

IS THE EU ON TRACK TO REACH THE GOALS OF THE LISBON AGENDA?

Paul Gray

Junior Sophister

This paper presents an analysis of the progress of the European Union in reaching the goals of the Lisbon Agenda. More specifically, it seeks to address whether or not the EU is “on track” in terms of meeting the 2010 deadline as established by the European Heads of State and Government in March 2000.

Introduction-The Lisbon Agenda: Defined Goals

Defined by Europe’s leaders in 2000 at the Lisbon summit, the goals of the economic reform programme were designed with one broad intention; closing the economic divide between the United States and Europe. Faced with an ageing population, downward falling growth rates and the omnipresent threat of globalisation, Europe required a long-term policy solution. The solution came in the form of what became coined the “Lisbon Agenda.” The goals of the agenda can be examined in terms of five key dimensions:

1. **Innovation, research, and development** as a key European competency. Without innovation, Europe will not have the capacity to compete globally, particularly in the production of hi-tech products, currently dominated by the US and Japan. The creation of an information society is crucial to the safe-guarding of this objective.
2. **Liberalisation:** the completion of EU objectives on the single market, state aid, and competition policy.
3. **Enterprise environment:** one that promotes entrepreneurial aspirations by being more conducive to private sector involvement. Network industries, such as the telecommunications and transport sectors need to be promoted and receive further investment. In terms of financial services, there is a need for an integrated and effective response in terms

IS THE EU ON TRACK TO REACH THE GOALS OF THE LISBON AGENDA?

of implementing the Financial Services Action Plan, which includes the elimination of cross-border barriers to the sale of financial services.

4. **Improved employment and social cohesion** amidst concerns regarding Europe's ageing populations. The modernisation of social protection with the intention of removing the menace of poverty from society. With high unemployment rates, particularly low female employment, and a skills shortage, European competitiveness was under serious threat. The Lisbon Agenda set a target of 70% employment by 2010 resulting in an anticipated 20 million jobs.
5. **Sustainable development.** The Lisbon Agenda sought to establish an annual growth rate of 3 per cent.

Coupled with the rising spread of IT-based innovative industries, the need for an all-encompassing reform package became even more pressing. The Lisbon Agenda ultimately promised the completion of the single market.

Section 1: Innovation

Much excitement and hype surrounded the Lisbon summit in March 2000. Propagated by talk of the dawning of a new era in technology, the so-called "dot.com summit" stressed the importance of IT-based innovation (Murphy 2004). Central to this was the boosting of internet access on a pan-European level as well as other developments such as the third generation of mobile phones. This aspect of the Lisbon Agenda can largely be deemed a success. According to the European Commission, the number of households (within the pre-accession 15 EU member states) with internet access increased to 47 per cent by 2003. Compared to 54 per cent in the United States, however, this figure highlights the structural inadequacies of the EU's innovative culture; funding of the US knowledge sector is second-to-none, something which is keenly reflected in the quality it showcases (ibid).

1.1 Information

The European Union continues to fall behind the United States in IT expenditure. Compared to the EU's 3 per cent of GDP spent in 2003, the US invested 3.6 per cent of GDP in the sector. However, within the EU, the Nordic countries continue to pioneer technology-driven advances; most notably, Sweden

which spent 4.4 per cent of GDP in the same year (ibid). It must be taken into account, however, that the figures cited do not differentiate between spending in consumer electronics and that in more progressive areas. In 2001, a commitment by the EU accession states to develop mechanisms to accelerate reform in this area was agreed. The eEurope+ initiative has seen countries such as Slovenia as a pioneer. A leader in e-Government, even the majority of the country's cabinet meetings are now held on-line (The Lisbon Strategy and the EU's Structural Productivity Problem 2003).

1.2 Research & Development

In terms of research and development, a further goal was added in 2002 at the Barcelona summit. Albeit a highly ambitious one, a new target of 3 per cent of GDP was agreed for annual EU spending on R&D. This target is to be reached by 2010. Although the OECD Economic Survey of 2003 indicated that in order to meet this target, expenditure must be doubled, the Commission has stressed that the target is "realistic." It is widely felt that much of this funding should come from the private sector.

Despite coming two years late, the EU introduced a community patent in 2003. With its introduction, businesses will simply register their product with a single patent office, which will cover the entire EU area. However, the new system will not function effectively until the patent court in Luxembourg has been established in 2010. Nonetheless, the move represents a further progression towards the full protection of intellectual property rights.

Section 2: Liberalisation

The objectives contained in the Lisbon Agenda pertaining to the area of liberalisation cover three distinct areas: telecommunications and energy markets, transport, and financial services.

2.1 Telecommunications and Energy Markets

The telecommunications sector has seen a successful liberalisation drive. The primary aim has been to focus competition and reduce call charges. A 100% increase has been seen in the number of land-line operators providing telecommunications between 1998 and 2001. Monthly phone bills of EU households have fallen by almost 14 per cent. Despite the reduction in call

IS THE EU ON TRACK TO REACH THE GOALS OF THE LISBON AGENDA?

charges, “the average cost of a local call in the EU remains nearly four times higher than in the US” (Murphy 2004).

In energy markets, the liberalisation of gas and electricity has been a priority. However, the process has been severely delayed. The deadline for full liberalisation for consumers has been postponed until 2007 (*ibid*). The Commission has taken a zero-tolerance stance on governments assisting domestic suppliers. In an attempt to improve energy-efficiency and eliminate cross-border barriers, the EU has invested in a number of schemes designed to enhance energy markets.

2.2 Transport

Principle objectives include encouraging competition amongst rail providers and providing a “single European sky” by 2004 (*ibid*). In an attempt to open up rail and air markets, the EU aims to allow any licensed operator to bid for freight services across member states from 2006. Key to this is the establishment of a European rail agency. Legislation is also to be introduced to allow greater competition amongst passenger services by 2008 (Murphy 2004). Arguably, real progress has been made in this area. In 2003, the Commission signed a deal with the United States for transatlantic flights. Now, bilateral deals between EU member states and the US are contrary to EU law. The effect of this is increased competition necessary for bringing increased flexibility to the airline industry. Major transport infrastructure projects continue to roll out across Europe, transforming rural country-sides from quiet backwaters to roaring high-speed motor-ways. A package of 56 projects worth €76 billion was approved in Brussels in 2003, 31 of which are transport-related (*ibid*). However, these large scale projects have suffered from a lack of private investment. Such cross-border initiatives present many problems which hinder any possibility of public-private partnerships.

2.3 Financial Services

A single market in financial services is a pivotal aspect of the Lisbon economic reform package. The benefits accrued to firms will assist them in raising finance. Consumers benefit from a broader selection of products, thanks to the competitive pricing strategies to be adopted. The Financial Services Action Plan is to be completed by 2005. The FSAP has secured agreement on 37 instruments which will see this task completed. An efficient allocation of capital is crucial for the sustained competitiveness of the European economy, particularly with the accession of the new member-states.

Section 3: Enterprise

3.1 Small and Medium-Sized Enterprises

According to Commission figures, entrepreneurial activities in the EU are crucial for promoting growth and increasing levels of employment. Bureaucratic obstacles are a major disincentive to potential investors and entrepreneurs. As a counter to this, the Commission, in February 2004, proposed an initiative to encourage entrepreneurial activities. In line with the objectives of the Lisbon Agenda, the plan made recommendations in a number of areas: improved possibilities for training, a fair and just environment for starting up a business, promotion of the entrepreneurial culture as a legitimate career option, enhanced finance packages, and a reduction in the bureaucratic duties presented to small and medium-sized businesses.

3.2 Competition Policy and State Aid

In order to prosper as a fully functional single market, the EU must focus on its competition policy and re-consider its practice of providing state-aids. The Lisbon Agenda sought to encourage competition and promote a reduction in state-subsidies, promoting greater choice for consumers and higher quality products with lower prices. Since May 2004, when the EU's anti-trust and mergers rules came into force, the Commission's policies in competition and state aid have been the subject of much speculation and examination. However good progress has been made. In December 2003, the EU reached an agreement on procurement techniques. A competitive market for public procurement is good news for business across Europe.

Section 4: Social Inclusion and Employment

An integral part of the Lisbon reform package, social inclusion and employment, deals specifically with promoting a greater sense of social cohesion and ensuring that productivity and competitiveness is increased.

4.1 Social Inclusion

The evolving requirements of society demands a system of social protection designed to meet their changing needs. A decision was made at Lisbon to eradicate poverty by 2010. It has been shown that social exclusion presents an

IS THE EU ON TRACK TO REACH THE GOALS OF THE LISBON AGENDA?

extraordinary burden on society and that efficient social protection can enhance productivity. To support the agenda of social inclusion, a Social Protection Committee has been established with the aim of monitoring the open-method of co-ordination in pensions.

4.2 Employment

Lisbon, as previously mentioned, set a target of 70 per cent employment by 2010. Employment is an important gauge in determining the success of the Lisbon Agenda to date. In 2002, the EU employment rate stood at 64.3 per cent (Murphy 2004). However, the US figure is considerably higher, at 71.9 per cent. To deliver employment, labour markets must show improved flexibility through the evolution of a well-educated and skilled workforce. To this end, each member state has implemented a National Action Plan centred around four key objectives: “employability, entrepreneurship, adaptability and gender equality” (Blanke, J. & Lopez-Carlos 2004). For example, Finland has introduced re-training programmes for people in retirement seeking to re-enter the workforce. Sweden has launched a search programme for the unemployed, while the Commission is also establishing a Europe-wide database. In order to meet the goals of the Lisbon Agenda, the EU must focus its attention on improving IT-related skills. If Europe is to succeed as the most dynamic economy in the world by 2010, it must invest heavily in fostering employment opportunities.

Section 5: Sustainable Development

Sustainable development, as a response to a growing environmental lobby, was introduced as an addition to the Lisbon Agenda at the Gothenburg summit in June 2001.

5.1 Climate Change

On the issue of climate change, the EU aims to reduce greenhouse gases by 8 per cent by 2010. Such a move would see the EU assume a global first, by reaching the Kyoto protocol target. Between 1990 and 2001, the European Environment Agency (EEA) estimated that greenhouse emissions were reduced by approximately 2.3 per cent (euractiv.com 2005). However, the Commission has advised that member states must make further commitments to ensure the 8 per cent target is met by 2010. It is worth noting that all of the new member states, apart from Slovenia, intend reaching the Kyoto targets by 2010.

The surge in car-ownership also presents a threat in terms of climate change. In response to this, the Commission is set to present a 25-year initiative designed to address the growth of road transport (Murphy 2004).

5.2 Environmental Impact of Agriculture and Fisheries

Policies in the areas of agriculture and fisheries have neglected the impact their introduction has had on the natural environment of Europe. Intensive farming measures caused by the practices promoted by the Common Agricultural Policy (CAP) have had a hugely negative impact on farmland species, notably birds. In response to this, the EU has enacted a reform of the CAP which will see farmers take on a more pro-active approach to the environmental concerns set out by the Lisbon Agenda. Over-production is to be replaced by income support subsidies as an attempt to improve the “management of natural resources and stop the depletion of biological diversity.”

Section 6: The Mid-Term Review

The Lisbon Agenda was formulated based on the economic situation of the EU in 2000. Since then, that context has altered significantly. The question remains as to how the EU in its current shape can adapt the Lisbon Agenda to meet the new Europe as the mid-term review beckons. With a European Union of 25 member states and an uncertain economic outlook worldwide, changes in global dynamics present a real test for the member states meeting to assess the work of the Agenda in March 2005. A lack of coordination and strong leadership has been blamed for the lack of drive behind the process. However, it has also been argued that the Agenda lacks clarity and that too much of an attempt is being made to mimic the US model. In reality, do we want an economy that directly mirrors that of the United States? The Agenda has become overloaded with ideas and reform packages overlapping with a myriad of proposals. The complexity which the Agenda has gathered has led to a situation of disinterest among the EU member states. Accusations of a lack of “personal ownership” abound as the momentum for reform loses pace (euractiv.com 2005). The current deficit has been taken on board, however, and public awareness is beginning to build in advance of the forthcoming mid-term review.

6.1 The Kok Report

In November 2004, the Council and Commission mandated former Dutch Prime Minister, Wim Kok, to undertake a review of the Lisbon strategy in advance of the March 2005 summit. His findings and proposals may be outlined as follows:

1. Improved climate for entrepreneurs
2. Removal of barriers to free movement of services by the end of 2005
3. Member states to adopt 'ageing' strategies designed to move citizens away from early retirement
4. Environmental awareness
5. Establishment by the end of 2005 of a European Research Council to tackle the R&D deficit
6. National action plans
7. EU Budget to reflect Lisbon strategies
8. Refocus and "ownership" of Lisbon objectives
9. "Naming, shaming and faming" of states (ibid)

6.2 March 2005 Summit

The mid-term review should seek to address the public deficit with regard to the lack of knowledge surrounding the Lisbon Agenda. The harnessing of public interest, political will, and determination will strengthen and drive forward the second half of the reform process. "Simplification, clarification and simpler reporting" is likely to dominate debate at the summit (ibid). While attempts are likely to be made to alter some of the Lisbon 2000 goals (based on justifications of the recent EU expansion according to the fourth annual Lisbon Scorecard), any efforts to redirect the end result should be avoided. While the Commission has admitted that the 2010 targets are unlikely to be met for the entire European Union, some countries will reach the goals and stay on track; the Nordic countries being among the shining examples.

The Lisbon 2010 goals must be observed as work-in-progress. The Spring summit of March 22-23, 2005 will seek to find new ways of equipping Europe with the tools to adapt the goals of the Lisbon Agenda to the realities of a changing Europe. However, the focus on employment and growth should not change (Murphy 2004). Certainly, there is a need for more consultation between economies, in terms of providing advice and expertise to one another and adhering to the goals and targets of 2010. New ways to deepen the European knowledge base must be found. Integral to this objective is the appointment of a

Commissioner with the specific responsibility of overseeing the Lisbon Agenda (ibid). Proposed by the British, French and German governments in 2004, the Commissioner would work closely with the Commission's directorate-generals to ensure their targets are met. A proposal has also been put forward to have each member state submit an annual report outlining the progress made towards reaching the 2010 objectives and demonstrating any apparent local weaknesses.

To achieve coherence across all EU policies, the Lisbon Agenda should be "reflected in other key European and national policy areas, such as the Stability and Growth Pact, the EU Structural and Cohesion Funds, and EU competition policy and industrial policy" (EPC Working Paper 2004).

Conclusion

The economic, social, and environmental goals established by Lisbon are beginning to take shape. However, what is apparent from my discussion in this paper is that progress is slow and that the process is losing momentum as a result. If EU countries are to deliver their objectives by 2010, by becoming the world's most dynamic, knowledge-based economy in the world, over-taking the United States in its step, much work has still to be done. The pace of progress over the coming months will indicate the EU's current enthusiasm for the Lisbon Agenda. However, the seeds of good economic growth have been sown. Continued efforts by the member states coupled with the rising participation of recent accession states spell good news for the reform package. However, the enthusiasm of the new states and notably that of the Nordic states must be matched by a universal political will, and the engagement of the public imagination.

This paper has set out the goals of the Lisbon Agenda, has addressed progress to date in five broad areas, and has offered some conclusions as to where the future of the European Union's economic development policy lies. What is clear is that there exists an over-riding consensus that the "iron curtain" of yesteryear should not be replaced by a transatlantic economic barrier. Completing the goals attached to the Lisbon Agenda will require a concerted effort and although for some EU countries, the finishing line is in sight, for the vast majority, staying on track presents a real uphill struggle.

Bibliography

Blanke, J. and Lopez-Carlos, A. (2004) *The Lisbon Review 2004: An Assessment of Policies and Reforms in Europe*. World Economic Forum.

IS THE EU ON TRACK TO REACH THE GOALS OF THE LISBON AGENDA?

Euractiv.com (2005) <<http://www.euractiv.com/Article?tcmuri=tcm:29-134971-16&type=News>>, <<http://www.euractiv.com/Article?tcmuri=tcm:29-131891-16&type=LinksDossier>>, <<http://www.euractiv.com/Article?tcmuri=tcm:29-117510-16&type=LinksDossier>>.

Murphy, A. (2004) *The Lisbon Scorecard IV: The status of economic reform in the enlarging EU*. London: Centre for European Reform.

The European Policy Centre (2004) *Lisbon Revisited – Finding A New Path to European Growth*. EPC Working Paper, 2004.