INTERPRETERS, TEACHERS, RULE-FOLLOWERS

OR NEGOTIATIONS-AS-USUAL?

LEARNING MODES IN EUROPEAN UNION FISCAL MONITORING AND SURVEILLANCE

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ABSTRACT

In response to the attacks on the sovereign debt of some Eurozone countries, the European Union leaders have created a set of preventive and corrective procedures and policy instruments to coordinate macro-economic policies and reforms across the 28 member states. The most important empirical manifestation of these ambitious goals is the European Semester, a cycle of exchange of information, monitoring and surveillance. Countries that deviate from the targets are subjected to increasing monitoring and more severe 'corrective' interventions, in a pyramid of responsive exchanges between governments and EU institutions. The EU is supposed to generate coordination and convergence towards balanced economies via mechanisms of learning. But how do the EU and its member states learn? Who is directing this process of learning? Is the EU learning in the 'wrong' mode? In this paper we take the EU annual cycle of policy coordination as independent variable and look at four theory-grounded modes of learning as dependent variable. We answer the question 'what is the prevalent mode of learning' – and then discuss whether this mode is functional or dysfunctional, and the implications in terms of who is driving the process and ultimately exercising power. The paper contributes to the literature on policy learning by showing how modes of learning can be operationalized and used in empirical analysis.

Key words: Ambiguity, European Union, Fiscal policy, Learning

1. Introduction and motivation

Since the early days of policy analysis and organizational theory, there has been substantial academic interest in the concept of policy learning to explain change under condition of ambiguity (Cyert and March 1963, Lindblom 1959). Indeed, learning seems a suitable way to theorize how constellations of actors manipulate the social construction of policy problems, exploit opportunities for entrepreneurship, and actively use institutions and decision-making. The recent turn towards evidence-based policy has re-kindled the discussion on learning as knowledge utilization, re-discovering some classic propositions in policy knowledge as trigger of instrumental learning versus symbolic and partisan usages of evidence (see March and Feldman 1981 and more recently Boswell 2008). An important insight of the literature on policy learning is that constellations of actors, organizations and political institutions can learn, but learning can be dysfunctional, as shown by Carol Weiss's characterization of policy endarkenment (Weiss, 1979).

The European Union (EU) has attracted its own fair share of attention by policy learning specialists. This is for two reasons. First, because of its democratic deficit, the EU, especially its bureaucracy, the European Commission, tends to create legitimacy by drawing on expertise (Verdun, 1997, Zito, 2001), technical-economic efficiency (Radaelli, 1999), and policy transfer (Zito and Schout, 2009). Proposals for EU legislation are often presented in the language of efficiency and learning from 'best evidence'. But second, and more substantively, EU policy-making is characterized by high levels of ambiguity (Zahariadis 2008). Often EU institutions agree on a decision but disagree on the implications of the decisions (Howorth 2004). Implementation of these decisions becomes an arena where different actors 'puzzle' as well as 'power' - to use Heclo's distinction between learning and power politics (Heclo, 1972). The calculability of pay-offs from alternative courses of action is low: looking at different policy domains across time, Nicholas Jabko (2006) concluded that actors that make EU policy are strategic but because of ambiguity have to 'gamble' rather than 'calculating'.

The crisis of the sovereign debt and the economic recession across several European countries have increased the need to learn under conditions of ambiguity. What was happening and the tempo of the crisis were not clear. The classic incremental responses did not seem sufficient to placate the fury of markets and investors. Uncertainty on policy responses was coupled with controversies about who should act and when – the European Central Bank, the European Council, the Commission or individual Prime Ministers. Unsurprisingly then, there hasn't been any big bang response to the political, economic and financial crisis, such as a federalist leap in the integration process. And yet, since 2008 a set of different policy instruments has emerged to monitor progress towards macro-economic convergence and exercise fiscal surveillance on the member states. This is not a major big bang innovation because the new instrumentation was introduced step by step and because it was essentially a process of layering new forms on surveillance and enforcement on existing frameworks, notably the Stability and Growth Pact (de la Porte and Heins, 2014; Salines et al., 2012).But taken together they are qualitatively different from the pre-crisis situation.

In terms of macro-economic co-ordination, the EU operates a cycle of co-ordination, monitoring and sanctions of deviations from targets. The convergence goals are based on economic indicators, but the Commission also monitors progress towards the so-called 'Europe 2020' goal and social investment targets (http://ec.europa.eu/europe2020/index_en.htm; on social investment see European Commission 2013). This gives the Commission a broad agenda-setting and monitoring power: it can monitor progress towards fiscal convergence or lack thereof by considering a wide range of policy areas, from climate change to social inclusion.

The Stability and Growth Pact was reinforced during the crisis with the aim of strengthening a set of preventive and corrective measures. The new system of coordination made up of five regulations and one directive (the so-called six-pack, December 2011) guides member states towards structural budget balance around their medium-term objectives. The structural budget balance operates as safety margin against breaching the 3% headline budget deficit threshold of the Stability and Growth Pact (SGP); it is not sensitive to cyclical changes and one-off measures and for this reason is called 'structural'. The six-pack contains a macro-economic imbalance procedure with 11 indicators – this increases the capability of the Commission for surveillance. The six-pack applies to all member states, with some provisions that apply only to the 18 members of the euro-area.

The implementation of the preventive and corrective arms of the new system takes place in an annual cycle of coordination. The European Semester, introduced in 2010, is a policy-making calendar where the member states and the EU institutions discuss their budgets and policy reforms at specific times during the year. In the official documents, the EU refers to the European Semester as general reference for the annual cycle, although strictly speaking there is a European Semester and a National Semester.

In the European Semester, the Commission produces the annual growth strategy (AGS, in November), reviews the fiscal and structural reforms of the 28 member states, provides recommendations (so called Country-Specific Recommendations), and monitors the implementation of the recommendations. The alert mechanism reports (AMRs) provide early warning of potentially harmful deviations from macro-economic balance. The AMRs essentially lead to more monitoring via ‘in-depth reviews’. In the first annual cycle, 12 member states fell into the AMR mechanism, 14 during the next year.

In the second phase of the annual cycle (the National Semester), the governments of the member states are supposed to implement the policies they have agreed. This is a system of routinized monitoring, and iterative implementation of reforms. The Commission monitors fiscal co-ordination before decisions are made at the national level. But it also makes recommendations and monitors the performance of individual member states towards the jobs, education, innovation, climate change and poverty reduction targets in the EU's long-term strategy called Europe 2020 (on the latter, see Copeland and James, 2014). Hence the annual cycle has the potential to cover a broad palette of policy reforms. The euro area countries are obliged to implement the recommendations of the Commission, unless a qualified majority of members of the Eurozone (minus the country in question) is opposed to the decision proposed or recommended. The latter is a provision of the fiscal compact, which we illustrate next.

The fiscal compact, singed in March 2012 (binding for the euro area; other countries can join it entirely or selectively), adds on to the architecture of surveillance and enforcement. It is supposed to strengthen the SGP – formally, it is Title III of the Treaty on Stability, Coordination and Governance (TSCG). The Treaty was signed by all EU governments bar Britain and the Czech Republic. Croatia joined the EU in 2013 and has not signed yet. The assistance provided by the European Stability Mechanism is conditional on the signature of the Treaty and incorporation of the Treaty rules into domestic law, preferably constitutional law (art. 3.2 TSCG). The major rules that gain binding, even constitutional, force are that the budgetary position of a country should be balanced or in surplus, that the structural deficit should not exceed 0.5% of the GDP, and that the reduction of debts over 60% of the GDP should take place at one twentieth per year. Art. 3 TSCG stipulates that convergence towards the medium-term objective of a country should be “rapid”. Crucially for our analysis of learning under conditions of ambiguity “the time-frame for such convergence will be proposed by the European Commission taking into consideration country-specific sustainability risks”. Deviations from the medium-term objective or from the adjustment path are possible only under “exceptional circumstances” (art.3, par.1/c and par.3/b TSCG) – events that are outside the control of the government, “provided that the temporary deviation of the Contracting Party concerned does not endanger fiscal sustainability in the medium-term”. Obviously to establish whether a circumstance is exceptional or not is not automatic, quite the opposite, there are margins of judgement and ambiguity. Note that governments have to report both on deficit and debt. On the latter, the fiscal compact rule is that they have to report ex ante on their public debt issuance plans both to the Council and the European Commission. One important surveillance property of the fiscal compact, indeed, is that governments are obliged to report ex-ante on all major policy reforms to the Commission and the Council. In May 2013 the countries adopting the Euro have also joined the two-pack that obliges governments to send their budget proposals to the Commission and the Eurogroup before they are sent to national parliaments.

When a government's economic policy breaches the thresholds of deficit or public debt the corrective arm enters the scene. The correction mechanism is quite intrusive in terms of national policy autonomy, since it revolves around "common principles to be proposed by the European Commission, concerning in particular the nature, size and time-frame of the corrective action to be undertaken, also in the case of exceptional circumstances, and the role and independence of the institutions responsible at the national level for monitoring compliance" (art. 3, par.2 TSCG). The Treaty-based Excessive Deficit Procedure (EDP) gives the Commission a platform to discuss the timeframe, rhythm and path to reforms with the governments that exceed the thresholds. A governments must present a "budgetary and economic partnership programme" that includes "a detailed description of the structural reforms which must be put in place and implemented to ensure an effective and durable correction of its excessive deficit" (art.5 TSCG).

After surveillance and monitoring, the third component of the compliance mechanism is sanctions. Deviations from the fiscal compact allow the Commission (or any other government, independently of the Commission's views) to bring a non-compliant member state to the Court of Justice. If this member states does not subsequently comply with the judgement of the Court, it can be fined up to 0.1% of the GDP.

To recap on the policy coordination cycle: after the Annual Growth Survey in November, at the end of the calendar years the member states adopt their final budgets taking into account the opinions of the Finance Ministers meeting in the ECOFIN Council and the advice of the Commission. In February and March the AGS is discussed by the Parliament and the relevant Council formations. At this time the countries that have been targeted by an AMR because of their imbalances receive the in-depth reviews of the Commission. In April all countries (first the euro area countries and then the others) submit their medium-term 'stability programmes' and 'national reform programmes' outlining medium-terms objectives and the policy reforms. During this month, the Commission acknowledges receipts of the plans –without evaluating them yet. The plan then goes to the national parliaments. In May / early June the Commission produces its evaluation of the reform plans and issues CSRs. Always in June, the discussion of the CSRs made by the Commission goes up to the Employment Ministers first, then to the Finance Ministers (the ECOFIN Council) and finally to the

Council of Prime Ministers and Heads of State (Council of the EU). In July the Council of the EU releases the final recommendations agreed / formally they are adopted by the ECOFIN Council. The member states submit draft budget plans for the next year by 15 October and the cycle re-starts.

Collectively, the EU institutions and the governments have to 'puzzle' or 'gamble about the future' (to paraphrase Jabko) over the interpretation and detailed implementation of the mechanisms and procedures of the annual cycle – procedures that leave some margins of judgement and are 'expandable' on all sides - by the Commission, who sets the agenda with the initial analysis of the macro-economy of member states in autumn, when the European semester begins, but also by governments, who can argue that deviations are temporary – but cannot stop sanctions unless there is a reverse qualified majority. This condition of ambiguity sets the scene for our inquiry into the varieties of learning.

Indeed, ambiguity seems to suggest an ideal territory to experiment with theories of policy learning to understand who learns what in the new system of monitoring and fiscal surveillance. And yet, doubts and concerns about the values of learning theories loom large today - as they did when in the early 1990s a series of memorable articles made an attempt to provide the definitive answer on what is policy learning and how to measure it (May 1992, Bennett and Howlett, 1992). The problem has always been the same in this literature: How do we know whether a given phenomenon is generated by policy learning and not by another process? To be sure, one can run some plausibility probes for learning, of the type 'this collective behavior in organization X under conditions of ambiguity is plausibly the effect of learning'. However, if there are other plausible explanations we can only conclude that we <u>may be</u> observing learning processes. This does not look like a robust foundation for a policy theory. To many, the literature on learning is ultimately elusive. True, the concept is attractive when organizations operate under conditions of ambiguity. And the case for using learning to study the implementation of decisions taken by actors that 'gamble' looks strong. But empirically it seems impossible to grasp the denotation and connotation of policy learning with sufficient precision.

In this paper we offer a way out of this impasse. Our contribution to the literature is theoretical and empirical. Empirically, as we explain below, we offer an integrated template to explain learning processes in complex organizations and contribute to the explanation of one of the most ambitious attempts to coordinate the macro-economy and structural reforms. Theoretically, our main contribution is to re-formulate learning as an ontology and to show how to use a new 'varieties of learning' framework. Our ontological posture stands in contrast to the current literature, which has always sought to capture learning as epistemological problem - that is, how to establish if a given conjecture is true or false. By shifting learning to the ontological level, we handle the problems that have beleaguered the literature and offer a way ahead for this field of research. Essentially, we argue that if we observe reality with learning as ontological lens, we can safely start with the proposition that there is always some learning process at work. It is the same as using, say, gender to observe reality: any social phenomenon becomes has gender-related properties if we are studying social interaction from the perspective of gender. After having shifted gear to ontology, we then argue that learning comes in different types and sub-types, drawing on recent work carried out in the field of explanatory typologies applied to learning (Dunlop and Radaelli 2013).

In Section 2 we illustrate four varieties of learning: reflexive, epistemic, hierarchical and learning-via-bargaining. Section 3 presents the design of the project and the conditions for learning functionally. It also motivates case selection. Essentially, we focus on the cases of France and Italy in one annual cycle of coordination to zoom on the area of ambiguity where these countries operated in 2013-2014 – both had problems in reaching their public finance targets stipulated with the EU. Currently, there is no EDP for Italy, although this is a country always on the verge of being included given the fluctuation of the deficit around and above 3%, as we shall explain in a moment. France got into the EDP in April 2009, with a 2015 deadline for correction.

Our empirical evidence (section 4) shows that overall the EU is learning in hierarchical and bargaining modes. We then ask the questions whether these modes are functional - we suggest they are not, because the conditions for their efficient usages are not met (section 5). We also reflect on the implications for the agency of the Commission and power shifts, and conclude with policy recommendations.

2. Literature review and conceptual framework

There has been fast growth in the academic literature on the responses to the economic and political crisis of the EU, but so far there are no studies tackling ambiguity up-front, and no attempt to use policy learning theories explicitly. Extant literature has so far examined: the causes and the unfolding of the international financial crisis across the EU and its member states (Helleiner, Pagliari, and Zimmerman, 2010; Hardie and Howarth, 2013); the regulatory response to the financial crisis in the EU and its member states (Maynz, 2012; Moschella and Tsingou, 2013; Quaglia 2012); the building up of the sovereign debt crisis in the euro area (Dyson, forthcoming; Tsoukalis, 2011) and its effects on member states (van Hooren et al., 2014); the ad-hoc institutional changes introduced in the EU and the euro area to deal with the sovereign debt crisis, such as the fiscal compact (Chang, 2013), the European Stability Mechanism and its forerunner (Gocaj and Meunier, 2013), the changing role of the European Central Bank (Salines et al., 2012); the increasing process of inter-governmental deliberation in economic governance (Puetter, 2012).

In terms of explicit policy theories, we found a multiple streams analysis of the responses of the EU (Copeland and James, 2014). Others have provided more abstract theoretical frameworks, and linked the crisis to European integration theories (Schimmelfennig, 2014; Vilpišauskas, 2013). A bit closer to learning theories are the studies that have addressed the ideational aspects (Blyth 2013) and the narrative dimension (Schmidt 2013) of austerity, pointing out the resilience of liberalism in Europe (Schmidt and Thatcher, 2014). But, policy learning as a theoretical lens remains un-charted territory.

In comparative public policy, the literature on learning is an effective way to theorize how actors' constellations and organizations behave under conditions of ambiguity. In the classic formulation of Hugh Heclo (1972), if 'powering' is a good framework to explain who gets what when actors can calculate the pay-offs of alternative courses of action, 'puzzling' performs better when there is ambiguity. More generally, one can find learning sort of 'embedded' in models of the policy process. Its role is predominant in theories that acknowledge ambiguity up front, from the early organizational models of Cyert and March (1963) to the multiple streams models of John Kingdon (1984) expanded by Nikos Zahariadis (2008). Theorists of democracy and communicative action have underpinned their theories of deliberation and participatory policy analysis with learning mechanisms. In social constructivism, authors make a classic distinction between thin and deep learning, the latter involving changes in actors' preferences (Checkel, 1998). But learning features prominently in rational models of bargaining too - for example in Bayesian mechanisms concerning beliefs (Breen 1999) and more generally the consequences of up-dating information. The fact is that even in the most hierarchical setting there is an element of ambiguity about exactly what kind of behavior constitutes compliance or not (Chayes and Chayes, 1995).

'Learning instructions' or 'learning from the top' are recurring expressions in the literature on economic and social reforms in the EU to explain how targets and indicators impact on domestic policy choice via processes of de-coding, interpretation, editing and creative manipulation (Radaelli, 2008). Heikkila and Gerlak (2013) have produced a fabulous review of learning in public policy, so we do not need to repeat their analysis here (see also Freeman, 2007 for an equally compelling review). But - one may wonder - if learning underpins several theories, why isn't it often used 'on its own' so to speak? Because - the conventional answer goes - this concept is inherently elusive when it is operationalized. True, political scientists have prima facie expectations of what type of observations learning is likely to generate. We can therefore find out, empirically, if it is plausible to infer the presence or absence of varieties of learning, like policy learning or political learning (May, 1992). However, this is not the same as saying that our observations provide un-ambiguous evidence of learning instead of other explanations.

We take a radically different approach. We reason that up until now learning has been found elusive because it has been framed as epistemological problem. By this we mean that the key issue has been on whether we have explicit and robust criteria to say whether a proposition about the presence or absence of learning is true or false. Epistemology is the discipline concerned with the truth validity of our knowledge. As we have just seen, the epistemological stance on learning has led to an impasse.

What happens if we shift the discussion to the ontological level? Ontology is the discipline concerned with the nature of the reality we observe or interpret. Social realities such as interactions in actors' constellations can be legitimately grasped by different types of ontology. A classically-trained political scientist may look at social interaction and define it as a situation where power is created or used. An economist would most likely look at the same reality and find an explanation of what goes on grounded in the idea of exchanges of scarce resources and their allocation. A gender scholar may be attracted by the gender elements characterizing the interaction. An ethnographer would think of myths, rituals, identities and religious norms, and be less concerned about economic resources or gender relations. So, why can't we do the same and adopt a learning ontology? We do not need to believe that is the only, 'true' ontology of course: all we need is a belief that a learning ontology may be a convenient way to produce theoretical leverage.

And this is exactly where we start from. If learning is a legitimate ontology, the question is about its theoretical leverage. One proposition follows directly from this ontological choice: for, once we adopt a learning ontology, we are working with the assumption that there is always some learning process going on in a given social reality. But, what type of learning? Note that the problem now is no longer one of differentiating learning from the other explanations. It is the relatively simpler problem of opening up the black box of learning and engage in concept formation: how many learning types exist? How are they defined? Do they have sub-types? In a recent paper, Dunlop and Radaelli (2013) suggest two main variables that generate learning types. One is the social certification of actors: is there a socially certified actor that stands out from the crowd in a given social interaction? One can think of organizations like the European Central Bank or group of actors such as epistemic communities.

Ambiguity can operate both at the level of manipulating social certification - for example, the European Commission presenting its diagnosis of the state of play with the national reform plans of the member states as technical when actually it is politically motivated - or manipulating expertise and experts. The other variable is problem tractability - some policy problems are wicked, others have their own stable technologies, a few even have algorithms leading to predictable solutions. Problem tractability under conditions of ambiguity is, at least in part, socially constructed. It is not an absolute given, as demonstrated by the hot debates on whether 'social investment' is a solution to the problem of growth or it aggravates budgetary problems[1].

By combining the two variables, Dunlop and Radaelli (2013) generate four varieties or modes of learning. They are reflexivity, (pluralistic) bargaining, hierarchy and epistemic learning. Learning as social process can either take place in a policy sub-system or organization where an actor has a socially privileged position in relation to knowledge - imagine a 'teacher', an 'expert', a central bank, but also a Court or the European Commission. Or, at the opposite, learning can occur in a constellation of actors that are somewhat equal in relation to how society values their knowledge. This is true of situations of reflexivity and bargaining, when every actor in a given constellation has to accept that any other actor may come up with 'the best argument' (reflexivity) or there is a pluralist setting with no monopolistic position (bargaining).

As for problem tractability in our empirical context, we observe variation from total lack of know how (in the hardest days of speculative attacks on sovereign debt) to the emergence of instruments of monitoring and fiscal surveillance. When these instruments are used, actors still argue over the meaning of some aspects of the deficit procedures and how the European Commission and the EU Ministers interpret them. Some think that an excessive deficit triggers a flow-chart: 'if you do this, we will not let you do that'. Yet others think the deficit procedures opens room for negotiation, dialogue, perhaps even reflexivity: 'if you do this, we want to talk to you about that by using our power of surveillance'.

[1] Social investment is about increasing the skills and capability of people so that they can fully participate to social life and in the labor market (Kvist, 2014, forthcoming; Morel, Palier and Palme, 2014). The Commission presented the social investment strategy in February 2013 (one communication, a recommendation and eight staff papers). The Council endorsed it in October 2013. In consequence in 2014 the Commission informed its Annual Growth Strategy with the objectives of the social investment strategy. A “Youth Guarantee” was added to the Europe 2020 strategy on 22 April 2013, with a Council recommendation.

3. Research Design

As mentioned, our project is designed to explore the relationship between the annual cycle of policy coordination and learning and answer three research questions about the prevalent type of learning, whether its functional, and the power implications. Our first research question is not whether there is learning or not – given our ontological presuppositions, this question would not make sense. Instead, research question no.1 takes the annual cycle as independent variable and modes of learning as dependent variable: what variety of learning is prevalent in the implementation of the new mechanisms for policy coordination of the European Semester? The second research question concerns the quality of the learning process. An organization can learn in a given mode, but this mode may be dysfunctional, as shown by the literature on knowledge utilization mentioned above. Hence research question no.2 becomes: is the prevalent variety of learning functional for the EU as complex organization operating under conditions of ambiguity? Finally, we relate learning to power questions, or who gets what in learning processes. We have seen above that the Commission has agenda-setting power in the European Semester, but this power may be constrained. Research question no.3 is therefore: who exercises agency in the learning processes at work in the European Semester? How does conflict over modes of learning reveal power struggles over the agency of the Commission, and between different governments?

For our empirical purposes, following Dunlop and Radaelli (2013) we reason that learning in the European Semester can occur in the following varieties:

- **Reflexively** when decisions are taken on the basis of reasoned persuasion and actors' preferences change as a result of communication. The annual cycle provides a thick web of reporting and communication and several procedures to connect individual policies such as employment policy, climate policy and social inclusion to the level of fiscal co-ordination.
- As by-product of **bargaining**: during negotiations of their budgets and annual reform plans, the Commission and the governments of the member state may use deals, compensations, delays to reduce ambiguity and come to agreements on what the procedures allow and do not allow. Here we have collective bargaining and partisan mutual adjustment as pathway to learning
- **Epistemically**, when communities of experts with shared causal beliefs provide solutions that reduce radical uncertainty and assist political leaders in identifying both their preferences in a given situation and the solution to a collective problem. Expertise can also be pro-actively generated by institutions (Dunlop and Radaelli, 2012): in our case, the Commission has several levers to generate knowledge and expertise, including the pan-European programme for research called Horizon 2020, with a budget of €80 billion.
- **Hierarchically**: in a hierarchical mode, learning is definitively from the top. It is about understanding and de-coding instructions and finding patterns to compliance.

Each type can be functional or dysfunctional for an organization. It depends on the presence or absence of certain conditions, that are well-known in the specialized literature on knowledge utilization and learning. Indeed, Dunlop and Radaelli (2013) de-compose their initial four types into sixteen sub-types, some of which are dysfunctional. To illustrate, their 'epistemic learning' type is expanded into four types: the 'teacher', the 'facilitators' (experts become "agents whose involvement is effectively controlled by their decision-maker principals" Dunlop and Radaelli 2013:11), the 'producer of standard' and the option of the expert as nothing but one 'contributor' among many others.

In the reflexivity mode, learning is functional if the conditions for communicative rationality and deliberation are met (Risse, 2013). A good description of reflexive interaction is Bruno Jobert's notion of forum as collective problem-solving, as opposed to 'arena' where conflicting interests clash in a zero-sum fashion (Jobert, 1992). Learning has an exploratory logic: there is no assumption that someone has 'the solution' or that the 'solution' exists ex-ante (Sabel and Zeitlin, 2008). It can only be discovered within the network of actors, often exploiting local innovations. At the organizational level, we should see that the EU evolves like a radar that finds solutions somewhere, then diffuses and makes innovation exploitable by the system.

Reflexivity, however, needs its own conditions, well-explored by the literature on deliberation (Risse 2013). One is particularly important: that actors perceive authority as emanating from the power of the best argument, not by formal hierarchy or legal mandates. If for example the officers of the European Commission interpret their role in the European Semester as facilitators of dialogue (as opposed to a role of 'flow-chart' pilot) then this condition is likely to be met. Instead, reflexivity is dysfunctional if deliberation occurs only within small technocratic groups (e.g. the committees studied by Joerges and Neyer 1997). Group wisdom in a reflexive actors' constellation may end up trapped into the dragging effects of the slow coach - yet another case in which learning processes are dysfunctional because the crisis requires swift responses. Finally, reflexive processes are not good at handling paradigmatic positions that are essentially incommensurable. In these conditions, Pellizzoni (2001) rightly calls into question 'the myth of the best argument'. When a crisis requires discontinuity, the painstaking search for a 'best argument' delays the moment when actors acknowledge that some arguments must be abandoned for good rather than trying to compromise on them, because they are no longer working in the new crisis environment.

Bargaining is dominated by the logic of exchange and negotiation at the individual level. Actors' constellations learn by exploring the Pareto-frontier and updating their beliefs – bargaining generates new information on the world out there as well as on the preferences and strategies of the other actors. Interactions take place in 'arenas' rather than 'fora' (Jobert xxx).

One condition for efficient pluralistic bargaining is that conflicts do not have a cumulative nature (Ljiphart xxx): if the same actors win all the games, and the losers are always the same, bargaining degenerates into inertia. Some actors can call it a day and abandon negotiations. Thus our condition for functional learning under bargaining is that winners and losers are re-shuffled frequently.

The epistemic mode is contingent on the presence of a community of experts with shared causal beliefs about causal-effect relationships in the context of the 'crisis'. In epistemic learning, the policy sectors of the European Semester (fiscal, employment, but also sustainability and social inclusion) are not arenas suitable for bargaining. They are laboratories instead, where each innovation or idea is tested by using science and evidence pragmatically. But broadly speaking the 'solution' (such as 'austerity' or 'social investment' and so on) and the 'lesson taught' by the experts to policy makers must work and in this sense be correct. As shown by Hirschman (1970), paradigms provide their own blinkers and hindrances to learning when thinking outside the box is vital.

Hierarchy finally provides its own conditions for functionality. The solution must be known ex-ante to reduce ambiguity about what is pushed down the chain of hierarchy. Further, hierarchical learning is not efficient if the principal does not know the production function of the agent. The European Semester has several reporting requirements that should reduce information asymmetry between the Commission and the Council (on one hand) and the member states, on the other. The European Commission can also intervene with enhanced monitoring when more information is needed from a country that deviates from fiscal targets. Another condition is that the principal has legitimacy and can deploy sanctions if necessary. If for example a Prime Minister complains that Germany is using the European Semester to impose its preferences on the fiscal policy of other member states, then legitimacy is contested and the EU institutions find it harder to deploy the corrective measures of the European Semester.

Empirically, we collated material from primary documents for the period 2008-2014. Essentially, we compiled a chronology of events to track the annual cycle of the European Semester, which starts in Fall with the Annual Growth Survey prepared by the Commission and prescribes a certain pattern of reporting and decisions by member states and the EU institutions. We assembled some 250 official documents and gathered additional material from the press and research institutes. For this paper we decided to focus on the 2013-2014 cycle of the European Semester to explore ambiguity – the main topic of our special issue: in fact, in this 2013-2014 cycle two important member states, France and Italy, entered the grey area of deviations from the convergence targets that can be considered temporary by some and permanent by others. Italy held the Presidency of the EU in the second half of 2014. We supplemented our sources with material from the Italian and French press.

4. Findings

What does the evidence on the implementation of these mechanisms say? Let us consider evidence pointing to each of the varieties of learning, starting with reflexivity. There is limited evidence for this mode of learning. The strongest argument for reflexivity comes from the discussion on social-investment within the Employment Council and more generally the European Semester (De la Porte, 2014, Zeitlin and Vanhercke, 2014). The main thrust of the debate is to consider elements of public expenditure concerning the 'social dimension' as investment, thus changing the total figures used to compute deficits. This can be seen as reflexivity in that, the European Semester was created to generate macro-economic co-ordination via surveillance. But (this is the argument) actors have now learned that only the 'social' can fix the 'economic' dimension and deliver on sustainable growth. There are also ideas within the European Commission and certain governments to present a social imbalance procedure to fend off the socially undesirable effects of the macro-economic imbalance procedure (http://www.rastanews.eu/PWA_uploads/eurozone-flaws-final.pdf) - de la Porte and Heins 2014 suggest something like that when they argue that the euro area criteria should be complemented by social investment criteria.

Additional evidence for reflexivity comes from the Commission's reaction, in June 2014, to the Italian national reform plan. The Commission issued eight recommendations (technically these are 'recommendations for a Council recommendation'!) to Italy. The fifth, on labour market reforms, contains a reference, in line with the Council's endorsement of the social investment strategy (European Council, 2013) "to address exposure to poverty and social exclusion, scale-up the pilot social assistance scheme, in a fiscally neutral way" and to "improve the effectiveness of family support schemes and quality services favouring low-income households with children" (Commission, 2014:7). The Commission pushed on social investment recommendations across the board, especially with Bulgaria, Croatia, Ireland, Lithuania, Poland, Portugal and Romania in the June 2014 country-specific recommendations.

However, the operational and budgetary meanings of social investment are contested (Kvist, 2014 forth; de la Porte and Heins, 2014; Morel, Palier, Palme, 2014). Care institutions and schools are certainly a component of social investment, but do we mean 'any care' and 'any type of school' or high quality care and schools? Further, the 'social' remains subordinate to the 'economic' – the achievement of social investment objectives is still based on voluntary co-ordination among member states and weak surveillance and enforcement (de la Porte and Heins, 2014)). The discussion on the social investment dimension has been more enthusiastic in the Council Committees working on employment and social inclusion that in the pivotal ECOFIN Council.

Turning to epistemic learning, there is impatience with austerity in academic and policy circles. Practically every month books and pamphlets on 'new models of growth' are presented by academics and political consultants in several member states (e.g. Aghion, Cette, Cohen 2014 on the debate on a progressive and inclusive growth in France and Europe). There is no doubt that, in the world of ideas at least, albeit not in the world of public policy, we live in a post-austerity debate, but an alternative, internally coherent, widely shared (among experts) paradigm has not emerged. There are many possible alternatives but economists and social scientists have not converged on the post-austerity model. The Commission has mobilized its Horizon 2020 funds for EU-wide research to generate more expertise, with four calls in 2014 for projects dedicated to the crisis. Interestingly, in Horizon 2020 there is an explicit reference to more research on the ideational roots of the crisis, showing that the officers at the Commission believe that policy ideas matter. However, the Commission has a process goal in ideational politics, not an outcome goal. Given its limited legitimacy and capacity, it can only orchestrate existing research and keep momentum with the flow of ideas. It cannot possibly steer an epistemic community in the field of macro-economic policy and growth and generate consensus towards one model or another.

By contrast, there is evidence of learning in the variety of hierarchy. First, the rules are enshrined in the Treaty and have legal binding force. Up until summer 2014, no major politically-motivated upheaval of the rules of fiscal discipline occurred and when countries fell into the excessive deficit procedure, they have responded to sanctions or the threat of sanctions by pursuing heavy budgetary measures (we will examine the episodes of Fall 2014 later on). This is the case of Prime Minister Manuel Valls in France in 2014: he did not repeat the move of the French and German governments of the past to use the Council to overturn a difficult relationship with the Commission on the state of play with fiscal discipline. The budgetary correction imposed by Valls to the French parliament in the first part of 2014 generated major upheaval within the majority and the French Socialist Party – put differently, the measures were politically and electorally painful, but where nonetheless pushed through the *Assemblée Nationale*.

Second, the pyramid of monitoring, alerts and enhanced surveillance into the finances of member states is firmly in place – it is too costly to openly challenge this architecture in the name of 'post-austerity' and 'more growth'. There have been attempts to modify the pyramid with 'social investment' as we have seen, but no one wants to demolish this bastion of credibility *vis à vis* the financial markets. Thirdly, the Commission as custodian of the hierarchical rules has the prime mover's advantage, with the annual growth survey in November. It can put a member state on the spot and draw attention to imbalances that are difficult to ignore. The calendar of the European Semester has been respected. Information has been sent regularly, procedures have been activated, and the preparation of national reforms plans in the member states has gained prominence on the domestic policy agendas and the media. 'What the Commission may say about this delay with the deficit adjustment plan' and 'what the Council will say about us' are topics that are aired every month in the press and parliamentary debates we examined for France and Italy. The stock exchange in France and Italy reacted with punctuality to the publication of the Commission's assessment of national reform plans in June 2014. This contrasts with the low political and media saliency of the reporting steps in the processes of facilitated co-ordination in the past (Borras and Radaelli 2010). It seems that the hardening of rules in the passage from the open method of coordination to the European Semester has served some purposes at least.

Learning in the Semesters has also revealed features of bargaining – let us turn to the case for bargaining now. In September 2014 the Italian Prime Minister Matteo Renzi said to the press that "Italy does not take lessons from Europe" – a statement that the new Commissioner for economic and monetary affairs and the Euro, Jyrki Katainen, countered with these words: "we are not teachers, we are interpreters"[2] showing that all actors acknowledge the existence of room for classic EU negotiations.

Fiscal surveillance is definitively not an automatic flow-chart process in the European Semester. It is negotiated. The Commission has agency but under conditions of ambiguity. It can and indeed does negotiate. However, the agency of supranational institututions is limited by another important bargaining force at work: the reputational power of Prime Ministers. The Commission and the European Central Bank were hard and un-compromising during the most ferocious speculative attacks on the euro, especially with an executive that was losing prestige and popularity like the late Berlusconi government in Italy[3]. But the supranational voice has been less authoritative towards new Prime Ministers with fresh reputational capital, like Manuel Valls (France) and Matteo Renzi (Italy) in 2014. In turn, these two Prime Ministers have used high politics to try to set limits to the autonomy of the Commission and in attempts to secure favourable treatment from the Council.

Reportedly, France mobilized different high-level government officials to put pressure on the European Central Bank to weaken the Euro in May 2014, thus giving more chances to French

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[2] Interview with *Il Fatto Quotidiano TV*; statement retrieved from the press agency www.ansa.it on 13 September 2014.

[3] The famous ECB 'confidential letter' to Berlusconi of 5 August 2011 dictated a set or urgent reforms. It remained secret until 29 September when a *Corriere della Sera* journalist published it.

competitiveness[4]. The same officers put pressure on colleagues in other members of the euro area to raise the issue of the Euro exchange rate formally. Recall that this happened at a time when Valls was pushing through the National Assembly a severe budgetary plan that cost the French Socialist Party several losses in terms of support in Parliament and at the European Parliamentary elections of May 2014. On 2 June 2014 the Commission evaluated the French national reform plan with little enthusiasm, making a number of specific critical recommendations (Commission, 2014a). As explained above, the recommendations are then discussed in the Council of Ministers and the Council of the EU in June before they are finalized in July. Unsurprisingly, Valls started sending signals to the press that he was negotiating with colleagues in the Council a flexible approach to deficit rules under a period of slow growth in some countries and recession in others, and followed with a more confrontational posture in October 2014. France pushed the boundaries of top-down compliance towards bargaining if not outright conflict with Germany during that month, when he decided not to go for additional budgetary corrections, thus staying above 3% until 2017 and risking a fine up to 0.2% of the GDP (the EDP for France is supposed to be closed with the 3% threshold reached in 2015). Speaking in London in early October 2014, Renzi said that Italy ran no risk of getting into the EDP but nevertheless was supporting the principles invoked by France: "I respect the decision of a free and sovereign country like France. Nobody can treat the other member states the same way one treats students. I stand by Hollande"[5]. Renzi co-ordinated this posture with the Italian President Giorgio Napolitano to create room for bargaining between Italy and the newly appointed Commission: in Fall 2014 it became clear that the Italians could not reach the budget target before 2017. In consequence, Renzi, his finance and economy minister Padoan and President Napolitano sought on one hand to support the right of member states to make their voice heard by the Commission, and on the other to exchange reforms like the Italian Jobs Act against flexibility in the interpretation of the fiscal rules – i.e., using the investment lever to counter the economic slowdown. Renzi in several interviews with the press in September and October 2014 used the word 'exchange', especially in expressions like "our battle for flexibility will allow us to stay for three years within the conditions we set [that is, reaching the targets in 2017, Authors' note] and to exchange flexibility with reforms, facilitating the European investment plan of 300billion Euro".[6]

This bargaining logic dates back to the days of his appointment on 22 February 2014. Already in Spring, his technical officers and Finance Minister Padoan used a meeting in Washington to sound

[4] www.globaleconomicanalysis.blogspot.fr accessed on 10 May 2014.
[5] Marco Galluzzo "Renzi sfida Merkel: sto con la Francia, non siamo studenti" *Corriere della Sera*, 3 October 2014, page 2.
[6] Maria Teresa Meli "Renzi ha piu' alleati. E rilancia la politica contro i tecnocrati" *Corriere della Sera*, 2 October 2014.

the then Commissioner Siim Kallas on the likelihood of the Commission accepting a temporary deviation from the convergence target. Recall that the European Semester does not allow a government to present its economic strategy to the parliament without informing the Commission first. Accordingly, on 16 April 2014 Padoan wrote a letter to Kallas with the Stability Programme and the National Reform Programme for Italy enclosed. In a slightly surreal prose, the letter explains the "slowdown of the convergence" in 2014, followed by an expected "strong convergence" in 2015, and "full convergence" in 2016, together with a promise to privatize public assets in the range of 0.7% of the GPD between 2014 and 2017. Kallas replied on the same day[7], saying he was "taking note" - a factual point that was interpreted by the Italian press as signal that the Commission was open negotiations on an Italian slow down of deficit reduction plans[8]. As mentioned, in Fall 2014 Renzi tried to shift "full convergence" to 2017 instead of 2016.

Renzi has explicitly trying to bargain on the role and status of member states in the European Semester, with his statements that governments are not pupils and Merkel cannot teach lessons. One bargaining chip that was not played or played wrongly was the Italian Presidency of the EU: Renzi insisted on using the leverage of the Presidency to press on the appointment of Mogherini as the EU's foreign policy representative. He was successful in that, she was appointed, but this narrowed the opportunities for the Presidency to promote the much-sought (by Renzi) EU-debate on post-austerity economic policy ideas and above all flexibility in the rules.[9]

5. Discussion and Conclusions

Our evidence should be considered preliminary and related to our wider project on fiscal surveillance and monitoring – here we have only reported findings on one cycle and on two countries. But we can answer our three research questions and contribute to the literature on policy learning and fiscal surveillance.

First, we found that evidence points to bargaining and hierarchy rather than epistemic learning or reflexivity. Second, the Commission has agency under conditions of ambiguity, but this agency is bounded by high politics, the reputational capital of Prime Ministers and ultimately the agreements

[7] Both letters were retrieved from the official Italian government website www.mef.gov.it, accessed on 20 April 2014.
[8] Marco Zatterin, "Rinvio del pareggio, l'UE apre" *La Stampa*, 17 April 2014, page 5.
[9] We concur with the authoritative opinion of the past Commissioner and past Foreign Policy Minister Emma Bonino. See Francesca Schianchi "Emma Bonino: Su Lady Pesc avrei fatto un'altra scelta", *La Stampa*, 12 September 2014.

taken in the various Council formations. Much of what the Commission does or does not do depends on a mechanism of anticipated reactions: we have seen above that technically the Commission presents 'recommendations for Council's recommendations' and there is no point in proposing something aggressive towards a member state if the Council is bound to reject the proposal a few weeks later. Thus, learning processes reverberate on power relations: to learn is a way to define power relations more precisely, to pin down the area for agency, and to test power in crucial episodes. There is another, perhaps more subtle, lesson about power and learning: actors compete over the selection of learning modes. German preferences for hierarchical learning are certainly stronger than the Italian or French preferences for this mode. The Commission likes to interpret when this increases its leverage over solutions, but goes back to the rulebook when its power is threatened. In the end, it follows that the struggle over the selection of one learning mode or another is a struggle for power. We can also submit that most of the misunderstandings and dysfunctional learning in this field arise out of different mind-sets: Germany behaves 'as if' the EU had already selected 'hierarchy' whilst Hollande, Valls and Renzi play 'bargaining' all the time.

This leads us to the answer to the research question on functionality. Bargaining and hierarchy prevail, but are the conditions for the functional use of these modes met. Starting with bargaining, the condition for functional learning is not met. The winners and losers are always the same. Those demanding concessions are always countries like France and Italy, and the 'winners' are Germans and their allies on fiscal discipline in the EU. This has not (yet?) cemented into a Franco-Italian coalition[10] mostly because of the different structural position of the two countries (only France is within the EDP) and because of the political risks of opening explicit hostilities with Germany – which would mean re-negotiating the Treaty on Stability and Growth and the architecture of the European Semester[11].

The new Junker Commission has surrounded the new French Commissioner, Moscovici, with strong supporters of the 'hierarchical' mode. This polarizes positions and creates situations that are difficult to sustain politically, as shown by the domestic problems encountered by Valls and Hollande in France and their, perhaps desperate, attempt to confront Germany in early October 2014, after having suffered huge popularity and electoral losses to the advantage of the Front National.

[10] Massimo Franco, "La crescita invocate come antidoto alla crisi" *Corriere della Sera*, 2 October 2014 argues that 'the dream of a Franco-Italian axis is suggestive as well as it is controversial.

[11] The influential Italian economist Lucrezia Reichlin is close to suggesting to go beyond the literal interpretation of the Treaty, arguably with a modification of the underlying regulations in her editorial for the main Italian daily newspaper "La cosa giusta che non facciamo", *Corriere della Sera*, 3 October 2014, pp.1-2. On modifying the underlying regulations, see Alberto D'Aregnio, "Asse di ferro Renzi-Napolitano" *La Repubblica*, 4 October 2014, pp.6-7.

Neither did we find the conditions for functional hierarchical learning. In fact, the 'solution' is not known in advance, as shown by the objective difficulty of establishing among many other things the exact meaning of 'slowdown', 'strong' and 'full' convergence - to paraphrase Padoan's letter to Kallas. Fundamentally, there is no shared belief on how to re-kindle growth in Europe. The European Central Bank does not have a solution to this problem, and when it seems to suggest one there is no consensus on how to follow it up. In Fall 2014 for example, the President of the European Central Bank, two years after his pledge to do "whatever it takes" to save the Euro, was still facing a rather depressing set of indicators on growth. His idea to engage the Bank with outright purchases of asset-based securities was met with scepticism by the German finance minister and, according to the press, the president of the Bundesbank.[12]

This ambiguity about growth mechanisms in the current economic conditions is exactly the reason why we find so few automatic responses in the behavior of all actors, and so much bargaining. The officers at DGECFIN of the Commission have no way of predicting whether the Italian government is right in making commitments about privatization and the temporary nature of the Italian deviation from the balanced budget target. These officers are in Brussels, not in Rome, and even if they were in Rome they would not be able to predict basic facts like the duration of an Italian government - apart from saying that it won't last long! All this suggests dysfunctional learning: the conditions for 'hierarchy' and 'bargaining' are not met.

The solution is either to adopt other varieties of learning like reflexivity (perhaps via the 'social investment' debate and new shared beliefs on growth) and epistemic learning (in case a new post-austerity intellectual consensus emerges one day soon) or to work on the scope conditions for functional learning. More explicit mutuality in the EU would alleviate the problems with bargaining, because Germany would operate less as 'winner' in the European Semester. Something like this may appear from outside the European Semester, with the current activity on the Banking Union. Or, thinking of the scope condition for hierarchy, the Commission and the Council could intensify the implementation of fiscal surveillance provisions to reduce asymmetries between principal and agents, but with increasing problems of legitimacy and reduced policy autonomy at home for democratically elected governments. One way or another, the road to fiscal convergence, reforms and growth presents a set of difficult choices for the EU's policy makers.

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