

## spotlight europe

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# Lisbon – A Second Shot

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Yesterday it was the turn of the Lisbon Agenda. Tomorrow it will be that of EU 2020. This new economic strategy is primarily aimed at producing sustained growth. So far, so good. However, the crucial issue is to readjust the basic governance. The 2020 strategy requires genuine benchmarking, a European Council of Economic Experts, and more research funding in the European Union's budget.

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### The Bottom Line

The EU heads of state and government were not exactly being modest when in March 2000 they proclaimed that they wanted to turn the EU into the “most competitive and dynamic knowledge-based economic area in the world” by 2010.

These rather striking words mirrored the spirit of the millennium. The IT bubble was still in full swing, and the great crisis a long way away. The New Economy had made people euphoric. By the 1990s the (small western) EU had caught up with the US in economic terms. But now it looked as if the ongoing American start-up boom was leaving the Old World behind. At the same time the unending

upsurge in the US seemed to betoken that there were no limits to innovation-driven growth. It was clear that something had to be done in Europe.

This unusual tour de force was supposed to catapult the EU into the fast lane, and there was a belief that it would be possible to unleash a hitherto unknown dynamism in the sectors of the future, which ranged from information technology and multimedia to biotechnology and telecommunications. The new jobs were supposed to make the Old World not only more productive, but also to provide better working conditions than those prevalent in the ageing industrial sectors. All this was designed to increase the social cohesion of the Union, minimize poverty, and protect the environment with the help of a new wave of “clean” growth.

Ten years down the road it is clear that Europe has not come up with the hoped-for developmental leap. Before the outbreak of the financial crisis in 2008, the employment quota in the EU was 66% (the target was 70%). 1.9% of GDP was spent on research and development in the same year, and this was not an improvement on 2000 (the target was 3%, which was reached only by Sweden and Finland). The productivity gap between the EU and the US has hardly diminished. And the

downturn in the international economic climate. And the enlargement of the EU in 2004 and 2007 made it difficult to continue with a process which had originally been conceived for the west European club of 15. Even today all the indices show that the new members are still below the averages for the old members. Furthermore, since 2008 all the states of the EU have had to struggle with the consequences of the global economic and financial crisis.



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European Commission itself bewails the fact that in places where jobs have been created, poverty has often not been eradicated.

The progress that the Commission puts down to the Lisbon process in its provisional evaluation is rather vague. Brussels believes that there is now a basic understanding of why reforms are necessary. Countries were learning more from one another. And cooperation between the EU and the member states had been “a positive experience.”

There are many reasons why the bottom line has been such a disappointment. Since its inception many external events have held up the process. Thus the New Economy came to a sudden end when the internet bubble burst. The attacks on 11 September 2001 led to a

Furthermore, soon after the adoption of the agenda the EU’s political priorities shifted in other directions. Thus the general public and the political decision-makers were primarily interested in the forthcoming enlargement of the Union and the debate surrounding the EU constitution. The implementation of the joint strategy for growth was left to political specialists and professionals working behind the scenes. Decisive and visible political support for Lisbon was in evidence neither in Brussels nor in the majority of the member states. There was no upsurge, and the desire to catch up petered out and became a stumbling gait.

Yet the strategy itself had some fundamental faults. For example, the agenda was simply overloaded. The Kok group headed by the

former Dutch prime minister already pointed this out in its half-time report at the end of 2004. The EU reacted by concentrating its efforts on growth and the creation of jobs (the slogan was “Jobs and Growth”). There was nevertheless an impenetrable jungle of partial targets which complicated the implementation structure and the transmission to the electorate. Possible synergies with existing programmes and instruments such as the Stability and Growth Pact, the Social Agenda, or the Sustainable Development Strategy were either rarely activated or not at all.

As a result of the lack of an obvious political will and without a clearly defined narrative, the majority of Europeans were not familiar with the Lisbon strategy. In fact, many people believed that the agenda and the Treaty of Lisbon were one and the same thing. Thus it was only logical that large-scale support for the reform targets failed to materialize.

The management and implementation of the strategy was also confused and rather clumsy. From the beginning it was clear that the targets could not be attained solely by adopting certain measures on the community level. The agenda represented a comprehensive challenge for each individual economy within the EU. For this reason there was a set of reforms in Brussels and the individual member states which mutually reinforced each other. New forms of governance such as the “Open Method of Coordination” were devised in order to provide a framework for coordinated action. However, there was no real coordination. Since there were no sanctions or reward mechanisms, the agenda continued to be a non-binding agreement.



## Carrots Instead of Sticks: “Naming” and “Praising”

From the very beginning governance was a basic problem of the Lisbon strategy. In the Open Method of Coordination the member states were supposed to work together

voluntarily and to utilize the “best practices” of other countries for their national structures. To put it in a nutshell: this idea has not worked. There was no willingness to adopt it on the part of the member states, nor did the European Commission have enough clout and the ability to impose sanctions in order to implement certain kinds of reform.

The Kok report made a point of specifying these deficits, and then suggested the method of “naming, shaming and faming.” It proposed an annual ranking with which the European Commission would praise the positive achievements of member states and criticize things which were negative. This plan came to grief in the Commission. Its president, José Manuel Barroso, did not have the slightest wish to be seen as a schoolmaster handing out marks to individual member states in general and the larger ones in particular.

Yet the basic notion of benchmarking is not wrong. Communication, as the Commission noted in its [analysis](#), was the “Achilles’ heel of the Lisbon process.” If there is no public pressure on individual member states, and if at the same time the significance of the EU strategy is not understood by the electorate, national governments will not feel compelled to change anything.

But how might it be possible to introduce a benchmarking mechanism into the Lisbon follow-up strategy? First of all the results of the [Commission’s consultation](#) on the EU 2020 strategy demonstrate that the EU governments are aware of the fact that effective monitoring, genuine benchmarking and an enhanced feeling of responsibility are absolutely essential if the Lisbon follow-up agenda is to be a success. However, only a few member states are prepared to concede a greater role to the Commission in the supervision of the agenda targets.

The new strategy should have a “naming and praising” mechanism. This means that the best member states will be singled out every year. They will be praised, and given additional EU financing which they may use only for the targets of the EU 2020 process. In

this way the Lisbon follow-up strategy would become an inverted Stability and Growth Pact which is combined with a modern educational approach. The bad states are not punished, but the good ones will receive a reward. Incentives instead of sanctions is the name of the game.

The important point is not the amount of funding actually given to the annual winner. One could probably agree on a small and fairly symbolic amount, which would dispose of the argument that EU funds were being allocated incorrectly. The incentive for the member states would be the prize itself. What could a national government want more than to be the winner of an EU competition? In order to give economically weaker member states a chance of winning, the assessment of their achievement would have to concentrate less on the current status, and more on developments over the past year.

The European Parliament should be the catalyst of a broad public debate about the EU 2020 strategy. For example, it could invite the annual winner to the Parliament or award a special prize.

This “carrots instead of sticks approach” will change the reports of and debates about the EU 2020 strategy. The focus will be on an analysis of the best concepts and recipes for success, and this will benefit the strategy and in the final analysis the EU as perceived by the general public. At any rate, every government will still be motivated not to land at the bottom of the list.

In order to ensure that this new best practices procedure is a success, the European Commission must jettison its role as a moral authority. The impression that Brussels is prescribing something and trying to impose sanctions on incorrect behaviour makes it possible for national governments to find welcome communication escape routes when they do badly. For this reason it should stop acting like a schoolmaster and delegate the praise meted out to the best to a new and neutral authority, the European Council of Economic Experts.

### III

## A European Council of Economic Experts

Credibility is a question of independence. This is the reason why nowadays most (and all successful) central banks in the world are independent of political orders issued by their governments. Only their independence makes it possible for them to take monetary decisions in line with the facts even if they are unpleasant and politically disliked. Independence is the best self-protection against one's intrinsic opportunism. Thus it is always the most suitable institutional arrangement if one's interests can lead one to make the wrong decisions. For this reason it is in the interests of the European Commission to delegate the proposed “naming and praising” to an independent body, a European Council of Economic Experts (ECEX).

The Commission should take the initiative and propose to the heads of state and government such a European Council of Economic Experts and define its core task as the objective evaluation of the Lisbon follow-up strategy. Constructed on the model of the German “Council of Economic Experts,” the European Council of Economic Experts should be appointed by the heads of state and government at the suggestion of the Commission and confirmed by the European Parliament. But in its work, its opinions and its specific proposals the Council should be independent of political instructions. The ECEX will be required to submit regular evaluation reports on the state of the implementation of the EU 2020 process, evaluate the contributions and progress of the individual member states, and submit proposals to the Commission for the implementation of “naming and praising” procedure.

The structure of the ECEX should correspond to its tasks. The core of the Council should consist of five experts with a pan-European reputation who are supported by an appropriate research department. The “five

European wise men” should be well-known professors, members of think tanks or individuals with an academic reputation who can vouch for the intellectual quality and objectivity of the work of the Council. The Council should be supervised by a “board” of well-known European personalities, which at the same time would be the Council’s face for the European electorate. Elder statesmen would be just as suitable for the job as other popular Europeans who could secure attention

This would contain arbitrary political acts and political opportunism. The Commission, the European Parliament and even the heads of state and government would be protected against themselves, and they would be able to explain their frequently unpopular decisions in a more objective manner. Thus the European Council of Economic Experts would also provide suitable institutional immunization against the “Greek virus,” a creeping loss of credibility of the European

**Reality Check for the Lisbon Strategy**

All figures in percent

	Initial Value EU27 (2000)	Target of the Lisbon Strategy (2010)	Current Status (2008)		
			EU27	USA	Japan
<b>Employment</b>					
Total employment rate	62,2	70	65,9	70,9	70,7
Employment rate for women	53,7	60	59,1	65,5	59,7
Employment rate for workers aged 55 or older	36,9	50	45,6	62,1	66,3
<b>Economy</b>					
Real GDP growth rate	+3,9	+3	+2,3*	+1,7*	+1,1*
<b>Research and development</b>					
Expenditure on research and development (% of GDP)	1,8	3	1,9	2,6**	3,4**

Source: Eurostat \* 2006-2008 \*\* 2007

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and prestige for the work of the Council. In order to profit from the reputation of the European Central Bank, the offices of the ECEX should be located at the ECB headquarters in Frankfurt am Main, which at the same time would supply logistical and technical support.

However, turning Council recommendations into political action in the framework of the new strategy of “naming and praising” would continue to be the task of the Commission, the heads of state and government, and of the European Parliament. The ECEX would submit the recommendations, and the political actors would give an undertaking to refer explicitly to them in their decisions contained in opinions issued on a regular basis.

institutions with regard to the implementation and supervision of their political goals and strategies. Here again the German Council of Economic Experts could serve as a model. It is often a useful buffer that gives politicians some respite in their dealings with lobbyists and special interest groups because they are able to justify their unpopular decisions by citing the objectivity of the Council of Economic Experts.

This is also a great opportunity for the EU 2020 strategy. The willingness to conduct an objective evaluation is evidence of political seriousness and secures additional attention and credibility for the EU 2020 strategy. And that is precisely the common currency which Europe needs most in the wake of the disappointments with the Lisbon strategy, the

financial mayhem, the crisis of confidence, and the Greek budget disaster. Credibility.

## IV

### EU 2020 in Budget

The national research expenditure of the member states should by now in the course of the Lisbon process have reached 3 percent of GDP. In fact it is at about 2 percent, with considerable differences between the EU member states. Only Sweden and Finland have passed the three percent mark.

This work for the future also gets short shrift in the EU budget. Under Heading 6 of the EU Budget just about €5 billion was earmarked for research in 2009, which is in fact eleven percent more than in the previous year. However, the EU is spending more than €51 billion on agriculture and the development of rural areas, and about €11 billion on employment and social issues. The optical improvement of the budget into sections entitled “Sustained Growth” and “Natural Resources” changes little. The largest part of about €134 billion is still being spent on the wrong things.

To be fair, the proportion of agricultural expenditure in the EU budget has declined considerably between 1988 and now, from 61 percent to 41 percent. Those who are led to hope that the forthcoming negotiations on financial resources from 2013 onwards—which is when the current framework comes to an end—will finally introduce a modern and globalization-based expenditure policy may be bitterly disappointed. The budget structure is negotiated among 27 governments in a tough

procedure in which everyone is keen to protect his own interests.

The EU Commission believes that the challenges of our time include food security, in addition to environmental catastrophes, consumer protection, epidemics, or combating crime. All require far more research funding than the member states are either prepared or in a position to make available. Nor does the EU budget make adequate provision for this.


#### Lisbon Strategy from the point of view of the media

 **Frankfurter Allgemeine Zeitung - 08.01.2010** 

The new ten year plan known as “EU 2020 Strategy” has the same spirit of planned economy as its predecessor.

 **Frankfurter Rundschau - 10.01.2010** 

The “Strategy 2020” only makes sense, if it is guaranteed that all member states feel bound by the concept. Otherwise it will be nothing more than an empty phrase – like the Lisbon Strategy.

 **Le Monde - 10.01.2010** 

It is often said that the Lisbon Strategy failed because it was a method of coordination without any obligation in respect to the choice of instruments and the achievement of targets. For Zapatero now the right moment has come to empower the European Commission to monitor the process in the future.

 **The Economist - 04.02.2010** 

It is common to hear that Lisbon failed because compliance was voluntary. [...] Yet in truth the Lisbon agenda [...] failed because lots of Europeans do not want to live in the most dynamic and competitive economy in the world. They prefer to work fewer hours than Americans or Japanese, to take long holidays, and to retire as soon as possible.

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The EU can only meet the challenges of the future if it provides funds for research. Everyone knows and keeps saying this—and yet people do not act accordingly. However, there is a simple way of increasing research conducted with EU funding—which, measured

against the total expenditure for research in the EU, will continue to be the smaller portion, since most of the money is provided by national budgets or companies—before the forthcoming budget negotiations. If this were to be done via the research budget as a part of the total expenditure, it would lead to redistribution debates and to a great deal of haggling.

This can be largely avoided if an invariable percentage of research funding is laid down for every applicable heading in the EU budget. Energy, transport, agricultural policy and fisheries, environment or communications could, for example, earmark three percent of their own budgets for research in their particular fields. In the case of €51 billion agricultural expenditure this would provide more than €1.5 billion for agricultural research, and in the case of €10 billion for “Maritime affairs and fisheries” to a research budget of €300 million.

Although this would not totally prevent the feared distribution struggles, it would mean that they would have to be conducted in a fruitful manner. What agricultural research is worth supporting, and, above all, where is the new funding going to go? It should not be forgotten that the EU research landscape is just as diverse as the surface relief maps of the Union. However, this kind of distribution struggle can be terminated more easily than

the bitter disputes surrounding EU expenditures as a whole.

## V

### A Social Market Economy in Europe

There needs to be a new storyline if the EU 2020 strategy is to be more successful than its predecessors. Both the targets and the general direction of what is being done must be communicated clearly and unambiguously. Furthermore, EU citizens and social partners should play an active role in policymaking. This is the only way of ensuring that EU citizens know about what is being done, and that they will support the project. This in turn is of crucial importance for the resolve of the political actors as they implement the reforms.

The EU 2020 strategy must make it clear to Europeans that it is now all about showing the world how qualitative economic and employment growth, social justice and sustainability can be brought together in a creative way. The times of growth for the sake of growth are gone for ever. The Europeans want a progressive social agenda which seeks to enshrine a social market economy in Europe. This is exactly what “EU 2020” should be striving to attain.

#### Responsible

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