



Deepening of the EU: The Lisbon Strategy

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The Lisbon Strategy

Lisbon objective : To transform the EU into 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

HOW?

By implementing a comprehensive strategy of structural reform





The Lisbon strategy

Overview of the presentation

1. Rationale
2. Policy implementation
3. Assessment of progress
4. The future





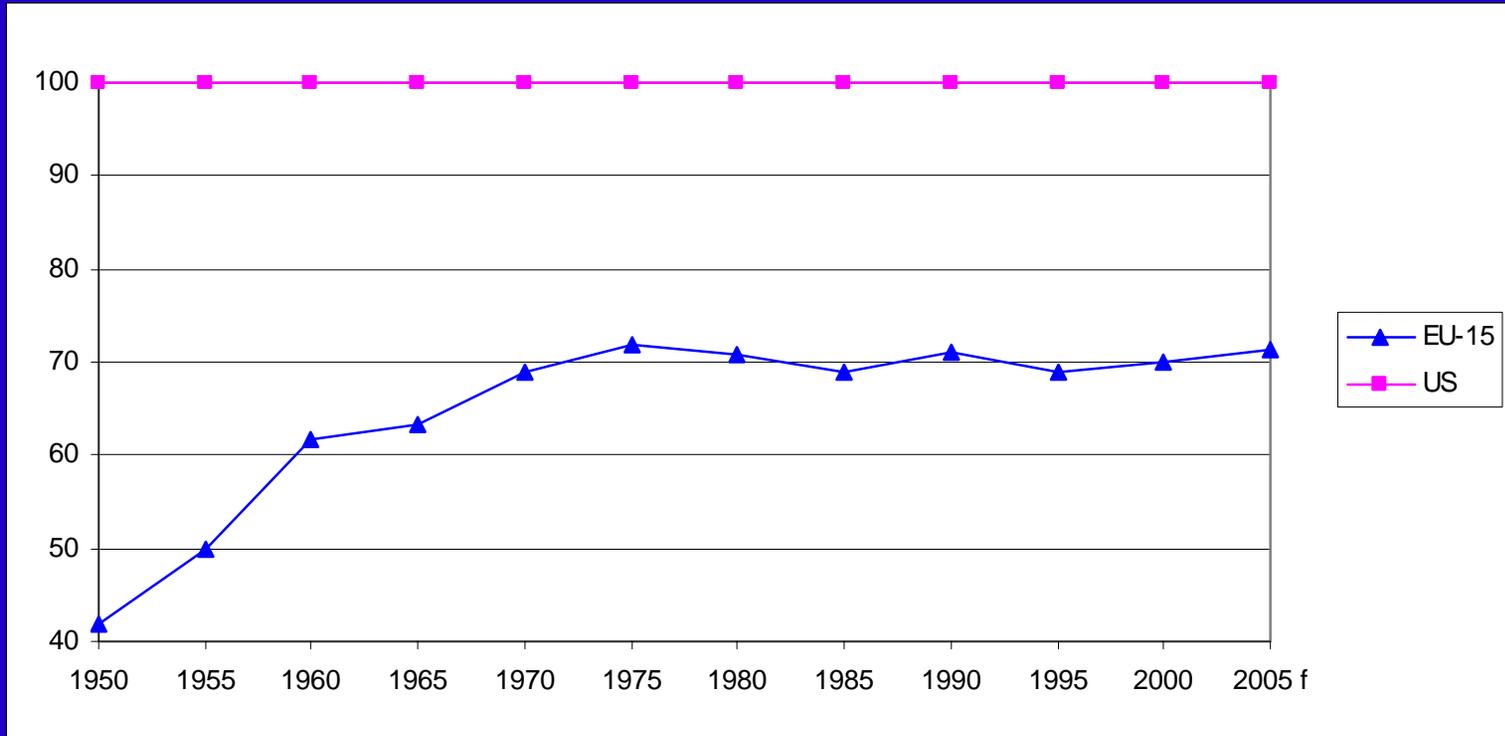
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Rationale





Rationale : GDP per capita in PPS (US=100)



Annual % change of GDP per capita	EU 15	US
1961-1980	3,3	2,5
1981-1990	2,1	2,2
1991-1995	1,2	1,2
1996-2000	2,4	2,9
2001-2005	1,2	1,6

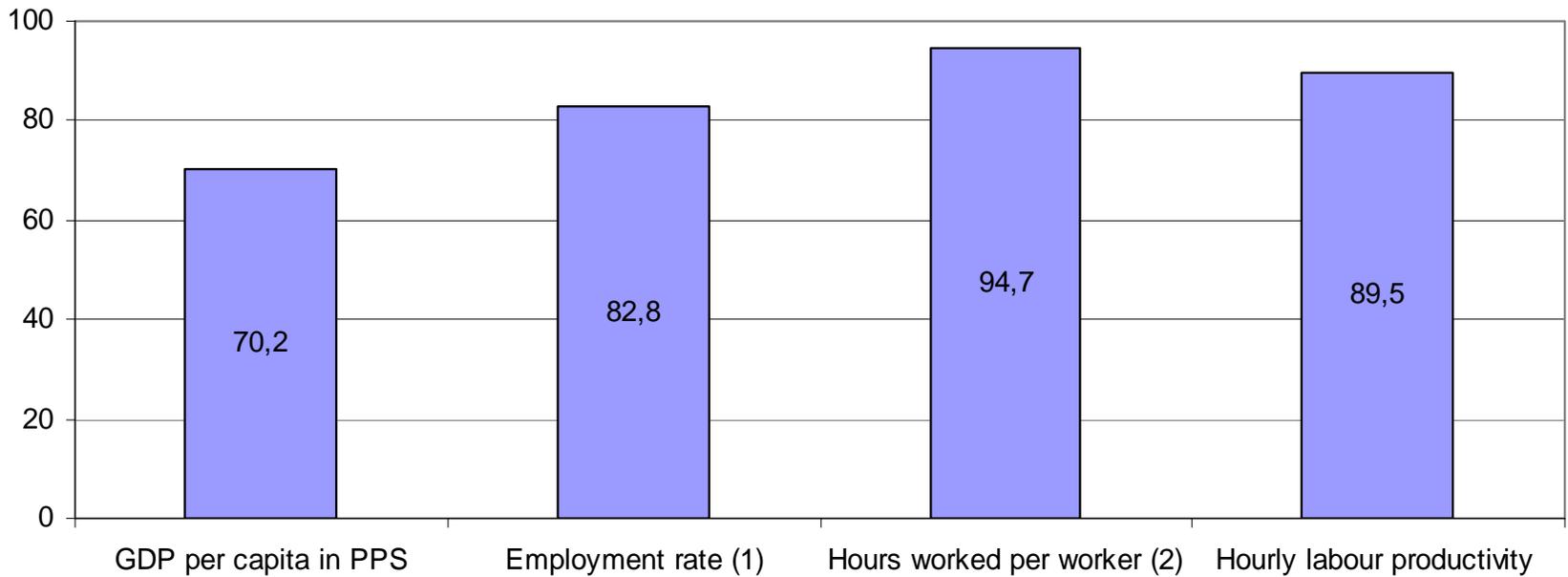




Rationale

EU performance (US=100) in 1999

EU 15 relative performance 1999 (US =100)



(1) Calculated - Employment rate = $100 * (\text{GDP per capita} / \text{Labour productivity per person employed})$

(2) Calculated - Hours worked per worker = $100 * (\text{Labour productivity per person employed} / \text{Hourly labour productivity})$

Source: DG Ecfm based on structural indicators



Rationale of the Lisbon Strategy

EU unable to match the US performances in terms of GDP per capita , employment rate and productivity

Why?

- **Insufficient participation of women and older workers, too high structural unemployment, skills gap in the workforce**
- **Lack of dynamism of the European economy**
 - **Markets still too fragmented**
 - **Barriers to entrepreneurship**
 - **R&D and innovation insufficient**
- **EU lagging behind in the development and use of new technologies**





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Policy Implementation





Lisbon : a process of structural reforms

Structural reforms aim at increasing growth potential by :

- Improving labour market functioning**
- Increasing competitive pressures**
- Stimulating investment and innovation**





Lisbon: a process of structural reforms

- **Investments in knowledge-based economy**

- Invest in education and training
- Invest in R&D and innovation
- Encourage production and use of ICT

- **Product Market Reforms:**

- Improve the functioning of the Internal Market for goods&services
- Liberalisation of network industries
- Opening up of markets (entry regulation..)
- Improve the business environment (reduce regulatory burden, esp for start-ups)

- **Financial Market Reforms : Promote EU financial integration**

- FSAP, RCAP, enhancing comparability of companies financial statements, ...

- **Labour market and social reforms**

- Improve incentives to participate and remain in the labour market; Increase the labour market flexibility; modernisation of social protection systems, Improve working conditions and skill levels

- **Environmental policy reforms**





How to implement the Lisbon strategy?

Structural reforms touch on sensitive areas of national competence



Subsidiarity principle
Soft method of coordination

The « open method of co-ordination »:

- **Agreements on targets with timetables**
- **Translation of these targets into national policies**
- **Use of indicators and benchmarks**
- **Periodic evaluation of progress made**





How to implement the Lisbon strategy?

The OMC can be effective through :

- Exchange of information and best practice
- Comparison of different national experiences may help to show broadly which policies work
- Peer pressure may help MS to overcome vested interests at national level





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Assessment of Progress





Conclusions from the Mid-Term Review (Kok report):

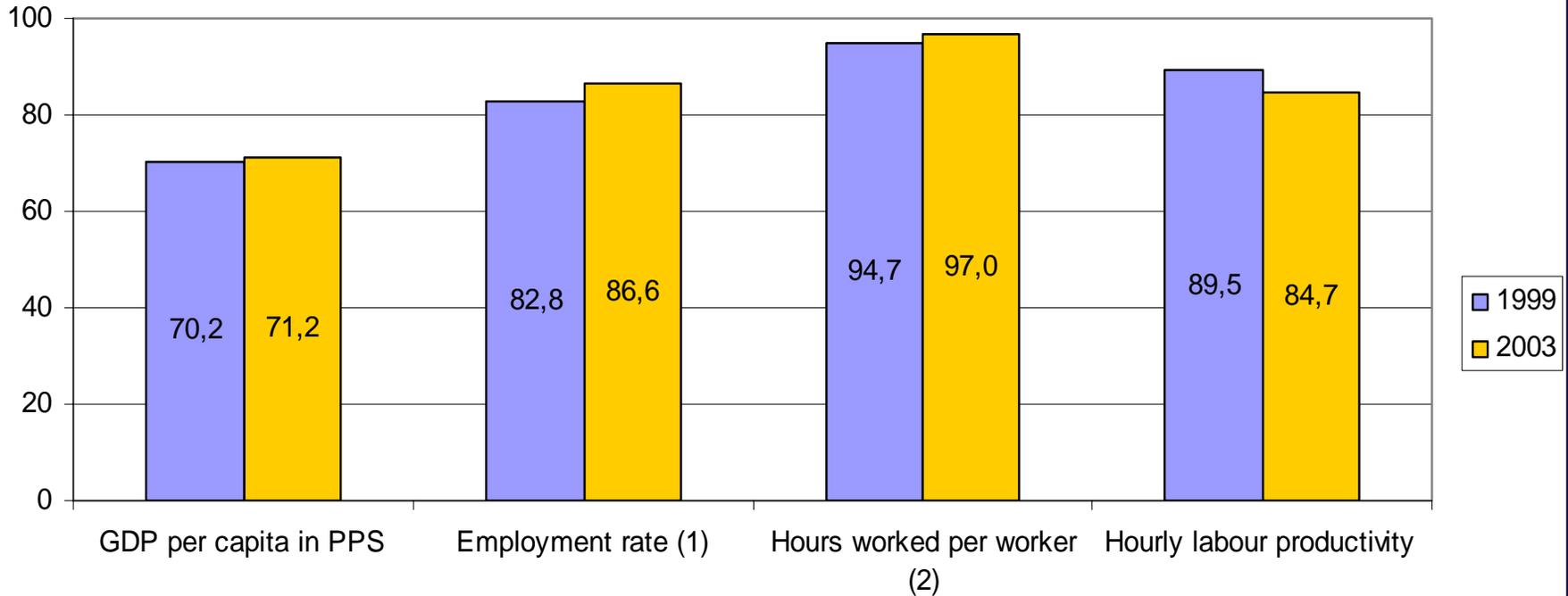
- **there is a sense of urgency to proceed with the reform agenda in view of the challenges of ageing, enlargement and globalisation.**
- **the Lisbon strategy has not delivered yet;**
- **the major weakness of the strategy has been the poor implementation of reforms by the Member States;**





Progress on the Lisbon Strategy

EU 15 performance 1999-2003 (US=100)



(1) Calculated - Employment rate = $100 * (\text{GDP per capita} / \text{Labour productivity per person employed})$

(2) Calculated - Hours worked per worker = $100 * (\text{Labour productivity per person employed} / \text{Hourly labour productivity})$

Source: DG Ecfm based on structural indicators



Progress on the Lisbon strategy

- **More than six million jobs created since 1999, but job losses in the euro area in 2003**
- **Progress with liberalisation of transport, energy and telecommunication markets**
- **Increased use of the internet, particularly in schools**
- **Sustainable development issues have gotten a higher profile**





Progress on the Lisbon Strategy

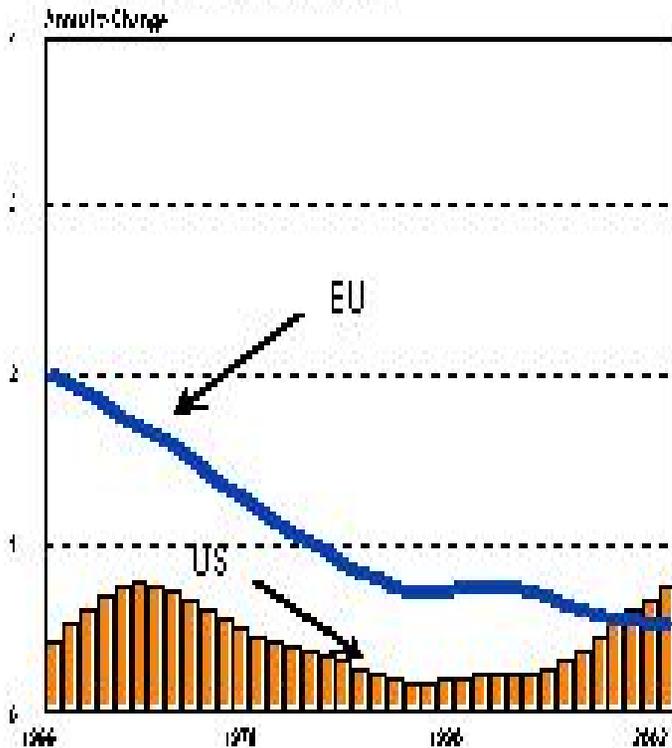
Decline in labour productivity growth since the first half of the 1990s due in equal parts to :

- a slowdown in business investment growth**
- a deterioration in total factor productivity growth**
Slower technological progress

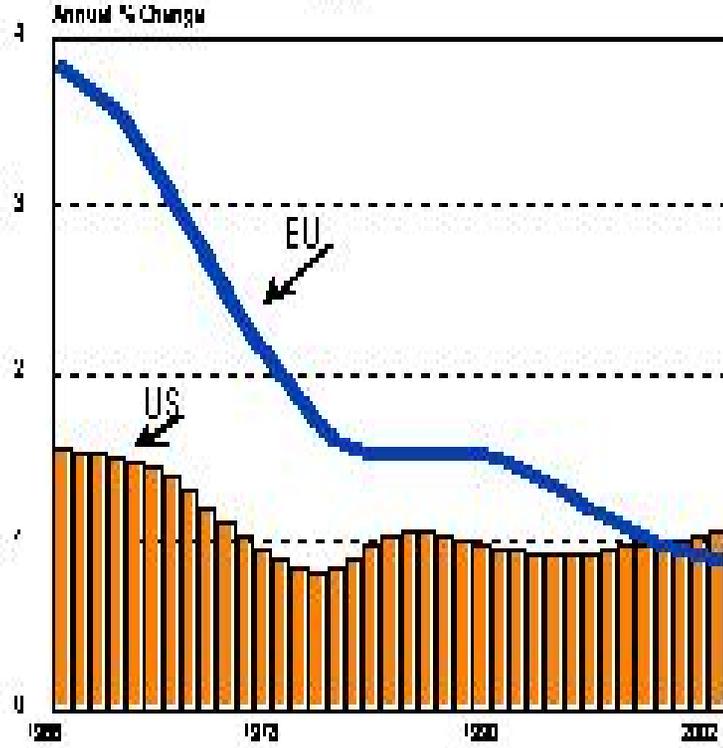


Breakdown of trend labour productivity into capital deepening and TFP

Capital Deepening



TFP





The EU-R&D Deficit Characterised

- In 2003, business funding of R&D in the EU grew at slower pace than GDP and public funding grew only slightly faster → R&D intensity almost stagnant at 1.93% of EU-25 GDP
- Lags well behind US with 2.6% and Japan with 3.2%
- Based on recent trends, China is forecast to catch up with EU before 2010 in terms of R&D intensity





Relative productivity performance and innovative capacity

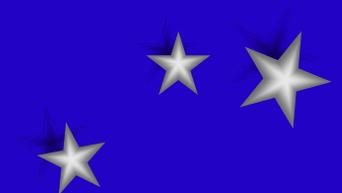
- **The EU's relatively poor performance linked with its difficulty in re-orientating its economy towards the newer, high-tech, higher productivity, growth sectors**
 - ICT as a high-tech, high growth sector
- **Within sectors, what is the specific role to be played by the production and absorption of new technologies in explaining productivity growth differences?**
 - ICT as a General Purpose Technology, stimulating innovation and growth in other sectors





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The future





Remaining policy challenges

- **Create better framework conditions for private investment in R&D and innovation**
- **Increase efficiency of investments in human capital**
- **Reduce regulatory burden on business**
- **Complete the Internal Market in services**
- **Development of cross-border networks in energy and transport**
- **Promote active ageing**





Can the Lisbon strategy deliver ?

Positive elements of the Lisbon strategy

- **Greater emphasis on structural reforms**
- **A comprehensive and better coordinated reform agenda** (to reduce resistance of lobbies, to improve the coherence of reforms and to maximise positive spillovers)
- **Better tools to monitor progress** (structural indicators)
- **Streamlining of EU economic policy coordination** : medium term orientation, better synchronisation





Can the Lisbon strategy deliver ?

Weaknesses of the Lisbon strategy

- **Too many priorities and targets : *focus on jobs and growth***
- **Lack of credibility of the targets** (do we have the instruments to reach the targets?)
- **Lack of peer pressure at the level of the MS : *National Action Plans***
- **Deficiencies in economic governance** (too many reports, how to enforce compliance : carrot/stick approach)
- **A poor communication about the benefits of reforms**





Remedies wrt Governance of the Lisbon Strategy

To achieve the goals of higher growth and increased employment in order to sustain Europe's social model, will require powerful, committed and convincing political leadership. Far more emphasis must be placed on involving European social partners and engaging Europe's citizens with the case for change. Greater focus is required to build understanding of why Lisbon is relevant to every person in every household in Europe.





Some Useful References

- **200X Spring Report of the Commission**

http://europa.eu.int/comm/lisbon_strategy

- **EU Economy 2003 Review and 2004 Review**

http://europa.eu.int/comm/economy_finance/publications/europeaneconomy_en.htm

- **Structural indicators**

<http://europa.eu.int/comm/eurostat/Public>

- **2004 Report from the High Level Group chaired by Wim Kok**

