

WORKSHOP The European Lisbon agenda and the national diversity  
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**REPLY PAPER**

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## **The Lisbon strategy: Merits, difficulties and possible reforms**

### 1. LISBON STRATEGY IN RETROSPECT

Even quite short, the history of the strategy launched in Lisbon by the European Council on March 2000 may be usefully revisited, briefly of course. The so-called Lisbon strategy displayed three major components

An objective: promote growth and employment by maintaining a highly competitive European economy.

An input: coupling innovation along with the preservation of social cohesiveness, as a compromise between a market liberalisation and a social democratic approach under the umbrella of a Schumpeterian vision of innovation.

A method: The Open Method of Coordination (OMC) as a device in order to overcome the present distribution of competences between member-states and Brussels and promote at the national level the structural reforms required to fulfil the Lisbon objectives.

The origin of this institutional innovation was clearly associated to the diverging trends observed between the United States and Europe, and the emergence of new pressures on Welfare State (ageing, obsolescence of workers competences, persisting mass employment). The collapse of the Internet bubble, the emergence of China and India as major players of the world economy and recurring demands by citizens for more security and the related strains upon the so-called “European Social Model” do suggest that the diagnosis made in the early 2000 is still more valid in 2006. Thus it is no surprise if the more severe critiques of the Lisbon strategy recognises that the general diagnosis was, and still is, relevant and the overall strategy goes in the good direction (Kok, 2004; Pisani-Ferry and Sapir, 2006; Aghion & alii, 2006).

Actually, the common feeling is that the strategy has basically failed and it is why it has been redesigned, and for some analysts downgraded (Pisani-Ferry, 2006). The paradox is that the 2005 spring European Council made of the reformed Lisbon strategy a key component of its policy (Rodrigues, 2006).

A brief survey of the literature points out another paradox. Generally speaking, economists tend to diagnose a clear failure, whereas political scientists and sociologists have a far more positive assessment. After all, they do not consider the same components.

1. The economists focus upon outputs and inputs. Actually the European growth has been sluggish and job creation disappointing, and the gap with the US has been widening. The picture is not satisfactory either in terms of input. The RD/GNP objective of 3 % in 2010 is probably out of reach for Europe as a whole and the reforms of welfare have been difficult, and partial, especially in France, Germany and Italy. They are also the countries that failed to increase their efforts for innovation.
2. Other social scientists (Zeitlin, 2005; Pochet, 2005) are more interested by the method and they find a significant learning/experimenting process that, potentially, could overcome for instance some veto points in the reform of national welfare states (Obinger & alii, 2005). On one side, they recognize that National Employment Action Plans are frequently formal exercises of window dressing but on the other side they note a significant transformation of the cognitive maps and agenda of decision makers, by national interactions at national and European levels. For the authors under review, the OMC is a very promising institutional innovation that could be quite helpful, at least in the long term, to overcome some of the deadlocks, exemplified by the fate of the European Constitution. By contrast, economists regret the weak enforcement of the Lisbon strategy, the lack of clear methodology in assessing the National Reform Programmes and generally the poor involvement of national stakeholders (Pisani and Sapir, 2006).

This raises a difficult issue: what is the relevant time horizon of the Lisbon strategy? A decade is a quite long period for macroeconomists, whereas for the analysts of technological and institutional change this could be only the starting point of a very uncertain process of trial and errors process...

## 2. A COMPARATIVE APPROACH: BETWEEN ELECTIC BENCHMARKING AND “ONE SIZE FOR ALL”

After all the OMC is not totally new: many international organisations such as OECD, IMF, and World Bank, for a fraction of their activities at least, do promote the creation of various decision makers agora and the practice of benchmarking across nations in order to promote the diffusion of the best policies. Of course, the details of the institutional setting are different, but the intellectual challenges are the same. Such a strategy runs into the following dilemma.

- On one side, there is strong temptation to propose a rather extended list of objectives, and performance indexes just to cope with the complexity of modern societies and to include the largest possible number of decision makers. The 22 guidelines of the integrated guidelines for growth and jobs are a good example of such a strategy. This assumes that there is never too much of a good thing and this is not evident at all, especially if some complementarities are present among objectives. In some cases, more for an objective might mean less for other ones and more input may not translate into more output. At a practical level, this dispersion

of objectives is very convenient for the civil servants in charge of drafting the Country Report stating the advance of the Lisbon strategy: sometimes they simply describe the present strategy of the government (European Commission, 2006b). Eclectic benchmarking seems to be self defeating.

- On the other side, and the Washington consensus was another good example, there is symmetric strategy: to try diffuse the same model across the world. But given the path dependency of economic specialisation, the complexity of institutional arrangements, and significant differences in political and social preferences, the probability of a complete transposition of a single model is quasi nil. The more so since even productive models have proven difficult to simply transpose from one domestic plant to a foreign transplant (Boyer & alii, 1998): adaptation and hybridisation are the rules, imitation is the exception. No surprise if the recurring emergence of “models” that should be emulated all over the world (the German, the Japanese, the Polder model, the Silicon Valley one, and more recently the Danish flexicurity model) has not delivered the expected diffusion process. Thus, the era of “the same size for all” seems over. For instance, IMF had to recognize that the 1997 Asian crises are not the mere reproduction of the Latin American crises of the 1980s in Latin America. Similarly, other studies have pointed out that, even within the same region, for instance Latin-America, the various countries do not follow the same pattern and display contrasted macroeconomic outcomes in spite of a quite general diffusion of the same style for economic reforms (opening to the world economy, privatization, deregulation, search for macroeconomic stability).

Consequently, it is now clear that cross national comparisons must find another strategy different from piecemeal benchmarking and importation of complete systems and institutional regimes. Some authors have proposed “contextual benchmarking”, i.e. the adaptation of a given economic strategy to the existing institutional and political domestic context (Zeitlin, Pochet, 2005).

Thus, the basic issue of this conference: “How should the Lisbon strategy cope with national diversity?” has become a central issue for many international organisations since they face similar challenges.

- Within international arena – OECD, IMF, World Bank – how to benefit from the diversity of national experiences and how to convince (frequently reluctant) governments to undertake reforms in response to the statement that some policies are better than others? In a sense, the “Job study” launched by OECD share the same spirit that the Lisbon Agenda: what are the possible levers associated to benchmarking in the absence of a direct control by an international organisation? Can “soft law” be a (partial) alternative to hard law?
- What are the available tools in order to take into account the crucial evidence that in order to achieve the same objectives – for instance growth – different policies might be required (Hausmann & alii, 2005). Conversely the same policy may deliver quite contrasted outcomes when implemented by different countries.

There is another analogy between the present evolution of development theories and the debates about the future of Europe: economists discover that a sound macroeconomic policy might be required but it is not a sufficient condition for convergence towards a fast growth path. Monetary stability and the promotion of competition have proven to be unable to launch a new wave of innovation and a growth acceleration, in Latin America as well as in Europe. Of course, some countries have been quite successful – Finland, Ireland, Denmark – but they have been using

specific policies, and they have not limited their policies to the compliance with macroeconomic orthodoxy and the belief in market force efficiency.

If one follows this analysis, the Lisbon agenda is quite in line with other initiatives in other parts of the world, since they try to respond to quite similar issues. Consequently, Europeans might learn from these international experiences.

### 3. THE CRITICISMS ADDRESSED TO LISBON STRATEGY SHOULD HELP ITS REDESIGN

They should learn too from the difficulties encountered in the implementation of the Lisbon strategy. The mid-term review in 2004-2005 has clearly pointed out some limits of the actual organisation and triggered a reform of the Lisbon agenda (Rodrigues, 2006). Basically, it was recognized that strategic objectives were blurred, the inflation of measures and priorities was detrimental some basic mechanisms as well as financial incentives were missing concerning the implementation of the agenda. But this is only a fraction of the criticisms addressed to the open methods of coordination, the more fundamental one concerning a “one size for all approach” (table 1).

- The integrated guidelines for growth and jobs display four major objectives, that are decomposed into twenty-two items and they might be seen as too numerous. Of course, such a list is the outcome of political bargaining and compromise and is supposed to take into account the complexity of European issues. Nevertheless, a reduction of this number should be considered or alternatively the guidelines should be assembled into *coherent processes* or mechanisms delivering the expected outcome, i.e. growth and jobs.
- By contrast with monetary stability and budgetary discipline that are governed by explicit clauses of European treaties along with *instruments of compliance*, the Lisbon agenda was not allocated any hard rule. Of course, this is possibly a promising method as pointed earlier but this lack of conventional instrument of enforcement has been detrimental to the efficiency of the Lisbon process. Two avenues for improvement can be imagined. On one side, the peer review could be completed by some form of “blame and shame” for the more reluctant member States (Pisani-Ferry and Sapir, 2006). On the other side, in the long run, the design of explicit hard rules at the European community level should not be excluded, just to promote a better balance between macroeconomic stability and growth and employment objectives.
- The Lisbon process is perceived by most outsiders as a typical *technocratic exercise* that does not call for the expression of a strong concern by policymakers, neither at the national level nor at the community one. This difficulty can be perceived as a pure communication issue between the policymakers and the citizens, but the issue is probably deeply rooted into the very process of Europeanization of domestic policies. As such, the Lisbon process is thus part of the general disenchantment with respect to the evolution of European institutions and politics.
- This brings at the forefront the issue of the *low democratic accountability* of many European procedures. The citizens perceive some European regulations as quite distant, obscure, arbitrary or even dangerous for the national traditions about welfare, public utilities organization or labour market institutions. A reply to this criticism could argue that the involvement of some stakeholders, even if limited in the Lisbon process, is far superior to

their implications for instance in the conduct of monetary policy or the enforcement of competition on the Single Market. Some political scientists point out that modern democracy has to rely on new mechanisms of control and accountability, since they cannot be the outcome of a direct control by citizens, and it has to be mediated by independent administrative agencies, NGOs, various forum, expert groups. In any case, the enlargement and diversity of stakeholders involved at the national level should be welcomed.

Table 1 – An assessment of Lisbon strategy

CRITICISM	REPLY	POSSIBLE REFORMS
1. Too many guidelines	1. A response to the complexity of modern economies. The expression of political compromises	1a. Reduce the number of guidelines 1b. Replace by mechanisms combining items
2. Lack of policy instruments to implement the strategy	2. On the contrary a promising method for overcoming institutional and political deadlock	2a. Design explicit hard rules at the community level 2b. “Blame and share” as incentives to reform
3. Lack of political will, a technocratic exercise	3. Unequal across countries, Common to many European issues	3a. Better marketing, repackaging of the Lisbon strategy 3b. Explicit more clearly the political objectives
4. Low democratic accountability	4. More involvement of diverse stakeholders than for other European policies (ECB, competition,...)	4a. Extend the diversity of stakeholders at the national level 4b. Develop another concept of democracy
5. Few justification of an euro zone dimension of benchmarking	5. Benchmarking as a learning process, a method to overcome institutional deadlock	5a. Either an unambiguous re-nationalisation of reforms 5b. Or taking into account the Lisbon strategy in the re-design of European instruments (for example SGP reform)
6. Fuzzy criteria in the assessment of National Reform Plans	6. This is only the first stage of a learning process	6a. Use the employment/growth diagnostics 6b. Build a genuine methodology
7. The same reform might have different, sometimes opposite, effects in different countries	7. It might be an exceptional case	7a. Contextual benchmarking 7b. Take into account national diversity

#### 4. THE REQUIRED COORDINATION: ACROSS OR WITHIN MEMBER STATES?

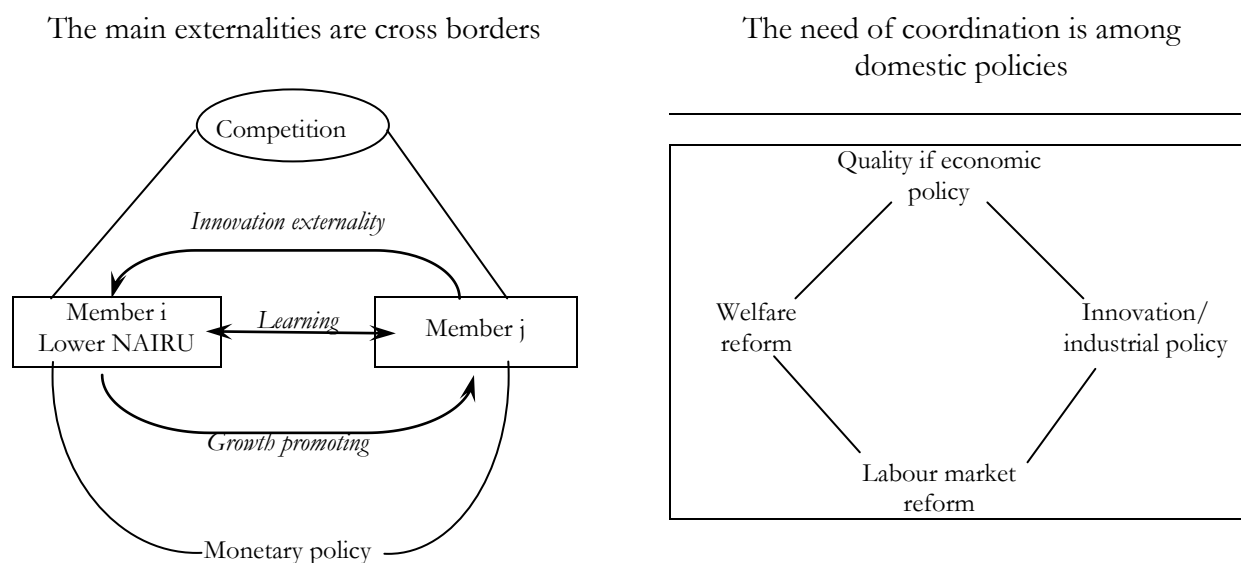
The Lisbon strategy raises another central issue concerning the level of governance that is appropriate in order to foster the institutional reforms required to fulfil its main objectives. The OMC assumes that the coordination among member States is an important factor in the redesign of economic institutions. Basically, the literature points out two externalities at the core of the Lisbon process.

- If for instance, it is assumed that part of the macroeconomic problems are related to a rather restrictive monetary policy that takes into account the fact that labour markets are perceived to be too rigid, then a successful reform reducing the structural employment in one country may induce a change in the European policy mix, especially if such a reform take place in a large country. There are other forms of *cross border externalities*. Actually, a successful redesign of a national system of innovation is expected to benefit to the other economies, via the conventional positive spill-over associated to technical change. From a theoretical standpoint, this would mean that in the long run, the related competences should be at least shared between the national and the European level. According to this view, the Lisbon process would be a method in order to overcome the present distribution of competences as stated by existing European treaties.
- Nevertheless the specificity of the Lisbon process is to rely on *benchmarking, learning, peer pressures* in order to propitiate economic reforms. As mentioned earlier, many social scientists do think that this is its major novelty and contribution to significant advances in European integration. Therefore, the systematic comparisons of domestic policies would be as important as positive and negative externalities in promoting a specific process that subtly mixes domestic and European concerns within an iterative and long term process. In this process national preferences, procedures and policy tools, and finally economic outcomes change and are redefined with a possible, but not certain, emergence of a new style for economic policy that would diffuse all over Europe.

The experience of recent years suggests that these externalities, even if existing, are quite weak and unable to trigger the emergence of a virtuous circle according which the lagging countries would be emulated by the more successful ones, and this process would induce a progressive acceleration of European growth and job creation. Quite on the contrary, the abundant literature on capitalist diversity is now confirmed by the researches about the complementarities between labour market reforms and welfare, innovation policy and the conduct of the policy mix. The problem is that these complementarities are mainly if not many exclusively national. Hence, a possible difficulty of the Lisbon process: the will to cope with *cross border externalities* neglects the fact that the crucial issue is frequently the coordination and the sequencing of *domestic reforms* (figure 1).

This remark suggests a possible direction in the reform of the Lisbon process: instead of benchmarking individual measures why not promote a set of *interrelated policies* that generate a positive spill-over in terms of growth and employment, according to a set of *complementary mechanisms* that would cross the frontiers of various policy domains (legislation, taxation, public spending, finance, labour market, competition,...)? Of course, the task is made more difficult but simultaneously far more relevant. Furthermore, there exists a literature on social mechanisms that could be mobilized in order to redesign the current policies. By the way, in some instances, the relevant mechanisms could cross the regional, domestic and European boundaries, thus providing a clear basis for a multilevel coordination.

Figure 1 – The need for coordination: across member states or among domestic policies?

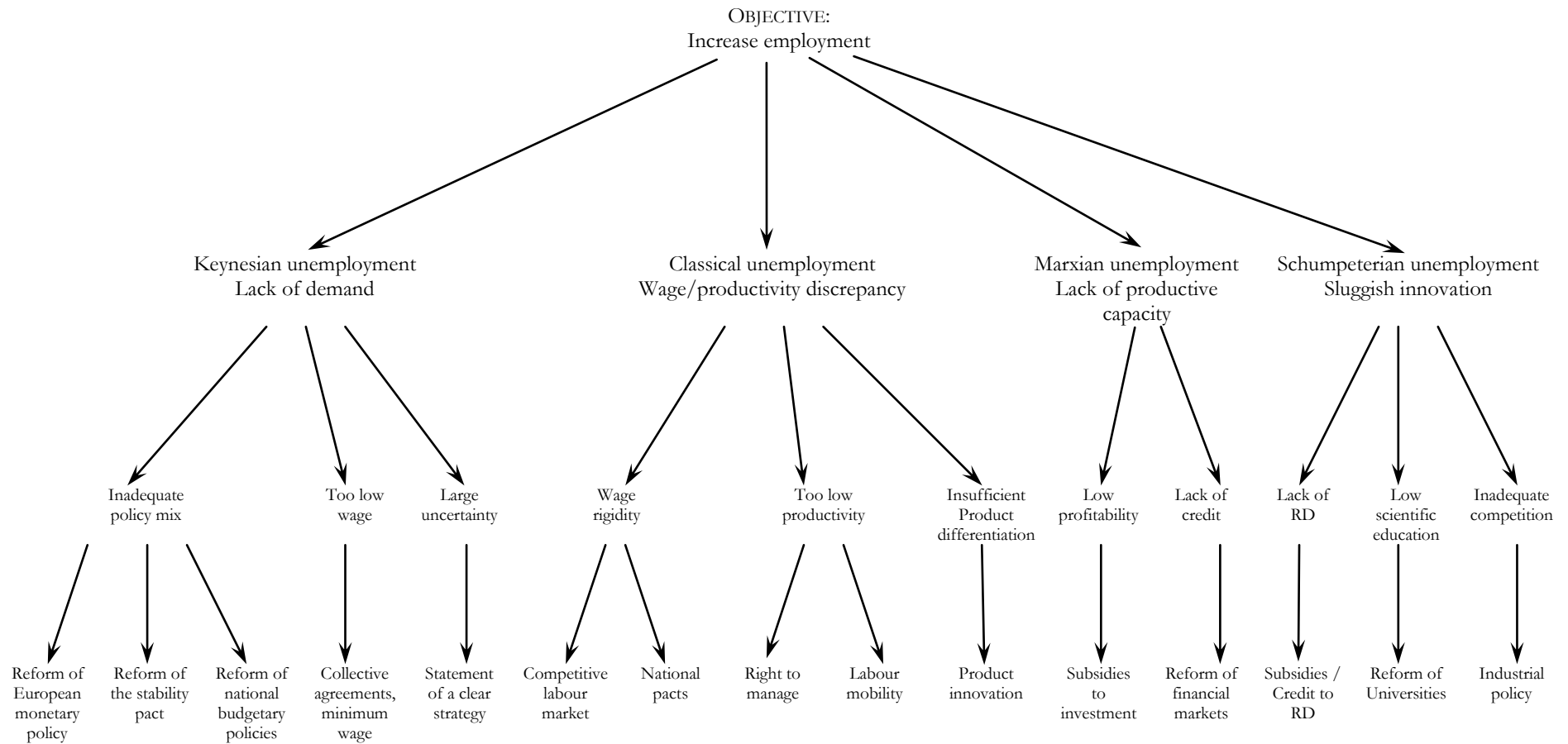


## 5. GROWTH/EMPLOYMENT DIAGNOSTICS: THE RECOGNITION OF NATIONAL SPECIFICITIES

The search for mechanisms has another merit: instead of looking for a one best way, in terms of policy instruments and institutions, the Lisbon process should first favour the detection of a series of *generic mechanisms* present in different countries and then check if *various configurations* could lead to the same mechanisms. The idea of such a methodology has also emerged from the literature on development (Hausmann and Rodrik, 2005).

- During the last decade, the large diffusion of the so-called Washington consensus has not delivered the expected results. As mentioned earlier, a sound macroeconomic policy and the reliance on market prices signals have not been sufficient to promote the acceleration of growth, especially for Latin-American countries. Some other policies are required, for instance innovation or industrial policies. These policies are more complex than the search for a good policy mix, since they call for sophisticated *procedures of coordination* in order to internalize externalities. The parallel with the European discussions is quite striking.
- Still more important, the same measure could deliver quite good results for a country but might be inefficient or worse detrimental when applied to another country, facing different problems. Nowadays, the “one size for all” strategy is clearly perceived to have failed and thus calls for a more analytical approach that could take into account the *diversity of national configurations*. This diversity is not the expression of a deviance from a canonical model but it is directly related to large differences in productive structures, social values and political choices, as well as in preferences about economic policy styles.
- Consequently, the conventional international comparisons have to be completed by in depth studies of *national trajectories*. For developing countries, a critical issue deals with the factors that limit growth. It turns out that a careful use of economic tools can help in detecting what could be the rate of return of various measures. The ranking of the corresponding reforms along the criteria of their impact on long term growth significantly differs, even across countries that *a priori* look quite similar.

Figure 2 – Employment diagnostics applied to the Lisbon strategy



Source: Free adaptation of Ricardo Hausmann, Dan Rodrick (2005)



This methodology could fruitfully be adopted in order to assess the national reform plans, thus replying to a frequent criticism: what are the policy instruments available in order to check the relevance of member-States proposals? This could have important consequences: instead of enumerating the guidelines that have been fulfilled by a member State, the national reform plans should explicit what are the *constraints to growth and employment* creation that are currently binding and what policies have been adopted in order to remove them. Consequently, a kind of *systemic / contextual benchmarking* should replace the typical procedure of naïve benchmarking.

As an example, figure 2 describes how disequilibrium theory could be used in order to organize The Lisbon process in the direction of a better account of national differences. Some examples are useful. According to the employment diagnostic the same action, wage flexibility, might help employment in case of classical unemployment but be detrimental if unemployment is Keynesian. Similarly, innovation is *a priori* good but it is not necessarily the more relevant and efficient measure if the slow growth is explained by the lack of productive capacity, especially if the country is far away from the technological frontiers. Imitation and adaptation might be more relevant than the risky process of radical innovation. In a majority of cases, increasing the inputs that are not limiting production and growth will miss the point aimed by the benchmarking process.

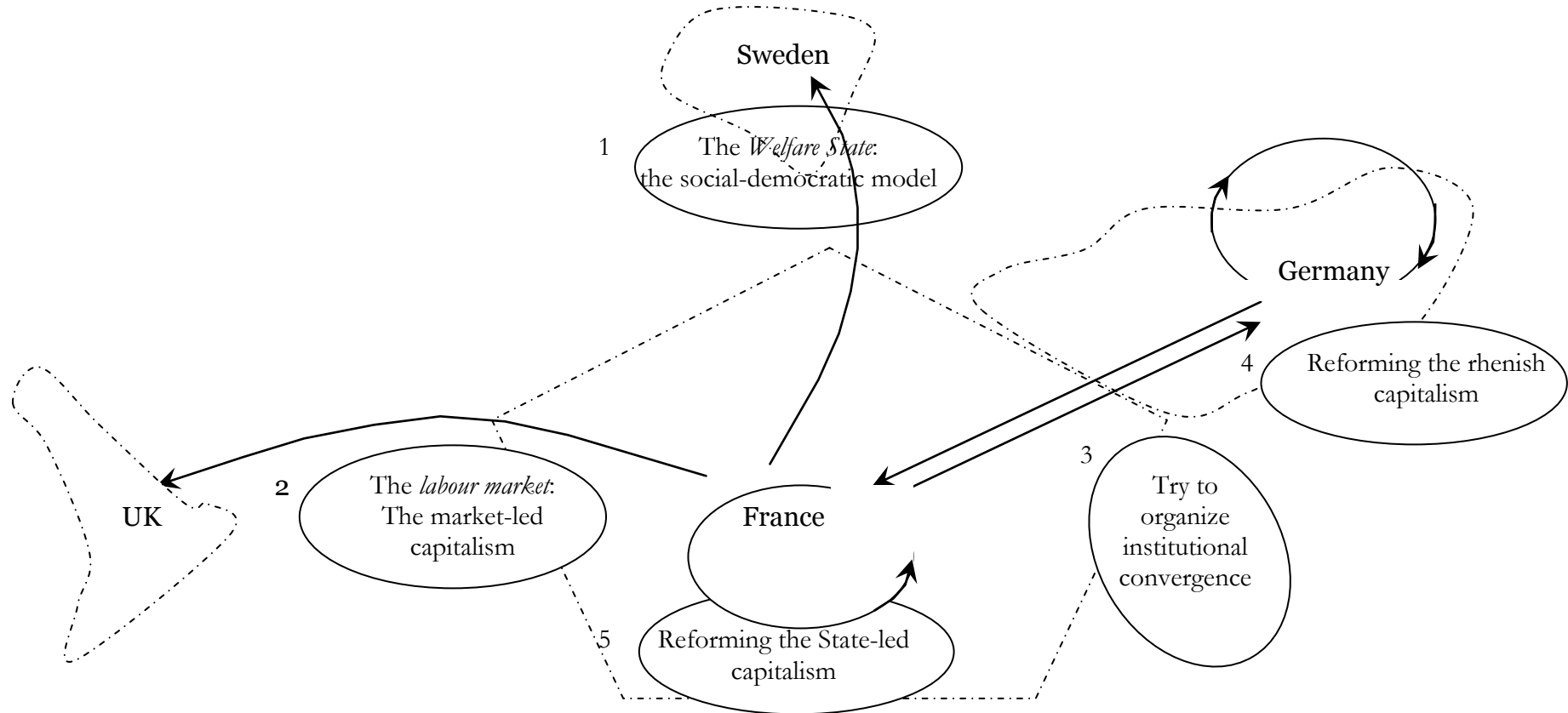
## 6. SOLVING OWN DOMESTIC PROBLEMS BY CONTEXTUAL BENCHMARKING

Implicitly, the previous section was implying that European national economies do differ significantly in terms of growth and employment opportunities. Actually, comparative research on the institutions and economic outcomes of various capitalisms confirm the existence of such diversity. UK is a variant of a market led capitalism, Germany and France do belong to another category where state interventions at the national or regional level play a determinant role in the coordination of individual strategies. Countries, such as Sweden, Denmark, Finland still define a third form of capitalism, a social democratic brand, where active and representative social partners are able to negotiate new compromises in response to emerging problems and changes in the international environment. Spain, Italy and Greece may well define a fourth brand of capitalism, analysed as a variant of the continental model (Amable, 2003).

Frequently, the market led form of capitalism is taken as the reference in terms of economic efficiency, especially when systematic benchmarking is considered. Actually, this overall superiority of market led capitalism is not confirmed by more careful analyses of the different indexes that capture efficiency. First, social democratic countries display rather satisfactory outcomes in terms of employment, innovation and growth. Furthermore, their dynamic efficiency has not been obtained via a deepening of social inequality, pressure the political principles that govern these countries. Second, each country has a specific set of values and possibly trade off between efficiency and social justice. Under this respect, the Lisbon strategy is not clear enough about the implicit model that should govern Europe. On one side,, many guidelines point out the direction of a typical market led flexibility, whereas on the other side, the defence of the strategy is expressed by reference to a rejuvenation of the “social European model”.

It is rather clear that in most continental European countries, public opinion polls tell that the preferences of citizens are closer to the social democratic model than to the market led brand of capitalism. But the difficulty is precisely that the circumstances that generated this configuration in Scandinavian countries are not present in other medium size countries, such as France, Italy

Figure 3 – France, Germany, and Italy: uncertain and divided strategies



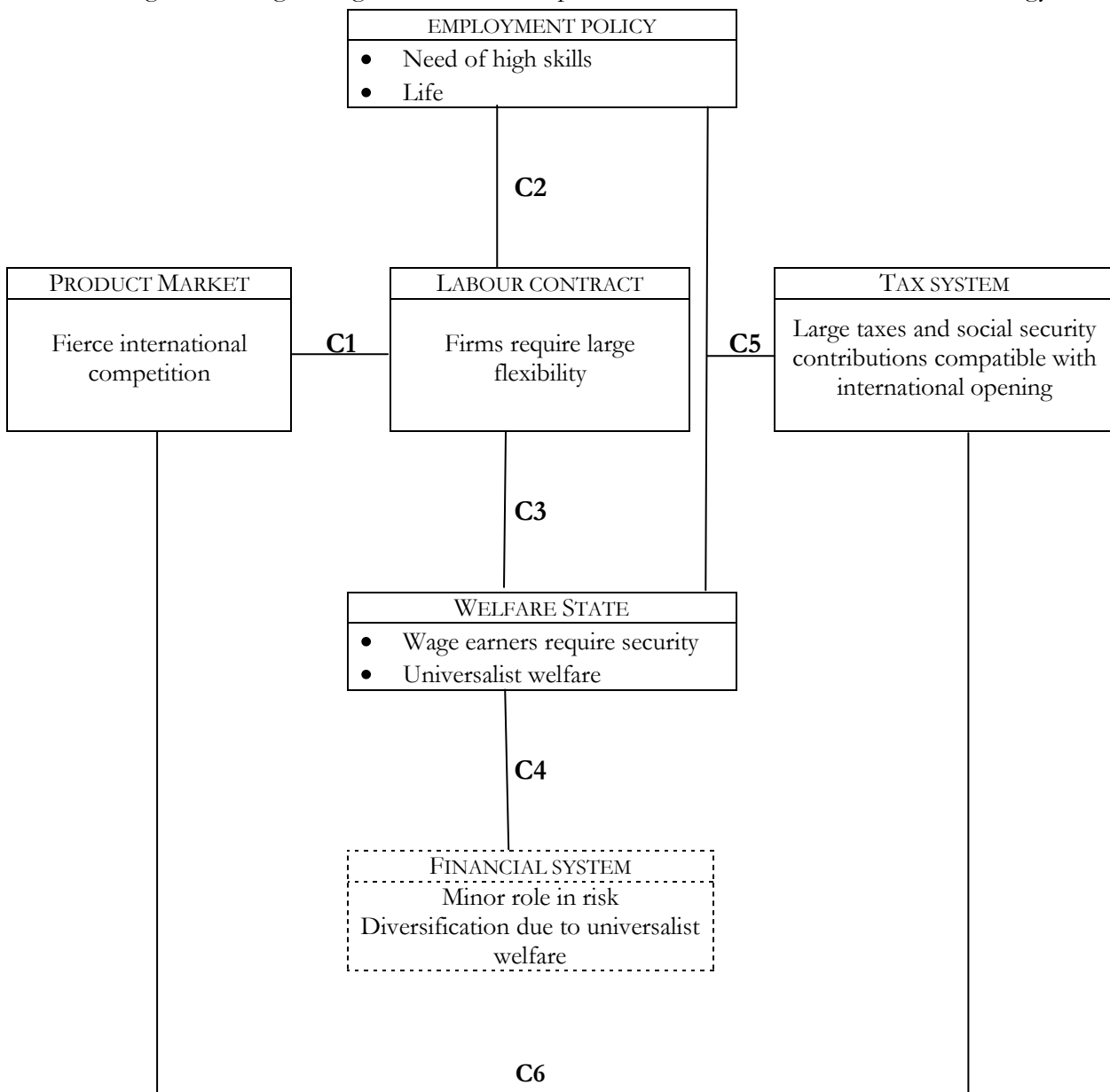
and Germany. This is why *contextual benchmarking* is to be preferred both to *piecemeal and systemic benchmarking*. In each country, policy makers should try to understand what are the real factors hindering growth and try to design accordingly institutional, social and economic reforms in order to overcome them. In other words, their task should be to solve *own national problems* and not desperately try to import quite distant models (figure 3). But this brings the danger of an exclusively national strategy with no concerns for European issues.

## 7. WHAT ABOUT LISBON STRATEGY? THE NEED OF A STRATEGIC VISION

The task of Lisbon strategy could then be designed according to the following pattern.

- At the European level, a common strategic vision is proposed to member States. Actually, Europe does exhibit some common features when compared to North America or Asia. The initial diagnosis made in 2000 is quite correct. Basically the common objective is to promote a series of innovations that could benefit to growth and employment while preserving the degree of security of workers that is typical of most European countries.
- At the national level, this common objective triggers precise analyses about the factors that hinder growth and employment. The purpose is not to fulfil all the guidelines but to proportionate the intensity of reforms to the severity of constraints what are specific to a given member state. The outcome should be a series of coordinated measures at the national level able to create a series of positive spill-over between innovation, welfare and labour market.
- The purpose of the assessment of the national reform plans by Brusells would be to explicit and compare the various mechanisms elaborated by the member states, in order to check that the policies converge, not necessarily in terms of institutional setting but in terms of processes and mechanisms. The basic idea is simple: the positive spill-over have to be organized in order to mobilize the complementarity between a series of institutional reforms. Figure 4 gives the example of social democratic countries, and explicits the various complementarities that explain the dynamism of these countries. Each member-State should be challenged to find out a form of functional equivalent of the related mechanisms, possibly via quite different institutions.
- Once the ordering and synchronization of reforms at the domestic level is organized, it might appear that some cross border externalities call for new coordinating mechanisms at the European level. They could be addressed at, either by an evolution of the OMC or by the design of new European procedures. This is of course a long term objective since it would mean converting soft law into hard law.

Figure 4 – Organizing institutional complementarities; the social-democratic strategy



Source : Elaborated from Bruno Amable (2003), *The Diversity of Modern Capitalisms*, p. 150, 139-140.

## 8. SOME CONCLUSIONS

The Lisbon agenda has launched a new process in European integration. For many analysts the outcomes have not been at the level of expectations, but this is an incentive to prolong this experiment. Some recent methodological developments related to the complementarity hypothesis or growth diagnosis could help in this redesign. But what about the political process that would promote such an evolution?

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