



Post-Lisbon Agenda

Looking to make Europe fit for the future

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Europe needs a new growth strategy for the next decade. Global competition, epoch-making technological transformation on the road to an information society, climate change and last but not least population ageing call for responses that Europe cannot afford to put off indefinitely despite – and indeed precisely because of – the current economic crisis. Coordinated action in the EU is necessary.

The Lisbon Agenda of the past decade disappointed expectations that it would drive reform, partly because some of its targets were inconsistent but mainly due to the member states' lack of reform commitment. Under the Open Method of Coordination the only sanctions available to the EU were “soft” options such as peer pressure. Whilst this did strengthen the hand of governments willing to reform, it was often an inadequate spur to those who had tired of the process.

The new growth strategy should be perceived chiefly as a communication tool to engage national populations, interest groups and decision-making bodies with the reform targets. Not until the reform agenda and its implementation are discussed more intensively at national level will government be exposed to the salutary danger of punishment by its electorate for dragging its feet on reform.

The member states must first be made to realise that they will derive greater benefit from the synergies of coordinated reforms than if each country pursues its own course. That is the only way to give legitimacy to the agenda.

At the strategic content level, the EU should develop clear reform targets and priorities within a threefold framework geared to growth, employment and sustainable development. Conflicts of interest can be mitigated with guiding principles such as an eco-efficient economy and “flexicurity”.

Regarding implementation level, the Commission should draft meaningful, country-specific targets and indicators with the member states and communicate these effectively within a national context. That way, it is easier to convey the benefits of a reform to interest groups, social partners, associations and the press and to mobilise the groups that stand to gain from them. Ultimately, the pressure on governments to reform is thus stepped up through national channels.

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Productivity fails to keep pace with US
Labour productivity per person employed, USA=100, in %



Sources: Eurostat, own calculations

In 2000 European Union leaders adopted the Lisbon Agenda as a common growth strategy for Europe. Next year, this strategy reaches the end of its ten-year term. With results at best mixed and more pressing problems in the short term – such as combating the economic crisis – discussion on a follow-up strategy runs the risk of fizzling out. But that would be short-sighted and risky in the extreme. While the crisis has, for the time being, blanketed out the structural challenges facing our modern economies, it has removed none of their urgency. Global competition, epoch-making technological transformation on the road to an information society, climate change and last but not least population ageing call for responses that Europe cannot afford to put off any longer. Persistent foot-dragging on reform would jeopardise prosperity and social cohesion in the EU. Now that the first tentative ‘green shoots’ of economic recovery have been identified, it is high time to think about a follow-up strategy to make Europe fit for the next decade.

New approach

In the following we therefore turn our attention to the future and a new growth strategy. We do not set out to assess the Lisbon Agenda in detail, a subject to which copious research has already been devoted.¹ Instead, analysis of the fundamental problems so far leads on to a new approach towards a post-Lisbon agenda taking Europe successfully into the new decade.

The various stages of the Lisbon Agenda

Lisbon Agenda 2000

Competitiveness, social cohesion and ...

The Lisbon Agenda adopted in 2000 is a coordinated reform strategy by the EU member states and the European Union designed to turn the EU into the much-cited “most dynamic and competitive knowledge-based economy in the world” with high levels of employment. The Agenda aimed to step up structural reforms on competitiveness and innovation and to strengthen social cohesion within the EU. With massive investment in research and development, economic policy was directed towards the creation of competitive and dynamic economies. In social policy, the member states were supposed to invest heavily in education and training and pursue active employment policies. At the 2001 European Council meeting in Gothenburg the member states further committed to decoupling their economic growth from the use of natural resources.

... sustainable development

These reform projects were thus directed to supply-side structural changes in areas such as research, education and labour market policy, which fall within the competence of the member states. In comparison to other EU projects the Lisbon Agenda is therefore very wide-ranging. It encompasses several subjects and areas of the member states’ competences and consequently also concerns different national and EU bodies. The idea is for the individual countries to push ahead with reform while the EU bodies are tasked chiefly with coordination, communication and management. For this purpose the Open Method of Coordination (OMC) was introduced as a ‘soft’ way of coordinating reform in the EU member states. The OMC provides a framework within which the member states agree in the European Council on joint guidelines, objectives and indicators on which national reform drives can be based and measured. It also

Open Method of Coordination

¹ Tilford, S. & Whyte, P. (2009). The Lisbon Scorecard IX. How to emerge from the wreckage. Center for European Reform. London.

The principle of subsidiarity according to Article 5 of the EC Treaty

The Community shall act within the limits of the powers conferred upon it by this Treaty and of the objectives assigned to it therein.

In areas which do not fall within its exclusive competence, the Community shall take action, in accordance with the principle of subsidiarity, only if and in so far as the objectives of the proposed action cannot be sufficiently achieved by the Member States and can therefore, by reason of the scale or effects of the proposed action, be better achieved by the Community.

Any action by the Community shall not go beyond what is necessary to achieve the objectives of this Treaty.

Partnership for growth and employment

"In accordance with the procedures laid down in Articles 99 and 128 of the [EC] Treaty and on the basis of the European Council conclusions, the Council will adopt a set of "integrated guidelines consisting of two elements: broad economic policy guidelines (BEPGs) and employment guidelines (EGs). (...)

On the basis of the "integrated guidelines"

- Member States will draw up, on their own responsibility, "national reform programmes" geared to their own needs and specific situation. Consultations on these programmes will be held with all stakeholders at regional and national level, including parliamentary bodies in accordance with each Member State's specific procedures. (...)

- on its side, the Commission will present, as a counterpart to the national programmes, a "Community Lisbon Programme" covering all action to be undertaken at Community level in the interests of growth and employment, taking account of the need for policy convergence."

Source: European Council Meeting March 22/23, 2005. Presidency Conclusions. Brussels.

enables benchmarking, i.e. comparison with successful states, and the exchange of best practices.

While the Open Method of Coordination has some upsides, it also has downsides. It has the advantage for the EU of driving forward Community-wide coordination in areas in which it has no jurisdiction under the EC Treaty. Potential synergies can thus also be exploited in these areas. Furthermore, having joint objectives helps the EU states to focus their own reform efforts and set priorities. At the same time, however, in keeping with the principle of subsidiarity competition between, and experimentation with, different policies are possible. Ideally, the exchange of best practices between the member states in the course of benchmarking stimulates learning processes. But the most important advantage is frequently identified in heightened pressure to reform. The Open Method of Coordination makes it easier for governments to overcome national resistance to reform by pointing to successes in other countries. This reduces the information and enforcement costs of reform.

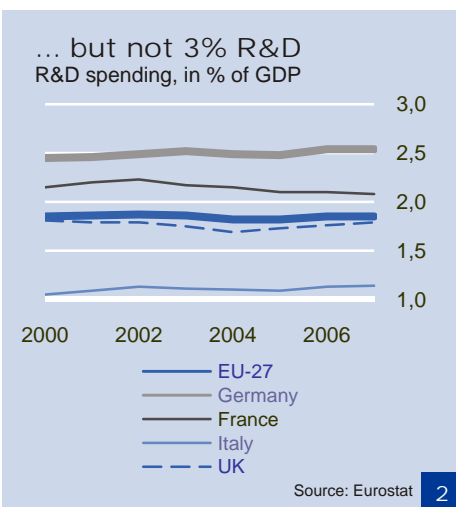
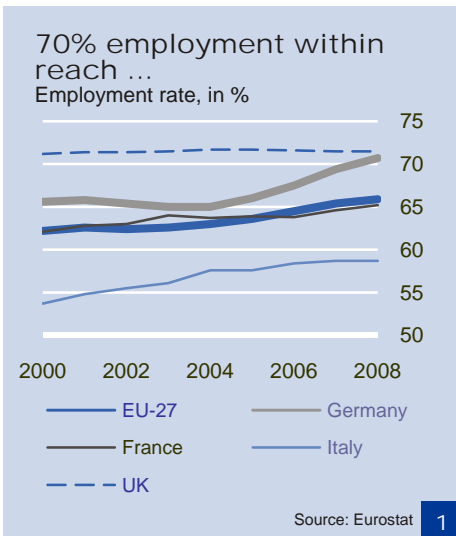
A *downside* is that common reform targets bring with them a danger of reducing the EU countries' economic policies to the same level, which is not justified in terms of their different baseline scenarios and reform preferences. That would constitute a breach of the subsidiarity principle. In this context the Open Method of Coordination is also criticised as running counter to competition between different systems for the best solution. But the most serious disadvantage is that foot-dragging on reform is very difficult to sanction since most of the responsibility for the reform content rests with the member states. Consequently the EU has to fall back on soft sanction mechanisms such as peer pressure or the threat of governments losing popularity.

Relaunched Lisbon strategy: A partnership for growth and employment

Following what were at best mixed results from the mid-term review of the Lisbon Agenda, in 2005 the European Council decided to revitalise the strategy.² Greater focus was placed on (productivity) growth and employment, towards which end a partnership approach was adopted. On the basis of the "integrated guidelines" developed by the European Council the member states were to draw up "national reform programmes" (NRP) and the Commission a "Community Lisbon Programme" so that each could realise the strategy in their specific areas of competence. The quantitative goals were concentrated into two key targets: by 2010 3% of EU gross domestic product should be invested in research and development and the employment rate reach 70% (60% for women and 50% for 55 to 64 year-olds). In consequence the list of indicators used to evaluate the reform processes was also narrowed down to a short set. The shortlist now consists of only 14 headline indicators from the policy domains general economic background, innovation and research, economic reform, employment, social cohesion and the environment.³ Even if the measures have focused action to a certain extent, the results have remained patchy. Whilst there have been achievements in some areas such as increasing

² See High Level Expert Group chaired by Wim Kok (2004). Facing the Challenge. The Lisbon Strategy for Growth and Employment, and Lenain, P. (2005). Is Europe reforming? Evidence from Cross-Country Structural Indicators. Center for Social and Economic Research. Warsaw.

³ http://epp.eurostat.ec.europa.eu/portal/page/portal/structural_indicators/indicators/short_list



Sanctions not applied

employment rates, many member states have made heavy work of other aspects like research and development spending and productivity growth. What is more, the current economic crisis is again casting doubt on reform successes.

Problems with the Lisbon Agenda

The Lisbon Agenda's failure to deliver can be attributed to several problems. One difficulty is that some of the Lisbon targets are inconsistent, with commentators pointing out that there may be a conflict between the key targets productivity growth and employment. Even the Commission does not rule out a conflict of goals between the two areas in the short term, explaining that if the number of people in work rises and capital use remains the same, each worker's endowment with capital is reduced and productivity thus falls. What is more, employment programmes are aimed chiefly at integrating low-skilled workers into the labour market, who tend to be less productive. It is estimated that, in the short term, a 1% increase in the employment rate lowers productivity by 0.1-0.4%. However, in the long run productivity trends are independent of employment growth, growing at the same rate as technological progress and total factor productivity (TFP).⁴ Nonetheless, the Lisbon Agenda's credibility does suffer from at least short-term contradiction in the two key targets, which may be one reason why many member states have followed up their reform vows with so little action thus far.

But the main problem of the Agenda lies in the lack of "national ownership" of structural reform. The member states see hardly any reason to push ahead with reforms coordinated by the EU, and the targets seldom make their way into national political debate. Governments (justifiably) consider themselves committed more to their national constituencies than to cooperation within the EU. And their electorates at home often take a critical view of change. This has much to do with the political economy of reform. Reforms frequently involve the redistribution of privileges. Stakeholders who enjoy an advantage fear the loss of these privileges and mount resistance. Those that stand to gain are seldom aware of the benefits of a reform and/or their attention is not drawn to them by politicians. But even sections of the population not directly affected by a reform often take a sceptical view of change, regularly associating it with uncertainty and moves to overhaul what they perceive as tried and tested institutions. Added to this is the common belief that reform is driven by business-friendly interests that do not serve the welfare of the majority⁵ – all the more so with the Lisbon Agenda, which in many people's opinion is concerned not with national interests but with the pursuit of often shadowy Community concerns.

Another problem is that some of the sanctions provided for in the Lisbon Agenda are not applied. It was to deal with the perfunctory attitudes to reform just described that the EU set up the Open Method of Coordination, which is designed to exert reform pressure through the use of soft sanctions such as peer pressure and loss of

⁴ European Commission (2007). The EU economy review. Moving Europe's productivity frontier. Brussels.

⁵ Begg, I. (2008). The Lisbon Strategy Post-2010. In "Die Zukunft der Wirtschaftspolitik der EU. Beiträge zum Diskussionsprozess 'Lissabon Post 2010'". Vienna.

reputation. Peer pressure has proved a rather blunt instrument, since the effect of a reform on another country is not always clear and may sometimes even be negative. The “bad-label” sanction (implying possible reputation loss) has, for the most part, remained in the drawer. For it to be applied, the Lisbon reform targets would have had to enter into national political debate, which has not happened sufficiently so far. Once national bodies and interest groups begin to take an interest in the reform agenda, and most particularly their government’s cavalier attitude towards it, the reform pressure increases and the danger of governments that have slackened on reform being punished at the ballot box becomes more real. This can be seen as the most effective of all soft sanctions since it operates through the national (electorate) level. So far, though, it has been woefully neglected.

A new approach to the post-Lisbon agenda

Post-Lisbon agenda as a communication tool

As we have just seen, the patchy results of the Lisbon reforms so far are due chiefly to a lack of national commitment and, closely related to this, to the absence of reform targets in national political debate. All discussion of a new growth strategy post-Lisbon must start out from this. Consequently, the strategy should be seen first and foremost as a communication tool to sensitise the national population, interest groups and decision-making bodies for the reform targets. Not until the reform agenda and its implementation are discussed more intensively at national level will government be exposed to the salutary danger of punishment by its electorate for dragging its feet on reform. This also calls for the Commission to play a more active part by promoting the implementation of the communication strategy.

Communicating reform benefits

Here, of course, the counter-argument of the political economy of reform can be advanced. Why should national stakeholders suddenly urge their governments to reform when the implementation problems so far have been due mainly to internal opposition to reform? But this is not because all national groupings are fundamentally sceptical towards reform. Broad sections of the population would benefit. In most cases, though, they are not aware of the potential advantages to them, nor are they as politically well organised as the opponents. More targeted and effective communication of the advantages of reform to the potential beneficiaries is therefore essential. The political economy of reform consequently lends greater rather than less urgency to the need to perceive the new growth strategy as a communication tool.

This premise has wide-ranging consequences. At all configuration levels of a post-Lisbon agenda the question that must first be asked is *what can be done to ensure that the agenda finds its way into national debate?* In the following we examine the design of the individual levels in greater detail.

Legitimation level

Synergies add value!?

Here the member states must be made to realise that coordination of the reforms at EU level yields added value for them. The benefit of both coordination between the various political areas and the harmonisation of reforms between countries must be clearly communicated. Only if the member states recognise that they will benefit more from the synergies of coordinated reforms than if each

country pursues its own reforms, will they accept the need for a coordinated growth strategy. This is fundamental to active and successful national engagement with reform. Added value of this kind is often difficult to prove empirically as it is very hard to estimate what turn developments would have taken in the past years without a coordinated reform agenda – in other words, what Lisbon really has achieved. It may therefore be advisable to communicate theoretical and scientific insights on reform coordination here.

Strategic content level

Establish relevance

Before embarking on a discussion of strategic target content, the member states should ask themselves what sense it makes to continue defining Community-wide targets. Many commentators are calling for the abandonment of overly ambitious and comprehensive targets in favour of gearing reform projects to the specifics of each individual country. Only targets that are clearly formulated and relevant stand a chance of being picked up in public debate in the member states.

Get specific

While this view deserves to be endorsed, internal market considerations and similar structural problems nevertheless make it essential to conduct a broad debate on Europe's growth strategy at the EU level. Together, the member states must draw up a coordinated reform agenda at a higher level of abstraction. There is broad consensus that this should revolve around the triangle of competitiveness/growth, employment and sustainable (environmental) development. What is at issue, though, is the configuration of the sub-targets and the combination of measures to achieve them. Since conflicts of interest are inevitable, clear reform priorities must be formulated to avoid ambiguities and the consequent vagueness evident with the Lisbon Agenda targets. This will steer development of the EU in a clear direction and let the member states know where they stand. At the same time, however, sufficient scope must be left for fine-tuning the reform targets with the individual member states. That way the themes can be made more relevant for the member states and their population.⁶

At present, various cornerstones of the new growth strategy are under discussion, which we examine more closely in the following.

Green growth

Faced with the challenges of climate change, the European Union is increasingly considering placing the focus of its growth strategy on green growth. The current Swedish Presidency of the EU is aiming, among other things, to transform the Union into an eco-efficient economy, defining eco-efficiency as "creating more goods and services while using fewer resources, and creating less waste and pollution".⁷ Green growth thus concentrates on the efficient use of resources and on decoupling economic growth from the use of resources. A similar target was included in the 2000 Lisbon Agenda, but the greater part of this was dropped in the refocused 2005 strategy.

The proposal to convert the EU into a low-carbon economy points in a similar direction. In pinpointing energy, one of the many environmentally sensitive sectors is picked out and concrete targets

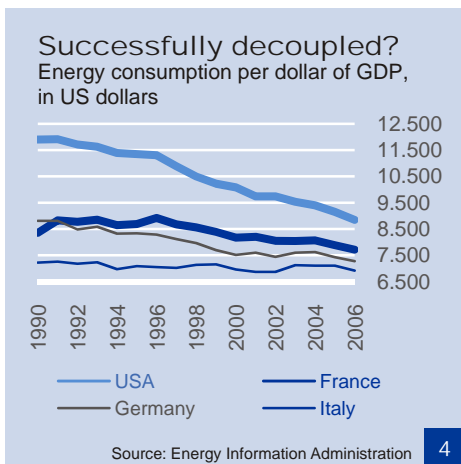
The Lisbon programme for the Swedish Presidency of the EU

"The Lisbon Strategy is the EU's common framework for creating sustainable growth and increased employment. The aim is to create macroeconomic stability, strengthen competitiveness by investing in research and education, improve the business climate, implement the internal market, improve the way the labour market functions and strengthen social cohesion. Work will begin during the autumn to determine how the strategy for growth and jobs is to be designed for the coming decade. The Presidency's ambition is for the future strategy to be focused and deal with the largest challenges in the longer term: to convert the EU to an eco-efficient economy so as to meet the environmental and climate objectives, to strengthen the EU's global competitiveness through open trade systems, to combat the effects of an ageing population and to restore sustainable public finances."

Source: Work programme for the Swedish Presidency of the EU. 1 July-31 December 2009.

⁶ Country-specific targets are dealt with in greater depth in the section on the implementation level.

⁷ Work programme for the Swedish Presidency of the EU at <http://www.sweden.gov.se/content/1/c6/11/82/73/b9b70362.pdf> and Stockholm Environment Institute (2009). A European Eco-Efficient Economy. Stockholm.



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Eco-efficiency remains relevant issue

Flexibility AND social security

Consideration for country specifics

set. To cut emissions of CO₂ the energy intensity of GDP and the carbon intensity of the energy used are to be reduced.⁸

Setting priorities directed towards sustainable development need not necessarily create conflicts with the goal of competitiveness, another target area. By using resources more efficiently and developing low-carbon technologies European companies can scale back their production costs and tap into new markets. Adequate reform measures can thus give rise to spill-over effects between sustainable, eco-efficient development and competitiveness. At least for as long as eco-efficiency does not mean stricter regulation without international coordination, it is therefore quite possible to reconcile both objectives. As a matter of principle, more stringent environmental regulation should be incorporated only if an international climate consensus is reached at the end of the year in Copenhagen that will minimise potential competition losses by coordinating efforts to protect the environment. The strategy should also allow companies to adopt flexible and innovative methods to meet the targets and therefore define ends rather than means.

Since climate change is one of the major challenges confronting the member states, and one that can only be addressed jointly, setting priorities in this way is highly relevant. A post-Lisbon agenda along such lines would stand a very good chance of being picked up in national political debate – assuming it is effectively communicated. That would ramp up the reform pressure towards a competitive and sustainable economy EU-wide.

Flexicurity

Flexicurity is another model that sets out to mitigate the conflict of interests within the target triangle.⁹ Since the relaunch of the Lisbon strategy the EU has devoted greater attention to this system, with the aim of creating more and better jobs. Flexicurity is designed to make labour market flexibility compatible with basic social security for workers. The emphasis is now placed on improving workers' employability through better education and by helping them to find work rather than on employment protection.

This approach is not the brainchild of the EU. Entirely in keeping with the Open Method of Coordination, it is based on the best practice model in Denmark, where it has been operated successfully since the 1990s. But other countries should tread carefully when seeking to emulate this. The special characteristics of national labour markets and social systems have to be taken into account. In a tax-financed social security system like that in Denmark relatively generous welfare benefits generally dent the country's economic strength less severely (aside from possibly imposing additional burdens on already strained public budgets). In countries such as Germany, for example, whose systems are financed by contributions, such open-handed benefits have a severe impact on (non-)wage costs while at the same time reducing the incentive to take up employment. So in this case they certainly do affect the country's economic potential. Here, too, country-specific targets are therefore advisable, especially following the principle that reform targets must be of relevance to the national entitlement groups.

⁸ See European Council Meeting March 13/14, 2008. Presidency Conclusions. Brussels; Begg, I. (2008). op. cit.

⁹ See Bräuninger, D. (2008). EU labour market policy. Difficult balance between subsidiarity and centralisation. Deutsche Bank Research. EU Monitor 53. Frankfurt.

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| Supranational areas versus ... | <p>Refocus on “European” goods</p> <p>Another suggestion is to refocus the new agenda on targets whose synergies and positive externalities are immediately apparent to the member states. This approach dates back to ideas already floated in the 2005 mid-term review of the Lisbon Agenda.¹⁰ The thinking is that common policies and political coordination within the EU have always been most successful when promoting a common good such as the main freedoms of the internal market. The states embraced reform towards this end because they benefited from the realisation of such common goods. Indeed, they were even prepared to delegate competencies to Community organs for the purpose. At the time, huge efficiency and productivity gains were expected in particular from further deregulation of the market for services in the EU.</p> |
| ... member states’ competences | <p>However, the policy areas of the Lisbon Agenda touch on the member states’ core competencies and are conspicuous for their great diversity. What is more, most of the Lisbon Agenda’s policy coordination areas lack unequivocally positive external effects. Indeed, they can even have quite the reverse impact. Labour market reforms that lower unit wage costs in one country and boost its competitiveness may act as a reform incentive for that particular country, but other member states’ export trade might suffer from the reform country’s improved competitive position. Their incentive to exert external pressure on other states to reform will be correspondingly low. Moreover, the severe dilution of the Services Directive illustrates the dominance of national interests even where supposedly common goods such as the freedom to provide services are concerned. Besides which, the need for an agenda concentrating on common goods for which the EU has already been assigned competence by treaty is debatable. Would that not be an unnecessary redundancy? The purpose of the Lisbon Agenda was rather to coordinate policy areas for which the member states are responsible.¹¹</p> |
| Unnecessary redundancy? | <p>But conclusions can certainly be drawn from the thinking at that time. The fundamental idea that the objectives of a coordinated reform strategy must be in the interests of the member states is correct, and the upcoming formulation of post-Lisbon targets must take account of this.</p> |
| Further coordination necessary? | <p>Public sector</p> <p>With regard to the public sector, the present Lisbon Agenda calls for reforms by the member states to improve their regulatory environment and the quality of their public finances. A new proposal going beyond this would like to focus on public sector effectiveness and productivity. Since this area accounts for a large part of gross value added in most European states, better performance is expected to create powerful impetus to growth.¹² Equally, the sector can act as a trailblazer in the transition to an eco-efficient economy.</p> <p>But exactly how much coordination is needed in these areas? At times when public exchequers are short of cash, surely governments should have sufficient incentive of their own to increase the efficiency and productivity of their public services? The EU should merely offer assistance. The framework for EU-wide</p> |

¹⁰ Mogensen, U., P. Lenain & V. Royuela-Mora. (2005). The Lisbon Strategy at Midterm: Expectations and Reality. Center for Social and Economic Research. Warsaw.

¹¹ Thought through to its logical conclusion, environmental protection is of course also a typically European (if not, indeed, global) good.

¹² Begg, I. (2008). Op. cit.

public procurement, for example, has acted as a spur to competitiveness and efficiency. And the EU can provide information on best practice models from other countries to encourage learning processes. But in general, it would be wrong to add yet another target to the post-Lisbon Agenda.

Lead by example

EU budget

Whatever the targets set in the new growth strategy, to lend them greater credibility the priorities chosen should be reflected in the EU budget. If the focus is on green growth, for instance, EU subsidies to sectors that make particularly inefficient use of their resources should be re-evaluated. That would certainly send out a clear signal. If the European Commission demonstrates willingness to reform in areas in which it takes the lead with its own proposals, such as budget planning, with the proper communication this may strengthen the member states' reform resolve.

Implementation level

The new growth strategy must concentrate on the implementation level. Brussels must seek to combat foot-dragging on reform by employing sanctions under the Open Method of Coordination to greater effect. Moving on to tough sanctions is not an option (and quite rightly so) as it would undermine the competence-sharing agreed in the EC Treaty. The only feasible course is therefore to make the most effective possible use of the soft sanction mechanisms to better achieve the reforms so urgently needed and to make Europe fit for the next decade.

More effective sanctions

We have already seen that so far the most effective of all soft sanctions has been woefully neglected. This consists of punishment at the ballot box by a country's own electorate, resulting in the loss of power for governments that have seriously failed to deliver on reform. This underscores the need to interpret the post-Lisbon agenda mainly as a communication tool that will turn the reform targets into a subject of national debate.

Focus on communication

The European Central Bank (ECB) uses communication with the public, journalists, experts and other opinion-leaders as a way of publicising its monetary policy decisions and making them transparent and of shaping the expectations essential to the financial markets. For this purpose it holds press conferences, which are broadcast live on the internet, immediately after ECB Council meetings. The question and answer slot that follows creates a forum for discussion with journalists. Communications on the ECB website and frequent speeches and interviews by members of the ECB Council serve the same purpose. Conferences and workshops are held for discussion with specialists.

This focus on post-decision communication can serve as a model for the post-Lisbon agenda communication strategy, even if the ECB's actual transparency is at times a matter for debate. The communication tools proposed in the body of the text are to be seen in this light.

Better communication

Some suggestions on how to achieve this in a post-Lisbon agenda have already been drawn up.¹³ For one, the EU should try to build up better relations with interest groups in favour of reform in the various member states and with the press. A good way of achieving this is active presentation of the agenda in the member states and debate with different target groups, such as social partners and associations. Instruments already in the toolkit, like the "social dialogue" between the EU and social partners, can be used. Also, selected journalists should be invited to seminars conveying the strategy and its targets (taking as their model the European Central Bank's focus on communication). The national Lisbon coordinators also need to be better involved and actively promote the reform agenda in their countries. Greater pressure to reform could be brought to bear on governments by having national parliaments and the competent committees monitor progress on reform at set times, if necessary with further information from the Commission.¹⁴ Even such a simple approach as setting up a website where progress on reform can be publicised and subsequently monitored by the public

¹³ Begg, I. (2008). Op. cit.

¹⁴ On the minor part played by national parliaments in the OMC see Becker, S. (2009). The Role of National Parliaments in the Open Method of Coordination. SWP Berlin.

increases national involvement and identification with the growth strategy.

Open Method of Coordination: targets and indicators

But such improved communication and control needs aspirational, meaningful targets and indicators relevant to each individual country, because pressure can be built up most effectively where it is possible to pinpoint reform shortcomings. Therefore the organisation of the Open Method of Coordination had to be reconsidered.

Country-specific targets and indicators

Above all, it is debatable whether setting Europe-wide, one-size-fits-all targets, such as research spending equivalent to 3% of GDP and an EU employment rate of 70%, still makes sense. As already discussed, the areas that are to be coordinated vary enormously between the member states. It is true that in the National Reform Programmes (NRP) so far the individual states have already concretised the targets (see box on page 4). Frequently, however, the objectives were too sweeping and unmanageable and did not set any clear reform priorities.¹⁵ It therefore makes greater sense to define more specific, country-related targets in consultation with the member states.

But surely tailored targets of this kind would make comparison more difficult, and is an exchange of best practices still even possible? Does this not reduce the pressure to reform by forfeiting the main advantage of the Open Method of Coordination? This consisted of governments being able to point to successful reform in other countries, enabling them to weaken national resistance to their own reform drives.

Address national objections directly

This can of course be countered with another question: Do national governments really want to tackle resistance to European reform at home, given that they are committed first and foremost to, and dependent on, (the votes of) their own constituencies? In terms of making Europe fit for the future, addressing national resistance directly (and not in a roundabout way through national governments) appears the more effective strategy. For this, debate on the reform targets must be launched in the individual countries so that the pros and cons of reform can be discussed in depth. The benefits of reform can be better communicated through country-specific targets and indicators, and groups that stand to gain better mobilised. The European Commission could then draw up and publish more relevant reports and meaningful recommendations based on these country-related targets. As a result, reform efforts could be more effectively monitored by the European Council, and most importantly by the respective national stakeholders.¹⁶ The Commission's vague recommendations so far have given national groups very few footholds for effective criticism of their governments' reform policies, even had they wanted them. Country-specific targets would thus ramp up rather than scale down the pressure to reform and can therefore definitely be advocated.

Adoption of best practices possible

Also, best practice solutions could still be used. If one country has successfully implemented reform in a particular area, another could certainly follow suit – regardless of whether the quantitative target is identical or not. The Commission should draw attention to best

¹⁵ Becker, W. (2008). The euro turns ten: Growing up. Deutsche Bank Research. EU Monitor 57. Frankfurt.

¹⁶ In this context letters of explanation, in which governments are required to account for their foot-dragging on reform, could also be considered as another way of bringing pressure to bear.

practices in its communication strategy and introduce them into national debate on reform. Whether a similar approach is suitable for individual countries (bearing in mind their different structures and starting points) should then be discussed nationally.

Choice of indicators

Monitoring with reference to indicators

The choice of indicators is also crucial to effective implementation. Selecting the right benchmarks enhances reform incentives and makes the reform process more transparent for the public and hence easier for it to monitor. It is important to distinguish between performance and policy indicators. This paper does not set out to formulate any new indicators¹⁷, confining itself instead to pinpointing which indicators are meaningful in which areas.

Performance indicators in case of heterogeneity

As a general rule, performance indicators are preferable since they specify only the end and not the means. This leaves room for innovative solutions and policy competition between the member states – especially in areas of great structural dissimilarity and where causal relationships between political means and ends are not absolutely clear. Performance indicators should therefore be retained in such diverse areas as the labour market, for example. Yet, EU-wide performance indicators (employment rate of 70%) ought to be abandoned in favour of country-specific targets.

Policy indicators only when reference target is clear

Policy indicators, on the other hand, make sense in the (few) areas in which cause and effect relationships are clearly evident. But there must be a clear tie-in with the political goal. In the case of the policy indicator R&D spending equivalent to 3% of GDP, the link established with the goal of a competitive, knowledge-based economy is tenuous. Although the European Council has picked up on a pertinent issue with competitiveness and innovativeness, it has failed to stimulate debate on this in the member states owing to inadequate communication of the reference target.

Own performance control

If the post-Lisbon agenda is interpreted as a communication tool, the success of efforts to communicate it must logically be evaluated. Public perception indicators could be helpful here. On the basis of population surveys it is possible to monitor the extent to which the reform targets have already been internalised in national debate. Where shortcomings are revealed the Commission must step up its communication with the tools previously mentioned. Polls would also be a way of gaining valuable background information on whether, and how, a specific reform is enforceable.

Ranking, naming and shaming

Reform pressure through rankings?

(Overall) rankings setting the member states explicitly in relation to one another are another potential way of stepping up reform pressure. Naming and shaming those countries with comparatively poor rankings could act as a spur to further reform. However, this presupposes comparable country data, which is hardly possible using the country-specific targets and indicators favoured in this paper.

Better to address reform resistance directly

The benefits of each option therefore need assessing. Which is the best way to expedite the implementation of reform, through greater external reform pressure from rankings, or greater relevance and identification with the targets through country-specific parameters? We have seen that external reform pressure apparently has little

¹⁷ For this see the Centre for European Economic Research (2004). *The Suitability of Structural Indicators for the Assessment of EU Countries' Economic Performance with a Particular Focus on Economic Reforms - An Evaluation of EU Structural Indicators and Options for Improvement*. Mannheim.

effect when there is internal resistance to reform. Country-specific targets are a much more effective means of tackling national reform resistance because the advantages of reform can be better communicated and support more actively mobilised. National targets must not therefore be sacrificed to a desire to compare countries in rankings.

Overall rankings

Another problem with overall rankings is that the different reform areas have to be weighted to obtain a composite indicator. However, the countries' heterogeneity and different preferences and performance definitions make this virtually impossible.¹⁸

Conclusion

Challenges will not wait

The structural challenges confronting Europe's economies have certainly not grown less as a result of the economic and financial crisis; if at all they have become even more pressing. This is why a new coordinated growth strategy for the coming decade is needed when the Lisbon Agenda comes to an end in 2010.

Mobilise support at national level

The main lesson to be learnt from the problems with the Lisbon Agenda, chiefly with implementation of its targets by the member states, is that the reform goals in a new growth strategy must be made the subject of national political debate, so that reform-weary governments are faced with the prospect of being voted out of office and power by a disgruntled electorate. Stepping up external reform pressure, say with peer pressure or rankings, is not very helpful all the while national entitlement groups are mounting resistance. It is a fact of life that the Lisbon strategy coordination areas fall within the competence of the member states, and when implementing reforms governments will therefore be guided first and foremost by the interests of their constituencies rather than by what is in the interests of Europe as a whole. That is why the reform targets must be introduced into national debate and the benefits of reform made clear to broad sections of the public so that they demand reforms from their governments (against resistance from what are often politically better organised opponents).

Communication essential

The post-Lisbon agenda should therefore be perceived essentially as a communication tool. At the legitimisation level the member states must first be made to realise why coordinating reform at the level of the EU is worth their while. It is the only way of giving legitimacy to a coordinated reform process. On the strategic content level, the framework targets must be prioritised in such a way as to make them relevant to the member states and their constituents. In close conjunction with this, meaningful, country-specific targets and indicators must be defined at the implementation level, because only if the goals are broken down to reflect national circumstances will they be of any interest to national stakeholders.

Difficult but necessary

These are admittedly all very difficult tasks – but the EU and member states must waste no time in tackling them to make Europe fit for the next decade. The threefold challenge of climate change, intense global competition and the demographic shift is something that concerns all the member states – and it calls for rigorous, coordinated action.

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¹⁸ The ECB proposes the benefit of the doubt method assigning greater weight to the indicators on which a country performs well.

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