EUSA Review Forum

Taking Stock of the Lisbon Agenda: Is Lisbon Flawed, Necessary, Window-Dressing, or All of the Above?

AT THE EUROPEAN COUNCIL in Lisbon in 2000 the European Union (EU) famously declared it was going to try to become the most competitive economy and dynamic knowledge-based economy by the year 2010. This objective has been met with considerable mockery in part because of the lack of a credible strategy or record of European member states prior to 2000 and in part because the immediate period that followed by no means seemed to be heading in the right direction. After decades of analyses and warnings of American decline, even in the immediate months and year following the September 11, 2001 attacks, investors were sending their funds in large quantities to the US, and Europe's new single currency, the euro was reducing in value.

At its mid-term review, the economic situation in Europe had stabilized a little, but there was still no sign of an obvious clear coherent strategy or likelihood of Europe being on track to reach its objective. If anything, talk of 'Lisbon failure' was paramount. The November 2004 the Kok report suggested that the Lisbon strategy had contradictory goals and needed clearer governance. Of course its objectives are noble: invest in education, research and development (R&D), developing the skills of citizens, improve the business climate by cutting red-tape, seeking to increase employment by providing apprenticeships for recent graduates, increasing childcare facilities, and achieving these objectives in an environment of sustainability (including exploiting more sustainable energy sources). Following the 2005 reform of the Lisbon Agenda, the second half of this decade will be a serious testing period for the EU, in that it needs to determine how important the Lisbon Agenda's objectives really are. Is it merely a public relations exercise (i.e. does it have as aim to tell European citizens that the ultimate aim of the EU is to try to boost competitiveness and growth)? Or is it seeking to find ways to remove rigidities in the market place and tackle relatively low labor participation in Europe? Or perhaps the aim is to find a European solution to the increasing pressures from 'globalization' that seem to keep threatening to undermine Europe's social model without providing some of the benefits of it in return (such as more jobs and higher growth)?

This forum asked five contributors to reflect on these various dimensions of the Lisbon Agenda and make and assessment of where we are at. Groenendijk offers a general overview of the Lisbon Agenda and argues that its objectives are crucial but its tools to achieve them are flawed. Bongardt and Torres explain the role of the single market and competition policy in trying to reach the Lisbon objectives and what are some of the positive effects of having sought to achieve them. Schelkle takes the developments in Economic and Monetary Union (EMU) (in particular the fiscal regime elaborated upon through the Stability and Growth Pact) into account and examines if Lisbon and EMU are compatible. Pochet also examines the EMU regime, but from a broader perspective. He offers an analysis of the various alliances and groups in support of various visions of European integration and examines how Lisbon and the OMC might seek to promote competitiveness and growth without destroying Europe's social model. Finally, the contribution by Smith looks at the competitiveness objective is embedded in the committee structure of the European Parliament. Taking the case of REACH, a new regulation for the chemicals sector, he discusses how it affects lobbying and policy networks. In conclusion, returning to the question set out in the title, it seems to me that the contributors of this forum conclude that Lisbon is 'all of the above': flawed, necessary, window-dressing and more…

-***Amy Verdun***, *University of Victoria,*
EUSA Forum Editor

The Revised Lisbon Agenda: Flawed but not yet Failed

Nico Groenendijk

THE LISBON AGENDA, put forward in 2000, has now been in place for six years. The failure of the initial overly ambitious policy agenda ('becoming the most competitive and dynamic knowledge-based economy in the world capable of sustainable growth with more and better jobs and greater social cohesion, in 2010') is unmistakable. Defeat has – implicitly – been acknowledged in the 2004 review (by the High Level Group chaired by Wim Kok) and in the 2005 mid-term reform by the Commission.

The initial agenda suffered from an overload of policy objectives: 28 in total, rendered into 120 sub-objectives and 117 policy indicators. Problems of incompatibility of these objectives were neglected and the implementation by mem-

ber states was inadequate due to a lack of political will. Giving this false start the go-by, the question now is how to assess the merits and demerits of the current revised agenda with its focus on growth and jobs.

Central to the current Lisbon policy framework is economic welfare in terms of Gross Domestic Product (GDP) *per capita* (pc). On that criterion the EU performs poorly compared to the US. Labor input is low showing itself in high unemployment rates, low participation rates, and low numbers of hours worked. Hourly labor productivity growth (well above the US level some decades ago) has also slowed down considerably. In Europe relatively few people put in relatively few hours during which relatively little economic value is created.

One could argue that GDP pc does not fully capture welfare, as it disregards environmental and social impacts, and ignores equity issues (for example, how is welfare distributed?). Furthermore, comparing productivity between different regions in the global economy is rather tricky, as low productivity performance could well be the result of explicit collective choices regarding the upbringing of children, retirement age, possibilities to enjoy holidays, et cetera, which have a direct effect on labor input.

In essence, the Lisbon Agenda is about conjoining economic restructuring (necessary due to globalization) and the 'European way of life', about gearing (labor) productivity issues to choices made in the social domain, within a stable macroeconomic framework. Obviously this raises questions of compatibility. First, there is the issue of compatibility of structural (labor market) reforms and macroeconomic consolidation, addressed in more detail in this Review Forum by Waltraud Schelkle. Is such consolidation, especially fiscal stinginess, enabling or detrimental to structural reforms? Second, there are problems of gearing economic restructuring to (the renewal of) social policies (see also the contribution by Philippe Pochet). 'Gearing to' sometimes is a matter of trade-off between policy goals (like with relaxing severance regulations) but often productivity growth and social policy objectives go hand in hand (like with fighting youth unemployment).

The current Lisbon Agenda thus is an inherently complex one in terms of objectives, which can be mutually reinforcing or conflicting. Its success or failure cannot readily be assessed by looking at GDP pc only. The fourteen structural Lisbon indicators agreed upon as part of the 2005 reform by the Council and the Commission rightfully include macroeconomic variables, employment indicators, indicators on innovation and research, on economic reform, on social cohesion, and on the environment.

Still, singling out fourteen heterogeneous indicators is different from adequately dealing with links between various policy fields. Unfortunately, the Lisbon Strategy itself does not seem to grasp fully this point. Even after the 2005 reform, it is simply not subtle enough in its policy objectives and methods. Various policy goals are lumped together in an overall strategy that uses a single mode of governance (the open method of coordination (OMC)), aimed uniformly at all twenty-five member states. Such a strategy is highly flawed and what is needed is more diverse and sophisticated governance, both in terms of policy theory and policy implementation.

The Barcelona target, which is part of the Lisbon Agenda, can be used to illustrate this argument. This target refers to Guideline 12 ('To increase and facilitate investment in Research and Development (R&D)') of the 23 Integrated Guidelines for growth and jobs and contains a clear mark: three per cent of GDP should be spent on R&D, of which two percentage points should be private R&D expenditure. This EU-wide target serves as a reference value at the domestic level and is implemented through the OMC, as part of which member states write biennial National Action Plans which are then peer-reviewed. Not surprisingly, the Barcelona target is increasingly reproduced within member states on the regional level (by similar systems of open coordination, using Regional Action Plans). However, of the 254 regions in the EU only 21 reach the three per cent target (2002 figures); of the 25 member states only Finland (3.5%) and Sweden (3.7%) qualify (2004 figures).

The Barcelona target suffers from being based on a rather traditional, mechanical and largely outdated view of innovation. Innovation does not only depend on R&D expenditure but also on member states' and regions' organizational and social capacities. The Lisbon Agenda largely assumes growth is technology driven, which may have been an adequate view in from the 1950s through the 1980s, but which does not hold anymore. Technological innovation is important, but it is not the prime driver of growth. (Productivity) growth is influenced by other factors than innovation. Often these factors are of more importance than innovation as such. Such ('hard') factors comprise taxation, (labor market) regulation, workers' skills, and (intercontinental) accessibility of regions. Of course, such factors are partly addressed within the Lisbon Strategy by other guidelines. But it raises the question, where to raise or spend our money? Should we lower taxes, stimulate entrepreneurship, invest in education or in R&D? The Lisbon Agenda tells us to do it all at once.

Moreover, setting a reference value for all 25 member states ignores the investment character of R&D expenditure and the existence of geographical patterns of economic activity within the EU. Investments should be made where they give the highest return and not simply across-the-board. Also, the Barcelona target does not really deal with the possibility of crowding-out between public and private R&D investment or with the fact that private R&D expenditure generally has a higher impact on growth than public R&D expenditure. In short, the Barcelona target is too simple and out of touch with the more complex economic reality. Our general understanding of that reality is insufficiently incorporated into the Lisbon policies.

As far as policy implementation is concerned, the Lisbon Agenda leans heavily on the OMC, the advantages and disadvantages of which have been discussed extensively over the last years. The OMC's main advantage, namely its ability to deal with diversity within the European Union, does not really show in its use within the Lisbon Strategy, given the emphasis within this strategy on uniformly applicable reference values. Its main disadvantage, lack of enforceability, clearly presents a problem if EU wide objectives (like minimum labor participation rates or fiscal deficit ceilings) are to be reached. The same goes for highly important policy objectives like the establishment of a European Research Area or the introduction of EU wide patent law. Such objectives call for old-fashioned directives and/or an increase in the EU budget, rather than soft coordination.

In summary, one could argue that although the Lisbon Agenda was originally stated as a naively opportunistic set of goals, the revised Lisbon Agenda has remedied some of its flaws but definitely not all.

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Is Lisbon not Delivering?

Annette Bongardt and ***Francisco Torres***

EUROPEAN ECONOMIC INTEGRATION and in particular the single European market often appear to be only the smallest common denominator but have been instrumental in putting in motion governance patterns in the European Union (EU). The Lisbon Agenda that outlines an economic and social strategy meant to relaunch the EU within a changed setting is a case in point.

Lisbon Agenda: Objectives, Means and Implementation

In Lisbon in March 2000 the European Council set the strategic goal of turning the EU into the most competitive and dynamic knowledge-based economy in the world by 2010, with sustained economic growth with more and better employment, greater social cohesion and sustainable development. The Lisbon strategy featured broad objectives and ramifications and coincided with a new governance method, the open method of coordination (OMC). It was drawn up against the background of a productivity slowdown in Europe that contrasted with a productivity revival in the United States from the mid-1990s onwards, attributed to the new economy, and within a context of globalization and liberalization.

The European Council had held that an average economic growth rate of three per cent of Gross Domestic Product (GDP) was possible, provided that a variety of measures were taken that would – directly or indirectly – facilitate the shift towards an information society (such as to promote Research and Development (R&D) and the creation of small and medium-sized enterprises, complete the internal market, modernize the European social model, ensure a sound macroeconomic setting).

Within this context the completion of the single European market is key. The Lisbon strategy represents a European industrial policy, not of the interventionist type (choosing winners) but one that creates generally favorable conditions for competition, ensures a level playing field for economic agents (hence the importance of competition policy) and remedy market failure. The Lisbon strategy goes however much beyond that. Given common goals and the reality of European mixed economies, it hinges on complementary and coordinated policies in many domains that involve not only the EU but also the Member State level.

Successive European Councils have sought to improve the Lisbon strategy by formulating deliverables. Yet, half way into the decade the failure to reach the targets was obvious. The Kok report (Kok 2004) attributed the lack of success to both EU and Member State failure to implement the Lisbon strategy. More specifically, it pointed to the fact that Lisbon had too broad an agenda and was suffering from shortcomings in the governance structure. The 2005 mid-term review led to sharpening the Lisbon objectives to focusing more narrowly on employment and growth. Furthermore it suggested the need for changes in governance in particular to ensure the coordination of national reform programs (NRP) (the NRPs are Member States' responsibility).

Liberalization and Institutional Reform

The twin-challenge posed by the new economy (characterized by the importance attributed to knowledge and to information and communications technologies that raise the productivity of third sectors) and liberalization and globalization not only calls into question firms' competitiveness, but also whether institutions and governance patterns in the EU are adequate for realizing the benefits from a knowledge-based and globalized economy and produce growth. The need to encourage innovation and take economic advantage of globalization and of a fast-changing technological and market environment requires functioning markets but also an institutional framework conducive to innovation and change. The implementation of the Lisbon common goals in the reality of European mixed economies implies that institutions (broadly defined) and a variety of policies need to be coordinated with a view to synergies and complementarities and to policy learning.

While the European single market is a reality (and mostly in the EU domain), although progress in some areas has been slower (in particular in services), it has been a major challenge to adapt national institutions and policies created in a very different economic and technological environment. While society as a whole stands to benefit from gains from trade and liberalization that contribute to higher living standards,

within society there are winners and losers. Whether and how those latter ones are to be compensated will not only be important for the political acceptability of reforms (issues of equity and distribution), but also raises the question of sustainability and of the efficiency (providing adequate incentives) of social systems; adequately designed social policies can be efficiency-enhancing. The 2005 Lisbon mid-term review's innovation in terms of governance consists in the introduction of NRPs, to be coordinated by the Integrated Guidelines for Growth and Jobs (2005-8) adopted by the Council (Pisani-Ferry and Sapir 2006). It is the main instrument to achieve coherence. To the extent that it succeeds in increasing stakeholder involvement, or ownership in governance, it might mitigate conflicts and thus foster the implementation of national reforms with a view to the Lisbon goals.

This would be important since liberalization (within the internal market and with respect to the rest of the world) and benefits from trade have contributed to high present European living standards and are at the heart of European economic and political integration but also because Europe needs to adapt itself as to take advantage of globalization and confront future challenges. Unsatisfactory economic performance and/or an inadequate (or perceived as such) social system imply political risks, to the extent that public opinion might turn against internal and external liberalization on the European single market and in the World Trade Organization, respectively, and resist necessary structural and institutional change or enlargement in the name of some 'European model', and eventually threaten the EU political integration project itself. The Bolkestein services directive, and its role in the rejection of the EU constitution in the Netherlands and in France, is a case in point.

Governance of the Lisbon Process: OMC and Beyond

Policies that are vital for the implementation of the Lisbon goals involve not only various governance levels but as well different coordination modes. The Lisbon strategy is often identified with soft coordination through the open method of coordination (OMC). The OMC's weak point reportedly is its reliance on benchmarking (that is, peer pressure and public opinion) in the absence of formal sanctions. Reforms require commitment beside functioning markets. The fact that the OMC seems not to have worked as a commitment device for the Lisbon strategy contrasts with Economic and Monetary Union where there was a timetable and there were conditions that had to be met by Member States. It is interesting to note that the institution of NRPs in the refocused Lisbon strategy aims to involve stakeholders and thus increase commitment.

The Kok report had advocated improving the governance of the Lisbon strategy by a tripartite approach, namely NRPs coordinated by EU guidelines, an EU budget with adequate resources and priorities with respect to the Lisbon objectives, and benchmarking as a coercion mechanism for poor performers. In the event, the governance system of the reformed Lisbon strategy came to rely on NRPs, with EU budget reform postponed and benchmarking through comparative performance indicators watered down.

It remains to be seen to what extent NRPs will trigger a national debate in poorly performing countries and whether national ownership proves sufficient to overcome national resistance to reforms with an EU rationale and increase commitment as to successfully implement reform programs. Despite possible governance weaknesses, it might be important, however, to not lose sight of the fact that the very discussions prompted by and facilitated within the context of the Lisbon Agenda have meant that Lisbon has in practice moved on beyond OMC and makes use of a range of instruments. Governance levels and modes in the EU are moreover not static but in flux as a function of internal market developments (see Bongardt 2006, on the case of competition policy). The Lisbon process has not only made shortcomings more visible and led to more similar preferences and possibly circumstances, but issues have been pulled to a European level (e.g. Bologna process) and institutions were created, it has resulted in the application of the normal legislative process (EU directives that are the result of discussions within the Lisbon strategy), or in EU regulations.

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Structural Reform and Fiscal Consolidation: How Compatible are the Lisbon and Maastricht Agendas?

Waltraud Schelkle

THE LISBON STRATEGY SUPPORTS an overhaul of existing welfare state arrangements in the European Union (EU) so as to further the goal of making the European economy a 'most com-

petitive and dynamic knowledge-based economy', including more and better jobs and social cohesion. At the same time, the fiscal philosophy of the Stability and Growth Pact (SGP) endorses 'rule-based' as opposed to discretionary macroeconomic stabilization (Buti et al. 2003: 28). Governments should allow only the automatic or 'in-built' stabilizers to do the smoothing of aggregate income while coordination must care for the long-term sustainability of public finances by forcing governments to play by the rules of 'close to balance or in surplus' over the cycle and no more than three per cent deficit to Gross Domestic Product (GDP), except in severe recessions. But how compatible are these two agendas of economic governance in the EU: the Lisbon and the Maastricht agendas?

There has been a considerable amount of research on the impact of fiscal consolidation on structural reforms (for a succinct review see IMF 2004: 113-116). One strand in the literature maintains that the hardening of governments' budget constraints will provide a political environment which facilitates structural reforms. This reform strategy of 'back against the wall' or TINA ('there is no alternative') is based on the idea that fiscal crises or permanent austerity raise awareness of the (unsustainable) costs of the status quo and thus weaken the opposition to reform. Another strand, by contrast, sees tensions, suggesting that fiscal space is required so as to allow compensation of potential or actual losers from reforms; a strategy that is based on the 'need for bribes' or political exchanges. A rise in the budget deficit may be necessary in the beginning not only to buy off opposition from the beneficiaries of the status quo, but also in order to bear the upfront costs of reforms.

Comparative research on reform processes in thirty countries that are member of the Organisation for Economic Cooperation and Development (OECD) has established three findings that speak to these competing hypotheses. First, reforms seem to be easier and more likely in good times or an expansionary phase of the business cycle. Second, EU membership is a positive predictor of reform activism, although more for the slashing of non-employment benefits than for deregulation of employment protection. Third, after the start of Economic and Monetary Union (EMU) in the EU in 1999, the reform activism of euro area members has become weaker compared to the non-EMU members in the union, although it was still higher than for other OECD countries.

These findings can be read as evidence for 'political exchanges in the shadow of fiscal austerity'. Political exchanges are easier when there is actually the prospect of rewards despite temporary hardships, be it in the form of job growth or membership in EMU. Reform fatigue sets in rather quickly in bad times and has been evident since EMU was established. The shadow of fiscal austerity is noticeable in the pattern of reform that privileges measures that promise some relief for public finances, while shifting costs to firms (better employment protection for existing employees) and to those who must accept lower non-employment benefits or non-standard contracts (less employment protection for part-timers and temporary workers). The shadow of fiscal austerity may thus contribute to the (re-)creation of insider-outsider labor markets that the Lisbon Agenda set out to reform.

The revision of the Stability and Growth Pact in spring 2005 can be seen as reflecting policy-makers' awareness of the limitations of austerity as a reform lever. The Pact now allows for a postponement of the Excessive Deficit Procedure if governments can show that an excessive deficit has been caused by temporary costs of reforms and will lead to fiscal savings over the medium to long run. Pension reforms which accumulate funds and lower the entitlements under pay-as-you-go systems are explicitly mentioned. Thus, the revision of the fiscal rules can be read as admitting that a 'back against the wall' strategy could not be sustained indefinitely.

Does this mean that the two Agendas have become compatible, now that the Pact has been revised? The answer is 'not necessarily' since structural reforms may impair the stabilizing capacity of member states' tax-transfer systems. Not much research has been done on this question, yet some insights can be gained from the economic literature on automatic stabilizers (Auerbach and Feenberg 2000, van den Noord 2000). Why might there be tensions between the thrust of the Lisbon Agenda and the fiscal philosophy of EMU? To give an example, the mantra of every statement on the European reform and social policy agenda is that incentives for creating and maintaining employment need adjustment. This translates into an explicit call for lower marginal and average tax rates. By contrast, old and new research in public finance tell us that automatic stabilizers are more likely to be effective if government is 'big' and thus the average tax rates high, or if the tax system is progressive which makes for high marginal tax rates (van den Noord 2000: 7). Thus, there seems to be a tension between the ever popular call for lowering tax rates and the requirements of effective stabilization in the EU.

The Lisbon Agenda also contains elements that may actually strengthen the stabilizers built into the tax and transfer systems. Reforms that would shift social expenditure from what have become permanent and open-ended transfers, such as those for long-term unemployment or early retirement, to temporary transfers, for instance to subsidies for entry wages and training, would go some way to restore the cyclical sensitivity of the benefit system. This responsiveness on the expenditure side of budgets has largely gone missing in most member states (van den Noord 2000: 19). Obviously, the extent of complementarity between welfare reform and fiscal policy coordination is of much interest since that would allow exploiting synergies between the two processes.

The evidence again suggests that the EU's dual agenda could be problematic. Mabbett and Schelkle (forthcoming) used EUROMOD, a tax-benefit simulation model based on

micro-data on individual households for EU-15 member states (Sutherland 2001), to estimate how tax reforms would affect the strength of automatic stabilizers. Unsurprisingly, lowering the level and the progressivity of income taxation, in order to improve labor supply incentives, weakens the effectiveness of fiscal stabilization in EMU. Moreover, shrinking the tax state weakens it more than making tax rates less progressive. While EUROMOD allowed us to look at tax changes only, these findings are unlikely to be challenged by taking the benefit side into account: benefits that vary with the business cycle, for instance unemployment benefits, are simply too small to overcompensate the effect on the revenue side of the budget.

In sum, research suggests that the Lisbon Agenda of structural reform must be seen in its interaction with the Maastricht Agenda of fiscal consolidation. This is because its own effectiveness may be impaired by the simultaneous attempt to make public finances sustainable. In turn, the effectiveness of automatic stabilizers which are supposed to do all the macroeconomic smoothing in member states may be weakened by Lisbon-type reforms. These findings call for more conscious efforts to take the political dynamics and the aggregate consequences of reform processes into account, especially now that the revised Pact allows to prioritize reforms.

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Lisbon and the Open Method of Coordination: Political Alliances and an Unclear Future

Philippe Pochet

LISBON IS OFTEN ASSOCIATED WITH the Open Method of Coordination (OMC) and the emerging new modes of governance linked to it. Attention has focused on the (potential) effects of such a soft method, raising research questions, such as does Lisbon mark a turn toward a renewal of the EU social dimension, and, how does OMC affect the domestic politics in the member states? I would like to propose another interpretation of Lisbon and the underlying dynamics behind economic and social recent developments. My starting point is Economic and Monetary Union (EMU) and the institutional changes it implies for social policies. In understanding Lisbon, varieties of capitalism, political economy, new institutionalist, and party-political approaches could offer useful perspectives when analyzing European developments.

Since the Maastricht treaty, different actors have supported different economic and social strategies with a view to (re-)discovering a European growth path. Each group possesses its own underlying economic (and social) vision, which lends overall coherence to its actions in the economic and social field. The main level for change could be national or European. Below, I describe very briefly their main focus distinguishing between two groups (economist versus social) and each of them having two variants.

Mainstream economists and central banks are the dominant group. Mainstream economists have as their key argument is that in case of asymmetric shocks adjustments must be made through labor markets (flexible employment contracts, but also flexible wages). The labor market must become a true market and collective functions must be confined to cases of market failure. In addition, social security – often regarded as a burden by this group - should be scaled down. Deregulation should take place at the national level. The main task of the EU is to remove obstacles to the markets in goods, capital, services and persons.

On many points, the second group, composed of proponents of endogenous growth theory is not fundamentally distinct from the first. But those who are in this group believe in bolstering the growth rate by investing in research, education and lifelong learning. Unlike the mainstream economists, they are not backed by any particular social group. Their importance derives mainly from the position they hold within the Commission. At the national level, budgets must be redirected towards growth-producing areas; so must the European budget.

Group 3 (which I will label 'Delors' followers') is not guided by an economic '*corpus* that is clearly identifiable. Delors' followers accept globalization and EMU, but want their adverse social effects to be tempered. Lifelong learning and education are the appropriate responses to globalization.

They focus on the issues of poverty and social exclusion (new social risks). Political union is central both for regulating globalization and creating an EU social dimension. Well-balanced reforms should be carried out at national level.

The last group – traditional neo-keynesian left – stresses the importance of macro-economic policies for growth and employment. The neo-keynesians want EMU to be altered because, unlike the previous groups, they believe that monetary policy is always effective in reducing unemployment. The Maastricht criteria must therefore be modified and ECB must back the goal of full employment. At European level, the aim is to ensure greater economic policy coordination (European economic government).

Let's examine rapidly the sequences of events and the dynamic between the different groups (for a full account see Pochet 2005).

The inclusion in the Maastricht Treaty of the goals of Economic and Monetary Union and its convergence criteria marked a victory for those who advocated deepening the economic dimension, as opposed to the social and political dimension, of European integration (group 1 and 2). But the game is dynamic and the reaction of the social groups was to try to complement EMU. It was a period of intense institutional creativity at EU and national level: creation of the European Employment Strategy (EES), the employment committee, the Stability and Growth Pact, creation of the sectoral social dialogue committees, macro-economic dialogue, OMC, national social pacts, et cetera

The Lisbon European Council of 2000 was a turning point as it tried to elaborate a first synthesis of the various developments. It took place in a context in which social-democrat governments had a clear majority in national governments member states. Alliances were shifting. Group 2 was distancing itself from mainstream economists and aligning itself with group 3. Their alliance was on the substance: investment in a knowledge-based society was the concern shared by both strands. According to Rodrigues who was a key player (2002: 14) 'Its (Lisbon strategy) central idea is to recognize that, in order to sustain the European social model, we need to renew it well as well as to renew its economic basis by focusing on knowledge and innovation. This should be the main purpose of an agenda for structural reforms.' This contrasts with the competitiveness credo of the mainstream economist group.

The OMC was the procedural brainchild of group 3 in an attempt to achieve European social convergence. The compromise between groups 2 and 3 related also to levels of action, since the OMC contained both national reform programs (priority of group 2) and a means of creating a social Europe (priority of group 3).

The first steps to create European social convergence were to adopt joint European indicators (at one point there were almost 150 for the EES) and by standardizing the national data contained in the various national action plans. National social institutions were not directly challenged (no support for a single model) but it was anticipated that they should be able to improve their performance (by learning).

This alliance between groups 2 and 3, around the knowledge-based society, deepened the divide between the two social groups. From the outset, group 4 saw the OMC to be inappropriate and inefficient (a view shared by the mainstream economists). This divide between 2 and 3, on the one hand, and 1 , on the other, was accentuated later by different opinions on the draft constitution.

This consensus lasted for just over two years. In 2002, the Barcelona European Council signaled the end of the predominance of social-democrat governments and the start of a new liberal ideological offensive (new synthesis) which waged fights on three fields (hierarchy between social and economy, level of action, content).

First, the new hierarchy took the shape of grouping together the various processes, with a view to simplifying ('streamlining') them but the result was to subordinate the European Employment Strategy to economic objectives (there are now two guidelines on wage moderation). EES is no longer an (parallel) experimental exercise but should be seen as forming part of the main economic objectives.

The second involved abandoning European aspirations and falling back on national reforms, with group 2 insisting now that social affairs must be handled at national level (see Sapir reports, 2003, 2005). All the instruments supporting the emergence of an EU dimension were challenged (less indicators, less standardized reports, more flexibility in the national priorities et cetera).

The third consisted of addressing issues in terms of competitiveness – no longer in terms of a society based on knowledge and innovation. This part was not completely successful as social actors mobilized and succeeded to keep social protection OMC alive even if more marginalized than before.

What's next?

If Lisbon and the OMCs are in a bad shape, what is left? My answer is that the key question should be, how to rearrange social and economic institutions at national and European levels in order to secure growth in the Eurozone. In my view it would be a mistake to take a functional view at answering this question (that is, to believe that in the end the social will adapt to the requirements of the new monetary regime) as the actual deregulatory political agenda seems to suggest. In fact, as we have learned from the Varieties of Capital and neo-institutionalist literatures, a radical neo-liberal institutional turn does not happen in more or less coordinated economy. Lisbon and the OMCs were experimental tools (long term commitment, soft law approach, learning, diversity, participation et cetera) which sought to deal with the creation of institutions and change at EU and national level. What may be the appropriate tools that will be able to

combine diversity and economic performance is still to be discovered. We still have a long way to go to finding appropriate strategies to rearrange national and European social and economic institutions so as to secure growth. But it should be a high priority to come up with creative proactive ideas and strategies.

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Lisbon Lives: Institutional Embedding of the Competitiveness Objective

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for approximately five years following its inception, scholars viewed the Lisbon process as a relatively empty rhetorical exercise, doomed by the coupling of deep ambiguities in the framing of the Lisbon Agenda with the excessive ambition of its stated goals. But the Lisbon process recently has come to life. While debates continue in Europe over the most productive means to achieve competitiveness, Lisbon has become infused with meaning because a dominant conception of competitiveness has become embedded in EU institutions. Focusing on the embedding of the competitiveness objective in the committee structure of the European Parliament, this contribution to the Forum illustrates the argument with reference to the trajectory of REACH (registration, evaluation, and authorization of chemicals), a new regulation for the chemicals sector that has been the most intensively lobbied piece of legislation in EU history.

The initial language of Lisbon reflected the inherent ambiguities of the competitiveness concept. The Lisbon Agenda posited that augmented dynamism of European industry and enhanced protection of the environment are interrelated components of future competitiveness. At least by implication, industrial competitiveness could be driven by environmentally-friendly innovation, in addition to intensified investment in research and development and liberalization of markets. This produced a highly contested discourse, in which a wide range of actors, including environmental interest associations, sought to invoke Lisbon to advance their preferences. But during the past two years, a dominant framing of Lisbon has emerged, in which competitiveness is defined by minimization of the regulatory burden on industry.

The debate following the November 2004 Kok Report marked the turning point in the substantiation of Lisbon. The high-level group authoring the report underscored the need to lend the Lisbon Agenda clear meaning, noting that, at midterm, the Lisbon process 'is about everything and thus about nothing.'[1] The Kok report hardly settled the ambiguities of Lisbon, but while it acknowledged that environmental technologies can boost competitiveness and create first-mover advantages for European industry, it decisively gave primacy to competitiveness and job creation over environmental protection. As suggested by an all-party environment group for the British Parliament, according to the Kok Report, 'growth and employment are preconditions for social and environmental protection.'[2]

Most critical to establishing the dominance of this particular conceptualization, emphasis on the regulatory burden as the essence of competitiveness has gained footing through the Competitiveness Council, Directorate-General (DG) Enterprise, and the European Parliament's Internal Market and Consumer Affairs (IMCO) and Industry, Research and Energy (ITRE) committees. Institutional embedding of this conception of competitiveness has in turn privileged organized interests with well-developed channels of access to each of these institutional nodes. For example, European industry federations in 2004 formed the Alliance for a Competitive European Industry (ACEI), an effort to define the Lisbon concept by establishing a uniform, routinized impact assessment process. Intensifying pressure on the European Commission to embrace impact assessment procedures more sympathetic to the regulatory costs imposed on business, ACEI called specifically for an external impact assessment process independent from the Commission and reporting to the Council and the Parliament, on the grounds that the existing process lacked transparency, independence, and quality control.[3]

Reflecting the ascendance of DG Enterprise within the Commission, in its statement of strategic objectives for 2005-2009, the Commission emphasized the critical role of impact assessment as an integral component of its quest for 'better regulation' a reduced regulatory burden on business, and a reinvigorated Lisbon Agenda. Moreover, while the Commission has responded to pressures from industry with a sustained focus on developing methods for quantifying administrative burdens, the Commission has not granted comparable attention to measuring environmental and health benefits.

Within the European Parliament, the intersection of heightened competitiveness concerns with proposals to regulate on behalf of diffuse interests such as human health and the environment has drawn in more actors to debates over such regulation. This includes intensified industry lobbying, more extensive EP dialogue with the Council from the first reading of proposed legislation, and the active involvement of additional EP committees. Foremost among these is the new Committee on Internal Market and Consumer Affairs (IMCO), which in several recent instances has claimed shared competence with the Environment Committee (ENVI) over regulations having both environmental and competitiveness implications. The involvement of these actors has multiplied and diversified information resources, reducing exclusive reliance upon and deference to the Environment Committee, rendering ENVI reports less likely to carry convincing majorities in plenary without concessions to the competitiveness concerns of Members of the European Parliament (MEPs)

outside ENVI.

This is illustrated clearly by the recent case of REACH, a new regulation for the chemicals sector. Asserting that the REACH regulation is about industrial policy, as much as environmental policy, the Internal Market Committee (IMCO)[4] contested exclusive ENVI responsibility for REACH. In response, the Parliament's Conference of Presidents invoked the EP's enhanced Hughes procedure, taking the unusual step of granting *both* the Internal Market as well as the Industry, Research, and Energy (ITRE) committees enhanced status. The additional authority extended to IMCO and ITRE ultimately made it necessary for ENVI to hew closer to the industry position in order to obtain a majority in plenary. Much of this followed from the bifurcation of lobbying that ensued; rather than having to work through ENVI, the chemicals industry federation (CEFIC) was able to focus its activities on MEPs with whom it already had established relationships. In other words, the ability of the Internal Market and Industry Committees to claim shared jurisdiction over chemicals sector regulation represented a favorable shift in the political opportunity structure for chemical industry interests.

Environmental NGOs found their network links with Environment Committee MEPs substantially neutralized by ENVI's need to compromise with IMCO and ITRE. Environmental interest associations did not possess the resources to build anew relations with members of other committees. Moreover, environmentalists encountered a critical asymmetry: while industry federations CEFIC and UNICE enjoyed access to IMCO and ENVI alike, IMCO members expected environmental interests to articulate their arguments predominantly through ENVI.

Furthermore, when institutional actors like the Competitiveness Council and concentrated interests such as national chemicals sector industry federations frame debates over environmental issues in terms of competitiveness, environmentalists can not readily pose an effective alternative frame. Competitiveness framing typically acknowledges the importance of environmental protection, but subsumes the environmental frame by positing that a robust business environment is a precondition for investments in production processes that can improve environmental quality. In general, while members of plenary may defer to ENVI members on technical environmental issues, they do not make the same concessions on questions of economic impact of environmental measures. This increases the likelihood that ENVI will have to amend its positions in accordance with the wishes of MEPs from other committees in order to gain substantial majorities in plenary.

As the competitiveness frame becomes more deeply embedded as the compass for EU policy making, institutions like the European Parliament's IMCO and ITRE gain additional leverage to claim shared competence over proposed legislation, to legitimate the need for close attention to competitiveness concerns, and even to induce ENVI to recast its positions on environmental legislation in anticipation of resistance within the EP. This dynamic is not limited to the case of REACH, and has been displayed, for example, in the recent debate over proposed regulation to restrict nutrition claims on food labels. In this case, too, the Environment Committee was highly constrained by competitiveness discourse and the influence of IMCO in its ability to act as a determined advocate for health interests. In a broader sense, institutional embedding of competitiveness in the EP is a hallmark of a shift in the logic of internal EP politics from a cooperative game to advance the collective interests of the institution (including deeper European integration and institutional aggrandizement), to a competitive logic in which parties and committees compete to harness the institution's influence to advance their policy visions.

The institutional embedding of a dominant definition of competitiveness by no means implies that the EU will achieve the Lisbon objectives. However, institutionalization of a commitment to minimize the regulatory burden on industry does restructure the political opportunities presented to concentrated and diffuse interests by EU policy making.

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Notes

[1] Facing the Challenge: The Lisbon Strategy for Growth and Employment," Report from the High Level Group chaired by Wim Kok, November 2004. Luxembourg: Office for Official Publications of the European Communities; accessed at http://europa.eu.int/comm/lisbon_strategy/index_en.html.

[2] David Wilkinson, Claire Monkhouse & David Baldock (2004), "The Future of EU environment policy: challenges & opportunities," A special report for the All-party Parliamentary Environment Group, British Parliament, p. 18.

[3] Press Release, "Alliance for a Competitive European Industry Calls on EU Institutions to Prioritise Impact Assessments," November 29, 2004. See www.euractive.com/en/innovation/new-business-alliance-wants-better-independent-impact-assessments/article-132944?

[4] The Internal Market and Consumer Affairs Committee is the newest EP committee, created in 2004. IMCO's brief is the internal market, competitiveness, and economic protection of consumers (protection of consumer health falling under the remit of ENVI).