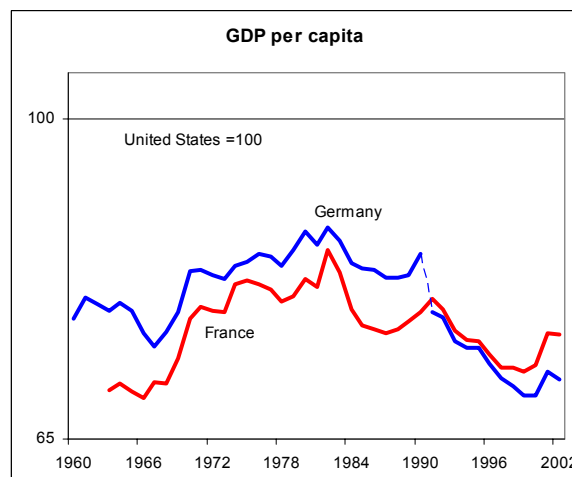


## An Essay Supplement to Chapter 17

### Rethinking the Lisbon Strategy

#### The Issue

Section 15.3 develops principles to think about which decisions should be shared by all EU member states and which decisions should be left to national authorities. Section 17.2 examines how this question applies to the labour markets and mentions the Lisbon Strategy adopted in 2000, when the Heads of State and Government of the European Union solemnly adopted a declaration aiming at creating by 2010 “the most competitive and dynamic knowledge-based economy in the world”. The aim is laudable given the inability of some European countries, including the two largest ones, to close the income gap with the United States, as illustrated in the figure below. The problem is that there was no way in 2000 that this objective could be achieved by 2010, if ever.



Source: OECD

In 2005, the five-year midpoint, the European Council must evaluate progress. In order to prepare this evaluation, they asked Mr. Wim Kok, a former Prime Minister of the Netherlands, to establish a High Level Group and to carry out an independent review. The Kok Report,<sup>1</sup> as it is known, was published in November 2004. It is uncharacteristically frank:

<sup>1</sup> [http://europa.eu.int/comm/lisbon\\_strategy/pdf/2004-1866-EN-complet.pdf](http://europa.eu.int/comm/lisbon_strategy/pdf/2004-1866-EN-complet.pdf)

“External events since 2000 have not helped achieving the objectives but the European Union and its Members States have clearly themselves contributed to slow progress by failing to act on much of the Lisbon strategy with sufficient urgency. This 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.” (p.6)

End of a sad episode? Not quite. In some respect, the strategy is a potentially useful innovation. Stripped of its many unrealistic aspects, including the central aim, it can prove to be useful in helping some countries to advance the kind of reforms that they so badly need. It is an interesting midway in task allocation between full centralization (shared competencies) and full decentralization (national competencies) as presented in p.74.

### **The Lisbon strategy**

The Lisbon strategy includes two components. The first one is a detailed list of 102 benchmarks that cover six areas: general economic background, employment, innovation and research, economic reform, social cohesion and the environment. For each benchmark the strategy sets a Europe-wide target to be reached by 2010. The second component is the annual spring meeting of Heads of States and Government, in principle dedicated to a review of each country's performance. The idea is that the political leaders confront their experiences, learn from success and name and shame the laggards.

In practice, most objectives are beyond government control. For example, one key objective is to raise the proportion of people of working age who take up a job, or at least actively try to get one. A large number of policy measures can be taken to influence people's decisions, but there is no way to ascertain that these measures will succeed in achieving the set numerical target. Inevitably, each country is bound to miss many of the targets, and yet it is unclear whether it should be blamed. Did the country try hard enough? Anyway, among the large number of targets, each country will achieve a few hits alongside many failures, and it will be hard to pass judgment. The strategy's numerous and detailed targets provide for its own undermining.

More worryingly, what is the enforcement mechanism that gives the strategy a fair chance of delivering on its promises? Peer pressure, as it is called, assumes that the political leaders frankly recognize both others' achievements and their own failures. This is a tall order of ambition. Not only are the political leaders little prone to mutual shows of humility, but even if frank discussions take place, the public communiqué that follows typically takes the form of empty promises of continuing effort. The Commission is asked to present its assessment. The publicly released document is reasonably frank. At some point it even included a detailed item-by-item list of national achievements and failures, but that has proved to be too crude for sophisticated politicians.

In the end, the whole exercise is largely symbolic. This is especially so for the larger countries, which are unlikely to pay much attention to peer pressure and where the Commission's pronouncements carry negligible weight. Embarrassingly, the larger

countries are precisely those that need more to upgrade their rigid economies and seem to be less able to build up a consensus to carry out divisive reforms.

### **The Issues**

So should we accept that the Lisbon strategy was always meant to be a rhetorical exercise and let it fade away? This would be a missed opportunity, for the strategy includes some innovative features. The challenge is to respect national sovereignty in politically delicate areas – flexing the labor markets, improving higher education, dealing with the incoming demographic shock – while encouraging each country to learn from others’ successes and failures. Next Spring, the Heads of State and Government will review the strategy at mid-term. What should they do to rescue it?

First, they should restructure the goals. They should drop the objective of delivering “the most competitive and dynamic knowledge-based economy in the world”. Unreasonable objectives are self-destructive. Closing a little bit of the gap vis-à-vis the United States would already represent a major achievement, even though it is less glamorous. The Kok Report does not challenge the objective but rather thinks of it as a “vision”.

Second, instead of relying on a long list of big and small, uniform targets, they should switch to committing to precise measures to be taken by each country by 2010. Because the situation differs much from one country to another, the measures should be tailored to each country. The Commission, which has acquired much expertise in analyzing member countries’ strengths and weaknesses, could provide country-by-country a short list of desirable actions. Each political leader could then negotiate with his peers what he is seriously ready to commit to.

Third, they should recognize that peer pressure does not deliver. Because the required reforms are politically difficult to implement, the challenge is not to design them, but to “sell” them to the public opinion. The main reason why these policies are controversial is that, inevitably, they stand to hurt entrenched special interests. Powerful pressure groups cunningly misinform public opinions and grand statements from European Summits fall on deaf ears. Political leaders say one thing when they meet their peers, and something else when they go back home. This gap needs to be closed.

One possible solution is to agree that the commitments made by each Head of State of Government at the Spring Summit be then submitted to a public debate by each Parliament, which would then shape the following year’s agenda. This would lead the leaders to be realistic when making mutual pledges. More importantly, it would allow the national body in charge of voting on the reforms to develop a global and coherent view of the challenges and possible solutions. It could even force each leader to prepare seriously the Spring Summit by agreeing with key parliamentarians on the measures that the country will commit to, thereby increasing the odds that they will be implemented. Even more importantly, perhaps, such a procedure would inform the public opinions and provide a counterweight to pressure groups.

## Questions

1. Explain the following statement from the Kok Report:

“The problem is, however, that the Lisbon strategy has become too broad to be understood as an interconnected narrative. Lisbon is about everything and thus about nothing. Everybody is responsible and thus no one. The end result of the strategy has sometimes been lost. An ambitious and broad reform agenda needs a clear narrative, in order to be able to communicate effectively about the need for it. So that everybody knows why it is being done and can see the validity of the need to implement sometimes painful reforms. So that everybody knows who is responsible.” (p.16)

2. Chapter 17 offers a diagnosis of European labour markets. How does the Lisbon Strategy<sup>2</sup> deal with the difficulties identified in this chapter?

3. Explain and evaluate the open method of coordination proposed by the Lisbon Strategy.

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<sup>2</sup> [http://ue.eu.int/ueDocs/cms\\_Data/docs/pressData/en/ec/00100-r1.en0.htm](http://ue.eu.int/ueDocs/cms_Data/docs/pressData/en/ec/00100-r1.en0.htm)