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The Lisbon strategy and the open method of co-ordination

12 recommendations for an effective multi-level strategy

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Introduction

Noting the transformations brought about by globalisation and the development opportunities arising from new technologies, the European Council identified at its Lisbon meeting, in March 2000, a series of weaknesses in the European economy: long-term structural unemployment, a poor employment rate, and under-development of the service sector. In an often-quoted sentence, it has therefore assigned the EU "a new strategic goal for the next decade: to become the most competitive and most dynamic knowledge-based economy in the world, capable of sustainable economic growth, with more and better and greater social cohesion." This however as we will see next was a second best policy option as the initial idea was to have a better macroeconomic policy mix, in other words a better interaction between the economic policies of the 12 Member States that share the Euro and of these with the European Central Bank. This strategy failed as some Member States resisted demands to co-ordinate their economic policies and nowadays the EU is still faced with twelve uncoordinated fiscal policies and one monetary policy.

The Lisbon strategy aims at realising the "knowledge society" by encouraging research, developing information technologies and establishing a favourable climate for innovation, by speeding up the removal of obstacles to the freedom of service provision and the liberalisation of the transport and energy markets. At the same time, it stresses the necessity to modernise the European social model, inter alia by increasing employment, reforming social protection systems in order to confront the ageing population, and by struggling against social exclusion. Sustainable development was later added. Even though this ambitious program, which endeavours to reconcile economic competitiveness with social concerns, has not really had the expected mobilising effect on public opinion, the method devised for its implementation has been the focus of much interest.

Last year, the European Council asked a high level group chaired by former Dutch Prime Minister Wim Kok to carry out an evaluation of the progress achieved so far. The group's report, together with the Commission's own recommendations will serve as a basis for the European Council's mid-term review of the Lisbon Strategy. This *Notre Europe Policy* Paper aims at providing a critical evaluation of the Lisbon Strategy and at providing a number of recommendations to enhance its effectiveness. The paper starts by pointing out the main features of the Lisbon process. It proceeds by making an assessment of the main problems that have been impeding an efficient implementation of that process. Issues such as the absence of a sound European policy mix, the lack of co-ordination between relevant players, the use of the OMC, the role of management by objectives and indicators and the legitimacy of the whole exercise are discussed.

Following this discussion, we present twelve recommendations that if applied would in our perspective lead to a simplified, clearer and more efficient implementation of the Lisbon strategy.

Main features of the Lisbon process

The Lisbon strategy was supposed to resort to a wide range of policy instruments. Some were well known: directives were foreseen for the single market policy, whereas the EU budget has a role to play in research. In addition, the conclusions of the European Council outlined what was presented as a new working method, the *open method of co-ordination* (OMC). "[D]esigned to help Member States to progressively develop their own policies, [this method] involves:

- fixing guidelines for the Union combined with specific timetables for achieving the goals which they set in the short, medium and long terms;
- establishing, where appropriate, quantitative and qualitative indicators and benchmarks against the best in the world and tailored to the needs of different Member States and sectors as a means of comparing best practices;
- translating these European guidelines into national and regional policies by setting specific targets and adopting measures, taking into account national and regional differences;
- Periodic monitoring, evaluation and peer review organised as mutual learning processes." (Lisbon European Council, 2000: paragraph 37)

Several key features of the method are worth noting:

- Its flexibility: it does not purport to define unique objectives, suitable for everyone, but to draw up "guidelines" that each member state is to translate into specific action plans, in accordance with its own particular situation. This desire to reflect the domestic context, in which policies are to be implemented, is easily explained by the nature of the policy areas in question and also differentiates, for example, the work at the European level from what can be done in the OECD framework or other international organisations. There are numerous differences between national social protection systems, and it is difficult to see how one could (and why one would want to) fit them into a single mould.
- The decentralised nature of the process: the impetus is no longer supposed to come from the top, but from collective work bringing together "the Union, the Member States, the regional and local levels, as well as the social partners and civil society" (Lisbon European Council: paragraph 37), emphasising the "open" nature of the new method.
- The setting up of procedural routines, which is aimed at encouraging the pooling of knowledge, and includes defining guidelines and indicators, periodic monitoring of national reports, and searching for best practices. National officials, the key players in

this process, must be able to identify the strengths and weaknesses of their action plans, by comparing their results to those of their peers.

- The absence of formal constraints: as the guidelines are formally devoid of any binding character, the peer-assessment process is aimed at fostering learning processes. In practice, early every year, the Commission elaborates a report, which assesses the progresses of all countries towards meeting the targets. The report identifies leaders and laggards. One counts on the "emulation between the Member States" to ensure the new strategy's success,[1] rather than on classical community control mechanisms. Peer pressure is supposed to compensate for the limited powers granted to the Commission in most of the areas concerned.

The Lisbon strategy was largely inspired by the Luxembourg process, designed in 1997 to ensure the establishment of a European Employment Strategy (EES), and which already contained the key concepts of the OMC: guidelines, best practices, and objectives adapted to national specificities (Rodrigues, 2001). The Luxembourg process itself had more ancient roots; it attempted to transpose, in the framework of employment policy, ambitions and techniques that had characterised the leading project of the 1990s, Economic and Monetary Union (EMU).

Even before Lisbon, the spirit of Luxembourg had inspired the development of new instruments to co-ordinate economic policies. The *Cardiff process*, established in 1998, was meant to encourage member states to implement structural reforms aimed at improving the competitiveness of the European economy, by ensuring the liberalisation of the capital, services and goods markets, as well as by making the job market more flexible. The following year, the *Cologne process* was set up in order to promote "macro-economic dialogue" between the social partners, national governments, the Commission and the European Central Bank.

It was decided in Lisbon to extend the flexible methods of co-operation to a series of new areas: the information society, research, company policy, social policy, and education. Subsequently, the struggle against exclusion (Nice, December 2000), social protection (Stockholm, March 2001) and the environment (Gothenburg, June 2001) were added to the list of areas in which the OMC should be used.

1 "Employment, economic reforms and social cohesion. Towards a Europe based on innovation and knowledge", notes from the Portuguese Presidency of the 12th January 2000, doc. 5256/00, point 6.

How much has been achieved so far?

The Lisbon strategy defined a series of targets to be met by Member States by 2010. These targets concern areas such as social policy, education, lifelong learning, R&D, social cohesion, employment, general macroeconomic indicators, the environment among others. Using the very indicators worked out in the framework of the Lisbon strategy, one can but note that it is not delivering the expected results. In its recent report, the task force chaired by Wim Kok argued that "much needs to be done in order to prevent Lisbon from becoming a synonym for missed objectives and failed promises". Indeed, the overall picture is not very bright.

When assessing progress towards meeting the Lisbon objectives, one should look at two different dimensions: Countries' progress since the strategy was launched and progress on a year on year basis. Regarding the first dimension, Denmark, Luxembourg, the Netherlands, Austria, Sweden and the UK are the ones that achieved a better overall performance while Greece, Spain, Italy and Portugal the ones that scored most poorly. However, this partly reflects the fact that the policies pursued in countries such as Denmark and Sweden largely inspired the Lisbon strategy. When assessing progress since 1999, one notes that Belgium, France and Greece score well, whereas Germany, Luxembourg, Austria and Portugal have been disappointing. A clear example is the rate of transposition of the Lisbon directives, an essential aspect of the Lisbon strategy. Again, according to the last report prepared by the European Commission in preparation to the Spring European Council, only 58.3% of the 40 directives that had to be transposed by the end of 2004 were actually transposed to national legislation by Member States, and only 7 out of 40 were correctly implemented by all Member States[2]. The worst performers were France, Germany and Greece, that had rates varying from 42% to 35%.

Secondly, progress has not been uniform across all policy areas. Whilst there have been successes such as the single European sky, the deregulation of telecommunications to mention just a few, progress has been slow in other areas such as employment, capital markets, social protection and the environment. Progress seems to have been faster in policy areas where Member States have similar approaches but slower in areas where national preferences differ. While this may be inevitable, it suggests that the peer pressure system, created precisely to reduce these differences, has not had the expected impact. This raises questions as to the suitability of the open method of co-ordination in areas characterized by strong negative externalities (see below).

Another area where progress has been ambiguous is the environment. Indeed, all 25 EU Member States have taken steps towards establishing sustainable development and/or environmental integration strategies, following commitments made globally and at the EU and

2 This clearly shows the lack of co-ordination and the different national priorities Member States continue to have despite the Lisbon strategy.

pan-European levels. 19 Member States have put in place National Sustainable Development Strategies, including some that have been revised. Some sectoral integration plans have been produced, notably in the area of transport and energy, as well as rural development. There is however little concrete evidence of action to implement NSDSs.

Nonetheless, important progress has been made since the early 1990s, to change the way administrations are structured in order to improve environmental integration. The old EU Member States (15) have in some cases developed cross-governmental structures or committees that bring together political and/or administrative actors to address sustainable development issues. In the new EU Member States (10), various bodies were established during the 1990s, to support sustainable development and environmental integration. In some cases, more drastic restructuring exercises have been undertaken. Local governments are also taking on an increasingly important role. However, even where organisational changes have been made to support co-ordination and communication at the political or administrative levels, environmental on sustainable development objectives are not necessarily being taken on board.

Comparing the European economy to that of the US and Asia is a way often used to assess the success or failure of the Lisbon strategy. Some indicators clearly show the EU is lagging behind the US in many economic variables: GDP per capita in PPS[3] is around 35% higher in the US than in the EU and labour productivity per person employed is 20% higher in the USA than in the EU. More worrisome is the fact that Europe has not been catching up since 1999: as regards GDP there was no variation, while the productivity gap widened[4]. However, it is mostly due to the higher employment rate that the USA is able to have higher income levels. In terms of gross domestic expenditure on R&D, Europe is still struggling to reach 2%/GDP and the USA is at 2.7%. However, some EU countries excel in this domain. Sweden, with 4.25% and Finland with a value almost reaching 3.5%, surpass the USA and are among the fastest growing economies in the EU15. In terms of poverty rates, the EU is at the same level as in1999 and the long term unemployed represented in 2002 around 3% in the EU15, which is better than in 1999 when it reached 4%, but is still far from the US level which is almost equal to zero.

In terms of the environment, Europe scores better than the USA with both a lower energy consumption and greenhouse emissions, but as this was already the case in 2000 and as the level of growth has been lower, this success cannot be seen as a consequence of the Lisbon strategy. Moreover, the EU is still far from reaching the Kyoto targets. While comparisons with other major economies generally focus on productivity and per capita growth, other important criteria, such as inequality, poverty rates, and mortality rates, which are also part of the Lisbon agenda, are often neglected. Here Europe scores better than the USA and Asia.

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3 PPS means purchasing power standard.

4 See the Commission report for the Spring European Council, 2004. This is true however as far as productivity per person employed is concerned but less so if we look at productivity per hour where France for example scores better than the USA.

The widespread perception that the Lisbon strategy has so far failed to deliver the expected results might therefore be excessive.

Still, the overall picture is disappointing, which should lead one to wonder why the Lisbon strategy has not lived up to the expectations it generated.

Main problems

THE ABSENCE OF A SOUND POLICY MIX

The idea of coupling Lisbon with a sound policy mix was discussed from the very beginning but abandoned due to the reluctance of some Member States or more specifically of their Ministers of Finance, who resisted attempts to co-ordinate national economic policies. One option discussed at the time was to have a quantified growth target to balance fiscal and monetary policies but that idea failed to get a consensus, and instead the emphasis was laid on competitiveness. Thus, the Lisbon strategy and the open method of co-ordination are a second best option, which under the present circumstances do not allow for a proper interaction between demand and supply side economics. Ideally, supply side measures (e.g. structural reforms) ought to be coupled with a better policy co-ordination between fiscal and monetary policies.

True, a stronger co-ordination mechanism has been foreseen for budgetary policy. The treaty identifies the triad responsible for economic policy co-ordination: the independent European Central Bank (art. 105), the excessive Deficit Procedure (art. 104) and multilateral surveillance through the Broad Economic Policy Guidelines (art. 99). This triad has however shown its limits as far as economic policy co-ordination is concerned. Not only have the existent binding rules regarding the deficit not worked but Member States have also not been able to co-ordinate any other aspect of economic policy.

For binding rules to work well, the sanctions system must be hard, enforceable, credible and democratically legitimate to prevent possible deviations. However, in budgetary co-ordination, the sanctions system was not capable of enforcing the rules, due to the fact that Member States were not willing to condemn each other, and some countries deviated from the 3% rule because it clashed with their short term goals. Therefore, countries have not been able to engage in any sort of co-ordinated budgetary policy which is necessary to optimise policy mix and reduce unemployment, within the framework provided by the treaty (stability and growth pact). Furthermore, national capitals continue to be averse to discussing domestic policies with their partners before implementing them. Clear examples were the French 2003 decision to lower taxes irrespective of the stability and growth pact, thereby increasing the whole EU deficit level, or the lack of agreement on UMTS licensing in 2001, among others. This co-ordination deficit among National countries has negative externalities: it does not allow the European Central Bank to lower interest rates which would favour economic growth, and makes any attempt at policy co-ordination with the ECB nearly impossible to achieve. Hence, in as far as economic policy is concerned neither soft policy co-ordination within the Lisbon process nor binding rules have worked. Moreover, despite the fact that Member States are not capable of co-ordinating among themselves they continue to be reluctant to delegate more power to the European Commission, the only entity that at the EU level could ensure some consistency and coherence in the co-ordination process.

INSUFFICIENT ATTENTION PAID TO THE SPECIFICITIES OF THE RELEVANT POLICY AREAS

One other aspect which poses difficulties to a sound implementation of the Lisbon strategy derives from the fact that policy areas to which it applies are too often treated as if they were basically similar. The timeframe (2010) is the same, even though the type of externalities they produce and the time needed for reforms to produce tangible results may vary significantly. Environmental issues, for instance, are often characterized by high externalities and decisions require a long time frame to produce results. Budgetary policy has strong externalities. Other policy areas, such as employment or social exclusion, have lower externalities and require a shorter time period. Applying a similar method across all policy areas might lead to incoherent national strategies: some Member States will tend to focus more on objectives they might achieve more easily and within the required period, rather than engaging in serious reforms in other sectors.

Some of the areas covered by the Lisbon strategy are characterized by network (technology) externalities, i.e. progress towards the Lisbon objectives has technological spillover effects on other sectors. Examples of this are the policies having to do with information society, such as deregulation of telecommunications, cyber space, digital TV, creation of a single sky, etc.. However this dynamism has not been extended to other policy areas covered by the Lisbon strategy. Examples are the lack of progress on capital markets, or research policy when it comes to include other economic agents such as the private sector or energy markets to mention just two. In most of these areas national preferences are different and governments tend to prefer to stick to a short term outcome which favours them nationally rather than trying to reach an outcome which would be Pareto optimal for the EU. In a nutshell, whenever national policy preferences converged, progress was more easily achieved. In contrast, divergences in policy preferences were not overcome by the use of the OMC. Overall, the open method of co-ordination might work with certain types of public goods (goods with network externalities) but has not been very effective in as far as goods without network externalities are concerned.

Applying the Open Method of Co-ordination in an indiscriminate fashion is clearly not an optimal solution. In a field like environmental policy, where EU legislation has played a leading role, the value added of the OMC has not been demonstrated.

THE WEAKNESS OF THE PEER PRESSURE SYSTEM

The open method of co-ordination was meant to facilitate progress at the European level in areas which are traditionally difficult to address outside national borders. National officials were to share information and develop best practices. In so doing, they would exert pressure on each other so that structural reforms would advance at national level. This soft co-ordination mechanism would culminate at the level of the European Council, which was meant to be the main source of political will to reach the pre agreed targets.

However, the peer pressure system has not been functioning properly, in part because members are not willing to name and shame their peers. The incentive to engage in such a procedure is low: individual members fear to make themselves enemies, and they may fear adverse consequences in other policy areas where they have progressed slowly. The difficulty is well-known in international relations, where decentralized implementation mechanisms rarely function effectively in the absence of some form of control. Moreover, the multitude of points addressed in the Lisbon agenda, combined with the different policy priorities of each Member state, means countries are not likely to exert pressure on their peers in relation to issues they do not consider to be a top domestic priority. The peer pressure system, which features prominently in the 'new Public Management' toolbox, has been borrowed from corporate governance. But whereas this technique may be effective at the level of the firm, where there normally exists a clear hierarchy, its use in the European context, where the chain of command is far less clear, is problematic (Arrowsmith et al., 2004).

As the peer pressure system is the only control system envisaged by the Lisbon strategy, the conclusion is that there is no entity which is currently able to ensure the fulfilment of the Lisbon objectives. To put it in more abstract terms, the problem with Lisbon is that it aims at producing public goods with widespread externalities for which no ownership exists, as national governments are accountable for domestically produced public goods, but not yet for European public goods.

The "natural" institution to address these issues would be the European Commission but it cannot fulfil that role unless a) its authority is clearly established and b) it is willing to accept the risk of clashes with the member states that fail to deliver. Addressing the current imbalance between ends and means, ambitions and instruments is one of the key to the success of the Lisbon strategy. It is therefore one of the key points the midterm review should address.

MANAGEMENT BY OBJECTIVES, TARGETS AND INDICATORS

The Lisbon strategy is largely based on indicators and targets which should have the advantage of making policy control more transparent and credible. It should also send clear messages to Member States, warning them that they must undertake reforms in order to attain targets. The European Commission, when preparing the Spring European Council reviews the progress of Member states towards meeting the pre-agreed targets. However, such an approach has serious shortcomings. The most important of all is that it creates incentives for window dressing: countries strive to respect the target in the short term, at times overestimating domestic results to get a better "score", rather than engaging in serious long term reforms.

One of the areas where this is most visible is employment. The EES, agreed in Luxembourg in 1997 and reviewed in 2002, is an essential part of the Lisbon strategy. The emphasis is laid on creating the conditions for full employment, namely through the increase of the overall EU employment rate to 70% and of the female employment rate to 60%. The Stockholm European Council (March 2001) added two intermediate and one additional target: the employment rate should be raised to 67% overall by 2005, 57% for women by 2005 and 50% for older workers by 2010. Yet, as benchmarks are reviewed annually and the temptation "not to look bad" next to the others is high, member states are constantly tempted to overestimate domestic results. Any improvement they could obtain by engaging in labour market reform[5] is likely to be felt more in the long than in the short run, whereas increased flexibility would likely raise unemployment figures.

Given the differences among national situations, the indicators used at European level at times appear artificial: they tend to reflect more something that countries could easily agree upon rather than elements that citizens could perceive as truly important for their lives and aspirations. Furthermore, the aims and values of European citizens are plural and not easily compatible. Steps should also be taken in order to reinforce the "open" character of the OMC, for the active involvement of stakeholders is necessary to its success. Social partners and regional authorities should be directly involved in the definition of national strategies aiming at reaching the Lisbon targets; they should also be invited to contribute to the implementation of national strategies in the areas in which they are most directly concerned. The question, again, is that these actors should be convinced that they will obtain positive gains through their participation. European citizens should also be given evidence that the Lisbon strategy brings them positive returns they cannot obtain at national level, especially in terms of quality of life, effective freedom of choice or employment opportunities (Europe and the politics of capabilities, Salais, 2005)

Hence, indicators cannot be elaborated and agreed without political and social deliberation. An example is the 70% employment rate target, common to all countries, which neglects the details of each job market. While it may be a realistic objective for some Member States, it is virtually impossible to achieve for others. The focus on quantitative parameters also overlooks the qualitative dimension. As mentioned, the objective fixed for the Union in terms of employment is the maximisation of its rate of employment but nothing is said regarding the quality of jobs. The view that more flexible labour markets increase efficiency, raise productivity and augment growth is implicitly hidden in the chosen policies. Another key aspect is the so called "modernisation of the social protection system", which usually refers to the introduction of more flexibility into the system. The assumption is again that more flexibility, in other words, less social benefits leads automatically to economic growth. In both cases, this assumption has not yet been proved by empirical evidence.

5 Reform in this context means making the labour market more flexible in terms of hiring and firing.

THE WEAKNESS OF THE CO-ORDINATION MECHANISM

The OMC hinges on strong sector logic. It implies the development of a community of views among experts and policy-makers. Knowledge-pooling is supposed to facilitate a gradual learning process, leading in the long run to forms of cognitive convergence, and possibly to policy transfers. This logic raises several types of co-ordination problems.

First, even within a relatively homogenous policy community, it would be wrong to expect gradual convergence to simply spring out of the experts' discussions. Once broad policy directions have been defined at the highest level, the tasks of stimulating joint work and regularly analysing the lessons learned must be delegated, in order to ensure the gradual development of a common body of knowledge, particularly in those policy sectors with strongly contrasting national traditions. In fields such as economic policy or employment, this role has been expressly entrusted to the Commission. However, the latter does not enjoy the same authority in the OMC as it does in "ordinary" Community policies. Moreover, national governments do not always accept being told what to do because they have to address the needs of their own constituency rather than those of a would-be European Constituency. The risk is that these forms of resistance will lead the Commission to censure itself, which can only harm the quality of the collective work.

Secondly, the method defined in Lisbon endeavours to ensure an overall coherence between the numerous co-ordination processes established over recent years, by attributing "a leading role in the area of orientation and co-ordination" to the European Council, which meets each Spring to examine progress made and define new general guidelines. Although this seems consistent with the European Council's role as defined in the Treaties, this search for coherence is a source of difficulties at several levels.

The dynamics of OMC are essentially based on voluntary co-operation, with the specific concerns of each policy community and the professional pride of the participants playing driving roles. In this framework, any attempt at outside control strongly risks being perceived as an illegitimate interference. At any rate, experience has shown that guidelines worked out by the European Council are not always duly implemented by the lower levels of the hierarchy.

The Kok report has rightly stressed that co-ordination problems were acute at national level. They are of course magnified at the EU level. Entrusting the Heads of State and Government with a general co-ordination role may be in line with recent trends, marked by a tendency to increase the power of the European Council, but it is at odds with the functional logic underpinning the OMC. The heads of the national executives are by necessity "generalists"; they are not automatically the best at guiding processes often dominated by technical concerns. As such, the temptation to ratify the conclusions of the specialised formations of the Council of Ministers is naturally very strong. It would probably make more sense to give the European Council a task more in line with the interests and authority of its members – to define the policy objectives and settle conflicts not resolvable at a lower level – rather than overloading it with technical files that are likely to receive only a cursory glance.

A PRIMARILY BUREAUCRATIC EXERCISE

As said, the primary dynamics of the OMC is co-operation within networks of (hopefully) like-minded policy-makers. As a rule, networks tend to resist any type of external control – be it hierarchical or democratic – insofar as this, by nature, upsets collective work. Moreover, the instruments used in the OMC tend to heighten this trend: management by objectives and procedural routines generally end up shielding decisions from electoral cycles (Ferrera, Hemerijck & Rhodes, 2000: 84).

This depoliticization of decision-making may have merit, in so much as it allows for reforms otherwise difficult in national systems paralysed by the multiple vetoes of stakeholders. Nonetheless, in the eyes of the public, co-operation among experts within more or less obscure networks is not necessarily the best form of legitimacy. Opportunities for debate are necessary, as are control mechanisms, particularly because the OMC tackles a large number of redistributive issues, traditionally legitimised by universal suffrage in democratic societies. Pension reforms, social protection, the struggle against exclusion and sustainable development are policy areas in which difficult choices are necessary. Experts' recommendations are not sufficient to establish legitimacy, as they involve values and interests necessarily falling within the political debate (Olsen & Peters, 1996: 33-34).

This depoliticization effect was meant to be compensated in part at least by the involvement of stakeholders in the Lisbon process. However, it is not clear that reality has lived up to this expectation. Social partners' involvement depends on the relationship they have with national governments: In some countries they are fully engaged in the process, whilst in others things are rather dispersed. An example is employment where they play an active role in the design of national employment plans in some countries, but are completely absent in others. This is a serious shortcoming given that employment issues are partly implemented by social partners and are of direct interest to social partners, NGO's and other local entities. All these autonomous actors, if given a say, might contribute to increase the pressure on the administrations that have to act in order to implement the Lisbon strategy (The OMC in action, Zeitlin and Pochet, forthcoming). Similarly, ordinary citizens are neither informed of what the Lisbon strategy is about, nor of the progress towards meeting the targets, inter alia because Lisbon is not discussed in most National Parliaments[6]. Given the overall weakness of national control mechanisms, the incentives to pursue the status quo tend to be stronger.

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6 Again, this varies from Member State to Member State (see Michalski, Anna, 2004 for a small discussion on the Dutch case). The bottom point is that Member States did not use the peer pressure system to converge towards a European approach in as far as the democratic legitimacy of the process is concerned.

Recommendations

IMPROVING ECONOMIC POLICY CO-ORDINATION

European economic policy is characterized by strong externalities: the actions taken by one country may influence the economic situation in another member state. The mechanisms to co-ordinate economic policy continue to be the broad economic policy guidelines and the stability and growth pact. The former have already been adjusted in 2003 and were aligned with the then reformed European Employment Strategy, to provide more coherence and time consistency between these two co-ordination mechanisms. As is known, the Stability Pact has not been able to ensure budgetary policy co-ordination because some countries did not respect previously agreed rules[7].

To reach the objectives defined in the Lisbon strategy, a strengthening of economic policy co-ordination is indispensable. Back in 1999, Notre Europe published a policy paper entitled "making EMU happen",[8] recommending the adoption of a *Pact for the co-ordination of economic policies*. Since then, very little progress has been achieved. A section of those proposals was indeed devoted to structural reforms but did not limit economic co-ordination to the implementation of the latter. In fact, the aim was to go further and to complement structural reforms with budgetary policy co-ordination, the creation of a sound public investment strategy, reform of the tax regimes and the avoidance of tax competition that could destroy the internal market as well as the evolution of nominal wages across the Eurozone. This would be put in practice by an exchange of information along with the establishment of a specific forum to discuss ideas related to the above mentioned fields. Ideally, it should be coupled with a more binding approach, through the creation of a common orientation policy which would have to be designed by the European Commission, discussed by the European Parliament and approved by the Council. This common orientation would serve as the macroeconomic framework in which Member States would pursue their economic policies, under the subsidiarity principle.

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7 the answer to the question of why the stability and growth pact was not respected goes beyond the aim of this paper and therefore won't be explored here.

8 In collaboration with the centro di europe ricerche.

RECOMMENDATIONS :

1. A pact for the co-ordination of economic policies needs to be created. This would imply an agreement on an aggregate fiscal framework, and on the goals to achieve (e.g. full employment); it would be formalised by the creation of a common orientation policy that would be binding upon the Member States (for a similar suggestion see "Verso un DPEF Europeo », by Giuliano Amato, published in: NENS No.4 (Nuova Economia Nuova Società), June 2002 and S. Collignon, The European Republic, Paris 2003). This orientation policy would be designed and proposed by the European Commission, discussed at the European Parliament and approved by the Council. Member States would be required to submit short macroeconomic plans, discussed at the National Parliament level, and in which they would have to explain clearly how they would comply with the general EU macroeconomic framework.
2. A fruitful dialogue needs to be established between the Commission, the Council and the ECB so that a better interaction between fiscal and monetary policies can take place. This should however not jeopardise the independence of the European Central Bank.
3. An agreement on tax harmonisation needs to be achieved so that the internal market can benefit.

ENHANCING THE EFFECTIVENESS OF THE OMC

In most of the areas in which an OMC process has been set up, one has experienced that peer pressure *per se* is often insufficient to generate the expected results, at least in the short term. The reasons can be manifold: differences in economic conditions, contrasts between different national traditions, political problems resulting from different political inclinations in national capitals, or simple inertia. To make things worse, recent experience has also shown that on some occasions, peer pressure could be supplanted by collusion among peers to evade jointly agreed discipline, which is difficult to avoid in a system where national officials are at the same time controllers and under control. In other cases, especially the ones that imply strong externalities such as the policy mix and the environment the OMC is simply not the appropriate method and alternatives such as the Community method or social dialogue could be used.

Some might be tempted to say that such a situation in nearly unavoidable in areas where nation-states are the most legitimate decision-making forum, and national decision-makers simply want to pool expertise while retaining discretionary powers. But if this is the case, then one should avoid adopting ambitious objectives at European level, for the contrast between declared ambitions and actual results can but weaken the overall credibility of the Union.

Conversely, if one believes in the necessity of some kind of joint action at the European level, the effectiveness of the review process should be enhanced. To this end, the policy community must dispose of adequate performance indicators (see above, section on indicators) but also of a credible assessment of the efforts made so far by each member country, of the results it has achieved, and of possible shortcomings in the policies being pursued.

This, in a way, raises a standard problem of international co-operation: how can states be made to live up to their commitments? Clearly, exhortations to virtue or political will do not suffice.

In the EU, the functional need for independent review has led to the granting of monitoring powers to the Commission. It needs to be recognized that the soft approach which has inspired the OMC cannot work without a strong involvement of the Commission, which has a key role to play as a catalyst for peer pressure, identifying very clearly the successes and failures of the policies pursued by each Member State.

In its evaluations, the Commission should not merely assess the “quantitative” performance of member states (i.e. their progress towards the quantitative indicators), but aim at a qualitative assessment in the light of the underlying objectives. The assessment of employment policy, for instance, should consider the quality of jobs, as well as the overall employment level. Similarly, attention should be given to the domestic context in which governments operate. Otherwise the exercise might become counterproductive as paradoxically it might encourage governments that fear a negative evaluation of their performance not to engage in reforms that tend to be politically costly.

Publicity of this assessment process is essential, as it will enable the relevant stakeholders to play an active role in elaborating and choosing the right indicators, in controlling the measurement process, in monitoring the implementation of the various action plans, and to put pressure on national governments in case of need. This group is aware that the Kok report pleas in favour of more "naming, shaming and fanning" and the regular publication of league tables has met with little enthusiasm. But one must realize that unless it is made to work more effectively, the OMC will be transformed into an OECD-type mechanism, and fail to elicit any support from public opinion.

Lastly, the experience of other multi-level governance systems suggests that even where one prefers to avoid centralizing the conduct of a given policy, the availability of financial incentives is important to encourage states to comply with established guidelines. The structural funds might be used to provide these incentives, as there is an overlap between the objectives of cohesion policy and the Lisbon strategy. This, however, is not tantamount to suggesting that the priorities of cohesion policy should be entirely identified with those of Lisbon (Jouen, 2005).

RECOMMENDATIONS:

4. The OMC cannot be applied in all policy areas and must be combined with other methods. In areas where there are strong externalities, 'harder' methods ought to be given preference. Clear examples of these areas are the policy mix and the environment where the Commission ought to be given more power.
5. The Commission's role in monitoring the implementation of the various action plans should be explicitly recognised in all the remaining OMC processes. The Commission should provide a systematic assessment of the progress achieved so far by each country, together with individual recommendations, in each area. Its evaluations should be qualitative as well as quantitative.
6. Its evaluations should be given due publicity to encourage stakeholders to play an active role in the monitoring process.
7. The EU budget should be used to create financial incentives to meet the various targets foreseen in the Lisbon strategy.

EFFECTIVE CO-ORDINATION MUST BEGIN AT HOME

The co-ordination problems are in many respects more acute than initially envisaged. Since the launching of the Lisbon strategy, the scope of its objectives has considerably broadened, together with the variety of policy instruments to be used. Because of its pluralistic structure, with multiple centres of power, the EU faces notorious co-ordination problems in the whole range of its activities. Moreover, paying attention to the specificity of each policy area and of each country, as recommended above, can only make co-ordination more difficult. At the same time, it is clear that the Lisbon strategy cannot succeed if the EU and its member states are unable to ensure consistency between the various targets that are set, and the instruments that are used.

Up to now, the response to this dilemma has been to look to the higher echelons of the EU machinery, and to focus on the steering role of the EU Council. This is far from sufficient.

To a large extent, the difficulties experienced at the EU level are a reflection of the weakness of the co-ordination mechanisms existing on the national plane. While this is probably true for most EU policies, it is of course all the more relevant for the Lisbon strategy, which was explicitly conceived as a decentralized approach. There is little reason to hope that consistency can be achieved at EU level if no remedy is found to these domestic problems.

The Kok report has rightly highlighted the need for greater attention to be paid to the co-ordination of Lisbon policies at national level (Kok, 2004, at 40-41). The much-debated proposal to endow "a designated member of each government [with the task of] carrying forward the day-to-day implementation of Lisbon" is no panacea. Given the range of policy areas concerned, such a person should out of necessity enjoy a *primus inter pares* status within the government, if s/he is to make any difference. In some countries, that co-ordination might therefore be conducted by the Head of government, or under its authority, while in others it would require the setting up of a specialized committee within the cabinet. Be that as it may, ad hoc devices must be foreseen to ensure the coherence and consistency of national action.

As regards EU level co-ordination, its effectiveness could be enhanced by focussing on issues where it can bring real added value. Thus, in areas such as exclusion, pension reforms, or health care, which are primarily part of national jurisdiction, and where it is known that the impact of reforms is felt in the long run only, a multi-annual review should be sufficient. This would enable the EU to focus on areas where the need for action at European level is clearly recognized, such as the internal market or macro-economic policy co-ordination.

This approach would also make it easier for the European Council to limit itself to the definition of policy orientations and the settlement of unresolved disputes, instead of trying to ensure a steering role which it is not really equipped for. Evidently, the Commission has a key role to play in this process, as it is uniquely placed among European institutions to monitor developments taking place in a wide range of issues and in 25 member countries. Yet, it too should keep in mind that its own role should reflect the degree of “Europanization” of any given issue. Where the primary political responsibilities are at national level, it should highlight the various options that are available, and leave it to each member state to define its own objectives in the overall framework of the Lisbon strategy. Conversely, once those objectives have been set, the Commission should monitor the national implementation strategy and, if need be, highlight whatever deficiency there may be.

RECOMMENDATIONS:

8. The co-ordination of Lisbon policies should be a top priority at national level. The devices established for this end should be tailored according to national political traditions.
9. EU level co-ordination should primarily focus on areas where the need for European steering is clearly recognized.
10. In their discharge of their co-ordination duties, the European Council and the Commission should keep in mind the degree of “Europeanization” of the areas covered by the Lisbon strategy.

STRENGTHENING THE LEGITIMACY OF THE OMC

In discussions on the legitimacy of the Lisbon strategy, much attention has been paid to the OMC, which appears particularly problematic given its bureaucratic character. In this respect, a greater role for the European Parliament is repeatedly advocated (see e.g. Commission 2001, at 26-27). While there would be much to be said in favour of this idea, this is hardly sufficient. After all, national authorities claim a leading role in the OMC. Given the decentralized character of the latter, it is at their level that “hard” decisions are taken, that financial resources are allocated, and that one decides whether or not to follow the path indicated by the Lisbon strategy. It would therefore make sense to argue that it is at the national level that the democratic debate on the OMC should take place while policy aspects with strong externalities should be debated and decided at the European level.

This can be achieved by giving national parliaments a greater role in the review of progress achieved on the way towards reaching the Lisbon objectives. Several techniques could be used:

- a parliamentary debate on national action plans should take place systematically prior to the Spring meeting of the European Council, during which the Lisbon balance sheet is discussed;
- as it is largely in national budgets that governments' priorities are translated into action, the draft budget submitted to each national parliament should include a statement indicating the steps taken to reach the various Lisbon objectives. National parliaments would therefore have greater opportunities to influence the national strategies, and to identify possible divergences between the government's priorities and the objectives defined in common at the European level.

Steps should also be taken in order to reinforce the "open" character of the OMC, for the active involvement of stakeholders is necessary to its success. Social partners and regional authorities should be directly involved in the definition of national strategies aiming at reaching the Lisbon targets; they should also be invited to contribute to the implementation of national strategies in the areas in which they are most directly concerned.

Recommendations

11. National parliaments should be given a greater role in the review of their country's Lisbon strategy, e.g. by holding yearly debates and/or at the time they vote on the budget.
12. Social partners and regional bodies must be involved in the definition of national strategies and, where applicable, in their implementation.

Conclusion: Towards an effective Multi-level Strategy

The Lisbon strategy is in part a victim of its own success. Conceived at a time when there were wide differences between the priorities of national governments, it has developed in a somewhat haphazard fashion. For some time, it seemed that whenever an issue was deemed to be of some importance for Europe, it was to be subjected to an OMC-type mechanism. The result we now see is clearly sub-optimal: the EU is present in an unprecedented range of areas, but it is not endowed with the instruments that would enable it to make a difference. As the OMC was regarded as a kind of panacea, the Lisbon machinery has become overloaded, giving rise to serious co-ordination problems, be it between the actions undertaken in various policy areas or between the national and the EU level. This is clearly detrimental to the overall credibility of the Union.

Lisbon cannot be a cheap response that is used to hide the unwillingness to grant more powers to the EU. The mid-term review provides a good opportunity to return to simpler principles. The Lisbon process should focus on those areas where the added value of action at EU level is clear, such as the policy mix and the environment. The OMC has potential, but primarily in areas with low externalities, where national governments must undertake long term reforms, which must be adapted to the domestic context. In contrast, in areas characterised by strong externalities, the instruments the EU has at its disposal must be commensurate to its declared objectives, for otherwise the gap between ambitions and achievements will undermine its legitimacy.

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