Studia i Analizy
Studies & Analyses

Centrum analiz Spoleczno–Ekonomicznych

CASE

Center for Social and Economic Research

310

Barbara Błaszczyk

The Lisbon Strategy: a Tool for Economic and Social Reforms in the Enlarged European Union

Warsaw, October 2005

This article was published in *New World Order: Economic, Social and Political Tendencies at the Beginning of Third Millennium*, volume 2, edited by Stanisław Rudolf, Łódź - Santiago de Chile, 2005, Lodz University Press. The author expresses her sincere thanks to the Publisher for granting permission to republish the article within the *Studies and Analyses* series. The publication was completed in April 2005.

The publication was financed by Rabobank Polska S.A.

Keywords: **European Union, Lisbon Strategy, achievements, shortcomings, open method of coordination, structural reforms, single market, services sector, ownership of reforms, public support.**

ISBN: 83-7178-387-6

Publisher:
CASE – Centre for Social and Economic Research
12 Sienkiewicza, 00-944 Warsaw, Poland
tel.: (48-22) 622-66-27, 828-61-33, fax: (48-22) 828-60-69
e-mail: case@case.com.pl
http://www.case.com.pl/

Contents

Barbara Błaszczyk *– co-founder of CASE – Center for Social and Economic Research, member of the Council of the Foundation, President of the CASE Foundation in 1991 – 2004. Since 2004 Professor at the Nowy Sącz School of Business - National Louis University (WSBNLU). She graduated from the Warsaw University in 1970 (MA in Economics). In 1975 she received her PhD at the Institute of Organisation and Management of the Polish Academy of Sciences (PAN). She was qualified as an assistant professor in 1989 at the Department of Sociology and Economy of the Łódź University. In 1996 she received the title of Professor. Since 1983 she has worked for the Institute of Economy of the Polish Academy of Sciences (PAN). Between 1989-1996 she was an advisor to the Polish government and the Parliament. Between 1991-1996 she was the deputy Chairman of the governmental Council of Ownership Changes. She has participated in and co-ordinated numerous domestic and international research projects, including comparative studies on privatisation and restructuring processes of enterprises in the Central and Eastern European Countries. Her main fields of research interest are privatization, corporate governance, deregulation of the state sector and generally systemic changes in countries in transition and in the past also employee share ownership and industrial democracy. She is an author and co-author of about 100 books and other publications.*

Abstract

This paper evaluates achievements and shortcomings of the Lisbon Strategy launched by the European Union in the spring of 2000 aiming to increase the competitiveness of the European economy within ten years. A careful examination of the Strategy's pros and cons shows that its general rationale was sound and helpful despite an incorrect and naive political call to economically outperform the rest of the world in such period. The main priorities of the Strategy: promoting growth through creating more and better jobs and developing the knowledge base of the economy, remain valid for today and for the future. However, it has to be underlined that implementing desired changes requires time. At the moment, it is crucial to accomplish structural reforms, which have significant impact on job creation, business performance and growth. Among them, it is essential to complete the Single Market, still limited by many administrative barriers. The paper shows main areas of necessary improvements to be undertaken by the Community and the member states. To strengthen real ownership of the Lisbon process, politicians must change their thinking from short-term and national to long-term and beneficial for the entire Community. Only such committed leadership can persuade the citizens to support the reforms, aiming to build a common European public good. Exploring these ideas would be a desirable return to the basic concept of the European Community, shaped by its founding fathers short after the World War II.

1. Introduction

The Lisbon Strategy launched by the European Union in 2000 was designed to increase the growth and modernize Europe, making its economy more competitive. The Strategy aimed to achieve success through increasingly intensive participation of knowledge-based economy in the overall development (research, education, access to information technology) with the concurrent improvement in functioning of a single European market, support for entrepreneurship and strengthening of sound macroeconomic frameworks. The necessary actions to accomplish such goals comprised of intensive efforts in raising the level and broadening the scope of education and a constant closing of the social exclusion gap.

The Strategy acknowledged that in the age of information society sustainable growth could be achieved only through high employment levels in all social groups combined with a continuing increase in labor productivity. The inclusion of possibly highest number of people into the labor market was rightly seen as the best tool for combating poverty. Other social goals were supposed to indirectly lead to a better implementation of the Strategy. Greater care for natural environment was seen as contributing to higher growth and better quality of life in a longer term. Such goals were declared to be of primary importance to all European Union countries, although their implementation would depend on the policy of individual states. Special tools, particularly the new open method of co-ordination (OMC), were designed to monitor the progress of the Strategy and provide multilateral support in its implementation.

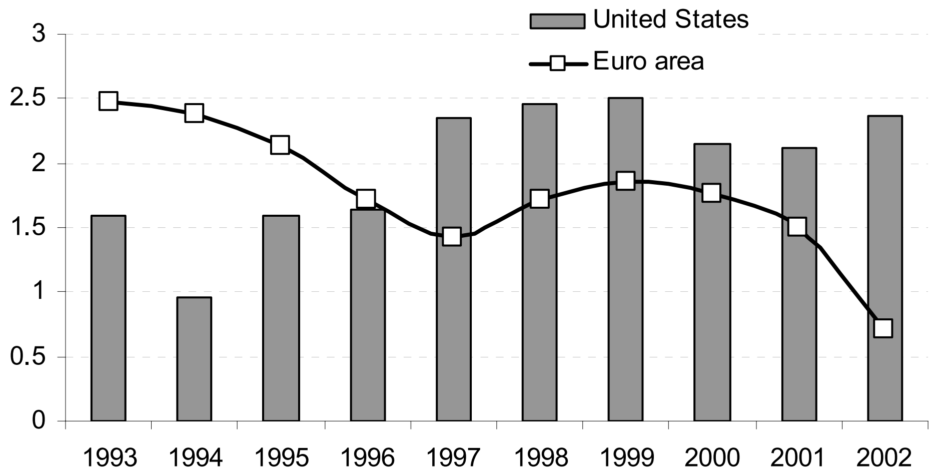
Today, when the Strategy has reached a midterm point, we already know that some of its ambitious ideas cannot be put into practice, at least not in the planned implementation period of 10 years. The most spectacular goal of the Strategy remains out of reach: closing the economic gap between Europe and the Unites States and consequently advancing ahead of the US. Many ask whether this goal was correctly defined at the onset of reforms. Can we justify opposing the European identity "against others" instead of stressing Europe's huge potential in the global competition (Ash 2005)? Hence, a careful review of the Strategy's objectives is in order: only then we might answer the question, which goals remain important and topical and where the Strategy's ambitions were wrongly directed.

2. The Lisbon strategic objectives and their justification

The Lisbon Strategy (LS) was launched at the European summit in March 2000. Its overall objective was to transform the European Union (EU) into "the most competitive and dynamic knowledge-based economy in the world, capable of sustainable economic growth with more and better jobs and greater social cohesion" by 2010 (European Commission 2000). Through it, the European leaders envisioned the EU as a future economic "superpower", which would concurrently keep or even raise the level of its inherited social commitments.

To make the Strategy politically attractive, the argument of economic catching up and outperforming the US was raised. This idea was, in the view of this paper's author, overly inflated not only from today's perspective but also while looking back at the circumstances at the time of the LS launching. Since the end of the Second World War, Europe was steadily in the process of catching up with the US, in terms of raising per capita income and faster growing productivity but the distance to the American levels of life standard remained high. In the mid 1990s this convergence process came to an end with the US strong productivity growth outperforming the diminishing dynamics of the EU productivity. Together with the constantly weaker employment performance in Europe, the gap in income and output between the US and EU could not be closed while the distance between them started to grow even faster (Lenain 2005; Bützow Mogensen 2005).

Figure 1: Labor productivity per hour growth: Euro Area versus US Real GDP divided by total hours worked, annual growth, moving average (Centered, over 3 years)



Source: Lenain, P. (2005), p.29[1] (data from OECD).

This growing gap threatened Europe's ability to compete on the global market. What is even more important for the citizens, the situation should have (and must have) raised doubts of the ability of the EU governments to keep their social commitments in time of weak economic results. The EU leaders should have warned their constituencies that maintaining living standards at appropriate levels was in danger and that the LS was an answer to this threat. Instead, they directed their attention toward "beating" the US and made several promises on preserving and further developing the social model regardless of the economic performance of the EU economies.

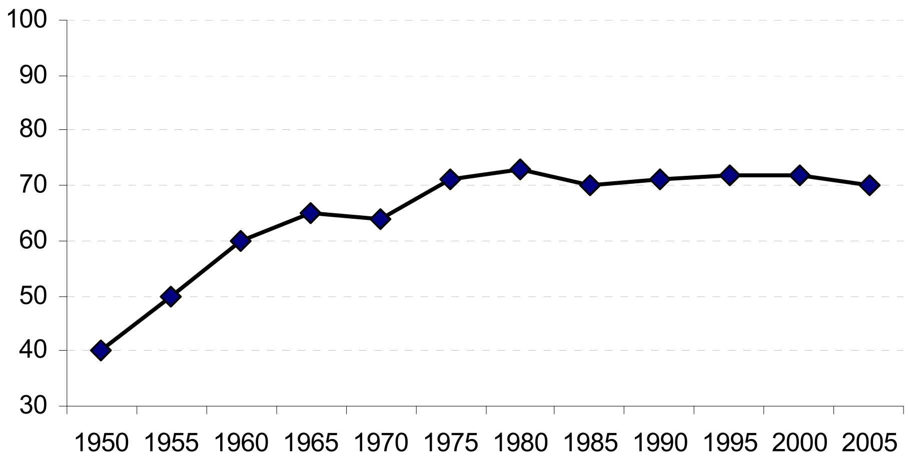
However, one should take into consideration that the overall economic climate in Europe at the beginning of the new century quite differed from today and there were many reasons for optimism. In 2000 Europe was in the seventh year of an upswing, the average annual growth exceeded 3% and the expectations for the future were exorbitant. The progress in building the "new economy" in Europe was remarkable and the successes of the IT-based economy in the US provided a good example to follow. Probably, this overall optimistic climate convinced the authors of the LS to set goals, which proved too ambitious and overly hopeful. Clearly, visible threats were overlooked.

[1] Available under http://www.case.com.pl/upload/publikacja_plik/4977816_rc58.pdf.

Favorable conditions changed rapidly. Short after the Lisbon summit the "technology bubble" burst, the terrorist attacks of 9.11.2001 followed, corporate scandals (Enron, World Com) came into public scrutiny, the appreciation of Euro against the US dollar was apparent and oil prices were high and volatile. A period of recession and business failures set in. The decline of the annual growth of the EU countries between 2000 and 2004 (1.4 % in average, notably less than in the US economy, which was 2.5%) followed the drop in output (Lenain 2005; Bützow Mogensen 2005).

The report prepared in November 2004 by the High Level Group chaired by Wim Kok (High Level Group 2004) for the mid-term review of the LS is considerably more realistic in its assessment of the relative position of the European economy and its future prospects. It clearly shows that stronger economic growth and more employment are necessary for the preservation of the European social model. The need for securing financial resources for future pensions and social benefits is, according to the report, even more acute because of the fast aging structure of the European societies. Hence, the social cohesion objectives have to be balanced with the available economic resources.

Figure 2: EU GDP per capita (at constant 1995 prices, US=100)



Source: High Level Group (2004), p. 14.

Thus we arrive at the second point of the discussion on the nature of the LS objectives. The Strategy tried to apply an innovative approach to development in which economic and social objectives were not opposed to each other but were intertwined. According to its authors, not only the implementation of the economic objectives might feedback support and strength to the social objectives, but also the implementation of social objectives could be expected to boost economic growth. Among the social cohesion objectives defined by the LS, there is actually a group of tasks which, if achieved, may result in growth. First of all, the goal to secure high, better qualified employment ensures more social cohesion and at the same time leads to a higher economic growth. Similarly, the goal of providing broad, life-long education for young and old („investing in people") supports both economic growth and social inclusion.

On the other hand, there are examples of social cohesion or environmental goals, which clearly increase the cost factor of the economy and can hardly be seen as supporting economic growth. These goals should be clearly defined as social or political goals aiming at more equality, less income differentiation or easier access to certain public goods. Their expected costs should be estimated and included in the „bill" at the spending side of the Strategy.

While the LS from the beginning declared the need for modernizing social protection systems, no concrete recommendations for this reform have been formulated[2]. There was also a lack of critical assessment of the European social model in terms of its financial sustainability.

At this point, a short review of the initial and the later defined objectives of the Lisbon Strategy may be of use. At the outset, the Lisbon strategy consisted of three main strategic directions:

- preparing the transition to a knowledge economy and society by better policies toward R&D , by stepping up the process of structural reform for competitiveness and innovation and by completing the internal market;
- modernizing the European social model, investing in people and combating social exclusion;
- sustaining the healthy economic outlook and favorable growth prospects by applying an appropriate macro-economic policy mix (European Commission 2000).

In the subsequent years, the European Council's meetings (Stockholm 2001, Gothenburg 2001, Barcelona 2002 and Brussels 2003) supplemented the initial list with additional objectives (for example, environmental protection), broadened the existing sub-goals and tried to spell them out in a more precise way[3].

3. The tasks and targets

Taking a closer look at the more concrete tasks defined within this process, we can group them in five main policy areas:

- employment growth;
- knowledge economy and knowledge society development;
- structural economic reforms;
- social cohesion;
- environment.

The tasks, appropriate to each of the listed policy areas have been shortly defined as follows:

Employment growth: improving the employability, reducing skill gaps, particularly of unemployed people, increasing adaptability through lifelong learning, more flexible working time and organization, increasing employment in services, increasing employment of women by creating equal opportunities and more family friendly work places.

Knowledge economy and knowledge society development: securing access of all households, schools and businesses to an inexpensive, world class communications infrastructure, broad popularization of computer skills among citizens, Internet in each school. Development of e-governance and e-banking (including the preparation and enforcement of needed legislation for electronic

---

[2] Besides some vague remarks on adjusting the systems of social protection to the knowledge economy, ensuring that work pays, promoting social inclusion and gender equality and providing quality health services.

[3] These objectives can be found on the web site of the European Commission at the following link: http://europa.eu.int/comm/lisbon_strategy/index_en.html.

commerce, telecoms liberalization). Adjusting the educational systems to the needs of information society, raising the share of tertiary and secondary education among young people, creating a friendly environment for starting up and developing innovative business, especially SMEs, establishment of the European Area of Research and Innovation – starting from networking among national and joint research programs, improving the environment for private research investment, R&D partnerships and high-technology start-ups, facilitating the mobility of researchers, implementing the Community patent.

Structural economic reforms: completing the fully operational internal market, especially removing barriers to services, speeding up liberalization in network services (electricity, gas, transport, postal services), implementing an on-line procurement system for the entire EU, simplifying the regulatory environment for enterprises, promoting competition and reducing the general level of state aid shifting the emphasis from supporting individual companies and sectors towards horizontal objectives; also, completing of the internal market for financial services. In the area of macroeconomic policies the commitments included: fiscal consolidation, raising the quality and sustainability of public finance, redirecting public expenditure toward capital accumulation and R&D.

Social cohesion and modernizing the social model: making work pay, promoting social inclusion and gender equality, providing quality health standards, counteracting the risk of social exclusion due to the lack of modern communication and work skills in specific groups.

A strategy for sustainable development: this dimension was added to the LS at the Gothenburg summit in 2001 and at subsequent meetings of the European Council. It includes among others a more responsible management of natural resources, maintaining maritime security, combating the climate change and other environmental priorities for sustainable development.

4. Measures and methods of implementation

In order to measure and monitor the progress of the LS, a system of structural indicators has been developed by the Commission. At the outset, 107 such structural indicators have been defined (Royuela-Mora at all 2005). Eventually, for presentation reasons, the European Council adopted a set of 14 quantitative targets measured by appropriate indicators. These quantitative targets included:

- Gross Domestic Product (GDP) per capita in purchasing power standards (PPS)
- Labor productivity per person employed (GDP per person employed in PPS)
- Employment rate (employed persons aged 15-64 as a share of the total population of the same age group);*[4]
- Employment rate of older workers (employed persons aged 55-64 as a share of the population of the same age group);*
- Gross Domestic Expenditure on Research and Development (GERD);

[4] Indicators marked with * are additionally disaggregated by gender.

- Youth educational attainment level* (percentage of the population aged 20-24 having completed at least upper secondary education);
- Comparative price levels (final consumption by private households including indirect taxes);
- Business investment (Gross fixed capital formation by the private sector as a percentage of GDP);
- At-risk-poverty rate* (Share of persons with a disposable income, after social transfers, below 60% of the national median);
- Dispersion of regional employment rates* (coefficient of variation of employment across regions within countries);
- Total long-term unemployment rate* (Long-term – 12 months or longer- unemployed, as a percentage of total active population aged 15-64);
- Total greenhouse gas emissions (percentage in change of emission of 6 main greenhouse gases since base year);
- Energy intensity of the economy (Gross inland consumption of energy divided by GDP);
- Transport Volume of freight transport relative to GDP[5].

The transposition of general goals of the LS to concrete activities and technical tasks led to an overloaded agenda that could not be easily managed. At the same time, the use of slimmed-down set of structural indicators excessively simplified the core targets that should have been investigated in a more multidimensional way. For instance, the measurement of the knowledge economy issue, which is of central importance for the overall Strategy, was almost left out from the list of 14 main indicators (only 2 indicators were left). Some analysts raised the question whether the coverage of the main objectives by a „short list" of structural indicators was sufficient for the assessment of the strategy's multidimensional progress (Royuela-Mora at all 2005). In the end, the „machinery" of the LS monitoring and implementation after defining all its tasks became too complex to oversee and operate. One may suspect that this happened not only due to the bureaucratic nature of the process but also because of political tensions within the Lisbon agenda.

The Lisbon Strategy has been equipped with two kinds of instruments to pursue its objectives. The first one is the traditional community method (the European Commission proposes drafts of regulations, the Council of Ministers and the European Parliament adopt them, the member states are responsible for the implementation). This method is to be used in areas where the EU has legal competence, notably in most important and strategic issues, such as the implementation of the single internal market, the European Patent, competition and state aid rules or the integration of financial markets in Europe.

The second instrument was created to be adopted in areas of need for common action where the Community has limited or no legal competence. Examples for such areas are labor market or business climate issues as well as most measures linked to the implementation of the „knowledge

[5] More detailed information on the nature of the general and detailed indicators and discussion on their coverage and appropriateness can be found in Royuela-Mora at all (2005).

economy". This method, called the open method of coordination (OMC), is a loose framework for cooperation and coordination using the following tools:

- setting guidelines for the EU, combined with timetables for achieving goals;
- establishing quantitative and qualitative indicators and benchmarks for measuring the progress (tailored to the needs of respective countries and sectors);
- translating European guidelines into national and regional policies by setting specific targets and adopting appropriate measures;
- conducting periodic monitoring, evaluation and peer reviews in order to promote mutual learning (Bützow Mogensen 2005).

Since the OMC method is based on a voluntary participation of the member states and is not armed with any legal sanction, it can use only informal means of enforcement (so called „blaming and shaming"). It is highly flexible and therefore can be easily adjusted to the nature of the discussed area[6]. A similar method has been applied earlier, under the so called Luxembourg process of employment policy and the Cardiff process of product and capital market reform. The method has been formalized at the Lisbon summit for the first time.

5. Accomplishments and delays

When looking at the overall economic performance of Europe since 2000, especially having in mind the most exposed promise of the Lisbon Strategy to outperform the US and becoming the most competitive knowledge economy, it becomes obvious that the Strategy did not live up to such high expectations. The distance between Europe and the fastest growing economies in the world (in terms of per capita income level, GDP dynamics or productivity growth) had not diminished since the LS inception; on the contrary, the gap widened. The Lisbon summit envisaged an average annual growth rate for the EU at 3% while the real growth was less then 2%. The GDP per head is in the three largest EU countries[7] 30% lower than in the US (OECD 2005). The chief economist of the OECD had recently noted: "before overtaking America, the first, very ambitious objective, should be to stop Europe's relative decline. This will be hard enough to achieve over the next few years..." (Cotis 2005). Can the disappointing economic performance of Europe be sufficient evidence that the entire concept of the Strategy was a mistake?

[6] The discussion of issues linked with the implementation of the OMC method can be found in Bützow Mogensen 2005. The criticism of this method is provided in Notre Europe 2005.

[7] Germany, France and Italy.

Figure 3: The growth performance of EU 15 after Lisbon summit

Note: Growth of real GDP in composition to the same quarter in the proceeding year.
Source: Eurostat.

It is difficult to assess the accomplishments of the Lisbon Strategy within five years of its adoption. One reason might be an unexpected negative turn in the global economic environment, which occurred just after the Strategy's announcement and resulted in a long lasting recession. Moreover, most of the strategy's objectives aim at structural changes and thus have a long term perspective. Numerous activities undertaken within the LS framework will yield effects only in the future. Enough time has passed, however, to attempt assessing whether the Strategy's assumptions have been duly followed and to what outcome. Starting with the main targets of the LS, described above, we can report as follows, looking at the entire European Union:

5.1. Employment

Visible progress has been made in employment growth, though not enough to meet the Strategy's objectives. The aggregate employment rate was expected to reach 70% in 2010. It has risen from 63.4% in 2000 to 64.4 % in 2003, which equals 6 million more employed then before. The achievement of 70% in 2010 is not likely for entire Europe but a slowly growing trend is expected[8]. By 2003 good progress has been achieved (4 percentage points) in employment rate of older workers (aged 55- 64). The planned indicator was an increase to 50% although the one achieved so far - 41.7%. Also, the employment rate of female workers rose by 2 percentage points to 56.1% and the planned rate of 60% in 2010 is still possible to reach. The long-term unemployment was reduced from 4% in 1999 to 3% in 2003 (European Commission 2004: Delivering Lisbon). It should be mentioned, that the overall employment's target set for 2010 was fully reached already in 2003 in 4 EU 15 countries and the female employment rate was at that time achieved in 7 countries (European Commission 2005a). Creating 6 million more jobs in a time of recession is indeed an achievement and encouragement. However, it is important to note that most of the new jobs have

[8] There is a new undocumented information that the overall employment rate in Europe in 2005 reached the level of 67% and the employment rate of women – 57%. If this information proved to be correct, this would be a very positive trend.

been directed at low-skilled workers. OECD is of the opinion that liberalization of the labor markets and particularly changes in employment protection legislation need to be further elaborated, being essential in achieving more employment (Cotis 2005).

5.2. Information society: ICT, education, research and innovation

Another area of visible progress is the broad use of ICT (information and communication technologies), such as computers, e-government and the Internet. In 2002, already 93% of European schools and 47% households had access to the Internet. 45% of basic services of local governments were available on-line (European Commission 2005a).

Also, there has been a rapid progress in the popular use of other modern technologies, such as broadband and 3G (third generation mobile telephones). The EU spending on IT in 2003 stood at 3 per cent of GDP (in the US – 3.6%). Yet in the overall use of new technologies the EU lags behind the world leaders (Centre for European Reform 2004). Besides, the relatively large investments in ICT have not yet been translated into a strong increase in labor productivity, as it happened in the US economy. Some authors argue that there was not sufficient use of ICT in service sectors, such as wholesale and retail trade, or financial services (Bützow Mogensen 2005). This may result from insufficient liberalization of the service sector in Europe. However, it should be mentioned here, that some EU countries (particularly Sweden, Denmark, Ireland and Finland) achieved leading world position in the development and use of new technologies.

In terms of educational objectives, the attainment of upper-secondary schools by young people (20-24 years old), reached 73.5% (in comparison to the 85% target), which can be assessed as moderate success. Spending on R&D achieved in 2002 an average of 1.99% of GDP (whereas the target for 2010 was 3%)[9]. R&D spending of private business was expected to rise and even become dominant. Instead, it reached an average of 56% of all spending while the target for 2010 was 2/3.

The target of 3% spending on R&D was criticized as overly ambitious and not realistic. OECD pointed out that this objective was out of reach for most EU countries and that the EU should rather focus on improving the effectiveness of a lower R&D spending (OECD Economic Surveys 2003). Yet the Commission is determined to achieve this objective by encouraging the member states to support R&D, changing the rules of state aid in favor of R&D and participating more with its own financial means in R&D spending.

Some progress has been observed in the development of the European Research Area but there is still insufficient progress in the innovation record of the EU. A basic agreement has been reached in 2004 on the Community Patent (the original deadline was 2001) but it will not be fully put in practice before 2010(Centre for European Reform 2004). According to the Commission's own data, the EU is ahead of the US in only one of the 12 innovation indicators: the number of science and technology graduates (European Commission 2003). However, many of these graduates choose to work outside Europe because of better working conditions and pay. The overall picture

[9] The spending for R&D achieved at that time in Japan 3.06% of GDP and in the US 2.67 %(Centre for European Reform 2004).In 2003, the R&D indicator for EU was unchanged.(European Commission 2005a).

of R&D in Europe is rather discouraging but it must be underscored that some countries, especially Sweden and Finland, achieved large success in this area and outperformed the US economy in such indicators as R&D spending in GDP or number of patents per one million people.

5.3. Structural economic reforms and the single market

The two broad areas of Employment and Information Society, discussed above, are supported by the OMC method; in these areas most progress depends on the individual activities of the Member Countries. The issues of the structural reforms and especially of the single market belong to the competences of the Community and are resolved by its legal means. More progress could be expected in this area.

The single market, which was introduced in 1992, has brought a substantial success. Studies have shown that the first ten years of its implementation (not including the telecom and electricity markets) have led to 1.4% higher growth of GDP and 0.9% additional growth in employment (European Commission 2005a). The implementation of the Lisbon Strategy has added some visible progress in this field. Important markets have been entirely or partially liberalized during the time under discussion. This concerns the telecom sector, transport, postal services, the electricity and gas markets. But the overall single European market is still not completed and the slow progress in this field is disappointing.

5.4. Progress in network industries

The liberalization of the telecom sector was largely successful, resulting in doubling of the number of operators providing fixed-line services and a substantial fall of consumer prices (by 13.5% in the last five years). However, in recent years, there was a slow-down of these positive trends, with the former state monopolists regaining their shares in the market, competition declining and prices rising (Centre for European Reform 2004).

The progress in opening the energy markets was much slower. The deadlines for liberalization of gas and electricity sectors have been agreed only at the end of 2002 and a year later the EU established an energy regulators group. The member states started to liberalize wholesale energy markets. The deadline for full liberalization for industrial users passed in 2004, but for consumers it has been delayed until 2007 (from the original date of 2005). Hence, the prices for the consumers fell less then for the industrial users (Centre for European Reform 2004). Other efforts of the Commission aimed at securing energy supply and encouraging efficient use of energy, also through cross-border electricity supply connections[10].

In transport, there was a substantial progress in 2004 in opening the air transportation for competition („the open sky" project). At the same time, measures were taken to increase the cross

[10] For 2005 the target was set at 10% for cross-border energy transmission relatively to installed production capacity (European Commission 2005a).

border competition in rail services. The entire liberalization of rail transport was declared for 2008. Attempts in liberalizing port services were so far unsuccessful.

5.4. Low integration of the single market

Despite visible achievements in liberalization of the network industries and establishing a common regulation of financial services, there is still too little progress in accomplishing the single market. Lack of progress shows in the shrinking intra-EU trade (especially since 2001) and very high price divergences among countries and regions (High Level Group 2004). Additionally, only few Community directives have been included in the national law. According to the Commissions' data, only 58.3% of the 40 directives that had to be transposed by the end of 2004 actually became national legislation, and only 7 out of 40 were correctly implemented by all Member States (Notre Europe 2005)[11].

5.5. Delays in the services sector

The most significant shortcoming in the implementation of the single market rules can be found in the services sector, which has been almost completely excluded from competition. As the report of the Wim Kok group states, the services sector accounts for 70% of GDP growth in the EU and was responsible for the creation of most new work places between 1998 and 2002. Yet services account only for 20% of trade. The level of intra-EU trade in services has not increased since 1992, whereas the intra-EU trade in goods has increased by one third and has added 1.8 per cent to the EU GDP every year. A Commission survey in 2002 found 91 different barriers to cross-border trade in services (Barroso 2005). As a result, the service market is very fragmented, underinvested, has low productivity and is not able to create new jobs. But the growth potential in this sector is huge. A study prepared by the Copenhagen Economics estimates that the removal of obstacles to the freedom of establishment and to the free movement for service providers could lead to an increase of total employment of 0.3% in the medium run (around 600,000), the increase of real wage by 0.4 % and the decline of prices of 7.2% in the regulated professions (European Commission 2005b).

The European Commission accepted in 2004 a Services Directive dedicated to opening the services market (the so-called Bolkestein directive). Since this directive has recently been assessed as politically controversial, the European Parliament and the new Commission are assumed to propose changes to it, which would enable its adoption. It seems that there is a strong commitment on the part of the Commission to implement the freedom of services as soon as possible and to remove political obstacles blocking this freedom (Barroso 2005). But the resistance against these changes in some countries[12] is very strong, too.

[11] The worst performers were France, Germany and Greece.

[12] Especially in France and Germany.

5.6. Other obstacles in the free movement of goods and in the business climate

Certain obstacles impede the free movement of goods; for example, slow development of technical standards hinders the functioning of the general principle of mutual recognition. Such and other obstacles cost the European economy 150 billion Euro yearly (High Level Group 2004) which calls for urgent attention.

Good progress in the liberalization of public tenders for goods and services must be noted. Public procurement accounts for 16% of the EU GDP every year and its efficiency is important both for the public finance and for the business. But the Commission estimates that only around 16 per cent of all procurement contracts are published in the EU journals (Centre for European Reform 2004).

A visible but still insufficient progress has been achieved in the business climate. The regulatory environment of the enterprises needs many improvements and the costs of a company set-up and business operation are still too high. Removing these obstacles calls for not only less regulation but also for its higher quality. The quality of the legislative process at the countries and the Community levels should be improved and the economic evaluation of the legislation prior to its adoption should be introduced (High Level Group 2004)

6. Implementation of the Strategy: differences across countries

It should be emphasized that the progress in the implementation of the LS significantly differed among countries. There were groups of definitely better performing countries set against decisively worse performing ones.

The progress achieved by countries depended on the level of departure and since that level differed, relative progress needs to be assessed. The progress and level achieved by individual countries are compared every year by the Commission using the structural indicators and are assessed by the European Council at its spring meetings. Starting in 2004 these assessments include also the new accession countries. Moreover, the Centre for European Reform delivers its own assessment every spring, based on independent score boards, such as the „Global competitiveness report" of the World Economic Forum. Royuela and others (2005) delivered an econometric study on the relative progress of all countries in the Lisbon process.

According to the reports mentioned above, the best performers in general were the Nordic countries: Sweden, Denmark and Finland. They score well in almost every aspect of the Lisbon agenda. They have achieved high growth and employment on the one hand and high levels of competitiveness (innovations, R&D) on the other, without giving up the environmental goals and social obligations.

The second best group includes the UK, the Netherlands, Ireland and Austria. These countries are very committed to the Lisbon goals and they achieved good scores in some, but not all areas. For example, the UK achieved a very good assessment on the liberalization of telecoms and, financial services. Ireland has made very good progress in raising its employment and productivity levels and in introducing good education policies and business climate. It has achieved the highest productivity level in Europe, while it is lagging behind in innovation record and poverty rate. The Netherlands has noted successes in liberalization of telecoms and utilities and good employment policies. Austria was successful in modernizing the social protection system and has achievements in the natural environment protection (Centre for European Reform 2004 and 2005, Royuela-Mora and all 2005).

Greece, Spain and Portugal have a relatively poor position for most indicators but they at least tried to carry out some reforms. Remaining countries are positioning themselves somewhere „in between", having progressed in some areas and stalled in others. Among them, of special importance are the two largest and most influential European countries: Germany and France. They have been often criticized as anti-reform but since 2003 they have both shown remarkable efforts to introduce difficult and unpopular reforms. In the case of France it is the pension reform and attempts to make the 35 hours working week more flexible. Germany introduced a comprehensive labor market reform (Agenda 2010) which includes serious cuts of unemployment benefits, loosening of employment protection laws and a reform of labor agencies. Thus, one can conclude, that almost every country in EU-15 has embarked on reforms that are directed to more growth and competitiveness. Even Greece and Portugal, the laggards in many reform areas, have achieved success in at least one Lisbon objective. Only Italy, the third largest country in Europe remains indifferent toward Lisbon goals and even appears to be sliding backwards (Centre for European Reforms 2004, 2005).

However, it should be added, that independently from the Lisbon agenda, a clearly visible catching-up of poorer countries toward the more developed ones took place at the end of the 1990s' and at the beginning of the new millennium. Countries which started from lower values of employment rate have experienced the highest growth rates of employment. This was the case of Spain and Italy. They have maintained rapid job creation which translates into high GDP per capita growth rates. Other group of countries (Ireland, Greece, Finland and Luxemburg) had a high GDP growth without a dynamic employment growth. High growth rates in R&D expenditures and high increase in youth educational attainments have not necessarily led to a similarly high GDP per capita growth (Royuela-Mora 2005). These records show that the economic mechanism does not automatically translate different factors into growth. The effects depend also on the relative situation of each country, its phase of development and the most important growth factors in this phase. In other words, less developed countries access and exploit more easily available resources before they move to the phase of the knowledge economy.

Having in mind the less developed countries one should examine the performance of the new ten EU member states. Most of them (besides Malta and Cyprus) are the former Central European and Baltic countries, which experienced a difficult transition from real socialism to market economy lasting even 15 years. There were different opinions on how these countries will influence the performance of Europe and particularly the achievement of the Lisbon goals. It was evident that, in comparison to the EU15, these countries are much poorer, have lower income and productivity levels and still have serious problems in restructuring their industries and securing social cohesion. Thus, they also have a strong potential for catching up and are more dynamic and flexible. In the second year of their assessment, the performance of these countries against the Lisbon criteria showed to be surprisingly good. Not only all these new member states have a much higher GDP growth than the old members but some of them are very good performers in chosen Lisbon scores. For example, Slovenia, along with the Czech Republic and Estonia has very high ranks in the use of the new technology, R&D and information society. Estonia has reached a world leading position in using the new technologies (after Ireland) and has introduced very good regulations in state aid and competition policy. Latvia supplies the cheapest electricity in EU25, has the lowest state subsidies, and ranks very well in competition policy and environmental protection. The Czech Republic has remarkable achievements in modernizing the social protection system, Hungary has developed highly friendly business environment and Poland recorded one of the highest levels of the private entrepreneurial activity of its population. Slovakia has been described as a „frontrunner" in implementing economic and regulatory reforms (such as removing administrative barriers for business activity, liberalizing the labor protection laws and making the working hours more flexible) (Centre for European Reform 2005). Moreover, all former transition countries have lower corporate and personal taxes and many of them have introduced a pension reform.

All these observations bring us to the conclusion that the EU enlargement in 2004 may contribute to more competitiveness and more dynamic growth of Europe, leading to a better performance in the light of the Lisbon goals. The condition for such positive development would be, however, that the „old" EU members would not act against this dynamism and competitiveness, by building new barriers between them and the new member economies or by trying to make their regulations more rigid.

7. Why some important Lisbon goals could not be accomplished?

The answer to this question is multidimensional. The first dimension is contained in the rationale of the Strategy and its ability to identify the most important barriers to growth and the most appropriate measures to handle them. The second one lies in the construction of the Strategy, in terms of cohesion and interconnection of its different goals and in setting right priorities. The third dimension hides in the quality of implementation, including cooperation methods, leadership and ownership of reforms by member countries. The last but not least dimension is in the political economy of reforms.

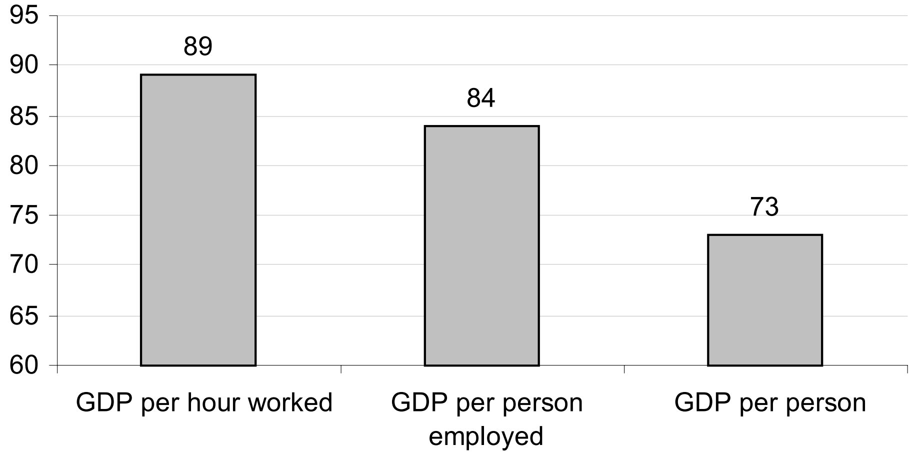
7.1. Rationale and construction

From today's perspective, it would be correct to say that the general aim of the LS at its starting point was a good and helpful proposal. Taking into consideration the slowing dynamics of growth and productivity of the European economy in comparison with other fast growing parts of the world and observing its aging population, the Strategy was looking for new sources of growth that could secure more competitiveness, economic development and social security in the future.

Such new sources were primarily seen in the fast development of the knowledge economy that was expected to produce higher value added of outputs and, at the same time, raise the productivity of the main production factors. However, it has been overlooked that such structural changes cannot be implemented quickly but need many years for accomplishment and are really costly. The expectations to have very quick results brought disappointment, particularly for countries, which were less developed.

The parallel objective of raising employment was based on a correct consideration that European working force is underemployed, predominantly because it is spending too little of their lives at work and is working too few hours. There is clear evidence, that these are the main reasons of lower growth in Europe than in the US (see Figure 4). Thus, supporting the job creation was and continues to be an especially justified task of the Strategy. Many other Strategy goals were seen as means to accelerate growth and employment (for instance the opening of markets, the implementing of better business environment and the shaping of sound macro-economic rules). Other goals (on social cohesion or environment) were also formulated as growth supporting aims, although not all of them could be rightly classified as such, as was mentioned earlier.

Figure 4: Decomposition of GDP per person. Gap between EU and US (US =100)



The first column shows the difference in productivity, the second adds the effects of shorter working time and the third – the effects of lower employment rate. The entire gap is 27%.

Source: Bützow Mogensen (2005), p.51

The symbolic goal of outperforming the US and other parts of the world showed to be least justified and brought more confusion then benefits to the stakeholders of the Strategy, the European citizens and their neighbors. After five years of Strategy implementation, the main popular interest is in reasons due to which this „race" has not been won and not in the causes why real progress of the member countries along the Strategy's guidelines has not been achieved. Opposing Europe to other parts of the world instead of promoting fruitful cooperation was the mistaken idea, which has additionally neglected the fact that the openness of the European economy could be an additional source of economic growth. Today, in our opinion, there is already a changed understanding of these causalities.

Overall, however, the rationale behind the Strategy seems to have been justified and correct.

The more difficult problem arises with the assessment of the internal cohesion of the strategy and the choice of its priorities. The recent criticism of the Wim Kok report underlines that „the 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”(High Level Group 2004).

In our view, larger number of goals would not have to be a problem if the aims were really interconnected and followed the same path. The fact that sometimes these goals were in conflict with each other while there were no stable priorities made the job particularly difficult. As it was mentioned earlier, the objectives and targets were multiplied in such a number that it became unfeasible for the European Commission to review and assess them altogether. This seems to be an effect of bureaucratic activism that aimed at replacing poor coordination and insufficient political leadership of the process.

7.2. Cooperation and leadership

What were the reasons for such poor coordination? As mentioned above, the Open Method of Coordination, used in the Lisbon Strategy has no formal enforcement means at its disposal. Therefore, only tasks voluntarily chosen and accepted by the member countries can be achieved under the OMC. The only pressures on countries can be exerted through mutual information and assessment. This method of coordination proved so far to be efficient only in cases when a particular action was not in an area of conflicts among participants. But it was rather inefficient in cases when the interests of member countries differed seriously. Countries are not willing to take part in the „blaming and shaming” process because of fear to be criticized by other countries in the case of differing interests (Notre Europe 2005). Finally, when countries do not clearly see a common interest in implementing a given change, the national governments will not be really committed to convince their parliaments and citizens to such changes and the action will remain on paper.

But the OMC method cannot bear responsibility for the failure of many important Strategy’s goals. It should be stressed that stricter, traditional community methods of coordination applied throughout the European Union have not prevented, in some cases, a quasi-outsider behavior of countries. The best example is the inability to fully implement the Maastricht Treaty and the Stability and Growth Pact (SGP) that should force the member countries toward larger responsibility in their public finance systems. In this case, two largest EU countries have disregarded a regular Community law for several years. Another example is the slow pace of transposition of the Community laws onto national legislation, which was stressed earlier. Simply, in these cases there is not enough commitment to act as a Community member rather then as a national government. Therefore, one may suspect that the main cause of the failure to reach some of the Strategy’s important goals (for example, completing of the internal market) is the lack of ownership of these reforms by the respective member countries.

Thus, the OMC does not deserve all the criticism which was recently offered (Verhofstadt 2005). It is simply an innovative coordination method that is appropriate for voluntary actions within member states.

7.3. Reform ownership and the political economy of reforms

We now arrive at the following issues: why it is so difficult to introduce reforms that are well founded and would obviously lead to more growth and prosperity for all? Why governments are often reluctant to take ownership of and responsibility for such reforms and to act for the „common good"? The calls for „acting together" have rarely been effective.

One has to recall that politicians are first of all responsible toward their national constituency, which has elected them for a limited time, and have to act in accordance with the priorities of their voters. When the „common European good" stays in conflict with these short-term and local priorities they tend to act along the wishes of their own constituency and not in accordance with the „would-be" European constituency. As the experts of Notre Europe argue, "in more abstract terms, the problem with Lisbon is that it aims for producing public goods with widespread externalities for which no ownership exists, as national government are accountable for domestically produced public goods but not yet for European public goods" (Notre Europe 2005). The European Commission, as a „natural" institution to address these issues, cannot do so unless its authority in producing these goods is clearly established.

The best example for such case is the current problem with the opening of the services market. The voters of more developed and high-wages countries are not willing to open up their local markets for other services providers, fearing the competition of entrepreneurs from less developed and low-wage countries. The unfair argument of social dumping (Sinn 2001) has been raised against the „cheaper" providers. It means in reality that the service providers from the richer countries could be forced to diminish their prices, because of this potential competition. Voters who benefit from the closed market would not easily accept loosing such privileges. The politicians fearing the loss of their support fight for keeping the barriers of the services market as long as possible. In this process, there is no discussion on the new jobs that could be created through the liberalization, on the higher productivity of services that would follow such changes and finally on the benefits of all consumers that would result from the competition and decline of prices.

The truth is that each serious economic reform has to do with the redistribution of rents and the potential losers are not willing to relinquish their privileges (Koromzay 2003). On the other hand, the potential beneficiaries are often not conscious of their possible gains and the politicians fail to inform them and to raise their support.

In our view, this is the more general cause of the deficits in accomplishment of some important goals of the Lisbon Strategy so far. Mr. Borroso, the new President of the European Commission is well aware of the existence of these „established, vested interests in all sectors of society" and calls in his speeches for a support by the beneficiaries of such reforms, first of all among consumers and users. He also opposes the general interest of all Europe against „both sectional and national attempts to undermine it"(Borroso, 2005). But will his voice be heard?

8. The „new life" of the Strategy?

Recently, the European leaders announced the need for „reinvigoration" or „revitalization" of the Lisbon Strategy. The report of the high level group, chaired by Wim Kok, pointed out the deficits in its realization and searched for its causes. It stressed that the Lisbon ambitions should not to be given up; quite the contrary, they are now more appropriate then ever. But one should choose the most important priority, which is generally perceived as „more growth and employment". Other objectives should be subordinated to this most important goal. The development of the knowledge society was treated as importantly as before, the issue for completing the internal market and improving the climate for business was stressed next. There was also an explicit statement for keeping the social obligations and caring for social cohesion, however not against the main goals of the Strategy but in agreement with them (High Level Group 2004).

The official position of the European Commission (European Commission 2005) before the recent spring meeting has accepted, to a large extent, the direction of the Wim Kok report. It calls for more focus (better prioritization), more simplicity and streamlined activities, better coordination and the necessity to mobilize popular support for reforms. The report particularly stresses the priority of growth and job creation, but strongly underlines the issues of making Europe a „more attractive place to invest and work". These issues include: extending and deepening the Single Market, ensuring open and competitive markets inside and outside Europe, improving European and national regulation, expanding and improving European infrastructure. This more complex and open approach to the growth factors in the renewed Strategy can only be welcomed. One can find new ideas in the knowledge and innovation issues, for instance the planned revision of the state aid rules in providing more financial support and easing access to financial means for R&D and innovations, particularly for young and innovative companies. There are novel concepts for institutional shape of the research and innovation sector (Innovation Poles and i2010: European Information Society). The contribution to strong European industrial base through new technology initiatives has been signaled. The employment issues have been tackled in a typical way for the Lisbon Strategy, i.e. from the supply side (adaptability, flexibility, and initiatives for the unemployed and women to return to employment and for the older people to stay longer in employment). The modernization of social protection systems (most important pensions and health care systems) is now undertaken in a slightly more concrete way in the context of strengthening the employment policies and caring for investment in the human capital.

On the coordination side, there is a new idea of preparing state National Lisbon Programs for growth and jobs by each member, reporting to the Community only on this one program and appointing a member of government in charge of coordination of the Lisbon Strategy. Clear roles for the institutions at the European level and new governance of the whole process have been proposed and the importance of involving the social partners and informing the people has been underlined (European Commission 2005).

The preparatory work to the spring European Council has accumulated many arguments and suggested tools for the reshape of the LS and its higher effectiveness. But it seems that the meeting has not delivered the expected results. It was dominated by the very politicized discussion on the services directive and by the issue of reforming (or rather diluting) the SGP. The very important and timely questions of re-directing the LS at some chosen priorities have not found enough attention. Yet, in a short time after the spring Council, it is too early to assess its entire effects.

9. Conclusion

Taking into consideration all abovementioned arguments, one can conclude that it would be unfair to proclaim the Lisbon Strategy a failure or even a mistaken initiative. It helped to set directions of action to modernize the economy at least for countries, which were interested in taking such direction. It helped to assess progress and a country's individual position in this progress. Finally, it helped to recognize the real situation of the European economy and to find the measures that must be taken in order to meet this challenge. The first five years of its implementation was a learning process which helped to better understand the need for further European reforms. For the new accession countries the Lisbon Strategy is an important guide in search of appropriate tools in structural economic reforms.

Therefore, one should not give up the Lisbon Strategy but rather try to find better, more effective ways of its realization. The core issues of pushing the Lisbon agenda forward are now the fully completion of the single market (including the services and financial market), the improvement of the regulatory environment of business and the further deregulation of the labor market. A successful action in these three areas would open up new opportunities for growth and employment in Europe.

Recently, the new European Commission undertook new initiatives in order to reinvigorate the Strategy in giving it more focus, simplicity and shape. But its final success will depend on taking real ownership of the reforms by the member states and will rest on mobilizing popular support for the changes proposed by the Strategy throughout the European Community.

References

Ash, T.G. (2005), Wolny Świat. Dlaczego kryzys Zachodu jest szansą naszych czasów, Warszawa: Znak.

Barroso, J.M. (2005), The 2005 Robert Schuman Lecture for the Lisbon Council, Brussels, 14 March 2005.

B.Błaszczyk, K. Szczygielski (eds),(2005), The Lisbon Strategy at Midterm: Expectations and Reality, Warsaw: CASE Center for Social and Economic Research.

Bützow Mogensen, U.(2005), „Managing thin air – EU's Lisbon Strategy: Benchmarking, targets and the open method of coordination", [in:] The Lisbon Strategy at Midterm: Expectations and Reality, B.Błaszczyk, K. Szczygielski (eds), Warsaw: CASE Center for Social and Economic Research.

Centre for European Reform (2004): Murray, A., The Lisbon Scorecard IV. The status of economic reform in the enlarging EU, London: CER, March 2004.

Centre for European Reform (2005): Murray, A. and A. Wanlin, The Lisbon Scorecard V. Can Europe compete?, London: CER, March 2005.

Cotis, J.- P.(2005),"Getting the agenda right: Strategies for spurring growth and creating jobs", Presentation at the Lisbon Council Young Leaders Congress, Brussels, 14 March 2005.

European Commission, (2000), Presidency Conclusions. Lisbon European Council, 23 and 24 March 2000, Brussels.

European Commission (2003), European Innovation Scoreboard, Brussels, November 2003.

European Commission (2004), "Delivering Lisbon – Reforms for the enlarged Union, COM (2004) 29 final/2, Brussels.

European Commission (2005), "Working together for growth and jobs. A new start for the Lisbon Strategy", Com (2005) 24, Brussels.

European Commission, (2005a), „The economic costs of non-Lisbon. A survey of the literature on the economic impact of Lisbon-type reforms", Commission Staff Working Document, SEC(2005) 385.

High Level Group, (2004), Facing the Challenge. The Lisbon Strategy for Growth and Employment, Report from the High Level group chaired by Wim Kok, November 2004.

Koromzay, V.(2004), „Some Reflections on the Political Economy of Reform", Mimeo, Comments presented to the international conference on Economic Reforms for Europe: Growth Opportunities in Enlarged European Union, Bratislava, Slovakia, 18 March 2004.

Lenain, P. (2005), „Lisbon at mid-term: How to refocus the policy agenda?" , [in:] The Lisbon Strategy at Midterm: Expectations and Reality, B.Błaszczyk, K. Szczygielski (eds), Warsaw: CASE Center for Social and Economic Research.

Notre Europe, (2005), Collignon S. at all, The Lisbon strategy and the open method of coordination, Paris: Notre Europe, March 2005, Policy Paper No. 12.

OECD (2003) OECD Economic Surveys, "Euro –area", Paris: Organization for Economic Cooperation and Development.

OECD (2005), „Economic Policy Reforms: Going for Growth. Structural Policy Indicators and Priorities in OECD Countries", Paris: Organization for Economic Co-operation and Development.

Royuela-Mora V., R.Moreno and E. Vaya (2005), „ Monitoring targets of the Lisbon Strategy" [in:] The Lisbon Strategy at Midterm: Expectations and Reality, B.Błaszczyk, K. Szczygielski (eds), Warsaw: CASE Center for Social and Economic Research.

Sinn, H.-W.(2001) „Social Dumping in the Transformation Process ?", NBR Working Paper 8364.

Verhofstadt, G.(2005), "A European 'pentathlon'. A Community growth strategy for the European economy", Mimeo, Brussels, 17 February 2005.