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**Hand in date: 30th of June 2009**

**Number of characters: 171.440 (71,4 pages)**

# Abstract

In 2000, the European Union in Lisbon embarked on the road to become the world’s most competitive and knowledge-based economy by 2010 - capable of sustainable growth and creating more and better jobs. The Lisbon strategy called for structural reforms of the European economy in order to solve the gap in competitiveness between Europe and its competitors and to accommodate demographic development. However, a decade into the new millennium, the Lisbon strategy is still far from its goals.

This thesis sets out to investigate why the European Union has not managed to close this gap and successfully impose structural reforms in the European economy. The overall proposition of the thesis is that the Lisbon strategy cannot address the problem of economic growth and competitiveness, because Lisbon deals with areas of more socio-economic character than traditional EU policies. Subsequently, national political priorities win at the expense of common economic goals, in other words, the Lisbon strategy entails a conflict of interests between the Community and the member states, which is blocking progress.

By looking into the economic and rhetorical rationale behind Lisbon, the thesis sets out to examine if the gap between the competitors and Europe is as grave as it was laid out to be. In addition, the thesis examines whether or not the ‘toolbox’ and governance structure in Lisbon hold the potential to transform the European economies. In addition, the thesis researches on two specific summits, the launch of Lisbon in 2000 and the re-launch in 2005, to clarify if a conflict of interest between the national and Community level has constructed the Lisbon in such a way, that it has become hard to fulfil.

The thesis finds that Europe’s problem prior to Lisbon is one of external as well as internal competitiveness gaps. From the outset of the toolbox, the Lisbon strategy has the potential to bring about a restructuring of the European economies as it entails policy areas that are relevant in the new knowledge economy. However, the construction and implementation phase of Lisbon clearly show a lack of leadership, not just by the national governments, but also by the European Commission. The thesis finds that when looking at the overall Lisbon process so far, there is a gap between Community and national interests. This is not only a problem for progress within Lisbon, but may also have consequences in relation to future European integration.

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# 1. Introduction

Globalisation renders new demands on states and international policy-makers. Economic leadership and competitiveness is increasingly being defined by the ability of a nation to innovate and knowledge has come to be considered an ever more important asset in generating this. In this context, structural reforms of many nations are needed in order to adjust labour and production markets to a knowledge-based economy as knowledge has become vital in securing economic growth. This creates challenges for the nations in terms of investment in human resources and R&D and mean that states must make their environment an attractive place for companies in order to generate growth and jobs. Some nations have managed this shift well, while others are still lacking behind.

For Europe, this issue came at the forefront of the political agenda at the turn of the century, however securing Europe a leading position in the global economy has been the aim of European economic integration since the post war period. The measure-stick in this context has always been the EUs main partner and competitor, the United States. However, for decades there has been an increasing growth and innovation gap between Europe and the US. With the rise of Japan and China in the new economy, Europe will need to make an effort in order to secure a leading position as a global economic player. At the same time, such leadership in a globalising world is a prerequisite for economic growth and welfare in the European societies. This may prove ever more important for the European economies in the future, as they face a demographic challenge, which calls for action in order to sustain or expand the European welfare states. In 2000, the European leaders agreed to the most encompassing strategy to date which aimed at transforming Europe into the most competitive and knowledge-based economy in the world by 2010, also known as the Lisbon Strategy.

The challenges identified by European policy-makers centred on a growth gap between Europe and its competitors. Further to this, the need for systemic changes due to the demographical developments in the future was also emphasised. As a response to this, the EU called on its member states to initiate reforms to enhance this transition. Nevertheless, as we are moving towards the end of this first decade in the new millennium, the EU is still far from meeting the goal it set itself ten years ago.

## 1.2 Problem formulation

As mentioned, the Lisbon strategy is one of the major attempts by the EU to transform the European economy, yet it has still not managed to become the most competitive or knowledge-based economy in the world. Is this because the Lisbon strategy provides a wrong answer to a potentially right problem? Is it because the Lisbon strategy never gained the support needed by the national policy makers and which is crucial for its success? Departing in these questions and the contextual background above, this thesis seeks to investigate *why the Lisbon strategy has not yet managed to close the gap and transform Europe into the world’s most competitive and knowledge-based economy.*

The answer to this question is relevant for policy makers as well as citizens, because it may provide an insight into what may or may not be wrong with the Lisbon strategy. In order to make any adjustments to the future structure of Lisbon, it is important to clarify if it is the ‘toolbox’ of Lisbon that is wrong, or if the strategy has failed to deliver due to a lack of political commitment? This of course raises the question of *why* it is so important for the Lisbon strategy to succeed.

Whilst it could be argued that structural reform of the European economies is perhaps more political goal than a public wish, there are nevertheless a number of economic reasons why the success of the Lisbon strategy is relevant. First, Europe is evidently part of a globalising world and also of the race for technological and economic leadership. In order to survive, Europe needs to focus on creating comparative advantages through innovation, hence the need to focus on structural reforms to secure a knowledge-based economy. Some argue that international competitiveness is dependent on a nation’s ability to innovate and improving productivity levels, thus improving on this becomes an important factor in securing European competitiveness on a global level. Second, it can be argued that in the light of the demographic changes the European welfare states face in the future, the European economies need to maintain sufficient growth levels if welfare is to be expanded. From this perspective, structural reforms are seen as necessary, especially within the labour market and social policies, as the goal is to secure high employment to meet the demand for welfare in the future. Therefore, the success of Lisbon is indeed relevant, if policy-makers want to meet the external and internal challenges that Europe seems to be facing.

## 1.3 Methodological considerations

In order to answer my overall problem formulation, a number of working assumptions need to be outlined as well as a discussion of how these might be proved.

The overall proposition of this thesis is that the Lisbon strategy cannot address the problem with economic growth and competitiveness, because national politics win at the expense of common economic goals. The paper will focus on the Lisbon strategy as a political project on a European level. It argues that we have not reached substantial progress within Lisbon, because it deals with areas that are of a more socioeconomic character than other EU policies and these areas are placed within national competences. This means, among other things, that the process of Lisbon is lacking political leadership i.e. in the form of the Commission to drive integration forward. Subsequently, the result is that national political priorities win at the expense of common economic goals or put another way: the Lisbon strategy entails a potential conflict of interest between the member states and the Community.

Thus, the first working assumption is the perception that the ‘toolbox’ of policies, which the Lisbon strategy entails, is ok in terms of addressing the issue of competitiveness. From this perspective, the Lisbon strategy provides the right answer to Europe’s problems.[[1]](#footnote-1) The problem is that the ‘toolbox’ consists of a list of policies which deals with areas that are within the national competences, like social policy, labour market and education policy; as argued by Mario Teló, Lisbon consists of policies which are high on the notational agenda (Teló 2002:248). These are indeed areas which are vital for the welfare state, thus it is assumed that national policy-makers are thus reluctant to submit these areas to European integration.

The second working assumption is that Lisbon[[2]](#footnote-2) fails because there is a lack of commitment by the member states. In the implementation phase, Lisbon thus becomes an obstacle for itself as domestic political agendas mean that policy-makers will focus on domestic issues that will get them re-elected. Engaging in structural reform, which is perhaps more a political than a popular project, will hardly do so and the Lisbon strategy entails just that. From this point of view, domestic political priorities and the European economic agenda are contradicting priorities and making progress within Lisbon would require more leadership by either a) the national policy-makers or b) the Commission, of which the latter must be assumed to be the best in securing that integration is driven forward. In other words, it is the gap between the priorities of the member states and the interests of the Community, the European Union, which causes a lack of progress within the Lisbon strategy.

This of course calls for an explanation of the term ‘Community interests’. It can be argued that the perception is of course dependent upon the theoretical approach that one assumes to the concept on European integration. In example, intergovernmentalist would argue that we are to see Community interests merely as the sum of the interests of all the member states. Neo-functionalist on the other hand would see Community interests as those presented by the supranational institutions. This is further elaborated on in the theoretical framework in section 1.7 in this paper. This paper will nevertheless depart in the view of Community interests as those proposed by the Commission, along with the Parliament or supranational interests groups, as it is generally seen as the Commission’s responsibility to drive integration forward by proposing legislation and securing implementation, that is, acting as the executive government. Although the Lisbon strategy mainly deals with areas of national competences, it becomes interesting to look at the Commission’s proposals in the context of the Presidencies to see how it emphasise the need for European action and on which areas. The actual outcome, which is a result of the interstate bargaining situation in the Council, will reflect the sum of the interests of the nation states.

There are of course several ways to either verify or falsify the assumptions declared above.

First of all, the Lisbon strategy, its rationale, construction and the governance structure needs further research in order to clarify the actual lack of progress. A relevant question to ask is, if Lisbon was ever meant as gap-closer between the EU and the US and Japan? It is assumed that there is a competitiveness gap between the EU and the US, but that the Lisbon strategy was just as much about addressing growth and innovation gaps *between* the member states. In order to shed light on this initial question, a thorough investigation of the process and programme of Lisbon must be undertaken to clarify the context that it was born into.

One way to clarify if the toolbox of policies is the right one would be to further research on the lack of progress in Lisbon, i.e. by closer examining one of the tools within it to see if they provide the ‘right cure’. From such an angle, it might be relevant to look into the financial aspect of the European Research Area (ERA), which is the Framework Programmes for Research and Development. As the ERA is one of the pillars in Lisbon which seeks to achieve the knowledge economy, the construction and substance of these framework programmes might be worth more attention. From this we might derive if the Lisbon is using its policies appropriately to reach its goal. However, as it is assumed that the strategy all in all contains a relevant toolbox of policies, an investigation into the above would most likely say more about *how far* we are on the way to fulfilling Lisbon, rather than *why* we have not seen more progress. Although this is an interesting perspective to include when elaborating and discussion the future of Lisbon, it is nevertheless beyond the scope of this paper. In addition, the Framework Programmes are only a small part of the overall finances which are dedicated to achieving the ERA, thus we would only get a narrow and perhaps inadequate picture of progress in Lisbon by using this approach. Consequently, focus should be on the overall box of policies that Lisbon promotes as a way forward for the member states. This of course requires an investigation into what creates an innovative, knowledge-based economy as well as an identification of how this is reflected in the Lisbon programme, in order to clarify that the strategy is using the right means.

In relation to the national political priorities as a blocking stone for progress, there are two ways to identify and measure this. One option would be to simply look at the implementation phase to identify any resistance on behalf of the member states, either because they opposed the decision to begin with or because they find other domestic priorities which will then inhibit the implementation process. This task is quite substantive and it would require an examination of every policy area of Lisbon and every member state, to see if there was a convergence in the policy areas that member states seem reluctant to implement. However, from this point of view we may derive only little information about any divergence or clash between the *collective national interests* on the one hand and the *Community interests* on the other. Nevertheless, the implementation phase is a way to detect overall tendencies on which areas Lisbon is making progress and which that are lagging behind.

A second, further option would be to look at the negotiation process, where any differences might be reflected in what is proposed or prepared at a given summit and the actual bargain outcome. The assumption that there is a clash between Community and national interests can be investigated by researching on the negotiation procedures to derive a coherent view of a) Community interests, reflected in Commission proposals and b) national interests, reflected in what is decided at a given summit. This is to detect areas in which we might see a difference between the two levels of interests, to discover how large such divergences might be and if they are within areas which must be perceived as vital for the fulfilment of the Lisbon goals. Naturally, the two different ways of approaching the problem, as outlined above, should be included in the analysis, as a view of the overall implementation process could help put any potential areas of conflict between the national and the Community level into perspective. All in all, the two approaches should help shed light on whether or not we can derive if national political interests are blocking the process.

Thus, the analytical section in this paper will depart in the approach mentioned above. By researching on the context surrounding the presidencies where the Lisbon strategy has been discussed, i.e. through Commission documents, Council decisions and work of the academic community, it should be possible to identify areas of potential conflict to clarify if there in reality seems to be *a lack of political commitment to achieve the economic goals*. This will of course only provide an overview of potential conflicts between the national and Community interests, but it will nevertheless provide an indication of where and whether such conflicts are present. The main documents which have been used for this analysis is found in the additional set of annexes.

## 1.4 Project structure

The overall question of this thesis is very broad and calls for a number of variables of both theoretical and more empirical character to be examined. Further in this introduction, a theoretical framework relevant for the further analysis will be outlined, after which this paper will proceed in two parts.

The first part seeks to clarify the ‘problem’ that Europe was facing at the turn of the century, and which one might argue is the rationale for the strategy as well as investigate the Lisbon strategy in terms of substance and governance structure.

Consequently, chapter two will provide a short conceptualisation of notions such as ‘competitiveness’, ‘innovation’ and ‘knowledge-based economy’. These are indeed terms which are often used in connection with globalisation and the Lisbon strategy, and therefore these need to be clarified before being examining the scope of any European problem prior to Lisbon.

Chapter three seeks to examine the European problem with competiveness prior to the launch of the Lisbon strategy. Now, in this context a thorough discussion of different economic variables by which we could establish if the EU did indeed suffer from a problem of competiveness, how grave this might be etc. would surely be relevant to determine the scope and seriousness of any such problem. However, this would hardly bring us any closer to the end goal, which is a coherent response to why there is a lack of progress. Rather than such a comprehensive economic analysis, the chapter will focus on this problem from a discourse perspective, whilst still making room for a number of key economic figures in which Europe seems to differ from its competitors. The logic behind this approach is that for this paper, it is not so much a matter of how grave any problems with competiveness, growth or innovation might have been for Europe; the point is that there was clearly a perception of such problems among European policy-makers, which resulted in the Lisbon strategy. Thus, drawing on elements within social-constructivism, especially the work by Colin Hay and Ben Rosamond who argues that states’ perceptions of globalisation shape the policies they choose, this chapter will clarify *why* the Lisbon strategy came about.

Chapter four examines the content of the Lisbon strategy. The chapter will shortly elaborate on the rationale behind policy coordination, meaning why and how a coordinated European approach might help member states engage in structural reforms. Following this, there will be a closer examination of the Lisbon programme as well as the mode of governance surrounding it. More specifically, this section asses and evaluates the ‘toolbox’ of Lisbon, meaning the policies it entails. In addition to this, the process by which the strategy seeks to achieve the goals, which is the Open Method of Coordination (OMC) will also be examined in closer detail.

The second section of this thesis will continue with the analytical part and will use the negotiation process to establish divergences between national and Community interests.

In chapter five and six, focus will be on the different ‘phases’ of the Lisbon strategy. In principle, the heads of state in Europe discuss the strategy and its progress every spring. However, some summits have been more comprehensive than others in the way that they have contributed to the construction of Lisbon in its current form. It would not be possible within the timeframe of this project to examine all summits within the Lisbon agenda in detail, thus the chapters will examined two summits more closely.

The first example will be the Council meeting in 2000 in Lisbon, as it was here the first strategy was founded. This summit is interesting to investigate more closely, because it introduced the Lisbon agenda. The second example will be the Brussels summit in 2005, where the member states decided to re-launch the strategy. The basis for this summit was the Kok report, which conducted a mid-term evaluation of the Lisbon strategy. The chapters will focus on divergences in policies or governance structure, which was suggested at each summit, to clarify if the member states had collective national interests at stake, and whether these constructed Lisbon in such a way that it became difficult to make progress. The final part of chapter six will look briefly at the Commissions latest evaluation of the implementation of the national reform programmes to see how this corresponds to the other investigation results.

A number of summits have contributed to the final process of the Lisbon strategy, such as the Gothenburg Summit in 2001, which added the environmental ‘pillar’ of Lisbon and the summit in Barcelona in 2002, which added the ‘R&D’ pillar to the strategy. However, as this paper seeks to analyse overall areas of potential conflicts in the Lisbon strategy, focus will be on the two milestones in the Lisbon strategy history – the launch in 2000 and the re-launch in 2005. Summits in between may have further specified the policies within the strategy, such as emphasising the need to include environmental considerations or include measurable targets on R&D, however they have not altered the structure or the content substantially.

In the analysis, the theoretical framework will be drawn upon to support the empirical evidence and as a help to provide a structured explanation of why the outcome and progress within Lisbon has been the way it has, as well as what this tells us about integration in the European Union.

Chapter seven will examine what the results of the analysis can mean for the future of the Lisbon strategy and for further European integration.

Finally, chapter eight will sum up on the main findings and briefly evaluate on the method used to achieve the results.

## 1.5 Aim and limitations of the project

Since the launch of, and especially the re-launch of Lisbon, it has attracted attention and debate, especially on its governance structure and lack of lack of progress. The aim for this paper is not to deem the Lisbon strategy irrelevant, but to highlight the difficulties that it may encounter due to national preferences. It aim to provide an angle of insight into what is wrong with the strategy, which may lay the grounds for further research on how to structure Lisbon in the future. In addition, the paper may be seen as a contribution to the ongoing debate about structural reform due to globalisation and of the role which European integration can or should play in transforming the European economies.

The Lisbon strategy is a broad and complex framework, indeed most of the Unions policies may be related to the Lisbon strategy in some way. The limit of this thesis is of course that it can provide an analysis of conflicts in the overall framework (Lisbon) and only in two summits in particular. Many ongoing negotiations in the everyday work of the European Union can be related to Lisbon and as such they are all part of the wider picture by which it is possibly to research on Community and national interests. A deeper analysis of all the negotiations attached to the policy areas surrounding Lisbon is beyond the scope of this project, but is nevertheless relevant. In this context, the findings within this thesis can highlight a number of variables, which might call for further analysis in order to gain an understanding of where the European Union is heading in this area.

## 1.6 Sources and scholars used in the work of the thesis

In addition to the sources mentioned in the methodological section, Commission and Council documents, this thesis will use scholarly work, which will be drawn in to give credit to arguments or to highlight contradicting perceptions. A brief comment on who they are and their field of work will be made in footnotes, however a couple of scholars have been used widely in different sections throughout this thesis, due to their expertise and relevance within certain fields.

Iain Begg, professor and research fellow at the London School of Economics. His main field of work is the political economy of European integration and European economic governance. He has done much work on the Lisbon strategy; has held a number of advisory roles, among others, to the European Commission and has conducted an evaluation of the Lisbon implementation process for the European Parliament. His work has been used in the sections analysing the rationale behind the Lisbon strategy and the implementation process in this thesis. In addition to Iain Begg, I have used two other scholars in the same sections of the thesis. Jean Pisani-Ferry, director of Bruegel[[3]](#footnote-3), is a member of the Commissions’ group of economic policy analysis and a former senior advisor to the French government. He has worked on issues such as economic reform and has co-authored the article ‘Last exit to Lisbon’, along with André Sapir.[[4]](#footnote-4) Their work will be used, along with Begg, in the discussion concerning the implementation process of Lisbon, and also the role of the European Commission within it. Maria Rodrigues, former advisor to the Portuguese Prime Minister and the Presidency during the Lisbon summit in 2000, has worked on the preparing the suggestions put forward by the Portuguese Presidency. In her work *“The new knowledge economy in Europe”,* she hasgathered the academic contributions surrounding the Presidency. This work has therefore been important in the construction of the sections in this thesis which outlines the challenges Europe faced, reflected by the contribution of Luc Soete[[5]](#footnote-5), and the OMC as mode of governance, reflected by the contribution of Mario Teló[[6]](#footnote-6).

Finally, Piotr Kaczynski, research fellow at the Centre for European Policy Studies in Brussels, has conducted research on the European Commission during its latest term (2004-2009). In his work, he highlights weaknesses of the Commission, especially in relation to its role as a main driver of integration. His work has been used in the discussion of the Commission’s role in fulfilling the re-launched Lisbon strategy, as his results highlights some interesting questions on the Commissions role in European integration and thus also in relation to Lisbon.

## 1.7 Theoretical framework

Theory is necessary in every study of social science phenomena, because it is impossible to make structured observations without a sound theoretical base. The idea of a theoretical starting point is thus to have a more structured understanding or perception about the observations which we might get from the empirical evidence (Rosamond 2000:4)*.* Consequently, good theory provides us with a pair of sunglasses by which we are able to identify which elements should be given more or less importance, when observing social science phenomena. In relation to European integration, scholars have been theorizing about the phenomenon since the very beginning. The interest for scholars early on was in conceptualising the process and outcome of European integration, the challenge being for academics to understand the mechanisms that formed communities, especially the role of the nation state in the integration process (Ibid: 1-2).

This section will outline the theoretical framework for this thesis; more specifically it will provide an introduction to two theories about European integration; neo-functionalism and liberal-intergovernmentalism. The logic behind this theoretical framework is to be able to use this in the wider discussion in chapter five and six, where empirical evidence is too little ground by which to argue and discuss that domestic political resistance may be the cause of lack of progress in Lisbon.

## 1.7.1 Neo-functionalism

The theory of neo-functionalism as a way to conceptualise European integration was developed by Ernest Haas between 1955 and 1957 (Rosamond 2000:51).[[7]](#footnote-7) Neo-functionalism, which has its roots in functionalism, was one of the earliest attempts to theorise the movements within European integration in post-war Europe.

Ernest Haas developed his approach to neo-functionalism based on his observations of the European Coal and Steel Community (ECSC) and the later establishment of the European Economic Community (EEC). The central point in neo-functionalism is on the processes of European integration, meaning an explanation of the *means* of European economic integration and *how* political integration will inevitably come about as a result of this (Ibid:55-59).

Neo-functionalism focuses on sector integration and assumes that when countries cooperate in economic areas of mutual interests, areas that are a key part of the political economy, integration processes will become self sustaining and gradually cause an erosion of the nation states as the main actors. For neo-functionalist, as economic integration increases, interests groups will move their focus to a more supranational level, thereby creating a pressure for further integration. Further to this, neo-functionalists are concerned with the issue of institution building and place great emphasis on a higher authority (i.e. the Commission) as a driver of further integration (Ibid:51; Evans & Newnham 1998:359). For Haas, when a group of states negotiate the outcome will always reflect the lowest common denominator. From this point of view, communities will need a central, autonomous authority to drive integration forward (Rosamond 2000:61).

Neo-functionalists argue that European integration is driven by a ‘spill-over’ effect, where the placing of certain sectors of the economy under the authority of a central institution leads to cooperation in more policy areas and increase institution building. The theory distinguishes between *functional* and *political* spill-over (Pollack 2005:15)[[8]](#footnote-8). Functional spill-over is economic in nature and refers to the integration which occurs when integration of one sector in the economy creates a pressure for further policy cooperation. More specifically, integration processes can be explained by the cooperation between nations in economic areas and it is this cooperation that will create a pressure for further integration. This pressure for further integration will be fostered by the supranational authority itself, but also by transnational and social interest groups, which will redirect their influence towards the supranational level. Consequently, as economic integration expands and requires more regulatory activities at a European level, European institutionalisation will emerge and political integration is thus an inevitable outcome of economic integration (Rosamond 2000:52). This way, the process of European integration may be seen as self-sustaining.

Neo-functionalism was one of the founding theories about European integration and early EC integration, such as the establishment of the EEC, confirmed the logic in the neo-functionalist approach as it was difficult to grasp within the existing framework of IR theories (Evans & Newnham 1998:359[[9]](#footnote-9)). Nevertheless, criticism has been made towards the neo-functionalist view on integration. First, it is argued that the theory is not relevant and cannot provide a satisfactory account of European integration, simply because empirical evidence is against it and the relevance of states as actors have not diminished (Rosamond 2000:73). Second, a more normative approach argues that the erosion of the nation states, which neo-functionalism predicts as a result of European integration, is unlikely to happen. Nation states are still the best in protecting certain kind of values to humans, such as justice, liberty etc., thus any erosion of the state system as we know it would jeopardize this (Evans & Newnham 1998:360).

The theory of neo-functionalism is included in the further analysis for two reasons. First, due to its focus on the Commission as one of the main drivers of integration, it might be able to provide an explanation of why the Lisbon strategy came about in the first place. Second, in the further analysis, the initial assumption is that liberal intergovernmentalism will be more appropriate in explaining the outcome and ‘status quo’ in the Lisbon strategy. Nevertheless, it will be interesting to detect, if the argument of neo-functionalism is reflected, more specifically, if one can detect how large a role the Commission has played in the outcome and structure of the Lisbon strategy as this shows the level of Community leadership. From the neo-functionalist point of view, Community interests should be denoted as those of the supranational institutions of the EU, like the Commission, which means that we might expect that it (the Commission), has tried to expand its role or sought to enhance its powers within the framework of the Lisbon strategy.

## 1.7.2 Liberal-intergovernmentalism

The second integration theory is that of liberal-intergovernmentalism. One of the main scholars within liberal-intergovernmentalism is Andrew Moravcsik[[10]](#footnote-10).

In his work from 1993, Moravcsik constructed the theory of ‘liberal intergovernmentalism’ as a response to the faults of neo-functionalism, which he believed was insufficient in explaining European integration (Moravcsik 1993: 480). Liberal-intergovernmentalism is a theory which combines two distinct approaches, namely ‘liberal institutionalism’ – a theory of interstate bargain and the theory of national preference formation, which has roots in the liberal theory of international interdependence (Ibid.).

One of the main assumptions in liberal- intergovernmentalism is that of state rationalism, where Moravcsik argues that states make a cost/benefit analysis about the potentials of an international bargain situation. The sum of this ‘analysis’ may be seen as the national preferences, which the state then seek to realise at the international level, thus it is these national preferences which shape the state behaviour in interstate bargaining (Ibid.:481).

In this sense, liberal-intergovernmentalism argues that state preferences are formed by the pressure of domestic, societal groups. When domestic preferences change, national stands at the international level change, as the main goal for state governments is seen as staying in power. Ben Rosamond argues that states are seen as acting on two stages simultaneously, linking the domestic political level with international relations (Rosamond 2000:136). Moravcsik refers to this two level model as a process of supply and demand. First, national governments define their interests domestically, which can be said to create a demand for integration. Second, national governments then bargain international solutions on a European level in order to meet these demands – the political response of these negotiations can be seen as the supply of integration. It is this interaction which defines the foreign political behaviour of states (Moravcsik 1993:481).

From this understanding of European integration, we must understand the concept of Community interests as the view expressed by the Council. If the main actors in European integration are, as stressed by liberal-intergovernmentalism, the national governments, then it could be argued that the sum of the national interests is what we should perceive as Community interests.

Although the work of Moravcsik has greatly influenced contemporary work on European Union studies, liberal-intergovernmentalism is subject to criticism as well (Rosamond 2000:145). One element of criticism is made by Wayne Sandholtz, who argues that the existence and role of supranational institutions should not only be seen as the sum of national preferences. Indeed, the link that these institutions form with societal actors may influence the integration process as these interactions could reflect non-state preferences into the EU system. According to Sandholtz, this opens up for the possibility of the EU to influence domestic politics by bypassing the national governments (Sandholtz 1996 in Rosamond 2000:144).

Following this, criticism of liberal-intergovernmentalism stresses that the theory does not account for the everyday work that takes place in the EU system and which could influence the integration process. For instance, some authors, like Smith and Ray argue that the two-level approach might be “too simplistic” (quoted in Rosamond 2000:147). Indeed, these authors argue for three more levels in the process, thereby shaping a multilevel approach to European integration (Ibid.).

Nevertheless, liberal-intergovernmentalism will be used in the analysis of this thesis. The interaction which Moravcsik argues takes place between the national level of preference formation and the international bargaining level reflects the initial working assumption that states are constrained by the national sphere. As liberal-intergovernmentalism focuses on the bargaining process which takes place between states, this theory is relevant to draw upon in the further analysis, as it will supplement the empirical data with more systematic explanations on why we have reached the outcome that we have in the Lisbon strategy.

# 2. Conceptualisation of competitiveness, innovation & knowledge economy

One of the main goals of the Lisbon strategy is to improve competitiveness in Europe to secure growth and jobs. Innovative capabilities and a successful transition to a knowledge-based economy are seen as prerequisites to maintain and enhance competitiveness. This chapter will introduce the concepts of ‘competitiveness’, ‘knowledge-based economy’ and ‘innovation’.

## 2.1 Competitiveness – a goal for whom?

The term ‘competitiveness’ is often referred to by politicians, yet it is ill defined and, when used about nations, raises questions about who is it exactly that competes? According to the OECD, a general definition of competitiveness *“refers to the ability of companies, industries and regions, nations or supranational regions to generate, while being and remaining exposed to international competition, relatively high factor income and factor employment on a sustainable basis” (quoted in Lawton 1999:3).*

Several authors argue that the very notion ‘competitiveness’ in relation to nations cannot be a goal in itself (Krugman 1994:30; Porter 1998:6). In his work from 1998 *“The competitive advantage of nations”,* Michael Porter[[11]](#footnote-11) seeks to explain why some nations prosper in international competition while others do not. In doing so, he argues that trying to define competitiveness becomes the ‘wrong task’ as it is very unclear by which variables such a term should be measured (Porter 1998:1-6).[[12]](#footnote-12) Paul Krugman[[13]](#footnote-13) agrees with Porter when he argues that the notion of competitiveness is a ‘dangerous obsession for nations’. Unlike firms, it is unclear what the consequences are for these if they are lacking competitiveness. If firms are unable to compete, they go out of businesses. Nations however do not ‘go out of business’ if they are unable to compete, thus the concept of national competitiveness is at best non-existent (Krugman 1994:31).

Instead, it is more relevant to examine the goal of competitiveness. Scholars agree that the main goal for nations is to raise the general income and achieve higher living standards for its citizens (Porter 1998:6; Lawton 1999:3[[14]](#footnote-14)).

The way to achieve this is to raise economic growth, which is done by raising labour productivity and/or raising the hours worked per person or the overall employment rate (European Commission 2005c:12). Economic growth may be summarised as the following equation:

GDP/Population= GDP/employment + Employment/Population (Ibid.).

Thus, if nations want to be more competitive vis-á-vis other nations they must focus on raising productivity levels within their national sphere. Porter mentions how nations should focus on *determinants* of productivity as a way to shape the *national competitive advantage*. In his work, he emphasises four such determinants, the ‘national diamond’, which are factors that can help improve the national advantage (Porter 1998:72). The four areas are interlinked and make up a system of national competitive advantage. The first determinant is factor conditions, which refer to the basic or advanced factors that a nation possesses, such as infrastructure, skilled labour, knowledge and human resources. The second determinant, demand conditions, refers to the size and nature of the home demand. The third determinant is relating and supporting industries, meaning the link between supplier and related industries. Finally, firm strategy, structure and rivalry, which refer to the conditions by which supporting industries and the organisation within a firm affect the national competitive advantage (Ibid:71-72). While the concept of ‘competiveness’ is an irrelevant term for nations, it is relevant for businesses. In this context, the four determinants create ‘a home base’, an environment which shapes the competitive advantages of an industry (Ibid:71). From this perspective, the national competitive advantage depends on a nation’s ability to secure that its industry can create such competitive advantages.

Finally, if competitiveness is ‘useless’ in relation to nations, a question must be why states emphasise the need to be competitive, in example, why the EU is so keen to stay competitive vis-á-vis the US? Paul Krugman notes that, apart from the fact that ‘competitive images are exciting’, governments may chose to use the competitiveness metaphor to justify or avoid hard choices (Krugman 1994:40). In example, policy statements may be better understood, rhetorically, by referring to the lagging behind or the loss of competitiveness in a global race, than the need to increase the employment or productivity rate.

### 2.1.1 The role of government in shaping national competitive advantages

As argued, the national competitive advantage depends on the competitiveness of businesses. Businesses gain competitiveness by becoming more efficient or by improving products and services, i.e. by getting better innovative skills and technological developments within the businesses environment. In this context, governments have a role to play.

Porter accredits the role of government as external processes affecting the four determinants, as these processes influence the determinants of productivity (Porter 1998:127-129).

Susanne Mundschenk[[15]](#footnote-15) agrees by arguing that high growth and employment rates show the national competitive advantage. She emphasises that competitiveness for nations *“depends on the quality of a country’s economic and political institutions and the extent to which they are supportive of employment, productivity growth, innovation and the ability to adjust to changing circumstances” (Mundschenk 2006:7).*

This shows that national institutions and government policies are important factors in achieving national competitive advantages. One could argue that it is irrelevant to talk about *national* competitive advantages in an era of globalisation. Can national governments still secure their businesses? Indeed one might argue that in an era of globalisation, where capital, products and labour increasingly flow across borders, there is little room for national or perhaps ‘European’ policies. The answer to this is that it is not so much a question of securing national businesses, as creating a favourable environment in which businesses would like invest and settle. In her article *“Who are EU? Ambiguities in the concept of competitiveness”,* Susan Strange[[16]](#footnote-16) (1998) addresses the issue of European competitiveness. Here she argues that in a global world, competitiveness of European or American companies is far from the same as *European* or *American competitiveness.* European companies are often based in America or other countries and vice versa (Strange 1998:102-104). The same notion could be applied to companies in the national sphere. The task for nations therefore is to create a favourable environment for businesses to operate in. According to Strange, governments do this best by providing human capital and in other ways act ‘good landlords’ to ensure that investors and corporations have the necessary facilities available to generate growth (Ibid:113).

### 2.1.2 Knowledge and innovation as drivers of competitive advantages

In the Lisbon strategy as well as on earlier occasions, the EU has pointed to the need for a transition towards a more knowledge-based economy, as knowledge and innovation are seen as essential parameters in securing growth and Europe’s place in the world. In its 1994 white book on ‘Growth, competitiveness and employment’, the European Commission indicated that Europe would be wasting time trying to ‘beat’ its competitors on the field of mass production. Instead, Europe needed to focus on raising productivity and to create better or more sophisticated products, which required a focus on innovation and a transition to a knowledge economy (European Commission 1994:7).

The term knowledge-based economy entails a shift in the economy where knowledge is increasingly important as a key factor in economic growth (Soete 2002:36). Knowledge has of course always played a part in the economy; however there are a number of features about the new knowledge economy, which pose challenges for nations and industries.

First of all, knowledge and the accumulation of knowledge are more incorporated into economic thinking. Knowledge is no longer seen as an external process affecting production rather it can be counted in as any other capital good in the production process. Its value can be depreciated if people no longer use their knowledge or new knowledge might render existing or previous knowledge worthless (Ibid). For businesses, this requires adaptability and willingness to constantly seek new knowledge i.e. through training of employees, investment in R&D, hiring of qualified personal etc., however it also presumes a role for the nation in securing that the resources needed is available in its environment.

Second, due to the development of Information and Communication Technologies (ICTs), knowledge is ever more important in shaping the competitiveness of businesses. ICTs offer possibilities for businesses to codify and use information and knowledge technologies. Yet to benefit fully from these technologies, businesses often require highly skilled labour or ‘knowledge workers’ to complement such technologies (Ibid:37).

Finally, the new knowledge economy is closely linked to the concept of innovation, as innovation makes knowledge an important asset, if the benefits of it are to be reaped (Ibid.).

Innovation is a concept worth elaborating upon, as it has moved from a diffuse concept to becoming an important term in the economic literature (Fagerberg 2002:1)[[17]](#footnote-17).

The aim of innovation is to introduce new products and processes to the economy, thus we may understand innovation as a vital factor in raising productivity and shaping competitive advantages. Innovation is seen as crucial for the catching up process which might exist between firms, regions and nations and is a prerequisite for economic growth (Ibid:20).

It is important to distinguish between invention and innovation. Kline and Rosenberg note that: *“It is a serious mistake to treat an innovation as if it were a well-defined, homogenous thing that could be identified as entering the economy at a precise date or becoming available at a precise point in time...The fact that most important innovations go through drastic changes in their lifetime – changes that may, and often do, totally transform their economic significance. The subsequent improvements in an invention after its introduction may be vastly more important, economically, than the initial availability of the invention in its original form (Kline and Rosenberg, 1986:283 quoted in Fagerberg, 2002:5).*

The conception above shows that innovation is a process, often requiring complementary innovation or further inventions to become successful innovations. Inventions can take place everywhere, i.e. at universities, but most innovation is carried out in businesses or other organisations (Fagerberg 2002:5). The above is important because the perception of innovation has shifted from being one of invention of new technologies to being about better and more systemic use of existing structures of knowledge, for instance organisational structures, production processes etc (Soete 2002:38). This understanding of innovation is indeed relevant in the knowledge economy, as it raises high demands for the use of knowledge in businesses, organisations and institutions if these want to do well in the global economy.

From the above it should be clear that the concept of competitiveness is, as Krugman explains it, at best a ‘dangerous obsession’ (Krugman 1994). Thus, in the examination of Europe’s competitiveness problem, focus is on an evaluation of how Europe is doing in terms of productivity and employment – internally and vis-á-vis its competitors. In order to improve on productivity in the global economy, knowledge and innovation are increasingly important parameters, which can help shape the national or the European competitive advantages. The task therefore for governments, whether they are national or European, is to help facilitate this. In the following, the problem that Europe was facing in relation to competitiveness, innovation and the transition to a knowledge economy will be examined.

# 3. The European problem prior to the Lisbon strategy

*“The European Union is confronted with a quantum shift resulting from globalisation and the challenges of a new knowledge-driven economy (…) hence the need for the Union to set a clear strategic goal and agree on a challenging programme for building knowledge infrastructures, enhancing innovation and economic reforms” (European Council 2000:1).*

As outlined above, the EU did indeed see a problem in relation to its position in a global world, and this chapter will examine more closely whether this is a perceived or ‘real’ problem and whether it is the EU as a whole which has a problem rather than single member states. Initially, the problem of competitiveness and the transition to a knowledge economy is analysed from a discourse perspective, drawing on the work of Colin Hay and Ben Rosamond. Their work provides an understanding of how the perception of globalisation affects the political choices of states. Whilst not denying empirical evidence which may point towards economic challenges for Europe, the problem will be looked at from a discourse perspective to evaluate the causal link, which European policy-makers seem to make between the challenges of globalisation and the need for economic reform.

## 3.1 The rationale for the Lisbon strategy - from a discourse perspective

In their work from 2002, Colin Hay[[18]](#footnote-18) and Ben Rosamond theorise on the link between actor’s perception of external economic constrains, such as globalisation or European integration, and the impact of this on political outcomes. The aim is to outline an institutionalist, yet at the same time social-constructivist understanding of external economic constrains, as they aim to show how ideas about economic integration or globalisation come to structure the behaviour of political actors (Hay and Rosamond 2002:147).

The central argument is that ideas and perceptions shape the behaviour of actors. Consequently, in the context of political actions and institution building, the logic is that *“whether the globalisation thesis is ‘true’ or not may matter far less than whether it is deemed to be true (or, quite possibly, just useful) by those employing it” (Ibid:148).*

According to Hay and Rosamond, it is important to recognise the potential link between ideas of globalisation and the structure of political and economic outcomes. Policy-makers may speak of globalisation and its challenges because they indeed believe these are true and thus act accordingly. However, they may also, as implied in the quotation, speak of globalisation and its impact as a sort of ‘scapegoat’ for policies, as actors might see an advantage in bringing forward the globalisation argument. The latter is in line with the argument brought forward by Paul Krugman in relation to competitiveness, namely that state leaders might ‘sell political reforms’ easier by referring to the loss of growth etc., due to the lack of competitiveness.

Hay and Rosamond map out different ‘discursive paths’ that policy makers might use when referring to globalisation or European integration, depending on how they view it. The most important one is the discourse where globalisation is viewed as an ‘external economic constrain’.[[19]](#footnote-19) This discourse sees globalisation as a world of increasing capital and factor mobility, which brings along economic imperatives for state actors. Indeed, globalisation is assumed to be: *“..a world of rigorous tax competition lubricated by flows of capital, of an intense struggle for locational competitiveness secured principally on the basis of cost reductions, welfare retrenchment, labour market flexibilization and the removal of supply-side rigidities”(Hay and Rosamond, 2002:152).*

Consequently, globalisation from this view is seen to demand deregulation in order to please the market, but in any case, globalisation is viewed as an economic constrain which is non- negotiable (Ibid.).

A second kind of discourse is the view that globalisation is ‘a contingent and undesirable outcome’. This discourse is often seen among sectoral interests who favour the European Social Model, but also among pro-integrationist European policy-makers (Ibid:156).

In here, globalisation is viewed as an undesired outcome, which may possibly bring along external economic constrains, yet these constrains can be controlled. European integration tends to be emphasised as a mean by which to control the negative aspects of economic globalisation (Ibid.).

In relation to the Lisbon documents both kind of discourses may be identified, as in the Council decision where the ‘new challenges’ for Europe are outlined:

*“1. The European Union is confronted with a quantum shift resulting from globalisation and the challenges of a new knowledge-based economy. These challenges are affecting every aspect of people’s lives and require a radical transformation of the European economy. The Union must shape these changes in a manner consistent with its values and concepts of society and also with a view to the forthcoming enlargement.”*

*“2. The rapid and accelerating pace of change means it is urgent for the Union to act now to harness the full benefits of the opportunities presented. Hence the need for the Union to set a clear strategic goal and agree a challenging programme for building knowledge infrastructures, enhancing innovation and economic reform, and modernising social welfare and education systems” (European Council 2000:1)*.

Globalisation is here referred to as an external constrain, which require a ‘radical transformation of the European economy. However, it also follows that globalisation and the knowledge economy is not only to be seen as a negative thing for Europe, rather the need for reform is justified so that the Union may ‘harness the full benefits’ which globalisation brings. Thus, there is a perception among the Council that the very change in the world, associated with globalisation and transition to a knowledge-based economy, calls on the need for cooperation in order to adapt and cope with these challenges. It is not explicitly mentioned that European integration should function as *the mean* by which to combat or cope with globalisation. However, one might argue that had there not been a perception among policy-makers that a coordinated, European response would be better than a single, national response, the Lisbon strategy would hardly have been born in the first place.

Another discourse worth noting, which also reflects the term competitiveness, is that of continuously comparison with the US and Japan, indicating that the EU must act in order not to lose the technological race. In its proposal for a European Research Area, the Commission states that:

*“Even more so than the century just finished the XXIst century we are now entering will be the century of science and technology....In Europe, however, the situation concerning research is worrying. Without concerted action to rectify this, the current trend could lead to loss of growth and competitiveness in an increasingly global economy. The leeway to be made up on the other technological powers in the world will grow still further. And Europe might not successfully achieve the transition to a knowledge-based economy” (European Commission 2000a:4)*

In here, the Commission use the gap to call for more research cooperation in Europe, as any failure to improve in this area might ‘lead to a loss of growth and competitiveness’.

Thus, the examples show that in the discourse surrounding the Lisbon strategy there was clearly a perception among European policy-makers that globalisation, and the challenges of a knowledge economy, called for a united European response. It might be that policy-makers saw an interest in advancing the issue of globalisation and the challenges of a knowledge economy, because of a desire to make structural reforms; to engage in a new political project or a different option. Yet, it cannot be concluded from the above whether European policy-makers indeed believed that the EU was facing grave challenges due to globalisation or whether they had an interest in emphasising these challenges.

## 3.2 The rationale for the Lisbon strategy – economic indicators

In the following, a number of key economic indicators on how the EU was doing vis-á-vis its competitors is examined. The European problem by the end of the 1990’s was mainly related to poor economic growth and a lack of adaptation to the innovative and knowledge-based economy (Rodrigues 2002:14).

In terms of growth, the main problem for the EU was that its GDP grew by only an average of 2 % during the 1990’s, while the US economy grew 3 % on average. In addition to this, employment also grew by 1% contra the US’ 3 % in the same period (Soete 2002:31-32).[[20]](#footnote-20) In comparison to the US, this meant that the average GDP per capita was some 20-30 percent below that of the US during the 1990’s. GDP per capita growth situated at an average annual 2.12 per cent in the US, while the figure was only 1.62 for Europe (Ibid:31).

The gap in GDP per capita was mainly due to a labour and productivity gap between the EU and the US. In 1999, European employment rates were only 87, 4 % of the employment rates in the US and the number of hours worked and productivity per hour were only 87, 5 % and 91, 9 % respectively of the US level (Dierx & Ilzkovitz 2006:17).[[21]](#footnote-21)[[22]](#footnote-22)

In relation to employment, the problem for Europe was a lack of inclusion of the older workers and the women into the labour market. The employment rate for woman (age 15-64) was 50% in 2002, compared to 68 % in the US.[[23]](#footnote-23) Likewise, for older workers the employment rate was 36 % compared to 57 % in the US (European Commission 2000b:6).

In 2000, 10 % of the labour force was unemployed (15 million) and the European Commission estimated that if the EU was to match US employment rates, it would require an extra 30 million people into jobs (Ibid:4). In order to catch up with US then, the EU needed to improve on its productivity levels and employment rates, by either raising the total amount of employed in the labour force and/or by improving productivity.

Luc Soete argues that the main problem concerning EU growth rates in the 1990’s was that it was ‘jobless’ growth, meaning that the problem seem to be that growth rates were not high enough to create higher employment rates (Soete 2002:30). In this context, it must be stressed however that there are differences between the member states. In terms of employment and increases in GDP per capita, countries such as Ireland, Netherlands and Denmark have been able to catch up with US growth and employment rates, whereas other member states like Germany and Italy have lacked behind (Ibid.).

In light of the demographic development of the EU in the coming years, raising productivity and employment levels becomes important if welfare is to be expanded, as the active labour force will shrink. The Commission estimates that the impact of demographic changes means that in 2050 the GDP per capita would fall by 20 per cent. It does not necessarily follow however that the living standard will fall by 20 per cent, but it may not be as high as what might be anticipated (Dierx and Ilzkovitz 2006:18).

In addition to the difference in growth and employment rates, it is necessary to see how the EU is doing regarding the transition to the knowledge economy, where the main indicators are expenditure on R&D and investment in ICT.[[24]](#footnote-24) In light of the problem with the lower productivity discussion it is relevant that the EU is able to improve this by making use of research and technologies to improve its economic performance.

In terms of ICT intensity, which is the figure of expenditure on IT hardware, services and software and telecommunication, Europe spent around 6 % of its GDP in 1997 compared to 8 % in the US and 7 % in Japan. Of the 15 EU states at the time, only Sweden matched the US in terms of ICT expenditures (Soete 2002:41-42).[[25]](#footnote-25) R&D spending on an overall level was behind the US in 2000, see table 1 below.

**Table 1**

|  |  |  |
| --- | --- | --- |
|  | **EU (15)** | **USA** |
| **R&D expenditure as % of GDP** | 1.8  | 2.8 |
| **GOVERD (% of GDP)** | 0.66 | 0.61 |
| **BERD (% of GDP)** | 1.14 | 2.08 |

Source: European Commission 2000a

R&D spending in the EU during the 1990s was 1.8 % compared to 2.8 % in the US and 2.9 % in Japan (European Commission 2000a:4).[[26]](#footnote-26) Again, large divergences exist between member states. Countries such as Sweden and Finland spend more than the US on R&D, while Germany, France, the Netherlands, Denmark and the UK all spend above the EU average. At the other end of the scale, countries such as Greece, Portugal and Spain all spend below 1 % of their annual GDP on R&D (European Commission 2000a:32).

In terms of R&D expenditure, there is a need to distinguish between Government Expenditure on R&D (GOVERD) and Business Expenditure on R&D (BERD). The latter may be regarded as important in terms of innovation levels in society as much innovation occurs in firms. In relation to GOVERD it is seen that the EU was actually following the US quite well, however it is on the BERD factor that the EU is indeed lagging behind the US. This again is subject to member state differences, as Swedish businesses with 2.88 % spent the most on R&D in Europe by the end 1990’s, while businesses in the larger states like Germany, France and the UK all spent little compared to the US, but nevertheless more than the EU average (Ibid:33).[[27]](#footnote-27) Again the laggards were the southern states. The gap in BERD between US and EU businesses may imply two problems. First of all, low business incentives to invest, especially within SMEs, might affect the wider level of technological development and innovation, as these are seen as a main driver of this. Second, too much reliance on government R&D funding makes the European businesses more vulnerable to political processes, which are subject to change (Mcguire & Smith 2008:158).[[28]](#footnote-28)

To sum up, the problem prior to the launch of Lisbon was a gap in terms of growth and productivity vis-á-vis the US. From a rhetorical point of view, the problem seemed to be the gap between the two on growth, employment levels and R&D expenditure, which meant that the EU was not as prepared for the challenges of globalisation and thus stood to lose out. This gap can be verified by a number of economic indicators.

However, it is important to note that the gap was just as much a problem *within* the EU. On growth, employment and R&D investment, the Scandinavian states matched both the US and Japan, while the major countries in the EU were lagging behind, which is of course a problem for the overall European economy. Consequently, the EU’s problem was more that some member states made the transition to innovation and knowledge economies successfully while others did not. According to Steven Mcguire and Michael Smith, Europe’s problem in terms of innovation is one of uneven performance, where member states that lag behind wish to create the perception that it the EU as whole which have an gap with the US (Mcguire & Smith 2008:151). In addition, while Europe spends on R&D, it is not successful enough in transforming this into innovative products and processes that can generate economic growth. In other words, Europe is not good at commercialising its research results or ideas (Ibid). Part of this is possibly due to the low R&D investment incentives by businesses.

It is not clear from the above whether the European citizens equally perceive this to be a problem. Some would argue that it might be a choice of the EU public to favour leisure over work, and therefore the working weeks are shorter in the EU. Marcel Canoy and Peter Smith argues that this should be taken into account, however, they also point to the rareness of citizens in two so similar economies choosing such a different pattern of work and leisure (Canoy & Smith 2006: 318), thus implying that it is the labour market not providing the opportunities. Nevertheless, from a discourse as well as an economic perspective, the challenges were present, which at the end of the day caused the initiation of the Lisbon strategy. Whether the economic challenges facing the EU were indeed as grave as perceived is beyond this project, the point of departure is that the Lisbon strategy was constructed.

# 4. The Lisbon strategy

This chapter will examine more closely Europe’s response to these challenges by presenting the Lisbon strategy. First the rationale behind Lisbon and behind policy coordination is outlined, after which the content and mode of governance concerning Lisbon will be examined more thoroughly.

## 4.1 If Lisbon is the answer – what’s the question?

This subtitle is borrowed from Iain Begg in his 2008 article “Is there a convincing rationale for the Lisbon strategy’, where he argues that the main rationale for the Lisbon strategy is *structural reform* of the European economies (Begg 2008:431). According to Maria Rodrigues, the European leaders were faced with a number of questions prior to the summit in 2000. If knowledge had become the main source of wealth and power between nations, how would Europe cope with this? Further, as innovative skill formed competitive advantages in a globalising economy, this raised the question of the EU position within it, and thus the question of US hegemony in the new millennium (Rodrigues 2002:1-3). The main dilemmas were how to build new competitive factors in the member states, whilst maintaining and renewing the European Social Model (Ibid:3).

## 4.2 The rationale behind policy coordination

A few comments should be made on the benefits that national governments might have in engaging in a coordinated response to structural reform. It could be argued that each nation would be best in deciding which method would best suit its economy. Some might see an advantage in waiting to engage in reforms and hope that a neighbouring country would aim to ‘kick-start’ its economy for the wider benefit of itself.

Yet structural reform can be achieved more effectively by policy coordination, either between different policy areas or between nations (Begg 2008:430). Iain Begg mentions that while there are different opinions on policy cooperation, three main reasons exist to why governments could benefit from engaging in policy coordination.

First, coordination of different policy areas and across boundaries can help steer the economies in a Union in the same directions, thus preventing any damaging spill-over effects which one country’s policies might have on another country. For instance, if a union has integrated fiscal policies, it may be advantageous to coordinate pension reforms (Ibid:430). Second, policy coordination entails a large element of ‘policy learning’, where governments can adopt best practises of other member states. The point of such a learning process is that it limits the uncertainty which characterises structural reform. It is often such uncertainty which prevent governments from engaging in structural reforms in the first place. By learning from others, governments might also be able to form a more coherent strategy as the problem for some might be the lack of skills internally to draw up coherent and effective reform policies (Ibid:431).

Finally, Begg emphasises that national governments might use the power of policy coordination to introduce polices that would otherwise have been difficult at a national level due to lack of political power. An example of this relates to Italy who used this ‘external factor’ as a way to politically be able to pursue a number of policies necessary to fulfil the convergence criteria (Ibid). Thus, policy coordination may be good way to achieve a more comprehensive approach, both across policy areas and across borders as it provides room for policy learning.

## 4.3 The Lisbon programme

In March 2000, the European Council agreed on a new strategy in order to tackle the challenges that Europe faced at the turn of the century. The aim was to make Europe *“the most competitive and dynamic knowledge-based economy in the world, capable of sustainable economic growth with more and better jobs and greater social cohesion”* by 2010 (European Council 2000:1). Indeed this seems as broad goal, yet the overall aim of the strategy was dual:

* To transform the member states into knowledge-based economies to secure competitiveness and innovation, by focusing on R&D policies, structural reform and full implementation of the Single European Market
* To modernise the European Social Model in order to prevent social exclusion and secure welfare in the future, by focusing on investing in people, generating employment and creating jobs with a future (European Council 2000:2).

More specifically, the Lisbon summit set out a number of measurable goals which was to be achieved by 2010 (European Council 2000:9):

* The average annual growth rate in Europe was to increase to 3 %
* The level of employment was to be raised to 70 % (from 61 % in 2000)
* The female employment rate was to be raised to 60 % (from 51 % in 2000)

In addition, the Barcelona summit in 2002 added the target of 3 % spending on R&D.

### 4.3.1 The toolbox of the Lisbon strategy

The ‘toolbox’ of Lisbon refers to the policy mix which the EU decided should be coordinated and used to complete the Lisbon goals.

Jean Pisani-Ferry argues that the EUs strategy to raise employment and productivity at Lisbon may be viewed as a three pillar programme. The first, *economic integration* is traditional EU policy so to speak. Integration, in the form of removal of barriers, obstacles to competition and reforming regulation, is a key component of Lisbon. This is carried out through EU as well as national policies. The second pillar, *soft coordination of domestic labour markets and pension reforms*, is a coordination of national policies to increase the supply of labour and to reduce unemployment. As this is primarily an area within national competence, common targets are set in the strategy and these are sought realised through the open method of coordination (OMC). Finally, the last pillar consist of a *restructuring of public spending*, which means that macro-economic policies in the member states need increasingly to direct spending towards R&D and education. As the EU has little competence here either, this also rests on coordination between the member states in that it was hoped that common objectives would foster efforts in the member states (Pisani-Ferry 2005:22-23).

Different policies may be identified in the Lisbon strategy and responsibility is placed at both Community and/or national level, depending upon the policy area in question as outlined below.

*Macro-economic policies: monetary, regulatory, competition and structural policy*

Macro-economic policies are to ensure a stable economic climate in order to allow growth and employment to prosper and to facilitate the transition towards a knowledge-based economy. Member states are to use these to create an economic climate in which work pays and where the tax and benefit systems create incentives to work. Public expenditure policies increasingly need to focus on fostering innovation. Regulation and competition policy are to steer the fulfilment of the Single Market to ensure a competitive and business friendly environment in which the *“full benefits of market liberalisation may be reaped” (European Council 2000:5).* This focus on regulation and competition policy in Lisbon is also due to the fact that by 2000 many areas relating to the Single Market lacked implementation, as barriers to trade were evident in service areas of electricity, transportation, gas and telecommunication (Ibid:6). Regulatory policy in Lisbon can be denoted as de-regulatory policies in many cases, as it is emphasised how public administration often placed burdens on the growth potential of businesses, especially SMEs, hence member states needed to focus on de-regulating in some areas to ensure their businesses growth potential.

*Labour market, social and employment policies*

Labour market and employment policies in Lisbon are mentioned as necessary tools to modernise the European Social Model. Such policies are to promote new skills amongst the citizens, focusing on life-long learning and IT skills and thereby secure employability (European Council 2000:8-9). Social policies can facilitate this transition and help avoid social exclusion, but also help modernise the European welfare states, thereby making better room for the demands of an ageing population (Ibid:9). If the labour force is to be expanded, social policy must be used, i.e. to re-think pension systems, social security systems like unemployment benefits and demands etc. Social exclusion is in the context should be denoted as more than just poverty, as the Council emphasised that the division of the European citizens also is reflected in an ever-widening skills gap. This limits the employability of these citizens in a global world (Ibid:2). This of course also means that social policy can be understood more broadly than mere economic support.

*R&D, education and innovation policies*

The use of R&D and other innovation policies are enclosed to increase the overall level of innovation in businesses and societies, and to generate a coherent European response in terms of research activities (European Council 2000:4). In addition, member states were urged to use education and training policies as a tool to equip the citizens with the skills needed in the knowledge economy.

Thus, the overall toolbox of Lisbon is a represented in a wide policy mix, which deals with improving the supply side of the European economy. At the one end, the span of economic and regulatory policies are meant to facilitate businesses, thereby helping to reach the goal of 3 % growth and the employment target. On the other end, R&D, education, labour market and social policies are tools which may be used to address the i.e. the restructuring of the labour market, by making it more adaptable to the challenges of the knowledge economy and to demographic changes.

### 4.3.2 A critical assessment of the Lisbon toolbox

The ‘new’ aspect in Lisbon is the inclusion of a large policy mix, meaning coordination across a wide range of areas.[[29]](#footnote-29) Much of the policy mix in Lisbon mainly deals with market liberalisation, such as competition and regulation policy.

From an overall perspective at the policies chosen in Lisbon, one could argue that the member states are very well aware of how growth and innovation might be achieved in the economy. Indeed from the second chapter it is clear that comparative advantages in a knowledge economy is not only secured through an increased competitive or regulatory environment, thought this is also vital. In order to raise employment and productivity levels in the new knowledge economy, focus must also be on investment in R&D, education, labour market regulation etc. From this view, the Lisbon strategy provides a very good answer to the problem at hand. Further the Lisbon strategy itself is seen as a positive aspect to the debate about the need for structural reform in Europe. It emphasises the main challenges, the importance for a comprehensive agenda and outlines a number of tools by which to monitor progress (Dierx and Ilkovitz 2006:38-39).

However, the broad and encompassing strategy can also be its weakness. Adriaan Dierx and Fabienne Ilzkovitz question the extent to which European leaders have discussed that too many priorities might result in a potential clash of priorities, more specifically, the strategy says very little of how much ‘weight’ each priority be given? In Lisbon, they argue, there is a lack of focus on potential trade-offs between the different economic, social and political goals, i.e. how social cohesion might be achieved, but at the expense of growth and productivity (Dierx and Ilkovitz 2006:40-41). Jean Pisani-Ferry points to a similar problem when he argues that by 2005 the problem for Europe had been on how to move forward on productivity *as well as* on employment. Productivity, Pisani-Ferry argues, has been traded off by employment, resulting in the fact that the EU GDP per capita remains below that of the US (Pisani-Ferry 2005:22). Likewise, for some countries there might be a clash between the Lisbon goals and the rules of i.e. the Growth and Stability Pact (SGP), where expenditure on education, labour market policies etc. might clash with the deficit rules (Begg 2006:2).

Finally, following Porter’s view on what creates comparative advantages, the strategy does focus on improving these determinants i.e. by improving factor conditions in the economy. Yet, in the aspect of demand conditions, the Lisbon strategy says little on what role public demand should play as a policy tool. This might be a problem, in example in relation to research and innovation in the business sector. The main tool by which the Lisbon aims to increase innovation is through expenditure on R&D. Nevertheless in the longer run, public demand, like public procurement, can often be a key driver of innovation in society and is better at creating innovation within firms, than a narrow focus on R&D spending (Edler & Georghiou 2007:949).[[30]](#footnote-30) Public procurement is mentioned in Lisbon II in that public authorities should think Small and Medium-sized enterprises (SMEs) into their public procurement programmes, yet the lack of demand side policies to innovation was still among the points of criticism in the Aho report, which was made for the spring European Council in Finland in 2006 (Ibid:951).[[31]](#footnote-31)

### 4.3.3 An assessment of the governance structure in the Lisbon strategy

The implementation process chosen by the Lisbon Council was the Open Method of Coordination (OMC), which is a looser form of cooperation than traditional EU governance. This coordination method is known from the TEU, where coordination was introduced in relation to the Broad Economic Policy Guidelines (BEPG) and later, in the Amsterdam treaty, coordination became extended to the employment chapter (Telò 2002:251).

Basically, the OMC is a cooperation measure which consists of four steps:

1. Common European Guidelines (decided at European Council level)
2. A learning process between the member states based on common indicators and the use of best practise
3. The drawing up of national action plans in response to this learning process and the Community guidelines and
4. An evaluation at Council level.

This final step will possibly result in Council recommendations to the member states and, if necessary, a reviewing of the Common guidelines. The role of the Commission is to feed the process by setting out policy recommendations for the member states, reviewing the process as well as to foster and support debates on policy in the member states (Begg 2006:34; Telò 2002:250).

One of the central tools in the learning process of the OMC is benchmarking. Benchmarking is used widely in the private sector to measure ‘best practises’ from a given company so that others may learn from this.[[32]](#footnote-32) In Lisbon, the OMC is applied on most policy areas, albeit the use of benchmarking may imply problems as well.

First, different indicators might have different meanings in different national contexts. In example, in a field such as education, the variables such as primary, secondary and tertiary education differs widely among member states, which may render comparisons difficult (Lundvall & Tomlinson 2002:211).[[33]](#footnote-33) This of course questions the extent to which all areas are comparable and thus how states are able to use the experiences of others. Further to this, the authors question the tendency, like in the field of R&D and innovation, to measure best practise up against the US, rather than against the smaller states. These have after all managed to become quite competitive in the new knowledge economy, whilst maintaining a high level of social cohesion (Ibid:228). Yet the tendency in innovation and research reports tend to refer to the US as best practise and the EU as a laggard which, according to the authors, to some extent diminishes the efforts of the smaller states and thus questions the OMC (Ibid:227-228). An analysis and understanding of how these countries have managed to succeed might be more useful than trying to close the gap with the US (Ibid.).

The OMC as governance mode in relation to Lisbon has been criticised due to the lose form of cooperation, but it is important to address the context in which the OMC came about. The OMC reflects a new way of conducting socio economic governance, which must be seen in the light of the integration process so far. Traditionally, Community strategies to eliminate differences between the member states have centred on Community legislation or intergovernmental cooperation. Whereas the latter has often proven ineffective in achieving common goals, traditional EU integration measures is increasing suffering from problem of legitimacy when it comes to delegating new responsibilities to the EU (Telò 2002:245-246). Consequently, new forms of governance were necessary if the EU wished to proceed with integration in the 21st century.

Iain Begg argues that the OMC was chosen because there were no other politically or pragmatic options available (Begg 2006:34). Mario Telò elaborates on this when he states that there were no options but the OMC as a governance tool, as Lisbon deals with areas that are mainly within the national framework and in which the EU has no competence. Further to this, the issues which Lisbon touches upon are high on the national agenda, thus it is unlikely that national governments or socioeconomic actors would be willing to render competence to EU institutions in this area (Telò 2002:248).

The OMC have failed in achieving progress, especially in getting interests in the member states and national governments engaged in the reform programme. There is no obligation to commitment and meaningful incentives for the member states to follow the strategy (Begg 2006:35). Lisbon leaves no action possibilities with the EU that it can use, if member states fail to comply with the goals they have set out, which can of course be seen as major problem.

Nevertheless, the OMC holds positive aspects as well. It allows for common policy making without member states having to transfer competences to the Commission or through hard law. Thus common approaches to problems can be made without a fear of loss of sovereignty. In addition, the coordination procedure is a good way to conduct policy cooperation at a European level whilst at the same time respecting national differences in the implementation process (Ibid:34-35).

## 4.4 The re-launch of the Lisbon strategy

In 2005, the Lisbon strategy had barely made any progress and the European Council agreed on a re-launch of the Lisbon strategy, which for reasons of clarity will be referred to here as Lisbon II.[[34]](#footnote-34) At the time of re-launch, average growth levels were still far from the 3 % and member states struggled with an average unemployment rate of around 9 % (Begg 2006:i). Further to this, the coordination procedure was not working as a governance tool. Too little was simply done on national level to implement the Lisbon strategy. It is in this light that Lisbon II was born, and the strategy changed into a ‘Partnership for Growth and Jobs’.

More specifically this means that Lisbon II, as opposed to Lisbon I, has a core focus of growth and jobs (Pisani-Ferry & Sapir 2006:1). The general aims are still the same, although the measurable targets have left out in most cases.

 Three priorities surround Lisbon II. The first priority is focus on ‘*knowledge and innovation – which is to serve as an engine for sustainable growth’.* In this area, member states must adopt a policy mix that will enhance public and private investment incentives just as public expenditure should increasingly focus on innovation.

A second focus is to ‘*unlock business potential, especially of SMEs’,* where policies should be created to foster a business environment able to secure innovation, productivity and competitiveness. Focus should be on ‘cutting red tape’, meaning administrative burdens as well as improving regulation for the smaller businesses.

The third priority, ‘*increasing employment opportunities for priority categories’*, addresses the need to create inclusive and flexible labour markets, prioritising good state-social partners cooperation in order to secure full employment and more productivity in the labour market (European Council 2005)

In opposition to Lisbon I, Lisbon II has sought to create a more narrow partnership in terms of substance and governance. The governance structure is more simplified and streamlined both from Community as well as member state level. The new governance structure entails three-year cycles, in which the Commission will provide a strategic document, and establish guidelines for the economic, social and environmental strands of the strategy. Lisbon II consists of a series of “Integrated Guidelines”, which is based on ‘merger’ between the former Broad Economic Policy Guidelines (BERG), introduced in Maastricht, and the employment guidelines, which were introduced in Amsterdam, 1998. As seen below, these have been merged into a set of Integrated Guidelines (IG), consisting of a macroeconomic chapter (6 guidelines), microeconomic chapter (10 guidelines) and an employment chapter (8 guidelines). An overview of the Integrated Guidelines is found in annex 1 in this thesis:



Source: Begg 2006:2

It is the IGs which constitute the framework for the “Partnership for Growth and Jobs” (Lisbon II). Based on the IGs, the Commission draws up its ‘Lisbon Community Programme’, which outlines the action that will be undertaken at Community level to fulfil the partnership for growth and jobs (European Council 2005:3). On the basis of the IGs, it is the responsibility of the member states to draw up “National Reform Programmes” (NRP), depending on their national situation and needs (Ibid). Member states are urged to include the broader parliament, local and regional governments in this process. Member states will then report back to the Commission following up on their NRPs and on how they have applied the OMC. National governments are to outline the different focus areas of action and the measures it has taken to comply with the Partnership for Growth and Jobs. The Commission will report back on progress annually to the Spring Council and, where necessary, adjustments to the IGs will be made by the Spring Council (Ibid).

In sum, the Lisbon strategy became the EUs coordinated response on how to cope with the challenges outlined in the previous sections. As mentioned by Begg, policy coordination across policy areas and borders may fasten economic and structural reform and indeed the EU chose this approach, which might reflect their commitment to structural reform. The toolbox included a wide range of policy areas, which again underlined that Lisbon aimed for structural reform of the European economy. The toolbox in Lisbon is from the outset desirable, as it entails many policies that will collectively bring about the desired outcome. However, this will of course only work, insofar as there is political will to focus on and implement all areas. By mid-term in the process, the Lisbon strategy was re-launched, as it had failed to make progress, mainly due to a broad agenda and the OMC, which highlighted a lack of implementation in the member states.

# 5. Negotiation of Lisbon I

This section will further examine the negotiation procedures surrounding Lisbon I to research on the divergences between Community and national interests. First, the Commission proposals will be outlined followed by what and how this was adopted by the Council. Hereafter, this chapter will finish off with an evaluation of how the outcome and negation of Lisbon I can be explained from a neo-functionalist and liberal intergovernmentalist point of view in order to explain potential conflict of interests. Focus in the discussion of Community versus national interests is on the divergences between the Commission’s proposal and the Council decision, especially on areas such as the budget and the devotion to targets and spending on human resources in the member states. The focus on a Community level to these issues may be seen as a good indicator of the willingness to invest in reform measures and thus the devotion to Lisbon.

In its communication to the spring European Council in 2000, the Commission submitted its contribution *“An agenda of economic and social renewal for Europe”*. This proposal laid out nine areas in which the Commission urged the Council to take action in order to address the main challenges Europe was facing in relation to employment, growth and globalisation. The Commission, headed by former President Romano Prodi called on the Council to make use of the favourable economic climate in Europe at the turn of the century in order to facilitate a restructuring of the European economy. This was comprised in two political stands (European Commission 2000b:11):

* The pursuing of economic reform to prepare Europe for the challenges of the knowledge economy and
* The strengthening of the European social model to cope with future challenges by investing in people and modernising social protection systems.

As seen, the above widely reflects the aims in the final Lisbon strategy as shown in section 4. Romano Prodi urged the Lisbon Council to focus on the long-term policy orientations in Europe and to set priorities, long-term goals and targets as well as a clear definition of who does what. The Commission stated that its contribution was *“ambitious, but achievable. If the Commission, the member states and European citizens at all levels summon the political energy and courage to implement this ambitious integrated programme, Europe will see a new “renaissance” with full employment and prosperity” (European Commission 2000c).*

European leaders, Prodi argued, would need to commit themselves to a ‘full package’ of economic, social and political reform warning that a ‘pick and choose strategy’ would not work (Ibid.). The following section will briefly look at was been proposed in detail.

## 5.1 Pursuing economic reform and creating a knowledge-based economy

As a way to achieve the two goals outlined above, the Commission proposed action within 6 areas which was to address economic reform, and further 3 policy areas which centred on modernising and strengthening the European social model. Figure 1 below shows the 6 policy areas relating to economic reform and the knowledge-economy.

**Figure 1:**

The first two headings of the Commission’s proposal deals with the need to make the electronic infrastructure more accessible and to improve the European Research Area, whereas the last four aim at creating a favourable business climate and to foster job creation and growth via macro-economic stability, market liberalisation and business support.

In January 2000, the Commission published its draft ‘Towards a European Research Area’ (ERA), which later came to be a part of the Commissions contribution to the Lisbon strategy. This proposal highlighted a number of challenges that the EU faced compared to its competitors, like the gap in public and private research spending and the risk of ‘brain drain’ (see chapter 3). The problem, according to the Commission, was a fragmented research area, in which research efforts in Europe merely reflected the sum of research activities of the member states. The Community effort is primarily financial in terms of the Framework Programmes for R&D[[35]](#footnote-35), which is very small in comparison to the total member state potential. The problem with a fragmented research area, according to the Commission, is the lack of growth potential, as it is estimated that 25 to 50 % of economic growth is due to R&D, so R&D is seen as a prerequisite for the creation of future jobs (European Commission 2000a:5).

The Commission therefore called for a more coordinated response like better networking and implementation of national and European research programmes; mapping out of centres of excellence; securing better potential for research structures; better support schemes for private investment including a better use of instruments or indirect support to research, for instance by using fiscal measures to stimulate the private research effort and better IP rights (Ibid:11). Especially the need for a Community Patent was highlighted, due to its vital importance for business R&D spending. If businesses cannot protect their intellectual property rights, the incentive to invest in R&D decline, thus the possibility to protect inventions throughout the whole of Europe is important for innovation and development (Ibid:14).

The large focus on SMEs under the title ‘Enterprise Europe’ may be seen in the light of their relative importance to the European economy and their potential contribution towards growth and jobs. Currently, SMEs[[36]](#footnote-36) account for around 65% of the turnover generated by the public sector in the EU, and compared to larger firms, SMEs are more successful in creating jobs, efficiency and growth in society (Morand 2003:302). Likewise, SMEs are of importance in generating innovation. Christopher Bovis[[37]](#footnote-37) argues that national authorities could wisely make their public procurement schemes more favourable for SMEs in search for more innovation in society. If public authorities demand or enquire after new technologies, products or processes, SMEs are more likely to meet this demand due to their size. They are more flexible than larger companies and therefore they adapt easier to new demands or market opportunities and are hence more likely to bring about innovation, industrial restructuring and enhance the overall economic growth in the regional economy (Bovis 1998:235).

## 5.2 Response of the European Council to the proposals for the knowledge economy

All in all, agreement was made on the areas above by the European Council, which shows a will to engage in an encompassing strategy. Economic stability is seen by both parties as a prerequisite for economic growth, thus there is little disagreement in relation to this. The same goes in relation to the full implementation of the single market, the wish to remove barriers for businesses and to integrate financial market.

The Commission pleaded for the need to review the Community’s financial instruments, suggesting that *“all the Community’s financial instruments must now be reviewed to ensure that they can play their full role in preparing the knowledge based society – along with the EIF and EIB. Where necessary, proposals could be made to reorient these instruments by the end of 2000” (European Commission 2000b:19).*

In suggesting a revision of the financial instruments, the Commission is referring to the budget as well as the investment opportunities available through the European Investment Fund (EIF) and European Investment Bank (EIB). Nevertheless, under the heading: *“Coordinating macro-economic policies: fiscal consolidation, quality and sustainability of public finances”*, the Council in rhetorical phrases stated the need to use macro-economic policies to foster transition toward the knowledge-based economy, *“which implies an enhanced role for structural policies” (European Council 2000:7)*. Thus, there was little will among the member states to specifically commit to a) an overall increase the budget or b) commit to certain percentages of the budget for specific Lisbon areas.

In other words, structural policies are mentioned as a way to create a knowledge-based economy; however there seem to be very little political will to transform this approach into action. One might argue that member states need not only to focus on shifting priorities within the budget, an increase in the overall budget would increase the overall Community spending on R&D and structural policies, which could enhance growth and jobs.

Filipa Figueira[[38]](#footnote-38) argues that there seem to have been a consensus among European policy makers for almost 20 years that the priorities within the budget correspond very ill to the world in which the EU finds itself, yet nothing has happened. According to Figueira, this is due to the level of criticism which the EU often faces in the nation states, which causes the national governments to focus on maximising their own benefits and, if possible, decrease their net contribution to the budget (Figueira 2007:1-3).

In the budget for 2000 to 2006, the Lisbon goals were still limitedly reflected in the budget as the Common Agricultural Policy (CAP) and cohesion policy accounted for 79 % of the total budget (Hix 2005:276). There is of course money in the budget, like the structural funds, which could accommodate some of the employment and education goals, yet only 7 % of the budget went to other internal policies, mainly research and development like the 6th FP programme (Ibid.). The above indicates that, in relation to the budget, the Lisbon strategy entails a gap between rhetorical priorities and real political action. The focus on ‘shifting support towards innovation and development’ and ‘increase spending on human resources’ is emphasised widely in the strategy, yet this is not reflected in the Community budget. This might be seen as an expression of the diversified interests between the Community and national level as it could be expected that the devotion to human resources in the Lisbon document would be reflected in the Community budget.

## 5.3 Investing in people and strengthening the European social model

Further to the six areas above, the Commission proposed action in 3 areas to transform the European Social Model and prepare for the challenges of the knowledge economy. Focus in here was on the need for coordination of a modernisation of social protection and to secure sustainability within the European pension schemes in the long run – taking demographic developments into consideration. Full employment was to be *the key objective* within social and economic policy as well as education and research spending (European Commission 2000b:19-21). It may be argued that this is one of the areas which cause more divergence between Community interests on the one hand and the national interests on the other, albeit the Council decision to a large extent reflects the Commission’s proposal. Figure 2 below shows the proposals by the Commission in this area.

**Figure 2**

In relation to employment, focus was on raising employment rates, especially that of women and elderly workers (European Commission 2000b:20). The Council acknowledged the need to focus on a more active and dynamic welfare state as a way to secure the transition towards the knowledge economy and adopted the employment targets as well as agreed to initiate benchmarking procedures on issues like the provision of childcare (European Council 2000:8-10).

In terms of education and training the Council agreed on the need to focus on education and training systems, like creating schools and training centres which have internet access; to increase the mobility of students, teachers and researcher and the need for member states to secure more transparency and better recognition of qualifications to facilitate such mobility. The Council decided that members should focus on *“a substantial annual increase in per capita investment in human resources”* and on the need *“to undertake a general reflection on the concrete future objectives of education systems, focusing on common concerns and priorities while respecting national diversity” (European Council 2000:8).*

Yet national governments did not submit to binding targets, such as providing digital literacy for all workers and school leavers; raising the share of investment in human resources by 50 %; connect all schools to the internet by 2001 or creating a dialogue at European level on the future directions of education systems.

It is arguable that ‘spending on human resources’ reflects an area which is difficult to bench-mark across the member states, which might also be the reason why member states have not made binding goals. In order to compare if all member states would increase human resource spending by 50 %, this would require a clear definition of ‘spending on human resource’. Should childcare i.e. be included, is it only public and not private spending which should be measured etc.? Nevertheless, the vague formulations in the Council’s decision on this area leave a lot up for interpretation.

In terms of modernising social protection schemes, the Council agreed to launch the OMC in the area of social policy, especially for policies combating social exclusion and to coordinate national action plans in the area. A High Level Group was to be given the role to support the whole cooperation, especially by *“a study of the future evolution of social protection from a long-term point of view” (European Council 2000:10).* Yet there was no role for the High Level Group as a permanent facilitator of cooperation in this field, which the Commission had recommended, just at the measurable targets on poverty and action plans for inclusiveness were left out in the Lisbon strategy. This shows a tendency of the member states being reluctant to commit themselves to binding goals in terms of social policy, which is perhaps a more controversial issue in the member states, just as there was no wish to have higher body in the EU to monitor and ensure cooperation between the member states in this area.

## 5.4 Explaining the negations of Lisbon I

By researching on Lisbon I it is found that along most issues the Council is very much in agreement with the Commission’s proposals. A couple of comments should be made to the structure of the Lisbon document, meaning the policies it entails, which might shed light on why it was easy to agree on at the time.

It seems that the first part, which calls for economic reform is more in line with what we might call ‘classic EU policy’. Focus here is on market liberalisation and the removal of regulatory burdens; integration of financial markets etc., as these elements are seen as crucial drivers in economic growth and the well-functioning of Europe’s enterprises. These consist of negative integration measures, i.e. the removal of barriers, and are most likely easier to agree on. This is very much policies connected to a full completion of the Single Market. One could wonder on the strong emphasis of market liberalisation, as the Single Market to some extent proved insufficient in bringing about the desired level of growth and restructuring of the European economy. In addition, the overall box of policies proposed and adopted in Lisbon is very broad and it leaves a wish for a more tangible policy mix.

The above shows that the Council and the Commission are very much in agreement on what needs to be done, and in other words, the national governments did not see any danger in adopting the Commission proposal. In this context, it is important to be aware of the construction of policies. First, a lot of policies deal with areas which reflect market liberalisation and a focus on stable economic finances etc., and this is not something which is completely new to the member states. Cooperation in this area was initiated when deciding on the Single Market and the EMU cooperation. Second, the strategy is very broad in terms of phrasing and areas included. With the OMC as means of governance, this means that it was perhaps easy for member states to agree on these Community goals, as there was little loss of sovereignty when the Commission did not have the power to enforce structural reforms on the member states.

Thus, from this perspective, the small divergence between the Commission’s proposal and the Council decision might lead to the conclusion that there was indeed political will to engage in reform. The Commission and Council are very much aware of what they aim for and the policies needed. From the view of neo-functionalism, the relative small divergences are explicable by the role of the Commission in the negations. As the Commission’s proposals were more or less adopted, then this would surely indicate a success of the Commission in bringing this on the agenda and in getting the member states to engage in such an agenda entailing structural reform.

Yet this theory cannot explain the lack of commitment in some policy areas. The Commission indicated on many areas a target year/deadline/percentage, but these aspects, such as measures on poverty rates, human resource spending etc. has been left. Bearing in mind that the Commissions contribution is surely to be seen as a ‘list of ideas’ we might perhaps have expected the Council to come up with a more quantifiable or measurable strategy. Yet the fact is that this has not happened and according to neo-functionalism the Commission would have ‘aimed higher’ or sought to accommodate more policies which would grant it more powers. Thus, in explaining the negotiations of Lisbon I, it shows we cannot deem large differences between the collective national interests and Community interests except on few indicators, which of course is noticeable.

Liberal-intergovernmentalism on the other hand would argue that Community interests are the sum of the national interests, as the integration process is partly driven by the demand for integration in the national sphere. From this perspective, the Lisbon strategy came about because it focuses on issues where the national governments saw an advantage in bringing this to the European Agenda. The ‘problem areas’ within the member states differ and this has sought to be accounted for in the final version of Lisbon, which is reflected in the width of it. Even though there seem to be political agreement and commitment on the outset, scholars argue how the very scope of Lisbon reflects the many divergent interests *between* the member states. The very broad statements and the large mix of policy areas reflect the intergovernmental bargain which took place during Lisbon I, and which reflect different perceptions between the member states on how to create growth and competitiveness (Hix 2005:246-247).[[39]](#footnote-39) This division was especially reflected between Britain and Spain, led by Tony Blair and José Maria Azanar on the one side, who argued for labour market and welfare state reform and liberalization as a means to adapt the European social economy (Ibid.). On the opposite side, the German and French approach to socio-economic governance focused on the need to ensure investment in human capital and education, thus the wide goals adopted at Lisbon I reflects the political compromise between the member states (Ibid.).

Drawing on the theory of liberal-intergovernmentalism, then this explains very well the bargaining situation, as the member states bring their national priorities (demand for integration) to the bargaining situation. The width of Lisbon I means that everyone can claim that ‘they gained something’ and bring this back to their domestic political spheres. In example, Tony Blair declared the Lisbon summit a ‘sea change in EU economic thinking’ which meant that the EU agenda had moved from the 1980’s social regulation approach towards ‘a direction of enterprise, innovation, competition and employment’ (Lightfoot 2005:130 quoted in Tallberg & Johansson 2007:29).[[40]](#footnote-40) Likewise, the French or German governments are able to claim a more unified approach towards creating their version of social and labour market policies in Europe. In addition, the governance structure can be explained by the fact that member states do not have preferences in engaging in more classic EU integration within the Lisbon areas, thus leaving great room for interpretation and implementation measures.

From this point of view, the liberal-intergovernmentalist approach indeed provides an explanation of the outcome of Lisbon I, in that the very scope of it is reflected by the sum of the member states wishes to bring or emphasise the need for policy areas which they see fit to their national political priorities.

To sum up, if we view Community interests as those posed by the Commission, there is little disagreement in the bargaining situation. Neo-functionalism may explain why the Lisbon strategy came about, whereas the width is explicable by liberal-intergovernmentalism as it reflects the sum of the diversified national interests. The problem may thus become that the divergences between the member states have constructed the Lisbon strategy in such a way that it became difficult for all member states to reach all the goals in Lisbon. This is elaborated on in the next chapter.

# 6. The negotiation of Lisbon II: a Partnership for Growth and Jobs

The width of Lisbon I was, as argued in the previous section, a result of intergovernmental bargain, and became a very problem for the success of Lisbon, as member states’ implementation progress varied both in terms of substance and political commitment. The following section will analyse the negotiations surrounding Lisbon II to identify potential areas of conflict and will also take a closer look at the implementation process post 2005 to see how this corresponds to the results identified so far.

In March 2005, the Lisbon strategy was re-launched as mentioned in section 3 of this paper. The main cause for re-launch was the report from the High Level Group set out by the Council and Commission to conduct a mid-term review. In the following, the proposals made by the Kok report will be laid out along with the Commission proposal for the re-launched Lisbon strategy and will be compared to what was decided by the Council afterwards. By researching on Lisbon II, it is evident that business groups, different parliament groups and civil society actors have responded by statements and suggestions to the Council in connection with the re-launch. This shows that engagement in the Lisbon strategy and the will to contribute was higher ‘second time around’ compared to the launch in 2000. Where appropriate, the suggestions that these actors have made to the Council will be discussed along the other material in the following. Focus in the following will especially be on divergences between Community and national interests on the inclusion of the budget and national ownership in Lisbon. This is due to the fact that these areas are outlined as important elements in completing the goal by the Kok report, thus it is interesting to further investigate if this creates divergences between interests at the Community level and the national level.

## 6.1 The Kok report

In 2004, the High Level Group chaired by Wim Kok conducted a mid-term review of the Lisbon strategy. It laid the grounds for the Commission’s recommendations to the re-launch of the Lisbon strategy. The report stated that the Lisbon strategy had failed, mainly due to too many priorities and a lack of political commitment on behalf of the member states (Kok 2004:6). The ambitions and timeline for Lisbon however were stated as appropriate and as such the member states were encouraged to work towards the 2010 deadline, as it was outlined that the challenges remained the same.

In order to meet these challenges, action was required across five areas, namely 1) establishing a knowledge society, 2) completing the Internal Market, 3) making a favourable business climate, 4) improving the labour market and 5) focusing on environmental sustainability. Further to this, action was needed to ensure more consistency between policies and participants by *“improving the process for delivery by involving national parliaments and social partners, and clearer communication on objectives and achievements” (Ibid:7).*

Two main recommendations were made in the report. First, the Lisbon strategy should have a clearer focus on growth and employment, as the Kok report argued that success in these areas were a prerequisite for social cohesion and environmental sustainability. Second, in terms of governance, member states should take more responsibility through the drawing up of national reform programmes, and the inclusion of social partners and national parliaments in the process. The role of the Commission in this was to secure implementation in the areas where it had competence, like competition and regulatory policies, and to coordinate the rest of the areas by ensuring that information on progress was available to the states so that they might learn from each other’s experiences. Further, member states should be held more accountable in that *“the European Commission must be prepared to ‘name and shame’ those that fail and ‘fame’ those that succeed. Too much is at stake to respect the sensibilities of those who hinder the pursuit of the common European good” (Kok 2004:17).* In addition to this, the Community budget should take more account of the Lisbon goals (Ibid.).

## 6.2 The Commission and other actors’ contribution to Lisbon II

In their re-launch to the Lisbon strategy in 2005, the Commission’s proposals widely reflected the Kok report. Basically, the main aim of the Commission’s contribution “*Working together for growth and jobs – a new start for the Lisbon strategy”* was a refocused strategy centred on three areas:

* Ensuring delivery
* A renewed Lisbon action programme
* Improving Lisbon governance

First, the Commission called on a renewed ‘Partnership for Growth and Jobs’, highlighting the need to focus on policies that will deliver results to secure better implementation. The argument laid out by the Commission was the need for *“a dynamic economy to fuel our wider social and environmental ambitions” (European Commission 2005a:4).* Basically, the Commission argues that a narrow focus on growth and employment is a prerequisite for being able to prioritise social and environmental concerns. This was to some extent contradicted by the European Parliament (EP), for while the EP argued that Lisbon should be given the ‘highest priority during the next 5 years’, it also suggested focusing on a strong social and environmental policy, as these should be seen as determinants of European economic efficiency (European Parliament 2005). Graham Room[[41]](#footnote-41) is one of the scholars criticising the narrow focus on growth and jobs, arguing that social policy should be seen as a productive aspect in achieving the knowledge economy as investment in skills and a focus on social institutions may promote the transition a more flexible, knowledge-based economy (Room:2007:232-234).

Second, the Commission suggested a renewed Lisbon programme with three priorities: 1) making Europe a more attractive place to invest and work; 2) putting knowledge and innovation at the centre of European growth and 3) making policies that will help businesses create more and better jobs.

Substantially, this is what was emphasised in Lisbon I in that a full implementation of the Single Market should contribute to attracting investment; sound macro-economic policies were necessary, while knowledge and innovation should be put at the centre for securing growth. Again, social protection systems should be modernised to take this into account, for instance pension schemes, health care and labour market policies (European Commission 2005a:26-27). The main targets however, concerning employment levels and growth were not maintained, except the 3 % goal for R&D.

Like the Kok report, the Commission stressed the need to give the Lisbon goals higher priority in the budget, especially that the FP programme for 2007-2013 should double its expenditure on R&D and that the overall budget and that the structural funds should take the Lisbon objectives more into account (Ibid:23). The above shows that the approach reflects Lisbon I, albeit with fewer focus areas as the social and environmental areas are more in the periphery. There are overall fewer quantifiable targets, in terms of deadlines or percentages than in Lisbon I. This is to some extent noted by the Socialist Group in the European Parliament (PSE), as they in their contribution to the spring 2005 Council pleaded that the member states should make more quantifiable measures, especially on how much each member state would spend on education and the measures they would aim for in getting the 18-25 year olds into education and employment (PSE 2005).

Thirdly, the Commission proposed a more simplified approach to governance, in terms of the Lisbon Community Programme and the Integrated Guidelines as driver of the National Reform Programmes (NRP); see chapter 4. In this revised governance approach, the loose cooperation mechanism has been abandoned for a partnership between the Commission and the member states.

The fact that the mode of governance was still coordination has led some scholars to argue that the Commission missed an opportunity to re-think the EU’s approach to policy coordination. The Commission did not include the proposal of ‘naming and shaming’, as suggested by the Kok report nor did it question whether policy coordination was the wrong approach to achieve the reforms. Instead, the Commission *“plainly decided that the solution was a different form of coordination” (Begg 2008:427),* and others again argued that both the Kok report and the Commission’s proposal suffered from a weak will in terms of substantially bringing new fuel to the Lisbon strategy (Zgajewski & Hajjar 2005:10)*.[[42]](#footnote-42)*

This ‘critique’ of the Commissions opportunity to show leadership must of course be seen in the light of the argument referred to earlier in this paper, namely that the OMC was the only politically and practically option available due to the distribution of competences within the different policy fields in Lisbon. Yet the complete absence of naming and shaming in the Commission’s contribution as well as the lack of customised recommendations for specific member states have spiked widespread criticism by those who argue that *“a major opportunity for enhancing EU economic governance has been missed and that politically expedient decisions were taken that have undermined the capacity of Lisbon II to deliver (Begg 2006:iii).*

Finally, the Commission proposed that member states appointed a ‘Mr or Ms Lisbon’ on a national level to ensure the coordination of the national elements within the governance process and that the social partners were to be included in the drawing up of the member states’ NRP (European Commission 2005:31-32). The Council of the EU Municipalities and Regions (CERM) commented on this in their contribution to the re-launch, arguing that Lisbon II should not only attribute the local and regional authorities a place in the drawing up of the NRP. They should also play a role in the implementation phase, as they deal with innovation, employment and education in their regional sphere and hold the competence to distribute the structural funds (CERM 2005).

Thus, the Commission tried in their contribution to launch a strategy with fewer priorities and a more stringent partnership. While the areas that are suggested do not contain much new in terms of the overall goal or the means, the contribution from the Commission was meet with opposition from the EP and the wider civil society. This was mainly due to the fact that the Commission so clearly focused on growth and jobs, leaving social and environmental concerns more out in the periphery (Zgajewski & Hajjar 2005:10).

## 6.4 Council decision regarding Lisbon II

The European Council decision in 2005 introduced the new ‘Partnership for Growth and Jobs’ Lisbon II), in that the Council recognised that the Lisbon strategy needed a clearer focus. The work of the Commission is reflected widely in the Council decisions. The list of priorities in terms of a renewed Lisbon programme was adopted more or less in the form proposed by the Commission. In terms of governance, the same pattern applies as the partnership between the Commission and the member states were agreed on, as was the appointment of a national Lisbon coordinator and the need to consult with social partners in the drawing up of the NRP (European Council 2005:12-13). A larger role for the local and regional authorities in the implementation process however was not granted.

This does not mean however that there are no differences in the negotiation process between the Community and the Council, as not all elements in the process/conclusions were agreed on in the same summits. This is the case in example in relation to the budget, which the Commission and the Kok report argued should increasingly reflect the Lisbon goals. This whish was supported by the EP as well (European Parliament 2005). Yet at the negotiations for the research budget for 2007-2013, the 7th FP programme which the Council stated should reflect the Lisbon objectives, the Commission failed to get its wishes through in terms of raising the budget (Pisani-Ferry and Sapir 2006). More specifically, the research budget suggested by the Commission was around 70 billion euro, yet the Council only agreed to a research budget of around 50 billion euro to cover the period of 2007-2013 (Euractiv 2007; European Commission 2007). This is quite a substantial gap and must reflect the small wish of the member states to commit politically to the goals laid out.

Overall, when looking at the negotiation process of the two summits, there seem to be widespread agreement between the member states on the goals. As mentioned earlier, this may indicate that the member states are in agreement on the goals; on how to make progress and find it easy to commit to these goals during the summits, thus there is little which show potential areas of conflict between the national *collective* interests and the Community interests in the bargaining situation.

Two elements are worth elaboration on in relation to this. First, it is rather surprising that there seem to be so little divergence between Community interest, represented in this case by the Commission, and the member states. This may to some extent be seen in the light of intergovernmental bargaining in the Council, where Lisbon so broad, exactly because it has to accommodate different views on socio-economic governance. This broad strategy, rhetorically and substantially, leaves a lot of interpretation up to the member states on how exactly to understand a concept such as ‘social system reform’. Such different interpretations may mean that the outcome will be exactly the ‘pick and choose’ strategy where member states focus on areas they feel fit to deal with. This, along with the little divergence which seems to be at the bargaining level, requires a closer look into the overall implementation of the strategy, which will be done in the subsequent section.

Second, following the logic of neo-functionalism, it might have been expected that the Commission would have exercised more leadership, sought to gain more competences over some areas of the Lisbon policies or enhance their role in the implementation process. The fact that the Commission’s contribution more or less became the re-launched strategy indicates a success in keeping this on the agenda and in getting the member states engaged. However, the Commission had obvious possibilities, like the ‘naming and shaming’ aspect left out of their own draft, which does not indicate a supranational institution seeking to promote their self-interest or gain more power. It does however raise questions about the role pursued by the Commission in this process. It did not adapt the naming and shaming part, but emphasised that the new simplified reporting process would allow it *“to play its role of monitoring progress towards the Lisbon goals, offering encouragement and proposing additional action to keep Lisbon on track”* (European Commission 2005a:11*).* Thus it seems to see itself as a coach vis-á-vis the member states, where the preferred tool is a carrot rather than a stick. Again, the Commission should see it as its task to drive integration forward, by suggesting policies or procedures which would raise the *final* outcome to a higher level than the lowest common denominator. In this light, it is interesting why the Commission did not approach the opportunity to put ‘more pressure’ on the Council in terms of its powers i.e. in relation to evaluation of the Lisbon process.

Pisani-Ferry and Sapir propose that the reason ‘naming and shaming’ was not adopted by the Commission was due to a wish to please the larger member states, like Germany and France, who had ‘had enough’ of this aspect in relation to the Stability and Growth Pact (Pisani-Ferry and Sapir 2006:6). This of course raises the question of how to understand the role of the Commission, if it no longer focuses on enhancing its own power or role in the integration process. Piotr Kaczynski makes an interesting comment on this in his report from 2009, where he has gathered different views of the Commission as a political actor in the EU system – as it is viewed from the member states. His main argument is that the Commission is “losing political leadership” and Kaczynski further argues that the Commission *“is more and more perceived as serving the interests of the larger member states, sometimes even at the expense of smaller ones. The dominant perception is that among the European institutions the lowest common denominator is no longer determined as it was by the Council, because the Commission is increasingly anticipating national positions at an earlier stage and taking them into account at the preparatory level. Hence, it is no longer the institution that seeks the higher standards of ‘Community interests’ – this may well be the role for the new European Parliament” (Kaczynski 2009:1).*

This is supported by George Ross[[43]](#footnote-43), who in a survey among EU officials finds that the perception that the Commission no longer works as a strategic driver of integration is persistent. In here, Ross argues that the Barosso Commission is weakened as it has ceased to form new legislation and is sticking to measuring results (Ross 2008:400). According to Ross, this has come about as key EU member states were ‘fed up’ with strong Commission leadership, and has sought to elect weaker Commission Presidents (Ibid:401). If this is the case, it would to some extent explain why there is so relatively little divergence in the Commission’s proposals and the Council’s decisions. It raises some interesting questions on how we are to understand the institutions vis-á-vis one another along the lines of integration theory, but also shows that the concept of ‘Community interests’ is broader and more complex than anticipated.

Thus, in the negotiation process, the budget and the lack of naming and shaming procedures seem to be the largest elements of divergence between the member states and the community interests – and this bearing in mind that the latter was not even suggested by the Commission. As it seems that the member states find it relatively easy to agree on the goals for the European economy in the negotiation process and since Lisbon has still not achieved its goals of growth and employment, the next section evaluates the implementation phase.

## 6.5 Implementation results of Lisbon post 2005

The general conclusion in the Commission 2008 review of the strategy is that the years between 2005 and 2007 had generally been good in terms of growth. In this interval, the average annual growth situated around 2.5 % (European Commission 2008:5). The question remains however whether this was due to cyclical structures or any systemic change brought about through the Lisbon strategy. In relation to the growth and employment aspect, the Commission estimates that the positive aspects are due to structural improvement. In example, employment grew by almost 6.5 million new jobs by 2007 and the effective retirement age had been raised 1 year 2001 and 2005, which of course is an increase in the labour supply available. In addition, the unemployment rate fell from 8.7 % in 2005 to 6.9 % in 2007, which is seen as quite a gap in relation to previous economic cycles, where unemployment usually took a long time to come down (Ibid:7-12). Further to this, the Commission describes how wage raises have been kept down, whilst employment levels have been rising, indicating a structural change in the labour market. Finally, the increasing growth rates in 2005 and 2006 took place *without* a trade off between growth and productivity, yet it is emphasised that it is not possible to say whether this is due to only cyclical factors or if the Lisbon strategy has succeeded in this aspect (Ibid.:12). Despite the positive growth aspects, in a comparison to the US, the EU is still lacking behind on growth and productivity, yet the GDP per capita in the euro-area is now 73.5 % that of the US, compared to 72.1 % in 2005 (Ibid:8)[[44]](#footnote-44), so there is room for improvement.

### 6.5.1 Implementation of the Integrated Guidelines

Within the macro-economic guidelines, most member states have made progress towards improved public finances and inflation rates and public debts have been lowered. The main challenge for many member states however remains how to secure long-terms stability on the public finances and to enforce reforms. The Commission grants that some member states have been successful in introducing reforms on labour taxation or benefits, yet there remain obstacles in the sense that employment protection legislation is still too stringent in many member states (European Commission 2008). This means that the idea of Lisbon of introducing more ‘flexicurity’ (the Scandinavian model), as the Commission would wish to see, is still far off. Stiff employment legislation may hinder the fulfilment of Lisbon as it limits the mobility and adaptability of the labour market, which is contradictory to the wish made by the EU to make labour markets adaptable to globalisation. An overview of the macro-economic developments since 2000 is found in table 1 in annex 2 in this thesis.

The micro-economic reform chapter, along with the employment chapter, is the area in which the member states overall finds it difficult to initiate reform and where implementation is lagging behind.

The policy areas relate to R&D and ICT investments, competition and internal market completion, the regulatory environment as well as promoting the business environment. Some member states have done well in reforming along these areas and achieving R&D goals (European Commission 2008:28). Yet for the majority of the member states, although these areas are emphasised in the NRP, there is a gap between ‘rhetorical focus’ in the NRP and the ‘political action’. In example, many member states have made policy responses in terms of R&D as it is emphasised as a priority area, yet most member states are far from achieving their own NRP goal and the overall 3 % Lisbon goal. Despite increasing growth rates, R%D expenditure levels have remained stable in most member states (Ibid:28).

Likewise, the NRPs focus on ensuring competition, in example through the build up of authorities; screening procedures for barriers in sectors, yet there is a lack of emphasis on what exactly to do to make sure increased competition is enforced. In addition, there is an overall implementation deficit regarding the Single Market legislation, especially the improvement of public procurement markets, which are a large part of the European economy (Ibid:35-37). The same goes for improving regulation, where most member states express the commitment to focus on the regulatory environment, yet real change in the regulatory conditions such as administrative burden for SMEs etc. is in most member states still missing (op.cit.). Finally, it is noted as a positive aspect that the start-up of companies has been improved on an overall level, which is to secure entrepreneurship in Europe. However, member states are still short of policies which seek to help SMEs further, i.e. in the inclusion to public procurement markets (Ibid:43).

In relation to employment reforms, these are also lagging behind despite a growth and productivity rise post 2005. Youth and structural unemployment are still deemed to be too high in the Commissions evaluations, and criticism is especially towards the fact that most member states fall short in activation of this group.(Ibid:48). There has been a rise in employment, also in women’s employment rate (57.2 % in 2006, which is close to the 60 % target), yet the employment rate for older workers is far from met (43.5 % in 2006 against the 50 % 2010 goal). Member states are far from the targets relating to childcare, which of course creates an obstacle for work/family life balance and for the inclusion of women in the labour market.

In relation to labour market and social system reforms, the Commission criticise the member states for making too little reform progress in existing labour market legislation and for denoting social system reforms with pension reforms. There is focus in the NRPs on active employment policies like job search help, conditionality for benefits etc., yet member states is spending less as a percentage of GDP on active employment policies than in 2000, and expenditure on lifelong learning and adult training has also decreased in more than half the member states (European Commission 2008:47). The political priorities for life-long learning are especially a problem for achieving the goal of productivity growth in the new knowledge economy as this can be a key driver of economic growth. Table 2 in annex 2 in this thesis shows that by 2006, the EU still stood well behind the US on GDP, employment and productivity growth.[[45]](#footnote-45)

### 6.5.2 Installing national ownership in the Lisbon strategy

In terms of governance and ownership of Lisbon II, there is a lack of coherence and consistency as well. On a general level, the NRPs suffer greatly in diversity between the states on what is included and on how far the member states are on the reform path. While some have made great effort, others have barely focused on the Lisbon type of reforms yet (Begg 2008:433). In addition, there is apparently little common methodology on how the NRPs should be structured which is of course a problem in the measuring process. In example, some NRPs specify what the country aim to do, while others emphasise what measures have been taken to comply with the IG instead of i.e. plans for how to reach the participation rate (Pisani-Ferry & Sapir 2006:10). NRPs are on an overall level short of timelines, deadlines, targets, financial planning etc., thus there is a lack of concreteness which Lisbon commitment in the different states should rely on (Ibid).

Iain Begg emphasise how the NRPs differ in focus and that some elements are more popular than others, i.e. that there is a tendency to focus on ‘sexy measures’, like R&D, but to focus less on lower profile challenges. The problem, according to Begg, is that economic reform require action simultaneously across a wide range of policy areas rather than a on a few (Begg 2007:iii). This is also seen in the assessment of the macro-economic pillar by the Commission, where it compares the “number of key challenges in the micro-economic pillar in the NRP” – which are what the member states see as their main challenges – to the “number of country specific recommendations and points to watch” in the same policy areas, which are what the Commission has emphasised as specific target areas.

In example, 22 member states have stated R&D as a key challenge, while the Commission has only pointed to 15 states in which this should be seen as a key challenge. Likewise, 12 states mention better regulation as a high priority, while the Commission point to 19 states which ought to make better regulation a key challenge in their NRPs (European Commission 2008:26). This supports the argument that member states lead a ‘pick and choose’ strategy in their NRPs, not necessarily based on their main challenges, but on what ‘looks’ good to focus at, which is exactly what the Commission pleaded would not work when it launched Lisbon I.

At the core of Lisbon II was the partnership between the Commission and the member states, yet both the Commission and the member states are criticised for not pushing the strategy forward enough. While the Commission has given priority to Lisbon by firmly establishing progress of it within the DG for Enterprise and Industry, as opposed to across a range of DGs before (Begg 2007:2), the overall view is that the Commission is too soft and too uncritical in the assessment of the NRPs (Begg 2006:iii). Jean Pisani-Ferry argues that the *“Commission is visibly in an uncomfortably position vis-á-vis the member states....and hesitates between the role of a schoolmaster and a coach” (Pisani-Ferry 2005:27).*

In terms of national ownership of Lisbon, the member states have failed as well on several areas. First of all, the attention devoted to Lisbon by appointing a Mr/Ms Lisbon – preferably at a government level has not been fully incorporated. It would appear to show ownership by the European Council when it agreed to this. However by the end of 2006 only 11 member states had followed this, whereas the rest had placed this responsibility with a senior or mid-level civil servant. Three states did not appoint a Mr/Ms Lisbon at all (Pisani-Ferry & Sapir 2006:7).

The second aspects relates to the inclusion of social partners, national parliament and civil society and their inclusion in the NRPs, which differs greatly among member states. Pisani-Ferry and Sapir highlight how 9 out of 25 did not include their national parliaments, even at committee level, while 18 out of 25 showed no indication of a potential inclusion of stakeholders and national parliaments in the follow up (Ibid). The authors further examined the overall ownership of Lisbon by adding the ratings of the member states on four areas (Parliament, Social Partners, Civil Society and Follow up), where high ratings denotes attention to national ownership (Ibid.). In this there is a great difference *between* the states in terms of the attention to include parliaments and stakeholders. The major, “old”, member states, like France, UK, Italy, Spain, Germany and Poland) came up with a substantially lower score than the smaller and newer member states (Ibid.).

The third aspects relates to the debate in and among the member states, where reform debates are widely present in smaller, more open member states, as opposed to the larger states like Germany and France, where the latter often publicly speak against the *‘devilish character of the Anglo-Saxon model” (Pisani-Ferry 2005:27).* This highlights the complexity in getting member states to commit to the overall strategy.

The above indicates a lack of will on behalf of the national governments to a) use Lisbon as a gateway to engage in debate on national reforms and b) to include the wider civil society, local, regional and national parliaments in the implementation process of Lisbon. This is of course a potential problem, as a lack of ownership *throughout* the member states means that Lisbon may be perceived indeed as yet another European project. Insofar as the support of the wider civil society is not present, it may be hard to successfully impose the reforms needed. National policy-makers often need the support of the wider public, politically, to engage in reforms, just as the inclusion of local and regional governments are able to work towards Lisbon goals via i.e. their use of structural funds.

In sum, there is still a lack of implementation of many of the elements of the Lisbon strategy in most member states, but this varies. Implementation deficit is found across most areas, but seem to be most pressing in the micro-economic and employment chapter as well as in the overall attention devoted in the national sphere to Lisbon.

Further, whilst the EU overall has failed to implement Lisbon sufficiently, the large diversity between member states in this area must be acknowledged. In example, smaller states, like the Scandinavian, are to a high degree complying with the Lisbon strategy goals, yet it could be argued that these states had little to ‘gain’ in the first place, as these were doing quite well in term of innovation, flexicurity and labour market inclusion etc. Thus, it is rather a number of European states which have a problem with being competitive and innovative in the global economy than Europe as a whole.

## 6.6 Explaining the negotiation and outcome of Lisbon II

In terms of divergence between Community interests (represented by the Commission) and the member states, then there is little divergence which, from the view of neo-functionalism, might be attributed the ability of the Commission to keep Lisbon on the political agenda. Nevertheless, there are a number of facts that cannot explain the lack of the Commissions ability to make progress within Lisbon, most noticeably the budget negotiations and the ability to keep implementation on track. Despite the fact that Lisbon is a package of policies where competences are divided according to policy area between the EU and the member states, there seem to be widespread opinion that the Commission in the context of Lisbon is not seen as the main driver of integration.

This gives credit to the assumption that the Lisbon strategy is not making progress as it also lacks a driver of integration at Community level. However, it is difficult to deem the Council responsible for blocking for the Commissions role as facilitator of progress, if the Commission has never sought this role to begin with!

Looking at the Community interests in the bargaining situation it is possible to identify contradicting aspects. On the one hand, the negotiations of Lisbon II, just as Lisbon I, show little disagreement between the Commission and the member states, thus we cannot deem that member states on the Community level lack the will to engage in reforms. This must be assumed from the fact that the Council to a large degree accepted the Commission’s proposal for a re-launched strategy. Nevertheless, on certain issues which might signal real political commitment to reform, the member states diverge from the Commission – and their own (rhetorical) interests in the Community. In example, the negotiations surrounding the budget 2007-2013 show that the member states emphasised the need for reform and to re-direct funding; however when it came to actually putting policy behind the words, the willingness to make budget reforms were seemingly little. Member states would have to explain in their national spheres if and why they lose out for the potential gains of the wider economy. In such negotiations, no member state want to lose and a widespread reform of the budget to accommodate the Lisbon targets would most likely be at the expense of other large policy areas, like the Common Agricultural Policy, which many member states have a national interests in.

Rather the approach of liberal-intergovernmentalism, which argues that national preferences dominate European integration, seems to provide a more structured explanation of the overall outcome and progress within Lisbon. In the bargaining situation, the scope of Lisbon in terms of vague phrasing and broad range of policy areas clearly show that member states brought different national preferences, which was sought accommodated on the European agenda. This highlights that member states act on two stages; the European arena and the national sphere. This accommodation of national interests can also explain, along with different national starting points, the divergence in implementation - both in terms of pace and attention devoted to different policy areas across the member states. Instead of committing themselves to the ‘full package’, as the Commission initially argued would be vital for the success of the reform, national governments seem to lead a pick and choose strategy in the elements they choose to implement and to focus on often ‘easier’ measures in their NRPs.

Liberal-intergovernmentalism emphasise that the national governments are still the main actors in relation to European integration, which would also to some extent explain the lack of influence by local, regional and national parliaments as well as civil society actors in the NRPs and the implementation of Lisbon. As argued by neo-functionalist, increased integration would re-direct the interests of these actors to the supranational stage and seek influence. Yet, albeit the final Lisbon strategy outlines the need for civil society and other parliamentary actors in the drawing up of NRPs, it does not seem as if they have successfully managed to bypass national governments and achieve a greater role. The question remains whether national governments ‘forgot or found it too difficult to include sub-national governments’ or whether they are reluctant to delegate too much ‘power’ to these authorities regarding Lisbon, fearing that this would lead them to bypass national governments in relation to further European integration on the field.

All in all, when researching on potential conflicts of interests between the Community and the member states by looking at the bargaining situation, the outcome is that such divergences are limited to divergences like the budget negotiations and committing to more tangible goals in the area of social, education and activation policy. As significant as the EU budget might be – also as a political signal, it is not these elements which the fulfilment of the Lisbon strategy depends upon. It is still the successful transition and devotion of resources within the member states, which are overall important.

However, when drawing the overall process of implementation into the analysis, there is clearly a gap between Community and national interests. From this point of view, regardless of whether Community interests are seen as those put forward by the Commission or as the sum of the national interests as agreed on in the Council, there is clearly a gap between what the member states (and the EU) want at a Community level and what they want at a national level – reflected in the lack of implementation. This gives credit to the assumption that national governments are – deliberately or not – constrained by preferences in their national spheres as these national interests seem to differ from what is agreed on a Community level.

Thus, liberal-intergovernmentalism seems to provide the most structured explanation for the process – and lack of process – within Lisbon. Why, one might question, would national governments agree to a European strategy if they are well aware of the fact that it will be too difficult to implement? This is most likely because no member state can object to the goal of Lisbon, i.e. the need to create growth and jobs, but the debate is more on the means by which to reach the goal. In this context, liberal-intergovernmentalist would argue that as states act on two states, they have clearly seen a benefit in engaging in the Lisbon strategy, it is so broad that national governments, regardless of their approach to socio-economic development, could claim to have gained something and brought their views to the European level. However, as also emphasised by liberal-intergovernmentalism, national preferences can change as domestic political preferences changes, which is reflected in the overall lack of progress.

# 7. The Lisbon strategy and European integration – future prospects

From the analysis of Lisbon I and II it is evident that there is a shortfall of leadership at both Community and national level within Lisbon, which is causing a lack of progress. According to neo-functionalism, we might have expected that the Commission not only drove integration within its own areas, but also sought to expand its overall impact on the Lisbon strategy, i.e. by pushing for more elements to be submitted to under ‘traditional EU policy-making’, thereby facilitating and promoting its own role. The failure to do so, based on this case, shows the difficulty of neo-functionalism as an explanatory factor of European integration.

The question remains however what this means for European integration – and progress within Lisbon in particular – on a wider scale? And can it remain without consequences – be they political or economic - in the longer run that member states engage in something on a European level which they do not follow up on?

First of all, if the Commission is assumed to be weak in the process, the outcome is likely to be slower integration in the longer run. If the Commission increasingly accommodate the member states’ interests in its proposals, and if member states continue to elect the President they find will most do so, then the Commission no longer acts as *the* driving force behind further integration. In the past, strong Commission Presidents like Jacques Delors played a major role in driving integration forward (Ross 2008:401), however, if the Commission, as pointed to by Ross, has ceased to defend the common interests, this may render progress within Lisbon difficult.

Second, if European integration from the point of the Commission is increasingly about accommodating the larger member states interests, this shows that the perception of what ‘traditionally’ constitutes Community interests is changing. But it may also have an affect the futher integration process. Accommodating the interests of larger states may cause problems in the wider integration process, especially in terms of legitimising further cooperation, if it is the wishes of the few, which stands above those of the wider Community. Based on the lack of leadership combined with the interests of the larger member states (states which stand before the most encompassing reforms in terms of complying with the Lisbon target), we might expect that this is to result in slower progress within Lisbon.

At present time of writing, it seems that José M. Barosso is to be elected for another 5 years as Commission President. In this light, it will be interesting to see if his Commission is then able to secure further implementation.

It is beyond doubt for most that the European Union is indeed suffering problems with the lack of popular legitimacy, something needed if integration is to expand. George Ross argues how the EU is in ‘serious difficulty’ suffering from the lack of public support and confusion about its future role (Ross 2008:389). It can be argued that Lisbon holds the potential to increase legitimacy and to function as the ‘new project’, which Ross claims the EU is lacking.

Ross proposes that the EU starts to focus on obtaining legitimacy through results, meaning a focus on the right policies and make sure the citizens know the benefits of these (Ibid:409). This of course depends on the ability of both the Commission *and* the member states to exercise leadership, not least that national governments start to include the EU more in the everyday national debate. Whilst this is a difficult demand, it could be argued that it is nevertheless needed in order to proceed with European integration. What then, are the ‘right policies’ for the EU citizens? This may be connected to the argument that the EU must find a ‘new project’.

The EU is past the days where the peace argument would raise public support. For the younger generation, EU needs to bring something new, i.e. deal with youth unemployment, sustainable development or growth (Ibid:397). It can be argued that the policies in the ‘toolbox’ of Lisbon entails the possibility to focus on such newer issues, like investment in environmental policies, education and labour market policies to cope with structural and youth unemployment. This is supported by Graham Room, who argues that the main challenges for EU presently are to transform itself into a knowledge economy; reengaging in the Lisbon strategy and to cope with the lack of public support. However the variables are interlinked, thus only by addressing all of them can the EU make progress (Room 2007:229).

This is the challenge and the task for European institutions and national governments in the future. Lisbon may only be a ‘small brick’ in this; nevertheless it can be argued that it could be an important one. It may also be argued that if national governments continue to agree to something at EU level, which they then cease to implement, this may not be without consequences. Citizens are then unaware of the EU potential or aware of the potential but also the lack of progress, both outcomes may result in a lack of interests or legitimacy towards further EU integration. From this point of view, Community and national governments might start to analyse on the ‘*political* costs of non- Lisbon’.

# 8. Concluding remarks

The previous sections have examined different variables to provide an answer to the overall question of why the Lisbon strategy has not yet succeeded in making Europe the most competitive and knowledge-based economy. This chapter will sum up the main result and assess to what extent the analysis have proved the working assumptions. In addition, it will briefly reflect on the methodological approach.

The Lisbon strategy was the EUs response to the challenges posed by globalisation and the shift to the knowledge economy and the documents surrounding Lisbon highlights the difference between the EU and the US in terms the ability to face these challenges. Rhetorically and politically, Lisbon may be seen as a gap-closer vis-á-vis the US. However, substantially, as the goals referred to the EU as a whole, the Lisbon strategy was just as much about eliminating the differences between the member states as some states were clearly more equipped than others to face the challenges.

In order to be more productive, create growth and jobs, it becomes clear that knowledge and innovative skills are among the best means by which to generate competitive advantages in a global economy. The first working assumption questioned the toolbox, suggesting that this was right due to its inclusion of a broad range of policies, albeit these were mainly within national competences. Overall, the Lisbon strategy is the ‘right answer’ for Europe; it has the potential to transform the economies, as its toolbox consists of a mix of macro-economic, micro-economic and employment policies. However, one should be careful in deeming the Lisbon strategy faultless. Scholars argue how the Lisbon may lack focus in terms of demand side policies and that the broad range of policy goals might clash. The Open Method of Coordination, although the only solution politically possible, means that the implementation phase is far from as consistent and coordinated as was surely the goal upon introducing Lisbon. In addition, it is important to be aware of the fact that the policies in Lisbon are meant to work simultaneously to form a coherent response to structural reform. Thus even if the toolbox seems as the right answer from the outset, it might lose its potential in the implementation phase, if member states abandon the comprehensive approach.

A further assumption was that Lisbon failed because *national political priorities* win at the expense of common economic goals, thus there is a clash between the Community and the national interests. The conclusions in relation to this are mixed. First, by looking at the negotiation process it is clear that the anticipated difference between Community interests (represented by the Commission) and the national interests (represented in the Council) is relatively small. Thus, there do not seem to be grave divergence between Community interests on the one side and the collective national interests on the other side. From the logic of neo-functionalism, we might have expected this at some level, since this theory places the Commission as the main driver of integration and thus also a driver of Community interests. However, when looking at the overall process of Lisbon, including the implementation process, it becomes evident there is there is some divergence between what the Commission *and* the sum of member states want a Community level and what they want at a national level. From this, point, it can be argued that there is a clash of interests between the national and the Community – regardless of how the concept of Community interests is perceived.

In addition, the results also show that the structure of Lisbon may be seen as a result of intergovernmental bargaining, where the broadness of the strategy is reflected in the accommodation of different national preferences. This leaves room for liberal-intergovernmentalism as an explanatory variable, as it shows how states bring their domestic preferences to the European level and then seek to negotiate a supply of integration to meet these. However, this also means, that it is not so much because the *collective* national interests vis-á-vis the Commission have created Lisbon in such a way that there is a lack of progress. Rather it is the range of diversified national interests, which have constructed Lisbon in such a way that it becomes difficult for all member states to succeed along all policy areas. This is confirmed by the implementation process as well, where there is large diversity regarding the areas emphasised in the Lisbon strategy and the NRPs and those actually implemented.

Second, the analysis point to the lack of leadership as a main reason for the lack of progress as well. In light of the broad strategy, strong leadership becomes an ever important factor. There is a shortfall of consistency in the implementation process, where member states are implementing some areas more than others and failing to include the national parliaments, sub-governments and the wider civil society in the implementation of Lisbon. However, there is also a lack of leadership on behalf to Commission, albeit the main areas in Lisbon are below national governance. Scholars argue how the Commission increasingly has ceased to spur integration by accounting for the interests of the larger member states in the process and for bypassing opportunities to increase Commission leadership within Lisbon. This might shed light on the relative small divergence which existed between Community and national interests in the first place. But more importantly – in the wider context of European integration – it raises the question of the perception of the Commission as the main driver of integration, and therefore also on whether the ‘traditional’ concept of Community interests, which this thesis originally adopted, needs to be reviewed.

In terms of methodological considerations, the questions remain to what extent the applied method was the most appropriate in generating results. By the overall look at the negotiation and implementation process which this thesis has used, it has been difficult to establish with certainty that the overall lack of progress is due to domestic *political processes* which contradict the Lisbon goals. It has been proven that there is a gap between priorities and actual action and that there is a problem with leadership at both levels. But, it cannot be proved firmly established that it is due to lack of *political will*. Thus, the lack of progress might for some be due to political resistance as investment in Lisbon objectives or de-regulation might be politically costly. However, for others national preferences might have changed along the way, while for some there might have been structures in the national systems or administration, which has rendered implementation difficult. Thus, it is difficult to derive a common denominator on the lack of implementation, albeit there seem to be most reluctance in the implementation process towards the more difficult areas like labour market regulation, employment legislation and education expenditure etc.. An deeper answer might require more comparative research on i.e. a number of member states and their domestic situation and debate, in order to derive if there is political resistance to implement i.e. the micro-economic and employment chapter, which are perhaps most politically costly.

In addition, focus has been on the negation level of Lisbon, which has to a large extent, albeit with exceptions, shown the convergence between the Community interests and national interests. Nevertheless, working on this thesis it has become clear that the Lisbon strategy is an overall and quite complex framework, consisting of many sub-levels. This means that a number of policies are initiated and negotiated in the everyday EU system and these may be seen as part of the fulfilment of each part of Lisbon. It does not follow from the conclusions of this thesis that there is no divergence between Community interest and national interests in relation to these negations, such as on the Service Directive, on rules for financial markets, on Community support for enterprises etc. Thus, in order to get a clearer picture of where and whether national interests are opposing the fulfilment of Lisbon, it might be relevant to further examine in detail a number of these negations, like i.e. the agreement of the Service Directive or the Charter for Small Businesses.

However, as the results above has shown, this thesis has indicated that on an overall level there are divergences between what the member states want at a Community level and what they want at national level. Thus there is good reason to assume that the national preferences play an important role in the lack of progress within Lisbon. This, coupled with the lack of leadership which seem to appear on Community level means that the results of this thesis are relevant in the debate about the Lisbon strategy and that its conclusions highlight a number of variables which are important to bear in mind when embarking upon further research regarding Europe’s problem with the transition to a competitive and knowledge-based economy.

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# Annex 1: Overview of the Integrated Guidelines

**Macroeconomic guidelines**

1) To secure economic stability.

2) To safeguard economic and fiscal stability.

3) To promote growth- and employment oriented and efficient allocation of resources.

4) To secure economic stability for sustainable growth.

5) To ensure that wage developments contribute to macroeconomic stability and growth.

6) To contribute to a dynamic and well-functioning EMU.

**Microeconomic guidelines**

7) To increase and improve investment in R&D, in particular by private business.

8) To facilitate all forms of innovation.

9) To facilitate the spread and effective use of ICT and build a fully inclusive information society.

10) To strengthen the competitive advantage of its industrial base.

11) To encourage the sustainable use of resources and strengthen the synergies between environmental protection and growth.

12) To extend and deepen the internal market.

13) To ensure open and competitive markets inside and outside Europe and to reap the benefits of globalisation.

14) To create a more competitive business environment and encourage private initiative through better regulation.

15) To promote a more entrepreneurial culture and create a supportive environment for SMEs.

16) To expand, improve and link up European infrastructure and complete priority cross-border projects.

**Employment guidelines**

17) Implement employment policies aiming at achieving full employment, improving quality and productivity at work, and strengthening social and territorial cohesion.

18) Promote a life-cycle approach to work.

19) Ensure inclusive labour market, enhance work attractiveness, and make work pay for job-seekers, including disadvantaged people and the inactive.

20) Improve matching of labour market needs.

21) Promote flexibility combined with employment security and reduce labour market segmentation, having due regard to the role of social partners.

22) Ensure employment-friendly labour cost developments and wage-setting mechanisms.

23) Expand and improve investment in human capital.

24) Adapt education and training systems in response to new competence requirements.

# Annex 2: Overview of progress in Lisbon post 2005

Table 1: Macro-economic developments 2000 -2009 key figures, EU 27

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | 2000 -2004 | 2005 – 2007 | 2007 | 2008 – 2009 |
| GDP growth | 2.2 % | 2.6 % | 2.9 % | 2.4 % |
| Consumption growth | 2.2 % | 2.0 % | 2.2 % | 2.2 % |
| Investment growth | 1.6 % | 4.8 % | 5.6 % | 3.4 % |
| Employment growth | 0.9 % | 1.4 % | 1.6 % | 1.0 % |
| Unemployment rate (% of labour force) | 8.8 % | 8.1 % | 7.1 % | 6.7 % |
| Inflation rate | 2.7 %  | 2.3 % | 2.3 % | 2.3 % |
| Government debt | 61.5 % | 61.4 % | 59.7 % | 57.8 % |

Source: European Commission 2008

Table 2: GDP, employment and labour productivity (annual averages)

|  |  |  |  |
| --- | --- | --- | --- |
|  |  1997 - 2000EU US |  2001 -2003 EU US |  2004 -2006EU US |
| GDP  | 3.1 % 4.2 %  | 1.5 % 1.6 % | 2.4 % 3.2 % |
| Employment | 1.1 % 2.1 % | 0.3 % 0.0 % | 1.1 % 1.6 % |
| Labour productivity (per worker) | 2.2 % 2.1 % | 1.1 % 2.0 % | 1.5 % 2.1 % |
| Hourly labour productivity  |  - 2.1 %  | 1.6 % 2.7 % | 1.4 % 2.3 % |

 Source: European Commission 2008

1. The term Europe or the European economies in this paper refer to countries participating in the Lisbon strategy, which is the same as the EU member states. [↑](#footnote-ref-1)
2. The term Lisbon will throughout the paper often be used as short for the Lisbon strategy. [↑](#footnote-ref-2)
3. Brussel based think-tank [↑](#footnote-ref-3)
4. André Sapir is a senior fellow at Bruegel and former economic advisor to the European Commission. [↑](#footnote-ref-4)
5. Luc Soete is a professor of International Economics at the University of Maastricht and director of the Maastricht Economic Research Institute on Innovation. In his contribution to Rodrigues work *“The new knowledge economy”,* he analyses the challenges that the shift to knowledge economies might mean for Europe. [↑](#footnote-ref-5)
6. Mario Teló is a professor at the Université Libre in Brussels. In his contribution to *“The new knowledge economy”,* analyses the Open Method of Coordination as a new form of governance in relation to European integration. [↑](#footnote-ref-6)
7. Ben Rosamond is professor at politics and international studies and head of department at Warwick University. His research areas is on regional integration, especially international theory and European integration. [↑](#footnote-ref-7)
8. Mark Pollack teaches in International Relations and European Union politics, Temple University. [↑](#footnote-ref-8)
9. Graham Evans is a senior lecturer in International Relations, University of Wales, while Jeffrey Newnham is a lecturer in American foreign policy at the University of Wales. They have co-authored the book “Dictionary of International Relations”. [↑](#footnote-ref-9)
10. Andrew Moravcsik is Professor of Politics and director of the European Union Program at Princeton University. [↑](#footnote-ref-10)
11. Michael Porter is a professor at Harvard Business School and is a leading author on competitive strategy and international competitiveness. [↑](#footnote-ref-11)
12. Porter refers to conflicting explanations on national competitiveness; some argue it is dependent upon macro-economic conditions, like interest rates; some on the supply of cheap labour and other again on the natural resources (Porter 1998:3-4). [↑](#footnote-ref-12)
13. Paul Krugman is an American economist, who is a professor in economic and international affairs at Princeton University. In 2008, Paul Krugman won the Nobel Prize in economics. [↑](#footnote-ref-13)
14. Thomas C. Lawton lectures in European Business and Corporate Strategy at the School of Management, Royal Holloway University in London. [↑](#footnote-ref-14)
15. Susanne Mundschenk is a research fellow at the Centre for European Integration Studies, University of Bonn. She has conducted research on European monetary integration, economic growth and governance in the EU, among other for the EU Commission and the German government (Mundschenk 2006:vii). [↑](#footnote-ref-15)
16. Susan Strange was a dominant scholar in Britain within the field of International Relations, teaching among other places at the University College in London. She was a Foundation Professor of International Political Economy at the European University Institute in Florence among other places. [↑](#footnote-ref-16)
17. Jan Fagerberg is a professor, Centre for technology, innovation and culture at the University of Oslo. Much of his research concerns the impact of innovation and technological development on trade, competitiveness and growth and he has published extensively within this area (<http://folk.uio.no/janf/my_research.html>). [↑](#footnote-ref-17)
18. Colin Hay is Professor of Political Analysis, department of Politics at the University of Sheffield and conducts research within the fields of globalisation and European integration. He co-edits the Journal of European Comparative Politics with Ben Rosamond (mentioned in section 1.7.1 this thesis). [↑](#footnote-ref-18)
19. Hay and Rosamond outline four different discourse paths, however the two most important are elaborated on in the text above. In addition to these, a third discourse is of ‘globalisation as the threat of homogenisation’, where globalisation is used in debates to underline the threat of external processes to i.e. national culture and distinctiveness. Finally, the last refer to ‘globalisation as a desirable, yet contingent outcome’, which defends globalisation as an economic and political object. This is primarily argued by liberals who see globalisation as liberalisation and focus on openness to benefit from globalisation. [↑](#footnote-ref-19)
20. The figures by Luc Soete are based on OECD indicators and his chapter, which describes the position of the EU versus the US and Japan on economic indicators, was used as a draft in the preparation of the Lisbon summit in 2000. [↑](#footnote-ref-20)
21. These figures are based on European Commission data. [↑](#footnote-ref-21)
22. Adriaan Dierx is head of sector, responsible market integration, competitiveness, knowledge and innovation at the DG for Economics and Financial Affairs, European Commission. Fabienne Ilzkovitz is head of unit for product markets, competitiveness and competition and innovation policy, DG for Economics and Financial affairs. [↑](#footnote-ref-22)
23. For employment rates of women aged 25-54, the gap is smaller as the percentage is 63 % (EU) and 74 % (US), which again highlights the EUs problem in keeping the older generation longer on the labour market. [↑](#footnote-ref-23)
24. These are of course only meant as overall indicators, as one could rightly argue that a full picture of a nation’s effort towards the knowledge economy would also include expenditure on training, education or even childcare. [↑](#footnote-ref-24)
25. Figures are based on a 1999 OECD report measuring knowledge intensity measures in OECD countries. [↑](#footnote-ref-25)
26. Research DG figures from 1998 [↑](#footnote-ref-26)
27. The BERD figures for these states were: Germany (1.57 %), France (1.37%) and the UK (1.22) [↑](#footnote-ref-27)
28. Steven Mcguire is a senior lecturer in International Business, the University of Bath. Michael Smith is a professor in European Politics at Loughborough University, UK. [↑](#footnote-ref-28)
29. It must be recognised though that policy coordination had previously been used in the EU, in example since 1992 in relation to the broad economic policy guidelines and in relation to the employment guidelines at Amsterdam. [↑](#footnote-ref-29)
30. Jacob Edler is a professor at the Business School, Manchester University, researching on innovation systems. Luke Georghiou is a professor of Science and technology policy & Management, Manchester University. [↑](#footnote-ref-30)
31. This report concluded that a focus on a R&D driven strategy was insufficient in bringing the desired level of innovation and that, among other things, European approaches should be made to create an innovation-friendly market (Edler & Georghiou 2007:951). [↑](#footnote-ref-31)
32. Various definitions of benchmarking exists, see Lundvall & Tomlinson 2002, but *“it always involves some sort of systematic comparison of one institution’s outcomes or processes with either some other institution(s) or some accepted standard. It is usually a rigorous comparison with an institution that is regarded as superior in performance....it is thus about comparing one company’s performance with another who is considered one of the best, if not the best, in the field” (Lundvall & Tomlinson 2002:205).* [↑](#footnote-ref-32)
33. Bengt-Åke Lundvall is professor in economics, department for business studies in Aalborg. His research centres on innovation theory, national systems of innovation and international competitiveness. Mark Tomlinson is a research fellow at the Centre for Innovation and Competition, University of Manchester. [↑](#footnote-ref-33)
34. This distinction between Lisbon I and Lisbon II was also applied by Pisani-Ferrry (2005) and Iain Begg (2008) and will be used throughout this paper when there is a need to distinguish between the two processes. [↑](#footnote-ref-34)
35. The Unions contribution to R&D is only about 5.4 % of the total public effort of all the member states (European Commission 2000a:7). [↑](#footnote-ref-35)
36. According to the DG for Enterprise and Industry, the definition of SMEs is small and medium size enterprises with less than 250 employees and an annual turnover of less than 50 million Euros. European SMEs represent 99 per cent of all enterprises and provide around 65 million jobs (DG Enterprise and Industry: http://ec.europa.eu/enterprise/enterprise\_policy/sme\_definition/index\_en.htm). [↑](#footnote-ref-36)
37. Christopher Bovis, professor at the University of Hull is a former legal advisor to the Commission and has worked extensively on public procurement policy. [↑](#footnote-ref-37)
38. Filipa Figueira is a research assistant at the Centre for European Policy Studies (CEPS). [↑](#footnote-ref-38)
39. Simon Hix is professor of European and comparative politics at London School of Economics [↑](#footnote-ref-39)
40. Jonas Tallberg is an associate professor at the department of political science, Stockholm University, where his research areas are international relations and European integration. Karl Johansson is a professor at the Royal Institute of technology in Stockholm. [↑](#footnote-ref-40)
41. Graham Room is Professor of European Social Policy, Department of Social and Policy Studies, University of Bath [↑](#footnote-ref-41)
42. Tania Zgajewski is a director of the HERA and a senior researcher at the University of Liége. Kalila Hajjar is a researcher at the Royal Institute of International Relations, Brussels. [↑](#footnote-ref-42)
43. George Ross is a professor in labour and social thoughts, Centre for European Studies, Brandeis University. He has conducted a study among a range of EU officials in different institutions to collect views on the EU’s own perception of the current EU crisis, meaning lack of progress on a number of issues such as integration, legitimacy, economic growth etc. [↑](#footnote-ref-43)
44. For the whole of the EU 27, this figure grew by 65.4 % in 2005 to 67.1 % in 2007, also indicating a small closure of the gap (European Commission 2008:8). [↑](#footnote-ref-44)
45. It should be noted of course that unlike the figures under the macro-economic pillar, these figures are from 2006, thus not accommodating any rise in figures which have occurred post-2006. [↑](#footnote-ref-45)