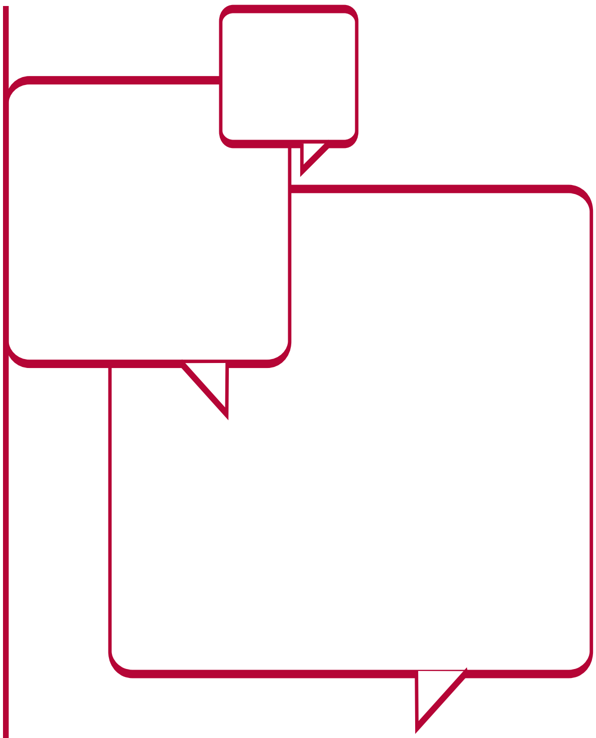

Last exit to Lisbon

Jean Pisani-Ferry and André Sapir[1]

Introduction

The Lisbon agenda was drawn up and adopted in Spring 2000 to bolster the growth, innovation and employment performance of the European Union while fostering the inclusiveness of its social models. These goals commanded, and still command, a wide consensus.

Five years later, in Spring 2005, judging the results as "mixed", heads of state and government chose to refocus priorities on growth and employment and decided to streamline the Lisbon process. The main features of the new process are a longer programming period, a single set of Integrated Guidelines, and the preparation by member states of National Reform Programmes (NRPs).

The essential political choice behind these decisions was twofold. First, the failure of the first Lisbon strategy (Lisbon 1) was attributed neither to its goals nor to its principles, but rather to excessive complexity and inadequate process. Second, the lack of political commitment on the part of member states was regarded as a major shortcoming. Accordingly, the revised Lisbon strategy (Lisbon 2) put the accent on national ownership and adopted a more tailor-made, bottom-up approach.

Lisbon 2 is therefore both similar to and different from Lisbon 1. It is similar because the major aims have remained unchanged and because the very rationale of an open coordination of national reform policies has not been questioned. But it is different because some of the initial objectives have been downplayed and because the underlying governance model, where the European Commission played the role of a schoolmaster, has been abandoned in favour of one in which it plays the role of a coach.

One year on, is the EU now on a better path? What are the chances that the revised Lisbon strategy will deliver the results that the initial one failed to deliver? These are the questions we intend to answer in this report.

It is certainly early to provide an assessment. Though adopted, the NRPs have barely been implemented. Measurable first results can in the best of cases be expected only in 2008, at the end of the three-year cycle. Also, after a complex machinery was put in place last year, governments and the European Commission are still in a learning phase. Any evaluation must therefore be provisional. Yet as the Lisbon strategy can hardly afford to disappoint again, it is important to analyse, early on, whether it is on track to deliver the expected change.

To achieve this aim, we start with a discussion of the rationale for a Lisbon-type coordinated strategy and of the challenges it needs to address (Section 1). We then turn in Section 2 to an assessment of the process as implemented in 2005-2006. We essentially base our evaluation

On the basis of this analysis, we draw conclusions and formulate recommendations in Section 3.

It is important to emphasise that we do not intend to provide any country-by-country assessment of the reform programmes or their implementation. Throughout this report, our focus is on the process as a whole.

1. Rationale and Challenges

The Lisbon agenda was, and remains, political in essence. The growth, innovation, employment and social cohesion goals set out by the European Council were chosen to inspire a European economic and social revival. However, joint endeavours of this sort can only translate into action if supported by a precise definition of the common interest and a clear identification of the challenges arising from the diversity of situations and objectives.

In this section, we wish to discuss three related issues:

- When is there justification for a coordination of national reform policies?
- Is there specific value in practising evaluation and coordination at the EU level?
- What are the challenges that an EU reform coordination process needs to address?

1.1 Motives for acting jointly

The motives for coordinating structural reform policies are of the same nature as those usually given to coordinate budgetary policies. They are also similar to those relied upon in the discussions on whether to allocate a given policy responsibility to the EU or the national level. In a nutshell, there can be two types of reasons to embark on coordination[2].

First, *interdependence* may render independent decision-making undesirable. This can be either because of spillover effects of national decisions, or because EU policies and national policies complement each other.

Spillovers are clearly at work for Research and Development, whose benefits do not remain confined to the spending country (Annex 1). They are questionable for policies that aim at increasing the employment rate or at boosting productivity in areas where interdependence essentially stems from trade and capital markets: a country that succeeds in lowering structural unemployment or in increasing productivity generally does not significantly affect the performance of its neighbours.

Complementarities are at work between product market reforms (the responsibility for which frequently belongs to the EU) and labour market reforms (which belong to the remit of the member states): for example, a combination of product market regulations that aim at favouring entry, and of labour market regulations that aim at preserving existing jobs (or vice-versa), is a recipe for ineffectiveness.

The second main reason for coordination is that governments and civil societies *learn* from the experiences of others. Such *policy learning* can be enhanced by initiatives that facilitate cross-country comparison and benchmarking. A telling example in this respect is the OECD evaluation of the performance of schoolchildren (PISA[3]). By providing an objective and

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It is worth distinguishing these two types of arguments because they call for different forms of coordination. In the presence of spillover, there is a case for joint action, while policy learning merely requires mutual information and transparent assessments. The weights of these arguments also vary from one field to another. As regards the two main objectives of the new Lisbon agenda, the spillover argument is strong for R&D and the learning argument is strong for labour market policies.

1.2 What is the specific EU dimension?

Those arguments are, however, not specific to the EU. Actually, the practice of multilateral evaluation and coordination is by no means limited to the EU. The IMF prepares Article IV assessments which involve assessments of structural reform. The OECD does cross-country comparisons and assessments as well as country-by-country evaluations. It has recently developed a programme for the evaluation of structural reforms (*Going for Growth*[4]), which relies on an extensive range of indicators and on a methodology for selecting country-specific priorities (Annex 1). Both essentially aim at fostering policy reform by learning.

It is therefore important to determine what justifies undertaking *at the European level*, what could take place or is taking place in a different setting. We see two main reasons why the EU is special. In addition, there is a specific euro area dimension.

The European dimension first stems from purely *economic* factors. Since the EU is more closely integrated than the world economy at large, interdependence within it is generally stronger. For example, knowledge and R&D spillovers or complementarities between product and labour market policies are more significant and also easier to deal with at the EU than at the OECD or the global level.

The second justification is a *political* one. As a political entity, the EU has set itself goals whose achievement depends on concrete decisions by all member countries. A telling example is the target of reaching a level of R&D spending of 3% of GDP, which can only be achieved through the cooperation of all member states. More generally, the EU can be regarded as a club of like-minded countries with similar institutions (for example as regards the role of the state as an insurer against economic hazards), or similar preferences in the presence of trade-offs (such as efficiency vs. equity). Similar institutions and objectives make learning within the EU more expedient. For the same reason, participation in an EU-driven reform programme can be used as a commitment device whose potency derives from the strength of the domestic commitment towards the EU.

All this applies to the EU as a whole. However, there is in addition a specific euro area dimension. In a monetary union, a country that reforms its labour market – say, lowers the unemployment threshold below which inflation accelerates – or its product market – say, increases the rate of growth of productivity – does exert an effect on its EMU partners, because the ECB is bound to lower its interest rate in response to a change that lowers the euro area inflation rate. However, the ECB can only react in proportion to the weight of that country in the euro area, which means that th

Furthermore, specific reform priorities can arise from the objective of improving the

functioning of the euro area: for example, to

Table 1: Rationale, challenges and dimension of EU coordination

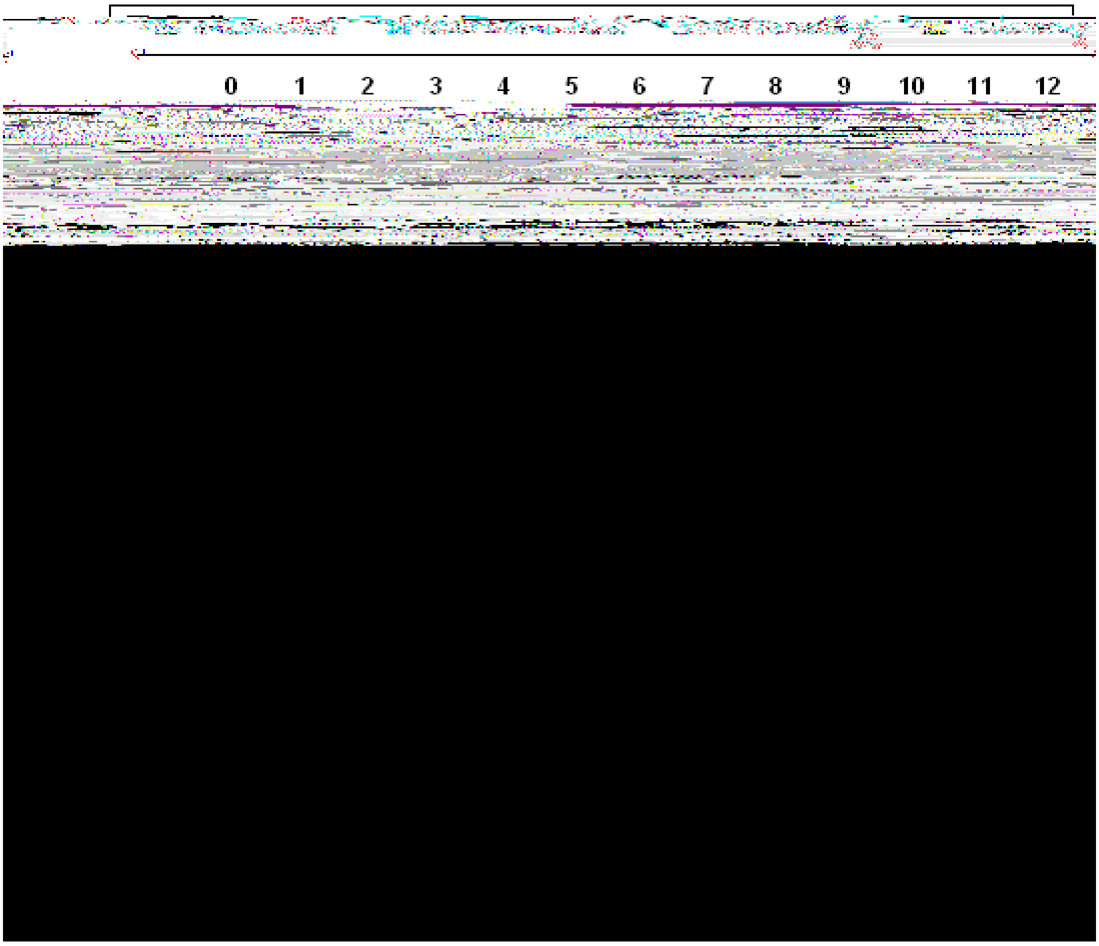
	R&D	Employment
Main motive for EU coordination	Interdependence	Learning
Main difficulty	Structural heterogeneity	Policy heterogeneity

Commission squarely adopted the recommendation of the Kok report to refocus the Lisbon strategy. The Commission also followed two of th development of national reform plans. It turns out that only 11 out of 25 countries[11] have followed the recommendation. In a majority of countries[12], the coordination of the preparation of the national reform plans was instead delegated to senior or even mid-level civil servants. This points in the direction of a failure of Lisbon 2 to inject political ownership in the process. Instead, it appears to have largely retained the bureaucratic character that marred Lisbon 1.

Criterion 2: The involvement of national parliaments and other stakeholders is summarised in Annex Table 1 and Chart 1 below. The first notable feature is the great diversity of approaches among member states. It is striking that 9 out of 25 national governments did not even engage their respective parliaments at the committee level. Moreover, 18 out of 25 gave no indication at all on the potential follow-up to their reform programmes.

It is instructive to also examine the overall ratings, which were obtained by simply adding the individual ratings for the four indicators (Parliament, Social Partners, Civil Society and Follow-up), with higher ratings pointing to better ownership performance (the maximum score is 12). The overall rating for new member states is substantially above the rating for old ones (6.8 versus 5.1). It is also noteworthy that the average rating is substantially smaller for the 6 large countries (France, Germany, Italy, Spain, Poland and the UK) than for the 19 smaller ones (4.7 versus 6.1). This suggests that the degree of ownership is in fact uneven and follows a systematic pattern.

Chart 1: Ownership of Reform Programmes



[11] Source: Radlo and Bates (2006), Table 3, plus own research for the member states not covered there.
[12] Three countries did not appoint a Mr./Ms Lisbon at all.

Criterion 3: Exploration in the standard media coverage databases suggests that while the Lisbon strategy is to a certain degree part of national policy debates, the design and adoption of the National Reform Programmes have received limited attention. The media attention received by the Lisbon strategy appears to derive mainly from its overall goals and each country's relative performance in achieving them, rather than from the innovations of Lisbon

2.4 The NRPs and their evaluation: results

The National Reform Programmes are very diverse in scope, ambition and degree of precision. Against this background, the Commission evaluation of those programmes often includes sensible remarks and suggestions that point to the weaknesses of national strategies. Thereby, the European Commission adds value in this collective exercise of reflection and assessment.

In general, governments seem to have largely ignored the Integrated Guidelines when drafting their NRPs. These usually refer only vaguely – if at all – to them, raising the suspicion that in several cases NRPs consist simply of a repackaging of existing measures. What is even more disturbing is that in its assessments of the NRPs the Commission also refers to them very loosely. The apparent lack of relevance of the Integrated Guidelines in the process is most probably the result of the two problems identified in the previous section: the large number of guidelines and the lack of criteria for selecting those which should be pursued most vigorously by each member state.

In some cases, however, the Guidelines are unambiguous and the policy emphasis is unmistakable. It is thus useful to analyse two such cases, which are both essential to the Lisbon strategy and feature numerical targets: the participation rate of older workers (Lisbon target: 50% in 2010) and R&D spending (Lisbon target: 3% of GDP in 2010). Most EU members are underperforming on both accounts. In addition, these two policy areas can highlight different dimensions of the challenges involved in the design of a common strategy. As discussed in Section 1, structural heterogeneity and the existence of externalities are major issues in the case of investment in R&D, whereas they are less important for the participation rate, where learning can instead play a greater role.

Annex Table 2 presents the situation for the participation of older workers. Of the 19 member states currently below the 50% target, only seven set a target in their NRP, sometimes actually below 50% or for a date later than 2010.

Annex Table 3 provides similar results for R&D. Here, of the 23 member states that currently invest less than 3% of GDP in R&D, 18 set a target in the NRP[14], although sometimes it is less than 3%, or for a date different than 2010.

Beyond the well defined issue of numerical targets, the degree of concreteness of the NRPs varies greatly from country to country and it is on average quite low. A commitment to deliver on Lisbon should rely – as stressed by some of the guidelines – on timetables, intermediate targets, benchmarks, a clear financial planning, the introduction of proper legal/fiscal incentives, and so on. The use of such instruments has been generally limited. With respect to plans for increasing the participation rate of older workers, some member states substitute concrete plans for numerical targets. But overall, most plans to increase the participation rates of older workers appear to lack concreteness.

Overall, the Commission evaluation does not appear to follow the letter of the guidelines very closely, just as the NRPs themselves. Instead, the Commission's assessment appears to focus on national prioritisation, although, as indicated above, an explicit methodology is lacking.

We found it instructive to compare the reform priorities as implied by the Commission to those identified by the OECD[15]. As a proxy for the Commission's take on national priorities,

[14] Two member states set their target after the completion of the NRP. See Annex Table 3.

we use the “major strengths and weaknesses” spelled out in the conclusion of the Commission’s assessment of the NRPs[16].

Regarding the participation rate of older workers there seems to be a close correspondence between the Commission’s and the OECD’s prioritisation (Table 2). For the 19 EU countries that are OECD members, the Commission and OECD agree whether older worker participation is a priority or not in 15 cases (priority in 8 cases, no priority in 7). Even in the remaining four cases, there is only a weak[17] discrepancy between the two institutions. This suggests that the evaluation was more based on the prevailing consensus among international organisations than on a direct implementation of the guidelines.

TABLE 2

CONSISTENCY OF COMMISSION AND OECD TARGETS

	PARTICIPATION RATE OF OLDER WORKERS	
Austria	✗	✔
Belgium	✔	✔
Cyprus	n/a	n/a
Czech Republic	✔	✗
Denmark	✔	✔
Estonia	n/a	n/a
Finland	✔	✗
France	✔	✗
Germany	✗	✗
Greece	✔	✗
Hungary	✗	✔
Ireland	✔	✔
Italy	✔	✔
Latvia	n/a	n/a

[15] In OECD (2005, 2006), national reform priorities are identified by the OECD for all EU member states other than the Baltic States, Cyprus, Malta, and Slovenia.

[16] While, technically, these are not priorities as such (but priorities relative to the existing NRPs), in practice this is the most immediate indication of the Commission’s views regarding national priorities that is available to the public.

[17] All of these weak discrepancies are cases where neither Commission nor OECD lists older worker participation but either one (but not the other) lists a related reform issue such as disability benefits as a priority.

By contrast, we find little systematic correspondence of Commission and OECD priorities regarding R&D spending. For the 19 countries covered by both organisations, there is agreement on 7 countries and disagreement for 12. In 10 out of 12 cases, divergence is due to the Commission viewing an increase in R&D spending as a priority while the OECD, which focuses on innovation rather than R&D per se, does not; the reverse is observed only for the remaining two cases. Hence, the discrepancy is mainly driven by the fact that the Commission sees R&D as a priority for more countries than the OECD.

There are two possible explanations for these patterns. On the one hand, it may be that the R&D priority is so intimately linked to the Lisbon agenda that it receives special, and possibly excessive emphasis by the Commission. On the other hand, it may be that the OECD's methodology does not fully factor in cross-border spillover effects, which are at the core of the Lisbon agenda and therefore receive due attention by the Commission[18]. The fact that most member states have committed to substantially increase R&D expenditures in their NRPs is consistent with the latter explanation.

Summing up, in spite of some noticeable progress the new Lisbon process is far from what would be needed to effectively support the goals of the Lisbon agenda.

3. Conclusions and recommendations

3.1 Should Lisbon be saved?

There were two problems with Lisbon 1: ineffective coordination and lack of political ownership. The so-called open method of coordination borrowed from the old "competition for performance" approach that had been used with success in the macroeconomic sphere, but could not rely on any strong incentive. To be effective, it would have required at the very

These serious shortcomings of Lisbon 2 might call into question the whole Lisbon process. When a company or a state is confronted with a project and when that project does not time, it is clear that, given the scope of R&D externalities within the Union, there is a case for R&D spending at the EU level. The fragmentation of public R&D funding along national

*   *
*

There is still value in the Lisbon agenda. But despite last year's reforms, it is still not effectively supported by the Lisbon process. This continued discrepancy between ends and means puts the whole strategy at risk. To prevent a failure of the joint endeavour, the 2006 Spring European Council should urgently request from the European Commission a proposal to simplify and prioritise the guidelines; the Commission should develop a methodology for the assessment of the National Reform Programmes and it should resume the publication of comparative performance assessment tables; the member states should ensure better national ownership of their reform commitments; and the Eurogroup should start preparing a proper euro area reform programme.

Those are immediate stopgap measures only. In the medium run, we remain convinced that the Lisbon agenda must be more strongly buttressed by Community policies and the EU budget. But difficulty in building a medium-term consensus should be no excuse for short-term inaction.

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Annex 1 – R&D externalities within the European Union

The scope for R&D externalities within the European Union is large. Several transmission mechanisms are at play and their role is especially strong in Europe. A first natural way for knowledge to spread across borders is through direct contacts between researchers, the movement of qualified workers, international conferences, joint research projects and so on.

But knowledge can spread also through commercial contacts, such as foreign direct investment (FDI) and trade.[19] Inward FDI has for long time been thought to originate knowledge spillovers through the creation of clusters, reverse engineering, training of qualified workers, and so on. More recently, empirical research has shown that outward FDI can also be beneficial: spillovers go in both directions.[20]

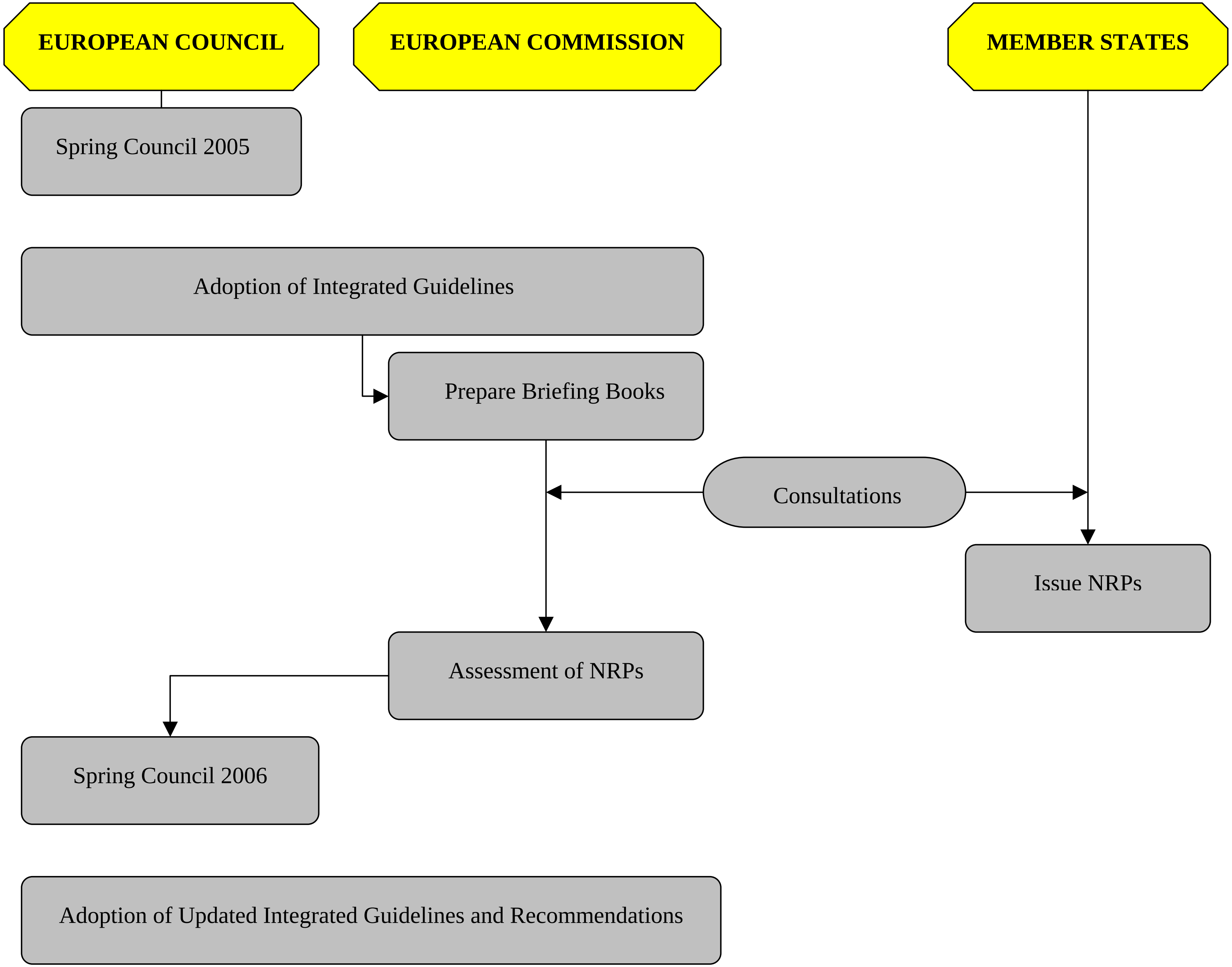
A third channel is trade. Recent economic literature has shown that importing knowledge-intensive intermediate goods may allow firms to benefit from positive externalities stemming from research conducted abroad, even if it is difficult to exactly quantify the effects.[21] This does not mean that it is possible to free-ride on the R&D conducted abroad: to be able to reap the benefits of foreign innovation it is indeed crucial that firms and countries perform a relevant amount of R&D of their own. This highlights the desirability of a coordinated effort at the EU level.

The rationale for concerted efforts in R&D in the EU is then very strong. The high flows of within-EU trade and investment are likely to generate important cross border externalities. However, member states will be able to capture all the benefits generated from research conducted in other member states only if a coordinated effort is promoted.

[19] For a comprehensive review of the literature, see Keller (2004).
[20] See, for instance, Branstetter (2006).
[21] The empirical literature originated from the seminal paper by Coe and Helpman (1995).

Annex 2 – The OECD methodology for selecting country-specific priorities

The overall methodology the OECD uses to select priorities for structural reforms is outlined


EUROPEAN COUNCIL
EUROPEAN COMMISSION
MEMBER STATES
Spring Council 2005
Adoption of Integrated Guidelines
Prepare Briefing Books
Consultations
Issue NRPs
Assessment of NRPs
Spring Council 2006
Adoption of Updated Integrated Guidelines and Recommendations

Annex Table 1 - Ownership Index					
Country	**Parliament (1)**	**Social Partners (2)**	**Civil Society (2)**	**Follow-up (3)**	**Total**
Austria	3	2	2	0	7
Belgium	0	3	0	0	3
Cyprus	3	2	0	2	7

Annex Table 2 - Participation Rate of Older Workers					
Country	**Current (1)** (%)	**NRP Target (2)** (%)	**EC Evaluation (3)**		**OECD**
			Priority	*Assessment*	*Priority*
Austria	28,8		yes	-	yes
Belgium	30,0	50,0 (asap)	yes	+	yes
Cyprus	49,9	53,0	no		n/a
Czech Republic	42,7	47,5 (2008)	no		no
Denmark	60,3		no		(yes)
Estonia	52,4		no		n/a
Finland	50,9		yes	-	yes
France	37,3		yes	-	yes
Germany	41,8		no		(yes)
Greece	39,4		no		(yes)
Hungary	31,1		no		no
Ireland	49,5		no		no
Italy	30,5		(yes)	(-)	no
Latvia	47,9	50,0	no		n/a
Lithuania	47,1	50,0	no		n/a
Luxemburg	30,8		yes	-	yes
Malta	31,5	35,0	no		n/a
Netherlands	45,2		yes	+	(yes)
Poland	26,2		(yes)	(-)	(yes)
Portugal	50,3	50,0	no		no
Slovakia	26,8		(yes)	(+)	(yes)
Slovenia	29,0	35,0 (2008)	yes	-	n/a
Spain	41,3		no		no
Sweden	69,1		no		no
United Kingdom	56,2		no		no

(1) Data refer to 2004; Lisbon target is 50%.

(2) For 2010 if not otherwise stated.

(3) Priority: "yes" means tat the issue is cited in the conclusions of the EC assessment. A parenthesis means it has been referred to only indirectly.

Assessment: "+" = on track
"-" = not realistic/not enough

Sources: European Commission (2006), National Reform Programmes, OECD (2005,2006)

Annex Table 3 - Research and Development Spending (% of GDP)							
Country	**Current (1)**		**NRP Target (2)**		**EC Evaluation (3)**		**OECD**
	Total	*Public*	*Total*	*Public*	*Priority*	*Assessment*	*Priority*
Austria	2,26	0,86	3,00		yes	o	no
Belgium	1,93	0,61	3,00		no	o	no
Cyprus	0,37	0,29	0,65 (2008)		yes	o	n/a
Czech Republic	1,28	0,47		1,00	yes	+	no
Denmark	2,63	0,82	3,00		yes	+	no
Estonia	0,91	0,55	1,90		yes	+	n/a
Finland	3,51	1,05	4,00		yes		no
France	2,16	0,80	3.00 (5)		(yes)		no
Germany	2,49	0,74	3,00		(yes)	o	no
Greece	0,58	0,41	1,50		yes	-	(yes)
Hungary	0,89	0,52			no		yes
Ireland	1,20	0,43	2.50 (4) (2013)		yes	-	(yes)
Italy	1,14	0,60			no		(yes)
Latvia	0,42	0,23 0,00	1,50 (2008)		yes	+	n/a
Lithuania	0,76	0,60	2,00		yes	o	n/a
Luxembourg	1,78	0,20	3,00		yes	o	no
Malta	0,29	0,19		0,20 (2007)	no	-	n/a
Netherlands	1,77	0,75	3.00 (5)		no		no
Poland	0,58	0,41	1,65 (2008)		yes	-	yes
Portugal	0,78	0,52		1,00	yes		yes
Slovakia	0,53	0,27			yes	-	no
Slovenia	1,61	0,65	3,00		yes	-	n/a
Spain	1,07	0,49	2,00		yes	+	no
Sweden	3,74	0,99		1,00	yes	+	no
United Kingdom	1,88	0,64	2,50 (2014)		yes	-	yes

(1) Data refer to 2004. For Italy, Luxembourg, Portugal and UK, they refer to 2003.

(2) For 2010 if not otherwise stated.

(3) Priority: "yes" = The issue is cited in the conclusions of the EC assessment. A parenthesis means it has been referred to only indirectly.

Assessment: "+" = on track