Liberal Market Economies (LMEs), and Mixed Market Economies (MMEs)?

In other words: are recommendations tailored to country-specific needs or to different types of capitalism? For example, encouraging more competition in heavily regulated CMEs and making recommendations about social policies in welfare-wary LMEs might bring the models closer to convergence in the long run. In order to analyse this question, we follow what could be called the consensus way of classifying capitalist models across Europe: we consider the Mediterranean countries of Cyprus, Italy, Greece,¹⁴ Malta, Portugal and Spain as MMEs, and the Northern European states of Austria, Belgium, Germany, Luxembourg and the Netherlands as CMEs. Following the three-fold distinction Bohle and Greskovits (2012) proposed for CEE countries, we label the Baltic states of Estonia, Latvia, and Lithuania as LMEs alongside Ireland, and include Slovenia as a CME. Given the fact that only one of the four Viségrad countries, Slovakia, has thus far adopted the Euro, we do not include the category 'Dependent Market Economies' (DMEs) in the analysis (Nölke and Vliegenthart 2009). Similarly, for simplicity we consider Finland as a CME rather than representing a distinct Nordic model in part because the other Nordic states remain outside of the Euro Area. How to classify the capitalist model of France, finally, has been hotly debated in the literature. Due to the strong role of the state in coordinating industrial relations and other areas of economic life, some authors consider it a distinct type of capitalism (Schmidt 2003; Clift 2012), while others define it as either CME (Schneider and Paunescu 2012) or MME (Amable 2003). We opt to add France to the group of MMEs, as it shares a number of characteristics with Italy insofar as current economic challenges and needs for reforms are concerned. Thus, for the purpose of the analysis it was chosen to add France to that category.

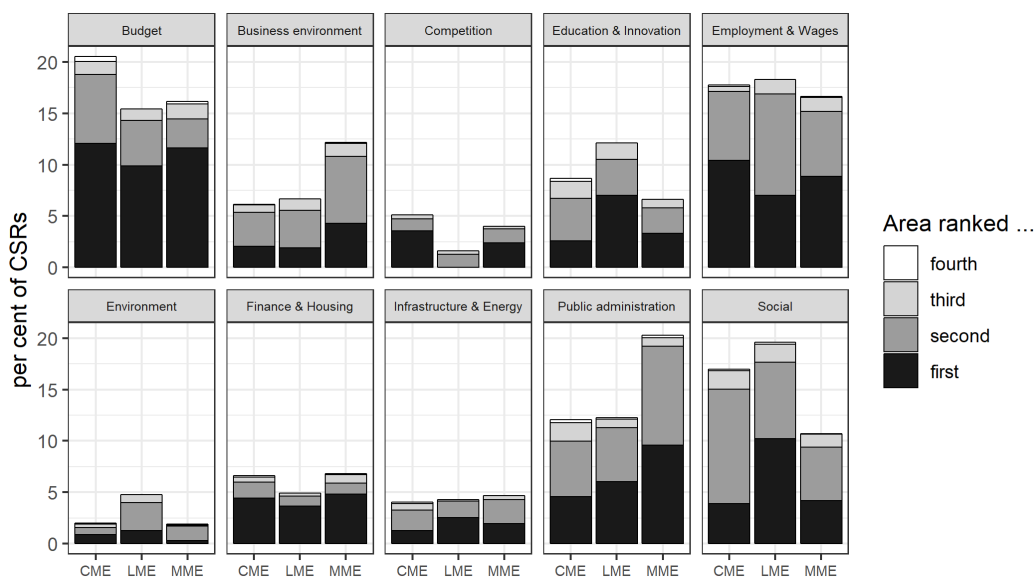
We find both surprising similarities and marked differences regarding the relative importance of different policy areas in CSRs addressed to different types of economies (see Figure 2). The presumed antipodes in Euro Area governance – the CMEs of the Northern 'core' and the MMEs in the Southern 'periphery' – differ somewhat in terms of the reform priorities indicated by Semester CSRs. However, this difference is not substantial enough to add weight to narratives of Euro Area governance as a clash between creditor and borrower states or between different economic philosophies in

¹⁴ Greece has no data points for the period under investigation because countries do not receive CSRs while under a loan programme overseen by an EU-financial assistance programme in place. Therefore, there are also no data points for Cyprus, Portugal, and Ireland for some of the years analysed here.

North and South (Brunnermeier, James and Landau 2016). A more frequent outlier regarding the reform priorities identified by the Commission are the LMEs of Ireland and the Baltic states, specifically concerning the quantitatively most important areas of reform.

The Commission addresses LMEs very much in line with what one could expect from a varieties of capitalism perspective. They have received markedly fewer recommendations primarily focused on budgetary policies, employment and wages as well as, particularly, competition policy. If we take into account second- and third-order priorities within the recommendations, however, the differences are much less pronounced in all three areas, suggesting that the EU does not consider reforms in these areas as unnecessary, rather they are just not prioritised. The priority of reform in LMEs clearly concerns social policy, education policy, and, to a lesser extent, infrastructure and energy. In all these policy areas, LMEs have received far more recommendations primarily focused on them than the Euro Area's MMEs and CMEs. Again, differences are far less noticeable when considering second- and third-order priorities for reform. Focusing on the policy areas identified as top priority, however, paints a clear picture of a distinct path for economic reform in LMEs.

Figure 2: Policy areas covered in CSRs by variety of capitalism.



Source: Authors' calculations based on EUROSEM data.

Reform priorities for the Euro Area's CMEs and MMEs, by contrast, are surprisingly similar. This observation is particularly evident when considering the relative

importance of budgetary and social policies as a top priority of reform recommendations, in the level of recommendations in finance and housing as well as infrastructure, and in the similar first priorities in social and budgetary policy areas. The similarities between these two categories of capitalism suggest that recommendations in policy areas by variety of capitalism may have more nuance in variation between liberal models and other models, rather than between and among all distinct models. Some variation between CMEs and MMEs is noteworthy when considering the CME's most frequent first priority (employment and wages) and lowest priority (administration and infrastructure), and MMEs higher prioritisation of business environment and public administration. Taken together, analysing the recommendations by policy in aggregate suggests the importance of state-capacity and level of development for EU prescriptions coming through CSRs, rather than variation according to the model of economy alone.

3.5. Conclusion

In 2010 the European Semester was created for the purpose of better coordinating fiscal and economic policies within EMU. The Semester aims to tackle economic imbalances by giving EU member states reform recommendations regarding their public budgets as well as their wider economic and social policies. In this article, we developed a method to code CSR policy areas and assess the way in which the CSRs have been addressing coordination in the Euro Area. We offered a systematic analysis of the way they have been formulated and whether they attempt to provide 'one size fits all' recommendations.

The first contribution of this article is methodological. We propose a number of variables relevant to thematic policy areas in CSR recommendations and outline how they can be coded based on official documents. This includes salient issues pertaining to inter-coder subjectivity and reliability when coding text as data, as well as EU-specific issues for the categorisation of policy areas and the subjects which they contain. The result is a dataset that can be analysed in future studies. The second contribution of this paper is in trying to ascertain whether different market economics and 'varieties of capitalism' within the Euro Area obtain different sets of recommendations regarding different policy areas. By studying the full range of Euro

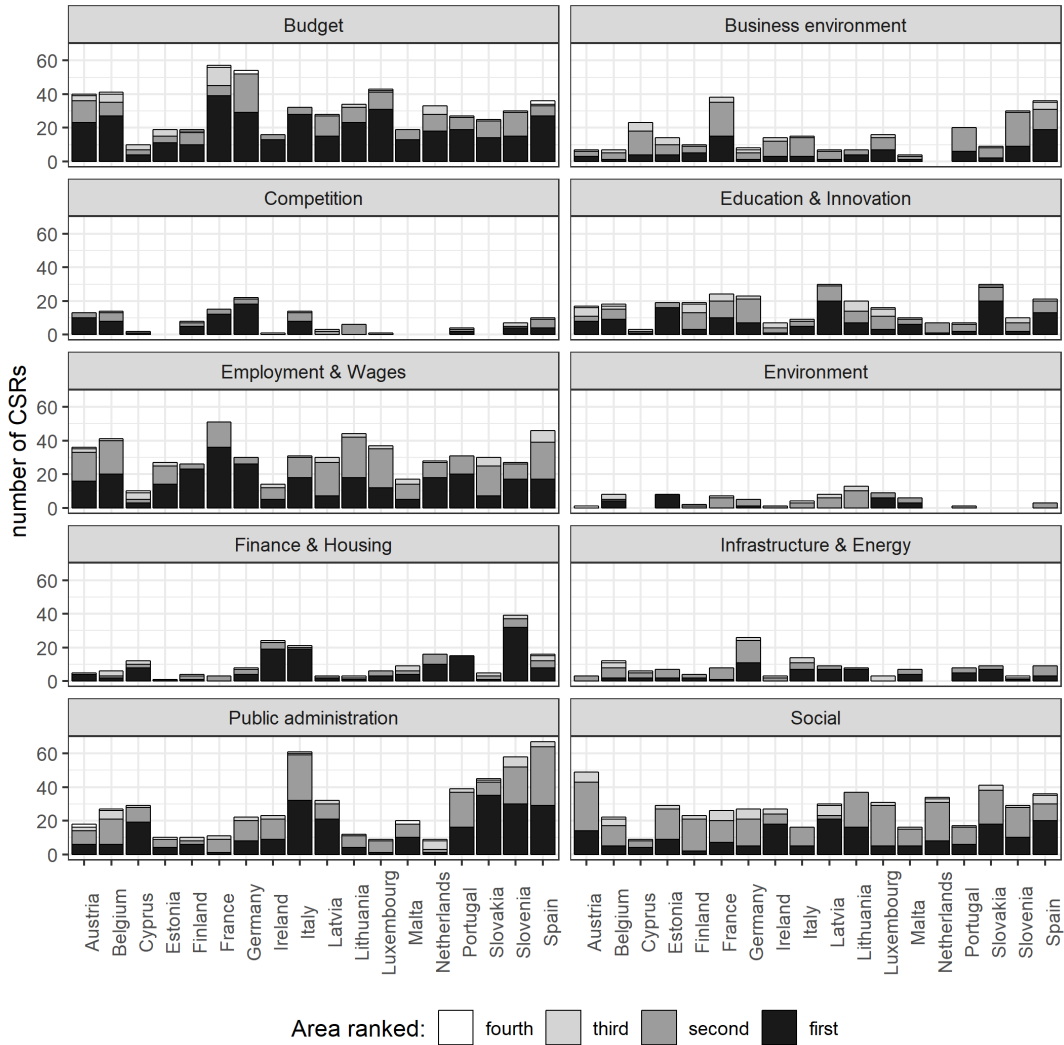
Area member states and policy areas we may in due course be able to draw important generalisable insights. Our results speak to one of the reoccurring questions in the literature about whether the EU is pursuing a ‘one size fits all’ approach to economic policy making in the Euro Area (Rodrigues and Reis 2012; Regan 2017). We seek to provide some further insights on some of the most interesting questions posed by the qualitative literature.

We find that the recommendations that the different Euro Area members have received over time vary according to country, year, and economic model. Different types of market economies (Hall and Soskice 2001) among Euro Area members tend to obtain recommendations focused on different policy areas. However, the policy areas affected by a recommendation are mostly a proxy for the EU’s reform priorities; in and by themselves they do not tell us much about how exactly the EU is trying to alter the policies of a member state within a given policy area. For example, in its recommendation focused on labour markets and wages, does the EU promote reducing or strengthening workers’ rights? Future research could usefully shed light on these questions of the ‘policy direction’ of the EU’s recommendations.

In this vein, follow up research could examine whether CSRs promote deregulation and smaller governments, or whether the EU seeks convergence at the cost of heavily enshrined domestic practices and preferences, as well as the role of institutions, interests, and ideas in economic governance. Further research may want to investigate whether it is useful to differentiate among the impact of CSRs that contribute to (welfare) state building or rather aim at retrenchment and market making.

3.6. Appendix

Figure A1: CSRs by policy area and country.



Source: Authors' representation based on the EUROSEM dataset.

3.7. References

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4 Is the European Semester Promoting More or Less State Intervention?

*Co-authored with Valerie D'Erman, Daniel F. Schulz, and Amy Verdun.
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4.1. Introduction

From the very beginning, the European integration project was unclear about how to obtain fiscal and economic policy coordination. Given member states' reluctance to give up fiscal sovereignty, any attempt to coordinate remained vague and intergovernmental. The institutional framework of Economic and Monetary Union (EMU) thus contained an asymmetry between its decentralised 'Economic' and the fully centralised 'Monetary' parts (see Howarth and Verdun 2020; Verdun 1996). The sovereign debt crisis, however, highlighted the shortcomings of this system. Consequently, coordination was upgraded from vague guidelines to detailed policy prescriptions with clear timetables for implementation (Hodson 2018, 2020). The new framework, first created in 2010 and dubbed the 'European Semester', gives the European Commission more authority to influence national policies (Bauer and Bekker 2014; Savage and Verdun 2016).

Officially, EU fiscal and economic policy coordination aims at ensuring sound public finances and preventing 'macroeconomic imbalances', while also promoting employment and the social dimension of EMU (European Commission 2019). However, in light of the way the EU managed the sovereign debt crisis, various critics have accused it of focusing mostly on restructuring and retrenchment (Blyth 2013; Graziano and Hartlapp 2018, 10). This view on European integration is not new. Earlier criticisms targeted the emphasis on creating the Single Market and its insufficient focus on social concerns (Minkkinen and Patomäki 1997). At times it was argued that it simply had to do with the fact that the EU was created by law (Ardy, Begg, Hodson, Maher, and Mayes 2005; Sangiovanni 2019). The central idea was that taking away barriers to trade was easier than creating new institutions – which Jan Tinbergen already in 1954 referred to as negative and positive integration (Tinbergen

1954; see also Scharpf 1999) – and that as a result the EU could not be a social market economy (Scharpf 2010). Other critics have labelled the European integration project as predominantly liberal, or neoliberal, and as such at odds with offering citizens social protection. They argue that monetary integration is pushing the EU away from a more socially embedded type of capitalism (Hermann 2014).

In this contribution, we analyse what kind of economic policies the European Semester promotes. Rather than using the highly politicized and ill-defined term ‘neoliberal’, however, we prefer to discuss European Semester reform in the context of advancing ‘less or more state intervention’. We thus speak of ‘more state intervention’ whenever reforms are proposed that further embed the economy in society – be it through an increase in redistributive policies, more market-correcting regulations, or generally implying a bigger role of the state in the economy. Conversely, we speak of ‘less state intervention’ when reform recommendations seek to free market actors from social and political constraints, or to reduce funding for social policies.

Our empirical analysis operationalizes this dichotomy into a set of variables that indicate the ‘policy direction’ of the EU’s country-specific recommendations (CSRs). We distinguish five different areas of state intervention: public spending, worker protection, social protection, regulation, and public ownership (see Table A1 in the Appendix). This categorization allows us to analyse whether the EU recommends less intervention in some areas but more in others. For instance, the ‘flexicurity’ model suggests a combination of labour market flexibility (implying less protection for labour market insiders) with more social security programs and, specifically, active labour market policies (Bekker 2018).

By coding the policy direction of more than 1,300 CSRs issued to Euro Area countries between 2012 and 2018, we analyse three interrelated questions about how the EU has coordinated fiscal and economic policies in the second decade of EMU: Does it promote a particular economic model? Does it speak differently to different countries? And have its priorities changed over time? Our central finding is that the CSRs do not provide evidence of strict policy movement in either the direction of less or more state intervention. Rather, in most countries the Semester recommends less protection for labour market insiders combined with more protection for vulnerable groups. Over time, recommendations for more spending and worker protection have become

increasingly common, while more social protection has remained an important issue throughout the period of analysis.

The next section reviews debates in the literature over the suggested ‘market-making’ or ‘market-correcting’ (Copeland and Daly 2018) character of European integration and summarizes how the EU’s fiscal and economic policy framework has changed since the euro crisis. It then proposes guiding questions for our exploration of the data. Next, we provide an overview of our dataset, followed by an interpretation of our findings. The final section concludes that the more extensive coordination of fiscal and economic policies during the second decade of EMU has not been accompanied by a clear turn towards either a ‘neoliberal’ or ‘social’ Europe, but by a mix that could be described as flexicurity.

4.2. Economic governance: supporting or undermining the welfare state?

Economic policy coordination and its critics

Already from the outset of the creation of EMU, scholars have asked whether deeper economic and monetary integration would lead to ‘social dumping’, ‘deregulation’, or a ‘race to the bottom’ (Cafruny and Ryner 2007; Gill 1998; Leander and Guzzini 1997; Magnusson and Stråth 2001; Martin and Ross 2004; Verdun 2000, 2010; Wylie 2002). In fact, debates about the presumably orthodox or ‘neoliberal’ character of EMU are as old as the very idea of creating a single currency for the European continent. They have been a persistent feature of the literature on the convergence criteria before the euro was introduced, on economic conditionality for new members, and on the impact of the euro on its member states thereafter.

The Maastricht Treaty’s institutional provisions and conditions for euro adoption were interpreted by critics as resting on a particularly orthodox vision of the economy, which emphasized ‘sound money’ and perceived large welfare states as a burden (Dyson 2000). This model of EMU was criticized by historical-materialist scholars as ‘disciplinary neoliberalism’ (Gill 1998), which was ‘restricting national policymakers to choices from a neoliberal menu’ (Wincott 2008, 360). Seen from this perspective, the EMU rulebook (and the Stability and Growth Pact in particular) removed important policy options for national governments by ‘locking in’ commitments to orthodox and

market-friendly fiscal and monetary policies to increase credibility in the eyes of financial markets (Heipertz and Verdun 2010).

Conversely, the extant literature also suggests that European market integration offers substantive evidence of the creation of an increasingly ‘social’ Europe. Work in this area is suggestive of both the indirect effects of EMU, be it through increased financial space for public spending as a result of lower debt servicing costs during the immediate years following euro adoption (Bolukbasi 2009), or the more direct effects of explicit EU-level endeavours to maintain or even introduce welfare-related priorities among its members (see here Scharpf 2002 on the European Social Model; Martin and Ross 2004 on the European Model of Society; Bolukbasi (forthcoming) on welfare state retrenchment under EMU, and Zeitlin and Vanhercke (2018) on specific nuances within the European Semester). After the euro’s first decade, scholars reported mixed results when evaluating the validity of these divergent claims about the EU’s economic policy framework (Enderlein and Verdun 2009). Despite the Stability and Growth Pact (SGP) losing its teeth after Germany and France famously ignored its provisions in 2003 (Heipertz and Verdun 2004), Hallerberg and Bridwell (2008) provided evidence that it had nevertheless exercised significant fiscal discipline. This finding led Cohen (2008, 46) to conclude that, *de facto*, ‘the SGP straitjacket remains a constraint on Euro Area states, perpetuating an anti-growth bias’ not only in monetary policy but in fiscal policy, too. Regarding the much-debated issue of welfare retrenchment under EMU, however, a look at member states’ social expenditure provided ‘little support for strong versions of the “disciplinary neoliberalism” thesis, at least for Western Europe’ (Wincott 2008, 375).

All this, however, was before the multiple crises of its second decade severely challenged the Euro Area. The financial crisis, the sovereign debt crisis, and the EU’s institutional responses to them have led to renewed academic criticism and, more importantly, large-scale protest against an EU perceived as excessively orthodox. In particular, the role of the European Commission and the European Central Bank (ECB) in the so-called Troika received severe criticism for imposing austerity policies on European countries in the context of its lending policies (Blyth 2013; Lütz and Kranke 2014; Pagoulatos 2020; Verdun 2013).

Changes in fiscal and economic policy coordination after the crisis

Having been criticised for a lack of leadership in the ‘fast-burning stage’ (Seabrooke and Tsingou 2019) of the crisis, the EU turned to reforming its framework of economic governance in an attempt to avoid a repeat of the debt crisis. Between 2010 and 2012, it updated its framework for fiscal governance significantly, even though the reforms undertaken did not bring about a paradigm shift in the form of EU fiscal federalism or debt mutualisation. Rather, they can be regarded as mostly path-dependent changes, which left the fundamental logic of an asymmetric EMU intact (Verdun 2015). While continuing to operate within a framework of rules-based horizontal coordination and national sovereignty, EU fiscal governance saw far-reaching reforms and the addition of numerous new instruments. These encompass both the ex-ante prevention of fiscal shocks and the capacity to respond to them ex post, and are either based on new intergovernmental treaties – such as the Fiscal Compact and the European Stability Mechanism (ESM) – or secondary EU law (the ‘Six-Pack’ and ‘Two-Pack’) (Fabbrini 2013).

The Commission sees the need for policy coordination arising from spill over effects in a monetary union. For example, major economic reforms in one member state can produce spillover effects on others via trade and competitiveness and/or via financial markets (European Commission 2013). Following this rationale, the degree of EU interference in national policies through macroeconomic coordination should be related to the risk of (negative) spillover. Alcidi and Gros (2015) thus propose to systematically link the level of EU-level interference to risk: the bigger the size and likelihood of spillover effects, the more EU constraints on national policies are justified. The European Semester is designed to allow for such flexibility, since Semester recommendations can be linked to different instruments – from the Europe 2020 strategy to the Macroeconomic Imbalances Procedure (MIP) and the SGP – which also entail very different sanctioning regimes.

The Semester is based on a series of EU directives and regulations designed to tighten EU fiscal coordination, the so-called ‘Six-Pack’ and ‘Two-Pack’. The former, a legislative package of five EU regulations and one directive, entered into force in December 2011 with the aim of reinforcing the SGP. The most important changes in the Six-Pack include the Macroeconomic Imbalances Procedure as a new surveillance mechanism and the introduction of a ‘reverse majority voting’ scheme for imposing

sanctions within the Excessive Deficit Procedure (EDP). This implies that Commission recommendations to sanction member states will be effective unless a qualified majority of member states votes against it in the Council (previously, a qualified majority voting in favour of sanctions had been required). Finally, the Six-Pack reflected another lesson learnt from the sovereign debt crisis by explicitly incorporating the levels of public debt in the EDP, rather than only deficit levels (see Ioannou, Leblond, and Niemann 2015). The more specific and technical ‘Two-Pack’ arguably provided the biggest push for centralizing fiscal coordination (Laffan and Schlosser 2016). Focused on the Euro Area, its main purpose was to institutionalize further the European Semester (first introduced by the Six-Pack) through a binding timetable for the coordination of national budgetary plans and clear procedures for their assessment.

The Semester also includes social objectives. However, seeing that there was insufficient space for positive integration in this policy area at that time, the process was built on soft modes of governance developed around European social policy, namely the Open Method of Coordination (OMC) (Borrás and Jacobsson 2004; Cram 2009; de la Porte and Pochet 2002; Menz and Crespy 2015; Tholoniati 2010; Tömmel and Verdun 2009; Trubek and Trubek 2005; Zeitlin 2011).

Economic governance since the introduction of the European Semester

The Semester now forms the ‘core vehicle’ to coordinate socio-economic policies, according to the European Commission (2018, 24) itself. In a nutshell, the Semester is a cycle of policy coordination that takes place over the course of a year. The goal is that EU member states align their budgetary and economic policies with commonly agreed objectives. Based on the economic situation in the EU and the member states, the EU annually issues CSRs, which cover a wide range of policy fields, including fiscal governance, financial markets, employment, competition, public administration, and social policy. CSRs are proposed by the Commission and adopted by the Council, sometimes after rephrasing or even substantially altering them (Tkalec 2019). Without further transferring sovereignty to the EU level, the Semester gives the EU institutions a more authoritative role to influence the economic and social policies of member states (Verdun and Zeitlin 2018, 138).

For researchers, the introduction of the Semester has opened the door to new ways of investigating policy coordination in the EU. By analysing the number and content of CSRs, we can get a detailed picture of where the EU is trying to steer its members. As a result, a growing number of publications focus on the Semester framework. The present study adds to this investigation and specifically connects to three debates in the literature: one about the Semester's general ideological direction, the second about factors that drive the formulation of CSRs and a third about the changes in policy priorities over the past decade.

First, we analyse the content of CSRs in terms of the policy direction implied. Do reform recommendations uniformly support claims about a 'neoliberal' EU on the one hand or 'social Europe' on the other? Or does the EU recommend less state intervention in some areas but more in others, as the 'flexicurity' model (Bekker 2018) suggests? While flexicurity has allowed countries such as Denmark and Sweden to maintain high levels of equality and social protection, Thelen (2012, 147f.) points out that the main thrust of such policies is less about protecting individuals from the market and more about 'facilitating their successful (re)integration into it.' Given that the EU has often rather broadly advocated flexicurity as a model for other EU countries to follow, we analyse whether the more specific Semester CSRs reflect this stance.

Second, we focus on differences between Euro Area members, because trends at the aggregate level may conceal considerable cross-country variation. In part, variation is built into the design; the Commission stresses that its draft CSRs are tailored to the needs and challenges of the individual member states (European Commission 2018). But research has also suggested less noble reasons for inter-country differences – powerful countries seem to be better able to change Commission assessments of fiscal policy (Baerg and Hallerberg 2016). The most public illustration of this dynamic was when Commission president Juncker admitted in 2016 that the Commission had given France leeway on fiscal rules 'because it is France' (Guarascio 2016). Furthermore, higher politicisation in EU countries has been shown to correlate with more extensive CSRs and a reduced focus on social investment (van der Veer and Haverland 2018).

Finally, we scrutinize differences between the various vintages of the Semester. The temporal dimension has been the topic of intense debate, especially among social

policy scholars, and numerous reasons for a shift in priorities have been proposed, including increased public pressure, learning, or ideational change in the Commission (Crespy and Vanheuverzwijn 2017; Sabato, Vanhercke, and Spasova 2017; Zeitlin and Vanhercke 2018). While some argue that social issues have become increasingly important in recent years (de la Porte and Heins 2015; Zeitlin and Vanhercke 2018), others disagree (Copeland and Daly 2018; Dawson 2018; Graziano and Hartlapp 2018) or caution that more social recommendations do not automatically result in more social policy (Crespy and Vanheuverzwijn 2017). Have CSRs advocating more state intervention in social policy increased over time? Is a similar trend visible in related areas, such as worker protection and overall spending?

Coding the ‘policy direction’ of EU recommendations

Before we turn to the three core issues outlined above, the following section details our process of building a dataset from CSR texts. Country-specific recommendations, according to the Commission’s official definition, ‘provide policy guidance tailored to each EU country on how to boost jobs and growth, while maintaining sound public finances’ (European Commission 2018). Put simply, they spell out the reforms the EU would like a country to undertake in the following 12 to 18 months.

For our dataset, we analyse the content of all CSRs issued to Euro Area countries between 2012 and 2018. Since countries under an economic adjustment program are subject to enhanced policy surveillance and do not receive CSRs (European Council 2018), there is no data for Greece and some years are missing for Cyprus, Ireland and Portugal. We include 512 ‘headline CSRs’, i.e. longer pieces of text containing all of the guidance put forth by the Commission within a broad policy area for the country in question. Since one headline CSR often contains several individual reforms, the Commission assesses these sub-recommendations separately. Consequently, we code 1396 ‘sub-CSRs’ as the more targeted elements within a broader recommendation. In line with previous research on the Semester (Crespy and Vanheuverzwijn 2017; Efstathiou and Wolff 2018), our analysis below relies on sub-CSRs unless stated otherwise.

Next to a variable for policy areas, our dataset includes the ‘policy direction’ of CSRs, which differentiates between reforms aimed at either more or less state intervention.¹⁵ In coding the policy direction, we take a conservative approach and only include those CSRs where the language unambiguously indicates a direction. As a consequence, 36 percent of CSRs were coded as ‘neutral’. We further propose five distinct categories to capture policy direction in the sense of more or less state intervention: public spending, social protection, worker protection, regulation, and public ownership (for details, see Table A1 and Figure A1 in the Appendix). For the purposes of this contribution, we focus our analysis on the first three.

While the content of CSRs is interesting in and of itself, it tells us little about the hierarchy between recommendations. Arguably, CSRs carry more political weight if they are linked to sanctions. Therefore, we take the legal basis of the recommendations into account. CSRs can be linked to the relatively powerful SGP and/or to the MIP, which implies a more complex and less intimidating sanctions regime.¹⁶ By contrast, CSRs that refer only to the general economic policy coordination framework of the EU (Articles 121(2) and 148(4) TFEU) can be regarded as the least authoritative kind of guidance.

Intercoder reliability is a major challenge in coding the content of dense, technical text across several dimensions. For each country, two of the three coders on our team reviewed and coded CSRs independently. Even with extensive training and a detailed codebook, some degree of judgment is inevitable. But since every observation is coded twice, we can quantify the implied uncertainty for the entire dataset, not just for a small sample. Our intercoder reliability scores are reported in Table A2 in the Appendix. For our analysis, we draw a random sample that includes one instance of every CSR.

¹⁵ For a more detailed discussion on our identification and formulation of policy areas, see D’Erman, Haas, Schulz, and Verdun (2019).

¹⁶ Mentions of Regulations 1466/97, 1467/97 and 1173/2011 were coded as references to the SGP; mentions of Regulations 1176/2011 and 1174/2011 as references to the MIP.

4.3. What do CSRs reveal about the EU's model of economic governance?

Do EU recommendations reveal a clear preference for a particular model of economic governance across the union? At the highest level of abstraction, we can compare all CSRs issued since the start of the European Semester that imply a stronger/weaker role for the state in the economy. It is important to bear in mind that 39 per cent of all CSRs fall outside of this subset of observations. These CSRs are either 'neutral' (in the sense that they do not include a clearly identifiable 'direction' of policy advice) or contain mixed signals (e.g. some measures to increase social protection and some to decrease it in the same CSR).

Overall direction

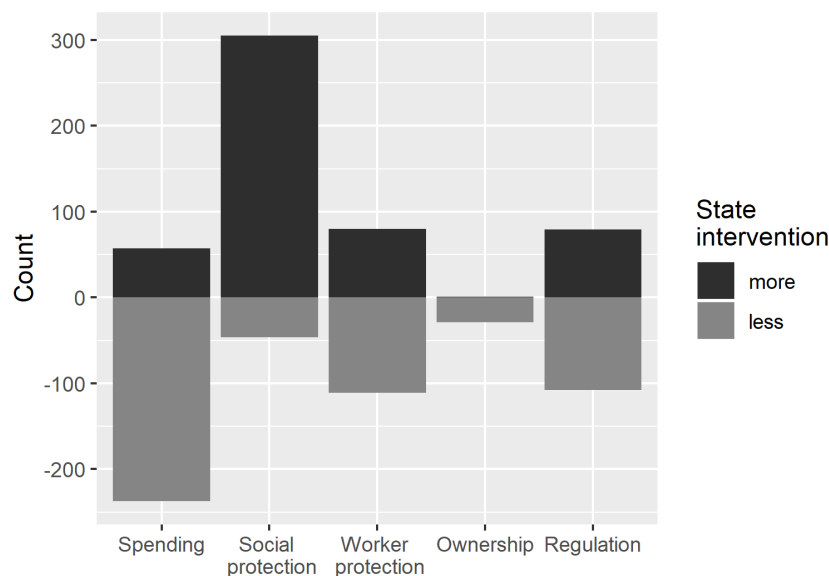
At first sight, the data do not suggest that the EU is trying to push member states into one clear direction, as the share of CSRs promoting less and more state intervention is balanced at 29 and 32 percent of all recommendations. However, there is considerable variance across the different sub-indicators (see Figure 1). Unsurprisingly in view of the strict rules laid down in the SGP, the EU recommends spending cuts much more frequently than fiscal expansions. When it does recommend more spending, it is mostly through additional investments in infrastructure and education. Regarding social protection, however, the reverse is true: an overwhelming majority of CSRs in this area advocates more protection for vulnerable groups, for example through extended coverage of social assistance, increased efforts to qualify the unemployed, or better childcare and healthcare. CSRs directed to policies with regard to the currently employed – what we call worker protection – are slightly more likely than not to recommend reducing worker privileges. Examples include a reduction of early retirement schemes, decentralising wage bargaining, and efforts to better 'align wages with productivity developments', effectively implying lower wages in certain sectors.¹⁷

The stark difference between social protection and worker protection fits in well with the debate about 'flexicurity'. The Semester often combines recommendations for

¹⁷ For particularly compelling examples, see Finland's 2017 second headline CSR, Italy's 2014 fourth headline CSR, and Portugal's 2014 second headline CSR.

increased labour market flexibility with calls for more social security – or, in other words, prioritizes protecting ‘people rather than jobs.’ This finding is in line with Copeland and Daly (2018, 13), who find that the Commission behaves with a ‘tendency to combine market-correcting and market-making proposals’, and Bekker (2018) who argues that the flexicurity concept has been revitalized and increasingly encompasses social concerns in the context of the European Semester.

Figure 1. CSRs according to their policy direction across several areas.



Note: Excludes CSRs coded as having a ‘mixed’ direction. Source: Authors’ calculations based on the EUROSEM dataset.

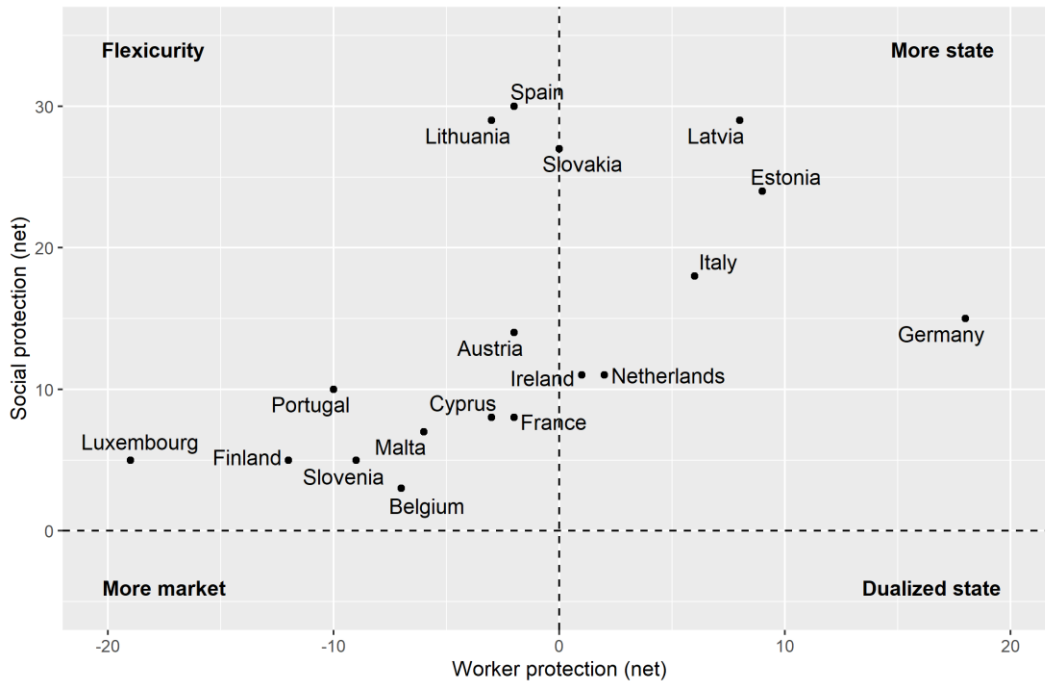
Differences between member states

Figure 2 illustrates in more detail the relationship between recommendations to modify social protection and worker protection across member states. It plots the ‘net’ direction for both dimensions (CSRs for more protection minus CSRs for less protection), showing that, on balance, no country predominantly receives CSRs arguing for less social protection. In contrast, the net scores for worker protection are negative for most member states.

From a comparative perspective, while 11 out of 19 countries fall in what we may call the ‘flexicurity quadrant’, there is some variation. Portugal has a balanced profile, while in countries such as Lithuania and Spain, the EU emphasizes the need for more social protection. Training for the unemployed and other active labour market policies feature heavily, as do programmes to fight poverty. In other cases, such as Finland,

Luxembourg and Slovenia, reducing worker protection plays a relatively big role – for example measures to lower pensions and make wages more flexible.

Figure 2. Policy direction of reform recommendations concerning worker protection and social protection.



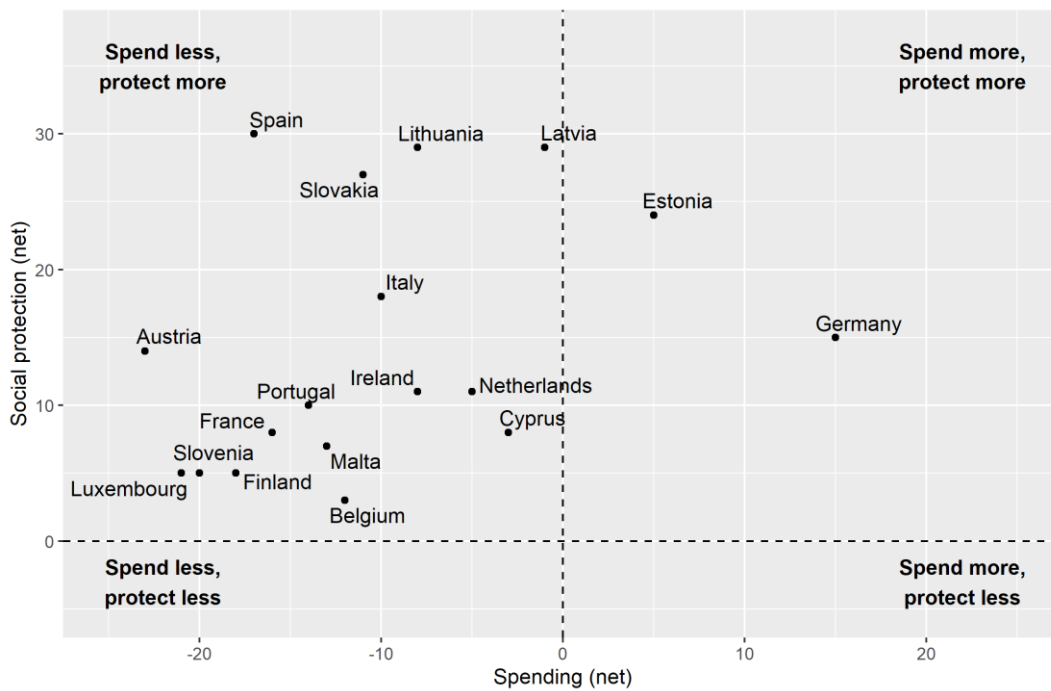
Note: Net scores are calculated by deducting the number of CSRs that call for less state intervention from the number of CSRs that call for more state intervention. Source: Authors' calculations based on the EUROSEM dataset.

The countries falling outside the 'flexicurity quadrant' are Estonia, Germany, Latvia, Italy, Ireland and the Netherlands; they are called upon to increase the protection for both labour market insiders and outsiders. This finding may seem especially surprising in the case of Italy, considering the country's problems with its dual labour market. But a closer look reveals that most of the 'pro-worker' CSRs for these countries focus on shifting the burden of taxation away from labour and reducing labour taxes for low-income earners. Additionally, Estonia received repeated calls to address the gender pay gap, while Germany was recommended to introduce a general minimum wage, facilitate transition from precarious to more sustainable forms of employment and to promote higher real wage growth to support domestic demand.¹⁸ With this strong

¹⁸ See here Germany's 2012 third headline CSR, its 2014 second headline CSR and its 2016 third headline CSR.

focus on support for domestic wages, Germany is an outlier that shows how concerns for aggregate demand across the Euro Area can influence country-specific recommendations.

Figure 3. Policy direction of reform recommendations concerning spending and social protection.



Note: Net scores are calculated by deducting the number of CSRs that call for less state intervention from the number of CSRs that call for more intervention. Source: Authors' calculations based on the EUROSEM dataset.

More generally speaking, the differences between countries are pronounced and not easily explained (see Figure A1 in the Appendix). The EU considers more social protection a priority in the Baltic countries, as well as in Slovakia and Spain. Less spending is often recommended to Austria, Luxembourg, Slovenia and Spain. Calls for less worker protection are especially common in the cases of Finland, Portugal, Luxembourg and Slovenia. These groupings do not fit neatly into traditional typologies like the worlds of welfare capitalism (Esping-Andersen 1990) or varieties of capitalism (Hall and Soskice 2001). Furthermore, and contrary to intuition, correlations between the policy direction of CSRs and countries' current levels of social spending, employment protection or economic power are weak. The diversity could thus be interpreted as tentative support for the EU's claim that its reform recommendations

are tailored to the present needs of individual member states, rather than following a one-size-fits-all approach.

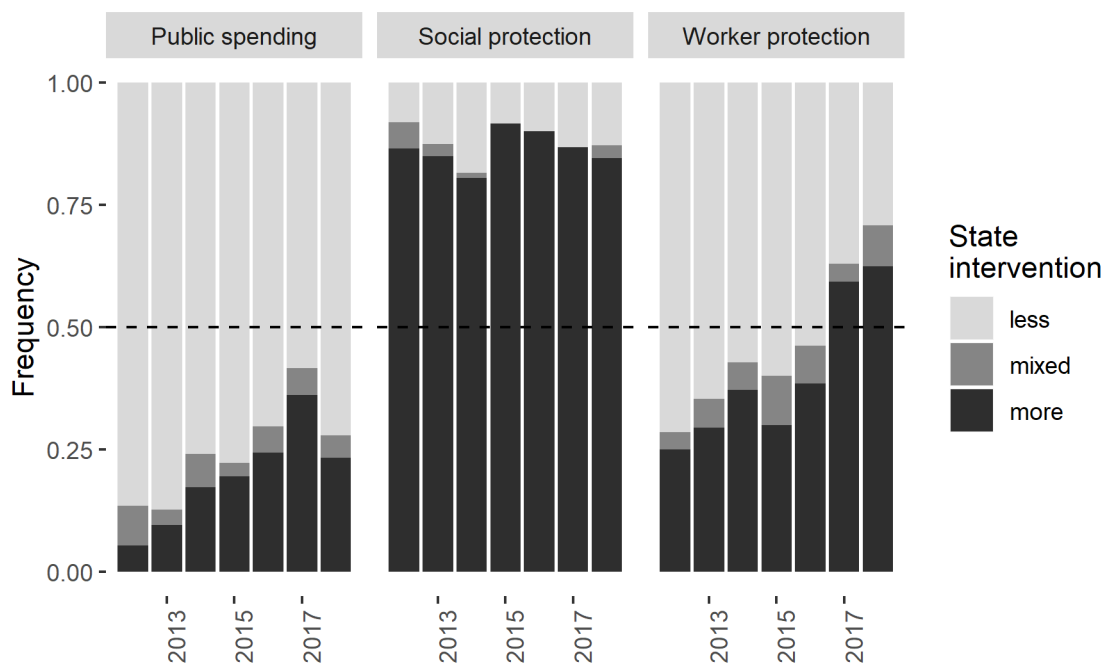
Some countries receive a mix of recommendations that appears challenging to implement. As Figure 3 shows, the EU often recommends more social protection but also lower spending, which can be problematic as an increase in social protection rarely comes for free. Typical CSRs recommend improving education, family support or measures to fight youth unemployment. Implementing such costly reforms, while also limiting deficits, requires governments to cut spending on other areas, triggering the resistance of affected stakeholders. As a result, implementation becomes more difficult. Lithuania, Spain and Slovakia are especially likely to be affected by this dynamic. By contrast, the reform profile for Germany seems more straightforward: the CSRs it receives call for more spending and more social protection, two entirely compatible objectives. To a lesser extent, this observation also applies to Estonia.

Time trends

Given that the period between 2012 and 2018 saw significant changes in economic conditions, intertemporal changes may drive the direction of CSRs as much as country-specific factors. During times of high public debt, for example, the Commission is more likely to focus on consolidating public budgets and less likely to call for costly measures to increase social protection. As the post-crisis recovery took root and lowered the pressure on public budgets in an increasing number of member states, we might expect pro-intervention CSRs to have become more common over time. Figure 4 confirms this expectation for public spending: calls to loosen the purse strings were almost unheard of in 2012 whilst they accounted for a quarter of all public spending CSRs in 2018. Recommendations to spend less have accordingly decreased in frequency. However, pro-spending CSRs are mostly found in a small group of countries – above all Germany and Estonia – and are outweighed by budget consolidation recommendations for the rest of the Euro Area in every year since the start of the Semester. Nevertheless, a trend towards more balanced budgetary recommendations can be identified. When it comes to workers, recommendations to increase intervention initially accounted for a share of only 25 per cent. However, the balance shifted rapidly, owing to a large drop in the absolute number of CSRs promoting less protection.

Since 2017, calls for more worker protection prevail. EU concerns about excessive wage growth and cost competitiveness, a recurring topic in the early years of the Semester, have clearly receded and were not mentioned a single time in 2018. Nowadays, less worker protection often means later retirement or reduced pension benefits. The changing priorities likely reflect worries about persistently low inflation, as well as the Commission's ideational turn towards demand-led growth strategies. CSRs advocating more intervention have increasingly stressed the importance of good work, for example hiring on open-ended contracts. Shifting the tax burden away from labour is regularly mentioned throughout the period, illustrating how important the issue is for the Commission, but also how reluctant member states are to act.

Figure 4: Relative frequency of CSRs, 2012–2018.



Source: Authors' calculations based on the EUROSEM dataset.

Recommendations about social protection are dominated by calls for more intervention, according to our data. This observation is found even as early as 2012, long before the EU announced its intention to give social concerns a greater role under the Semester. However, we find no proof for a progressive 'socialization' of the European Semester (Zeitlin and Vanhercke 2018): the share of CSRs that address social protection has not increased over time. Measured as a share of all recommendations, CSRs promoting more protection have stagnated at slightly above

20 percent since 2012, and the share of recommendations favouring less social protection has remained constant below five percent. What is more, CSRs in the ‘softer’ policy areas are often not backed by the stronger sanctioning mechanisms found in budgetary politics and fiscal coordination. As noted above, not all CSRs are created equal, and the ‘direction CSRs’ in the areas of social and worker protection are mostly characterized by soft modes of governance where non-compliance implies, above all, reputational costs. Only a third of all CSRs targeting a change in social protection are linked to any sanctions. For CSRs concerned with changing the level of public spending, the share is twice as high. From a legal perspective, this situation makes sense because the natural point of reference for social policy CSRs is the Europe 2020 framework, which is not backed by any sanctions regime. However, calls for more state intervention risk being inconsequential if member states feel that they can safely ignore them due to their weak legal basis (see also Crespy and Vanheuverzwijn 2017).

4.4. Conclusion: what model for EU economic policy?

The second decade of EMU has been marked by crises and the development of new instruments designed to promote convergence within the limitations of an asymmetrical economic and monetary union (Verdun 1996). In the reformed post-crisis framework for economic governance, the European Semester forms the ‘core vehicle’ to coordinate national policies across the EU. This annual cycle of coordination aims at a better alignment of national budgetary and economic policies with commonly agreed objectives, especially within the Euro Area. In view of the existential threat posed by the sovereign debt crisis, one might have expected a more forceful response. Instead of more centralization, however, the EU’s response entailed more coordination.

Even though the European Semester is only a limited attempt to overcome the initial asymmetry in the EMU architecture, its introduction has opened the door to new ways of investigating EU coordination. The uniformly structured reform recommendations for all member states, issued in regular intervals and evaluated on a common assessment grid, allow us to paint a detailed picture of where the EU is trying to steer its members by analysing the number and content of CSRs.

In this contribution, we have examined how the EU uses the European Semester in terms of the ‘policy direction’ implied in its recommendations. Our data suggests a nuanced picture, reflecting neither a ‘neoliberal EU’ nor a ‘Social Europe’. First, while the EU’s recommendations tend to recommend reducing public spending, they also encourage more social protection for vulnerable groups. Given the tension inherent in combining such recommendations, the Semester’s limited implementation record may appear less surprising. Second, the direction of CSRs depends on the member state. While many member states are recommended a reform mix that could be described as ‘flexicurity’, a smaller number of countries are told to both spend and protect more. Third, there is a trend towards more state intervention over time when it comes to public spending and protection for labour market insiders. However, we do not find evidence of a progressive ‘socialization’ of the Semester. Rather, our data suggests that CSRs promoting social protection have been a significant part of the Semester since 2012; their share of all recommendations has remained nearly constant.

We find policy direction to be an important dimension of the European Semester that, thus far, has not been examined systematically. Studying the direction of Semester CSRs allows us to detect patterns regarding how EU institutions use the Semester in their attempts to influence economic governance across the Euro Area. It reveals to what extent policy advice differs depending on member states’ characteristics, how specific ideas for economic reform evolve, and – from a bird’s-eye-view – what the EU’s general preferences regarding economic governance look like. Finally, analysing the direction of Semester CSRs connects the discussion of a new technocratic tool in EU economic governance to broader political debates about the EU as a presumably ‘market-friendly’ or ‘neoliberal’ project, that is, one that tends to reduce the role of the state.

Our understanding of EU policy coordination could be enhanced further by incorporating additional information about the process of formulating CSRs, such as the role of the Council of the EU and the interaction between member state stakeholders and the EU institutions. The logical next step would then be to connect the reform input as presented in this contribution to the output side, namely the domestic political process and the likelihood of the Semester to shape national reforms. Future research on the politics behind choosing the Semester’s policy direction could analyse the formal and informal negotiations before CSRs are

formulated, as well as comparisons of CSR content to policy preferences of national governments. Such insights would further strengthen our understanding of the reforms the European Semester is likely to induce.

4.5. Appendix

Table A1. Coding scheme policy direction.

Policy direction (values: no direction, less, mixed, more)

Variable	Direction coded as ‘more’ if the recommended reform ...
Spending	... increases general government spending.
Social protection	... benefits vulnerable citizens and those who are not working.
Worker protection	... benefits people currently in employment.
Regulation	... increases the regulation of the private sector.
Ownership	... increases public ownership of assets.

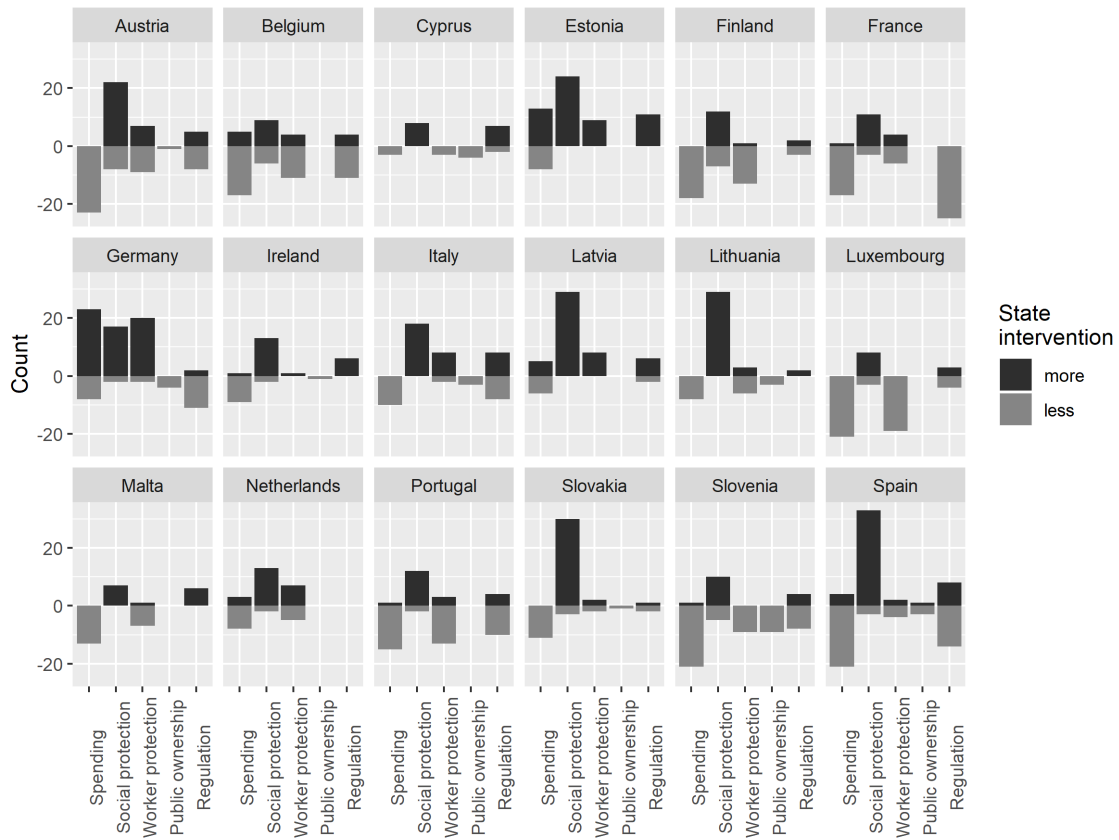
Source: Authors’ representation.

Table A2. Average intercoder reliability scores.

Policy direction	Krippendorff’s alpha
Spending	0.872
Social protection	0.888
Workers’ protection	0.824
Ownership	0.876
Regulation	0.697

Note: Krippendorff’s alpha is a reliability indicator that takes into account the likelihood of random agreement between coders and ranges from 0 to 1. Source: Source: Authors’ calculations based on the EUROSEM dataset.

Table A3: CSRs for more and less state intervention by country.



Source: Authors' calculations based on the EUROSEM dataset.

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5 Party Politics Matter Under the European Semester

5.1. Introduction

The European Semester is arguably the world's most ambitious framework for coordinating economic policies among sovereign nations. It is an annual policy coordination cycle with the aim of ensuring that the fiscal and economic policies of EU member states, especially in the euro area, are compatible with each other. Reform progress is evaluated, and repeated non-compliance can result in a sanctions procedure. By contrast, coordination projects by international bodies such as the G7/G20, the Organization for Economic Co-ordination and Development (OECD), and the International Monetary Fund (IMF), are more limited in scope and less stringent in their assessments of reform progress.

The Semester is attracting increased attention in specialist circles (e.g. Verdun and Zeitlin 2018; Chang, Sacher, and Tkalec 2019). From an academic perspective, it offers an opportunity to study policy coordination in a densely institutionalized environment. For policymakers, understanding its strengths and limitations is essential, as it is used to coordinate an ever-increasing number of policies. Nevertheless, many aspects of the Semester are still poorly understood.

The EU's main instrument for ensuring the compatibility of its member states' economic policies under the Semester is the 'Country-Specific Recommendation' (CSR), a short text paragraph that outlines which reforms a government should pursue. Each year, several CSRs per country are proposed by the European Commission and adopted by the Council of the EU. Subsequently, member states have about half a year to implement reforms before progress is assessed by the Commission. Typically, CSRs are a few sentences long and serve to outline goals. How to approach them is left to the member states. Many CSRs focus on the budget, but employment policy, social policy as well as issues relating to the business environment and competition are also common (D'Erman, Haas, Schulz, and Verdun 2019).

CSRs make compliance with the European Semester measurable. At the same time, there is no generally accepted explanation why some countries comply with them and others do not. The few authors who have attempted a systematic explanation have mostly focused on economic and structural drivers of reform implementation, such as economic pressure and the policy areas concerned (Deroose and Griesse 2014; Efstathiou and Wolff 2019). Focusing on other domains of policy making, the EU studies literature has found that ‘misfit’ (Duina 1997; Knill and Lenschow 1998) and party politics (Treib 2004) are important factors in influencing compliance with European law. However, whether these findings apply to the Semester, a hybrid construct that is less binding than EU law, but more constraining than ad-hoc efforts at coordinated adjustment, has not yet been analysed systematically. This paper therefore asks: “What explains the (non-)implementation of CSRs under the European Semester?”

A major obstacle to the study of this question is the lack of high-quality data. The European Commission publishes information about the implementation status and the policy area of CSRs, but not about their political content. For instance, it states whether a recommendation is concerned with taxes or not, but does not specify whether it recommends lowering or increasing them, which is obviously a crucial aspect for the politics of its implementation. This paper therefore relies on a dataset for euro area member states that provides information about what has been called the ‘policy direction’ of recommendations (Haas, D’Erman, Schulz, and Verdun 2020: 332).

I argue that party politics matter for economic policy coordination. More specifically, I claim that the compatibility between the economic ideology of a member state government and the policy direction of a CSR influences how likely the latter is to be implemented. Right-wing governments can be expected to implement a recommendation preferably when it calls for less state intervention. Since leftist parties in Europe have stressed the importance of fiscally ‘responsible’ policies since the euro crisis (Bremer 2018), they can be expected to prefer a CSR that calls for more state intervention only if it does not increase spending. In all other cases, I do not expect party politics to make a difference.

I test my argument statistically using logistical regression models. I find strong support for my theoretical expectations when it comes to recommendations for less

intervention. My findings show that, all other things equal, the predicted probability of a right-wing government implementing a CSR in line with its economic ideology is 83 per cent, while it is only 35 per cent for a left-wing government. For recommendations that advocate more state intervention, changes in government ideology also have a large effect on the probability of CSR implementation. However, the relationship is less robust than the first one, which is likely due to the small number of observations in the category. In line with expectations, the implementation of other CSRs is not affected by party politics.

This paper extends the literature about the effects of party politics on compliance with EU law (Treib 2004) to the area of economic governance. The findings stress the importance of political factors (as opposed to economic and structural ones) in adjustment and reform processes (Alesina and Drazen 1991; Walter 2016). Generally speaking, they affirm that parties still matter for policy (Boix 2000; Hibbs 1992; Schmidt 1996), even in an environment where market barriers are minimal and a tightly institutionalized environment sets strong incentives for compliance. However, they also tentatively support the argument that leftist parties should not uncritically be assumed to favour budget deficits and that traditional left-right categorizations should be complemented with more nuanced measures that differentiate between issue areas (Bremer 2018). Moreover, the results are relevant for policymakers: since low implementation rates under the Semester are often criticised as indicators of the EU's ineffectiveness (Darvas and Leandro 2015; 2016), understanding the reasons behind (non-)compliance is a first step towards improving the process.

The remainder of this paper is structured as follows. The second section reviews the relevant literature and formulates theoretical expectations. The third section discusses data and operationalisation. The fourth section presents a model and discusses its results. The fifth section concludes.

5.2. What explains CSR implementation?

The academic debate about the European Semester has so far mostly focussed on the 'supply side,' asking what kind of recommendations the EU issues (Crespy and Vanheuverzwijn 2017; D'Erman *et al.* 2019), whether it promotes a bigger role for markets, and whether that has changed over time (Copeland and Daly 2018; Dawson

2018; Haas *et al.* 2020; Zeitlin and Vanhercke 2018). However, there is growing interest in the ‘demand side’: which recommendations get implemented?

Pioneering studies on this question have mainly explored the impact of certain CSR characteristics. The most prominent example is the legal basis of a recommendation. Several studies find that CSRs linked to laws that threaten noncompliant countries with sanctions are more likely to be implemented (Bricongne and Turrini 2017; Deroose and Griesse 2014; European Commission 2016). Research also suggests that some policy areas have a higher probability of implementation than others, the implicit explanation being that some areas are more difficult to reform than others (Deroose and Griesse 2014; Efstathiou and Wolff 2019; European Commission 2016). Based on the influential literature on the political economy of reforms (Alesina and Drazen 1991; Drazen and Grilli 1993), economic variables such as high public and external deficits, as well as pressure from financial markets, have been found to affect implementation positively, even if only slightly (Efstathiou and Wolff 2019).

Surprisingly, one aspect that has not yet been studied extensively is the interaction between European recommendations and the preferences of national governments. Country case studies on the Semester find that the domestic environment is an important mediator (Bokhorst 2019) and suggest that governments have been using CSRs selectively as external constraints in order to further their domestic political agenda (Di Mascio *et al.* 2020; Eihmanis 2018). Is such behaviour prevalent throughout the euro area? The literature on the implementation of EU law, an obvious source of inspiration for research on legalized policy coordination, suggests that domestic politics affect the implementation of EU rules mainly in two ways: through inertia and by favouring outcomes in line with the ideology of the parties in government.

The importance of inertia is stressed by a school of thought that refers to the concept of ‘misfit’. It argues that the implementation of EU directives is driven by how far-reaching the changes are that are required by the law in question (Duina 1997; Knill and Lenschow 1998). The bigger the misfit, the less likely is the correct implementation. While influential in the field of EU studies, the theoretical soundness as well as the empirical validity of the concept have been questioned (Mastenbroek and Kaeding 2006; Treib 2003). More recent incarnations of the idea, such as ‘legal fit’ (Steunenberg and Toshkov 2009), are not easily applicable because the Semester leaves

more room for interpretation than an EU directive. As described in the introduction, policy objectives are merely outlined in a CSR and can be achieved in multiple ways. The distance between a recommendation and the status quo is therefore not fixed *ex ante*, making it impossible to measure the misfit.

For the purpose of this paper, it is more fruitful to focus on the role of party politics. As is well-established in the literature, parties seek to influence policy outcomes to benefit their voters, although there is some debate as to the extent that they are still able to do so under the constraints imposed by globalization (Boix 2000; Hibbs 1992; Oatley 1999; Potrafke 2009; Schmidt 1996). Parties in government have been found to affect the implementation of EU directives by fast-tracking legislation close to their political ideology and by delaying legislation that runs counter to it (Treib 2003; 2004). It seems entirely plausible that they perform a similar role under the Semester.

Since the issue at stake is economic governance, paying special attention to parties' economic ideology is warranted. Based on the seminal literature in the field (Hibbs 1977; Hibbs 1992), I define an economically left-wing position as support for increasing the involvement of the state in the economy, and a right-wing position as support for decreasing it. Such intervention can involve regulation, redistribution, or general public spending. The empirical relevance of this approach is confirmed by a study of parliaments in four European countries that finds parties' economic left-right stance to be a good predictor for their consent or contestation of CSRs (Maatsch 2017). *I therefore expect CSRs advocating less state intervention to have a higher chance of implementation under right-wing governments than under left-wing governments.*

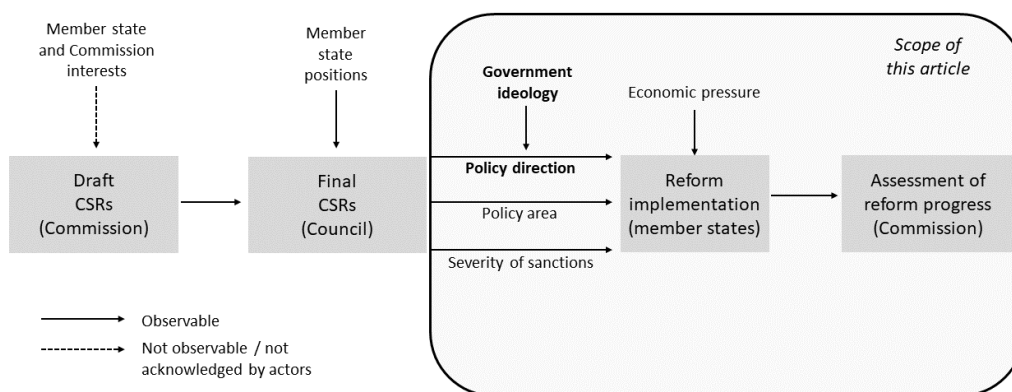
In principle, the opposite effect should be observable when it comes to CSRs that advocate more state intervention. However, there are good reasons to assume that the outcome will be nuanced. A greater role for government in the economy often increases public spending: building digital or physical infrastructure, upgrading the education system, or providing more generous assistance to disadvantaged groups poses a strain on the public purse. At the same time, a recent study of eleven European countries shows that leftist parties reacted to the euro crisis by "accept[ing] the need for fiscal consolidation and budgetary rigour" (Bremer 2018: 35) while continuing to pursue leftist policies in other areas. While this shift may be reversed in due course, the period under study in this paper (2013-2018) is surely affected by it.

Following this line of reasoning, I do not expect to see partisan differences in the response to recommendations that cost large sums of money, such as those concerning public investment or financial support for disadvantaged groups. However, leftist parties still have an incentive to increase state intervention when the fiscal cost is low, for example by strengthening workers’ rights. *I therefore expect that left-wing governments are more likely than right-wing governments to comply with recommendations promoting more state intervention, as long as the recommendations do not require additional spending.* The expected effects of recommendation characteristics on their likelihood of implementation are summarised in Table 1, and Figure 1 provides an overview of the entire theoretical framework.

Table 1. CSR characteristics, and their expected effect on implementation under different governments.

Recommendation for:	Likelihood of implementation:
less state intervention	higher under right-wing governments
no change in state intervention or more state intervention with higher spending	equally likely under left- and right-wing governments
more state intervention without higher spending	higher under left-wing governments

Figure 1. Theoretical model of CSR implementation under the European Semester.



5.3. Data and operationalisation

Data

While the European Semester is a complex coordination cycle that includes a variety of actors (D’Erman *et al.* 2019; Verdun and Zeitlin 2018), it offers readily measurable output in the form of CSRs. A CSR is a paragraph that outlines an economic policy measure the EU wants a member state to pursue in a given year. In the European Commission’s language it “provide[s] policy guidance tailored to each EU country on how to boost jobs, growth and investment, while maintaining sound public finances” (European Commission 2018). It is usually no longer than three or four sentences, but its content is condensed and often highly technical. Therefore, the Commission divides recommendations into ‘sub-CSRs’ when evaluating their progress.

For information about CSR characteristics, I rely on the EUROSEM dataset (D’Erman *et al.* 2019; Haas *et al.* 2020) which codes recommendations issued to euro area member states according to their policy area, policy direction, legal basis and implementation progress. The variable policy direction has five dimensions: public spending, social protection, worker protection, regulation, and public ownership. Translating text into predefined categories is a complex task, but several precautions were taken to ensure that the data is of high quality. Each CSR was coded by two separate coders, intercoder reliability is high and the dataset was created by randomly sampling one instance of each recommendation, thereby minimizing bias.¹⁹ In order to preserve the nuances provided by the dataset, I focus only on sub-CSRs, which is a common approach in the literature (Crespy and Vanheuverzwijn 2017; Efstathiou and Wolff 2019). Since progress evaluations at the level of sub-CSRs are only available since 2013, I restrict the time period accordingly. Additionally, I use the ParlGov database and the results of the Chapel Hill Expert Survey for information about cabinet composition and party positions (Bakker *et al.* 2020; Döring and Manow 2019).

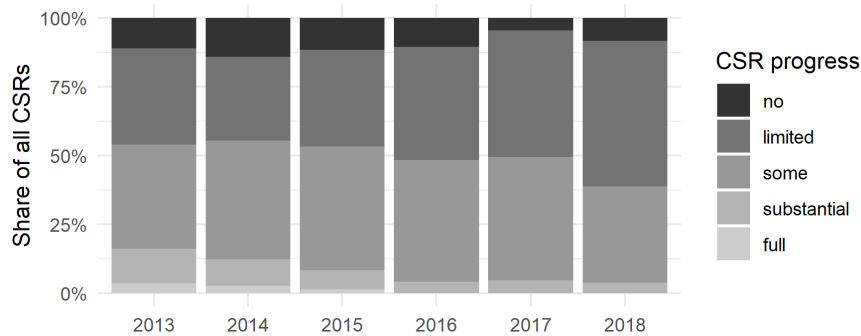
Dependent variable

In measuring CSR implementation, the EUROSEM dataset follows the official assessment of CSR progress which is included in the Commission’s annual country

¹⁹ For the purpose of this paper I do not take into account the dimensions ‘regulation’ and ‘ownership’ since the former has a relatively low intercoder reliability and the latter never takes on the value ‘more intervention’, which renders it unsuitable for testing my theoretical expectations.

reports. While there is a risk that this score considers political considerations that are unrelated to a country's compliance with CSRs, it seems unlikely. The literature has not found any evidence of systematic Commission bias against certain countries (Börzel, Hofmann, Panke, and Sprungk 2010; Börzel and Sedelmeier 2017; European Court of Auditors 2018).

Figure 2. CSR assessment categories over time.



Source: Author's calculations based on the EUROSEM dataset.

The Commission evaluates progress half a year after a CSR is adopted by the Council. It uses a five-point grid ranging from 'no progress' to 'full implementation' (Hradisky 2016: 136). Early studies assumed an equal distance between the categories and translated them into a continuous implementation score ranging from 0 to 100 (Deroose and Griesse 2014; Efstathiou and Wolff 2018), thus making it amenable to ordinary least squares (OLS) estimation. This paper uses a different approach. In the Commission's assessment grid and in the evaluations themselves, the distance between categories varies. 'Limited progress' is only a small step up from 'no progress'; it is used to denote insufficient measures or mere announcements. By contrast, 'some progress' denotes real strides towards reform: it means that measures adequately addressing the CSR have been adopted, even if they have yet to be put into practice. It follows that we cannot treat the variable as continuous. Furthermore, maintaining all categories complicates the analysis without adding much useful information; as Figure 2 shows, extreme values have been uncommon since the start of the Semester and have only become rarer since. Against this background, it seems sensible to conceptualise the variable as dichotomous, i.e., to split it into the categories 'no implementation' (no/limited progress) and 'implementation' (some/substantial/full implementation). In recent years, the Commission has come to use the dichotomous

approach in its own evaluations of the European Semester (European Commission 2019).

Independent variables

The main focus of this paper lies on the effect of ideological compatibility, i.e., the interaction between the policy direction of a CSR and the economic ideology of a national government. Policy direction is a variable in the EUROSEM dataset that denotes whether a CSR advocates more state intervention in the economy, less intervention, or no change (Haas *et al.* 2020). In order to test my argument, I further restrict the category ‘more intervention’ so that it only includes CSRs calling for state intervention without additional spending. I do so by selecting CSRs that focus on worker protection, which are unlikely to have major budgetary implications. CSRs that fall neither in this new category, which I will simply call ‘more worker protection’, nor in the category ‘less state intervention,’ are classified as ‘other’ since I do not expect their implementation to be affected by partisan politics.

I measure governments’ economic ideology using the ‘state_market’ variable in the ParlGov database (Döring and Manow 2019), which measures to what extent a party wants the government to play an active role in the economy. I centre it so that zero denotes a centrist government, negative values denote leftist governments, and positive values denote right-wing governments. The variable has the advantage of being available for all relevant countries and years, with the exception of Italy in 2018. It is similar to and highly correlated ($r = 0.95$) with the ‘Irecon’ variable from the Chapel Hill Expert Survey on Party Positions (Bakker *et al.* 2020), which is a good alternative but does not cover all Slovenian parties. It also exhibits a fair correlation ($r = 0.70$) with a general left-right variable derived from the Comparative Political Data Set (Armingeon, Wenger, Isler, Knöpfel, Weisstanner, and Engler 2019), even though the latter uses a coarse classification prone to producing extreme values. The score for each country-year was calculated by taking the average of government parties’ ideology, weighted by their share of the governing coalition’s seats in parliament. When more than one government was in power during a given year, the score for the one that governed the most days was used.

Control variables

The variable ‘available sanctions’ captures to what extent a country could be subjected to penalties for failing to implement a CSR. Typically, the threat of strong sanctions can be expected to have a positive impact on compliance (Downs, Rocker, and Barsboom 1996). However, it is worth noting that the Commission faces divergent incentives in the enforcement procedure (van der Veer 2020) and that EU member states are known to be adept at avoiding fines (Baerg and Hallerberg 2016). Recommendations can refer to sanctions in three ways. First, they can be linked to the Stability and Growth Pact (SGP), a set of budgetary rules which enables the Commission to take swift action against offenders since it was reinforced during the euro crisis (Ioannou, Leblond, and Niemann 2015, Verdun 2015). Second, CSRs can refer to the Macroeconomic Imbalance Procedure (MIP), a framework designed to monitor broader indicators of economic activity. While it includes provisions for fines, it is less rigorous than the SGP (Hodson 2018). Third, recommendations can be linked to both sets of rules. Alternatively, they can mention only the general economic policy coordination framework of the EU, which does not include any provisions for sanctions.

When a reform touches upon core state powers, i.e., questions of sovereignty and distribution, domestic resistance can be expected (Genschel and Jachtenfuchs 2018). Recommendations under the European Semester are most likely to do so when they call for changes to taxation or government spending. Relying once again on the EUROSEM dataset, I therefore code CSRs that have an important budgetary component ($\text{budgetary_policies} > 3$, independently of the policy direction) as concerning core state powers. Governments’ general stance towards EU integration could also affect reform implementation. I therefore account for Euroscepticism as measured by the ‘position’ variable in the Chapel Hill Expert Survey (Bakker *et al.* 2020; Polk *et al.* 2017). Decentralization can be expected to delay the implementation of recommendations. I measure it based on the ‘fed’ variable taken from the Comparative Political Data Set (Armingeon *et al.* 2019). Additionally, I control for domestic economic conditions and countries’ political weight by including variables representing the unemployment rate (European Commission 2020) as well as countries’ debt levels and country size as measured by gross domestic product (GDP) (European Central Bank 2019). Table 2 provides descriptive statistics of the variables.

Table 2. Overview of the dependent and independent variables.

Variable	Categories or summary statistics
CSR implementation	No implementation, implementation
Economic ideology of the government (state – market)	Min. -1.74, max. 3.47, mean 0.29
CSR policy direction	Other, less state intervention, more worker protection
Available sanctions	None, MIP, SGP, MIP & SGP
Core state power	No, yes
Pro-integration stance of the government	Min 3.8, max. 6.80, mean 6.04
Decentralization	Low, medium, high
Log GDP	Min, 8.94, max. 15.02, mean 12.31
Public debt as percentage of GDP	Min. 8.35, max. 135.37, mean 78.35
Unemployment rate	Min. 3.5, max. 26.10, mean 10.15

5.4. Analysis and results

Since my dependent variable is dichotomous, I estimate the effect of ideological compatibility on the likelihood of CSR implementation using logistical regression. I perform a pooled cross-sectional analysis using the ‘glm’ function in R (R Core Team 2020) and include country fixed effects in some specifications. For calculating standard errors and presenting the results, I use the ‘lmtest,’ ‘clubSandwich,’ and ‘texreg’ packages (Leifeld 2013; Pustejovsky 2020; Zeileis and Hothorn 2002).

The interaction term consists of an ordinal and a continuous variable; therefore, I can present coefficients for all possible combinations of ideology and policy direction directly in the regression table (Brambor, Clark, and Golder 2006: 74). Since log odds are notoriously difficult to interpret, my discussion of effect sizes refers to predicted probabilities. Unless otherwise stated, they are calculated using the ‘ggeffects’ package (Lüdtke 2018) and holding all other predictors constant at their mean (for continuous variables) or reference level (for ordinal and dichotomous variables).

Table 3. Main results of the statistical analysis.

DV: CSR implementation (yes/no)

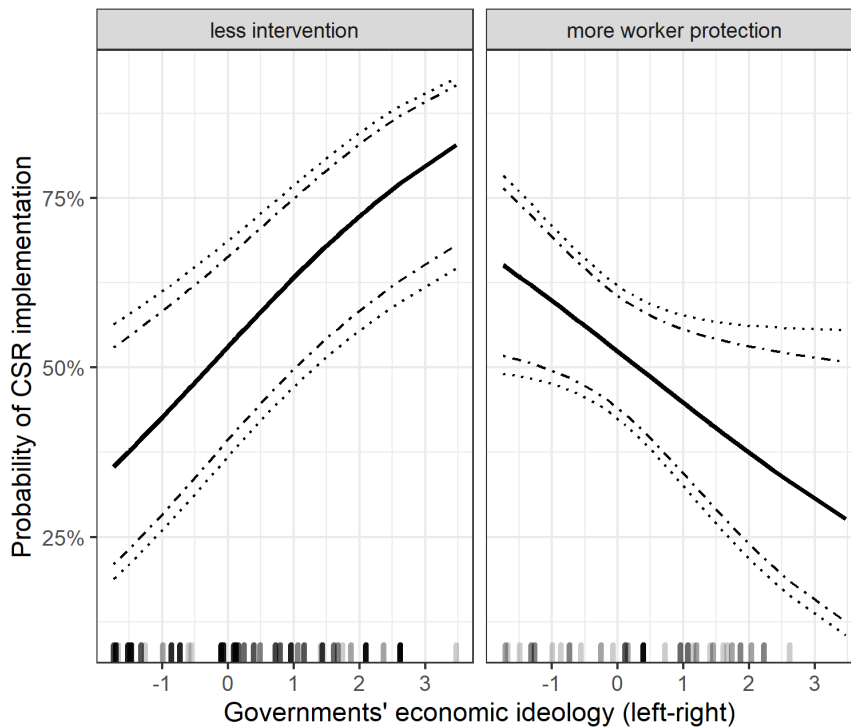
	(1)	(2)	(3)	(4)
	cluster-robust SEs	cluster-robust SEs, country FEs	cluster-robust SEs	cluster-robust SEs
(Intercept)	-0.019 (0.170)	-1.112*** (0.102)	0.041 (0.172)	-1.027 (1.885)
Gov. ideology (left-right)	0.024 (0.080)	0.042 (0.095)	0.095 (0.110)	0.060 (0.109)
Less intervention (ref.: other)	0.073 (0.272)	0.024 (0.227)	0.082 (0.274)	0.087 (0.288)
More worker protection (ref.: other)	-0.024 (0.210)	0.059 (0.175)	0.054 (0.186)	0.115 (0.179)
Ideology * less intervention (ref.: other)	0.307** (0.135)	0.306** (0.128)	0.323** (0.134)	0.322** (0.134)
Ideology * more worker protection (ref.: other)	-0.357** (0.178)	-0.444** (0.192)	-0.399* (0.206)	-0.351* (0.203)
Core state power (ref.: no)	-0.635*** (0.184)	-0.567*** (0.148)	-0.627*** (0.174)	-0.601*** (0.159)
Sanctions: MIP (ref.: none)	0.310 (0.215)	0.283 (0.212)	0.425* (0.252)	0.387 (0.244)
Sanctions: SGP (ref.: none)	0.585 (0.372)	0.547 (0.382)	0.605 (0.370)	0.620* (0.352)
Sanctions: MIP&SGP (ref.: none)	0.387 (0.358)	0.339 (0.410)	0.497 (0.431)	0.413 (0.402)
Decentralisation: weak (ref.: none)			-0.222 (0.175)	0.010 (0.221)
Decentralisation: strong (ref.: none)			-0.615** (0.300)	-0.702*** (0.218)
Log GDP				0.008 (0.095)
Debt as % of GDP				-0.003 (0.005)
Unemployment rate				0.036 (0.023)
Government pro-integration stance				0.136 (0.271)
AIC	1717.721	1663.468	1706.969	1707.880
BIC	1769.038	1802.024	1768.550	1789.987
Num. obs.	1251	1251	1251	1251

***p < 0.01, **p < 0.05, *p < 0.1

Note: Coefficients are log odds. Standard errors in parentheses. SEs: standard errors. FEs: fixed effects.

Table 3 shows the results of the statistical analysis. Table A1 in the Appendix lists individual country fixed effects. Since the data is clustered by country, I report cluster-robust standard errors and use them to calculate confidence intervals in the Figure 5.²⁰ As Table A2 in the Appendix shows, implementing an additional small-sample correction (Pustejovsky and Tipton 2018) makes little difference for the size of the standard errors of the main terms. Unless otherwise stated, predicted probabilities are calculated based on the third model, which performs well across different fit statistics. There is no indication of influential outliers in the model; standard residuals for all data points range between -2 and +2 (see Figure A1 in the Appendix).

Figure 5. Government economic ideology and predicted probability of CSR implementation.



Note: Prediction based on the third model. Broken lines denote 90% confidence intervals, dotted lines denote 95% confidence intervals. All confidence intervals are adjusted for country clustering. Rug plots indicate the density of observations.

²⁰ Accounting for the clustered nature of the data via a multilevel model would be appealing, but the number of level-2 units lies below the threshold conventionally deemed necessary to estimate standard errors in multilevel models accurately (Maas and Hox 2005; Schoeneberger 2016).

The results lend strong support to the first hypothesis: CSRs advocating less state intervention are more likely to be implemented by right-wing governments. The interaction term between economic ideology and less state intervention has a positive sign, meaning that a more right-leaning ideology score is associated with a higher likelihood of implementation when a CSR calls for less state intervention. The effect is significant at $p < 0.05$ across all specifications. Its magnitude is substantial: when holding other predictors at their reference level, the economically most left-wing government in the subsample is predicted to have only a 35 per cent probability to implement a CSR calling for less intervention (see Figure 5). For a very right-wing government, the probability more than doubles to 83 per cent.

In line with my theoretical expectations, ‘other’ recommendations are equally likely to be implemented by left-wing and right-wing governments. The relevant coefficients are small, and the effect is not significant at conventional levels. As shown in Table A3 in the Appendix, disaggregating the ‘other’ category into CSRs that do not call for any change in state intervention and those that call for more intervention with additional spending does not change this finding.

The results also provide some support for the hypothesis that leftist parties are more likely to implement CSRs when they call for more state intervention at a low fiscal cost, i.e., worker protection. The interaction term of ideology and worker protection has the expected sign in all specifications and the magnitude of the effect is quite large. The predicted probability of implementation almost halves from 65 per cent under a left-wing government to 33 per cent under the most right-wing government in the subsample. The relationship is significant at $p < 0.05$ when controlling for CSR characteristics and even when including country fixed effects. However, it loses significance when additional control variables like decentralisation are added. Some specifications are also sensitive to a change in the reference category (see Table A3 in the Appendix). In short, while the predicted effect size is large, the relationship is not as robust as the one between ideology and less intervention.

One possible explanation for this finding is that recommendations calling for more intervention are harder to implement than those in favour of less intervention, possibly because it takes more effort to create something new than to dismantle existing structures. Assuming that governments tend to receive CSRs that are in line with their

preferences, the similar predicted probabilities of implementation could mask the fact that left-wing governments would like to do more but are held back by their many tough recommendations – or that right-wing governments are not more willing to act but receive easier recommendations. Two pieces of evidence speak against this argument: First, there is no indication that difficulty varies markedly by policy direction. In the entire sample, 45 per cent of all CSRs advocating more worker protection were implemented, against 49 per cent of CSRs promoting less state intervention. Figure 5 shows that centrist governments are equally likely to heed both kinds of recommendation. Second, recommendations for more intervention are predominantly issued to right-wing governments instead of leftist ones. The mean economic ideology value of a government receiving a pro-intervention CSR without budgetary implications is 0.43, which translates to centre-right. For a less-intervention CSR, it is 0.25. The difference in means is not significant, but if anything, we should expect right-wing governments to have more trouble in implementing their recommendations. A simpler explanation seems more likely: the number of recommendations advocating more state intervention without additional spending is small. Only 69 CSRs fall into this category, as opposed to 227 recommendations for less state intervention. It is therefore to be expected that the relationship is weaker and more sensitive to the inclusion of additional controls. Expanding the dataset to include the years 2019 and 2020 could help address the issue. Alternatively, country case studies could investigate outliers – such as the lack of progress on a recommendation calling for more worker protection under the leftist government of France in 2015 – and identify confounders or framework conditions. While these approaches fall outside the scope of this paper, they provide avenues for future research.

Controls

As expected, recommendations that touch upon core state powers are less likely to be implemented. The effect is significant at $p < 0.01$ and it is stable across specifications, but modest in size: when a CSR addresses core state powers, its predicted probability of implementation is 16 percentage points lower than when it does not. The coefficients for sanctions have the expected positive sign, but only approach conventional levels of significance in some specifications. Decentralisation through federalism is associated with a 15 percentage points lower probability of implementation and the relationship is significant. Among the remaining political and economic control variables, none have a significant effect.

5.5. Conclusion

This paper has shown that the party politics matter for economic policy coordination. The compatibility between the policy direction of CSRs and the economic ideology of national governments has an important effect on compliance with the European Semester because governments tend to implement reforms preferentially when they are in line with their ideology. Specifically, countries governed by right-wing parties were found to be more prone to implementing CSRs that reduce the role of the state than countries governed by the left. The magnitude of the effect is substantial: my model predicts that the difference in the probability of implementation amounts to 48 percentage points when comparing the most left-wing and the most right-wing government in the sample. Furthermore, there is tentative support for the theoretical expectation that CSRs advocating more intervention are more likely to be implemented by left-wing governments as long as they are not costly. Recommendations that do not fall into either category are equally likely to be implemented by governments on both sides of the political spectrum.

My findings underline that the European Semester is not a technical, politics-free area but rather follows similar dynamics as other reform and adjustment processes. In comparison to previous research on CSR implementation that has stressed the importance of economic and structural factors (Efstathiou and Wolff 2019), my results emphasize the important role of politics and CSR characteristics. The paper builds on case studies analysing the mechanisms behind (non-)compliance with the Semester (Bokhorst 2019; Di Mascio *et al.* 2020; Eihmanis 2018) and suggests that they could have explanatory power for the broader euro area.

The results also speak to the broader literature on party politics and compliance. They provide tentative support for the argument that leftist parties in Europe have shifted their priorities in the aftermath of the euro crisis, emphasizing state intervention in the economy but not necessarily expansionary fiscal policies (Bremer 2018). The findings show that earlier research on the importance of party politics for compliance with international rules (Treib 2003) not only applies to EU law, but also to economic policy coordination, which in turn might alleviate concerns about the Semester's impact on democracy (Crum 2018). More broadly speaking, my research affirms that partisan politics matter for policy, even when governments deal with concrete requests for

coordination instead of the abstract pressure of globalization (Mosley 2000; Potrafke 2009).

Against this backdrop, EU policymakers might be tempted to issue recommendations more in line with the economic ideology of national governments. After all, the slow implementation of CSRs has been interpreted as proof of the framework's ineffectiveness (Darvas and Leandro 2015). The recent discussions about improving domestic ownership of reforms could be seen in such a light (Munta 2020). Going too far in meeting national governments' wishes would however defeat the purpose of the Semester, which was set up precisely because countries proved unwilling to change policies that created negative externalities. Headline numbers on CSR implementation should not be viewed in isolation but rather in relation to the difficulty of the issues raised. By pointing out factors that lower or increase the chances of CSR implementation, this paper takes a step towards establishing a baseline that allows us to judge whether low compliance with the European Semester's recommendations is the result of lacking EU authority or rather a side effect of ambitious recommendations.

The findings are also a reminder to exert caution when interpreting CSR 'supply'. Without doubt it is important to analyse what kind of economic vision the EU is propagating across its member states (Copeland and Daly 2018; Crespy and Vanheuverzwijn 2017; Haas *et al.* 2020; Zeitlin and Vanhercke 2018). But there is no direct line from recommendation to implementation. Domestic politics is as potent as ever in moderating policy coordination attempts. If that is true for the highly institutionalised European Semester, more loosely organised coordination via the OECD and the IMF can be expected to depend even more on the goodwill of national governments. However, if the parties in government change regularly, and the economic policy coordination frameworks offer a menu of recommendations as varied as under the European Semester, there is still good reason to expect gradual policy change.

Further research could improve our understanding of the politics behind CSR implementation in several ways. Complementing the statistical analysis with case studies could help establish whether the relationships documented in this paper are of a causal nature. Coding recommendations issued in more recent years or to countries

outside the euro area would allow for even more fine-grained analysis. Filling gaps in the existing datasets offers similar advantages and could be achieved by focussing on CSRs related to the SGP, many of which currently lack progress scores because the Commission evaluates them according to different criteria.

5.6. Appendix

Table A1: Coefficients of country-fixed effects in model 2.

	(2)
Austria	0.96 (0.10)***
Belgium	0.59 (0.14)***
Cyprus	-0.02 (0.39)
Estonia	1.73 (0.21)***
Finland	2.24 (0.09)***
France	1.27 (0.22)***
Germany	0.26 (0.23)
Ireland	1.84 (0.21)***
Italy	1.05 (0.17)***
Latvia	1.48 (0.16)***
Lithuania	1.23 (0.13)***
Malta	1.79 (0.06)***
Netherlands	1.23 (0.23)***
Portugal	1.32 (0.21)***
Slovakia	0.46 (0.16)***
Slovenia	1.55 (0.21)***
Spain	1.14 (0.39)***

***p < 0.01, **p < 0.05, *p < 0.1

Note: The reference country is Luxembourg.

Table A2: Model 3 with different methods of clustering standard errors.

DV: CSR implementation (yes/no)

	(3)	(3)	(3)	(3)
	No adjustment	CR0	CR1	CR2
(Intercept)	0.04 (0.10)	0.04 (0.17)	0.04 (0.18)	0.04 (0.19)
Gov. ideology (left-right)	0.10** (0.05)	0.10 (0.11)	0.10 (0.11)	0.10 (0.13)
Less intervention (ref.: other)	0.08 (0.19)	0.08 (0.27)	0.08 (0.28)	0.08 (0.30)
More worker protection (ref.: other)	0.05 (0.28)	0.05 (0.19)	0.05 (0.19)	0.05 (0.21)
Ideology * less intervention (ref.: other)	0.32*** (0.12)	0.32** (0.13)	0.32** (0.14)	0.32** (0.15)
Ideology * more worker protection (ref.: other)	-0.40* (0.23)	-0.40* (0.21)	-0.40* (0.21)	-0.40* (0.23)
Core state power (ref.: no)	-0.63*** (0.18)	-0.63*** (0.17)	-0.63*** (0.18)	-0.63*** (0.19)
Sanctions: MIP (ref.: none)	0.42*** (0.13)	0.42* (0.25)	0.42 (0.26)	0.42 (0.28)
Sanctions: SGP (ref.: none)	0.60** (0.24)	0.60 (0.37)	0.60 (0.38)	0.60 (0.40)
Sanctions: MIP&SGP (ref.: none)	0.50* (0.26)	0.50 (0.43)	0.50 (0.44)	0.50 (0.49)
Decentralisation: weak (ref.: none)	-0.22 (0.26)	-0.22 (0.18)	-0.22 (0.18)	-0.22 (0.19)
Decentralisation: strong (ref.: none)	-0.61*** (0.16)	-0.61** (0.30)	-0.61** (0.31)	-0.61* (0.36)
Num. obs.	1251	1251	1251	1251

***p < 0.01, **p < 0.05, *p < 0.1

Note: Coefficients are log odds. CR0: country-clustered standard errors without small-sample correction. CR1: country-clustered standard errors with small-sample correction. CR2: bias-reduced linearization.

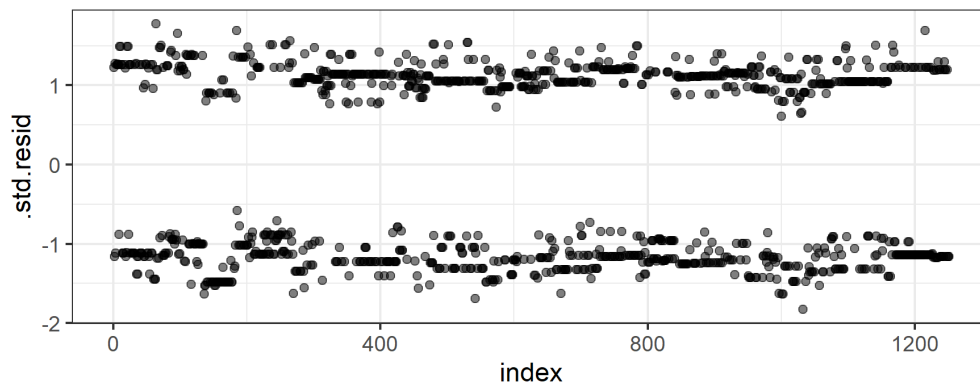
Figure A1: Standardized residuals for model 3.

Table A3: Effect of a change in reference category.

	DV: CSR implementation (yes/no)			
	(1)	(1)	(2)	(2)
	cluster- robust SEs	cluster- robust SEs	cluster- robust SEs country FEs	cluster- robust SEs country FEs
(Intercept)	-0.019 (0.170)	-0.100 (0.181)	-1.112*** (0.102)	-1.180*** (0.117)
Gov. ideology (left-right)	0.024 (0.080)	-0.012 (0.097)	0.042 (0.095)	0.044 (0.120)
Less intervention (ref.: other)	0.073 (0.272)		0.024 (0.227)	
Less intervention (ref.: no change)		0.122 (0.281)		0.069 (0.240)
More worker protection (ref.: other)	-0.024 (0.210)		0.059 (0.175)	
More worker protection (ref.: no change)		0.031 (0.213)		0.128 (0.180)
More intervention via spending (ref.: no change)		0.181 (0.141)		0.226 (0.143)
Ideology * less intervention (ref.: other)	0.307** (0.135)		0.306** (0.128)	
Ideology * less intervention (ref.: no change)		0.344** (0.135)		0.314** (0.131)
Ideology * more worker protection (ref.: other)	-0.357** (0.178)		-0.444** (0.192)	
Ideology * more worker protection (ref.: no change)		-0.318* (0.191)		-0.429** (0.212)
Ideology * more intervention via spending (ref.: no change)		0.113 (0.129)		0.002 (0.116)
Core state power (ref.: no)	-0.635*** (0.184)	-0.645*** (0.187)	-0.567*** (0.148)	-0.561*** (0.149)
Sanctions: MIP (ref.: none)	0.310 (0.215)	0.347* (0.211)	0.283 (0.212)	0.318 (0.202)
Sanctions: SGP (ref.: none)	0.585 (0.372)	0.641* (0.370)	0.547 (0.382)	0.596 (0.380)
Sanctions: MIP&SGP (ref.: none)	0.387 (0.358)	0.452 (0.339)	0.339 (0.410)	0.384 (0.389)
AIC	1717.721	1718.067	1663.468	1665.363
BIC	1769.038	1779.647	1802.024	1814.182
Num. obs.	1251	1251	1251	1251

***p < 0.01, **p < 0.05, *p < 0.1

Note: Table shows the results before and after disaggregating the reference category 'other' into 'no change in state intervention' and 'more state intervention via additional spending'.

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List of separate papers

Chapter 2: Ferrara, Federico M., Haas, Jörg S., Peterson, Andrew J., Sattler, Thomas. *Exports vs. Investment: How Public Discourse Shapes Support for External Imbalances*.

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Chapter 5: Haas, Jörg S. *Party Politics Matter Under the European Semester*. Unpublished manuscript.