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# More Growth and Jobs in Europe through an Improved "Lisbon Governance"?[1]

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*„We all know what to do. We just don't know how to be re-elected once we've done it."*, as J. C. Juncker[2] once stated. Against the background, that we all know *what* to do, this article considers *how* to improve the implementation of economic policy measures. In particular, I shall consider what impact can be expected from the renewed Lisbon Strategy (i.e. the so-called "Partnership for Growth and Jobs"), and whether improved governance could increase the chances of achieving the Lisbon targets. Issues of political economy – at least to my point of view – are the keys to the success of "Lisbon".

## The Relaunched Lisbon Strategy …

A relaunch of the Lisbon Strategy was a necessary response to the failure of the old Lisbon Strategy (introduced at the year 2000 Spring European Council) to achieve its goals. This was primarily due to the fact that the first five years of the Lisbon Strategy were characterized by too many – and often conflicting – objectives and a lack of implementation that resulted from an absence of political will.

The Lisbon Strategy has therefore been revitalised as follows:

- refocused on growth and jobs, as the two overarching priorities (integration of the "Broad Economic Policy Guidelines" and the "Employment Guidelines" into the "Integrated Guideline for Growth and Jobs")
- increased responsibility and ownership for Member States through requirement for National Reform Programmes. In these National Reform Programmes, Member States themselves define their main challenges and outline policy measures in response that take their specific circumstances into account. This

[1] The views and opinions expressed are mine and should not be reported as representing views of the Austrian Federal Ministry of Economics and Labour.

[2] The Economist, Reform or Die, January 28, 2006, p. 38.

replaces a system in which, to an extent, Member States simply reacted to recommendations from the European Commission.

- replaced a "naming, shaming, blaming" approach with a partnership between the European authorities and the Member States
- future-oriented three year policy cycle
- greater involvement of stakeholders (including social partners, national and regional parliaments, local authorities, academia, media) to increase effective public ownership, acceptance, transparency and visibility
- the appointment of a "Mr. or Ms. Lisbon" in Member States to increase public awareness and (political) ownership

Overall these constituting elements of the renewed Lisbon Strategy seem to be a promising package.

## … is Still Confronted with Implementation Problems …

But which problems remain around governance issues? Why do implementation-gaps persist and what are the main obstacles in overcoming the barriers to implementation? Should the European Commission return to its previous practice of addressing recommendations to Member States (the Commission did not do so in her recent Annual Progress Report, in which the 25 National Reform Programmes have been evaluated)? Should Member States themselves make additional commitments, such as naming a number of particular policy measures with targets and deadlines? Or do the National Reform Programmes already do this sufficiently? Could concrete targets – set according the respective framework and conditions in Member States – increase the likelihood of achieving of the Lisbon objectives? Would a sanction mechanism (despite the experience with the Stability and Growth Pact) be a way to make Lisbon a success? Or perhaps – rather than sanctions – introduce incentives for reform or an award mechanism (for example, awarding a cash award from the Community budget to Member States with the best measures in a specific policy area)? How could the partnership-approach be combined with the peer-pressure idea? Could lack of implementation stem from the complex distribution of competences within the European Union? Or from divergence between national interests and the Community interest (such as on tax policy, regional policy, budgetary policy)?

## … Stemming from the Distribution of Competences …

In this context, let's shed some light on the question of competence within the European Union: The European Union does not have the sole competence in the field of economic policy, except certain policy areas, such as competition policy, monetary policy and trade policy. In other policy fields – e. g. research and development, innovation, tax, social redistribution, labour markets, fiscal policy, industrial policy – Member States have the legislative power and the European Union's role is – to varying degrees – more that of coordinator. These divergent economic competences mean that different interests and different visions for target-setting are inevitable, particularly between Member States. In this regard, the Lisbon Strategy – a coordination mechanism and the overarching frame for national economic policies across Europe – can already be called successful, particularly if one considers the "great" targets (e.g. for R&D spending or employment rates), which once have been accepted by all Member States.

In the context of target-setting and target-achieving, a study by the Dutch CPB[3] (prepared for the European Commission) offers an interesting thought. It states: if the European Union reaches five of the main targets set out within the Lisbon-Strategy (i.e. the completion of the internal market for services, the reduction of administrative burdens, an improvement of human capital, the 3% R&D-target, and the 70% employment-target) Europe's Gross Domestic Product could increase by 12% to 23% and employment by about 11%. Economic and employment growth would for more than a decade lie at least 0.8 percentage points above the level it would have been without the targets. Against this promising background, why are the necessary measures for reaching these goals not being implemented immediately?

In order to answer this question we must recall that the necessary economic policy measures within the Lisbon Strategy lie primarily in the hands of the Member States. Member States are responsible for the achievement of the targets set out at European level and therefore for future growth and jobs. This fact was correctly taken into account in the relaunch of the Lisbon Strategy. However, what are now the reasons for the current insufficient implementation? Why do the National Reform Programmes differ so much with regard to their orientation (focus on future versus past, ambitious versus less ambitious, new strategies versus description of old strategies, etc.)?[4] In my view, there are in particular two reasons:

[3] CPB Netherlands Bureau for Economic Policy Analysis, The new Lisbon Strategy, An Estimation of the economic impact of reaching five Lisbon Targets (1/2006).

[4] For further information on National Reform Programmes see: European Commission, Annual Progress Report, January 25, 2006; Economic Policy Committee, Report on the Lisbon National Reform Programmes 2005, November 11, 2005; Polish Lisbon Strategy Forum / Gdansk Institute for Market Economics, National Reform Programmes: Key to Successful Future of the European Project?, January 2006; European Central Bank, Monthly Bulletin, January 2006.

## … and Resulting from Quite Differing National Reform Programmes and Reform Efforts …

(1.) The level of ambition within a National Reform Programme, and the extent to which it focuses on the longer term, largely depend on national voting cycles. A Member State with imminent elections may either use its National Reform Programme – within the current Lisbon-timeframe of three years – to tie the hands of the next government (the government which adopts the National Reform Programme is not necessarily the one which has to implement it), or it can simply report on already adopted or implemented measures.[5] In general, I welcome the three-year-cycle of the renewed Lisbon Strategy. In my opinion, however, this inconsistency with national voting cycles and European economic policy-cycles represents a significant implementation problem.[6] The possibility of concerted Europe-wide implementation of reform programmes is severely disrupted by differing national dates for elections. Would a synchronisation of national voting-cycles (setting to one side for the moment the likely profound constitutional problems) make sense? If national legislative periods started at the same time as the Lisbon cycle, would this lead to improved coordination of Lisbon measures (as set out in the 25 National Reform Programmes) with respective national budgets and economic policy strategies?[7]

## … and, Finally, Implementation Gaps Are also Due to Political Economy Aspects of Economic Reform.

(2.) The political economy aspects of reforms play a crucial role, because measures to spur growth and to increase the number of jobs are often supply-side and structural policy measures. Indeed, the Lisbon Strategy in particular comprises supply-side, structural policy measures. Via an improvement of production factors, these measures aim at boosting productivity, increasing the employment rate, and – in the long run – strengthening the growth potential. But – and this is the crux of the whole issue – supply-side measures take time to release their impacts, and may

[5] In Poland and Germany national elections coincided with the deadline for transmission of National Reform Programmes; in Sweden, Italy and Austria a possibly new government has to adopt the National Reform Programme.

[6] The same line of argumentation can be found in M.-J. Radlo, New Economic Governance for Reforms in the EU, in: Polish Lisbon Strategy Forum / Gdansk Institute for Market Economics, National Reform Programmes: Key to Successful Future of the European Project?, January 2006, p. 9 ff.

[7] The fact that there is hardly any reference in the National Reform Programmes to the national budgets was in many cases criticized. But, presumably, the missing link stems from the different timing of the two documents.

even yield negative impacts in the short term before their positive effects emerge (a classic J-curve). Moreover, time is exactly that what politicians – against the background of normally four to five years lasting voting-cycles – do not have.

In addition, the implementation of political measures also depends on the stage of the economic cycle (downturn or upswing) a Member State is in. Policy changes and reforms are the easiest at two distinct points in the economic cycle: (i) in a flourishing environment, when there is more money to compensate the losers of reform and when a growing economy offers more reemployment opportunities; and (ii) in times of deep economic recession, when public acceptance of reforms is high since "it can't get worse". Between these extremes, for instance in a stagnating environment, a lack of political will for reform and a low growth-rate can actually reinforce one another and lead to a severe crises; equally, economic reform during the early period of a recovery may have counter-cyclical effects. I. Begg[8] refers to a U-shaped curve in this context. On such a curve, might there be an optimal point for reform? What could this imply for timing of the reform measures within the Lisbon Strategy? Do structural reforms either generate best results in a deep recession or in booming times? Whatsoever, all Member States are (perhaps unfortunately) never at the same point of the economic cycle at the same time. As a consequence, economic reforms and the political will or opportunity to carry out successful reforms are extremely unlikely to coincide across the European Union.

Within the framework of the Lisbon Strategy, Heads of State and Government reached an agreement on common (in some cases quite concrete) targets and on the necessary reform measures. But national needs, ambitions to achieve targets and appetites to implement necessary measures all continue to vary. As outlined above, the two main reasons for this misery are time inconsistencies (national voting cycles are not necessarily congruent with the Lisbon cycle, and Member States do not face the same cyclical framework conditions) and the supply-side (and therefore time-intensive) nature of the necessary reform measures.

## It Should be Concluded by Raising Some Questions

Could synchronisation of the formulation of the 25 national economic strategies with the Lisbon Strategy make sense? Would this have a positive impact on the implementation of Lisbon relevant reform measures? Or could a Lisbon Strategy consisting of 25 independent national economic policies (which are reflected in the 25 national government programmes and the 25 national budgets) also be successful?

[8] I. Begg, in: Polish Lisbon Strategy Forum / Gdansk Institute for Market Economics, National Reform Programmes: Key to Successful Future of the European Project?, January 2006, p. 15 ff.

Could an Europeanization of economic policy competences foster the implementation of economic policies? *„The most dangerous moment for a bad government is,* when *it starts to reform“*, according to Tocqueville. Could it be desirable, if the European Union – not having a *“government”*, therefore also not a *“bad government”* – itself starts to reform? Could an option be the installation of a “*government”* of the European Union with far-reaching economic policy competences?

A bundle of questions! Whatsoever, one thing seems to be clear: Time for implementation is now! No new strategies are necessary for that, but only the political will for reform. Beyond doubt, to come to a political decision on reform is not an easy task, as outlined above. But improved governance could ease both decision-making and subsequent implementation.