Policy Recommendations, Institutions and Culture: Evidence from the European Semester

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Executive Summary

i. Since 2010 the EU has been negotiating structural reforms with member states, based on a tailoring of reforms to the specificities of each country, and assessment of the progresses made by each member state in terms of implementation. This results into a wide scale accumulation of experience on reforms implementation in different institutional and cultural contexts, that might be useful for the design of future policies (enlargement, convergence, etc.).

ii. Overall, Country Specific Recommendations (CSRs) are only partially implemented. Previous studies even pointed out a decreasing rate of implementation over time. This has partly evolved after the pandemic since the EU ambitious Recovery and Resilience Facility (RRF) strongly encouraged countries to implement reforms. These previous studies also highlighted significant cross-country differences in the matter of implementation.

iii. In this study, we investigate to what extent institutional factors help to understand cross-country differences in structural reforms implementation. Since institutional frameworks are made of both formal and informal institutions (i.e. respectively, governance mechanisms and culture), we rely on various metrics to characterize national institutional frameworks.

iv. All countries do not receive the same amount and combination of reform recommendations. Therefore, we develop an analysis based on the identification of 14 policy domains and highlight contrasted behaviors of member states regarding reform implementation in these different domains.

v. When considering the whole period of observation, compliance with CSR is linked to a higher GDP growth, and to an enhancement of the public debt ratio of member states. The causality is however difficult to interpret since it cannot be excluded that both growth and public debt ratio are potential drivers of compliance, while they are also expected outcomes of structural reforms. Finaly, the role of the Union during and after the pandemic, and particularly the impact of the RRF, are important drivers of the observed correlation.

vi. Before considering the role of institutions, we check how political preferences impact on CSR implementation by studying to what extent a change in the ruling majority of a member state impacts on compliance with CSRs. While political preference impacts at the margin, the aggregated effect of political changes seems to favor stagnation of reforms. This is partly due to the rotation of power, partly due to the absence of radical switch in matter of CSR implementation when the political majority switches in a member state.

vii. We also consider the potential impact of changes in policy priorities, when a new Commission is appointed. We observe that there are indeed evolutions of the recommendations of the Commission to Member states, even if some policy domains remain stable; namely Fiscal and Taxation policy, Poverty and Inclusion management, and Financial/Banking stability. We also observe a 'reform ownership' effect: each Commission seems more likely to favor the implementation by Member states of reforms it recommended.

viii. Our analysis of the dynamic of implementation highlights also a 'last mile' effect: it is easier to launch a reform (e.g. introducing a bill to the parliament) than to fully achieve it (i.e. having a law passed and actually implemented). Then, many reforms programs tend to stagnate, when the various stages of reform are not implemented at a relatively sustained pace.

ix. We highlight in our analysis the existence of several groups of countries characterized both by the recommendations they receive, and by the way they comply with these recommendations. Some countries are requested to implement more in depths reforms than others; in the sense that they are requested to reform public governance mechanisms (i.e. public administration and judicial system) as well as the pillars of lifelong inclusion (i.e. pensions, poverty, etc.), in addition to more focused reforms either in the provision of public goods, or in the design of market infrastructures. Other member states must reform only their market economy infrastructures (typically business environment and labor market), or the

mechanisms of provision of public goods. Not surprisingly countries that must reform more have, everything equal, a lower degree of compliance. That said cross country differences rely also on the likelihood of countries to select the type of reforms they implement, and therefore to diverge from a qualitive viewpoint of the EU policy recommendations.

x. Interestingly these behaviors are driven neither by the geography nor by the macro-economic characteristics of member-states. Governance and cultural factors tend to be linked to these behaviors. First the quality of formal institutions, as approached by the World Bank, seems to matter. Second, cultural factors — especially the preference for cooperation over competition, and the acceptance of risk (as opposed to preferences for rigid code of conduct) — are associated to a higher level of compliance. Trust in the EU (Parliament) is a necessary but not sufficient condition for compliance. It should come with trust either in the national political organizations, or in intergovernmental organizations.

xi. When (most significant) formal institutions and cultural descriptors are combined, the strong role of culture is highlighted: the preference for cooperation and care, the long-term orientation and pragmatism seem to positively impact implementation of reforms in most policy domains. Formal institutions impact fewer policy domains. That said, the effectiveness of the governance system and the effective control of citizens (voice and accountability) are facilitators of reforms, both concerning the public administration (including justice), and in matter of provision of public goods.

xii. Fiscal reforms are those which are the most correlated with trust; and in particular with trust in others, the legal order, and politicians... reflecting a generic confidence into the fact that taxation revenues will benefit to all.

xiii. Our result highlight also that not all reform domains are the same when considering the cultural and governance preconditions:

- As already mentioned, some policy domains are only poorly constrained by cultural factors and quality of governance conditions: Business environment, Public Administration and market infrastructure. Reforms on these matters might be more freely designed and implemented.
- Some reforms domains tend to be mainly submitted to cultural preconditions, and less so to governance constraints: this is the case of fiscal systems, of banking and financial stability mechanisms, and for environmental policy delivery mechanisms. When considering reforms in these three domains, policy makers have to check whether the cultural traits are likely to prevent implementation, which might lead to considering other policy priorities.
- To the opposite, reforms in some other policy domains tend to be mainly subject to specific governance capabilities (even if cultural factors facilitate implementation): this is true especially for reforms in the domains of poverty/inclusion (which request voice and accountability mechanisms and regulatory capabilities), of housing (depending on government effectiveness) and of justice/anti-corruption (submitted to voice and accountability)
- Lastly there are domains for which both cultural traits and governance capabilities tend to constraint reform implementation. Cultural traits favoring reforms are those already mentioned as essential facilitators: preference for cooperation, risk tolerance, long termism, and free satisfaction. Reforms concerning the human capital, social inclusion, and health — namely reforms of the labor market, of education and training, and of healthcare — request good regulatory capabilities, while successful reform implementation in matter of innovation or retirement and pension requests voice and accountability mechanisms. Reforming the pension systems requires in addition governmental effectiveness.

1 Introduction

This study aims to better understand the drivers and inhibitors of structural reforms in the EU. Since such reforms take time and may even be reversed, we adopt a medium-term perspective. We focus on the European Semester mechanism because since 2010, the EU has pursued a rather consistent long-term approach, encouraging member states to implement reforms through evolving recommendations, systematic assessments of reform progress, and evaluations of national economic performance. Thus, we benefit from 14 years of documented experience.

During this period, the policy approach has evolved, both due to accumulated experience – allowing the EU and member states to improve the negotiation and design of policy recommendations and reforms – and due to various shocks affecting individual member states or the Union as a whole. The most significant shock was the pandemic, which deepened macroeconomic coordination within the Union and ultimately resulted in a common recovery and resilience plan that accelerated reforms implementation. The war in Ukraine also represents a major shock, though it occurred near the end of the observation period. In addition, political changes and other disruptions have affected specific member states. Although we benefit from a common policy framework that has been in place for more than a decade, we must be cautious in interpreting the results.

That being said, we benefit from a unique historical experience that can be studied thanks to the careful monitoring of member states' reform commitments and achievements, managed by DG Ecfin of the European Commission. All Country-Specific Recommendations and assessments are tracked annually in the CESAR database, providing the material to identify reform characteristics, timing, and implementation levels. The degree of reform achievement is the primary variable we seek to explain in our analysis, relying on different methodologies to assess it.

A first look at the data on reform implementation by member states highlights that CSRs tend to be only partially implemented and that member states behave differently on the matter. We explore to what extent this can be linked to the institutional characteristics of the countries, as it does not seem to be driven solely by the level of wealth or public debt ratio. We also examine whether it is strongly influenced by the political preferences of the ruling majority in each member state.

The organization of this report is as follows. This paper synthesizes our results, which are detailed in a supplementary technical report. The appendix and supplementary materials provide a detailed account of the data processing. In Section 2, we discuss briefly the literature on the implementation of structural reforms and highlight the role played by both formal and informal institutions, or in other words, national governance frameworks and cultural traits. In Section 3 , we describe the institutional background, the data used, and the construction of additional variables, including the textual analysis of recommendations. We also briefly revisit the content of the CSRs, highlighting their broad scope: from transformations in government structures (public administration, fiscal system, judicial system, etc.) to the reorganization of economic infrastructures (labor market, business environment, financial and banking stability, etc.), as well as mechanisms of social solidarity and inclusion (pensions, poverty, housing, etc.) and the provision of public goods (physical infrastructure, environment, etc.). Our analyses consider these different policy domains to assess whether member states behave differently across them.

After describing the background and data, the report is structured around two main sections, each covering three key lessons from analyzing European Semester data. Section 4 explores Evidence on Reform Policies in Europe, highlighting the differences between member states in the matter of reform recommendations and implementation, the interaction between macroeconomic health and the implementation of structural reforms, the role of political preferences of national governments in complying with Country Specific Recommendations (CSRs), and finally the influence of the political priorities of the European Commission on the recommendations addressed to Member States and their behavior in terms of reform implementation. Section 5 examines the Influence of Institutional Profiles, proposing a characterization of the Member States on (1) cluster analysis and reformer profiles, (2) the impact of formal institutions, and (3) the role of culture and informal institutions.

In Section 4.1, we first show that Member States differ not only in their level of compliance with CSRs (i.e., reform implementation), but also in the nature of the recommendations they receive. Some countries are asked to reform only one dimension of their policy delivery mechanisms (e.g., public goods provision modes), while others must transform multiple components of their institutions, including government organization, social safety mechanisms, economic infrastructures, and public goods delivery channels. Not surprisingly, the latter tend to have lower implementation rates than member states facing fewer reform demands. In Section 4.2, we present the typical associations between implementation and macroeconomic variables previously discussed in the literature.

Subsection 4.3 explores the extent to which the political preferences of the ruling majority explain the behavior of the Member States in terms of compliance. Although we highlight that they play a role—potentially influencing which reforms are pushed forward or frozen—we do not observe major reform reversals after political shifts. This justifies our investigation into the role of institutional factors.

We also check in Section 4.4 whether the Commission's behavior impacts upon CSRs and their implementation. This analysis highlights that the Commission's policy priorities have influenced the prioritization of policy reforms in certain domains. The study also leads to an analysis of the dynamic of reform implementation, which tends to be homogeneous across policies: progresses in the reform process are easier to get in the initial phases than in the last steps. As a result, as Member States might launch the requested reforms, many processes tend to stagnate before the full implementation of reforms and a stock of unfinished reforms forms.

In Section 5.1, we conduct a clustering exercise, grouping countries that are required to implement similar portfolios of reforms (CSRs combination) and exhibit similar patterns in CSR compliance and reform implementation. We show that countries within the same clusters share common institutional characteristics, while differing significantly in economic and sociodemographic aspects.

In Section 5.2, we systematically examine the correlation between each formal institutional characteristic and each reform policy domain. Although causality cannot be determined with certainty due to data limitations, we identify the governance characteristics that appear most relevant to explain implementation, both in general and within each policy domain.

Section 5.3 explores the relationship between reform implementation and cultural traits.

In Section 6, we discuss how our results could inform policy design, while also emphasizing that further research is needed to properly assess the causality and relative impact of different factors.

2 Analytical Background

Despite the strong affirmation of the principle of subsidiarity, the process of European economic and political integration is a process of institutional convergence since economic and political integration request to level the economic paying field, to allow coordination across political jurisdiction and the development of a seamless social infrastructure allowing citizens to interact in a common arena and to benefit from a European-wide system of solidarity and protection against risks. This has been driving for several decades a strong effort of cohesion conducted at the territory level (regions/cities). In the economic realm, the achievement of the single market, progressively homogenizing the market and sectoral regulations across member states, has been another vector of institutional convergence. The building of a monetary union, and of a common supervision framework of banks and financial markets, is a third clear manifestation of this convergence. From the late 2000's/early 2010's, and in line with the previously initiated processes of convergence, EU member states have been cooperating in reinforcing their integration by coordinating their macroeconomic policies, progressively establishing fiscal and budgetary solidarities, which have been culminating with the Covid and post-Covid period (RRF, Fiscal framework, etc.). This process has extended the dynamic of convergence to an enlarged set of policy domains, since budgetary and fiscal solidarity request to consider many impacted issues, such as public good provision, social safety-net, inclusion mechanisms, as well as the many domains in which member-states agreed on common goals (e.g. decarbonization). Moreover, to control for free riding, budgetary and social solidarity call for reinforcing efficiency of the public administration, fighting corruption, and increasing quality and fairness of public governance. Promoting growth is also essential. All in all, The European Union, through the European Commission and the Council, became the promoters or structural reforms to be carried out by member states.

The analysis of structural reforms promoted by supra-national/intergovernmental bodies was inaugurated in the 1990's in the context of transition of former planned economies to market economies under the so-called Washington Consensus, which also inspired development policies (see Roland (2002)). That said, an earlier literature developed triggered by the divestiture of trade barriers and tariffs in the late 1980's- early 1990's (see Rodrik (1993)). Another stream of research was driven by the reforms of the institutions of the post-WWII period in western countries in the late 1990's-beginning 2000's, in the context of the globalization of the economy and of the retirement of the baby-boomers.

All in all, these researches pointed out the importance of political constraints in the processes of reform and triggered the developments of so called political economy of reform (for surveys, see Dewatripont and Roland (1995); Roland (2000)); which was a component of a more fundamental trend in economic research aimed at integrating the political process into the analysis of economic issues (see Persson and Tabellini (2002) and Drazen (2002), for synthesis). The literature on the political economy of reforms is organized around two broad strands: normative and positive. The normative political economy of reforms focuses on the decision-making problem of reformers (not necessarily welfare-maximizing ones) subject to political constraints. Models in this literature make broad use of the "agenda-setting hypothesis," according to which the executive branch of government has monopoly power over the design and sequencing of reform packages that are put to vote in the legislature or in a popular referendum (McKelvey (1976); Romer and Rosenthal (1979)). These models allow no amendments to the proposed reform packages, so that the reform can be viewed as a take-it-or-leave-it offer made to the voters. One then tries to derive general principles on what sort of reform package should be proposed. In contrast, the literature on the positive political economy of reforms attempts to analyze the clashes among interest groups. The focus is less on deriving policy recommendations than on trying to understand the evolution of the balance of power across countries and across time. The positive analysis of reforms was initially less developed than the normative analysis. Things have been changing from the 2010's, enabled by the development of data-intensive methodologies.

That said, the failures, and at least the high cost, of many processes of reforms explain why the political economy of reforms was progressively enriched by progresses in the understanding of institutional systems and institutional changes. In fact, ignoring institutional frameworks can lead to political turmoil. Institutional systems set the de facto rights, and collective constraints of economic agents and structural reforms affect these rights in two ways. First, they lead to redistribution. Second, they destabilize the framework in which agents made decisions and plans. Reforms therefore raise issues of individual wealth and individual capability and security, hence of collective cohesion and confidence in the system. Reforms are therefore sensitive to individual and collective beliefs, which include legitimacy (of the components of the institutional framework) and expectations (about the behaviors of others and of organizations, including public ones). This was one of the central questions behind the contribution of North et al. (2009), also discussed in the initial contribution of North (1990) to the process of institutional change.

More generally, the central role of institutions in determining economic wealth and growth has been systematically explored since the 1980s, when institutional frameworks started to be understood as vectors establishing the decision rights of individuals, affecting the cost of transacting and managing collective action (i.e., building and managing organizations). A systematic analysis of the properties of alternative property rights systems, conflict settlement mechanisms, management of 'market failures' arrangements, provision of public good solutions, mechanisms of protection against expropriation by dominant economic or political players, arrangements that guarantee access to markets and fairness of competition, socialization of risk tools, (etc.) was carried out, because institutional arrangements impact labor division and specialization, investment in physical and human capital, innovation and therefore growth and collective security. This focus on institutional frameworks led to placing structural reforms at the center of the political agenda. Then came the question of the design and implementation of institutional reforms.

The initial approach, well illustrated by the 'Washington consensus' was embraced by intergovernmental organizations aimed at promoting growth and economic convergence, particularly the IMF, the World Bank, and the OECD. In the 1990s they contributed to the design of conditionalities imposed on borrowers, based on the identification of 'rights institutions' inspired by the characteristics of the most developed countries. The focus was on the formal institutions settling property rights, the legal environment, the political power system, etc. Once the target - i.e., the 'right' set of institutions - was identified, the following issue was the setting of the implementation strategy. The latter was driven by the characterization of the preexisting politico-economic equilibria and the anticipation of the redistribution effects of reforms. The focus was on coalition building (and political tactics) enabling reformers to remove institutional/political bottlenecks; expecting that economic and social agents would (optimally and relatively quickly) adapt to the new formal institutional framework. The identified risks for the reforms patrons were either the risk of political backslash (driven by the losers) and/or the risk of political opportunism by the incumbent political rulers and dominant economic players delaying reform implementation, arguing that incremental implementation would prevent backslashes —, resulting in persisting inefficiencies (and associated rents). The unidentified risk by reforms patrons was the bypass of formal institutions by the economic and civic agents, or to put it another way, the persistence of previous governance arrangements. These (inefficient) coordination processes would persist due to the anticipations of these agents about each other strategies and / or their limited capabilities to adapt to the new institutional framework (which would typically trigger more complex or more risky decision-making). Consequently, economic and social agents would continue to behave according to preexisting and established routines, leading to structural reform failures. The contribution of North et al. (2009), inspired by the failures of the reforms driven by the Washington consensus, details the logic of institutional persistence.

This triggered a new approach to structural reforms, informed by the development of Institutional and Organizational Economics. In a nutshell, Institutional and Organizational Economics studies how individual coordinates, either to exchange or to manage collective action/cooperate. Institutions are human-built sets of norms and constraints — spontaneously emerging or voluntary designed — that bound and channel individual behaviors. They must be contrasted with organizations, which result of (negotiated) mutual commitments organizing, first, coordination (i.e. individual interactions or collective action), and, second, decision (i.e. mechanisms of collective decision making and delegation of authority) for a specific purpose. Institutions are broader in scope and establish how contractual and organizational arrangements can be negotiated, and how agents might take actions given the existence of other decision makers.

Institutions may be informal or formal. Informal institutions are equilibria resulting of shared beliefs among a set of individuals/within a community. These beliefs are about the expected behaviors of others and result in behavioral norms. Compliance with the norms is driven by the fact that the requested behaviors are the best response to the behaviors of others. In other words, informal institutions are self-enforcing equilibria based on mutual expectations about others' behaviors. They are also qualified as 'culture' because the related norms of behaviors are 'internalized' by individuals and are transmitted across generations by education and imitation. They therefore tend to be persistent and constitute part of the identity of groups/communities. Evolutions of these cultural patterns rely on switches from the above-mentioned shared beliefs/converging expectations to another set of shared beliefs. This requires a 'leader' able to propose a new focal point to members of a community, or a long process of trial and error before a new equilibrium is discovered or adopted.

Formal institutions are designed set of rules made enforceable by individual or organizations punishing non-compliance. They are based on the recognition of the authority and legitimacy of the individual (the ruler) or organizations (e.g. the state) setting the rules and responsible for their enforcement. Institutional evolutions might therefore be decided and implemented by political coalitions able to propose new rules and to impose them to the individuals involved in their jurisdictions.

In practice, informal institutions/culture are the substrate on which formal institutions are built, and the later set the basis allowing individuals to initiate negotiated governance arrangements (i.e. contracts, organizations). As noted by Williamson (2000) and Roland (2002), the paces of evolution differ among these levels of governance: culture and informal institutions tend to evolve very rarely, while bilateral contracts might be easier to change. The resulting inverse correlation between the speed of evolution/adaptation and the level of governance is highlighted in the Figure 5 drawn by Williamson (2000).

The design of formal institutions is not necessarily driven by the seek for economic efficiency. As developed by North et al. (2009), Acemoglu and Robinson (2013), and others, political rulers are before all driven by the quest to build a coalition that keeps control of the power system in order to secure rents. This might explain why formal institutional systems might be eventually innefficient; in which case individuals rely on knit networks and informal institutions (i.e. family, clans, and communities) to trade, cooperate, and ensure solidarities. This results in a fragmented economic system that hinders the division of labor and innovation. However, since some formal institutional arrangements might promote better economic outcomes because they trigger economic integration, productivity gains, and innovation, it might be in the interest of both rulers and governed to rely on this formal institutional system to coordinate at larger scale, beyond the frontier of local, professional, or cultural communities, to leverage the benefits of division of labor and economies of scale and scope. Along the same logic, the benefits of convergence across formal institutional systems might expand the benefits of economic integration and social division of labor, to a broader inter-jurisdictions space.

Along this line, there is no one-size-fits-all target in terms of formal institutional design when reforms are launched. Reformers must be driven by the quest to improve 'institutional performances', while understanding the constraints of institutional dynamics. The latter have been highlighted by longitudinal studies of the processes of institutional emergence and evolution, which put forward the notion of 'fitting institutions' in the perspective of a necessary co-evolution of culture and formal institutions. Formal institutions have to be designed by taking into account cultural traits to guarantee their acceptance/adoption by individuals and communities, who consider the benefits and the costs associated with the behaviors requested by the (new) formal institutional arrangement. Once a formal institutional change has been accepted and implemented, the potential collective gains in efficiency might in turn trigger an evolution of the collective beliefs/culture, when individuals recognize that the (new) formal institutional arrangement outperforms the former coordination mechanism, promoting more 'efficient' behaviors. Think, for instance, on how the development of market exchange or or State-backed social security system might result into an in-depth transformation of the way individuals consider barter exchange or family solidarity.

Institutional design should therefore be driven by an effort to identify relevant strategies to benefit from an improvement in institutional performance - that is, an evidence-based approach - and consider the problem of 'adoption'. Indeed, citizens/economic agents decide to rely on formal institutions, or on the coordination solutions provided by their community (i.e. interpersonal and knit networks relying on customs/culture), or a combination of them. Continuing this line, implementation relies on the identification of reforms that could be accepted by 'users' who will comply with and rely on the proposed formal institutional pattern, because it is adapted to their preexisting capabilities and provides them with benefits. As in a process of technology adoption, beyond the identification of characteristics driving adoption, reform promoters could also identify 'lead users' who will be particularly interested in the benefits of adoption and could federate / initiate a coalition of adopters. Implementation policy should then focus on incentives alignment favoring adoption - and therefore on promotion of institutional patterns minimizing cost and maximizing benefits of adoption, given the preexisting institutional frameworks; triggering path dependency -, and knowledge generation and sharing (about efficiency gains and ways to facilitate adaptation to the new rules).

Our approach aims at better understanding the process of structural reforms in the context of the European Union by contributing to the analysis of the interplay between structural reforms aimed at promoting convergence and the adoption of formal institutions favorable to growth and social cohesion, in the context of the persistence of contrasted cultural substrates, and strategies of political stakeholders interested by their ability to develop and maintain coalitions favorable to their interests. We therefore explore how pre-existing institutional patterns and how political interest impact on reform adoption.

3 Background and Data

3.1 The EU Structural Reform Framework

The EU has been managing a wide set of institutional reforms over the last 30 years in the areas of regulation of market and industries, financial and monetary governance, fiscality, to mention a few domains. In this paper, we focus on the reforms articulated in the context of the European Semester. The European Semester is an annual cycle of coordination of economic and social policies within the European Union (EU), designed to align the policies of Member States with overarching EU objectives. More specifically, the European Commission evaluates national reform programs and issues Country-Specific Recommendations (CSRs) to address their economic and social challenges. These recommendations span a variety of policy areas, such as fiscal policy, labor markets, and public administration.

CSR Data. The implementation progress of CSRs is systematically assessed in yearly reports using a structured framework that classifies progress into five levels: *No Progress*, *Limited Progress*, *Some Progress*, *Substantial Progress*, and *Full Implementation*. Since these assessments are qualitative, we construct a numerical categorization to enable quantitative analysis. To achieve this, we assign scores on a scale from 0 to 1, distributing them in the five assessment categories: 0 for *No Progress*, 0.25 for *Limited Progress*, 0.5 for *Some Progress*, 0.75 for *Substantial Progress*, and 1 for *Fully Implemented*. This abstraction facilitates systematic comparisons of policy implementation over time.

Note that these different degrees of implementation correspond to different steps in the reform process (bill elaboration by the government, law voted by the parliament, law enacted, etc.) and that the achievement of each of these steps might represent an increasing political challenge for the national government.

Identifying Policy Groups Using LLM Classification. One of the characteristics of the European Semester is that it covers a wide range of policy domains, far beyond purely budgetary or fiscal policies. Reforms are recommended or requested in areas such as market economy infrastructures (e.g., labor market, business environment, financial/banking system), social protection (pensions, poverty), public goods provision (collective infrastructure, environment, healthcare), public sector organization (public administration, justice, anti-corruption), and competitiveness promotion (education, innovation), with some overlapping domains (a single recommendation may target multiple policy areas). In fact, one of the goals of these structural reforms is to promote convergence among member states and the implementation of EU policy priorities. Country-specific recommendations and performance in this regard are highly diverse: not all countries are asked to implement the same reforms, and their approaches to reform implementation vary significantly.

To account for this diversity, we classified policy recommendations into 14 policy domains (see Table 2). We used OpenAI's API to classify the recommendations into predefined categories (see Appendix A.1.1 for more details). In most of our tables, these domains are ranked by their frequency at the European level. The most frequent recommendations concern reforms targeting the labor market, the fiscal system, the business environment (including competition), and public administration, as most Member States are asked to implement reforms in these areas. The less frequent recommendations -— particularly those related to housing system reforms and judicial/anti-corruption mechanisms – are specific to a smaller group of countries.

These 14 policy domains can also be contrasted in terms of their general purpose. They can be grouped into four main areas. Some reforms target the mechanisms of lifelong social and economic inclusion – labor market, education, retirement, poverty – while others focus on governmental effectiveness and efficiency – fiscal policy, public administration, justice, and anti-corruption –. Some target public goods provision – infrastructure, environment, healthcare, housing – while others address the foundations of a market economy : business environment and competition, innovation, financial and banking stability.

3.2 The Measure of Institutional Characteristics

One of our hypotheses is that a country's institutional characteristics explain both its need to implement reforms and its ability to do so. To explore this relationship, we rely on three types of indicators or measures of the institutional framework at the national level.

Of course, this type of analysis has limitations. First, measuring institutions is inherently controversial. An institutional framework encompasses many dimensions —- formal and informal rules, mechanisms of collective decision-making, and systems of checks and balances -— resulting in a wide range of outcomes, such as the guarantee of rights and incentives for different categories of actors. Reducing this complexity to a set of indicators inevitably sparks debate on which dimensions should be considered. Moreover, this simplification requires the weighing and aggregation of different components of an institutional ecosystem, which can distort or overlook its internal logic and performance.

In addition, most institutional measures are based on expert assessments or survey-based questionnaires. In both cases, the results are shaped by individual opinions, which may be biased, and by samples that may not be fully representative. Another common criticism of national-level institutional measures is that they overlook within-country heterogeneity. However, since our analysis focuses on the behavior of EU member states as a whole, this particular limitation is less relevant in our case. However, all our findings should be interpreted with caution given the inherent challenges of measuring institutions.

However, several initiatives have emerged over the past 30 years to measure and characterize institutional frameworks, allowing comparative studies in various contexts. In this research, we rely on three such initiatives that offer the advantage of being systematic -— they cover a broad set of countries on a multi-year basis where relevant – and widely used in social sciences, allowing for meaningful comparisons and a better understanding of their limitations.

According to North's definition of institutions, they should not be confused with organizations -— such as governments —- since institutions constitute the "rules of the game" that constrain, incentivize, and provide opportunities to individuals within a society (North, 1990). This distinction leads to a separation between formal and informal institutions. Formal institutions are deliberately designed through processes of conflict and compromise between political and social groups, resulting in formal rules administered and implemented by organizations, which also include mechanisms to monitor changes in the system of rules. Informal institutions, on the other hand, emerge as equilibria shaped by repeated interactions among individuals within a community. Their development and evolution are endogenous and the adherence to these behavioral norms arises because they represent the best response to the expectations and behaviors of others (Greif, 2006). In social sciences, informal institutions are often referred to as "culture." In our analysis, we rely on three categories of indicators to characterize institutions and perform various statistical and econometric exercises.

World Bank Governance Indicators First, we approach formal institutions using the Worldwide Governance Indicators (WGI), published by the World Bank (`www.govindicators.org`). Published by the World Bank, the data provided describe broad patterns in perceptions of governance quality across countries and over time. They are based on data and assessments produced by more than 30 think tanks, international organizations, nongovernmental organizations, and private firms worldwide. These data, essentially based on expert assessments, are combined to create six aggregate indicators using a statistical methodology known as the Unobserved Components Model (Kaufmann and Kraay (2010)). The aggregate indicators have been computed and regularly updated for more than 200 economies from 1996 to 2023. For more information, see Appendix Section A.1.3.

Hofstede Cultural Data. Second, we characterize national culture by relying on data provided by The Culture Factor (`https://www.theculturefactor.com/`). Cultural dimensions theory is a framework for cross-cultural psychology analysis, originally developed by Geert Hofstede, which analyzes from a comparative perspective how the culture of a society impacts the values of its members and how these values relate to behaviors (Hofstede et al., 2010; Hofstede, 2011). It led to the development of indicators that measure the 'national' culture based on surveys of individuals from different countries. Although there are controversies about the methodology initially developed by Hofstede, cross-comparisons with alternative metrics and findings from the World Values Survey tend to confirm that Hofstede's initial work, as well as the updated and extended versions of his framework, remain useful for conducting comparative analyzes across 'national' cultural ecosystems. Several researches in economics and political science – for instance, Gorodnichenko and Roland (2017) – rely on these indicators.

The Geert Hofstede cultural framework includes six key dimensions: Power Distance (PDI), reflecting hierarchical acceptance; Individualism vs. Collectivism (IDV), measuring the degree of societal interdependence; Motivation towards Achievement and Success (MAS), centering on incentives to compete or cooperate; Uncertainty Avoidance (UAI), representing tolerance for ambiguity; Long-Term vs. Short-Term Orientation (LTO), assessing future-focused planning; and indulgence vs. restraint (IVR), which captures the way society handles individual gratification. More details are presented in Appendix Section A.1.2.

ESS Trust Survey Data. Third, since trust is widely considered an essential dimension of national culture, we also rely on measures of trust in different holders of legitimacy, as calculated by the World Values Survey (WVS) project (https://www.worldvaluessurvey.org/wvs.jsp). This academic survey program, involving more than 150 research teams worldwide, is coordinated by a non-profit organization. It originated as the European Values Study (EVS) at Tilburg University in 1981, and the European survey continues to be conducted by the European Values Study (EVS) project (https://europeanvaluesstudy.eu/). The European Values Study assesses citizens' beliefs, preferences, and attitudes on a wide range of topics, including life, family, work, religion, politics, society, morality, and national identity. Since we are specifically interested in structural reform programs, we focus on citizens' trust in distinct categories of authorities and holders of legitimacy.

The ESS Trust Survey Data encompasses multiple European countries and provides panel data collected across different rounds, typically conducted annually for most participating nations. For our analysis, we use data from the 11th round (2023), which offers comprehensive insights into public trust in various legitimacy holders. Specifically, we examine trust variables related to trust in (national) parliament, in the legal system, in police, in politicians, in political parties, in the European Parliament, and in the United Nations. We also consider trust in science and scientists and in others (inter-individual trust).

3.3 Assessing the Role Political Preferences

We approach the role of political preferences of Member States by considering political shifts. We examine how significant changes in government composition over time (referred to as *strong shifts*) influence CSR compliance. To do so, we constructed a unique data set using publicly available cabinet and election data from well-established sources. For more information see Appendix Section A.1.5.

4 Evidence on Reform Policies in Europe

4.1 Grasping the Specificity of Reform Recommendations

CSR is specific to each country. Hence, it is essential to consider the diversity of recommendations to understand compliance. To do so, we first highlight these differences and then conduct a clustering exercise to group member states based on the specificity of the reform recommendations they receive and the degree of achievement of these reforms. These clusters are then compared in relation to their institutional characteristics, taking into account formal governance mechanisms and culture, approached both in terms of cultural traits and trust.

Figures 3 and Figure 4 clearly highlight to what extent EU member states receive different recommendations and tend to respond non-homogeneously to these reform requests.

4.2 CSR & Macro-economic Performances

The logic of structural reforms is to help Member States to benefit from better long-term perspective, both in terms of growth and debt ratio. Therefore, we explore to what extent the level of compliance with CSRs is linked to macroeconomic perspectives and present an overview in Table ??. However, as pointed out by García et al. (2024), assessing the macroeconomic impact of structural reforms is a difficult exercise since it is data-demanding and, ideally, requires a structural model to analyze the vectors of economic impacts. They also highlight that disentangling the specific impacts of reforms from other factors is data- and methodologically demanding. Since it was not the objective of our study, we did not attempt to develop such an in-depth analysis of reforms impacts. Again, then, the correlations we highlight should be interpreted cautiously.

In addition, the level of growth and the debt ratio can be considered both as outputs of the reforms and as drivers. A higher growth should favor reforms implementation, since growth tends to moderate the redistributional tensions that reforms might have. In the same spirit, the debt ratio of a country tends to incentivize compliance with reforms programs, because national governments are under pressure of the lenders (both intergovernmental financial institutions and players on financial markets). Without a structural model and detailed controls capabilities, we cannot therefore easily interpret the correlation we observe between growth or debt-ratio and CSR compliance.

Lastly, we are considering a period with an exceptional economic episode – namely the Covid 19 crisis – that had a huge impact both on growth and on the level of public debt, since the reduced growth combined with support for economic activity negatively affected the public budget, while the RFF led to 'externalize' part of the public debt to the Union. Moreover, the massive public support to economic activity and the brief period of observation prevent disentangling, in the post-Covid period, the impact of the reforms from the one of the massive public subsidies.

Taking these precautions, our econometric tests lead us to notice that there is indeed a pandemic effect/exception, with no significant correlations between CSR compliance and macroeconomic results when considering the 2020-2023 period. In contrast, there are positive relationships between CSR compliance/reform implementation and growth or public debt ratio for the 2010-2019 period.

Before discussing these relationships, it should be pointed out that for the least frequent domains of policy reforms (the domains being listed by their decreasing order of frequency in our tables), there are country biases since these least frequent reforms requests are concentrated on some countries. For instance, reforms in the housing system concern essentially the wealthier Member States, such as Sweden and the Netherlands, while reforms targeting justice and anti-corruption are essentially targeting a small group of formerly planned economies and Mediterranean countries. The same holds for reforms in favor of financial stability. Most of them are concentrated in a handful of countries. The observed correlation might then be driven by specific country effects. It is therefore not relevant to consider the correlation for the last third of the list of policies when assessing aggregated effects.

The positive relationship between growth and reforms holds for almost every policy domain [but for financial/banking reforms, which will not be discussed for the reasons just stated above]. It is stronger than the average for reforms in the matter of (physical) infrastructure provision, judicial system/anti-corruption, and environmental policies (in ascending order) [but the two later belong to the category of least frequent reforms]. As said, it can be linked to both the growth enhancing effect of reforms and to the reform easing effect of growth. However, the stronger positive relationship for reforms linked to the environment or infrastructure might suggest that growth facilitates reforms on the matter. When considering the whole period (2010-2023) compliance in most domains (but business environment and pensions) is associated to a higher growth rate.

The positive and very strong relationship between implementation and rise of the public debt ratio over the 2010-2019 period suggests that countries facing a degradation of their situation on the matter have stronger incentives to implement reforms requested by the EU, typically because compliance with CSRs might be considered as a way to rebalance the bargaining power of these countries vis-à-vis the Commission and their fellow member states, and also vis-à-vis international lenders. It is also interesting to see that there is a negative relationship between compliance in all reform's domains and debt ratio when considering the 2010-2023 period. This is potentially due to the RFF effect, since financial support by the Union was linked to the implementation of reforms.

To conclude, when considering the entire observation period (2010-2023), compliance with CSR is linked to a higher growth rate and to an enhancement of the public debt ratio of member states. However, causality is difficult to interpret since it cannot be excluded that both growth and public debt ratio are potential drivers of compliance, while at the same time both are expected outcomes of structural reforms. In addition, the role of the Union during and after the pandemic, and particularly the RFF, is an important driver of the observed effects.

Due to these elements, we consider growth (or wealth) and date ratio as control variables in many of our econometric treatments.

4.3 The Role of Political Preferences and Shifts in Governance

To assess how government political orientation influences CSR implementation, we examine shifts from conservative to progressive (left shift) governments and vice versa (right shift). Since reform programs might be designed according to the behavior of the outgoing government, the incoming majority may be less willing to comply than its predecessors. Furthermore, delaying or reversing reforms can also serve as political signals to voters and the Commission. For instance, left-leaning governments may be less likely to support labor market reforms, instead they might prioritize investments in infrastructure.

Since political shifts can occur at any point in the year, but CSR assessments take place in the fall, the timing of their impact is uncertain. Early-year shifts may influence the same-year assessment, while late-year shifts are less likely to have immediate effects. Furthermore, in election years, the outgoing government may have incentives to accelerate or soften reforms to shape electoral outcomes. Thus, the effect of year N of a political change in compliance is fundamentally different from the following two years (**N+1 and N+2**), when the new government has had time to reshape policies. In other words, the pace of reform implementation in year N is more related to the behavior of the outgoing government than to the policy of the incoming majority.

We examine the effect of *"policy preference"* by running regressions across 14 policy domains, over the 3 time periods (N, N+1, N+2) controlling for country and year fixed effects as well as key economic factors such as wealth and public debt ratio.

In most cases, we employ the following regression specification:

$$\text{Progress/Stagnation/Rollback}_i = \beta_D \, \text{Political Shift}_{c(i),t(i)} + \sigma_{c(i)} + \phi_{t(i)} + \epsilon_i \tag{1}$$

Each observation corresponds to an individual assessment-recommendation during the observation period. The subscript i represents a specific policy recommendation assessment, $c(i)$ denotes the country, and $t(i)$ indicates the year of the assessment. The outcome variable *Progress* is a binary indicator that takes the value of 1 if the country made a significant improvement since the last assessment of the policy recommendation (CSR). The variable *Political Shift* is a dummy equal to 1 if the government experienced a strong shift in composition (see Appendix A.1.5 for details on its construction). $\sigma_{c(i)}$ and $\phi_{t(i)}$ represent country and year fixed effects, respectively.

From this analysis, several key takeaways emerge:

a - Short-Term Stagnation Rather Than Change

We find that, rather than driving substantial policy change, political shifts primarily lead to increased stagnation in reform implementation. Our findings show that new governments are more likely to freeze or delay ongoing reforms than actively accelerating or reversing them. This stagnation can be attributed to the political benefits, particularly in relation to the incoming government's electorate, when halting the advancement of politically contested reforms. In contrast, reform reversals could be costly, given the potential deterioration of relations with the European Union and the broader need to maintain international credibility, especially vis-à-vis lenders. As a result, political changes bound the implementation of CSR.

To check the impact of the electoral turnover on the government willingness to push for significant reforms, we run regressions on the aggregated CSR dataset, showing that political shifts have a negative impact on implementation assessments classified as'significant progress' (see Section 5.2.7 of the Technical Appendix for the methodology).

To do so we sort the CSR assessments in function of the progress reported each year over the assessment made the previous year contrasting those for which a significant progress is demonstrated, in contrast of limited progress, stagnation, or step backwards. Figure 6 shows the distribution of all CSR implementation assessments. It makes clear that stagnation and small progress in implementation dominate the dataset. For instance, stagnation (such `0.5-0.5` and `0.25-0.25`) accounts for almost 50% of the assessments. Most countries experience stagnation when it comes to complete the reform process. At the same time, significant progress transitions constitute only about 19% of the data set.

With this in mind, we perform an initial regression using a Two-Way Fixed Effects (TWFE) model to estimate the impact of political transitions on achieving significant progress assessments. The model includes country and year fixed effects to address heterogeneity across countries and time periods.

The dependent variable in this regression, `significant progress assessment`, is a dummy variable indicating whether a given assessment belongs to the *Significant Progress* category. The independent variable, `strongshift`, is a dummy for political shifts (both right- or left-wing) occurring in the year preceding the European Semester report. Furthermore, we control for macroeconomic factors, specifically the OECD's central government debt and GDP per capita, to account for economic conditions that could influence CSR implementation.

The regression results are presented in Table 2.

b - Limited Medium-Term Impact

Although political changes might be expected to significantly alter the implementation of CSRs, our findings suggest that their effects are largely neutralized over time. Reform trajectories do not exhibit fundamentally different patterns following a change in government. The persistence of CSR implementation despite political changes suggests that structural factors, institutional or cultural, play a more decisive role in shaping reform outcomes than short-term political dynamics.

To demonstrate this effect, we now recategorize CSR implementation assessments on the basis of three distinct performance types: **progress**, **stagnation**, and **rollback**. These performance types are defined as follows:

- **Progress:** When a country's implementation assessment improves compared to the last valid assessment. For example, moving from "No Progress" to "Some Progress" qualifies as progress.
- **Stagnation:** When the implementation assessment of a country remains the same as the last valid assessment. For instance, consecutive "Substantial Progress" assessments are categorized as stagnation.
- **Rollback:** When a country's assessment worsens compared to the last valid assessment. For example, moving from "Substantial Progress" to "Some Progress" qualifies as a rollback.

We therefore shift the focus from evaluating the *degree* of implementation (i.e., whether CSR's achieve 'Full' or 'partial' Implementation) to assessing the *direction* of change. This approach provides a more detailed reflection towards the dynamics of reform implementation from one year to the next, enabling us to measure destabilizing effects on trajectories.

Taking into account the distribution of CSRs implementation assessments throughout the years, Figure 7 provides an overview of the trends in implementation performance. Essentially, the data reveal the dominance of stagnation in CSR implementation assessments. In other words, every year most ongoing reform processes do not make progress. Progress is significant and fast at the early stages but slows down as time goes on. Rollbacks, or reform reversals, do tend to occur, but they represent only a minority of assessments. Thus, the first steps of a reform process (launching the reform, introducing a bill at the parliament) seem to be much easier to manage than completing the cycle. Passing a law, enacting it, and actually implementing the changes tend to be politically costly and require overcoming technical difficulties. We qualify this phenomenon as a "last mile" effect. This translates into a slowdown or even a stagnation of the reform. The most 'difficult'/politically costly reforms tend to be delayed and end up being never fully implemented.

The regression results are presented in Table 3.

c - Particular Policy Domains Sensitivity

Although political changes do not broadly impact the implementation of CSRs, certain policy areas exhibit stronger ideological sensitivity. Our findings show that:

- **Public Administration:** We observe a lower incidence of rollback in the year of a government shift (**year N**). In the longer term, a net positive effect **emerges in year N+2**, suggesting that political changes contribute to the progress of reform in this domain. This may be linked to the fact that incoming majorities perceive reforms in this domain as a means to reinforce their legitimacy. However, when broken down by political orientation, **left-wing shifts** exhibit *higher rollback rates*, while the **shifts to the right** are associated with progress, making it clear that political preferences play a role.

- **Justice, Equality and Anti-Corruption:** We observe an aggregate positive effect on progress in this area in the year of the shift (**year N**). In the long run, a **right-wing shift** appears to lead to *increased progress* and *less stagnation* by year N+2. However, the same cannot be said for **left-wing shifts**, where it remains unclear whether this policy area is significantly affected.

- **Inclusion and Anti-Poverty Policies:** We observe an aggregate effect of *increased stagnation* in the year of the shift (**year N**). Breaking this down by the political orientation of the change, this effect is clearly driven by **left-wing shifts**. The outgoing more conservative government seems to slowdown reforms on the matter, while in the longer run a more progressist government pushes for progress in the reform process.

These patterns suggest that while most reforms follow a long, convoluted implementation life cycle, governments do have some latitude to selectively advance or delay policies that align with their ideological vision, especially in the short and middle term, using them as markers to reinforce political legitimacy and policy identity. The regressions are presented in Table 4, Table 5 and Table 6, which detail results on overall shifts, right shifts, and left shifts, respectively.

4.4 The Commission's Priorities

In line with our analysis of how national governments' policy preferences influence implementation, we examine the extent to which the Commission's policy preferences evolve over time and how this evolution impacts both the assignment of new recommendations and their implementation. Indeed, the Commission's policy, shaped by the composition of both the College of Commissioners and the European Parliament -— while tempered by the stance of Member States and the Council —- should be reflected in the CSRs. Moreover, it is reasonable to expect that the current Commission places greater emphasis on the implementation of policies by member states that align with its own priorities.

A first check of the distribution of the frequency of CSRs by policy domains (figure A6), and degree of implementation (figure A7) by, respectively, the Barroso (2009–2014), Juncker (2015–2019), and von der Leyen (2020–present) Commissions suggests that indeed the different Commissions highlighted different preferences. For example, the Barroso Commission clearly focused on recommendations in the matter of Fiscal Policy/Taxation and Labor Market/Unemployment, while the Van der Leyen mandate, even if it is concerned with fiscal and tax reforms, focused also on policies in matter of Infrastructure and Environment (in line with the 'Green Deal'). In addition, compliance increased over time, especially in the context of the Von der Leyen mandate.

That said, these general trends may be influenced by numerous factors beyond the composition of the Commission. To better isolate this effect of 'policy preference', we estimate panel regressions to assess whether the assignment of CSRs by policy domain is systematically shaped by the Commission at power. Using the Barroso Commission as a benchmark, we incorporate various controls, including country fixed effects, wealth, and debt ratio. Our results can be found in figure A8. They highlight three key findings: first, a stable focus on reforms related to Fiscal Policy & Taxation, Poverty & Inclusion, and Financial/Banking Stability; second, a clear decline in the prioritization of reforms targeting the labor market, public administration, pensions, and education; and third, a significant increase – primarily driven by the Von der Leyen mandate – in policies focused on infrastructure, the environment, innovation, and healthcare.

When considering the 'impact' of a given Commission on CSR implementation, the results of our regressions are very consistent accross policies (Table 109). We observe a significant and decreasing tendency to ensure compliance. This is however partly because each Commission, but Barroso's, 'inherited' a stock of policy recommendations from the previous Commission. Moreover, as pointed out above, a "last mile" effect takes place: it is easier to launch a reform than to fully implement it. Thus, many reforms programs tend to stagnate. The Juncker, then the Von der Leyen Commissions, had to face a stock of partly implemented CSRs that negatively impacted on their performance in matter of compliance. Another factor might play a role; a given Commission can put more pressure on the implementation of the CSR that it decided/negotiated. For those reasons, we introduce in our regressions exercise, the age of the CSR and a dummy to check if a given Commission gets a better result in terms of implementation by Member states, in matter of compliance to its own CSRs. The regression results on the aggregate CSR data are presented in Table A1.

Our results highlight that, indeed, there is a decreasing trend in terms of CSR implementation from Barroso to Van der Leyen, while the overall effect is partly driven by the difficulty to fully complete reforms implementation (last mile effect) and by an ownership effect (each Commission is more successful if getting progress in the implementation or the reforms it recommended). The combination of both effects —- which cannot easily be disentangled —- explains partly the general decreasing trend in terms of CSR implementation over time. Even, we observe that the Van de

Leyen Commission negative impact on implementation tends to be lower than the one the previous Commission and, in any case, much smaller than the effect due to the age of a CSR (i.e.; last mile effect).

In general, our analysis highlights that the Commission's policy preferences have influenced the prioritization of policy reforms in certain domains, while a core set of reforms—particularly in Fiscal Policy & Taxation, Poverty & Inclusion, and Financial/Banking Stability—has remained stable over time. We also find that the Juncker and Von der Leyen Commissions had a negative impact on the rate of implementation, though this effect is not solely driven by their policy preferences. The challenges of fully completing the reforms, along with the persistence of a backlog of unimplemented measures, also play a significant role.

5 The Influence of Institutional Profiles

5.1 Cluster Analysis: Reformers Profiles

We manage an exercise of k-means clustering, grouping countries in function of their similarities in matter of scores for both the frequency of CSRs and the level of compliance for each of the 14 policies. We chose to aggregate our 27 member states in 7 clusters, that contrasts them in terms of policy recommendations they got, and strategy of implementation they followed. Our clusters characterize, then, member states according to the reforms requested by the Union, and their behavior in terms of reform implementation. In other words, we identify profile of reformers.

It is important to note that Greece (cluster 7) presents a unique case, as the country was not part of the European Semester/CSR assessment mechanism until 2018. Instead, from 2010 to 2018, it operated under a specific financial assistance program, which was closely tied to major institutional reforms. Consequently, the CSR database contains fewer observations for Greece and covers a shorter time span. Specifically, there are 120 observations for Greece starting from 2019, compared to, for instance, 1300 observations for France since 2011. Furthermore, Greece's distinct position is related to the fact that significant structural reforms were still ongoing from 2019 onward. Furthermore, the period under observation coincides with the COVID-19 pandemic and the EU's post-pandemic recovery and resilience policy, adding another layer of specificity to Greece's case. In what follows, we do not comment extensively on Greece, then.

To interpret these 'reformers profiles' we rely, first, on the traditional graphic methodology consisting in plotting countries and clusters in the space of the principal components (which synthetizes the variance of the original dataset). Figure 8 and Figure A1 represent these seven groups according, respectively, to the 2nd and 3rd principal components — with PC 1 contrasting countries in terms of degree of implementation, PC 2 reflecting the focus of EU recommendations and PC 3 reflecting national selectivity/strategy in terms of implementation. We plot in the 2D plan and 3D space member states with colors identifying their cluster, and the centroid of each cluster (identified by a cross).

Second, we provided Chat-GPT with the results of our cluster analysis (country list, coordinates of centroids in the PCA, and characteristics of the principal components) and summarized its feedback. Based on these two complementary methodologies, Table 7 proposes a characterization of our seven clusters.

The plotting of member states in the plan and in the space driven, respectively, by the 2, then 3, first principal components of our PCA highlight commonalities, and contrasts, across groups of clusters

1. Clusters 5 and 6 – i.e., 'State control reformers' and 'Hampered reformers' – are the worst performers in terms of compliance and have to reform both public governance (i.e., public administration and judicial system) as well as the pillars of lifelong inclusion (i.e. pensions, poverty, etc.). They are, however, contrasted in terms of success in delivering social/inclusion services, and strengthening the rule of law.

2. Member states in cluster 2 – i.e.,'Liberal reforms champions'–, are the best implementers. EU reform recommendations tend to focus on fiscality and public good provision.

3. Countries in cluster 4 – i.e., 'Pro-market reformers' – are rather good implementers, and requested to liberalize their markets and reform their public administration.

4. Clusters 1 and 3 – i.e., 'Gradual reformers' and 'Moderate reformers' – groups countries that must manage reforms in all domains, but with less focus on either market liberalization or fiscality/public good provision than countries in cluster 2 and 4 – i.e. 'Liberal reforms champions' and 'Pro-market reformers' –.

Overall, the projections confirm that our clusters contrast countries that have to manage significant reforms of the public administration capabilities and societal inclusion mechanisms (and perform poorly in terms of CSR implementation, i.e. cluster 5 (State control reformers' and 6 (Hampered reformers'), with those which are requested to reform specific policy domains either in matter of market liberalization (cluster 4; Pro-market reformers), or fiscality and public good provision (cluster 2; Liberal reforms champions). A significant number of countries – i.e. those of clusters 1 (Gradual reformers) and 3 (Moderate reformers) – are requested to focus on both aspects: market liberalization and public good provision.

Table 8 provides the list of countries belonging to each cluster, and basic figures characterizing the economy and the social demography of each member state. Interestingly, these seven clusters do not group countries that have common macroeconomic performances or macrosocial characteristics (in terms of inclusion in the labor market or inequality). Furthermore, the European map (Figure 9) highlights that geography is not the main explanatory factor, both for policy recommendations and for compliance.

Institutional patterns and Reformers profile

To understand to what extent our clusters —- based on the patterns of policy recommendations and reforms implementation -— are linked to institutional contrasts (both formal or informal), we compute for each clusters the means and standard deviation of country-level 'measures' of institutional characteristics; namely the Worldwide Governance Indicators (WGI) for formal institutions, the Hofstede cultural metric for 'national' culture, and the measure of trust in different holders of legitimacy by the World Value Survey project (see Table 9).

While considering formal institutions (WGI), clusters 1 to 4 highlight better performance on all governance indicators than clusters 5 to 7 – i.e., 'State control', 'Hampered' and 'Supervised' reformers – (but for 'political stability' that does not strongly contrast Members States among each other). This 'hierarchy' is consistent with the fact these last three clusters are characterized by poor rates of implementation, and strong requests to reform public administration and inclusion mechanisms. Among the laggards, the countries in cluster 6 (Hampered reformers) highlight better governance indicators than the others, which is consistent with the idea that they are on the right path to implement reforms. Along the same line, countries of cluster 4 (Pro-market Reformers) also highlight an average institutional quality a bit below their counterparts in clusters 1 to 3.

When one consider Hofstede cultural indicators, contrasts among clusters do not vary in parallel along all dimensions/traits of the cultural identification, contrary to what we observe with the quality of governance measures (i.e. WGI). Clusters 1 and 2 – i.e. 'Gradual reformers' and 'Liberal reforms champions' – contrasts with clusters 5 and 6 —- i.e. 'State control' and 'Hampered' reformers – on several dimensions (PDI, IDV, UAI, IND). Cluster 3 (Moderate reformers) reach a medium score among those two polar categories, and cluster 4 (Pro-market reformers) highlights scores that are sometimes aligned with 1 and 2, and sometimes closer to those of 5 and 6. This suggests that our clusters echo cultural characterization which are not colinear and need therefore to be captured by different combinations of dimensions of the Hofstede metric. For instance, cluster 2 ('Liberal reforms champions' highlighting a high level of implementation) is characterized by a more egalitarian culture, loosely knit social framework, preference for cooperative achievement, acceptation of risk, and an orientation toward satisfaction of desires, while cluster 5 ('State control reformers', highlighting a low level of implementation), is characterized by an acceptation of authority, more influent communities, a preference for competition and individual achievement, intolerance to risk, and normative framing of individual needs. Attitude toward the future (long-term orientation) does not seem to strongly contrast clusters among each other. All in all, the combination of some cultural traits seems to favor reform implementation, but further analysis is needed since the interaction among/combination of trait might matter, and since implementation can also differ across policy domains.

When considering trust, as approached by the European Value Survey, the main contrast among clusters is driven by the trust in the European Parliament and even more by the confidence in the United Nations. Overall, the population of EU member states highlights similar patterns, in terms of trust, with a very strong confidence in the UN system, a strong one in the EU parliament and a strong and homogeneous confidence in science. Then (and close) come the levels of trust in the police and the legal system. Political parties, politicians, and the national parliament highlight a uniform poor level of trust. The main divergences across clusters are led by contrasted views about the EU parliament: cluster 2, 4 and 5, highlight a much stronger confidence in supranational governance than the population of other member states. However, these three clusters highlight very contrasted patterns in terms of the nature of reforms and compliance.

In general, our cluster analysis suggests a correspondence between reformers profiles and institutional characteristics. The overall quality of governance, as proxied by the World Bank indicators, appears to be positively correlated with reforms implementation. Culture, as approached by Hofstede seems to matter as well, but a detailed analysis of the role of each cultural trait on reform implementation needs to be done since cultural characteristics differ on many independent dimensions. Moreover, our analysis points out that reformers' profiles differ not only in terms of the level of implementation but also in the nature of the reforms. Thus, it is important to dig deeper into the relationships between the various institutional characteristics and the achievement of reforms in different policy domains.

5.2 Formal Institutions

To further analyze the potential role of institutional characteristics in shaping the ability or propensity to implement reforms, we now examine the correlation between the degree of CSR implementation across policy and reform domains. An initial aggregated approach highlights the potential influence of institutional characteristics on compliance, but we refine this analysis by running regressions that control for the debt ratio and GDP per capita. We assume that higher debt levels pressure public authorities to implement reforms (to strengthen their negotiating position with EU authorities), while greater wealth facilitates reform implementation.

Since many institutional indicators are likely to be colinear, we conduct horse race tests to identify the most relevant and independent ones. Given the high number of potentially significant institutional characteristics and the limited number of countries and years of observation, a deeper causal analysis is challenging. Our results should therefore be interpreted with caution, as our primary goal is to identify the institutional factors most relevant to the success of structural reforms.

The figures 10 display plots illustrating the relationship between CSR implementation rates and institutional WGI indicators across member states. Table 10 summarizes the results of our horse race regressions, retaining only those variables that show statistical significance and robustness across different specifications. Positive or negative signs indicate the direction of correlation, while parentheses highlight discrepancies between models that include only the variable in question and those that jointly account for all variables.

Following this exercise, the key institutional drivers of compliance appear to be:

- Government Effectiveness, which positively influences reforms in most policy domains—except for R&D, healthcare, and justice.

- Voice & Accountability, which has a positive effect on most reforms, except for those related to fiscal policy, banking stability, healthcare and housing.
- Regulatory Quality, which supports reforms in 'societal infrastructure' (labor market, education, retirement, poverty, and healthcare) as well as physical infrastructure.
- Political stability, which negatively affects the implementation of societal and physical infrastructure reforms, probably because these areas are central to political competition between left- and right-wing majority. However, political stability positively influences fiscal reforms.

5.3 Culture & Informal institutions

Hofstede Measure and Implementation

Again, we start with an aggregated plot before considering a horse-race regression exercise among cultural traits by policy domain. According to them, the main drivers of cultural impact are:

- Motivation toward Achievement (MAS): Societies oriented toward individual success (vs. collective solidarity) are less likely to implement CSRs across all policy domains.
- Uncertainty Avoidance (UAI) and Long-Term Orientation (LTO): Tolerance to risk and a long-term perspective favor the implementation of policies in all domains except the business environment and justice.
- Orientation toward Indulgence (i.e., satisfaction of individual needs) encourages policy implementation in most domains.

Interestingly, two policy domains seem weakly related to cultural drivers: business environment and social inclusion. On the other hand, most cultural factors significantly impact labor market and fiscal reforms, as well as policies targeting infrastructures development, innovation, and environmental protection.

In general, cultural traits strongly influence the ability to implement reforms that promote inclusion in market integration (employment, education, retirement, financial stability) and the provision of cross-sector public goods (innovation, R&D, healthcare, and fiscal efficiency).

Impact of Trust

When it comes to "values", particularly trust as measured by the European/World Value Survey, the effects are contrasted across policy domains given the objects of trust: people, institutions (e.g. police, justice), political stakeholders (politicians, parties, parliament) and exogenous holders of legitimacy (UN, Science). The implementation of reform in various policy domains correlates with trust in different objects. However, the rate of implementation of reforms may be positively or negatively correlated with the degree of trust in these various objects. Therefore, there is no clear or straightforward interpretation of this exercise.

The most striking effect is the positive correlation between trust in the UN (and, to a lesser extent, in scientists) and the implementation of reforms aimed at establishing the infrastructure of a market economy (labor mar ket, business environment, physical infrastructure), as well as reforms in public administration and education.

Similarly, trust in people or in the legal order (police, justice) appears to facilitate the implementation of fiscal reforms. Additionally, trust in people is positively correlated with reforms concerning social policies, while trust in the legal order aligns more closely with reforms related to the provision of public goods (infrastructure, innovation, healthcare, housing).

Trust or mistrust in political stakeholders (especially politicians) correlates in a more scattered way with successful reform implementation, likely reflecting varying levels of confidence in political institutions and differing political dynamics across countries. Trust in politicians is particularly relevant and is positively correlated with reforms related to the provision of public services to individuals (healthcare, housing), while being negatively correlated with implementation of reforms related to transversal policies (business environment, education, and inclusion).

Fiscal reforms are the most correlated with trust, particularly with trust in people, the legal order, and politicians ; reflecting a propensity to believe that tax revenues will benefit society as a whole.

Overall, trust in holders of exogenous legitimacy appears to be the most significant factor in the success of various policy reforms. It seems to favor both economic liberalization and the reorganization of public administration. Trust in people and the legal order also tends to facilitate reforms, though in a more targeted manner (trust in a specific dimension tends to support reforms in a particular policy domain). Trust appears to facilitate fiscal reforms and to link them to other reforms in matter of social policy (redistribution) or provision of transversal/generic public goods. Finally, trust in politicians sometimes has a positive and sometimes a negative impact on different policies. A more in-depth analysis of the influence of this cultural/credibility factor would certainly be needed.

Interaction between Formal and Informal Institutions

When formal and informal institutional (most significant) descriptors are combined, the strong role of culture becomes evident: a preference for cooperation and care (MAS), long-term orientation (LTO), and pragmatism (as opposed to normative constraints) positively impact the implementation of reforms in most policy domains. The impact of risk tolerance is generally favorable, although risk aversion can also support reforms in financial stability, housing policy, and justice.

Formal institutions appear to influence fewer policy domains. This is in part because formal institutional differences are less pronounced than transnational cultural contrasts within the European Union. Indeed, EU accession has been a major driver of convergence in formal institutions. That said, the effectiveness of governance systems and citizens' effective oversight (voice and accountability) facilitate reforms, both in public administration (including justice) and in the provision of public goods.

When considering policy domains, the most affected areas are reforms related to social cohesion (i.e., labor market, retirement, healthcare, education, poverty, housing), as well as innovation and fiscal policy. Interestingly, in these latter two domains, cultural factors seem to have the greatest influence on reform implementation.

In addition, no policy domain appears to be more strongly shaped by formal institutions than by cultural traits.

6 Concluding Comments & Lessons for Designing Reform Policies

Compliance with CSRs, i.e., implementation of reforms, is linked to three categories of factors:

- First, the scope and depth of the requested reforms: compliance becomes more difficult as the number of objectives increases.
- Second, formal institutions matter: higher-quality governance systems require fewer reforms and facilitate their implementation.
- Third, informal institutions also play a role: cultural traits -—particularly, a preference for cooperation and collective achievement, a higher tolerance for uncertainty, long-term orientation, and openness toward meeting individuals' needs (as opposed to normative restraints) – favor compliance with CSR.

All these categories of factors are obviously correlated. Culture influences the endogenous development of formal governance systems, which in turn impact the scope of necessary institutional reforms, particularly when a process of convergence is at play. The scope of the reforms requested partly explains the difficulty of complying, which is also influenced by economic health. Beyond that, one of the challenges of this analysis is that many institutional characteristics, both formal and informal, tend to be colinear. A structural model would certainly be needed to explore the causal relationships among these elements in greater depth.

At the same time, our two analyses -— the first based on a typology of countries according to the requested structural reforms and their implementation behavior, and the second based on an econometric assessment of the correlation between reform achievement and institutional characteristics -—consistently highlight, first, the institutional features that favor reform implementation, and second, the types of reforms most impacted by these features. Since our two approaches are characterized by different biases, their convergence strengthens the credibility of the following policy lessons derived from the relationships we highlight.

Given that culture remains relatively fixed in the short to medium term, the design of the reforms must take into account the factors that constrain their implementation. From this perspective, two cultural dimensions matter the most: Motivation toward Achievement and Success (MAS) and Indulgence vs. Restraint (IND). The achievement of structural reform is essentially favored by a preference for cooperation, modesty, care for the weak, and quality of life (as opposed to a societal preference for achievement, heroism, assertiveness, and material rewards for success), as well as a tolerance in allowing citizens to fulfill their human desires (as opposed to restricting individual gratification through strict social norms). Thus, when societies tend to prioritize individual performance over cooperation and are characterized by normative repression, structural reforms become more difficult to achieve. In such cases, multiplying reform requests may be, at best, ineffective and, at worst, counterproductive. A better strategy would be to focus on the formal institutional levers most critical to reform achievement, thereby creating the conditions for further implementation (and hopefully further cultural evolutions).

From this perspective, three dimensions of formal institutions have a greater impact on reforms implementation than others:

- **Government Effectiveness (GE)**: Refers to the efficiency of public administration, its independence from undue political pressures, and the consistency of policy formulation.
- **Voice and Accountability (VA)**: Captures the extent to which citizens can participate in selecting their government, as well as freedoms of expression, association, and the press.
- **Regulatory Quality (RQ)**: Reflects the government's ability to formulate and implement sound policies and regulations that enable and promote private sector development.

Focusing on reforms that improve the quality and independence of the public administration, the vectors of democratic control and the ability to design and implement reforms (e.g. skilled and independent regulatory agencies, with clear mandates in matter of economics efficiency of operators, and effective and fair market competition) seem therefore a good strategy to create the conditions of implementation of further structural reforms.

In that perspective, the good news is that the related three domains of reforms – namely, public administration, business environment and competition, and thz provision of infrastructures for a market economy – are less dependent than others on cultural preconditions. Thus, reforms of the public administration and business/market regulation should definitively be prioritized in countries presenting cultural characteristics less favorable to reforms. It should also be combined come with a reinforcement of democratic control (in a large understanding including media freedom and a legal framework favorable to NGOs).

Our results also highlight that not all reform domains are the same when considering the cultural and governance pre-conditions:

- As already mentioned, some policy domains are only poorly constrained by cultural factors and the quality of governance conditions: business environment, public administration, and market infrastructure. Reforms on these issues might be designed and implemented more freely.

- Some reform domains tend to be mainly subjected to cultural preconditions and less so to governance constraints: this is the case of fiscal systems, of banking and financial stability mechanisms, and of environmental policy delivery mechanisms. When considering reforms in these three domains, policy makers have to check whether cultural traits are likely to prevent implementation, which might lead to consider other policy priorities.

- To the opposite, reforms in some other policy domains tend to be mainly subject to specific governance capabilities (even if cultural factors facilitate implementation): this is true especially for reforms in the domains of poverty/inclusion (which request voice and accountability mechanisms and regulatory capabilities), of housing (depending on government effectiveness) and of justice/anti-corruption (submitted to voice and accountability)

- Lastly there are domains for which both cultural traits and governance capabilities tend to constraint reform implementation. Cultural traits favoring reforms are those already mentioned as essential facilitators: preference for cooperation, risk tolerance, long-termism, and free satisfaction. Reforms concerning the human capital, social inclusion, and health -— namely reforms of the labor market, of education and training, and of healthcare —- request good regulatory capabilities, while successful reform implementation in matter of innovation or retirement and pension requests voice and accountability mechanisms. Reforming the pension systems requires in addition governmental effectiveness.

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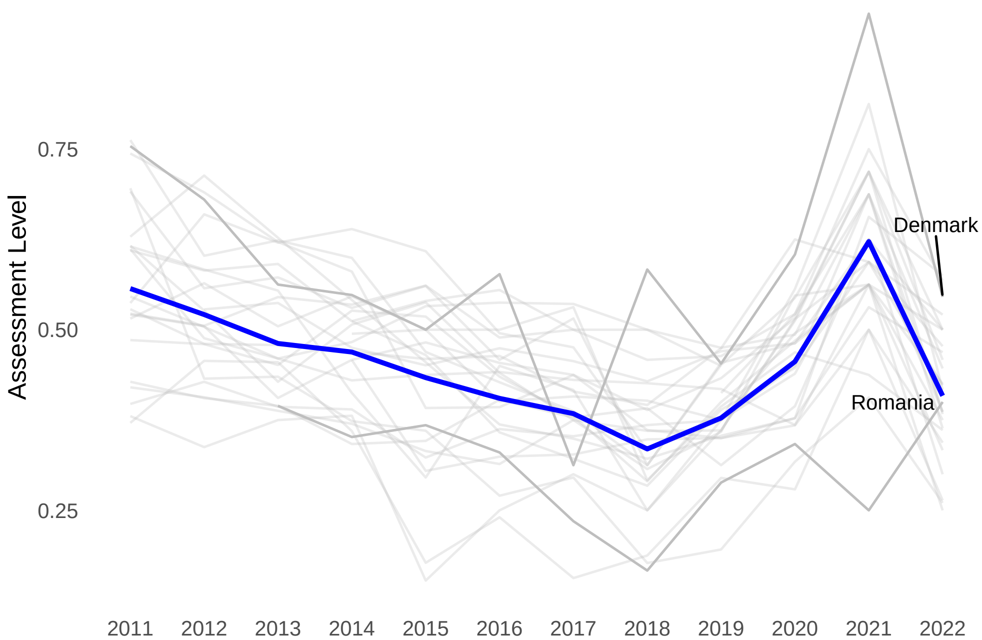
Main Figures and Tables

Table 1: Average Rate of Compliance by Country

	Country	Mean Assessment
1	**Denmark**	0.63
2	Slovenia	0.57
3	Netherlands	0.56
4	Lithuania	0.55
5	Finland	0.54
6	Estonia	0.52
7	Ireland	0.52
8	Spain	0.51
9	Malta	0.50
10	United Kingdom	0.50
11	Latvia	0.49
12	Sweden	0.49
13	Greece	0.48
14	France	0.48
15	Belgium	0.47
16	Italy	0.47
17	Cyprus	0.46
18	Bulgaria	0.46
19	Portugal	0.45
20	Czech Republic	0.45
21	Germany	0.39
22	Austria	0.39
23	Hungary	0.38
24	Slovakia	0.38
25	Croatia	0.37
26	Poland	0.36
27	Luxembourg	0.36
28	**Romania**	0.34

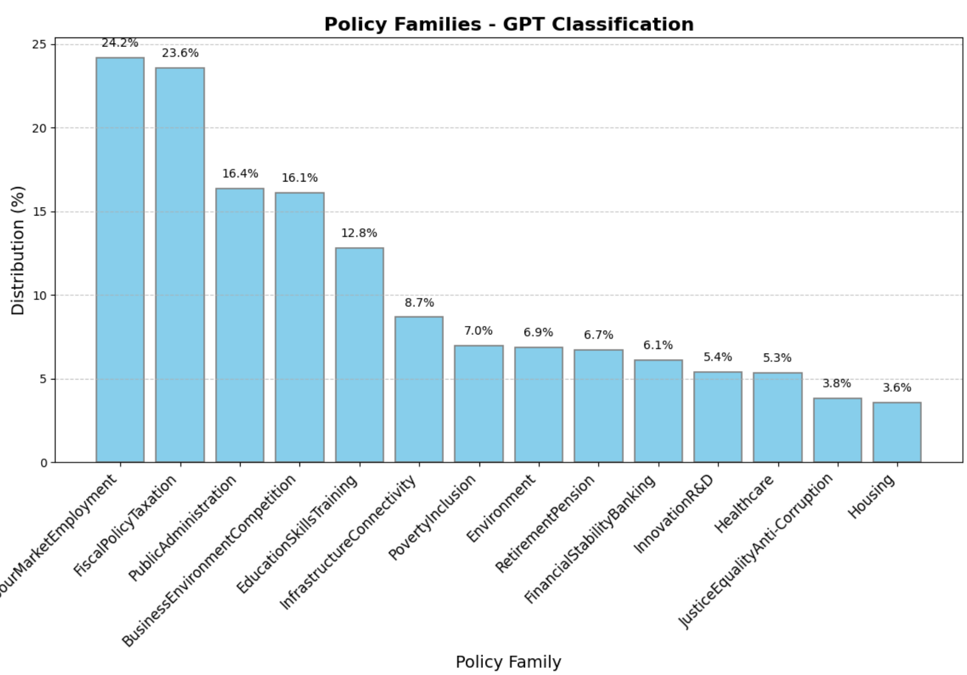
Notes: This table presents the mean assessment scores of policy compliance across EU Member States, ranking countries from highest to lowest compliance levels.

Figure 1: Evolution of Average Implementation Rates



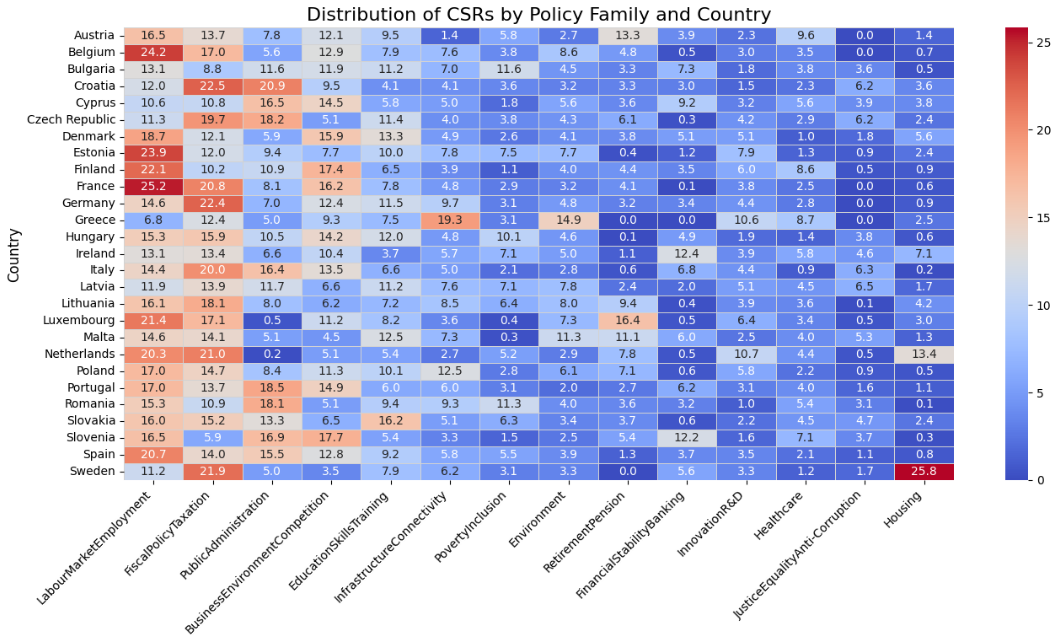
Notes: The figure illustrates the average implementation rates across various EU Member States, with the overall average assessment level highlighted in blue.

Figure 2: Distribution of Policy Areas in Recommendations, Categorized by OpenAI API



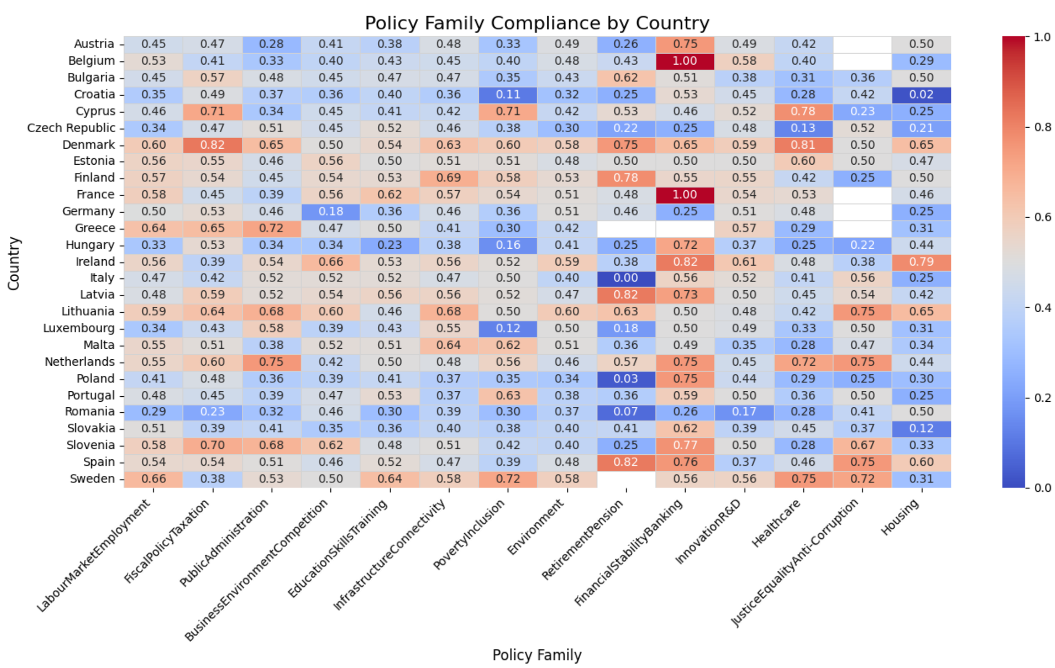
Notes: This figure displays a bar chart illustrating the percentage distribution of policy families in recommendations. The x-axis represents policy categories, while the y-axis shows their respective proportions. Policy recommendations were classified into predefined categories using the OpenAI API.

Figure 3: Policy Families by Countries



Notes: Notes: This heatmap illustrates overall compliance across various policy families for different EU Member States. The color gradient reflects compliance intensity, with red indicating higher compliance and blue representing lower compliance.

Figure 4: Policy Compliance by Countries



Notes: This heatmap visualizes the overall compliance across various policy families for different EU Member States. The color gradient represents the intensity of compliance, with red indicating higher values and blue representing lower values.

Figure 5: Insitutional Economics

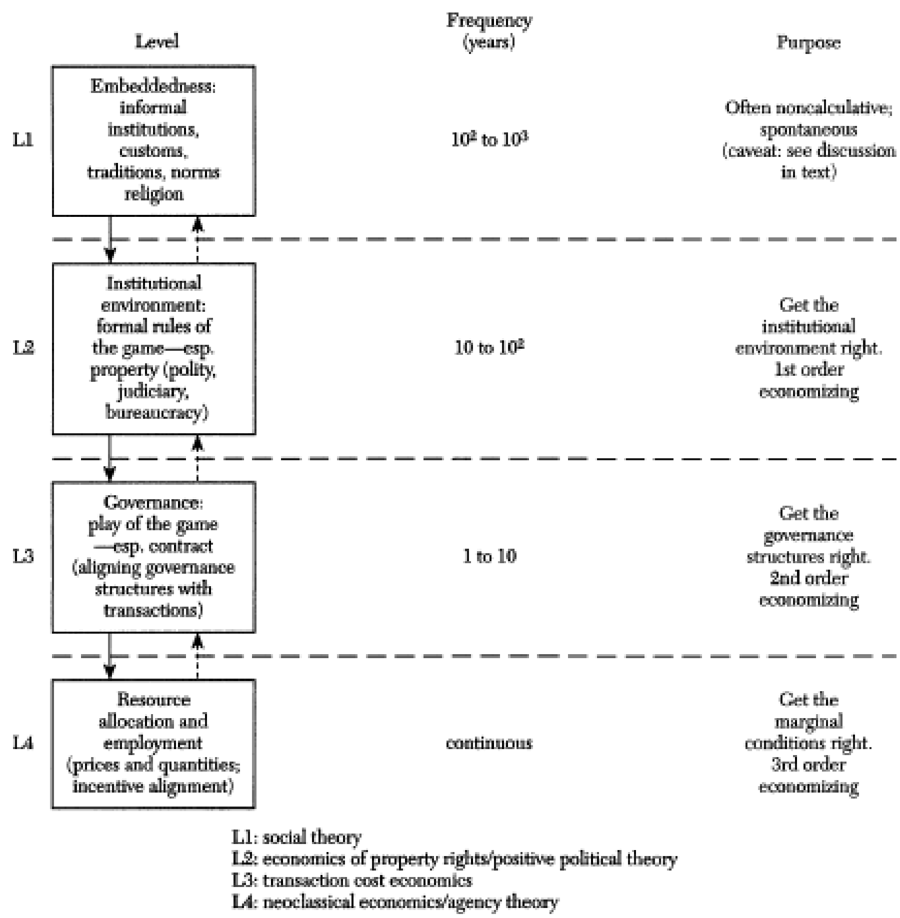


Figure 1. Economics of Institutions

Figure 6: Distribution of CSR Transitions

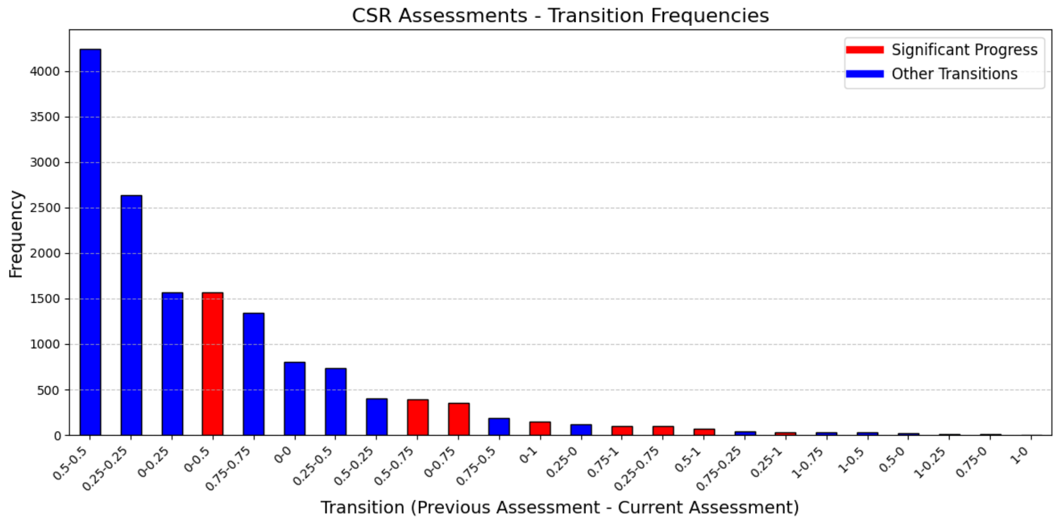


Figure 7: Distribution of CSR Assessment Type Over Time

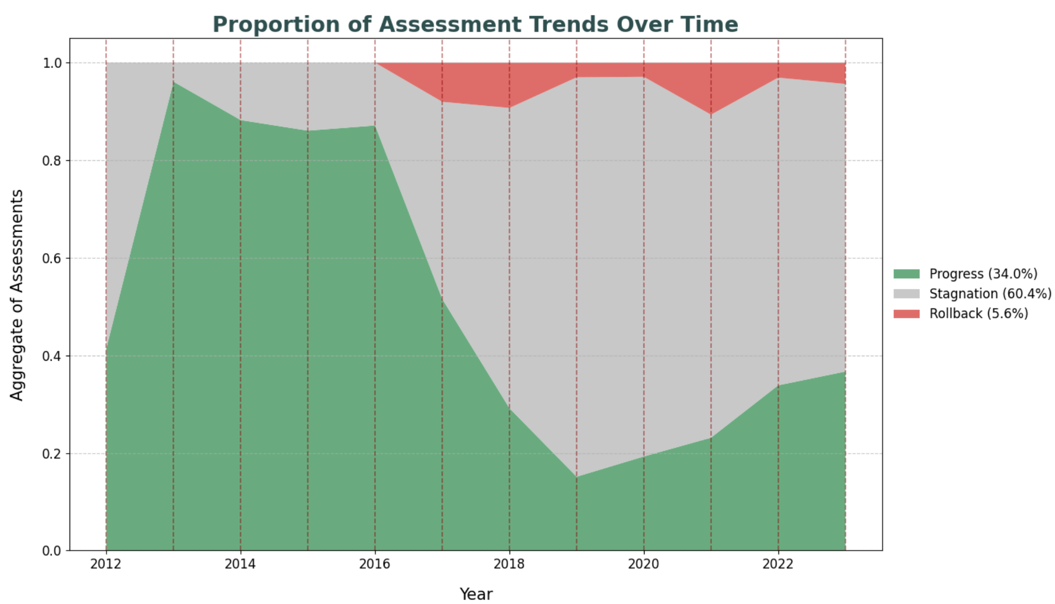


Table 2: Impact of Political Shifts on Strong Progress in Recommendation Assessments

Dep. Var.:	*Dep. Var.: Significant Progress in Assessment*		
	(1)	(2)	(3)
Strong Shift in Governance	-0.033** (0.013)	-0.033** (0.013)	-0.034*** (0.013)
Country FEs	Yes	Yes	Yes
Year FEs	Yes	Yes	Yes
GDP per Capita		Yes	Yes
Debt/GDP			Yes
Observations	14938	14938	14938
N. of Countries	27	27	27

Notes: This table presents the estimated coefficients for the effect of strong shifts in governance on a dummy variable for a country making strong improvement since previous assessment of the same CSR. The unit of observation is the individual assessment. Appendix A.1.5 for details on construction of the independent variable, strong shifts. Standard errors are clustered by country. Statistical significance levels: $^{*}p < 0.1$, $^{**}p < 0.05$, $^{***}p < 0.01$.

Table 3: Medium-Term Effect

Dep. Var.:	*Change in Assessment in Year N+2*		
	Rollback	*Stagnation*	*Progress*
	(1)	(2)	(3)
General Strong Shift	0.006 (0.008)	-0.015 (0.023)	0.009 (0.019)
Left-Wing Strong Shift	0.005 (0.010)	-0.025 (0.041)	0.020 (0.039)
Right-Wing Strong Shift	0.006 (0.011)	-0.004 (0.023)	-0.001 (0.020)
Country FEs	Yes	Yes	Yes
Year FEs	Yes	Yes	Yes
Main Controls	Yes	Yes	Yes
Observations	14938	14938	14938
N. of groups	27	27	27

Notes: This table presents the estimated coefficients for the effect of strong shifts in governance on three dummy variables, indicating whether a country experiences a rollback, stagnation, or progress in the observed assessment compared to the previous evaluation of the same CSR. Standard errors are clustered by country. Statistical significance levels: $^{*}p < 0.1$, $^{**}p < 0.05$, $^{***}p < 0.01$.

Table 4: Subsample Analysis: Impact of Overall Political Shifts

Panel A: Public Administration

Outcome Period:	Year-N			Year-N+1			Year-N+2		
Dep. Var.:	Rollback	Stagnation	Progress	Rollback	Stagnation	Progress	Rollback	Stagnation	Progress
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Strong Shift	-0.032***	0.028	0.003	0.030	-0.047	0.017	0.007	-0.084***	0.077***
in Governance	(0.011)	(0.027)	(0.027)	(0.019)	(0.042)	(0.039)	(0.012)	(0.032)	(0.029)
Country FEs	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year FEs	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Main Controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	1811	1811	1811	1811	1811	1811	1811	1811	1811
N. of Countries	21	21	21	21	21	21	21	21	21

Panel B: Justice, Equality, and Anti-Corruption

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Strong Shift	-0.032*	-0.042	0.075**	0.039	-0.062	0.023	-0.009	-0.057	0.065
in Governance	(0.017)	(0.029)	(0.031)	(0.024)	(0.069)	(0.065)	(0.015)	(0.070)	(0.062)
Country FEs	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year FEs	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Main Controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	388	388	388	388	388	388	388	388	388
N. of Countries	17	17	17	17	17	17	17	17	17

Panel C: Poverty Inclusion

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Strong Shift	-0.037	0.109***	-0.072	0.043	-0.060	0.017	-0.009	-0.057	0.066
in Governance	(0.023)	(0.041)	(0.049)	(0.029)	(0.067)	(0.062)	(0.022)	(0.042)	(0.040)
Country FEs	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year FEs	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Main Controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	749	749	749	749	749	749	749	749	749
N. of Countries	21	21	21	21	21	21	21	21	21

Notes: This table presents the estimated coefficients for the effect of strong shifts in governance on three dummy variables, indicating whether a country experiences a rollback, stagnation, or progress in its assessment. The regressions are conducted on specific sub-samples based on policy families, as defined in Appendix A.1.1. Additionally, we break down the observed effects by years following the strong shift year ('N'). Standard errors are clustered by country. Statistical significance levels: $^{*}p < 0.1$, $^{**}p < 0.05$, $^{***}p < 0.01$.

Table 5: Subsample Analysis: Impact of Right Political Shifts

Panel A: Public Administration									
Outcome Period:		Year-N			Year-N+1			Year-N+2	
Dep. Var.:	Rollback	Stagnation	Progress	Rollback	Stagnation	Progress	Rollback	Stagnation	Progress
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Right Shift in Governance	0.005	0.062	-0.067	0.034	-0.077	0.043	-0.033*	0.016	0.017
	(0.026)	(0.055)	(0.060)	(0.054)	(0.115)	(0.093)	(0.019)	(0.066)	(0.066)
Country FEs	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year FEs	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Main Controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	1811	1811	1811	1811	1811	1811	1811	1811	1811
N. of Countries	21	21	21	21	21	21	21	21	21
Panel B: Justice, Equality, and Anti-Corruption									
Right Shift in Governance	-0.029	-0.025	0.054	0.019	-0.036	0.017	0.015	-0.131**	0.116**
	(0.022)	(0.035)	(0.050)	(0.021)	(0.075)	(0.079)	(0.021)	(0.053)	(0.057)
Country FEs	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year FEs	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Main Controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	388	388	388	388	388	388	388	388	388
N. of Countries	17	17	17	17	17	17	17	17	17
Panel C: Poverty Inclusion									
Right Shift in Governance	0.005	0.062	-0.067	0.034	-0.077	0.043	-0.033*	0.016	0.017
	(0.026)	(0.055)	(0.060)	(0.054)	(0.115)	(0.093)	(0.019)	(0.066)	(0.066)
Country FEs	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year FEs	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Main Controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	749	749	749	749	749	749	749	749	749
N. of Countries	21	21	21	21	21	21	21	21	21

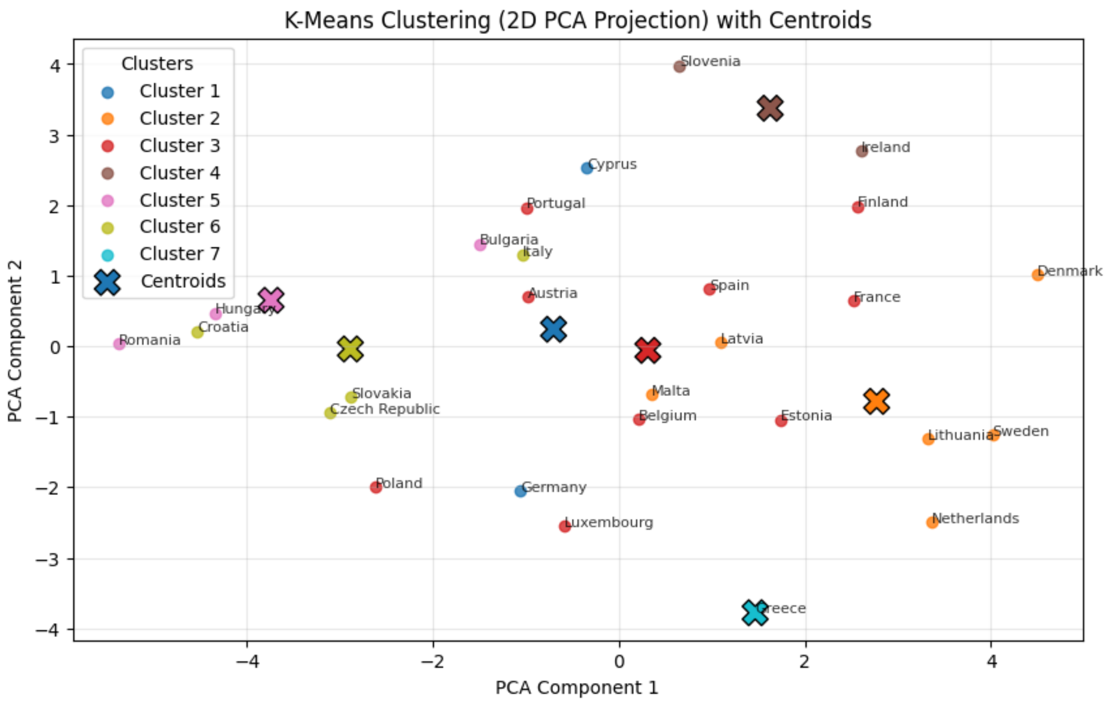
Notes: This table presents the estimated coefficients for the effect of strong shifts in governance on three dummy variables, indicating whether a country experiences a rollback, stagnation, or progress in its assessment. The regressions are conducted on specific sub-samples based on policy families, as defined in Appendix A.1.1. Additionally, we break down the observed effects by years following the strong shift year ('N'). Standard errors are clustered by country. Statistical significance levels: $^{*}p < 0.1$, $^{**}p < 0.05$, $^{***}p < 0.01$.

Table 6: Subsample Analysis: Impact of Left Political Shifts: Subsample Analysis

Panel A: Public Administration									
Outcome Period:	Year-N			Year-N+1			Year-N+2		
Dep. Var.:	Rollback	Stagnation	Progress	Rollback	Stagnation	Progress	Rollback	Stagnation	Progress
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Left Shift in Governance	-0.009	-0.048	0.057	0.024	-0.081	0.057	0.048***	-0.028	-0.020
	(0.018)	(0.040)	(0.048)	(0.037)	(0.068)	(0.065)	(0.015)	(0.034)	(0.043)
Country FEs	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year FEs	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Main Controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	1811	1811	1811	1811	1811	1811	1811	1811	1811
N. of Countries	21	21	21	21	21	21	21	21	21
Panel B: Justice, Equality, and Anti-Corruption									
Left Shift in Governance	-0.024	-0.064	0.088	0.075*	-0.106	0.031	-0.045	0.100*	-0.054
	(0.021)	(0.090)	(0.097)	(0.039)	(0.069)	(0.052)	(0.030)	(0.059)	(0.052)
Country FEs	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year FEs	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Main Controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	388	388	388	388	388	388	388	388	388
N. of Countries	17	17	17	17	17	17	17	17	17
Panel C: Poverty Inclusion									
Left Shift in Governance	-0.088***	0.153***	-0.064	0.044	-0.027	-0.017	0.023	-0.140**	0.116*
	(0.026)	(0.041)	(0.050)	(0.044)	(0.064)	(0.065)	(0.024)	(0.054)	(0.059)
Country FEs	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year FEs	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Main Controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	749	749	749	749	749	749	749	749	749
N. of Countries	21	21	21	21	21	21	21	21	21

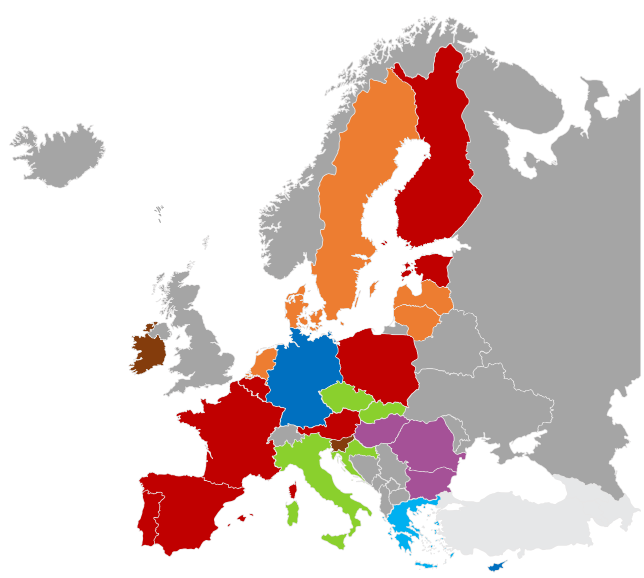
Notes: This table presents the estimated coefficients for the effect of strong shifts in governance on three dummy variables, indicating whether a country experiences a rollback, stagnation, or progress in its assessment. The regressions are conducted on specific sub-samples based on policy families, as defined in Appendix A.1.1. Additionally, we break down the observed effects by years following the strong shift year ('N'). Standard errors are clustered by country. Statistical significance levels: $^{*}p < 0.1$, $^{**}p < 0.05$, $^{***}p < 0.01$.

Figure 8: Country Clusters



Notes: This scatter plot represents the clustering of EU Member States based on K-Means clustering, projected onto two principal component axes using PCA (Principal Component Analysis) for dimensionality reduction.

Figure 9: Country Clusters Map



Note: The map represents European countries colored based on K-Means clustering.

Table 7: Clusters, Member States, and Reform Characteristics

Clusters	Member States	Graphic Analysis	Interpretation	Summary	Details
1: Gradual Reformers	DE-CY	*Neutral on PC1 and PC3 (Implementation strategy)/ Contrasted on PC2 (reforms requests)*	DE & CY are implementing according to EU priorities, and have an average degree of implementation. DE is requested to manage fiscal and public-good provision reforms, while CY is requested to liberalize and reform its public administration.	Balance economic stability with gradual reforms	Moderate labor market reforms & moderate fiscal policy compliance; slight emphasis on public administration and financial stability.
2: Liberal Reform Champions	NL, SE, DK, LT, LV, MT	*Best Reformers (PC1)/ Neutral on PC2 & 3*	These countries are asked and do implement reforms in most policy domains (fiscality, public-good provision, market liberalization). Public administration efficiency and social inclusion are largely guaranteed (few or no reform requests). Sweden is an outlier on PCA3 (reforms of solidarity mechanisms).	Proactive business-friendly, financial stability, and market reforms	Significant labor market and innovation reforms; focus on business environment and financial stability; fewer public administration & regulatory reforms.
3: Moderate Reformers	FR, ES, PL, BE, AT, FI, PT, LU, EE	*Dispersion around the central position on all dimensions*	These countries are asked to implement reforms in all domains, but emphasis differs. Their compliance score is close to EU means, with notable dispersion. Reforms reflect institutional convergence attempts but are constrained by path dependency.	Gradual implementation; moderate market liberalization with slight fiscal & social policy adaptation	Moderate reform engagement across policy areas; balanced approach across labor market, education, and public administration compliance; some engagement in housing & social inclusion (esp. ES & PT).
4: Pro-Market Reformers	IE, SI	*High score on PC2 (reforms requests)/ Slightly positive on PC2 (Implementation)/ Neutral on PC3 (Strategy)*	Emphasis on market and governance reforms aligned with EU priorities. Relatively good performance in terms of implementation.	Prioritization of economic liberalization, business environment reforms, and competitive tax structure	Emphasis on business environment, finance, and market reforms; moderate in labor market implementation; lagging in public administration reforms; low environmental & infrastructure engagement.
5: State Control Reformers	RO, HU, BG	*Worst performance on PC1 (implementation)/ Neutral on PC2 (request)/ Slightly negative on PC3 (strategy)*	Strong call for reforms in public administration and social inclusion. Calls for reforms in all policy domains, but overall poor compliance.	Slow implementation, preference for state-controlled economic models, with EU pressure for governance reforms	Low compliance in key policy areas; focus on public administration and justice; pro-inclusion reforms (under EU pressure); low fiscal policy engagement; reliance on state-driven economic strategies.
6: Hampered Reformers	IT, CZ, SK, HR	*Below the means on PCA1 (implementation)/ Neutral on PC2 (request)/ Positive on PC3 (strategy)*	These countries struggle with reforming public administration and the fiscal system, yet implement social service reforms. They do focus on EU priorities and have some success in strengthening the rule of law.	Poor implementation due to structural bottlenecks, but improvement over time via institutional changes	Lower compliance in labor market & innovation policy reforms; delays in infrastructure & financial stability reforms; struggle with modernization of public administration & housing policies.
7: Supervised Reformer	GR	*Slightly positive on PCA1 (implementation)/ Extremely negative on PCA2 & 3 (request & strategy)*	Heavy focus on fiscal stabilization and public administration efficiency, but limited capacity to deliver social inclusion and services.	Reform implementation largely dictated by economic crises and external financial oversight (IMF/EU)	Crisis-induced policy interventions; heavy focus on fiscal stabilization & public administration efficiency; stronger policy shift but low level of implementation.

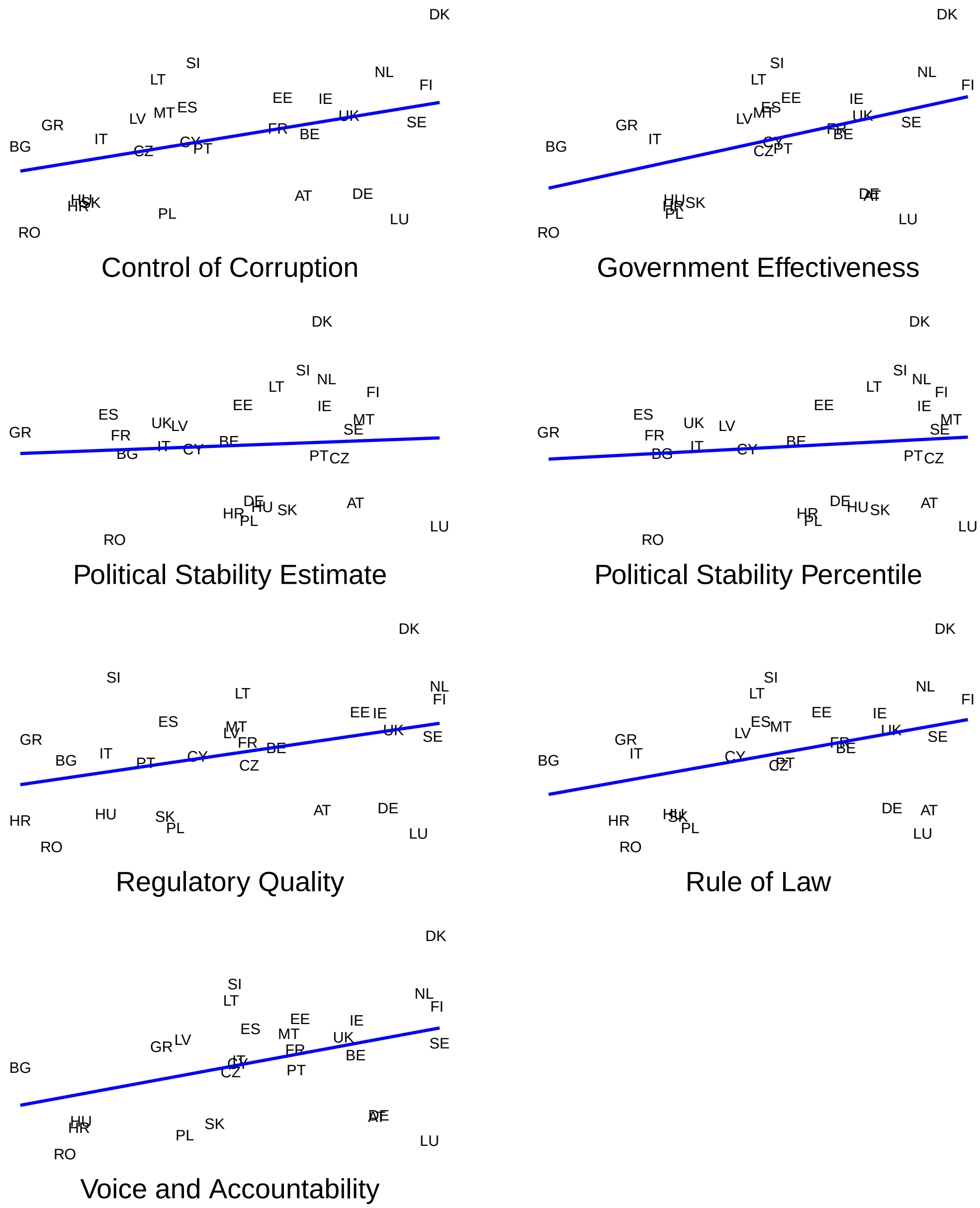
Table 8: Economic indicators for EU countries (2022–2023).

Countries	GDP (2022)	Yearly Growth (2013–2023)	GDP/Capita		Public Debt (% GDP, 2022)	Population (2023)	Employment		Unemployment (2023)	Gini (2022)
			2010	2023			2010	2023		
EU-27	16962391	1.52	25100	29280	84.0	450901	68.3	76.2	6.1	27.8
Germany	4121160	1.09	32590	36290	66.3	84514	76.5	83.8	3.1	28.8
Cyprus	29757	2.95	23460	29080	86.5	927	75.2	79.9	5.8	29.4
Netherlands	1032841	1.77	38700	44460	51.0	17877	76.9	84.3	3.6	26.3
Sweden	540695	2.14	39710	44620	33.0	10599	79.3	83.9	7.7	29.6
Denmark	376430	2.11	43880	52510	30.1	5948	75.6	80.5	5.1	27.7
Lithuania	72048	3.00	8930	15330	38.4	2872	64.4	78.4	6.9	36.2
Latvia	40310	2.18	8380	13300	40.8	1882	66.2	78.3	6.5	34.3
Malta	19382	6.32	16550	26110	53.4	554	60.2	79.1	3.5	31.1
France	2803100	1.08	30830	33750	111.6	68288	70.3	75.6	7.3	29.8
Spain	1462070	2.80	23130	25620	113.2	48383	63.3	71.5	12.2	32.0
Poland	747748	3.45	9490	14880	49.1	37630	64.3	77.8	2.8	26.3
Belgium	582583	1.54	33340	37310	105.1	11780	68.8	73.5	5.5	24.9
Austria	473227	1.05	35170	37860	78.4	9131	75.1	78.9	5.1	27.8
Finland	273320	0.75	35080	36470	73.4	5577	73.4	79.1	7.2	26.6
Portugal	267384	1.75	17010	19250	113.9	10578	70.4	78.1	6.5	32.0
Luxembourg	79310	2.28	83550	83320	24.6	668	68.5	71.1	5.2	29.5
Estonia	37682	2.35	11060	15250	18.4	1366	68.7	83.2	6.4	31.9
Ireland	504620	7.94	36720	71700	44.7	5296	65.8	78.8	4.3	27.9
Slovenia	63090	2.55	17600	22130	69.9	2121	70.5	77.3	3.7	23.1
Romania	324369	3.35	6340	10250	47.3	19064	64.8	68.7	5.6	32.0
Hungary	196391	2.98	9960	14430	73.3	9592	59.9	80.9	4.1	27.4
Bulgaria	93948	2.33	5080	7900	22.9	6447	64.7	76.3	4.3	38.4
Italy	2085376	0.69	27050	28880	144.4	58984	60.5	66.4	7.7	32.7
Czechia	317387	1.96	15170	18480	44.1	10878	70.3	81.6	2.6	24.8
Slovakia	122156	2.20	12660	16710	57.8	5457	64.7	77.5	5.8	21.2
Croatia	76472	2.65	10700	15020	68.4	3942	62.2	70.7	6.1	28.5
Greece	225197	0.79	20100	19460	171.3	10548	63.3	67.7	11.1	31.4

Table 9: Descriptive Statistics: Cultural Traits (Hofstede) and Governance Characteristics (WGI)

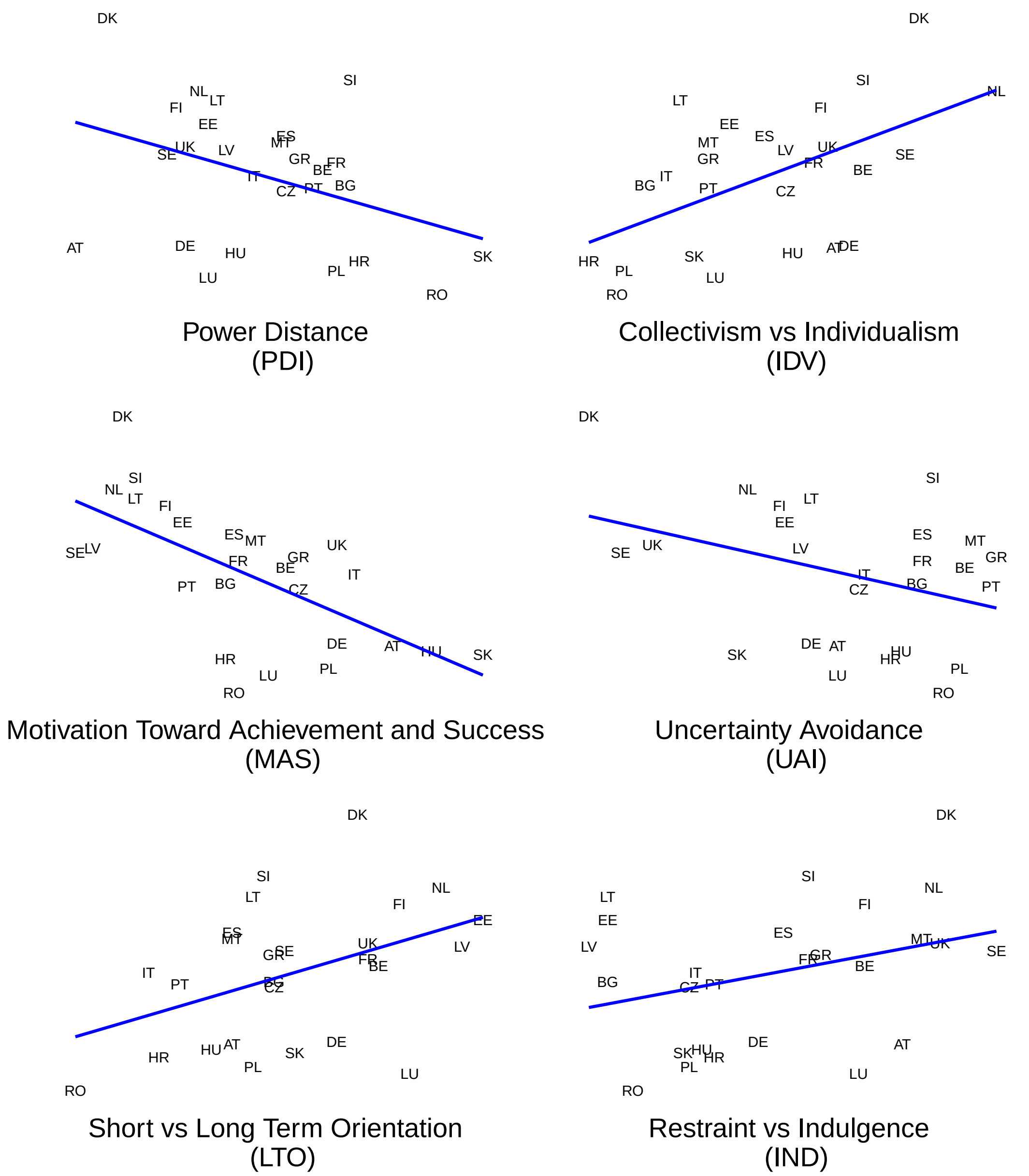
	Cultural Traits (Hofstede)						Governance Characteristics (WGI)					
Country	**CSR Comp.**	**PDI**	**IDV**	**MAS**	**UAI**	**LTO / IND**	**CC**	**GE**	**PV**	**RQ**	**RL**	**VA**
Denmark	0,63	18	89	16	23	59 / 70	2,40	1,99	0,87	1,84	1,90	1,59
Slovenia	0,57	71	81	19	88	50 / 48	0,77	1,07	0,71	0,69	0,97	0,97
Netherlands	0,56	38	100	14	53	67 / 68	1,92	1,58	0,72	1,71	1,66	1,54
Lithuania	0,55	42	55	19	65	49 / 16	0,75	0,99	0,65	1,30	1,06	1,06
Finland	0,54	33	75	26	59	63 / 57	2,25	1,76	0,89	1,78	1,96	1,60
Estonia	0,52	40	62	30	60	71 / 16	1,54	1,34	0,72	1,56	1,43	1,20
Ireland	0,52	28	58	68	35	51 / 65	1,67	1,55	0,88	1,64	1,53	1,45
Spain	0,51	57	67	42	86	47 / 44	0,69	0,92	0,27	0,80	0,80	1,01
Malta	0,50	56	59	47	96	47 / 66	0,24	0,80	0,91	0,67	0,79	1,08
Latvia	0,49	44	70	9	63	69 / 13	0,69	0,69	0,48	1,17	0,92	0,93
Sweden	0,49	31	87	5	29	52 / 78	2,06	1,57	0,90	1,68	1,69	1,52
France	0,48	68	74	43	86	60 / 48	1,26	1,17	0,33	1,19	1,18	1,11
Greece	0,48	60	59	57	100	51 / 50	0,04	0,45	0,06	0,46	0,33	0,95
Belgium	0,47	65	81	54	94	61 / 57	1,50	1,23	0,58	1,25	1,35	1,29
Italy	0,47	50	53	70	75	39 / 30	0,53	0,45	0,41	0,51	0,30	1,07
Bulgaria	0,46	70	50	40	85	51 / 16	-0,16	-0,27	0,25	0,32	-0,11	0,29
Cyprus	0,46	NA	NA	NA	NA	NA / NA	0,42	0,73	0,42	0,77	0,57	0,85
Czech Republic	0,45	57	70	57	74	51 / 29	0,66	1,09	0,82	1,39	1,10	1,04
Portugal	0,45	63	59	31	99	42 / 33	0,73	1,00	0,86	0,76	1,11	1,25
Austria	0,39	11	77	79	70	47 / 63	1,26	1,47	0,64	1,28	1,71	1,41
Germany	0,39	35	79	66	65	57 / 40	1,82	1,29	0,61	1,52	1,53	1,41
Hungary	0,38	46	71	88	82	45 / 31	-0,10	0,53	0,64	0,41	0,42	0,42
Slovak Republic	0,38	100	57	100	51	53 / 28	0,21	0,38	0,44	0,85	0,62	0,89
Croatia	0,37	73	42	40	80	40 / 33	0,15	0,58	0,61	0,50	0,37	0,61
Luxembourg	0,36	40	60	50	70	64 / 56	1,88	1,77	1,06	1,83	1,77	1,54
Poland	0,36	68	47	64	93	49 / 29	0,51	0,26	0,50	0,72	0,43	0,60
Romania	0,34	90	46	42	90	32 / 20	0,02	0,00	0,49	0,36	0,40	0,56

Figure 10: World Bank Indicators and Implementation



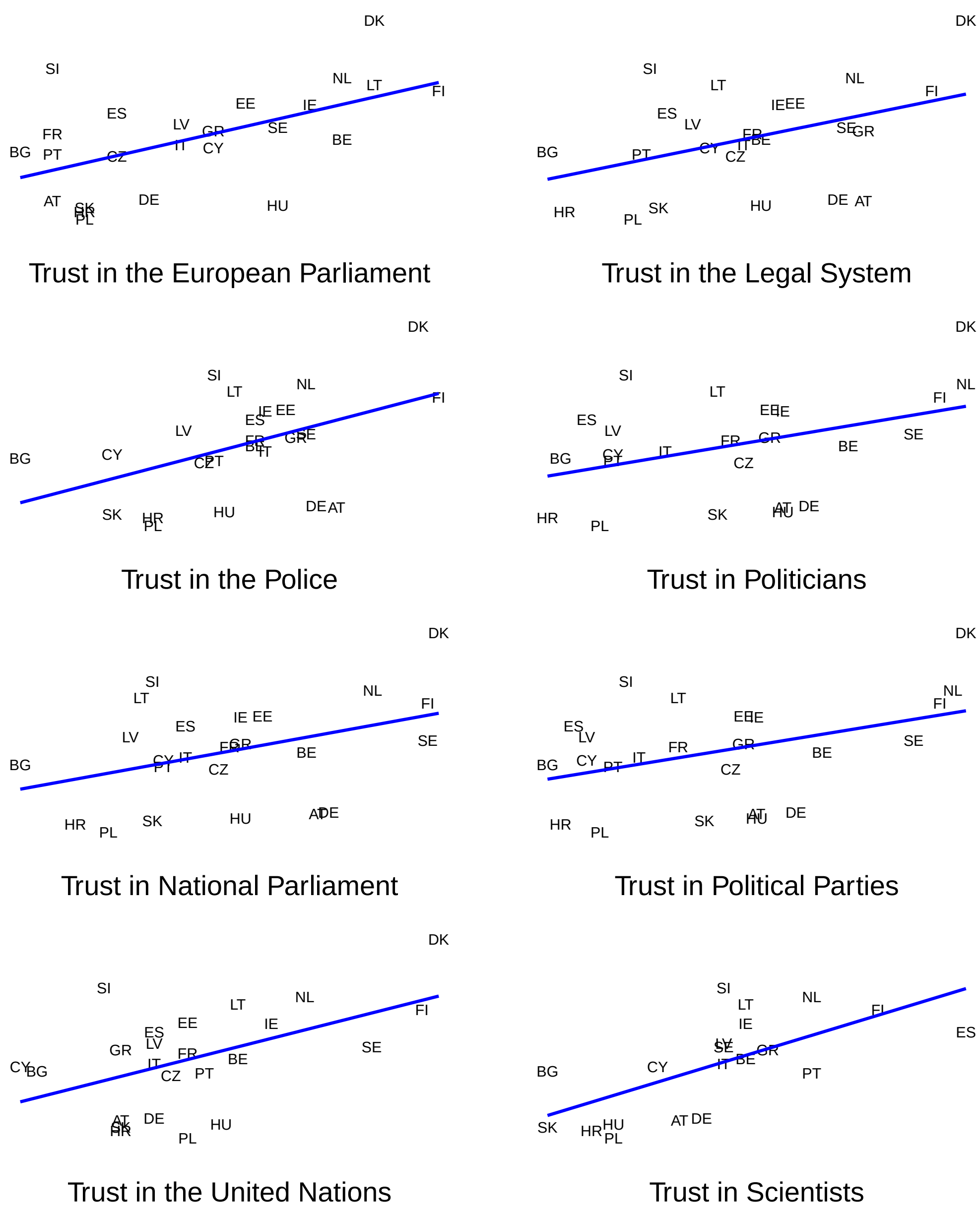
Notes: This figure presents a series of scatter plots analyzing the relationship between World Bank Governance Indicators and policy implementation levels across EU Member States. The World Bank indicators capture key aspects of governance that may influence implementation effectiveness.

Figure 11: Culture and Implementation



Notes: This figure presents a set of scatter plots examining the relationship between cultural dimensions and policy implementation levels across EU Member States. The analysis is based on Hofstede's Cultural Dimensions Theory, which categorizes cultural values along six key dimensions.

Figure 12: Trust and Implementation



Notes: This figure presents a series of scatter plots exploring the relationship between cultural dimensions and implementation levels across EU Member States. The plots illustrate correlations between six cultural dimensions based on Hofstede's Cultural Dimensions Theory and policy implementation metrics.

Table 10: Effect of Formal Institutions: Subsample Analysis by Policy Areas

Policy Area	**Cont Corrupt**	**Gvt Eff**	**Pol Stab**	**Reg Qual**	**Rule Law**	**Voice Accnt**
LabourMarketEmployment	+	+	-	+	(+-)	+
FiscalPolicyTaxation		+	+	+	(+-)	(+-)
BusinessEnvironmentCompetition		+				+
PublicAdministration		+			(+-)	+
EducationSkillsTraining		+	-	+	(+-)	+
InfrastructureConnectivity	(+-)	+		+		+
RetirementPension	(+-)	+	-	+	(+-)	+
PovertyInclusion		(+-)	-	+	(+-)	+
FinancialStabilityBanking		+		-		
InnovationRD						+
Environment	(+-)	+				+
Healthcare			-	+	(+-)	
Housing		+	-			
JusticeEqualityAnti-Corruption				(+-)	+	+

Table 11: Effect of Culture: Subsample Analysis by Policy Areas

Policy Area	**Power Dist**	**Indiv/ Coll**	**Motiv Achiev**	**Uncert Avoid**	**Long Term**	**Indulg/ Restrain**
LabourMarketEmployment	-	(+-)	-	-	+	+
FiscalPolicyTaxation	-		-	-	+	+
BusinessEnvironmentCompetition				-		
PublicAdministration		+	-	-	(+-)	
EducationSkillsTraining	(-+)	(+-)	-	-	+	+
InfrastructureConnectivity	-	(+-)	-	-	+	+
RetirementPension		(+-)	-	-	+	+
PovertyInclusion		+	-	-		
FinancialStabilityBanking	-	+			+	+
InnovationRD	-	(+-)	-	-	+	+
Environment	-	(+-)	-	-	+	+
Healthcare		+	-	-	+	
Housing	-		-		+	+
JusticeEqualityAnti-Corruption		+	-			(+-)

Table 12: Effect of Trust: Subsample Analysis by Policy Areas

Policy Area	**People**	**Legal Syst**	**Police**	**Politicians**	**Parliamnt**	**Pol Parties**
LabourMarketEmployment						
FiscalPolicyTaxation	+	+	+	+	(+-)	(+-)
BusinessEnvironmentCompetition		(+-)		-		
PublicAdministration		(+-)			+	
EducationSkillsTraining				-		(-+)
InfrastructureConnectivity	(+-)			+		+
RetirementPension	+	(+-)		(+-)		+
PovertyInclusion	+		-	-	-	
FinancialStabilityBanking					+	
InnovationRD		+				
Environment						
Healthcare		+		+		
Housing	+		+	+		(+-)
JusticeEqualityAnti-Corruption	-			-	+	

Appendix A

A.1 Data Appendix

A.1.1 OpenAI Prompt for Country-Specific Recommendation Decision Criteria

You will receive a country-specific recommendation from the European Commission. For each subject in the list, decide if it applies to the recommendation by answering yes or no. Return the answers strictly as a valid JSON object. Do not include any text or explanation outside the JSON.

```
{
    "FiscalPolicyTaxation": "No/Yes",  // Is the text related to Fiscal Policy & Taxation?
    "LabourMarketEmployment": "No/Yes",  // Is the text related to Labour Market & Employment?
    "PublicAdministration": "No/Yes",  // Is the text related to Public Administration?
    "RetirementPension": "No/Yes",  // Is the text related to Retirement & Pension?
    "PovertyInclusion": "No/Yes",  // Is the text related to Poverty & Inclusion?
    "EducationSkillsTraining": "No/Yes",  // Is the text related to Education, Skills & Training?
    "BusinessEnvironmentCompetition": "No/Yes",  // Is the text related to Business Environment & Competition?
    "FinancialStabilityBanking": "No/Yes",  // Is the text related to Financial Stability & Banking?
    "InfrastructureConnectivity": "No/Yes",  // Is the text related to Infrastructure & Connectivity?
    "Housing": "No/Yes",  // Is the text related to Housing?
    "Environment": "No/Yes",  // Is the text related to Environment?
    "JusticeEqualityAnti-Corruption":  "No/Yes",  // Is the text related to Justice, Equality & Anti-Corruption?
    "InnovationR&D":  "No/Yes",  // Is the text related to Innovation, R&D?
    "Healthcare":  "No/Yes"  // Is the text related to Healthcare?
}
```

A.1.2 The Hofstede Dimensions of National Culture

The six dimensions used in our analysis are:

Power Distance Index (PDI): The power distance index is defined as "the extent to which the less powerful members of organizations and institutions (like the family) accept and expect that power is distributed unequally." A higher index score indicates that hierarchy is clearly established and maintained in society, without question. A lower score signifies that people challenge authority and seek to distribute power more equally.

Individualism vs. Collectivism (IDV): This index examines the "degree to which people in a society are integrated into groups." Individualistic societies have loose ties, often connecting individuals only to their immediate family. They emphasize the "I" over the "we." In contrast, collectivist societies foster tightly integrated relationships, where extended families and in-groups share strong bonds of loyalty and support each other in conflicts with outsiders.

Motivation Towards Achievement and Success (MAS) (formerly Masculinity vs. Femininity): This dimension contrasts ”a preference in society for achievement, heroism, assertiveness, and material rewards for success” (high score) with ”a preference for cooperation, modesty, caring for the weak, and quality of life” (low score). The name of this dimension was recently changed, as the previous term, Masculinity vs. Femininity, was considered outdated and uncomfortable for users.

Uncertainty Avoidance (UAI): The uncertainty avoidance index measures ”a society's tolerance for ambiguity”—whether people embrace or avoid unexpected, unknown, or unconventional events. Societies scoring high on this index prefer strict codes of behavior, guidelines, and laws and often rely on absolute truths, believing in one singular, defining reality. In contrast, societies with a low score are more open to differing perspectives, impose fewer regulations, and function in a more fluid, adaptable manner.

Long-Term Orientation vs. Short-Term Orientation (LTO): This dimension reflects the connection between past traditions and present and future challenges. A low score (short-term orientation) indicates that traditions are upheld, and steadfastness is valued. Societies with a high score (long-term orientation) view adaptation and pragmatic problem-solving as essential.

Indulgence vs. Restraint (IND): This dimension measures the extent to which societal norms allow individuals to fulfill their desires. Indulgent societies ”allow relatively free gratification of basic and natural human desires related to enjoying life and having fun.” In contrast, restrained societies ”control the gratification of needs and regulate it through strict social norms.”

A.1.3 Worldwide Governance Indicators (WGI)

The six dimensions of governance are:

Voice and Accountability (VA) – capturing perceptions of the extent to which a country's citizens can participate in selecting their government, as well as freedom of expression, freedom of association, and a free media.

Political Stability and Absence of Violence/Terrorism (PV) – capturing perceptions of the likelihood of political instability and/or politically motivated violence, including terrorism.

Government Effectiveness (GE) – capturing perceptions of the quality of public services, the quality of the civil service and its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies.

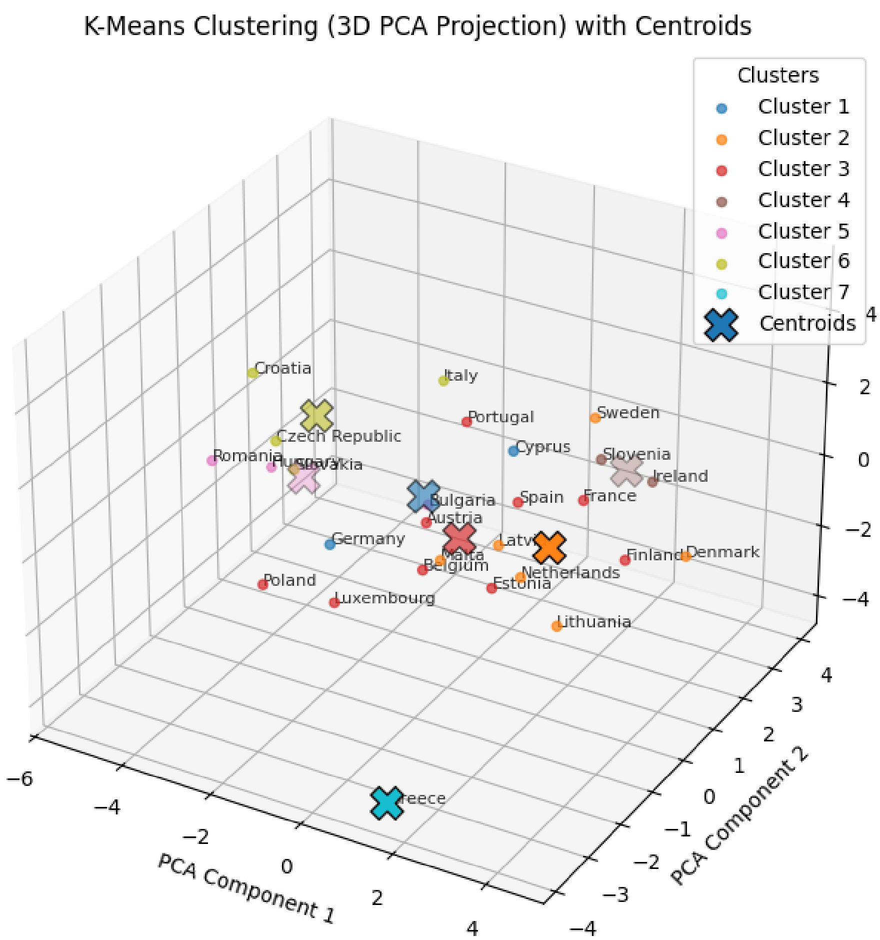
Regulatory Quality (RQ) – capturing perceptions of the government's ability to formulate and implement sound policies and regulations that enable and promote private sector development.

Rule of Law (RL) – capturing perceptions of the extent to which agents have confidence in and abide by the rules of society, particularly regarding contract enforcement, property rights, the police, and the courts, as well as the likelihood of crime and violence.

Control of Corruption (CC) – capturing perceptions of the extent to which public power is exercised for private gain, including both petty and grand forms of corruption, as well as the "capture" of the state by elites and private interests.

A.1.4 Clustering Countries

Figure A1: Country Clusters 3D



Notes: This 3D scatter plot illustrates the clustering of EU Member States using K-Means clustering, with a 3D PCA (Principal Component Analysis) projection for enhanced visualization of data patterns.

A.1.5 Political Shift Data

ParlGov **Project:** The ParlGov dataset provides extensive information on political parties and elections over time, including:

- The number of seats held in parliament,
- Left-right ideological scores derived from established datasets such as Castles/Mair (1983), Huber/Inglehart (1995), Benoit/Laver (2006), and CHES (2010),
- Cabinet composition data, indicating whether a party is part of the government, or rather, the opposition.

Methodology for Identifying Strong Shifts Using the ParlGov and CHES datasets, the process for identifying strong shifts involves three key steps:

1. **Cabinet Timeline Construction:** For each country, we compiled data on cabinet compositions, identifying the political parties in power and their respective parliamentary seat shares.
2. **Calculating Cabinet Scores:** Each cabinet's overall left-right score was estimated as a weighted average of the scores of its constituent parties, with the number of parliamentary seats serving as weights:
$$\text{Cabinet Score} = \frac{\sum_i (\text{Seats}_i \times \text{LeftRightScore}_i)}{\sum_i \text{Seats}_i}$$
where i represents a political party in the cabinet.
3. **Defining Strong Shifts:** A year was classified as a *strong shift year* if the cabinet in power at the end of the year exhibited a significant change compared to the cabinet at the beginning of the year. Specifically, when:
   - A **directional shift** was observed, indicating a change from left-leaning to right-leaning governance, or vice versa, or
   - A **magnitude-based shift** occurred, where the left-right score difference exceeded a predefined threshold.

Examples of France and Hungary To illustrate this methodology, we use France and Hungary as examples. Figure A2 depicts the timeline of cabinets in power in France over the years. Each bar represents the tenure of a cabinet, annotated with its left-right score.

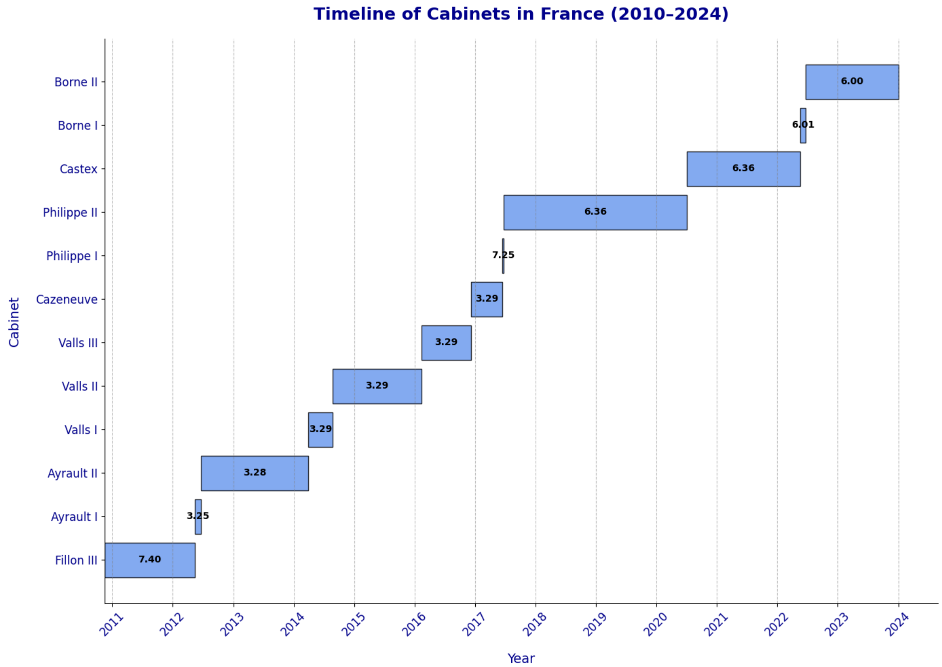


Figure A2: Timeline of French Cabinets over the years

In the case of France, we observe **strong transitions** during the years **2012** and **2017**, where changes in cabinet composition resulted in substantial differences in the left-right score.

While other cabinet rearrangements were measured, such as in **2022**, these did not meet the threshold for a strong transition, which is predefined at **0.5**. This threshold aims to ensure that only significant changes are identified, avoiding cases where minor adjustments in cabinet composition occurred, as these should not reflect a major political shift.

Similarly, we include the timeline of cabinets in Hungary from 2010 to 2024 (Figure A3).

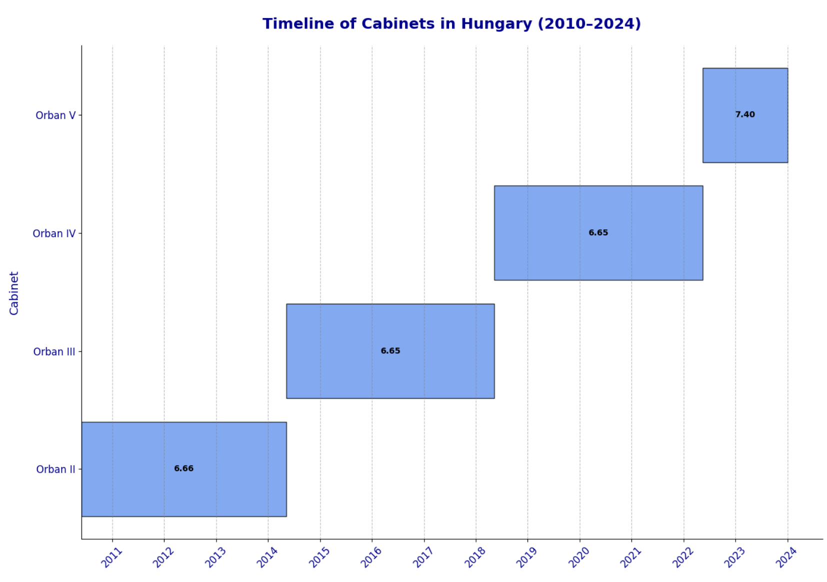


Figure A3: Timeline of Hungarian Cabinets over the years

In the case of Hungary the **Orban II** cabinet (2010–2014) has a consistent score, representing a stable right-leaning government. Successive cabinets (**Orban III** and **Orban IV**) show slight aggregate score variations but remaining within a stable range. Finally, a *strong shift year* seems to occur in 2022 with the **Orban V** cabinet, which marks a stronger increase towards the right-wing.

Results We have estimated a total of 71 significant transitions in government over the time period 2010-2023. Out of those, 38 represent a transition towards a more right-wing cabinet composition, while 33 represent a transition towards a more left-wing cabinet composition.

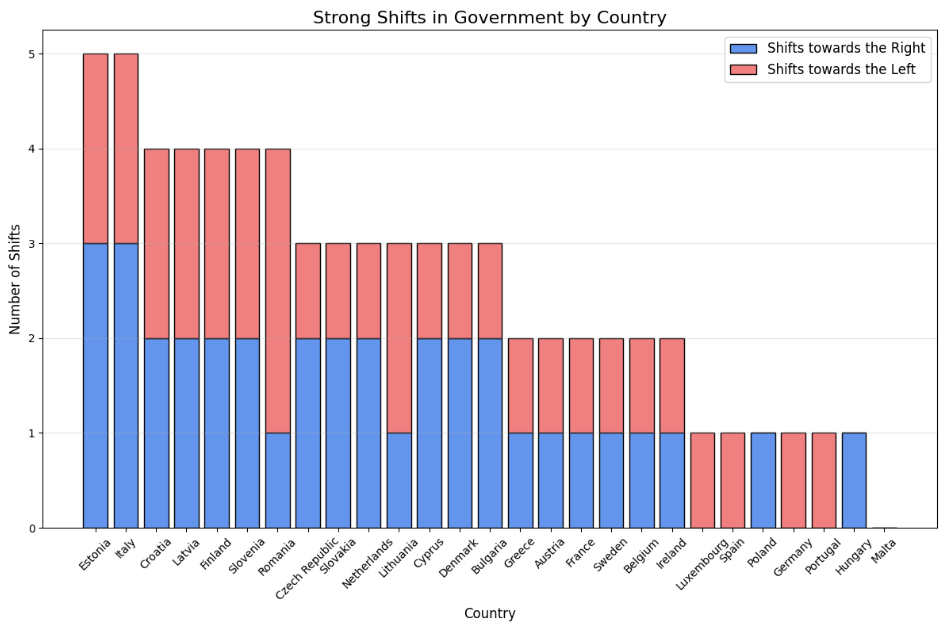


Figure A4: Distribution of Estimated Strong Shifts by Country

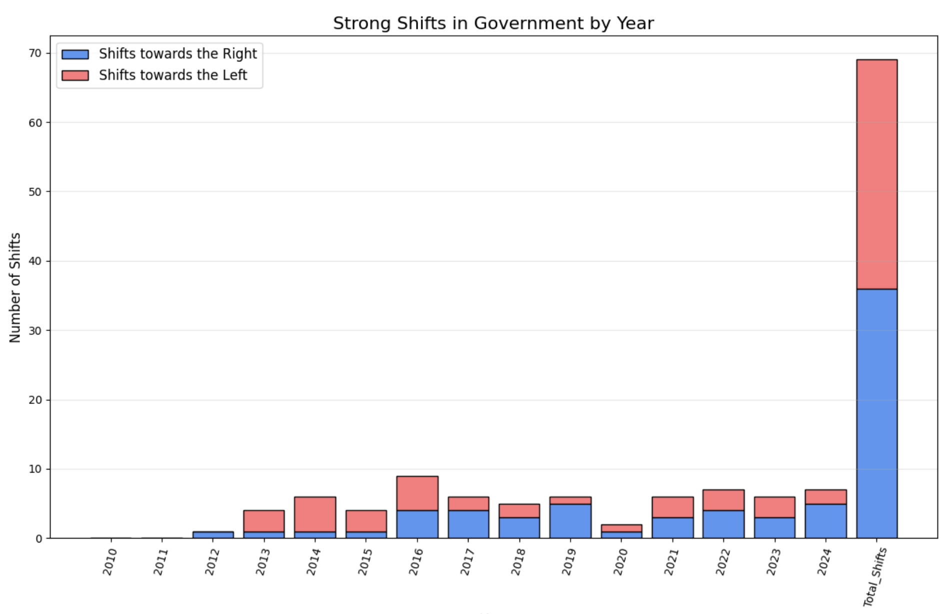


Figure A5: Distribution of Estimated Strong Shifts by Year

A.1.6 CSR Assignment and Compliance Under Different Commissions

To analyze how different European Commissions influenced the characteristics of Country-Specific Recommendations (CSRs), we begin by reproducing previous heatmaps of CSR assignment and compliance. This time, we introduce six heatmaps—three for assignment and three for compliance—corresponding to each of the three European Commissions in place during our observation period: Barroso (2009–2014), Juncker (2015–2019), and von der Leyen (2020–present).

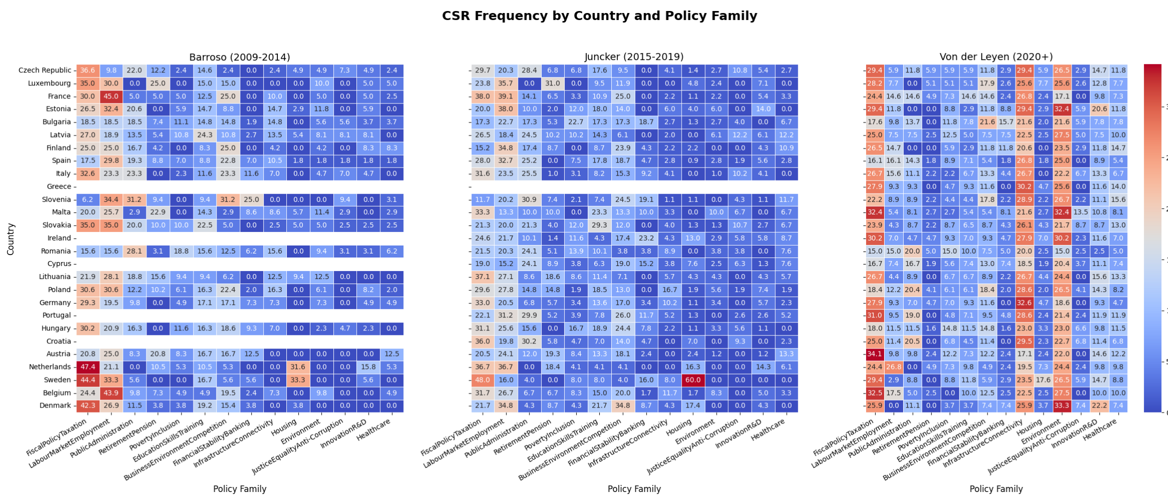


Figure A6: Heatmap of policy family distribution across countries, sub-sampled by Commission.

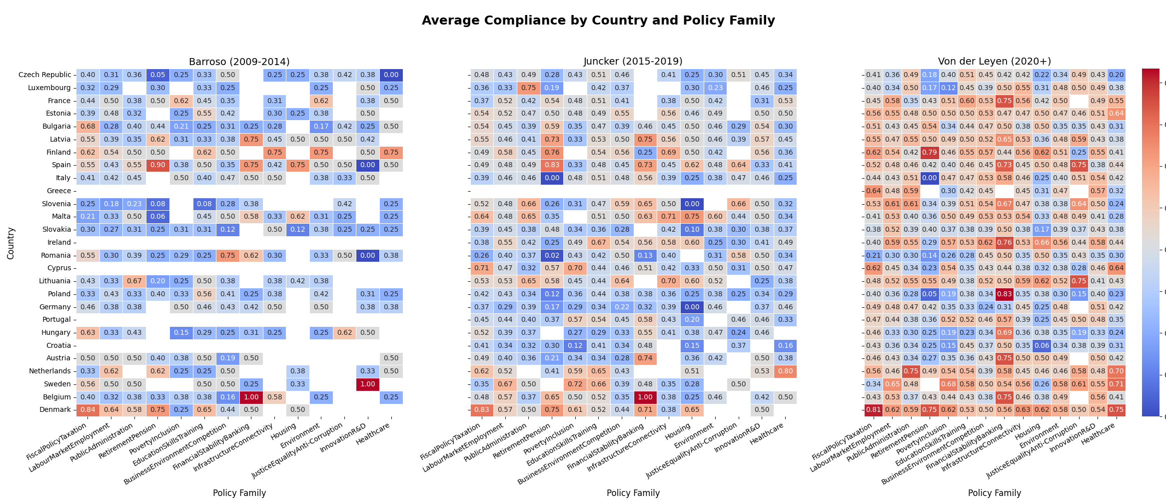
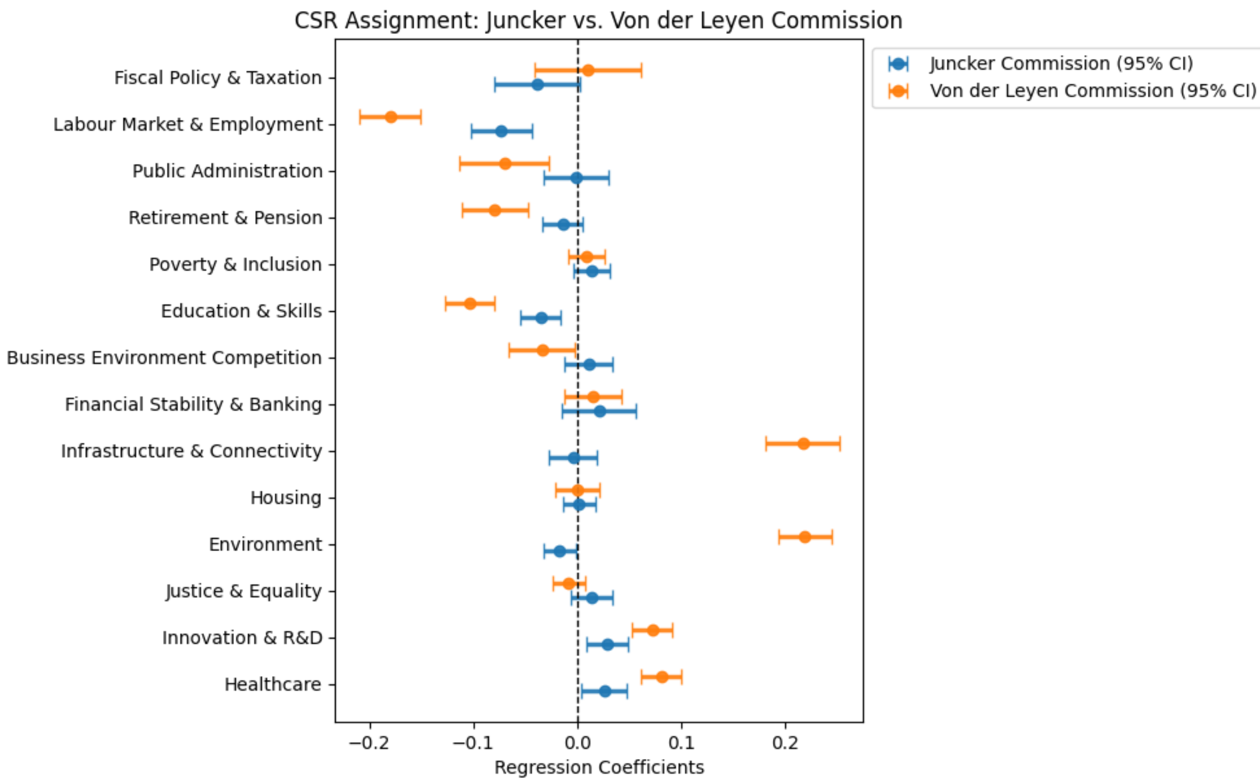


Figure A7: Heatmap of policy family compliance across countries, sub-sampled by Commission.

CSR Assignment Perspective We present detailed regression results below, using the final estimated model in each case, as described in the respective section of the technical appendix, section *Impact of Commissions on CSR Assignment*.



Model 3 of Regression with Main Controls (GDP per capita and Debt) & Country FEs

Standard Errors are clustered by country.

Figure A8: CSR Assignment Regression Results

CSR Peformance Perspective We present below the results of our regression model, as described in the technical appendix, section *Impact of Commissions on CSR Compliance.*

Table A1: Performance on Aggregated CSR Dataset

	Dependent variable: performance		
	Baseline	Country FE	Full Model
	(1)	(2)	(3)
Juncker Commission	0.397***	-0.307***	-0.260***
	(0.023)	(0.027)	(0.038)
Von der Leyen Commission	0.335***	-0.374***	-0.332***
	(0.022)	(0.023)	(0.035)
Same Commission Assessment	0.306***	0.013	0.039**
	(0.021)	(0.015)	(0.017)
CSR Age	-0.049***	-0.090***	-0.088***
	(0.004)	(0.005)	(0.005)
Main Controls	No	No	Yes
Observations	14938	14938	14938
N. of groups	27	27	27
R^2	0.288	0.208	0.213
Note:	*p<0.1; **p<0.05; ***p<0.01		
	Standard Errors are clustered by country.		

A.2 Other Tables and Figures

Table A2: Macroeconomic Indicators and Implementation

Policy Area\Macroeconomic Indicators	**GDP 10–19**	**GDP 20–23**	**GDP 10–23**	**Debt 10–19**	**Debt 20–23**	**Debt 10–23**
LabourMarketEmployment	+.2		+.2	+.5		-.1
FiscalPolicyTaxation	+.3		+.3	+.2		-.6
BusinessEnvironmentCompetition				+1.4	-.1	+.2
PublicAdministration	+.3		+.3	+1.3		
EducationSkillsTraining	+.2		+.2	+.4		-.2
InfrastructureConnectivity	+.5		+.4	+1.7		-.2
RetirementPension	+.2					-.6
PovertyInclusion	+.4		+.7	+.3		-.9
FinancialStabilityBanking	-.2	-.1	+.3	+1.9		-.5
InnovationRD	+.2		+.3	+1.0		-.4
Environment	+.7		+.4	+.9		-.4
Healthcare		+.1	+.2	+1.1		
Housing	+.4		+.9	-1.5		-2.4
JusticeEqualityAnti-Corruption	+.6		+.8	+.6		-.9

Table A3: Effect of Formal Institutions & Culture: Subsample Analysis by Policy Areas

Policy Area	**Motiv Achiev**	**Uncert Avoid**	**Long Term**	**Indulg/ Restr**	**Gov Eff**	**Voice Accnt**
LabourMarketEmployment	-	-	+	+	(+-)	
FiscalPolicyTaxation	-	-	+	+		(+-)
BusinessEnvironmentCompetition	-					
PublicAdministration	-				+	
EducationSkillsTraining	-		+	+	(+-)	
InfrastructureConnectivity	-				+	
RetirementPension	-	-	+	+	+	+
PovertyInclusion	-	-			(+-)	+
FinancialStabilityBanking		+	+			
InnovationRD	-	-	+	+	(+-)	+
Environment	-	-		+		
Healthcare	-	-	+	+		
Housing	-	+	+		+	