EUROPEAN COMMISSION

Brussels, 2.2.2010
SEC(2010) 114 final

COMMISSION STAFF WORKING DOCUMENT

Lisbon Strategy evaluation document

COMMISSION STAFF WORKING DOCUMENT

Lisbon Strategy evaluation document

INTRODUCTION

The original Lisbon Strategy was launched in 2000 as a response to the challenges of globalisation and ageing. The European Council defined the objective of the strategy for the EU "to become the most dynamic and competitive knowledge-based economy in the world by 2010 capable of sustainable economic growth with more and better jobs and greater social cohesion and respect for the environment". Underlying this was the realisation that, in order to enhance its standard of living and sustain its unique social model, the EU needed to increase its productivity and competitiveness in the face of ever fiercer global competition, technological change and an ageing population. It was recognised that the reform agenda could not be pursued at EU level alone (as had for instance been the case with the 1992 single market programme), but that since many of the policy areas involved Member State competences, close co-operation between the EU and Member States would be necessary to achieve results. It also reflected a first acknowledgement that Member States' economies are inherently linked, and that the action (or inaction) of one Member State could have significant consequences for the EU as a whole.

However, the original strategy gradually developed into an overly complex structure with multiple goals and actions and an unclear division of responsibilities and tasks, particularly between the EU and national levels. The Lisbon Strategy was therefore re-launched in 2005 following a mid-term review. In order to provide a greater sense of prioritisation, the re-launched Strategy was focused on growth and jobs. A new governance structure based on a partnership approach between the Member States and the EU institutions was put into place.

In assessing ten years of the Lisbon strategy, what ultimately counts is the impact on growth and jobs. Assessing this impact, however, is not straightforward, as the economic cycle and external events, as well as public policies, play a determining role. Ultimately, the objective of the Lisbon strategy was to improve the pace and quality of reforms at national and European level: therefore the assessment needs also to consider whether the Strategy shaped reform agendas by forging greater consensus amongst stakeholders on challenges and policy responses.

The Lisbon strategy was not implemented in isolation. The Union has grown from 15 Member States in 2000 to 27 Member States today. Also, the euro has developed into a major world currency: membership of the euro-area has grown from 12 countries in 1999 to 16 countries today, and the euro has proved to be an anchor for macroeconomic stability during the current crisis. Moreover, the Lisbon Strategy for Growth and Jobs is coming to the end of its term at a time when the impacts of the economic crisis are deeply felt in Europe, as in other parts of the world. The economic crisis has had profound and lasting effects on Europe's economies. GDP fell by 4% in 2009. Unemployment is approaching 10%. Public finances are in tatters, with deficits now reaching 7% of GDP and debt levels having increased by 20 percentage points over two years, thus undoing 20 years of consolidation. The aim of this paper is to assess the impacts of the Lisbon Strategy, highlight its achievements and point to areas where progress has been disappointing. Looking back on the term of the Lisbon Strategy, the world has inevitably changed more and in different ways from what analysts, policy makers and politicians expected at the time. Publishing this short evaluation of the Lisbon Strategy is an opportunity to identify its strengths, so that they can be retained in its successor, and to highlight its weaknesses so that they are not repeated. The first part of this document contains the main findings. The second part describes in more detail developments, progress and shortcomings) across different policy areas.

MAIN FINDINGS

Overall, the Lisbon Strategy has had a positive impact on the EU even though its main targets (i.e. 70% employment rate, and 3% of GDP spent on R&D) will not be reached. The EU employment rate reached 66% in 2008 (from 62% in 2000) before it dropped back again as a result of the crisis. However the EU has failed to close the productivity growth gap with leading industrialised countries: total R&D expenditure in the EU expressed as a percentage of GDP only improved marginally (from 1.82% in 2000 to 1.9% in 2008). It would, however, be too simplistic to conclude that the strategy has failed because these targets were not met. For the reasons set out in the Annex, the Strategy has broken new ground by promoting common actions to address the EU's key long-term challenges. The main conclusions that can be drawn are as follows:

The Lisbon Strategy has helped build broad consensus on the reforms that the EU needs ….

The renewal of the strategy in 2005 helped clarify its scope and aims. In particular, the definition of four priority areas (research and innovation, investing in people/modernising labour markets, unlocking business potential, particularly of SMEs, and energy/climate change) was an important step forward in providing greater focus. In all Member States, these issues are now at the top of the political agenda, demonstrating the Lisbon Strategy's ability to set the agenda for reform. For instance, the success of the Flexicurity concept represents the ability of Lisbon to stimulate and frame policy debates and generate mutually acceptable solutions even though in many cases relevant measures still need to be implemented. Moreover, the strategy proved sufficiently flexible and dynamic to adapt itself to new challenges and political priorities which emerged over time (e.g. energy/climate change) and smoothly to absorb new Member States as the Union expanded its membership.

… and it has delivered concrete benefits for EU citizens and businesses …

Reforms agreed in the context of Lisbon have delivered tangible benefits, including increased employment (18 million new jobs were created before the crisis hit), a more dynamic business environment with less bureaucracy (e.g. the European Commission has proposed administrative burden reductions regarding EU rules which are worth more than €40 billion, subject to their adoption by Council and Parliament)) and more choice for consumers, and a more sustainable future (e.g. economic growth has in many Member States been accompanied by a downward trend in energy intensity). While it is not always possible to demonstrate a causal link between Lisbon reforms and growth and jobs outcomes, there is evidence that reforms have played an important role.

... **but increased employment has not always succeeded in lifting people out of poverty …**

However, employment increases have not sufficiently reached those furthest away from the labour market, and jobs have not always succeeded in lifting people out of poverty. Some groups still face specific hurdles such as poor access to training for the low-skille or lack of enabling services. Labour market segmentation persists in some Member States. So does child poverty at a high level in some Member States. Lessons need to be drawn from these facts.

Structural reforms have made the EU economy more resilient and helped us weather the storm …

For most of the past decade, public finances were going in the right direction with falling deficits and debt levels, and long-term sustainability being improved through the reform of pension systems. Fiscal consolidation created the room for the co-ordinated fiscal stimulus once the crisis hit and demand dropped, and helped stabilise the economy by averting a vicious cycle of falling demand, falling investment and rising unemployment. Similarly, labour market reforms and active labour market policies have helped protect jobs in the downturn and stem the rise in unemployment, while the euro area proved to be an anchor for macro-economic stability during the crisis. The focus on medium- to long-term structural reforms under the Lisbon strategy no doubt facilitated the design and rapid roll-out of the European Economic Recovery Plan at the end of 2008, ensuring that short-term policy responses would be consistent with the EU's medium to longer-term challenges.

However, the Lisbon Strategy was not sufficiently equipped to address some of the causes of the crisis from the outset …

The Lisbon Strategy focused on the right structural reforms. R&D and innovation, labour markets (flexicurity, skills and lifelong learning), the business environment and consolidation of public finances which are all crucial areas to preparing the EU for globalisation and ageing and enhancing the EU's prosperity. However, with the benefit of hindsight, it is clear that the strategy should have been organised better to focus more on critical elements which played a key role in the origin of the crisis, such as robust supervision and systemic risk in financial markets, speculative bubbles (e.g. in housing markets), and credit-driven consumerism which in some Member States, combined with wage increases outpacing productivity gains, fuelled high current account deficits. Macro-economic imbalances and competitiveness problems were at the root of the economic crisis, and were not adequately addressed in the surveillance of Member States' economies carried out through the Stability and Growth Pact and the Lisbon Strategy, which tended to operate in parallel rather than complementing one other.

Whilst much has been achieved, the overall pace of implementing reforms was both slow and uneven...

While the strategy has delivered tangible benefits, and helped forge consensus around the EU's reform agenda, the delivery gap between commitments and actions has not been closed. Well-performing Member States pressed ahead with more ambitious reforms, whilst others gradually built up a (sizeable) delivery gap. This meant that important benefits and synergies were missed. The same can be said of the individual policies which make up the Lisbon Strategy, with progress in some policy areas more pronounced than in others. Progress in the micro-economic area has lagged behind progress in the employment and macro-economic dimensions. The Lisbon Strategy's aim of promoting more policy integration across the macro-economic, employment and micro-economic (including environment) dimensions has only partially succeeded.

The importance of interdependence in a closely integrated economy, particularly in the euro area, has not been sufficiently recognised …

In our interconnected economies, the potential for growth and jobs will only be exploited if all Member States implement reforms at roughly the same pace, taking account of their national challenges and of the impact of their actions (or the lack of them) on other Member States and the Union as a whole. The economic crisis has brought this inter-dependence into sharp focus: not only were some important positive spill-over effects and synergies missed because of uneven progress, in some cases negative spill-over effects have even been triggered.

A stronger link between the Lisbon Strategy and other EU instruments and sector-specific initiatives or policy measures would have improved its effectiveness …

Links between the Lisbon Strategy and other EU instruments and/or strategies, such as the Stability and Growth Pact, the Sustainable Development Strategy or the Social Agenda, have not been sufficiently strong, so that rather than being mutually reinforcing some of the strategies have been operating in isolation. Other major policy priorities, such as financial market integration, were conspicuous by their absence from Lisbon. Furthermore, at the level of individual measures, ambitions endorsed at the highest political level have not always resulted in faster decision-making or in avoiding dilution. For example, whilst the European Council repeatedly underscored the importance of innovation and the need for a strong, affordable Community Patent, the Council has not (yet) been able to deliver a solution. In other areas, such as removing obstacles to the internal market, improving the free flow of (digital) content, promoting labour mobility or speeding up the setting of interoperable standards, progress has been too slow to produce significant results despite calls from Heads of State and Government to step up efforts. The Community Lisbon Programme, introduced as part of the 2005 reform to set out EU level actions, has not generated the necessary momentum for change.

Earmarking of Structural Funds has helped mobilise considerable investments for growth and jobs although there is further to go …

The "Lisbonisation" of structural funds has helped target significant European funding (some € 228 billion over the financing period 2007-2013) on growth-enhancing investments, such as innovation, R&D and business support. The major part of those investments will be effectively deployed over the next five years. The links between National Strategic Reference Frameworks, defining regional policy priorities, and National Reform Programmes, defining socio-economic priorities, has helped ensure greater coherence but could have been further developed. The use of structural funds has also contributed to making the Lisbon Strategy tangible to regional and local authorities, which have a major role to play in its implementation. However, experience shows that the impact of structural funds can be enhanced by improving underlying structures (e.g. in research and innovation and/or labour markets), simplifying regulatory frameworks (e.g. business environment, infrastructure development) and by further strengthening administrative capacity and efficiency in some Member States. There is also scope for reflecting how to mobilise to a greater extent the EU Budget in support of growth and jobs.

The partnership between the EU and Member States has generally been a positive experience …

The partnership concept introduced in 2005 has had a positive impact on the co-operation and division of responsibilities between the European Union institutions and the Member States. The resulting dialogue between the Commission and the Member States developed into a constructive exchange of views whereby the Commission advised Member States on policy options, often drawing on its experience with other parts of the Union, whilst Member States offered a national perspective, highlighting opportunities for reform as well as identifying constraints. In some cases, Member States associated regional and local authorities as well as social partners and other stakeholders to the Lisbon Strategy partnership, recognising that they exercise important responsibilities under the strategy (e.g. active labour market policy, education, infrastructure development, business environment). In many cases, however, the involvement of regional, local and social partners was less developed and stakeholders were involved on an ad hoc basis if at all, despite the fact that regional and local actors often have both important policy competences and significant resources in Lisbon areas.

But implementation has suffered from variable ownership and weak governance structures …

The role of the European Council in driving forward reform was not clearly defined. It could be argued that the European Council was often over-prepared by intensive work in different Council formations, leaving little room for substantive discussions and decisions by Heads of State and Government themselves. The European Parliament's role could also have been defined more clearly so that it could have played a bigger role in driving the strategy forward.

In terms of instruments, the Integrated Guidelines, which are based on the Treaty, have helped set the direction for national economic and employment policies. While the guidelines were comprehensive and may have helped make the intellectual case for reform, their "catch-all" nature and lack of internal prioritisation limited the impact of the instrument on national policy-making. National reform programmes (NRPs), which are based on these guidelines, were useful tools for promoting comprehensive growth strategies with greater links across macro-, micro-, and employment policies. However, the approach to NRPs differed considerably across Member States, with ambitious and coherent reform agendas for some countries contrasting with vague and more descriptive agendas in others that lacked the backing of governments and national (and regional) parliaments. EU-level targets were too numerous and did not sufficiently reflect differences in starting positions between the Member States, particularly following enlargement. The absence of clearly agreed commitments also exacerbated problems with ownership. For instance, the performance of some Member States already exceeded the target, whereas for others targets were set at such level that meeting them within the available time-frames appeared unrealistic.

The impact of country-specific recommendations has been variable …

Country-specific policy recommendations, a Treaty-based instrument which the Council addresses to Member States on the basis of a Commission recommendation when progress should be stepped up, were an important component of the strategy. In some Member States these recommendations have produced real impact. By setting their policies within a European dimension and showing that other countries were addressing the same issues, these Member States used the recommendations to build domestic pressure for reforms. However, in others the recommendations did not give rise to political debates or effective follow-up. Their formulation tended to range from rather specific advice to general orientations. In the latter case, it was more difficult for Member States to assess which policy measures were required to fulfil the objectives of the recommendation, while in all cases a robust and transparent evaluation framework could have contributed to greater acceptance of the recommendations by the Member States.

Policy learning and exchange of good practices has been stepped up …

Every Member State has experienced success with the implementation of reforms, so there is significant scope for mutual learning and spreading good practices, taking account of national contexts and traditions. Since 2005, there has been an intensification of policy learning and exchanges of good practices. Member States showed considerable interest in the experiences of others in areas ranging from pension and health care reform, flexicurity and skills provision, multi-annual budget management, improving the business environment (ways to shorten the time to set up a business), innovation (more than half of all Member States have now implemented innovation vouchers) to combating poverty and social exclusion. Most of the exchanges took place in the context of the Open Method of Co-ordination (OMC). It seems that the effectiveness of policy learning is greater when there are clear and measurable objectives (e.g. reducing administrative burdens by 25%, setting up a business in one week) and when there is involvement of both technical experts (to adapt policies) and the political level (to facilitate implementation).

Communication has been an Achilles' heel of the Strategy ….

Overall, there was not enough focus on communicating both the benefits of Lisbon and the implications of non-reform for the EU (or indeed the eurozone) as a whole. As a consequence, awareness and citizens' involvement in and public support for the objectives of the Strategy remained weak at EU level and at national level was not always sufficiently co-ordinated. Where Member States communicated around Lisbon-type reforms, these were only rarely presented as part of a European strategy.

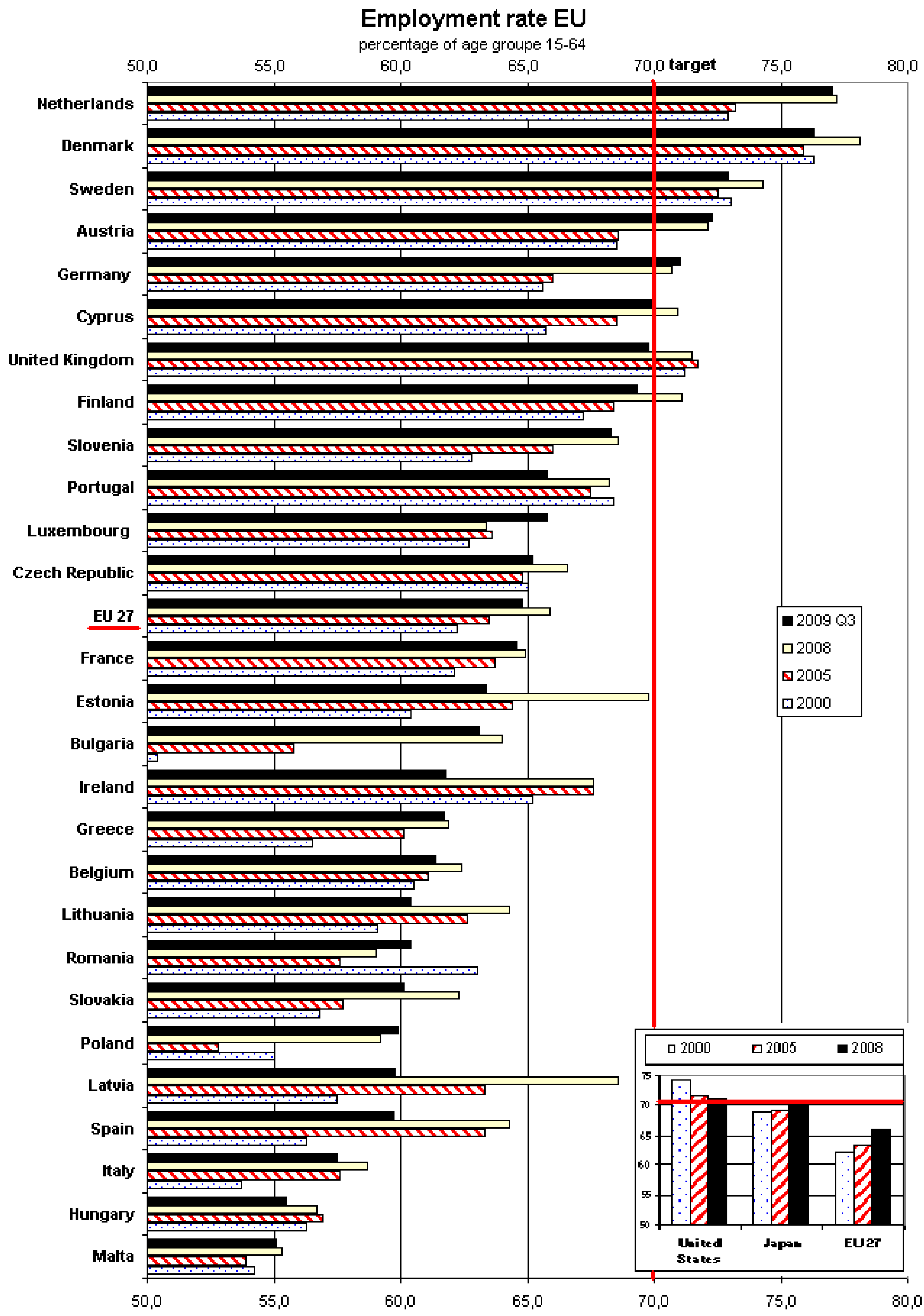
More could have been done to strengthen the euro-area dimension ...

The Lisbon strategy coincided with the first ten years of the euro. The integrated guidelines recognise the enhanced need for economic policy co-ordination in the euro area, and specific recommendations have been addressed to euro area countries since 2007. These have focused on policy actions that are especially relevant for the smooth functioning of the EMU. In practice, however, follow-up by euro-area countries and in the 'eurogroup' has been relatively limited. The very different impact of the crisis across the euro-area has shown that some countries made much more progress than others in implementing structural reforms agendas and in sustaining their competitiveness which explains the large intra-area imbalances that are posing difficulties for the smooth functioning of the EMU.

The external dimension could have been stronger.

The strategy has perhaps been too inward-looking, focusing more on preparing the EU for globalisation rather than trying to shape it. The crisis made it abundantly clear that the global economy has become interdependent as the effects spread quickly around the globe. Since then, the EU has been actively involved in the G-20 process working to put in place a robust architecture to remove shortcomings and prevent the same mistakes from being repeated. The inherent linkages between the EU's economy and major global players such as the USA, Japan and the BRIC countries could also have been given greater prominence. Last but not least, there was little effort to benchmark the EU against the performance of key trading partners and assess the EU's progress in relative terms.

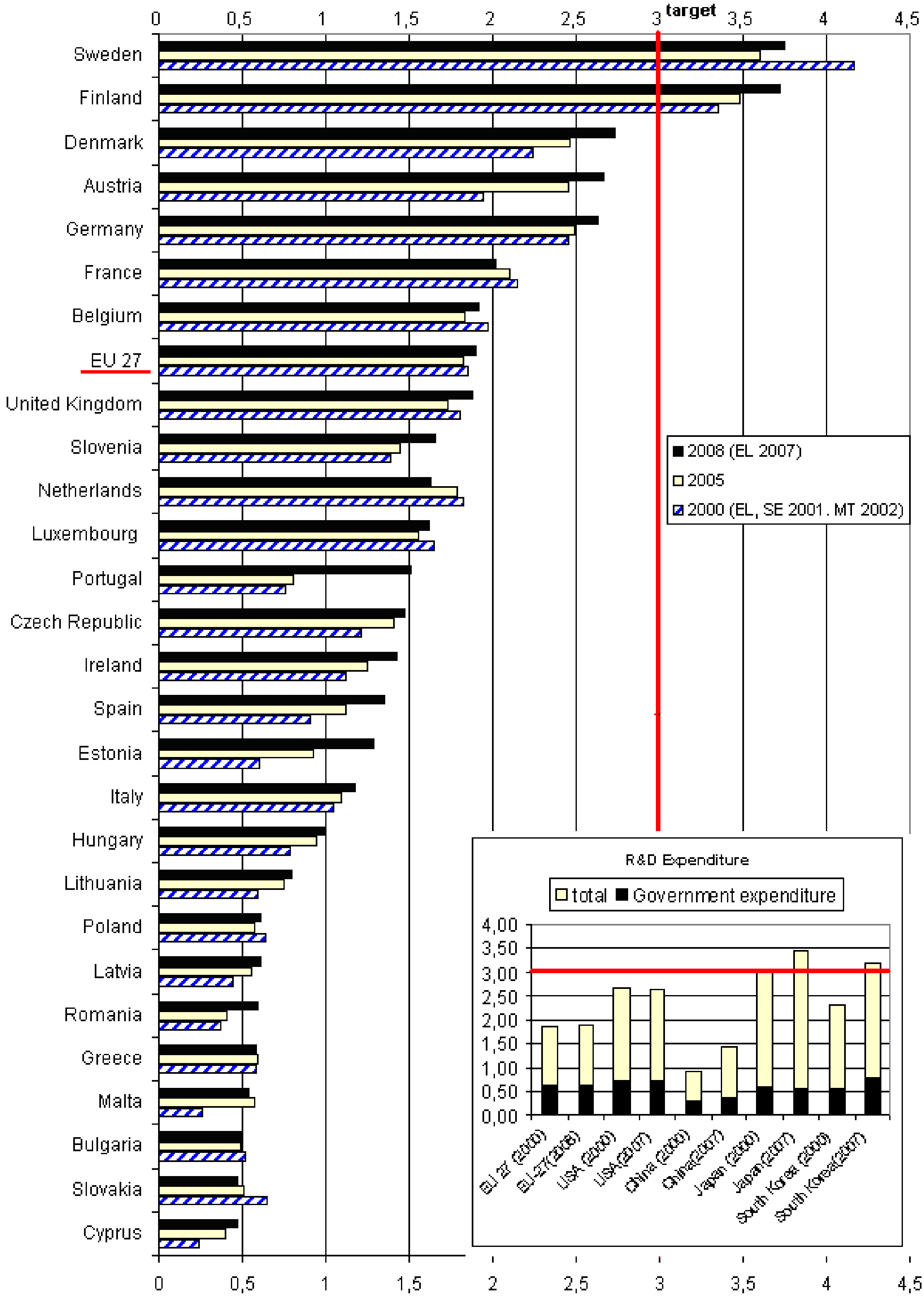
CHARTS:



Employment rate EU
percentage of age groupe 15-64
50,0
55,0
60,0
65,0
70,0 target
75,0
80,0
Netherlands
Denmark
Sweden
Austria
Germany
Cyprus
United Kingdom
Finland
Slovenia
Portugal
Luxembourg
Czech Republic
EU 27
France
Estonia
Bulgaria
Ireland
Greece
Belgium
Lithuania
Romania
Slovakia
Poland
Latvia
Spain
Italy
Hungary
Malta
2009 Q3
2008
2005
2000
United States
Japan
EU 27

Expenditure on R&D

percentage of GDP

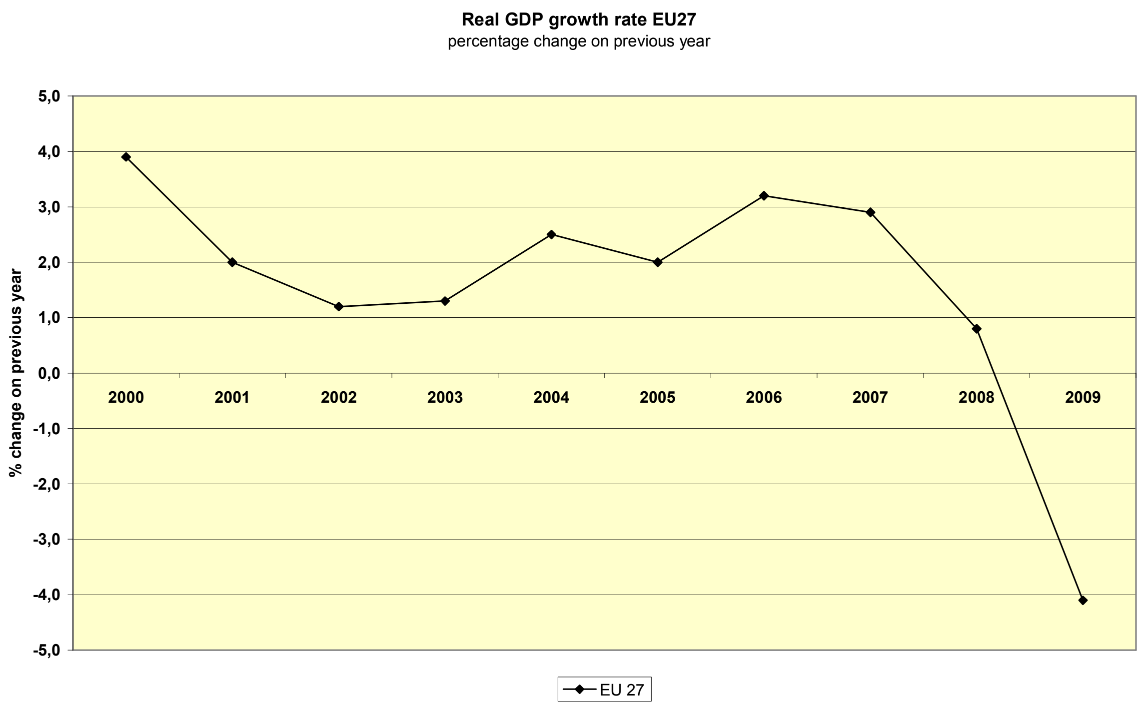


ANNEX: STOCKTAKE OF PROGRESS IN SPECIFIC AREAS

POLICY RESULTS

Introduction

Until the crisis hit, Europe was moving in the right direction. Labour markets were performing well with participation levels rising to 66% and unemployment levels dropping to 7%, while the graph below shows that EU GDP growth was just short of the Lisbon Strategy's envisaged 3% average growth. Although some of this progress was undoubtedly due to cyclical factors, developments in labour markets in particular owed much to the structural reform efforts of EU Member States.



Source Eurostat – 2009 forecasts DG ECFIN

This technical annex analyses in more detail developments in a number of critical Lisbon areas. Starting with an overview of progress in the macro-economic area, the annex is organised around the four priority areas: more research, development and innovation; unlocking business potential, especially for SMEs; investing in people; and a greener economy.

i) Macroeconomic resilience and financing

Sound macroeconomic policies are essential to support growth and jobs by creating the right framework conditions for job creation and investment.

Since the launch of the Lisbon strategy in 2000, the EU economy has experienced periods of cyclical upturns and downturns. The downturn 2002-2003 was followed by five years of increasingly strong economic developments characterised by price stability, steady economic growth and job creation plus declining levels of unemployment. The backdrop to the re-launch of the Lisbon strategy in 2005 was therefore a stable macroeconomic environment, which prevailed broadly until 2008. The economic crisis radically altered this. While average GDP growth in the EU had risen to around 3% per year in 2006-2007, it plunged to -4% in 2009. Similarly, unemployment increased from a low of 7% in 2007 to its current rate approaching 10%.

Maintaining sound and sustainable public finances is a Treaty obligation, with fiscal policy co-ordinated through the Stability and Growth Pact and reflected in the Integrated Guidelines. Following a generally balanced position in Member States' public finances in 2000, deficits widened over 2001-03. This was followed by a continuous improvement in nominal terms until 2007, when again a balanced position for the EU as a whole appeared achievable. This led to reduced government debt ratios, with fewer and fewer Member States subject to the Excessive Deficit Procedure. However, the crisis has had a dramatic impact on public finances, with average deficits reaching 7% of GDP in 2009 and debt approaching 80% of GDP, an increase of around 20 percentage points in just two years. This indicates that budgetary consolidation during the "good times" was insufficient.

Given the projected budgetary impact of ageing populations, ensuring the long-term sustainability of public finances has been a key policy objective. A three-pronged strategy has been pursued to ensure fiscal sustainability, consisting of faster debt reduction, pension and health-care reform, plus labour market reforms (especially to extend working lives). Over the past decade, many Member States have enacted reforms of their pensions systems supported by the Open Method of Coordination, which looks at the access and adequacy of pension systems as well as their fiscal sustainability. Projections[1] confirm that these reforms have had a major impact in terms of containing future growth in age-related spending, and thus contributing to the sustainability of public finances. However, progress was uneven across Member States, and pension reform has been lagging in some countries. Moreover, with life expectancy continuously increasing and health care costs rising steadily, the challenge of ensuring sustainable modern social protection systems is far from over. The recent budgetary deterioration across the EU has substantially worsened the overall sustainability position.

Maintaining wage developments in line with productivity and improving incentives to work, contribute to macro-economic stability and growth, and were central objectives of the Lisbon Strategy. Wage moderation has largely prevailed in most countries, supporting a low inflation environment and employment growth. However, in several Member States wages have systematically outpaced productivity growth, leading to a steady loss in competitiveness. The situation is most acute for some euro area Member States. Also, within a flexicurity strategy, reforms to tax and benefit systems to make work pay have gradually helped to reduce unemployment and inactivity rates. In terms of benefits policy, continuous progress has been made to strengthen conditionality of benefits, while on the tax side widespread efforts have been made to reduce the tax wedge, in particular for low wage earners.

Competitiveness positions, especially within the euro area, have developed differently across countries, with some Member States accumulating large external imbalances. This is due to a variety of factors, including wage developments exceeding productivity developments, rapid credit growth and the emergence of bubbles in housing and asset markets. While in some cases current account imbalances have fallen in nominal terms as a result of the crisis as

[1] Commission and Economic Policy Committee

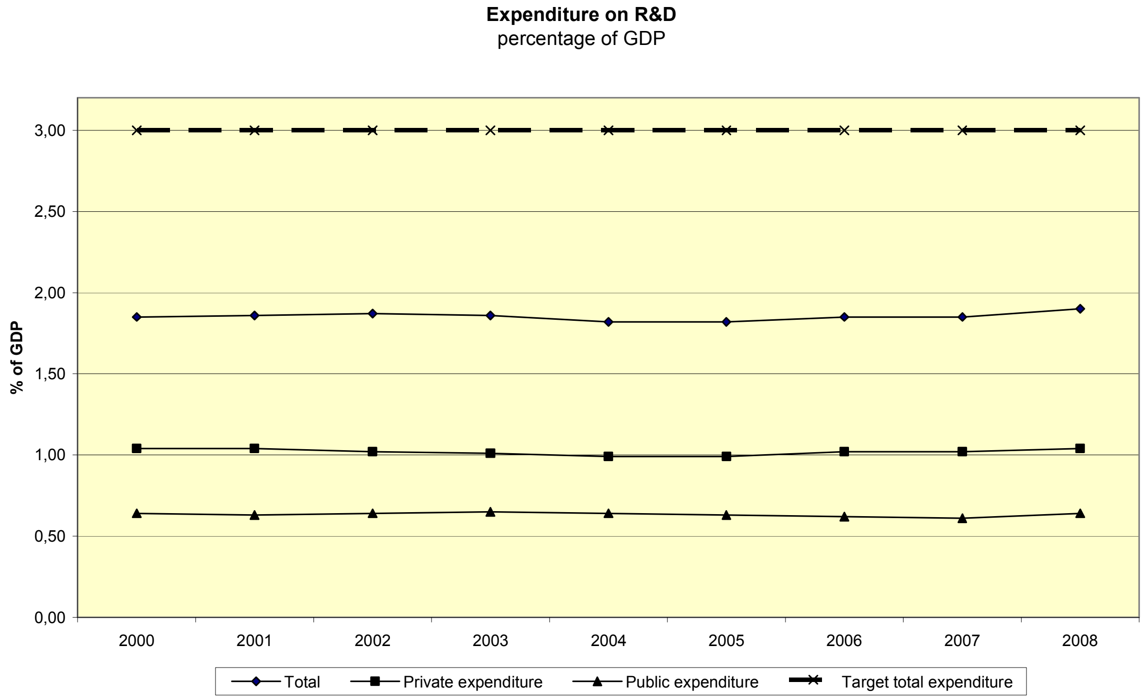
exports and imports plummeted, underlying structural problems remain. In some countries, external imbalances have become so urgent as to require balance of payments support from the EU and the International Monetary Fund (IMF). While EU-level surveillance did point to the risks of imbalances, the urgency of the situation given the degree of inter-linkages across countries was not fully understood. This underlines the need to improve surveillance and coordination, while the crisis has also highlighted the importance of focusing on financial supervision and on monitoring developments, notably on housing markets in order to avoid "bubbles" occurring.

The Lisbon Strategy explicitly recognised the euro area dimension in both the Integrated Guidelines and the Commission Annual Progress Reports. A growing policy concern has been the gradual widening of the gap between competitiveness positions within the euro area, and the implications this has for a currency area. Indeed, specific policy recommendations to the euro area members as a group were issued on this basis over the last few years. However, the impact of this additional focus on the euro area in the Lisbon Strategy is hard to quantify in terms of a greater reform efforts compared to other Member States.

The 2005 re-launch of the Lisbon Strategy coincided with preparations for the 2007-2013 cycle of cohesion policy programming, providing an opportunity to place cohesion policy at the heart of the new Lisbon system. More than € 250 billion from the Structural and Cohesion Funds were earmarked over the 2007-2013 financial perspective for priority structural reforms in areas such as research, innovation, information technologies, business and human resource development. Such funding arrangements guarantee investment for priority projects, while the introduction of financial engineering and Public Private Partnerships has opened up further sustainable financing opportunities. The impact of Cohesion policy on some Member States' GDP growth can be as much as 0.7%. Despite this good progress, and despite the creation of a specific Heading in the annual EU budget for growth-related expenditure (Heading 1A), spending in other areas of the EU budget is considerably less well aligned with structural reform priorities, and a good deal of progress could still be made in terms of allocating funds in support of jobs and growth. EU budget financing for innovation, for instance, remains broadly inadequate, in spite of instruments such as the Competitiveness and Innovation Framework Programme. However, off-budget resources have nevertheless been mobilised as a response to the economic and financial crisis. The European Economic Recovery Plan announced three Public Private Partnerships to develop technologies for the manufacturing, automotive and construction sectors, while the European Investment Bank (EIB) increased its lending commitments by €25 billion in 2009 as a response to the crisis.

ii) More research, development and innovation

The Lisbon Strategy's objective for the EU to become a knowledge economy centred on an ambitious research and innovation agenda. The introduction of a 3% EU GDP spending target for research and development (R&D) represented a step change in the importance and visibility of research and innovation policy at the EU level. There is evidence that many Member States have prioritised public R&D investments: in 20 Member States, the share of R&D in the total government budget increased between 2000 and 2007. However, disappointing performance of some Member States means that the EU overall performance has only marginally improved since 2000 (from 1.85% of GDP to 1.9% of GDP). The graph below shows that the EU's key challenge remains making it more attractive for the private sector to invest in R&D in Europe rather than in other parts of the world. This means improving framework conditions (e.g. the single market, education and research systems, reinforcing the knowledge triangle, but also working on IPR and speeding up interoperable standardisation which has become critical for getting products to markets as innovation cycles have become shorter). Although the sum total of Member States' spending on R&D has not risen above 1.9% of GDP, still far away from the 3% target, it is reassuring that spending levels have held up recently in spite of the crisis. , While the EU continued to trail the US, Japan and Korea in terms of overall R&D intensity for some time, recent data also suggests that emerging economies such as China or India are catching up.



Source Eurostat

Since 2005, the EU policy approach has shifted towards more demand-side measures, valuing the role of non-technological innovation and a particular emphasis on joining up the three sides of the knowledge triangle.[2] Initiatives such as the European Institute for Technology and Innovation (EIT) were launched, seeking to address the EU's persistent inability to "get innovation to market" and turn new ideas into productivity gains. Moreover, the EU has sought to use regulation and standardisation as tools to provide incentives and stimulate market demand for innovative products and services. Success in improving framework conditions has however been limited. The process to put in place a robust and affordable European patent has advanced somewhat, particularly with regard to litigation, but is far from completion. The system of standards remains fragmented and too slow given fast technological developments. The use of demand driven instruments such as public procurement has brought some improvements although the system has not developed to its full potential.

In turn, work on the European Research Area represents a shift towards a more holistic policy approach, promoting greater co-operation between Member States and industry (e.g. through Joint Technology Initiatives which are public-private partnerships in key areas, European

[2] Knowledge / education / innovation

Research Infrastructures and Joint Programming), a stronger emphasis on excellence and smart specialisation and removal of obstacles to researchers' mobility.

EU-level financing has played an increasingly prominent role in innovation policy under Lisbon. The European Investment Fund remains an important source of potential funding for innovation projects, while the European Commission and the EIB created the Risk-Sharing Finance Facility to help fund research and innovation projects. Although welcome, this recent increase in lending activity suggests that failing to make greater use of the off-budget financing instruments available at EU level was a major shortcoming of the Lisbon Strategy.

iii) Unlocking business potential, especially for SMEs

In order to unlock business potential the Lisbon Strategy has prioritised reducing the regulatory burden and supporting entrepreneurship. As a result of improvements to these framework conditions, the EU is now arguably a better place to do business than in 2000. External evaluations also reflect the attractiveness of the EU, with the World Bank ranking one third of Member States in the top 30 of its Doing Business Report, and two thirds in the top 50.[3] 18 MS have now introduced one-stop shops to start a business, while thanks to a specific action in the context of the Lisbon strategy the European Council has adopted a target which has translated into significantly easier requirements to start up a new private limited company: the average time taken in the EU is now 8 calendar days, while the average cost has dropped to € 417. Although it is accurate to say that the Lisbon Strategy has succeeded in bringing about a major shift in the EU's regulatory culture much work remains to be done in terms of truly simplifying the business environment. Against a background of an administrative reduction target of 25% by 2012 for the EU, all Member States have set an ambitious national target for reducing administrative burdens but implementation will require further action. The European Commission has proposed potential savings in administrative burdens from EU rules worth € 40 billion, subject to their adoption by the Council and the European Parliament.

The Small Business Act (SBA), adopted in June 2008, was a first step towards a comprehensive SME policy framework for the EU and its Member States. The European Commission has delivered on several major actions announced in the SBA, for instance a proposal on reduced VAT rates entered into force on 1 June 2009, offering Member States ample possibilities to boost economic activity (notably in labour intensive services). Four other major proposals are still pending in the Council and European Parliament. The proposed recast of the Late Payment Directive and the proposal on a European Private Company Statute are both vitally important for the competitiveness of SMEs. The proposal on VAT invoicing aims at ensuring equal treatment of paper and electronic invoices and it is estimated to have a mid-term cost reduction potential of €18.4 billion (assuming that all 22 million taxable enterprises affected by the measure were to send all of their invoices electronically). Finally, up to 5.4 million companies could benefit from a proposal enabling Member States to exempt micro-enterprises from accounting rules, with potential savings of € 6.3 billion for the EU economy.

---

3 http://www.doingbusiness.org/ The Doing Business project provides objective measures of business regulations and their enforcement across 183 economies and selected cities at the sub-national and regional level.

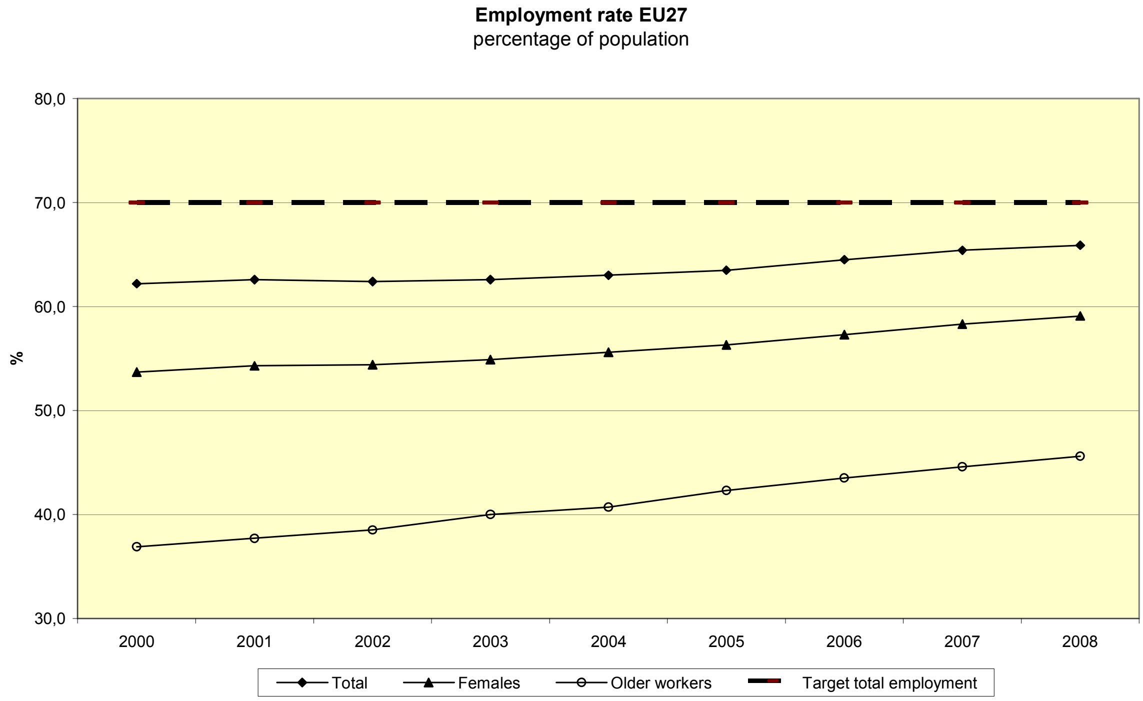
European SMEs typically experience difficulties accessing finance. While most Member States have already taken or are currently introducing measures facilitating SME financing, the results are still disappointing. The EU has used cohesion policy to mobilise significant financial support for SMEs, especially via the EIB. In addition, the introduction of financial engineering possibilities, through Public-Private Partnerships and supporting financial instruments suitable for SMEs, has increased the overall reach of policies promoting access to finance.

However, in spite of progress with many aspects of the single market, much of the EU's potential marketplace remains untapped – for instance, only 7% of EU consumers currently shop across borders. Many Member States have addressed competition in network industries, notably in gas and electricity and electronic communications, while unbundling (notably in the gas, electricity and rail sectors) has the potential to deliver concrete benefits in terms of growth and safeguarding jobs. Clearly mandated and independent regulatory authorities with adequate levels of resources would also deliver better outcomes for EU consumers. Several Member States also still impose unnecessary regulatory restrictions on professional services, fixed tariffs or *numerus clausus* restrictions, which should be abolished by the services directive.

iv) Investing in people

One of the two key targets was that the European Union should have 70% of the working age population in employment by 2010. This was supported by secondary targets of a 50% employment rate for older workers (aged 55 and above) and 60% for women. These ambitious targets could only be achieved through structural reforms to tackle a number of challenges within Europe's labour markets; tackling labour market segmentation, addressing skill needs through more and better education and training, promoting a lifecycle approach to active ageing, and inclusive labour markets.

The success of Lisbon in terms raising the profile of structural reform in labour markets also helped to deliver results. Progress towards Lisbon targets is shown in the graph below. The 2005-2008 period in particular was characterised by strong employment growth, with about 9.5 million jobs created and a fall in the unemployment rate to almost 7%**.** Overall employment in the EU rose by close to four percentage points, reaching 65.9% in 2008. The employment rates for women and older workers increased more substantially, attaining 59.1% and 45.6% respectively by 2008.



Source Eurostat

The economic and financial crisis has since had a devastating effect on the labour market, with more than seven million job losses expected in the EU in 2009-10 and unemployment set to reach over 10% by the end of 2010.

While some of the progress made before the crisis was undoubtedly due to a cyclical upturn, there are a number of reasons to believe that structural reforms as well as sustained wage moderation initiated under the Lisbon Strategy had a significant impact:

- unemployment declined by 28% between 2005 and 2008, and dropped to nearly 7% following decades in double digits;
- in the economic upturn that preceded the crisis there was no significant pressure on wages (as would have been typical in a cyclical-driven expansion);
- in the period before the economic crisis the employment rate increased significantly and over a very long period. Such a rise cannot only be explained by cyclical factors.

One of the most important policy developments under the Lisbon Strategy since its 2005 re-launch has been the development, adoption and progress with implementation of common flexicurity principles, endorsed by the European Council in December 2007. Flexicurity represents a new way of looking at flexibility and security in the labour market. The concept recognises that globalisation and technological progress are rapidly changing the needs of workers and enterprises. Companies are under increasing pressure to adapt and develop their products and services more quickly; while workers are aware that company restructurings no longer occur incidentally but are becoming a fact of everyday life.

Rather than protecting a job, which will ultimately disappear, flexicurity starts from the assumption that it is the worker who needs protection and assistance to either transition successfully in his/her existing job or move to a new job. Flexicurity therefore provides the right reform agenda to help create more adaptable labour markets and in particular to tackle often substantial labour market segmentation. It is encouraging that a majority of Member States have now developed or are developing comprehensive flexicurity approaches, although the focus of Member States' efforts should now be firmly on pushing forward reforms set out under individual Member States' flexicurity pathways. Major restructuring of Europe's labour markets since the crisis has made the scale of the challenge all the more apparent. Most reforms within this area have tended to focus on easing labour market regulation for new entrants to facilitate more contractual diversity. However, greater flexibility will only be achieved through the reform of legislation on existing contracts and by ensuring transitions between types of contracts and opportunities to progress.

The overall trend in terms of labour market policies has therefore been positive, albeit rather uneven both among Member States and across policy domains. There remains considerable room for improvement, in particular amongst the young and older age groups. Despite progress made in developing the concept of active ageing and avoiding early retirement schemes wherever possible, older workers are still under-represented in the labour market: the employment rate for people aged 55–64 is more than 30 percentage points lower than that for those aged 25–54, while less than 46% of people aged 55–64 are working compared with almost 80% for 25–54 year olds.

Youth unemployment continues to be a severe and increasing problem. Young people are particularly badly affected by the crisis, and in many Member States they suffer unemployment rates of more than twice the rate for the rest of the work force. Youth unemployment is intrinsically linked to skills policy, and despite some focus on this issue under the Lisbon Strategy, progress has been insufficient. Despite some progress in terms of reducing early school leaving, nearly 15%young people in the EU (or approximately 7 million young people) still leave the education system prematurely with no qualifications. Alongside this, there has been virtually no increase in the average levels of educational attainment of the young, and those who become unemployed often do not receive the support they need. In spite of EU-level activation targets which were set in 2005 and stepped up in 2007, many Member States still fail to ensure that every unemployed young person receives a new start in terms of active job search support or re-training within the first four months of becoming unemployed.

Education and skills policy is at the heart of creating a knowledge-based economy, but it is apparent that the EU has some way to travel in this regard. Progress in increasing youth educational attainment levels has been too slow, with outcomes only improving moderately since 2000. Since 2004, the level of adult participation in lifelong learning has remained stable or even decreased in 12 out of 27 Member States.

v) A greener economy

The importance of addressing climate change and promoting a competitive, and efficient energy sector with particular attention for energy security has become apparent since 2005, but it is fair to say that decisions on these important matters, particularly the so-called 20-20-20 targets, were taken outside of the context of the Lisbon Strategy. Furthermore, as climate change, environmental and energy issues moved up the political agenda, and were formally integrated into the strategy and mainstreamed into EU policy making, the distinction between the Lisbon and Sustainable Development Strategies started to blur. The main argument for keeping the strategies separate consisted of the different time focus with the Lisbon Strategy taking a medium-term perspective (5-10 years) whereas the SDS looked several decades ahead. SDS also included a wider array of challenges, such as global poverty and pandemic diseases.

As part of the country surveillance under the Lisbon Strategy, Member States progress towards the Kyoto target was monitored. Current projections, taking account of the impact of the crisis on economic activity, indicate that the overall EU-15 target may even be overachieved. By sector, emission trends indicate decreases in the energy sector, industrial processes, agriculture and waste, while significant a increase can be noted in the transport sector. In the energy sector, there has been a significant shift in recent years from purely national approaches towards a European approach, with the objectives of competitiveness, sustainability and security of supply. The liberalisation of the gas and electricity markets has facilitated new investment in networks, allowed new market players to enter previously closed markets and has encouraged the emergence of liquid and competitive wholesale markets.

GOVERNANCE

Principal instruments of the renewed Lisbon strategy

The Integrated Guidelines: adopted by the Council in 2005 and updated in 2008, after discussion within the European Council, provided multi-annual general guidance and policy orientations. The twenty-four guidelines were designed as an instrument of coordination and laid the foundations for the National Reform Programmes, outlining the key macro-economic, micro-economic and labour market reform priorities for the EU as a whole.

The National Reform Programmes: Documents prepared by Member States, for a three year cycle, to indicate what instruments they would use to realise their economic policy objectives. NRPs were followed by annual updates called Implementation Reports.

Country Specific Recommendations: The Council adopted annual Country Specific Recommendations on the basis of a Commission recommendation for the first time in 2007[4]. These policy recommendations based on articles 99(2) and 128(4) of the Treaty were the issued on the basis of the Commission's assessment of Member States' progress towards achieving the objectives set out in their National Reform Programmes.

The Community Lisbon Programme: A European Commission programme created in 2005 to report on the European dimension part of the Lisbon Strategy.

The Commission's Annual Progress Report: this is the annual assessment of the Commission on progress made with the implementation of the Strategy accompanied by policy proposals for the European Council.

The Open Method of Coordination: an intergovernmental method of "soft coordination" by which Member States are evaluated by one another, with the Commission's role being one of surveillance

[4] Council Recommendation of 27 March 2007

Targets

Delivery of Lisbon reforms would be measured against progress towards a series of headline, EU-level targets with a 2010 deadline: 70% total employment and a 3% GDP spend on R&D. A further assumption of Lisbon was that, if Member States' reforms had the desired effect, average GDP growth across the EU should be around 3%. Although the 2005 re-launch effectively reduced the number of headline targets, by their nature such EU-level targets represented a one-size-fits-all approach which was neither broken down into individual national targets, nor did it take account of the starting positions of Member States or their comparative advantages. It also seems that this approach to setting targets at the EU level contributed to a general lack of ownership of the Lisbon strategy at operational level.

A renewed partnership

The notion of partnership underpinned Lisbon from the outset, and was reinforced following the re-launch. In practice however, the partnership did not operate evenly across Member States. The role given of stakeholders and national parliaments in the implementation of the national reform programmes varied widely across Member States. Lisbon partnerships worked well in many Member States with national authorities creating incentives to reform, for instance via internal monitoring. Instances of good practice include involving national parliaments in policy debates and inviting stakeholders to contribute to National Reform Programmes. In some cases this represented an innovation, which would both encourage policy coordination and focus policy-makers on specific priorities, while many Member States came to appreciate and even depend upon the rigorous and impartial analysis of their structural reform programmes carried out by the European Commission.

National-level ownership

Although national authorities were successful at generating a sense of ownership of the Lisbon Strategy, the engagement of social partners and/or regional and local authorities could have been stronger in most processes, while institutional differences between Member States (for instance the absence of an Economic and Social Council or similar body in a minority of Member States) complicated the consultative process. Some Member States used the Lisbon "brand" to lend a sense of legitimacy to difficult reforms. Communication efforts surrounding Lisbon did not result in significant citizens' awareness of the Strategy; nor did this allow for dispelling the perception that the Lisbon Strategy was mainly a "business" agenda. Weak ownership resulted in less peer pressure could be applied to speed up reforms.

EU-level ownership

An EU-level partnership between the European Commission, the European Parliament and the European Council in conjunction with other institutions was intended to complement and reinforce partnerships at Member State level, as well as helping to generate political ownership of the Lisbon Strategy. However, the precise roles of the institutions as driving forces in this partnership could have been better defined.

Community Lisbon Programme

Progress on the European dimension of the Lisbon partnership was illustrated via the Community Lisbon Programme (CLP).[5] The CLP aimed at contributing to the overall economic and employment policy agenda by implementing Community policies in support of national approaches. By reporting on EU-level policy actions and their interaction with measures taken at Member State level, the CLP should have reflected the EU-level Lisbon partnership and helped to foster a collective sense of ownership. However, it is widely accepted that this attempt failed since the CLP failed to generate momentum and ownership in Council and Parliament, as well as in Member States.

Lisbon Strategy instruments

The re-launch of the Lisbon Strategy in 2005 provided a set of new and more powerful instruments, which were designed to steer and monitor economic policy reform in the pursuit of growth and jobs.

i) The Integrated Guidelines

The integrated guidelines (IGs) adopted by the Council in 2005 provided general guidance and policy orientation. The twenty-four guidelines were designed as an instrument of coordination (constituting the basis for country-specific recommendations) and laid the foundations for the National Reform Programmes, outlining the key macro-economic, micro-economic and labour market reform priorities for the EU as a whole. While the guidelines served as the cornerstone of the EU reform effort and helped to make the case for reforms, they are very broad and insufficiently action-oriented to impact significantly on national policy-making. For instance, the conclusions of the European Council in 2006 to focus on four priority areas[6] did not materially alter the IGs, while their level of integration has also been called into question. The European Parliament has also criticised the guidelines for not reflecting changing economic realities, while their exhaustive nature means that no sense of prioritisation is possible.

ii) National Reform Programmes

The introduction of publicly-available National Reform Programmes has undoubtedly encouraged Member States to focus on progress towards Lisbon goals, particularly given the NRPs' emphasis on implementation and results. However, as policy-making instruments (rather than merely reports), they present a somewhat mixed picture. While several Member States used their NRPs as powerful instruments of policy coordination which brought together ministries and local legislators (often for the first time), others tended to use them as low-profile reporting mechanisms. This reflects not only inherent differences in Member States' institutional structures and approaches, but also the fact that the precise purpose of NRPs was never clearly articulated. Given that the NRPs mirror the integrated guidelines, they have often been rather broad and unfocused documents, although in some cases mutual learning has led to their evolution into sharper instruments.

---

5 COM(2005) 330 final

6 Improving the business environment, investing in knowledge and innovation, increasing employment opportunities for the most disadvantaged, and an energy policy for Europe.

iii) Country-specific recommendations

Country specific recommendations were a major innovation of the 2005 re-launch. For the first time, policy advice covering the entire field of economic and employment policy was submitted to the European Council and the Council on a country-specific basis, resulting in politically (if not legally) binding guidelines addressed each year to the Member States. As the primary mechanism for exerting peer pressure on Member States, country-specific recommendations can be considered as a success story of the Lisbon strategy. They have helped to address poor performance and focus on main reform priorities, while also playing a key role in policy making in several Member States by increasing political pressure at home. However, in a number of Member States they remained low profile policy advice, and their impact on the reform pace has been less evident. It has also proven difficult to get high-level political attention and debate on the basis of country analyses.

The quality of the recommendations evolved with experience and succeeded in bringing several structural problems in Member States to prominence. However, in some cases, and given the multi-dimensional nature of some problems, the language was vague and not entirely effective in pinning down the real issues at stake. There was also a perception that policy recommendations issued to Member States too often have been seen as single-strand approaches, and have failed to reinforce the objectives of other instruments such as the Stability and Growth Pact. It is also likely that the recommendations would have gained more acceptance from Member States had they been underpinned by a transparent and robust evaluation framework.

iv) The open method of coordination

The governance structure of the re-launched Lisbon strategy was complemented by the Open method of coordination (OMC) – an intergovernmental method of "soft coordination" by which Member States are evaluated by one another, with the Commission's role being one of surveillance. The origins of the OMC can be found in the European Employment Strategy (now an integral element of the Lisbon strategy), where it provided a new framework for cooperation between Member States by directing national policies towards common objectives in areas which fall within the competence of the Member States, such as employment, social protection, social inclusion, education, youth and training. While the OMC can be used as a source of peer pressure and a forum for sharing good practice, evidence suggests that in fact most Member States have used OMCs as a reporting device rather than one of policy development.

New OMCs launched under the Lisbon Strategy include research policy (CREST[7]), which began in 2001 to support the implementation of the policy frameworks on researcher mobility and careers, and which gave rise to the headline Lisbon target of spending 3% of EU GDP on research and development in 2002 at the Barcelona European Council. A 2008 evaluation concluded that the research policy OMC had proven to be a useful tool to support policy learning, but that it had only given rise to a limited amount of policy coordination, and recommended an strengthening the OMC through more focus on policy coordination. Since then the European Research Area (ERA) was re-launched, with stronger policy co-ordination. A further example of an, OMC is in the field of entrepreneurship, which is based on benchmarking techniques and including specific projects (mainly on issues related to entrepreneurship, SME and innovation policy), and the use of scoreboards.

---

7 Comité de la recherche scientifique et technique (Scientific and technical research committee).