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# bruegel policy brief

## LAST EXIT TO LISBON

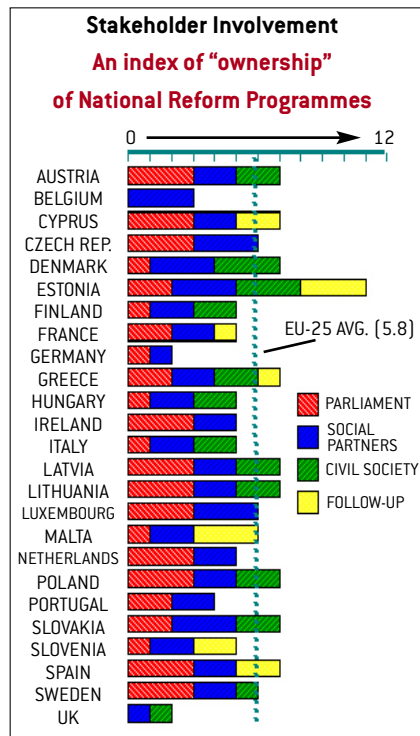
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**SUMMARY** The Lisbon agenda was reborn a year ago with its economic goals prioritised and a new system of governance. Of the three key changes advocated in the Kok report, only National Reform Programmes (NRPs) drawn up by the member states made it off the drawing board. The proposals to provide appropriate EU funding to support the Lisbon goals, and “name and shame” poor performing member states were rejected. **The driving force of Lisbon 2 is thus national “ownership” of the reforms. Taking evidence of stakeholder involvement we have developed a 12-point scale in an attempt to measure how far the NRPs have been taken to heart in individual countries. In practice, the outcome is mixed at best.** There is no explicit methodology behind the evaluation of the NRPs by the Commission. Also, even though the rationale for coordination of reform is strongest for countries in a currency union, Lisbon 2 lacks an explicit euro area dimension.



Source: own index based on NRPs and the EC’s assessment of them.

### POLICY CHALLENGE

There is still value in the Lisbon agenda, but with just one of the three “legs” of governance remaining, that leg must be made stronger and be complemented. If Lisbon 2 is to be salvaged, policymakers need to strengthen the rationale for EU involvement in a range of matters that are the direct responsibility of the member states. The EU guidelines on which the NRPs are supposed to be based are far too complex and must be simplified. The publication of comparative performance indicators should be resumed. The methodology for evaluation of NRPs and the underpinnings of country-specific recommendations need to be spelled out more explicitly in order to encourage national debate on key areas of underperformance in individual countries. We feel the lack of an explicit euro area aspect is also a major weakness and should be addressed by the Eurogroup as a matter of urgency.



In 2005, the Lisbon process in place since 2000 (Lisbon 1), was replaced by a reformed one (Lisbon 2). Lisbon 2 is both similar to and different from Lisbon 1. It is similar because the major aims have remained unchanged and the rationale of an open coordination of national reform policies has not been questioned. But it is different because some of the initial objectives have been downplayed and the underlying governance model, where the European Commission plays the role of a schoolmaster, has been abandoned in favour of one in which it plays the role of a coach.

One year on it is certainly early to provide an assessment of whether the EU is now on a better path. Though adopted, the National Reform Programmes that are the essential innovation of Lisbon 2, have barely been implemented. Measurable first results can in the best of cases be expected only in 2008, at the end of the three-year cycle. Any evaluation must therefore be provisional. Yet as the Lisbon strategy can hardly afford to disappoint again, it is important to analyse, early on, whether it is on track to deliver the expected change.

To achieve this aim, we start with a discussion of the rationale for a Lisbon-type coordinated strategy and of the challenges it needs to address (Section 1). We then turn in Section 2 to an assessment of the process as implemented in 2005-2006. We essentially base our evaluation on our reading of the National Reform Programmes and their evaluation by the Commission. On the basis of this analysis, we draw conclusions and formulate recommendations in Section 3.

## 1. RATIONALE & CHALLENGES

The Lisbon agenda remains political in essence. The growth, innovation, employment and social cohesion goals set out by the European Council were chosen to inspire a European economic and social revival. However, joint endeavours of this sort can only translate into action if

supported by a precise definition of the common interest and a clear identification of the challenges. In this section, we wish to discuss three related issues:

- When is there justification for a coordination of national reform policies?
- Is there specific value in practising evaluation and coordination at the EU level?
- What are the challenges that an EU reform coordination process needs to address?

### Motives for acting jointly

There are two main reasons for coordinating structural reform policies between countries: interdependence and the ability to learn from each other.

First, interdependence may render independent decision-making undesirable. This can be either because of spillover effects of national decisions, or because EU policies and national policies complement each other.

Spillovers are clearly at work for research and development, whose benefits do not remain confined to the spending country. They are questionable for policies that aim at increasing the employment rate or at boosting productivity. The benefits of such policies basically go to the country undertaking the reform.

Complementarities are at work between product market reforms (the responsibility for which frequently belongs to the EU) and labour market reforms (which belong to the remit of the member states). For example, a combination of product market regulations that aim at favouring entry, and of labour market regulations that aim at preserving existing jobs (or vice-versa), is a recipe for ineffectiveness.

The second main reason for coordination is that governments and civil societies learn from the experiences of others. Such policy learning can be enhanced by initiatives that facilitate cross-country comparison and benchmarking. A telling example in this respect is the OECD evaluation of the performance of schoolchildren (PISA<sup>1</sup>). By providing an objective and transparent assessment of the achievements of national education systems, the PISA programme helped detect shortcomings and fostered reform. Similarly, by providing an independent assessment, the European Commission can help member states sort out good from bad policies.

It is worth distinguishing these two types of arguments because they

*“The main reasons for coordinating structural reform policies are interdependence and the ability to learn from each other.”*

call for different forms of coordination. In the presence of spillover, there is a case for joint action, while policy learning merely requires mutual information and transparent assessments. The weights of these arguments also vary from one field to another. As regards the two main objectives of

the new Lisbon agenda, the spillover argument is strong for R&D and the learning argument is strong for labour market policies.

### What is the specific EU dimension?

The practice of multilateral evaluation and coordination is by no means limited to the EU. The IMF prepares assessments of structural reforms. The OECD does cross-country comparisons and assessments as well as country-by-country evaluations. It is therefore important to determine what justifies undertaking at the European level, what could take place or is taking place in a different setting. We see two main reasons why the EU is special, and in addition

<sup>1</sup>Programme for International Student Assessment.



a specific euro area dimension.

The European dimension first stems from purely economic factors. Since the EU is more closely integrated than the world economy at large, interdependence within it is generally stronger. For example, knowledge and R&D spillovers or complementarities between product and labour market policies are more significant and also easier to deal with at the EU than at the OECD or the global level.

The second justification is a political one. As a political entity, the EU has set itself goals whose achievement depends on concrete decisions by all member countries. A telling example is the target of reaching a level of R&D spending of 3% of GDP, which can only be achieved through the cooperation of all member states. More generally, the EU can be regarded as a club of like-minded countries with similar institutions or similar preferences in relation to their social models. Similar institutions and objectives make learning within the EU more fruitful and in countries where there is pro-European sentiment, taking part in an EU-driven programme can help convince a doubtful public that difficult reforms are needed.

In addition, there is also a specific euro area dimension. In a monetary union, a country that reforms its labour market or its product market exerts an effect on its EMU partners, because the European Central Bank (ECB) will lower its interest rate in response to these inflation-reducing measures. Looked at individually, the reforming country does not benefit as much as it would in a flexible exchange rate regime. Since this may act as a reform trap, there is a motive for coordinating reforms among euro area countries.

Furthermore, specific reform priorities can arise from the objective of improving the functioning of the euro area: for example, to strengthen the channels of transmission of monetary policy or to make national eco-

nomies more quickly responsive to a loss in competitiveness, especially in countries which have been experiencing higher-than-average inflation. Here again, there is a common interest in addressing such deficiencies, as persistent divergence within the euro area has the potential of greatly complicating the task of the ECB.

**Difficulties in designing a strategy**

Identifying motives for coordination is only a prerequisite for designing a common strategy. In practice, the diversity of the member states of the EU is a major difficulty that needs to be addressed.

The difference in industrial structures, or *structural heterogeneity* is the trickiest challenge. The Lisbon strategy of 2000 was conceived for a relatively similar group of high-income economies. After enlargement it now applies to a much more diverse group, and diversity is set to increase further with the future enlargements. Whether there is a common set of objectives and policies that are appropriate for all EU member states is an issue that needs to be addressed explicitly.

Again, take R&D. The EU has an overall target for R&D spending, but how does it translate into objectives for the various member states? Should Finland, where R&D represents 3.5% of GDP, spend more, or less? Should Malta, where it represents 0.3%, spend more, or less? Recent research on the determinants of growth suggests that investment in research and higher education is essential for countries close to the technology frontier, but not for countries at an earlier stage of development. Furthermore, R&D spillovers imply spending should be concentrated where it is most efficient. In the US, R&D intensity exceeds 5% in Maryland and Massachusetts but is

as low as 0.5% in Louisiana<sup>2</sup>. The dispersion is thus as large as in the EU, although income disparity is much less. This example suggests that from an overall efficiency standpoint, R&D should be concentrated where the aggregate return on each euro spent is the highest, which may involve spending less in some countries and more in other.

Heterogeneity does not stop there, however. Besides structural heterogeneity, *policy heterogeneity* must also be addressed. It makes EU policy priorities dependent on domestic institutions and accompanying policies, even if the end-goal is the same.

In addition to the euro dimension already mentioned, a case in point here is the labour market. Labour market institutions still vary a great deal from one country to another, with regards to, for example, the

**TABLE 1  
RATIONALE, CHALLENGES & DIMENSIONS  
OF EU COORDINATION**

	R&D	EMPLOYMENT
<b>Main motive to coordinate</b>	Interdependence	Learning
<b>Main difficulty</b>	Structural heterogeneity	Policy heterogeneity
<b>Euro area dimension</b>	Weak	Strong

structure of wage negotiations or the features of unemployment insurance. In such a setting, gradual labour market reforms cannot respond to a 'one size fits all' prescription, since some well-intentioned reforms that deliver results in a given environment can be inefficient or even counterproductive in another one. To reach the same goal, priorities must be selected on a case-by-case basis.

**Conclusions**

Table 1 sums up our conclusions with regards to the main Lisbon objectives. Neither the motives for EU coor-

<sup>2</sup> Source : National Science Foundation, National Patterns of R&D Resources, 2003, [www.nsf.gov/statistics](http://www.nsf.gov/statistics)



dination nor the main difficulties that need to be addressed by the common strategy are identical for R&D spending and employment policies. In addition, the first domain does not involve a strong euro area dimension, while the second does.

In what follows, we will examine whether the new Lisbon strategy helps to identify and correct the weaknesses of independent policy-making; discuss whether it focuses on fields and objectives where there is a strong rationale for coordination and a specific European added value; analyse how the processes in place address the difficulties of structural and policy heterogeneity; and assess where there is a case for specific euro area action.

## 2. ANALYSING THE PROCESS

In March 2004, the European Council invited the Commission to establish a High Level Group headed by Wim Kok to carry out an independent review of the Lisbon strategy<sup>3</sup>.

The Kok report found that the European Union and its member states had clearly failed to implement the Lisbon strategy. This disappointing delivery was ascribed to an overloaded agenda and to shortcomings in governance. In the words of the report, “Lisbon is about everything and thus about nothing. Everybody is responsible and thus no one.”

The recommendation in the Kok report to refocus the Lisbon strategy on growth and employment was accepted by the Commission, which also followed up on two of three key proposals to improve governance. The Commission proposed that member states present national programmes for growth and jobs, after broad discussion at national level. The Commission also proposed the better use of EU common policies, including the EU budget, in order to help implement the Lisbon strategy.

However, the Commission strongly rejected the Kok report proposal to

“name and shame” countries that failed to perform and nearly abandoned benchmarking altogether. The reason for this was probably that the large member states, above all France and Germany, having just succeeded in trimming the wings of the Stability and Growth Pact (SGP), were determined that Lisbon would not be yet another thorn in their side. The Commission thus decided to stop lecturing the member states and to embark on a partnership with them instead.

A few months later, the European Council dealt a further blow to the Union involvement in the Lisbon strategy, when it rejected the EU budget proposal, which envisaged a substantial increase in EU funding for research. The prospect of supporting the Lisbon strategy through budgetary incentives, which had been advocated by the Sapir report, was thus abandoned.

At this stage, therefore, the question is whether the new Lisbon strategy can fly with a governance system that relies on only one of the three elements that were suggested by the Kok report. For the new governance regime, which rests almost exclusively on national action programmes - with little or no benchmarking and little or no EU funding - to deliver where the old set-up had failed, very significant advance in national ownership of the reform programmes would be necessary.

### Ownership of the National Reform Programmes

Political ownership by member states was to be achieved by more intensive discussion within each country on national reform priorities and actions for meeting the Lisbon targets, culminating in the adoption of national reform plans.

Can such advances in ownership be observed in practice? To answer this question, we rely on the following three criteria:

- Criterion 1: Attention devoted to the development of National Reform Programmes (NRPs) by national governments.

- Criterion 2: Involvement of respective national parliaments and other stakeholders in the design and adoption of the reform programmes.

- Criterion 3: Media coverage surrounding the design and adoption of the NRPs.

A comprehensive evaluation of these three criteria is beyond the scope of this study. Instead, we offer an indication with regards to the first two

and provide informed speculation about the third one.

**Criterion 1:** The Commission had called upon member states to appoint a “Mr or Ms Lisbon at government level”<sup>4</sup>. It turns out that only 11 out of 25 countries<sup>5</sup> have followed the recommendation, while others continue to rely on senior civil servants. In a majority of countries<sup>6</sup>, the process appears to have largely retained the bureaucratic character that marred Lisbon 1.

**Criterion 2:** The involvement of national parliaments and other stakeholders is summarised in Chart 1. It is striking that 9 out of 25 national governments did not even engage their respective parliaments at the committee level. Moreover, 18 out of 25 gave no indication at all on the potential follow-up to their reform programmes.

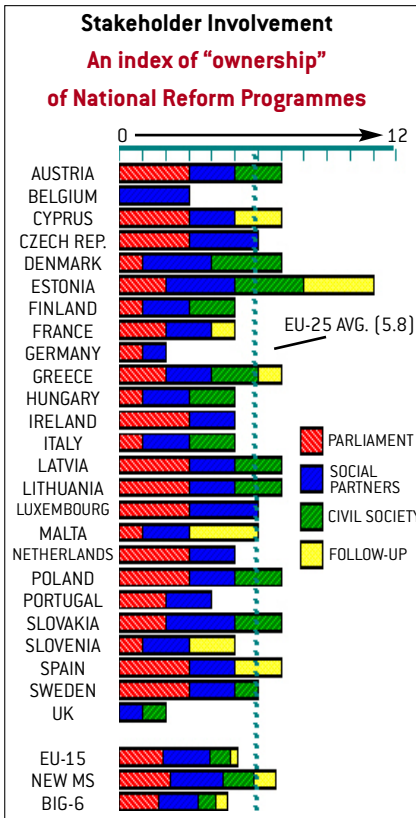
It is instructive to also examine the overall ratings, which were obtained by simply adding the individual ratings for four indicators (Parliament, Social Partners, Civil Society and Follow-up), with higher ratings pointing to better ownership performance (the maximum score is

<sup>3</sup>See Kok (2004).

<sup>4</sup>European Commission (2005a).

<sup>5</sup>Source: Radlo and Bates (2006), Table 3, plus own research for the member states not covered there.

<sup>6</sup>Three countries did not appoint a Mr./Ms Lisbon at all.



Source: own index based on NRPs and the EC's assessment of them.

12). The overall rating for new member states is substantially above the rating for old ones (6.8 versus 5.1). It is also noteworthy that the average rating is substantially smaller for the 6 large countries (France, Germany, Italy, Spain, Poland and the UK) than for the 19 smaller ones (4.7 versus 6.1).

**Criterion 3:** An examination of media coverage suggests that while the Lisbon strategy is to a certain degree part of national policy debates, the design and adoption of the National Reform Programmes have received limited attention. Even the media savvy national elites, never mind the wider public, seem to be mostly unaware of the very existence of the NRPs, let alone the process of their preparation.

In this context, it is worth noting that only Criterion 2 features in the European Commission's assess-

ment of the ownership of the national reform plans. The other two potential criteria were not explored.

Overall, the level of national ownership is clearly disappointing, especially since it was intended to be the principal innovation of Lisbon 2.

**The NRPs and their evaluation: methodology**

Lack of political ownership is certainly a weakness. But it could be argued that such an ownership can by nature only develop over time. After all, the Maastricht criteria or the Stability Pact started as purely technocratic devices, and only gradually gained in visibility and effectiveness. There is therefore a need to assess the intrinsic quality of the NRPs and of their evaluation.

The discussion in Section 1 has shown that preparing and evaluating mutually consistent National Reform

Programmes raises significant challenges. A good starting point is to assess whether the EU has been able to develop a methodology to deal with those challenges. The Integrated Guidelines for Growth and Jobs (2005-08) adopted by the Council in 2005 are in principle the main instrument for achieving coherence. The idea was to integrate two sets of guidelines that were not sufficiently coherent with one another in the past, the Broad Economic Policy Guidelines (BEPGs) and the Employment Guidelines.

Unfortunately, the Integrated Guidelines are simply a juxtaposition of the BEPGs and the Employment Guidelines. Even worse, they comprise no less than 24 guidelines: six macroeconomic, ten microeconomic and eight employment guidelines, each of which includes several prescriptions that can be regarded as sub-guidelines.

The main problem with the Integrated Guidelines is not their complexity, however. It is that they offer no direction as to which of the 24 guidelines should be pursued as priorities by individual member states. The same prescriptions are offered to all countries rich and poor, technological leaders and laggards, inclusive societies and those that are unemployment-ridden. This creates the potential problem that there might be no priorities at all, and makes Commission evaluation of the NRPs very difficult.

The contrast with the OECD's *Going for Growth* exercise, also launched in 2005, is striking. Confronted with a similar challenge the OECD work starts, as in any benchmarking exercise, with the identification of each country's performance weaknesses vis-à-vis clearly specified objectives such as employment and productivity. Then, a fixed number of policy priorities are identified, again for each country. The selected priorities are those with the highest potential for delivering an improvement on the performance weaknesses.

The OECD methodology is certainly not without its own shortcomings. But at least it provides a reasonably explicit framework for undertaking consistent country-by-country assessments. Unfortunately, the same cannot be said for Lisbon 2.

As to the euro area dimension of the reform process, it is barely addressed within the framework of the Lisbon strategy. Euro area surveillance involves structural aspects but no explicit link is made with the NRPs, which do not include a euro area dimension.

**The NRPs and their evaluation: results**

The National Reform Programmes are very diverse in scope, ambition and degree of precision. Against this background, the Commission evaluation of those programmes often includes sensible remarks and suggestions that point to the weaknesses of



**TABLE 2**  
**CONSISTENCY OF COMMISSION**  
**AND OECD TARGETS**

	PARTICIPATION RATE OF OLDER WORKERS	R&D SPENDING
AUSTRIA	✓	✗
BELGIUM	✓	✓
CYPRUS	N/A	N/A
CZECH REP.	✓	✗
DENMARK	✗	✗
ESTONIA	N/A	N/A
FINLAND	✓	✗
FRANCE	✓	✗
GERMANY	✗	✗
GREECE	✗	✓
HUNGARY	✓	✗
IRELAND	✓	✓
ITALY	✗	✗
LATVIA	N/A	N/A
LITHUANIA	N/A	N/A
LUXEMBOURG	✓	✗
MALTA	N/A	N/A
NETHERLANDS	✓	✓
POLAND	✓	✓
PORTUGAL	✓	✓
SLOVAKIA	✓	✗
SLOVENIA	N/A	N/A
SPAIN	✓	✗
SWEDEN	✓	✗
UK	✓	✓

Source: own calculations on the basis of OECD (2005, 2006) and EC (2006).

national strategies. Thereby, the European Commission adds value in this collective exercise of reflection and assessment.

In general, governments seem to have largely ignored the Integrated Guidelines when drafting their NRPs. Even more disturbingly, in its assessments of the NRPs the Commission also refers to them very loosely.

In some cases, however, the guidelines are unambiguous and the policy emphasis is unmistakable. It is useful to analyse two such cases: the participation rate of older workers (Lisbon target: 50% in 2010) and R&D spending (Lisbon target: 3% of GDP in 2010). Most EU members are underperforming on both accounts.

With regards to the participation of older workers, of the 19 member states currently below the 50% target, only seven set a target in their NRP, sometimes actually below 50% or for a date later than 2010.

The results for R&D are also patchy. Here, of the 23 member states that currently invest less than 3% of GDP in R&D, 18 set a target in the NRP<sup>7</sup>, although sometimes it is less than 3%, or for a date different than 2010.

In evaluating the NRPs, the Commission does not appear to follow the letter of the guidelines very closely and instead focuses on national prioritisation. We found it instructive to compare the reform priorities as implied by the Commission to those identified by the OECD. As a proxy for the Commission's take on national priorities, we use the "major strengths and weaknesses" spelled out in the conclusion of the Commission's assessment of the NRPs<sup>8</sup>.

Regarding the participation rate of older workers there seems to be a close correspondence between the Commission's and the OECD's prioritisation (Table 2). For the 19 EU countries that are OECD members, the Commission and OECD agree whether older worker participation is a priority or not in 15 cases (priority in 8 cases, no priority in 7). Even in

the remaining four cases, there is only a weak<sup>9</sup> discrepancy between the two institutions. This suggests that the evaluation was more based on the prevailing consensus among international organisations than on a direct implementation of the guidelines.

By contrast, we find little systematic correspondence of Commission and OECD priorities regarding R&D spending. For the 19 countries covered by both organisations, there is agreement on 7 countries and disagreement for 12. In 10 out of 12 cases, divergence is due to the Commission viewing R&D as a priority while the OECD does not, with the reverse being observed only for the remaining two cases. Hence, the discrepancy is mainly driven by the fact that the EU has an R&D spending target while the OECD treats it as an instrument.

Summing up, in spite of some noticeable progress the new Lisbon process is far from what would be needed to effectively support the goals of the Lisbon agenda.

### 3. CONCLUSION & RECOMMENDATIONS

There were two problems with Lisbon 1: ineffective coordination and lack of political ownership. Lisbon 2 could have attempted to remedy the two dimensions of the problem, seeking to improve both the effectiveness of coordination and the degree of political ownership as suggested in the Kok report. Instead, it chose to focus on the ownership problem. If implementation of the Lisbon strategy actually requires both problems to be addressed, then the new approach was always unlikely to succeed where Lisbon 1 failed. In the event, Lisbon 2 does not even seem to have succeeded in the goal of increasing political ownership by national authorities.

These serious shortcomings might call into question the whole Lisbon process. However, we strongly believe that Lisbon remains crucial

<sup>7</sup>Two member states set their target after the completion of the NRP.

<sup>8</sup>While, technically, these are not priorities as such (but priorities relative to the existing NRPs), in practice this is the most immediate indication of the Commission's views regarding national priorities that is available to the public.

<sup>9</sup>All of these weak discrepancies are cases where neither Commission nor OECD lists older worker participation but either one (but not the other) lists a related reform issue such as disability benefits as a priority.



for the future of Europe. The Lisbon goals continue to reflect the major challenges that European economies are confronted with in this age of accelerated globalisation and technological change. What is more, these goals and the recognition of interdependence that they embody still command wide consensus.

Unfortunately, we do not consider that Lisbon 2 is on track to succeed. On the contrary, our assessment is that it will fail unless its current shortcomings are addressed as a matter of urgency. It is the responsibility of the European Council of March 2006 to acknowledge the current weaknesses of the strategy and to correct them.

#### RECOMMENDATIONS

The weaknesses of Lisbon we have identified are the unevenness of the rationale, the weakness of the instruments and the inadequacy of the process. In order to salvage Lisbon 2, substantial corrective action in each area will be required. In addition, we see a case for addressing the euro area dimension of the reform process.

##### 1. Strengthen the rationale.

The very nature of the Lisbon process implies EU involvement in policy domains that primarily belong to the responsibility of member states. At present, this rationale is rendered confused by the number and complexity of guidelines and objectives. They need to be reduced to ensure greater consistency of the EU dimension of Lisbon 2. Also, the EU rationale of any item on the Lisbon 2 agenda should be spelled out explicitly. Otherwise, Lisbon 2 will in effect be continued to be treated like a Christmas tree: everybody would continue trying to add everything they feel strongly about, recreating the lack of focus that marred Lisbon 1.

##### 2. Reinforce the instruments.

The Kok report had proposed using three instruments for implementing Lisbon: National Reform Programmes, benchmarking with peer pressure and the EU budget. We deplore the fact

that Lisbon 2 has retained only the first instrument. Benchmarking and appropriate EU funding are also crucial for the success of Lisbon.

Along with the NRPs, peer pressure and benchmarking should be integral parts of the political process that underpins Lisbon 2. Transparency benefits the democratic process as it empowers national electorates to review the performance of their own governments and it helps focus the public debate on key areas of under-performance. The use of league tables facilitates this process.

Also, the EU budget would need to be substantially amended in order to better reflect the Lisbon priorities. The budget review in 2008 will, in that sense, be a critical litmus test.

The example of Research and Development is a good illustration of how benchmarking and the EU budget need to complement National Reform Programmes. The fragmentation of public R&D funding along national lines in Europe is increasingly inefficient. Provided EU research programmes are adequately managed, the European economy as a whole would benefit from an increased R&D spending effort at the European level.

##### 3. Improve the process.

The new Lisbon strategy has put the NRPs at the centre of the process. We have assessed here their two central facets: ownership by member states; and methodology, design

and implementation by the Commission. We strongly believe that both facets need to be improved.

*“The member states should adopt minimum standards regarding the involvement of parliaments and transparency.”*

While national ownership of the reform agenda was meant to be a key feature of Lisbon 2, the outcome in this respect has been mixed at best. Based on our findings, we would recommend that member states strive to adopt minimum standards regarding the involvement of parliaments and the transparency of follow-up arrangements. Also, the Commission should make use of media impact analysis and opinion polls to measure successes and failures in bringing the whole process closer to the ultimate sovereign, namely the peoples of Europe.

*“The process of designing and evaluating the NRPs would benefit greatly from a more explicit methodology.”*

The process of designing and evaluating the NRPs would benefit greatly from a more explicit methodology for determining national priorities and evaluating reform plans. An improved methodology will need to make the evaluation of national programmes and policies consistent with the underlying rationale for EU engagement in different areas. In practice, this means a more systematic and consistent comparative assessment of the quality of national policies in areas such as employment, and concrete recommendations to member states for action in areas such as R&D where the rationale is interdependence.

##### 4. Address the euro dimension.

Reform interdependence within the euro area is significantly stronger than in the EU as a whole, but this does not translate into effective policies. What is required is first recognition of this interdependence through



a greater common ownership of reform programmes in the euro area. This should call for extending the practice of holding meetings of ministers of the euro area beyond the Eurogroup, including, if well prepared, at the European Council level.

Second, the National Reform Programmes and their evaluation by the Commission should derive policy priorities from the need to improve the functioning of the euro area and to redress harmful divergence within it. The euro area evaluation should go beyond a mere aggregation and be used as a basis for developing a euro area reform programme discussed within the Eurogroup.

The definition of a reform agenda for the countries in the euro area is urgently needed. The economy seems set to rebound in the short run, but for the recovery to be lasting the reforms that will pay off in two or three years and enhance the potential for non-inflationary growth have to be undertaken without delay. A joint commitment to such reforms by the governments of the euro area could and

should be met with a more accommodative response from the ECB and would thereby enhance the potential for redressing the disappointing performance of the last five years.

*“This continued discrepancy between ends and means puts the whole strategy at risk.”*

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There is still value in the Lisbon agenda. But despite last year’s reforms, it is still not effectively supported by the Lisbon process. This continued discrepancy between ends and means puts the whole strategy at risk. To prevent a failure of the joint endeavour, the 2006 Spring European Council should urgently request from the European

Commission a proposal to simplify and prioritise the guidelines; the Commission should develop a methodology for the assessment of the National Reform Programmes and it should resume the publication of comparative performance assessment tables; the member states should ensure better national ownership of their reform commitments; and the Eurogroup should start preparing a proper euro area reform programme.

Those are immediate stopgap measures only. In the medium run, we remain convinced that the Lisbon agenda must be more strongly buttressed by Community policies and the EU budget. But difficulty in building a medium-term consensus should be no excuse for short-term inaction.

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<http://www.bruegel.org/index.php?pid=73>

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