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Summary

The aim of this paper is to discuss the rationale for the Lisbon strategy and to examine whether, given that the economies of the EU member states manifestly face different reform challenges, it is sufficiently compelling to justify an elaborate process. This paper explores possible bases for such a rationale, which include policy learning, an external process as an incentivating mechanism (especially where entrenched interests constitute an obstacle to change), as well as more traditional spillover arguments. A key question that is explored is whether an external analysis, together with the procedures that have emerged under the open method of co-ordination, is conducive to economic reform or whether countries tend to know what needs to be done if only they could muster the political will to achieve it.

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I. Introduction[1]

The Lisbon strategy, launched in March 2000 at the peak of the last economic cycle in EU–15, was intended to be a comprehensive attempt to transform the supply–side of the European economy. It also had the ambition of boosting European competitiveness, especially in the knowledge–based sectors of economic activity while preserving core elements of the European social model. It was complemented, at the Gothenburg European Council in 2001, by the articulation of the sustainable development strategy in which environmental objectives were added to the economic and social.

Five years on from its launch, it had become evident that the Lisbon strategy was struggling, as noted in the Kok report (European Commission, 2004) and the annual scorecards produced by the Centre for European Reform (Murray and Wanlin, 2005, was the last one to cover ‘Lisbon I’). Criticisms centred not only on the desultory record of certain Member States, but also on the lack of focus and of embedding in national policy–making procedures. The Kok report was pretty trenchant, noting problems of implementation, an overloaded yet poorly co-ordinated agenda with incompatible priorities, and a lack of political commitment. Across a range of economic policy areas, open methods, action plans and other initiatives of varying impact had proliferated since the creation of the European Employment Strategy in 1998. With hindsight, the major weakness of the Lisbon strategy was that its governance simply had not been thought-through. Though there is little dispute about the broad aims of the Lisbon strategy, the Kok and other criticisms made it clear that implementation failings, especially, had weakened its impact.

In the circumstances, it is hardly surprising that the in-coming Barroso Commission sought to re-launch the strategy (Commission, 2005) and to place it at the centre of its economic programme. An amended strategy was duly endorsed by the European Council in March 2005, albeit with one of the key recommendations of the Kok report (naming and shaming) left out. The re-launch (alongside reform of the Stability and Growth Pact) afforded an opportunity to rethink the EU’s approach to policy co-ordination Hence, rather than questioning whether the lack of delivery from ‘Lisbon I’ might indicate that co-ordination was a wrong approach, the Commission plainly decided that the solution is a different form of co-ordination.

Its main innovation was to push Member States to take ‘ownership’ of Lisbon, by obliging them to develop a single National Reform Programme (NRP), based on a set of ‘Integrated Guidelines’ that spell out broad orientations for reform. These guidelines bring together what were previously the Broad Economic Policy Guidelines Broad (put forward under Art. 99, TEC) and the Employment Guidelines (Art. 128, TEC). The consolidation of Member State responses into a single Programme is designed to instil greater coherence into the policy-making process and to ensure that the different agencies and levels of governance act in a more united way in pursuing reform, making for a less fragmented political and administrative ‘ownership’ of the different policy areas.

A complementary Community Lisbon Programme (CLP) was also drawn up with the result that much more is now included under the Lisbon agenda, which now encompasses various regulatory activities and forms of hard law. For example, the Community 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. Within the Commission, too, responsi-

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bilities are now more widely distributed, with a prominent role now being taken by DG Enterprise and Industry under the overall co-ordination of the Secretariat-General.

The upshot is that the strategy is now a much more comprehensive one. A question that is surprisingly little discussed, though, is 'what is the added value from it?'. This paper starts by asking what problem(s) the Lisbon strategy is intended to resolve, and goes on to discuss the principles behind policy-co-ordination, focusing on the merits of the Lisbon approach. The relaunched Lisbon strategy is then appraised and a concluding section considers what the implications are for EU economic governance.

II. If the Lisbon strategy is the answer, what is the question?

Slow growth in the EU in recent years, with the core economies of Europe – especially France, Germany and Italy - going through a difficult phase, has highlighted structural weaknesses. Alesina & Giavazzi (2006, p.3), for example, observe that "without serious, deep, and comprehensive reforms Europe will inexorably decline, both economically and politically", and their work implies above all that there has been too great a reluctance within the EU to acknowledge that a half-hearted approach to genuine market-oriented reforms will not suffice. Some commentators argue there is a systemic problem to address, rather than just a need for ad hoc reforms (Eichengreen, 2006), with established institutions that had underpinned economic performance having become obstacles to it.

The emergence of the Lisbon strategy can be seen partly as a response to a relatively deteriorating economic performance, potentially aggravated by demographic trends, and partly as an attempt to emulate US success in the knowledge-intensive industries. Latterly, it has come to reflect the fact that the EU has been slow to come to terms with globalisation, implying a more defensive, co-ordinated response to intensifying competition and pressures to re–calibrate the European social model. It was also seen as an attempt to revitalize economic policy–making by reforming areas of governance that exhibit shortcomings. There is, too, some suggestion that economic integration is no longer enough and that broader transformations are needed if the EU is to compete more effectively on the global stage, especially in the knowledge economy. The quality of investment as well as application of market principles have to go together.

The remedy that underlies the Lisbon strategy is 'structural reform', an expression that manages simultaneously to be ill-defined, obvious and accepted in most quarters as a 'good thing'. Yet it is also a source of contestation, implies losers as well as winners, and often has a delayed or uncertain pay-off. It is widely accepted that the main objective of structural reform is to enhance longer term performance by acting on productivity and the employment rate. These are microeconomic changes that may not immediately lead to improved growth or employment, and the initial impact may well be depressing to growth or employment. Yet without reform, the economy would be locked into a trajectory of sluggish performance and might even see a tailing–off as weaknesses on the supply–side became 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. 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 program. Timing and sequencing are, thus, also of the essence. Whether fiscal restraint hampers or facilitates structural reform is also disputed – Buti et al. (2007) show that the time perspective adopted by governments is critical.

What these debates underline is that there is far from being a settled view about the policy agenda that underlies the Lisbon strategy. But reform is also to do with governance and the capacity of institutions to convince different interests of the virtues of the case. These observations suggest that structural reforms or changes will be most intense either when there is a sense of severe crisis[2] in the economy or when it is performing well. For countries with lacklustre growth, radical action may be taken only when a tipping-point is reached at which a consensus forms to say 'genug', 'ça suffit' or 'basta'. The indecisive election results in Germany (2005) and in Italy (2006) partly reflect the fact that there was no obvious champion of comprehensive reform among the larger political parties, though the much more decisive result in France in 2007 may tell the opposite story. At least in part, these are problems of economic governance that reflect, simultaneously, difficulties in establishing a direction for change in previously successful 'models'. Against this backdrop, the Lisbon strategy purports to offer a recipe for accelerating structural reform and re-vitalizing the EU economy.

III. The rationale for policy co-ordination

What is less evident is that structural reform can be more rapid or effective as part of a co-ordinated process. Indeed, there are heated disputes amongst economists about whether or not policy co-ordination is useful at all. Some take the view that while governments should 'keep their houses in order' (Issing, 2002), there is little merit in attempting to achieve wider co-ordination either between policy areas or across national boundaries. Others take the opposite view and go so far as to call for European-level economic government (Collignon, 2003). As Sinn (2004) points out, Member States can be tempted to engage in various forms of 'system competition', seeking to manipulate the regulatory environment to boost competitive advantage, and co-ordination could be seen as a way of preventing excesses of such competition.

Conceptually, there could be quite diverse reasons for seeking to co-ordinate policy. A first is simply to steer economies in similar directions, above all to forestall national adjustments that have damaging spillover effects on other countries. The case for cross-border co-ordination in much of the economic literature is predominantly based on the extent of spillover, but there may also be some advantages from economies of scale (Debrun and Pisani-Ferry, 2006). Co-ordination in certain areas, such as pension reform, may also bear on interdependencies in conventional areas, such as fiscal policy – a form of 'functional' spillover. By contrast, in mainstream arguments against co-ordination of structural policies, it is often argued that spillover effects will probably be small and may well be negative. Moreover the reforms needed differ substantially from one country to another, casting doubt on a common agenda (Tabellini and Wyplosz, 2004).

However, Debrun and Pisani-Ferry suggest that in the euro area, the mere fact of having a common currency reinforces the benefits of co-ordination and they therefore argue that it is ironic that the euro area dimension of Lisbon has been largely neglected. In much the same way as fiscal co-ordination, co-ordination of appropriate structural reforms may result in lower interest rates as a collective benefit from co-ordination. Debrun and Pisani-Ferry note, further, that where there is a risk that structural reforms in one euro area member might cause complications for others or for the euro area as a whole, there may be a case for co-ordinating the timing, sequencing or intensity of reform efforts. If so, a governance process capable of reconciling priorities would be needed, embracing firm decisions as well as dialogue.

[2] An extreme variant of 'enough–is–enough' is the transition from central planning to market economies that occurred throughout central and eastern Europe after 1990.

An entirely different rationale is that co-ordinated policy can facilitate policy learning and push governments to adopt best (or better) practices. Most of the policy areas subject to the open method of co-ordination (OMC) can, at least in part, be justified on these grounds, although access to the relevant knowledge about what does and does not work could be obtained without the time-consuming paraphernalia of National Action Plans or Reform Programmes, monitoring, peer review, targets, indicators and so on. An aspect of learning as a rationale for co-ordination is that it may reduce uncertainty about the impact or value of reforms, because a country can draw on evidence from elsewhere. Political advantages may simply come from acting together, as suggested by Debrun and Pisani-Ferry (2006: 7) who observe that there may be '*political economies of scale'* [emphasis in original].

A third rationale for co-ordination is that the mere existence of a common programme creates a lever that governments can use to counter opposition to policies that it believes to be in the national interest, but lacks the power to impose unilaterally. This will be reinforced if it engenders a commitment that enables the Member State to go further or faster than it would otherwise, especially where longer-term gains are slow to emerge. The external factor then becomes a crucial factor in shaping policy choices. Italy in the mid-1990s used this tactic to pursue policies conducive to attaining the EMU convergence criteria (Dyson and Featherstone, 1999). Similarly, the pace of transition in much of central and eastern Europe was partly motivated by the promise of EU membership, with conditionality in the background as the ultimate sanction.

A fourth justification for co-ordination has more to do with the process of policy making. Having a common methodology for policy-making may enable countries to put in place a coherent reform strategy that they would find it more difficult to construct on their own, either because they fail to see the relevant policy connections or lack the analytic capability. There are several ways in which a co-ordinated process could enhance the quality of economic reform. The first is by providing a template for reform that draws on the collective experience of partners and shows Member States how to analyse their shortcomings, as well as to structure a reform package. Here again, however, the question arises of whether a one-size-fits-all approach is optimal and there may be tensions around how much or how rapidly the template should evolve. A second potential gain comes from demonstrating the advantages of differing approaches to governance, such as engaging diverse interests (social partners, NGOs) in the reform process. Third, a monitoring and scrutiny function can help to identify shortcomings in Member State approaches and, thus, contribute to keeping reform on course. In addition, in a system in which several levels of government have to act together to assure reform, policy coherence is more readily achieved, and in all these ways the process itself may reinforce the learning rationale referred to above.

IV. Justifying the Lisbon strategy

To what extent do these conceptual justifications vindicate the Lisbon strategy as it has evolved in the EU? At one level, a spillover argument is unassailable. If the economies of partner countries become more productive, their rising prosperity should increase demand everywhere, although followers of the *délocalisation* and Polish plumber debates will recognise a flip-side. For the spillover argument to hold, however, it would have to be demonstrated both that the common programme is necessary for reforms to take hold and that the pay-off to reform in one Member State is diminished by inappropriate or delayed reform in another.

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, and if the *vincolo esterno* argument also applies, then it may be that the resolve of governments to tackle problems can be stiffened. Here too, though, the opposite case can be argued, namely that pressure from Brussels proves to be counter-productive by creating a common enemy against whom diverse interest can unite. Confusion about the aims of the different co-ordination processes and the fact that Member States face different reform challenges, coupled with the lack of political engagement by Member States or of means of motivating them, also raise doubts about whether co-ordination can be effective.

Irrespective of the conceptual case for Lisbon-style policy co-ordination, it could be argued that if it leads to convincing results the ends would justify the means. Member States have developed programmes that respond at least adequately to the IGs, but these programmes differ markedly from one Member State to the next and several have evident shortcomings. This is unsurprising – after all, it is to be expected that there will be pronounced differences in what needs to be done. Yet, if countries differ so much that the IGs have limited resonance, it is hard to see what the point of co-ordination is. 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, as well as in the attention paid to certain 'sexier' elements of reform, such as R&D (Begg, 2006).

A core aim of the re–launched Lisbon strategy is to improve governance by better engagement with national actors and making Member States more accountable to their various stakeholders. 'Ownership' by national actors is considered vital, but there is little evidence that Lisbon has moved to centre-stage in national policy-making (for a critique, see Pisani-Ferry and Sapir, 2006). Although the 2000 Lisbon Presidency conclusions specified a catalytic role for the Union in making the Lisbon strategy work, there have been doubts about how the Union should carry out this role, not least because of the dearth of funding from the EU budget. Oversight and scrutiny have also been tentative. In the 2005/6 cycle, it appeared to have been politically expedient for the Commission – especially – to adopt a fairly soft attitude towards the Member States both in assessing their NRPs and in choosing (in the 2005/6 cycle) not, to issue any country-specific recommendations (Commission, 2006a). National recommendations were made in the 2006/7 cycle, but remained rather blandly expressed, even when the criticisms were pretty severe, yet there are signs that scrutiny procedures are proving more effective in pushing Member States to deal with shortcomings – see Begg (2007).

To be justified, Lisbon II has to offer Member States more than they could obtain from informal contacts with their partners or meetings at the OECD. Based on developments during the 2006-07 cycle, a first, straightforward observation about the Partnership for Growth and Jobs as a governance process is that it has done what was expected of it, at least in procedural terms. The value added of these procedures in terms of accelerating economic reform is far from established, but a reasonable verdict on Lisbon II is that it seems to have succeeded in engaging the various actors to a considerably greater extent than Lisbon I. Hence, following the March 2005 re-launch, 'Lisbon' has become a more comprehensive approach to economic governance: a partnership between the Community and Member State levels and less of a loose agreement among Member States.

But the question that then arises is whether these more effective procedures are delivering results. As regards the Community Lisbon Programme, it is clear that real advances have been made and that the Programme overall is likely to be completed (Commission, 2006b). The National Reform Programmes, as ever, are more mixed (Begg, 2007). Some Member States have clearly gone a long way towards achieving the sorts of reforms envisaged, but others are barely out of the starting-blocks. This conjunction does prompt doubts about whether a common format is appropriate. Merely announcing a policy is not always the same as pursuing it with vigour and to good effect.

V. Concluding comments

The Lisbon approach may have emerged because of a lack of alternatives. Majone (2005) argues that Member States, even if they are sympathetic to common aims, increasingly wish to act outside the traditional framework. Coordination can, therefore, be said to be undertaken because of the weakness of EU institutions, rather than as a means of assuring the best governance. But governance also implies choices: in domestic politics, it is normal for the balance of policy effort to shift as different political constellations gain or lose power. In the Lisbon strategy, however, reform is presented as being orthogonal to distributive issues: the message tends to be ‘here is what needs to be done’, with no regard to how it affects different constituencies. Equally, most, if not all, EU Member States governments have a pretty good idea of the reforms that are needed, but struggle to find the right sequence in which to implement them or a coalition to support them. As a result, reform may well be botched.

It has been argued in this paper that the rationale for Lisbon as a co–ordination process is poorly articulated. Although reform efforts have become more extensive and central to economic governance in all Member States, it is far from obvious that the reforms that have taken place have occurred *because* of the Lisbon strategy. Despite progress in some areas, there is still a long way to go on others, and 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. The problem is not so much to identify the priorities for reform as to find ways of advancing it. It has constantly to be repeated that the principal difficulty is not one of diagnosis or analysis, but of implementation. Lessons from elsewhere may well be applicable to how policy is conducted as much as to the choice of reforms, and there are striking examples of avoidable failures in implementation, such as the French attempt to reform employment contracts in 2006.

While it has to be recalled that reforms only show their effects after a considerable lag, it is hard to identify extensive changes in the approaches of Member State, and those which are most lauded for their Lisbon track-record tend to be those that have been most reform-orientated for some time. It is, consequently, hard to say that Lisbon has made the difference. One of the first independent assessments to be done, by the Centre for European Reform scorecard (Wanlin, 2006), offered only a ‘C’ grade to the process in its first year after the relaunch, and that barely advanced in the 2007 version when the Centre awarded a C+ grade (Barysch et al. 2007).

Equally, a parallel can be drawn between Lisbon and the Stability and Growth Pact. Many regard the latter as having been ineffective prior to its reform in 2005, and so watered-down as to be meaningless since that reform. But an apparent paradox is that although the letter of the fiscal rule has repeatedly been breached, it has not been by much, implying that it has exerted quite a strong disciplinary impact. In a similar way, Member States may pay only limited attention to the letter of the Integrated Guidelines and be somewhat cavalier in their reporting on progress, but if they are nevertheless acting to achieve reforms consistent with the Lisbon approach, then it may be that the strategy is percolating into policy thinking to a greater extent than is apparent.

There may, though, be a risk that once the initial NRP has been produced, interest wanes rather than being sustained – a form of ‘Lisbon fatigue’. On the other hand, it is results that matter, and it could be argued that a lack of consultation of social partners or media interest in Lisbon per se does not matter if, worthwhile consultation does take place around particular reform initiatives and, more importantly, the ‘right’ reform is successfully achieved. The jury is out.

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