Chapter 2
Steering national social reforms through the EU's recovery plan

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Introduction: a first glimpse at the functioning of EU recovery

In May 2021, fourteen European Union (EU) Member States submitted their national Recovery and Resilience Plans (RRPs), detailing hundreds of policy initiatives planned for the next years in the context of the Recovery and Resilience Facility (RRF). A significant subset of these policy initiatives focuses on the EU’s green and digital transitions, though there is also a strong social orientation. To gain access to the funds, Member States need to show how their plans address the challenges set out in the Country-specific Recommendations (CSRs), many of which concern the adequacy of social provisions and the longer-term challenges facing the welfare state. The submission of the plans marked an important event of the first half of 2021 in terms of EU social policy (see the Chronology by Atanasova and Moja, this volume) and can be seen as a significant milestone for ‘Social Europe’. This was followed in summer 2021 by the European Commission’s (EC) assessment and the adoption of the plans in the Council of the EU, thus setting the stage for the first disbursements under the RRF, with 13% pre-financing for the plans. These steps allow a first insight into the content of the plans and into the way RRF governance is working in practice, allowing us to formulate expectations for the future.

This chapter analyses the governance and content of the RRF based on the most recent empirical literature, combined with a close reading of the RRF Regulation and the Commission’s assessment of this first set of RRPs submitted by 14 Member States – Austria, Belgium, Croatia, Denmark, France, Germany, Greece, Italy, Latvia, Luxembourg, Portugal, Slovakia, Slovenia and Spain – which also happen to represent a fair geographic and socioeconomic cross-section of Member States. Looking at governance, the chapter first focuses on the principle of performance-based financing, where fund disbursement is linked to results as formulated in the plans’ milestones and targets. This *modus operandi* has further strengthened the link between CSR implementation and EU funding and as such enhances monitoring possibilities for the EU institutions, including on the more politically sensitive issue of welfare state reforms. I try to anticipate what this means for the driving mechanisms in terms of CSR implementation and potential issues of legitimacy. Based on the Commission assessments, this chapter shows that there is wide variety in CSR implementation, while

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the RRF Regulation gives the Commission sufficient leeway to negotiate the right level of ambition with Member States. When it comes to monitoring reforms, on paper the RRF allows for a more intrusive governance style, though there are also good reasons to assume that the Commission will be flexible in practice.

The chapter goes on to take a closer look at the content of the first series of RRPs in terms of welfare state recalibrations. The RRPs contain a wide range of measures and investments that touch upon the welfare state. Many of the CSRs that Member States should address in their plans indeed involve welfare state policies. Given the wide variety of plans and the many hundreds of milestones and targets proposed, a full structured analysis of all welfare-related measures and investments goes beyond the remit of this chapter. However, the Commission assessments do indicate the priority investments and reforms that governments have proposed on various dimensions of the welfare state. As such, a more modest qualitative content analysis of the assessments allows us to determine patterns in terms of prioritisation and key reforms.

To gauge and interpret these patterns, this chapter uses the conceptual and theoretical framework of the social investment literature. In particular, it draws on Hemerijck’s (2013) distinction between three core functions of the welfare state: ‘stock’, ‘flow’ and ‘buffer’. Buffer policies are designed to guarantee inclusive safety nets through income protection, economic stabilisation and social assistance: examples are collective insurance programmes such as pensions and unemployment benefits, but also social assistance or minimum wage provisions. Flow policies are designed to ease the ‘flow’ of gendered labour market and life course transitions by providing work-family reconciliation services or job-search assistance, such as active labour market and parental leave policies. Stock policies, in turn, are designed to raise human capital and capabilities throughout the life course through education and training policies from early childhood to active ageing. According to this literature, the challenge for mature welfare states is to ensure that buffers are inclusive in coverage whilst maintaining long-term financial sustainability, that flow policies are gender-balanced and that stock policies are lifelong in nature. The second part of the chapter argues that this perspective fits in relatively well with the reform and investment priorities typically found in the RRPs.

All in all, this chapter provides a broad overview of the key issues of discussion in terms of governance and of some of the main trends in terms of content, allowing us to better understand what this new development in EU economic governance means for EU – Member State relations and the advancement of Social Europe.

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2. The Commission itself argued in a briefing for the European Parliament that 150 billion euros of the RRF funding is dedicated to social and healthcare spending, i.e., around 30% of total expenditure (Euractiv 2021). As pointed out by Vanhercke et al. (2021), this figure has been contested as overly optimistic and is yet to be confirmed by background analysis. The first example in the literature on coding socially oriented expenditure does however show that many of the big recipient countries such as France, Italy and Portugal are earmarking between 30 and 40% of their allocated share for socially oriented expenditure (Corti and Vesan forthcoming). However, one should not overinterpret coding exercises, as their outcome is heavily reliant on relatively arbitrary assumptions. For example, do investments in hospitals’ IT infrastructure count solely as ‘digitalisation’, or, since they also allow for better performance of social services, as ‘socially-oriented’ investment?
1. **RRF governance: performance-based financing and enhanced monitoring**

1.1 In search of ways to harden reform commitments

The key novelty of the RRF in terms of governance is the anchoring of the principle of performance-based financing. Only after Member States have satisfactorily achieved the milestones and targets defined in their plans can they request a tranche payment of their share of the funds (European Parliament and Council of the EU 2021). The goal is to create stronger conditionality between EU funding and structural reforms, encouraging Member States to be precise about achievable targets and expected costs up front, since budget overshoots will have to be borne by the Member State and RRF disbursements are conditional on the defined goals and targets being fully achieved.

The RRF’s performance-based financing has transformed the Semester process, moving it from a Commission examination of the output of a general macroeconomic forecasting exercise with summaries of the major measures introduced to a detailed Commission scrutiny of thousands of pages of concrete proposals, milestones, targets and justifications. At face value, this is a significant development in the history of EU economic governance, as it potentially changes the mechanisms driving CSR implementation in the European Semester. Interpreted positively, the change means that Member States are now rewarded for their actions and can receive fiscal resources to achieve their goals. However, an alternative interpretation is equally valid. Member States have given an external body the possibility to withhold funds from them in case they do not deliver on major economic and welfare state reforms. As such, governments willingly commit to a series of detailed milestones, targets and deadlines linked to disbursement tranches. The idea is to harden the commitment to structural reforms by enhancing the element of external constraint (Moschella 2020; Wieser 2020). Despite such constraint, it should be clear that this is not the Troika: for starters, Member States themselves formulate the plans. However, the Commission is endowed with enhanced monitoring possibilities, judging whether plans – or, more importantly, future deviations from the plans – are in line with the CSRs and follow the milestones and targets. Especially in the case of social reforms where outcomes may differ significantly from proposed plans, this is no straightforward, purely technocratic exercise. We know from the monitoring of the Semester that a lot of politics is about hiding behind a facade of numbers and rules (Merand 2021; Bokhorst 2022). This section thus seeks to unpack the politics behind the RRF rules.

The ambition to harden the commitment to reforms by linking financial resources to CSR implementation has long been in the making. Policy coordination based on non-binding recommendations has traditionally been viewed by economists as a rather weak mechanism for incentivising countries to institute structural reforms (Pisani-Ferry 2006; Deroose et al. 2008; Wyplosz 2010). The Semester’s set-up, with its Macro-
economic Imbalance Procedure and tougher fiscal rules, was in part an answer to such criticism (Bokhorst 2019). However, it quickly became clear that the possibility of sanctions, or the threat thereof, was no ideal mechanism when it came to structural reforms. In 2013, the Commission instead proposed Competitiveness and Convergence Instruments (European Commission 2013), based on Chancellor Merkel’s idea of having all countries sign reform contracts to gain access to EU funds. The Five Presidents’ Report of 2015 suggested introducing standards of a legal nature in the Semester, linked to a stabilisation function (Juncker et al. 2015b). Meanwhile, Juncker proposed a structural reforms clause in the interpretation of the Stability and Growth Pact (SGP), granting governments fiscal leeway to introduce reforms (European Commission 2015). This was followed by the Commission proposal for a Structural Reform Support Programme, again linking money to reforms (European Commission 2018), which the Eurogroup initially turned into a proposal for a Eurozone budget and later into the Budgetary Instrument for Convergence and Competitiveness (BICC).

Irrespective of the proposal, the question has always been how to reconcile the wish for economic solidity through structural reforms with the long-wished solidarity between Member States in the form of new shared fiscal resources, a red line for the more ‘frugal’ Member States (Austria, Denmark, Sweden, the Netherlands and to some extent Finland). The BICC was the only proposal ever to make it to an agreement after almost a year of monthly negotiations in the Eurogroup, albeit downsized to a mere 25 billion euros over seven years and assigned an allocation methodology leaving less space for redistribution than existing ESI funds (Eurogroup 2020). At the onset of the Covid-19 crisis, the BICC proposal was quickly shelved, never to be touched again. Instead, it was decided to open up the precautionary credit lines of the European Stability Mechanism (ESM) by dropping any reform conditionality. But, as is well known, the ESM was considered, notably in Italy, as a politically toxic instrument based on the anti-crisis philosophy of the past rather than on any real solidarity. Indeed, the very next day after the Eurogroup reached agreement on ESM support, policymakers started working on a new instrument, the RRF, which includes grants rather than mere loans as with the ESM, but is also also coupled with more reform conditionality than the ESM credit lines.

To ensure a true commitment to reforms, RRF governance had to reflect the views of those most opposed to introducing solidarity (de la Porte and Jensen 2021; Verdun 2021). As an example of the expectations raised, this is how Dutch Prime Minister Rutte defended the RRF in his national parliament:

The fastest route to more competitiveness are structural reforms of your pension system and your labour market. [...] Green investments are also useful, but they are not reforms. Without also including pension reforms and labour market reforms you won’t get a structural strengthening of your economy [...]. If we in the Netherlands cannot immediately have full trust in the Brussels system not saying ‘well, the reform hasn’t really happened, but here’s your money anyway’, then we need something in the governance to ensure the Netherlands has very tight control over the process (Tweede Kamer 2020).
In response to this wish, the RRF includes the possibility of an emergency brake. In case any Council member considers that the Commission is too soft in its assessment of whether a milestone has been achieved and thus payment is justified, it can trigger an emergency brake procedure by referring the matter to the heads of state or government in the European Council. Though this does not constitute a legal veto, it is a political form of escalating the matter. Peer pressure in the Council is often seen as soft, or, in the famous description of Wyplosz, as a process of ‘mutual congratulations’ (2010). The emergency brake is intended to ensure that Council members can do away with diplomatic friendliness in closed-door committees, with the European Council spotlighting potential issues.

1.2 The RRF and policymaking efficiency

Despite the tough talk, when looking at the first RRPs and their assessments, it quickly becomes clear that assigning the Council a prominent role in monitoring will in practice be very difficult. Indeed, the operation of the RRF is very much driven by the Commission, the only player able to absorb and process the plans in all their dimensions. The Greek plan alone comprises 175 reforms and investment projects covering the whole economy. The plans were carefully negotiated with the Commission in many dozens of meetings between central teams directly reporting to the Prime Minister (e.g., in Croatia) or the Minister of Economic Affairs (e.g., in Spain) and the European Commission. In an empirical assessment of the negotiations in five Member States, Bokhorst and Corti (forthcoming) find that the Commission used its leverage to push Member States to provide more details in the plans, to be more ambitious, to ensure that plans were in line with the RRF philosophy and that milestones were concrete. Monitoring under the RRF goes much further than the more indirect influence seen under the pre-pandemic Semester. During the period of negotiation (mostly between November 2020 and April 2021), this effort involved almost the entire scope of the Commission’s bureaucratic capacity. The RRF not only provides money to make reforms and investments happen. The drafting of an RRP is also to be seen as an event creating a lot of momentum. Especially those Member States set to receive larger sums knew that all eyes would be on them. As such, while the Commission’s role has certainly been enhanced, the level of ambition in the plans can mainly be ascribed to Member States’ internal drive to deliver, rather than from any type of hierarchical steering from the Commission. The drafting of the RRPs and the negotiations with the Commission ensured centralisation, while streamlining processes within national bureaucracies. Priorities were set in a process very much steered by a central team, as seen in Member States such as Croatia, Italy or Spain (ibid.). As such, we should consider the RRF as a mechanism set to enhance the efficiency of public policymaking through overcoming domestic obstacles and hurdles.

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4. A telling example in this regard is the Dutch parliament, which had initially demanded an independent appraisal of each RRP, together with the respective government’s voting intentions, so that it could debate and scrutinise these. But when the 14 plans had to be approved, real scrutiny proved to be difficult, given the quantity of data and the limited amount of time. The government sent short notes to parliament on each plan, simply summarising the Commission’s assessment and without deviating from the Commission’s point of view on a single issue (Ministerie van Financiën 2021). Parliament itself did not know how to properly question the Minister on voting intentions or make any kind of independent judgement, so decided to cancel the planned debate and deal with the matter in a written procedure.
The performance-based approach offers exciting prospects in that it may strengthen the output legitimacy of governments, but may also prove challenging to combine it with due process and inclusive decision-making. In the same vein, the question remains as to what happens when governments change colour and want to renegotiate the plans.

The principle of performance-based financing implies that the measures introduced in the plans have to be concrete and fulfil a specific goal. Governments cannot just promise to propose a reform, but must detail entry into operation, implementation and result. For example, when the Italian government promised to train 750,000 civil servants by 2026, they also promised that at least 70% of them would successfully complete their training (Annex IT). Similarly, with regard to its commitment to reforms in the justice sector and to simplifying administrative procedures, its milestone will only be deemed to have been achieved when all secondary legislation including delegated acts and ministerial decrees relating to 200 critical bureaucratic procedures are implemented (ibid.). This means that the RRPs are not just a government commitment but a commitment of the entire state apparatus, including national parliaments. Commission official Céline Gauer, the Director General heading the Recovery and Resilience Task Force, has stipulated that if parliaments do not adopt the proposals, governments will not receive the funds, since the Commission will only look at actual implementation – the RRF is ‘no free lunch’ (Follow the Money 2022).

The collective commitment represented in the milestones and targets also includes issues where governments usually negotiate with social partners, meaning that these are also bound by the agreement. The Croatian government in its plans has committed to introducing a new labour law, including new provisions in employment protection legislation, work-life balance and the regulation of undeclared work, by the end of 2022 (Annex HR). While this deadline may boost policymaking efficiency, it acts as an external constraint possibly tilting the balance of power in favour of the executive, as parliaments and social partners are only given limited time for due process to meet the deadline or risk delaying billions in the next tranche of payments. In the case of Croatia’s labour law, the Commission itself admonished the Croatians to ensure that social partners and other stakeholders were able to play their part in the process, as their involvement could enhance the success of the reform (SWD HR). In general however, social partners were not very much involved in the drafting of the RRPs, which may be problematic in terms of diffusion of ownership (Vanhercke et al. 2021). The same argument is true for parliaments. Belgium has committed to a comprehensive pension reform, including measures to improve the long-term financial sustainability of the pension system. In its milestones the government undertakes not only to propose the pension reform, but also to have the entire reform adopted by parliament within 2.5 years, namely by the first quarter of 2024 (Annex BE). The Belgian parliament now has a deadline to deal with a controversial issue and the European Commission has the ability to decide to withhold funds in case the deadline is not met. In a similar vein, the Portuguese and Spanish

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5. All examples in this chapter are taken from the Staff Working Documents (as indicated with SWD + country code) and the Annexes to the Council decisions approving the plans (indicated with Annex + country code). An overview of these documents is provided in Annex 1. Unless otherwise specified, the opinions and considerations on those measures are those of the author, based on the Commission assessment.
governments have undertaken to build tens of thousands of social housing and student housing units by 2026 (Annex PT, ES). This is a tough deadline, since under the RRF regulation no payments are allowed after 2026.

Looking at these extensive lists of concrete plans, several aspects have to be borne in mind. First, tranche payments are ‘all or nothing payments’. Milestones and targets have to be fully achieved before any payment is made; i.e., there is no partial payment for partially met milestones. For the more comprehensive programmes, this implies that every part of the policymaking machinery has to deliver for payments to be forthcoming. This generates discipline, as nobody wants to be the last to deliver and risk delaying billions in funding. Second, programmes are ambitious and implementation times short. From what we know from the performance-based funding under the European Structural and Investment Funds, where Member States are allowed to alter milestones, many milestones were set overambitiously. France, Italy, Portugal and Spain in particular revised more than half of their milestones primarily to reset the level of ambition (European Court of Auditors 2021). Finally, the Commission will be tasked with assessing whether goals have been achieved or whether flexibility is needed. This gives it the possibility to be intrusive, i.e., withholding — or threatening to withhold — funds. But we may also expect that in practice the Commission will remain aware of domestic political red lines and use its discretion to prevent a more mechanical, rules-based approach. A first indication of this becomes clear when looking at how CSR implementation in the RRPs has been assessed up to now by the Commission, as charted in the next subsection.

1.3 The assessment of CSR implementation in the RRF

From the side of the Commission, it is argued that Member States have risen to the occasion, using the momentum drummed up by the introduction of the RRF to address the more deeprooted issues in their economies. Director General Céline Gauer argued (in the interview cited above) that many of the CSRs left untouched for years have now been included in the plans; ‘for 90% I’d say’ (Follow the Money 2022). The Commission granted every Member State an ‘A-grade’ for implementation of CSRs in their plans. However, on taking a closer look at these assessments we note significant differences in the plans’ levels of ambition and the limits to the influence exertable by the Commission. The method used by the Commission to assess whether Member States address the CSRs is to look at whether the measures ‘address a significant subset of CSRs’. But both the notions ‘address’ and ‘significant subset’ are open to interpretation. Looking at the Commission assessment of the German RRP, it quickly becomes clear that the issue of the fiscal sustainability of pensions is not addressed, tax measures on avoiding disincentives to work are not included, measures regarding the taxation of labour and the tax wedge are seen as insufficient, no measures are introduced on regulated professions and the measures on competition in rail and freight services fall short of what is needed. These are just some of the more important areas repeatedly addressed in its CSRs, yet Germany is still seen as addressing ‘a significant subset of CSRs’ (SWD DE).
For other Member States set to receive lower amounts from the RRF, views on CSR implementation are equally mixed. For example, Austria, France and Luxembourg do not seem to have taken the opportunity to sufficiently address thornier CSRs on liberalising professions or increasing the retirement age in their plans, although the French government has promised to put a pension reform on the agenda at a later stage (SWD AT, FR, LU). Ensuring the fiscal sustainability of pensions and liberalising regulated professions are typically reforms where governments are confronted with organised interest groups, meaning these are by nature more difficult to implement and have long featured in the CSRs. Another core contentious issue directly affecting other countries are the CSRs on aggressive tax planning. In this respect, Luxembourg has merely proposed to implement a measure on outbound royalties and interest payments to non-cooperative tax jurisdictions, but this constitutes nothing more than the necessary transposition of a related EU-level agreement, while the Commission assessment states clearly that this does little to adequately address the CSR in question\(^6\) (SWD LU).

The plans for Member States receiving relatively larger sums (as a percentage of their GDP) from the RRF are in general considerably more ambitious and are also praised as such in the assessments. Member States such as Croatia, Portugal and Spain have committed themselves to the more difficult task of liberalising regulated professions, while Slovakia and Slovenia will be undertaking in-depth pension reforms (SWD ES, HR, PT, SI, SK). But this does not mean that these plans fully address all CSRs. An interesting case in this regard is Spain, where the Commission notes that the public pension expenditure is projected to increase for the next 30 years, leading to sustainability issues (hence the CSR), but that the pension reform included in the RRP further increases pension expenditure in the medium to long term by re-linking pensions to the consumer price index and dissociating initial pension levels from changes in life expectancy (SWD ES). As such, the key reform is detrimental to fiscal sustainability. At the same time, Spain is instituting a series of measures to boost the effective retirement age, partially offsetting this further increase in expenditure. These offsetting measures are grouped together with several others as ‘partly addressing the challenge’, despite overall pension expenditure being expected to rise and the assessment noting that ageing in Spain will cause a very substantial dependency ratio.

Generally speaking, however, there are good reasons to be optimistic about the level of ambition in terms of CSR implementation. The examples above illustrate that, while the Commission’s influence has certainly been enhanced to ensure CSR implementation, the authority it has gained is not of such nature as to ensure CSR implementation across the full spectrum. Especially for Northern Member States set to receive relatively less...
from the RRF, there are clear limits to the level of Commission influence to ensure a sufficient level of ambition. However, for those Member States set to receive more funds, the assessments contain critical remarks and some CSRs are seen to be only partially implemented. But on the whole these plans receive considerable praise for their level of ambition and the wide range of issues addressed. Indeed, the real challenge will rather be whether Member States are not over-ambitious, as a subsequent challenge will be to absorb all the RRF funds within the given timeframe and precisely as formulated in the milestones.

2. How do the plans address ‘resilience’ through social reforms?

Given its governance and the fact that money only really starts flowing in 2022 and 2023, the RRF should be seen as an instrument fostering the long-term resilience of national economies, rather than as a recovery instrument. Because of their distance from domestic political arenas, the EU institutions have always been well-placed to confront Member States with long-term sustainability questions concerning the welfare state in the policy recommendations. Typically, these concern the question of how to reconcile the welfare state with the challenge of demographic ageing, high public debt, transitions to a service-based economy, changing industrial structures and disruptive technological and ecological change. Given the experience of the first years of the euro crisis, long-term resilience through addressing Semester CSRs has long been viewed with suspicion among social policy scholars (Costamagna 2013; de la Porte and Heins 2014; Crespy and Menz 2015). It was only a few years ago that EU leaders propagated a policy recipe where resilience was primarily understood in terms of cost competitiveness (Juncker et al. 2015a), with structural reforms mainly defined in terms of price and wage flexibility (Draghi 2015). This slowly started changing with the progressive ‘socialisation’ of the CSRs (Zeitlin and Vanhercke 2018). However, not everyone has bought into this narrative: some have maintained the position that, while social CSRs have increased in number, they have in practice always been subordinate to the goal of balanced budgets and neoliberal welfare retrenchment (Copeland and Daly 2018; Crespy and Vanheuverzwijn 2019). With the RRF, the welfare state has not been put on a par with climate change and digitalisation in terms of spending quotas’, even though social reforms and investments are very much present.

As the previous section indicates, anyone hoping to find an abundance of structural reforms in the RRPs linking retirement age to life expectancy or liberalising services might end up somewhat disappointed (with a few notable exceptions). Similarly, only few policies directly focus on social retrenchment, labour market flexibilisation or a decentralisation of wage bargaining to take better account of productivity trends. The image that emerges from reading the 14 programme assessments discussed in this chapter is that long-term resilience, including the fiscal sustainability of the larger social

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7. Each RRP has to include a minimum of 37% of expenditure related to climate policies and a minimum of 20% for digital initiatives. While no such hard quota exists for social expenditure (despite considerable debate in the Council on this issue (Vanhercke et al. 2021), social issues belong to the policy themes that Member States are asked to address (which include elements such as social cohesion and policies for the next generation). Moreover, social policy issues feature extensively in the CSRs.
spending programmes, remains very much a key challenge. However, it is primarily addressed through policies not focused on reducing the cost of social provisions, but through policies aimed at broadening the tax base of the workforce bearing the costs of these welfare programmes. In the social investment literature this is known as enhancing the ‘carrying capacity’ of the welfare state (Hemerijck 2013, 2017).

The idea is that policies should focus on increasing the stock and flow functions of the welfare state, i.e., allowing families to better combine work and care or investing in skills development to allow smooth labour market transitions and higher productivity. A higher quality and quantity of employment is seen as a way of sustaining the popular big welfare spending programmes, such as pensions, healthcare and social protection, known as buffer policies. Those Member States that have long transitioned to this balanced stock, flow and buffer welfare state model – typically the Nordic countries – manage to combine the most generous welfare state provisions with long-term fiscal sustainability. Similarly, during the euro crisis they even outperformed the United States in terms of both equality and employment, despite the more supportive monetary and fiscal policy stimuli in the US (Hemerijck and Matsaganis forthcoming). By contrast, for those Member States largely relying on compensatory welfare models combined with low female participation, there is still an awful lot to be learned and done, both in terms of shock resilience and social equity.

When reading the Commission’s RRP assessments, especially those for Southern and Eastern Member States, the philosophy of social investment appears very much present. RRPs include a wide range of policies that can be seen as stimulating the stock and flow functions of the welfare state in order to enhance long-term resilience. One can find many examples of active labour market policies: France in particular puts a lot of emphasis on hiring subsidies for specific disadvantaged groups (SWD FR). Italy, in turn, plans to introduce a gender equality certification system (SWD IT). Training and investments in skills can be found in all programmes, although the overall comparative size of the investment in adult learning and vocational education and training is relatively small. Few countries have taken the opportunity to introduce universal lifelong learning provisions as part of their plan, though Latvia introduces a pilot project on individual learning accounts (SWD LV).

Two policy areas that stand out in the plans are education and childcare. Most RRPs prioritise education as a key area for investment and reform. Many plans go beyond investing in digitalising education and training systems – an aspect present in all plans –, often addressing access to quality education for vulnerable groups. Looking specifically at Latvia, the Commission considers the reforms related to higher education as the plan’s most ambitious measures, and expected to have a lasting impact on both access and quality (SWD LV). Belgium proposes an ‘Education 2.0’ plan to improve the performance and inclusiveness of the education system, with a specific focus on early school-leavers and vulnerable groups and curriculum reform to match the digital age.

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8. According to the European Commission’s RRF monitor, 8% of funding under pillar III (Social and Territorial Cohesion) is dedicated to adult and vocational education. For the first 22 RRPs, this would amount to around 15.5 billion euros (numbers as on 7 July 2022; the figures on the dedicated RRF website are continuously being updated).
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The Greek plan introducing a unified and comprehensive curriculum for preschool units is considered by the Commission as a key reform (SWD EL). Slovakia – seen as suffering from long-standing challenges with regard to the quality and inclusiveness of education – is introducing a series of reforms and investments (worth 11% of the total plan) focused on students with special educational needs, on reducing segregation, on providing access to higher education for disadvantaged students, on the inclusion of Roma communities and on curricular reforms (SWD SK). In the Portuguese plan, nearly one third of all elements are related to education, training and children (SWD PT). The only plan not containing any significant measure on the social side, apart from lowering energy costs for households through green investments, is Denmark, already a top performer in most social indicators (SWD DK).

Another element featured in many plans is the focus on early childhood education and care (ECEC) facilities. These are investments that only have an effect in the long term, i.e., with little political gain in the short term, and thus low on policy agendas. External RRF funding with a view to strengthening long-term resilience is thus well placed to stimulate action in this policy area. Interestingly, it was the European Parliament that pushed for the inclusion of a specific category, ‘policies for the next generation’, to be addressed in all plans. The need to ensure sufficient childcare facilities is also one of the priorities of the European Pillar of Social Rights, whose social scoreboard is used in the assessment of the RRRPs. Eleven of the 14 Member States included in this study (Denmark, Luxembourg and Slovenia excluded) have taken up the opportunity to include ECEC investments under this heading, both as an investment in the development of children and to stimulate female employment. Croatia, Greece, Italy, Slovakia and Spain are all at the bottom of EU rankings in terms of female employment (Eurostat 2020), while Croatia, Italy and Slovakia also have some of the lowest childcare participation rates (OECD 2021). In their respective RRRPs, both Croatia and Slovakia link investments in the training of ECEC teachers and in ECEC facilities to reforms, such as compulsory pre-primary education and legal entitlements to a place in a kindergarten (or other pre-primary education provider) from the age of three in Slovakia and a guaranteed place in an ECEC institution for children between the age of four and the primary school starting age in Croatia (SWD SK, HR). Italy sticks to childcare infrastructure investments to create 264,480 new places, without linking it to a reform. However, the relative size of the Italian investment is by far the largest of all plans, with an expected increase in public childcare capacity of no less than 122% (Corti et al. 2022). Slovenia, which already scores high on childcare capacity of no less than 122% (Corti et al. 2022). Slovenia, which already scores high on childcare capacity, will instead invest in institutional care and nursing homes for the most complex needs, to both enhance social inclusion and stimulate female employment by reducing the burden of informal care (SWD SI).

Whilst investments related to the stock and flow functions of the welfare state take up the largest percentage of the plans’ social expenditure, one can also find reforms and investments related to strengthening the adequacy and coverage of income protection schemes. In the social investment literature, this is known as the buffer function of the welfare state, a side that critics sometimes describe as being overlooked in the supply-side focus of the social investment approach (Cantillon and Van Lancker 2013). It should be noted that RRF funds can only be used for capital expenditure, not for current expenditure. In other words, Member States can invest in training or service
infrastructures, but cannot use RRF funds to pay salaries or directly fund protection schemes. This limits their ability to use the RRF directly for buffer policies. Despite this constraint, Member States have collectively earmarked 13.4 billion euros for spending on social protection and inclusion in their plans, an important slice of which is spent by Italy to improve access to social and health services (European Commission 2022b). Perhaps more importantly is the inclusion of buffer policies on the reform side of the RRPs, in response to CSRs addressing the adequacy and inclusivity of protection schemes. For example, Latvia plans to both increase and index minimum income benefits (SWD LV). Croatia plans to improve the adequacy of its pension system for lowest-level beneficiaries and will set up a new service to support the integration of socially vulnerable groups such as Roma (SWD HR). Portugal will roll out several programmes to combat poverty and strengthen social inclusion in disadvantaged metropolitan areas and communities (SWD PT). Studies have also found that the Commission has actively propagated a socially inclusive approach in the RRPs, for example in the case of Latvia (Eihmanis 2021), or Croatia (Bokhorst and Corti forthcoming).

A challenge possibly arising from the RRPs is that, while investments in childcare and education are expected to lead to economic gains in the medium to long term and thus to improved resilience, they also create new short-term budget entitlements. While many authors are speculating about a potential permanent status for the RRF (e.g. Carnago and Springford 2021; Demertzis 2022), for now it remains a one-off instrument, with the Commission trying hard to ensure that no current expenditure is included in the plans. The principle of performance-based financing in this sense should therefore be understood as applying to the creation of output (schools, tenders, training programmes), and not to outcomes (lower segregation, higher take-up). For many of the issues addressed in the plans, a longer-term horizon exceeding the two or three years covered by the RRF would make sense. This might be an issue for those Member States set to receive larger sums. For Spain, the Commission notes that new entitlements are created in the pension reform, in the healthcare reform, and through the investments in vocational training and public childcare. Interestingly, for Spain the Commission suggests that support from the EU’s Structural and Investment Funds could alleviate part of the burden on the national budget, allowing investments to be maintained in the medium term. This would give the EU an even more direct role in the longer-term financing of national welfare states.

Conclusions

With the RRF, the EU is directly investing in national welfare state policies and reforms, with enhanced monitoring capabilities through performance-based financing. Money buys power and creates a need for accountability, meaning that it is important to understand the political dynamics behind the myriad of documents making up the RRF and the assessment of the RRPs. After spending months negotiating with the Commission, Member States are now committed to reforms anchored in plans with concrete milestones and targets. Looking to the future, we can expect that this performance-based financing style of governance will be the new governance design for EU funds. For example, in its proposal for a new Social Climate Fund linked to the
income derived from the Emission Trading Scheme, the Commission is proposing that, to gain access to funds, Member States should draw up results-oriented plans with clear targets, milestones and deliverables (European Commission 2021). Performance-based financing is a way to inject much greater detail into the Semester in an ex-ante way, with tranche payments acting as both a stick and a carrot. In this way, the RRF can be expected to streamline policymaking processes and ensure efficiency. At the same time, it will be important to keep an eye on how this affects policymaking inclusivity. Drafting an RRP is a process mainly involving discussions between bureaucrats, but it now involves the messier world of politics, parliaments and implementation. Past experience tells us that it is unlikely that all milestones will be fulfilled exactly as proposed, especially given the RRF’s rather tight timeframe. As for monitoring, on paper the RRF has the potential for both the Commission and Council to adopt a more intrusive governance style, though so far there is little evidence that things are heading that way. The analysis of the Commission assessments of the plans in this chapter shows that RRF governance also provides the Commission with considerable interpretational leeway and that there are limits to its influence. Despite statements of senior Commission officials to the contrary, we may continue to expect a flexible approach in the future. The level of detail in the RRP assumes a predictable world where policymakers know ex-ante what can be expected from policies. But the world of policymaking and politics is deeply uncertain: new challenges such as dealing with the fallout of the Ukraine war, the subsequent cost-of-living crisis, inflation and the need to accelerate the transformation of energy markets all lead to shifting political priorities over time. When political attention shifts or wanes, so does the Commission’s ability to take a tough line on implementation. We can thus expect that in practice RRF governance will remain inherently political.

The discussion on governance cannot be seen separate from the discussion on content. When the Commission took a more hierarchical approach to Semester governance in the first years of the euro crisis, there was significant outcry in certain academic circles over a fear of neoliberal subordination of domestic social policymaking. With the RRP’s, even if the Commission may have pushed for more ambition, the outcomes point to more inclusive and enhanced welfare states. Social investment principles are centre-staged in the RRP’s social chapters, especially for those Member States that have drawn up more ambitious plans and are set to receive more funds. The hope is that strengthening welfare state provisions, for instance with regard to education and childcare, will help release the untapped potential of Member States in terms of the quality and quantity of the workforce, especially with regard to female labour market participation. While these policies may not fully offset the need for difficult structural reforms such as linking the retirement age to life expectancy, they can be seen as a well-proven recipe for fostering long-term resilience. All in all, while there may still be challenges ahead when fiscal rules are unfrozen, the RRF seems to confirm the hypothesis that we are witnessing a progressive socialisation of the policy recipe propagated in EU economic governance.
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Annex

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