

# **Lisbon Assessment Methodology**

Meeting of the Employment Committee

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# 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	<b>GDP</b>  Analyses of 12 GDP components in level and changes	<b>Policy Performance</b>  Evidence-based analysis of 20 policy areas affecting GDP. Indicator-based assessment which is then qualified with country-specific information	<b>Screening</b>  Examines links (identified in the literature survey) between performance in policy areas and relevant GDP components
	<b>OUTPUT</b>  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.

# 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.



# Performance of GDP components

Non euro area countries	BU	CZ	DK	EE	HU	LT	LV	PL	RO	SE	SK	UK	EU27 (+)	EU27 (=)	EU27 (-)
Fertility (level) / Native Population (growth)	-	-	+	=	-	-	-	-	-	+	-	+	7	4	16
Share of foreign population (level) / Net Migration (growth)	-	-	-	=	-	-	=	-	-	-	-	=	8	7	12
Share of Working age Population	+	+	-	+	+	+	+	+	+	-	+	=	19	2	6
Youth Participation	-	-	+	-	-	-	=	-	-	=	-	+	6	6	15
25-54 Male Participation	-	+	=	=	-	-	-	-	-	=	+	=	11	7	9
25-54 Female Participation	=	+	+	+	-	+	+	=	-	+	+	=	14	6	7
55-64 Participation	=	+	+	+	-	+	+	-	-	+	-	+	11	4	12
Unemployment Rate	=	+	+	+	+	+	+	-	=	=	-	+	14	6	7
Average Hours Worked	+	+	=	+	+	+	+	+	+	-	+	=	17	6	4
Capital Deepening	-	-	-	-	-	-	-	-	-	=	-	-	6	4	17
Total Factor Productivity	-	-	=	-	-	-	-	-	-	=	-	-	4	4	19
Initial education of labour (Labour quality)	=	=	+	+	-	+	+	+	-	+	=	+	12	8	7
Total (+)	2	6	6	6	3	6	6	3	2	4	4	5	129		
Total (=)	4	1	3	3	0	0	2	1	1	5	1	5		64	
Total (-)	6	5	3	3	9	6	4	8	9	3	7	2			131

# More weight to country-specific expertise in the main report

GDP components	Indicator-based assessment		Country-specific qualification		Assessment	
	Level	Growth	Level	Growth	Level	Growth
<b>Demographic components</b>	1	-2	too positive	too positive	-	-
Fertility rate (level) / Native Population (growth)	-9	-11	broadly accurate	broadly accurate	-	-
Share of foreign population (level) / Net Migration (growth)	-18	-8	broadly accurate	too negative	-	0
Share of Working age Population	30	16	too positive	too positive	+	+
<b>Labour market components</b>	24	-17	<b>broadly accurate</b>	<b>too negative</b>	0	0
Youth Participation	-13	-30	too negative	too negative	0	0
25-54 Male Participation	17	7	broadly accurate	broadly accurate	+	+
25-54 Female Participation	7	-10	broadly accurate	broadly accurate	+	-
55-64 Participation	-1	10	too positive	broadly accurate	-	+
Unemployment Rate	3	8	broadly accurate	broadly accurate	+	+
Average Hours Worked	24	-12	broadly accurate	broadly accurate	+	0
<b>Labour productivity components</b>	-29	30	<b>broadly accurate</b>	<b>broadly accurate</b>	-	+
Capital Deepening	-30	30	broadly accurate	broadly accurate	-	+
Total Factor Productivity	-30	23	broadly accurate	broadly accurate	-	+
Initial education of labour (Labour quality)	1	0	broadly accurate	broadly accurate	0	0
<b>GDP per capita (level) /GDP (growth)</b>	-24	23	<b>broadly accurate</b>	<b>broadly accurate</b>	-	+

# Quality of the coverage by indicators

	Quality of the coverage by indicators	Reasons
<b>Labour market</b>		
Active labour market policies	Partial	Indicators do not capture the efficiency of public spending and the quality of the micro design of institutions
Making work-pay: interplay of tax and benefit system	Broad	
Labour taxation to stimulate labour demand	Broad	
Job protection and labour market segmentation/dualisation	Partial	Lack of policy indicators: EPL indicators excluded for lack of timeliness. The segmentation dimension better captured than Job protection
Working time organisation	Broad	
Specific labour supply measures for women	Broad	
Specific labour supply measures for older-workers	Broad	Lack of reliable and timely indicators on important dimensions of wage-setting institutions (bargaining coverage, unionisation). It has been supplemented by many new indicators on education and labour market participation of the migrant. No policy instrument indicator available. It has been supplemented by many new indicators: vacancies, sectoral employment reallocation indicators and variance of relative unemployment rate by occupation..
Wage bargaining and wage-setting policies	Partial	
Immigration and integration policies	Broad	
Labour market mismatch and labour mobility	Partial	
Product and capital market regulations		
Competition policy framework	Narrow	Lack of indicators (only 3, of which one debatable on relative prices). PMR indicators from OECD are excluded for a lack of timeliness. Three variables in the narrow list, covering two sectors only: energy and telecom. Some important sectors (services and retail trades) are not covered in the narrow list for timeliness reasons. The reliability of some of the World Bank Doing Business indicators needs to be further explored. Also, no indicators on administrative burdens exist. The reliability of some of the World Bank Doing Business indicators needs to be further explored. Indicators are very heterogeneous, as they covered very different markets with different issues.
Sector specific regulation (telecom, energy, retail distribution, professional services)	Narrow	
Business environment - Regulatory barriers to entrepreneurship	Partial	
Business Dynamics - Start-up conditions	Partial	
Financial markets and access to finance	Partial	
Market integration - Openness to trade and investment	Broad	
Innovation and knowledge		
R&D, innovation policies and ICT	Partial	
Education and life long learning	Broad	Governance issues are not covered by indicators.
Macroeconomy		It has been supplemented by many new indicators on sustainability and ageing projections. Covered most important short-term macroeconomic indicators. But given their heterogeneity, no aggregate is computed.
Orientation and sustainability of public finances	Broad	
Macroeconomic background information		

# Compromise choice of indicators

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- Narrow list extended based on comments of LIME and EMCO.
  - ❑ reinstated several relevant indicators in the narrow list by splitting the weight.
  - ❑ extra indicators collected in some policy areas (labour mobility; wage setting; immigration & integration; fiscal sustainability).
  - ❑ outdated OECD indicators excluded from the narrow list.

# Possible technical changes to LAF: Indicators

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- Relabelling some policy areas.
  - “Working time organisation” into “Policies increasing hours worked” & “Sector specific regulation (telecom, energy, retail distribution, professional services)” into “Sector specific regulation (telecom, energy)”. “Labour mobility” relabelled into “Labour market matching and labour mobility.”
- Use the relative unemployment rate of specific groups instead of the absolute unemployment rate.
- Automating choice of alternative benchmarks in the **maquette** (EU27, five best values, EU5, the Lisbon target).

# Possible technical changes to LAF: Indicators

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- Further changes suggested by EMCO on labour market areas.
  - Using 'Regular activation in training' instead of "LLL for unemployed" (when available); Including 'Recent immigrants' in Labour mobility; Considering using the Eurostat data for 'early retirement schemes' instead of OECD series; Adding "Making work pay indicators" for couple with children in addition to data on single people (and splitting the weights).

## Possible technical changes to LAFs: Indicators

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- Better grouping of indicators by sub-policies: financial market and access to finance; R&D, innovation & ICT.
- Removing some World Bank Doing-Business indicators.
  - replace the 4 indicators on starting a business from the World Bank (time and cost) by the two indicators from DG ENTR on time and cost to start a business (data used to assess the compliance with the objectives set by the 2006 Spring Council conclusions for start-up procedures).
  - not removed altogether by principle but on case-by-case basis and for good reasons.

# More weight to country-specific expertise in the main report

Policy areas – Aggregate scores for CZ	Indicator-based assessment		Country-specific qualification		Assessment of policy area	
	Level	Change	Level	Change	Level	Change
<b>Labour market</b>						
Active labour market policies	-9	0	broadly accurate	broadly accurate	-	0
Making work-pay: interplay of tax and benefit system	5	14	too positive	too positive	-	0
Labour taxation to stimulate labour demand	-1	-3	broadly accurate	broadly accurate	0	0
Job protection and labour market segmentation/dualisation	12	1	too positive	broadly accurate	-	0
Working time organisation	2	2	broadly accurate	broadly accurate	+	+
Specific labour supply measures for women	-7	-7	broadly accurate	broadly accurate	-	-
Specific labour supply measures for older-workers	1	1	too positive	broadly accurate	-	0
Wage bargaining and wage-setting policies	-4	-6	too negative	too negative	0	0
Immigration and integration policies	-1	-12	broadly accurate	too negative	0	0
Labour market mismatch and labour mobility	-15	-18	broadly accurate	broadly accurate	-	-
<b>Product and capital market regulations</b>						
Competition policy framework	8	-30	too positive	too negative	-	0
Sector specific regulation (telecom, energy, retail distribution, professional services)	0	-13	too positive	too negative	-	0
Business environment - Regulatory barriers to entrepreneurship	-8	-5	broadly accurate	too negative	-	0
Business Dynamics - Start-up conditions	-10	0	broadly accurate	too negative	-	+
Financial markets and access to finance	1	10	too positive	too positive	0	0
Market integration - Openness to trade and investment	2	2	too negative	broadly accurate	+	0
<b>Innovation and knowledge</b>						
R&D, innovation policies and ICT	-4	18	too positive	too positive	-	+
Education and life long learning	-1	-2	too positive	broadly accurate	-	0
<b>Macroeconomy</b>						
Orientation and sustainability of public finances	-9	-15	broadly accurate	broadly accurate	-	-
Macroeconomic background information	Not applicable					



# Adjusting the assessment (vs indicator-based, level terms)

	No of overturnings	Reason for overturning			Downgrading			Upgrading		
		Growth	Statistical	Country specific	Total	(+) to (=)	(=) to (-)	Total	(-) to (=)	(=) to (+)
<b>Total</b>	<b>85</b>	<b>8</b>	<b>28</b>	<b>49</b>	<b>60</b>	<b>24</b>	<b>36</b>	<b>25</b>	<b>20</b>	<b>5</b>
%of total overturnings	<b>100%</b>	<b>9%</b>	<b>33%</b>	<b>58%</b>	<b>71%</b>	<b>28%</b>	<b>42%</b>	<b>29%</b>	<b>24%</b>	<b>6%</b>
<i>Labour markets</i>	<b>40</b>				<b>29</b>			<b>11</b>		
<i>Product markets</i>	<b>22</b>				<b>10</b>			<b>12</b>		
<i>Innovation and knowledge</i>	<b>15</b>				<b>15</b>			<b>0</b>		
<i>Orientation and sustainability of public finances</i>	<b>8</b>				<b>6</b>			<b>2</b>		
Active labour market policies	2		2		1		1	1	1	
Making work-pay: interplay of tax and benefit system	4	1	3		3		3	1	1	
Labour taxation to stimulate labour demand	1			1	1	1		0		
Job protection and labour market segmentation/dualisation	6		1	5	6	5	1	0		
Policies increasing working time	0				0			0		
Specific labour supply measures for women	4			4	3		3	1		1
Specific labour supply measures for older-workers	1		1		1		1	0		
Wage bargaining and wage-setting policies	6		3	3	1	1		5	5	
Immigration and integration policies	9	2	3	4	8	5	3	1	1	
Labour market mismatch and labour mobility	7	1	2	4	5	2	3	2	2	
Competition policy framework	7		5	2	3	1	2	4	4	
Sector specific regulation (telecom, energy)	7		4	3	6	2	4	1	1	
Business environment - Regulatory barriers to entrepreneurship	2		1	1	0			2	1	1
Business Dynamics - Start-up conditions	1		1		0			1	1	
Financial markets and access to finance	4			4	1		1	3	2	1
Market integration - Openness to trade and investment	1			1	0			1		1
R&D and Innovation	4	3		1	4	1	3	0		
ICT	0				0			0		
Education and life long learning	11			11	11	5	6	0		
Orientation and sustainability of public finances	8	1	2	5	6	1	5	2	1	1

**Table 1 Screening of coincidence between underperformance in policy areas and relevant GDP components in the LAF case studies**

	Demographic components			Labour market components						Labour Productivity		
	Fertility (level) / Native Population (growth)	Share of foreign population (level) / Net Migration (growth)	Share of Working age Population	Youth Participation	25-54 Male Participation	25-54 Female Participation	55-64 Participation	Unemployment Rate	Average Hours Worked	Capital Deepening	Total Factor Productivity	Initial education of labour (Labour quality)
Active labour market policies												
Making work pay: interplay of tax and benefit system							x	x				
Labour education to stimulate labour demand								x				
Job protection and labour market							x	x				
Idle workers							x					
Wage bargaining and wage-setting policies												
Immigration and integration policies								x				
Labour market mismatch and labour mobility												
Competition policy framework												
Sector specific regulation (telecom, energy)												
Business environment - Regulatory barriers to entrepreneurship												
Business Dynamics - Start-up conditions												
Financial markets and access to finance												
Market integration - Openness to trade and investment												
R&D and Innovation												
ICT												
Education and life long learning												
Orientation and sustainability of public finances												

**GDP components identified as underperforming (-) are highlighted in bold**

**Policy areas identified as underperforming (-) are highlighted in bold**

**A coincidence of underperformance in a policy area and relevant GDP component is indicated by "x"**

**The links in the economic literature between policy areas and relevant GDP component are represented by the shaded cells**

# 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.