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THE LISBON REVIEW

2002—2003

AN ASSESSMENT OF POLICIES AND REFORMS IN EUROPE

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The Lisbon Review: An Assessment of Policies and Reforms in Europe

1. The Lisbon Goal: Competitiveness and Growth

At the Lisbon Summit in March 2000, Europe's heads of state declared their ambition to make the European Union "the most competitive and dynamic knowledge-based economy in the world by 2010, capable of sustainable economic growth, with more and better jobs and greater social cohesion."[i] This broad objective includes an increase in the employment rate from an average of 61 percent in the EU today to an average of 70 percent by 2010, or 20 million additional jobs, and an EU average annual real growth rate of three percent, considerably higher than the average of 2.1 percent over the past ten years. To achieve it, the heads of state adopted the *Lisbon Strategy*, a far-reaching agenda combining short-term political initiatives and medium- and long-term economic reforms. The *Open Method of Coordination,* which includes benchmarking based on quantitative and qualitative indicators, the setting of specific timetables, and the translation of European guidelines into national and regional policies, is the key mechanism for implementing this strategy.

How do the EU economy and the individual member countries measure up to the ambitions of its political leaders? How do the countries that will soon become members compare to the EU? These are the questions we address in this study. In contrast to other observers of the Lisbon Strategy[ii], we use information provided by market actors on the various aspects of Europe's competitiveness and dynamics. In doing so, we aim at developing a market view of the EU economy in terms of the Lisbon Strategy and of the main deficiencies of its economic institutions and policies.[iii] Like the Lisbon Strategy, we adopt a benchmarking approach, comparing the EU with the US and an average of non-European OECD economies. In addition, we also provide a benchmark analysis of the current candidate countries for EU accession.

Our main findings can be summarized as follows:

- The average EU economy receives worse ratings than the US and the group of other OECD economies in all dimensions of the Lisbon Strategy except "social inclusion;"
- Individual EU countries score as highly as the US in individual dimensions of the Lisbon Strategy, but the leaders vary across these dimensions. Finland is the only consistently leading country in the EU. In contrast, the weakest performing countries tend to be the same in all dimensions of the Lisbon Strategy: Portugal, Spain, Italy, and Greece. Weak and mediocre performance is country specific, high performance is issue-specific;
- There is no "European model" of economic policy shared by all EU members. The most consistent difference compared to the US is a weakness in the business environment in EU countries;
- The average Central and East European accession country performs significantly worse than the average EU country in all dimensions of the Lisbon Strategy. However, the top three accession countries perform as well or better in several dimensions than the EU average. Leadership among the accession candidates is country-specific; the leaders are Estonia, the Czech Republic, Slovenia, and Hungary.

In section 2, we briefly sketch the goals of the Lisbon Strategy and the achievements and challenges so far as seen by the European Commission. In section 3, we explain our data and methodology. Section 4 presents our main results.

2. The Lisbon Strategy: Dimensions of Competitiveness

At the level of nations, competitiveness is a difficult concept, as it suggests a false analogy between enterprises and countries.[iv] Countries, however, do not compete with other countries in the same way Siemens competes with General Electric in the market for electronic products. A company's competitiveness ultimately shows up in its bottom line; it will be driven out of the market unless it is able to make sufficient profits. But trade among countries is not about profit, and current accounts are not bottom lines. Trade is about the international division of labour and can benefit all by raising productivity and increasing the joint economic product. A meaningful concept of competitiveness at the national level defines a competitive country as one that can maintain high rates of growth and employment in the medium-term.[v] This concept focuses on the country's ability to provide its citizens with high and rising standards of living in the medium- and long-run. Competitiveness, in this sense, depends on the quality of a country's economic and political institutions and the extent to which they are supportive of employment, productivity growth, innovation and the ability to adjust to changing circumstances.

The declaration of the heads of state cited above reflects this concept of the competitiveness of nations. More specifically, there are seven objectives aimed at strengthening the EU's competitiveness and growth potential:

1. **Creating an information society for all**

   The objective is to broaden the access to the Internet and to produce content that adds value to Europe's cultural and scientific heritage. It implies a new impetus to spread the use of information technologies among schools and in companies.[vi] The Internet should become the main vehicle for transmission of information, communication, transactions and media in Europe. Many EU member states have established national Information Society Action Plans. Backed by the European Commission with the "e-Europe+" initiative accession countries developed their own action plans to increase Internet access.

2. **A European area for research and innovation**

   National policies and existing community programs should be coordinated by networking research and development (R&D) programs and institutions. Strong priority is given to innovation policies and the creation of a Community Patent. The new Barcelona target plans to raise national R&D expenditures, public and private, from the current level of 1.9 percent of GDP to three percent by 2010. In December 2001 the EU approved the outline of its 6th Framework Programme, under which it will spend EUR 17.5 billion on scientific initiatives over the next four years. The failure to agree on a Community Patent has been one of the most disappointing issues on the Lisbon agenda.

3. **Completing the Single Market: Services and network industries**

   The implementation of the internal market remains incomplete and severely fragmented.[vii] Costs of doing business in Europe are still considered as too high. The services and utilities sectors are of particular concern. The progress report is mixed: while telecommunication markets were liberalized by 2001[viii], liberalization of gas and electricity markets is still incomplete. The same is true for the full liberalization of postal services. In contrast, the "Single Sky" initiative seems more promising with an agreed target deadline of 2004 for creating an integrated airspace. The reduction of overall state aids and their redirection towards horizontal objectives, such as support for small- and medium-sized enterprises, has seen some progress. However, some member states facing economic difficulties continue to subsidize specific sectors.

4. **Efficient and integrated financial markets**

   The Risk Capital Action Plan and the Financial Services Action Plan, to be implemented by 2003 and 2005 respectively, aim at improving the efficiency and integration of European financial markets and the conditions for investment financing in Europe. So far, 25 of the 42 proposals of the Financial Service Action Plan have been adopted. No substantial progress has been made towards the creation of an integrated European venture capital market, and the Takeover Directive has failed. Agreement by the member states and the European Parliament on common EU accounting and reporting rules compatible with international standards and measures on pension funds, conglomerates, and prospectuses are to be reached by the end of 2002.

5. **Strengthening entrepreneurship through reduced regulatory burdens for business and improved conditions for SME business start-ups**

   Creating better conditions for entrepreneurship is the objective of an enterprise policy that goes beyond the existing community programme. Coordination of national policies is required in particular to achieve a simplification of administrative procedures, better access to venture capital, and improved manager training. An action plan for improving and simplifying the regulatory environment is on the agenda for 2002, and will have to be implemented and enforced at the national and regional levels.[ix] The European Commission also identified tax obstacles for cross border business to be addressed by the member states now. Actions along the lines of the European Charter for Small Business (Feira Summit, June 2000), on which the European Commission reports annually, must be reinforced.

6. **Social inclusion through bringing people back to work, upgrading skills and modernizing social protection**
Promoting employment and creating new jobs is the most important safeguard against the social tensions and injustices arising from long-term unemployment and the exclusion of certain groups from the labour market. Social inclusion, the labour market aspect of the Lisbon Strategy, works by investing in people, active labour market policies, and mitigating labour market frictions resulting from existing systems of social protection. Targets are to raise employment rates to 60 percent employment for women and 50 percent for persons of age 55–64 and to reduce the share of low-skilled persons in the population of age 18–24 by one half. Employment Action Plans have been submitted by the member states annually under the Luxembourg Process. The Commission has set up a High Level Task Force on skills and mobility. Each member state had put forward its own two-year action plan on social exclusion and poverty. The Commission will bring forward an Action Plan seeking to remove barriers within the European labour markets by 2005. However, the nature of labour market inefficiency varies among member states[x] so that the solutions must be identified and pursued at the national level.

7. **Sustainable development**
Sustainable development, ensuring long-term quality of life, was the objective added to the Lisbon agenda at the Stockholm European Council in March 2001. Specific targets were set to reduce greenhouse gas emissions by eight percent from 1990 levels by 2010 and to prioritize public and environmentally friendly forms of transport. Four priority areas have been identified for immediate action: climate change, public health, transport and natural resources. An energy tax directive is to be adopted by the European Council and Parliament by December 2002.

The "open method of coordination" brings together processes and work programmes of different European policy-making institutions to support the defined objectives. It gives member states considerable latitude regarding how they fulfill the common policy goals. In return, they must submit themselves to an extensive review of their national reform policies. The Commission's role is to monitor the process and to facilitate benchmarking and the exchange of best practices. Other elements of the Lisbon agenda require traditional EU directives to be passed by the Council of Ministers and the European Parliament before being implemented by member states. The EU heads of state agreed to meet each spring in order to maintain the momentum of the Lisbon Strategy.

Some progress has already been made. Table 1 provides an overview of the timetable set by the European Commission and the achievements reached so far. New rules in telecommunications markets, and cooperation in research and initiatives to improve Internet access are examples of successful actions.[xi] However, the Commission also identifies numerous "delivery gaps" in key areas such as the Community Patent, financial services, energy and the Galileo satellite system.

Table 1: The Roadmap of the Lisbon Strategy

Year	Measures
2001	▲ Local loop unbundling ▲ State aid scoreboard and register • Strategy for **simplifying the regulatory environment** (some delay)
2002	• New framework for **public procurement** (2001 deadline for agreement missed) ▲ New framework for **electronic commerce** (except VAT treatment of e-commerce where 2001 deadline for agreement missed) • First two-year **National Action Plans against exclusion and poverty** • **Social Policy Scoreboard**
2003	• New framework for **telecommunications** • **Single market for risk capital** • **Further opening of electricity markets for business customers** • **Sixth Framework Programme for research** • **Community Patent** (2001 deadline for agreement missed) • Liberalization of **international rail freight using trans-European rail networks**
2004	• **Single European Sky** • Further **opening of gas market for business customers** • **Energy tax** framework • Framework for the **taxation of savings**
2005	• **Single market for all financial services** • Opening of **gas and electricity markets for residential customers** • Start of a mandatory European **emission trading scheme for CO_2**
2006	• Second stage of opening of market for **postal services**
2008	▲ Liberalization of **all international rail freight** • **Galileo satellite navigation system** enters into operation (2001 deadline for agreeing structure missed)
2009	• Possible new or final stage of opening of markets for **postal services** (subject to study in 2006 on the impact of liberalization)

SOURCE: Communication from the Commission to the Spring European Council in Barcelona, *The Lisbon Strategy—making change happen,* COM(2002)14 final, 15.1.2002. ▲ indicates necessary measures adopted/taken; **bolded text** indicates that the target date risks being missed because of insufficient progress in Council and the European Parliament.

3. Data and Methodology

Our study uses the responses to the World Economic Forum's *Global Competitiveness Report* (GCR) Executive Opinion Survey to evaluate the Lisbon Strategy. The survey is sent out to senior executives of companies chosen to represent the business sector of a country. Most questions are answerable on a scale ranging from one to seven.[xii] Country averages are computed for each question and form the basis for our subsequent analysis. These averages provide valuable information for an assessment of the Lisbon Strategy for several reasons. First, the GCR and the Lisbon Strategy share similar objectives of increasing competitiveness and medium-term growth potential. Second, the results allow a timely evaluation of data, in contrast to the two-year delay suffered by most indicators used by the European Commission. Third, the GCR provides a view from market actors and, therefore, reflects the actual market environment better than information based on legislative and administrative action.

At the same time, the survey data have limitations. They reflect qualitative assessments, which are difficult to quantify.[xiii] Nevertheless, quantification is necessary to aggregate scores over different questions and countries and to compare scores between different dimensions of the survey. Furthermore, a comparison of the quantitative measures builds on the assumption that market actors in different countries have reasonably similar views of what are good and what are poor institutions and market environments. Finally, the survey sample aims at being representative, but the limited sample size calls for some caution in the interpretation. Note that the deviations of individual responses from country means are typically quite small, which points to the reliability of the former.

We collect response data for questions from the 2002–2003 GCR Executive Opinion Survey, which relate most closely to the reform objectives of the Lisbon agenda and organize them under the headings listed in Table 2. The questions address the general economic environment and the quality of public institutions and policies with respect to the relevant topics. We include questions relating to state aids under "Completing the Single Market," as the survey questions address the status quo of state aids and their relation to market competition more than the issue of redirecting state aids included in the Lisbon agenda. The GCR survey questions used for each of these headings are available upon request. Note that we take the questions directly from the survey, i.e., they are not specifically designed for our purpose. This also implies that the number of questions used under each heading varies, and for the Lisbon goal of "bringing people back to the workforce" we have no suitable question in the survey at all; for the subheading "modernizing social protection" we have only one question. For each heading and subheading, we compute the "Lisbon scores" by averaging the results of the relevant questions.

Table 2: Dimensions of Lisbon Scores

Information Society for All
Innovation, Research, and Development
Liberalization
Completing the Single Market
State Aids
Network Industries
Telecommunications
Utilities and Transportation
Efficient and Integrated Financial Services
Enterprise Environment
Conditions for Start-ups
Regulatory Burden
Social Inclusion
Lifelong Learning
Modernizing Social Protection
Sustainable Development
Environment
Climate change

We use data for 14 EU member states[xiv], the ten Central and East European (CEEC) candidate countries for EU accession countries, and Switzerland.[xv] In addition, we use two benchmarks for comparison, the US and other OECD countries.[xvi] Averages for the EU, the CEEC, and the other OECD countries are computed using population weights.

4. Benchmarking the EU Economy

Table 3 compares the EU with the US. For each heading and subheading of Table 2, we first report the Lisbon scores for the US. As expected, the US receives high marks of close to six or above in the dimensions of the information society, innovation, network industries, and financial markets. More surprising to the European observer will be the high Lisbon scores in the dimension of sustainable development. Given the nature of our data, this may reflect the more market-oriented approach of US environmental policies, including a high frequency of self-regulatory regimes, compared to the more state-oriented regulatory approach followed in Europe.[xvii] Compared to these dimensions, the US receives intermediate scores between four and five only in the dimensions of market liberalization, enterprise environment, and social inclusion. It is interesting to note the relatively low scores of less than four for regulatory burdens and modernizing social protection.

How does the EU economy compare to this benchmark? Table 3 shows the differences between the Lisbon scores of the EU and the US for each heading and subheading. The EU is below the US in all main dimensions except social inclusion. The largest differences between the EU and the US are in the Lisbon scores for the enterprise environment, network industries, innovation and R&D, and financial services. Within the dimension of enterprise environment, the difference regarding business start-ups is particularly severe. Another large difference is in the dimension of the information society. In contrast, the EU and the US are quite similar in their Lisbon scores

Table 3: Lisbon Scores: The EU and the US

	Three best performing countries*	Four worst performing countries**	US score	EU average relative to the US	Three best EU countries relative to the US	Four worst EU countries relative to the US
Information Society	Finland, Sweden, UK	Greece, Italy, Spain, Ireland	**5.94**	**–0.52**	**0.09**	**–1.04**
Innovation, Research and Development	Finland, Germany, Sweden	Greece, Italy, Portugal, Spain	**5.99**	**–0.84**	**–0.37**	**–1.57**
Liberalization			**5.06**	**–0.28**	**0.34**	**–0.77**
Completing the Single Market	Sweden, UK, Finland	Greece, Italy, Spain, Portugal	5.53	–0.36	0.13	–0.93
State Aids	Finland, UK, Ireland	Greece, Italy, Spain, France	4.58	–0.19	0.54	–0.60
Network Industries			**6.17**	**–0.87**	**0.16**	**–1.37**
Telecommunications	Finland, Sweden, UK	Greece, Ireland, Italy, Spain	6.12	–0.81	0.04	–0.97
Utilities and Transportation	Germany, Finland, Denmark	Greece, Ireland, Italy, Spain	6.22	–0.92	0.27	–1.76
Efficient and Integrated Financial Services	UK, Finland, Denmark	Greece, Italy, Spain, Belgium	**5.75**	**–0.62**	**–0.01**	**–1.05**
Enterprise Environment			**4.40**	**–0.92**	**–0.05**	**–1.37**
Conditions for Start–ups	Finland, UK, Ireland	Greece, Italy, France, Spain	5.48	–1.28	–0.43	–1.87
Regulatory Burden	Finland, UK, Ireland	Italy, Greece, France, Belgium	3.31	–0.55	0.34	–0.87
Social Inclusion			**4.75**	**0.10**	**1.31**	**–0.91**
Life–long Learning	Netherlands, Finland, Belgium	Greece, Portugal, Italy, Spain	5.76	–0.60	0.14	–1.21
Modernizing Social Protection	Belgium, Denmark, Finland	Ireland, Greece, Portugal, UK	3.73	0.80	2.48	–0.61
Sustainable Development			**5.72**	**–0.27**	**0.37**	**–1.20**
Environment	Finland, Netherlands, Germany	Greece, Italy, Ireland, Spain	4.80	0.02	0.73	–0.65
Climate Change	Finland, Germany, Netherlands	Greece, Spain, Ireland Italy	6.63	–0.55	–0.00	–1.75

*Ordering is descending
**Ordering is ascending

for market liberalization, and social inclusion. That the EU's Lisbon score for completing the Single Market is lower than the US score is worrisome given that the Single Market originally was to be completed by 1992. This result reflects the deficiencies in the proper implementation of the EU's Single Market Programme in several member states. The EU performs considerably better than the US in modernizing social protection, but considerably worse in life-long learning; as a result, the overall difference regarding social inclusion is negligible. While both economies are similar in the subdimension of environmental protection, the US outscores the EU significantly with regard to climate change. Again, this may reflect differences in the regulatory approaches as seen from the business perspective more than differences in the results.

Next, we take the three best-performing EU countries in each dimension and compare them with the US benchmark. Table 3 reports the three particular countries for each item. Note that the composition of this group varies considerably across dimensions, reflecting the heterogeneity of economic policy approaches in Europe. We take unweighted averages of the best three to stress the comparison of national policies, which would otherwise be swamped by the weight of a large country in this small group. Here we see that, in almost all policy dimensions, there are some EU economies today that equal or even outperform the US. The three best EU economies and the US are close in the dimensions of the information society, enterprise environment, and financial services. It is noteworthy that the top three EU countries receive a better Lisbon score than the US in market liberalization, mainly due to their much higher score regarding state aids. Furthermore, the three best-performing EU economies clearly receive higher Lisbon scores than the US with regard to social inclusion, especially for modernizing social protection systems, and with regard to sustainable development, where environmental policies are their main policy advantage. Finally, even the three best EU economies receive a substantially worse Lisbon score than the US in the dimension of innovation and R&D.

Next, we look at the comparison of the worst four countries relative to the US. Our main point here is that the worst four have Lisbon scores significantly below the US in all dimensions and subdimensions. Thus, in contrast to the group of top three in the EU, the countries with the worst Lisbon scores do not compensate relative weaknesses in their economic policies with relative strengths in other areas. They are simply dominated by US policies in all regards.

The differences between the EU average and the benchmark countries are somewhat less pronounced, if we turn to the other OECD countries as the standard of comparison, as shown in Table 4. Nevertheless, they still go in the same direction, pointing to major reform deficiencies in the EU. The EU average and the other OECD countries are very similar regarding liberalization. However, the other OECD countries receive somewhat higher marks than the EU with regard to efficient financial services. Like the US, the other OECD economies clearly outperform the EU in terms of the information society, network industries, and the enterprise environment. It is interesting to observe that the other OECD countries also receive significantly higher marks regarding social inclusion, especially for the modernization of social protection systems, and regarding sustainable

Table 4: Lisbon Scores: The EU and Other OECD Countries*

	Average score of the "other OECD" countries	EU average relative to the "other OECD" countries	Three best EU countries relative to the three best "other OECD" countries
Information Society	**5.80**	**–0.38**	**0.22**
Innovation, Research and Development	**5.14**	**–0.07**	**0.40**
Liberalization	**4.96**	**–0.18**	**0.44**
Completing the Single Market	5.15	0.02	0.51
State Aids	4.76	–0.37	0.36
Network Industries	**5.93**	**–0.64**	**0.39**
Telecommunications	5.77	–0.47	0.38
Utilities and Transportation	6.09	–0.80	0.40
Efficient and Integrated Financial Services	**5.42**	**–0.29**	**0.33**
Enterprise Environment	**4.00**	**–0.52**	**0.35**
Conditions for Start–ups	4.65	–0.45	0.40
Regulatory Burden	3.35	–0.59	0.30
Social Inclusion	**5.31**	**–0.46**	**0.57**
Life–long Learning	5.38	–0.22	0.52
Modernizing Social Protection	5.23	–0.70	0.62
Sustainable Development	**5.79**	**–0.29**	**0.26**
Environment	5.32	–0.40	0.22
Climate change	6.26	–0.18	0.30

* "Other OECD" countries are Switzerland, Canada, Australia, New Zealand, Norway

development. This suggests that the other OECD countries have managed to achieve better policies and results in these dimensions, which are dear to many politicians in EU countries, while at the same time they perform better in the more market-oriented dimensions. Clearly, this suggests that there is no conflict between market-oriented policies and the supposed "European model" of social and environmental protection.

At the same time, the three best EU countries in each dimension receive considerably higher Lisbon scores than the other OECD countries in all dimensions. The better rating of policies regarding state aids in the top three EU states is particularly noteworthy.

5. Results for Individual EU Countries

An important insight from Tables 3 and 4 is that the group of three best performers contains very different countries in different dimensions of competitiveness. The exception is Finland, which is in all leading groups. Apart from Finland, only the UK is among the best three countries in half of the eight dimensions. All other countries that make it into the top three in some dimension are mediocre or among the worst performers in other dimensions.

We pursue this issue in more detail in Table 5, which reports the ranks for each EU country in each of the eight main dimensions, together with the average rank reported in the last column. If all countries ranked consistently in all dimensions, we would expect to see a top group with average ranks between one and four, a second-rate group with average ranks between five and nine, and a low-performing group with average ranks of ten to fourteen. Instead, Finland is the only consistently leading economy in Europe in terms of the Lisbon Strategy. This is in line with that country's leading role in the GCR 2001–2002, where it surpasses the US. The Netherlands has the next-best average rank with 4.4, followed by Denmark and the UK. As indicated in Table 5, all three countries have considerably lower ranks in several dimensions. Consider

Table 5: Ranking of EU Countries

	Information Society	Innovation, Research, and Development	Liberalization	Network Industries	Financial Services	Enterprise Environment	Social Inclusion	Sustainable Development	**Average Rank**
Finland	1	1	1	1	2	1	3	1	**1.4**
Sweden	2	3	6	3	5	6	7	4	**4.5**
Denmark	4	9	5	4	3	5	4	3	**4.6**
UK	3	4	2	9	1	2	10	6	**4.6**
Netherlands	7	8	3	6	4	4	1	8	**5.1**
Germany	6	2	9	2	8	11	9	2	**6.1**
Austria	5	7	4	8	9	8	5	5	**6.4**
Belgium	9	5	7	5	7	10	2	7	**6.5**
France	10	6	11	7	10	12	6	9	**8.9**
Ireland	11	10	8	13	6	3	12	13	**9.5**
Portugal	8	12	10	10	11	7	13	10	**10.1**
Spain	12	11	12	11	12	9	8	12	**10.9**
Italy	13	13	13	12	13	13	11	11	**12.4**
Greece	14	14	14	14	14	14	14	14	**14.0**

the case of Germany. Germany is in the top groups for innovation and R&D, network industries, and sustainable development, but its average rank of 6.1 shows that, on average, it is a second-rate country in Europe.
The reason for this is that Germany scores very badly in liberalization, financial services, enterprise environment, and social inclusion. The picture is different at the lower end of the scale. Greece consistently receives the lowest scores in all dimensions. Ireland, Spain, and Italy are among the four worst in half of the dimensions or more. If individual dimensions of the Lisbon Strategy reflect priorities in economic policies, the data suggest that differences in economic policy priorities are larger than the differences in overall performance across EU countries, Finland being the exception. The tendency for bad policies and institutions in all dimensions seems to be more country-specific than the tendency to perform well in all dimensions, Finland being the exception. In terms of the Lisbon Strategy, this means that heterogeneity is large across different dimensions for the same countries. The concept of a coherent European economic policy strategy remains an illusion.

The Lisbon Diamond illustrates the performance of individual countries in terms of the Lisbon Strategy. *The Lisbon Diamond* is an octagon according to the eight headings in Table 2. A full diamond has a Lisbon score of seven in each direction and represents an ideal country. For a better graphical presentation, the centre of each diamond is normalized at a value of three. The smaller a country's diamond within that ideal shape, the more economic policy and institutional deficiencies it has according to the survey results. To facilitate the comparison, we put the *Lisbon Diamond* for the US in dark blue in the background. Areas in which the diamond for the US is larger indicate policy deficiencies relative to the US; areas where a country's diamond fully covers the diamond for the US indicate areas where this country's policies are better than those of the US.

The US diamond illustrates that the environment for innovation, network industries, the information society, and financial services are the strong sides of US economic

Figure 1: Country Performance: Austria

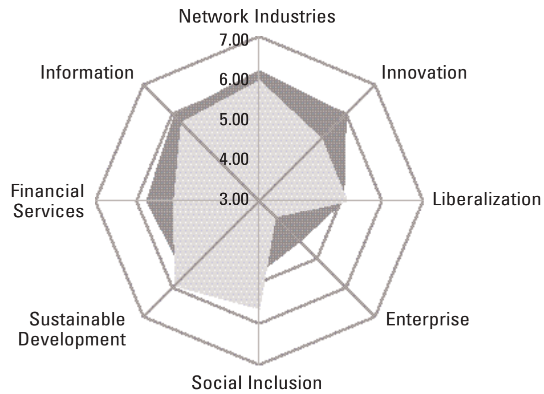


Figure 2: Country Performance: Belgium

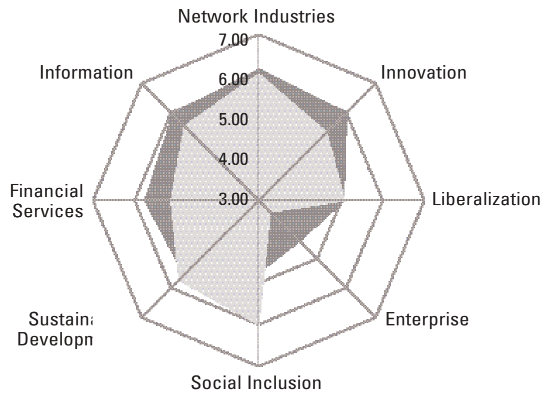


Figure 3: Country Performance: Denmark

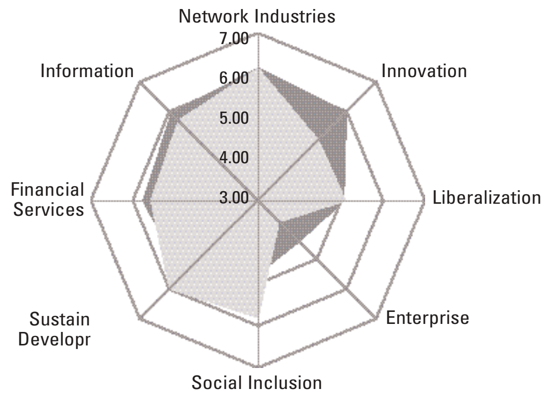


Figure 4: Country Performance: Finland

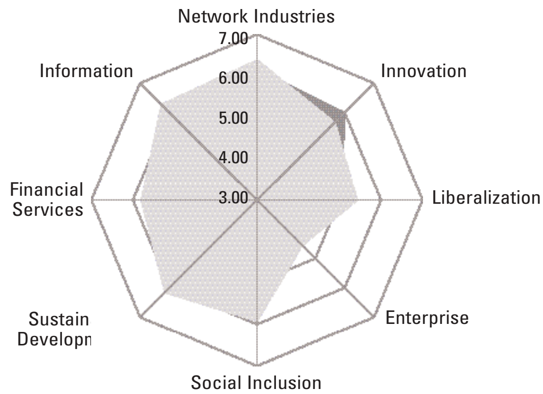


Figure 5: Country Performance: France

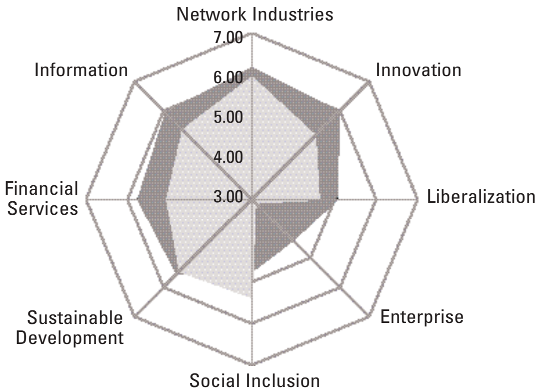


Figure 6: Country Performance: Germany

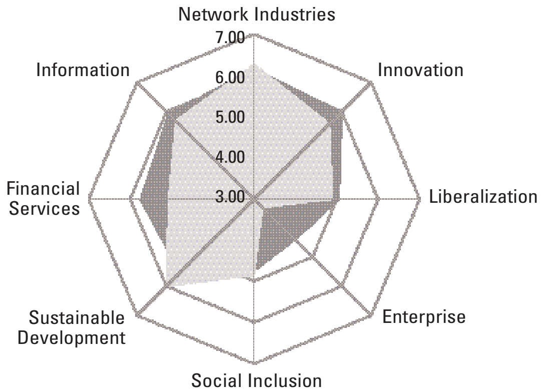


Figure 7: Country Performance: Greece

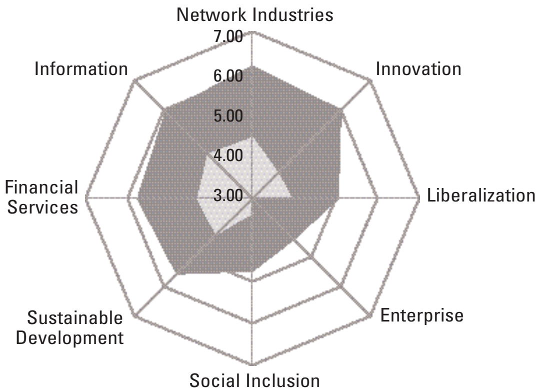


Figure 8: Country Performance: Ireland

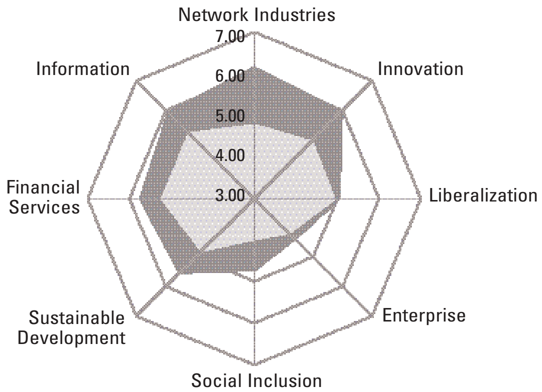


Figure 9: Country Performance: Italy

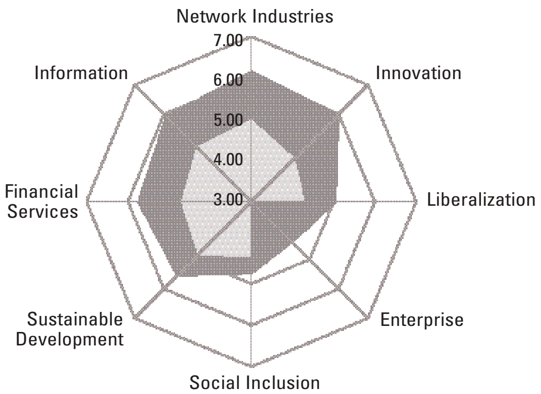


Figure 10: Country Performance: Netherlands

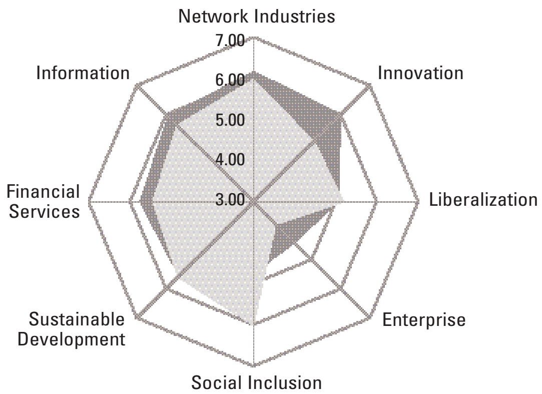


Figure 11: Country Performance: Portugal

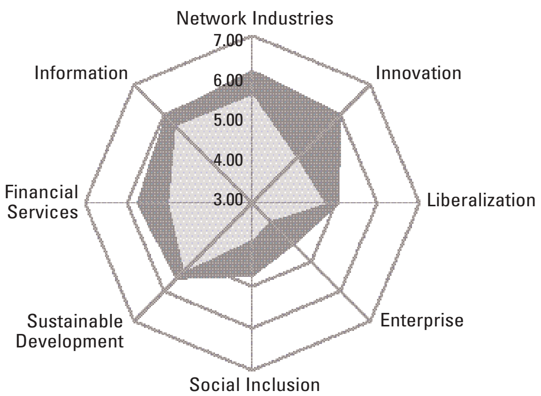


Figure 12: Country Performance: Spain

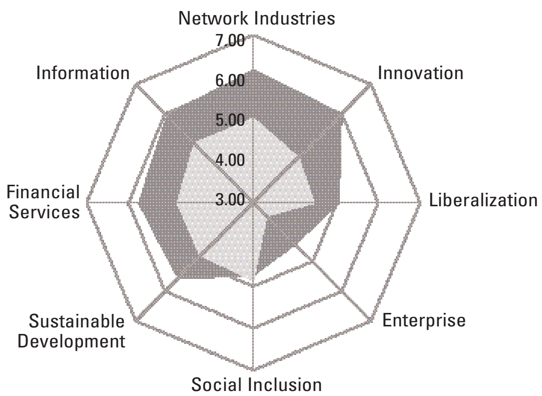


Figure 13: Country Performance: Sweden

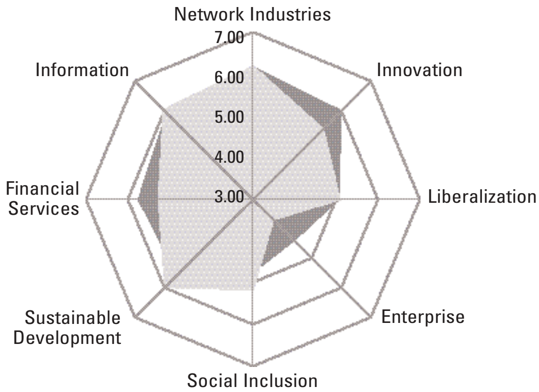


Figure 14: Country Performance: UK

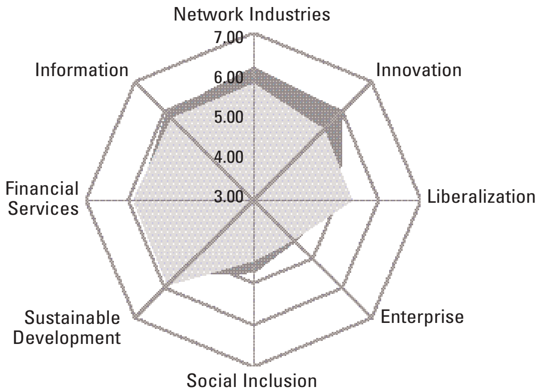


Figure 15: Country Performance: EU Average

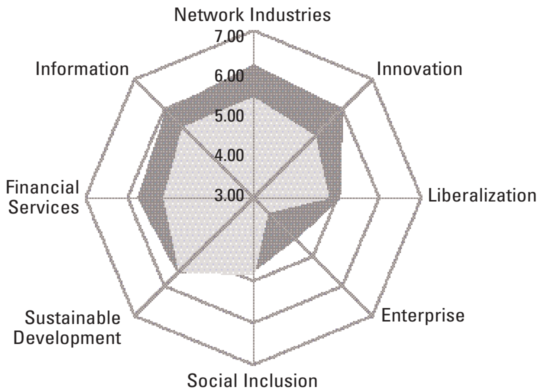


Figure 16: Country Performance: USA

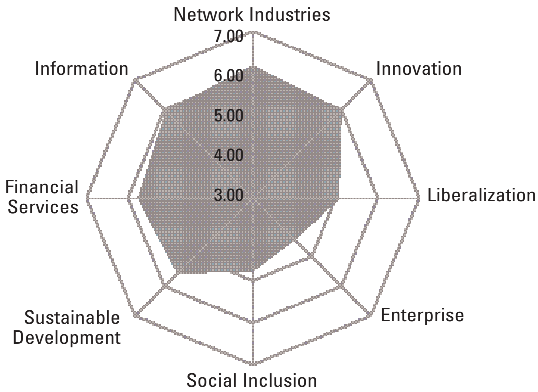


Figure 17: Country Performance: Other OECD Average

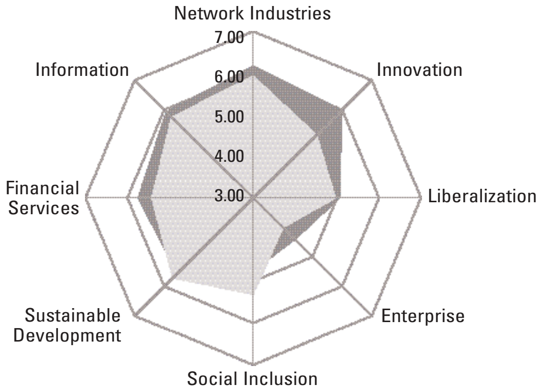
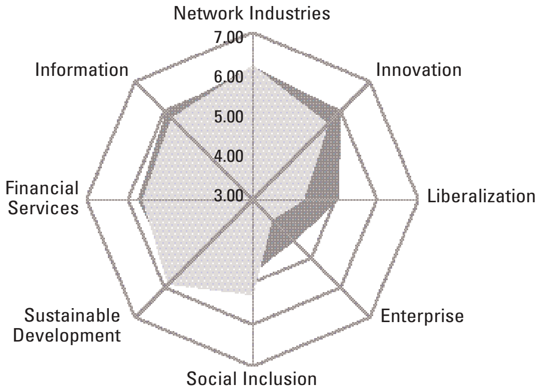


Figure 18: Country Performance: Switzerland



policies. Sustainable development, social inclusion, enterprise environment and the policies corresponding to the completion of the Single Market in Europe are the weak sides. A characteristic for the US diamond is thus that its top and upper left facets are larger than the lower right facets.

The EU average diamond lies completely within the US diamond. The main difference in shape is the inward cut that comes from the relative weakness in the EU's enterprise environment. This is the most consistent difference between the individual European diamonds and the US diamond. Only the UK, Portugal, and Ireland have diamonds that look more like the US diamond. The Austrian, Belgian, Danish and Swedish diamonds share another characteristic in form, namely the lack of a corner on the left side, which reflects a weakness in financial services, and a larger base formed by the higher scores in sustainable development and social inclusion. The diamonds of Greece, Italy, Portugal, Spain, and Ireland are completely within the US diamond, implying that these countries perform worse than the US in all dimensions.

These diamonds confirm visually an impression arising from Table 5, namely that there is hardly any basis to speak consistently of an "EU" model of economic policy today.

As an aside, we add a Lisbon Diamond for Switzerland to see how this country compares to the EU countries and the US in terms of the Lisbon Strategy. The figure shows that the Swiss results are quite similar to the well-performing countries in the EU, but worse than the US results in most dimensions. The Swiss diamond resembles the Swedish diamond, except for a more pronounced weakness in the dimension of market liberalization.

6. Competitiveness of Accession Countries

Table 6 provides a comparison between the average of the CEEC accession countries with the EU. As a group, the accession countries are far behind the EU. The largest deficiencies are with regard to financial services, sustainable development, innovation and R&D, and liberalization. Despite the strong efforts to build market economies from scratch and despite the accession process with its emphasis on taking on the *Acquis Communautaire,* the Lisbon scores suggest that the accession countries will still suffer from severe competitive disadvantages due to deficient market and regulatory environments. Interestingly, the smallest difference between the accession countries and the EU is in the dimension of enterprise environment, the weakest characteristic of the EU compared to the US.

Behind this bleak picture for the accession country average, however, is a more positive picture that emerges when we consider the three best-performing accession countries in each dimension and compare them to the EU. Surprisingly perhaps, these countries even get better Lisbon scores than the EU in several dimensions: information society, enterprise environment, and social inclusion. The top three accession countries are also almost equal to the EU average in terms of network industries, especially telecommunication. In the latter category only three countries, Lithuania, Poland and Romania, have lower Lisbon scores than Greece, the lowest-rated EU country. Thus, most accession countries seem to have upgraded their technologies in this area. In contrast to the EU case, the group of best performers is much more homogeneous in the case of the accession countries. Estonia, the Czech Republic, Slovenia and Hungary appear consistently among the best three. Importantly, Poland, the largest of the accession countries, never appears among the top three. These results suggest that the leading accession countries will be able to cope quite well with the competitive environment of the EU.

Table 6: Lisbon Scores: Accession countries and the EU

	Three best CEECs	CEEC average relative to the EU	Three best CEEC countries relative to the EU
Information Society	Estonia, Hungary, Czech Rep.	**–0.91**	**0.09**
Innovation, Research and Development	Czech Rep. Slovenia, Hungary	**–1.27**	**–0.64**
Liberalization		**–1.27**	**–0.56**
Completing the Single Market	Slovenia, Hungary, Estonia	–1.35	–0.80
State Aids	Slovenia, Hungary, Estonia	–1.19	–0.32
Network Industries		**–0.81**	**–0.01**
Telecommunications	Estonia, Czech Rep., Hungary	–0.52	0.37
Utilities and Transportation	Slovenia, Czech Rep. Estonia	–1.09	–0.38
Efficient and Integrated Financial Services	Estonia, Slovenia, Hungary	**–1.84**	**–0.44**
Enterprise Environment		**–0.44**	**0.22**
Conditions for Start–ups	Estonia, Slovenia, Hungary	–0.83	–0.11
Regulatory Burden	Estonia, Hungary, Slovenia	–0.05	0.55
Social Inclusion		**–1.04**	**0.06**
Lifelong Learning	Czech Rep., Hungary, Slovak Rep.	–0.75	–0.13
Modernizing Social Protection	Czech Rep., Slovenia, Slovak Rep.	–1.33	0.25
Sustainable Development		**–1.28**	**–0.56**
Environment	Slovenia, Czech Rep. Estonia	–0.85	–0.36
Climate Change	Czech Rep., Slovenia, Hungary	–1.70	–0.76

7. Conclusions

The goal of the Lisbon Strategy is to make Europe the most competitive and dynamic economy of the world. Our empirical results suggest that the EU economy indeed lags significantly behind the US and other OECD economies in the reform dimensions identified in the Lisbon Strategy. One challenge for this strategy is, however, the lack of conformity of current economic policy approaches among the EU members. This suggests that different countries need to set different priorities for policy reforms to overcome their most important weaknesses. To what extent the "open method of coordination" can help under such circumstances remains to be seen.

Sustainable economic growth is key in the Lisbon Strategy. In Table 7, we report several indicators of the medium-term growth performance of EU countries and the US, potential output growth, employment growth, and productivity growth. It is true that the US outperformed the EU in all three areas in recent years, and the other OECD countries outperformed the EU in productivity growth, though not in potential output growth. Yet, among the EU countries, the link between their performance in terms of the Lisbon Strategy and in terms of medium-term growth is less obvious. Looking once again at Table 5, it seems that high Lisbon scores in the dimensions relating to market environments and business environments are more closely linked to growth performance than high Lisbon scores in the other dimensions. Furthermore, it is quite possible that the labour market regulations and flexibility beyond the aspect of "social inclusion" covered by the Lisbon Strategy, and growth and employment-oriented tax and public expenditure policies are important determinants of growth performance.[xviii] These issues are visibly missing on the Lisbon agenda, and could turn out to be serious obstacles for sustainable growth in the EU countries unless they are addressed outside the Lisbon Strategy. Together with a refinement of the current data analysis and its extension to statistical indicators relating to the dimensions of the Lisbon Strategy, they remain issues for further research.

The upcoming EU enlargement will add countries to the EU that, on average, perform significantly worse than the incumbent members. However, the difference between these and the leading accession countries is much less pronounced. This suggests that the leading accession countries will perform well in the competitive environment of the EU markets.

Table 7: Growth, Employment, and Productivity

	Average Rank in Lisbon Scores	Potential Output Growth (1990-2001)	Employment Growth (1995-2001)	Productivity Growth (1995-2001)
Finland	1.4	2.3	1.94	2.24
Sweden	4.5	2.1	0.74	1.97
Denmark	4.6	2.0	0.91	1.74
UK	4.6	2.5	1.43	1.23
Netherlands	5.1	2.9	2.17	0.67
Germany	6.1	2.9	0.48	1.04
Austria	6.4	2.4	0.27	2.20
Belgium	6.5	2.4	0.90	1.72
France	8.9	1.9	1.10	1.05
Ireland	9.5	7.0	4.79	4.36
Portugal	10.1	3.1	1.24	2.65
Spain	10.9	3.0	2.50	0.81
Italy	12.4	1.9	0.91	1.22
Greece	14.0	2.5	0.42	3.25
EU	—	2.5	1.14	1.27
US	—	3.2	1.28	1.80
Other OECD	—	2.5	N/A	1.40

Source: OECD. Productivity relates to productivity in the business sector.

Notes

[i] The full text (Presidency Conclusions, Lisbon European Council, 23 and 24 March 2000) can be downloaded from http://www.europa.eu.int/comm/off/index/_en.htm.

[ii] The European Commission monitors the process in terms of the economic policy initiatives that have been adopted so far. There is a formal annual review by the European Commission and the Council, for which the European Commission publishes the annual Competitiveness Report and the Innovation Scoreboard covering EU countries and regions. Furthermore, the Center for Economic Reform publishes an annual *Lisbon Scorecard* identifying relevant legislative measures adopted by the EU member states.

[iii] The importance of the views and opinions of business leaders to assess the implementation and the necessity of further initiatives is reflected in a recent working paper of the European Round Table of Industrialists who assessed priorities for business leaders (ERT Working Group: Will European Governments in Barcelona keep their Lisbon promises?, February 2002).

[iv] See especially Paul Krugman, *Pop Internationalism* (Cambridge, Mass: MIT Press, 1996).

[v] Michael E. Porter, Jeffrey D. Sachs, and Andrew M. Warner, "Executive Summary: Current Competitiveness and Growth Competitiveness," in *The Global Competitiveness Report 2000* (Oxford: Oxford University Press, 2000), p. 14.

[vi] The European Commission's benchmarking report on e-Europe (European Commission, e-Europe benchmarking report, Feb 2002) suggests that EU total household and business connections are well below US levels. Almost 90 percent of EU businesses with more than ten employees have access to the Internet and 60 percent have a website.

[vii] Ten percent of relevant directives have still not been translated into member state law. The Commission has launched 1500 infringement cases against member states for their failure to apply Single Market legislation. France, Italy and Germany account for 40 percent of these cases. At the Stockholm European Council member states committed themselves to implementing 98.5 percent of the Single Market legislation by Summer 2002. Many countries missed the target but not Finland, Sweden, Netherlands and Spain.

[viii] Liberalization in telecom markets has not yet resulted in price reductions to US levels. EU phone charges are still three times higher than in the US. Even the cheapest charges in Finland are almost double the US rates.

[ix] The Commission conducted a survey of 4000 companies suggesting that better regulation could save up to EUR 50 billion per year. The Report of the Mandelkern Group (Mandelkern Group on Better Regulation, Final Report, 13 November 2001 (http://www.nnr.se/pdf/Mandelkern.pdf) estimates the cost of EU regulation to be in the range of 2 to 5 percent of GDP.

[x] For a detailed analysis, see S. Mundschenk (2001): Auswertung der Nationalen Beschäftigungspolitischen Aktionspläne anderer Mitgliedstaaten für das Jahr 1999 und 2000, Forschungsbericht Nr. 288, Bundesministeriums für Arbeit und Sozialordnung. A shorter English version is available upon request from the author.

[xi] See Commission Staff Working Paper SEC(2002) 29/2 for a complete list.

[xii] This year's survey, which includes almost 200 questions, most of them to be answered on a 1–7 scale, was conducted in the second quarter of 2002. In total, around 400 surveys were received from senior executives based in the EU, and almost as many from those in the accession candidates. In most of the countries, the survey was carried out in cooperation with local partner institutes, typically leading business schools or universities, in order to ensure that it is sufficiently representative of each individual economy. The partner institutes were asked to start with a comprehensive register of firms and then to choose a sample whose distribution across economic sectors of the economy is proportional to the distribution of the country's labour force across sectors (excluding agriculture). While the survey's main goal is not to form specific inferences about the population of firms in a country—for example, the sample should not be used to estimate the average firm size—the survey does aim to construct a sample of firms that is adequately broad and representative to estimate non-firm information about the economy. The analysis of the means and standard deviations of responses, random drop tests, and comparisons between hard and survey data suggest that this is the case. See Peter K. Cornelius and John W. McArthur, "The Executive Opinion Survey," in *The Global Competitiveness Report 2001-2002,* ed. by Michael E. Porter, Jeffrey D. Sachs, Peter K. Cornelius, John W. McArthur, and Klaus Schwab (Oxford: Oxford University Press, 2001), pp. 167-177.

[xiii] The GCR compensates this problem by adding "hard" statistical data to the survey results. We plan to do this at a later stage of this project.

[xiv] Due to an insufficient number of responses to the survey, Luxembourg is not included in the *Global Competitiveness Report 2002–2003*.

[xv] The EU accession candidates are Bulgaria, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovenia, and the Slovak Republic.

[xvi] Other OECD countries include Canada, Switzerland, Norway, New Zealand and Australia.

[xvii] See John W. Maxwell and Tom Lyon, "Voluntary Approaches to Environmental Protection" in: *Security, Trade and Environmental Policy: A US/European Union Transatlantic Agenda,* Editor: Charles Bonser, 2000 Kluwer Academic Publishes, Boston.

[xviii] For labour market flexibility, see OECD, *Implementing the OECD Jobs Strategy. Assessing Performance and Policy.* Paris, 2001. For public finance aspects in the EU, see Jürgen von Hagen and Matthias Brückner, *Monetary and Fiscal Policies in EMU.* Working Paper, ZEI University of Bonn.

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