



The Lisbon Strategy - 'old port in new bottles'?

Dr Ian Duncan

November 2009

Scotland Europa Papers

The Scotland Europa Papers are a series of occasional papers which have two objectives:

- to make a Scottish contribution to key issues that will affect the development of the European Union;
- to promote a wider understanding of European issues in Scotland.

The Scotland Europa Papers are intended to provide a forum for interested parties in Scotland and other European countries and regions to promote ideas and perspectives on issues that are of importance to the development of Scotland and the EU. The papers are available on our website to give them wide circulation. We welcome contributions to the series.

The views expressed in the Scotland Europa Papers are those of the authors and do not necessarily represent the views of Scotland Europa or its members and partners.

We would be very pleased to have your views on any of the ideas raised in the papers or for you to arrange to receive further papers in the series. Please contact:

Claire Robertson
Scotland Europa
Scotland House
B-1040 Brussels

T: +32.(0)2.282.8306, F: +32.(0)2.282.8317

E: claire.robertson@scotent.co.uk, W: www.scotlandeuropa.com

Paper 32

The Lisbon Strategy - *'old port in new bottles?'*

Prepared for Scotland Europa by Dr Ian Duncan

November 2009

Introduction

The EU Lisbon Strategy (the 'Growth & Jobs Strategy') was launched in 2000 with the aim of creating the *'world's most dynamic knowledge-based economy by 2010'*. Despite the agreed importance of the ambition and its accompanying lofty rhetoric, by 2004 progress toward the strategy's targets was already being condemned as *'unconvincing'* by a Commission-sponsored report. Re-launched in 2005 with an emphasis on the growth and the jobs and a repatriation of responsibility to member states, the results remained equally unconvincing such that a further re-configuration of the strategy was deemed necessary by the Council in 2008. Discussion on a post 2010 successor is already underway.

The strategy, conceived almost a decade ago, is nearing what should be its culmination. However, despite the various re-launches and re-focusing there seems little applause for the strategy, and few concrete achievements. The Swedish Prime Minister, Fredrik Reinfeldt, current holder of the rotating Council Presidency recently stated that, *'even if progress has been made it must be said that the Lisbon Agenda, with only a year remaining before it is to be evaluated, has been a failure.'*

The recent quick-fire development of the EU's Economic Recovery Plan has shown that the EU can deliver in real time, funnelling monies toward necessary and innovative projects. Several critics have argued that the EU's Economic Recovery Plan has achieved more in less than 12 months than the Lisbon Strategy has delivered in nearly a decade. It is likely that the successor to Lisbon will learn the important lessons not just of the current scheme's failings, but also the recovery plan's successes.

This short paper examines the evolution of the Lisbon Strategy over the last decade, and explores the likely components of its successor to be launched in 2010 (the 'Madrid' or the 'Brussels' strategy depending on when exactly it is launched). Along the way it examines the utility of such macro-European strategies, and the reasons why such a much vaunted strategy has been deemed a failure.

The Lisbon ambition

The Lisbon Strategy was born of a concern that the EU's economic performance was lagging behind the US and the emerging Asian economies. Portugal, as holders of the EU Council Presidency, convened a meeting in Lisbon in March 2000 to discuss the challenges. In the conclusions of the meeting, EU leaders set themselves an ambitious target, 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'*. The ambition came to be known as the Lisbon Strategy.

The Lisbon ambition 2000

The strategy was developed around three pillars - economic, social and environmental. The economic pillar aimed to boost growth and jobs in the EU, to stimulate the development of an information society and increase co-ordination and investment in Research & Development as well as increase competitiveness through the completion of the internal market. The social pillar was designed to protect and to modernise the 'European Social Model' through investment in people and by addressing social exclusion. The environment pillar aimed to promote sustainable development, an ambition that would later morph into the 'green agenda'.

A series of targets and indicators were included in the strategy¹, notably:

- increase economic growth to 3% per annum
- create 20 million new jobs (thereby raising average EU employment from 61% of the working population to 70%)
- increase women in employment from 51% to 60%
- increase investment in research and development to 3% per annum of EU GDP
- extend the single market to include services and financial markets

Assessment. A mid term review of the strategy undertaken in 2004, by Wim Kok was damning, *'... the EU and its Member States have clearly themselves contributed to slow progress by failing to act on much of the Lisbon strategy with sufficient urgency. This disappointing delivery is due to an overloaded agenda, poor co-ordination and conflicting priorities. Still a key issue has been the lack of determined political action.'*

The report continued: *'Individual Member States have made progress in one or more of the policy priority areas but none has succeeded consistently across the broad front. If Europe is to achieve its targets, it needs to step up its efforts considerably.'*

The inconsistent implementation and the lack of political will would be criticisms echoed in each future assessment of the strategy. Further, it early

¹ In total, the Strategy consisted of 28 main objectives, 120 sub-objectives and 117 specific indicators.

became clear that determining whether the success of a member state in meeting particular targets owed anything to the impetus of the strategy itself or rather to national determination toward national priorities was all but impossible. It is certain that in almost every case where a target did not chime with a declared national ambition, it remained unmet.

The Lisbon ambition 2005

Following the trenchant critique of the Kok report, the EU was quick to re-launch the Strategy. The new strategy focused on only the economic pillar, and was now subtitled, *'working together for growth and jobs'*². The new priorities were intended to make Europe a more attractive place in which to invest and work, ensure knowledge and innovation were the *'beating heart'* of European growth, and to shape policies that allowed European business to create more highly skilled jobs.

Importantly the re-launch would also see the introduction of the concept of national ownership of the strategy, with each member state responsible for its own Lisbon action plan and the designation of an individual responsible for the development, implementation and reporting on the national reform programmes.

A further ten specific priorities were detailed in the re-launch:

- developing an effective internal market
- free and fair trade, both internally and externally
- better EU and national regulation
- further development of European infrastructure
- research and development and boosting innovation
- creating a strong industrial base
- more and better jobs
- adaptable workforce
- better education and skills

Assessment. Of these particular priorities the EU has made progress in implementing the internal market, notably in the energy sector. The Services Directive, even after its stormy legislative journey can be considered finished business. The Better Regulation agenda has been broadly welcomed, even if it has not quite seen the 'bonfire of the regulations' as originally anticipated. (Perhaps its greatest success is in ensuring that draft laws are fit for purpose, with impact assessments particularly welcome). Other innovations such as the European Research Area and the European Institute of Technology with its Knowledge and Innovation Communities (KICs) have yet to prove themselves.

² In explaining the decision to remove the social and environmental pillars from the strategy, Commission President Barroso explained, *'If one of my children is ill, I focus on that one, but that does not mean I love the others less'*.

However in terms of the core actions, namely the growing of economies and of infrastructure and increasing both the number and quality of jobs, there is less palpable success. Again, where member states have delivered against particular objectives, it is not evident that the success resulted from the Lisbon Strategy.

The Lisbon ambition 2008-10 and the financial storms

In March 2008 EU leaders again sought to re-prioritise the strategy, extending the focus for the remaining three years from 'growth and jobs' alone to re-incorporate the environment and the social agenda. The priorities became:

- *Investing in knowledge and innovation.* Member states were to report on their progress toward national R&D and innovation strategies.
- *Unlocking the business potential, especially of SMEs.* Continued implementation of the Better Regulation agenda and improvement in companies' access to markets.
- *Investing in people and modernising labour markets.* A continued move towards a 'knowledge-based economy' while strengthening the social dimension of the strategy ('the Social Agenda') through investment in skills and moves towards more flexible yet secure jobs ('Flexicurity').
- *Energy and climate change.* Implementation of the EU's energy and climate change package.

Assessment. The development and delivery of this new focus has been severely affected by the global financial turmoil. Indeed in many respects, the adoption by Council of an Economic Recovery Plan in December 2008 all but superseded the Lisbon Strategy in its ambition to deliver both growth and jobs, albeit in a more focused area and manner. Simply put, the plan seeks to target underspent EU funds (finally agreed at €3.98bn) at energy projects that are well advanced in their development and ready to utilise the monies. (The plan also sets aside funds to support rural internet connectivity and innovative agricultural initiatives).

Although the development of the recovery plan, from Commission initiative in November 2008 to concrete proposal endorsed by Council and Parliament in April 2009, to declared 'winning' projects in October 2009 was not all plain sailing, the speed with which it was achieved, and the innovative manner in which the three EU institutions (Council, Parliament and Council) worked together was a revelation. Whilst it remains to be seen how successful the implementation of the plan will be in reality, the innovative process of development is being looked upon as a potential model for any successor to the Lisbon strategy.

The ingredients of the next Lisbon Strategy

The EU Economy Commissioner Joaquín Almunia has stated that the economic crisis has added a sense of urgency and political relevance to the revision of the Strategy. Further he stated that the successor strategy will necessarily accelerate structural reform, focusing on:

- (i) reform of product and labour markets;
- (ii) R&D and innovation;
- (iii) education and skills; and
- (iv) 'green' growth (low carbon developments).

There has been considerable speculation on the nature and focus of any successor strategy. A number of particular themes have begun to emerge:

The new political reality. A number of features of the European political situation are or are likely to remain broadly unchanged. The recent elections have seen a strengthening of the parties of the right, and a decline in the strength of the parties of the left, with an increase in support for the Greens, but broadly speaking the Parliament retains a comparable complexion to the previous session. José Manuel Barroso who has set such stock by the Lisbon Strategy, has been re-confirmed in office, although with perhaps a weakening of his authority.

That being said, the last few years have seen the Parliament growing in strength and influence. Final adoption of the Lisbon Treaty will further enhance the standing and clout of the Parliament. The role of the parliament in developing any new strategy is therefore likely to be enhanced. Much will depend upon the shifting coalitions that form within the new legislature.

The new economic reality. The recent financial and economic crisis has demonstrated that the EU institutions can move swiftly and concertedly in constructing an economic development project. The focus was admittedly narrow (energy, internet and agriculture), and the debate on allocation to particular projects oftentimes heated, but significant progress was secured in less than 6 months. Importantly, the readily identifiable projects also meant that the public at large could appreciate the role (and the spend) of the EU, something often missing from European initiatives and investments.

While the scale of the EU recovery plan was limited, it is likely to serve as a model for the 'growth and job's component of any future strategy. The importance of visible projects is also something likely to be a recognised in a strategy.

Importantly the economic recovery plan has re-established a clear role for Community-level action. The re-launch of the Lisbon Strategy in 2005, and the repatriation of greater responsibility to the member state had all but neutered institutional leadership and hampered activity.

Finally, the EU is almost certainly going to undertake a more significant role in financial regulation. Whether this emerges under the auspices of the next Lisbon Strategy or before remains to be seen.

The Political Dimension. To counteract the low-profile currently enjoyed by the Lisbon Strategy at national level, a consensus is coalescing on the need for a greater political dimension to any successor Strategy. This view has recently been endorsed by Spanish Prime Minister José Luis Rodríguez Zapatero, who will oversee much of the early preparation of the post-2010 strategy during the Spanish Presidency of the Council. He stated that, '*if the European Union really wants to be a political union, which works for its citizens, it has to have a much more solid economic government. I can't see a single market, a single currency, then not see an economic government with powers, with tools.*' However, the nature of the politicization remains controversial. Indeed since much of the failure of the previous incarnations of the strategy have been because of an absence of political buy-in at member state level, it is not clear how greater political investment at Community level would address any future strategy's shortcomings.

There is speculation that the creation of the new role of President of the EU may give greater political impetus to the direction of large cross-cutting EU initiative such as the successor of Lisbon. Although, given the uncertainties surrounding the creation of the position of EU President, this impetus may not emerge quickly.

The Green Dimension/Climate Change. Although the environment was specifically excluded from the strategy in 2005, the demand to ensure greener, more sustainable policy orientations continues to grow. Green policies are widely seen as a means of re-connecting with the broader populace, since they are more readily understood and appreciated. It is considered a win-win area for investment by many in the EU institutions.

Much focus of the previous Commission has been centred round the climate change agenda and energy issues, and this is expected to continue. The current Swedish Presidency of the Council has already emphasised the importance of moving away from an oil-based economy to a low-carbon economy, chiming with the renewed focus on climate change. Renewable energy remains an important focus of the EU, with the recovery plan discussed above targeting a significant sum of money toward such initiatives.

Further investments in pipeline infrastructure – investment to stop the lights going out – would also be a popular and very visible development success for any future strategy. Ensuring that investment is targeted at visible, named projects is seen by many in Brussels as a means of counteracting the anonymity of much of the investment of the current strategy.

The Social Dimension. There has always been a tension between employment and social protection within the Lisbon Strategy, often

characterised as the Anglo-Saxon (free market) model versus the Continental (social protection) model. The current economic climate is likely to bring this tension into still sharper relief. New jobs, always at the heart of the strategy, will be particularly important to all economies at this time; will sacrifices be made in social protection to safeguard or encourage employment?

Much of this area is reserved to the member state, with the Commission's role largely limited to benchmarking and exchange of best practice. Recent proposals in the social area, cross-border health care and workers rights, have slowed. It remains to be seen exactly how this nationally sensitive area can be advanced at community level and incorporated in any meaningful way within a successor strategy. The growing importance of the European Parliament may result in greater emphasis on social issues as a counterbalance to macroeconomic policies. Such policies may also serve to create more visibility for any future strategy, since they are more readily appreciated and experienced by the EU citizenry.

The determination of the next EU budget and juste retour. If the successor to Lisbon is also programmed for a decade, then it will straddle the next financial settlement, scheduled for 2014. The process of determining the next budget has already begun. Although there has been much talk of the reform or elimination of the *juste retour* concept, whereby member states in effect get back almost exactly the sum of money they contributed, this is almost unlikely to occur. This means that monies are often not targeted where they can do most good. A 'me too-ism' exists when it comes to spend. It will be interesting to see whether the reforms currently being discussed in terms of the budget, are applied to the next Lisbon strategy. It is clear that money spent in certain member can do more good (because there is more good to be done) than if the same sum is spent in others. However, the politics of such asymmetrical spending are controversial

Abandoning the 'Fortress'. Over the last 18 months, there have been increasing demands from certain member states, usually led by France, to adopt more protectionist policies. Whether it be in terms of justifying retention of certain agricultural support practices, encouraging repatriation of employment from foreign subsidiaries, or facilitating the retention of national monopolies (postal services, energy, port facilities). Such demands have increased during the current economic *tremblement de terre*. It is likely that the successor to Lisbon will be born during a protectionist period, with all the potential implications for community-level initiatives, particularly when it comes to national 'preferences' and needs – a fortress Europe with many national fortresses huddled behind its walls.

The 'old' question. Western Europe is growing older. A demographic shift is taking place which is forecast to last for decades to come. The results will be fewer people of working age, lower productivity and importantly lower tax revenues. Consequent on this is a population living longer, and therefore

placing more of a burden on the state in general and healthcare in particular. This shift will have a significant impact on employment strategies (as well as strategies dealing with health care, tax, immigration, etc.). A number of issues are raised by this shift, from questions over the age of retirement to investment in health care. However the need to ensure growth in the EU's economies will trump almost all other issues; bringing in more revenue as the tax base declines. There is also the possibility that member states will seek to develop strategies to incentivise child bearing over the medium to long term.

'Eastward look the land is bright'. The original Lisbon strategy was launched before the accession of the central and eastern European states was even a consideration, and although the 2005 Lisbon re-launch coincided with the admission of the new members, the impact of the strategy on them and them on the strategy was still an unknown. What has become clear over the ensuing five years is that the needs of eastern and central Europe are distinct and different from 'old' Europe. Also clear is that the new member states have struggled to spend the EU funds they were so eager to secure. The mobility of the eastern European workforce is also a self-evident reality. Finally, a new political class is emerging from the east and it is beginning to flex its muscles; the appointment of the first eastern European President of the Parliament in Jerzy Buzek is symptomatic of this new political class.

The next Lisbon Strategy will almost certainly be full of eastern promise(s) and eastern demands.

Education and training. Ensuring that Europe's workforce is ready to embrace the knowledge economy will be an important prerequisite of any future strategy, and training and education will be at the heart of this preparedness. The development of the Knowledge & Innovation Centres (KICs) under the auspices of the European Institute of Technology (EIT) may be one of the most important innovations of the first Barroso Commission, representing as they do/could a bringing together of academia and industry on a pan-European basis. Or they could be another bureaucratic sink of funds that add little value to endeavours of the participating groups. It remains to be seen which. It is clear however that for the KICs to work, they must be part of an integrated EU strategy whereby necessary knowledge is funded, generated and utilised wisely for the benefit of all

Improving communication and citizen buy-in. There has been a general recognition that few people outside the EU bubble ever understood the (frequently changing) ambition of the Lisbon Strategy, or the jargon employed to explain it. Improving the visibility and the communication of any future Lisbon concepts (as with other EU concepts) will almost certainly feature in the next strategy. A recent Commission document states: *'Communication efforts should be stepped up to emphasise the positive role reforms can play'*.

What happens next?

A public consultation on a successor to Lisbon, '*EU 2020*' as it is to be known, will be launched on 24 November 2009.

Thereafter all the institutions will be involved in an elegant policy gavotte or debate and discussion and determination that could well develop into a bout of all-in-wrestling combined with the voting practices of the Eurovision Song Contest.

What emerges will be a new strategy that could bring about a fundamental transformation of Europe, or *déjà vu* all over again. It's still too early to tell.

Scotland House
Rond-Point
Schuman 6
B-1040 Brussels
T +32 (0)2 282 8304
F +32 (0)2 282 8300

Also at:
Scottish Enterprise
5 Atlantic Quay
150 Broomielaw
Glasgow G2 8LU
T +44 (0) 141 228 2537
F +44 (0) 141 228 2114

W www.scotlandeuropa.com
E information.desk@scotent.co.uk