

THE LISBON STRATEGY : WHICH FAILURE ? WHOSE FAILURE ? AND WHY ?

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Pessimistic comments are crowding the medias about the failure of the Lisbon strategy. At the end of 2004, the latest Kok group's report has emphasized "the failure of the Lisbon strategy". There is now a debate about the remodeling or the rationalization of the strategy. Before taking decisions, it would be opportune to organize a reflection about the extent of the failure and its causes. Otherwise any reform runs the risk of being not adapted or even counterproductive.

Different questions must be examined : what is the real competitiveness problem ? is there a real need of an EU initiative ? do the different characteristics of the approach chosen in 2000 make sense ?

1. THE PROJECT : A GLOBAL STRATEGY

In March 2000, the European Council gave the EU a new and ambitious goal: to become *by 2010 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*. In light of the United States' and China's level of growth, Europe had no other choice, its viability being at stake. To achieve this 2010 objective, the European Council² took on a broad commitment to achieve results in three different domains: the economy, the social protection and the environment. Actually, the Lisbon strategy (extended in Stockholm in 2001) concentrates practically on all EU activities being linked to one of those three fields³. To ensure a better cohesion of the reforms at each level, a new open method of coordination was developed. Moreover, a spring council was mandated to follow up the implementation of the strategy.

One must not underestimate the strong innovative characteristics of this decision. The Lisbon strategy does not resemble any fundamental program of action launched

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² European Council of Lisbon, march 2000.

³ One will find an interesting background of the conceptual reflection which preceded the launch of the strategy in M.J. RODRIGUES ed., The new knowledge economy in Europe – A strategy for international competitiveness and social cohesion, Cheltenham : Elgar, 2004.

by the EC in the past, like the single market or the single currency. The scope of action is much broader and the method is very different.

1.1. Towards a competitive, dynamic and knowledge-based Economy

Two evolutions presently modify the European society: the globalization of the economy coupled with the growing emergence of information and communications new technologies. To seize on the incredible sources of innovation offered, necessary progresses must be launched.

Firstly, the new economy relies heavily on information. In this context, information needs to be largely distributed to all, companies and citizens, to allow them to become credible actors in the knowledge economy. Thus, strong means of communication are necessary to be enhanced to reach this aim, among others, Internet, e-money, mobile telecommunications. Strong contents must also be elaborated.

Secondly, research needs to be seriously coordinated at the European level. Being one of the only ways to improve at the same time the economic growth, the employment and social cohesion, this has been forgotten, placing Europe far away from United States. Aiming also at avoiding the evasion of brains, a European Area of Research and Innovation will provide the missing frame for researchers.

Thirdly, Europe has the objective to become the best competitive area in the world. To reach this goal, a friendly business climate helps to its implementation. By consequence, administrative rules leading to the creation of companies and especially SMEs ought to be simplified.

Fourthly, the full implementation of the internal market is required for the best functioning of the economy. Therefore, goods, persons, services and capital must circulate freely, all existing barriers being removed. Moreover, the financial markets integration benefits from the circulation of the euro, boosting the competition.

1.2. The modernization of the European Social model

To create the knowledge economy, another core concept of the Strategy is the enhancement of the working and living conditions of the European population⁴. The argument is that a flexible social protection system, far from being an impediment to growth, facilitates it.

Firstly, a better level of education and training is essential to revitalize the employment. In this view, the educational system must be re-organized to increase the knowledge of a higher number of persons, to enlarge the participation of women in the working society. Secondly, unemployment is to be lowered down to meet the

⁴ See Council documents 14110/00 of 2000 and 14164/1/02 of 2002.

demands of the new economy. An active employment policy is developed, allowing an improvement of the European social model and an increasing of opportunities. Thirdly, social exclusion and poverty are to be fought. Again, the best approach is to favor the access of employment opportunities and knowledge to all.

1.3. The environmental perspective

To ensure the equilibrium between economic growth and ecological considerations, the Lisbon Strategy is completed by an environmental dimension. Thus, a new objective of sustainable development is introduced, based on the principle that every possible consequence is examined before a decision is taken.

In this view, the focus is set on specific priority domains. Those are the climate change, the viable ecological transport, the health security and the reduction of polluted means via the responsible administration of natural resources. Among others, greenhouse gas emissions are to be lowered down and clean technologies promoted.

1.4. The systematization of the open method of coordination

Instead of harmonizing national legislations, the European Council concentrates on a new form of cooperation between EU and the Member States. Common targets are preferred to binding rules. The advantage is to allow Member States to develop progressively their own policies, with more choice regarding the instruments and means.

Several steps lead to the coordination of all national procedures. First, guidelines are fixed by the Union with specific timetables, even outside the EU exclusive competences. Secondly, Member States implement those objectives via national actions plans. Thirdly, Qualitative and Quantitative indicators constitute the peer review to measure successes and failures by Member States. Grouped within 6 categories⁵, those measurement instruments are examined in each European Council follow-up of the Lisbon Strategy. Among them are found Structural Indicators such as the Gross Domestic Product, the General government debt, the employment rate, the general price levels, the level of education or the greenhouse gas emissions. Fourthly, a name and shame approach complements the monitoring of the national actions.

⁵ General economic background, employment, innovation and research, economic reform, social cohesion and environment.

2. A MID-TERM EVALUATION SURROUNDED BY A LOT OF CONFUSION

Since the launch of the Strategy, several Spring Councils have examined the progress of the strategy. All of them analyzed the positive and negative results of its implementation. At the end of the Prodi Commission, a more general evaluation began. It was symbolized by the presentation of the Kok's report at the end of 2004. Finally, at the beginning of 2005, the Barroso Commission presented a reoriented strategy. It is especially interesting to observe the progressive drift of official language in the succession of documents⁶.

2.1. The results remain limited

2.1.1. Some objectives have been met

Since the 2000 European Council, some reforms have been accomplished and some targets reached. Jobs have been created, boosting the total employment rate to reach 64,3 % in 2003. With regard to the feminine employment rate, it has progressed up to 56% in 2003. Moreover, the Information society is in expansion with the enlargement of Internet accessible facilities. Schools, Universities and Administrations are more and more empowered with computers and Internet access. Several markets - among others, electricity and telecommunications - have been opened to competition since 2000. The sustainability of the environment becomes a key to be taken into account in every decision-making.

Moreover, structural reforms have been progressively introduced in many Member States. Flexibility of employment is slowly improving. Social protection systems have been reformed, sometimes against significant opposition (France's pensions reform in 2002, Germany's unemployment coverage reform in 2004).

2.1.2. The most fundamental objectives have not been met

Nevertheless, if some progresses are recognized since 2000, an extremely long way remains to be stridden to achieve the objectives for 2010. Delays appear especially important in two domains. The first one concerns the objectives for the employment. Neither the 70 % general employment rate nor the 50% 55-64 aged workers rate will be achieved in 2010. Furthermore, a second objective is not yet ready to be met: the research and development structural indicator. It was supposed to reach 3% of GDP spending for R & D, but the majority of Member States remains far from it.

Moreover, the target relating to the digital training of teachers is also out of reach. As long as other areas are concerned, the progresses are discouraging. Member States continue to fail transposing EU internal market directives.

⁶ For an interesting external analysis, see M. BAILY and J.F KIRKEGAARD, Transforming the European Economy, Washington : IIE, 2004.

Some social and environmental targets have also been missed. It is interesting to notice that this fact is hardly mentioned. Social exclusion has in fact been progressing in some aspects during the last years⁷. In the environmental context, the Kyoto protocol and its greenhouse gas emissions target is far from being implemented. Various forms of pollution have in fact been increasing in the last years⁸. Therefore, the happy enthusiasm of the beginning has progressively been replaced by the realization of the impossibility to meet the proposed targets.

2.2. The Kok report : nothing new under the sun

At the end of 2004, a group presided by W. Kok⁹ has suggested giving a new chance to the Lisbon Strategy. To achieve this would firstly require European Institutions and Member States "to commit themselves". It is worthwhile to study where the Kok report emphasizes continuity and change.

One striking element of the Kok report is the fact that it does not question any basic element of the Lisbon strategy : neither its objectives, nor its global approach, nor its large use of the open coordination method. What appears wrong, basically, is the weakness of the will. The reading of the report generates the strong suspicion that its authors preferred not to deal with the fundamental questions generated by the reform's failure.

2.2.1. Lines of continuity

⁷ See CEC, Joint report on social inclusion, 2004. "Despite an overall improvement since 1995, the numbers affected by relative income poverty are still very significant with more than 55 million people or 15 % of the EU population living at risk of poverty in 2001 (p.6). "There are a number of trends that seem to be increasingly common in several countries. Unemployment levels are increasing overall. In some countries in spite of more positive developments in relation to unemployment relatively high income gaps have persisted (IRL, UK). The numbers dependent on minimum income schemes tend to increase. In terms of accommodation there are indications that housing waiting lists have grown and there is a tendency for homelessness to increase. While overall health standards have been largely maintained there has been some indication of an increase in mental health problems and in problems related to addiction. (p. 33).

⁸ See EEA, Europe's environment : the third assessment, 2003. "Despite (the) relative decoupling of resource use from economic growth, in absolute terms, material use still remains at unsustainable high levels with regard to both its volume and its structure ». (p. 15). Energy efficiency improved, but in western Europe this was not enough to prevent further growth in total energy consumption (p. 24). « After some recovery in the mid-1990s, deterioration has resumed in recent years with more than 20 % of trees now classified as damaged (p. 52). « Transport energy consumption and greenhouse gas emissions in Europe are now growing strongly along with traffic volumes after a drop in the early 1990s in central and eastern Europe and EECCA » (p. 74). Eutrophication remains a substantial problem with large areas unprotected throughout Europe especially in western Europe and central and eastern Europe. Furthermore, most of the monitored vegetation and agricultural crops in western Europe and central and eastern Europe are exposed to ozone concentrations above the long-term European Union target. Air pollution remains a problem in most cities. Long-term average ground-level ozone concentrations continue to increase although short-term peak concentrations are falling. Exposure to particulate matter may be the largest potential health problem from air pollution in most cities » (p. 117). « Total waste generation has been decoupled from economic growth in a limited number of countries. Agreed objectives to stabilise the generation of municipal waste in the European Union have not yet been met. Quantities are increasing in most western European countries and to a lesser extent in most central and eastern European countries and the countries of EECCA » (p. 151).

⁹ Report of the group of expert lead by Mr. Kok, November 2004.

Moreover, the group urges actions to be undertaken in five areas of policy. The knowledge society remaining the priority, Europe must increase its attractiveness for researchers and boost at the same time the R&D expenses and the use of ICTs. With regard to the internal market, further actions towards the completion of the free movement of goods, capital and services are required. To enhance the business climate, the simplification of rules regarding the start-up and functioning of the companies remains the preponderant key. Strategies towards a lifelong learning and active ageing will improve the labour market. Policies pursuing the environmental sustainability should be promoted.

According to the group of experts, the failure to meet the targets defined in 2000 is principally due to the incapacity of Member States to adopt coordinated measures to promote the good application of the Lisbon strategy. Therefore, the experts propose to increase the coherence and consistency between the various national policies to reach a higher level of fulfillment of the objectives.

2.2.2. Lines of change

The main change in the report lies in the very limited importance given to the social and environmental objectives of the strategy. The social problems are analyzed nearly exclusively from the point of view of employment. All other social problems are not evoked. The environmental problems are mentioned in one paragraph.

Another change in the report lies in the suggestion to enhance the role to the Member States preparing national programs complying with the fixed objectives. Nevertheless, there is not much analysis regarding the reasons of their failure until now.

Moreover, the Kok report does not really offer any concrete proposition to make the Lisbon Strategy work. If it analyses partly the reasons why the Strategy fails to deliver, it does not provide any solution allowing an improvement of the Lisbon pillars. The group of experts was thus mainly unsuccessful. Apart from some omissions and the underlining of the malfunction of the Strategy, nothing very new is contained in its report. Therefore, taking back the mission of the group, the fundamental elements of the strategy must be scrutinized to discover where the causes of this failure lie.

2.3. The new propositions of the Commission : more of the same ambiguity

2.3.1. A few novelties

In February 2005, the Barroso Commission presented its propositions for “a new start for the Lisbon strategy”¹⁰. Its communication provoked various reactions in the European Parliament, the Member States and the civil society. The development of this debate was quite surprising in some ways. Three changes were noticeable – and one noticed.

Firstly, though the text expressed generous intentions about the European social and environmental model, precise social and environmental targets had in fact been abandoned. Paradoxically, the speech of the Commission’s president in the European Parliament was clearer about this than the communication itself¹¹.

A few days later, the Commission presented other documents, which partly compensated this change. The first one was a new social agenda¹². It was only a partial compensation since, despite indicating interest for poverty and minimal income, it stopped short of defining precise targets. Two other documents covered environment. One defined the new environmental program for 2005, and the other explored possible strategies for global warming after 2012¹³.

This novelty seems bound to create a lot of negative reactions. It is especially curious if one considers the weak administrative burden and the weak political obstacles that these social and environmental objectives have generated during the last five years. It seems impossible to identify one single measure targeted in the Lisbon strategy in 2000 which has been blocked because of the social and environmental objectives. The additional problems that this novelty is bound to create are thus much more obvious than its advantages.

Secondly, another new element, less noticed, was a much stronger emphasis in the Lisbon strategy on the growth and stability pact. This is quite a logical development, considering that the pact is the first pillar of economic coordination. Nevertheless, curiously, this linkage had been quite forgotten during the Prodi Commission.

Thirdly, during the presentation of the communication (but not in the communication itself), another linkage was established, this time with the future financial

¹⁰ COM (2005) 24.

¹¹ There was one revealing metaphor in the speech pronounced 2 February 2005 in the European Parliament. “It is as if I have three children – the economy, our social agenda and the environment. Like any modern father – if one of my children is sick, I’m ready to drop everything and focus on him until he is back to health. That is normal and responsible. But that does not mean I love the others any less !” This comparison is enlightening in more than one way. First, it indicates quite clearly the will to give priority to economic objectives. Second, it relies on the hypothesis that the social protection and the environment are in good health in Europe, which could be debated considering the Commission’s latest reports on these subjects. The most dangerous aspect of such an emphasis is that it suggests the abandonment of the social and environmental objectives could have been the result of a personal involvement of the president.

¹² COM (2005) 35.

¹³ COM (2005) 37.

perspectives of the Union. Here too, this is quite a logical development. Nevertheless, this had not been done in the past and, considering the present aggressiveness surrounding the budget negotiation, is quite courageous.

2.3.2. Much continuity

Nevertheless, apart from the reduction of the objectives, the Commission's communication does not change much in the approach. This remains a very broad strategy. It still mixes competences from the EC and the Member States. It still relies basically on the open method of coordination. It does not propose anything new about the legislative process or the coordination of economic policies at the level of the EC. A lot of importance is given to rather modest objectives, like reducing the load of papers, having debates in the national Parliaments and the civil society, and nominating a Mr (or Mrs) Lisbon in each Member State.

2.3.3. A rather confusing communication

Revealingly, the communications were not very clear, and sometimes contradictory about the causes of the "Lisbon's strategy failure". For example, according to the press release, the president of the Commission indicated that "the Lisbon goals were right but the implementation was poor". Nevertheless, in the next sentence, he indicated that "we must refocus the agenda". Then, in the next sentence, he concluded that "I believe we have the right tools to achieve our goals"¹⁴. The first and third sentences seem to indicate that the problem came from the process, but the second from the goals themselves.

Furthermore, the same document lists a lot of different causes of the failure : "economic conditions, international certainty, slow progress in the Member States and a gradual loss of political focus". None of them seemed directly linked to the process or the goals of the Strategy. According to another document, "we need to revamp the Lisbon strategy because the delivery process which has become too complicated and is poorly understood. It generates much paper, but little action. Responsibilities between the national and the European level have become blurred. Limited ownership of the Member states is the result"¹⁵.

All this is rather confusing, especially if one considers that the improvement of political communication is precisely one important element of the "new start". The description of the causes of the Lisbon's strategy failure is everything but clear, and so is the description of the components of the renewed strategy.

¹⁴ IP/005/130, 2 February 2005.

¹⁵ MEMO/05/34, 2 February 2005 ("Q+A: a new start for the Lisbon strategy").

3. THE FUNDAMENTAL QUESTIONS : WHAT ARE THE ROLE AND THE ACCOMPLISHMENTS OF THE EU ?

3.1. What is the extent of the EU competitiveness problem?

3.1.1. The apparent problems

- The US grows more, but there is practically no difference in the GDP growth per work hour.

Many comments have been written about Europe's weak competitiveness compared to the United States'. Most of them deserve a very careful attention. Firstly, the object of comparison is not always clear : the Eurozone, the EU-15, the EU-25. Secondly, there are important divergences in the statistical approach between the USA and the EU, notably about the integration of software costs (which is considered as an investment in the USA and not in the EU)). Thirdly, things are very different whether one compares growth of GDP, growth of GDP per capita, growth of GDP per hour of work, and standards of life. To summarize long discussions, a comparison of the growth between per hour of work indicates that the difference between the USA and the Eurozone is minimal (2,1 % in place of 1,8 %), and is entirely due to Germany (without Germany, there is absolutely no difference). The difference between the absolute level of GDP growth can largely be explained by strongest currents of migration (the USA population grows, the Eurozone's not) and by the strong reduction of working time in Europe.

- The US' growth has been partly bought with an Himalaya of debt

The deficit of external current payments is more or less endemic in the USA. Furthermore, since 2000, this has strongly increased because of the growing public deficit. The sparing capacity of the American economy is presently more or less inexistent. The households' debt is tremendous, the public debt is quickly rising, and so is the external debt (if one takes into consideration environmental costs, the US growth appears still more costly).

- The Eurozone has survived a 35 % devaluation of the dollar towards the Euro during the period 2002-2004.

It is often said that the European economy has no adaptation capability. Nevertheless, the Eurozone has absorbed a very strong rise of the Euro during the last two years (especially strong if one considers that most other important economies have linked their currency to the dollar). After these two years, growth was still at 1,8 % and the trade balance was even still positive. This is an impressive result, even if it has caught very little attention. This contrasts quite positively with the image of total inadaptability of the European economy.

3.1.2. The real problems

Even if the problems of the European economy remain relative, they are nevertheless real.

- The spending linked to the ageing of the European population is constantly growing

The most important problem Europe has to face is demographic change. Since 1960, the growth of the European Union population is irremediably falling down¹⁶. This decline is explained by three main different combined trends. The first two ratios, the downfall of the fertility rate and the higher life expectancy at birth, are closely linked and cumulatively contribute to the greying of the European population. However, in United States, those ratios are still maintained at a high equilibrium. Moreover, another ratio is rising deeply in Europe, the old-age dependency ratio¹⁷. Indeed, in the 55-64-age grade, almost 60 % do not work anymore in the EU-25 zone. By consequence, because of the ageing, public expenditures are estimated to increase of 8 % GDP between 2000 and 2050¹⁸. Therefore, the greying of population combined with early retirements will have disastrous consequences on the European economy¹⁹.

In light of those data, the European social model appears more and more inadequate. To cope with the higher expenditures, Europe must be extremely productive²⁰. If nothing is done to counteract the effects of the ageing of population, the European Social model will collapse sooner than expected.

- The progress of European productivity is decreasing

The second challenge Europe has to face is the enhancing of new information and communication technologies. Indeed, the introduction of ICT has the power to revolutionize the workplace by boosting productivity, increasing wages and improving living standards. Europe has thus a golden opportunity to seize to grow²¹.

However, if the diffusion of ICT was particularly successful in United States, it is not the case in Europe²². Despite the promotion of the knowledge based economy by the Commission, more remains to be done. The European slowness can be mostly explained by the rigidity of its labour markets, which leads to long-term unemployment among unskilled workers. According to the Sapir Report, the existing

¹⁶ Eurostat yearbook 2004, growth of the EU-25 population, p 41.

¹⁷ Eurostat, central scenario projections; old-age dependency ratio: population aged 65 or more, over population aged 15-64.

¹⁸ European Commission, The EU Economy 2002 Review, European Economy No. 6.

¹⁹ For a global analysis of the pensions' problem, see for example R. HOLZMANN, M. ORENSTEIN, M. RUTKOWSKI eds., Pension Reform in Europe: Process and Progress, Washington : World Bank, 2003. For an interesting perspective on healthcare in 2050, see E. SCHULTZ, Ageing, health and retirement in Europe, ENEPRI research report n° 4, 2005.

²⁰ This factor will be analysed in the next section.

²¹ See C. DENIS, K. MCMORROW, W. ROGER and R. VEUGELEERS, The Lisbon strategy and the EU's structural productivity problem, Economic papers n° 221, Brussels : European Commission, 2005.

²² There are here interesting lessons to be drawn from the US use of ICT in a broad specter of activities : see C. DENIS, K. MCMORROW and W. ROGER, An analysis of EU and US productivity developments, Economic papers n° 208, Brussels : European Commission, 2004.

barriers in product and financial markets slow down the diffusion of ICT. Moreover, the apparition of new technologies contributes to change completely the working society. By consequence, in-depth reforms are indispensable. However, it is where it hurts. Up to now, Europe remains incapable of restructuring its traditional companies and its administration. Indeed, it requires a total modification of the way to work, which, like every change, is seen as a threat by the majority. In appearance, companies have adopted new technologies: workers are equipped with computers and Internet, have access to a higher quantity of information. Nonetheless, they continue to work as usually, as when technologies had not been yet propagated. In conclusion, more than a change of material structures, an evolution of mentalities is needed.

Therefore, it is timely to address this problem by optimising the development of ICT in Europe. If not, it will become increasingly difficult to sustain the social model.

- The level of activity remains unsatisfactory

The decrease of unemployment and the participation rate remain quite weak. This is one central problem if one desires to finance the growing needs of the "European social model". Something has to be done. Progresses have been made in some Member States but they are clearly insufficient.

Nevertheless, it must be emphasized that a solution to this problem requires a global approach, combining EU and national measures, macroeconomic and microeconomic incentives, economic and social initiatives, added flexibility and new forms of social protection²³. From this point of view, it could be said that the scope of the Lisbon strategy is not broad enough yet.

- The regulatory landscape sometimes inhibits growth

In some Member States, the regulatory system has become in itself a substantial impediment to company and innovation. The multiplication of heavy administrative procedures often uncoordinated provokes additional costs and delays. There is thus a clear need for simplification of regulations and administrative procedures.

- New competitors arise on the international market

In a world of free trade and free movement, new powerful actors have emerged: China and India. They benefit from low labor costs, and they gradually incorporate new technologies. This engenders new competitive pressures, especially in old economic sectors, like textile or steel. There is thus a need of re-adaptation, both for products and people. Nevertheless, this evolution also generates new trade opportunities and new benefits for consumers. But it cannot be denied that it imposes deep restructurations in specific economic sectors.

3.2. Is a European program necessary ?

²³ See F. DEHOUSSE, J. MARD and T. ZGAJEWSKI, La crise de l'emploi : quel rôle pour l'Union européenne ?, *Courriers hebdomadaires du CRISP*, 1997, n° 1558-1559, pp. 1-55.

According to the principle of subsidiarity²⁴, the European Community can only act if a problem cannot be adequately dealt by the Member States acting on their own. It is only possible when the contemplated action is better achieved by the Community institutions. Moreover, it must be among the shared competences between Member States and the EC²⁵. Since the 1980s, the importance of the subsidiarity principle has constantly grown. Each Community action is now scrupulously screened before being undertaken. It is thus puzzling to discover that a lot of actions contemplated in the Lisbon strategy concern zones of competence remaining at least partly to the Member States : employment, environment, social policies, education. Direct EC initiatives in these domains are certainly limited.

This situation explains the creation of the open method of coordination. The method has become a bridge allowing the definition of a global strategy covering partly areas outside the harmonizing competence of the EC. The repartition of competences between the EC and Member States constrains them to organize something complex to support a global strategy.

A European program is certainly necessary to deal with measures in the area of the EC competences. It is also necessary, though it is less obvious, for other measures. This can be explained both by technical and political reasons. Technically, there are links between these different measures. To be efficient, for example, macroeconomic policy needs structural reforms. Otherwise, its effects are quickly lost in the sands of economic inflexibility. Structural reforms need mechanisms of social protection. Otherwise, fears quickly bring a stalemate in the process of structural reform. Politically, the EC decision process requires some kind of balance between economic and social objectives.

There are thus clear links between the different characteristics of the Lisbon strategy. To be efficient, it needs to be global. To be global, it needs to cover competences of both the EC and the Member States. To cover some competences of the Member States, it needs to rely on a suppler instrument. But, of course, in these domains, the EU has absolutely no capacity to deliver the goods.

A second important argument concerns more specifically the members of the Eurozone (though all members of the EU have in fact a strong interest in the good functioning of the Eurozone). The European Central Bank has a constitutional duty to protect the stability of prices. There is a direct link between the stability of prices and the efficiency of the economy as a whole. If competition and budget management are good, this gives more autonomy to the central bank to practice a stimulating policy for growth without running the risk of increasing inflation. One could thus analyze the rise of the open coordination method as a way to correct the original macroeconomic deficiencies of the Maastricht Treaty²⁶.

²⁴ Article 5, second paragraph (3b) ECT, in conjunction with Article 2 (B), last paragraph, and the 12th recital in the preamble to the EUT.

²⁵ According to art. 5 ECT, this principle does not concern the exclusive competences of the Community. This has no implication here.

²⁶ See F. DEHOUSSE , Commentaire sur les articles 3A et 102 A à 109 du traité de Rome, in V. CONSTANTINESCO, R. KOVAR et D. SIMON dirs., *Le traité sur l'Union européenne*, Paris : Economica, 1995, pp. 101-106 et 229-287.

3.3. Were there real results at the EU level ?

It must be emphasized that the Lisbon strategy has been quite a success – at the EU level. Thanks to the Community method, a lot of legislative measures which had been announced in 2000 have in fact been taken during the last four years. On the reverse, the results of the coordination of economic policies, seen from a more general point of view, have been less impressive.

This distinction is important. It indicates that, at the EU level, the delivery problem has been provoked by the drift from the Community method to the coordination method, which is less constraining. The core of the problem thus goes back to the Maastricht Treaty, which decided at that time not to use the pure Community method in the context of the Economic and Monetary Union. It could be foreseen at the time that such a drift could provoke future problems in the management of EMU. Financial markets need a certain level of certainty, which cannot be offered by the procrastination of the Council in the adoption of sanctions²⁷.

3.3.1. A lot of legislative measures have been adopted

Without detailing the impact of the measures, it is important to realize that most of the commitments taken in 2000 have in fact been fulfilled. Quite curiously, the only neglected sector from this point of view has been the consumer protection. It is very surprising that such an important fact has not been emphasized during the debate on the Lisbon's strategy results.

These results concern mainly some network activities whose opening to competition had remained persistently slow during the building of the single market program, like the energy policy²⁸, the postal services²⁹, the single European sky³⁰, and various

²⁷ Ibidem.

²⁸ See for example the following directives of the European Parliament and of the Council : Directive 2003/54 EC concerning common rules for the internal market in electricity and repealing Directive 96/92 EC -Statements made with regard to decommissioning and waste management activities (*OJ* 2003, L 176); Directive 2003/55 EC concerning common rules for the internal market in natural gas and repealing Directive 98/30 EC (*OJ* 2003, L 176); Directive 2001/77 EC on the promotion of electricity produced from renewable energy sources in the internal electricity market (*OJ* 2001, L 283); Directive 1228/2003 EC on conditions for access to the network for cross-border exchanges in electricity (*OJ* 2003, L 176); Decision 1229/2003 EC laying down a series of guidelines for trans-European energy networks and repealing Decision 1254/96 EC (*OJ* 2003, L 176); Regulation 807/2004 EC amending Council Regulation 2236/95 EC laying down general rules for the granting of Community financial aid in the field of trans-European networks (*OJ* 2004, L 143).

²⁹ See Directive 2002/39 EC of the European Parliament and of the Council amending Directive 97/67 EC with regard to the further opening to competition of Community postal services (*OJ* 2002, L 176).

³⁰ See Regulation 549/2004 EC laying down the framework for the creation of the single European sky (the framework Regulation) (*OJ* 2004, L 96); Regulation 550/2004 EC on the provision of air navigation services in the single European sky (the service provision Regulation) (*OJ* 2004, L 96); Regulation 551/2004 EC on the organisation and use of the airspace in the single European sky (the airspace Regulation) (*OJ* 2004, L 96); Regulation 552/2004 EC on the interoperability of the European Air Traffic Management network (the interoperability Regulation) (*OJ* 2004, L 96); Regulation 894/2002 EC amending Council Regulation 95/93 EEC on common rules for the allocation of slots at Community airports (*OJ* 2002, L 142); Regulation 1554/2003 EC amending Council Regulation 95/93 EEC on common rules for the allocation of slots at

aspects of transport³¹. Nevertheless, other activities have also been neglected such as competition rules and state aid³²; public procurement³³ and Galileo³⁴.

3.3.2. The coordination of economic policies remains too weak

The failure of the Lisbon strategy is compounded by the failure of previous commitments in the realm of economic policy. The EC is of course not very credible in the delivery of a global coordination strategy if it is not even able to respect older and more limited coordination commitments.

- Economic and budget reforms in the Member States have not been properly coordinated

Though the Maastricht Treaty has established an *economic* and monetary union, its economic aspects have remained quite limited. A lot of national reforms in this area have not been coordinated at all. More worryingly, in the periods of sudden oil price rises (2000 and 2004), there has been very little common approach of the Member States.

- The stability pact has not been enforced

Community airports (*OJ* 2003, L 221); Regulation 793/2004 EC amending Council Regulation 95/93 EEC on common rules for the allocation of slots at Community airports (*OJ* 2004, L 138).

³¹ Directive 2001/12 EC of the European Parliament and of the Council amending Council Directive 91/440 EEC on the development of the Community railways (*OJ* 2003, L 75); Directive 2004/51 EC of the European Parliament and of the Council amending Council Directive 91/440 EEC on the development of the Community's railways (*OJ* 2004, L 164); Directive 2001/13 EC of the European Parliament and of the Council of 26 February 2001 amending Council Directive 95/18/EC on the licensing of railway undertakings (*OJ* 2003, L 75); Directive 2001/14 EC of the European Parliament and of the Council on the allocation of railway infrastructure capacity and the levying of charges for the use of railway infrastructure and safety certification (*OJ* 2002, L 75); Directive 2001/16 EC of the European Parliament and of the Council on the interoperability of the trans-European conventional rail system (*OJ* 2001, L 110); Directive 2004/49 EC of the European Parliament and the Council on safety on the Community's railways and amending Council Directive 95/18 EC on the licensing of railway undertakings and Directive 2001/14 EC on the allocation of railway infrastructure capacity and the levying of charges for the use of railway infrastructure and safety certification (Railway Safety Directive) (*OJ* 2004, L 164); Regulation 881/2004 EC of the European Parliament and the Council establishing a European Railway Agency (Agency Regulation) (*OJ* 2004, L 164); Directive 2004/50 EC of the European Parliament and the Council amending Council Directive 96/48/EC on the interoperability of the trans-European high-speed rail system and Directive 2001/16 EC of the European Parliament and of the Council on the interoperability of the trans-European conventional rail system (Second Railway Package) (*OJ* 2004, L 164).

³² Regulation 1/2003 EC on the implementation of the rules on competition laid down in Articles 81 and 82 of the Treaty (*OJ* 2003, L 1); Regulation 794/2004 EC implementing Council Regulation 659/1999 EC laying down detailed rules for the application of Article 93 of the EC Treaty (*OJ* 2004, L 140); Regulation 139/2004 EC on the control of concentrations between undertakings (the EC Merger Regulation) (*OJ* 2004, L 024).

³³ Directive 2004/17 EC of the European Parliament and of the Council coordinating the procurement procedures of entities operating in the water, energy, transport and postal services sectors (*OJ* 2004, L 134); Directive 2004/18 EC of the European Parliament and of the Council on the coordination of procedures for the award of public works contracts, public supply contracts and public service contracts (*OJ* 2004, L 134); Decision 2005/15 EC on the detailed rules for the application of the procedure provided for in Article 30 of Directive 2004/17 EC of the European Parliament and of the Council coordinating the procurement procedures of entities operating in the water, energy, transport and postal services sectors (*OJ* 2005, L 7).

³⁴ See Council Resolution on Galileo (*OJ* 2001, C 157), Regulation 876/2002 EC setting up the Galileo Joint Undertaking (*OJ* 2002, L 138); Regulation 1321/2004 EC on the establishment of structures for the management of the European satellite radio-navigation Programmes, (*OJ* 2004, L 246).

Adopted in 1997, the Stability and Growth pact aims at avoiding damages caused by debt politics followed by EMU Member State which would impact the whole Euro Zone. It enables the continuity of the budgetary discipline efforts after the introduction of the single currency, the Euro. The core of the Pact is composed of a medium-term objective of budgetary positions close to balance or in surplus. This objective allows Member States to deal with normal cyclical fluctuations while keeping the government deficit within the reference value of 3% GDP. Introduced by the Maastricht Treaty, this reference value brings economic stability within the whole Euro Zone.

The Stability and Growth Pact has lost its credibility. Most Member States, and especially the biggest economies of the Eurozone, are no more following its rules. From 2001 a stagnation period has begun. Many Member States ran their economies rather badly, letting increase deficits and debts. In those conditions, the 3 % reference was no more achievable in numerous countries. The middle-term objective of maintaining a budgetary position close to balance or in surplus seems now totally out of reach.

In addition to those elements, the Stability and Growth Pact has not provided adequate answers to repeated breaches of the 3% ceiling. Neither the early warning procedure, nor the so-called sanction procedure to be followed in case of infringement are working. Instead of applying sanctions (interest bearing deposit until the correction), the Council made promise some infringing Member States to respect the SGP without any other condition. In this situation, the Commission decided not to take any further steps and to suspend the excessive deficit procedure.

3.4. What is the main cause of failure ?

The present chaotic debate about competences, levels of power, objectives and processes obscures the main reality : these elements are not the main causes of the Lisbon strategy's (partial) failure. The real difficulty lies in the reform of the welfare state. One forgets a little bit quickly that the most important objectives of the strategy deal with fundamental pillars of the welfare state : pensions, health care, unemployment support and education. This is the first time in the European integration history that these domains are so clearly the focus of action.

This was bound to be difficult in any context, at any level, with any process. A very clear sign of the central role of the welfare state reform appears in the acuity of opposition regarding measures in this domain both at the EC level (the directive on services) and at the national level (pensions and unemployment reform). For the sake of good communication, it is more than timely to concentrate on this, rather than on objectives and processes.

3.5. Does the new approach of the Lisbon strategy make sense ?

Considering the scope of the failure, it is worth considering the question : does all this make sense ?

3.5.1. Is the triangular approach viable ?

According to the Kok report, the triangular approach improves each face of the triangle³⁵ thanks to the combined action of the two other faces. Other comments consider that the approach is too broad, and consequently that a lot of energy and attention is spilled. At the end, according to this vision, having a so large agenda comes to not having any agenda at all. In 2004 there has been a clear temptation to minimize the social and environmental aspects of the strategy. This drift is obvious in the Kok report, which comprehends a lot of pages concerning the economic objectives, one paragraph about the environmental objectives and one line about social objectives. This can hardly be considered as a balanced approach.

A broad agenda is certainly more complex to manage. This being said, this complexity reflects only the complexity of the real world. There were, as has been said before, technical and political reasons to adopt a global strategy. These reasons have not disappeared in the meantime. A comparison with the single market and the single currency is, from this point of view, very enlightening. The single market had social and environmental components. This helped a lot to boost its political acceptability. The single currency did not have any, and this explains a lot the reduced political acceptability of the program and the growing unpopularity of the EC in various countries of the Eurozone. Therefore, the broadness of the agenda finds both macroeconomic and political justifications.

3.5.2. Can the Open Method of Coordination deliver ?

Has the open method of coordination delivered ? The answer, surprisingly, is partly positive. At the EC level, many announced measures have been adopted. At the Member States' level, there has been some movement – though limited. Nevertheless, at this level, the method was never meant to produce the same results than a legislative program like the single market, for example. It was conceived to diffuse information and to stimulate initiatives. On both (limited) aspects, it has produced the desired effects.

Comparisons between Member States have indicated very strongly that the performance of communications systems and of the employment policies are much better in the Nordic countries, for example. They have also shown that pollution has reached a more threatening level in the core countries of the EU than in the periphery. Action has been taken in various employment and social policies, but one must honestly recognize that these reforms have little to do with the Lisbon strategy and a lot to do with the perception of the national interest by national governments. Furthermore, these reforms have had a limited impact until now. Nevertheless, their impact can only be analyzed in a long term perspective.

³⁵ As recall, the three faces of the triangle are respectively the economic, social and environmental perspectives.

If the impact of the strategy is partly limited, it is because it was meant to be so from the start³⁶. If they hoped to obtain more drastic results, the national governments should have given other means to the EC institutions. In a deliberate political decision, they chose not to do so.

4. THE LISBON STRATEGY : A REVELATOR OF THE PRESENT EU HUBRIS

Soft law brings soft results. There is nothing surprising in such an outcome. What is surprising in this context is precisely the surprise of many observers. The next section examines in a very synthetic way what could have been done.

The Lisbon strategy has been from the beginning a very ambitious program of action with very limited instruments. From this point of view, it symbolizes unfortunately the present contradictions of the Member States³⁷. You cannot have your cake and eat it. You cannot also have it without bringing a little bit of flour and sugar.

4.1. New ambitions without any institutional reform

At the EC level, results have been real but limited. It must be noticed that the EC has been especially late when the decision process was especially complex. Regulations about patents have not yet been adopted (though already contemplated in 2000...) because of the unanimity requirement. Directives about taxation of infrastructures, as a significant rise in the research budget have been paralyzed for the same reason. If Member States consider that such decisions are urgent (which they are), they should have the honesty to accept the use of qualified majority voting in these domains. It must be remembered in this context that the enlargement of 2004 has strongly increased the difficulty of the EU decision process. The qualified majority of the 25 Member States in the Council is now more difficult to reach than the unanimity of the 15 old Member States. Furthermore, the Nice Treaty has increased the number of required votes.

The weakness of this approach is evident for example in the field of research. In this domain, it is essential to improve the level of national spending, but it is at least as essential to better use the outlays. Otherwise, increased budgets will not generate any added volume. There is thus a need to concentrate more money at the EC level, and to use this money better. Deciding everything with unanimity between 25 Member States is certainly not the way to reach such a result.

A similar reasoning should be applied to the economic coordination process. If Member States consider the strengthening as necessary (which it is), they should increase the powers of the Commission in this domain. Experience has shown quite

³⁶ On the link between the reforms and the OMC, see G. TABELLINI et C. WYPLOSZ, *Réformes structurelles et coordination en Europe*, Paris : Conseil d'analyse économique du premier ministre, 2004.

³⁷ See R. DEHOUSSE dir., *L'Europe sans Bruxelles: une analyse de la méthode ouverte de coordination*, Paris : L'Harmattan, 2004.

decisively now that giving the final powers of control and sanction to the Council is the perfect recipe for confusion and inaction.

The decision and implementation process has not been simplified. On the contrary, the Lisbon strategy relies heavily on the European Council, which is certainly not fit to manage a very complex project of structural reforms. Therefore, the intergovernmental characteristics of the EC method have been strengthened to implement the broadest political project of the EU³⁸.

4.2. New ambitions without any budgetary impact

The debate about the Lisbon strategy has suffered from the general regressive approach concerning the evolution of the EC budget. In some areas, for strategic or marketing reasons, it is clear that higher budgetary commitments could have brought better results. It could also have oiled a lot the mechanisms of economic coordination.

The EC budget was not increased, and it was even not modified to take into consideration the so-called "priority" of the Lisbon objectives³⁹. The agricultural budget could have been reduced to provide some means for new policies. The objectives of the structural funds could have been redefined. Such decisions were not taken.

4.3. New ambitions without respect for existing rules

Such a new ambitious program like the Lisbon strategy is difficult to implement if even existing and more limited commitments are not respected by the Member States. This is especially the case if this delivery deficit concerns an area (macroeconomic policy) which is crucial for the success of the strategy.

More generally, there is a need for greater leadership in the process of structural reforms in the EU. Sometimes, the grandiloquent statements of the European Council seemed to be considered by national leaders as a substitute for action. There is a need for greater – and regular – initiatives at the national level. The Lisbon strategy is built on the idea of a strong synergy between the EC and the Member States. This synergy cannot exist without more commitment by the national

³⁸ See DEBARGE, LAURENT and RABAHEY, Le rôle du Conseil européen : influences croisées dans les champs économiques et sociaux, in GIEPI, Quel avenir pour l'Union européenne ? La stratégie de Lisbonne définie par le Conseil européen en 2000, Bruxelles : Bruylant, 2004, pp. 41-75 ; CAFARO, La méthode ouverte de coordination, l'action politique communautaire et le rôle politique du Conseil européen, in Mélanges J.V. Louis, vol. II, Bruxelles : éd. de l'ULB, 2004, pp. 203-221.

³⁹ See LEROY, L'avenir de la politique structurelle régionale de l'Europe, in GIEPI, Quel avenir pour l'Union européenne ? La stratégie de Lisbonne définie par le Conseil européen en 2000, Bruxelles : Bruylant, 2004, pp. 107-126.

governments. The EC is not different from the Member States. The Member States are the EC. This should be said – and practiced.

5. TEN WAYS TO IMPROVE THE PRESENT SITUATION

5.1. Explain better

The causes of the strategy are complex, and so is the strategy itself. Consequently, it needs a lot of explanation – preferably as simple as possible. The Commission rightly drew the attention on this in its communication. Nevertheless, it has not always respected itself this requirement. Things could be better. There should be (a) a stronger emphasis on the main objectives, (b) a more positive description of specific EC initiatives during the period 2000-2005, (c) a clearer indication of the main responsibility of national governments.

In that perspective, it would be most useful to change the name of the program. A better communication strategy requires a clear name. This is not presently the case. There have been some hints in that direction. Nevertheless, the Commission still suggests the nomination of a "Mr Lisbon" in all national capitals. This is certainly a good name for a tour operator, but not for a person in charge of economic structural reforms.

5.2. Underline the positive aspects

In some ways, the EU's economic performance has been substantially less catastrophic than many present descriptions suggest. The Lisbon strategy has also delivered results at the EC level and even in a limited way at the national level.

5.3. Organize national debates

If the national governments really support the strategy, they should commit themselves to organize one yearly parliamentary debate, involving the social partners, about the implementation of the strategy.

5.4. Invest one member of the European Commission of the communication regarding the strategy

The coordination of the Lisbon strategy's implementation at the national level is a good suggestion. Coordination begins at home, so the Commission should follow its own advice at its own level. Many commissioners have a stake in the strategy, but the information and the relations with national debates should be entrusted to one person.

5.5. Keep the global approach with social and environmental objectives

The social and environmental objectives did not prevent any initiative. Abandoning them will not simplify much the official documents and will not reduce the burdens of the national administrations. On the other side, this will certainly increase strongly the resistances against structural reforms.

5.6. Relaunch the growth and stability pact

Though this may seem paradoxical, the correct functioning of the stability pact is an essential condition of the Lisbon strategy's success. The new emphasis of the Commission on this point is thus most welcome. Firstly, it will be difficult to extend the scope of economic coordination if its most important form in the present state of the treaties does not function. Secondly, a better macroeconomic environment would strongly facilitate the process of structural reforms in the Member States.

5.7. Strengthen the control of the EU on national statistics

The drastic review of Greece's statistics and various accountancy conflicts with other Member States have revealed the parlous state of European statistics. Something must be done about this, otherwise it will be difficult to track the real state of affairs in many Member States.

5.8. Renew the tripartite agreement with the ECB

In 1999, the Cologne European Council launched a tripartite dialog between the EC political authorities, the social partners and the ECB. The ECB should support growth in the Eurozone a little bit more, but it would be much more easy if it got insurances about possible pressures on prices coming from national deficits or salaries.

5.9. Put EC money where the EC mouth is

Incentives have the marvelous ability to smoothen the path of reform. It would thus be very efficient to modify the priorities of the present EC budget outlays. It would still be better of course to increase their global level a little bit. This would be quite a good long term investment.

5.10. Envisage future use of qualified majority voting in the EC domains directly concerned by the strategy

In the present situation of the EU, unanimity is the perfect recipe for paralysis. Everybody knows it. If the national governments are serious about the Lisbon strategy, they should contemplate the extension of the qualified majority vote in specific priority areas.