

# **Strengthening the delivery of Lisbon: the contribution of the Lisbon Methodology WG**

**"En route vers Lisbonne"**

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# Agenda: Strengthening the delivery of Lisbon

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- Lisbon strategy post-2010.
- The contribution of the Lisbon Methodology WG.

# Lisbon strategy: key milestones

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## ■ Lisbon 2000:

*“to become 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”.*

## ■ The 2005 relaunch:

*“it is essential to relaunch the Lisbon Strategy without delay and re-focus priorities on growth and employment. Europe must renew the basis of its competitiveness, increase its growth potential and its productivity and strengthen social cohesion, placing the main emphasis on knowledge, innovation and the optimisation of human capital”.*

# The 2008-2010 cycle: continuity and improvement

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## ■ Spring Council 2008:

- ❑ Confirms that the **current Integrated Guidelines remain valid.**
- ❑ **Reconfirms the four priority areas** (employment, knowledge and innovation, business potential, energy) agreed at its Spring 2006 meeting as the cornerstones of the renewed Lisbon Strategy and at the same time **calls for synergies** among them to be exploited to a greater degree.
- ❑ Invites the Commission to continue working with Member States to further develop a clear and **transparent methodology** for the monitoring and evaluation of Lisbon reforms.

# The 2008-2010 cycle: an opportunity that cannot be missed

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- Starting a debate on Lisbon post-2010 is **vital** but ...
- ... as the Lisbon Co-ordinators vigorously underscored in May:  
*“Success after 2010 depends on accelerating the implementation of reforms before 2010.”*
- **Gap between the technical level**, where there is broad consensus on priorities/issues at stake (European Commission, international organisations, technical committees) **and the political level.**
- The gap with the European public opinion is even wider ...

# The 2008-2010 cycle: the final spurt

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- In order to remain credible and gain support, the Lisbon Strategy must speed up the delivery of **tangible benefits to its stakeholders** – European citizens first and foremost!
- The priorities for this cycle should be:
  - ❑ The creation of a **single labour market**.
  - ❑ Increased competition in **product and service markets**.
  - ❑ Full integration and increased competition in **retail financial services**.
  - ❑ Creation of an EU-wide **internal market for energy**.
  - ❑ Sustained **innovation and education**.

# The passwords for the next cycle: Focus

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- The **actual priority structure** (integrated guidelines, areas for priority action, national key challenges, recommendations, points to watch...) is rather **confusing**.
- A maximum of five priority areas could be identified **under which** specific guidelines (preferably with numerical targets) **should be detailed and classified**.
- National key challenges should be selected **among identified priority areas** and guidelines.
- Recommendations and points to watch should be **specific and limited in number**. More analysis on country-specific factors and on productivity and competitiveness.

# The passwords for the next cycle: Implementation

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- Need for a more **stringent monitoring and evaluation of reforms** (the increasing role of a robust evaluation framework leading to sharper and more operational recommendations).
- Strengthening **peer pressure** (the role of ECOFIN, EMCO).
- Devising **incentives/disincentives** mechanisms.
- **New provisions** stemming from the Treaty of Lisbon (greater involvement of EU institutions, Commission's warning procedure...).



# The passwords for the next cycle: Coordination

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- Coordination amongst **different policies in place** (e.g. Lisbon, SGP, Social Agenda, Energy and Climate change package).
- Coordination of action **between Community and national level**.
- Horizontal coordination of reforming efforts **amongst countries** (especially in the EMU).
- Fine-tuning of the **governance**.
- **EU budget** consistent with the strategy (role of the Community Lisbon programme).

# The passwords for the next cycle: Communication

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- Public awareness and support remains low.
- Need for better communication of the **aims, rationale** and **expected benefits** of reforms.
- Opportunities for **engagement with the public** should be better exploited to build awareness and support.

# Is the so-called external dimension a separate branch?

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- Increased focus on **external openness** and **external trade**, resisting inward looking attitudes.
- Difficult to **clearly disentangle** the external dimension of Lisbon from the internal issues:
  - ❑ Can we consider labour market and ignore immigration?
  - ❑ Can we face the energy and climate change challenges in isolation?
  - ❑ Can we pursue our financial markets integration without dealing with the international environment?

# The role of the Lisbon Process in the current crisis

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- Opportunity to **strengthening the process**.
- More coordination but also focus on **country-specific needs**.
- A **speeding up of investment projects** is welcome; waste of public money in useless projects is not.
- Desirable to move ahead with projects that have (1) **immediate positive impact** on the economy, and (2) effects both on the **supply and demand sides**... but are there many?
- Avoiding **excessive activism**. Focus should remain on long-term support to economic growth and employment.
- Further improving **resilience and adjustment capacity**.

# The EPC Lisbon Methodology Working Group (LIME)

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- In September 2006, the EPC considered that:

*“The main weakness of the Lisbon Strategy in the past has been the gap in the delivery of reforms. Both the scale of structural reforms and the speed with which they have been implemented have been insufficient to meet the Lisbon challenge. It is therefore a clear priority to devise a well-focused method to allow for better monitoring of actions and results. Both quantitative and qualitative methods have a role to play”.*

- The EPC LIME was created in October 2006 to “drive forward the development of methodological approaches to track, analyse and model structural reforms carried out in the context of the Lisbon strategy” and benefited since from close co-operation with the Commission and the contribution of the ECB and the OECD.

# The methodological framework: a three pronged approach

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- The LIME has focused on three main methodological strands for evaluating progress against the Lisbon agenda:
  - **Tracking** progress with structural reforms
  - **Analysing the impact** of structural reforms on employment and growth (LAF)
  - **Modelling** issues in assessing structural reforms

# Tracking progress with structural reforms

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- Reporting tables were submitted by Member States along with their National Implementation Reports in mid October:
  - ❑ **Web-based** application.
  - ❑ Allow for **timely and comparable analysis of progress** with structural reforms by standardising the information content.
  - ❑ Provide **information for analysis**.
  - ❑ Feed into **existing Commission's databases** (LABREF, MICREF).
  - ❑ **Link** reform measures to challenges, IGs, CSRs, PTWs and Euro Area Recommendations.

# Structure of the reporting table

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## ■ Three building blocks:

- ❑ **A description module:** content, rationale and timing of reform measures.
- ❑ **A classification module:** against integrated guidelines, key challenges, country specific and EU/Euro Area recommendations, points to watch.
- ❑ **An impact and follow up module** (*optional*): national evaluation procedures, direct budget impact, structural indicators, LAF policy areas.



# Lisbon Assessment Framework (LAF)

- Systematic approach to analysing the areas where MSs underperform and thus highlighting where further structural reforms may be needed.

## The Lisbon Assessment Framework (LAF)

ANALYSIS	GDP	Policy Performance	Screening
	Analyses of 12 GDP components in level and changes	Evidence-based analysis of 20 policy areas affecting GDP. Indicator-based assessment which is then qualified with country-specific information	Examines links (identified in the literature survey) between performance in policy areas and relevant GDP components
OUTPUT	Relative performance (+ = -) of GDP components	Relative performance (+ = -) of policy areas	Underperforming policy areas qualified with links to GDP components

# Value added of the LAF

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- Provides an **analytical framework** for examining performance in a number of important policy areas.
- May be a **useful input** as Member States update **key challenges** for the 2008-10 Lisbon cycle and **for policy making in general**.
- Offers to MSs and the Commission a **basis for a structured dialogue** in the context of multilateral surveillance and increases transparency.
- Could also be used for **broader analysis**, e.g. focus on overperforming policy areas or mismatches, help with the identification of best practices.
- Gives weight to **country-specific expertise** (overruling).

# Caveats and limitations

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- Usual caveats associated with **growth accounting**.
- **Data and theoretical limitations** in a number of policy areas.
- Inevitable **time lags**.
- Screening exercise provides **no indication of causality**, only additional considerations when assessing growth priorities.
- Does **not cover** all Lisbon areas and dimensions.

# Preliminary results on GDP components

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- Overall, the **combination of lower per-hour productivity and lower labour input** is the cause of relatively low per capita GDP in euro area and EU15 countries, while **weak productivity** is the main concern in the new (EU12) Member States.
- The different growth patterns could suggest the existence of a **trade-off** between the two growth components for most of the countries...
- ... although there is one exception (IE) that points at **the possibility of positive gap simultaneously for both components!**

# Preliminary results on policy areas

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- The policy areas with the **largest number of negative performances** include:
  - ❑ R&D and innovation.
  - ❑ Sector specific regulation.
  - ❑ ALMPs.
  - ❑ Specific labour supply measures for older workers.
  - ❑ Education and life long-learning.

## Preliminary results on policy areas (cont'd)

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- The policy areas with the fewest recorded instances of underperformance include:
  - ❑ Market integration.
  - ❑ Wage bargaining and wage setting policies.
  - ❑ Policies to increase working time.
  - ❑ Job protection and labour market segmentation.

# Modelling of structural reforms

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- **Modelling forum:** Platform for national experts and the Commission to undertake a model comparison exercise and exchange experience and best practises.
- **Objectives:** Mutual learning and greater transparency on available modelling tools and their use to assess the impact of full structural reforms.
- **Main issues tackled:** standard reform shocks as well as specific reform shocks such as R&D, administrative burdens, migration and venture capital.

# Spillovers

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- In the context of the modelling exercise **spillovers and complementarities** were also considered.
- Central aspect of the Lisbon agenda, but still significant uncertainties as to the **quantification/analysis** of effects.
- Considered Quest III and WorldScan simulations.



## Main areas for further work

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- As a matter of priority, developing transparent analytical frameworks to **evaluate progress with structural reforms at both national and EU level**, where appropriate building on LAF.
- **Developing analytical approaches that can be used to quantify the macroeconomic implications of microeconomic reforms**, building upon the work on the modelling and drawing on the other workstreams of LIME, notably: (1) estimating the impact of reforms on macroeconomic variables ('toolbox'), and (2) identifying the main microeconomic features underlying successful and unsuccessful reforms.