PUBLIC HEARING

COMMITTEE ON BUDGETARY CONTROL

MONDAY 7 APRIL 2014

JÓZSEF ANTALL BUILDING, BRUSSELS

15.30 -18.30 ROOM: **JAN 6Q2**

LISBON STRATEGY:

BUDGET IMPLEMENTATION AND RESULTS

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Chairman: Michael Theurer
Rapporteur: Inge Gräßle

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PARLEMENT EUROPÉEN PARLAIMINT NA hEORPA PARLAMENTO EUROPEO EIROPAS PARLAMENTS
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EUROPEAN PARLIAMENT 2009 - 2014

Committee on Budgetary Control

PROGRAMME

Hearing on

"Lisbon Strategy: Budget implementation and results"

Rapporteur: Ingeborg Gräßle (EPP)

Monday 7 April 2014, from 15.30 to 18.30

Brussels

Room József Antall JAN 6Q2

5 min 15.30 - 15.35	**Opening remarks** by the Chairman
15 min 15.35 - 15.50	**Introduction** by **Ingeborg Gräßle,** rapporteur
15 min 15.50 - 16.05	The origin and the evolution of the Strategy **Jean Christophe Defraigne, Institut d'études européennes de l'Université Saint-Louis, Bruxelles** The US model and the new emerging economies

15 min 16.05 - 16.20	EU budget - from Lisbon Strategy to EU 2020 **Janusz Lewandowski, Commissioner responsible for Financial Programming and Budget** The European Commission approach
20 min 16.20 - 16.40	**Questions, replies, debate**
30 min 16.40 - 17.10	The EU's Lisbon Strategy Evaluating Success, Understanding Failure **Dimitris Papadimitriou, University of Manchester** **and** **Paul Copeland, Queen Mary University of London** Critical assessment in the perspective of the EU 2020 Strategy
20 min 17.10 - 17.30	**Questions, replies, debate**
15 min 17.30 - 17.45	Did the strategy deliver? **Henrik Otbo, Member of the European Court of Auditors** The performance dimension
15 min 17.45 - 18.00	A qualitative assessment **Dr. Manuel Matthes**[1] Has the Lisbon Strategy been appropriate for creating the conditions for an improved economic development in European Union?

[1] "Mr Manuel Matthes has been invited due to his doctorate on this topic at Friedrich- Alexander Universität, Erlangen-Nürnberg. He currently works for DAB Bank in Munich but expresses personal views."

20 min 18.00- 18.20	**Questions, replies, debate**
10 min 18.20 - 18.30	**Closing remarks** by **Ingeborg Gräßle,** rapporteur

INTRODUCTION

By Inge Gräßle, Rapporteur

1. The origin and the evolution of the Strategy

By Jean - Christophe Defraigne, Institut d'études européennes de l'Université Saint-Louis, Bruxelles

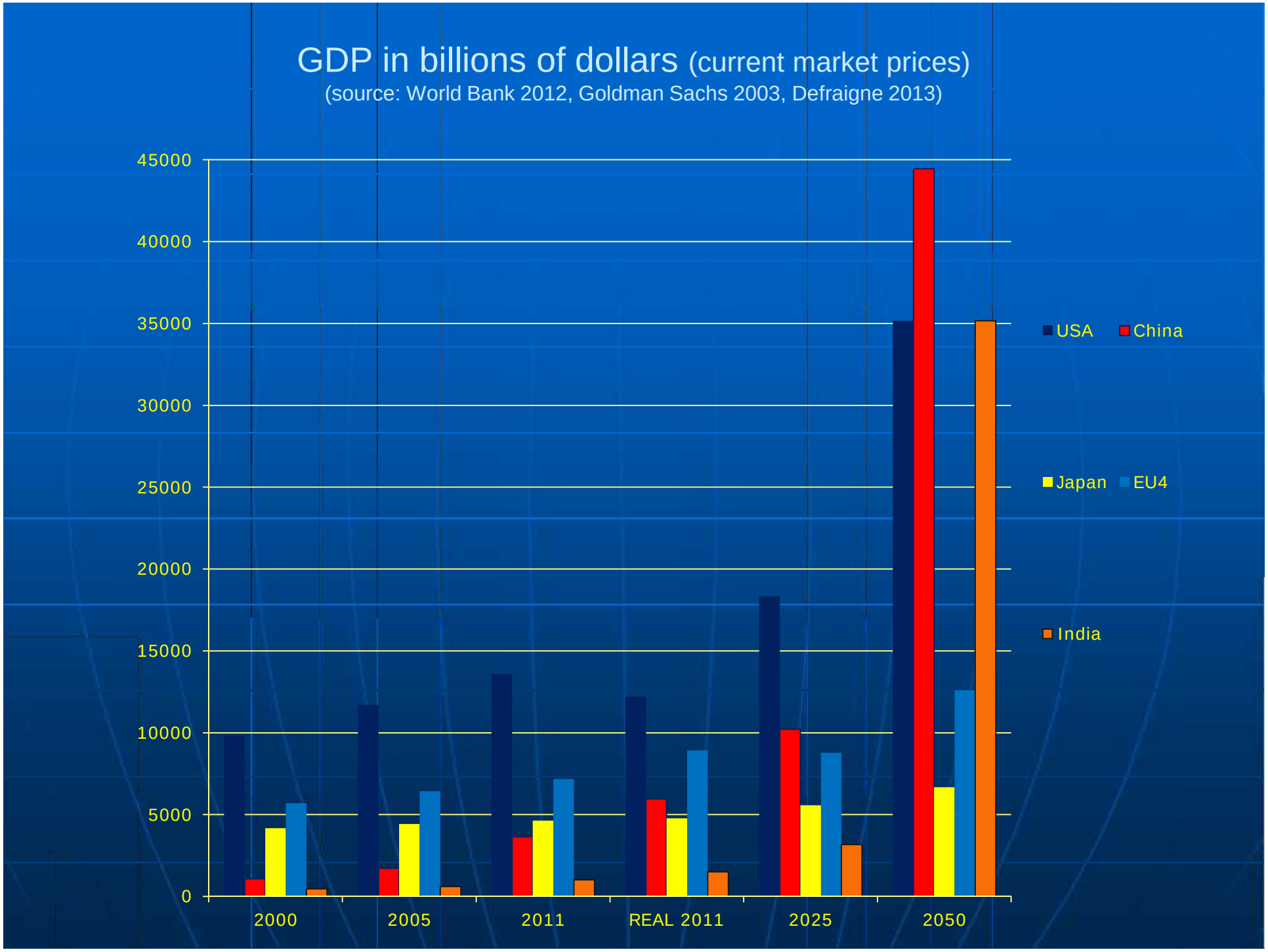
The Lisbon Strategy

A critical assessment

7 April 2014

Jean-Christophe Defraigne

jdefraigne@yahoo.com

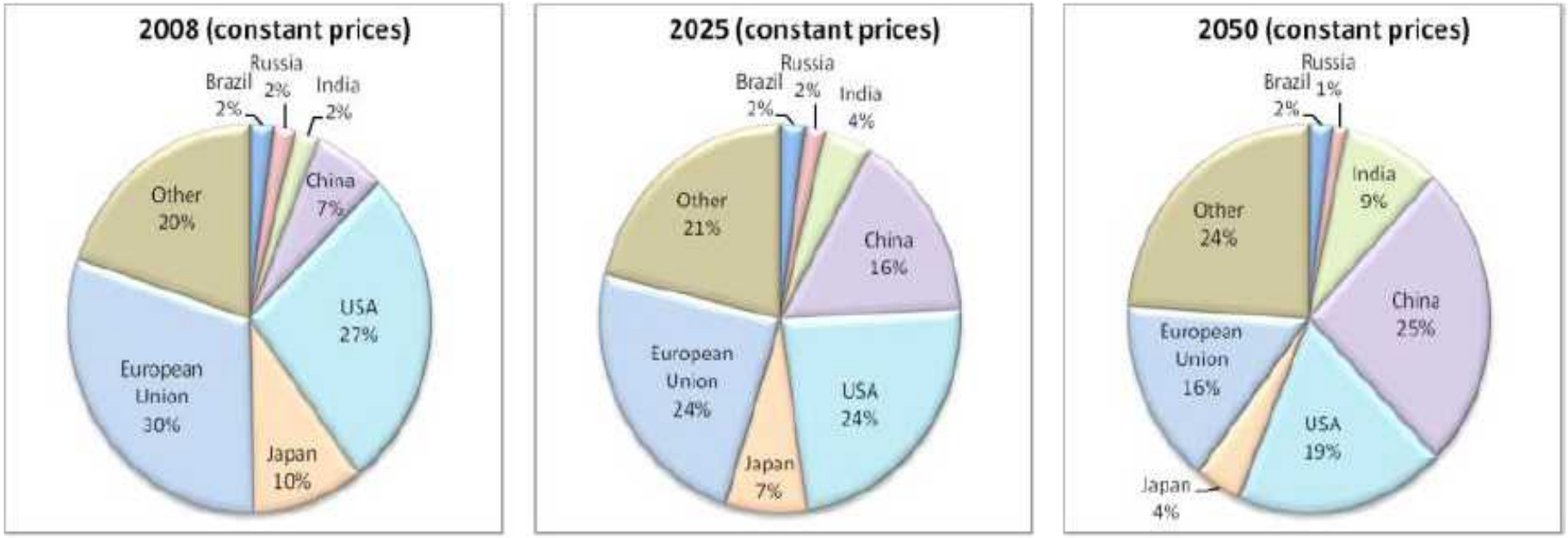

GDP in billions of dollars (current market prices)
(source: World Bank 2012, Goldman Sachs 2003, Defraigne 2013)
45000
40000
35000
30000
25000
20000
15000
10000
5000
0
2000
2005
2011
REAL 2011
2025
2050
USA
China
Japan
EU4
India

The world economy in 2050: a tentative picture

Jean Fouré, Agnès Bénassy-Quéré & Lionel Fontagné

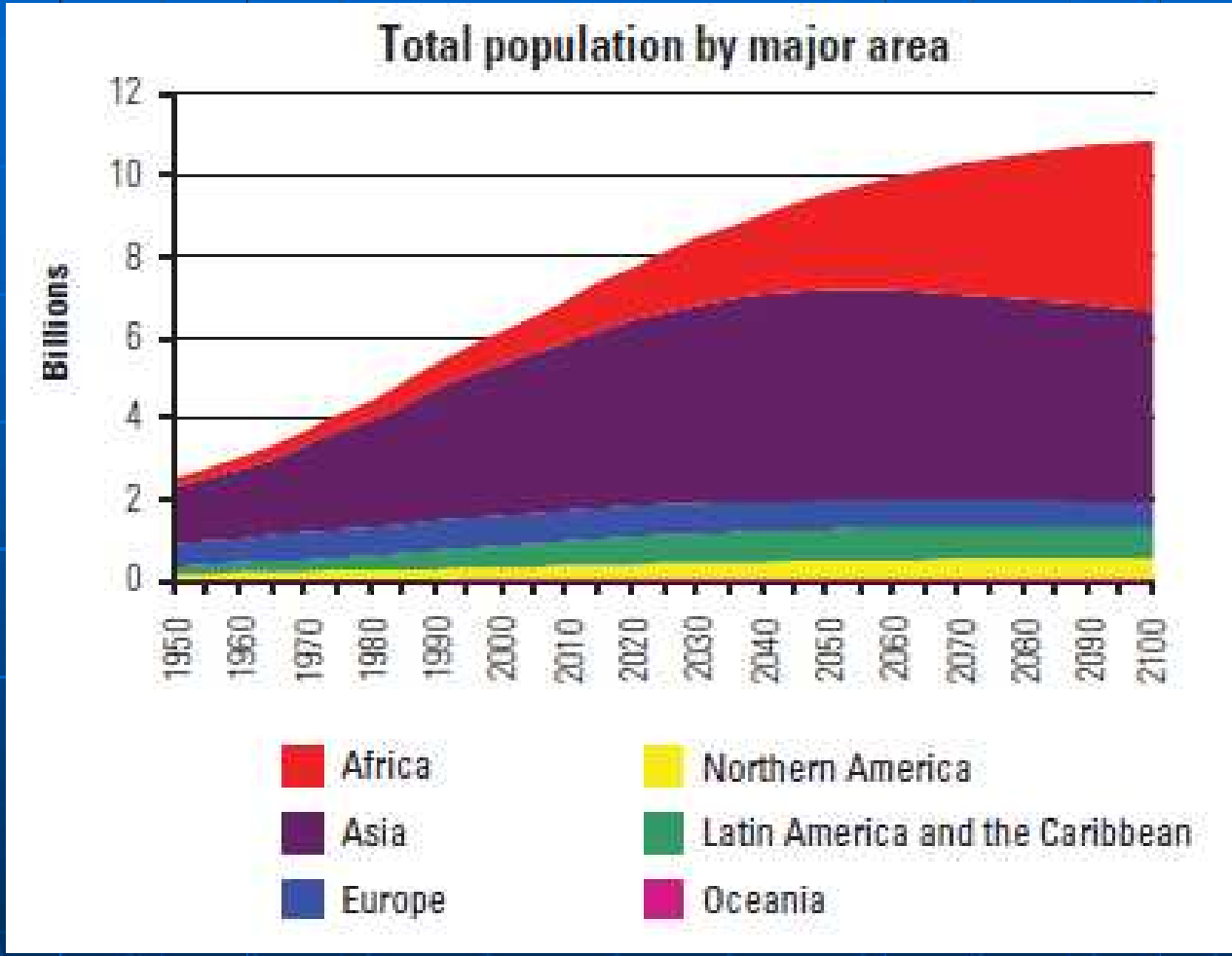
CEPII

Figure 24 – Shares of the world economy, 2008, 2025 and 2050, (in % of world GDP)

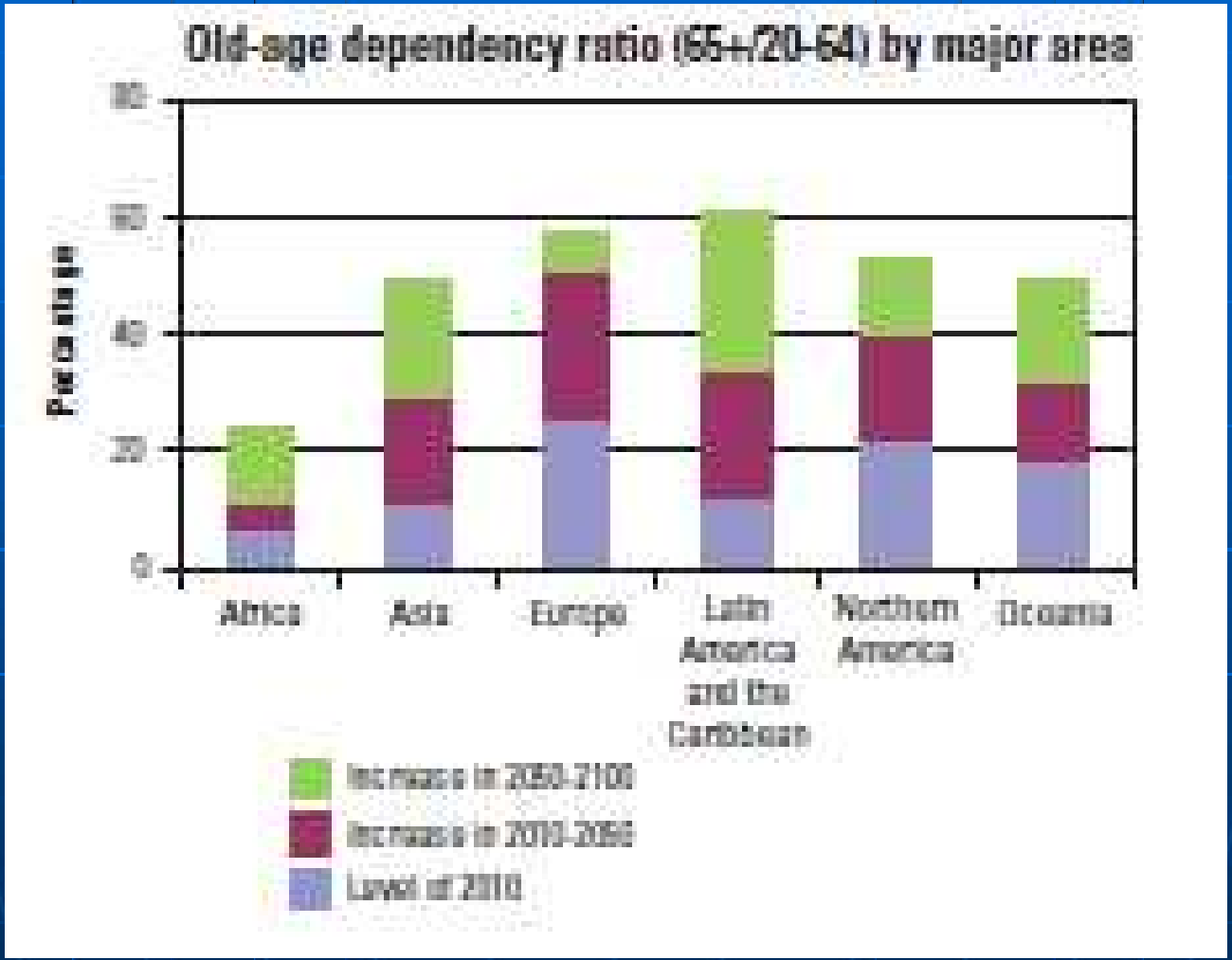


Source: own calculations.

Source UN 2013

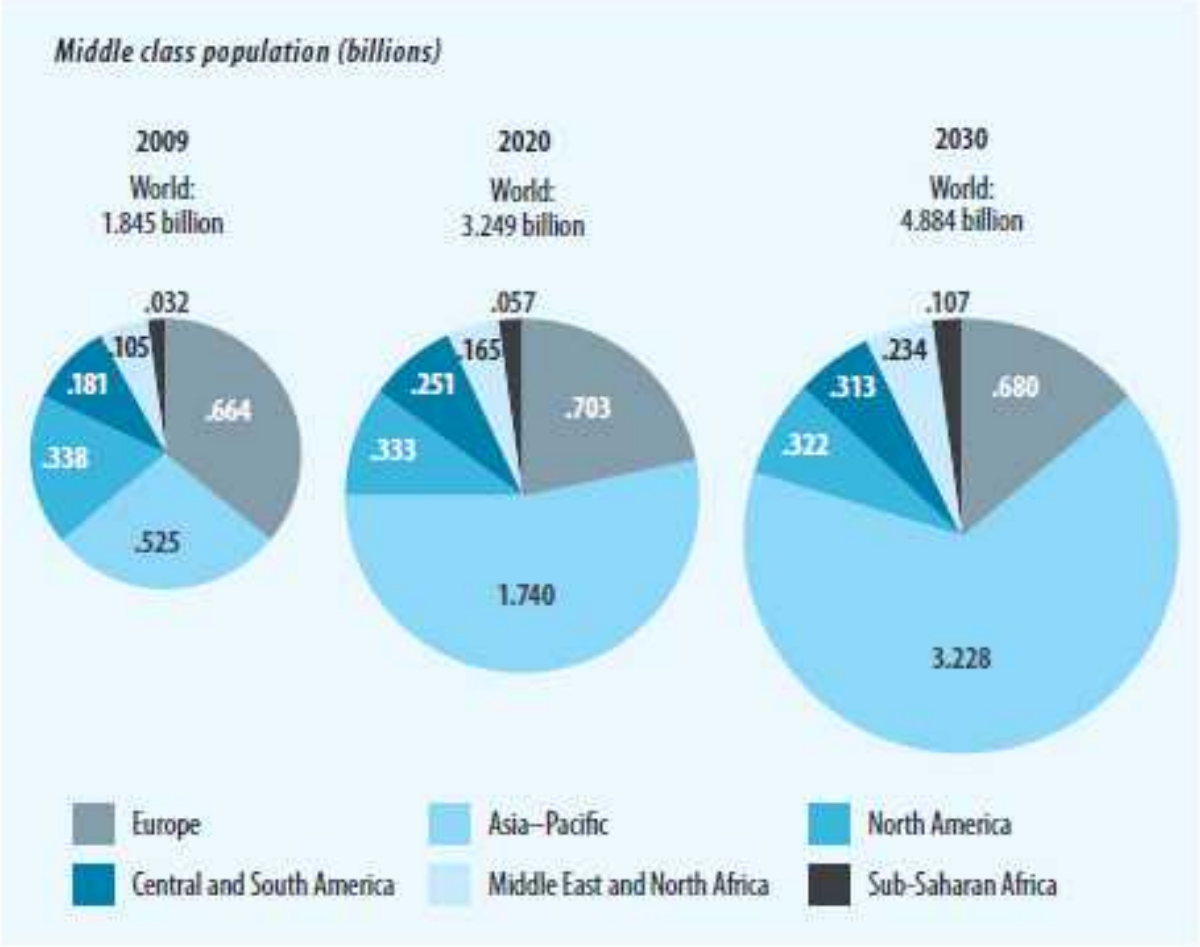


Source: UN 2013



Source Human Development report 2013

The middle class in the South is projected to continue to grow



Note: The middle class includes people earning or spending $10–$100 a day (in 2005 purchasing power parity terms).
Source: Brookings Institution 2012.

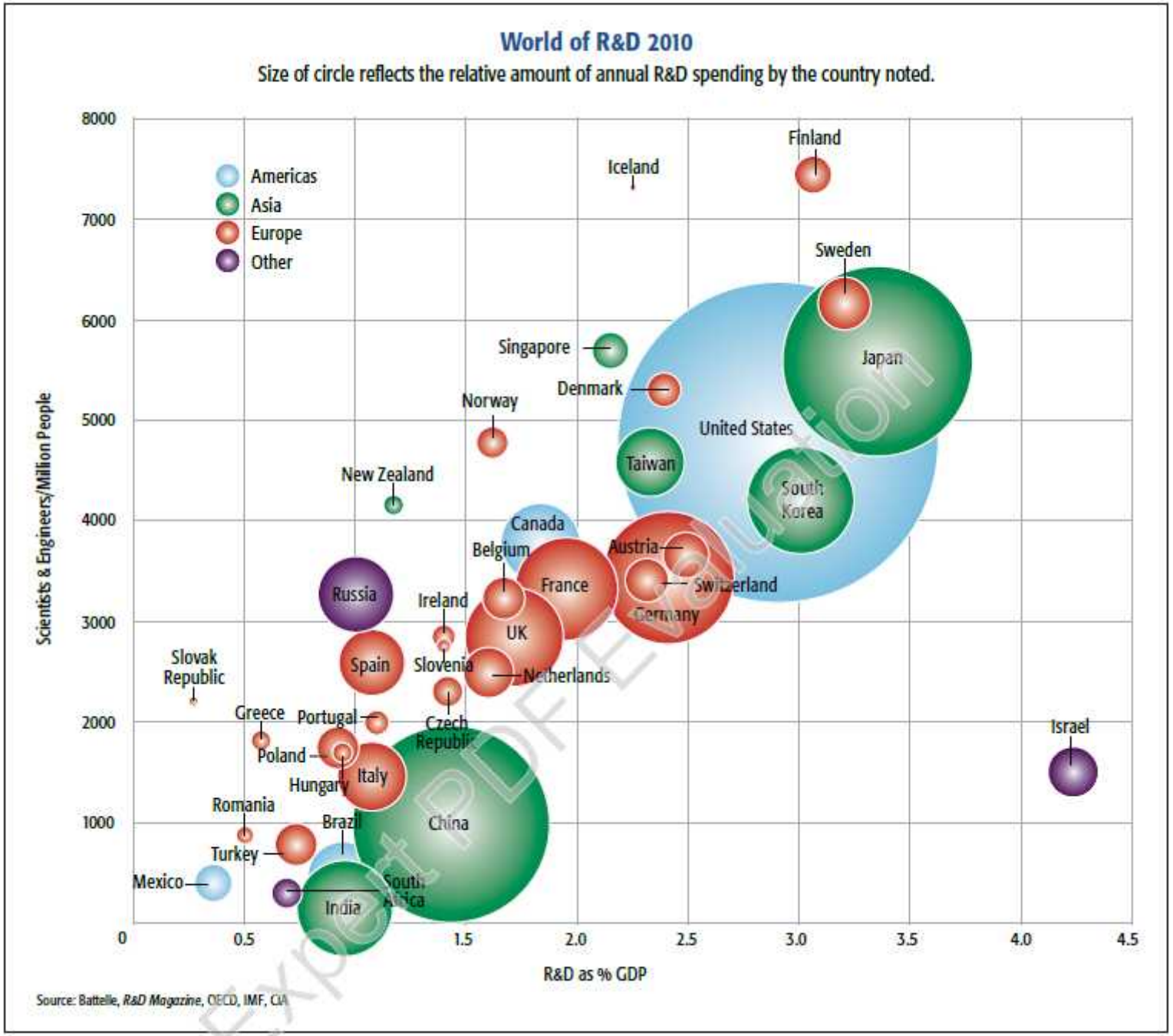
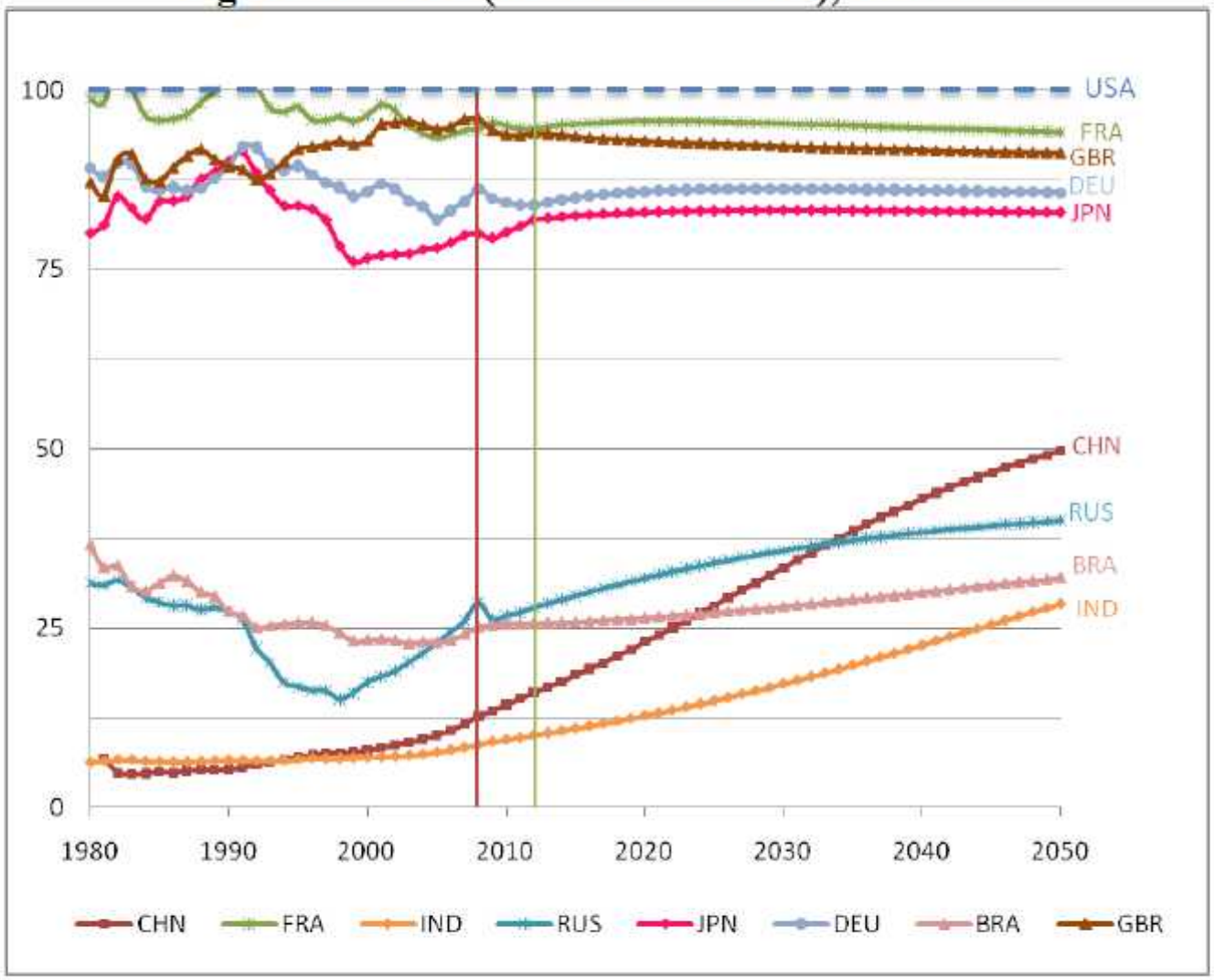

World of R&D 2010
Size of circle reflects the relative amount of annual R&D spending by the country noted.
Americas
Asia
Europe
Other
Scientists & Engineers/Million People
R&D as % GDP
8000
7000
6000
5000
4000
3000
2000
1000
0
0.5
1.5
2.0
2.5
3.0
3.5
4.0
4.5
Finland
Iceland
Sweden
Japan
Singapore
Denmark
Norway
United States
Taiwan
South Korea
New Zealand
Canada
Belgium
Austria
France
Switzerland
Germany
Russia
Ireland
UK
Slovak Republic
Spain
Slovenia
Netherlands
Greece
Portugal
Czech Republic
Israel
Poland
Hungary
Italy
Romania
Brazil
China
Turkey
Mexico
South Africa
India
Source: Battelle, R&D Magazine, OECD, IMF, CIA

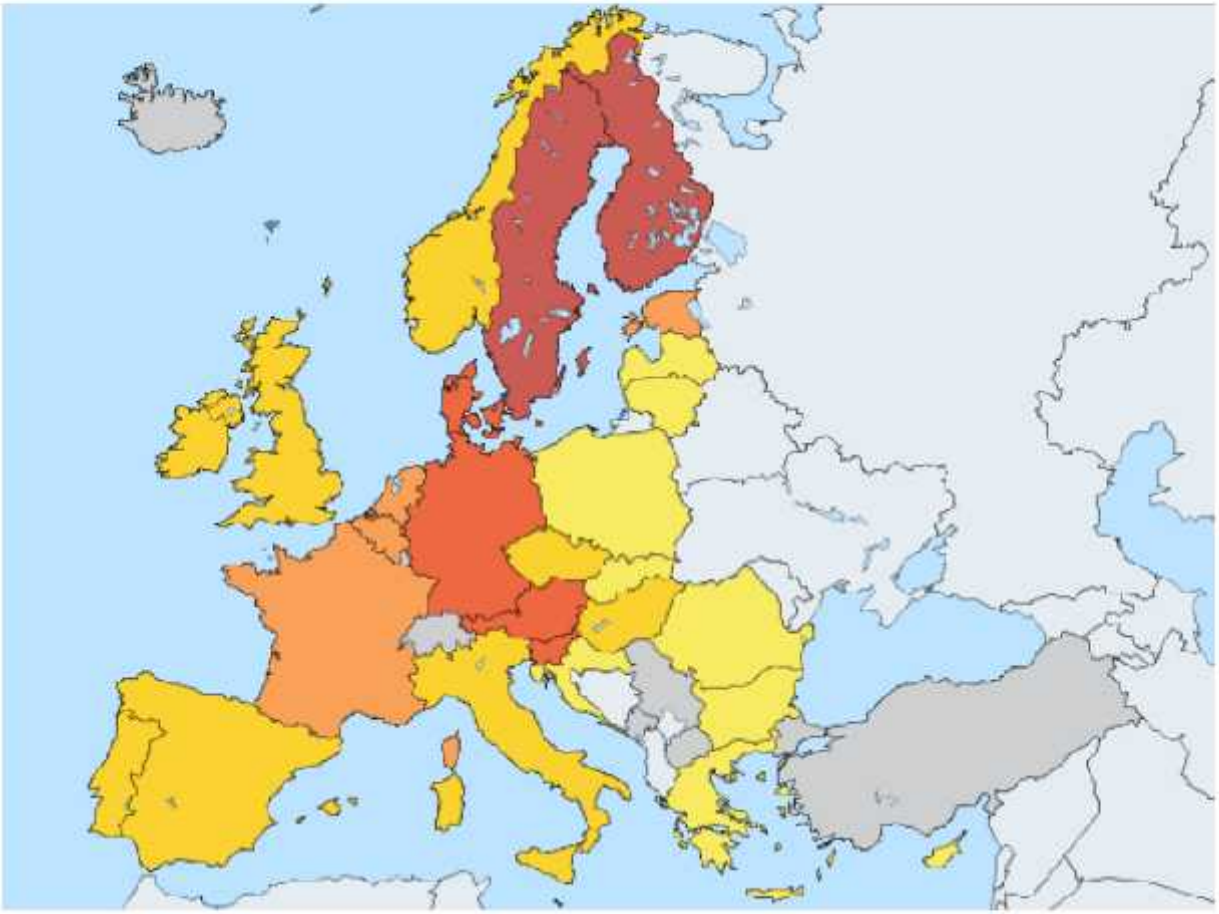
Figure 21 – TFP (in % of USA level), 1980-2050



Source: own calculations.

Gross domestic expenditure on R&D (GERD)

% of GDP - 2012

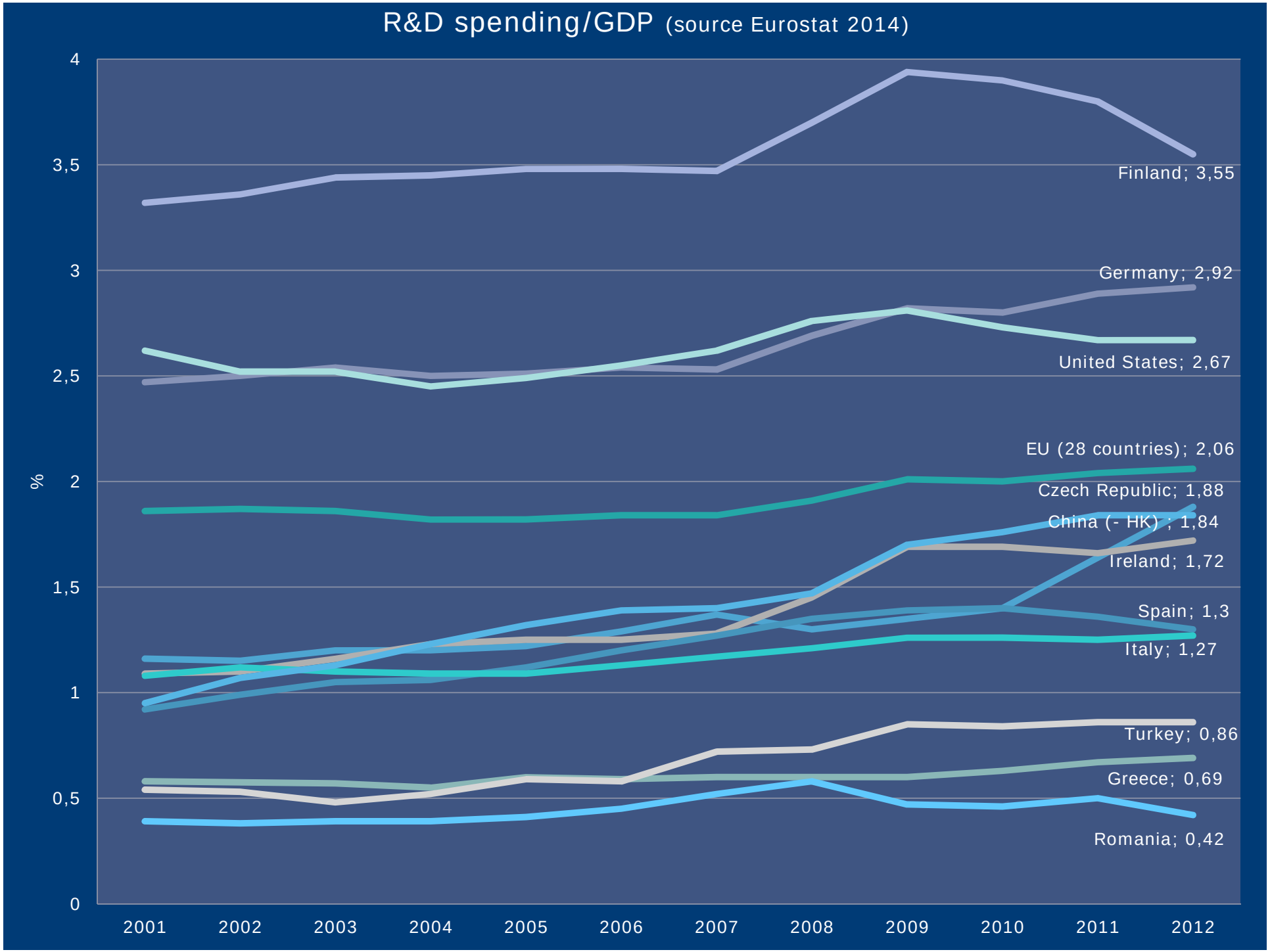


Legend

- 0.42 - 1.0
- 1.0 - 2.0
- 2.0 - 2.5
- 2.5 - 3.0
- 3.0 - 3.55
- Not available

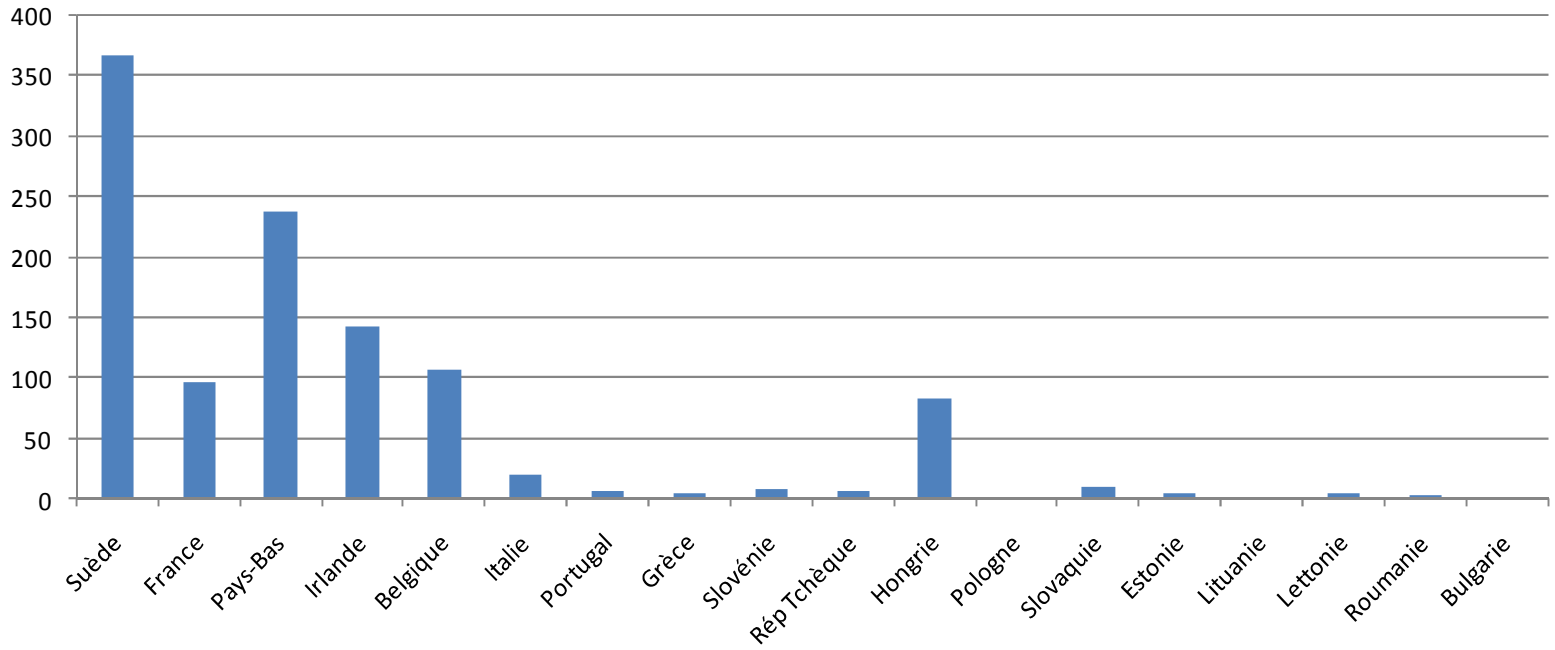
Minimum value:0.42 Maximum value:3.55

Source of Data Eurostat


R&D spending/GDP (source Eurostat 2014)
%
4
3,5
3
2,5
2
1,5
1
0,5
0
2001
2002
2003
2004
2005
2006
2007
2008
2009
2010
2011
2012
Finland; 3,55
Germany; 2,92
United States; 2,67
EU (28 countries); 2,06
Czech Republic; 1,88
China (- HK) ; 1,84
Ireland; 1,72
Spain; 1,3
Italy; 1,27
Turkey; 0,86
Greece; 0,69
Romania; 0,42

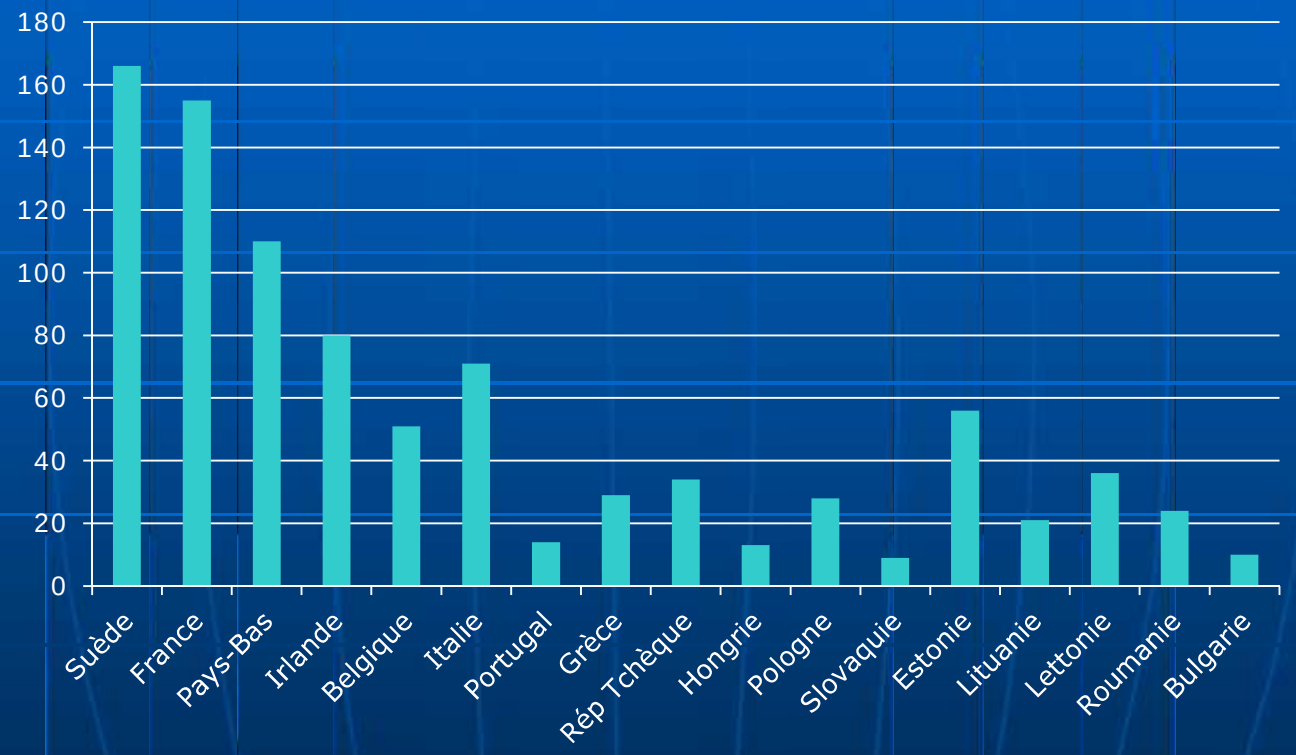
Royalties $/capita

(source: UN Human Development Report, 2008)

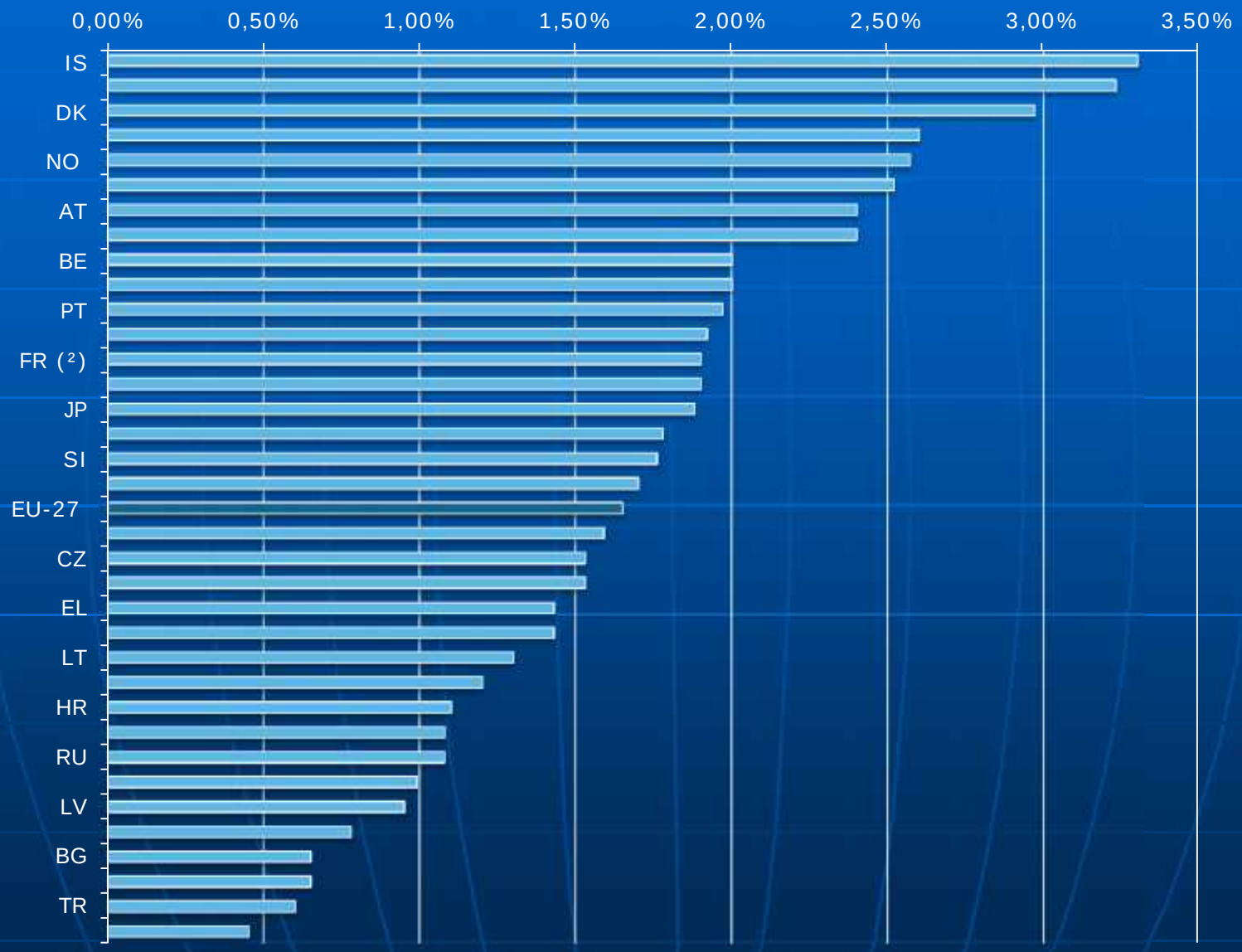


Patent per capita

Source UN Human Development Report 2008

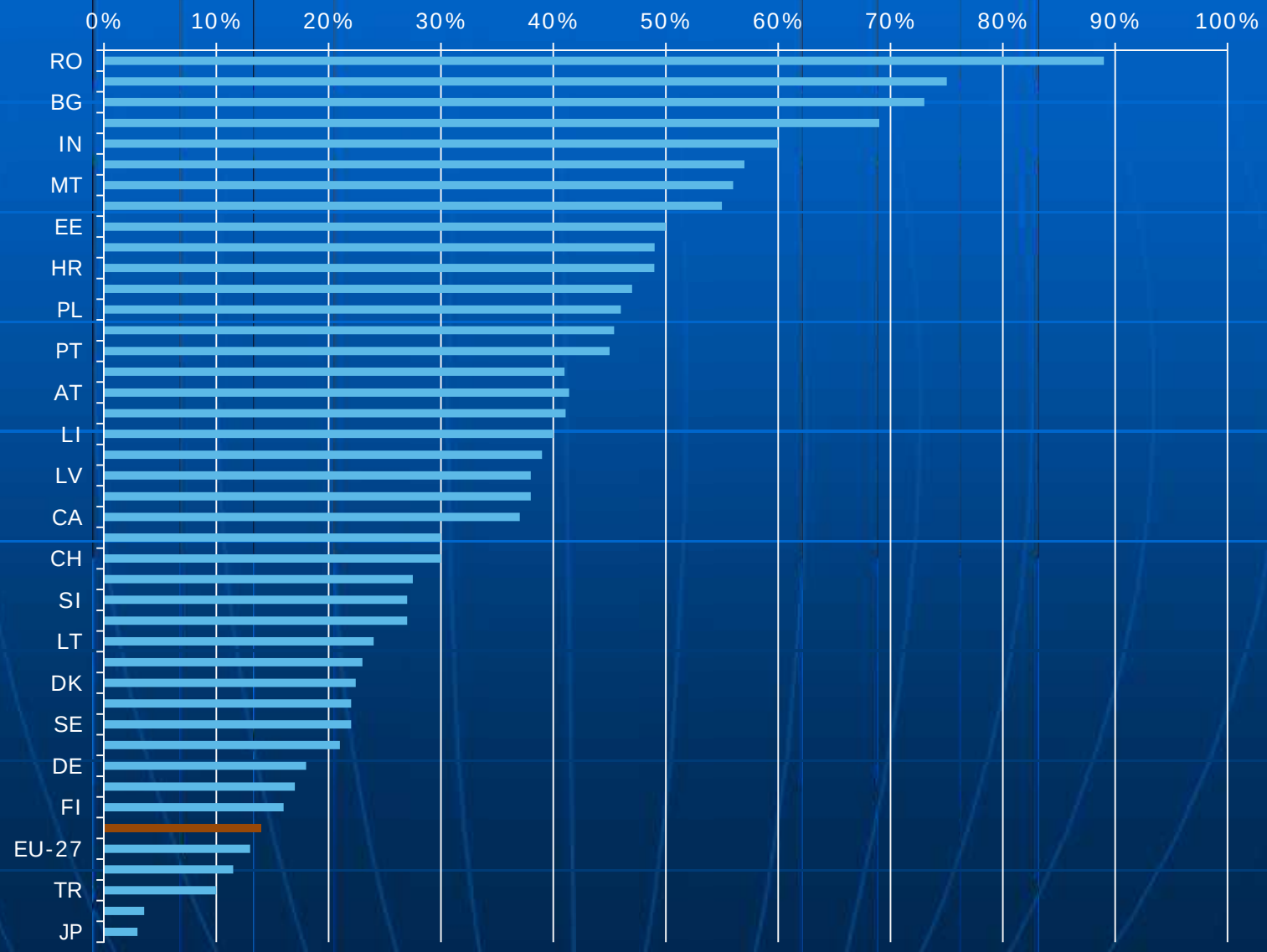


R&D personnel (HC) as a percentage of persons employed in 2009



Source: Eurostat (Online data code: rd_p_perslf) for JP and KR, OECD-MSTI

Foreign ownership of domestic inventions in patent applications to the EPO as a percentage of total, 2007



Source: Eurostat (online data code: pat_ep_nfgn)

Snapshot of performance in mathematics, reading and science

Countries/economies with a mean performance/share of top performers above the OECD average
Countries/economies with a share of low achievers below the OECD average

Countries/economies with a mean performance/share of low achievers/share of top performers not statistically significantly different from the OECD average

Countries/economies with a mean performance/share of top performers below the OECD average
Countries/economies with a share of low achievers above the OECD average

PISA 2012 RESULTS IN FOCUS © OECD 2014

	Mathematics				Reading		Science	
	Mean score in PISA 2012	Share of low achievers in mathematics (Below Level 2)	Share of top performers in mathematics (Level 5 or 6)	Annualised change in score points	Mean score in PISA 2012	Annualised change in score points	Mean score in PISA 2012	Annualised change in score points
OECD average	494	23.1	12.6	-0.3	496	0.3	501	0.5
Shanghai-China	613	3.8	55.4	4.2	570	4.6	580	1.8
Singapore	573	8.3	40.0	3.8	542	5.4	551	3.3
Hong Kong-China	561	8.5	33.7	1.3	545	2.3	555	2.1
Chinese Taipei	560	12.8	37.2	1.7	523	4.5	523	-1.5
Korea	554	9.1	30.9	1.1	536	0.9	538	2.6
Macao-China	538	10.8	24.3	1.0	509	0.8	521	1.6
Japan	536	11.1	23.7	0.4	538	1.5	547	2.6
Liechtenstein	535	14.1	24.8	0.3	516	1.3	525	0.4
Switzerland	531	12.4	21.4	0.6	509	1.0	515	0.6
Netherlands	523	14.8	19.3	-1.6	511	-0.1	522	-0.5
Estonia	521	10.5	14.6	0.9	516	2.4	541	1.5
Finland	519	12.3	15.3	-2.8	524	-1.7	545	-3.0
Canada	518	13.8	16.4	-1.4	523	-0.9	525	-1.5
Poland	518	14.4	16.7	2.6	518	2.8	526	4.6
Belgium	515	18.9	19.4	-1.6	509	0.1	505	-0.8
Germany	514	17.7	17.5	1.4	508	1.8	524	1.4
Viet Nam	511	14.2	13.3	m	508	m	528	m
Austria	506	18.7	14.3	0.0	490	-0.2	506	-0.8
Australia	504	19.7	14.8	-2.2	512	-1.4	521	-0.9
Ireland	501	16.9	10.7	-0.6	523	-0.9	522	2.3
Slovenia	501	20.1	13.7	-0.6	481	-2.2	514	-0.8
Denmark	500	16.8	10.0	-1.8	496	0.1	498	0.4
New Zealand	500	22.6	15.0	-2.5	512	-1.1	516	-2.5
Czech Republic	499	21.0	12.9	-2.5	493	-0.5	508	-1.0
France	495	22.4	12.9	-1.5	505	0.0	499	0.6
United Kingdom	494	21.8	11.8	-0.3	499	0.7	514	-0.1
Iceland	493	21.5	11.2	-2.2	483	-1.3	478	-2.0
Latvia	491	19.9	8.0	0.5	489	1.9	502	2.0
Luxembourg	490	24.3	11.2	-0.3	488	0.7	491	0.9
Norway	489	22.3	9.4	-0.3	504	0.1	495	1.3
Portugal	487	24.9	10.6	2.8	488	1.6	489	2.5
Italy	485	24.7	9.9	2.7	490	0.5	494	3.0
Spain	484	23.6	8.0	0.1	488	-0.3	496	1.3
Russian Federation	482	24.0	7.8	1.1	475	1.1	486	1.0
Slovak Republic	482	27.5	11.0	-1.4	463	-0.1	471	-2.7
United States	481	25.8	8.8	0.3	498	-0.3	497	1.4
Lithuania	479	26.0	8.1	-1.4	477	1.1	496	1.3
Sweden	478	27.1	8.0	-3.3	483	-2.8	485	-3.1
Hungary	477	28.1	9.3	-1.3	488	1.0	494	-1.6
Croatia	471	29.9	7.0	0.6	485	1.2	491	-0.3
Israel	466	33.5	9.4	4.2	486	3.7	470	2.8
Greece	453	35.7	3.9	1.1	477	0.5	467	-1.1
Serbia	449	38.9	4.6	2.2	446	7.6	445	1.5
Turkey	448	42.0	5.9	3.2	475	4.1	463	6.4
Romania	445	40.8	3.2	4.9	438	1.1	439	3.4
Cyprus[1,1]	440	42.0	3.7	m	449	m	438	m
Bulgaria	439	43.8	4.1	4.2	436	0.4	446	2.0
United Arab Emirates	434	46.3	3.5	m	442	m	448	m
Kazakhstan	432	45.2	0.9	9.0	393	0.8	425	8.1
Thailand	427	49.7	2.6	1.0	441	1.1	444	3.9
Chile	423	51.5	1.6	1.9	441	3.1	445	1.1
Malaysia	421	51.8	1.3	8.1	398	-7.8	420	-1.4
Mexico	413	54.7	0.6	3.1	424	1.1	415	0.9
Montenegro	410	56.6	1.0	1.7	422	5.0	410	-0.3
Uruguay	409	55.8	1.4	-1.4	411	-1.8	416	-2.1
Costa Rica	407	59.9	0.6	-1.2	441	-1.0	429	-0.6
Albania	394	60.7	0.8	5.6	394	4.1	397	2.2
Brazil	391	67.1	0.8	4.1	410	1.2	405	2.3
Argentina	388	66.5	0.3	1.2	396	-1.6	406	2.4
Tunisia	388	67.7	0.8	3.1	404	3.8	398	2.2
Jordan	386	68.6	0.6	0.2	399	-0.3	409	-2.1
Colombia	376	73.8	0.3	1.1	403	3.0	399	1.8
Qatar	376	69.6	2.0	9.2	388	12.0	384	5.4
Indonesia	375	75.7	0.3	0.7	396	2.3	382	-1.9
Peru	368	74.6	0.6	1.0	384	5.2	373	1.3

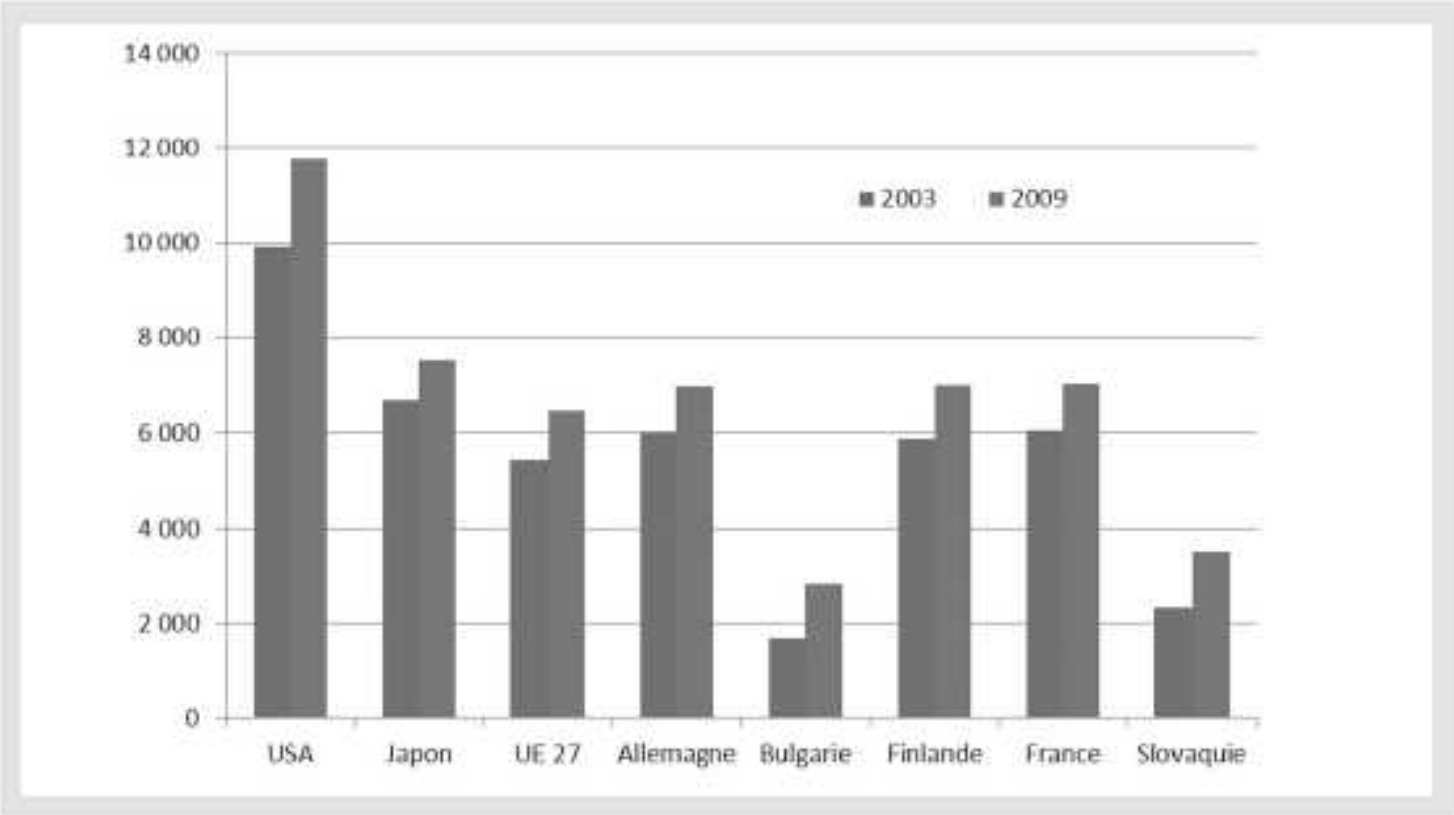


Figure 7.5
Dépenses totales par élève destinées aux institutions dans l'éducation (euros en en parité de pouvoir d'achat).

Source : Eurostat Yearbook 2012

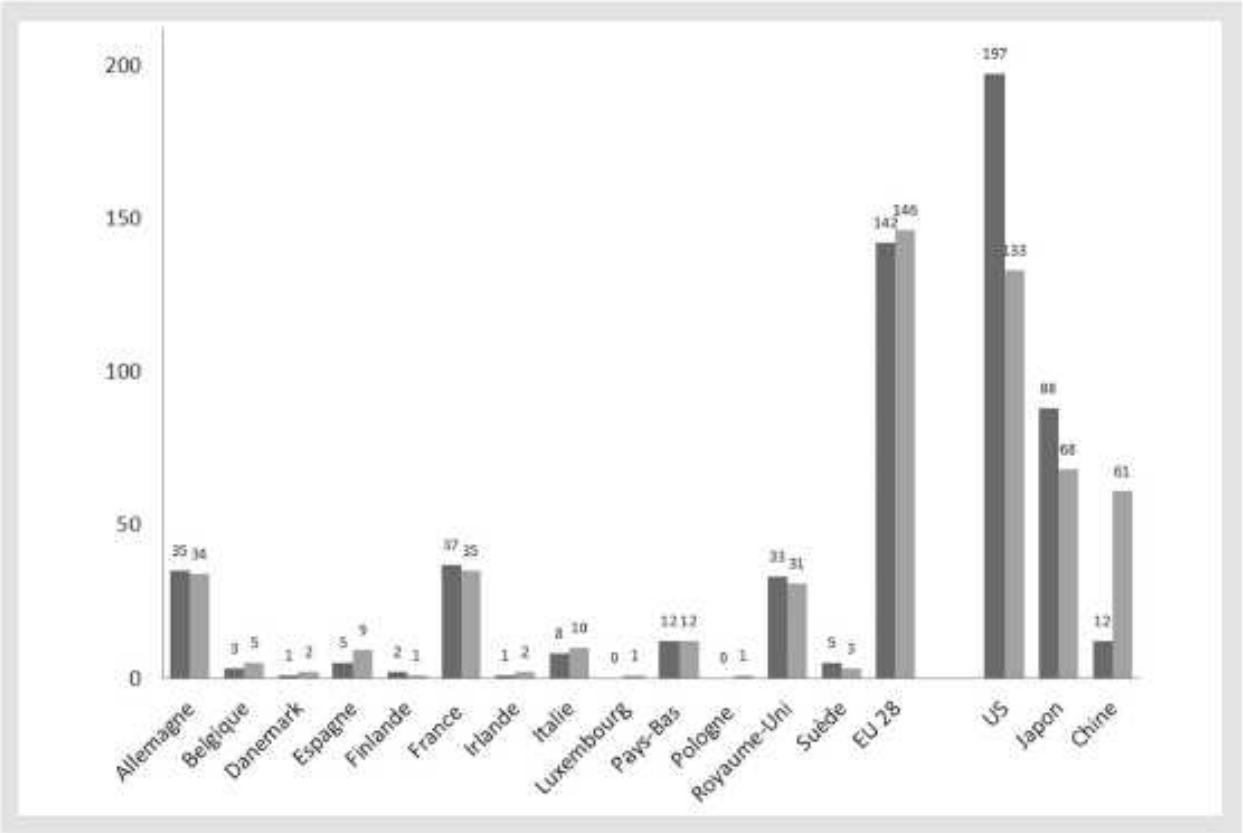


Figure 7.7
Les plus grandes firmes mondiales du Fortune global 500 : UE, USA, Japon, Chine 2001-2011

Source : Fortune 500 2002, 2012

B: Contribution of drivers of growth to annual average GDP per capita growth 2000-2011

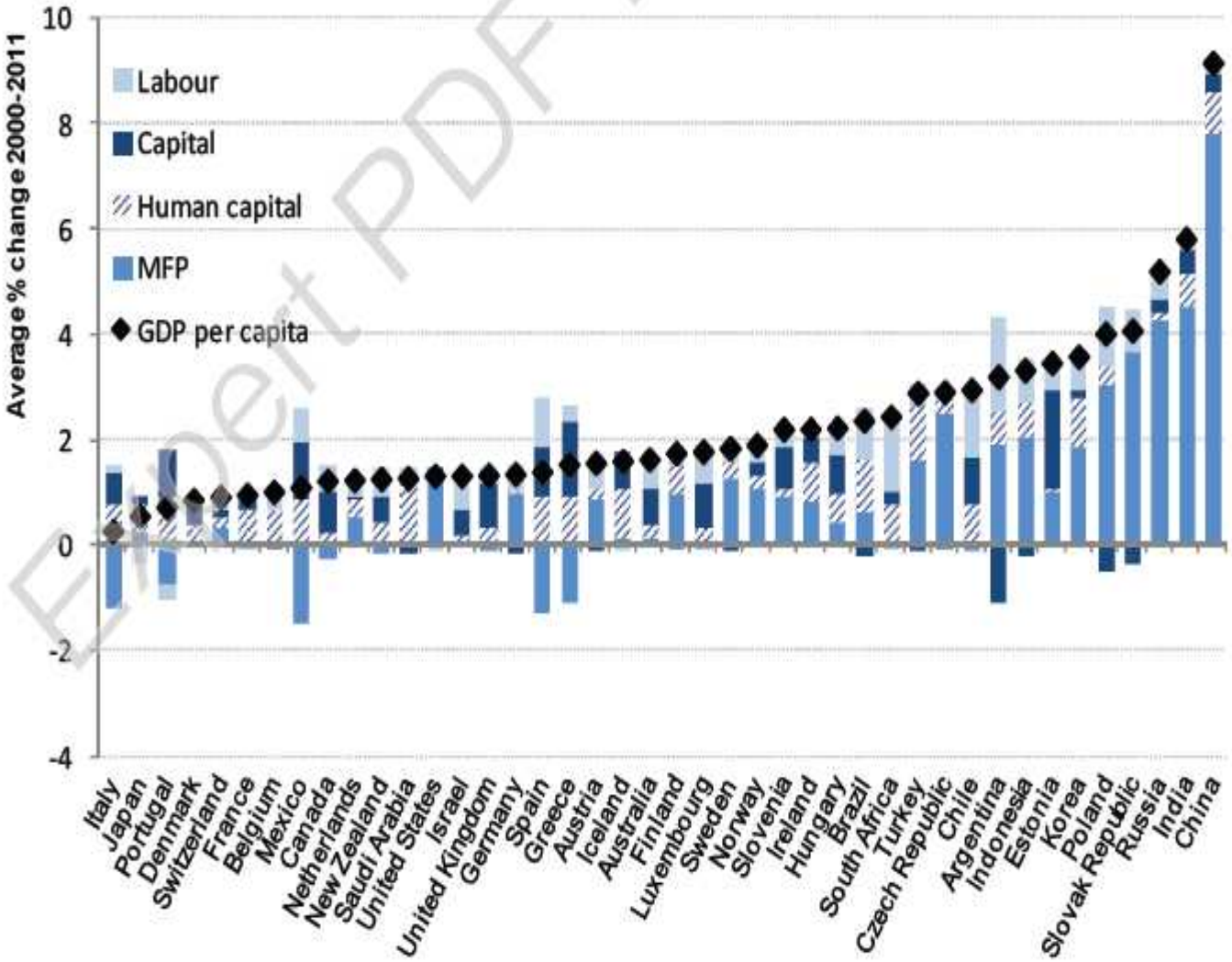


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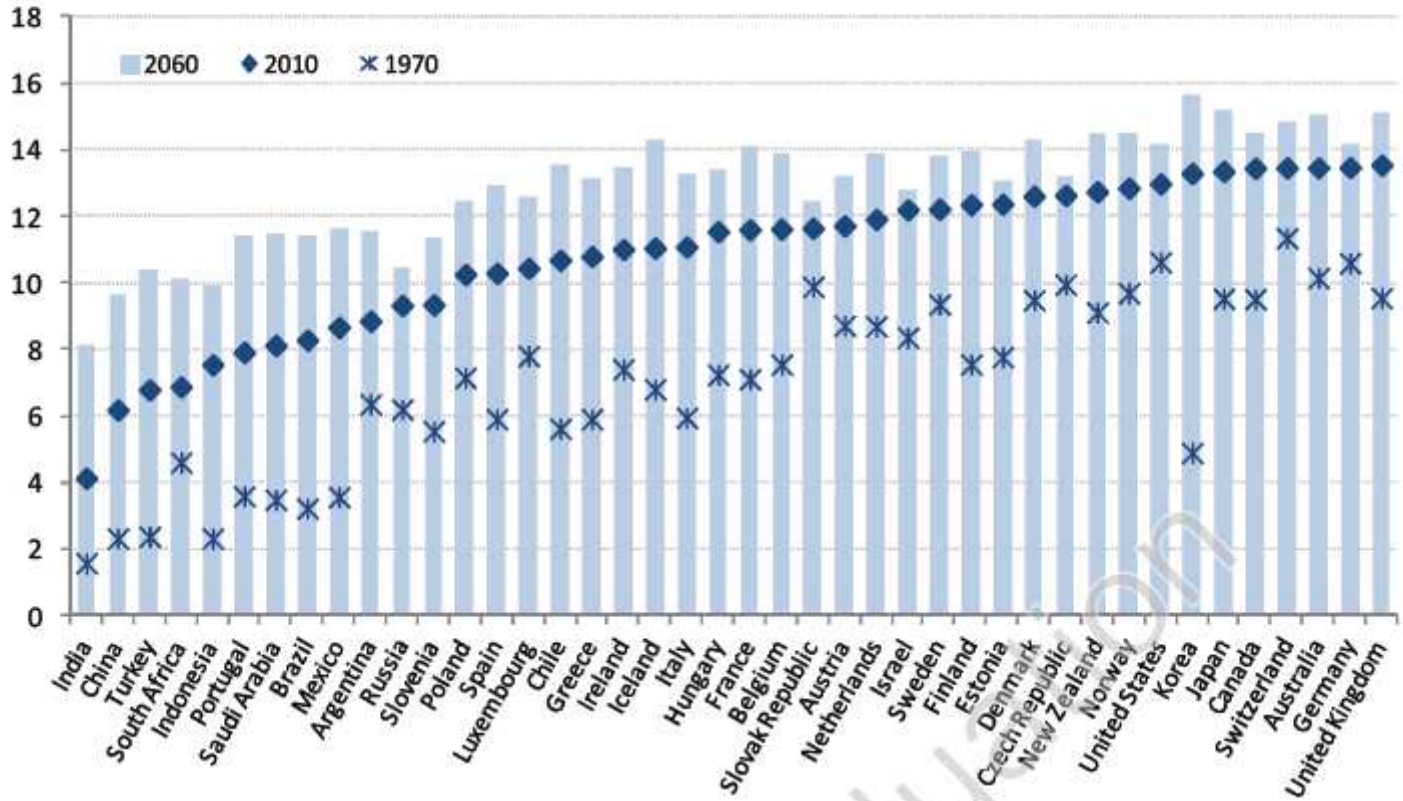
Figure 6. **Educational attainment will increase over time**

Average years of schooling of the adult population



Source: Long-term Growth Scenarios, *OECD Economics Department Working Papers* No. 1000, *forthcoming*

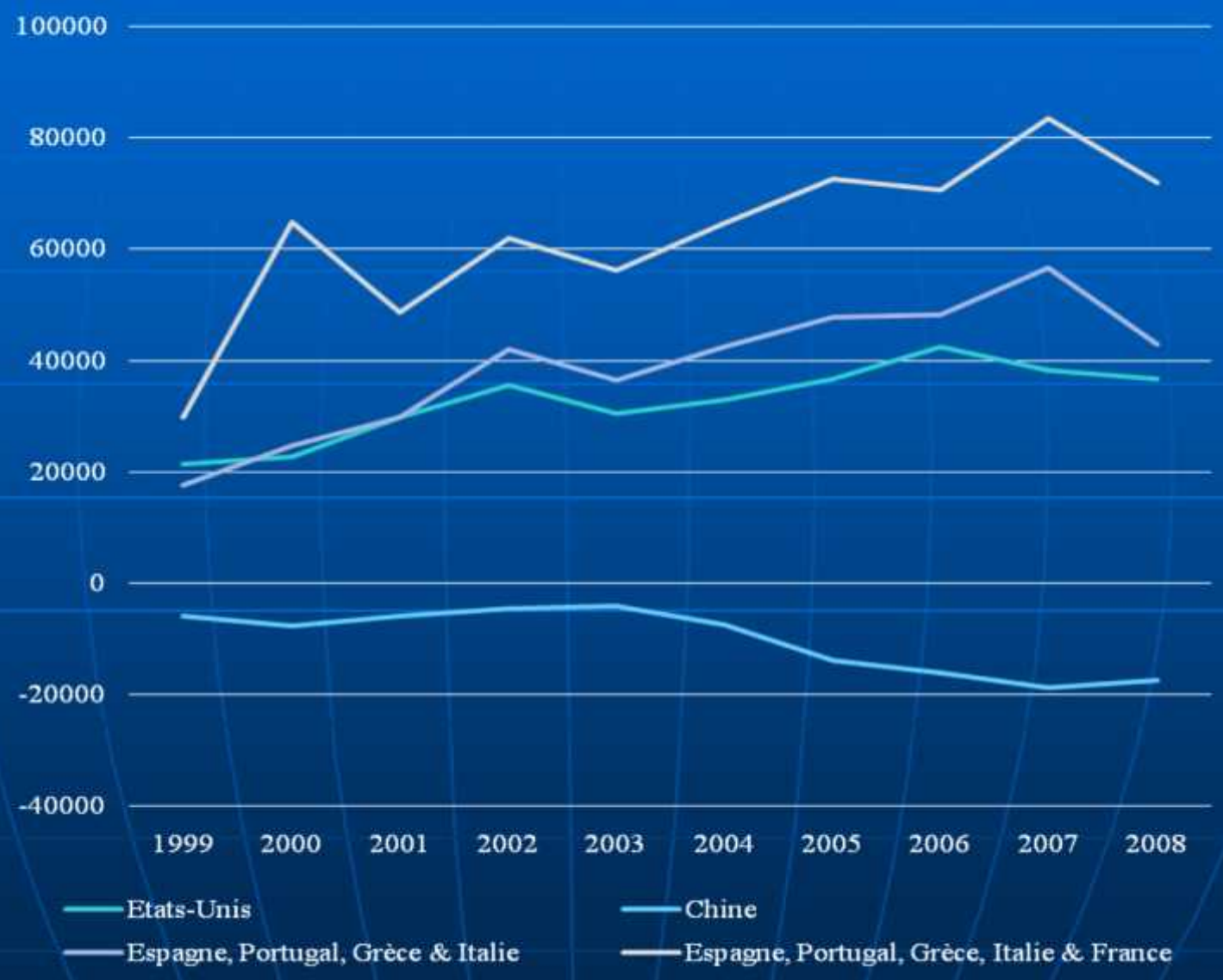
StatLink http://dx.doi.org/10.1787/888932718307

Evaluation

Member states	SV	SU	DK	BEL	FR	D	O	UK	ITA	ES	POR	EL	EIRE	ROM	LAT	EST	MAG
Labour productivity per hour worked in ppp	103	97	96	nd	117	112	102	nd	89	94	55*	nd	111	31*	nd	48	55
R&D spending in GDP % 2000-2007	3,7	3,5	2,6	1,9	2,1	2,6	2,5	1,8	1,1	1,3	1,2	0,5	1,3	0,5	0,6	1,1	1
internet user % of population in 2008	87,7	82,5	83,3	68,1	67,9	75,5	71,2	76	41,8	55,4	42,1	43,1	62,7	28,8	60,4	66,2	58,5
high tech exports in GDP % 2010	5,5	6,9	3,8	6,3	3,5	5	4,1	2,8	1,4	0,7	1,5	0,4	12,6	1,7	1,7	5,2	16,9
net outward FDI flows 2008	14	10	12	15	14	21	3	20	7	-2	-15	-1	-5	-36	-32	-40	-32
current account (in GDP % 2008)	7,9	2,4	2	-2,3	-2	6,6	3,5	-1,7	-3,4	-9,5	-12,1	-14,4	-5,1	-12,2	-12,7	-9,1	-8,7
annual spending on education per student 2003	6916	6139	7251	6396	6248	5861	7481	6281	6251	5117	4307	3848	5299	nd	2234	nd	nd

Source: Defraigne 2012, Eurostat 2011, HDR UNDP 2008-2010

Germany's trade balance



2. EU budget - from Lisbon Strategy to EU 2020

By Janusz Lewandowski, Commissioner responsible for Financial Programming and Budget

Hearing on "Lisbon Strategy: Budget implementation and results"- 7 April 2014
Committee on Budgetary Control

3. The EU's Lisbon Strategy: Evaluating Success and Understanding failure

By Dimitris Papadimitriou, University of Manchester

and

Paul Copeland, Queen Mary University of London

<u>The EU's Lisbon Strategy: Evaluating Success and Understanding failure (2012: Palgrave Macmillan).</u>

Editors: Paul Copeland and Dimitris Papadimitriou

Synopsis of main findings

Many thanks for giving us the opportunity to present the findings of our book on the Lisbon Strategy. The book has been a collective undertaking, bringing together some of the world's foremost experts on this subject. The volume focuses on the theoretical aspects of the process, such as Lisbon's historical roots and development, its modes of governance, and political economy. In terms of policy areas we look at employment, social exclusion, pensions, healthcare, research and development, education and training, and economic governance and Monetary Union.

As editors of the book, our task today is to offer you a summary of these findings, updating our conclusion with some additional information that has surfaced since the publication of the book 18 months ago. To do that we will split our presentation into two halves. Professor Dimitris Papadimitriou will begin with an assessment of the bigger picture within which the achievements and limitations of the Lisbon strategy could be better understood. Subsequently Dr Paul Copeland will elaborate further on the various policy areas covered by the book.

For my part, I would like draw your attention on three different axes, upon which the significance of Lisbon can be understood.

I: Evaluating Lisbon as a discourse (Professor Dimitris Papadimitriou)

In the first section we focus on three different axes through which the significance of the Lisbon Strategy can be understood.

Was the EU right to elevate competitiveness at the top of its agenda in 2000 and again in 2010?

The concern with competitiveness should be a continuing concern for the EU. Its relevance to the SEM and the Euro is profound. The identification of a specific theme under which to package a raft of structural reforms within the Union is also understandable. Yet, the reported loss of the EU's competitiveness as a whole – the main point of departure at Lisbon – has not been and still is not clear-cut. The rapid economic expansion of developing countries is often used as evidence of this, although the relationship between the rise of China, the BRICS, and the EU's own reported 'demise' is not linear. Overall figures on the EU's current account balance certainly do not point to a crisis. They do however point to a widening gap between surplus and deficit countries within the EU.

Did the EU neglect the 'internal dimension' of its own competitiveness?

In short, yes. Initial references to competitiveness and cohesion (under Lisbon) have subsequently been replaced by an articulation of competitiveness built on a perpetual struggle between member states. But logic dictates that economic competition within the EU is, largely, a zero sum game. For the discourse on competitiveness to be politically viable (both at EU and national levels), there need to be more concrete policies to compensate national/regional/sectoral losers. There also needs to be a sense that the whole process is led politically at the European level, rather than proceeding on an automatic pilot. Otherwise there is a real risk that entire sections of the European society will be alienated from the process of integration.

II: Evaluating Lisbon and Europe 2020 as a governance architecture

This is the most difficult area to evaluate without colouring one's assessment by broader normative considerations on the necessity for 'more' or 'less' Europe. Here, three points can be made:

Has the OMC – the key vehicle for the delivery of Lisbon and Europe 2020 objectives - created a clear decision making process that can operate alongside the Community method?

The answer here has to be 'no'. There is no single OMC model to speak of. What we have at the moment are different reporting cycles, different degrees of Commission activism, different sets of commitments. Some objectives are quantified, others not. This makes comparison on progress across different Lisbon policy areas much harder. More importantly, such confusion obscures the message that the EU sends to the member states with regards to structural reform.

Have Lisbon and Europe 2020 produced 'contagion' for other policies?

There is clear evidence of the increasing 'Lisbonisation' of a number of sectoral EU policies, not least of the operation of the structural funds other policies. Yet, the synergies between Lisbon targets and existing communitised policies have not always clear. The Commission, in our opinion, has failed to operationalise this link very well.

III: Evaluating Lisbon/Europe 2020 as a set of measurable objectives

At the macro level for the moment that there are almost no measurable benchmarks elaborated in either Lisbon or Europe 2020 that have been met unequivocally by the member states.

At a different level, the very outbreak of the Eurozone crisis offers perhaps the clearest indication of the failures of Lisbon and Europe 2020, particularly with regard to their main delivery mechanism: the OMC. We would like to draw your attention onto three key issues:

The failure to detect the crisis early on

The derailment of the Greek economy, for example, or the growing imbalances of the Irish and Portuguese economies did not suddenly appear in 2010. They had been building up over a number of years. Yet, if you read the Broad Economic Policy Guidelines – the EU's first ever OMC process – over the last decade we it can be observed a distinct lack of urgency on behalf of the Member States and very weak activism on behalf of the European Commission. If the EU's sense of purpose was so shallow on something as important as macro-economic coordination (with all its negative externalities for the Euro), how could we possibly expect a sufficient reform impetus on other policy areas, such as education or research and innovation?

The causal relationship between the failure of Lisbon and Europe 2020 to meet their objectives and the Eurozone crisis itself

We believe that the root of the Eurozone crisis is the pattern of divergent competitiveness between the member states. Nearly 15 years ago Lisbon promised to make the EU the "most competitive economy in the world", but we now know that since entry into the Eurozone the competitiveness of the EU's periphery has declined steadily. Nearly 10 years ago the Kok report promised "jobs, jobs, jobs". Today we know that between 2004 and 2012, employment rates in the EU as a whole have increased by just 1%. At the same time employment rates in Greece have decreased by 10%, in Ireland by 8% and in Spain and Portugal by 6%. Nearly three years ago, the launch of Europe 2020 promised strong sustainable growth and poverty reduction. But since 2010, the EU's GDP has grown cumulatively by a mere 3.4%. At the same time the Greek GDP has shrunk by 23%, the Portuguese by 19.6%, the Spanish by 9.5% and Italian by 7%.

Some may say that these figures reflect badly on Lisbon and Europe 2020 because of the effects of the crisis on the European economy. The point is that the failure of Lisbon and Europe 2020 are a fundamental contributing factor to the crisis.

Economic policy on the lowest common denominator

The OMC was presented as the only realistic alternative in bringing matters of "common European concern" under some sort of an EU agenda. As such, 'soft', intergovernmental, coordination was seen as a price worth paying. This may have been true in 2000, but it is certainly not true today (and neither was it true at the time of the launch of Europe 2020). The realities of the economic crisis revealed the limitations of this approach. It took, for example, a decade to come up with some basic indicators and 'best practice' on pensions across the EU, but at the end Greece, in the context of its bailout programme, had to cut pension entitlements overnight by 30% in 2010 (drastic measures on pensions were also implemented in other bailout countries). It would have been much more preferable to use this 'sledgehammer determination' in order to promote a more long-term, binding, strategy for ensuring the sustainability of pensions systems across the EU? The Fiscal Pact and talk of a new EU treaty to address issues of economic governance also speak to the need of more

purposive action in this field. We will return to what this may mean for future of OMC-type operations at the end of this presentation.

In the following two sections we focus more on the specifics of our findings. It is worth mentioning from the outset that the overall findings of the research do not paint such a positive picture of Lisbon. We begin by outlining some of the successes of Lisbon, but then we will move on to talk about the main reasons we believe that Lisbon fell short of the agreed targets.

IV: **Evaluating Success (Dr Paul Copeland)**

The partial Europeanization of Policy Problems

The policy chapters the volume provide evidence of considerable policy learning in the context of Lisbon. There has been a greater socialisation and exposure to diverse policy paradigms across different EU Member States. Regular committee meetings and the formal reporting cycles - where available - have provided structure for policy learning. Furthermore, the routinization of such processes has provided added incentives to engage in the understanding and sharing of best practice. The result has been the emergence of cognitive frameworks in which to understand policy problems and their solutions at the EU level, some of which have had a noticeable impact nationally, particularly in the area of employment.

There are two important caveats to note: Firstly, despite evidence of policy learning, the 'downloading' of best practice to the Member States has been limited. Dyson and Quaglia argue that such a process is essentially 'Brussels talking to Brussels', without the presence of sufficient 'commitment devices' to ensure compliance. Secondly, this particular shallow pattern of Europeanization has been varied, with some policy areas demonstrating higher levels of engagement than others. Employment policy, with its Treaty basis and annual governance cycle and reporting procedure, has been the most Europeanised (and most successful) of the Lisbon policy areas. The OMC in employment has developed a cognitive framework whereby Member States with different employment traditions can discuss possible solutions to commonly shared problems. Within this framework peer review is now regarded as a legitimate and useful exercise by those involved. By contrast, healthcare has developed a more superficial form of coordination with only two reporting cycles and limited progress in the agreement of common indicators.

The power of Comparison

The past decade has witnessed a mushrooming in the development of comparable data produced in the broad range of Lisbon policy areas. Policy areas that were once fiercely guarded by the Member States have been opened-up to cross-country comparison and scrutiny by peers; a process that has generated a good deal of information and inevitably

affected domestic reform agendas. For example, in the area of pensions, increasing familiarity with other systems and a comprehension of the way similar problems play out in different institutional settings has provided a favourable backdrop to reform in the Member States (Tinios in this volume).

Expanding EU Competences

The flexibility of the OMC was a key factor behind the broad level of support for Lisbon to include policy areas that had hitherto been considered politically too sensitive for exposure to EU scrutiny. Lisbon has also generated its own spill-over into other policy areas. Originally, pensions and healthcare were not included when the Strategy was launched in 2000. Eventually, both policy areas were drawn into Lisbon and constructed their own version of the OMC. However, unlike the spillover generated by the SEA, that of the Lisbon Strategy was short-lived - not only did coordination in the areas of healthcare and pensions remained superficial, but during the 2005 re-launch their relative significance was reduced. The re-launched Strategy for Growth and Jobs provided a simplified set of Integrated Guidelines that merged the Broad Economic Policy Guidelines (BEPGs) and the Employment Guidelines into a single package structured around macro-economic, micro-economic and employment pillars. In response, Member States were to report their annual progress in a single document, known as National Reform Programmes (NRP). The areas of social inclusion, pensions and healthcare were not included in the Integrated Guidelines and the NRPs, rather they were to operate independently. Many critics saw this development as evidence of marginalisation of the 'social' OMCs.

Understanding Weakness

Despite all of the discussion surrounding cognitive and discursive shifts both within our volume and the broader Lisbon Strategy literature (e.g. de la Porte and Pochet 2003; Zeitlin *et al* 2005; Zeiltin 2009), the Member States failed to achieve almost all official Lisbon targets set in 2000/2005.

Shifting Goalposts

One of the most significant findings is the unstable nature of the aims and objectives of the Lisbon Strategy. The re-launched Lisbon Strategy in 2005 essentially shifted its aims from one in which economic growth was to be *combined* with social cohesion, to one in which economic growth was to create social cohesion. In 2000, the Lisbon Strategy was considered to be both a moderniser and preserver of the European social model, as the 'Third Way' spoke to a diverse audience within the EU's emerging polity. From 2005 onwards references to the European social model in official documents were distinctively absent. The re-launched strategy of Growth and Jobs in 2005 reflected a shift within the Council to a

majority of centre-right governments and a new Commission shaped from a similar ideological mould which was determined to stamp its own mark on the process.

Although the mid-term review of Lisbon might have been necessary for a governance process that was experimental, its radically redefined objectives became the source of much confusion. The ideological shift to a more market-driven Strategy might have suited key EU governments of the day, but it did not sit well with the broader set of stakeholders (such as the trade unions, social NGOs and think tanks) who were supposedly central to achieving the aims of Lisbon. The Lisbon Strategy failed to maintain a broad and robust coalition of different actors, at both governmental and societal levels, that would support the reform momentum.

2) A Weak Mode of Governance

Some Lisbon policy areas developed a more formalised and comprehensive version of the OMC than others, with a correlation between the particular OMC and the progress made within a policy area (e.g. employment vs. pensions). For example, not all OMCs maintained the same regularity in their reporting cycles. However within the different OMCs, no policy area published league tables, utilised formal 'naming and shaming' or established strong financial rewards to incentivise Member State engagement. The emerging picture is therefore one of fragmentation in which the vast majority of deployed OMCs shared a distinctively 'light' governance architecture. However, despite repeated warnings (most notably by the Kok report), that disjointed governance undermined the delivery of the Strategy's objectives, and any suggestion for a more robust model was rebuked by national governments (Bulmer in this volume).

3) A Lack of Institutional Leadership

Lisbon has remained an intergovernmental process and a central role for the Commission was ruled-out from the onset. Whatever the reasons that shaped the governance architecture of Lisbon, there is little doubt that the inability of the Member States to pool sovereignty and allow supranational institutions to monitor implementation was a key factor behind its failure to deliver on its own objectives. At the apex of the Lisbon governance architecture sat the European Council whose outlook and function was ill equipped to lead such a complex reform agenda. European Council meetings are often consumed with more pressing matters that take priority over the Lisbon Strategy. With the EU's rotating Presidency adding a further layer of complexity and inconsistency, the Council was unable to provide the necessary leadership in order to monitor progress, stimulate engagement and secure outcomes. Neither could these tasks be effectively performed by the Commission whose increased powers after 2005 failed to generate a strong sense of

'institutional ownership' which could mediate the 'leadership deficit' at the heart of the Lisbon process.

Furthermore, the centrality of the Council within the Lisbon governance architecture compromised the much-publicised 'openness' of the Open Method of Coordination. Unlike the European Parliament and the Commission, the Council remains a relatively 'closed' institution whose working practices are not easily penetrable by outsiders. This inevitably restricted its ability to build broad coalitions and co-opt into the Strategy non-governmental and sub-national actors who were supposedly its key stakeholders. The net result of this discrepancy became a major shortcoming of the Lisbon Strategy. A decade after the launch of a new governance initiative that was designed to broaden engagement with the EU's policy-making process, Lisbon had become the centre of widespread criticism over its restricted range of inputs and ineffective policy outcomes.

Conclusion

Overall we would just like to conclude with a couple of main points to think about. The picture of competitiveness within the EU has become increasingly polarised. This reduces the incentives for voluntary convergence between the member states, as it is too painful for the poorer countries and too expensive for surplus countries. The Lisbon Strategy reveals that intergovernmental cooperation has exhausted its potential and the EU needs a new package or new deal combining fiscal discipline and competitiveness, with concrete measures to reduce inequalities within the EU. However, we remain optimistic with respect to Europe 2020.The flagship initiatives and awareness within the EU institutions that the objectives require financial resources are promising and represent progress compared to Lisbon. Many of the objectives in Europe 2020 could be used as the guiding principles for economic policy in the EU. The question is how best to achieve them in an era of austerity. In conclusion we argue that the governance architecture and achievements of Lisbon/Europe 2020 should be seen as evidence of a lost decade-and-a-half in economic policy making in the EU, rather than a blueprint for the recovery of the European economy.

4. The Lisbon Strategy – seen through the Court's performance audits

By Henrik Otbo, Member of the European Court of Auditors

EUROPEAN COURT OF AUDITORS **SPEECH**

Speech by Henrik Otbo,

Member of the European Court of Auditors

The Lisbon Strategy – seen through the Court's performance audits

Hearing on the Lisbon Strategy: Budget implementation and results

European Parliament Committee on Budgetary Control (CONT)

Brussels, 7 April 2014 at 15h30

Check against delivery. The spoken version shall take precedence.

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Chairman, honourable members of the Committee,

Ladies and gentlemen,

I would like to thank you, Mr Theurer, the rapporteur, Ms Grässle, and the Committee for inviting the Court of Auditors to participate in this hearing on the Lisbon Strategy: Budget implementation and results.

I have the pleasure of representing the European Court of Auditors here today and to provide you with an independent perspective, based on the Court's audit work over the years, on the results achieved under the Lisbon Strategy. While looking backwards over the years of the Lisbon Strategy, I believe that the best way to add value here today is to focus, not only on the non-achievement of the Lisbon strategy goals, but on the lessons to be drawn from this. What are the issues to be addressed to ensure better performance in the future?

I will start by providing a little context on the Lisbon Strategy, and a few examples on how it was adapted; I shall then look at the evaluations carried out by the Commission; the main weaknesses in how the Strategy was implemented - as reflected in the Court's audit results; and the need to develop a stronger focus on the results to be achieved in future programmes. My written speech, printed in the booklet provided for this meeting, includes a number of additional examples of performance audits by the Court in this area, enclosed in a short annex at the end, which I will not go through during my oral presentation here today but will be happy to comment upon should there be any questions.

It is important to bear in mind that the Lisbon Strategy applied to the Union as a whole, with the main burden of implementation and funding falling on the Member States. The **EU** budget, which is what the Court audits, can at best have a more modest impact on achieving the objectives of the Strategy.

The Lisbon strategy aimed "to make the European Union the most dynamic and competitive knowledge-based economy in the world, capable of sustainable economic growth with more and better jobs and greater social cohesion, and respect

for the environment by 2010”. The main economic and employment objectives defined in 2000 were:

- 3% economic growth per year,
- 3% GDP spent on research and development
- average employment rate of 70%,
- women employment rate of 60%,

These EU-level targets represented a “one-size-fits-all” approach. There were no individual national targets; nor did they take account of the starting positions of the individual Member States and their relative strengths and weaknesses. In hindsight, this approach to setting targets at the EU level may have contributed to a general lack of ownership of the Lisbon Strategy in the Member States.

The first phase of the Lisbon Strategy focused on translating the Lisbon European Council conclusions into specific policy instruments. This was done by establishing strategic policy orientations, such as the information society, research and development, and enterprise.

Based on a mid-term review completed in November 2004, the Commission concluded that the results so far had been disappointing, and that the European economy had failed to deliver the expected performance in terms of growth, productivity and employment. Some of the problems identified were:

- blurred strategic objectives
- numerous and at times irreconcilable priorities - resulting in a lack of focus
- uneven implementation in Member States resulting in missed synergies
- unclear roles and responsibilities at EU and Member States level resulting in a lack of political ownership
- and an excessive amount of “red tape”.

Following the mid-term review the Commission decided to focus attention on the actions taken to increase **growth and jobs**. The Lisbon Strategy was re-launched with four defined priority areas:

- research and innovation,
- investing in people/modernising labour markets,
- unlocking business potential, particularly for Small and medium-sized enterprises, and
- energy and climate change

While 2007 saw positive trends in terms of growth and net employment, the worldwide financial crisis, beginning in the autumn of 2008, presented further challenges and created new priorities in the years following. The top priority was thus to protect Europe's citizens from the worst effect of the financial crisis. For private business, access to finance, a reduced administrative burden and the promotion of entrepreneurship were all given priority. These factors were seen as pre-conditions for investment, growth and job creation in the private sector. In Research and innovation, as well as Infrastructure and energy, investments were increased.

Allow me to provide a couple of examples of performance audit the Court has carried out in relation to these priorities:

- In 2012 the Court published a performance audit report on Financial instruments for Small and medium-sized enterprises (SMEs) co-financed by the European Regional Development Fund (Special report No 2/2012). SMEs are the backbone of the EU's economy, generating employment, innovation and wealth. However, SMEs can suffer from difficulties in accessing finance, limiting their potential to delivering growth. The Court's audit therefore focused on the financial engineering measures co-financed by the European Regional Development Fund during the 2000-2006 and the 2007-2013 programming periods designed to help SMEs. The Court found that the effectiveness and efficiency of the measures were hampered by important shortcomings, mainly

due to the inappropriateness of the regulatory framework, insufficient analysis of needs (financing gaps), design flaws and an insufficiently robust monitoring and evaluation system.

- In its audit of the cost-effectiveness of cohesion policy investments in energy efficiency (Special report No 21/2012) the Court concluded, amongst other things, that the conditions enabling cost-effective energy efficiency investments had not been ensured. Reasons were the lack of proper needs assessments identifying potential energy savings, and insufficient integration with national energy efficiency plans. Due to insufficient performance indicators, the results achieved by the measure could not be aggregated in a meaningful way. Although all the audited projects had led to energy savings, the cost of these savings was often high and the average payback period for the investments was around 50 years.

Chairman, honourable members,

I believe that I may safely conclude, as the Commission did in its 2010 evaluation, that the Lisbon Strategy fell short of delivering the intended growth and employment targets. Collectively the Member States failed to close the productivity growth gap with leading industrialised countries; total Research and Development expenditure in the Member States improved only marginally and, although employment figures showed improvement before the economic crisis in 2008, the 2000 targets were not met.

While no single audit could have assessed the overall impact of the Lisbon Strategy, the Court has issued several performance audit reports focussing on different measures in support of growth and employment partly funded by the EU budget. While the Court's audits have noted benefits to the EU citizens, in some areas, several of the Court's audits have shown that those benefits could have been greater, or could have been achieved more efficiently and at a lower cost, if the EU intervention had been better targeted, planned and designed. The Court's audits have also shown that in several areas the actual results achieved cannot be measured and documented, due to the lack of reliable and comparable performance

data. This is a problem for several reasons: it prevents the timely identification of poor performance and the need for corrective actions; it limits the possibility to consider lessons learned when designing future programmes; and it weakens the accountability of the Commission to the EU taxpayer.

Allow me to provide you with a further example reflecting these issues:

- In its audit of the use of Structural and Cohesion funds to co-finance transport infrastructure in seaports (Special report No 4/2012), the Court concluded that only 11 of the 27 projects audited were effective in supporting transport policy objectives. None of the audited regions had a long-term port development plan and no needs assessment had been carried out. There was a lack of suitable projects for funding and retrospective financing was used to absorb the available funds. The main focus of the implementing bodies was the rate of spending, with little consideration given to project results. The impact of the new infrastructure was thus not monitored and empty ports and unused seaport infrastructures were noted during the audit.

Since 2010 the Court has included a chapter, in its Annual Report on the implementation of the EU budget, dedicated to performance and getting results from the EU budget. Based on its special reports and an examination of the Commission's reporting on its performance, in the Annual Activity Reports, the Court, each year, highlights significant issues related to sound financial management principles, i.e. economy, efficiency and effectiveness.

One of the issues highlighted is the concept of EU added value, which at times has proven to be an elusive element when the Court has audited programmes partly funded by the EU budget relating to the Lisbon Strategy themes of growth and employment:

- In its audit on whether EU support to the food-processing industry improves the competitiveness of agriculture and forestry (Special report No 1/2013) the Court found that the likelihood of deadweight was high. Member States had failed to direct support to projects that effectively and efficiently added value to agricultural products; as a result the potential for growth was limited.

A recurrent issue emerging in many of the performance audits carried out by the Court, also recognised in the midterm review of the Lisbon Strategy and the Commission's evaluation from 2010, is the challenge of achieving results in areas where there is an absence of, or insufficiently suitable, objectives, indicators and milestones for the operational programmes. These are essential requirements for tracking performance throughout the lifetime of programmes.

The legislator has an important role in ensuring that clear policy objectives are in place. Without clear policy objectives, the risk of unfocussed spending programmes, conflicting initiatives resulting in limited results or impact is greatly increased. However, clearly defined policy objectives in the EU regulations are not enough. During the more detailed planning of expenditure programmes, the Commission and the Member States need to pay greater attention to defining focussed objectives, as well as identifying and mitigating the risks of not achieving these.

When implementing spending programmes, some Directorate Generals of the Commission transfer the objectives mentioned in the legal texts or high level policy documents directly into their management plans. The Court has noted, in chapter 10 of its Annual report on the implementation of the budget concerning 2012, that, while objectives in high level documents should provide a basis, these are construed in a political context and are often not sufficiently focused to be useful at implementing level.

Several of the Court's audits have shown that focussed objectives with suitable performance indicators have not been consistently applied in recent years' spending programmes. In some spending areas targets have not been sufficiently quantified and multiannual targets have not been translated into targets which can be measured on an annual basis. As an example:

- For some multiannual programmes, the standard pace of progress might be relatively slow. An achievement of less than 10% of the target after a number of years might thus be normal, while in other areas this might signal delays and/or the need for corrective actions. In the area of European Regional Development Fund, the target for additional population covered by broadband

access in six Member States, an initiative related to the Lisbon Strategy, was set at 10 million over 2007-2013. From 2007-2009, 5,5% of the overall target had been achieved. However, no annual targets had been set allowing the Commission to assess whether this implied that the programme was on track or not.

Measuring and assessing the achievement of objectives is only possible if an adequate system is put in place at the start of a programme, capable of providing relevant, reliable and timely performance data. An example of the challenges involved in ensuring such data, relevant to the implementation of the Lisbon Strategy, is the fact that there was no legal requirement to implement a common set of performance indicators in the European Regional Development Fund regulation. Consequently, there was a high risk that data collected from implementing authorities was neither exhaustive nor comparable

As a new programming period is starting, the Court has emphasised the urgency of building a robust performance management and reporting system. In this context the Commission needs to ensure that legal limitations and practical constraints do not impair the reliability of the information collected by the Commission from Member States regarding programmes under shared management, just as the Commission must consider how to ensure that relevant information can be provided at the appropriate time.

I will now turn my attention to the Commission's report on the evaluation of the Union's finances based on the results achieved. This potentially valuable report, to be issued annually, is currently falling short of its purpose. The Court has therefore been cooperating with the Commission as to how the report might provide more meaningful information on the progress made and the results achieved across all policy areas.

In this context, the Court has emphasised the importance of ensuring better and timely performance data from all Directorate Generals throughout the lifetime of programmes and the need to consider the purpose, addressees and links between the existing reporting tools. The Court has recognised that it will take time for the

Commission to develop a suitably robust performance management and reporting system.

I therefore consider it a positive step that the Commission, in 2013, committed itself to present, in 2014, a new framework for performance management and reporting supporting future evaluation reports. The Court will continue to follow-up and report on the extent to which the Commission succeeds in its endeavours.

Coming to the end of my presentation, I would like to re-emphasize my key points:

As the Commission recognised in its evaluation of the Lisbon Strategy in 2010 the defined targets for growth and employment were not met by Member States or EU as a whole. There are many reasons for this.

As reflected by the Court's performance audits, spending programmes were often hampered by unsuitable objectives and indicators, more focus on input and output than the intended results and impact, inadequate design and planning and the absence of a reliable system for measuring the actual performance. These weaknesses have significantly reduced the results and impact achieved.

It is fair to say, based on recent years' developments, that performance management and reporting is evolving. However, the Commission cannot succeed on its own; it will need the support of the legislator and the commitment of the Member States when implementing expenditure in shared management. In this context, the Commission should continue to remind the Member States of their obligation to use EU funding in accordance with sound financial management. Spending money is never enough - there have to be results at the end of this and expenditure should be targeted to those projects which deliver the best possible results.

The real test will be whether the Commission manages, for the new programming period, to ensure focussed objectives with relevant indicators, across all spending programmes, allowing them to track and measure their performance and thus to what extent they are capable of contributing towards fulfilling the EU 2020 targets. These targets, much like the ones defined in 2000 for the Lisbon Strategy, will need to be translated into specific targets and actions in the Member States, ensuring ownership

and a focussed implementation aimed at achieving maximum impact. The biggest burden of implementing and funding the initiatives required to reach the EU 2020 targets rests with the Member States. An important part of the Commission's role is therefore to coordinate implementation and drive sound financial management, when spending the EU budget, by building a stronger performance culture throughout the Union as a whole.

For its part, the Court's strategic objectives for 2013 to 2017 include maximising its contribution towards improved EU accountability in relation to the EU budget. This is a key driver in the selection of audit tasks. The Court will continue to strive towards providing its stakeholders with relevant and timely reports on the results achieved by the Commission and the Member States. The Court will also continue to integrate performance issues in the annual report, thus providing a more holistic view of both compliance and performance issues across all policy areas. The Court is further pursuing increased cooperation with the Commission on following up recommendations from special reports in order to increase their impact and thus support better results in the future.

Thank you for your kind attention.

Annex

<u>Additional examples of relevant performance audit reports by the European Court of Auditors</u>

- In its report on whether the European Globalisation Adjustment Fund delivered EU added value in re-integrating redundant workers (Special report No 7/2013), the Court concluded that nearly all eligible workers had been offered personalised and well-coordinated measures. However, no quantitative reintegration objectives were set and existing data were not adequate to assess the effectiveness of the measures. The Fund delivered EU added value when used to co-finance services for redundant workers or

allowances not ordinarily existing under Member States' unemployment benefit systems. However, in all the audited cases, the Court identified income support measures which would have been paid by the Member States anyway.

- In its report on European Social Fund spending related to older workers (Special report No 25/2012) the Court noted differences in the Managing Authorities' interpretation of the content of this Lisbon Strategy priority, as well as shortcomings in the design of the audited Programmes for the 2007-2013 period. Quantified output and outcome targets were rarely set, and the ones that were set were seldom incorporated in the project conditions just as the regulation did not foresee the use of common core indicators. As a result, despite the fact that an increased employment rate for older workers was a Lisbon Strategic priority, neither the Managing Authorities nor the Commission were in a position to establish how many older workers had gained new qualifications or had found or kept a job due to action funded by the Fund. Furthermore, the actual amount spent on this kind of actions was unknown.

- In its audit of the e-Government projects supported by European Regional Development Fund (Special report No 9/2011) the Court assessed the effectiveness of the measure intended to lessen the administrative burden of citizens, businesses and other administrations, in support of the Lisbon goals, by reducing barriers to the internal market and increasing mobility and regional development. The Court's audit focused on European Regional Development Fund expenditure in the 2000-06 period and concluded that the supported e -Government projects had contributed to the development of electronic public services. However, despite the fact that the majority of the projects were technically operational, the benefits obtained were much lower than could have been expected. This was due to insufficient focus on project results and the absence of measurement of realised project benefits. It was therefore not possible to evaluate projects or, just as significantly, to accumulate knowledge for the benefit of future programmes.

- In its special report concerning the effectiveness of the European Regional Development Fund co-financed tourism projects (Special report no 6/2011), aimed at increasing growth and employment, the Court concluded that it was difficult to assess the extent of the EU added value achieved by the supported tourism projects due to the absence of a suitable system for setting objectives and monitoring performance against them.

- In its special report concerning the SME Guarantee facility (Special report No 4/2011), the Court concluded that the EU added value of this guarantee facility had not been demonstrated. The audit results indicated a fairly high level (38 pct.) of deadweight amongst the loans examined, and an insufficient targeting of the loans allocated. The results achieved might just as well have been achieved by national schemes alone.

- The Court's special report on the Leonardo da Vinci mobility scheme (Special report No 4/2010) - also relevant for other Lifelong Learning Programme schemes - found that whilst the operational elements of the programme were generally well managed, the Commission had not finalised the setting up of suitable objectives and impact indicators. As a result, three years into the programme, the Commission was not in a position to measure whether the objectives were being met or not.

- In its report concerning vocational training actions for women co-financed by the ESF (Special report No 17/2009), the Court found that the identification and selection of vocational training actions for women, within the programmes audited, were not set up as a direct response to an analyses of labour market needs. The measures failed to focus sufficiently on specific target groups. Furthermore, project selection criteria in the Member States audited did not take sufficient account of the labour market needs nor ensured that projects selected had objectives which were in line with overall programme objectives. The Court found that monitoring information did not allow reliable information as to the results achieved.

5. Has the Lisbon Strategy been appropriate for creating the conditions for an improved economic development in European Union?

By Dr. Manuel Matthes

Hearing on "Lisbon Strategy: Budget implementation and results"- 7 April 2014
Committee on Budgetary Control

NOTES