

# Lisbon II, Two Years on: An Assessment of the Partnership for Growth and Jobs

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## Abstract

The re-launch of the Lisbon strategy in March 2005 was meant to inject a new momentum into what is now known as the Partnership for Growth and Jobs, and to highlight the challenges that Europe faces in responding to globalisation. More than two years on, it has become clear that most member states fully understand the need to adapt their economies and have shown a growing willingness to embrace economic reform. However, countries continue to differ markedly in their enthusiasm for reform and it is far from clear that 'Lisbon' can take much credit for the recent economic upturn. This report offers an assessment of the progress of the Partnership for Growth and Jobs during the 2006-07 cycle. It shows that in some respects real advances have been made, and concludes that the strategy has become more coherent and effective than in the five years after 2000. Nevertheless, the governance of economic reform remains problematic and the report highlights a range of shortcomings that warrant attention. Discussions have already started on how to revise the 'Lisbon' Integrated Guidelines for the next phase, from 2008-11, and this report aims to nourish the debate.

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## Summary with key recommendations and conclusions

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1. In 2005, the Lisbon strategy was re-launched and placed at the heart of the EU's economic governance system. It plainly also became the core project of the current European Commission.
2. The purpose of this study is to examine the implementation of the Lisbon strategy in the 2006-07 cycle. It offers an assessment of economic trends, evaluates the procedures and the progress of the programmes at Community and member state levels, considers options for development of the strategy and puts forward a series of recommendations.
3. As it enters its third year, the Partnership for Growth and Jobs (PGJ) – as the Lisbon strategy has become known since it was re-launched in 2005 – has settled into a pattern. Member states report on their progress in economic reform based on National Reform Programmes (NRPs), their performance is scrutinised by the Commission and other bodies, the European Council reviews the overall direction of the strategy and the member states then revise their reform programmes.
4. The implementation reports produced by member states are intended to provide information on the progress of economic reform. They show that NRPs vary in quality and ambition, and that evidence of progress is also mixed, but also reveal that member states generally recognise the scale and significance of the challenges they need to confront.
5. In parallel, the EU level has developed its own programme of actions and reforms, and continues to implement them. Although a proportion of the measures in the Community Lisbon Programme represent routine activities of the EU level of governance, many of the measures within it appear to have been given greater priority within Commission business, enabling them to advance more rapidly.
6. Economic governance is also addressed in a number of other strategic domains, notably the Sustainable Development Strategy (re-launched at the June 2006 European Council) and the Energy Policy for Europe (agreed at the March 2007 European Council), as well as the Stability and Growth Pact.
7. Following the decision to integrate the open method of co-ordination of social protection and social inclusion, member states were, in addition, obliged to produce integrated National Strategy Reports covering Social Protection and Social Inclusion a month ahead of the autumn 2006 deadline for 'Lisbon' Implementation Reports.

### The economy

8. Economic growth improved to a greater extent than forecast during 2006, potentially facilitating implementation of economic and social reforms, and making some inroads into unemployment. However, it is important not to be too sanguine about growth rates which, by historical and comparative standards, remain moderate. There are also specific cases to consider:
  - Germany is an example of improvement that has been considerably better than foreseen, building partly on its success in export markets, but partly also on reforms undertaken in the period 2001-05.
  - Italy is still problematic and faces challenges in relation to competitiveness.
  - Portugal and Spain have to confront growing macroeconomic imbalances.
  - Other countries exhibit a highly varied picture, according to the Commission autumn forecasts, with most of the recently acceded members a strong point.

9. Recent indicators suggest that the outcome for 2007 will be more favourable than was being forecast even late in 2006, with the implication that the EU will continue to benefit from a favourable economic environment.
10. Possible risks to growth arise from: the effects on the global economy of weaknesses in the US, intra-EU imbalances, the latent threat of inflation and the ECB's reaction to it, geopolitical instability, and energy supply and price uncertainties.
11. It is an open question whether 'Lisbon' can take credit for the economic improvements observed over the last year. Certainly, in some member states, reforms undertaken in earlier years are now bearing fruit. But although the upturn in the economy appears to be macroeconomically sustainable, partly because of these earlier reforms, the improvement in economic performance arguably reflects cyclical factors more than any underlying transformation based on the most recent structural reforms.
12. Clear progress on some of the most high-profile structural indicators associated with the re-launched Lisbon strategy remains hard to discern. This is partly because of lags in the data, but partly also because policies only recently implemented cannot be expected to show much impact so soon. It has to be stressed that structural reforms are slow, follow a sequence and may give rise to initial dislocations that manifest themselves in apparently disappointing initial trends in relevant indicators, even if they subsequently improve performances.

### **The Partnership for Growth and Jobs as a procedure**

13. Procedurally, the partnership has functioned as intended and appears to have become well entrenched in national calendars.
14. The Community Lisbon Programme (CLP) has made considerable progress, at least as measured by a check-list of measures analysed by the Commission, with some three-quarters of its measures adopted by the end of July 2006. However, other institutions also need to approve some of the measures, and pressure can be expected to build on the Council and the European Parliament to accelerate the implementation of measures adopted by the Commission.
15. Progress is, however, still stalled on some of the more intractable issues, such as the Community patent.
16. National reporting was meant to be light this year, and many progress reports are. Some member states appear to have made a real effort to respond to the comments made last year, but others have taken little account of the criticisms. Following the submission of these reports in the autumn, the various forms of scrutiny have functioned as intended.
17. Most member states submitted implementation reports more or less on time, but in some cases elections – particularly when they resulted in a change of government ideology – have led to minor delays and, especially where a new government seeks more radical shifts of direction, to less thorough reports.
18. The Commission's Annual Progress Report (APR) appeared on schedule, earlier in the annual cycle than in the previous year, and 'fiches' for each member state were produced, although for those where recent changes of government took place or coalition negotiations were inconclusive (notably the Czech Republic and Sweden) the fiches were reportedly very rushed.

19. Further formal scrutiny processes were conducted by the Employment Committee (EMCO) and the Economic Policy Committee (EPC), both of which resulted in positive overall verdicts about progress in the last year, but also identified a variety of shortcomings.
20. However, the European Parliament appears to lack much influence on the whole process, perhaps because its Committee configurations do not map easily into the scope of the Integrated Guidelines, while the inevitable differences of political focus and priorities between parliamentary groups complicate the articulation of strong positions.
21. It is also far from clear whether civil society interests (including the social partners) exert as much influence as they might. The European Economic and Social Committee (EESC) review, submitted to the spring 2006 European Council following a referral from the same body a year earlier, did introduce a new channel of communication, but it has not been repeated in the current cycle. However, a further EESC exercise is foreseen for 2008.

### **Assessment of the implementation reports**

22. Analysis of the implementation reports by the research team responsible for this study shows that some member states continue to report on reforms already undertaken, rather than to relate their actions to the Integrated Guidelines or the criticisms articulated by the different scrutiny bodies. Equally, others provide comprehensive accounts in which the Integrated Guidelines are central to the presentation of the strategy.
23. Overall there are signs of improvement in member states' commitment to reforms, noted by the Commission, as well as by the EPC and EMCO, tempered by a fairly extensive list of areas warranting further attention.
24. Thus, bearing in mind that countries have different starting points, the Commission APR notes that "there is considerable variation in the pace, intensity and commitment towards reforms". It may, however, be unhelpful to ask how strictly a member state's reform agenda conforms to the Integrated Guidelines: instead, the focus should be more on whether reform is happening than whether it is happening according to the Lisbon agenda.
25. There is also a tendency to favour the 'sexy' measures – such as those bearing on research – and to pay less attention to awkward or low-profile ones. A problem in this regard is that coherence in economic reform often requires action across disparate policy domains and appropriate sequencing of reform measures.
26. Consequently, a major question is whether, despite the Integrated Guidelines, there is sufficient policy integration and attention to cross-effects of different policies. For example, innovation policy features prominently in all NRPs, but a key spur to innovation is the intensity of competition – with a need to define optimal competitive conditions, rather than unbridled competition – and it is far less clear that this connection is made in the policy mix.
27. Sustainable development initiatives remain patchy and any urgency of boosting renewable energy sources is not all that evident. However, the launch of the Energy Policy for Europe will manifestly raise the salience of this issue.
28. The euro area has been the subject of greater attention this year, although there remains the governance problem that it is not obvious to which body the 'fiche' for the euro area is addressed. In particular, the Eurogroup, as an entity composed of finance ministers, is not the optimal recipient of comments relating to many microeconomic issues or employment matters.

## **The political dimension and the 'ownership' issue**

29. In the 2005-06 cycle, the Commission deliberately adopted a low-key approach to the member states, and also faced criticism for ill-judged and, as regards certain member states, analytically weak observations. The Commission now seems to have moved towards a more constructive dialogue with the Council, and also shows encouraging signs of being more firm in highlighting weaknesses in member state NRPs.
30. In this vein, the revival this year of recommendations to member states, despite some reservations from the latter, can be regarded as a positive development.
31. Ownership of the strategy nevertheless remains limited at national level and several countries continue not to have a political M. or Mme. Lisbon, despite Commission entreaties to nominate a minister for this purpose. Lisbon co-ordinators meet only twice a year and have no tangible role in peer review.
32. The Commission, especially, has been influential in promoting engagement with the social partners and other interests, but there is great diversity among the member states in the degree to which these interests are formally consulted and to which, even where there is such consultation, their perspectives 'feed-in' to member state reform strategies.
33. Nevertheless, ownership remains limited in the wider sense of engaging national political actors. There may even be a risk that once the initial NRP has been produced, interest wanes rather than being sustained – a form of 'Lisbon fatigue'.
34. Again, however, it should be stressed that it is results that matter, and it could be argued that a lack of consultation of social partners or media interest in Lisbon per se does not matter if, first, consultation does take place around particular reform initiatives and, second, the 'right' reform is successfully achieved.

## **Conclusions and recommendations**

35. The governance of 'Lisbon' now seems fairly settled, but the next annual cycle will provide the acid test of whether the PGJ is succeeding in promoting reform and whether reform, in turn, is improving economic performance and well-being.
36. The balance between delivery on existing commitments and new orientations for the strategy is not easy to strike. Many of the lower-key policy reforms are essential components of an overall strategy, yet they can easily be neglected when attention shifts to more visible and politically appealing new initiatives. It is, therefore, important not to lose sight of the original reform agenda.
37. The more favourable economic performance offers member states a genuine opportunity to accelerate reform, and they need to avoid relaxing their efforts as has happened in the past.
38. The quality of official forecasting (both Commission and European Central Bank) may warrant some scrutiny, since it has rather consistently been wrong. Alternatively other means of monitoring progress may be needed.
39. The lack of visibility and embedding of the Lisbon strategy in national political discourse is a continuing source of concern. All actors should take responsibility for better communication of the aims of economic reform with the objective of raising its political salience and fostering a sense of national 'ownership'.
40. Peer review and exchange of experience can be valuable mechanisms for policy improvement, so that it is in the member states' interests to be constructive and open about these processes.

41. Arrangements for national Lisbon co-ordinators are unsatisfactory. Accordingly, what could be a potentially important channel for raising the effectiveness and visibility of the PGJ is not being adequately exploited.
42. Although explicit naming and shaming is still politically unacceptable, the setting of national targets should be more extensive as a means of putting pressure on governments.
43. The strength of the recommendations to member states and the intensity of the surveillance in following-up can be useful tools for motivating member states, although they have to be employed with sensitivity.
44. The Commission has made good progress in advancing the Community Lisbon Programme, but it is also important that the Council and the European Parliament ensure that they advance relevant actions in a timely manner.
45. Tough questions should be asked about whether the proposed European Globalisation Adjustment Fund and the European Institute of Technology deserve the high priority have been given for the Community Lisbon Programme in 2007.
46. The importance of the 2008-09 budget review and its connections with the next round of 'Lisbon' programmes at both Community and member state levels deserves to be emphasised. These new programmes will be developed from the end of 2007 onwards.
47. How the different strategic programmes at EU level are brought together and how their aims are reconciled are worthy of thought. Energy policy for instance has risen to the top of the political agenda, yet its relationship with 'Lisbon' aims and sustainable development could be better specified.
48. Competition as a driver of change is a concept that needs fresh impetus, not so much in the narrow sense of anti-trust and so on, but in the sense of a creating a market environment that can be a major stimulant to growth.
49. A thorough debate is needed on 'flexicurity' and it will be important for other actors and interests to react imaginatively to a Commission Communication on flexicurity due by the summer of 2007.
50. Institutional development is needed to improve policy co-ordination within the euro area. The time may have come to achieve this by differentiated integration.
51. With the process of developing the next set of Integrated Guidelines for the period 2008-11 due to start in the second semester of 2007, it is already time for all actors to start thinking about how they should be structured, how 'integration' can genuinely be achieved and what they should contain. Three directions for change should be considered:
  - First, while keeping the list as concise as possible, it would be an improvement if the de facto split between 'economic' guidelines and 'employment' guidelines could be overcome, so as to achieve greater coherence between the employment-creating and productivity-enhancing dimensions of reform.
  - Second, debate is needed on whether an explicit guideline covering social inclusion and related social aspects of policy co-ordination at the EU level should be introduced. If such a proposal does attract support, it will be important not to dilute the present coherence of social policy co-ordination through the open method, but rather to envisage a possible new guideline as complementary.
  - Third, it is evident in many member states that there are shortcomings in the quality of public administration and certain public services. In some cases the result is inefficiencies that hamper improvements in growth and jobs. An additional guideline covering these areas should, consequently be countenanced, possibly linking it to

recommendations on the quality of public finances, but with a primary focus on public sector efficiency.

52. A last recommendation is that a means should be found to reconcile the Lisbon Agenda with the other major strategies and imperatives at European level, including sustainable development, energy policy and coping with ageing. A leading role in this regard needs to be taken by the European Council as the sole body that has an over-arching role in the respective strategies, but it is vital that the European Parliament is also engaged.

# LISBON II, TWO YEARS ON: AN ASSESSMENT OF THE PARTNERSHIP FOR GROWTH AND JOBS

## Special CEPS Report

by  
Iain Begg

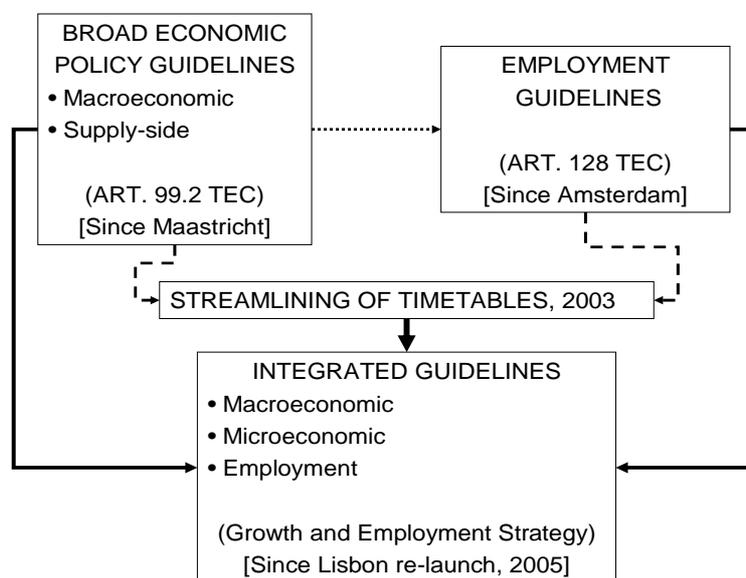
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### 1. Background and main developments during 2006-07

The Partnership for Growth and Jobs (PGJ), through which the Lisbon strategy has been taken forward since its re-launch in March 2005, is now at the start of its third year. The term ‘partnership’ refers to the fact that the strategy comprises action at EU level through a Community Lisbon Programme (CLP), largely implemented by the European Commission, and at member state level through the individual National Reform Programmes (NRPs).

The aims of both programmes are set out in the 24 Integrated Guidelines (IGs) agreed in the summer of 2005 and re-endorsed by the 2006 spring European Council.<sup>1</sup> As shown in Figure 1.1, these guidelines bring together previously separate sets of guidelines covering broad economic matters and employment. This consolidation is designed to instil greater coherence in the policy-making process and to ensure that the different agencies and levels of governance act in a more united way in pursuing reform.

Figure 1.1 The evolution of guidelines in economic governance



Complementing the core strategy is a newly integrated approach to social cohesion, agreed in July 2006, which brings together the different approaches that had been developed under the

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<sup>1</sup> For a more extended discussion of the guidelines, see the 2005-06 CEPS study prepared for the European Parliament (Begg, 2006).

open method of co-ordination (OMC) since the Nice European Council of 2000. A re-launch of the Sustainable Development Strategy (SDS) was also formally agreed at the June 2006 European Council and it should be recalled that the Stability and Growth Pact (SGP) was reformed in 2005. In addition, the hotly contested Multi-Annual Financial Framework for the period 2007-13 is now in force, so that all the main arrangements for the co-ordination and governance of EU economic and social policies have now been revamped over the last two years. Collectively, these changes can be regarded both as significant and challenging institutionally, potentially requiring a rethinking of how policy is made, implemented and monitored.

Table 1.1 presents the different components of this new governance structure and their cycles. While the division of powers, responsibilities and obligations is reasonably clear, it is scarcely surprising that there are also some respects in which uncertainty remains about how the processes are led and – as former US President Harry Truman famously put it – where the buck stops. For all the Community institutions, as well as scrutiny processes within member states, the new governance framework raises a variety of questions about how they exercise their roles.

*Table 1.1 Governance processes and their cycles*

Process	Key aims	Cycle	
		Length	Current
Lisbon strategy	Growth and employment	3 years	2005-08
Energy strategy	Climate change and energy	3 years	2007-09
EU budget	Financing of EU policies	7 years	2007-13
Sustainable development strategy	Competitiveness social cohesion & environmental protection	Indefinite	Relaunched 2006
Strategies for social protection and social inclusion	Advancing social cohesion	3 years	2006-08
Convergence or stability programmes	Macroeconomic stability	Annual	2006-07

There has also been a sea-change inside the Commission in how it approaches economic reform. Primary responsibility for the Broad Economic Policy Guidelines (BEPG) (in force from 1991-2004) lay with DG Economic and Financial Affairs on the basis of Art. 99 TEC, while DG Employment, Social Affairs and Equal Opportunities oversaw both the Employment Guidelines (EG) (Art. 128 TEC) and the various social OMCs. Now, there is a much stronger co-ordination of 'Lisbon' from the Secretariat General, DG Enterprise has a substantial role in the strategy, not least leading the Community Lisbon Programme, and the strategy as a whole has taken centre-stage in the Commission's work programme. Although not easy to confirm, it is suggested that over 400 Commission staff now work on the re-vamped Lisbon strategy and that the primary duty of Catherine Day (recently appointed to the post of Secretary-General) is to make sure that the PGJ delivers. However, DG Ecfm continues to be responsible for the SGP and macroeconomic analysis. In addition, some of the emerging priorities bring in other directorates-general that have, hitherto, been less involved in 'Lisbon', notably DG Transport and Energy which has a remit to lead the development of the EU's energy strategy, as well as DG Health and Consumer Protection and DG Education, Training, Culture and Youth.

The Commission's Annual Progress Report published in January 2006 was subtitled "Time to Move up a Gear" and its message chimed with those coming from many other sources that the

2006-07 cycle should see a shift from strategy to delivery. An implication of this stance is that the policy agenda should remain fairly stable. Yet shifts in emphasis within the PGJ also occurred. In particular, the spring 2006 European Council agreed a focus on three priorities that transcend the 24 Integrated Guidelines and that member states were invited to implement “by the end of 2007 in the context of the renewed Partnership for growth and employment” (see Box 1.1 which presents these priorities).

While the employment element in the spring 2006 Presidency Conclusions covers many areas, including attracting people into work and increasing labour supply, while also emphasising adaptability and skills upgrading, it has little to say on gender. Indeed, the gender dimension of employment policy is only mentioned in relation to equal opportunities and child-care. An important message, however, is that member states are asked to explore how they can reform labour market and social policies along ‘flexicurity’ lines. An additional decision was to invite the institutions to take appropriate measures to establish and make operational by the beginning of 2007 a Globalisation Adjustment Fund.

Much more attention at the spring Council was, however, devoted to what had been a fourth priority emerging from the October 2005 informal Council held at Hampton Court, a common Energy Policy for Europe (EPE). It is clear from the balance of the spring 2006 conclusions, as well as the considerable effort that has subsequently gone into the development of the EPE that it has become the issue of the moment.<sup>2</sup> The conclusions (para 51) set out a long and comprehensive list of actions to be started during 2006 by the Commission.

*Box 1.1 Three areas for priority action*

Following the informal European Council held at Hampton Court in October 2005, member states were asked by the European Council at its spring 2006 meeting to focus on three priorities within the Partnership for Growth and Jobs. As described in the Presidency Conclusions, these are:

- **Investing more in knowledge and innovation**, which included a re-statement of the established Lisbon goal of reaching an overall (that is, for the EU in aggregate) target of spending 3% of GDP on R&D, and enjoined member states to refocus public expenditure on innovation and growth while promoting private sector R&D by improving “their mix of support instruments”.
- **Unlocking business potential, especially of SMEs** in which the member states are called upon to “develop national strategies and implement measures to foster competitiveness, innovation and productivity”. The importance of “creating a more favourable business environment” was stressed, above all for SMEs, and a key message was that there should be a concerted effort to ease administrative burdens on companies – captured in the injunction “think small first” – and better regulation. Interestingly, however, there is also a statement about addressing “the social dimension and the needs of individuals in the process of internationalisation and structural change”. In addition, this heading is used to call on member states to complete the internal market as rapidly as possible.
- **Increasing employment opportunities for priority categories** is aimed at target groups within the labour force, identified as “the young, women, older workers, persons with disabilities and migrants and ethnic minorities”. Active cooperation with social partners is encouraged. The conclusions also recall the three objectives of the European Employment Strategy: full employment, quality and productivity at work, cohesion and an inclusive labour market.

Paragraph 55 of the conclusions raises a matter that can be argued to be one of the governance gaps at EU level, namely that of policy spillover within the euro area. While pointing out that

<sup>2</sup> Indeed, the subtitle of a commentary on the spring 2006 European Council, written with his customary flair by Peter Ludlow (2006), is instructive: “The Lisbon Agenda and an Energy Policy for Europe”.

structural reform in a range of areas will facilitate dealing with shocks and adjusting to shifts in competitiveness, the conclusions also note that there is “a particular premium on effective policy coordination”. One inference to draw from this statement is that some means of formulating and implementing policy at the euro area level may be needed as well as co-ordination, although there is no discussion in the document of the distinction between co-ordination of fiscal policies and structural policies. Other issues highlighted included better regulation and the need for a “pro-active competition policy”, and perhaps inevitably, the ritual call for enhancing trans-European infrastructure networks.

It is important to stress that the PGJ differs in many ways, some of them quite profound, from the Lisbon strategy of 2000. The breathless prose about becoming the most dynamic economy in the world by 2010 has been replaced by a reform strategy with three-year cycles. Indeed, 2010 has quietly been shelved as a target date. There are also indications that the underlying aim is no longer one of catching-up with the US but the more sensible (and plausible) one of responding to the challenges of globalisation. Even so, important elements of Lisbon I have been retained following the re-launch, notably the use of key targets.

One of the headline targets was to raise EU spending on R&D to 3% of GDP, while another key one was to boost the employment rate to 70%. However, a list of country-specific targets for R&D spending, appended to the spring 2006 Presidency Conclusions makes it clear that the overall target the EU set itself of attaining the target by 2010 is well beyond reach. Two smaller member states have targets of 4% (Sweden and Finland); a further eight have set 3% as a target, though for four of them the required increase is ambitious; twelve see little prospect of exceeding 2%; the Italian target would mean more than doubling the 2004 ratio to 2.5%; and the remaining two (Ireland and the UK) are also targeting 2.5%, but only by 2013 and 2014, respectively.

In addition to targets, the approach to policy co-ordination adopted in Lisbon I was an innovation. The conclusions of the European Council held in Lisbon in March 2000 added a new expression to the lexicon of European integration by defining a new open method of co-ordination for the strategy, stating that:

Implementing this strategy will be achieved by improving the existing processes, introducing a new open method of coordination at all levels, coupled with a stronger guiding and coordinating role for the European Council to ensure more coherent strategic direction and effective monitoring of progress. A meeting of the European Council to be held every Spring will define the relevant mandates and ensure that they are followed up (Lisbon European Council Presidency Conclusions, 2000: para 7).

Can the re-launched Lisbon strategy still be regarded as a variant on the open method? While Lisbon I was a loose wish-list, there is now a much clearer strategy for reform and a commitment to it, so that it is probably better to regard the partnership as being the mode of governance, rather than a form of OMC.

## 1.1 Ownership and visibility of the strategy

Much has been written about the importance of member states taking ownership of the re-launched Lisbon strategy, but it was obvious as soon as the PGJ was launched, and has continued to be obvious, that the ownership principle raises many questions and that few of them have yet been convincingly answered. They include:

- How to engage national actors, including national parliaments, the media and civil society as a whole;
- The role of different forms of scrutiny in fostering national engagement; and

- The political and administrative commitment in member states, in particular the degree to which different levels and agencies of government in the member states regard ‘Lisbon’ as the appropriate framework for reform.

Furthermore, it must be recognised that in the national policy debates there is considerable disagreement concerning the means to boost jobs and growth and where responsibility should lie. One perspective that has been articulated by the then French Prime Minister, Dominique De Villepin,<sup>3</sup> in his demands for a *bouclier monétaire* to restrict the rise in the euro vis-à-vis the US dollar, is that monetary policy has been too restrictive. Others blame a lack of commitment to reform (Alesina & Giavazzi, 2006).

One issue that has been not yet been satisfactorily resolved is that of the designation of Lisbon co-ordinators within member states. The idea behind it is that a named individual should act as the fulcrum for reform policies within government, while also representing the member state in inter-governmental fora and vis-à-vis the Commission. The Commission, especially, has tried to push member states to appoint a minister for this purpose, not least to raise the political visibility of the role. Some member states have complied, although the appointee is most often a state secretary or equivalent second-tier minister and in some cases, a senior minister is designated (examples are Germany, where the Minister for the Economy is the designated co-ordinator and a prominent, well-regarded state secretary is his alternate, and Slovakia where the Lisbon co-ordinator is the Deputy Prime Minister). In other member states, by contrast, the appointee is a fairly senior civil servant with limited visibility in government (the UK, for example<sup>4</sup>), let alone in national political discourse. Plainly, therefore, the Commission’s aspiration to have a full complement of ministerial co-ordinators is not happening.

In sum, advantage of appointing a political co-ordinator as opposed to a civil servant, as suggested by one national expert consulted, is that a ministerial level co-ordinator, because of the nature of his or her position, is better placed to make public statements in support of relevant measures, thereby raising awareness of the necessity of reforms. Given that the policy areas in NRPs are quite heterogeneous, it is difficult for any single minister to have overall responsibility for implementation, but having a designated minister able to keep the question on the agenda can help to motivate colleagues to implement reforms.

It might be argued that having a competent and effective civil servant as the co-ordinator can work well if that individual takes the time to brief ministers and if ministers bother to listen. But even if such an arrangement works within government in pushing forward reform, it is less likely to achieve higher public awareness of the aims of the reform. In this regard, it should be recalled that a key element of the Kook report’s analysis of what was wrong with Lisbon I was its lack of engagement of civil society and, generally, the fact that there was limited ‘ownership’ of the strategy (see Kok, 2004). In the words of one interlocutor, “Lisbon up to now lacks communication and ‘marketing’ – here politicians could step in”.

The visibility of the PGJ can also be advanced by various forms of communication, events and media-friendly initiatives. Much is made on the Commission’s website of a seminar held in Lisbon in October 2006, chaired by Barroso and involving all the Lisbon co-ordinators. The seminar included specific presentations on innovation policy which can be portrayed as a mechanism for exchange of experience. Yet there are also continuing and evident sensitivities. Barroso, in a speech at that same Lisbon co-ordinators’ meeting, made a statement that reveals

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<sup>3</sup> In a talk to the 5<sup>th</sup> Forum du financement de l’innovation, Toulouse, 14 November 2006.

<sup>4</sup> In an interesting twist, the devolved Scottish administration does have a senior minister (the deputy First Minister until the May 2007 elections) charged with being the Lisbon co-ordinator for Scotland.

the caution with which the Commission has to proceed in commenting on member state policies. He stated that “if we judge necessary, the Commission will make constructive recommendations to the member states. Recommendations are not reprimands. They will be aimed at helping with the implementation of National Reform Programmes”. This could be interpreted to mean that the Commission has to be soft in what it says and circumspect in the manner in which it says it.

Barroso’s speech nevertheless highlighted some examples of how exchange of experience can function, illustrating how the Lisbon strategy could work to promote policy learning if it lives up to its promises:

- The Netherlands has adopted elements of the French model of *‘poles de compétitivité’*.
- In turn, the Dutch scheme for innovation vouchers is being taken up in other member states.
- The importance of improving the business environment is being recognised. Here in Portugal, the *‘Empresa na hora’* project (a company in one hour) had by mid-2006 led to 8,000 companies being set up in an average time of 55 minutes.
- Ireland, for example, has adopted a detailed Science, Technology and Innovation Strategy for 2006-13.
- In the Czech Republic, an amended act on energy management came into effect in 2006, aimed at maximising energy efficiency.

## 1.2 Commentary

Looking at the emerging governance structures, a first observation is that it looks reasonably coherent. However, insofar as a key aim was to achieve much greater visibility for reform, there are as yet few signs that the PGJ is seen as a mainstream policy area outside a rather closed elite. If, as some member state representatives suggest, what matters is that reform takes place rather than whether due process is followed, the lack of visibility may be a second-order concern. Yet, as Table 1.1 shows, there are several processes that bear on reform and economic governance, the boundaries between them remain somewhat blurred and the timetables are not as well aligned as they could be.

It also has to be stressed that there are heated disputes amongst economists about whether or not policy co-ordination is useful. Some take the view that while governments should be fiscally restrained (keeping their houses in order), and concede that there are potential gains from co-ordination of structural policies, there is little merit in co-ordination of budgetary policies (for example, Tanzi, 1988; see also, Issing, 2002). Others take the opposite view and go so far as to call for European-level economic government (Collignon, 2003), a limited version of which was canvassed early in the trajectory towards monetary union, in the Werner 1970 report. There is also disagreement about whether fiscal restraint hampers or facilitates structural reform – see, for example, a recent paper by Buti et al. (2007) who show that the time perspective adopted by governments is critical. What these debates underline is that there is far from being a settled view amongst economists about the policy agenda that underlies the Lisbon strategy.

The role of the Commission is pivotal in the Partnership in three respects: setting the agenda for reform and its evolution, monitoring and surveillance of member state efforts, and delivering the Community dimension of the partnership. It can be considered to have fulfilled the third role well enough, but questions remain about the first and second. In the 2005-06 cycle, the

Commission deliberately adopted a low-key approach to the member states,<sup>5</sup> and also faced criticism for ill-judged and, as regards certain member states, analytically weak observations. The Commission implicitly concedes that the political embedding of the PGJ is faltering, noting in its annual report that “ownership and knowledge about this structure must clearly still be improved”.

More detailed aspects of the procedures also warrant comment. The issue of Lisbon co-ordinators is an example. Nominally, the list includes some high-profile political figures, but the indications are that it is not high on the agenda of these ministers, implying that their civil servants are the de facto co-ordinators. In other countries, Denmark and Spain being good examples, the political appointment is at the level of state secretary and the impression given is that these co-ordinators are much more closely engaged with ‘Lisbon’. In a third group of countries, there is no directly nominated political figure, although (as in the UK, with the Chancellor of the Exchequer) a senior minister will assume political responsibility.

Does the ambivalent status of Lisbon co-ordinators matter? As Ludlow (2006) put it: “in many if not most EU member states, a heavyweight bureaucrat who knows his dossiers and carries real clout within the government machine is better placed to perform this function than junior ministers, who are upwardly mobile if they are any good, and stationary (or ephemeral) if they are not”. On the other hand, if political ownership is accepted as a vital factor, the lack of such visibility has the potential to undermine commitment and to make it easier for the political leadership to distance itself from the strategy.

However, with such a diverse group it becomes difficult to see how it can gel politically and thus contribute to the visibility of Lisbon. The Commission’s solution of pressing those member states that have not done so to name a political co-ordinator does not seem likely to succeed, and the danger then is that it will put off other politicians from other countries. This is, therefore, an aspect of the governance of Lisbon that needs more thought.

An open question is how the European Parliament can be more engaged in the whole approach, as its institutional input into the annual ‘Lisbon cycle’ is somewhat limited. The ‘Bullmann report’ on the Broad Economic Policy Guidelines (2007)<sup>6</sup> provides a useful commentary and reasonable suggestions, but it concedes that the Parliament’s engagement remains unsatisfactory:

[The European Parliament r]egrets once again that no clear plan and code of practice has, to date, been agreed between Parliament, the Council and the Commission, which would guarantee appropriate cooperation and the full involvement of the three EU institutions concerned in the appropriate further handling of the Integrated Guidelines as a key instrument of the Lisbon Strategy; calls in this connection on the Council and the Commission to submit forthwith proposals for the close cooperation of the three EU institutions concerned with a view to the impending revision of the integrated guidelines (Bullmann, 2007, para 32).

This observation highlights the difficulty the Parliament faces because its institutional role in Lisbon is poorly defined. The EP dialogue with national parliaments is welcomed by the Commission and the Council. However, one problem is that no single parliamentary committee now covers the whole gamut of Lisbon strategy policies. Consequently, the Parliament’s role in

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<sup>5</sup> See the first CEPS study (Begg, 2006) covering 2005-06, on the implementation of the integrated guidelines for a much more extensive discussion of this choice.

<sup>6</sup> Adopted by the European Parliament 15 February 2007 (document number P6\_TA(2007)0051).

the strategy appears to be unsatisfactory, raising questions about whether it should review its internal procedures and how it engages with the other actors in the whole process.

Overall, Lisbon I can be characterised as being broad goals set by the European Council, with governments and sectoral DGs of the Commission left to develop their own policy orientations. With hindsight, this arrangement was too loose and incoherent. The Partnership for Growth and Jobs embodies a more strategic and, potentially at least, ‘joined-up’ approach to economic governance. However, there may also be costs insofar as having a common approach for all member states leads to a more ‘mechanistic’ approach to policy goals, with the corollary that governments overlook some of the wider policy issues.

## 2. Economic developments

The year 2006 was encouraging economically for the EU and the euro area alike, with a relatively more rapid rate of growth compared with the period 2001-05. The rate of job creation in the Union as a whole has picked-up, allowing some reduction in the unemployment rate, although progress in the latter area remains slow. The gradual tightening of monetary policy over the last twelve months, both in the euro area and the rest of the Union, testifies to the underlying strengthening of the EU economy. Although the central banks’ actions suggest some concern about inflationary pressures, neither current data or forecasts point to much of a risk in this regard. However, there are imbalances within the EU, for example in asset price trends or the positions on the current account of the balance of payments, which could become problematic.

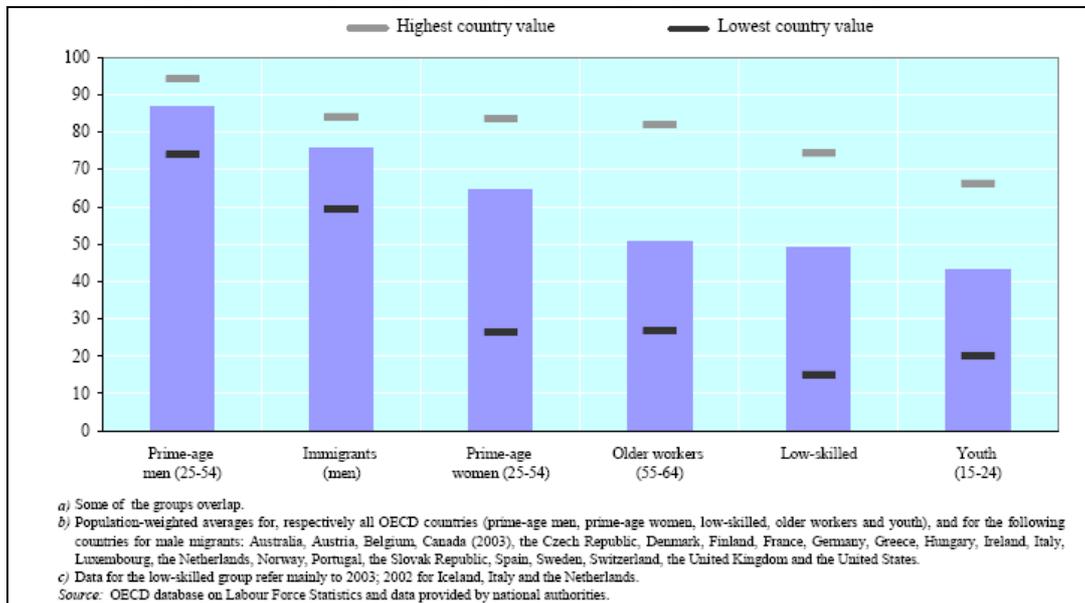
It is tempting to ascribe the improved economic performance, at least in part, to the beneficial impact of economic reform, but the fact remains that many of the relevant indicators are no more up to date than 2005. Consequently, for much of the Lisbon strategy, any assessment can only plausibly comment on the effects of the original Lisbon strategy, rather than its re-launch. The improvement in economic performance also needs to be kept in perspective, given that the conjunction of 2.8% growth and 8.0% unemployment estimated for the EU as a whole in 2006 (2.6% and 8.0% for the euro area) is hardly breathtaking, even if it is above what is now recognised to be trend. Almost despairingly, the Commission’s autumn forecast notes that the “economic recovery has at last reached the labour market”.

Although fiscal positions have generally improved as a result of the combination of the upturn in the economy and actions by governments to consolidate public finances, fiscal sustainability in the euro area is still at risk. In 2006, seven of the 12 euro area members had public debt over the 60% of GDP Maastricht limit (Belgium, Germany, Greece, France, Italy, Austria and Portugal), and the collective debt for the euro area stood at 69.5%.

According to the European Commission’s commentary on its forecasts, the “structural unemployment rate as measured by the euro-area NAIRU” is set to fall from 8% in 2005 to 7.5% in 2008. One cause for continuing concern is that the latter figure is the forecast unemployment rate for 2008, implying that the euro area is close to a sustainable, non-inflationary unemployment rate and that any attempt to reduce the figure by additional demand without supporting supply-side policies will be inflationary. The validity of the NAIRU figure is open to doubt in both empirical and conceptual terms, but the clear message is that only further structural reforms that alter the NAIRU will make lower unemployment sustainable.

In explaining why employment rates differ so much among the member states (there is a difference of some 20 percentage points between Denmark, the best performer, and Poland, the worst), one of the most significant factors is the differences between different segments of the labour market, especially older workers and youths. Figure 2.1 shows that this is an OECD-wide problem, even if non-EU OECD members tend to do better in this regard.

Figure 2.1 Employment rates for different population groups, OECD average %, 2004



The Commission's November 2006 forecasts indicated slightly lower growth in 2007 and 2008, with a slowdown in the growth of German domestic demand – long a drag on the euro area – a noteworthy factor. Given the track record of these forecasts in recent years (including the fact that the spring 2006 forecasts for GDP growth in 2006 were half a point lower than in November), these somewhat pessimistic forecasts need to be taken cautiously and, unless some of the risk factors turn out worse than expected, the chances are that the forecasts understate the likely buoyancy of the economy. Indeed, more recent forecasts, such as the latest one from the six German economics institutes, already point to a more positive outcome for 2007.

After 2003, oil prices increased rapidly, peaking in the summer of 2006 at the time of the confrontation in Lebanon. Although they have since eased considerably, falling from a peak of nearly \$80/barrel to around \$50/barrel by January 2007, before creeping up again in the first quarter of 2007, the extent of the rise has had an impact on inflation. However, labour market actors appear to have responded with circumspection over the last four years, with the result that there has not been any inflationary spiral such as occurred after the oil price shocks in the 1970s. Higher energy prices have, nevertheless, fed into consumer price indices and have been one factor behind rising interest rates in the euro area and other member states.

The outlook for oil is, as always, hard to judge, above all because the geo-political tensions that are so influential are hard to predict. A best guess, taking account of likely flashpoints, is that disruption to oil supply will be limited in the coming year, allowing the present price level to hold. If, however, the stand-off over Iran's nuclear programme deteriorates, leading to supplies being blocked, or another major producer faces disruption, a much higher price could emerge, taking oil back up to the \$80 level or beyond.

The pick-up in investment that had already been apparent in 2005 in some member states has been maintained and it is encouraging to note that Germany, especially, had a very good year in 2006, with investment up by 4.2% year on year, helping to boost the performance of the euro area, which is now enjoying an investment boom. Italy, too, confounded the pessimistic forecasts published in November 2005, leaving only Portugal as a disappointment. Higher rates of investment growth were recorded in most other member states in 2006, and the Commission's forecast for 2007-08, though anticipating some moderation of investment

growth, nevertheless suggests continuing high rates, especially among the new member states (EU10).

Nominal long-term interest rates edged upwards during 2006, having reached their lowest levels for many years in 2005 in the euro area. Given the differences in inflation rates, real interest rates are, inevitably, more dispersed and may have contributed to the emergence of imbalances. Public finances have been on an improving trend in many countries, despite the number of member states formally in a position of excessive deficit, although Hungary clearly presents particular problems.

The external deficits in the EU10 (and also indeed in Bulgaria and Romania) are consistent with their rapid growth and high levels of investment, and have been financed partly by substantial inward investment flows. However, in some cases, the magnitude of the deficit should be ringing alarm bells. Within the euro area, it is tempting to assert that the imbalance between the large surpluses recorded in the Netherlands and Germany and the big deficits in the Iberian countries is of limited consequence, because what matters is the figure for the monetary union as a whole. But the respective positions signal that savings and investment patterns may be out of kilter and, with so many of the policy mechanisms retained at member state level, suggest a need for some adjustment.

According to calculations by the ECB (2007, p. 64), the cumulative current account deficit of Portugal over the period 1999-2006 is 56% of GDP, with Greece registering 45% and Spain 28%. Over the same period, the Netherlands has had a cumulative surplus of 38%, Finland 44% and Luxembourg 57%. These are very large numbers. The ECB also calculates that Portugal's unit labour costs have risen cumulatively over the period 1999 to 2006 by 16.5% relative to the euro area, while on the same measure, Germany's have fallen by 9.7%. Shifts of this magnitude in competitiveness are bound to have repercussions.

## 2.1 Short-term outlook

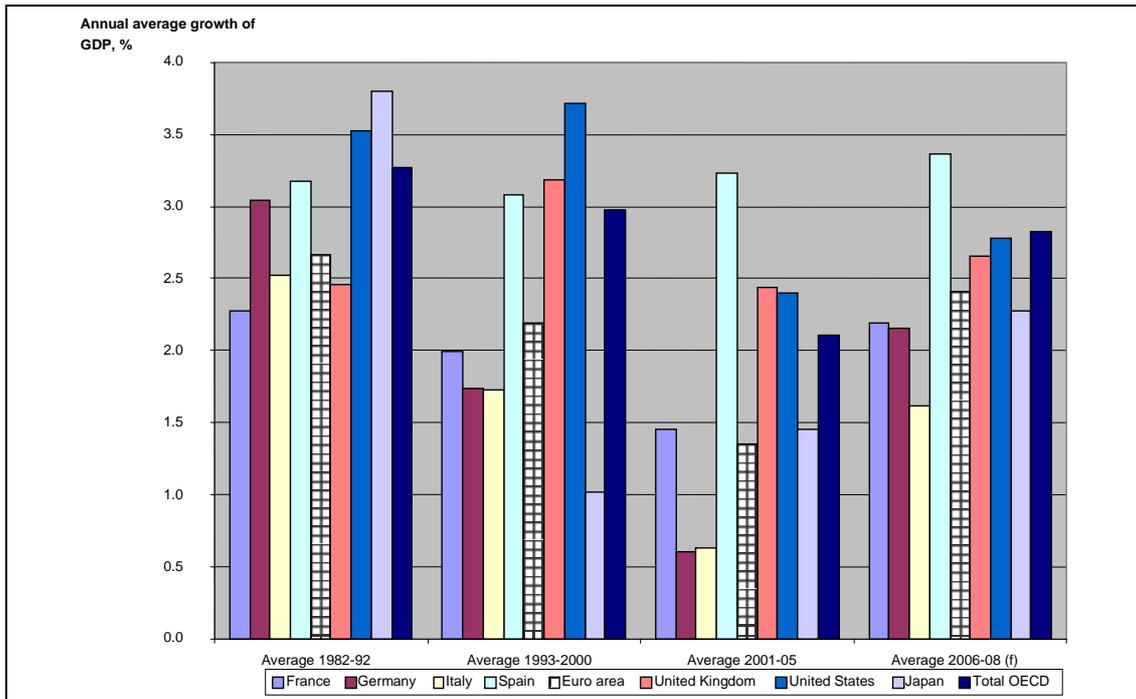
Many commentators now argue that there is a rebalancing going on among the major economies. Moderation of growth in Japan and a possible slowdown in the US are being offset by what the OECD's Chief Economist Jean-Philippe Cotis (2006) describes as "an unwinding of cyclical differences", with activity having gathered speed in Europe. Looking ahead, and given what is seemingly a mild degree of initial excess demand in the United States and, possibly, Japan, the slowdown in these countries should remain well-contained. In the euro area, recent hard data as well as business and consumer confidence suggest that a solid upswing may be underway. In addition, growth should remain buoyant in China, India, Russia and other emerging economies. All in all, Japan and the euro area would grow slightly above trend over the next two years, while US growth would return progressively to potential in the course of 2007, following the recent steep deceleration in activity. Box 2.1 lists some of the factors that could have a negative impact.

### *Box 2.1 Possible contributing factors to a bleaker economic outlook*

- A possible resurgence of energy prices
- Unwinding of high house prices, not just in the US, but in other countries where, according to the OECD, they have become unsustainably high, notably in Denmark, France and Spain
- Fiscal corrections already in the pipeline in Italy and Germany, and in the case of the latter, the particular effect of the recent VAT increase having more of an effect than it appeared to initially
- Imbalances in current accounts, with the high US one especially sensitive to the oil price
- Rising interest rates associated with more buoyant economic activity and concerns about inflation

Some sense of the imbalances can be gleaned by examining recent developments, which can be interpreted in more than one way. As can be seen from Figure 2.2, growth rates in major economies are more closely aligned at present than they have been for many years, implying that a balance is being restored.

Figure 2.2 Trends in GDP growth in OECD countries: Towards global re-balancing?

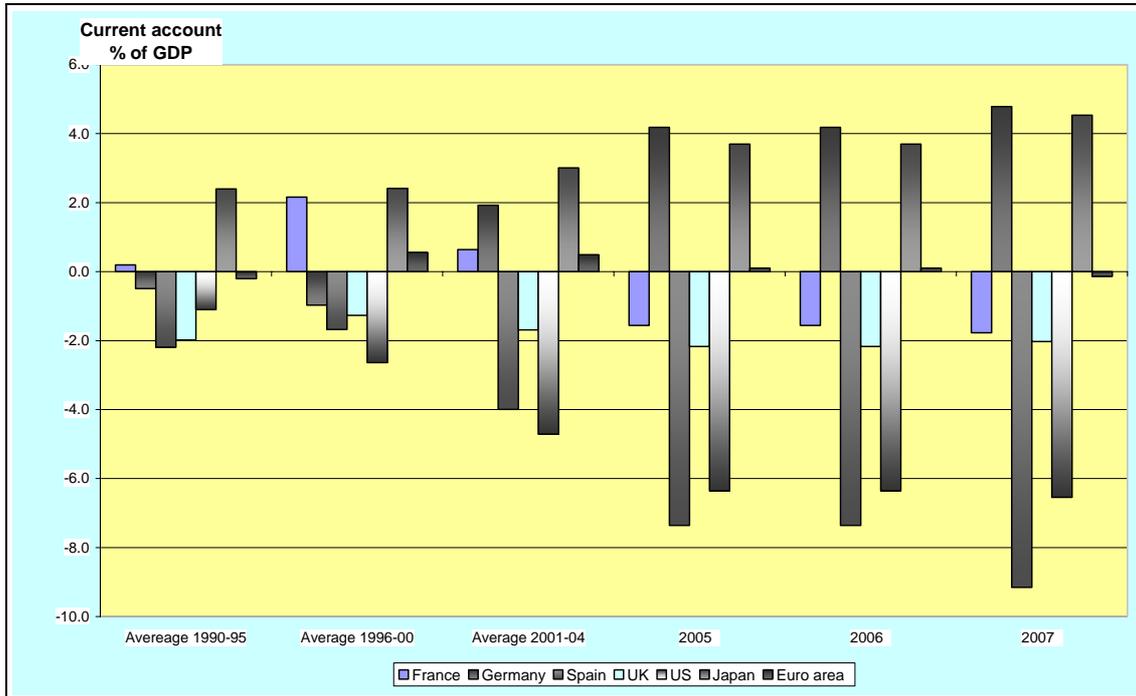


Source: OECD.

In the period 1982-92, annual average growth rates of major economies were reasonably close to one another, but in the rest of 1990s, Japan's prolonged recession is striking, while in the first half of the present decade, Japan is joined in low growth by the three largest euro area economies. It is only after 2005 (if the forecasts for 2007 and 2008 are taken at face value) that growth rates appear to converge again.

Part of the economic background is that the cyclical upswing that has apparently come to an end in the US and is still occurring in the EU has been characterised by a much better balance between supply and demand than in the cycle that peaked in 2000. However, the picture for external balance has become more alarming. The high US deficit has become so familiar that it is almost taken for granted, but at over 6% of GDP (its current figure) and rising, it is manifestly closer to being unsustainable than it was earlier in the decade. At global level, much of the counterpart takes the form of the surpluses in China and Japan, with the EU (and the euro area) close to balance. But the imbalances in the euro area cannot be overlooked as part of the story – see Figure 2.3.

Figure 2.3 Trends in current accounts – Ballooning imbalances?



Source: OECD.

## 2.2 Longer-term outlook for the economy

The trend in the advanced economies remains encouraging and there are good reasons to discount possible problems, such as in the US housing market, although oil prices are bound to cast a shadow, whatever happens to them. In a feature in the January 2007 issue of the *National Institute Economic Review*, several articles explore possible causes of the slower economic growth in the euro area since the late 1980s. Not surprisingly, no single explanation is put forward and the various authors offer different accounts which help to flesh out the often-vague term ‘structural problems’. Barrell (2007) summarises some of the most persuasive ones, citing first the fact that the core euro area economies have lagged behind the better performing Nordic economies and the UK because of insufficient productivity growth in business and retail services; being less receptive (through reluctance to liberalise markets) to key new technologies in telecommunications; and, possibly the fact that rising energy prices may have slowed potential (or trend) growth. Labour market factors that may have been important include stagnant or declining labour supply (notably in Germany): Barrell notes that “hourly labour input in Germany fell by almost ½ per cent a year between 1993 and 2005, whilst it rose by almost ¾ per cent a year in the UK over the same period”, a gap that can be ascribed to reforms in Germany (and in France), lagging those in the UK by ten years.

McMorrow & Röger (2007) are pessimistic about the prospects for a significant improvement in the euro area’s underlying economic performance, largely because they see limited evidence that productivity is likely to rise. They show that the potential growth rate of the euro area to be expected in the period 2007-11 is probably around 2% per annum, much the same as in the period 2001-05. They nevertheless argue that successful implementation of Lisbon would greatly improve matters. They observe that “the Euro Area as a whole can take comfort from the fact that the gains from a successful refocusing of its overall reform agenda could be considerable. For example, the progressive introduction of the five key measures linked to the

Lisbon strategy (i.e. the services directive; reduction of the administrative burden; improving human capital; 3 per cent R&D target; and increases in the employment rate) could boost the Euro Area's economic and employment growth rates by more than ½ a percentage point annually for more than a decade. Such an outturn would give the Euro Area a potential growth rate of around 2½ per cent, a rate of growth which in per capita terms would be broadly comparable to that of the US over the 2007-15 time period".

### 2.3 Assessment and commentary

The economic outlook today is much more favourable than it was in March 2005, and this ought to augur well for reform strategies. However, governments have shown before that they find it easy to relax their efforts. As Jacob Frenkel explained in a presentation to the 2007 World Economic Forum in Davos (WEF), 2006 was a story of the things that did not happen: the dollar did not collapse, the yen did not soar, oil did not surge to \$100, protectionist sentiment has abated, and so on. He argued, sensibly, that "many of the dire predictions have not taken place" and attributes this partly to the nature of global capital markets which smooth adjustment. This 'Goldilocks' (neither too hot nor too cold) interpretation is broadly shared, although risks are evident, not least from imbalances. However the risks of US recession are probably overstated. Profitability is high. Financial market balance sheets are sound and hence less vulnerable to an accentuation of housing problems. In any case, the significance of a US slowdown for the global economy is now reduced, because the EU, emerging markets and possibly also Japan (if fears of a slowdown prove to be exaggerated) are taking up the slack.

Even so, as Figure 2.4 shows, many of the richer EU member states have made little progress in catching up with the US in the last decade and the analyses quoted in section 2.3 do not show much sign that this is changing. Given that the Lisbon strategy was, at least in part, aimed at restoring the catch-up with the US that had characterised earlier decades, the lack of a momentum towards convergence is a cause for concern. The EU has a relatively ageing population and arguably is not investing sufficiently in boosting future productivity (witness the low R&D ratio) or in information and communications technologies (ICT).<sup>7</sup>

The great unknown for the EU's policy-makers is whether the EU economy today (especially the core of the euro area) is suffering from the dislocations of structural reforms that are already engaged, or whether the magnitude of the problems implied is greater than has been recognised, as the analysis in the Sapir report (2004) suggests. While conceding that there are institutional flaws on both sides of the Atlantic, Gordon (2004) argues that the US has benefited from competitive forces that have facilitated a more dynamic economic system. He produces a long list of advantages that the US has over the EU: "an openly competitive system of private and public universities, government subsidies to universities through peer-reviewed research grants rather than unconditional subsidies for free undergraduate tuition, the world dominance of United States business schools and management consulting firms, strong United States patent protection, a flexible financial infrastructure making available venture capital finance to promising innovations, the benefits of a common language and free internal migration, and a welcoming environment for highly-skilled immigrants".

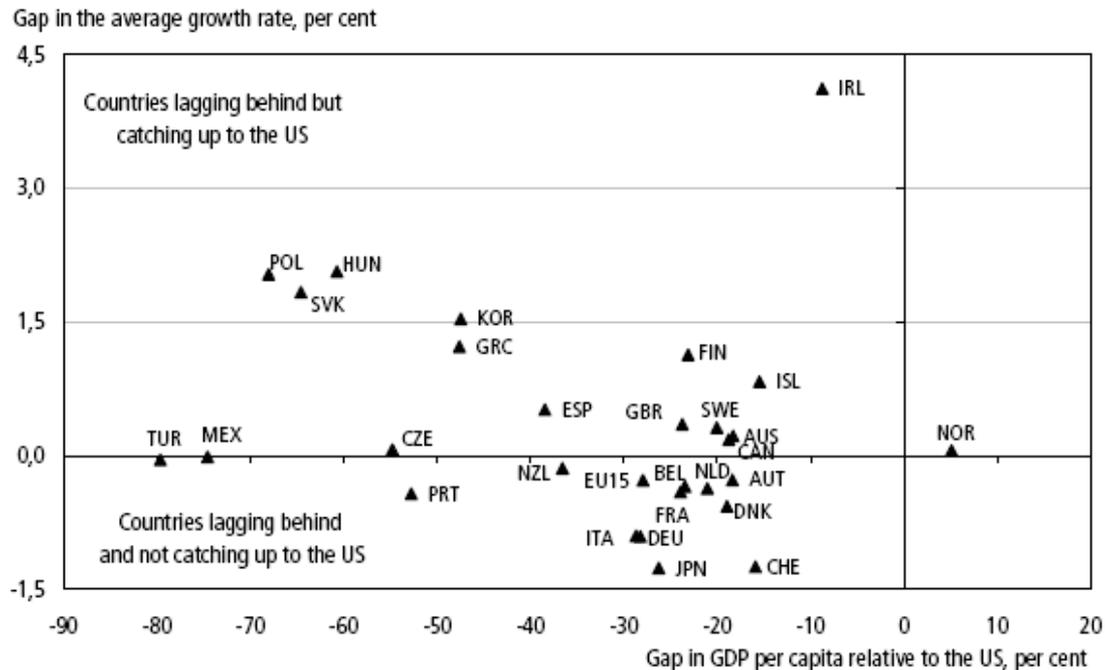
By contrast, Blanchard (2004) has been a prominent advocate of the more sanguine view, arguing that reform "will eventually take place, but not overnight and not without political tensions. These tensions have dominated and will continue to dominate the news; but they are a

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<sup>7</sup> The Commission's annual report on the digital economy contains the claim that ICT contributed half of the productivity growth in the EU between 2000 and 2004 (European Commission, 2007).

symptom of change, not a reflection of immobility”. In trying to answer this question, only a country-by-country assessment makes sense. While such an exercise is well beyond the scope of the present study, recent trends suggest that Germany may be turning the corner, whereas Italy is still struggling to make headway, with France hesitating somewhere between the two.

Figure 2.4 GDP performance relative to the US, 1995-2004 (GDP per capita)



- <sup>1</sup> The average growth rate in GDP per capita is calculated over the period 1995-2004 on the basis of volumes data from national accounts sources. The level of GDP per capita is for 2004 on the basis of 2000 PPPs.

Source: Cotis & Elmeskov (2006), based on OECD National Accounts data.

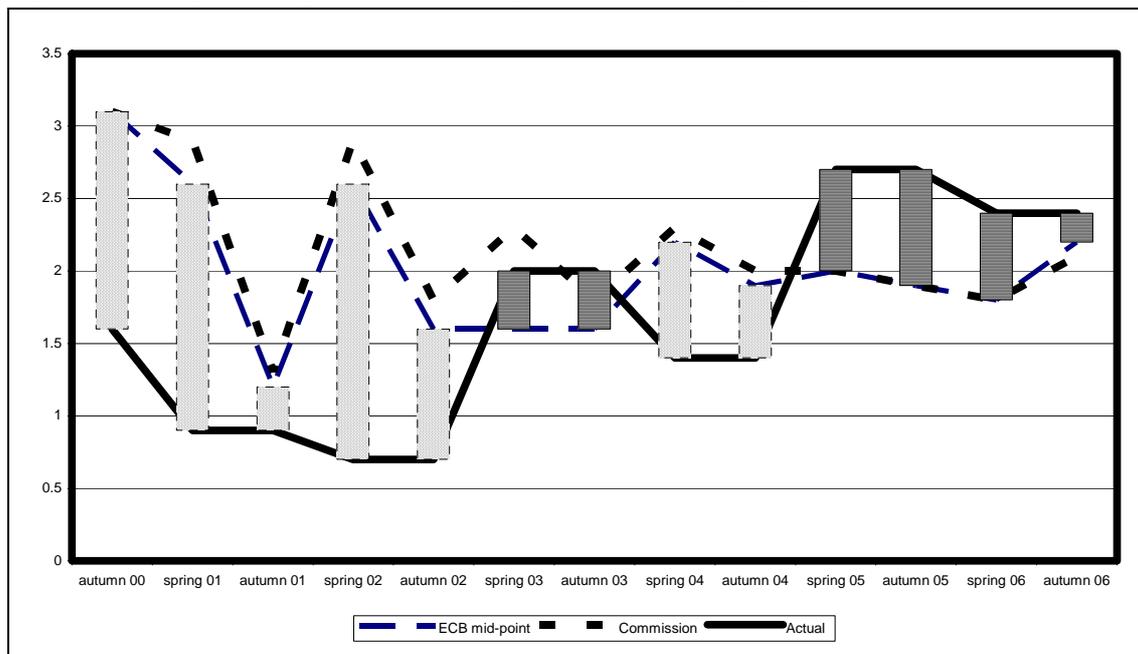
The reliability and volatility of economic forecasts in recent years may warrant examination. Even in 2006, there was a substantial change between the Commission's spring and autumn forecasts. Growth in the EU25 in 2006 was forecast to be 2.3% in the spring, but revised up to 2.8% in the autumn; in the same comparison, unemployment was revised down from 8.5% to 8%, while government deficits were trimmed from 2.3% to 2.0%. For the euro area, the differences were comparable. Similar forecasting errors, though on the over-optimistic side, had been a feature of the period 2002-05. It might be argued that the margins are fairly small and that forecasting is always an inexact science, but it should be recalled that recommendations and more formal proceedings under the Stability and Growth Pact, as well as national decision-making, may be influenced by forecasts.

Other forecasting organisations have also been wrong-footed in recent years, but that only means the problem is more pervasive. The European Central Bank does not, strictly speaking, publish forecasts, opting instead to publish what are described as "staff macroeconomic projections". These appear quarterly in the ECB's *Monthly Bulletin* and are stated to reflect information available until a date close to that of the publication of the *Bulletin*. However, the projections are shown only with a very broad range of outcomes. Thus, in the March 2007 *Bulletin*, GDP growth in 2007 is projected to be between 2.1% and 2.9%, followed by growth in 2008 of between 1.9% and 2.9%. The published projections do not give a clear signal of where

within the range, the ECB believes the most likely value for growth will be, making it harder to judge whether the ECB's is conducting policy on the basis of accurate forecasts. Certainly, in the projections published six months earlier, the ECB staff were less optimistic, expecting growth in the range of 1.6% to 2.6% for 2007, while in March 2006, the range was one-tenth of a percentage point lower.

Figure 2.5 shows that if the mid-point of the range in the ECB staff projections is taken as the best estimate, the projections broadly follow those of the Commission's. The chart also shows how the Commission's forecasts and ECB staff's projections compare with the actual outcome. Commission forecasts are typically published in April and late October/early November. For comparison, ECB staff projections as published in the June and December issues of the *Bulletin* are shown. In all cases, the forecasts or projections for the following year are compared with the outcome. The vertical bars in the figure compare the ECB's projections with the outcome, and make clear that the ECB staff were overly optimistic (dotted bars) throughout the early years of the present decade, but have been too pessimistic (striped bars) in the last couple of years. It is striking that the margins are quite substantial, at least raising the possibility that policy decisions were taken on the basis of flawed projections for growth and its likely impact on price stability.

Figure 2.5 Comparison of the Commission forecasts, ECB staff projections and outcome



*Note:* For each point, the figure compares the forecast/projection for the following year with the outcome for that year. Thus, autumn 2004 shows the forecast/projection for 2005 and the outcome for 2005. For the two 2006 entries, the estimated outcome is derived the latest estimated projections.

*Source:* ECB Monthly Bulletin (various issues) and Commission forecasts (various).

A related issue is whether data revisions lead to unwarranted policy conclusions, not least around macroeconomic stability where decisions in the context of the Stability and Growth Pact have to be taken on the basis of preliminary data. Gordo Moura & Nogueira Martins (2007) show that the reliability of estimates for GDP growth is systematically greater in some member states than in others. They point in particular to a tendency for revisions to show higher deficits than initially estimated in Italy and Portugal. They also find that deficit data in several member states are subject to more revision than debt data.

### 3. Progress of programmes

It was generally accepted that the first year of the PGJ was for the development of strategy and for putting in place the main elements of reform programmes, a corollary of which is that not much could be said about implementation. In the 2006-07 cycle, member states could reasonably have been expected to make progress in putting in place some of the reforms and new policies promised in the NRPs submitted in October 2005, while the Commission made progress with the CLP. However, there are two reasons why it is unrealistic to expect measurable improvement in the structural indicators: first, the great bulk of these indicators are published only with a lag; and, second, few of the reforms initiated since March 2005 can already be expected to have led to tangible results, especially where implementation takes time.

#### 3.1 Timetable

The whole process does now seem to have settled into its anticipated pattern, with three phases (see Box 3.1) comprising:

- *Reporting by the Commission and the member states on the implementation of their respective programmes.* The Commission presented a report in late October 2006 on the CLP, while member states were asked to present 'Implementation Reports' by the middle of October 2006, which several did, with the others gradually dribbling in over the next few weeks. The principal reason for delays were elections and their aftermath (especially where radical change in government – as in Sweden – coalition negotiations – the Czech Republic – or internal turmoil – Hungary – within the government led to a hiatus in decision-making), highlighting the fact that in a union of 27 members with four year electoral cycles, there will be an election in seven countries in a typical year.
- *Scrutiny by the Commission, the Economic Policy Committee (EPC), the Employment Committee (EMCO) and other bodies,* carried out somewhat earlier this year so as to meet a tighter timetable for the spring European Council. The Commission produced its annual report on the 12th of December 2006, together with national 'fiches' for each member state and draft recommendations for further reform.
- *Revision in which new elements are added.* In 2007, this revision was limited, but it is important to note, and to plan for, the much more extensive revisions that are likely to occur when the current three-year Integrated Guidelines come up for renewal in 2008.

#### Box 3.1 Stages of the re-launched Lisbon cycle

1. Member states report to the Commission on the implementation of their National Reform Programmes and the Commission reports on the progress made on the Community Lisbon Programme.
  - The national reports are then scrutinised by the Commission, EMCO and the EPC, with the EPC also examining the Community Programme.
2. The Commission, EMCO and the EPC, in turn, present scrutiny reports on the implementation of the strategy.
  - These reports are considered by the European Council at its spring meeting.
  - Any revisions to the Integrated Guidelines are agreed and priorities to which member states are asked to pay particular attention are identified.
3. These are then adopted by the Council. On the basis of these Integrated Guidelines:
  - Member states amend their National Reform Programmes and
  - The Commission develops the Community Lisbon Programme.

### 3.2 The Community Lisbon Programme

The Community Lisbon Programme was originally set out in the summer of 2005 under eight main headings (see Box 3.2). There is a temptation to regard segments of the CLP as Community tasks that would have happened anyway. For example, the successful adoption of Structural Fund regulations would have been expected to happen irrespective of the PGJ. It is worth sharing a salient point made by a senior official consulted in the course of this study, namely that once a task is incorporated into the Lisbon agenda, it tends to be given greater priority and may therefore happen sooner (or at all) and be more emphatic, instead of subject to compromise. In addition, some of the central elements of the CLP can be considered to be important advances that can be influential. In this regard, ‘better regulation’ is a good illustration. The regulatory framework is an arena in which the Community level has the incentives, the powers and the political capacity to make a big difference.

In October 2006, the Commission published its own assessment of progress in which it presents quite a rosy picture, noting in particular that 75 out of 102 measures have been adopted.

*Box 3.2 The main headings for the Community Lisbon Programme*

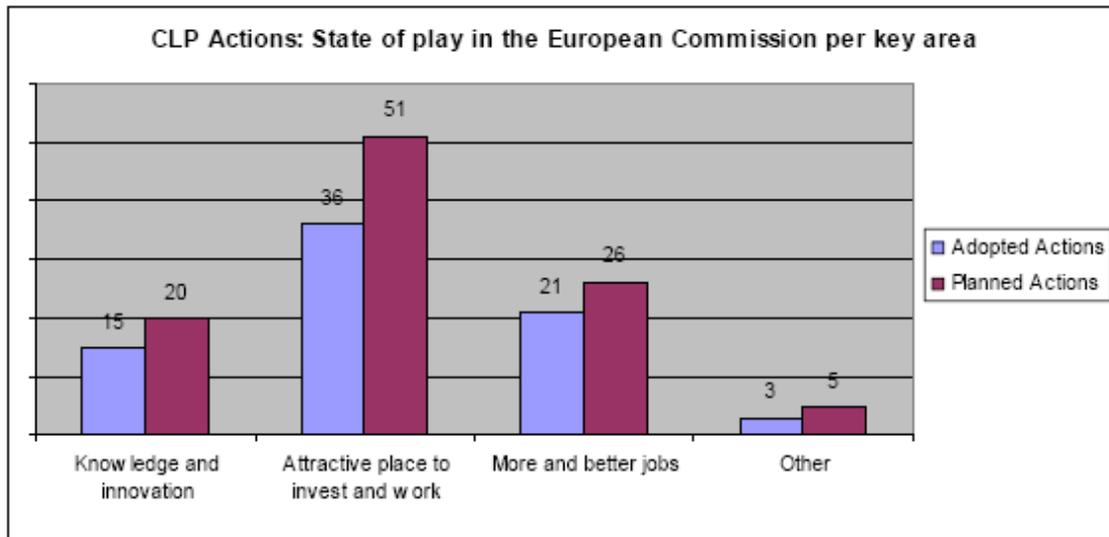
- Support of knowledge and innovation in Europe
- Reform of the state aid policy
- Improvement and simplification of the regulatory framework in which business operates
- Completion of the Internal Market for services
- Completion of an ambitious agreement in the Doha round
- Removal of obstacles to physical, labour and academic mobility
- Development of a common approach to economic migration
- Support of efforts to deal with the social consequences of economic restructuring

*Source:* Commission Communication COM (2005) 330 final.

Figure 3.1, taken from the Commission’s report on the progress of the CLP, shows the progress in different classes of actions. A critical message that comes over in places in the Commission’s assessment of the progress of the CLP is that it is other institutions that are now slowing the process, especially where legislation has to move to the next stage. While true, it does mean that the claim of 75% adopted may exaggerate the true rate of progress, and it is certainly possible that some of the measures will be stalled for some time. The history of projects such as the Community Patent gives reason for caution about over-claiming. Moreover, they may be substantially modified (as happened with the Services Directive) or, in some cases, abandoned.

Some of the statements in the report could be seen as somewhat disingenuous. An example is the assertion (in section 4.1.3, which tries to sum up progress on measures bearing on knowledge and innovation) that “good progress has been made in setting up a **governance structure at European level for meeting the 3% GDP target of investment in research.** Encouraged by the 2006 Spring European Council, **all 25 member states have now R&D investment targets**” [emphasis in original]. In practice, all this means is that each member state has a target, in most case for 2010. However, a quick cross-check reveals that the targets are not compatible with reaching 3% for the EU by 2010, if ever. Similarly, there is a statement about “improving the framework conditions for knowledge and innovation”, which refers to guidance and communications for member states. While there is nothing intrinsically wrong with what is proposed, it is legitimate to wonder whether these are actions that will ultimately have a noticeable effect.

Figure 3.1



Source: European Commission (2006), Annual Progress Report (APR), COM(2006).

While the progress on the CLP is good, there are also elements that have not advanced as much as hoped, many of which (not surprisingly) include more contentious dossiers. Examples of unfinished business in the CLP cited in the APR include:

- The portability of pensions;
- Measures to improve the functioning of transport and energy markets;
- Establishing an “effective and affordable intellectual property system”, which largely seems to be code for sorting-out the Community patent, but also covers copyrights on software and music; and
- Modernisation of tax and customs rules.

### *Development of the Community Lisbon Programme*

The Commission states that there should only be a light update of the CLP in 2007 and that a major revision should wait until the end of the current 3-year cycle. In its APR, the Commission sets out what it sees as “important new proposals for economic reform that seek to complement and strengthen actions at member state level” and goes on to cite:

- The creation of the European Institute of Technology (EIT);
- The European Globalisation Adjustment Fund (EGF), which has been agreed;
- A rather more amorphous statement about “implementing its external competitiveness agenda encompassing trade and other external policies in order to create opportunities in a globalised economy”; and
- Further steps towards better regulation, noting that one of the problems in this regard is that “the Council and the European Parliament need to speed up decisions on pending simplification proposals, for example, the Commission's proposals for a VAT one-stop-shop and for a modernised customs environment to simplify procedures”.

All of these warrant comment. The EIT and the European Globalisation Adjustment Fund can be seen as gimmicky initiatives and there is manifestly a problem of scale associated with them,

not least because the overall budget available during the 2007-13 MFF (Multi-annual Financial Framework) for growth and competitiveness is small, casting doubt on the potential impact of the new policy initiatives. Thus, the EAGF has an annual budget of €500 million, but to put that figure in perspective (and to show the continuing disjunctions between priorities, ends and means), the 2006 Community budget assigned €501 million to distillation of surplus wine production into industrial alcohol.

Similarly, the launch budget for the proposed European Institute of Technology (EIT) – seen as a flagship policy of the Commission, and championed by Barroso – is expected to cost the Community €308 million, which will be taken from the unallocated reserve of the Competitiveness for Growth and Employment component of the Financial Framework and might, therefore, have been available to support other research in any case. In 2005, the annual expenditure of the Massachusetts Institute of Technology (MIT) was just over \$2 billion (€1.55 billion), whereas of the University of Cambridge, often ranked as the EU's leading university, was around €760 million. Even the projected €2.4 billion funding from all sources for the EIT over the six-year period 2008-13 will amount to barely a quarter of that available to MIT or half what Cambridge will have to spend.

A study of the proposed EIT by Tindemans & Soete (2007) reaches pessimistic conclusions about its potential impact and viability. The study draws attention to the diversity of research success in Europe and the fact that much of European science is comparable in quality to that of the US, seen as the major competitor. The Tindemans and Soete study suggests there is not a clear rationale for the EIT as a European (as opposed to national) institution, pointing out that while there is manifestly a US university system in which there are strong research universities, there is no federal-level institution. Instead, universities such as MIT or Stanford compete for federal research funds. The parallel here is with the new European Research Council and, given that some of the best universities in the EU are comparable in quality to those in the US (albeit too few), the potential for research will depend on how successful the new Council is in fostering competitive improvements in quality.

### *Better regulation*

Improving the quality of regulation and reducing burdens on business has manifestly become a theme the Commission regards as valuable and politically astute. The Commission Communication entitled “A strategic review of Better Regulation in the European Union”<sup>8</sup> set the tone for what is required by setting out who should do what (see Box 3.2) A draft Action Programme for Reducing Administrative Burdens in the European Union, which was published by the Commission on 24 January 2007,<sup>9</sup> gives flesh to these aims and complements existing initiatives on simplification. The Commission claims that half the measures envisaged in the 3-year rolling programme launched in October 2005 have already been attained. In a statement that not all parties would subscribe to, the Commission observes that European legislation in itself represents simplification (‘one in, 25 out’), but it nevertheless sees the need for simplification and reduction of rules, including existing ones.

The underlying aim of the Action Plan is to reduce the burden of regulation by 25% by 2012, although the Commission makes clear that the intention is not, necessarily, to deregulate so much as to simplify. In the communication, the Commission states that “the overall 25% reduction target is a joint objective, which can only be attained on the basis of a shared

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<sup>8</sup> COM(2006)689 final.

<sup>9</sup> COM(2007) 23.

responsibility and a common endeavour by the member states and the European institutions. It is important that all parties involved in this process take appropriate and quick action, so that the political objective can be translated into operational measures, to the benefit of the business community, particularly small-and medium-sized enterprises, and of consumers.”

*Box 3.2 The demands on different institution to promote better regulation*

According to the Communication entitled “A strategic review of Better Regulation in the European Union” and published in November 2006, there is a shared responsibility for arriving at better regulation. The communication assigns responsibilities as follows:

***European Commission***

- An updated simplification programme aimed at generating tangible economic benefits, particularly through reducing administrative burdens and integrated in the Commission’s legislative and work programme. For 2007, 47 initiatives are planned.
- Reinforced scrutiny of impact assessments through the creation of an independent Impact Assessment Board under the authority of the President.
- Strengthening the enforcement of Community law.

***Council and European Parliament***

- More systematic impact assessments of major amendments to Commission proposals.
- High priority to pending simplification proposals, to codification and to repeal of obsolete legislation.

***Member states***

- Development and enforcement of consultation mechanisms, where missing.
- More systematic assessment of economic, social and environmental impacts through adequate guidelines and resources, and more transparency on the results.
- Development of simplification programmes, where missing.
- Improved application of Community law.

***EU and member states***

- The Commission proposes the launch of an ambitious strategy for reducing administrative burdens. Given that administrative burdens originate both in European and national legislation, the Commission proposed that the Spring 2007 European Council fix a joint reduction target for administrative burdens of 25%, to be achieved by 2012, a proposal which the European Council adopted.
- Member states should, in the meantime, take similar actions at national level and deliver on clear commitments to administrative burden reduction during the same period. Progress in such efforts should be reported in the National Reform Programmes and will be evaluated in the context of the Annual Progress Reports to the Spring European Council.

*Source: Com(2006)689 final.*

## ***Energy policy***

Consistent with the mandate from the 2006 spring European Council, EU policy on energy has been advancing over the last year, with the launch in January 2007 of the Commission’s proposals for an Energy Policy for Europe (EPE) and the approval of the strategy at the spring 2007 European Council. As expected, the topic dominated the agenda of the 2007 spring European Council and the proposed new policy was duly endorsed (see section 4.5). Significant legislation is expected to follow during 2007.

The Commission notes that, despite Kyoto commitments, the EU is forecast to increase its emissions of greenhouse gases by about 5% by 2030. Therefore, a headline goal for the new EPE is to counter this trend by aiming for a 20% reduction of emissions by 2020. Concern is also expressed about the projected rise in import dependency, a rise that is seen as potentially risky for Europe given geo-political considerations, not the least of which is the assertiveness of Russia.

As in so many other policy domains, a three-‘pillar’ approach to energy policy is proposed. Box 3.3 summarises these pillars.

*Box 3.3 The three pillars of the Energy Policy for Europe*

*Pillar 1 is the creation of a fully integrated internal market for energy.* The present fragmentation has long been stressed as an area for reform, but has also proved to be highly contentious for those member states that regard such basic infrastructure as a matter of national economic security. The proposals include separation of production and distribution, better inter-connection across borders and stronger application of competition rules. All of these proposals are in the spirit of the internal market and echo what has already been put in place for industries such as telecommunications.

*Pillar 2 is about a coherent strategy for diminishing the carbon intensity of energy supply.* It encompasses targets for use of renewables (20% by 2020), and research to position the EU as a global market leader in low-carbon emission energy production.

*Pillar 3 concerns proposals for increasing energy efficiency, with a target of reducing demand in 2020 by 20% compared with its projected level.* Compared with current energy use, this would represent a reduction of 13% in energy emissions.

The EPE also emphasises the international dimension of energy policy and enjoins member states to agree a common approach to international energy policy.

There is some risk of contradictions within the three pillars. Thus, the logic of an integrated market for energy would, other things being equal, imply lower prices which might stimulate rather than curb demand. Similarly, increased energy efficiency that lowers demand might reduce the incentives for producers of alternative forms of energy supply. These contradictions do not pose insuperable problems, but they deserve to be recognised and, where appropriate, dealt with by regulatory interventions that offer ways to reconcile the three aims. The concept of ‘lead markets’, for instance, could be used to guarantee demand for renewables, even if they are initially commercially dubious.

The Commission’s impact assessment that accompanies the policy proposals is positive about the aim of achieving a 20% renewables share by 2020, but suggests that a bigger share (such as the 25% target proposed by the European Parliament) would incur rising net costs and would be less attractive. It is a matter for conjecture just how useful such assessments are when they arrive at conclusions that support the figure the Commission has adopted, although a statement in the assessment that should be noted is that while non-regulatory measures such as voluntary codes will help, they cannot be expected on their own to ensure that the target is met.

*Commentary on the CLP and other possible priorities*

Although the CLP has made good progress, there does not seem to have been any disposition to add substantially to it in the current cycle. Given that a new programme will be required in 2008, this standpoint can be defended on the grounds that it is better to see through what is currently on the table than to overload the agenda. However, there are other areas that might have been included.

Certainly, some of what is on the table for the CLP could be considered less pressing compared with the much more extensive issues raised by the newly published inquiry into retail banking in the Union. This inquiry<sup>10</sup> reveals “symptoms suggesting that competition may not function properly in certain areas of retail banking” and points to the continuing fragmentation along national lines of retail banking services, and of payment systems and credit registers. The Commission Communication reminds readers that the inquiry “forms part of the wider political context of the Lisbon Agenda and will help to deliver the objectives set out in the White Paper on Financial services policy 2005-2010, where the Commission stressed the importance of the close interaction of internal market policy and competition policy”.

However, in the proposals for the CLP set out in the APR, there is no mention of new initiatives in this key area. Given that one of the four priority areas is unlocking business potential, especially of small-and medium-sized enterprises (SMEs), it might have been expected that the list of ‘follow-up actions’ or the updating of the CLP would refer to the costs and efficacy of retail financial services as a priority. In particular, given the inquiry’s finding that there is inadequate competition in retail banking services, proposals for improving matters might have been expected. It is worth recalling in this regard that one of the major studies behind the 1988 Cecchini report, carried out more than two decades ago, identified many of the same problems of disparities in charges or restrictions on market entry.

Insofar as financial services – above all, for SMEs – are part of the basic infrastructure of an economy, the CLP could be more forceful. Indeed, many of the compelling arguments put forward to justify an EU energy policy in the context of economic reform and competitiveness can also be applied to financial services. Another theme to which the Commission inquiry draws attention is the tricky boundary between cooperation that provides benefits to users of financial services (for example in areas such as standards and the administration of payment systems) and collusion, which becomes anti-competitive and has a detrimental effect on users.

### 3.3 Implementation of the National Reform Programmes

National reporting was meant to be light this year and many progress reports are. Some member states appear to have made a real effort to respond to the comments made last year, but others have taken only limited account of the criticisms. One praiseworthy aspect of the reports this year is that some of the member states that did little to engage with stakeholders when preparing their NRPs in 2005 have made more of an effort to consult on their 2006 implementation reports. Even so, some member states continue to report on the reform they have in progress, rather than to relate their actions to the Integrated Guidelines or the criticisms articulated by the Commission, EMCO or the EPC. There also remains a tendency to favour the ‘sexy’ measures (such as research and development) and to pay less attention to awkward or low-profile ones. Sustainable development initiatives remain patchy and any urgency of boosting renewable energy sources is not all that evident. However, the launch of the energy strategy will manifestly raise the salience of this issue.

The euro area as an entity has been the subject of greater attention this year, both in the Commission’s reports and in its draft recommendations. However, there remains the governance problem that it is not obvious to which body the fiche for the euro area is addressed, let alone the recommendations. In particular, the Eurogroup, as a body composed of finance ministers, is

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<sup>10</sup> Communication from the Commission Sector Inquiry under Art 17 of Regulation 1/2003 on retail banking (Final Report) COM(2007)33 final.

not necessarily the optimal recipient of comments relating to many microeconomic issues or employment matters.

One specific development in 2006 was an attempt to reinforce the connection between growth and jobs, on the one hand, and the social cohesion dimension of the original Lisbon ‘approach’ on the other. Following the decision to integrate the open method of co-ordination of social protection and social inclusion, member states produced integrated National Strategy Reports (NSRs) covering Social Protection and Social Inclusion a month ahead of the NRP Implementation Report deadline. To ensure that the social dimension remains prominent in Lisbon, there was supposed to be ‘feeding-in’ of social policy initiatives that could be expected to promote growth and jobs from NSRs to NRPs and ‘feeding-out’ from NRPs in reforms that address social protection and social inclusion objectives. Examination of this aspect of Lisbon suggests that it has not been very extensive in either direction for the majority of member states.

### *Overviews of progress of NRPs*

The implementation reports delivered in the autumn of 2006 provide an opportunity for member states to describe progress on their NRPs, to respond to criticisms of their reform strategies from the various scrutiny processes in the first cycle of the PGJ, and to report on the introduction of additional measures. Due to the limited scope of the present study, only a cursory examination of the progress individual member states have made was possible. The overview presented in this section draws on the reports produced by the Commission, the Employment Committee (EMCO) in its ‘Cambridge Review’ and the Economic Policy Committee (EPC), as well as on a separate exercise carried out by the study team to assess how well each member state has responded to last year’s criticisms.<sup>11</sup> Although the last-described exercise is qualitative in character, it provides interesting insights into the salience and impact of ‘Lisbon’ in the way national governments approach economic reform. It also helps to identify where continuing problems lie and it is instructive that the results often coincide with others. Table 3.1 summarises the information on how well the member state in question appears to have responded to critical comments from the Commission on its National Reform Programme. It should be stressed that these assessments concern whether or not the 2006 Implementation Report shows evidence that the member state has announced steps to deal with the criticisms. It should also be noted that it does not necessarily follow that the announced actions will result in tangible improvements. These assessments consequently concern process rather than outcomes.

The EPC conducts a peer review in which each member state is asked to present its report and is subjected to examination by the representatives of others. Although these reviews are relatively brief (EPC meetings are spread over three days), they are reported to be quite demanding and do subject the member state to genuine scrutiny. It is a ‘light-touch’ form of scrutiny in which the emphasis is on the EMCO review focused particularly on three topics: people at the margins of the labour market; flexicurity; and lifelong learning for older workers. The review is stated to have concentrated on implementation.

Here, a synthesis of the findings is presented. Bearing in mind that countries have different starting points, the Commission’s APR published in December 2006 notes that “there is considerable variation in the pace, intensity and commitment towards reforms”. The tone and intensity of the Commission’s scrutiny give some clues as to which member states the Commission believes are the ‘*bons élèves*’ and which continue to try the teacher’s patience. On

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<sup>11</sup> This work was carried out largely by Raffaele Fargnoli, with help from Juraj Draxler, and the author is grateful to both for their efforts.

a country by country basis, the thrust of the Commission's critique of the reports is reflected in its draft recommendations addressed to member states, presented in section 3.4 below.

*Table 3.1 Member states' responses to the Commission's January 2006 comments*

MS	Assessment of MS responsiveness to the Commission's observations made in the 2006 Annual Progress Report			Comment
	Macro	Micro	Employment	
BE	2	(1)	2-3	Measures to improve fiscal sustainability proposed, including containing health spending
CZ	1	2	3	Still a need for better targets and monitoring
DK	3	3-4	2	Good provision of information
DE	2	3	3 (1)	Gender issues still open to criticism
EE	--	2-3	3	Good overall reaction
GR	2	2	2	Progress, but still a long way to go
ES	--	3	3	Much better information on consultation
FR	2	0	3 (1)	Improved connection with IGs, but little sign of advance on market liberalisation
IE	(2)	4	2-3	Good response on child-care
IT	3	4	2	Significant responses announced, but will need to be translated into delivery
CY	2	3	2	Signs that advice has been taken seriously
LV	2	2	2	Has announcement measures to boost R&D
LT	--	2-3	2	Evidence of improved measures on active labour market policies and research/innovation
LU	2	3	1	Concerns about lack of details and targets being at least partly addressed
HU	2	3	2-3	Indications that shifts are underway, but the scale of reforms needed remains substantial
MT	2	2	2	More needed on boosting competition
NL	--	3 (1)	2-3	Reforms of transport infrastructure need more
AT	2	3-4	2	More attention still needed to service sector
PL	1	2	2	Better information on process issues
PT	3	2-3	2	Evidence of willingness to adapt
SI	2	2	2-3	Several improvements, but reforms in service industries still neglected
SK	2	3	3	Has tried to address shortcomings
FI	--	1-2	3	More effort required on competition
SE	--	1-2	3 (1)	Not much on competition in services
UK	3	2-3	2	R&D receives attention, but remains a challenge

*Note:* This table presents qualitative assessments, using a five-point scale, of how well each member state responded to the comments from the Commission in the respective national 'fiches' appended to the January 2006 Annual Progress Report. The judgements are based on information provided in the 2006 Implementation Reports. 0=no evident response; 1=small steps taken to meet criticisms; 2=partially addressed, but details missing; 3=range of measures taken and 4=comprehensively addressed.

*Source:* Based on assessments done by Raffaele Fargnoli, with support from Juraj Draxler, both of CEPS.

There remains a division between those member states (such as the UK or France) that appear to treat their NRPs as ‘reports’ to the Commission on what is already happening, and those that see both the NRP and the implementation reports as statements of strategy.

There appears to have been more effort in engaging stakeholders by some of the member states that were shown last year to have been remiss in this regard in the preparation of their NRPs. France, in particular, arranged a series of meetings and appears to have heeded the criticisms from the 2005-06 cycle. Elsewhere, however, the extent of consultation has been less impressive. Election periods may have been a factor in diminishing such consultation, but a further defence from member states might be that an implementation report has less need for consultation than the initial formulation of a strategy.

In some key areas, such as R&D and innovation, most member states have launched comprehensive reform strategies that can be expected to move their economies in the right direction. There is considerable diversity in approaches that offers opportunities for mutual learning, but may also signal that some member states could go further. A substantial majority of member states now have additional tax incentives for R&D, but the EPC notes that rather fewer have new co-ordinating structures. However, a concern expressed notably by the EPC is that more effort is needed in many member states to improve the access to finance for SMEs. Moreover, too few countries have made the connections between the wider business environment (including competition policy) and innovation.

Raising the employment rate is one of the highest-profile Lisbon objectives. Recent Eurostat data show that although the EU-25 increased its employment rate by 1.5 percentage point between 2000 and 2005 to reach 63.8% and should continue to rise so long as the current improvement in GDP growth is maintained, the rate has fallen in seven member states and has barely moved in three others. The seven EU-25 countries which saw a fall in the employment rate between 2000 and 2005 are the Czech Republic, Denmark, Germany, Malta, Poland, Portugal and Sweden, although for Denmark and Sweden, the dip was slight and from a level comfortably above the 70% target.<sup>12</sup> Indeed a sizeable proportion of the overall gain in the EU is attributable to the very strong growth of employment in Spain. The large disparities among the member states in employment rates are largely explained by the differences in one of the target groups, older workers. While the laggards in this regard (such as Belgium) are taking steps to improve matters, it will be a long-haul. Most member states are, however, raising pensionable ages which will have repercussions not only for the employment rate of older workers, but also for the sustainability of public finances.

Although employment is generally prominent in the reports, the diversity among countries remains considerable, especially in the use of targets and the degree to which the three strands of the employment strategy are integrated. Nevertheless a general finding is that employment policy is achieving results and a particular trend is towards more ‘individualised and tailor-made’ support from modernised public employment services. However, there is criticism that not enough is being done to improve the quality of jobs or to enhance lifelong learning and other forms of human capital development. Policies aimed at improving adaptability are also criticised. Other key findings include:

- Considerable efforts to make work pay are noted as part of attempts to reach those most distant from the labour market: key words are activation and rehabilitation.

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<sup>12</sup> A fall was also recorded in Romania which has one of the lowest rates in the EU-27, although it is likely that there is under-recording of undeclared work.

- There is evidence of a wide-ranging search for means of implementing flexicurity, characterised by a wealth of specific initiatives.
- Innovative approaches to life-long learning and imaginative schemes targeted at older workers are noted, but the scope of such policies appears to be wanting and there is insufficient focus on a life-cycle approach.
- Increased attention is being paid to the integration of immigrants into the labour market and addressing their higher rates of unemployment.
- More member states are implementing policies to improve the employability of the disabled.

Immigration policies that target highly qualified researchers from outside the EU are being introduced in a number of member states. One proposal that is likely to make progress in the coming months is to establish a green card system for qualified immigrants from the rest of the world. However, to limit the brain drain on home countries, a further proposal is to encourage circular movements between home and host. This will require unanimity in the Council for it to become an EU policy.

Initiatives aimed at better regulation and at easing administrative burdens do seem to have struck a chord with member states and the scrutiny reports show a disposition to make progress in this area. It is, therefore, no surprise that this will feature prominently in the work programme for the coming year at both Commission and member state levels, and was a central theme of the spring 2007 European Council.

### *Can 'Lisbon' take credit for the economic improvements?*

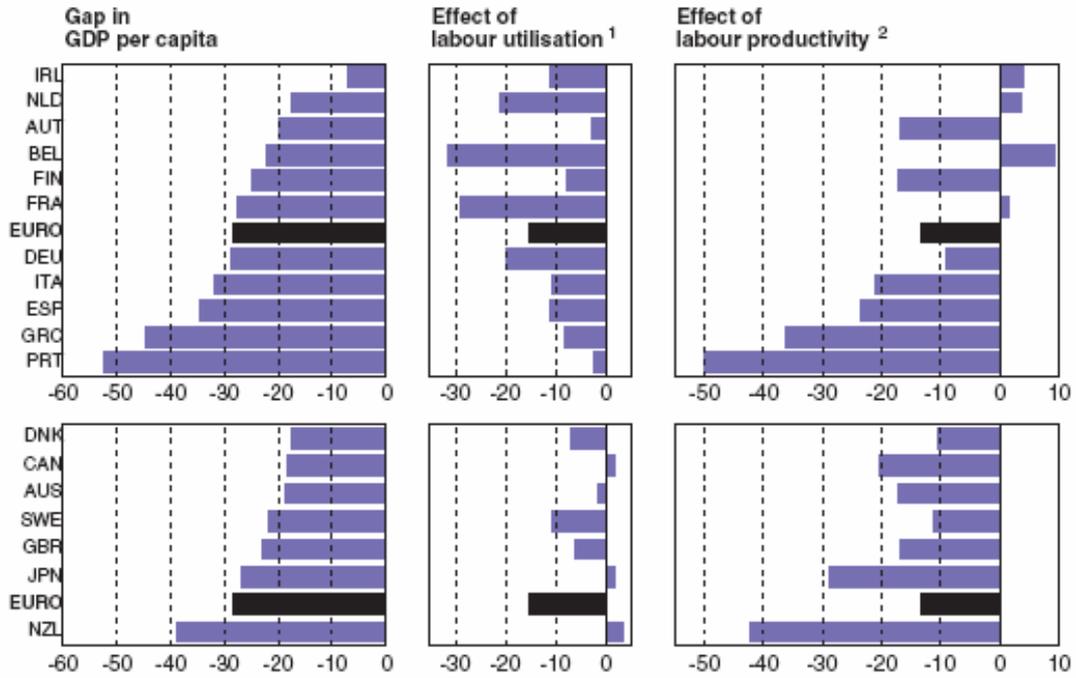
Data relating to many of the structural indicators that are meant to be used to monitor the strategy, even today, do not go beyond 2005 and thus do not lend themselves readily to monitoring of a three-year strategy that started in 2005. Not surprisingly, therefore, clear progress on some of the most high-profile structural indicators associated with the Lisbon strategy remains hard to discern. It has to be stressed that structural reforms are slow, follow a sequence and may give rise to initial dislocations that manifest themselves in apparently disappointing initial trends in relevant indicators. This 'j-curve' path of reform can mean that genuine progress is not visible.

Even where the data are more up-to-date, such as for GDP or the employment rate, it is important to look beyond single indicators. Consider, for example, the gap in GDP per head vis-à-vis the most prosperous countries (the US often being used as the benchmark). For several of the members that acceded to the Union in 2004, the gap in GDP per capita is mainly due to labour productivity. This is not surprising given the magnitude of the gap and the dislocation effects of transition for the Central and Eastern European member states. For the EU-15, the results are mixed: in some countries, the key explanatory factor is labour utilisation while for others it is labour productivity. Overall both play a role in explaining sluggish growth and bad performance in comparison with the US (see Figure 3.1)

Between 2000 and 2005, the employment rate in the EU increased more for certain target groups – female and older workers. There has, since 2005, also been some recovery in labour productivity (see Figure 3.2). Before then, the trend in productivity growth had been lacklustre, implying a possible trade-off where countries have pursued one Lisbon target at the expense of another.

Figure 3.1 Differentials in GDP per capita and their decomposition

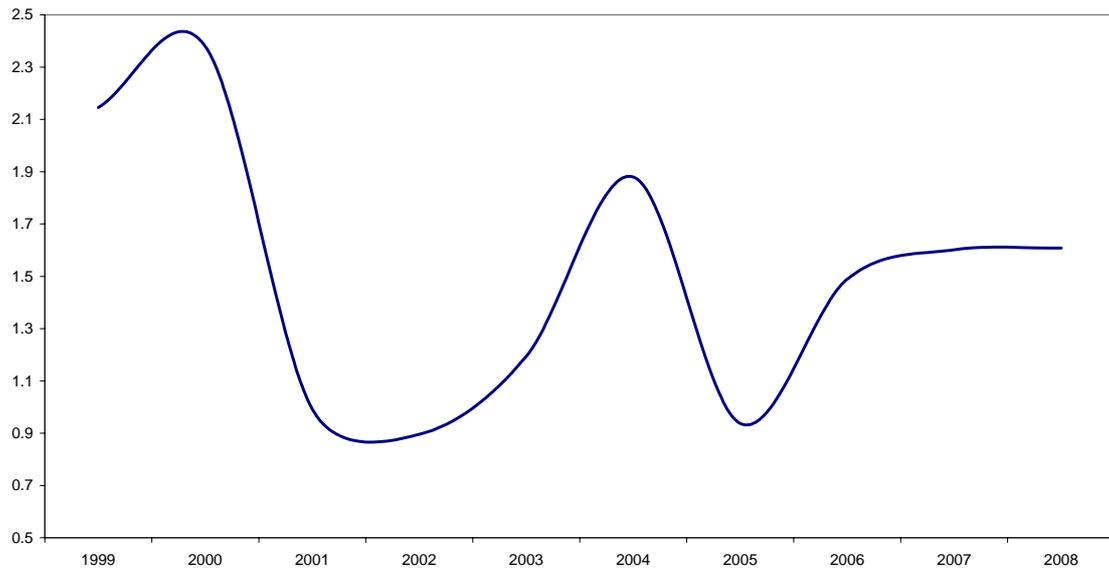
Percentage point differences in PPP-based GDP per capita relative to the United States, 2005



1. Hours worked per capita.
2. GDP per hour worked.

Source: OECD, Productivity database, September 2006, [www.oecd.org/statistics/productivity](http://www.oecd.org/statistics/productivity).

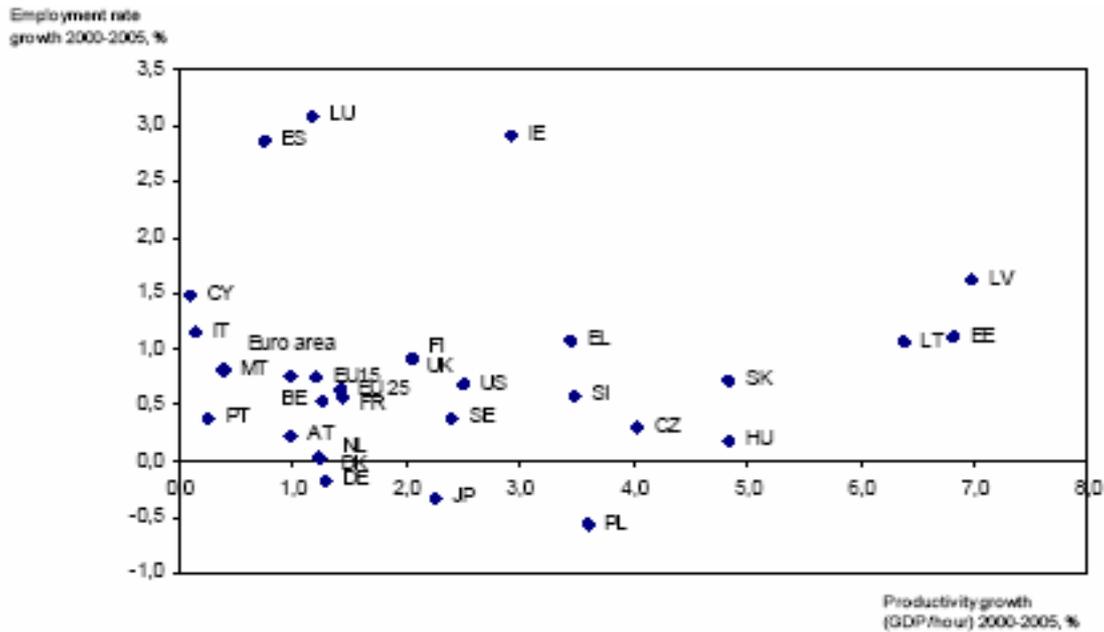
Figure 3.2 .GDP at 2000 market prices per person employed



Source: Ameco.

The Commission acknowledges the possible existence of a negative short-term trade-off between employment and productivity due to the inclusion of low-skilled workers in the labour market, while in the long term there is more scope for a positive link between the two. From Figure 3.3, it can be seen that only Ireland succeeded in achieving a combination of strong productivity gains and a rapid increase in the employment rate over the period, whereas in other member states, rapid productivity growth has been associated only with moderate employment rate improvements.

Figure 3.3 Employment and productivity development among member states



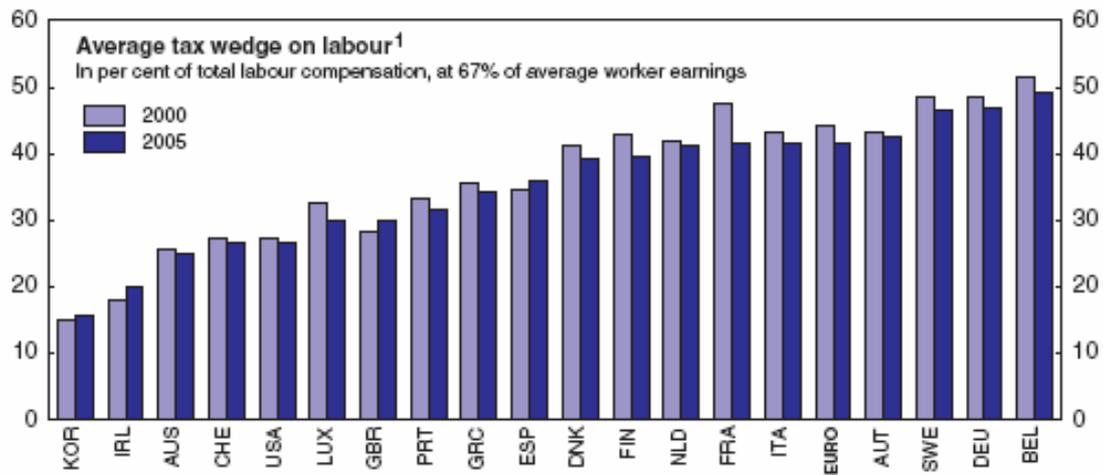
Source: DG ECFIN, 2006.

There is more encouraging news on issues such as labour taxation, with the effective tax rate on labour having been reduced, especially for the low-skilled and for older workers in most EU member states for which comparable data are available (see Figure 3.4).

Despite the difficulty in finding hard evidence, the direction of change looks positive. There are, moreover, signs of improvement in member states' commitment to reforms, noted by the Commission and the EPC, tempered by a fairly extensive list from both bodies of areas warranting further attention. EMCO has also highlighted areas where more effort is needed. A major question is whether, despite the Integrated Guidelines, there is sufficient policy integration and attention to cross-effects of different policies. Innovation policy features prominently in all NRPs, but a key spur to innovation is the intensity of competition – with a need to define optimal competitive conditions, rather than unbridled competition – and it is far less clear that this connection is made in the policy mix.

Overall, it is quite difficult to attribute changes directly to the strategy, although using the metaphor of turning round an ocean liner, there are signs that a (positive) change of direction is evident in many member states. It may, though, be unhelpful to ask how strictly a member state's reform agenda conforms to the aims of the PGJ and fits the Integrated Guidelines. Several interlocutors consulted in the course of this study have stressed that what matters is that the 'correct' reforms should take place. Hence, it can be argued, the focus should be more on whether reform is happening, than whether it is happening according to the Lisbon agenda.

Figure 3.4 Labour taxation



<sup>1</sup> Social charges as a proportion of labour costs.

Source: OECD, online database.

### 3.4 National recommendations

Having eschewed national recommendations in 2006, the Commission has now decided to reinstate them. It does so on the basis of a request from the Council to rely more on Treaty-based instruments in dealing with member states. Specifically, it relies on Articles 99(2) and 128(4) of the Treaty, and adopted and put to the Council recommendations in which the integrated structure of the National Reform Programmes is taken into account. In practice, the recommendations echo the conclusions of the ‘fiches’ for each member state that are part of this year’s APR and, in this respect, the restitution of the recommendations only mildly ratchets up the pressure on the member states compared with last year. Then, member states were praised for some elements of their NRPs and criticised for others, although the overall tone was very restrained (see Begg, 2006).

Inevitably, the Commission’s role in formulating recommendations is a delicate one, given that some member states are more prone than others to take umbrage. A degree in Kremlinology is, therefore, a helpful credential in working out how critical or satisfied the Commission really is with the member state’s approach and progress.<sup>13</sup> It should be recalled as well that Commission visits to the member states and other bilateral contacts are used to reinforce formal messages.

The new national recommendations comprise either four or five paragraphs for each member state and are presented in a broadly common format, yet they range from fairly fundamental criticisms or calls for additional reform measures to rather bland advice that says little more than ‘do more of the same’. For each member state, the first paragraph is identical and is followed by a one-line assessment from which it is possible to distinguish whether a country has made ‘very good’, ‘good’, or ‘limited’ progress. Four countries are assessed differently, with two (Latvia and Slovakia) deemed only to have ‘made progress’, another (France) adjudged to have made ‘*des progrès certains*’, while for the third (Italy), no directly comparable overall judgement is made.

<sup>13</sup> This section also draws on material generously provided by Jonathan Zeitlin for which the author is grateful.

Reading between the lines, the Commission is most critical of Poland, Greece, the Czech Republic and Hungary, although the latter two were in the middle of a period of political disruption at the time the implementation reports were drafted. Denmark, Estonia, Ireland, Luxembourg, Finland and Sweden are the member states given the ‘very good progress’ accolade, while the euro area is deemed only to have made progress. Table 3.2 provides an overview in which the number of paragraphs of recommendations is one clue to how the member state is assessed, but it is the overall tone, profundity and emphasis of the recommendations that provide the more telling indications of their thrust.

*Table 3.2 Overview of national recommendations*

MS	No of paragraphs	Tone of assessment	Emphasis for change
BE	5	Fairly positive	Quite extensive list of recommendations
CZ	5	Critical	Comprehensive list
DK	4	Strongly positive	Continue with what they are already doing
DE	5	Fairly positive	Focused suggestions, plus longer, more general ones
EE	4	Strongly positive	General, overly broad
GR	5	Critical, except for macro	Extensive and demanding
ES	5	Positive, stressing key areas	Useful specific proposals; vaguer general ones
FR	5	Neutral, but unflattering	Far-reaching specific elements; challenging agenda
IE	4	Strongly positive	Continue current efforts in selected areas
IT	5	Praised compared with 2005, but 2005 was strongly criticised	Focus on implementation, very demanding
CY	5	Positive; on track	Mainly on social and employment policies
LV	5	Neutral, but worried	Macro and micro measures sought, quite extensive
LT	5	Positive, but queries delivery	Two explicit ones; vaguer general orientations
LU	4	Strongly positive	Various labour market measures stressed
HU	5	Critical, but notes new NRP	So comprehensive as to equate to a full NRP!
MT	5	Positive	Limited specific ones; obvious, but demanding general points
NL	5	Positive, with some caveats	Mainly about labour supply
AT	5	Positive across the board	Older workers stressed; otherwise very general
PL	5	Critical; implementation queried	Very far-reaching
PT	5	Positive; but reservations	Labour market stressed; other broad concerns
SI	5	Positive; some areas not good	Labour market and welfare reforms; long general list
SK	5	Neutral	Research and labour market stressed; other vaguer ones
FI	4	Strongly positive	Odd mix of detailed suggestions
SE	4	Strongly positive	General, more of same suggestions
UK	5	Positive	Skills upgrading; setting R&D target; otherwise very general
Euro area	5	Neutral; notes coordination flaws	Comprehensive list of measures needed and longer terms aims

*Source:* Author’s own interpretation.

Looking across the member states, somewhat curiously given the attention paid to energy and climate change over the last year, a topic that receives comparatively little attention in the recommendations is implementation of Integrated Guideline number 11 concerning the

sustainable use of resources. Nor is the advice consistent across the member states. For example, the Commission calls for measures aimed at reducing CO<sub>2</sub> emissions for countries like Spain, Denmark and Austria, which are in the worst position to meet the Kyoto targets, yet does not make a similar recommendation to countries like Italy, Malta and Cyprus.

### 3.5 Other assessments

The Centre for European Reform (CER), based in London, has been publishing annual assessments of the Lisbon strategy since 2002, and its 6<sup>th</sup> 'scorecard' was launched in February 2007. By comparing the assessments over time, an interesting picture emerges of which aspects of 'Lisbon' are making genuine progress and which remain problematic. Overall, the CER gives what it calls 'the Lisbon process' a mark of C+ in the last year, a slight improvement on a run of C grades in the previous three years. But it is the ratings for different areas that are most instructive (see Table 3.3). These suggest that in some key areas, such as R&D or telecoms and utilities, the verdict is that the efforts are worse than in previous years. By contrast, the grades are improving for the three categories of Enterprise, for information society and for the two labour market variables.

Table 3.3 Centre for European Reform 'grades' for Lisbon aims

Facet of 'Lisbon'	Grade 2007	Trend
INNOVATION		
Information society	B+	Steady improvement
R&D	D+	Going backwards
LIBERALISATION		
Telecoms & utilities	C	Slight worsening
Transport	C-	Slipping behind
Financial & general services	B-	Steady grade
ENTERPRISE		
Business start-up environment	B	Continued good progress
Regulatory burden	B	Has maintained improvements
State aids; competition policy	B-	Slight improvement
EMPLOYMENT & SOCIAL INCLUSION		
Labour supply & reintegration	C+	Very slight improvement visible
Upgrading skill	B-	On a gently improving trend
Modernising social protection	C	Not progressing after initial gains
CLIMATE CHANGE	B-	Better than in previous years

Source: Barysch et al. (2007).

Among the member states, the CER scorecard is most negative overall about Greece and Poland, while praising Denmark and the Netherlands, the latter for having made extra efforts in 2006. Progress in Germany and the Czech Republic is highlighted, whereas France and Hungary both fall in the ranking, by three and four places, respectively. As a broad brush exercise that relies in many elements on past data rather than projections, the CER ranking is bound to be open to criticism, but its value is that it is systematic and comprehensive. Especially for the countries that attract the most criticism, the verdicts should sound alarm bells.

### 3.6 Problems identified and commentary

One of the most encouraging features of the PGJ is that there continues to be a strong desire, especially in the Commission, to make it work. Although the current three-year partnership has shifted from strategy to implementation, the sub-title of the latest Commission Annual Report ‘A year of delivery’ can appear optimistic. The Commission now seems to be moving towards a more constructive dialogue with the Council, but also shows encouraging signs of being firmer in highlighting weaknesses in member state NRPs. In this respect, the revival of recommendations to member states, despite some reservations from the latter, can be regarded as a positive development.

Based on developments during the 2006-07 cycle, a first, straightforward observation about the Partnership for Growth and Jobs as a governance process is that it has done what was expected of it, at least in procedural terms. The value added of these procedures in terms of accelerating economic reform is far from established, but a reasonable verdict on Lisbon II is that it seems to have succeeded in engaging the various actors to a considerably greater extent than Lisbon I.

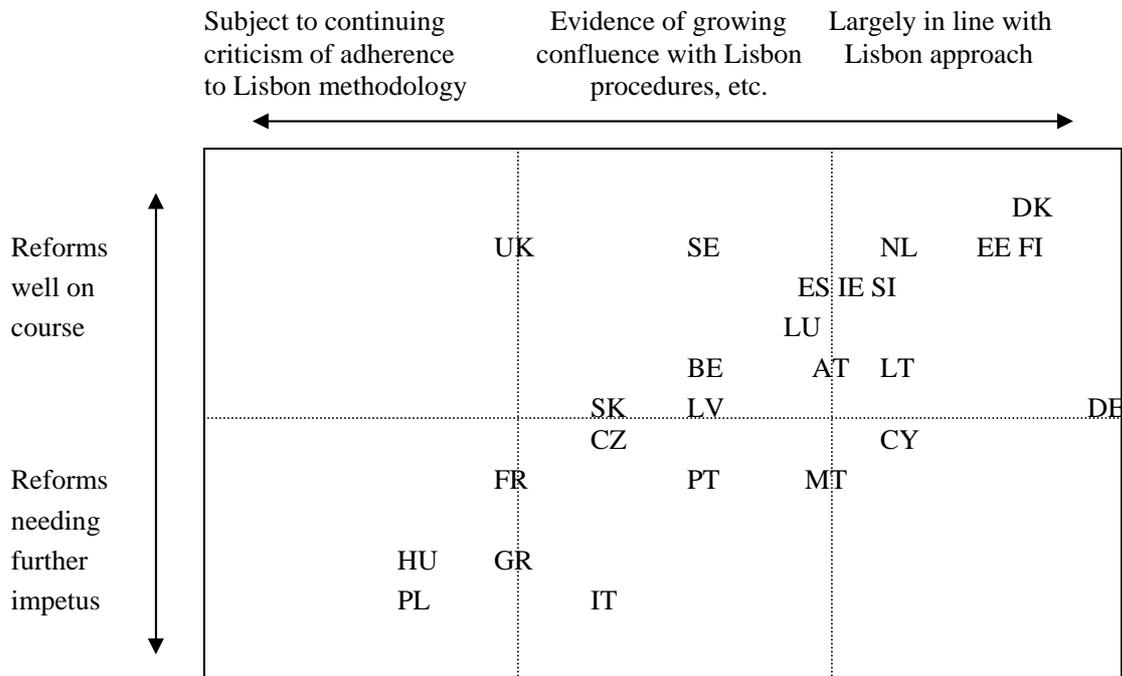
But the question that then arises is whether these more effective procedures are delivering results. As regards the Community Lisbon Programme, it is clear that real advances have been made and that the Programme overall is likely to be completed. However, for many of the measures within it, the Council and/or the European Parliament now have to take the next steps and that could engender delay.

The National Reform Programmes, as ever, are more mixed. Some member states have clearly gone a long way towards achieving the sorts of reforms envisaged, but others are barely out of the starting-blocks. This conjunction does prompt doubts about whether a common format is appropriate. Manifestly, countries that were already well-advanced in their reform programmes by 2005 find it easier than the likes of Italy which has not only struggled to achieve consensus on what is needed, but has also faced political difficulties in implementing reform. A difficulty in judging NRPs is that some member states manifestly have much further to travel than others, both in transforming their economies and in putting in place reform programmes that reflect the approach embodied in the re-launched Lisbon strategy. A related difficulty is that merely announcing a policy is not always the same as pursuing it with vigour and to good effect. Nevertheless, the 2006 Implementation Reports demonstrate that some member states have heeded the Commission (and other) critiques of their approach to a greater degree than others.

Figure 3.5 attempts to distil the evidence by cross-tabulating a member state’s progress on reform with its conformity to the Lisbon model and procedures. Where a member state is positioned on this chart is a qualitative judgment by the author based on a range of formal assessments and other inputs. They include: the tenor and scope of the assessments carried out by the Commission, the EPC and EMCO about the member state; rankings constructed by other bodies such as the Centre for European Reform or BusinessEurope and the evidence adduced during the course of the present study.

A member state can be regarded as relatively more in line with the Lisbon approach if it has not only used the Integrated Guidelines as a framework for developing its NRP and made efforts to conform to procedural demands (such as consulting widely), but has also taken steps to respond to criticisms from the first annual cycle of the re-launched Lisbon strategy. Thus, countries located towards the right on the chart are considered the most confluent with Lisbon. Member states may, however, have achieved many of the reforms embodied in the Lisbon strategy, whether or not they adhere to the procedural aspect of the strategy: they will be positioned towards the top of the chart. The most telling contrasts are between countries in the top right box and those in the bottom left, while for some of those in-between there is an element of arbitrariness in the precise positioning on the figure.

**Figure 3.5 Schematic overview of member state reform policies**



Source: Author's own judgements.<sup>14</sup>

The Draft Recommendations presented by the Commission to the Council generally reflect the weaknesses in the National Reform Programmes identified in the present study and in other assessments. But examination of the content of the recommendations reveals big differences. The impression given is that, though less so than in 2005-06, the Commission is reluctant to be too critical publicly of member states. Two questions arise. The first is whether there is much to be gained from recommendations that are very bland or that, in effect, ask for a country to continue with what it is already doing, just so that something is said about every member state. To the outside observer, the recommendations to Denmark, for example, do not seem particularly useful. Second, even where the recommendations highlight a range of shortcomings, does it actually help to compress these recommendations into a couple of sweeping paragraphs? Perhaps, by limiting the recommendations to countries that are plainly not performing well (such as Hungary, Portugal, Italy or Greece), they could be given greater edge, even if resort to overt naming and shaming remains taboo.

A continuing concern about the evolution of the Lisbon strategy is whether the aspiration to improve ownership can be realised and whether the political impetus behind it is sufficient. Ownership remains limited in the wider sense of engaging national political actors. There may even be a risk that once the initial NRP has been produced, interest wanes rather than being sustained – a form of ‘Lisbon fatigue’. On the other hand, it is results that matter, and it could be argued that a lack of consultation of social partners or media interest in Lisbon per se does not matter if, first, consultation does take place around particular reform initiatives and, second, the ‘right’ reform is successfully achieved.

<sup>14</sup> I am grateful to Jonathan Zeitlin for sharing his insights on how ‘Lisbon’ is functioning procedurally and for comments on these assessments

More generally, communication is a facet of the PGJ that probably needs more attention. If the public at large are ignorant of the strategy (and the stark reality is that this is the case), that same public is not likely to articulate demands on governments to do better. Media scrutiny is also hampered. There are no easy answers, but it is equally true that basic measures of communication are likely to help. Austria, for example, has a dedicated website for the Lisbon strategy ([www.lissabon-strategie.at](http://www.lissabon-strategie.at)) on which it not only presents information on the NRP and its progress, but also provides links and information on events. An online newsletter is also planned.

That structural reform is difficult to sell politically is undeniable and it also has to be recognised that it creates losers as well as winners, even if the overall effect is ultimately positive. Moreover, as Cotis & Elmeskov (2006) put it: “the losers tend to be easy to identify, to suffer significant losses and to do so in the early phases of structural reform. By contrast, the gains from structural reform usually emerge only after some time and are usually spread thinly over broad groups, who are often not very well organised”. If such reforms are to bear fruit, however, they need to be applied with consistency and determination.

Changes to the reform agenda need to be made with circumspection and there is a case for delivering, or at least providing a platform for delivery, on what is already in the pipeline, rather than adding to the shopping list. That said, the plans for the evolution of the CLP, in particular, look slender, possibly because the Commission now sees the Energy Policy for Europe as its principal ambition for 2007.<sup>15</sup> An obvious risk is that the energy policy issue – though vital – could crowd-out the reform agenda in the deliberations of the European Council and, by extension, other institutions. If the result is to blur the focus of the PGJ in a way that tempts member states to diminish the political weight they attach to reform, the outcome could be unfortunate. The next section assesses the various demands for revision.

#### **4. New demands and priorities for reform**

It was inevitable in the run-up to the spring European Council that took place in March 2007 that possible changes in the policy approach would be advocated. These can be classified under three main headings of procedural changes, shifts in priorities and institutional developments. The three most substantive topics now set to dominate the reform agenda in the coming year are:

- The energy review which has leapt to the top of the policy agenda following the surge in oil prices in the last three years and the concerns about security of supply, aggravated by Russia’s assertiveness with its neighbours and the flexing of Gazprom’s commercial muscles;
- Flexicurity as the preferred model for reform of work arrangements, active labour market and inclusion policies, lifelong learning, and social protection systems; and
- The elaboration of the ‘better regulation’ programme that the Commission announced in November 2006.

Calls for change emanated from a range of sources, including lobby groups, think-tanks, the various EU institutions and NGOs. This section presents an overview and assessment of the conflicting demands.

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<sup>15</sup> It is a moot point whether the EPE is a distinct initiative or a new element in the PGJ.

Taking one step back from possible immediate reconfigurations of the PGJ, there have been several recent publications by heavyweight academic figures with messages of varying degrees of alarm about the outlook for the EU. The interest in such analyses is not so much whether detailed elements in the PGJ should change as whether the overall approach is well-conceived. Alesina & Giavazzi (2006, p.3), for example, write that “without serious, deep, and comprehensive reforms Europe will inexorably decline, both economically and politically”, and their work implies above all that there has been too great a reluctance within the EU to acknowledge that a half-hearted approach to genuine market-oriented reforms will not suffice.

One line of argumentation is that there is a systemic problem to address, rather than just a need for ad hoc reforms, an example being the statement from Eichengreen (2006) that “the same institutions of coordinated capitalism that had worked to Europe’s advantage in the age of extensive growth now posed obstacles to successful economic performance. In this sense, the continent’s very success at exploiting the opportunities for catch-up and convergence after World War II doomed it to difficulties thereafter. And the durability and persistence of institutions, which had worked to Europe’s advantage after World War II, were now less positive attributes than impediments to growth”. De la Dehesa (2006) also analyses the challenges the EU has to confront, arguing that ageing especially needs to be confronted. Since the Lisbon strategy only tangentially deals with such longer-term issues, his analysis could be construed as a criticism. However, he is less pessimistic than other contributors about the EU’s scope for reform.

On the other hand, as indices of competitiveness compiled by the World Economic Forum (WEF) show, the EU member states continue to feature high on rankings of competitiveness in general. All the EU25 are in the top 50 of the WEF list of most competitive economies, and the leading Nordic countries top the list. The WEF ‘gender gap’ index (composed of sub-indices covering ‘economic participation and opportunity’, ‘educational attainment’, ‘political empowerment’ and ‘health and survival’)<sup>16</sup> also ranks most EU countries very favourably compared with other parts of the world.

#### 4.1 Council priorities

The various Council configurations, as is customary, set out key messages that they wished the European Council to take into account in reviewing the PGJ during its March 2007 meeting.

For the Employment, Social Policy, Health and Consumer Affairs Council, delivery was highlighted as the priority and, although the Council praises the progress in the PGJ, it underlines the need for more rapid job creation (Council, 2007a). The Council also argues that the “common social objectives of the member states should be better taken into account within the Lisbon agenda in order to make a decisive impact on social exclusion and poverty”. Not surprisingly, a number of the key messages concern social cohesion, with the Council calling for action to integrate and make more visible the social protection and social inclusion processes under the open method of co-ordination. Better functioning labour markets are canvassed, embracing:

- Flexicurity, which the Council mentions in connection with adjustment and labour market transitions, emphasising the security element in relation to precariousness;
- The life-cycle approach to work;
- Greater attention on those furthest from the labour market;

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<sup>16</sup> Details on the construction of these indices are provided on the WEF website ([www.weforum.org](http://www.weforum.org)).

- Enhancement of human capital and
- Economic migration is also mentioned.

The Competitiveness Council's 'key issues' paper (Council, 2007b) is orientated around five main areas:

- The internal market in which it draws attention to the aim of further reducing the 'transposition deficit' – the proportion of directives waiting to be transposed into national law;
- The better regulation agenda, with a focus on reducing administrative burdens and enhancing impact assessment of the effects of regulatory and legislative actions;
- Various technology and innovation initiatives, including the European Institute of Technology and energy technology;
- Industrial policy measures, such as for the automotive industry, and
- Moving forward the Doha Round and other trade-related actions.

The Transport, Telecommunications and Energy Council's priorities (Council, 2007c) are, not surprisingly, to advance the EPE. Elements of the policy that the Council stresses include the need to bolster the internal market for energy and to invest more extensively in new technologies. The Council also calls for a speeding-up of "a common approach to external energy policy", highlighting a number of relevant prospective ways forward that include partnerships with neighbouring producer countries, on the one hand, and the main consuming nations, on the other.

For the Education, Youth and Culture Council, the key messages sent to the European Council included a call for more intensive efforts on different levels of education (Council, 2007d). The Council calls specifically for more effort to reform education and to ensure that the 'Education and Training 2010' work programme is fully implemented and integrated with other facets of the Lisbon strategy. Emphasis is given to life-long learning.

The Economic and Financial Affairs Council (Ecofin) identifies as a first priority the need for member states to take advantage of the favourable growth trend to consolidate their public finances (Council, 2007e). It also regrets the continuing high level of long-term unemployment. Much of the commentary on the PGJ in the key issues paper centres on how budgetary conditions can be improved, including by exchange of experience in the reform of tax systems. Integration of financial markets is given prominence in the context of a general exhortation to continue to advance the single market. Ecofin concludes its paper by advocating an examination of the scope for "further streamlining the present planning and reporting system" – a plea that could be construed as one for simplification of the governance of Lisbon.

## 4.2 Procedural changes

With the reporting/scrutiny cycle now reasonably established, there may not be much point in exploring changes in the interactions between the Commission and the member states. However, one risk that deserves to be mentioned is that the annual cycles become little more than a ritual in which all sides play their part but then take little heed of what others say. The test here should be whether the procedures add value and what can reasonably be expected of them. In this regard, the elements of peer review and exchange of experience that were (or were intended to be) core features of the governance arrangement for the different OMCs warrant a fresh look.

In practice, it is really only in the Economic Policy and Employment Committees that peer review takes place, while exchange of experience does not seem to be at all systematic. Occasional meetings, such as that of the Lisbon co-ordinators held in October 2006 in Lisbon provide a channel, but probably do not reach out far enough. The inference to draw is that fresh initiatives should be countenanced. Links from the social to the economic ought also to be strengthened.

Among the different actors involved in the partnership, a number of changes might be explored:

- It is evident that the Lisbon co-ordinators are a body that would benefit from new ideas, with an obvious change being to find a genuine solution to the very varied status of those involved. Alternatively, the fact that meetings are infrequent and their role uncertain could even be seen as a justification for scrapping the idea of having such co-ordinators.
- Both the European Parliament and the Council of Ministers (and, indeed, the European Economic and Social Committee) are organised along sectoral policy lines (that is, economic and monetary, employment, education industry/competitiveness, etc.) that do not correspond very well to the integrated agenda of the PGJ. The Parliament has its Lisbon Co-ordination Group that cuts across these sectoral policy areas, but the group has limited status. A possible procedural innovation (subject to rules of procedure) would be to match scrutiny more closely to the re-vamped Lisbon mix.
- The EESC, in its capacity as a voice of civil society, has been less involved in the PGJ during the last year, although it has a request outstanding from the European Council to report again in 2008 as it did in 2006. But is this voice of civil society sufficient?

### 4.3 Possible new priorities

Explanations abound for why the EU generally and most member states have had slow growth and these, in turn, point to possible new substantive directions for policy. The OECD has carried out extensive analyses of labour market factors that it argues impede higher productivity growth in the EU, and while the organisation now tends to be less hard-line in its prescriptions than it was in the days of the 1994 Jobs Study, it still maintains that there are many areas in which reform would be beneficial. Areas emphasised include reform of employment protection legislation, especially where it has led to a dual labour market, more flexibility in wages and reductions in administrative obstacles to mobility and flexibility.

The OECD, which has a long pedigree in promoting microeconomic reforms, also emphasises the need for product market reform, especially the advantages of more competitive markets in stimulating innovation that leads to higher productivity. This perspective is echoed by Aghion (2006) who asserts that the approach to innovation is unsatisfactory:

To get back on a high growth path, Europe needs a comprehensive and coherent strategy which also involves:

1. More competition and entry on the product markets;
2. More investment in higher education;
3. More developed financial sectors and markets and more flexible labour markets; and
4. A more proactive macroeconomic policy over the business cycle.

Finally, there should be a clearer recognition that structural reforms may entail winners and losers; hence the importance of complementary policies aimed at correcting the inequalities caused by these reforms.

There is also the long-term outlook to consider: the EU has a relatively ageing population and arguably is not investing sufficiently in boosting future productivity (witness the low R&D ratio

and the shortcomings, in many member states, in the capacity for translating basic research into effective innovation). Most of the efforts detailed in NRPs are on improving the supply-side of innovation policy – such as raising the amount of investment in R&D, especially business investment. The role of the demand side in pulling innovation forward also warrants discussion. Georghiou (2006) suggests that fragmented markets for innovative products and services can, themselves, be an obstacle to innovation and need to be nurtured. Public procurement can be one means of fostering innovation, while another is regulatory decisions or frameworks that give a boost to demand for innovative products. In this approach, demand-side policies can be presented in three main groupings:

1. Systemic policies, which provide an environment that may amplify other innovation policy measures by optimising relationships between actors – promotion of clusters being an example;
2. Regulation, which in many markets such as environmental technologies defines the competitive space and can be used to extend it; and
3. Procurement, where the purchaser can specify goods and services in terms of a function which offers higher performance than what is currently available off-the-shelf and hence requires an innovative step to achieve it.

The second of these hints at an orientation for better regulation – making it better regulation with a purpose.

When the Partnership for Growth and Jobs was launched in March 2005, there was some concern that the social dimension that had been at the heart of the original Lisbon agenda had been marginalised. Although various developments since March 2005 have made it clear that the concern was exaggerated, ‘social’ interests continue to call for better integration of the social and economic dimensions. A good example of this is the joint submission to the European Council from the European Trade Union Confederation, Social Platform (representing various social NGOs) and the European Environmental Bureau (2007), which calls for the PGJ to become more than “a business-friendly agenda of internal market and simplified regulation”. The submission argues for a ‘race-to-the-top’ in areas such as the environment, social cohesion and lifelong learning and champions an enhanced social dialogue. It notes that precarious work is inimical to social cohesion and advocates a greater focus on quality of work, and calls for a shift towards environmental taxes, coupled with greater investment in ‘eco-innovation’ as a potential source of employment and output.

Similarly, the political mood over the last year has swung behind demands for much more effective action to counter climate change. Yet although environmental objectives are encapsulated in Integrated Guideline 11 which is about encouraging sustainable use of resources, it is less obvious how environmental concerns fit into the shorter timeframe of Lisbon NRPs. Another longer-term policy priority that could be highlighted is how to respond to the health and labour-supply implications of population ageing.

#### **4.4 Institutional change**

In some respect, the arrangements for the governance of the PGJ are sufficient and, some member states might argue, already too heavy. Yet there remains an ambivalence about how ‘Lisbon’ should connect to other major economic governance strategies such as the Sustainable Development Strategy (SDS) or the new Energy Policy for Europe. The Stability and Growth Pact also continues to be a relevant instrument of governance and, formally, there is still a need for decisions about the Broad Economic Policy Guidelines and the Employment Guidelines, despite their being superseded by the Integrated Guidelines. Euro area members are still obliged

to submit annual stability plans, while non-members have to submit convergence plans, and the relationship of these plans to the macroeconomic component of the National Reform Programmes at the heart of the re-launched Lisbon strategy is not obvious. All of this is institutionally messy, although of limited consequence in practice.

More worrying is the fact that the boundaries between the various mechanisms of governance and the linkages between them are not without ambiguity, although it is clear that 'Lisbon II' is, in many respects, the big umbrella under which all the other processes shelter and is manifestly also the core political project of the current Commission. The Structural and Cohesion Funds have been 'Lisbonised' in the sense that at least 60% of their expenditure (more in richer member states) has to be on Lisbon objectives. Significant regulatory initiatives under the single market programme are identified as part of the Community Lisbon Programme.

Nevertheless, to take one example, the relationship between the PGJ and the SDS, both of which articulate key objectives of economic policy, is uncertain: the former stresses growth of output and employment, while the latter targets three pillars of competitiveness, social cohesion and environmental sustainability, as well as referring to the EU's international obligations. In agreeing the SDS in 2006, the European Council noted the risk that it could overlap with, and possibly be seen as competing with the PGJ, but argued that the two differed, implicitly assigning the PGJ the role of creating prosperity and employment, while the SDS is about quality of life. It could be argued that the PGJ is more about short- to medium-term goals, whereas the SDS establishes a longer-term vision of the form of capitalist development that the EU wants to pursue. But what is not clearly spelt-out is how possible inconsistencies in aims are to be reconciled.

### *The euro area*

There is, however, something of an institutional vacuum in relation to the euro area. Specifically, how the euro area as an entity should be dealt with as part of the PGJ is an issue that is coming to the fore. The obvious problem is that virtually the only two bodies with euro area mandates are the European Central Bank, which is not directly implicated in the Lisbon strategy, and the Eurogroup which, it should be recalled, is a forum comprising only Finance Ministers and their officials. Because it covers policies that are the responsibility of labour, industry and economic ministries (and possibly also those responsible for education, energy and transport), as well as their finance ministry colleagues, the PGJ manifestly has a wider reach than would routinely be covered by Eurogroup members.

The spring 2006 European Council's call for better co-ordination of policies within the euro area sets the agenda, but offers no clues about means or possible institutional reforms. As discussed above in section 1.1, there are diverging perspectives on the value of co-ordination, but if an intensification of co-ordination is to be countenanced, it is worth speculating on how it might be achieved and what it might imply. In particular, who should be expected to receive and act upon the 'fiche' addressed to the euro area prepared by the Commission services?

The simple – if not very illuminating – answer is that the euro area fiche goes, in the first instance, to the governments of the euro area, which are expected to act upon the messages in it. They are invited in the 2006 fiche to consider structural reforms that will ensure the 'smooth functioning of the euro area'. Here the question is whether euro area members need to think differently because they are part of the euro area or whether the same policies work regardless. One area the Commission highlights is financial market integration, while another is integration of services markets. The Commission, in a carefully crafted phrase, states that "the closer economic and financial interdependence generated by having a single currency makes it necessary for its member states to be more ambitious and for the euro area as a whole to go

beyond what is specifically required at the level of member states”. But where the fiche stops short is in canvassing possible institutional developments that would accelerate these aims, other than alluding to strengthening governance in the context of the Eurogroup.

The major problem in discussing euro area co-ordination is whether or not to contemplate forms of integration that exclude non-members of the area. Possible options might include:

- Pan-euro area regulatory bodies to oversee, for example, financial markets;
- A more extensive form of economic government than the present Eurogroup or
- Cross-border taxation agreements.

All of these options would encounter resistance both within the euro area and from outsiders. Moreover, differentiated integration is always a politically delicate and problematic answer. Yet if there is to be deepening of euro area governance, such changes may offer a way forward. Plainly this is a constitutional dilemma, as well as a challenge to economic governance.

#### 4.5 The 2007 spring European Council

At its spring 2007 meeting, the European Council notes in the Presidency conclusions that the Lisbon strategy “is contributing to the favourable overall economic upturn” and suggests that the EU employment rate can be expected to increase from the 64% recorded in 2005 to 66% in 2008. The conclusions also draw attention to the “mutually reinforcing” economic, employment and social developments.

The European Council calls on the Commission to prepare an interim report in autumn 2007 as a first contribution to the next set of Integrated Guidelines that will apply from 2008-11.

There is a standard plea for “a stronger sense of ownership by civil society, social partners, regions and local authorities, which are all key elements in the achievement of the objectives of the Strategy. In this context further efforts should be made in order to improve communication”.

The sections of the conclusions covering innovation and research are dominated by exhortations to member states to spend more on R&D, to use available instruments such as lead markets and standards to good effect, and to invest more in human capital. The new European Research Council is highlighted and the conclusions go on to mention two initiatives that are given particular prominence in the Presidency conclusions: first, the European Institute of Technology which the Parliament is called on to move forward; and, second, a proposed strategy for eco-innovations.

The broad assessment of the PGJ is limited to six pages, consisting of 20 paragraphs and containing little that can genuinely be described as novel. The conclusions then focus on two specific policy priorities: better regulation and, especially, the integrated climate change and energy policy. The latter is given as much space as the Lisbon strategy as a whole.

The Energy Policy for Europe (EPE) endorses the Commission’s proposals and will mean a focus on three main objectives: increasing the security of supply of energy; underpinning European competitiveness and keeping energy affordable; and contributing to the reduction of harmful emissions in the interests of combating climate change. The key commitment on climate change is a conditional one in which the European Council undertakes to reduce EU greenhouse gas emissions by 30% by 2020 (compared with 1990), “provided that other developed countries commit themselves to *comparable emission reductions* and economically more advanced developing countries to *contributing adequately* according to their responsibilities and respective capabilities” [emphasis added]. If other countries do not agree, the European Council makes a firm commitment to reduce emissions by 20% by 2020, although

because the starting point is 1990, this is less ambitious than it appears insofar as reductions by 2012 had already been agreed as ‘Kyoto’ targets. An immediate concern about this statement is that it raises questions about how to interpret what are manifestly ambiguous conditions and what happens if the conditions are not met. For example, would China and India be regarded as ‘contributing adequately’ if they were simply to slow the growth of their emissions? If the US balks at a target close to 30%, can the EU be content with the much softer 20% target?

The language used in the text on the emission targets is revealing: it refers to ‘burden-sharing’, rather than stressing the opportunities for the EU economy. A review of the emissions trading system is called for as part of the strategy, but the conclusions do not put forward explicit guidelines, for instance, for the degree of tightening in the system that should be attained. The conclusions are similarly vague about how transport systems should be improved to “increase their environmental performance”.

In endorsing the Commission’s proposal for a comprehensive energy action plan for the period 2007-09, the European Council does pave the way for tangible improvements, notably by quantified targets in a number of key areas. It is envisaged that a renewed action plan will be implemented from 2010 and, as a further measure, the Commission is invited to conduct a Strategic Energy Review in 2009. The upshot is that another economic governance cycle, with a different time period, has been added to the existing mix. While there is a good rationale behind each of the processes and their periodicity, there is also some risk that their proliferation and the lack of overlap in timing can undermine policy coherence.

The better regulation decisions largely reflect the Commission’s proposals, with the commitment in particular to achieve a 25% reduction in the burden attributable to EU legislation by 2012. In earlier communications, the Commission had pushed for the 25% target to apply to both the EU level and the member states.<sup>17</sup> The Presidency Conclusions recognise that there are “different starting points and traditions” and, in recognition of this, member states are invited “to set their own national targets of comparable ambition within their spheres of competence by 2008”. It is difficult to interpret what this will mean in practice and in particular how collective progress is to be assured. In this respect, the new target is similar to the 3% R&D target in offering no guarantee that the individually set targets will add up to the aggregate aim, and as the experience of the R&D target shows (see above), when several member states set targets below the collective one, it is an arithmetic certainty that the average will be below the objective. An additional complication is that a quantitative target for what is, essentially, a qualitative concept – ‘administrative burdens’ – is open to different definitions, if not outright manipulation. The Commission has agreed to undertake an exercise to identify and measure administrative costs, yet it also acknowledges that such costs are often necessary, for example to ensure consumer or worker safety. It may be that the Commission’s exercise can provide an empirically-founded basis for monitoring the burdens, but there must also be a risk of spurious precision.

## 5. Conclusions and recommendations

In the second annual cycle of the Partnership for Growth and Jobs, the strong expectation was that there would be a major shift from the ‘strategising’ that took place in 2005-06 to implementation. After the successive governance reforms in 2005, the system was expected to

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<sup>17</sup> Commission working document COM(2006) 691: “Measuring administrative costs and reducing administrative burdens in the European Union”; Communication from the Commission to the Council, the European Parliament, the European Economic and Social Committee and the Committee of the Regions; and COM(2006) 689: “A strategic review of Better Regulation in the European Union”.

settle down and show whether it was capable of delivering progress. There is a measure of agreement that progress has, indeed, been made and that a momentum for reform has been building, and, to this extent, **a first conclusion of this study is that the re-launched Lisbon strategy appears to be more successful than ‘Lisbon I’.**

The strategy no longer has the deadline of 2010 set by the European Council when it met in March 2000. Instead, it is orientated around three-year reform programmes, the second of which will need to be developed over the next 18 months. This new timetable has advantages in terms of focus, but there is a danger that it will mean that less attention is paid to the priorities and trade-offs in the longer term (notably, climate change and demographic challenges). **How to reconcile the timetables and orientations of the different EU ‘mega-strategies’ requires considerable thought.**

In particular, with climate change having risen up the policy agenda and the parallel concerns about energy supply, it would be valuable if the PGJ could be more directly linked to the re-launched sustainable development strategy. The danger of having too many overlapping (and, sometimes, contradictory) governance processes is evident. **But there is also a compelling case for bringing together the different elements of the emerging economic model into a coherent whole that does more than pay lip-service to the environmental and social dimensions.**

Striking a balance between evolution and consistency in the reform agenda is never going to be easy. By setting four priorities in 2006 and asking member states to achieve substantial progress on these by the end of 2007, the European Council could have distracted governments from other facets of the 24 Integrated Guidelines. Today, one of these four priorities, energy policy, seems to be especially prominent on the policy agenda and proved to be the main focus of the spring 2007 European Council. **It will be important not to lose sight of the original reform agenda.**

An encouraging sign is that the extent of imbalances between the EU economies may be attenuating, although there are still striking disparities in growth rates. Germany’s recovery, especially, has been important in this respect, although the continuing travails of Italy are a cause for concern. These differences can be attributed to either structural factors or to catch-up (in the case of the EU10) rather than significant cyclical divergence, and the report also notes that the relative performance of different member states has broadly been maintained. But, as the contrasting pictures on imbalances in growth and in external accounts presented in section 2 show (Figures 2.2 and 2.3), the immediate economic prospects may not improve greatly. **The relatively favourable economic position at present can facilitate the pushing through of reforms in a context of reasonable growth and low inflation and member states should guard against missing this opportunity, as happened in 2000.**

Structural reform is a slow process which requires policies that are applied consistently over time, but which are also flexible enough to confront new challenges. Care has to be taken to avoid extensive shifts in policy – especially if they represent changes of tack or new approaches – as they can often result in confusion and may leave behind unfinished business in areas that are out of the spotlight. Equally, inadequate policies need to be corrected in a timely manner, and it is noteworthy that some member states have recognised that their NRPs were unsatisfactory and have taken steps to improve them, a development that is to be welcomed. Implementation is, however, also about learning by doing and **member states should be encouraged to be constructive, rather than defensive, about peer review and exchange of experience.**

The Community institutions (the Commission in the first instance, but also the Parliament, the Council – in its different configurations and through the Economic Policy Committee and the

Employment Committee – and the European Economic and Social Committee, especially in its role as the voice of civil society) have to be as explicit as possible in their assessments and recommendations. Traditional Committee structures and formations may, however, not always provide the best way of conducting such scrutiny, precisely because the reform agenda integrates previously disparate sectoral policies. **All the Community's institutions have a part to play in the scrutiny of the Partnership for Growth and Jobs and should review their internal configurations in the light of the PGJ focus to ensure that they enhance the effectiveness of their oversight.**

The PGJ is not just a technocratic exercise in identifying detailed policy changes, but is also a political strategy to place reform at the heart of economic governance. As such it can only work if there are corresponding commitments at all levels. It is for this reason that 'ownership' is seen as a vital element in making the strategy work. The Commission, in its latest annual report, acknowledges that there is still some way to go in this regard, and a number of the experts interviewed in the course of this study have been markedly less sanguine. It is hard, though, to find much evidence in many member states that the Lisbon strategy is seen as anything other than a remote, if well-meaning, set of procedures, understood only by Brussels officials and a small number of their national counterparts. Some efforts to alter perception have made a difference; for example the dialogue between the European Parliament and national parliaments is seen as a positive development. But much more needs to be done. To make it more effective, the obvious conclusion to draw is that **all actors engaged in the Lisbon strategy have to rise to the political challenge of making it relevant in national debates about economic policy.**

A particular concern is that the PGJ has acquired a negative image in some countries which call into question the merits of economic reform. **This implies greater efforts to communicate what the strategy is, why it matters and the scope it requires in order to create the jobs and economic activity of the future.**

The Partnership for Growth and Jobs has achieved the bulk of what was expected of it in procedural terms, and it is reasonable to say that as an approach to economic reform it is more coherent than the original Lisbon strategy and can become a better system for economic governance. Moreover, the fact the various forms of co-ordination of social policy are also now better integrated promises to make the social dimension more relevant than it appeared it might be in March 2005. But the whole package now faces the acid test of whether it is genuinely making a difference to the outcome and on this question the jury is still out. **In the next year, a much greater emphasis is needed on demonstrating that the effort devoted to the Lisbon strategy is being translated into reforms, and that these reforms, in turn, are improving well-being in a manner that will be understood and recognised by citizens.**

One aspect of the procedures that has not proceeded as planned and which therefore remains unsatisfactory are the Lisbon co-ordinators that each member state is supposed to nominate. Although progress has been made to the extent that each member state has named co-ordinator, the list is very diverse, with some countries naming high-ranking politicians while others have filled the post with a civil servant. Nor is it clear what the core purpose of these co-ordinators is, which not helped by the fact that they only meet as a group twice a year. Their meetings offer a channel for exchange of experience, but they do not seem to contribute to peer review. The conclusion drawn is that **arrangements for national Lisbon co-ordinators are unsatisfactory and what could be a potentially important channel for raising the visibility of the PGJ is not being adequately exploited.**

In terms of the list of actions taken, the Community Lisbon Programme appears to be well on course. For a number of its elements, the baton has been passed from the Commission to the Council and the European Parliament for the next stages of implementation. **Since the**

**Community Lisbon Programme contains agreed actions at Community level, it is incumbent on all the Community institutions to expedite the completion of its measures.**

Two initiatives that the Commission highlights in its Annual Progress Report as major additions to the CLP are the Globalisation Adjustment Fund and the European Institute of Technology (EIT). The former will have an annual budget of €500 million, but the criteria for allocating even this limited amount of money are not very transparent. The EIT proposal has progressively been watered down from the original concept of emulating the Massachusetts model, and has now been recast as a ‘virtual’ institution. Informed insiders now speculate that it might quietly be killed-off. **Tough questions should be asked about whether these two proposals are really the best way of showing that the CLP remains dynamic.**

The restoration of recommendations to member states is to be welcomed. However, the nature of these recommendations can be improved. Member states have resisted explicit naming and shaming and this seems to have meant that the phrasing of recommendations has had to be cautious on the part of the Commission. While not advocating the public pillorying of member states that fall short of their reform ambitions, it would be better if the recommendations could be more specific and pointed in character. **One means of achieving this would be for member states to be invited to set their own targets for a range of key objectives, enabling their progress to be monitored in a way that is more subtle than crude naming and shaming based on collective targets.** It is also questionable whether there have to be recommendations to all member states, despite the attractions of appearing to be even-handed. On the contrary, it could be argued that if part of the aim of the national recommendations is to give momentum to reform, then external pressure can be useful, if embarrassing at times. **A further proposal from this study is that recommendations under the Integrated Guidelines should be limited to those member states for which the advice can be expected to result in specific changes.**

From many sides there is now a greater willingness to acknowledge that the euro area in its entirety, as well as the individual states that are full participants in it, has to be seen as a player in the Lisbon strategy. Although the impact of higher energy prices has made it difficult for some of the booming EU-10 countries to achieve inflation rates consistent with euro area membership, this effect will unwind as oil prices stabilise. It will not, therefore, be long before other member states queue up to join Slovenia in acceding to the euro area. This prospect reinforces the urgency of finding ways of improving the co-ordination of the euro area economies and, by doing so, creating the tools needed to achieve an optimal policy mix. **Therefore, a recommendation is to search for ways of developing better co-ordination of economic policies across the euro area as a whole.** Institutionally, this means going beyond the remit of the Eurogroup to encompass economic policy actors other than finance ministers, and possibly also countenancing differentiated solutions.

In the course of the coming year, preparatory work towards the review of the EU budget due in 2008-09 can be expected to accelerate. It is generally recognised that the paucity of Lisbon-related budgetary allocations is a weakness and the coming review will provide scope for fresh thinking on how EU spending can contribute more extensively to the goals of the PGJ. **A recommendation of this study is that the review should focus on what sorts of Community spending on authentic EU-level public goods will boost the prospects of advancing economic reform.**

The first steps towards new Integrated Guidelines for the period 2008-11 will be taken in the second semester of 2007. In the light of the criticism expressed in colourful terms by one official consulted in the course of this study, that the present IGs are simply the former Broad Economic Policy Guidelines stapled together with the Employment Guidelines, this will be an opportunity to ensure genuine integration of reform frameworks. The aim should be, above all, to achieve greater coherence between the employment-creating and productivity-enhancing

dimensions of reform. All actors are urged to start thinking about how the new Guidelines should be structured, how 'integration' can genuinely be achieved and what they should contain. Two further directions for change should be considered:

- First, debate is needed on whether an explicit guideline covering social inclusion and related social aspects of policy co-ordination at the EU level should be introduced. If such a proposal does attract support, it will be important not to dilute the present coherence of social policy co-ordination through the open method, but rather to envisage a possible new, complementary guideline.
- Second, it is evident in many member states that there are shortcomings in the quality of public administration and certain public services. In some cases this results in inefficiencies that hamper improvements in growth and jobs. Consequently, an additional guideline covering these areas should be countenanced, possibly linking it to recommendations on the quality of public finances, but with a primary focus on public-sector efficiency.

**A last recommendation is that a means should be found to reconcile the Lisbon Agenda with the other major strategies and imperatives at European level, including sustainable development, energy policy and coping with ageing.** A leading role in this regard needs to be taken by the European Council as the sole body that has an overarching role in the respective strategies, but it is also vital that the European Parliament is actively engaged.

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## Glossary of acronyms

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APR	Annual Progress Report [of the European Commission]
BEPG	Broad Economic Policy Guidelines
CLP	Community Lisbon Programme
ECB	European Central Bank
EESC	European Economic and Social Committee
EG	Employment Guidelines
EMCO	Employment Committee
EPC	Economic Policy Committee
EPE	Energy Policy for Europe
EIT	European Institute of Technology
IG	Integrated Guidelines
MMF	Multi-annual Financial Framework
NRP	National Reform Programme
NSR	National Strategy Report (covering Social Protection and Social Inclusion)
OMC	Open method of co-ordination
PGJ	Partnership for Growth and Jobs
SDS	Sustainable Development Strategy
SGP	Stability and Growth Pact
SME	Small- and medium-sized enterprise
WEF	World Economic Forum