



# Policy Brief

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## Where next for the Lisbon Agenda?

*By Hans Martens and Fabian Zuleeg*

### Background

The Lisbon Agenda, Europe's policy framework for structural reform launched in 2000, famously aimed to make the EU "the most competitive and dynamic knowledge-based economy in the world, capable of sustainable economic growth with more and better jobs and greater social cohesion" by 2010.

That date is now very close. Opinions are divided in how successful 'Lisbon' has been and what should come next: suggested options range from ending the structural reform programme at EU level to continuing with a slightly modified version of the current Agenda or embarking on more comprehensive reform.

Time is now running out for the more ambitious options. Some preparatory work has been done for a future Lisbon Agenda, but no one is providing decisive leadership. Action is needed now, but upcoming changes in the European Commission and Parliament, uncertainty over the Lisbon Treaty and the current focus on the economic crisis

mean the real work on this will probably not start before the end of the year.

#### **New dawn, old delay**

When the Lisbon Agenda was first discussed in the late 1990s, it marked a radical change in the EU's approach. For the first time, the Union focused comprehensively on structural policies, suggesting that all Member States needed to coordinate certain reforms at EU level.

It also represented a change in the way EU policies were implemented, with a switch in focus from legislation to the Open Method of Coordination (OMC), a softer and non-binding mechanism based on peer review by Member States; and it was explicitly outcome-oriented, setting a range of targets. This made it highly political, prompting discussion of Member States' performance at EU level which has continued ever since.

The main motivation for instigating a structural-reform

agenda was increasing concern that EU economies were falling behind the US. The goal of becoming the world's most competitive and dynamic knowledge-based economy was thus directly aimed at competing with America – and coming out on top within the space of a decade.

By the mid-2000s, however, it was increasingly clear that the Agenda was not delivering as originally envisaged. A Mid-term Review was held in 2005, building on a report prepared under the guidance of former Dutch Prime Minister Wim Kok, which the Commission said "showed that the indicators used in the OMC had caused the objectives to become muddled and that the results achieved had been unconvincing".

Consequently, a simplified Lisbon Agenda was relaunched, focusing on stronger, lasting growth and more and better jobs. It rests on three pillars:

- an 'economic pillar' to facilitate the transition

to a competitive, dynamic, knowledge-based economy through more research and development (R&D), greater innovation, and creating a more dynamic business environment;

- a 'social pillar' aimed at modernising the European Social Model by investing in human resources and combating social exclusion;
- an 'environmental pillar' aimed at greening the economy.

The Community Lisbon Programme, designed to support this Agenda, set ten specific objectives for EU policies for 2008-2010, such as a renewed social agenda, strengthening the Single Market and creating a European Research Area.

## State of play

Even before the current crisis, it was clear that Lisbon would not achieve the high-level goal of creating the world's most competitive economy. Some progress was visible, such as the rise in female employment towards the 70% target. But there were other areas where the EU was getting nowhere near its targets, including the R&D spending goal of 3% of GDP. This mixed picture was also apparent in the Member States: while the Nordic countries continued to make progress, Lisbon was less successful in encouraging some of the lower-performing Mediterranean economies.

It is, of course, difficult to assess what really was down to Lisbon and what would have happened anyway. But there were some genuine achievements: it made all countries across Europe focus on the importance of structural reform and established mechanisms to start addressing this issue at EU level. It praised and promoted good practice, for example the flexicurity model, helping to support those already on the path to reform and encouraging some of the more reluctant. But there were limits to what Lisbon could achieve. It left much to individual Member States, and those which lacked leadership, political will and adequate capacity to reform unsurprisingly did not make much progress.

However, although the results have been mixed, 2010 should never have been seen as an end-point but rather as the start

of a long-term process. Unfortunately, this process has not led to the desired results in many countries because peer pressure and the dissemination of good practice have not been enough to drive forward all the necessary structural reforms. But is this a reason to stop now? On the contrary: it is a good argument for improving Europe's mechanisms for implementing structural reforms.

### Shifting sands

Now is a good time to focus Lisbon more strongly on Europe's long-term challenges and the new global realities. The global environment has clearly changed: in the years leading up to 2000, it was all about closing the gap with the US, but today we face worldwide competition with many more players. It has also become clear that Europe faces a range of long-term socio-economic challenges which will require structural reform if it wants to safeguard its economic and social models. The impact of an ageing population, difficulties related to migration and social inclusion, and the need to deal with climate change, will require a reorientation of our economies.

This, together with global trends – a rapidly changing knowledge economy with new emerging competitors and increasing global demand for resources – mean Europe will need to change. All this, coupled with the financial crisis and its impact on the real economy, has prompted warnings that Europe is

facing a "perfect storm" which can only be addressed through decisive and radical structural reform.

### Lisbon in a time of crisis

But is this focus on structural reform appropriate in the middle of a deep crisis, when decision-makers are concentrating on fiscal policies to bring Europe out of recession? Some argue that structural reforms have become obsolete: Keynesian-style policies, with high debt-financed government spending, are now the order of the day.

Even Lisbon's more successful elements are coming under pressure. For example, labour markets are deteriorating fast, reducing the ability to meet employment targets and posing hard questions about whether approaches such as flexicurity really are 'good practice'.

But, as the EU has recognised, the crisis does not make structural reforms unnecessary. The European Economic Recovery Plan is 'anchored' in the Lisbon Strategy and many reforms are even more relevant now, including policies to deal with rising unemployment and public debt. However, in light of past experience with Lisbon and the changing environment, any new reform programme will require much more radical thinking. What we need, in other words, is not a Lisbon-2 but a Lisbon-plus.

Unfortunately, there is little appetite for this now, as well as a distinct lack of leadership at European level, with no strong

voices promoting the virtues of structural reforms in the midst of the crisis.

Some traditional champions of structural reform (such as the UK) have either changed direction or seen their influence in the EU

weaken. Others are more absorbed by domestic problems and/or see no point in advocating change at the continental level. Europe's citizens are understandably more worried about the short-term economic prospects and will not immediately see the need for

structural change – unless their political leaders set out the arguments clearly. They must find and communicate a common message explaining why this is vital to enable Europe's economies to create growth and jobs in the coming decades.

## Prospects

Time is running out. A new framework cannot be created overnight: it needs to be prepared thoroughly and accepted by all 27 Member States. It took time to prepare the first Lisbon Agenda a decade ago and the process is even more difficult now in an EU with more, and more diverse, Member States. The risk now is that the Union will reach the end of 2010 without a visionary and credible framework for modernising its economies further.

While policies need to be flexibly adapted to each country's circumstances, a strong European framework is important, helping each to benefit from others' progress in an interdependent economy and creating markets of sufficient scale.

### A new mechanism?

But Lisbon will have to change. The OMC has proven useful, providing important information on a number of benchmarks and delivering some valuable impacts by prodding and encouraging national and European policy-makers. But the process lacks a mechanism for countries to commit decisively and credibly to ambitious reform programmes.

The balance between using benchmarking/good practice and other instruments needs to be reviewed and include both more tangible incentives and rewards, and targeted recourse to legislation. For example, in innovation policy, we should think about returning to

mechanisms like the Common Market project, which included a legislative programme.

Stronger peer review is also needed. Countries which are clearly not making progress due to a lack of political will should be named and shamed if necessary. The EU needs to push strongly for reforms in these countries before further pressures (including the ageing population and the debt burden) render them unable to act.

Peer review, underpinned by data analysis by the Commission, needs to be supplemented by a public, independent and objective assessment of strategic-level performance by, for example, a committee of economic 'wise' men and women.

It also needs to be integrated into day-to-day economic policy-making. While high-level reviews at Spring European Councils are useful, structural reforms should also be discussed in the General Affairs Council and alongside fiscal policy in ECOFIN and the EuroGroup – not least because dealing with government debt, for instance, is also important in terms of fiscal policy.

### Wider and deeper

To respond effectively to the EU's future challenges, the Lisbon Agenda must encompass a much wider range of issues and indicators as well as focusing more strongly on some of those already included.

Newly-prominent issues, such as climate change and financial-sector reform, must be central in the new framework for structural change.

Given the challenges demographic trends pose for Europe's welfare states, it must also include some policy areas that are currently exclusively a Member-State competence, such as education, social protection, pensions, taxation and health systems. Income inequality and social cohesion, including the impact of migration, also need to be addressed.

There must be a stronger focus on Europe's relatively large public sector, which is increasingly affected by financing problems resulting from demographic change as well as the current accumulation of debt. The public sector's ability to set the pace in education, innovation, energy, social and climate policies should be included in the benchmarks.

In light of rising debt levels, public finances should also feature prominently in the future Lisbon framework. Deficits and debt are already part of the Stability and Growth Pact. Given the importance of public finances for macro-economic stability and to finance public services, this should be closely integrated into the new Lisbon Agenda. After the crisis, the essential return to fiscal sustainability should be accompanied by more enforceable rules at

the EU level and an assessment of the main components of expenditure and revenue, including some areas where Member States are very sensitive to EU involvement, such as taxation.

### Multi-level action

Lisbon has so far mostly been aimed at the Member-State level. The next framework would benefit from a stronger consideration of the regional dimension, building on the inclusion of Lisbon goals in the regional policy framework. It should also include explicit targets for EU policies, building on the Community Lisbon Programme.

Take, for example, the emerging knowledge economy: to create sufficient scale to boost innovation, Europe should quickly modernise the Internal Market to encompass a comprehensive framework for the free movement of knowledge and thereby create important lead markets.

EU policies, and the EU budget, should be assessed by an independent agency such as the Organisation for Economic Co-operation and Development (OECD) to determine how far they foster structural reform. The external dimension should also be built in more strongly, including a strong defence of free trade and investment, emphasising that the answer is not to isolate Europe behind a wall of protectionism but to meet the challenges by ensuring that its economies perform better. A new Lisbon Agenda can give the right impetus for this.

### Simpler and more complex

It will also have to square a circle: it needs to be both simple and accessible *and* take into account Member States' diversity. This will require overarching, clear and understandable goals, such as a year-on-year increase in the percentage of GDP spent on education, training and research, supported by careful analysis of, for example, what tools work and how individual circumstances should influence different groups of countries' targets.

Given the changing nature of the challenges facing the EU, artificial divisions between policy areas should be broken down, focusing on outcomes rather than working in silos. Fiscal stimulus money spent on education and training or on greening the economy does not, for example, easily fall into any specific category.

Effective structural policies to address Europe's socio-economic challenges need to be set at EU level. The national level remains important but it is only through coordination, cooperation and common policies that Member States can tackle these common challenges. There are many economic policy areas where the focus needs to shift from the national to European level. The global level also has a role to play, but in the current fragmented global environment, the EU can only benefit from acting jointly.

But leadership on this issue is still missing, and getting this

message across to Europe's citizens is not easy. It is not simply a question of branding and communication. Politicians prefer monetary and fiscal policies which can produce results more quickly to structural reforms which take longer and are often unpopular.

That is why leadership and a sense of ownership of the next structural reform agenda is vital: EU leaders must be convinced of the need to act and committed to promoting these policies at home. They must focus on how to create future growth and jobs within the next EU framework, agree a common approach and be frank with citizens about the long-term need to create sustainable jobs and growth instead of resorting to short-term populist rhetoric.

These are difficult times and citizens are worried, but creating the next framework for structural reform in Europe right now is a priority – and a challenge EU leaders must take up.

*Hans Martens is the Chief Executive and Fabian Zuleeg is a Senior Policy Analyst at the European Policy Centre. The issues raised in this paper will be analysed in depth in the EPC's new 'Well-being 2030' project, co-funded by the European Commission, which is investigating the major trends and developments that will determine Europe's policy options for improving its citizens' quality of life by the year 2030.*

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