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Lisbon relaunched

What has changed? Is it working better?

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Abstract

In March 2005, the Lisbon strategy was re-launched as the Partnership for Growth and Employment and is now seen by many as the core 'project' of the Barroso Commission. The new approach has a number of innovations, notably the bringing together of previously fragmented policy-coordination mechanisms into a single National Reform Programme (NRP) for each member state, based on integrated guidelines agreed at the EU level. These programmes are complemented by a new Community Lisbon Programme (CLP) that embraces a range of Community policies.

This report presents an assessment of the first year of the new approach, focusing on the changes in economic governance and whether these can be expected to improve the shortcomings identified in the Kok report and elsewhere, as were evident in the first five years of the Lisbon strategy. The report offers an overview and a critique of the NRPs and the CLP, and discusses how they could be made more effective, drawing on both original research conducted in the course of the study and assessments carried out by the Commission and other bodies. Key weaknesses identified are that the strategy continues to lack visibility in political discourse, that it is too prone to changes in priorities and lacks either means of support or effective sanctions. Options for improving the strategy are then discussed and the report puts forward a series of recommendations for enhancements.

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Executive Summary
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1) The Lisbon strategy, launched at the European Council held in the Portuguese capital in March 2000, had ambitious goals to catapult the EU economy onto a new path of growth, based on the knowledge economy, while emphasising the need to enhance social cohesion. Yet the widely-held view is that the strategy failed to deliver, drawing criticism especially for deficiencies in its governance arrangements.

2) A re-launch of the strategy was thus agreed at the March 2005 European Council and the different elements of the new strategy have been put in place over the last year. The renamed strategy for growth and employment, reflecting the priorities of the European Commission under President José Manuel Barroso, seeks to enhance the governance of the Lisbon strategy, to engage member states more extensively and to impart a new momentum to economic reform.

3) There are several key innovations. First, in principle 'Lisbon' has become a more comprehensive yet focused approach to economic governance. Second, the different domains of policy are to be more integrated, while also being strategic in character. Third, by obliging member states to develop a single National Reform Programme (NRP) that cuts across policy boundaries, the intention is to instil greater coherence in the policy-making process and to promote 'ownership' and engagement by economic actors. Fourth, the new strategy has been conceived of as a partnership between the national and Community levels in advancing economic reform.

4) As an exercise in economic governance, the Lisbon strategy is complemented by the stability and growth pact (also reformed in 2005) along with other mechanisms and strategies, some of which may give rise to clashes of priorities. For example, the need to curb public deficits might deter actions with tangible fiscal costs that might be expected to promote Lisbon objectives, such as more spending on R&D or reduced taxes on labour. Therefore, short-term fiscal constraints might result in sub-optimal Lisbon decisions.

5) The purpose of this study is to report on the implementation of the strategy over its first year (2005–06) and to put forward to the European Parliament possible recommendations for its enhancement that the Parliament may wish to pursue.

Economic performance: The backdrop to the strategy

6) The backdrop to the reform agenda is the lacklustre economic performance in recent years. Since the year 2000, EU growth has attained barely half the 3% rate upon which the Lisbon strategy was predicated and the unemployment rate in the EU as a whole has struggled to fall much below 9%. Slow growth has also contributed to the problems that several countries have had in consolidating public finances.

7) Although there are pronounced differences between member states in key economic indicators, it is also noteworthy that the three largest member states in the euro area are among the laggards, dragging down the economic performance of the euro area as a whole. On the other hand, nearly all of the EU-10 member states have been performing well.

8) Employment rates held up quite well during the downturn of the early years of this century, but at the expense of stagnating productivity growth that has seen the productivity gap between the EU and the US widen again after decades of convergence.

9) There are also growing macroeconomic imbalances reflected in strong current account surpluses in the Netherlands, Germany and Sweden, offset by large deficits in Spain and many of the EU-10 countries. Inflation remains low and may no longer be the threat that it was in the late 1980s or early 1990s, although rising energy prices may cause some tensions.

Content of the re-launched strategy

10) The NRPs and the Community Lisbon Programme (CLP) are at the heart of the re-launched Lisbon strategy and, following the agreement at the spring 2005 European Council and the adoption at the June European Council of the 24 integrated guidelines, were all developed more or less on schedule, except where national electoral cycles led to minor delays.

11) Subsequent stages of the annual cycle have also proceeded on schedule, with scrutiny of the NRPs taking place by January. This assessment was followed by the publication of the European Commission's annual synthesis report and its comments on individual member state NRPs, culminating in the spring 2006 European Council at which the strategy was reviewed.

12) The CLP, set out in July 2005, contains a wide range of proposals representing the different areas of Community competence, such as research, the internal market and regulatory simplification. Much of what is in the programme can, however, be regarded as 'business as usual' rather than new initiatives, although it can be argued that bringing them into a single programme gives greater coherence.

13) NRPs vary considerably in content, style and aspirations. Some refer very directly to the integrated guidelines, setting out how each will be addressed, while others barely mention them. There are also signs that some integrated guidelines are more popular than others are, with all the member states keen to promote research.

14) NRPs also differ in the extent to which they announce new initiatives or highlight existing measures that correspond to Lisbon priorities, and several NRPs have attracted criticism from different quarters because of their lack of new measures. The programmes of some member states can also be adjudged to be much more ambitious, though in some cases perhaps unrealistically so.

15) In some member states the consultation of social partners, the national parliament and other interests has been extensive, while in others it has been pretty limited. Since fostering national ownership of reform programmes has been highlighted as a key defining characteristic of the re-launched strategy (hereafter, 'Lisbon II'), this evidence of uneven engagement of stakeholders in developing NRPs is a potential weakness. There is a parallel concern that the visibility of the Lisbon agenda in national politics is slight in many countries.

Assessment of the first year of Lisbon II

16) Scrutiny of national plans has been carried out, separately, by the Economic Policy Committee, the European Commission and the Economic and Social Committee, as well as by various independent bodies. These exercises draw attention to shortcomings (or in certain cases blatant omissions) in some member states' programmes and put forward recommendations for enhancement.

17) As a deliberate political choice, most attention in this first year of Lisbon II has been on the broad direction of member states' strategies, rather than questions of implementation or, indeed, results. This focus also helps to explain why scrutiny has been rather restrained.

18) The Commission (especially) has also apparently made a further political choice to express its views mainly in supportive rather than critical terms. This approach can be defended in the first years of a new process in which the emphasis is on assuring that the strategic goals are right, but carries the risk that member states will take the wrong political messages from the scrutiny.

19) The original Lisbon strategy ('Lisbon I') was very much an inter-governmental process in which the Commission and the European Parliament were somewhat marginalised, and in which the open method of coordination (OMC) was the primary governance mechanism. OMC is still part of the process, but the increased partnership between the member states and the Community level has altered the mechanisms.

20) One of the purposes of the strategy is to stimulate the exchange of experience among member states. In future years, Lisbon II should generate evidence on what works well and what has been problematic. Because the programmes submitted in 2005 concentrated on the strategic response, there is only limited information on such evidence this year.

21) In assessing the first year of Lisbon II, one over-arching verdict could be that the re-launch of what had become a moribund process of policy coordination has gone well and that a sound platform has been built for future years. As the 2005–08 programmes move from strategy to implementation, they will be more fully tested, but the outlook can be considered promising, not least because of a broader political consensus on the necessity of making the strategy work.

22) A more pessimistic alternative, which reflects criticisms from different quarters, is that a major opportunity for enhancing EU economic governance has been missed and that politically expedient decisions were taken that have undermined the capacity of Lisbon II to deliver. The absence of 'naming and shaming' and a lack of financial resources for Lisbon-related tasks are mentioned in this regard, and critics also point to the lack of customised recommendations for individual member states. An extreme view is that the re-launch has simply wasted a year by focusing again on what needs to be done rather than actually doing it.

23) Rather than trying to arbitrate between these two broad assessments, it is arguably better to recognise that there is substance to both and that much remains to be settled if Lisbon II is to achieve its ambitions. The corollary is that the next stages are crucial, so that it is worthwhile to look at the scope for furthering the reform strategy.

Scope for further reforms

24) As a governance process, the Lisbon strategy has to adapt with the times while also being sufficiently consistent to ensure that member states persevere with reform policies, not least when difficult choices have to be made and change engenders stiff opposition. From a governance perspective this creates the dilemma that there are always going to be demands for changes to the strategy, yet the medium- to long-term character of the objectives mean that it must remain focused.

25) Supply-side reform takes time and persistence. The initial impact may often be depressing to growth or employment, but provides a platform for subsequent improvement. In addition, structural reform tends to be cumulative, with the prospect of individual reforms

reinforcing one another, though equally of piecemeal changes having less impact than a concerted programme. Timing and sequencing are thus of the essence. Often, too, the political or distributive choices that lie behind reform strategies are given only limited attention.

26) One problem, perhaps surprisingly, is that the underlying rationale for the Lisbon strategy is not very well articulated. The challenge is not so much whether the needs in terms of reform can be identified, as whether there is added value in embedding national reform strategies within an EU process.

27) The arguments for doing so are that there may be spillover effects from one country to another, that there are opportunities to learn from each other and that the mere fact of common commitments may give governments strength to persevere. In the euro area especially there may also be a connection between the trajectory of reform and monetary policy that can justify a common approach. Yet the case can often appear tenuous.

28) It is important to stress that the combination of the reform of the stability and growth pact, the re-launch of the Lisbon strategy and the settlement of the financial perspective for 2007–13 adds up to a far-reaching reform of the economic governance of the EU, even if there are grounds for criticism of the outcomes of each of them.

29) Nevertheless, there is a proliferation of proposals for further reform of the Lisbon strategy, ranging from calls for a greater engagement of civil society, through proposals for all kinds of specific initiatives, to calls for the demand side to be better integrated.

30) It can certainly be argued that weak demand has been a problem. Although six of the integrated guidelines are macroeconomic, they are principally focused on the achievement of ‘sound’ and stable policy. Recognising that reform tends to be easier in a growing economy (or conversely, one in deep crisis) it is frequently suggested that demand-side policy may be one area in which a better balance in the economic governance of the EU could be envisaged.

31) Further efforts to boost research and innovation are seen as desirable. The Aho report puts forward a number of suggestions, all of which seem soundly based, to enable the EU to bridge the gap between the often articulated aim of developing a knowledge-based economy and the reality of institutional structures and attitudes that inhibit change.

32) Yet it is also important to be realistic about the capacity of different parts of the EU to be leaders in research and knowledge-based industries and to be wary of a beauty-contest mentality in which all member states feel obliged to put forward ambitious statements on R&D. There are also risks in insisting that cohesion policy must dovetail closely with these imperatives, even if the regions in question are poorly endowed from a research perspective.

Conclusions and recommendations

33) With a new strategic framework in place, the challenge is to move on to the conduct of policy. It also has constantly to be repeated that the principal difficulty confronting most EU economies – as it manifestly was in Lisbon I – tends to be less one of diagnosis or analysis, than of effective implementation of reform.

34) A first key message is that the disparities in economic performance among the EU-25 member states remain alarming and it is broadly agreed that the main explanation for the differences between countries in growth rates is structural rather than cyclical factors. It may also be that various structural factors, including population ageing, are affecting growth potential unevenly among the member states.

35) It is important to draw attention to what these trends portend: in just a few years' time, there could be a significant re-ordering of the league table of EU prosperity. There is also a risk that a sharp focus on some targets (such as the employment rate) will divert attention away from other, more complex aims such as boosting productivity. A further problem is that some of the underlying challenges confronting the EU – such as population ageing or globalisation – are becoming more acute.

36) The Commission's title for its 2006 Annual Progress Report was well chosen. *Time to Move up a Gear* is not just an appropriate metaphor for increasing the pace, but also for shifting to the next stages of reform. Strategic issues can now be regarded as largely settled and further tinkering with the strategic orientations of the Lisbon strategy should be resisted in favour of ensuring that what is in place delivers. A sense of urgency about implementation is now needed.

37) Some member states have very ambitious reform programmes that can be expected to affect major changes in their economies, while some NRPs are disappointing. Member states with flawed NRPs should be pressed to remedy such flaws as rapidly as possible and the Community institutions, including the European Parliament, should be more assertive in pointing out weaknesses in member state NRPs.

38) It is important to recognise that the Lisbon strategy is a political challenge as much as (if not more than) an exercise in policy coordination and to succeed it needs to become better embedded in the routine national discourse on policy-making. To do so, carrots and sticks need to be re-thought and, although explicit 'naming and shaming' has been rejected in Lisbon II – at least so far – a priority must be to raise the awareness and political salience of economic reform.

39) A review of the Community budget will take place in 2008–09 and it affords an opportunity to revisit the role of the Community budget in the Lisbon strategy. Careful thought is needed on this matter and it is recommended that the European Parliament should take a lead in developing new proposals for supporting Lisbon-related expenditure through the Community budget.

40) There is no magic bullet that will transform the situation; instead, a series of small steps involving a mix of enhanced communication about aims, increased transparency of the policy process and a progressive building up of expectations is needed. As one of the key actors in the political process, the European Parliament is urged to intensify its efforts to raise the quality of public debate on economic reform and to mobilise other stakeholders.

41) Although Lisbon has arguably suffered from a proliferation of action plans, it can often be valuable to launch initiatives that capture the imagination of economic actors and citizens and have a catalytic effect. The recently published Green Paper on energy sets out a range of measures that offer such an opportunity. The Green Paper seeks to combine solutions to evident problems in energy supply and use with a modernising viewpoint that can be captured in the expression 'smart growth'. The essence of this approach is to give priority to investments that exploit and advance new, cleaner technologies in a way that not only contributes to the resolution of environmental problems, but – vitally – also boosts European competitive advantage in these new technologies.

42) The economic agenda will inevitably move on and the four priorities arising from the October 2005 European Council meeting at Hampton Court reflect this. Care is needed however, in keeping Lisbon II focused if the reform effort is not to be dissipated. There is no easy solution to this dilemma, but the risks of overloading Lisbon need constantly to be monitored.

43) In the sequence of reform, an open question is how far to go in customising the Lisbon strategy, notably by a return to country-specific recommendations. There are arguments on both sides, but rather than calling for a clear choice to be made, the European Parliament should lead debate on the circumstances and the form in which nationally-tailored recommendations could be most useful.

44) Scoreboards or other means should be sought to highlight deficiencies in member state implementation that fall short of the kind of public humiliation that is implied by the expression 'naming and shaming'. It is in the political domain that these questions are best resolved and it would contribute to better governance if the European Parliament could fulfil a more extensive role in monitoring member state progress. If it is to fulfil such a function effectively, the European Parliament needs to adapt to regard Lisbon as 'our' business and not just 'your' business.

45) For many of the economic policy areas covered by the Lisbon strategy, the partnership between the Community level and the member state level is wholly appropriate. Yet there may be some aspects of economic governance where it makes more sense for the euro area to adopt a collective position. The problem, though, is to define how the euro area could be represented institutionally for this purpose. It is therefore recommended that the European Parliament's Economic and Monetary Affairs Committee should explore options for the euro area, collectively, to be engaged institutionally in the Lisbon strategy.

46) Although the consensus is that the re-launched Lisbon strategy *is* now more coherent and that there is a greater engagement of national policy-makers to make it work, it remains fragile because it has such shallow roots in national discourse. To answer the rhetorical questions in the title of this report, rather more has changed than some might believe, and positive, if often small, steps have been taken. Yet the onus is now on all actors to go further before a convincing verdict can be pronounced on whether it is working better. What is clear, though, is that it will be a long march.

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1. Overview of the new approach

When it was launched at the March 2000 European Council, what has come to be known as the Lisbon strategy articulated the ambition of making Europe the most competitive and dynamic knowledge-based economy in the world, although it is important to recall that the Presidency Conclusions also emphasised employment and social cohesion. In recent years, the EU has developed a variety of mechanisms for economic policy coordination and the Lisbon strategy could be seen as adding to these. These mechanisms employ varying approaches that can be differentiated along a number of dimensions: hard or soft law; treaty-based or inter-governmental; use of sanctions or incentives; the degree of involvement of the European Commission; and the character of the procedures used to monitor, assess and steer member state policies. As a generalisation, hard law, sanctions and Commission involvement go together, while soft law, an inter-governmental approach and an absence of incentives form a second cluster.

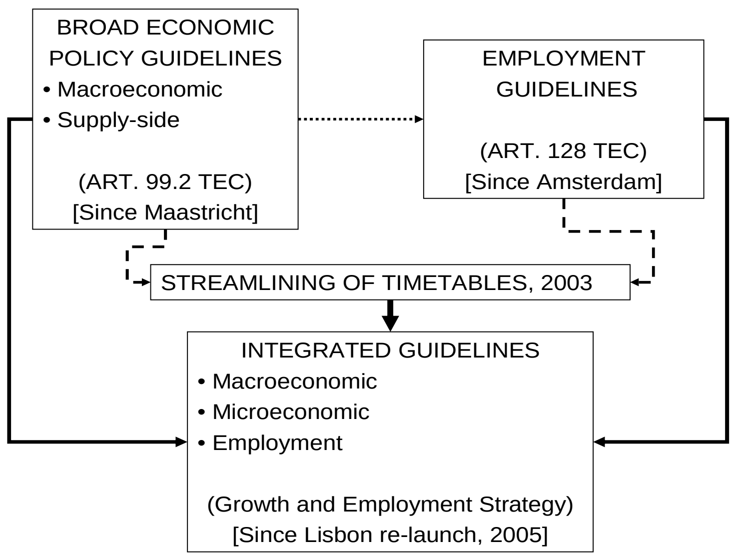
Confusion about the aims of the different coordination processes and a lack of political engagement by member states or of means of motivating them has raised doubts about whether coordination can be effective. Moreover, it can be argued that in the first five years of the strategy, the role of the European institutions, especially the Commission, was too vague. According to the Lisbon Presidency Conclusions, "The Union's role is to act as a catalyst in this process, by establishing an effective framework for mobilising all available resources for the transition to the knowledge-based economy and by adding its own contribution to this effort under existing Community policies" (European Council, 2000, para. 41). Yet it has always been unclear how the Union should carry out this role, whie the financial resources available to support such a contribution from the EU budget were, and are set to remain, limited.

Criticism of the weak governance of the Lisbon strategy and dissatisfaction with the lack of progress in the previous five years, combined with an inauspicious macroeconomic setting, led most observers to conclude that in too many respects the Lisbon strategy has not been delivering. In response to these perceived shortcomings and reflecting its broader aims and priorities for the EU, the new European Commission under President José Manuel Barroso put forward plans for a fresh start, endorsed in March 2005 by the European Council. March 2005 also saw the reform of the stability and growth pact in a direction that seems to give more weight to political discretion in its application.

The March 2005 re-launch of the Lisbon strategy unveiled changes in several of its key features. First, 'Lisbon' has become a more comprehensive approach to economic governance that encompasses a range of supply-side policies. At the same time, while maintaining some continuity, the focus on growth and employment has implicitly reduced the prominence of social and environmental aims. As a process of EU policy coordination it has evolved to become a partnership between the Community and member state levels and less of a loose agreement among member states. A Community Lisbon Programme (CLP) setting out what the EU level will do to attain the strategic objectives complements national actions in this partnership.

Second, from a procedural standpoint, the integration of policy that had already been a feature of the 2003 'streamlining' reforms has now been taken significantly further, constituting a second shift in approach – see Figure 1. The new integrated guidelines bring the broad economic policy guidelines (BEPGs) and the employment guidelines together into a single set of recommendations. These comprise six macroeconomic guidelines that correspond largely to what were the fiscal elements of the BEPGs, ten microeconomic ones that incorporate elements of the original Lisbon goals, the Cardiff process and the supply-side BEPGs, and eight on employment that show an obvious lineage from the 2003 employment guidelines.

Figure 1. The evolution of guidelines in economic governance



Third, the consolidation of member state responses into a single National Reform Programme (NRP) 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. As a result, it is expected that there will be a less-fragmented political and administrative 'ownership' of the different policy areas. Within the European Commission, too, responsibilities are now more widely distributed, with a prominent role now being taken by Directorate-General (DG) for Enterprise and Industry under the overall coordination of the Secretariat-General.

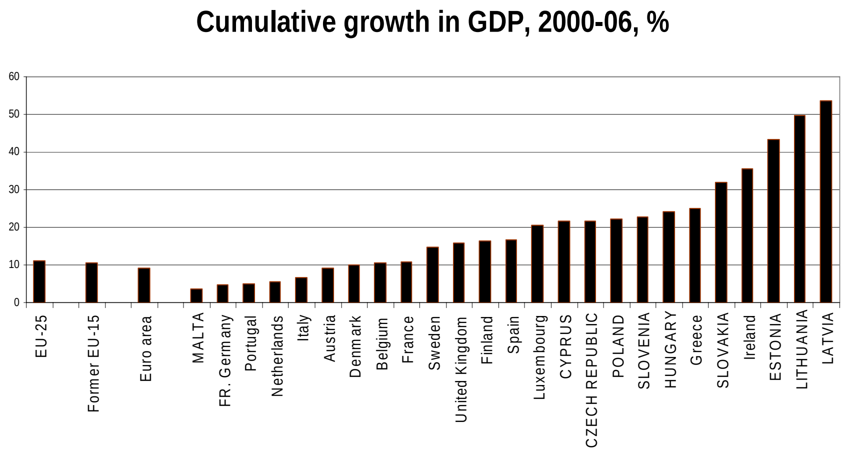
Fourth, the intention is that the Lisbon reforms should become more central in national economic debates, to both engage the full range of stakeholders and reinforce accountability. The ambition is that the Lisbon framework should motivate and orientate national supply-side policies and that these should be open to more explicit scrutiny within the member state.

1.1 The Lisbon strategy in context

As an exercise in economic governance, the Lisbon strategy manifestly does not stand alone. The stability and growth pact was also reformed in 2005 and a review of the sustainable development strategy over the last year culminated in a formal agreement of a revised version of the latter at the June 2006 European Council. The implication is that there are three distinct coordination processes targeting growth, with the prospect that conflicts in priorities could sometimes arise. For example, it might be expected that the need to contain public deficits might clash with Lisbon objectives that call for increased public spending, such as boosting R&D, or imply lower public revenue, such as reducing taxes on labour.

The EU economy, especially the member states that many regard as the core of the euro area, has been in the doldrums for many years. As revealed in Figure 2 (which shows the fastest and slowest growing member states among the EU-15 and EU-10, the latter labelled in capital letters on the chart), cumulative euro-area growth during 2000–06 was just below 10%, a rate that is derisory by the standards of the post-war period. While a small number of euro area economies, such as Ireland and Greece, have continued to post respectable growth rates, the hard fact is that the majority have not and the disparities are staggeringly large. This record is both debilitating for the ambitions articulated in so many strategic initiatives, including the 3% per annum growth rate on which the Lisbon strategy was predicated, and incompatible with making inroads into persistently high unemployment.

Figure 2. Growth rates in the EU



Source: AMECO database

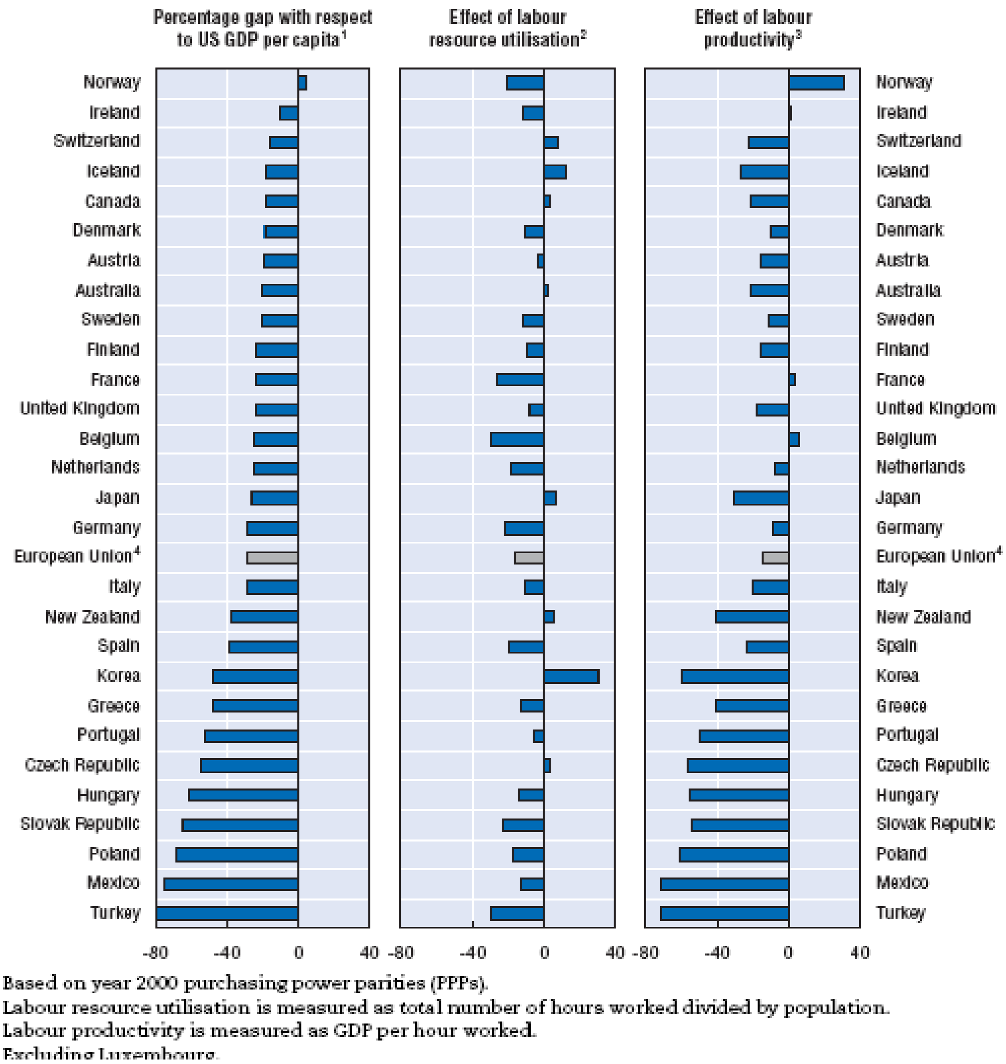
What could be at stake in a successful Lisbon strategy is considerable. A study for the European Commission's DG for Enterprise and Industry by Gelauff & Lejour (2006) suggests that if member states are able to achieve five of the key Lisbon goals by 2010, GDP could be between 12% and 23% higher, and employment up to 11% higher. The study uses an applied general equilibrium (CGE) model to simulate the effects of achieving the following aims: raising spending on R&D to the 3% of GDP target, opening the internal market for services, reducing the regulatory burden, improving human capital and attaining the employment rate targets. As in any CGE modelling exercise, the results depend on the assumptions built into the model and the choices of parameter values and, as with the studies in the 1980s of the benefits of the single market (summarised in the Cecchini report), the findings have to be treated with caution. Still, they do at least signal the magnitude of potential gains.

1.2 Economic performance

The nature and magnitude of the economic problems confronting the EU can be highlighted by considering a number of trends and indicators. Growth has slowed markedly in the last decades and shows little sign of a robust recovery. An illustration of the change in the macroeconomic environment is that a forecast for EU-25 GDP growth of 2.3% in 2006 and of 2.2% in 2007 is considered by the European Commission to be encouraging. Indeed, the press release accompanying the spring 2006 Commission forecasts[1] states that "growth is expected to rebound in 2006" – even though the **average** for the EU-15 during the 1980s was 2.4% and in the 1990s was 2.1%. Although employment has risen in recent years, it has been partly at the expense of low productivity growth and the upshot is that EU GDP per head in recent years has started to fall further behind that of the US, rather than converging as in earlier decades. Indicators for the euro-area real economy continue to be below the EU-25 average, with growth forecasted to be 2.1% in 2006 and 1.8% in 2007.

For most EU member states, the main reason for the lower GDP relative to the US (as can be seen from Figure 3, based on data presented in a recent study by the OECD, 2006) is that the annual hours worked are lower, whereas some EU countries continue to exceed US productivity levels.

Figure 3. Sources of growth



Source: OECD (2006).

[1] This data is derived from the Commission's macroeconomic forecasts published on 8 May 2006 (European Commission, 2006d).

Nevertheless, the performance of the labour market has been rather more encouraging than might have been expected given the slow GDP growth. In its spring 2006 forecasts, the Commission notes that the "labour market has proved more resilient in the last economic slowdown compared with earlier cycles" and draws attention to the peak of unemployment at 8.9% in 2004. The Commission also comments on the fall in long-term unemployment and the apparent improvement of the capacity of the labour market in the matching process.

Inflation does not seem to have accelerated as a result of the surge in oil prices since 2003 and there is no evidence of the sort of secondary knock-on effects that occurred following the oil price shocks in the 1970s, leading to rising inflation. Although the Commission is critical of the weakening of fiscal discipline, an objective judgement would have to be that the fiscal positions in most member states continue to be reasonably sound, although a minority of member states do have vulnerabilities that will require attention. In particular, countries (such as Germany) that have low nominal GDP growth and relatively high levels of public debt face uncomfortable budgetary arithmetic if they are to maintain sustainable public finances (see Box 1).

Box 1. The sustainability of public finances

The Maastricht convergence criteria of 3% public deficit and 60% public debt could be regarded as consistent with stable public finances so long as nominal GDP growth was greater than or equal to 5%, roughly the average values for these variables at the time the criteria were announced. The increase in the nominal value of government debt stemming from the 3% deficit is offset by the increase in the nominal value of GDP with the result that the debt-to-GDP ratio remained constant. Thus from a starting position of a debt stock of 60% of year 1 GDP, the debt stock would increase from 60 to 63 as a result of there being a 3% deficit, but GDP – the denominator of the ratio – would rise from 100 to 105. The ratio of 63/105 is still 60% and is therefore stable.

When nominal GDP growth is lower, however (as is the case at present for several euro area countries), whether because of slow growth in real GDP or lower inflation, the deficit consistent with maintaining a stable debt ratio also has to be lower. To maintain a debt ratio of 60% when nominal growth is 3% (made up, say, of 1.2% inflation and 1.8% real GDP growth), the annual deficit would have to be limited to just under 2%; when a deficit is any higher the debt will tend to increase.

If, in addition, the country in question has to provide for future pension claims, it will have to target a progressive improvement in the debt position, implying a smaller deficit (or even a surplus) than would otherwise be required for immediate debt stabilisation.

Conversely, for the rapidly growing economies, especially among the EU-10, rapid real growth and above-average inflation rates combine to give nominal growth rates, some way above 5% in several cases. For these cases, the budgetary arithmetic is more favourable from the perspective of debt stabilisation.

At the member state level the impact of stagnating domestic demand is most pronounced in Germany, Italy and Portugal (among euro area countries) and Malta, for all of which the Commission's spring forecasts show the weak growth in 2006 slowing again in 2007. Although the Dutch economy appears to be recovering after five years of stagnating domestic demand, while Spain and Ireland, as well as most of the non-euro area countries continue to exhibit strong growth, the sheer weight of Italy and Germany in the total has dampened the EU-25 recovery. In Germany's case, a contributory factor has been the squeeze on government consumption deemed necessary to ensure the consolidation of public finances.

Investment looks more encouraging with a pronounced pick-up from the low levels seen in the period 2002–04. Even so, the latest estimates show that Germany, Italy and Portugal all endured a fall in investment in 2005, and can expect only moderate growth in 2006 and 2007. Much higher rates of investment growth are expected in the Netherlands, Sweden and Spain and among the EU-10.

A noteworthy feature of the forecasts is that inflation is expected to remain subdued in 2006 and 2007, with the highest rate forecasted in 2007 to be in Latvia at 5.6%. Forecasts for productivity growth are pretty low, however, with only Ireland and most of the EU-10 expected to achieve respectable gains in 2006 and 2007. Productivity growth in the euro area is expected to be just 1.2% in 2006 and 1.0% in 2007, barely a third of the long-term average since 1960. Such rates are anticipated despite the fact that employment growth is only foreseen to remain just below 1% in each year, with only Spain, Luxembourg and Ireland expected to achieve employment growth rates above 2%. In most of the EU-10 member states, the forecasted employment growth rates are below 1%, indicating that the bulk of their growth will come from productivity. Unemployment rates are expected to fall a little in 2006 and slightly more in 2007, but will remain around the 9% mark in France and Germany, and at around 15% in Poland and Slovakia, the two member states with the highest rates.

Nominal long-term interest rates fell to 3.3% in the euro area in 2005, the lowest rates since the launch of the euro, with Germany still treated by financial markets as the benchmark. Moderate country premia were in evidence for some of the other euro area countries, notably Italy and Greece. Elsewhere in the EU-25, long-term rates were generally above those in the euro area, but in all cases at low points for the last 15 years. Real rates are inevitably more dispersed because of differences in inflation rates among the euro area countries. Still, it is difficult to conclude that even where they are highest they are a significant deterrent to economic activity except perhaps in Germany and Finland, where the GDP deflator in 2005 was 0.6 and 0.5, respectively, compared with a nominal interest rate of 3.3%.[2] By contrast, Spain's GDP deflator in 2005 was 4.3%, implying negative real rates.

Public expenditure as a proportion of GDP has been falling marginally in most EU-25 countries, the striking exception being the UK, where it has risen steadily since the year 2000. By 2007 it is expected to be some five percentage points higher at 45.5%. A major influence on many economies has been the cost of debt service, which for the three most-heavily indebted euro-area countries has fallen dramatically since the mid-1990s. As a proportion of GDP it has dropped from an early 1990's average of 12% of GDP to a forecast of 4.9% in Greece in 2006, from 11.2% to 4.5% in Italy and from 9.8% to 4.2% in Belgium. These windfall gains from euro membership have been virtually absent in France and Germany, which have seen small cuts in bond rates offset by increases in the stock of debt. Outside the euro area, the debt service burden has been relatively more stable, though only in Hungary, Malta and Cyprus is it at levels that might have a significant macroeconomic impact.

External balance data show a very uneven pattern across the EU, even though the EU-25 current balance has been more or less in equilibrium for many years. The overall distribution is that there are substantial current account surpluses in Germany (3.9% of GDP in 2005, forecasted to rise to 4.1% of GDP in 2007), the Benelux and the Nordic countries, and high deficits in the Iberian countries (-7.4% in Spain in 2005, forecasted to rise to -9.2% in 2007) and several of the EU-10 member states.

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[2] A recent study by Hayo (2007) suggests that since the advent of the euro only Germany has had to face rates that have been much above what a counterfactual analysis using a Taylor rule would imply.

1.3 Assessment and commentary

The range of problems confronting the EU economy is such that a concerted and coherent response is undoubtedly warranted. The Lisbon strategy, launched in March 2000 at the peak of the last economic cycle in the EU-15, was intended to be a comprehensive attempt to transform the supply-side of the European economy. It was partly aimed at extending the recovery of the second half of the 1990s and consolidating the fall in unemployment. Initially, the Lisbon strategy could also be portrayed as a strategy for boosting European competitiveness by catching up with the US, especially in the knowledge-based sectors of economic activity.

Latterly, there has been something of a shift in the thrust of the Lisbon programme. With growth since 2000 having attained barely half the annual rate of 3% on which Lisbon was predicated, the outlook for the EU economy has become more pessimistic and a more defensive tone has become apparent. As a result, the re-launched strategy (referred to subsequently as 'Lisbon II') appears to have become a coordinated response to the challenges of intensifying global competition and of re-calibrating the European social model. It was also seen as an attempt to revitalise economic policy-making by reforming areas of governance that exhibit shortcomings.

The Kok report (European Commission, 2004) was profoundly critical of a number of aspects of the Lisbon strategy, especially the lack of focus and of embedding in national policy-making procedures. Although there is little dispute about the broad aims of the Lisbon strategy, these and other criticisms made it clear that the original conception of the Lisbon strategy was flawed. They also pointed to shortcomings in economic governance that weaken the impact of the strategy.

It had additionally become evident that confused political signals had themselves become a factor undermining the credibility of (especially) the Lisbon strategy, but also that the linkage between Lisbon and the EU's sustainable development strategy had (deliberately?) become opaque. The Kok report was pretty trenchant in its criticism of Lisbon, stating, "disappointing delivery is due to an overloaded agenda, poor coordination and conflicting priorities. Still, a key issue has been the lack of determined political action."[3] While the report made reference to environmental and social aims, it did so in the context of the Lisbon agenda, rather than the sustainable development strategy. With a new sustainable development strategy having just been agreed by the European Council at its June 2006 meeting, the Lisbon–Gothenburg history now seems to be repeating itself.

2. Content of programmes

The NRPs and the CLPs are, plainly, at the heart of the re-launched Lisbon strategy and it is therefore useful to begin by describing the manner in which they were developed and assessing their content. Following the agreement at the spring 2005 European Council and the adoption at the June European Council of the integrated guidelines, all these programmes were developed according to an agreed timetable.

2.1 Timetable

The first year of the re-launched strategy had four main phases. The first was the development of the integrated guidelines, proposed by the Commission in April, then agreed with some minor changes at the June European Council. Member states then had until mid-October to

[3] See European Commission (2004).

develop NRPs. In parallel, the Commission prepared its Community programme, making it public in July. The third phase was the scrutiny of the NRPs, which culminated in the European Commission's Annual Progress Report, *Time to Move up a Gear* and separate national reports offering a critique (fairly standardised in format) of individual NRPs. The fourth phase ended with the 2006 spring European Council. These phases will now become an annual cycle, as set out in Box 2.

Box 2. Stages of the re-launched Lisbon cycle

The Commission produces a strategic report setting out the main goals of the Lisbon strategy.

- The report is 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.
- These are then adopted by the Council.

On the basis of these integrated guidelines,

- member states develop or amend their NRPs; and
- the Commission develops or amends the CLP.

Member states report to the Commission on implementation.

The Commission, in turn, reports on the implementation of the strategy.

In addition to the procedures described in Box 2, the European Council decided in 2005 that the arrangements for surveillance of the BEPGs should continue to apply. Moreover, member states are also still obliged to prepare stabilisation (euro area countries) or convergence reports. Together, these could be seen as governance 'overkill' – or possibly just too many reporting demands.

For the most part, the process has proceeded as planned, although with some delays for differing reasons. As the first year of a new process there was bound to be a need to take a strategic view of how it should function, coupled with an element of learning by doing. These aspects have manifested themselves in a number of ways, the most notable of which is that most attention in this first year has been on the broad direction of member states' strategies, rather than questions of implementation.

2.2 The Community Lisbon Programme

In its proposals for Community action, the European Commission has set out a list of measures under eight main headings (see Box 3). In an annex to its Communication (European Commission, 2005a) on the subject, the Commission makes clear that the detailed measures can be grouped under the three headings of "regulatory actions", "financial actions" and "policy developments".[4] Under these three groups, a list of detailed measures has been presented, with a description of what is entailed and dates for realisation of the objective.

The CLP is split into three main sections, covering the areas for reform of the supply side that are most amenable to action at the Community level. Although the Commission document[5]

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[4] See SEC(2005) 981, annexed to European Commission (2005a).

[5] See European Commission (2005a).

states that the "programme will follow the structure of the integrated guidelines for growth and jobs", it only indirectly tackles the first part of the integrated guidelines, dealing with macroeconomics. Instead, the first part of the Community programme concerns the knowledge-economy issues that were most prominently flagged in the original Lisbon agenda, and is given the heading of "knowledge and innovation for growth". The second part has to do with the business environment, encompassing a wide range of regulatory measures under the label of "making Europe a more attractive place to invest and work". The third broad area can trace its lineage to the jobs and social cohesion components of the original Lisbon agenda, and is entitled "creating more and better jobs".

Box 3. The main headings for the CLP

- The support of knowledge and innovation in Europe
- The reform of the state aid policy
- The improvement and simplification of the regulatory framework in which business operates
- The completion of the internal market for services
- The completion of an ambitious agreement in the Doha round
- The removal of obstacles to physical, labour and academic mobility
- The development of a common approach to economic migration
- The support of efforts to deal with the social consequences of economic restructuring

Source: European Commission (2005a).

Several of the headings in the box cannot sensibly be regarded as anything other than 'business as usual'. Others, such as the "support of knowledge and innovation" or those dealing with the consequences of economic restructuring sound appealing, but will be constrained by a paucity of resources at the Community level. Consistent with the frequently stated aim of achieving 'better regulation' there has been some attempt since March 2005 to clamp down on legislation that might be damaging to competitiveness.[6] By the time the CLP was adopted in July 2005, around a third (68 out of 183) of proposals on the table had been withdrawn on the grounds that they are inconsistent with the better regulation initiative, making no progress or outdated. Curiously, though, one withdrawn proposal was about making public a recommendation of an early warning to Italy under the excessive deficit procedure!

The CLP explicitly refers to two other arms of Community policy as relevant. Stressing the need for sound macroeconomic polices, it recalls the changes in the stability and growth pact that had been agreed four months earlier and endorsed by the 2005 spring European Council. The document argues that these changes will help to promote the macroeconomic stability regarded as an essential element in structural reform. Second, the CLP refers to the (then) still undecided financial perspective for the period 2007–13 and makes a plea for "adequate financing of actions relevant to competitiveness for growth and employment" (European Commission, 2005a, p. 4). The Community Lisbon Programme is also explicit in linking other policies to Lisbon II, mentioning the structural and cohesion funds and the new rural development fund.

[6] See European Commission (2005c).

A number of comments can be made about what is in the CLP. First, it manifestly widens the scope of the Lisbon strategy by bringing many aspects of what might be called traditional EU policy – the internal market, state aids policy and research – under its umbrella. A risk with such an approach is that the Lisbon 'brand' then becomes so diffused that it is no longer distinctive. A second related comment is that the re-launch does involve the Community level, especially the Commission, much more extensively than Lisbon I, giving credence to the notion of partnership while also suggesting that the Commission is assuming a stronger leadership role. Third, the CLP can be seen as a more comprehensive programme within the Commission, bringing in a wider range of Directorates-General and policy areas, as a result of which it seems to have gained political weight. Despite this, the re-packaging into the CLP of many policies that were already in place could be regarded more as cosmetic changes than genuinely new orientations. A final comment, therefore, is that what is likely to be crucial is whether the CLP evolves to become a truly integrated package of policies aimed at supporting the Lisbon strategy, or just a looser re-labelling of existing policies.

2.3 Main elements of the NRPs

Regardless of the use of common guidelines, the diversity of the NRPs is striking. In this report only an overview is offered of the NRPs, based partly on a summary reading of them. Additional insights are drawn from the detailed Commission assessments, published along with the Annual Progress Report at the end of January, the European Economic and Social Committee (EESC) and other sources.

Table 1 presents a synthetic summary of the national plans of those countries for which the study team has been able to compile a summary assessment, in which four main elements are considered. These are the degree of consultation, how closely the programmes follow the integrated guidelines, the mix of old and new initiatives and the realism of the programmes.

In some countries, such as Finland and the Baltic countries, consultation procedures were extensive and the plans reflect these disparate inputs, while in others the programmes seem to have been decided largely by the central government, often with the perspective of a lead ministry most apparent, and few signs that wider interests have been involved. This approach may be entirely consistent with the national setting: in Austria and Belgium, for example, it would have been expected that the various sub-national government strata would be influential and that the social partners would be prominently involved. Yet if an aim of Lisbon-style coordination is to reinforce the 'ownership' of plural interests in the conduct of the strategy in a way that holds decision-makers to account, broader consultation should be a feature of those member states in which it is **not** the norm.

The integrated guidelines are central to the programmes of certain member states, but are effectively invisible in others, and most have laid out distinctive national priorities. It could be argued that this is not only unsurprising – after all, it is to be expected that there will be pronounced differences in what needs to be done – but also entirely consistent with the spirit of the 2005 re-launch of the Lisbon strategy. Yet it can equally be argued that, if countries differ so much that the integrated guidelines have limited resonance, it is hard to see what the point of coordination is, beyond the rather banal observation that so long as the chosen path delivers better economic performance it is in the common interest.

Table 1. Overview of selected NRPs

	Consultation	Use of integrated guidelines	Exposition of new policies	Realism
Austria	Lengthy, extensive & included regions	Planned reforms organised around guidelines	Judicious mix of new & continuing policies	High
Belgium	Big roles for sub-national government and social partners	Made explicit; two mentioned but not directly addressed	Sensible balance of continuity & policy development	Most credible on macro; in other areas long on assertion
Czech Republic	Apparently quite extensive; also to be in implementation	Implicit, rather, but evident that they have an influence	Yes, though in the form of incremental change	Plausible focus for reforms, appropriate stress on macro
Estonia	Very broad, guided by a cross-interest working group	Used to orientate plans; explicit cross-referencing annex	Mainly about extending current approaches	Strategic outlook, short on detail, but refers to indicators
Finland	Took place at various stages; influential	Used as framework and full report on current position	Mix of old and new seems well judged	Mostly credible
France	Not much in plan; but promises more in implementation	Not directly mentioned at all	Less than many others; mainly a progress report	Strategic nature of document makes it hard to judge
Greece	Covers main sets of actors; seems to have mattered	Mentioned, but only implicit in text	Comprehensive list of proposed initiatives	Has to be doubted given breadth of ambitions
Italy	Stated to have been extensive with social partners	Regrouped towards national priorities; lacks employment	Some; but much is what is already in the pipeline	Will need plenty of optimism
Latvia	Mainly governmental, but consulted social partners, parliament	Regrouped into five main priorities	Incremental, but good on adding to current approach	Assumes rapid GDP growth; credible institutionally
Netherlands	Clearly explained at outset and extensive	Used throughout to structure proposed actions	Much is about current approach, but some new ideas	Pretty balanced and plausible
Poland	Very little evident, though change of government matters	Not always explicit, but in evidence in many sections	Extensive list of proposed new actions	Only GDP target, may be on the ambitious side
Slovakia	Implied, but not made explicit	Used indirectly to structure plans; summary table	List planned new laws and administrative actions	Few targets, best on macro, less so on employment
Slovenia	Extensive	Referred to in detail and well used	Plenty of concrete measures with targets set	Generally realistic and credible plans
UK	Little evidence of much outside government	Mentioned only in description of process; not used	Not obvious that much has changed from earlier plans	Changes little, very slim on boosting, e.g. R&D

Source: Own compilation.

Big differences can also be seen in the degree to which the NRPs concentrate on analysis of what needs to be done, reporting of initiatives already underway and announcement of new proposals. Here, the UK programme stands out at one extreme, since it is largely a report on all the policies that the government already has in place, but has little new to offer on recognised lacunae such as the R&D gap. In contrast, the Greek programme is a very ambitious shopping-list of areas (and it is hard to find any omissions) in which new measures will be introduced to complement recent initiatives. In many of the NRPs, there are signs that domestic political issues are to the fore (again, why would they not be?) but one has to ask is the question of what, then, is being coordinated.

These assessments, however, can only be qualitative and there are differences of opinion. In its position paper on the Lisbon strategy, UNICE (2006) classifies the NRPs in a chart based on responses from its member federations (reproduced here as Figure 4). It concludes that more than half the NRPs are lacking in new initiatives and regards only a handful as “ambitious”.

Figure 4. NRP assessments by UNICE members

National business federations’ assessment of the National Reform Programmes

Ambitious	Satisfactory	Lacks new initiatives
Italy	Germany	Belgium
Estonia	France	Greece
Poland	Netherlands	Spain
Slovenia	Czech Republic	Ireland
	Cyprus	Luxembourg
	Latvia	Austria
	Lithuania	Portugal
	Slovakia	Finland
		Denmark
		Sweden
		United Kingdom
		Hungary
		Malta

Source: UNICE (2006).

Pisani-Ferry & Sapir (2006) conduct an analysis of ownership in which they focus on the involvement of different stakeholders. Their figures summarising these analyses are reproduced as Table 2. The analysis suggests that the six largest member states score lowest on a composite indicator of ownership, made up of the degree to which the member state consulted its national parliament, social partners and civil society in elaborating its NRP, with a fourth component measuring the degree of follow-up. They note that “overall, the level of national ownership is clearly disappointing, especially since it was meant as the principal innovation of Lisbon 2”.

On the whole, the NRPs seem to be better at explaining how macroeconomic objectives will be pursued than either the microeconomic or the employment dimensions. Initially, Italy’s NRP barely mentioned the employment dimension and Italy has since resorted to informal amendments in consultation with the Commission to show willingness to do so. Many of the EU-10 member states focus especially on macroeconomic strategy, reflecting their interest in attaining the Maastricht convergence criteria to become eligible for accession to the euro area.

Table 2. Assessments of ownership of NRPs

Country	Parliament (1)	Social Partners (2)	Civil Society (2)	Follow-up (3)	Total
Austria	3	2	2	0	7
Belgium	0	3	0	0	3
Cyprus	3	2	0	2	7
Czech Republic	3	3	0	0	6
Denmark	1	3	3	0	7
Estonia	2	3	3	3	11
Finland	1	2	2	0	5
France	2	2	0	1	5
Germany	1	1	0	0	2
Greece	2	2	2	1	7
Hungary	1	2	2	0	5
Ireland	3	2	0	0	5
Italy	1	2	2	0	5
Latvia	3	2	2	0	7
Lithuania	3	2	2	0	7
Luxembourg	3	3	0	0	6
Malta	1	2	0	3	6
Netherlands	3	2	0	0	5
Poland	3	2	2	0	7
Portugal	2	2	0	0	4
Slovakia	2	3	2	0	7
Slovenia	1	2	0	2	5
Spain	3	2	0	2	7
Sweden	3	2	1	0	6
United Kingdom	0	1	1	0	2

Averages	
Overall	**5,8**
EU15	**5,1**
New MS	**6,8**
6 Largest	**4,7**
Small MS	**6,1**

(1) Parliament: 0 = no involvement
1 = informed
2 = committee level
3 = broad involvement/plenary discussion

(2) Social Partners/Civil Society: 0 = no involvement
1 = informed
2 = consultation
3 = major involvement

(3) Follow-up: 0 = no follow-up
1 = committee
2 = at minister level
3 = at prime minister level

Source: Pisani-Ferry & Sapir (2006).

Commission assessments of NRPs

The Commission *fiches* on each member state are structured in a standard format with a three-paragraph overall assessment, then sections covering the three segments of the integrated guidelines (respectively macroeconomic, microeconomic and employment), followed by conclusions. In the last section, the Commission summarises strengths and points requiring further attention, with two or three elements highlighted under each. The assessments are all roughly the same length (five to six pages) and number of paragraphs. They conclude with what may be considered a needless plea to the member state to "implement its NRP with vigour" and, more sensibly, a call to ensure that the member state's 2006 NRP indicates how the "points requiring further attention" will be addressed.

Although the detail in these *fiches* gives an impression of the European Commission's verdict on the NRP, it is couched in language that disguises rather than makes explicit that judgement, and is at pains to be balanced in finding good and bad. Where, as is typical, there are two or three strengths and two or three weaker points highlighted, the true importance of each can only be guessed at, as the issues to which attention is drawn are often qualitatively very different. A possible clue is that countries for which other information suggests that the Commission may have been disappointed with the NRP tend to have only two strong points, but three weaker points and vice versa. Still, the fact that this sort of intuitive calculus is the best that can be done is, itself, revealing about how transparent and trenchant the Commission judgements are.

The euro area

A *fiche* in an almost identical format has also been presented for the euro area, but without the injunction in the last paragraph to implement it with vigour. The euro area *fiche* highlights three strengths and four weaknesses, although whether, in the absence of any public authority able to react, it makes much sense to do so must be open to question, especially when the statements are so sweeping. For example, a point requiring further attention in the euro area (European Commission, 2006e, annex on the Euro Area) is that "R&D and innovation policies need to be enhanced in order to achieve the desired objectives" (para 25, 2nd bullet point). Moreover, even if there were scope for a collective euro-area response, the minister responsible might be puzzled to be praised for "measures to ensure the sustainability of public finances in the longer term, through increases in effective pension retirement age" (para. 24, 1st bullet point) while simultaneously being asked to give attention to "the need to reinforce the long-term sustainability of public finances, in particular by reverting the upward trend in the debt ratio, in line with the revised Stability and Growth Pact" (para. 25, 1st bullet point).

2.4 Evidence of good practice

In future years, the NRPs can be expected to contain a growing body of evidence on what works well and what has been problematic. Because the programmes submitted in 2005 concentrated on the strategic response, it is unrealistic to expect as much to emerge this year. Nevertheless, some lessons for others can be identified. In the Annual Progress Report, the Commission presents a four-page appendix with 'illustrative examples' of member state policies from the NRPs (see examples in Box 4), focusing on the four priorities arising out of the October 2005 European Council meeting at Hampton Court. Although these stop short of being 'good' or 'best' practice, they do at least signal policies or initiatives that can be adjudged to be both consistent with the priorities and potentially transferable to other countries.

Box 4. Examples of policies in support of growth and employment

- Widespread use of fiscal incentives to support R&D, with additional member states opting to do so
- Various proposals to create industrial clusters, including *Pôles de Compétitivité* in France – which are being established as public/private partnerships wherein a focus on R&D is pivotal – and an extensive programme for promoting clusters in Slovenia
- Measures to protect intellectual property rights in Germany, Belgium and Latvia
- A wide variety of schemes for the simplification of business, including advances in 'e-government' and analyses of the costs to business of new legislation, such as regulatory impact assessments
- The Czech KAPITAL programme to facilitate access to funding for small and medium-sized enterprises and other schemes in the UK and Finland

- Options for privately-funded pension schemes in several of the recently acceded member states and other initiatives to improve fiscal sustainability
- Ireland's Skillsnet programme, aimed at offering flexible and cost-effective training for companies
- A variety of schemes to promote new energy sources, such as the use of a green energy certificate in Sweden to oblige the use of renewables and a planned shift towards environmental taxes in Estonia

Source: European Commission (2006b), appendix on good policies.

2.5 Problems identified and commentary

It is generally agreed that the member states have developed programmes that respond to the challenges raised in the March 2005 Presidency Conclusions and articulated more fully in the integrated guidelines, although they differ markedly from one member state to the next. The CLP also sets out a far-reaching programme, though it is open to question how much of it is new as opposed to a re-packaging of existing measures.

The diversity of the national programmes makes them difficult to compare and the fact that so many NRPs do not refer specifically to the integrated guidelines adds to this difficulty. The diversity poses a dilemma. On the one hand, the whole point of separate national programmes is to enable the member states to focus on the reforms and policy initiatives that are both most pressing and most likely to enhance their economic performance. The corollary is that it does not make sense for each and every member state to come up with a strategy for all 24 integrated guidelines. On the other hand, the point of having 'integrated' guidelines is to ensure that member states do not confine themselves to the easy options, while soft-pedalling on the more awkward or politically sensitive actions.

There is evidence that some of the integrated guidelines have been seized upon with greater enthusiasm than others, pointing to a danger that the member states will find it attractive to promise reform in areas that look most appealing, rather than those where the need is greatest. The fact that all member states highlight research and innovation could be seen as a positive finding if it means that the outcome will be to ramp up the efforts made in this direction. Equally, especially in those countries that lag furthest behind in research and innovation, unless the rhetoric is matched by very substantial shifts in the composition of public spending and regulatory or fiscal systems that affect the incentive structures for the private sector, a more cynical interpretation may be warranted.

As an inventory of what can be considered good, the European Commission's (2006b) appendix on good policies is promising, but it is subject to the qualification that in most cases, it only describes policies rather than gives evidence that they work well or are promising in terms of transfer to other countries. For several member states there is little discussion of implementation challenges and thus of the feasibility of the programmes. Italy, for example, has proposed 12 new laboratories for the south as part of its strategy to raise R&D spending, but says little about what they can or could deliver, especially bearing in mind the public finance constraints on the country.

The report of the Polish Lisbon Strategy Forum (2006) is especially robust in its criticism of the lack of focus on implementation, arguing, "it is not the writing of the plans that matters, but rather the consistency and coherence of what they in fact implement. In the first five years of the Lisbon strategy, it was delivery failures rather than lack of ambitions or carefully drafted documents that undermined its success."

A possible answer would have been more specific recommendations, but for a variety of reasons, there was no attempt to reinforce the integrated guidelines with country-specific recommendations as had been the norm previously in the application of the BEPGs and the employment guidelines. This omission is seen by many as having been a step backwards.

3. Assessment of the first year

It is tempting to regard the first year of a new approach as one about which there will be little to say. Equally, a poor start can often bring a process into disrepute and it is not as though the Lisbon strategy starts from a blank sheet of paper. This assessment will, therefore try to strike a balance between these two standpoints. Much depends on whether the re-launch of the strategy is seen as a radical new departure or whether it is seen instead as largely a repackaging of existing measures.

The impression that emerges from many quarters is that there is a political will to regard Lisbon II as a new departure even though there is substantial continuity in most of the integrated guidelines. The salience of this way of looking at matters is that it justifies regarding the first year as being the opportunity for member states to think strategically about their economic reform programmes and to construct a coherent set of responses. Worries about implementation can then be brought to the fore subsequently, rather than being a central element in the current period. Many of the choices made in the last 12 months can be seen in this light.

Various assessments of the first year of Lisbon II have been carried out in addition to the formal assessments required of the Commission. They include scrutiny by the Economic Policy Committee (EPC), taking the form of presentations by member states followed by the chance for their peers to offer a critique, a review requested from the EESC by the European Council and studies by think tanks and other actors. This section tries to distil the findings from these assessments and to add some complementary insights.

3.1 Procedures and orientations of the strategy

The procedures for Lisbon II differ in a variety of ways from Lisbon I. An important change introduced by the Lisbon European Council was the open method of coordination (OMC) as a new approach to European integration, though it can be argued that the OMC had effectively been in use for the European employment strategy since 1997. The essence of the OMC is an inter-governmental approach in which the role of the Community level of governance is to orchestrate the coordination of national policies in the pursuit of common objectives. As such, it is neither the traditional *méthode communautaire* nor funded from the Community budget.

Economic policy coordination, in practice, can occur in a variety of ways, encompassing several aspects of economic governance. These could include

- the decision of whether a common policy agenda is adopted, with each country expected to conform to similar models of policy-making or decision rules;
- the articulation of frameworks for policy-making, either through overarching legislation or the promulgation of guidelines;
- the setting of similar targets (usually for a fixed period) or orientations for the longer term;
- the establishment of procedures for the conduct of policy, such as a common annual timetable for public finances; and
- subjection to monitoring by the EU level, review by other member states and evaluation of policy performance.

All of these elements have been evident in the Lisbon strategy. Yet, as noted in section 2 of this report, the term 'Lisbon' has progressively expanded its coverage and some of what is now included under the Lisbon umbrella – good examples being the December 2005 White Paper on financial services, the new Green Paper on energy and the hotly contested services directive – are regulatory activities. Similarly, the Community strategic guidelines for one of the EU's flagship expenditure policies – the structural and cohesion funds – have been written to take much greater account of Lisbon aims. The upshot is that the strategy is now a much more comprehensive one of supply-side reform and it is probably no longer accurate to regard it as an OMC process.

Many of the policy recommendations from successive previous rounds of the BEPGs and employment guidelines have been retained, even if marginally modified. In addition, key Lisbon targets such as raising the share of R&D in GDP or the employment rate are still central to the re-launched strategy. Consequently, it might be considered disingenuous to neglect implementation this year and there may be grounds for criticising the Commission for appearing to be less concerned about delivery during the last 12 months. Other elements of the OMC or of the proposals advanced by the Kok report to spend more on Lisbon or to reinforce naming and shaming were not implemented – an outcome that Pisani-Ferry & Sapir (2006) deplore.

One key issue is whether, or to what degree, the orientations of the strategy should evolve as time goes by. In principle, the NRPs are supposed to be for a three-year planning horizon, giving member states time to focus on their priorities and to ensure implementation. Yet at the Hampton Court informal European Council in October 2005, four issues were given a high priority, each of which has sub-targets, with the implication that in some sense they supersede the 24 integrated guidelines. The four priorities (as explained in European Commission, 2006b) are

- investing in education and research;
- freeing-up small and medium-sized enterprises and unlocking business potential;
- getting people into work; and
- efficient, secure and sustainable energy.

Political change also has to be taken into account. In an EU of 25 member states with elections every four or five years, five or more will have elections in an average year and it is evident that electoral timetables did disrupt the process of preparing NRPs, especially in Poland and Germany. The effect of elections is threefold:

- First, during election periods, it is much more difficult for structural policy to capture the attention of decision-makers, with the result that the elaboration of programmes may simply be deferred.
- Second, incumbent governments tend to become more cautious about putting forward radical reform plans, especially if they are likely to impose short-term costs on segments of the electorate.
- Third, the outcome of the election may shift the terms of debate and mean that even if plans are on the table, they have to be re-thought.

A governance problem that had been evident in Lisbon I was the tendency for the policy agenda to shift, sometimes quite radically. The spring 2006 European Council seems, not unreasonably in view of the global significance of the topic, to have given particular attention to the fourth of the Hampton Court priorities. The risk, though, is that by so doing it may blur the focus on other elements of the strategy and make it easier for governments to weaken their commitments to reform.

3.2 The European Commission's views

As part of the new partnership approach, the Commission has acquired a better defined and more extensive role in pushing forward the Lisbon strategy, so that it is useful to examine how it sees progress in the last year. The European Commission's Annual Progress Report (European Commission, 2006e) is, not surprisingly, fairly sanguine about the outlook for the Lisbon strategy. It is redolent with phrases about the political will to make the strategy succeed and the enticing prospects, noting:

- "[T]here is a common vision and a strong consensus about what needs to be done – supported at the highest level."
- "The **renewed Lisbon Strategy** meant a fresh commitment by all to mobilise behind a positive reform agenda" (emphasis in the original).
- "The Council, the European Parliament and the Commission are working together on the actions needed at Community level to make the growth and jobs agenda work."
- "The national reform programmes provide a store [of] knowledge and experience to be shared and spread: exploiting this treasure trove of best practice to the full is the best way to draw value added from the Lisbon Strategy."
- "The tools are in place. The policy consensus is there."
- "Nearly one year into the new Lisbon Strategy for growth and jobs, the partnership is off to a promising start."

The Annual Progress Report observes that two-thirds of measures set out in the CLP have been adopted by the Commission, although with the caveat that many remain to be adopted by the Council and the European Parliament. Many of these measures can unambiguously be regarded as wholly consistent with the underlying aims of the strategy and the progress on them is, indeed, encouraging. What is less obvious is whether the re-launch of the strategy has made much difference in practice. Certainly, the Barroso Commission has, since coming to office, made it clear that a more competitive and business-friendly EU is a central plank of its programme. A claim in the report is that "the Commission has stepped up its efforts to improve the quality of Community legislation" can be supported to the extent that the Commission has, indeed, taken care to reduce what might be considered needlessly intrusive interventions and generally to simplify legislation.

It is nevertheless salient that the same paragraph in the report contains a rather pointed exhortation to member states, stating "the impact of these actions will of course be much greater if they are matched by a determined effort by member states to improve the quality of their national rules and reduce the administrative costs they impose on citizens and business". Reading between the lines, the Commission is expressing here a degree of exasperation about the slow pace in member states. Some of the interviews conducted for this study suggest that beneath the generally encouraging language, there is more concern than might appear.

Yet many of the most significant elements of the CLP either have been long-standing aims of the Commission or consist of the normal cycles of renewal of policies, even if some evolve in new directions. In the former category a good example is the proposed services directive. As its soubriquet 'Bolkestein' signals, it has been carried over from the Prodi Commission and was, following the agreement in the European Parliament, eventually adopted late in 2006, although in a less comprehensive form than the Commission sought. Here too an element of Commission disappointment can be discerned. In the second category, the Annual Progress Report explains efforts to orientate cohesion policy and the 7th Framework Programme towards Lisbon aims, making no concessions to possible tensions that might arise, for example, between equity and efficiency objectives in cohesion or between basic and applied research. The impression given that everything must be subjugated to the imperatives of growth and employment is one that, at the very least, risks the Commission being out of step with some member states and many members of the European Parliament.

It is claimed in the report that "all Member States have appointed national Lisbon coordinators". In reality, this is an inflated claim insofar as some countries have indeed designated influential members of the government for this purpose, whereas others are relatively less visible figures, several of whom are officials rather than politicians. The report also notes that the shift to the single NRP has led many governments to streamline internal coordination among ministries.

Overall, the impression that emerges from the Annual Progress Report is that the Commission is anxious to portray the evolution of the Lisbon strategy in the last year in the best possible light and to play down possible problems. Where there are criticisms, they tend to be implicit rather than trenchant and there is a sense that the first year has to be seen as one for putting in place the main elements instead of questioning whether the choices made are optimal. The risk with this approach is that it may simply allow member states, in practice, to proceed more slowly than they could…or should.

Publicising the European Commission's assessments of the NRPs

Raising the quality and incisiveness of debate on national reform strategies is central to the overall approach to Lisbon II, as it underpins national ownership. Clearly, such an approach requires ammunition from commentators and official assessments. The Commission sought to publicise its own judgements of the NRPs in January 2006, with accompanying press releases using a fairly standardised format depicted in Box 5. These assessments, which are abbreviated versions of the national annexes in the Annual Progress Report (described above in section 2.3), can be seen as somewhat bland, with a deliberate attempt to find positive elements in all cases and to ensure that there is a mix of praise and criticism for every member state.

Box 5. Layout of Commission press releases on the NRPs

The press releases are all laid out in a common manner in which the following four country-specific commentaries are presented, as well as a brief description of the Lisbon strategy and what comes next.

- *The main challenges identified*

  A summary is given of what the member state identifies as the main priorities, with the briefest of comments on what might be added or in some cases what is missing.

- *Strong points of the NRP*

  Here the Commission tries to ensure that it identifies some praiseworthy elements of the NRP.

- *Areas to develop further*

  The Commission also finds some points to criticise, albeit couched in a positive and constructive manner. Expressions such as "encourages" (in virtually every case), "reinforcement of the approach", "a more comprehensive approach", "advocates further measures" or "a more robust approach" are used to enjoin the member state to go further.

- *Economic context*

  This section is used to present the current position in an objective manner, but for some member states it also serves to identify some specific problems, such as excessive deficits or low employment rates.

Overall, the press releases have to be read and compared carefully to ascertain where the Commission is actually expressing disappointment or giving praise, since all the commentaries contain a balance of good and bad points.

This way of presenting the assessments is justified within the Commission largely by the need to be seen as supportive of member states, rather than as a disciplinarian, and is consistent with the new partnership approach. It means, however, that that anyone seeking the Commission's real judgement on the programmes has to read between the lines. As the journalist George Parker put it in a recent commentary,[7] "the mild rebukes were enough to generate some modest media coverage in some member states, but it was hardly going to get politicians with a bad reform record waking up in a cold sweat".

3.3 European Economic and Social Committee assessment

One of the channels for appraising the re-launched strategy was a request from the European Council of March 2005 to the European Economic and Social Committee (EESC) to initiate a network based on national economic and social councils and other representatives of civil society "for promoting the implementation of the Lisbon Strategy" (European Council, 2005). The EESC was also asked to review progress and to report to the European Council; a report drawn up by the EESC was duly submitted to the March 2006 European Council. The report appears to have been done with care and enthusiasm and in some respects is less bland than the Annual Progress Report. It makes 12 observations about the first year of Lisbon II (see Box 6) and goes on to issue 17 recommendations, which are discussed in section 4 of this report.

Box 6. The 12 observations of the EESC on Lisbon II

1) The Lisbon strategy is essential, as it is a project that concerns the whole of European society.
2) The three pillars of the strategy (social, economic and environmental) – which carry equal weight – should not be viewed separately.
3) The development of National Reform Programmes by the EU member states is a right and necessary step.
4) There should be a clearer division of tasks and responsibilities among the various levels and players.
5) The political authorities should provide economic and social players with new opportunities to act.
6) The implementation of the strategy is vague and lacks clear methods and verifiable deadlines.
7) The open method of coordination requires the close involvement of civil society.
8) The involvement of organised civil society as a whole is essential but inadequate.
9) The strategy has not always been addressed to the public or designed to be understood by it.
10) There is no public discussion presenting the strategy as a common European project.
11) Successful implementation of the Lisbon strategy will only be possible by promoting a win–win situation.
12) Civil society organisations in Europe have the competences to be partners in the development process.

Source: European Economic and Social Committee (2006).

The detailed responses in the EESC report raise a number of additional points about the Lisbon procedures. For example,

[7] Parker's commentary was published in the March/April 2006 issue of *E!Sharp* magazine.

- In Sweden, the involvement of social partners was considerable, in line with the established tradition of social dialogue in that country. Yet other elements of civil society felt left out and the relevant debate in the national parliament only took place after the NRP had been submitted.
- The Finnish assessment concludes that “the consultation process has deepened common understanding of the main challenges posed by the ongoing globalisation process and increased consensus about the strategy based on investments in R&D and human capital, openness and ability to adjust” (European Economic and Social Committee, 2006, p. 96). As such it shows the value of consultation and can serve as a beacon for others in promoting ownership.
- The degree of consultation is also highlighted for Spain, and the specific role of the social partners in delivering the strategy is mentioned as another feature.
- Belgium appears to have elicited comprehensive involvement of the social partners in the development of the NRP and to have created a structure for the implementation and monitoring of the strategy.
- Poland has a Tripartite Commission for Social and Economic Affairs, which has provided a vehicle for what is reported to have been active involvement of the social partners in the preparation of the NRP. This suggests that despite having an election in the key period for the development of the NRP, consultation worked.
- Curiously two countries with a track record of extensive involvement of the social partners in economic policy differed greatly in how the NRP was developed. With regard to the Netherlands, the chapter in the EESC report makes the blunt statement that “the current document is the sole responsibility of the Dutch government”. It goes on to state that the Dutch social partners have written a separate memorandum outlining their input, because they wish to make an active contribution to delivering the Lisbon objectives in the policy areas for which they bear responsibility. In contrast, the “Austrian social partners consider the explicit involvement of the social partners at European and national level to be a very positive aspect of the Lisbon Strategy”.
- Estonia, Cyprus, Ireland, Malta and Lithuania are all small countries where a sense of national purpose seems to have motivated a search for consensus in the formulation of the NRP and at least a qualified commitment – if not more – to ensure its success.
- The social partners have also played an important role in Greece and have set up their own observatory for monitoring the Lisbon strategy.
- In its reply, the French Economic and Social Council stresses the need for the Lisbon strategy to take sufficient account of all three pillars (economic, social and environmental) and registers its concern that Lisbon is too orientated towards economic/competitiveness objectives.
- Pronounced differences of opinion on priorities and specific elements of the NRP are revealed between the employers and unions in Slovenia, with the unions in particular being opposed to a number of measures ultimately included. This dissension confirms other information obtained in the course of the present research project and highlights the potential for political cleavages, depending on the composition of the national government.
- In the UK, where there is no formal mechanism for social dialogue, it is clear that the input of the social partners was minimal, although one of the main employer organisations in the UK, the Confederation of Business and Industry, does not object, in contrast to the unions.

- Portuguese social partners had only a limited role in the development of the NRP, focused above all on employment, but played no part in the technology plan initiated by the new government. The report also notes that the NRP “was only presented to the social partners for information a few days before being presented to the European Commission”. There are signs, however, that improved consultation may follow in response to contacts between the national Lisbon coordinator and the Economic and Social Council.
- The report on Germany is rather negative, drawing attention to the limited role of the social partners in developing the NRP and arguing that efforts to make Lisbon visible have not had much success. It concludes that “it has not caught on” – even citing what is called a schoolboy question: “Has it got something to do with football?”

While the EESC report is generally fairly supportive of the how the Lisbon strategy has unfolded in the last year, for a number of member states it is decidedly critical and, consequently, offers a contrast to the comparative blandness of the Commission. The report also offers a different perspective to the extent that it advances the demand from its civil society interests for a greater involvement in economic reform strategies.

The conclusions of an EESC conference held in March 2006, for example, stressed the need for such involvement and can be interpreted to mean that assuring national ownership of the Lisbon strategy and the engagement of different actors cannot be taken for granted. Indeed, the fact that the EESC review has identified countries in which relatively little consultation happened as well as the lack of visibility or political salience of the NRPs should be seen as a warning sign. There is also some danger in the perception – even if it is not strictly accurate – that the Lisbon agenda now neglects the social dimension.

The European Anti-Poverty Network, in its submission to the spring 2006 European Council, adopts just this perspective (Duffy & Kiernan, 2006, p. 21). It argues that the

> Commission’s priorities do not deal sufficiently with the inherent contradictions between measures to increase employment and productivity, environmental sustainability and free markets in energy and transport, cuts in pensions and services and a reliance on the assertion that economic growth is inherently ‘fair’ and will lead automatically to jobs and increased wealth for all its citizens.

The EAPN stresses that the most vulnerable members of society are most at risk from flexibility policies and that priority should be given to promoting “active inclusion” – measures to provide pathways towards better quality jobs for the disadvantaged and to confront discrimination.

There are also questions to raise about where responsibility lies. In a position paper, UNICE finds that too many of the NRPs lack ambition and give too little information on how “announced measures will be carried out” (UNICE, 2006). The paper holds that “decisive reforms to get Europe back on track for growth and jobs will have to be carried out at national level throughout Europe but especially in the big European economies Germany, France and Italy”.

3.4 Problems identified and commentary

In most respects, the procedures in this first year of the re-launched strategy appear to have worked well. Despite some minor delays, explicable in countries such as Germany and Poland by the electoral timetable, NRPs were compiled by all member states and submitted to the Commission in the autumn of 2005. These were then scrutinised by the Commission, resulting in country-specific commentaries, and an overall assessment was provided in the annual progress report.

Doubts arise, however, about whether the input of other 'stakeholders' into the quality of the programmes has been adequate and, more importantly, can easily be improved. At the European level, there is too little scope for the European Parliament to engage with the procedures, while at the member state level the scope for input from the social partners, national parliaments and civil society (including the media) is varied. In part, these variations reflect national political cultures and traditions of consultation, and it is unrealistic to expect major change in these. Moreover, the comparative rush with which the different stages of the procedures were carried out in the last year militated against fostering more widespread engagement of diverse stakeholders.

Yet if Lisbon II is to succeed in its ambition of boosting ownership of the NRPs within member states, it is vital that these wider constituencies are drawn in to the procedures. The key problem in this regard is that if they are not, then the risk is substantial that the Lisbon strategy will simply become another bureaucratic exercise that adds little value to national policy-making. One specific problem in this regard was the reluctance in several member states to name Lisbon coordinators and it is evident that their standing within the national polity is very varied (see the report of the Polish Lisbon Strategy Forum, 2006). From a governance perspective, a risk with the 'softly, softly' approach adopted so far by the Commission is that the member state can either choose not to heed any implied criticisms or portray such comments as being broadly supportive in any domestic debate. As a result, the national ownership of the strategy could be undermined.

The experience of the first year raises a number of questions about the overall thrust, content and governance of the re-launched strategy. From a political perspective, a key change has been to attempt to raise the political salience and visibility of Lisbon. In keeping with the stated priorities of the Barroso Commission, the re-launch has also emphasised more pro-business ambitions. The result is that the strategy is much less of a balance between the competitive and social dimensions of Lisbon I. The inconsistency of the signals from the top continues to be a problem, however, as there is yet again evidence of a shifting agenda following the October 2005 Hampton Court meeting. Arguably, this can only undermine the coherence of policy-making. The issue is not whether the four Hampton Court priorities are reasonable *per se*, so much as whether they confuse the messages reaching policy-makers and practitioners charged with conducting the Lisbon strategy. Moreover, even among the four priorities, the March 2006 European Council – judging by its prominence in the Presidency Conclusions – seems to have been especially keen to integrate the developing EU energy policy into the Lisbon strategy.

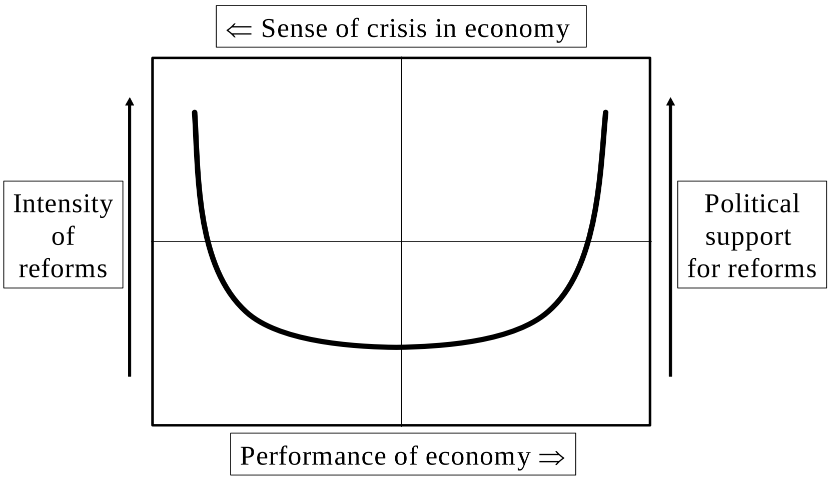
The macroeconomic context also has to be considered. Several commentators bemoan the fact that there is only a limited connection between demand-side policies and the Lisbon strategy. A particular question that arises is whether a passive macroeconomic policy is likely to reduce growth potential, as Pisani-Ferry (2006) argues that it might. He also raises the question of whether an environment with neither sticks nor carrots creates what he calls a 'reform trap'. A third concern is that growing real exchange-rate misalignments may mean an inappropriate collective monetary policy.

Supply-side reform takes time and persistence. The initial impact may often be depressing to growth or employment, but provides a platform for subsequent improvement. Without reform, the economy would be locked into a trajectory of sluggish performance; it might even see growth tailing-off as weaknesses on the supply side become progressively more debilitating. It is only when the medium- to longer-term benefits of the reform start to outweigh the short-term costs that the reform shows its value. From a policy perspective, the trick is to find means of limiting the extent of any immediate costs and keeping them as brief as possible. Some EU member states have been through the worst, while for others the pain continues. In understanding why countries like Germany or Italy are where they are at present, a key point is that slow or hesitant initial steps risk prolonging the agony, thereby fanning the flames of opposition, whereas more decisive measures might pay off sooner.

In addition, structural reform tends to be cumulative, with the prospect of individual reforms reinforcing one another, though equally of piecemeal changes having less impact than a concerted programme. Thus timing and sequencing are also of the essence. Finding the best way to navigate these waters is partly about identification of the technical solutions that minimise the losses (understood as counterfactual, rather than necessarily absolute) and the time that elapses before a superior position is attained (again, as a counterfactual). But it is also to do with governance and the capacity of institutions to convince different interests of the virtues of the case, in other words a political economy challenge. It is also important, as Wanlin (2006) stresses in the latest Centre for European Reform *Lisbon Scorecard*, to consider how a political consensus in favour of reform can be constructed.

What these observations suggest is that structural reforms will be most intense when either there is a sense of severe crisis in the economy or the economy is performing well. This notion can be captured schematically by relating the intensity of structural reform to the overall performance of the economy and the perception of crisis (Figure 5). In this conceptualisation, reform intensity is a U-shaped curve. In the early 1990s, the choice for the (then) transition economies of Central and Eastern Europe was stark: reform or wither; and although several different paths of reform were followed, the transformations were profound. Spain, Ireland and Denmark are, arguably, countries that in recent years have been at the other end of the reform U-curve, as they build on earlier phases of structural change on a virtuous path.

Figure 5. Structural reforms – The latest in U-shaped curves?



By contrast, Italy and Germany can be portrayed as countries where the pressure to reform, though undoubtedly present, is not (yet?) strong enough to motivate more decisive action. Therefore, they can be located lower down the U-curve. Their cases point to another facet of reform, which is that it requires the support of the electorate and of interests that may be at risk from structural change. Hence the political economy element is one that is central to the diversity of reform trajectories in the EU. The indecisive election result in Germany arguably illustrates the point and the perception in Italy that there is no obvious champion of reform among the larger political parties reinforces it. This element also seems to have been a factor in the recent elections.

There are also issues to confront about the balance of reform programmes. The EPC, in its report on the NRPs (EPC, 2005)[8] reaches a number of general conclusions. Despite the prominence given in so many NRPs to research and innovation, it notes that many member states have not set targets (bearing in mind the overall target to raise R&D spending to 3% of GDP). One aspect of research that is especially relevant is that it tends to perpetuate a view of the economy that is dominated by industry, despite the fact that two-thirds or more of the economy in member states is in services. The EPC articulates a view that chimes with that of the author of this study, which is that innovation in service industries should figure much more prominently in NRPs. What the EPC position highlights is a danger that by focusing too narrowly on a limited range of indicators or high profile policies, simpler changes that could have arithmetically more significant effects could be overshadowed. Another policy area that the EPC believes to be inadequate is the lack of emphasis on competition policy, which it sees (with good reason) as a key driver of reform. In relation to labour market proposals, the EPC also finds that member states do not show much originality in their proposals and rely instead on existing measures.

One issue that arises from such critiques is how appropriate it is to continue to insist on the same guidelines for all member states. In particular, a different approach adopted by the OECD is worth considering. Rather than having comprehensive common guidelines, the OECD approach is to select five, of which three are based on hard indicators. For these three, the OECD first assesses whether the country is performing poorly compared with a relevant peer group on the indicator, then in a second stage it examines if there is an adequate policy in place to correct the weakness. If not the OECD will nominate that policy area as one that the country needs to deal with as a priority. The result may often be that the OECD is pressing member states to focus on priorities that differ from what the Lisbon strategy advocates (see Table 3).

Work done by the European Economic Advisory Group (EEAG) based at CESifo demonstrates that the member states of the EU differ markedly in not only their growth trajectories, but also in the determinants of growth. The EEAG (2006) report distinguishes between two groups of faster growing EU-15 economies, with the growth in the first group (comprising Finland, Ireland, Sweden and the UK) explained by capital growth, especially information and communication technology (ICT) capital for Finland and Sweden and by total factor productivity. In contrast, the growth in the second group (Greece and Spain) arises more from improvement in non-ICT capital and labour. Thus, the principal contribution to Spain's growth over the last decade has been an expansion of labour, explaining some two-thirds of the growth over the period, while total factor productivity actually declined on average. The Lisbon strategy argues for the creation of a uniform model of a high-tech information society for the EU, but as Figure 6 shows, ICT investment rates vary substantially. The EEAG analysis of the determinants of growth casts doubt on the underpinnings of the Lisbon strategy and shows that there are differing routes to successful economic performance.

Similarly, Nicoletti & Scarpetta (2005, p. 18) find that "restrictive regulations in the product market tend to be associated with restrictive labour market policies, resulting in both weak product market competition and stickiness in labour reallocation. As already mentioned, this correlation tends to support the idea that policies in the two areas are political complements." The EEAG (2006) asserts that its "most striking conclusion is that the Lisbon strategy should be modified".

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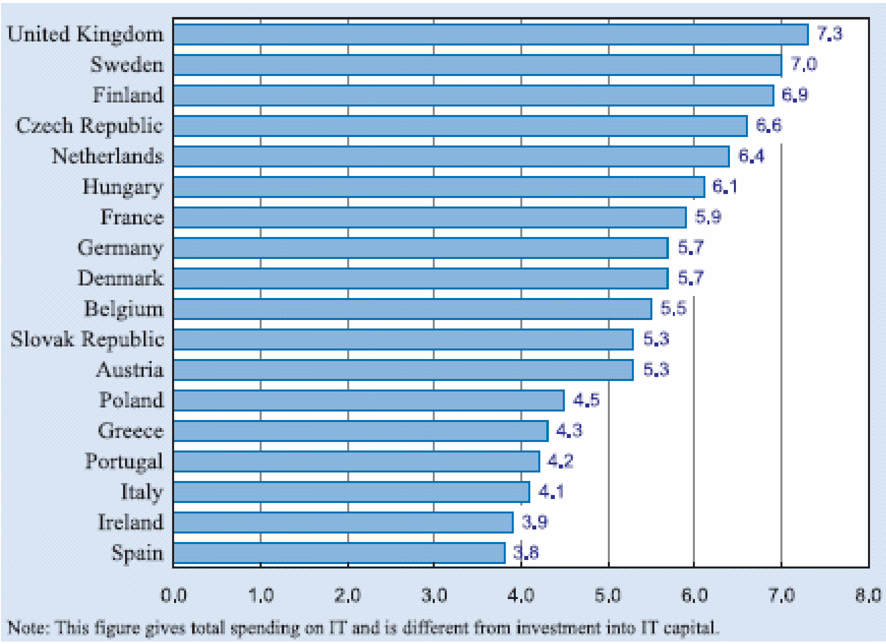
[8] This forum is perhaps the only one in which there is a genuine peer review insofar as each member state is asked to present its NRP and is then 'cross-examined' by others. Yet, with 25 member states and meetings lasting only a small number of days, the intensity of the scrutiny is inevitably constrained.

Table 3. Consistency between the OECD guidelines and the Lisbon integrated guidelines

	Participation rate of older workers	R&D spending
Austria	✓	X
Belgium	✓	✓
Cyprus	n/a	n/a
Czech Republic	✓	X
Denmark	X	X
Estonia	n/a	n/a
Finland	✓	X
France	✓	X
Germany	X	X
Greece	X	✓
Hungary	✓	X
Ireland	✓	✓
Italy	X	X
Latvia	n/a	n/a
Lithuania	n/a	n/a
Luxembourg	✓	X
Malta	n/a	n/a
Netherlands	✓	✓
Poland	✓	✓
Portugal	✓	✓
Slovakia	✓	X
Slovenia	n/a	n/a
Spain	✓	X
Sweden	✓	X
United Kingdom	✓	✓

Source: Pisani-Ferry & Sapir (2006).

Figure 6. Expenditure on ICT, 2003 (% of GDP)



Source: EEAG (2006), based on World Bank data.

All of these perspectives suggest that there is good reason to think afresh about the principles that have become embodied in the Lisbon approach to economic reform. The trouble is that it is then rather hard to find an appropriate way of reconciling the different demands. It is therefore useful to reflect on what could change.

4. Scope for reforms

In the run-up to the 2005 re-launch of the Lisbon strategy, it was generally agreed that it had lost its way and needed fresh thinking. The annual scorecards produced by the Centre for European Reform[9] showed that in some areas there had been progress, but that some member states had made only limited advances. Moreover, the laggards include three of the largest EU economies – Germany, France and (especially) Italy – the arithmetic consequence of which is that by the beginning of 2005 the record of the EU as a whole had been disappointing. On the one hand, it has to be borne in mind that countries such as Italy started from a long way behind the leading countries such as Sweden or Finland and have actually initiated a substantial number of reforms in recent years – if the checklists periodically published by the OECD are accepted at face value. On the other hand, it also has to be recognised that economic reform is a cumulative process.

For the most part, those consulted in the course of this study (largely echoing the viewpoints expressed in publications from various sources) consider that the new approach is a significant improvement and that there is now a political momentum behind the strategy that was previously lacking. Equally the research has identified shortcomings in the strategy, though it is also clear that, with one exception, there is no real consensus on how the strategy should now evolve. The exception is that nearly all are agreed, to borrow a line from UNICE (2006), that the "key word of the growth and jobs strategy in 2006 must be: implementation".

Yet there are divergent views on what should now happen. As a coordination process, Pisani-Ferry & Sapir (2006, p. 12) argue that the political choice on how to proceed with Lisbon II was "predicated on the assumption that the EU was confronted with a trade-off, and that more political ownership could only be gained at the expense of transparency in performance assessment. This was a questionable assumption in the first place." An extreme option would be simply to abandon the Lisbon strategy on the grounds that it does not add value commensurate with the bureaucratic efforts it demands.[10] Pisani-Ferry & Sapir pose the rhetorical question: "Should Lisbon be saved?", and somewhat guardedly come to the view that it should because its goals and the inter-dependencies it seeks to address command consensus.

Although it might seem premature to write off a re-launched strategy before it has had time to prove itself, a convincing rationale for having the form of coordination of national economies that the Lisbon strategy represents is far from obvious.[11] The problem is not so much to identify the priorities for reform within member states – if anything, what needs to be reformed has been analysed so extensively that the priorities have become part of the conventional wisdom – as to find a way of advancing reform. Nevertheless, the solution is almost inevitably going to be found within a country, rather than outside it. Indeed, in an editorial coinciding with the spring 2006 European Council, it was stated that "taking refuge in the ritual talk about the Lisbon

[9] The report by Murray & Wanlin (2005) was the last one to cover 'Lisbon I'.

[10] It was suggested by one official consulted for this project that some 400 European Commission staff were involved in different ways in the Lisbon strategy, let alone those in the 25 sets of national ministries.

[11] This point was discussed in the recent Bruegel report by Pisani-Ferry & Sapir (2006) and in an earlier article by Begg (2005).

agenda, which by now it is clear has missed numerous chances to make Europe competitive, is a comfortable but trivial distraction for the EU's leaders".[12]

The rationale for the Lisbon strategy

The loose heading of 'Lisbon' has progressively expanded its reach, swallowing up the Cardiff process and arguably significant parts of the internal market programme. Latterly, Lisbon also seems to have become a code word for reform of the European social model (or models).[13] The core of Lisbon, however, is supply-side reforms in member states allied to fresh thinking about social policy. On this definition – which is narrower but still pretty broad – a question arises that is surprisingly little discussed: What is the rationale? What needs to be demonstrated (though is often not done so) is that by having an EU-level policy, process or mechanism, there is added value.

From where could such added value arise? One answer is that the process itself matters. By having an organised procedure for sharing experience and so on, it may be that countries open themselves to a far greater degree than they would otherwise to policy innovation, especially if they can point to demands from Brussels as a form of *vincolo esterno* (external pressure). If this argument applies, then it may be that the resolve of governments to tackle problems can be stiffened. Yet the opposite case can also be argued, namely that pressure from Brussels proves to be counter-productive by creating a common enemy against whom diverse interests can unite. Indeed, as explained below, the architects of the 2005 re-launch of the strategy seem to have been persuaded by this last point of view.

At one level, a spillover argument for policy coordination is unassailable. If the economies of partner countries become more productive, their rising prosperity should increase demand everywhere: this is the classic free-trade/liberal market case, although followers of the *délocalisation* and Polish plumber debates will recognise a flip side. Metaphors of rising tides and the whole being greater than the sum of the parts are also adduced.[14] But while better-performing economies throughout the EU may be desired, what is far less easy to show is that a coordinated process is an optimal way of achieving this goal. For the spillover argument to hold, two points would have to be demonstrated – first, that the common programme is necessary for reforms to take hold; and second, that the pay-off to reform in one member state is diminished by inappropriate or delayed reform in another. To put it differently: Does the coordination process add value or does it risk imposing an inappropriate one-size-fits-all solution?

The scope for reform of the Lisbon strategy as a system of governance depends on whether a number of potentially conflicting features and expectations of the current system can be reconciled. These include

- competence for the main policy areas remaining largely with member states, at the same time as the pursuit of common goals;
- a continuation of the partnership approach between the Community and member state levels and the imperative it implies of eschewing resort to naming and shaming;

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[12] See the editorial article in *European Voice*, 23-29 March 2006.

[13] The range encompasses not only the standard Esping-Andersen trilogy and the variants thereon, but also extends to the varieties of capitalism and a range of other bodies of literature, including the approach of the French *régulation* school.

[14] The 2004 Kok report interpretation of the intent of Lisbon is that "Actions by any one Member State, ran the argument, would be all the more effective if other Member States acted in concert" (European Commission, 2004).

- the variety of modes of governance now encompassed under the Lisbon strategy, ranging from application of the traditional *méthode communautaire* to the variants on the open method of coordination;
- the encouragement of mechanisms of accountability and, by association, of a broader participation in and debate on the policy-making around Lisbon;
- stability in the orientations of policy and coherence across policy processes;
- the need for a capacity to respond to emerging concerns, as well as to rethink dimensions of policy that do not deliver;
- the provision for governments choose to make political choices that warrant changes of direction or for policy shifts occasioned by changes of government; and
- the means for ensuring effective implementation in the absence of either sanctions or rewards in the policy process.

The research conducted for this report has identified several possible areas for reform that exemplify the difficulties of reconciling these policy principles. A good example is whether to have national recommendations from the Commission as an adjunct to the integrated guidelines. A strong argument for **not** doing so is that the member states have been invited to take ownership of the reform process and to engage different domestic stakeholders in thrashing out their reform priorities. An external voice would interfere with this political process and might be insensitive to national debate; in any case it could induce the rejection of even well-conceived recommendations purely because they emanate from ‘Brussels’.

On the other hand, it could be argued that the whole point of a coordinated process in which the member states go to the trouble of compiling and submitting to the Commission an NRP is to subject it to review and to elicit suggestions for improvements. In the 2005 round, the Commission and EPC reviews of the NRPs did identify strengths and weaknesses, and to the extent that the conclusions of the Commission’s national assessments call for action to remedy the weaknesses, they can be regarded as *de facto* national recommendations. But even this leaves uncertainty: the member state is not formally or visibly named and shamed, so much as ‘encouraged’ to put forward solutions to the weaknesses. As a result, domestic actors receive ambiguous signals about how they should hold the policy-makers in their country to account and whether they ought to be exerting pressure on the authorities to respond.

4.1 What is missing?

A first area in which some commentators see scope for reform is in re-balancing the mix between supply- and demand-side policies (Horn, 2005). Although six of the integrated guidelines are labelled as macroeconomic, their thrust is to push member states towards a stance that is more stability-orientated in their conduct of fiscal policy and to take account of long-term fiscal sustainability, rather than to pave the way for active demand management. Yet as shown above in Figure 5, a more rapidly growing economy makes it easier to orchestrate economic change, while also creating additional resources that offset the costs that tend to arise in reform.

The problem at the EU level is that there is no obvious policy instrument that can be used to stimulate demand, especially when the larger euro-area member states have strained fiscal positions. There may also be a long-run structural problem associated with mature industrial economies such as Germany of a slowdown in growth potential (Gros, 2005). The 2005 reform of the stability and growth pact introduced some leeway for member states to maintain a deficit in the medium term, provided that the reason for the deficit is expenditure expected to result in structural reforms. The provision is limited to 0.5% of GDP and is thus not very substantial compared to potential growth-promoting policies and a concern is that the outcome will be to deflect the member state from policies that it might otherwise adopt.

A variety of other factors can be identified as possible gaps, embracing governance and the engagement of different sorts of actors as well as economic policy areas that ought to be more prominent in the Lisbon agenda. Although the main message emerging from the Kok report and the 2005 re-launch was that the Lisbon strategy had to become more focused, it is open to doubt whether it actually is. Lisbon I eventually had some 100 targets or underlying aims across all its various dimensions, and it is far from obvious that these have been rescinded. On the contrary, the 24 integrated guidelines, while in some sense representing continuity in that they extend other processes, can also be interpreted to mean that the Lisbon strategy is now 100 + 24. Moreover, the enthusiasm to add more appears to be unabated, not least as an outcome of the Hampton Court meeting. Although all four themes (each of which, in turn, has sub-themes)[15] emerging from that meeting might well be top of a list if a reform programme were being constructed today, the point about these new orientations is that they risk introducing confusion rather than clarity.

The EESC report submitted to the 2006 spring European Council outlines 17 suggestions for reform of the strategy (see Box 7).

Box 7. EESC proposals for reform of the Lisbon II strategy

1) Hold European, national, regional and local authorities to their responsibilities.
2) Emphasise that coordination is the priority task of the European institutions, in line with the subsidiarity principle.
3) Call for the greatest possible involvement of citizens in key political and strategic projects.
4) Require organised civil society to be involved in the NRPs.
5) Highlight the quality of initiatives towards the common objectives and values.
6) Show the importance of economic and social councils as partners of the state.
7) Promote civil society structures, particularly in the new member states.
8) Support the position that "*people are Europe's main asset*" (emphasis in the original).
9) Encourage investment in people and in European society.
10) Explain to their members that these investments are also a key productivity factor.
11) Highlight the importance of social partnership and social dialogue.
12) Emphasise the specific tasks of the social partners and their means of action.
13) Show that employers' and trade union organisations are meeting their responsibilities to society.
14) Harness the EESC's unique network in order to add value to the Lisbon strategy.
15) Use the EESC's network to relay messages to huge sectors of the population.
16) Show that this network helps to convince the public of the validity of the Lisbon strategy.
17) Propose a 'European civil society day' in order to raise awareness.

Source: European Economic and Social Committee (2006).

[15] There may however, be double-counting.

The trouble with lists such as the EESC one is that taken one-by-one, they often make sense. Moreover, a benevolent interpretation of the propensity to add to Lisbon is that redefinitions of objectives are frequently sensible and that the 24 integrated guidelines are not so much an addition to Lisbon as a rationalisation. The alternative interpretation is that Lisbon is always going to be subject to 'mission creep' and that attempts to keep its focus sharp are unlikely ever to succeed.

4.2 New directions for the Lisbon strategy

Many of the ideas on the table for new directions have to be seen in the light of foregoing analysis of the position. Here we review some of the options that have been canvassed.

The Aho report

A significant contribution to the debate is the Aho report, requested by the European Council at its October 2005 Hampton Court meeting, which puts forward four main proposals for enhancing innovation in the EU. It proposes three sets of actions to enable the EU to bridge the gap between the often articulated aim of developing a knowledge-based economy and the reality of institutional structures and attitudes that inhibit change.

- The first is to create a market for innovative products and services, in which there is sufficient scale and opportunity for innovators, as well as rewards for 'lead users' (the customers prepared to be first to buy) to induce them to risk the purchase. Well-tried single market arguments are adduced to promote such markets, such as public procurement and common standards, and the report also stresses the importance of 'intelligent customers' who steer innovation by being demanding in their requirements. The public sector is especially encouraged to be less risk-averse, while improved regulation and respect for intellectual property rights are highlighted as necessary conditions for such markets to develop and prosper. Good examples are e-health and environmentally friendly goods, while the advent of the European GSM communications system and Airbus are cited as past examples of cooperation at the EU level that might be emulated in future.
- The second is to provide sufficient resources for R&D and innovation. The Aho report is at pains to stress that an R&D target (the well-known 3% of GDP) is not of itself enough, and should be seen as an input indicator. Rather, the issue that is critical is how R&D is used and the productivity of research. In this respect the Aho report (Aho, 2006, p. 13) reaffirms the challenges of implementation, stating, "the challenge is not one of intent, it is one of implementation. The ambitions are laudable but progress towards the target has been uninspiring and even today few concrete measures are in evidence." Although the report emphasises the primary role of privately funded business research in accelerating innovation, it also calls for a beefing-up of publicly funded support and the championing of excellence. A more contentious proposal is that the structural funds should play an increasing role in supporting innovation and the report echoes calls for a higher share of the EU budget to be devoted to research.
- The third action is to improve the structural mobility and adaptability of Europe, not just in terms of geographical mobility but also other dimensions such as between science and industry or between the private and public sectors. The Aho report also highlights greater financial mobility as a necessary element, notably to improve the supply of venture capital,

and calls for managerial and organisational changes. Here again the report bemoans inadequate market mechanisms and the regulatory machinery that fails to encourage innovative investments or forms of organisation.

The report additionally argues that there is an important social dimension to address, which constitutes a fourth orientation for a new approach – "the necessity for more positive European attitudes and culture towards entrepreneurship and risk taking". This cross-cutting imperative is plainly not as open to market solutions, as it requires a much more concerted approach to altering how business is perceived by society, although a quasi-market approach that could be envisaged would be for society to confer greater status and civic rewards on risk-takers. Equally, if this ambition of the Aho report is to be pursued, it has to be recognised that it will not happen overnight.

Policies to stimulate R&D and innovation are put forward as a priority in all the National Reform Programmes, but it is not always obvious in what sense, nor will they necessarily achieve the kinds of paradigm shift that Aho calls for. Clearly a temptation for the authors of programmes is to engage in a form of self-delusion in which they feel obliged to include enhancement of R&D and innovation as objectives because all the signals from 'Brussels' or from peers are that these factors are essential to structural reform. Yet the pay-off for the member state may not be as great as if other priorities were favoured. The danger then is that either the exercise degenerates into empty rhetoric with few tangible results, or that effort is diverted away from policies that could make a greater impact in the medium term. The Aho report recommendation that all regions should prioritise innovation policies can be criticised from this perspective insofar as it may distract the regional authorities from other measures that could produce more immediate gains.[16]

Key issue papers

In advance of the spring 2006 European Council, all the Council formations with remits that touch on the Lisbon strategy prepared 'key issues/messages' papers, and it can be argued that all of these exhibit some of the strengths, weaknesses and dilemmas of the Lisbon approach. In all cases the language of exhortation is loud and there is a common insistence on effective **implementation** being the next challenge. Yet there are also differences of emphasis. Thus the Employment and Social Protection Council (EPSCO), not surprisingly, stresses the employment and social dimensions, calling for more and better jobs and making a plea for social partnership as a vital contributor to the governance of the Lisbon strategy. It also devotes a proportion of its message to arguing for the OMC in social inclusion to be better linked to Lisbon. EPSCO especially stresses the complementarities between the re-launched Lisbon strategy and the OMC in this policy area. This line of argumentation reflects the promotion of social protection as a productive factor, which for some time has been a priority in the European Commission's DG for Employment and Social Affairs and endorsed by the relevant national ministries. EPSCO also draws attention to the fact that social cohesion is a fundamental aim of the Union and that combating social exclusion remains "a central priority of the Lisbon strategy" (European Council, 2006a, p. 6).

[16] An issue that arose in discussions between the authors of the Aho report and Polish regional development officials was that it was unrealistic to expect that the eastern Polish regions could plausibly be locations for leading-edge research.

The key issues paper by ECOFIN (see European Council, 2006b) identifies the following priorities for the Lisbon strategy:

- using the opportunity of the evolving recovery to pursue fiscal consolidation, in line with the EU's stability and growth pact;
- improving the sustainability and quality of public finances;
- increasing employment in Europe as one of the top priorities for reform;
- providing the right incentives for innovation;
- creating a favourable business environment for small and medium-sized enterprises; and
- ensuring a coherent EU energy policy in a global context.

The Competitiveness Council, while expressing broad support for the four Hampton Court priorities places its emphasis on the first two and adds two more emphases of its own (European Council, 2006c):

- strengthening the global competitiveness of Europe's enterprises and industrial base; and
- improving the functioning of the internal market. In this regard, the Competitiveness Council perseveres in highlighting two of the areas that it has singled out in recent years: services and network industries. It should be noted too that a White Paper on financial services published in December 2005 could also be seen as part of the internal market agenda.

The Environment Council similarly draws attention to the scope for environmental policies to boost competitiveness and "calls on the Commission to further explore how the synergies between the economy and the environment can be harnessed and to intensify work on linkages between environment and employment policies" (European Council, 2006d, p. 25). The Council also brings up the questions of how environmental considerations fit into the Lisbon agenda and how to ensure coherence between Lisbon and the EU's sustainable development strategy that is due for re-launch in June 2006. One of the dilemmas here is whether the sustainable development strategy and Lisbon should be treated as separate processes or be melded into a single coherent approach to the supply side. The Council minutes and other information suggest divided opinion on this question, which may be to the detriment of both.

Other priorities articulated by the Environment Council include more enthusiastic implementation of the Environmental Technology Action Plan (ETAP), more funding for innovative projects in the area of environmental policy and support for a new energy policy that promotes new fuel, cleaner fuel sources, strengthens energy efficiency and initiates measures to curb demand.

Even if the proposals in any of these key issues papers were the only ones on the table, the inevitable question is: How are all these demands to be reconciled while maintaining the focus of the Lisbon strategy? Here, some hard thinking is needed. To take one example, if the EPSCO call for social inclusion to be more closely associated with Lisbon II is to be supported, can it be done without diluting efforts to promote growth? Similarly, adding new elements such as an EU energy policy may well be a prudent response to an evolving economic environment, but could raise further tensions about what should and should not be given priority. For instance, some elements of the proposed EU energy policy might well add to costs (thereby supporting the Environment Council's perspective, while others do the opposite, thereby reflecting the priorities of the Competitiveness Council (see Box 8).

Box 8. Does the proposed EU energy policy fit into Lisbon?

The Commission's Green Paper on energy, published on 8 March 2006, highlights and exemplifies a number of the governance issues that surround the Lisbon strategy. In explaining the overall case for an EU energy policy, the Green Paper raises six key questions about energy:

- Is there a compelling case, on competitiveness grounds, for a genuine single energy market?
- How can the energy mix be diversified in a climate-friendly manner?
- What ways can be devised to forestall energy supply problems?
- How can a balance be struck between supply, price and environmental challenges?
- How can the EU boost innovation and secure its lead in energy technologies?
- What approach should be adopted with regard to the rest of the world in energy matters?

While these might all appear to be desirable objectives, it soon becomes apparent that there are potential conflicts that illustrate some of the broader dilemmas that the Lisbon strategy struggles to reconcile. Triangles are much in use in Lisbon terminology and in the energy sector. The particular geometric configuration being used has as its three points security of supply, competitiveness and environmental protection.

- The first, security of supply, necessitates a diversity of sources, the ability to pay for and store energy and the development of new forms of energy production, all of which would normally require rising prices.
- The establishment of a single, more competitive market implies lower costs of energy, which would be in the interests, above all, of the most cost-competitive sources of energy supply. Today, these are fossils fuels, especially oil and gas.
- Environmental considerations, by contrast, favour a shift in supply sources along with large-scale investment in new technologies aimed at conserving energy and developing new forms of production.

The trouble with adding a new energy triangle is that its points differ from those in other policy domains, potentially adding to not only geometric confusion, but also to uncertainty about broader policy orientations.

4.3 Procedural changes

A core aim of the re-launched Lisbon strategy is to improve governance by making member states more accountable to their various stakeholders, yet it is far from obvious that the developments over the last year are leading in this direction. Pisani-Ferry & Sapir (2006) are rather scathing in arguing that the Lisbon strategy's methodological underpinnings are much weaker than the OECD approach. They conclude that what is needed is "a more systematic and consistent comparative assessment of the quality of national policies in areas such as employment, and concrete recommendations to member states for actions in areas such as R&D where the rationale is interdependence". Others take issue with this ((deliberately?) provocative) interpretation, pointing to the fact that there **is** a systematic approach within the Commission and that a large number of officials have in fact been involved in monitoring activities, bilateral meetings and other interactions with member states.

The open method of coordination

Given that ownership is central to the Lisbon II approach to the governance of economic reform, the role of the Commission and peer scrutiny needs to be more supportive, particularly in nurturing the domestic debates on policy. How to do so goes to the heart of the viability of 'soft' policy coordination as a means of fostering reform. The open method of coordination exists largely because the alternatives are either politically or pragmatically unacceptable. In principle, the great advantage of the OMC is that it allows for common policy-making without either hard law or a full transfer of competence to the supranational level, with all the complications these actions entail. An idealised OMC also embodies sufficient flexibility to adapt quickly (unlike hard law) and to take sufficient account of national differences. Yet if it is to add value to what national policies would achieve in its absence, the OMC must also encompass ways of altering what member states would do in any case and it is by no means obvious that the Lisbon II framework achieves this.

The strengths and weaknesses of OMC have been studied by a number of scholars[17] and can be summarised as follows.

- **In its favour**, the OMC is flexible and can take sufficient account of national differences. It allows common approaches to be elaborated in sensitive policy areas yet it is less threatening to member states because it does not entail loss of sovereignty or politically damaging sanctions. It facilitates the transfer of policy ideas and experimentation in finding new solutions and offers the prospect of engaging wider interests in policy-making.
- **Against it**, the OMC is prone to be rolled out without a clear definition of what its aims are, risking being a lowest common denominator rather than a coherent policy strategy. It typically does not oblige the member state to make firm commitments and, in any case, does not offer meaningful incentives. Despite stated ambitions it tends not to be transparent or to engage diverse interests, and experience suggests that many of the mechanisms through which the OMC is meant to promote policy-learning have little tangible impact.

It can be seen that the strengths and weaknesses are often two sides of the same coin. Thus, flexibility in approach is both a virtue and a source of too great a degree of heterogeneity, while the absence of rewards or sanctions may be politically appealing but undermines commitment. In relation to Lisbon II, the exclusive reliance on the OMC has given way to a more mixed set of governance instruments, especially with the advent of the CLP.

Community level

At the Community level, one of the big questions is whether there is scope for evolution in the role of the different Community institutions. It can be argued that Lisbon I, as a predominantly intergovernmental accord, assigned only a limited role to the Commission and left it unclear whether that role was to be primarily diagnostic, advisory, facilitating or disciplinary. In practice it had elements of all four, though without any mandate made very clear. By portraying Lisbon II as a partnership, a division of labour has become more explicit. The Commission is charged with leading the way on the many elements in the CLP and, overall, has done so. As a result, it can be argued that the Commission has recovered political leadership, rather than just being the administrator of Lisbon, though it remains to be seen whether it can sustain this change.[18] Some member states are inclined to see the shift as a grab for power.

If some of the flagship components of the CLP are stalled, it more likely stems from the fact that they are politically sensitive (consider, for instance, the services directive, the proposal for an EU patent[19] or the proposal to establish a European Institute of Technology (EIT)). But there may also be a case for looking afresh at the relationships between the institutions and at how

[17] For a recent, concise overview, see Metz (2006).

[18] Pisani-Ferry & Sapir (2006) employ a different metaphor, arguing that the EU role has switched from school master to coach.

[19] It is worth recalling that in the conclusions of the 2000 Lisbon European Council it was stated (para. 13) that a Community patent should be available by the end of 2001!

they could be improved. In the last year, for example, the Council appears to have been a source of delay and the concern has to be that an impact of the re-launch has simply been to lose a year in advancing the Lisbon agenda.

Even so, the EIT proposal has made progress, culminating in explicit proposals put to the European Council in March 2006, based on a Commission Communication.[20] In a very positive paper, the Commission argues that creation of the EIT would add 'value' in three ways:

- It will offer the private sector a new relationship with education and research. This will bring new opportunities for the commercialisation of research and a closer two-way exchange. The integration of teams from universities, research centres and companies will give it an edge over traditionally organised universities. It will also bring opportunities to attract private finance to the EIT.
- It will concentrate on combining the three sides of the knowledge triangle – education, research and innovation. They will be inseparably linked, because of the EIT's nature and its mix of partners. This will direct its activities into new and more productive directions.
- It will represent a concentration of resources and thus be able to match the highest standards achieved elsewhere.

A further issue is the organisation of the Lisbon strategy within the Commission, where a shift has taken place. Lisbon appears to have become the overarching aim of the Commission president and there has been a reconfiguration that puts the DG for Enterprise and Industry in a more prominent position, arguably at the expense of the two DGs that previously 'owned' the BEPGs (DG ECOFIN) and the employment guidelines (DG for Employment and Social Affairs). It is also apparent that the Secretariat-General has assumed a stronger coordinating role across the Commission, although a possible criticism is that the Secretariat-General has emphasised procedure at the expense of content.

There are a number of areas where different approaches to procedure could be envisaged. UNICE has called for more use of benchmarking and the promotion of best practice, and others have advocated more use of peer review. It is, however, difficult to identify where peer review should be conducted. Committees such as the Economic Policy Committee and the Employment Committee can play a role, but discussions with Committee members conducted in the course of this study suggest they have only limited time to devote to NRPs and their follow-up. Moreover, the Commission's bilateral contacts with member states seem to have been quite productive. Overall, the impression gleaned is that peer review is fine in principle but hard to conduct in sufficient depth to be helpful.

National level

At the member state level, there are various ways in which potential procedural changes could reinforce the aim of encouraging member states to take ownership of the Lisbon strategy. Among these are more open procedures in the national economic calendar to give the reform strategy the same prominence. For example, it has been suggested by Deroose et al. (2005) that it may even be worth splitting the economic policy calendar between an EU and a national semester, an idea put forward by DG ECOFIN in discussing reforms of the stability and growth pact.

[20] See European Commission (2006a).

A firm expectation (and the interviews conducted for this report suggest that it will be fulfilled) is that the sort of country-specific recommendations that were made until last year as part of both the BEPGs and the employment guidelines will be restored in the coming year. There have been differences of opinion about whether they serve much purpose, and some thought may therefore be needed about *how* they are brought back in as well as *whether* they are.

More generally, while it is clear that the opposition to naming and shaming has been robust there are also voices – some of them perhaps unexpected – now calling for some such mechanisms to be introduced. An issue here is whether the expression 'naming and shaming' has become too emotive and has excluded forms of scoreboard or publication of indicators that might serve useful purposes. The term 'ranking' is known to raise the hackles of some ministers, but with a little imagination, softer expressions could be adopted that enable performance to be more transparent to national stakeholders.

4.4 The euro area

One issue that has so far received comparatively little attention in the debate on the Lisbon strategy is how it fits into the framework for economic governance of the euro area. In a number of respects, the full participants in the economic and monetary union (EMU) differ from the rest of the EU. Most obviously, they are subject to the single monetary policy, but it is also relevant that they face stricter obligations under the stability and growth pact. In addition, exchange rate fluctuation is not available to ease adjustment of the economy, except indirectly through the slow-acting mechanism of relative shifts in the nominal wage. Thus, there is a qualitative difference in the framework for macroeconomic policy-making. In particular, how monetary policy responds to success in achieving the sorts of economic reforms covered under the Lisbon strategy is a key issue.

In a conventional setting, reforms that diminish cost-push pressures on inflation would *ceteris paribus* allow the monetary authority to set a lower interest rate, thereby holding down the cost of capital in a way that encouraged higher investment. A government that embarks on a reform programme can consequently anticipate a 'reward' in the form of a response from the central bank; equally, a government that procrastinates will be penalised. Yet within the euro area the incentives are diluted, because the central bank reaction will be to the *aggregate* reform effort, such that if one member of the EMU – especially a small country – engages in extensive reform, it will see little or no gain in terms of lower interest rates. Conversely, an EMU member that does not reform will still benefit from the central bank reaction to the reform efforts of others and the fact that the country premia on long-term rates are very low demonstrates that this analysis does indeed hold true.

The prospect of this sort of free-riding has been extensively analysed in relation to fiscal discipline and constitutes one of the core arguments for the stability and growth pact. It is, nonetheless, much more tangential to the Lisbon strategy, despite the reasonably close parallel between the two sets of interactions. The question then is whether closer coordination of the reform strategies of the euro area participants would be warranted, precisely because the spillovers affecting common monetary policy and thus the overall conduct of macroeconomic policy are more intensive.

Two perspectives can be put forward. The first is to say that the Lisbon reform model is the 'correct' direction for policy, regardless of other considerations. Although it might be true that some euro-area member states do not receive the full benefit of their reforms because of the dilatory behaviour of others, they should still persevere because the feedback from monetary policy is of a second order compared to the gains from structural reform. The second solution would be to explore how the Lisbon commitments could be made more binding, such that the reforms in one country are reinforced by those in others.

This becomes very much a political economy challenge. A government will not find much support from its electorate for a painful process of reform if the gains are perceived to accrue partly to other countries and to depend on these partners being equally committed to reform. As with any analysis of spillover, the result may be competitive procrastination. A second political challenge is that an arrangement that exerted more discipline on the member state would engender objections of interference; indeed, it would be at odds with the 'ownership by member states' principle at the core of Lisbon II.

While it will not be easy to strike a balance among these competing concerns, there is some urgency in finding answers, especially with several more member states poised to accede to the euro area before 2010. It has also been argued by some of those consulted in compiling this report that the European Central Bank could reinforce the potential of the Lisbon strategy by making more explicit its likely reaction to an acceleration of economic reform. This in turn ties in with the demand-side issues raised above.

4.5 Resources and other means

Despite the settlement in spring 2006 of the Inter-Institutional Agreement on the Multi-Annual Financial Framework (MFF), the budgetary resources at the Community level available for the Lisbon strategy remain limited. This has two ramifications. First, it means that the scope for the Community level to offer financial incentives to member states for 'good' policy is severely circumscribed, especially when so much of the expenditure from the Community budget is rigidly allocated or tied-up in multi-annual programmes. Moreover, because the seven-year MFF is itself the outcome of a protracted negotiating process in which the member states have fought each other to a standstill over net contributions, rather than a calculation of the wider EU interest, the prospects for change are slender. In other contexts (analysed in the extensive literature on inter-governmental transfers), competitions to obtain allocated funds or conditional transfers of resources are established means of using the leverage of the higher tier of government to encourage sound policy, while co-financing can be used as a means of steering resources. An evident concern is that the use of such financial inducements implies that the Community level has at least as good, and ideally a better, understanding of what is 'in the best interest' of the member state – a presumption that is open to dispute, even if it is accepted that the Community level will be less beholden to specific interests.

Second, the paucity of financial resources means that if the EU level is to influence the policy choices of member states, it must do so through channels other than public spending. What opportunities are there for other such forms of intervention by the EU level? Sound analysis is one, as the Community level has a capacity for assessments of the conditions in the member states and the ability to be independent in doing so.[21]

The Lisbon strategy will always have to face up to tensions and even contradictions in its ambitions, and how these are mediated will in turn bear on how the strategy is assessed. Even in single policy areas such tensions can arise, for example between *more* and *better* jobs or between *adequate* and *sustainable* pensions. Furthermore, some Lisbon aims are potentially quite costly in public finance terms. Reducing taxes on labour so as to create employment may seem logical, but – at least in the short term – could aggravate budgetary deficits, as could tax

[21] It can be argued that so, too, do bodies such as the OECD and the IMF.

incentives for increased R&D. The relationship between the Lisbon strategy and the stability and growth pact is, therefore, another area in which scope for reform exists.

4.6 Timetable and sequencing of further reforms

The most immediate questions in relation to sequencing are how and in what form the focus of the Lisbon strategy should shift towards implementation challenges. As noted above, there has been a consensus that the last year was spent on strategy and that the next two years – as is implicit in the Commission's Annual Progress Report – are for implementation. An expression used in the December 2005 White Paper on financial services captures much of the Commission's approach when it states that the aim is "dynamic consolidation". The White Paper goes on to make the point that further initiatives are meant to strike a balance between practicality, ambition and sensitivity to the wishes of stakeholders.

Nevertheless, until there is more substance on what the NRPs are actually achieving and whether there are obvious problems, there is not really a basis for saying what new measures should be considered and in what order. There will be much more to say on this matter in 2007.

4.7 Other points to consider

A general question that arises about the Lisbon strategy is whether the underlying model of development is an appropriate one. Whether it is framed positively as 'market-orientated' or more pejoratively as 'neo-liberal', it is undeniable that the Lisbon strategy is predicated on a particular vision of how the EU economy ought to evolve. One of the mysteries of Lisbon is that this vision tends to be largely uncontested, with little attempt to put forward alternative visions or condemnation of those who do as reactionary or out-dated. For example, the compromise over the proposed services directive or the resort to 'economic nationalism' are usually portrayed as politically expedient, second-best solutions that can be tolerated because they mitigate the impact on vested interests by slowing the pace of change. The implication is that they are steps on the way to the 'true model' and that the next steps will be taken as soon as the sources of obstruction can be out-flanked.

One area in which differing views might be considered is better regulation. The Mandelkern report of 2001 paved the way for an action plan on simplifying and improving the regulatory environment[22] and the Inter-institutional Agreement on Better Law-making agreed at the end of 2003, which ties the European Parliament, the Commission and the Council into promoting the aims of the action plan. Yet what is meant by 'better' is open to debate. In a paper presenting some work in progress, Radaelli (2006)[23] notes that one way in which the re-launch of Lisbon has shaped the better regulation agenda is by shifting the emphasis to de-regulation, down-playing the significance of better in the normative sense of more transparent (see Box 9).

Indeed, Radaelli traces this shift to the succession of presidencies of (comparatively) pro-market member states since the Dutch one in 2004. This narrowing of the scope of 'better', he argues, adds to problems of legitimacy.

[22] See European Commission (2002).

[23] See Radaelli (2006).

The problem with this lack of contestation is that it tends to close the door to viable alternatives that might emerge from more extensive debate, while also creating a climate in which resort to such alternatives is criticised. There are, however, a number of different approaches that could be explored. Perhaps the most immediate is macroeconomic policy whereby the prevailing model can be categorised as stability-orientated. The European Trade Union Confederation in particular has been vocal in asserting that deficient demand is as much, if not more, to blame for persistent unemployment in the EU as unreformed labour markets. Indeed, the lack of a supportive macroeconomic policy may have aggravated the problems of structural reform.

Box 9. Contestation of the approach: The example of 'better regulation'

The issue of better regulation is one in which there can be pronounced differences of approach. The main thrust of the Lisbon strategy in this context is widely perceived to be 'better = less', with the sub-text that the aim should be to re-shape regulation to support the competitiveness goals of the EU. The essence of this approach is that regulation will nearly always be synonymous with red tape, which adds to the cost of doing business and is thus an obstacle. Moreover, even if the competitiveness dimension is to the fore, 'better' regulation can also be achieved by improving its quality rather than focusing on the sheer number of regulations. This point argues for a more subtle cost-benefit framework instead of just the cull of regulations that has been one of the elements of the CLP.

It also has to be recognised that regulatory change sometimes involves a range of objectives and there is even a risk that the demand for better regulation will lead to a proliferation of goals. As a result, tensions may arise: we want light regulation that helps our industry to be competitive, but we also want the protection that regulation is designed to provide. In this regard, the diversity of aims within the Lisbon strategy and the shifting balance of priorities among the economic, social and environmental dimensions is likely to affect how 'better' is defined. In addition, it must be anticipated that what makes sense for one member state may not do so for another and that there may be varying priorities among the different policy domains encompassed within the Lisbon strategy. Put together, it becomes clear that a single or narrow conception of better regulation may be open to contestation.

In March 2006, the Commission announced that it would set up a high-level group to advise it on advancing the better regulation aspects of the Lisbon strategy. According to the press release (European Commission, 2006c) the group's tasks are to

- provide an **efficient interface between the Commission and key governmental authorities;**
- contribute to the **spread of best practices** developed both at EU level and at national level;
- strengthen cooperation between the Commission and the member states with a view to **implementing better regulation at national level;**
- contribute to the development of a coherent set of common indicators to **monitor progress as regards the quality of the regulatory environment** both at EU level and in the member states themselves, as a basis for benchmarking within their national Lisbon programmes;
- advise the Commission on better regulation issues, in particular:
  - **simplification** of EU legislation;
  - the **assessment of economic, social and environmental impacts,** including administrative costs;
  - **consultation practices**; and
  - the various **options of regulation** possible. *

* Emphasis in the original

5. Conclusions and recommendations

The last year has seen major changes in the framework for economic governance of the EU, with the reform of the stability and growth pact, the re-launch of the Lisbon strategy and the settlement of the financial perspective for 2007–13. While criticism can be levelled at the outcomes of all three reforms, the fact that they have resulted in agreement should be regarded positively, because it means that uncertainty about the framework, which might itself have been an obstacle to good governance, has been resolved. That being said, there is now an urgency to move from debate and decisions on the framework and mechanisms of economic policy-making to the conduct of policy. It constantly has to be repeated that the principal difficulty is not one of diagnosis or analysis, but of implementation. This section summarises the key messages from this study and puts forward recommendations.

A first key message is that the disparities in economic performance among the EU-25 member states remain alarming. The Commission's Annual Progress Report for 2006 (European Commission, 2006e, Annex, p. 6) observes that the main explanation for the differences in growth rates among countries is structural rather than cyclical factors, and the report also notes that the relative performance of different member states has broadly been maintained. These observations are borne out in the data on cumulative growth presented above in Figure 1. The slowest growing economies since 2000 (Germany and Portugal) will have expanded by barely 5% up to 2006, compared with double that rate in some of the more dynamic EU-15 countries and around six or more times as much in Ireland and the faster growing new member states. It is important to draw attention to what these trends portend: in just a few years' time, there could be a significant re-ordering of the league table of EU prosperity. There is also a risk that a sharp focus on some targets (such as the employment rate) will divert attention away from other, more complex aims such as boosting productivity. A further problem is that some of the underlying challenges confronting the EU are becoming more acute. Thus, population ageing is already affecting productive potential, especially for Germany and Italy (Gros, 2005), while the seemingly inexorable rise of China is intensifying global competition.

Given the proximity of the year 2010 – the original deadline for the Lisbon strategy – and the even shorter three-year horizon for the integrated guidelines that are the centrepiece of Lisbon II, the Commission's title for its Annual Progress Report is well chosen. *Time to Move up a Gear* is not just an appropriate metaphor for increasing the pace, but also for shifting to the next stages of reform. With some reservations, the strategic issues can now be regarded as largely settled and should not be subject to further significant change; indeed, further tinkering with the system risks back-firing if it obfuscates what needs to be done or allows governments to shy away from commitments already made. Certainly, some member states have been less explicit than others have in the way they have set out their reform programmes and might benefit from being pushed to go further. But a first conclusion of this report is that **even though some facets of the strategy might well have been improved had they been approached in a different manner, further tinkering with the strategic orientations of the Lisbon strategy should be resisted in favour of ensuring that what is in place delivers**.

It should be stressed that this first conclusion should not be a pretext for member states to relax. On the contrary, a second broad conclusion is that **where it is clear that the member state's NRP is flawed, it should be pressed informally and formally to remedy such flaws as rapidly as possible**. Some member states have very ambitious reform programmes that can be expected to effect major changes in their economies. Others have been much more restrained, while some NRPs can be regarded as disappointing. Yet so far, the Commission has shown itself to be unwilling to be more than mildly critical of the member states, while the EESC and, to a degree, the EPC have been more forceful. The onus should, nevertheless, be on the Community institutions (the Commission especially, but also the European Parliament, the

Council and the Economic and Social Committee) to be forthright in their diagnoses of problems and to be constructive in proposing ways forward. **A third conclusion is that the Community institutions, including the European Parliament, now need to be more assertive in pointing out weaknesses in member state reform programmes**.

Plainly, as the re-launched strategy moves from inception to implementation, most of the real challenges associated with making the strategy effective will progressively come on to the policy agenda. Indeed, one way of looking at the last year is that, by inviting governments to think afresh about their approach, the re-launch of the strategy has taken the pressure off governments to implement reform quickly. **A sense of urgency about implementation is therefore needed**.

In its presentation of the CLP, the European Commission[24] stresses the importance of "synergies and complementarities between the Community Programme and the member states reform programmes" and argues that they "are key to the success of the renewed Lisbon strategy". **It is important to recognise that the Lisbon strategy is a political challenge as much as, if not more than, an exercise in policy coordination**. It will stand a better chance of working if it attains increased political salience and becomes embedded in the routine discourse on policy-making, but will struggle if it (re)lapses into being a very loose exercise in reporting or comparing experience.

A key question therefore is how to ensure that Lisbon is pushed up the national political agenda, on the one hand, and is 'mainstreamed' in the interactions among EU institutions on the other. In the concluding section of the CLP, the European Commission[25] states that "in the spirit of the partnership for growth and jobs and in order to implement this Programme successfully, the European Commission will work closely together with the European Parliament and the Council of Ministers and draw on the expertise of other EU institutions".

The 2004 Kok report and other critiques have highlighted a lack of delivery as a key shortcoming of Lisbon I. This conclusion can be taken not just as evidence that outcomes were disappointing (which they manifestly were), but also as symptomatic of the lack of political visibility of the strategy. In other policy domains, failings on the scale exhibited by the strategy would lead to repercussions for the policy-makers responsible. **Yet the plain fact is that the channels of accountability have not worked**. 'Naming and shaming' and peer review were expected to be the means by which the open method of coordination would put pressure on recalcitrant or under-performing member states. In Lisbon II, the former has explicitly been rejected by the European Council and while peer review (which might, much of the time, more accurately be described as Commission review) is still envisaged as a mechanism, it is unlikely to be enough.

Moreover, structural reform has to be pursued over the medium term, rather than being continually reinvented. There will always be a temptation to add new elements to a reform process or to alter the balance between different elements in the light of experience. Yet constantly adding baubles to the Christmas tree – or new priorities to the Lisbon (or any other) reform agenda – inevitably risks diluting the political will to proceed and giving governments a way of avoiding their commitments. The temptation for member states will be to say, 'We may not have achieved xxx but it does not matter because the priority now is yyy'. In this regard, questions have to be asked about the four post-Hampton Court priorities and their relation to the

[24] See European Commission (2005a), p. 10.

[25] Ibid.

24 integrated guidelines. The challenge here is that despite the efforts to sharpen the focus, the reality is greater diffusion. **There is no easy solution to this dilemma, but the risks of overloading Lisbon need constantly to be monitored**.

What is needed, therefore, are complementary means of motivating policy-makers and giving them incentives for taking appropriate policy actions, including being rewarded for making the hard choices that will sometimes be essential to accelerate reform. Three possible approaches can be envisaged: financial, political and regulatory. With few resources allocated to the EU level for Lisbon-related purposes and an approach to the distribution of Community spending that is dominated by the calculus of *juste retour*, one result of which is a lack of flexibility, there is very little room for the Community budget to be a tool for rewarding the member states that act most responsibly. Nevertheless, a review of the Community budget will take place in 2008–09 and it affords an opportunity to revisit these questions. Since using the Community budget for such a purpose will require careful thought about how to structure any new measures, **it is recommended that the European Parliament should take a lead in developing new proposals for supporting Lisbon-related expenditure through the Community budget**.

Politically, the imperatives are easy to state but hard to resolve. Lisbon I suffered from its lack of attachment to the domestic economic policy agenda in member states and even when issues central to the Lisbon strategy became priorities, a connection with the strategy was rarely made and even more rarely visible. There is no magic bullet that will transform the situation; instead, a series of small steps involving a mix of enhanced communication about aims, an increased transparency of the policy process and a progressive building up of expectations is needed. All key actors in the political process, and notably **the European Parliament, are urged to intensify their efforts to raise the quality of public debate on economic reform and to mobilise other stakeholders**.

In the regulatory domain, some current initiatives have the potential to advance reform while also being seen as politically appealing demonstrations of the positive role that the EU can play in complementing member state policies. Although there is some danger that a proliferation of action plans leads to a sort of ‘reform fatigue’, timely initiatives can have a constructive impact. Thus, the recently published Green Paper on energy sets out a range of measures that can capture the imagination of stakeholders by combining solutions to evident problems in energy supply and use with a modernising viewpoint that can be captured in the expression ‘smart growth’.[26] The essence of this approach is to give priority to investments that exploit and advance new, cleaner technologies in a way that not only contributes to the resolution of environmental problems, but also boosts European competitive advantage in these new technologies. By so doing it can open the way to reconciliation between the Lisbon and sustainable development strategies. **A recommendation is to espouse and develop a smart-growth approach to sustainable development of the EU economy**.

In the sequence of reform, an open question is how far to go in customising the Lisbon strategy to individual member states. One aspect of this is whether, or at what point, to return to country-specific recommendations. The undeniable tension here is whether any such messages help or hinder reform in the member state. **Yet rather than calling for a clear choice to be made, the issue the European Parliament might raise in this regard is in what circumstances and in what form nationally-tailored recommendations could be most useful**.

Much the same questions arise about naming and shaming. It is clear that member states do not welcome it and that pressures from certain influential member states played a substantial part in

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[26] For a brief introduction, see Begg & Larsson (2006).

persuading the Commission to reject the Kok report proposal for more effective naming and shaming. That would appear to close off this option, yet there are ways of doing so that fall short of the kind of public humiliation that is implied by the expression ‘naming and shaming’. Scoreboards, for example, are less visible than the quasi-judicial condemnations that were used in 2003 in the excessive deficit procedures launched against several member states, although it is suggested that the word ‘ranking’ is one that member states prefer to avoid. **Again, therefore, it is in the political domain that these questions are best resolved and it would contribute to better governance if the European Parliament, in particular, could fulfil a more extensive role in monitoring member state progress**. The quid pro quo might be for the Parliament also to assume more responsibility for the Lisbon strategy: as was suggested by one interlocutor, in its standpoint on Lisbon the European Parliament needs change its stance to regard Lisbon as ‘our’ business, not ‘your’ business.

The prospect of further member states participating fully in stage 3 of economic and monetary union highlights a further concern, which is that the Lisbon strategy will increasingly have to be sensitive to the particular economic governance challenges of the euro area. For some purposes, the partnership between the Community level and the member states is wholly appropriate, but where euro area-wide decisions are called for, a fresh approach is needed. **It is thus recommended that options should be explored for the euro area to be better engaged institutionally in the Lisbon strategy**.

Lisbon began as an experimental approach, covering new areas, but now comprises a mix of old and new policy instruments and mechanisms. Coherence across different EU governance processes should be central, but while the consensus is that Lisbon **is** now more coherent, it is far from obvious that it is optimally so. With so many previously segmented ‘processes’ and governance mechanisms (the Cardiff process, the BEPGs and so on) now under the Lisbon umbrella, there is a more integrated policy system. There are also signs that there is a greater engagement of national policy-makers and the designation of Lisbon coordinators represents a shift towards ownership, which is central to the re-launched strategy. Yet it is fragile, because it has such shallow roots in national discourse. To answer the rhetorical questions in the title of this report, rather more has changed than some might believe, and positive, if often small, steps have been taken. Yet the onus is now on all actors to go further before a convincing verdict can be pronounced on whether it is working better. What is clear, though, is that it will be a long march.

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