

## POETRY AND REALITY ABOUT THE FUTURE OF THE UNION

### - Reflections on the Dimensions and Nature of the Re-launch of the Lisbon Strategy

By László CSABA<sup>1</sup>

Ever since its adoption in March 2000 the Lisbon Strategy of the European Union has been seen at least in two dimensions. On the one hand, it was seen as a resolute turn away from the concept of „fortress Europe”, but also from the more federalist vision of European integration, that would have gradually de-emphasized the role of nation states as ultimate power brokers.<sup>2</sup> Meanwhile it was also meant to be different from the large body of EU guidelines and directives with ambiguous or openly non-binding status. In order to attain this concrete tasks were listed, and regular six month monitoring by the Council introduced in its method of operation. It has been emphatically suggested by the adherents of this approach<sup>3</sup> that the reference to concrete and measurable tasks as well as reliance on the „open method of coordination”, yet another form of soft law, aimed at transforming the polity of the EU in its entirety<sup>4</sup> were the major institutional innovations that were to produce palpable efficiency gains.

The Lisbon Strategy has indeed been different from say, the Stability and Growth Pact, containing only a few, if contested, but clearly operational objectives. By contrast, the Lisbon Strategy contained no less than 28 main objectives, 120 sub-objectives, 117 indicators that were to be followed and reported. Moreover, with the enlargement of the Union no less than 300 annual reports are to be produced in order to check eventual progress. It is hardly by chance that for several observers, especially for ones coming from the new member states, with the vivid memory of Comecon, the resemblance to the related practices of the Red Block in terms of Gorbachev’s Long Term Comprehensive Program of Technological Development until the year 2000, as adopted in 1986<sup>5</sup>. This resemblance, while surely does not pertain to the substance and the workings of the European market integration, emerges in several planes. One is the focus on quantitative objectives with the parallel neglect of means. Second, there are commonly set targets without previously dovetailed national plans of implementation, with reference to national diversity, but in reality reflecting the lack of consensus on a number of matters

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<sup>1</sup> Professor of Economics and European Studies, Central European University, Budapest, and University of Debrecen, as well as Chair, Committee on Economics of the Hungarian Academy of Sciences. Useful contributions of Etele Baráth, Dóra Györffy and Julius Horvath are appreciated, without implicating their agreement.

<sup>2</sup> *Práger, L./2001/*: Opening towards a globalized world. *European Mirror*, /Budapest, special English language edition/, pp85-86 – a bimonthly publication of the Office of the Prime Minister of the Republic of Hungary.

<sup>3</sup> In more academic terms in the volume edited by Rodrigues, M.J./2002/: *The New Knowledge Economy in Europe: a Strategy for International Competitiveness and Social Cohesion*. Cheltenham/UK and Northampton/Md/USA: Edward Elgar Publ.Co.

<sup>4</sup> *Borrás, S. and Jacobsson, K./2004/*: The open method of coordination and new governance patterns in the EU. *Journal of European Public Policy*, vol.11.no.2.pp185-208.

<sup>5</sup> *Csaba, L./1990/*: The role of the Soviet Union in CMEA industrial policy cooperation. *Communist Economies*, /London/, vol.2.no.2.

of substance. Finally in both cases there is an obvious technocratic attempt to replace the market with organizational measures adopted at the political level and elaborated by technocrats, thereby wishing to circumvent the trial and error processes inherent in the functioning of markets in general and in the fostering of innovation in particular. Last but not at all least in both cases the explicit attempt to keep up the pace of competition with the world champion in innovation, the United States of America has played a defining role.

In the case of the Lisbon Strategy features of a political compromise outcome, so typical of any EU document have become manifest from the very outset. On the one hand, the priority to global competitiveness, up to the point of aiming at the position of the „most competitive community of the globe” and the related focus on R+D and flexibility have been standing at stark contrast to salient features of the national economic policies in most core EU states. The latter aimed at preserving rather than transforming the basic features of the social model, that lays at the heart of lacking competitiveness with its focus on stability rather than change. In the core EU countries like Spain, Germany and France the focus is still on redistribution rather than incentives, and with the dominance of low politics over high politics and economic considerations alike<sup>6</sup>. The latter is particularly obvious in the ongoing debate over softening up the Stability and Growth Pact based on ambiguous economic argumentation at best<sup>7</sup>. It is even more manifest in the inability of most, though not all, core EU states to reform their unfunded, pay-as-you-go pension systems, which recent political economy analysis has shown to reflect the political concerns of an ever ageing electorate against a smaller and less active young generation, that should be the stronghold of economic/financial sustainability considerations. In reality, thus the explicit and implicit increases of contributions and/or the explosion of general government deficit/”consolidation fatigue” against the numbers of the SGP/ is becoming the name of the game in most western democracies.<sup>8</sup>

Not meeting the business and R+D criteria, however, does not translate into better meeting of social, environmental and other criteria such as those related to employment and better quality education across the board. The latter should qualify as an attainment on its own right/allowing for a more decent life/ and a major contribution to the Lisbon goal of increasing the participation rate, especially of able bodied middle aged persons, who are typically retiring in Europe at ages when their career would start to climax in the US or Japan. In the eurozone, for instance labor participation rates grew from 67.6 per cent in 2000 to a mere 68.8 per cent by end-2004, with the rate of unemployment even grew from 8.5 per cent in 2000 to 8.9 per cent by end-2004/according to ECB: *Statistics Pocket Book*, February, 2005. Frankfurt a.M., p.9/.

Missing the employment targets is all the more embarrassing, since the pro-employment priority figures high on the agenda of each and every EU government and of the Lisbon

<sup>6</sup> So-called active labor market measures, as well as expanding higher education without quality control, have exerted ambiguous impacts at best on the labor markets of EU countries, old and new alike.

<sup>7</sup> Csaba, L./2005/: A non-stability and anti-growth Pact for Europe In: Csaba, L.: The New Political Economy of Emerging Europe. Budapest: Akadémiai/Kluwer, pp182-212.

<sup>8</sup> Galasso, V. and Profeta, P./2004/: Lessons for ageing society: the political sustainability of social security systems. *Economic Policy*, no 38/April/, pp63-115.

Strategy as a whole. If we take a look at the structural indicators, elaborated by the Commission, to check progress made in the Lisbon Strategy<sup>9</sup> we find an extensive list of employment related ones, a series checking youth attainment, progress of R+D and of social cohesion, as well as of progress in protecting the environment. By contrast, the business agenda – covered by „economic reform” – is neither extensive nor particularly innovative.

Under this angle we may well not be perplexed to find that the reference to the Lisbon goals has become a decreasingly important, mostly ritual element in the discourse over the European Union. Going through the books – including textbooks – published in the past five years, or through the contents of major specialized journals on the European Union we may well be surprised to observe: what should have been allegedly the core strategy of the Union, has in fact, been crowded out by other themes. The latter include the security drift between US and a part of EU in the post September 11 period, the fate and substance of the Stability and Growth Pact, the debates over the major redistributory policies of the Union, the CAP and structural funds, the ongoing debate over the financial guidelines for 2007-2013 period, managing accession, the question marks over further accessions of Croatia and Turkey, the changing role of Ukraine and Russia, immigration policy, the Constitutional Treaty and the stance to be adopted in the Doha Round of world trade talks, just to mention a few.

This state of affairs is a reflection of a broader problem of ebbing of the dynamism of the European integratio process. In reality, each of the big projects currently either in the phase of implementation or of consolidation, such as the single market, the single currency or enlargement, all originate with the grand old trinity of Delors, Kohl and Mitterrand. No major initiative emerged since 1989/1990 that would have transcended the status quo, or would have put new issues on the agenda. As a matter of fact, the quite limited succes of the three intergovernmental conferences of Turin, Nice and Laeken culminates in a constitutional treaty, that falls short of any substantive feature of a Constitution, moreover is confined to consolidating the status quo ante.<sup>10</sup> Lacking the common political denominator is both a cause and consequence of the lack of longer term vision, especially for Europe/and most unlike some of the reformatory zeal within some member states, such as Britain or Sweden, or the new member states/.

Under this angle the formation of the new Commission and new European Parliament in November 2004 allowed an called for a reassessment. The High Level Group of Reflection, headed by former Dutch Premier Wim Kok was producing a soul-searching situation assessment.<sup>11</sup> The language, as well as the factual material presented, went beyond the usual tone of self justification. It has done so, inter alia, because it had to face the lack of progress, in terms of delivery on the key indicators, as well as in the overall tendency of catching up with America, which has not materialized.

<sup>9</sup> Structural indicators. *Euractiv*, 16 March, 2004.

<sup>10</sup> Grimm, D./2004/: Verfassung – Vefassungsvertrag – Vertrag über eine Verfassung. In: Beaud, O.-LECHEVALIER, A. – PERNICE, I. – STRUDEL, S. eds: *L'Europe en voie de Constitution*. Bruxelles: Beuylant, pp279-287.

<sup>11</sup> *High Level Group/2004/*: Facing the Challenge. *Euractiv*, 3 November.

One of the more unusual features of the Kok Report is that it takes failure for granted, and focuses on the ways and means the mishap can be remedied. From among the causes the report mentions the too large number of, and incoherence among, the priorities. Lack of coordination, both among these and the national priorities, as well as lack of political commitment to the implementation. For this reason the basic suggestion is to narrow down the scope of priorities, focusing on generating growth and employment, and it suggests, in terms of organizational innovation, the elaboration of national implementation programs.

Whereas the original document is rightly seen as a compromise among economic and social/environmental considerations, the Kok report calls for seeing the Lisbon Strategy as a means of macroeconomic restructuring at the first place, stressing the importance of competition. It highlights the worrying signs, such as the fact that only two member states spend 3 per cent of their GDP on R+D, or that in terms of hourly productivity the EU-15 registered a growth of 1.4 per cent annually in 1996-2003, against the USA recording a growth of 2.3 per cent in the same period. This reflects, according to the report, the slow and inadequate use of ICT, especially in the services sector.

The report rightly stresses the focal need to focus on the implementation of internal market regime, especially in the areas of financial services. Labor markets, transferability of social security claims/a major obstacle to labor mobility/, in the energy sector as well as in network industries. It proposes to cap state aids to 1 per cent of GDP.

Perhaps the most controversial piece of the Kok Group has been its focus on the labor market. According to the European Socialist group/as reported in : *Handelsblatt*, 10 and 17 February, 2005; *Frankfurter Allgemeine Zeitung*, 23 february, 2005/ Barroso, following the footsteps of the High Level Group, adopted a neoliberal agenda and has given up the social component of the original program. This might be a bit of an overinterpretation. However it is indeed clear that the idea of an 'inclusive' labor market translates into creating incentives to work more and longer, includes life long learning, and the previously neglected idea of mobility.

Likewise the call for less but more seriously implemented targets/priorities may sound to some as a business plan with operational content rather than the usual list of good intentions.

For the new Commission President Manuel Barroso it was clear from the very outset, that divergent national priorities constrain him onto a narrow path in his attempts to revitalize the EU. Knowing the difficulties of managing diversity, that has substantially increased with eastward enlargement, as well as disagreement among major players, the Lisbon Strategy has remained basically the only option for him to move forward. The President's repeated stress on the Strategy<sup>12</sup> together with the Presidency Conclusions of

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<sup>12</sup> Barroso, J.M. 2005/: The Lisbon Strategy – a key priority of the EU Commission – talk delivered to the ETUC conference, Brussels, and reprinted in: *Euractiv*, 1 March.

November have turned the re-launch and re-assessment of the Strategy the major theme for the March 2005 Council.

Given the broad reach of this policy document the reassessment allowed the Commission to come up with a number of streamlining propositions as well as with a host of major policy propositions that run to the heart of the ongoing policy controversies referred to above.<sup>13</sup> It focuses, perhaps even more than the High Level Working Group, the effective measures to improve the internal market, free and fair trade, better regulation and the need for a more adaptable workforce. It also stresses the need to enhance R+D spending as well as the need for better education and skills. Similarly or even more explicitly pro-competitive stances have been voiced by other senior members of the Barroso Commission. Ms Nellie Kroes for instance demanded the inclusion of integrated competition policy guidelines to be included in the Broad Economic Policy Guidelines, competition screening and sectoral inquiries/especially in financial services and the energy sector/ and declared the 'less and better aid' strategy for 2005-2010 period.<sup>14</sup> Likewise in a similarly upbeat tone Ms Danuta Hübner, talking at the London School of Economics called for refocusing regional aid to growth, innovation and competitiveness, making cofinancing imperative and universal.<sup>15</sup>

This change of emphasis is, however, more cosmetic than real, if we take into account the realities of the past years. Putting employment on the Community agenda has not produced agreement over matters of substance, and the open method of cooperation has proven by and large ineffectual under these circumstances.<sup>16</sup> The original Lisbon way of specifying quantitative targets has not been realistic either. Recent analyses have indicated the lack of reliable employment data, especially ones that would be available in due time and in internationally comparable substance.<sup>17</sup> Knowing the lack of uniform labor market policies across member states there is nothing to be given up in terms of material substance if the original Lisbon indicators are no longer followed.

In a way it is in line with economic insight and with the experience of European economies to highlight that growth and only growth is the way to create employment, provided the labor market institutions do not constrain the creation of new jobs and the employment of new labor. Therefore new member states are likely to be in support of the approach of a pro-employment strategy based on fostering growth.

An other relevant insight is that labor market arrangements are intimately related to cultural traditions and value judgements. If for no other reason, this sets inherent

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<sup>13</sup> *EU Commission: A new start for the Lisbon Strategy. EurActiv, 2 February, 2005. Cf also> Midterm review of the Lisbon Strategy. EurActiv, 1 March, 2005.*

<sup>14</sup> *Kroes, N./2005/:* Building a competitive Europe – competition policy and the Lisbon Strategy – talk given to the Bocconi University, Milan. in : *EurActiv, 7 February.*

<sup>15</sup> *Hübner, D./2005/:* Regional policy and the Lisbon Agenda – Challenges and Opportunities. in: *EurActiv, February 3.*

<sup>16</sup> *De la Porte, C. – Pochet, P./2004/:* The European Employment Strategy: existing research and remaining questions. *European Journal of Social Policy*, vol. 14, no. 1, pp. 71-78.

<sup>17</sup> *Atkinson, A. – Marlier, E. - Nolan, B./2004/:* Indicators and targets for social inclusion in the EU. *Journal of Common Market Studies*, vol. 42, no. 1., pp. 47-75.

limitations to the use of such concepts as benchmarking, obviously having shaped the original Lisbon Agenda, setting for instance a uniform 70 per cent target on activity levels, irrespective of the grossly different assessment of leisure time by the individual societies and irrespective of the grossly divergent productivity levels. More recent analyses of the labor market<sup>18</sup>. Also among the new member states the labor market situation is grossly different, with Poland registering a 18.3 per cent, Slovakia a 16.9 per cent rate of unemployment against 5,5 per cent in Cyprus, 5.8 per cent in Slovenia and 6.2 per cent in Hungary/ECB: *Statistics Pocket Book*, Frankfurt, February 2005, p40/. For this reason abandonment of the focus on compulsory indicators and benchmarking is only to be welcomed.<sup>19</sup>

The refocusing of the Lisbon Strategy on competitiveness is more than welcome for those new member states like Slovakia and Hungary, who have already received thinly veiled threats from some old member states, notably France, for their too low corporate tax rates, and warned of the possibility of limiting their access to structural funds for this behavior. The more competition is acknowledged to be a formative element in the strategy, the less sustainable are the limitations, inter alia, on free movement of labor from the new to the old member states. The more member states accept the principle of sustained solidarity, as reflected in the pieces of Barroso and Hübner quoted above, the higher is the chance of actually regrouping the funding according to the current – changed – levels of development against the weighty arguments of tradition based funding for some areas, especially in the more advanced economies.

Under this angle it would be wrong to give way to the already ongoing pressure to subordinate the forward looking goals and organizational arrangements of the Lisbon relaunch to old fashioned bargains about pork. The latter seems to have already started. In the case of Hungary the competition between the Ministry of Economy and Transport on the one hand, and the Office of the Minister in Charge of European Affairs has become manifest. The former charged with major developments in physical infrastructure is to take a formative role in interpreting the priorities of the Second national Development Plan for 2007-2013 period.<sup>20</sup> On the other hand, the office of European Affairs is adopting a broader vision, orchestrating cross-party dialogue, involving the opposition, to identify the priorities best fitted to EU priorities. In this latter approach the priority seems to be the maximization of the funds that might be drawn for the EU.<sup>21</sup> The latter priority, in my view, may easily be at odds with such broader considerations as the priority of national funding as well as with the need to set national priorities in line with global competitiveness, as the general line of the Lisbon Strategy relaunch would suggest. In the latter approach, for instance, the focus on physical infrastructure development

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<sup>18</sup> Casey, B. – Gold, M./2005/: Peer review of labor market programs in the European Union: what can countries really learn from one another? *Journal of European Public Policy*, vol.12.no.1.pp23-43.

<sup>19</sup> It might be equally wrong to benchmark activity levels, furthermore it is correct to note that activity and unemployment levels may even move in different directions, with the USA having high activity and low unemployment levels, and France just the other way around.

<sup>20</sup> Kóka, J./2005/: Ambíciózus tervekhez szoktam/-/I am accustomed to ambitious target setting/- an interview granted by the Minister of Economic Affairs. *Figyelő*, 7 March.

<sup>21</sup> A legtöbb, mi kapható./The maximum available/. *Figyelő*, 19 February/online edition/.

projects, that would inevitably dominate the former, would seem superfluous and misplaced<sup>22</sup>, since the major issue in using EU funds/would be the utilization of ICT and the streamlining of the system of public dues, as well as bringing about the pro-competitive elements of the single market project in such areas, as financial services, energy, air transport, agriculture, rural development and network industries, to promote mobility of labor and its flexibility via life long learning. The latter requires investments in R+D and education as well as in administrative capacities, while the former would focus investment in such traditional projects as highway building, airports, bridges, border stations, logistical points and the like.

It is also important to draw attention to the contradiction between the aspirations of the new members and the harsh realities conditioned by the repeated position of the net contributors that are set to maximize their contributions at the present level below 1 per cent of Gross National Income. In their view, expounded several times<sup>23</sup> current EU spending practices are saddled with bureaucracy, inefficiency and lack of proven contribution to common goal. Thus the priority in the 2007-2013 financial guideline should be to focus on matters of common concern and enhance the discipline enshrined in the Stability and Growth Pact. In this reading the re-launch of the Lisbon Strategy equals to strengthening the practice of national funding for most of the EU projects, especially in areas of employment, innovation and the use of ICT. Similarly the initiatives of bringing more coherence between competition and regional policies, that would add up to streamlining the previously liberal practice of allocating funds on a 'give and take' base among the big players/cf. *Handelsblatt*, 3 february 2005/ could free up the funds needed for the legitimate needs of the new members/although definitely remaining under their declared objective of 4 per cent of GDP/.

In our forecast made before the conclusion of the European Council it can be formulated that no strategy exists in a power vacuum. As could be seen in the evolution of the European Constitution the political will to manage and overcome diversity and adopt policy measures that would fundamentally upset the balance of bargains, especially in terms of national contributions, is unlikely to find majority. For this reason the promulgation of bold objectives/harsh analyses can easily co-exist with soft or no deeds. More radical suggestions, such as trimming the farm budget by ten per cent and redirect this sum to R+D<sup>24</sup>, or the platform of Belgian premier Guy Verhofstad that would include codes of convergence, major shifts in taxation, redirection of regional and farm spending

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<sup>22</sup> Certainly, nobody in his right mind would question the need for further development of physical infrastructure in the new member states, as the state of roads, railways and airports obviously requires additional attention. The choice, however, is clearly between more big projects or a plethora of small ones, in sectoral terms between transport and the e-economy and ITC, in organizational terms between publicly organized construction and reconstruction or trials and errors of the private sector, including its penetration of education and health care.

<sup>23</sup> More recently *MacShane, D./2005/*: Why the EU Constitutional Treaty is Good for the EU and for the UK? – public lecture delivered at the Humanities Center of the Central European University, 2 March – available online both at the speaker's and the university's web pages.

<sup>24</sup> *Potocnik, J./2005/*: EU research programs need to contribute to delivery. *EurActiv*, 2 March.

on R+D<sup>25</sup> are unlikely to find their way to the policy making machine. Since the crisis of the EU is not yet imminent in the perception of most policy entrepreneurs, the reaction is likely to be lukewarm. Likewise preliminary positions of most member states reflect that redistributory concerns are becoming more prominent than ever. Considering the variety of suggestions to soften up the Stability Pact, all invoking basically redistributory rather than economic concerns/*Financial Times*, 9 March,2005/, as well as the country positions on regional assistance, nobody should cherish high hopes of a more normative approach based on post-materialistic values.

It seems that the reflection triggered by the unusually frank assessment of the Kok Group and the follow up initiatives of the Barroso Commission may have contributed to fresh and more forward looking thinking in and around Europe. These are, however, unlikely to signify the moment for major changes. This is though sad, however the new member states may and indeed, should take advantage of their more competitive orientation of promoting globally competitive agenda, where catching up remains a basically national project<sup>26</sup>. This also implies that national policies that offset the macroeconomic conditions of sustainable growth are unlikely to be compensated for by activism at the European level.

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<sup>25</sup> Verhofstad quests national action plans for Lisbon re-launch. *EurActiv*, 1 March 2005.

<sup>26</sup> Similarly so by the representatives of Scandinavian industry in : *Fagernas,L. –Stov,H./2005/>* Do not scrap Lisbon project, just modify it. *Financial Times*, 9 March.